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TAX HANDBOOK
FINANCE ACT 2021

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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 proposed amendments by the Finance Act, 2021 in the Income Tax Ordinance, 2001, the Sales Tax Act, 1990 and Federal Excise Act, 2005, in a concise form sufficient enough to amplify the important aspects of the changes to be made.

The Tax Handbook can also be accessed on our website **www.zahidjamilco.com**

Income Tax Ordinance, 2001

1. Business Bank Account

In order to promote documentation and to streamline action under section 21(1) and 21(m), the concept of business bank account has been introduced in the Ordinance by inclusion of definition of business bank account in section 2. The obligation to declare business bank account has been placed on taxpayers through substituted section 114A. Failure to notify such account may attract penal provisions of section 182 and it has also been included in definition of offences under the Ordinance.

2. Prosecution for Concealment of Income

Income Tax Law already provides for prosecution mechanism under sections 201 to 203A of the Ordinance whereby prosecution can be carried out for offences enumerated in sections 191 to 200.

Under the Finance Act, 2021 a new mechanism has been introduced whereby the concealment of income has been made cognizable offence by introduction of sections 203B to 203I. In order to attract new mechanism, the amount of concealed tax should be Rs. 100 million or above in case of filer and Rs. 25 million or above in case of no-filers. Moreover, this concealment should be established through an assessment or amended assessment under section 121 or 122 of the Ordinance consequent upon third party audit under section 177 or 214C of the Ordinance. The accused can be arrested, only after the written approval of committee consisting of Finance Minister, Chairman and senior most Member of the Board. The post arrest procedure to be followed has been laid down in newly inserted sections 203B to 203I. This procedure is harmonized with the procedure laid down in Sales Tax Act, 1990.

In order to streamline actions referred above, the act of concealment has been defined under newly inserted clause (13AA) in section 2 of the Ordinance. In order for an act to constitute concealment, it must be willful. Mere disallowance of an expense or rejection of an exemption claim cannot be construed as concealment if the taxpayer has taken a reasonably arguable position.

Furthermore, where notice for amendment of assessment has been issued confronting taxpayer regarding concealment of income, no separate notice will be required to be issued under section 111(5) of the Ordinance, as statute does not provide for any such notice.

3. Special Tax Regime for Manufacturing Small and Medium Enterprises

A special tax regime has been introduced for manufacturing sector small and medium enterprises. For this purpose, following amendments have been introduced in law;

a) Definition of SMEs

SMEs have been defined in clause (59A) of section 2 as manufacturing enterprises irrespective of their status as an individual, AOP or company having turnover up to Rs. 250 million. The manufacturing SMEs being companies falling under this definition have been excluded from the definition of small companies.

b) Legal Framework

Enabling legal provision has been provided in section 100E and Fourteenth Schedule of the Ordinance. Board has been empowered to prescribe simplified return form for such SMEs.

c) Rules for Taxability

The rules have been prescribed in Fourteenth Schedule of the Ordinance. The SMEs have been divided into two categories for taxation purposes

i) Category -I SMEs having turnover upto Rs. 100 Million would pay tax at 7.5% of their taxable income.
ii) Category -II SMEs having turnover exceeding Rs. 100 Million and upto Rs. 250 Million would pay tax at 15% of their taxable income.

Another salient feature of this regime is the option to pay tax on turnover basis under final tax regime.

i) Category -I SMEs having turnover up to Rs. 100 Million may opt to pay tax at 0.25% of their turnover
ii) Category — II SMEs having turnover exceeding Rs. 100 Million and up to Rs. 250 Million may opt to pay tax at 0.5% of their turnover

It is also clarified those provisions of section 113 shall not apply and tax deducted under section 153 shall not be minimum tax. Moreover, tax collectible under section 148 on import of plant & machinery and raw material shall be adjustable in case of manufacturing SME being industrial undertaking. The export proceeds of SMEs shall be taxed at the reduced rate of 0.25% and 0.5% final tax on the basis of their category. The SMEs will be required to obtain reduced rate certificate from concerned Commissioner.

4. Telecommunication Sector

Following provisions relating to Telecommunication sector have been introduced in Finance Act, 2021:

a) Inclusion of telecommunication sector in the definition of industrial undertaking under clause (29C) of section 2 of the Ordinance. This will enable them to adjust tax deducted under section 148 on import of capital equipment and plant & machinery for their own use.
b) Reduction of withholding tax rate under section 153(1)(b) on telecommunication services from 8% to 3% under minimum tax regime.
c) Reduction of advance tax under section 236 on internet and mobile phone usage from 12.5% to 10% for tax year 2022 and 8% onwards.

5. Exemption to National Power Parks Management Company

National Power Parks Management Company Limited is undergoing privatization through Privatization Commission. Exemption to the income from sale of electricity is not available to NPPMCL being Federal Government owned company. In order to provide level playing field and facilitate demerger and privatization, the demerged entities and new entity taking over NPPMCL has been provided threefold exemptions on the recommendations of Privatization Commission.

i) Exemption from tax on income from sale of electricity;
ii) Exemption from minimum tax on turnover basis; and
iii) Exemption from reversal of tax credits claimed by NPPMCL which under law become reversible due to change in ownership or change in debt/ equity ratio.

6. Reduced Rate for Specified Offshore Supply Contracts

The offshore supplies by non-resident suppliers are subject to withholding tax at the rate of 1.4% under minimum tax regime. This rate has been reduced to 1% under final tax regime in the cases of Karot and Kohala Hydro Power projects situated in AJK. Enabling provision is clause (18) of Part III of the Second Schedule to the Ordinance. These amendments have been made in pursuance to the recommendations of Ministry of Energy.

7. Profit on Debt

The scope of separate block taxation on interest income has been reduced. Previously, interest income upto Rs. 36 Million in case of individuals and AOPS was chargeable to tax at the rates ranging from 15% to 20% under final tax regime. By virtue of new amendments;

a) The interest income upto Rs. 5 Million shall be taxed at the rate of 15% under final tax regime. If the interest income is more than Rs. 5 Million, it shall be taxed under normal tax regime.
b) Uniform rate of withholding tax under section 151 of the Ordinance on interest income has been introduced at 15%.
c) Interest income earned by all taxpayers except banking and insurance companies from investment in federal government securities shall be taxed at the rate of 15% under final tax regime. This has been provided in clause (20) of Part III of the second schedule.

8. Property Income

The block taxation for property income available to non-corporate entities has been done away with. Following changes governing taxation of income chargeable to tax under the head income from property have been introduced;

a) Property income of companies was taxable as normally computable income. However, in case of individuals and AOPs there was an option for property income to be taxed on gross rental bases. This distinction has been withdrawn and now property income shall be chargeable to tax under the head income from property under normal tax regime after admissible deductions. Necessary changes have been introduced in sections 15 and 15A of the Ordinance. Subsequently, Division VIA of Part I of First Schedule has been omitted.
b) Current year's loss under any head of income has been allowed to be set off against the person's income chargeable to tax under the head "income from property" by amending section 56 of the Ordinance.
c) Withholding tax regime dealing with rental income from immoveable properties has been rationalized. The ambiguity regarding withholding of tax on rental income of immoveable property of sub-lessee has been removed. It has been explained that all persons making payment on account of immoveable property are required to withhold tax at the prescribed rates which have also been rationalized in Division V of Part III of First schedule.

9. Salary Income

Provisions of clause (c) of sub-section (2) of section 12 were prone to misuse regarding the exemption available to allowance solely expended in the performance of employee's duty in conjunction with clause (39) of Part I of second schedule. The provisions were used to avoid tax. In order to streamline, an explanation has been inserted in clause (c) of sub-section (2) of section 12 whereby the exempt allowance has been explained and consequently clause (39) of Part I of second schedule has been omitted. Any allowance which is paid on fixed basis or percentage of salary basis shall not constitute allowance for the performance of duties.

10. Clarity regarding Taxation of Income of Co-operative Societies from sale to its own members

Clarity regarding taxation of income of co-operative societies from sale to its own members

Doctrine of mutuality that enunciates those transactions between society and its members will not be taxable under specific circumstances has become a major tool of tax avoidance. In order to curb this practice, explicit provision has been added to the Ordinance for giving clarification on interpretation of law in the context of doctrine of mutuality. Necessary changes have been introduced in section 18 of the Ordinance.

11. Streamlining Certain Transactions

Law provides special mechanism for treatment of transfer of assets under certain transactions. The non-recognition rules provide that no gain or loss shall arise on disposal of assets under certain special arrangements enumerated in sub-section (1) of section 79. However, these rules did not apply if the recipient was a non-resident person. This was giving rise to anomalous situations in certain circumstances therefore, non-recognition rules have been extended in cases of disposal of assets between spouses under an agreement to live apart, inheritance and gift from a relative in case of non-residents. Sub-section (4A) of section 37 provides valuation of assets received under certain transactions. However, this was manipulated to avoid tax therefore a proviso has been inserted whereby the commissioner has been empowered to undo such tax avoidance scheme.

Gifts received from certain persons were made taxable in the hands of recipients. The provision has been broadened to exclude gifts received from relatives from this taxation in line with other provisions. Necessary changes have been made in clause (la) of sub-section (1) of section 39 of the Ordinance.

12. Exchange Traded Funds

Exchange traded funds (ETF) are an emerging product in capital market. In order to streamline its taxation, the units of ETF have been included in the definition of security. Moreover, tax credit has also been allowed for investment in ETF at par with investment in shares and insurance premium. Necessary changes have been introduced in section 37 and 62 of the Ordinance.

13. Capital Gain on Disposal of Immoveable Properties

A separate block of taxation of capital gain on the sale of immoveable property is available under the Ordinance. The gain arising on the disposal of immovable property for more than 4 years, is not taxable. The capital gain arising on the disposal of immovable properties is taxable to extent of 100%, 75%, 50% and 25%, if property is sold within 1, 2, 3 and 4 years respectively. The gain so calculated on the basis of holding period was taxable at the rates ranging from 2.5% to 10%. Now these rates have been slightly enhanced through changes in Division VIII of Part I of First schedule of the Ordinance, however, the holding period concession remains intact.

14. Capital gain on disposal of securities

The capital gain on sale of securities was taxable at different rates. Now the uniform reduced rate of 12.5% has been provided under law.

15. Worker's Welfare Fund & Worker's Profit Participation Fund

After the 18" constitutional amendment, the matters regarding WWF and WPPF have been devolved to the provinces. Provinces have promulgated their own workers welfare fund and workers profit participation fund laws. The statutory contributions made by businesses to these funds under federal laws are deductible allowances. However, the contributions made under provincial laws were inadmissible expenses. Now contributions made to provinces have made deductible allowances. Necessary changes have been made in sections 60A and 60B of the Ordinance. However, in case of trans-provincial organizations, the admissibility of these allowances shall be subject to payment to federal government, which follows the Honorable Apex Court Judgment on the subject.

16. Tax Credit for Point of Sale (POS) Machines

All Tier 1 retailers are required to integrate with Board's Point of Sale online real time reporting system. In order to encourage integration with point-of-sale real time reporting system of FBR, tax credit for POS machines has been introduced through introduction of new section 64D. Tax credit of Rs.150, 000 or the cost of the machine whichever is lower shall be extended to the Tier | retailers installing and integrating machines with Board's system.

17. Definition of Resident Individual

The provisions relating to the definition of resident individual have been modified. Now in order to become a resident, a person shall be required to be in Pakistan for a period in aggregate to 183 days or more in a tax year. The other conditions have been waived off by omitting clause (ab) of section 82 of the Ordinance.

18. Assistance in recovery on the request of foreign jurisdictions

Pakistan is signatory to many international bilateral and multilateral tax treaties and agreements. However, the law did not provide legal cover to recovery of taxes on the request of foreign jurisdiction. In order to cater to this, enabling provisions have been introduced by amending section 107 and introducing new section146C of the Ordinance.

19. Minimum Tax on Turnover

Previously, minimum tax on turnover at the rate of 1.5% of turnover was payable by all companies and individuals/ AOPs having turnover exceeding Rs. 10 million. This is an alternative tax. It is payable when the normal tax liability in cases of exemption, loss, tax credits or for any other reason, is less than tax payable on turnover basis. It can be carried forward for adjustment against next year's tax liability however it cannot be carried forward if person has sustained loss for a year. 4 different types of changes have been made in this regime which are summarized below:

a) Generalized reduction in minimum turnover tax paid from 1.5% to 1.25%,
b) Enhanced threshold for individuals and AOPs from 10 million to 100 million to pay minimum tax,
c) Allowing carrying forward of minimum tax for adjustment against normal tax liability even in cases of loss to provide relief to businesses sustaining loss and to maximize equity,
d) Division IX of Part I of First schedule has been substituted as below:

S.No	Person(s)	Minimum Tax as percentage of the person's turnover for the year
(1)	(2)	(3)
1	a) Oil marketing companies, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds rupees one billion. b) Pakistan International Airlines Corporation; and c) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production;	0.75%
2	a) Oil refineries b) Motorcycle dealers registered under the Sales Tax Act, 1990	0.50%
3	a) Distributors of pharmaceutical products, fast moving consumer goods and cigarettes; b) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990; c) Rice mills and dealers; d) Tier-1 retailers of fast-moving consumer goods who are integrated with Board or its computerized system for real time reporting of sales and receipts; e) Person's turnover from supplies through e-commerce including from running an online marketplace as defined in clause (38B) of section 2. (f) Persons engaged in the sale and purchase of used vehicles (g) Flour mills	0.25%
4	In all other cases	1.25%

20. Return of Income

a) The law provides for time limitation of 5 years for calling of return however, where taxpayer is a non-filer, this limitation is 10 years. Now it has been provided that this time limitation shall not be applicable to a person who has foreign income or foreign assets. Necessary changes have been introduced by adding proviso to sub section sub section (5) of section 114 of the Ordinance.

b) Section 114 enumerates persons who are required to file return under law. Now the Board with the approval of the Minister in charge has been empowered to notify persons or classes of persons who are required to file the return of income.

21. Powers of Tax Authorities

a) Tax authorities can conduct inquiry under section 122(5A) in certain matters regarding amendment of assessment without selection of case for audit under section 177 of the Ordinance. This power to conduct inquiry has been withdrawn.
b) The law prescribes time limit of 5 years for amendment of assessment. Such proceedings were usually dragged for long periods after issuance of show cause notices. Now the time limit of 120 days has been prescribed to conclude these proceedings after issuance of show cause notice. Necessary changes have been made in section 122(9) of the Ordinance.
c) The power of the commissioner to reject advance tax estimates has also been withdrawn. Necessary changes have been made in section 147 of the Ordinance.
d) Law has not provided any time limitation to complete proceedings in pursuant to the orders of the commissioner under section 122A. Now proceedings shall be concluded within the time limit of 120 days.

22. Strengthening Alternate Dispute Resolution Mechanism

In order to reduce litigation and disputes, the mechanism of ADRC has been strengthened. Necessary changes have been made in section 134A of the Ordinance to the effect:

a) Time limit to constitute committee has been curtailed to 30 days from 60 days.
b) Time limit to decide cases has been curtailed to 60 days from 120 days by committee.
c) In case of failure to decide, powers to constitute second committee have been provided.
d) The committee can be constituted even if criminal proceedings have been initiated in a case or mixed question of fact and law is involved.

23. Export of Services

In line with the policy of the Government to attract legal flow of remittances into the country and to promote export of services in all sectors of economy, a special regime at par with export of goods regime has been introduced through insertion of section 154A. The service providers would be subjected to 1% withholding tax under Division IVA of Part III of First Schedule on their export proceeds remitted in Pakistan through Banks and authorized dealers of foreign exchange. This would be final tax. The Board has also been empowered to include or exclude certain services from operation of this section. Moreover, the Board may prescribe rules for the purposes of this section.

24. Rationalization and Simplification of Withholding Tax Regime

24.1 Omission of Withholding Tax Provisions.

There were 38 withholding tax provisions in the Income Tax Ordinance, 2001. This high number of provisions adds to complexity and creates undue burden of compliance on different withholding agents. It also impacts country’s rating on the ease of doing business index. In an effort to augment ease of business and simplify the tax laws following withholding taxes have been omitted.

Provision	Description	Sector
153B	Collection of tax on payment of royalty to residents	Royalty
231A	Collection of tax on cash withdrawal	Banking sector
231AA	Collection of tax on banking instruments	
236P	Collection of tax on banking transactions other than through cash	
236Y	Collection of tax from persons remitting amounts abroad through credit or debit or prepaid cards.	
236B	Collection of tax on domestic air travel	Airlines
236L	Collection of tax on international air travel	
236V	Collection of tax on extraction of minerals	Mining sector
233A	Collection of tax from members by a stock exchange registered in Pakistan	Capital Market
233AA	Collection of tax on marginal financing by NCCPL	
234A	Collection of tax from CNG stations	CNG sector
236HA	Collection of tax on certain petroleum products	Certain petroleum products

Additionally, following withholding tax provisions have been merged with other p**rovisions to reduce complexity of law:**

Provision	Description	Merged with
150A	Deduction of tax on return on investment in Sukuks	Merged in section 151 for resident's and in section 152 for non-residents which deal with such payments
152A	Deduction of tax on payments for foreign produced commercials	Merged with section 152 which deals with payments to non-residents
236S	Collection of tax on dividend in specie	Merged with section 150 which deals with dividend

24.2 Withholding tax on Electricity Consumption

a) Withholding tax rates for industrial and commercial consumers have been revised in Division IV of Part IV of First Schedule.

b) Withholding tax on domestic electricity consumption was collected at the flat rate of 7.5% if the monthly domestic electricity bill exceeded Rs. 75,000. In order to promote documentation and broadening of tax base this withholding tax has been:
   i. done away with in case of persons appearing on Active Taxpayer's List irrespective of amount of bill.
   ii. threshold for collection of tax has been reduced from Rs. 75,000 to Rs. 25,000.

c) Taxpayers are entitled for exemption certificate under section 235 on discharge of their advance tax liability. However, the language of law was constructed to the effect that advance tax liability for the whole tax year was required to be discharged to obtain this certificate. Now this ambiguity has been resolved by making necessary changes in sub section (3) of section 235 of the Ordinance. Now the taxpayer can obtain certificate for a quarter by discharging their advance tax liability for the quarter.

24.3 Individual and AOPs as Withholding Agent for Commission Income

Under the other provisions of the Ordinance individuals and AOPs having turnover of 100 million or more are withholding agents. However, this provision was not provided for commission agents. Necessary amendments have been made in section 233 of the Income Tax Ordinance, 2001.

24.4 Streamlining withholding tax collection on sale and purchase of immoveable property

a) All persons effecting sale and purchase of properties are required to collect tax under section 236C and 236K of the Ordinance. However, due to the lack of explicit provision certain persons like public and private real estate projects, joint ventures and private commercial concerns are not collecting these taxes which is giving rise to undue litigation. These have been added in the list of withholding agents in section 236C and 236K.
b) Law provides mechanism for collection of tax on purchase of property in installments where payment for purchase of property is made in installments. Such taxpayers have to pay withholding tax again at the time of transfer. It has been made possible that such person may not be subjected to double withholding tax collection by amending explanation in section 236K.

24.5 Reduced Rate of withholding tax for certain services

a) Oilfield services have been included in list of reduced rate services in Division II, Part II of First Schedule in case of payment to non-residents.
b) Architectural services, oilfield services, telecommunication services, collateral management services and travel & tour series have been included in list of reduced rate services in Division II, Part III of First Schedule.
c) Rates for withholding tax on contracts under section 153(1)(c) have been reduced to 6.5% in case of companies and 7% in case of others.

25. Broadening of Scope of Section 23G and 36H

Presently sections 236G and 236H provide a mechanism for collection of tax on sale to distributors, dealers, sub-dealers wholesalers and retailers. The scope of withholding tax has been extended as following:

Section	Services already present	New services	Rates
236G	electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam	pharmaceuticals, poultry and animal feed, edible oil and ghee, auto-parts, tyres, varnishes, chemicals, cosmetics and IT equipment	for distributor, dealer and wholesaler of fertilizer — 0.25% if appearing on ATL and 0.7% otherwise 0.1% for others

236H	electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam	pharmaceuticals, poultry and animal feed, edible oil and ghee, auto-parts, tyres, varnishes, chemicals, cosmetics and IT equipment	0.50%

26. Improved and Automated Monitoring of Withholding Taxes

Earlier income tax withholding agents were required to file quarterly withholding tax statements. Now taxpayers are required to file annual withholding tax statement in respect of periods pertaining to the tax year observed by the taxpayer along with reconciliation statement in addition to quarterly statements. The annual statement is required to be filed within 30 days of end of tax year whereas reconciliation statement is required to be submitted along with return.

27. Streamlining and Automation of Procedures

i. Automated Issuance of Refunds

In order to claim refunds, a taxpayer has to file refund application and provide documents for physical verification. To facilitate taxpayers, centralized automated refund system has been introduced where there will be no requirement for application and. verification. The system based verified refunds would be issued directly into the bank accounts of taxpayers without any face-to-face contact. Enabling legal framework has been provided through insertion of section 170A in the Ordinance.

ii. Prompt Issuance of Exemption Certificate

The delay in the issuance of exemption certificate is a major concern of taxpayers. Time limitation of fifteen days shall be observed for issuance of exemption certificate for all corporate taxpayers which was earlier available to public listed companies only. After the lapse of statutory time limit, the web portal would automatically issue exemption certificate to the taxpayers. Necessary changes have been introduced in Section 153 and 159 of the Ordinance. However, commissioner has been empowered to cancel or modify the certificate with reasons in writing.

iii. E-hearing

In order to provide faceless tax administration, reducing compliance cost and saving precious time of the taxpayers, the mechanism of e-hearing has been devised. Enabling legal provisions for admissibility of evidence collected during e-hearing have been introduced through 227E of the Ordinance.

iv. Minimizing Requirements for Tax Compliance

Taxpayers are subject to multiple compliances. Currently they are required to update their profile periodically. This requirement costs time, energy and resources. In order to facilitate taxpayers in line with ease of doing business this requirement has been withdrawn through substitution of section 114A of the Ordinance.

v. Electronic Filing of Appeal

The mechanism of online filing of appeals has been made available to taxpayers. However, enabling legal provisions were lacking which have been introduced through section 127 in the Ordinance.

vi. Removal of Requirement of Multiple Notices in Concealment Cases

It has been provided under law that where notice for amendment of assessment has been issued confronting taxpayer regarding concealment of income, no separate notice under section 111 will be required.

28. Establishment of Compliance Risk Management

FBR is undergoing reforms in consultation with different development partners. Although the mechanism of compliance risk management is already present but it required a properly structured and dedicated organization. In order to provide structured mechanism, Directorate General of Compliance Risk Management shall be established for which governing provisions have been made available in section 2301 of the Ordinance.

29. Delegation of Powers of Federal Government

Certain powers of the Federal Government, as per direction of the Cabinet have been delegated. The powers in respect of taxes, rates of tax and exemptions have been delegated to Board with the approval of the Federal Minister in charge in pursuant to the decision of the Economic coordination committee of the Cabinet from time to time. Necessary changes have been made in section 53 of the Ordinance. Powers in relation to procedures have been delegated to the Board with the approval of the Federal Minister in charge and necessary changes have been made in sections 2, 99B, 99C, 114 and 204 of the Ordinance.

30. Discouraging Premium Money on Vehicles

In order to discourage premium money, additional tax of Rs.50,000, Rs.100,000 and Rs.200,000 for vehicles upto 1000 cc, between 1000cc and 2000cc and beyond 2000cc respectively, was imposed where a vehicle is sold within 90 days of its ownership. This was introduced vide Tax Laws (Amendment) Ordinance, 2021. It was applicable till 30.06.2021. Due to its positive impact, it has been continued. Further, the period of 90 days has been withdrawn. Now the persons buying motor vehicles would be required to get them registered in their own names otherwise, this tax would be collectable.

31. Rewards and Benefits

Enabling provisions for rewards and benefits have been introduced for e-intermediaries for filing of returns of new taxpayers by insertion of new section 227BA in the Ordinance.

32. Banking Companies

The income of banking companies earned from additional investment in federal government securities for tax year 2020 and onwards was taxable at the rate of 37.5% instead of rates provided in Division II of Part I of First Schedule. This provision has been further streamlined for prospective application. For tax year 2022 and onwards, the income arising from federal government securities shall be taxable on the basis of advances to deposit ratios of banks as under:

a) 40% instead of rate provided in Division II of Part I of the First schedule if advances to deposit ratio as on last day of the tax year is up to 40%.
b) 37.5% instead of rate provided in Division II of Part I of the First schedule if the advances to deposit ratio as on last day of the tax year exceeds 40% but does not exceed 50%.
c) at the rates provided in Division IJ of Part I of the First schedule if advances to deposit ratio as on last day of the tax year exceeds 50%.

The amendments would reduce disputes regarding the calculation of additional investment and additional earning. Furthermore, the cut off rate to calculate advances to deposit ratio has been specified as last day of tax year. These changes have been incorporated by amending Rule 6C of the Seventh Schedule.

33. Income of Builders and Developers in Excess of 10 Times Tax Paid

Builders and developers have been provided fixed tax regime and immunity from probe for sources of investment subject to conditions and limitations provided in section 100D and Eleventh schedule of the Ordinance. They have been further allowed to incorporate profits from such projects equal to 10 times of the taxes paid under fixed tax regime. The income in excess of 10 times was chargeable to tax at the normal applicable rates. Now changes have been introduced in Eleventh schedule to the effect that the income of builders and developers from such project in excess of 10 times of tax paid shall be chargeable at reduced rate of 20%.

34. Incentive for REIT Schemes

The income of REIT schemes is exempt from tax under clause (99) of Part I of Second Schedule subject to conditions and limitations prescribed therein. The REIT schemes have been provided following further concessions

a) Gain arising on the disposal of immoveable property to development and residential REIT is exempt upto 2023. Now this exemption has been extended on disposal of immoveable property to all types of REITs.
b) The rate of tax on dividend income from REIT scheme was 25%. It has been reduced to 15%, Necessary changes have been incorporated in the schedules.

35. Second Schedule of the Ordinance

a) Special Economic Zones

Special Economic Zones also include some key projects of CPEC. These zones are governed under Special Economic Zones Act, 2012. The law provides for exemption from income to the zone developers, co-developers and the zone enterprises for a period of 10 years from the commencement of business. However, they were liable to pay minimum tax on their turnover at the rate of 1.5% of turnover. This was causing hardship to the investors. SEZ enterprises have been exempted from minimum tax for tax year 2021 and onwards. The exemption has been provided by including SEZ enterprises in clause (11A) of Part IV of Second Schedule.

b) Special Technology Zones

The establishment of Special Technology Zones is a flagship initiative of the Government. They have been established through promulgation of Special Technology Zones Ordinance, 2020 to promote innovation, technology, entrepreneurship and to attract investment in technology driven industries and enterprises. Special tax incentives have been granted including:

a) Ten-year tax exemption for Special Technology Zone Authority, Zone Developers and Zone Enterprises by introducing new clause (126EA) in Part 1 of Second Schedule.
b) Exemption from minimum tax by inclusion in clause (11A) of Part IV of Second Schedule.
c) Tax exemption on the import of capital goods.
d) Tax exemption on dividend income of private funds from investment in zone enterprises.

c) Futures Commodity Markets

Development of regulated commodity markets is another important step of the Government. In order to provide enabling environment, for warehousing services, and collateral management services a reduced rate of 3% instead of 8% have been made. In a coordinated move, the establishment of storage houses, issuance of electronic warehouse receipts and their trading on Pakistan Mercantile Exchange are further parts of agricultural transformation plan. In order to provide enabling environment for the trading of electronic warehousing receipts on Pakistan Mercantile Exchange, exemption to futures commodity contracts from withholding tax under section 153(1)(a) has been granted by introduction of clause (43G) in Part IV of the Second Schedule of the Ordinance.

d) Unconditional Grant of Exemption from Tax to different Organizations

Certain public sector and well renowned organizations and funds have been included in Table I of clause (66) of Part I of the Second Schedule.

e) Measures Relating to Meat Industry

Organized sector of meat is facing many problems being withholding agent. Therefore, the live animals, raw hides and unpackaged meat have been included in the definition of agriculture produce so that withholding tax provisions are not attracted. Changes have been introduced in clause (46AA) of Part IV of Second Schedule.

f) Women Enterprises

As an affirmative action for women entrepreneurs any new proprietorship owned by a woman, any AOP having all women partners and a company having all women shareholders have been granted 25% tax reduction in tax liability in a year. Enabling provision in the form of clause (19) in Part III of second schedule has been introduced.

g) Border Sustenance Markets

Border sustenance market is another important initiative of this Government. In order to provide enabling environment to these markets, tax on import and export of specified goods for sale in the jurisdiction of these markets has been exempted. Enabling provisions in the form of clause (12N) in Part IV of Second Schedule have been introduced.

h) Exemption from Tax on Import

Currently the import of books, corn harvester and silage making machines, motor vehicles upto 1000 cc are subject to tax at the rate of 5.5 % on import. These have been exempted from collection of advance income tax at the import stage by inclusion in Clause (56) of Part IV of the Second Schedule.

i) Exemption to Bagasse Fired Power Generating Units

Following concessions have been provided for Bagasse fired power generation units.

a) Exemption to income from tax - clause (132C), Part I, Second Schedule.
b) Reduced rate of tax of 7.5% on Dividend income from such projects - clause (18C), Part II, Second Schedule.
c) Exemption from minimum tax on turnover basis — clause (11A), Part IV, Second Schedule.
d) Exemption to bagasse fired power generation units on import of plant and machinery under section 148 - clause (56), Part-IV, of Second Schedule.

j) Exemption to Refineries

Exemption from tax to the income of deep conversion new refineries and up gradation, modernization and expansion projects is provided under clause (126B) of Part I of Second Schedule if they undertake to invest in projects by 31.12.2021. This exemption has been made available for twenty years to new refineries and for ten years to the income arising from BMR and expansion projects of existing refineries. The availability of exemption is subject to the condition that products of these refineries meet Euro 5 standards.

k) Contractors of oil Tankers and Goods Transport

The contractors of oil tankers were subject to reduced rate of 3% for services rendered instead of normal rate of 8%. This rate has been further reduced to 2%. Necessary changes have been made through clause (28F) of Part II of second schedule.

The contractors of oil tanker services and goods transport services have also been exempted from responsibilities as withholding agent under section 153(1)(a) and 153(1)(b) subject to the condition that they pay 0.5% extra tax on their turnover in addition to tax deductible under section 153(1)(b). Necessary changes have been made through clause (clause (43D) and (43E) of Part IV of second schedule.

l) Provisions regarding Used Vehicles

Used vehicle market is working in an undocumented environment. In order to promote documentation and corporatization of this sector has been granted exemption from withholding tax on the purchase of used vehicle from general public and reduced minimum turnover tax from 1.5% to 0.25%. Necessary changes have been made in clause (45B) of Part IV of Second schedule.

m) Conditional Concessionary Rate for Supply Chain below Importers and Manufacturers for ATL taxpayers

The major concern of distributors, dealers, sub-dealers, wholesalers and retailers is the higher withholding tax rate on supply of goods that is 4.5% and minimum turnover tax rate that is 1.5%. Certain dealers, sub-dealers, wholesalers and retailers of certain sectors were incentivized by reduced rate of 0.25% under sections 153(1)(a) and section 113 under clauses (24C) and (24D) of Part II of the second schedule. Certain changes have been introduced in these clauses to the effect that:

a) reduced rate of withholding tax and turnover tax has been extended to distributors of specified sectors.
b) concessionary rates have been made available subject to the condition that beneficiaries appear on Active Taxpayers" List of Income Tax and Sales Tax.
c) benefit has been extended to Tier-1 retailers who integrate with Board's Point of Sale real time reporting system.

n) Rationalizing of Withholding Tax Regime for Exporters

Following two measures have been introduced to streamline withholding taxes of export-oriented sector:

a) Exporters are exempted from withholding tax provisions regarding payment for supply of goods. However, this exemption was not available when reduced rate is provided under the Ordinance for certain goods. In order to remove distortion this anomaly has been removed. Necessary changes in clause (45) of Part IV of Second Schedule have been made.
b) Many withholding agents of export-oriented sectors are defying the provision of law by misinterpreting the language. An explanation has been added that reduced rate is applicable to goods and services related to export-oriented sector only. Necessary changes in clause (45A) of Part IV of Second Schedule have been made.

o) International Buying Houses

International buying house act as facilitator for exports from Pakistan to their principals abroad. In order to reduce disputes, the amount remitted in foreign exchange to meet the expense of these buying houses by their principals has been exempted from tax. Moreover, the salary of non-resident foreign experts employed/ engaged by international buying houses has been exempted from tax if such experts perform duties for these international buying houses. These exemptions have been incorporated in clause (149) of Part I of the Second Schedule to the Ordinance.

Sales Tax Act, 1990 and Federal Excise Act, 2005

There are certain provisions in the Sales Tax Act, 1990 (hereinafter referred to as “STA”) and Federal Excise Act, 2005 (hereinafter referred to as “FEA”), which required some corrections or streamlining, while some changes have been made for the purpose of “ease of doing business” for registered persons. Further, some drafting errors have also been corrected. All such measures are listed below:

S. No.	Section	Amendments with Rationale
1.	2(4AA) of STA	A new definition has been inserted to define Commissioner (Appeals).
2.	2(SAB) of STA	Annual threshold for the cottage industry has been increased from Rs. 3 (M) to Rs. 10 (M) by amending section 2(SAB).
3.	2(18A) of STA	For the purpose of defining online market place, new clause (18A) has been inserted under section 2.
4.	2(37) of STA	Drafting error has been corrected in clause (37) of section 2.
5.	2(43A) of STA	Definition of tier-1 retailer has been streamlined through insertion of a new clause, whereby a retailer who has acquired point of sale is also included therein.
6.	2(44) of STA	Advance receipt of payment has been excluded from the purview of definition of time of supply.
7.	3 of STA	Besides correcting drafting error and deleting proviso regarding cash back, new sub-section (9AA) has been inserted in section 3 for fixation of minimum production as per criteria specified in newly added Thirteenth Schedule.
8.	8B of STA	In order to encourage listed corporate sector, Public limited Companies listed on Pakistan Stock Exchange have been excluded from the purview of section 8B of the Sales Tax Act, 1990. Moreover, in order to enhance cost of retailers not integrated with the FBR’s online system, disallowance of input tax adjustment by such retailers has been further enhanced to 60%.
9.	11 of STA	Sales tax returns are filed on monthly basis, while audit is carried out on annual basis. Hence, in order to streamline section 11, the words “relevant date” have been substituted with the words “end of the financial year in which the relevant date falls".
10.	22 of STA	Section 22 has been amended by inserting cash book and electronic version of record to strengthen and streamline the requirement of record keeping.
11.	25AA of STA	A new sub-section has been added in section 25AA to provide enabling provision for prescribing rules for determining transfer pricing of taxable supplies between associates to reflect fair market value in arm’s length transactions.

12.	26AB of STA	For the purpose of facilitation of the registered persons and in order to streamline the procedure for extension of time for furnishing of sales tax returns, new section 26AB has been inserted.
13.	40D of STA	Border Sustenance Markets have been included in the tax-exempt areas and accordingly supplies made from such areas to the taxable areas shall be chargeable to sales tax.
14.	40E of STA & 45AA of FEA	New section has been added in both STA and FEA making it mandatory for manufacturers of the specified goods to obtain brand license for each separate brand or stock keeping unit (SKU) produced by them.
15.	48 of STA & 14 of FEA	Enabling provision has been inserted in both STA and FEA regarding assistance in collection and recovery of taxes with other countries on mutual basis.
16.	50 of STA	Procedure for publishing and placing the rules has been streamlined.
17.	56A of STA & 47A of FEA	Enabling provisions regarding sharing of data with other ministries or divisions of Federal Government or Provincial Governments besides providing for mechanism for assistance in recovery of taxes with foreign countries on reciprocal basis have been inserted in section 56A of STA and 47A of FEA.
18.	56C of STA	Enabling provision has been inserted in section 56C to monitor and regulate the invoices issued by tier-1 retailers by way of mystery shopping.
19.	67 of STA	Benefit of additional payment has also been extended to those persons in whose case any order is passed under section 66 and refund is not issued within forty-five days of date of refund order.
20.	73 of STA	For the purpose of promoting ease of doing business, the concept of constructive payment (setting off payables against receivables from the same registered person) has been introduced in section 73 by inserting a new proviso in sub-section (1).
21.	76 of STA & 49 of FEA	Enabling provision has been inserted in in both STA and FEA for authorizing and prescribing the manner for utilizing the fees and service charges collected by the Board from taxpayers.
22.	S. Nos. 18, 19 & 20 of Table- II of the Sixth Schedule to STA	S. No. 18 of Table-II of Sixth Schedule to STA, which grants exemption to marble and granite manufacturers having annual turnover less than Rs. 5 million, has been omitted, as the said exemption is already available under section 2(SAB) of STA. Moreover, exemptions on bricks and crush stones have already expired on 30'h June, 2018; hence these serial numbers have been omitted, being redundant.
23.	4 of FEA	Provision for revision of return without seeking approval from the Commissioner has been incorporated in section 4 of the FEA.
24.	S. No. 56 of Table-1 of the First Schedule to FEA	To correct drafting error, PCT heading for filter rod has been substituted.

1. Inclusion of Sugar in The Third Schedule of the STA:

Currently, the price of white crystalline sugar is fixed at Rs.60/- per kg in terms of SRO 812(1)/2016, dated 02.09.2016, which is considerably below the actual market price of the commodity. In order to address this anomaly, sugar is proposed to be included in Third Schedule of the STA, so that sales tax is charged and collected on actual retail price of the product at the manufacturing stage. This measure would not only ensure due payment of tax but also help in putting a more effective price control mechanism inplace for sugar.

2. Withdrawal of Zero-Rating Under Fifth Schedule of the STA:

In order to capture the supply chain in a better manner, following entries in the Fifth Schedule of the STA, which grant zero-rating to different items, have been withdrawn. This measure will plug the revenue leakage, if any in the supply chain.

Serial No of Fifth Schedule	Description
1	Supply, repair or maintenance of aircraft subject to certain conditions
6	Plant and machinery to petroleum and gas sectors
10	Petroleum Crude Oil
11	Inputs of zero-rated plant and machinery

3. Grant of Zero-Rating on Certain Items:

Zero-rating on local supply of raw material, components, parts and plant and machinery to registered exporters under Export Facilitation Scheme, 2021 has been granted. Moreover, milk and fat filled milk have also been included in zero-rated regime.

4. Withdrawal of Exemptions Under Sixth Schedule of the STA:

In pursuance of rationalizing and streamlining policy, certain exemptions under Table 1 of Sixth Schedule have either been withdrawn or shifted to Table 2 for the purpose of broadening of tax base and enhancing revenue, while retaining only those exemptions which are related to basic food items, health and education.

5. Exemption of Sales Tax on White Spirit Ano Solven„T O

In order to support agriculture sector, exemption has been granted on white spirit and solvent oil for manufacture of pesticides and their ingredients registered under the Agriculture Pesticides Ordinance, 1971.

6. Exemption of Sales Tax on Printing Papers for Holy Quran

Currently art and printing papers are chargeable to sales tax at standard rate of 17%. The said products have been granted exemption from sales tax, if used for printing and publication of Holy Quran. Resultantly, art and printing paper along with relevant PCT headings have been inserted in S. No. 137 of Table-1 of the Sixth Schedule to the STA.

7. Exemption of Sales Tax on CKD Kits for Electric Vehicles

Exemption on import of CKD kits for electric vehicles has been granted to facilitate local manufacturing to introduce environment friendly and cheaper source of transportation to the general public. Accordingly, S. No. 157 has been inserted in the Sixth Schedule of the STA.

8. Exemption of Sales Tax on Temporary Import by International Athletes

For the purpose of facilitation of international athletes, goods temporarily imported into Pakistan by international athletes or sportsmen which would be subsequently taken back by them within 120 days have been exempted from levy of sales tax. For this purpose, S. No. 158 has been inserted in the Sixth Schedule of the STA.

9. Exemption of Sales Tax on Imports of Auto-Disabled Syringes and Raw Materials

To promote usage of auto disabled syringes during COVID situation in the country, tax exemption on import of auto disposable syringes and their raw material was granted till 30'h June, 2021 vide Tax Laws (Second Amendment) Ordinance, 2021. Accordingly, this exemption has been incorporated at S. No. 159 and 160 of Table-1 of Sixth Schedule of the STA.

10. Exemption of Sales Tax on Plant Machinery, Equipment and Raw Material for Special Technology Zones

To provide incentive to the IT industry in the country, import of plant, machinery, equipment and raw materials by Special Technology Zone Authority, developers and enterprises have been granted exemption by adding S. No. 161 of Table-1 of the Sixth Schedule to the STA.

11. Exemption of Sales Tax and Federal Excise Duty on Import Under Export Facilitation Scheme, 2021

For the purpose of facilitation of exporters, exemption has been granted on import of raw materials, components, parts and plant and machinery by registered persons authorized under Export Facilitation Scheme, 2021. Similarly, exemption from Federal Excise Duty has also been granted on import and supply of certain items by registered persons authorized under Export Facilitation Scheme, 2021.

12. Exemption of Sales Tax on Locally Produced Silos

To facilitate the farmers and encourage storage of grain and agricultural activity in the rural areas, tax exemption on locally produced silos has been granted by adding S. No. 26 in the Table-2 of the Sixth Schedule to the STA.

13. Exemption of Sales Tax on Supply of Wheat Bran

Exemption has been granted on local supply of wheat bran, which will result in facilitation of poultry industry by reduction in manufacturing cost of poultry feed.

14. Exemption of Sales Tax on Import of Pos Machines

In order to facilitate and encourage integration of teir-1 retailers, POS machines imported for installation on retail outlets as are integrated with the Board's Computerized System have been granted exemption from sales tax. Moreover, sales tax rate on textile and leather items through POS integrated retailers has been reduced from 12% to 10%.

15. Exemption of Sales Tax and Federal Excise Duty to Border Sustenance Markets

In order to mitigate the problems faced by people residing in border areas of Baluchistan and Khyber Pakhtunkhwa due to fencing and counter smuggling measures, Border Sustenance Markets are being established on the border with Iran and Afghanistan. To facilitate the said markets, exemption on certain specified items has been granted by inserting new Table-4 in the Sixth Schedule to the STA. Similarly, exemption from Federal Excise Duty has also been granted on specified items meant for such markets.

16. Withdrawal of Exemption of Non-Essential Items, Raw Materials Under Eighth Schedule

In pursuance of rationalizing and streamlining policy, certain reduced rates under Eighth Schedule have been enhanced to standard sales tax rate for the purpose of broadening tax base and increasing revenue, while retaining only those concessionary rates which are related to basic food items, health and education.

17. Reduction of Sales Tax on Locally Manufactured Electric Vehicles

To encourage and promote the local manufacturing of electric vehicles, reduced rate of 1% of sales tax has been provided for these vehicles.

18. Reduction in Sales Tax Rate on Locally Manufactured Motor- Cars Upto 1000cc:

In order to provide relief to the general body of consumers, rate of sales tax has been reduced from 17% to 12.5% on locally manufactured cars upto 1000cc.

19. Increase in Sales Tax Rate on Import of Potassium Chlorate:

For encouraging organized sector of matches manufacturing industry, rate of sales tax at Rs.80/- per kg has been enhanced to Rs.90/- per kg. The said increase may result in discouraging the unregistered persons, who procure potassium chlorate from commercial importers.

20. Goods Supplied from Exempt Area to Taxable Areas:

In order to check misuse of exemption to tax exempt areas, reduced sales tax rate of 16% has been provided for goods supplied from erstwhile FATA/PATA to the taxable areas.

21. Withdrawal of Fixed Sales Tax on Sim Card

Sales tax on Subscriber Identification Module (SIM) cards charged at Rs.250/- per SIM card under the provision of Table-I of the Ninth Schedule to the STA has been abolished with effect from 1 July, 2020.

22. Withholding Regime for Suppliers of Lead

At present, lead and used lead batteries sector contributes very little to the revenue, as most of the suppliers are unregistered persons. To plug revenue leakage and ensure due payment of sales tax, a new S. No. 7 has been added in the Eleventh Schedule to the STA.

23. Withholding Regime for Online Market Places

Online market places facilitating the supply of goods owned by third party suppliers are required to withhold sales tax at the rate of 2% of gross value of supplies made by persons other than active taxpayers.

24. Exemption from Value Addition Tax to Electric Vehicles

To promote environment friendly transportation facility and to encourage cheaper source of transportation, minimum value addition tax under Twelfth Schedule is withdrawn from electric vehicles (4-wheeIers) upto 50 Kwh battery in CKD/CBU condition and electric vehicle LCV upto 150 kwh batter in CKD/CBU till 30th June, 2026.

Furthermore, electric vehicles 2-3 wheelers and heavy commercial vehicles in CBU condition is also excluded from the purview of value addition tax under Twelfth Schedule till 30'h June, 2025.

25. Withdrawal of Value Added Tax on Motor Vehicles Upto 850CC

In order to provide relief to the general body of consumers, small cars upto engine capacity of 850cc have been exempted from value added tax at import stage.

26. Exemption from Federal Excise Duty to Industrial Units Located in FATA and PATA

In order to facilitate the people of tribal area and encourage investment and economic growth in these areas, levy of Federal Excise Duty has been withdrawn on to the industrial units located in erstwhile FATA and PATA by omitting corresponding serial numbers in First Schedule and Second Schedule besides omitting Fourth Schedule of FEA. Corresponding amendments have also been made in the relevant provisions of the STA.

27. Withdrawal of Federal Excise Duty on Juices

In order to provide relief to this sector, Federal Excise Duty on juices has been withdrawn.

28. Imposition of Federal Excise Duty on Electrically Heated Tobacco Products

In order to discourage tobacco usage, electronically heated tobacco products have been brought under the Federal Excise Duty regime by inserting new S. No. 8c of Table-1 of the First Schedule to the FEA.

29. Reduction in Federal Excise Duty on Locally Manufactured Cars

In order to cause reduction in prices of locally manufactured vehicles, Federal Excise Duty has been reduced by 2.5% for each category, as prescribed under S. No. SSB of Table-1 of the First Schedule to the FEA.

30. Reduction of Federal Excise Duty on Telecommunication Services

Federal Excise Duty has been reduced from 17% to 16% on telecommunication services.

31. Imposition of Federal Excise Duty on Mobile Calls:

Federal Excise Duty on mobile phone calls exceeding five minutes has been imposed at 75 paisa per call.

32. Exemption from Federal Excise Duty on Merchant Discount Rate (MDR):

To provide relief to businesses and promote digitization of economy, payment on account of Merchant Discount Rate has been excluded from the ambit of Federal Excise Duty.

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