

Federal Budget 2021



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FEDERAL BUDGET 2021

This memorandum gives a brief overview of Pakistan economy and significant amendments proposed by the Finance Bill 2021. All changes proposed through the Finance Bill 2021, subject to approval by National Assembly and Presidential assent, are effective July 1, 2021.

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

This memorandum can also be accessed on <https://www.pwc.com.pk/en/tax-memorandum.html>

June 12, 2021

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KEY ECONOMIC INDICATORS

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Although the pandemic is not over yet, Pakistan has demonstrated a great deal of resilience, due in part to authorities' swift policy responses and regional cooperation efforts. As a result, economic activities have resumed giving a boost to economy in particular to industrial production.

	FY 20 – 21	FY 19 – 20
GDP growth rate	3.94%	-0.5%
Per capita income - US\$	1,542.5	1,360.9
FDI (July – March) US\$ million	1,400	2,200
Inflation (July – April)	8.6%	11.2%
Public debt (PKR billion)		
- Domestic	25,552	23,283
- Foreign	12,454	13,116
	38,006	36,399
Budget deficit - %age of GDP	7%	8.1%

Source: Economic Survey of Pakistan 2020-2021

BUDGET AT GLANCE

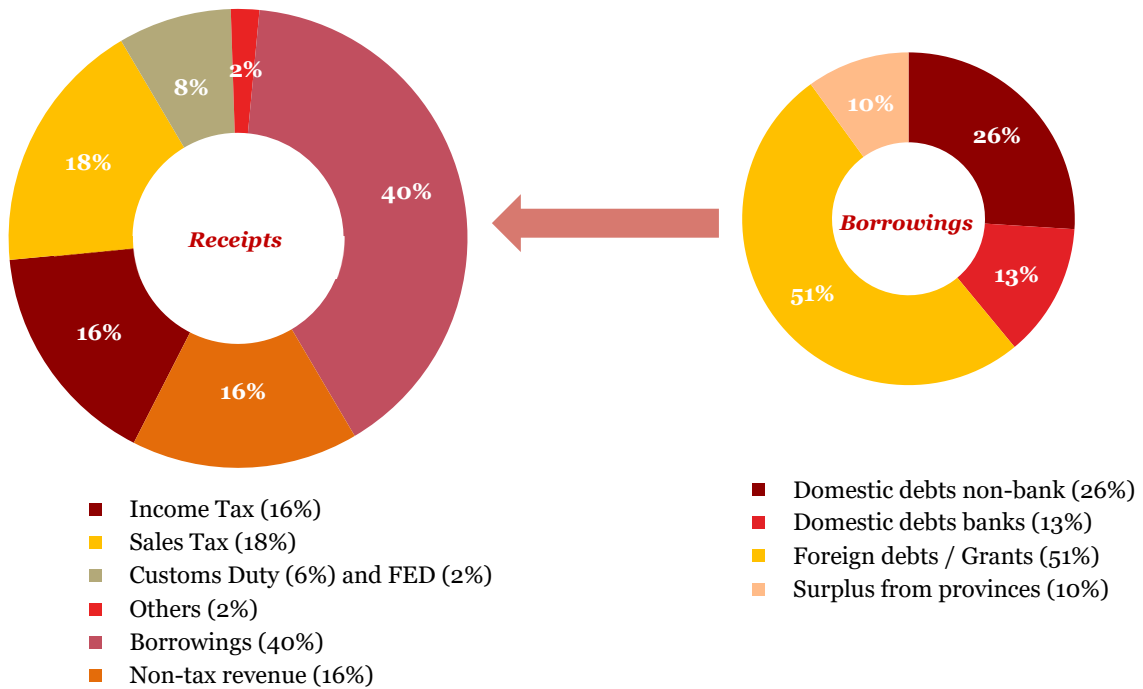
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The following table sets out the Key Budget Financials:

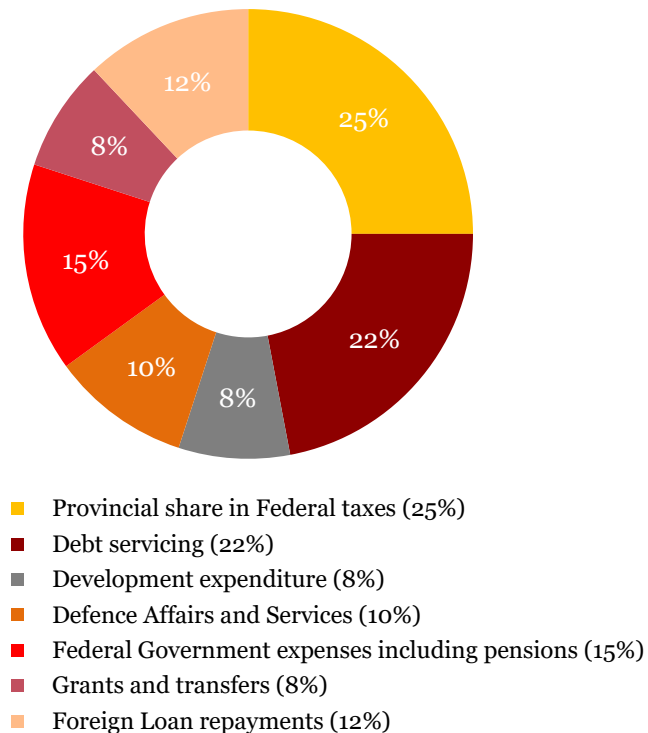
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Tax revenue	5,829		4,690	
Non-tax revenue	2,080		1,704	
Gross revenue receipts	7,909		6,394	
Public account receipt – net	74		(81)	
Total receipts	7,983	100	6,313	100
Less: Provincial share in Federal taxes	(3,412)	(43)	(2,704)	(43)
Net revenue receipts	4,571	57	3,609	57
Expenditure				
- Current expenditure	9,124	114	7,626	121
- Development expenditure	1,137	14	863	14
	10,261	128	8,498	135
Deficit	(5,690)	(71)	(4,880)	(78)
- Domestic debts non-bank	1,439		1,702	
- Domestic debts banks	681		649	
- Foreign debts / grants	2,748		2,287	
- Privatization proceeds	252		-	
- Surplus from provinces	570		242	
	5,690		4,880	

WHERE FROM THE RUPEE COMES IN AND WHERE IT GOES OUT

IN



OUT



BREAK-UP OF TAX REVENUE

There is a slight downward change in the ratio of direct taxes in the overall tax collection.

A substantial and incremental shift is required to decrease disparity in income and reduce the burden of indirect taxes on common man.

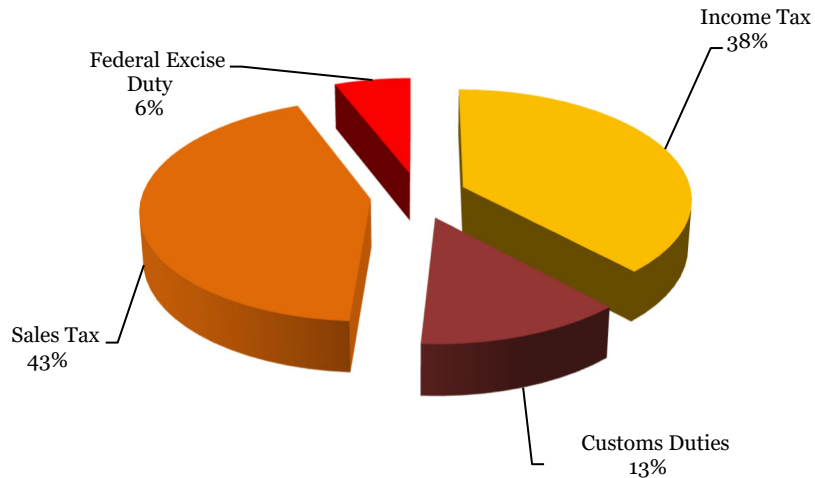
Direct Taxes:

- Income Tax
- Workers' Welfare Fund & Others

Indirect Taxes:

- Customs Duty
- Sales Tax
- Federal Excise Duty

FY 21 -22	FY 20 -21 (Revised)
Rs in Billion	Rs in Billion
2,172	1,780
10	8
2,182	1,788
785	700
2,506	1,927
356	275
3,647	2,902
5,829	4,690



EXECUTIVE SUMMARY

1. The Finance Bill 2021 represents the first budget presented by the current Finance Minister and effectively third by the Current Government. As announced by the Minister in the pre-budget sessions, certain relief measures and major policy changes in the taxation regime have been made part of the Finance Bill. The significant amendments aim to revive the economy and to facilitate the businesses include following:-

- a) Introduction of Special / simplified tax regime for Small & Medium Enterprises engaged in manufacturing sector;
- b) Final tax regime for export of services;
- c) Reduction in general minimum tax rate from 1.5% to 1.25% with an enabling provision to carry forward the minimum tax for loss making entities;
- d) Telecommunication companies included in the definition of industrial undertaking;
- e) Reduction in capital gains tax rate for securities traded on stock exchanges;
- f) Abolishment of 12 withholding tax provisions including on cash withdrawals and other banking transactions;
- g) Saving the benefits accrued under expired / repealed exemption provisions;
- h) Facilitative provisions relating to exemption certificates for corporate sector and tax credit entities;
- i) Adjustment of losses allowed against income from property;
- j) Curative amendment for minimum tax exemption on Special Economic Zone entities;
- k) Rationalisation of amendment proceedings and introducing time limit for finalization of income tax proceedings;
- l) Abolishment of sales tax on advances;
- m) Increase in threshold for sales tax exemption of Cottage industries;
- n) Exemptions and concessions introduced for Special Technology Zones;
- o) Introduction of a new concept of Border Sustenance Market and its related concessions and exemptions;
- p) Zero rating on export of services from Islamabad Capital Territory; and
- q) Exclusion of listed companies from the restriction on claim of input tax beyond 90% of output tax.

2. As earlier indicated by the Finance Minister, specific provisions in income tax have been introduced empowering the relevant Officers to arrest persons involved in concealment of income. In the environment of Pakistan, such powers need to be exercised very carefully so as not to result in undue harassment to the taxpayers. It is therefore suggested that these provisions may need to be re-evaluated for providing some preliminary mechanism of adjudication or approvals to ensure that the principles of natural justice and fair trial are adhered to.

3. The difference in tax rates between corporate and non-corporate taxpayers is not allowing proper corporatization mainly due to higher incidence of tax on dividend income particularly in case of inter-corporate dividends other than 100% wholly owned groups. In line with international best practices,

there is a need to reconsider the overall tax regime for dividend income especially for inter-corporate dividends which is essential to convert non-corporate businesses into documented corporate sector entities. Furthermore, tax credit relating to new industrial undertakings particularly for equity-based projects may also need to be reinstated especially for those sectors where the manufacturing involves local raw material and transfer of technical knowhow from abroad.

4. Through Finance Act, 2019, a positive step was taken to convert various final tax withholdings into minimum tax and it was expected that eventually the same would lead to complete income based taxation regime. However, so far, no such steps have been taken and instead a higher tax incidence is being retained for certain services sector which need to be rationalized. Needless to say, such minimum tax regime is only hitting the sectors which are dealing with documented customers whereas other players of same sector dealing with non-withholding agents are being taxed at a lower rate. Furthermore, there is no specific provision allowing the carry forward of minimum tax paid in this manner. All these issues require a serious consideration.

5. Keeping in view the level of documentation in Pakistan economy, there is a need to effectively utilize the online marketplace and similar platforms for gathering information for undocumented business sector instead of imposing tax on such platforms under the garb of sales tax provisions. It is suggested to have a transitional road map for this purpose.

6. Certain measures have been taken which result in further enhancement of tax incidence on salaried taxpayers, such as withdrawal of exemption on medical allowances and reimbursements as well as taxation of interest beyond certain threshold earned from retirement benefit schemes. Both these actions need reconsideration.

7. Reduced rate of withholding tax on certain services has been introduced only for resident taxpayers thus creating a discriminatory treatment for non-residents engaged in similar services. It is expected that the Finance Act, 2021 will take corrective measures to remove this anomaly.

8. The proposal relating to the manner of taxing gains on disposal of immovable business property is likely to create an anomalous situation which requires redressal.

9. To maintain the confidence of business and investors, it is expected that the relief measures will not be disturbed through frequent amendments by way of supplementary finance bills during the next fiscal year. Continuity of tax policy is key to the sustainable economic growth.

INCOME TAX

INTRODUCTION OF SPECIAL TAX REGIME FOR SMALL AND MEDIUM SIZE MANUFACTURING ENTERPRISE

The Bill proposes to introduce a new tax regime for Small and Medium Size Enterprise (SME) for the tax year 2021 and onwards.

SME is defined to mean a person who is engaged in manufacturing as defined in section 153 of the Ordinance and his business turnover in a tax year does not exceed Rs 250 Million. SME is required to register with the FBR on the IRIS web portal or Small and Medium Enterprises Development Authority (SMEDA) on its SME registration portal. A company covered by the definition of SME will not qualify as a 'small company'.

In case, annual business turnover exceeds Rs 250 Million, it shall cease to be an SME for such tax year and onwards.

Tax rates under Normal Tax Regime

For the purpose of taxation, the SMEs are classified into the following two categories and tax on taxable income is required to be computed at the rates given below:

S. No.	Category	Turnover	Rate of Tax
1	Category-1	Where annual business turnover does not exceed Rs 100 Million	7.5% of taxable income
2	Category-2	Where annual turnover exceeds Rs 100 Million but does not exceed Rs 250 Million	15% of taxable income

Option to be taxed under Final Tax Regime (FTR)

It is proposed that the SMEs can also opt to be taxed under the FTR. The said option is required to be exercised at the time of return filing and the same will be irrevocable for three tax years.

The SMEs who opt to be taxed under FTR shall not be subject to tax audit under sections 177 and 214C. The category-wise rate of tax under FTR is given as under:

S. No.	Category	Turnover	Rate of Tax
1	Category-1	Where annual business turnover does not exceed Rs 100 Million	0.25% of gross turnover
2	Category-2	Where annual turnover exceeds Rs 100 Million but does not exceed Rs 250 Million	0.5% of gross turnover

Income tax audit for those not opting for FTR

SMEs who opt for taxation under normal law can be selected for tax audit through risk based parametric computer ballot if its tax to turnover ratio is below the tax rates prescribed for FTR, however, the cases selected will not exceed 5% of the total population of SMEs whose tax to turnover ratio is below the tax rates prescribed for FTR.

Simplified return and other provisions of law

It is proposed that a simplified return for such SMEs may also be prescribed by the FBR. Other provisions of the Ordinance shall apply mutatis mutandis.

EXPORT OF SERVICES

Facility of reduced rate of tax and exemption on proceeds received from abroad in relation to provision of certain services was withdrawn through the Tax Laws (Second Amendment) Ordinance, 2021. It is now proposed to introduce a new final tax regime at par with export of goods.

Under the proposed provision, the final withholding tax rate of 1% shall apply in following cases:-

- export of computer software or IT services or IT enabled services otherwise not eligible for tax credit under section 65F;

- b) services or technical services rendered outside Pakistan or exported from Pakistan;
- c) royalty, commission or fees derived by a resident company from a foreign enterprise for the use of certain intangibles outside Pakistan; and
- d) construction contracts executed outside Pakistan.

The FBR is also empowered to include new categories of services in the above regime.

SCOPE OF AMENDMENT PROCEEDINGS RATIONALISED

The Finance Act 2012, in respect of amendment of erroneous assessments, introduced power to conduct enquiries in certain cases which were misapplied by the tax authorities as a substitute of an 'audit'. The action of tax authorities was widely challenged before appellate fora, who disapproved such approach. Through the Bill, the pre-2012 position is proposed to be reinstated.

PROPERTY INCOME

Basis of taxation

At present, Individuals and Association of Persons (AOPs) can opt for their property income to be chargeable to tax on gross rent without any deductions, at specified (lower) tax rates. Companies' property income, however, is subject to tax after certain admissible deductions at applicable corporate rate.

Through the proposed amendments, property income for all taxpayers shall henceforth be subject to uniform taxation on net-income basis at the applicable rates.

Withholding tax

Withholding tax rates applicable to the property income of Individuals and AOPs are also proposed to be revised as under:

Sr. No (1)	Gross amount of rent (2)	Rate of tax (3)
1	Where the gross amount of rent does not exceed Rs. 300,000	Nil
2	Where the gross amount of rent exceeds Rs. 300,000 but does not exceed Rs. 600,000	5 per cent of the gross amount exceeding Rs. 300,000
3	Where the gross amount of rent exceeds Rs. 600,000 but does not exceed Rs. 2,000,000	Rs. 15,000 plus 10 per cent of the gross amount exceeding Rs. 600,000
4	Where the gross amount of rent exceeds Rs. 2,000,000	Rs. 155,000 plus 25 per cent of the gross amount exceeding Rs. 2,000,000;

Adjustment of losses

Further, the adjustment of property income for a tax year against loss under any other head of income is proposed to be reinstated. The adjustment of such losses could give rise to a situation where effectively no tax is payable on property income. In order to give full effect to this amendment, the Government may, therefore, consider introducing enabling provision for issuance of exemption / reduced rate certificates in eligible cases.

CAPITAL GAINS ON DISPOSAL OF SECURITIES

The following slab rates of tax have been proposed to be inserted in existing table for capital gains on disposal of securities under section 37A for tax year 2022 and onwards:

S. No.	Period	Tax year 2022 and onwards
1.	Where holding period of a security is less than twelve months	12.5%
2.	Where holding period of a security is twelve months or more but less than twenty-four months	
3.	Where holding period of a security is twenty-four months or more but the security was acquired on or after 1 st July, 2013	

S. No.	Period	Tax year 2022 and onwards
4.	Where the security was acquired before 1 st July, 2013	0%
5.	Future commodity contracts entered into by the members of Pakistan Mercantile Exchange	5%

TELECOMMUNICATION COMPANIES DECLARED AS INDUSTRIAL UNDERTAKING

There has been a controversy in the past as to whether telecommunication companies are industrial undertaking so as to claim certain specific consequential tax treatments. In parallel, these companies have been representing to be notified as industrial undertakings.

In order to redress this long outstanding issue, the definition of 'industrial undertaking' is proposed to be amended to include telecommunication companies operating under the license of the Pakistan Telecommunication Authority.

BENEFITS ACCRUED UNDER CERTAIN REPEALED EXEMPTION PROVISIONS

Certain tax exemptions and concessions were withdrawn through the Tax Laws (Second Amendment) Ordinance 2021. Few beneficiaries were, however, protected through appropriate provisions. This abrupt withdrawal was not positively viewed by the businesses including foreign investors, thus, resulting in litigation on the basis of vested rights. Furthermore, certain exemption provisions were already expired or expiring on June 30, 2021.

A grandfathering clause is proposed to be inserted to regain the confidence of businesses by specifically providing continuity of exemptions / concessions in cases which had already qualified prior to omission / expiry but related benefit has not outlived.

This is a positive proposal indicating commitment of government to ensure stability of tax policy.

NON-RECOGNITION RULES ON DISPOSAL OF ASSETS TO NON-RESIDENTS

Presently, the non-recognition rules provided for in Section 79 are inapplicable in respect of events envisaged therein, on a person disposing of an asset to a non-resident person. This has the effect of taxing the transferor being the person disposing of an asset under the applicable provision.

It is proposed that no gain or loss shall arise in the hands of transferor where the transferee is a non-resident person to whom an asset is being transferred under the following circumstances:

- Spouses under an agreement to live apart;
- Transmission of asset to an executor or beneficiary on death of a person; and
- Gift of asset to a relative [defined in Section 85(5)].

The tax neutrality provided in section 79 is proposed to be extended to non-resident transferees. This would mean transferees will be treated to have acquired the asset of the same character and cost as that in the hands of the transferor.

TAXATION OF GIFTS IN THE HANDS OF RECIPIENT

Through the Finance Act, 2019, Clause (1a) was inserted in Section 39 to account for taxation of gifts received other than from grandparents, parents, spouse, brother, sister, son or a daughter. The permissible list of relatives was inconsistent with the non-recognition rules of section 79 for which an expanded definition of relatives apply.

It is now proposed to harmonise both provisions whereby the gifts received from following relatives shall now remain non-taxable:

- an ancestor, a descendant of any of the grandparents, or an adopted child, of the individual, or of a spouse of the individual; or
- a spouse of the individual or of any person specified in clause (a).

CAPITAL ASSET ACQUIRED AS GIFT

Presently, Section 37(4) provides that where an asset is acquired under gift from a relative [defined in Section 85(5)], the fair market value on the date of transfer/acquisition is to be treated as cost. It is now proposed that where such asset is disposed of by the transferee within two years of the acquisition and the Commissioner is satisfied that the gift arrangement is part of a 'tax avoidance scheme', then such asset in the hands of the transferee will be treated to be of the same character and cost as that in the hands of the transferor at the time of transfer. There is a view that if there is a transfer of asset through gift between relatives, which are tax neutral under Section 79, transferees should not be allowed the cost equal to fair market value on the date of gift in terms of Section 79 of the Ordinance.

GAIN ON DISPOSAL OF DEPRECIABLE IMMOVABLE PROPERTY

In case of disposal of a depreciable immovable property at a consideration higher than its cost, the provisions of law deem consideration as cost of such property, thus, resulting into recoupment of tax depreciation only. The rationale for such provision was that the Federal Government did not have powers under the Constitution of Pakistan to tax gain on disposal of an immovable property. However, the 18th amendment to the Constitution was construed by the Federal Government to have given them jurisdiction to tax such gains. Consequently, specific provisions were introduced for taxation of gains on immovable properties, but no such amendment was made for depreciable immovable assets.

An amendment is now proposed to tax the aforesaid 'excess' as capital gains under section 37. As a result, in case of depreciable immovable assets, the excess should be dealt in the same manner as applicable for other immovable properties particularly with the concept of holding period.

The placement and language of the proposed amendment contradicts section 22(8) thus resulting in anomalous situation, which should be reconsidered.

GAIN ON DISPOSAL OF IMMOVABLE PROPERTIES

Under the existing provisions, gains on disposal of immovable properties are taxed at special (reduced) slab rates along with reduction in gain based on holding period. Gains on disposal of immovable properties held for more than four years are effectively non-taxable.

The proposed amendment at the outset seeks to clarify that this regime for immovable properties is not applicable on persons habitually engaged in transaction of sale and purchase of properties or where sale is adventure in the nature of trade or business. Income of such persons would be taxable under the head of business with consequential effect that no benefit of holding period and special rate of tax would apply.

Furthermore, it is proposed that gains upto Rs 5 million will be taxed at a special rate of 5% as against the existing rate of 2.5%. The gains exceeding Rs 5 million will be taxed at normal rate though the benefit of holding period in computation would continue to apply as per existing provisions given below:

S. No.	Holding period	Gain
1.	Where the holding period of an immovable property does not exceed one year	A = Consideration minus cost
2.	Where the holding period of an immovable property exceeds one year but does not exceed two years	$A \times 3/4$
3.	Where the holding period of an immovable property exceeds two years but does not exceed three years	$A \times 1/2$
4.	Where the holding period of an immovable property exceeds three years but does not exceed four years	$A \times 1/4$
5.	Where the holding period of an immovable property exceeds four years	Zero

GAIN ON SALE OF IMMOVABLE PROPERTY TO REIT SCHEMES

Presently, exemption for profit and gains on sale of immovable property to a Developmental REIT Scheme and Rental REIT Scheme is available till June 30, 2023.

The Bill proposes to extend exemption to profit and gains on sale of immovable property to other REIT schemes till June 30, 2023. This was previously available till June 30, 2015.

PRIME MINISTER'S PACKAGE FOR CONSTRUCTION SECTOR

In April 2020, a package was introduced in the form of section 100D read with Eleventh Schedule for the construction & housing sector. The said provisions were subsequently adopted through Finance Act, 2020 whereby certain time lines were required to be followed for eligibility of concessions provided in the Scheme. Subsequently, through an Income Tax (Amendment) Ordinance, 2021, the said time lines were extended. These subsequent amendments in time lines are now being ratified through proposed amendments as part of the Finance Bill.

PROFIT ON DEBT

Income by way of profit on debt of non-corporate persons not exceeding Rs 36 million is currently subject to tax at certain slab (reduced) rates. Where the profit on debt exceeds Rs 36 million, the whole amount is taxable at normal tax rate. The threshold of Rs 36 million is proposed to be reduced to Rs 5 million.

Currently, the reduce rate of withholding tax of 10% on profit on debt has been prescribed in cases where the taxpayer furnishes a certificate to the payer of profit that during the tax year yield or profit paid is Rs 500,000 or less. This reduced rate of 10% is now proposed to be withdrawn. Consequentially, the rate of withholding tax even on yield or profit of Rs 500,000 or less in a tax year shall be 15%.

MINIMUM TAX

Threshold

The minimum tax on turnover currently does not apply on individuals and AOPs whose annual turnover remains less than Rs 10 million. This threshold is proposed to be enhanced to Rs 100 million.

Minimum tax also made applicable on proceeds of immovable business properties

Through a specific amendment, scope of 'turnover' for application of minimum tax is proposed to include proceeds from sale of immovable properties taxable as 'business income'.

Carry forward

The Sindh High Court in one of its judgement interpreted the provision relating to carry forward of minimum tax as not applicable on taxpayers having no tax payable otherwise, whereas there has been a contrary view of the Lahore High Court. The matter is currently pending in the Supreme Court. The provision is proposed to be redrafted to specifically allow carry forward of minimum tax in such cases.

Exemption for Special Economic Zone Enterprise

Presently, income derived by a zone enterprise as defined in the Special Economic Zones Act, 2012 is exempt from tax for a period of ten years starting from the date the developer certifies that the zone enterprise has commenced commercial operation and for a period of ten years to a developer of zone starting from the date of signing of the development agreement in the special economic zone as announced by the Federal Government. The said exemption is also applicable to a co-developer as defined in Special Economic Zone Rules, 2013 subject to the certain conditions.

It is now proposed that a person qualifying for such exemption is excluded from the ambit of minimum tax under section 113 for tax year 2021 and onwards.

It is worth mentioning that the matter relating to exemption from minimum tax has been a matter of debate amongst different government functionaries. It appears that through the proposed amendment, exemption for minimum tax considered to be allowed under special law relating to Special Economic Zone has now been made part of Income Tax Law.

Revised rates

A new table has been proposed to be substituted which seeks to prescribe tax rate for chargeability of minimum tax on turnover under section 113 of the Ordinance on persons or class of persons. A comparison of the tax rate in the existing table vis-à-vis the newly proposed one is as under:

S. No.	Person(s)	Minimum Tax as percentage of the person's turnover for the year	
		Existing	Proposed
1.	Oil marketing companies, Sui Southern Gas Company Limited and Sui Northern Gas, Pipelines Limited (for cases where annual turnover exceeds rupees one billion).	0.75%	0.75%
2.	Pakistan International Airlines Corporation.	0.75%	0.75%
3.	Pakistani Airlines.	0.75%	1.25%
4.	Poultry industry including poultry breeding, broiler production, egg production and poultry feed production.	0.75%	0.75%
5.	Dealers or distributors of fertilizers. "Through Tax Law (Amendment) Ordinance, 2021 minimum tax rate for dealers / sub-dealers of fertilizers was reduced to 0.25%. This resulted in an anomaly as to whether the concession would be applicable to distributor of fertilizers or not. This anomaly is now proposed to be resolved." "A reduced rate of 0.25% has also been proposed for distributors, dealers, sub-dealers, wholesalers and retailers of electronics excluding imported mobile phones".	0.75%	0.25%

S. No.	Person(s)	Minimum Tax as percentage of the person's turnover for the year	
		Existing	Proposed
6.	Oil refineries.	0.75%	0.5%
7.	Motorcycle dealers registered under the Sales Tax Act, 1990.	0.3%	0.5%
8.	Distributors of pharmaceutical products, fast moving consumer goods and cigarettes.	0.25%	0.25%
9.	Petroleum agents and distributors who are registered under the Sales Tax Act, 1990.	0.25%	0.25%
10.	Rice mills and dealers.	0.25%	0.25%
11.	Flour mills.	0.25%	1.25%
12.	Person's turnover from supplies through e-commerce including from running an online marketplace as defined in clause (38B) of section 2. "Previously there was a view that only commission-based model of the online marketplace business was eligible for the reduced rate of 0.75%. Through the proposed amendment, both the retail and commission-based models will be subject to reduced rate of 0.25%."	0.75%	0.25%
13.	Tier-1 retailers of fast-moving consumer goods who are integrated with the Board or its computerized system for real time reporting of sales and receipts. "Previously both types of retailers were allowed reduced rate of 0.25% subject to the condition of obtaining registration under the Sales Tax Act, 1990 within the specified time and appearing on ATLs of both Income Tax Ordinance, 2001 and Sales Tax Act, 1990." It is now proposed that: (a) Time bound registration requirement be withdrawn, however provided that the retailers should	0.25%	0.25%

S. No.	Person(s)	Minimum Tax as percentage of the person's turnover for the year	
		Existing	Proposed
	appear in the ATLS maintained under both the Income Tax Ordinance, 2001 and Sales Tax Act, 1990; and (b) Tier-1 retailers are also required to integrate their computerized system for real time reporting of sales and receipts with FBR as required under the Sales Tax Act, 1990."		
14.	Persons engaged in the sale and purchase of used vehicles.	1.5%	0.25%
15.	In all other cases.	1.5%	1.25%

Minimum tax for yarn traders being individuals

The Bill proposes to extend the reduced rate of minimum tax under section 113 for traders of yarn being an individual for indefinite period. Presently, the reduced rate is prescribed for tax year 2020 only.

Exemption to corporatized entities of WAPDA

Presently, corporatized entities of Pakistan Water and Power Development Authority are exempted from the levy of minimum tax on their receipts on account of sales of electricity, from the date of their creation upto the date of completion of the process of corporatization i.e. till the tariff is notified.

It is now proposed to withdraw such exemption.

GROUP RELIEF

Surrender of tax losses between eligible group companies has been allowed since 2007. The provisions allow both holding and a subsidiary company within the group to surrender their respective losses. An editorial amendment has been made to remove the ambiguity for surrender of losses by the holding companies.

DEDUCTIONS FOR WWF & WPPF

As a result of promulgation of WWF and WPPF laws by certain Provinces under the 18th Constitutional amendment, editorial amendments were required to avoid any ambiguity with regard to deduction of contributions made by taxpayers under the respective Provincial laws on WWF and WPPF.

Since there is a view that such provincial laws cannot be applicable on Trans-provincial entities, the proposed amendments specifically disallow the claim for contributions made by such entities.

TAXPAYER'S PROFILE

Through Finance Act, 2020, a concept of taxpayer's profile was introduced which was required to be updated by June 30, 2021 and any failure thereof would have resulted in taxpayer's status becoming inactive besides attracting penalties. The said provision is now proposed to be withdrawn.

PROCESSING OF RETURNS THROUGH AUTOMATED SYSTEM

The Finance Act, 2020 introduced a new provision for processing of returns of income through automated system to arrive at the correct amounts of taxable income and tax payable by making certain adjustments, such as arithmetical errors, incorrect claims apparent from the information given in the return, etc. A procedure was also laid out for such purposes and deemed assessment provisions were also made subject to processing of returns under such automated system. As this system could not be implemented, an anomaly arisen when the tax authorities intended to amend the returns filed for tax year 2020. Realizing this, certain amendments were made through the Income Tax (Amendment) Ordinance, 2021 which are now being ratified through Finance Bill 2021 with certain amendments. As a result of proposed amendments, the provisions in this regard would become applicable from the date when notified by the FBR.

TIME LIMIT FOR PASSING CERTAIN ORDERS

Amendment order

Unlike indirect tax provisions, there has been no prescribed period for completion of proceedings once initiated under income tax law. Under a proposed amendment, an order is required to be issued within 120 days from the date of issuance of a show cause notice under section 122 (excluding any period for which proceedings are stayed) unless extended by the Commissioner for not more than 90 days. This amendment will apply on notices issued after July 1, 2021.

Revision order's effect

Currently, there is no time prescribed for a lower authority to pass an order to give effect to a revision order passed by the Commissioner under section 122A. The Bill proposes that an order in these circumstances be passed within 120 days.

ALTERNATIVE DISPUTE RESOLUTION (ADR)

The eligibility to opt for ADR mechanism has been extended to both cases where criminal proceedings have already been initiated and where the issues involve mixed questions of law and facts. Certain other amendments relating to procedure and time limitation including stay of demand during the pendency of proceedings before ADRC, are also proposed to strengthen the ADR mechanism.

DUE DATE OF TAX PAYMENT IN APPEAL EFFECTS ORDER

In case of an appeal effect order issued as a consequence of a direct relief or an issue remanded back / set-aside, the tax demand is proposed to be payable immediately .

WITHDRAWAL OF COMMISSIONER'S POWER TO DISREGARD ADVANCE TAX ESTIMATE

In case of taxpayer filing an advance tax estimate on lower side, the Commissioner's power to reject such estimate in certain circumstances is proposed to be withdrawn.

AUTOMATED ISSUANCE OF EXEMPTION CERTIFICATES

The facility of automated issuance of exemption certificates to public listed companies, in cases where advance tax liability is discharged, is now proposed to be extended to all companies including where certificate has to be issued for the reduced rate.

EXEMPTION CERTIFICATE IN TAX CREDIT CASES

Taxpayers entitled to 100% tax credit under any provision of the Ordinance are now allowed to be issued an exemption certificate. The existing facility is available only to Non-profit organisations.

ELECTRONIC PROCESSING OF REFUNDS

Commencing from tax year 2021, the FBR is proposed to be empowered to issue refund to the taxpayer by directly transferring electronically to the taxpayer's notified bank account, on the basis of tax credit verified from FBR's automated system, who has filed a return of income. Such electronic processing of refunds would not require filing of refund application and passing a refund order.

BUSINESS BANK ACCOUNT

'Business bank account' is proposed to be defined as a bank account utilised by the taxpayer for business transaction. Such account is required to be declared to the Commissioner through original or modified registration form and failure to do so shall entail penalty and prosecution proceedings.

ARREST AND PROSECUTION OF PERSONS INVOLVED IN CONCEALMENT OF INCOME

The term 'concealment of income' is proposed to be introduced to include (a) suppression of any item of receipt liable to tax in whole or in part, or failure to disclose income chargeable to tax; (b) claiming any deduction or any expenditure not actually incurred; and (c) any act referred to in sub-section (1) of section 111. An explanation has also been added to clarify that where any item of receipt declared by the taxpayer is claimed as exempt from tax, or where any deduction in respect of any expenditure is claimed, mere disallowance of such claim shall not constitute concealment of income or the furnishing of inaccurate particulars of income, unless it is proved that the taxpayer deliberately claimed exemption from tax in respect of the aforesaid item of receipt or claimed deduction in respect of such expenditure not actually incurred by him.

The above definition is relevant for proposed provisions 203A to 203H relating to powers of an authorised officer, to arrest any person who, on the basis of material evidence, is believed to have committed such offence. Detailed provisions are proposed for procedural and other aspects relating to such powers.

In order to curb the potential abuse of such powers, there is a need to rationalize the provisions including a certain approval / adjudication process whereafter the provisions could be applied.

TAX CREDIT FOR POINT OF SALE (POS) MACHINE

The FBR through its notification 779(I)/2020 dated August 26, 2020 required various persons to integrate with FBR's real time reporting computerised system. A tax credit is now proposed for such persons against the lower of amount actually invested in purchase of POS machine and Rs 150,000 per machine.

SEPARATE NOTICE NOT REQUIRED FOR CONCEALEMENTS

Based on certain judgements of the Hon'ble High Courts, there was a view that in order to invoke the provisions of section 111, there should be a separate notice issued under such provision. In order to nullify the effect of such judgements, an explanation has been proposed to clarify that where the nature and source of an item is already asked through a notice under section 122, no such separate notice is to be issued.

NOTICE FOR FILING OF RETURN FOR FOREIGN ASSETS

Through Income Tax (Amendment) Ordinance, 2018, section 111 was amended to empower the Commissioner to treat undisclosed / unexplained foreign assets or foreign income in the immediately preceding year of discovery. As a result of this amendment, even the items related to time barred years could have been taxed on the basis of year of discovery. A corresponding amendment was also made in section 114 to disregard the limitation provisions applicable on issuance of notice by the Commissioner for filing of return.

Whilst the amendment made in section 111 was subsequently validated through Finance Act, 2018, the legislature then appears to have dropped the amendment relating to section 114. The Finance Bill 2021 now proposes to reinstate the amendment in section 114 thereby empowering the Commissioner to issue a notice for filing of return in respect of foreign assets or foreign income, disregarding the limitation provisions.

REQUIREMENT OF MENS REA FOR PENALTY

There has been a consistent position of the Courts that no penalty can be imposed in fiscal matters without establishing *mens rea*, a term akin to 'guilty mind'. Contrary to established jurisprudence, an explanation is proposed to be added nullifying this principle. The matter needs reconsideration. It is suggested that specific offences where requirement of *mens rea* cannot be applied may be specified.

DELETION OF WITHHOLDING TAX PROVISIONS

Following withholding tax provisions are proposed to be withdrawn:

Section	Withholding / Collection of Tax on
153B	Payment of royalty to residents.
231A	Cash withdrawals by those not appearing on ATL.
231AA	Banking instruments sold / cancelled against cash by those not appearing on ATL.
236P	Banking transactions by those not appearing on ATL.
236Y	Amounts remitted abroad through credit or debit or prepaid cards.
236B	Domestic air travel.
236L	International air travel.
236V	Extraction of minerals.
233A	Commission earned by member of stock exchange. The said withholding was otherwise made inapplicable with effect from March 1, 2019. A clarity is required whether such omission would render withholding tax under section 233 applicable on the commission earned by members of the stock exchange.
233AA	Margin financing by NCCPL.
234A	Gas bill of CNG stations.
236HA	Sale of petroleum products to petrol pump operator or distributor not receiving commission or discount.

CHANGES MADE THROUGH THE FIRST & SECOND AMENDMENT ORDINANCES, 2021 MADE PART OF FINANCE BILL

The below-referred significant changes made through the Tax Laws (Amendment) Ordinance, 2021 promulgated on February 11, 2021 and Tax Laws (Second Amendment) Ordinance, 2021 promulgated on March 22, 2021 have been made part of the Finance Bill, 2021 so as to validate and give legislative effect to these Amendment Ordinances (being Presidential Ordinances):

Section / Clause reference	Description
Tax Laws (Amendment) Ordinance, 2021	
	To promote and encourage investment by non-resident Pakistanis, State Bank of Pakistan introduced Roshan Digital Accounts

Section / Clause reference	Description															
	(RDA). Tax incentives for RDAs are briefly mentioned herein: <table><tr><th>Investment opportunity</th><th>Income arising</th><th>Taxation</th></tr><tr><td>Government Securities (both Shariah Compliant and Conventional)</td><td>- Interest income - Capital gains on disposal</td><td>10% withholding which shall be full and final discharge of tax liability</td></tr><tr><td>Immovable property in Pakistan</td><td>Capital gains on disposal</td><td>Capital gains earned on such immovable properties would be subject to final tax by virtue of 1% tax collection at the time of purchase and 1% tax on sale of such immovable property.</td></tr><tr><td>Listed securities and mutual funds</td><td>- Dividend - Capital gains</td><td>Taxation regime is in line with the resident persons with no additional tax incidences.</td></tr><tr><td>Interest income from foreign currency and Pakistan rupee RDAs (Term Deposits)</td><td>Interest income</td><td>Exempt from tax including withholding tax with no requirement to obtain exemption certificate</td></tr></table>	Investment opportunity	Income arising	Taxation	Government Securities (both Shariah Compliant and Conventional)	- Interest income - Capital gains on disposal	10% withholding which shall be full and final discharge of tax liability	Immovable property in Pakistan	Capital gains on disposal	Capital gains earned on such immovable properties would be subject to final tax by virtue of 1% tax collection at the time of purchase and 1% tax on sale of such immovable property.	Listed securities and mutual funds	- Dividend - Capital gains	Taxation regime is in line with the resident persons with no additional tax incidences.	Interest income from foreign currency and Pakistan rupee RDAs (Term Deposits)	Interest income	Exempt from tax including withholding tax with no requirement to obtain exemption certificate
Investment opportunity	Income arising	Taxation														
Government Securities (both Shariah Compliant and Conventional)	- Interest income - Capital gains on disposal	10% withholding which shall be full and final discharge of tax liability														
Immovable property in Pakistan	Capital gains on disposal	Capital gains earned on such immovable properties would be subject to final tax by virtue of 1% tax collection at the time of purchase and 1% tax on sale of such immovable property.														
Listed securities and mutual funds	- Dividend - Capital gains	Taxation regime is in line with the resident persons with no additional tax incidences.														
Interest income from foreign currency and Pakistan rupee RDAs (Term Deposits)	Interest income	Exempt from tax including withholding tax with no requirement to obtain exemption certificate														
Clause (114A) in Part IV of Second Schedule	Additional incentives / concessions were introduced for Non-Resident Individuals (NRIs) who invest in Government debt securities, Immovable property, Listed securities and units of Mutual Funds; and Term deposit and other products of the Bank through Foreign Currency Value Account (FCVA) or a Non-Resident Pakistani Rupee Value Account (NRVA) with authorized banks in Pakistan. These incentives / concessions inter alia included waiver of requirements to obtain National Tax Number and to file tax return in Pakistan if such NRI has no income other than income from above-referred investments. Moreover, certain tax withholding provisions as well as the provisions of Tenth Schedule (which prescribe for 100% increased tax withholding) were made inapplicable to such NRIs operating through FCVA/NRVA.															
Clause (5AB) in Part II of Second Schedule	Reduced tax withholding rate of 10%, which would also constitute full and final discharge of tax liability, was prescribed for interest income earned by such resident citizens of Pakistan who invest in Naya Pakistan Certificates and other Government securities through FVCA, out of foreign assets declared to FBR.															

Section / Clause reference	Description
Clauses (24C) and (24D) in Part II of Second Schedule	<p>Reduced tax withholding rate (and the consequential minimum tax) of 0.25% under section 153 on receipts of dealers and sub-dealers of sugar, cement and edible oils also extended to wholesalers and retailers and the scope of goods / sectors covered was expanded to also include fertilizer and fast-moving consumer goods.</p> <p>Apart from this, minimum tax rate of 0.25% applicable to dealers and sub-dealers of sugar, cement and edible oils under section 113 (as against standard rate of 1.5% applicable on their turnover), also extended to wholesalers and retailers and the scope of goods / sectors covered was expanded to also include fertilizer and fast-moving consumer goods, provided they are active taxpayers in terms of relevant provisions of both Income Tax Ordinance, 2001 and Sales Tax Act, 1990.</p> <p>Through the Finance Bill, 2021; the applicability of above-referred provisions relating to section 113 & 153 has been extended to distributors. Moreover, the scope of goods / sectors covered has been extended to include electronics excluding mobile phones. Furthermore, an additional condition has been put in place that the above-referred benefit of reduced rate under section 113 & 153 shall be available only to those Tier-1 retailers who are integrated and configured with the FBR or its computerized system for real time reporting of sales or receipts.</p>
Section 236G	The rate of advance tax collection by manufacturer or commercial importer of fertilizers reduced to 0.25% if the distributor / dealer / wholesaler is already appearing on both the Active Taxpayers' Lists issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001.
Clause (119) in Part IV of Second Schedule	With effect from July 1, 2020, the provisions of withholding tax under section 153(1)(a) shall not apply to distributors, dealers, wholesalers and retailers of locally manufactured mobile phone devices as withholding agent. As a result of exemption of withholding tax on supplies within the supply chain, all these persons would now be subject to tax on their net income.
Clause (17) in Part III of Second Schedule	A concessionary regime was provided for cotton ginners under a Circular of 1994. Through the Amendment Ordinance, the same was given effect into the provisions of Income Tax Ordinance, 2001 whereby tax liability of cotton ginners on their income shall not be more than 1% of their turnover from cotton lint, cotton seed, cotton seed oil and cotton seed cakes. The tax so payable shall be final tax in respect of their cotton ginning and oil milling activities only.

Section / Clause reference	Description
Clause (126M) in Part I of Second Schedule	Profits and gains derived from a transmission line project setup in Pakistan on or after July 1, 2015 are exempt from income tax for a period of 10 years, subject to certain conditions prescribed under clause (126M) contained in Part I of Second Schedule. One such condition provided is that such project should be setup by June 30, 2018. Through the Amendment Ordinance, the said date was extended until June 30, 2022.
Tax Laws (Second Amendment) Ordinance, 2021	
Clause (103) in Part I of Second Schedule	Withdrawal of exemption for inter-corporate dividend for those group structures which are eligible for group relief.
Sections 61 & 100C	Transposition of donations eligible for direct deduction from income into tax credit regime. As a result of that, overall upper limit for tax break for the donors, in respect of charitable donations, has been reduced. Also, tax credit regime for the NPOs further simplified and clarified.
Sections 65F & 65G	<p>Transposition of tax exemptions of following businesses into full / partial tax credit regime, resulting that these businesses can now avail tax breaks subject to certain compliances:</p> <ul style="list-style-type: none"> (i) coal mining projects of Sindh (ii) startup businesses certified by Pakistan software board (iii) export of software, IT and IT enabled services*. (iv) greenfield projects / ship building (v) undertaking engaged in manufacturing of plant and machinery with dedicated use of generation of renewable energy. <p>* Through the Finance Bill, 2021, the definition of IT and IT enabled services is proposed to be expanded so as to also include cloud computing services and data storage services</p>
Section 64C & 65C	Withdrawal of tax credits for enlistment of a company on stock exchange and for employing fresh graduates.
Section 182	Rationalization of certain penalty provisions.
Clause (75) in Part I of Second Schedule	Through the Second Amendment Ordinance, any profit on debt and capital gains derived by any agency of foreign government or any non-resident person from debt and debt instruments approved by the Federal Government has been exempted from tax. Previously, the said exemption was limited to income from profit on money borrowed under a loan agreement or foreign currency instrument approved by the Federal Government.
Various exemption clauses contained in Part I of	Withdrawal of a number of tax exemptions and concessions in the Second Schedule, some of which were either person-specific or were timebound whereas some of the exemptions / concessions have been transposed into tax credit regime. Major

Section / Clause reference	Description
Second Schedule	businesses affected by withdrawal of exemptions / concessions include Modarabas, LNG terminal owners & operators, services/contracts rendered/executed outside Pakistan and those IPPs who will enter into agreement or to whom letter of intent will be issued for setting up of power generation project on or after July 1, 2021. Through Finance Bill, 2021 it is being proposed that exemptions / concessions already expired or expiring, on June 30, 2021 or repealed by Tax Laws (Second Amendment) Ordinance, 2021 shall continue to enjoy benefits of the repealed provisions for the periods prescribed therein and subject to conditions and limitations specified therein.
Clause (132) in Part I of Second Schedule	Subject to certain prescribed conditions, profits and gains derived by a taxpayer from an electric power generation project set up in Pakistan on or after July 1, 1988 are exempt from tax. Through the Second Amendment Ordinance, this exemption was restricted to persons entering into agreement or to whom letter of intent is issued by Federal or Provincial Government, for setting up an electric power generation project in Pakistan upto June 30, 2021.
Section 4B read with Division IIA of Part I of First Schedule	Through Finance Act, 2015, Super Tax was levied inter alia on banks @ 4% of income. It had previously been imposed on taxpayers (other than banks) as well but was effectively repealed for such taxpayers from tax year 2020. Through the Tax Laws (Amendment) Ordinance, 2021, Super Tax was prescribed to be levied in case of banks for indefinite period.

For our detailed comments on the Amendment Ordinances, please refer the links below:

Tax Laws (Amendment) Ordinance, 2021

[https://www.pwc.com.pk/en/assets/document/AFF%27s%20Memorandum%20on%20the%20Tax%20Laws%20\(Amendment\)%20Ordinance,%202021.pdf](https://www.pwc.com.pk/en/assets/document/AFF%27s%20Memorandum%20on%20the%20Tax%20Laws%20(Amendment)%20Ordinance,%202021.pdf)

Tax Laws (Second Amendment) Ordinance, 2021

[https://www.pwc.com.pk/en/assets/document/AFF%27s%20Memorandum%20on%20the%20Tax%20Laws%20\(Second%20Amendment\)%20Ordinance%2c%202021.pdf](https://www.pwc.com.pk/en/assets/document/AFF%27s%20Memorandum%20on%20the%20Tax%20Laws%20(Second%20Amendment)%20Ordinance%2c%202021.pdf)



ADVANCE TAX ON IMPORTED VEHICLES

The rate of advance tax to be collected by the Collector of Customs under section 148 of the Ordinance in case of importer of CKD kits of electric vehicles for small cars or SUVs with 50 kwh battery or below and LCVs with 150 kwh battery or below is proposed to be reduced at 1 percent.

WITHHOLDING TAX ON PAYMENTS FOR GOODS OR SERVICES

Distributor of Fast-Moving Consumer Goods

The rate of withholding tax on payment received by distributors of fast-moving consumer goods is now proposed to be reduced from 2% / 2.5% to 0.25% subject to the condition that the distributor is appearing on the ATLs maintained under the Income Tax Ordinance, 2001 and Sales Tax Act, 1990.

Reduced withholding tax rate for specified service sectors

Following service sectors are proposed to be allowed reduced withholding tax rate of 3% (including consequential minimum tax rate):

- Oilfield services;
- Telecommunication services;
- Warehousing services;
- Collateral management services; and
- Travel and tour services

In order to provide level playing field to non-resident service providers, corresponding amendment needs to be provided for non-resident persons providing above services.

Qualification for the reduced withholding tax rate of 3% (including consequential minimum tax rate)

The concept of reduced withholding tax rate (including consequential minimum tax rate) was introduced for the low margin service sectors. However, few of such sectors challenged before the Courts the application of withholding tax on the reimbursement portions of their consideration particularly in manpower outsourcing sector.

Now an explanation has been proposed to restrict the benefit of reduced withholding tax rate only to those service providers not agitating taxation of gross receipts before any court of law.

This amendment needs to be re-examined as the lower rate of tax cannot be denied to a person merely on the basis of his decision to contest an issue before the Court of law.

ELECTRICITY CONSUMPTION

Advance tax collection prescribed for industrial, commercial and domestic consumers of electricity is proposed to be revised as follows:

Commercial & Industrial consumers:

Existing

S.No.	Gross Amount of Bill	Tax
1	Does not exceed Rs. 400	Rs. 0
2	Exceeds Rs. 400 but does not exceed Rs. 600	Rs. 80
3	Exceeds Rs. 600 but does not exceed Rs. 800	Rs. 100
4	Exceeds Rs. 800 but does not exceed Rs. 1,000	Rs. 160
5	Exceeds Rs. 1,000 but does not exceed Rs. 1,500	Rs. 300
6	Exceeds Rs. 1,500 but does not exceed Rs. 3,000	Rs. 350
7	Exceeds Rs. 3,000 but does not exceed Rs. 4,500	Rs. 450
8	Exceeds Rs. 4,500 but does not exceed Rs. 6,000	Rs. 500
9	Exceeds Rs. 6,000 but does not exceed Rs. 10,000	Rs. 650
10	Exceeds Rs. 10,000 but does not exceed Rs. 15,000	Rs. 1,000
11	Exceeds Rs. 15,000 but does not exceed Rs. 20,000	Rs. 1,500
12	Exceeds Rs. 20,000	(i) 12% for commercial consumers (ii) 5% for industrial consumers

Proposed

S.No.	Gross Amount of Bill	Tax
1	Upto Rs. 500	Rs. 0
2	Exceeds Rs. 500 but does not exceed Rs. 20,000	10% of the amount
3	Exceeds Rs. 20,000	(i) Rs. 1,950 plus 12% of the amount exceeding Rs. 20,000 for commercial consumers (ii) Rs. 1,950 plus 5% of the amount exceeding Rs. 20,000 for industrial consumers

Domestic consumers

Existing

S.No.	Gross Amount of Bill	Rate of Tax
1	Monthly bill is Rs. 75,000 or more	7.5% of the monthly bill
2	Monthly bill is less than Rs. 75,000	0% of the monthly bill

Proposed

S.No.	Gross Amount of Bill	Rate of Tax
1	Monthly bill is Rs. 25,000 or more	7.5% of the monthly bill
2	Monthly bill is less than Rs. 25,000	0% of the monthly bill

TELEPHONE AND INTERNET USERS

Advance tax collection at the rate of 12.5% in the case of subscriber of internet, mobile telephone and pre-paid internet or telephone card is proposed to be reduced to 10% for tax year 2022 and 8% for onwards.

ADVANCE TAX ON SALES TO DISTRIBUTORS, DEALERS, SUB-DEALERS AND WHOLESALERS

The Bill proposes to extend the scope of collection of advance tax from distributors, dealers, sub-dealers and wholesalers of the following sectors:

- Pharmaceuticals;
- Poultry and animal feed;
- Edible oil and ghee;
- Battery;
- Tyres;
- Varnishes;
- Chemicals;
- Cosmetics; and
- IT equipment.

A proviso had been inserted vide Tax Laws (Amendment) Ordinance, 2021 whereby the rate of advance tax collection on sale to distributors, dealers or wholesalers of fertilizer under section 236G had been made at the reduced rate of 0.25% if the aforesaid persons get themselves registered under Sales Tax Act, 1990 within 60 days of the promulgation of the Amendment Ordinance i.e. by April 11, 2021.

The Bill now proposes to replace this registration requirement with the condition that in order to avail the reduced rate of 0.25%, the aforesaid persons now must appear on both ATIs issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001.

ADVANCE TAX ON SALE TO RETAILERS

The Bill proposes to extend the scope of collection of advance tax from retailers of the following sectors:

- Pharmaceuticals;
- Poultry and animal feed;
- Edible oil and ghee;
- Battery;
- Tyres;
- Varnishes;
- Chemicals;
- Cosmetics; and
- IT equipment.

Currently, the advance tax collection at the time of sale to retailers of electronics and other specified sectors under section 236H has been prescribed at the rate of 1% and 0.5% respectively. The Bill now proposes a uniform rate of 0.5% for retailers of all sectors specified under section 236H of the Ordinance.

EXEMPTION OF PAYMENTS AND TRANSFERS OUT OF PROVIDENT FUNDS

Currently, the following exemptions are inter alia available in respect of payments and transfers out of provident funds:

- (a) Payment received from provident fund to which Provident Funds Act, 1925 applies;
- (b) The accumulated balance due and become payable to employees participating in recognized provident funds;
- (c) Any withdrawal of accumulated balance from an approved pension fund that represents transfer of balance of approved provident fund to the said approved pension fund under the Voluntary Pension System Rules, 2005.

The bill proposes to restrict the above exemptions in case of the payments representing profit on debt exceeding Rs. 500,000. The said payment (in excess of Rs 500,000) is proposed to be taxed at the rate of 10 per cent as a separate block of income. The person making the payment is required to deduct such tax.

NON-PROFIT ORGANIZATIONS

The following organizations are proposed to be transferred from Table II to Table I of clause (66), meaning thereby, the entire income derived by the following organizations has been proposed to be exempt without any condition:

- Abdul Sattar Edhi Foundation.
- Patient's Aid Foundation.
- Indus Hospital and Health Network.
- Dawat-e-Hadiya, Karachi.
- The Citizens Foundation.
- Audit Oversight Board.

Additionally, the following new entries are proposed to be added in Table I:

- Islamic Naya Pakistan Certificates Company Limited (INPCCL).
- Securities and Exchange Commission of Pakistan.
- Privatisation Commission of Pakistan.
- Sundus Foundation.
- Ali Zaib Foundation
- Fauji Foundation.
- Make a Wish Foundation
- Supreme Court Water Conservation Account.
- Political Parties registered with Election Commission of Pakistan.

EXEMPTIONS FOR CERTAIN ENTITIES UNDER SPECIAL TECHNOLOGY ZONES AUTHORITY ORDINANCE, 2020 (STZAO)

The exemptions and concessions under the STZAO are now incorporated in the taxation laws as under:-

Nature of income	Entity type	Period of exemption
Dividend income and long-term capital gains from investments in zone enterprises as defined in the STZAO	Venture capital fund for investment in zone enterprises	Ten years commencing from issuance of license by the Authority to the zone enterprise
Profit and gains from the development and operations of the zones	Zone developer as defined in the STZAO	Ten years from the date of signing of the development agreement
Profit and gains	Zone enterprises as defined in the SZTAO	Ten years from the date of issuance of license by the Special Technology Zone Authority
Profit and gains	Special Technology Zone Authority established under SZTAO	No limit is prescribed.

NATIONAL POWER PARKS MANAGEMENT COMPANY LIMITED (NPPMCL)

Profit from sale of electricity by NPPMCL

The Bill proposes to exempt profit and gains derived from sale of electricity by NPPMCL commencing from the date of change of ownership as a result of privatization by the Privatization Commission of Pakistan.

Immunity to NPPMCL on change of ownership

Under the provisions of section 65D, a tax credit is allowed for the period of 5 years on fulfilment of certain prescribed conditions inter alia includes the industrial understanding is setup with at least 70% new equity.

It is proposed that the Tax Credit already allowed for investment in plant and machinery to National Power Parks Management Company Limited shall not be recouped under any provision of the law in the eve of privatization merely for the reasons of change in its ownership pattern or debt to equity ratio.

Exclusion from Minimum Tax

New entity taking over National Power Parks Management Company Limited in the eve of privatization shall be exempt from minimum tax.

BAGASSE / BIOMASS BASED COGENERATION POWER PROJECT

Exemption of profits & gains

The Bill proposed to exempt profit and gains derived by a taxpayer from a bagasse / biomass based cogeneration power project having one or more boilers of not less than 60 bar (kg/CM³) pressure each, commissioned after the first day of January 2013.

Reduced rate on dividends

The Bill proposes a reduced rate of 7.5% for dividends declared out of profit attributable to bagasse and biomass based co-generation power project. The following conditions have been proposed:

- (a) The attributable dividend subject to reduced rate shall be computed in the ratio of accounting profit relating to bagasse and biomass based co-generation power project as a percentage of total accounting profit before tax; and
- (b) The accounting profit relating to bagasse and biomass based co-generation power project would be determined and certified by the external auditor.

DEEP CONVERSION REFINERIES

The Bill proposes to exempt profit and gains derived by the following deep conversion refineries having capacity of at least 100,000 barrels per day:

Category	Conditions	Period of exemption
New refinery	Approval to be obtained from the Federal Government before December 31, 2021	10 years from the date of commercial production
Existing refinery	For the purpose of upgradation, modernization or expansion project provided that the undertaking to the Federal Government in writing is submitted before December 31, 2021	10 years from the date of completion of the upgradation, modernization or expansion project

WITHDRAWAL OF EXEMPTIONS

Exemptions from total income available in respect of the following under respective clauses of Part I of the Second Schedule are now proposed to be withdrawn:

Clause Reference	Description
Clause (4)	Salary income of the Pakistani seafarer: <ol style="list-style-type: none"> (a) working on Pakistan flag vessel for 183 days or more during a tax year; or (b) working on a foreign flag vessel provided that such income is remitted to Pakistan not later than two months of the relevant tax year through normal banking channel.
Clause (39)	Any special allowance or benefit (not being entertainment or conveyance allowance) or other perquisite within the meaning of section 12 specially granted to meet expenses wholly and necessarily incurred in the performance of the duties of an office or employment of profit.
Clause (40)	Any income of a newspaper employee representing Local Travelling Allowance paid in accordance with the decision of the Third Wage Board for Newspaper Employees constituted under the Newspaper Employees (Conditions of Service) Act, 1973, published in Part II of the Gazette of Pakistan, Extraordinary, dated the 28th June, 1980.
Clause (53A)	The following perquisites received by an employee by virtue of his employment, namely:- <ol style="list-style-type: none"> (i) free or subsidized food provided by hotels and restaurants to its employees during duty hours; (ii) free or subsidized education provided by an educational institution to the children of its employees; (iii) free or subsidized medical treatment provided by a hospital or a clinic to its employees; and (iv) any other perquisite or benefit for which the employer does not have to bear any marginal cost, as notified by the Board.

Clause Reference	Description
Clause (72)	<p>Any profit on debt payable to a non-resident person-</p> <p>(i) in respect of such private loan to be utilized on such project in Pakistan as may be approved by the Federal Government for the purposes of this clause, having regard to the rate of profit and the terms of repayment of the loan and the nature of project on which it is to be utilized;</p> <p>(ii) on a loan in foreign exchange against export LC credit which is used exclusively for export of goods manufactured or processed for exports in Pakistan</p> <p>(iii) being a foreign individual, company, firm or association of persons in respect of a foreign loan as is utilized for industrial investment in Pakistan provided that the agreement for such loan is concluded on or after the first day of February, 1991, and is duly registered with the State Bank of Pakistan:</p> <p>Provided that this clause shall have retrospective effect of exemption to the agreements entered into in the past and shall not be applicable to new contracts after the 30th day of June, 2010, prospectively.</p>
Clause (80)	<p>Any income derived from a private foreign currency account held with an authorised bank in Pakistan, or certificate of investment issued by investment banks in accordance with the Foreign Currency Accounts Scheme introduced by the State Bank of Pakistan, by a resident individual who is a citizen of Pakistan:</p> <p>Provided that the exemption under this clause shall not be available in respect of any incremental deposits made in the said accounts on or after the 16th day of December, 1999, or in respect of any accounts opened under the said scheme on or after the said date.</p>
Clause (103)	<p>Any distribution received by a taxpayer from a collective investment scheme registered by the Securities and Exchange Commission of Pakistan under the Non-Banking Finance Companies and Notified Entities Regulations, 2007, including National Investment (Unit) Trust or REIT Scheme or a Private Equity and Venture Capital Fund out of the capital gains of the said Schemes or Trust or Fund :</p>

Clause Reference	Description
Clause (114AA)	<p>Any income chargeable under the head "capital gains" derived by a resident individual from the sale of constructed residential property:</p> <p>Provided that exemption under this clause shall only apply, if</p> <p>(a) at the time of sale, the residential property was being used for the purpose of personal accommodation by the resident individual, his spouse or dependents and for which any of the utility bills is issued in the name of such individual;</p> <p>(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</p> <p>(c) exemption under this clause has not previously been availed by the individual, his spouse or dependents.</p>
Clause (117)	<p>Any income derived by a person from plying of any vehicle registered in the territories of Azad Jammu and Kashmir, excluding income arising from the operation of such vehicle in Pakistan to a person who is resident in Pakistan and non-resident in those territories.</p>
Clause (126C)	<p>(1) Profit and gains derived by a taxpayer from an industrial undertaking set up in Larkano Industrial Estate between the 1st day of July, 2008 and the thirtieth day of June, 2013, both days inclusive, for a period of ten years beginning with the month in which the industrial undertaking is set up or commercial production commenced, whichever is the later.</p> <p>(2) Exemption under this clause shall apply to an industrial undertaking which is owned and managed by a company registered under the Companies Ordinance 1984 (XLVII of 1984) and formed exclusively for operating the said undertaking.</p>
Clause (126H)	<p>Profit and gains derived by a taxpayer, from a fruit processing or preservation unit set up in Balochistan Province, Malakand Division, Gilgit Baltistan and FATA between the first day of July, 2014 to the thirtieth day of June, 2017, both days inclusive, engaged in processing of locally grown fruits for a period of five years beginning with the month in which the industrial undertaking is set up or commercial production is commenced, whichever is later.</p>

Clause Reference	Description
Clause (126J)	Profit and gains derived by a taxpayer, from an industrial undertaking set up between 1st day of July, 2015 and 30th day of June, 2016 engaged in operating warehousing or cold chain facilities for storage of agriculture produce for a period of three years beginning with the month in which the industrial undertaking is set up or commercial operations are commenced, whichever is later.
Clause (126K)	Profit and gains derived by a taxpayer, from an industrial undertaking set up between the first day of July, 2015 and the 30 th day of June, 2017 for establishing and operating a halal meat production unit, for a period of four years beginning with the month in which the industrial undertaking commences commercial production. The exemption under this clause shall apply if the industrial undertaking is – (a) owned and managed by a company formed for operating the said halal meat production unit and registered under the Companies Ordinance, 1984 (XLVII of 1984), and having its registered office in Pakistan; (b) not formed by the splitting up, or the re construction or reconstitution, of a business already in existence or by transfer to a new business of any machinery or plant used in a business which was being carried on in Pakistan at any time before the commencement of new business; and (c) halal meat production unit is established and obtains a halal certification within the period between the first day of July, 2015 and the 30th day of June, 2017.
Clause (126L)	Profit and gains derived by a taxpayer, from industrial undertaking set up in Khyber Pukhtunkhwa and Baluchistan between 1st day of July, 2015 and 30th day of June, 2018 for a period of five years beginning with the month in which industrial undertaking is set up or commercial production is commenced, whichever is later: Provided that exemption under this clause shall be admissible where— (a) the industrial undertaking is setup between the first day of July, 2015 and 30 th day of June, 2018, both days inclusive; and

Clause Reference	Description
	(b) the industrial undertaking is not established by the splitting up or reconstruction or reconstitution of an undertaking already inexistence or by transfer of machinery or plant from an undertaking established in Pakistan at any time before 1st July 2015.
Clause (126N)	Profit and gains derived by a taxpayer from an industrial undertaking, duly certified by the Pakistan Telecommunication Authority, engaged in the manufacturing of cellular mobile phones, for a period of five years, from the month of commencement of commercial production: Provided that the industrial undertaking has been setup and commercial production has commenced between the first day of July, 2015 and the thirtieth day of June, 2017 and the industrial undertaking is not formed by the splitting up, or the reconstruction or reconstitution, of a business already inexistence or by transfer to a new business of any machinery or plant used in a business which was being carried on in Pakistan 2.
Clause (139)	(a) The benefit represented by free provision to the employee of medical treatment or hospitalization or both by an employer or the reimbursement received by the employee of the medical charges or hospital charges or both paid by him, where such provision or reimbursement is in accordance with the terms of employment: Provided that National Tax Number of the hospital or clinic, as the case may be, is given and the employer also certifies and attests the medical or hospital bills to which this clause applies; (b) any medical allowance received by an employee not exceeding ten per cent of the basic salary of the employee if free medical treatment or hospitalization or reimbursement of medical or hospitalization charges is not provided for in the terms of employment. The withdrawal of this exemption needs to be reconsidered.

REDUCTION IN TAX RATES RELATING TO SUGAR INDUSTRY

Following reduced rates of tax withholding under section 148 on import of white sugar have been proposed:

Period	Rate	Conditions
August 25, 2020 – November 15, 2020	0.25%	As per quantity, quality, mode and manner prescribed by Ministry of Commerce during the said period
January 26, 2021 – June 30, 2021	0.25%	Commercial import
January 26, 2021 – June 30, 2021	0.25%	Subject to quota allotment by Commerce Division provided that such imports shall not exceed fifty thousand metric tons per sugar mill and three hundred thousand metric tons in aggregate by the sugar industry

REDUCED WITHHOLDING TAX ON OFFSHORE SUPPLY CONTRACTORS FOR IPPS LOCATED IN AJK

It has been proposed that the rate of tax withholding on offshore supply contract for an IPP located in Azad Jammu & Kashmir to be 1 per cent subject to the following conditions:

- (i) PPIB has issued Letter of Support for the project;
- (ii) its EPC Contract has been executed and submitted to NEPRA for EPC stage tariff determination prior to the enactment of Finance Act, 2018;
- (iii) the offshore supply contractor does not have permanent establishment in Pakistan; and
- (iv) such 1% tax shall be full and final liability of the offshore contractor.

REDUCED RATE FOR WOMEN ENTERPRISE

A new concept of woman enterprise has been proposed to be introduced which has been defined to mean a startup established on or after July 1, 2021 as sole proprietorship concern owned by a woman or an AOP all of whose members are women or a company whose 100% shareholding is held or owned by women. A reduced rate of 25 per cent has been proposed on profit and gains derived from business chargeable to tax under the head “Income from Business”. The benefit of this clause, however, will not be available to a business that is formed by the transfer or reconstitution or reconstruction or splitting up of an existing business.

EXEMPTION ON MEDICAL AND TESTING EQUIPMENT REGARDING OUTBREAK OF COVID-19

Through SRO 236(I)/2020 dated March 20, 2020, exemption has been provided from income tax withholding on import of identified medical and testing equipment regarding outbreak of COVID-19. Such exemption was initially provided till June 20, 2020 which was validated through Finance Act 2020 with an extension till September 30, 2020.

The said exemption is now proposed to be extended till June 30, 2021.

WITHHOLDING TAX ON OIL TANKER CONTRACTORS

Presently, withholding tax section 153(1)(a) is not applicable in case of Oil Tanker Contractor provided that such contractor pays tax at the rate of 2.5% on payment for rendering or providing of carriage services. It is now proposed that the scope of such exemption be also extended to rendering of services. It is also proposed that the rate of tax be increased from 2.5% to 3.5%.

WITHHOLDING TAX ON GOODS TRANSPORT CONTRACTOR

Presently, the provision of section 153(1)(a) is not applicable in case of Goods Transport Contractor provided that such contractor pays tax at the rate of 3% on payment for rendering or providing of carriage services. It is now proposed that the scope of such exemption be extended to rendering of services. It is also proposed that the rate of tax be increased from 3% to 3.5%.

COMMODITY FUTURE CONTRACTS

It is proposed that the provisions of section 153 shall not apply to commodity future contracts listed on a Future Exchange license under the Future Market Act, 2016.

WITHHOLDING TAX ON PURCHASE OF USED MOTOR VEHICLE

It is proposed that the withholding tax under section 153 shall not be applicable on purchase of used motor vehicles from general public.

TAX WITHHOLDING / COLLECTION FROM MODARABA, PRIVATE EQUITY AND VENTURE CAPITAL FUND

Presently, the tax withholding / collection in respect of dividend, Profit on debt, Brokerage and Commission and Capital gains on disposal of securities is not applicable on payment to Modaraba, Private Equity and Venture Capital Fund.

The said exemption from withholding tax collection is proposed to be withdrawn.

NON-APPLICABILITY OF TAX ON IMPORT UNDER SECTION 148

It is proposed that the withholding tax on imports under section 148 shall not be applicable in respect of the following:

- a) Goods produced or manufactured and exported from Pakistan which are subsequently imported in Pakistan within one year of their exportation, provided conditions of section 22 of the Customs Act, 1969 (IV of 1969) are complied with;

- b) Plant and machinery imported for setting up of a bagasse/biomass based cogeneration power project qualifying for exemption under clause (132C) of Part-I of this Schedule.
- c) persons authorized under Export Facilitation Scheme 2021 notified by the FBR with such scope, conditions, limitation, restrictions and specification of goods.
- d) Motor vehicles upto 850cc in CBU condition.
- e) Printed books excluding brochures, leaflets and similar printed matter, whether or not in single sheets.
- f) Newspapers, journals and periodicals, whether or not illustrated or containing advertising material.

Further, import of certain harvesting, threshing and storage equipment is exempted from tax on import.

It is now proposed to exclude the import of Corn harvester / corn picker and silage maker from the applicability tax on import under section 148.

REDUCED RATE OF WITHHOLDING FOR EXPORT-ORIENTED SECTORS

Presently, the rate of tax withholding under section 153 is 1% on local sales, supplies and services provided or rendered to the taxpayer falling in the following categories:

- i) Textile and articles thereof;
- ii) Carpets
- iii) Leather and articles thereof including artificial leather footwear;
- iv) Surgical goods; and
- v) Sports goods

An explanation is proposed to clarify that the relief of reduced rate of withholding is available only to the local sales, supplies and services made by the taxpayers of above categories consequently the benefit is not applicable on payments made by such persons.

EXEMPTION FROM WHT ON SUPPLY OF AGRICULTURE PRODUCE

The provisions of section 153 are presently not applicable as recipient of payment 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.

It is now proposed that the said exemption shall be subject to fulfilment of certain additional conditions with an addition of the following items to the prescribed list of items:

- i) live animals by any person engaged in cattle farming;
- ii) unpackaged meat; and
- iii) raw hides.

WITHHOLDING TAX BY MANUFACTURER CUM EXPORTER

Presently, manufacturer-cum-exporter is required to withhold income tax from payments made on account of purchase of the goods in respect of which special rates of tax deduction have been specified under the provisions of the repealed Ordinance. The Bill proposes to exempt manufacturer-cum-exporter from the obligation to withhold tax from payment made on account of purchase of such goods.

IMPORTS IN PURSUANCE OF CABINET DECISION

Following exemptions are proposed for imports under section 148, made in pursuance of Cabinet decisions;

- Import of 1.5 million of wheats – Cabinet decision in case No. 399/23/2020 dated June 16, 2020
- Import of 300,000 metric tons of white sugar Trading Corporation of Pakistan – Cabinet decision in case No. 541/30/2020 dated August 4, 2020

- Import of 300,000 metric tons of wheat by Trading Corporation of Pakistan – Cabinet decision in case No. 34/02/2021 dated January 12, 2021

EXEMPTION ON IMPORT OF SPECIFIED GOODS UNDER SECTION 148

1. It is proposed to exempt import of following goods for a period of three months starting from June 23, 2020, including to import where letters of credit were opened or goods declaration forms were filed on or after June 23, 2020;

Description	Tariff Heading
Oxygen gas	2804.4000
Cylinders (for oxygen gas)	7311.0090
Cryogenic tanks (for oxygen gas)	7311.0030

2. It is proposed to exempt import of 83X Micron sprayers for Anti-Locust Operation (Respective heading) by National Disaster Management Authority.
3. It is proposed to exempt import of following goods for a period of three months starting from December 25, 2020 by the manufacturers of oxygen, including to import where letters of credit were opened or goods declaration forms were filed on or after December 25, 2020;

Description	Tariff Heading
Cryogenic tanks (for oxygen gas)	7311.0030

4. It is proposed to exempt tax collection / withholding of tax on import and subsequent supply (under section 148 and 153) of 500,000 metric tons white sugar imported by TCP. that provisions of section 148 and 153.

5. It is proposed to exempt import of following goods for a period of 180 days starting from May 14, 2021:

Description	Tariff Heading
Oxygen gas	2804.4000
-----Other (Oxygen Cylinders	7311.0090
-----For Cryogenic (Tanks / vessels)	7311.0030
Oxygen Concentration, Generators . manufacturing plants of all specification and capacities.	Respective Headings

CONCESSIONS ALLOWED TO BORDER SUSTENANCE MARKETS

The Bill has proposed to introduce a new concept of Border Sustenance Markets (BSM) as a tool to boost the local trade and economic activity in the border regions in order to enhance bilateral trades between the countries involved. The proposal would further mitigate the adverse effects of fencing and counter-smuggling which may create hinderance towards people residing in the border areas. So far, the borders identified by the Bill are with Iran and Afghanistan. The term 'BSM' has not been defined so far however, it has been included in the definition of the term 'tax exempt areas' for the purposes of section 40D of the Act.

EXEMPTION FROM INCOME TAX & SALES TAX

The scope of BSM is to provide exemptions / concessions, from income tax and sales tax of food related items, such as fruits, vegetables and milk products, and other consumables, such as crockery, skin-care items and non-motorized cycles. Specific goods / conditions are proposed to be prescribed under relevant statute. Summary of qualifying conditions under the Income tax and Sales tax statutes is summarized below:

- Income from supply of specified goods within the limits of BSM established in cooperation with Iran and Afghanistan;

- Specified goods, on which exemption would be availed, are not to be brought outside the BSM limits. In case of a breach of the condition, income tax will be charged on the import value as per section 148 of the Ordinance. However, in the case of sales tax, it would be chargeable at the higher of the assessed value of the goods declaration import or fair value;
- In case of import, clearance shall be provided for specified goods by the Customs Authorities subject to furnishing of bank guarantee equal to the amount of taxes involved and the same shall be released after presentation of consumption certificate issued by the Commissioner Inland Revenue having jurisdiction;
- Exemption would be available to the person who has furnished proof of having a functional business premises located within BSM limits; and
- Breach of any of the conditions provided aforesaid would attract the relevant legal provisions of the relevant statutes, besides recovery of the amount of income tax and sales tax along with default surcharge and penalties involved.

EXEMPTION FROM CUSTOMS DUTY AND RELATED PROVISIONS

Customs duty exemption also available on food related items, such as fruits, vegetables and milk products, and other consumables, such as crockery, skin-care items and non-motorized cycles. Specific goods / conditions are proposed to be prescribed under relevant statute. In this regard, relevant provisions are summarized as under:

- BSM will function for 2 days each week and total allowance per day for the visitor will be \$100;
- To ascertain the admissible quantities of imported goods, the Customs Value is to be displayed;
- Visitor will purchase the food related items and other consumables up to \$50 on concessional rate provided in the table. Purchase exceeding \$50 would result in statutory rate instead of the concessional rates proposed;
- For goods purchased by the visitors, the Customs staff posted at BSM will make an entry via electronic system of the goods purchased by the visitor on a prescribed form; and
- Customs officer posted at the BSM will issue a system-generated receipt to the visitor which would bear the Name, CNIC and the customs payable on the goods purchased.

SALES TAX

COTTAGE INDUSTRY

The threshold of turnover for qualifying as cottage industry is proposed to be enhanced from Rs 3 million to Rs 10 million. 'Cottage industries' are not required to be registered for sales tax purposes being also exempt from sales tax.

ONLINE MARKETPLACE

A new definition 'online marketplace' is proposed to be inserted to include electronic interface such as a market place, e-commerce platform, portal or similar means which facilitate sale of goods, including third party sales by controlling the terms and conditions of sale, authorizing charging to customers or ordering / delivery of goods.

Furthermore, person running an 'online market-places' is proposed to be made responsible to collect sales tax on goods being traded through such portal, whether or not such goods are owned by him.

In case of goods supplied by registered persons charging sales tax on their goods supplied through online market place, the above proposed amendment may result in a duplicate levy, which is an anomaly needs to be addressed.

TIER-1 RETAILER

The definition of Tier-1 retailer is proposed to be expanded to include:-

- retailer operating online marketplace supplying through e-commerce platform whether or not goods owned by such retailer;
- a retailer who has acquired point of sale for accepting payments through debit/credit cards or any other digital payment service.

However, in respect of retailers of furniture, a beneficial amendment is proposed whereby the minimum shop size is proposed to be increased from of 1,000 sqft to 2,000 sqft.

Through proposed amendment in section 3(9A) of the Act, the entitlement of certain customers of Tier-1 retailers for 5% cash back subject to manner and extent prescribed by the Board is proposed to be withdrawn.

TIME OF SUPPLY – CHARGE ON ADVANCES

It is proposed to amend the definition of time of supply so that sales tax is charged only at the time of actual supply of goods. Currently, sales tax is charged on the earlier of delivery of goods or receipt of advance payment.

It is observed that uptill 2007 and then from 2013 to date, the law has been to charge sales tax on the earlier of delivery of goods or receipt of advance whilst between 2007 to 2013 the law was to charge sales tax on actual delivery of goods.

RESTRICTION ON ADJUSTABLE INPUT TAX

It is proposed to remove the cap for adjustment of input tax up to 90% of output tax from public limited companies listed on Pakistan Stock Exchange.

LIMITATION – EXTENDED

It is proposed to amend the start of 5 years limitation for initiation of proceedings from the end of the financial year in which the relevant tax period falls. Currently, the limitation period starts from the end of the tax period i.e. respective month. The Honourable Supreme Court of Pakistan in a recent judgment on similar matter of income tax has observed that in cases where the limitation has already started to run, cannot be meddled with and such amendment would apply prospectively.

COMMON IDENTIFIER NUMBER (CIN)

It is proposed that in case of Computerized National Identification Card number (CNIC) for individuals and National Tax Numbers (NTN) for artificial juristic persons will be CIN in addition to Sales Tax Registration Number.

RECORDS MAINTENANCE

It is proposed to make cash book and electronically maintained records as mandatory records to made available for verification of making taxable supplies.

TRANSACTIONS BETWEEN ASSOCIATES

The Finance Act, 2010 introduced a specific provision whereby the Commissioner was empowered to determine the transfer price of taxable supplies between associated persons, however, no mechanism was in place for such determination. The absence of rules was creating controversies.

It is proposed to empower the Board to make rules in connection with determination of transfer pricing on transactions between associates to reflect the fair market value of supplies.

EXTENSION IN TIME FOR FURNISHING OF RETURN

It is proposed to empower tax authorities to allow time in filing of tax returns subject to certain restrictions, however, such extensions will not affect the charge of default surcharge for late deposit of sales tax.

LICENSING OF BRAND NAME

It is proposed that for specified goods, manufacturers will be required to obtain license for respective brand or their Stock Keeping Units (SKU). Any specified brand and SKU found to be sold without obtaining license would be deemed to be counterfeited goods. In this respect, neither nature of goods nor methodology has been explained, accordingly, clarity will only be available after issuance of related notifications.

Similar amendment has been made in the Federal Excise Law.

RECOVERY OF FOREIGN TAXES / EXCHANGE /SHARING OF INFORMATION

Through Finance Act 2015, section 56A was introduced through which Federal Government was empowered to enter into bilateral or multilateral agreements with provincial and foreign governments for

exchange of information and recovery of taxes. It is now proposed to authorize Tax Authorities to recover tax demands raised by other governments based on the related bilateral/multilateral or other related inter-governmental agreements which are also proposed to be entered by the Federal Government. This proposed amendment is similar, to the relevant provisions under the Income Tax Ordinance, 2001.

Through the proposed amendment, FBR is now been empowered for sharing of data or information with Ministries, Divisions of Federal / Provincial Governments. Similar amendment has been made in the Federal Excise Law.

MYSTERY SHOPPING

The Board is proposed to be empowered to prescribe procedure in this respect for invoices issued by Tier-1 retailers integrated with FBR's online systems.

DELAYED REFUND

It is proposed to pay interest @ KIBOR per annum on the amount of refund not paid within 45 days of determination of refund under section 66 of the Act.

PAYMENT AGAINST TRANSACTIONS EXCEEDING RS. 50,000

Through Finance Act, 2004 a condition was laid for adjustment of input tax that payment against such transactions were to be made through banking channel. It is now proposed that subject to certain conditions the amounts payable and receivable to and from same party shall be treated as constructive payment.

THIRD SCHEDULE

Sugar is proposed to be added in the list of retail items at Serial No. 50 of Third Schedule. However, supply of sugar as industrial raw material to pharmaceutical, beverage and confectionery industries is proposed not to be treated as retail item. It is pertinent to observe that in the current Pakistan market, this will be a challenge to implement as sugar sold at retail level varies considerably in volume.

FIFTH SCHEDULE

i) Zero rating for the following items is proposed to be withdrawn:

S. No.	Description
1	(i) Supply, repair or maintenance of any ship which is neither; (a) a ship of gross tonnage of less than 15 LDT; nor (b) a ship designed or adapted for use for recreation or pleasure. (ii) Supply, repair or maintenance of any aircraft which is neither; (a) an aircraft of weight-less than 8000 kilograms; nor (b) an aircraft designed or adapted for use for recreation or pleasure. (iii) Supply of spare parts and equipment for ships and aircraft falling under (i) and (ii) above. (iv) Supply of equipment and machinery for pilotage, salvage or towage services. (v) Supply of equipment and machinery for air navigation services. (vi) Supply of equipment and machinery for other services provided for the handling of ships or aircraft in a port or Customs Airport.
6	Supplies of such locally manufactured plant and machinery to petroleum and gas sector Exploration and Production companies, their contractors and sub-contractors as may be specified by the Federal Government, by notification in the official Gazette, subject to such conditions and restrictions as may be specified in such notification.
10	Petroleum Crude Oil (PCT heading 2709.0000).
11	Raw materials, components, sub-components and parts, if imported or purchased locally for use in the manufacturing of such plants and machinery as is chargeable to sales tax at the rate of zero percent, subject to the condition that the importer or purchaser of such goods holds a valid sales tax registration showing his registration category as "manufacturer"; and in case of import, all the conditions, restrictions, limitations and procedures as are imposed by notification under section 19 of the Customs Act, 1969 (IV of 1969), shall apply.

ii) It is proposed to extend zero rating to "Local supplies of raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions"

SIXTH SCHEDULE

i) Exemption from sales tax on import or supply of following has been proposed to be withdrawn:

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969
(1)	(2)	(3)
24	Edible oils and vegetable ghee, including cooking oil, on which Federal Excise Duty is charged, levied and collected by a registered manufacturer or importer as if it were a tax payable under section 3 of the Act. Explanation.—Exemption of this entry shall not be available on local supplies made by importers, distributors, wholesalers or retailers.	1507.9000, 1508.9000, 1509.1000, 1509.9000, 1510.0000, 1511.1000, 1511.9020, 1511.9030, 1512.1900, 1513.1900, 1513.2900, 1514.1900, 1514.9900, 1515.2900, 1515.5000, 1516.2010, 1516.2020, 1517.1000, 1517.9000 and 1518.0000
27	Ice and waters excluding those for sale under brand names or trademarks.	2201.1010
29	Table salt including iodized salt excluding salt sold in retail packing bearing brand names and trademarks.	2501.0010
29C	Glass bangles	7020.0090
91	Energy saver lamps	8539.3110
93	Bicycles	87.12
101	Raw and pickled hides and skins, wet blue hides and skins, finished leather, and accessories, components and trimmings, if imported by a registered leather goods manufacturer, for the manufacture of goods wholly for export, provided that conditions, procedures and restrictions laid down in rules 264 to 278 of the Customs Rules, 2001 are duly fulfilled and complied with.	Respective headings

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969
(1)	(2)	(3)
103	Import and supply thereof, up to the year 2030, of ships and all floating crafts including tugs, dredgers, survey vessels and other specialized crafts purchased or bare-boat chartered by a Pakistan entity and flying the Pakistan flag, except ships or crafts acquired for demolition purposes or are designed or adapted for use for recreation or pleasure purposes, subject to the condition that such ships or crafts are used only for the purpose for which they were procured and in case such ships or crafts are used only for the purpose for which they were procured, and in case such ships or crafts are used for demolition purposes within a period of five years of their acquisition, sales tax applicable to such ships purchased for demolition purposes shall be chargeable.	Respective headings
106	Import of Halal edible offal of bovine animals	0206.1000, 0206.8000 and 0206.9000
108	Components or sub-components of energy saver lamps, namely:- (a) Electronic Circuit (b) Plastic Caps (upper and lower) (c) Base Caps B22 and E27 (d) Tungsten Filaments (e) Lead-in-wire (f) Fluorescent powder (Tri Band Phosphor) (g) Adhesive Additive	 8539.9040 8539.9040 8539.9040 8539.9040 8539.9040 3206.5010 3824.9099

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969
(1)	(2)	(3)
	(h) Al-oxide Suspension (i) Capping Cement (j) Stamp Pad Ink (k) Gutter for Suspension	3824.8400 3214.1050 3215.9010 2850.0000
115	Plant, machinery and equipment imported for setting up fruit processing and preservation units in Gilgit-Baltistan, Balochistan Province and Malakand Division upto the 30th June, 2019 subject to the same conditions and procedure as are applicable for import of such plant, machinery and equipment under the Customs Act, 1969 (IV of 1969).	Respective headings
123	Aircraft, whether imported or acquired on wet or dry lease: Provided that in case of import or acquisition on wet or dry lease by Pakistan International Airlines Corporation, this exemption shall be available with effect from 19th March, 2015.	8802.4000
124	Maintenance kits for use in trainer aircrafts of PCT headings 8802.2000 and 8802.3000.	Respective headings
125	Spare parts for use in aircrafts, trainer aircrafts or simulators.	Respective headings
128	Aviation simulators imported by airline company recognized by Aviation Division.	Respective headings
153	Steel billets, ingots, ship plates, bars and other long re-rolled profiles, on such imports and supplies by the manufacturer on which federal excise duty is payable in sales tax mode	Respective headings

- ii) Exemption from sales tax on the import of following has been proposed to be withdrawn. However, local supply thereof is proposed to be continued under Table 2 of Sixth Schedule.

Sr. No.	Description	PCT Heading
27	Eggs including eggs for hatching	0407.1100, 0407.1900 0407.2100 and 0407.2900
28	Cereals and products of milling industry excluding the products of milling industry, other than wheat and meslin flour, as sold in retail packing bearing brand name or a trademark	1001.1000, 1001.9000, 1002.0000, 1003.0000, 1004.0000, 1005.1000, 1005.9000, 1006.1090, 1006.2000, 1006.3010, 1006.3090, 1006.4000, 1007.0000, 1008.1000, 1008.2000, 1008.3000, 1008.9000, 1101.0010, 1101.0020, 1102.2000, 1102.9000, 1103.1100, 1103.1300, 1103.1900, 1104.2200, 1104.2300, 1104.2900 and 1104.3000
29	Sugar beet	1212.9100
30	Fruit juices, whether fresh, frozen or otherwise preserved but excluding those bottled, canned or packaged.	2009.1100, 2009.1200, 2009.1900, 2009.2100, 2009.2900, 2009.3100, 2009.3900, 2009.4100, 2009.4900, 2009.5000, 2009.6100, 2009.6900, 2009.7100, 2009.7900, and 2009.9000
31	Milk and cream, concentrated or containing added sugar or other sweetening matter, excluding that sold in retail packing under a brand name	04.02
32	Flavored milk, excluding that sold in retail packing under a brand name	0402.9900
33	Yogurt, excluding that sold in retail packing under a brand name	0403.1000
34	Whey, excluding that sold in retail packing under a brand name	04.04
35	Butter, excluding that sold in retail packing under a brand name	0405.1000
36	Desi ghee, excluding that sold in retail packing under a brand name	0405.9000
37	Cheese, excluding that sold in retail packing under a brand name	0406.1010
38	Processed cheese not grated or powdered, excluding that sold in retail packing under a brand name	0406.3000

Sr. No.	Description	PCT Heading
39	Sausages and similar products of poultry meat or meat offal excluding sold in retail packing under a brand name or trademark	1601.0000
40	Products of meat or meat offal excluding sold in retail packing under a brand name or trademark	1602.3200, 1602.3900, 1602.5000, 1604.1100, 1604.1200, 1604.1300, 1604.1400, 1604.1500, 1604.1600, 1604.1900, 1604.2010, 1604.2020 and 1604.2090
41	Preparations suitable for infants, put up for retail sale	1901.1000
42	Fat filled milk excluding that sold in retail packing under a brand name or a trademark	1901.9090

- iii) Exemption from sales tax on the import or supply of art paper and printing paper for printing of Holy Quran imported by Federal or Provincial Governments and Nashiran-e-Quran as per quota determined by IOCO is proposed with the insertion of PCT headings 4810.1990, 4810.1910 and 4802.6990.

- iv) Exemption on import or supply of following earlier introduced through Tax Laws (Amendment) Ordinance, 2021 is proposed to be part of Finance Bill:

Entry Reference	Description
Sr. No. 157 of Table 1 of Sixth Schedule	Import of CKD kits for the following electric vehicles (4 wheelers) by local manufacturers till the 30th day of June 2026: (a) Small cars and SUVs with 50 kwh battery or below; and (b) Light Commercial Vehicles (LCVs) with 150 kwh battery or below
Sr. No. 158 of Table 1 of Sixth Schedule	Goods temporarily imported into Pakistan by international athletes which would be subsequently taken back by them within 120 days have been allowed exemption from sales tax at import stage.

- v) Exemption on import or supply of following earlier introduced through Tax Laws (Second Amendment) Ordinance, 2021 has now been made part of Finance Bill

Description	Heading Nos. of the First Schedule to the Customs Act, 1969
Import of auto disable Syringes till June 30, 2021 (i) with needles (ii) without needles	9018.3110 9018.3120
Import of following raw materials for the manufacturer of auto disable syringes till June 30, 2021 (i) Tubular metal needles (ii) Rubber Gaskets	9018.3200 4016.9310

- vi) Exemption from sales tax on import or supply of following has now been proposed:

Entry Reference	Description	Heading
Sr. No. 161 of Table 1 of Sixth Schedule	Import of Plant, machinery, equipment and raw materials for consumption of these items within Special Technology Zone by the Special Technology Zone Authority, zone developers and zone enterprises	Respective headings
Sr. No. 162 of Table 1 of Sixth Schedule	Import of raw materials, components, parts and plant and machinery by registered persons authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions	Respective headings

- vii) Exemption from sales tax on the supply of following has been proposed to be withdrawn:

S. No	Description	PCT heading
17	Raw and pickled hides and skins, wet blue hides and skins	41.01, 41.02, 41.02, 4104.1000, 4105.1000, 4106.2100, 4106.3000, 4106.9000
19	Bricks (up to 30th June, 2018)	6901.1000
24	LED or SMD lights and bulbs meant for conservation of energy	8539.5010, 8539.5020, 9405.1030 and 9405.4020
25	Cottonseed oil	1512.2100 and 1512.2900

- viii) Supply of locally produced silos is proposed to exempt from sales tax till June 30, 2026.

TABLE 1 OF EIGHTH SCHEDULE – SPECIFIED RATES

- i) Following items have been proposed at standard rate of sales tax. Previously such items were subject to reduced rate of sales tax subject to conditions specified in Table 1 of the Eighth Schedule to the Act:

S. No.	Description
1	Soyabean meal
5	Raw cotton and ginned cotton
6	Plant and machinery not manufactured locally and having no compatible local substitutes
7	Flavoured milk
8	Yogurt
9	Cheese
10	Butter
11	Cream
14	Milk and cream, concentrated or containing added sugar or other
15	Ingredients of poultry feed, cattle feed, except soya bean meal of PCT heading 2304.0000 and oilcake of cotton-seed falling under PCT heading 2306.1000
19	Waste paper
20	Plant, machinery, and equipment used in production of biodiesel
22	Soya bean seed
29	Harvesting, threshing and storage equipment: (i) Wheat thresher (ii) Maize or groundnut thresher or sheller (iii) Groundnut digger (iv) Potato digger or harvester (v) Sunflower thresher (vi) Post hole digger (vii) Straw balers (viii) Fodder rake (ix) Wheat or rice reaper (x) Chaff or fodder cutter (xi) Cotton picker (xii) Onion or garlic harvester (xiii) Sugar harvester (xiv) Tractor trolley or forage wagon (xv) Reaping machines (xvi) Combined harvesters (xvii) Pruner/shears
45	Following machinery for poultry sector : (i) Machinery for preparing feeding stuff (ii) Incubators, brooders and other poultry equipment (iii) Insulated sandwich panels (iv) Poultry sheds (v) Evaporative air cooling system (vi) Evaporative cooling pad
50	LNG/RLNG
51	LNG/RLNG
60	Fat filled milk
61	Silver, in unworked condition
62	Gold, in unworked condition
63	Articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal.
65	Ginned cotton
67	LNG imported for servicing CNG sector and local supplies thereof

- ii) The rate of sales tax on import and supply of potassium chlorate is proposed to be increase from Rs 80 per Kg to Rs 90 per Kg in addition to 17% standard rate.
- iii) Serial No 71, earlier added vide Tax Laws (Amendment) Ordinance, 2021 allowing reduced rate of 1% on the supply of locally manufactured or assembled electric vehicles of prescribed categories is proposed in the Finance Bill.
- iv) Supply of locally manufactured or assembled motorcars of cylinder capacity upto 850cc has been proposed at reduced rate of 12.5%.
- v) Import and supply of Hybrid Electric Vehicles are proposed to reduced rate of sales tax as follows:

Capacity	PCT	Rate of sales tax
Upto 1800 cc	87.03	8.5%
From 1801 to 2500 cc	87.03	12.75%

NINTH SCHEDULE

Sales tax of Rs 250 on supply of SIM cards by Cellular Mobile Operators is proposed to be discontinued with effect from July 1, 2020 with savings to department's position pending before any court of Law. However, corresponding change has not been made w.r.t. the liability, procedure and conditions in the Ninth Schedule.

ELEVENTH SCHEDULE

Registered persons manufacturing lead batteries are proposed to withhold entire amount of Sales Tax from person supplying reclaimed lead or used lead batteries.

TWELFTH SCHEDULE

Certain eclusions from levy of value addition tax were introduced through Tax Laws (Amendment Ordinance, 2021 now made part of Finance Bill. A new exception has been proposed for import of motor cars of cylinder capacity upto 850cc.

FEDERAL EXCISE DUTY

REVISION OF RETURN

Sales tax return can be *suo moto* revised by a registered person within 60 days of filing thereof provided the liability admitted in revised return is more than that admitted in original return or the refund claimed therein is less than that claimed in original return.

In line with such provisions, it has been proposed that similar mechanism is provided for the FED return.

EXEMPTION FROM DUTY ON AUTOMOBILES & FRUIT JUICES

It has been proposed to withdraw excise duty presently payable on:

- Import and local manufacturing of electric vehicles (4 wheelers) till 30th day of June 2026;
- Local manufacturing of vehicles of cylinder capacity of up to 850cc; and
- Fruit juices, syrups and squashes, waters containing added sugar or sweetening matter etc. excluding mineral and aerated waters.

DUTY ON ELECTRONICALLY HEATED TOBACCO MIXTURES

Recently, a new tobacco product, called 'heets sticks', has been introduced that is marketed to be less harmful than ordinary cigarettes as instead of combustion, it heats the tobacco.

It is proposed that such niche product is made subject to excise duty @ Rs 5,200 per kilogram.

LEVY OF SALES TAX IN PLACE OF EXCISE DUTY

Following goods, presently subject to excise duty in sales tax mode @ 17% are proposed to be excluded from purview of excise duty and made liable to sales tax at same rate:

Entry No.	Description	HS Code
1	Edible oils excluding deoxidized soybean	15.07, 15.08, 15.09, 15.10, 15.11, 15.12, 15.13, 15.14, 15.15, 15.16 1517, and 15.18,

Entry No.	Description	HS Code
2	Vegetable ghee and cooking oil (a) in retail packing; (b) not in retail packing	Respective headings
58	Steel Billets, ingots, ship plates, bars and other long re-rolled products	Respective headings

EXEMPTION FROM DUTY ON FEES RECEIVED BY BANKING COMPANIES FROM MERCHANTS USING ELECTRONIC PAYMENT MACHINES

It is proposed that fees charged by banking companies to merchants for processing payments through digital cards are excluded from the charge of duty leviable @ 16%.

Proposal is aimed at promoting and encouraging electronic payments.

EXCISE DUTY ON TELE-COMMUNICATION SECTOR

Rate of duty on Telecommunication Services is proposed to be reduced from 17% to 16%.

Further, a new charge of duty is proposed to be levied in respect of following services as explained below:

Description	Proposed duty
(a) Mobile phone call, if call duration exceeds three minutes;	One rupee per call in addition to the rates of duty specified under Serial No.6
(b) Internet services	Five rupees per GB in addition to the rates of duty specified under Serial No.6
(c) SMS services	Ten paisa per sms in addition to the rates of duty specified under serial no.6

Since indirect taxation of telecommunication sector is provincial subject consequent to 18th Amendment in Constitution, proposed charges of excise duty will only be applicable in territories falling in jurisdiction of Federal Government.

Accordingly, these proposed duties would also have to be levied by provinces in order to make these applicable on a country wide basis. Thus, it is considered that Provincial Governments are on board in respect of these proposed duties.

THIRD SCHEDULE

Exemptions from duty are proposed in respect of following, subject to the conditions specified:

- Imported vegetable and animal fats and their oils and fractions, if consumed within the limits of Border Sustenance Markets (BSM) to be established in cooperation with Iran and Afghanistan subject to certification of consumption by relevant Commissioner and proof of owning a business premises in such markets.
- Import and supply of raw material, components, parts and plant and machinery by persons registered under Export Facilitation Scheme, 2021.

**ISLAMABAD CAPITAL TERRITORY
(TAX ON SERVICES)
ORDINANCE, 2001**

Export of services is proposed to be charged at Zero per cent.

CUSTOMS ACT

DEFINITIONS

Following amendments / additions are proposed to be made through the Finance Bill in the definitions:

DOCUMENTS

The term 'documents' is proposed to include 'master bill of lading' and 'certificate of origin'.

ELECTRONIC ASSESSMENT

A new definition of 'electronic assessment' is proposed to be introduced that means assessment of a goods declaration in Customs Computerized System by an officer of Customs or by the computerized system according to the selectivity criteria.

VESSEL INTIMATION REPORT (VIR)

Another new concept of 'vessel intimation report (VIR)' is proposed to be introduced, which refers to an intimation regarding impending arrival of a vessel at a customs sea port, where the customs computerized system is operational to the customs authorities in the form and manner by the carrier of his agent, as may be prescribed in the rules.

OWNER

The term "owner" of goods has been proposed to be defined as any person who is for the time being entitled, either as owner or agent for the owner, to the possession of the goods.

SMUGGLE

The term 'smuggle' is proposed to also include the 'retailing' of smuggled goods'.

POWER TO APPOINT OR LICENCE COMMON WAREHOUSES

The concept of 'common bonded warehouse' earlier defined in Customs Rules, 2001 is now proposed to be inserted in the Customs Act, 1969 as 'common warehouse'. This is possibly being done to provide statutory cover to this concept. In a common warehouse, dutiable goods may be deposited without payment of customs-duty on owner or licensee own account.

The powers to appoint or licence common warehouses and the powers to cancel or suspend a licence for a common warehouse will be exercised by the respective Collector of Customs in his own jurisdiction.

Where the Customs Computerized System is operational, the application for a licence for common warehouse will be filed through the system in the prescribed manner.

PAKISTAN CUSTOMS TARIFF

It has been proposed to empower the Board to constitute a committee or a centre for settlement of any disputes regarding classification of goods. The Board may also prescribe rules or procedure for that purpose.

VALIDATION OF NOTICATIONS

The validity of exemption notifications issued on or after July 1, 2016 is proposed to be extended to next fiscal year i.e. up to June 2022.

POWER TO DETERMINE CUSTOMS VALUE

The power of Director of Customs Valuation to determine customs value 'on his own motion' is proposed to be extended to Collector of Customs. However, in case of any conflict in customs value, the Director General of Valuation shall determine the applicable value.

It is further proposed that in determining the customs value, the Director may incorporate values from the internationally acclaimed publications, periodicals, bulletins or official websites of manufacturers or indenters of such goods.

POWER TO TAKEOVER IMPORTED GOODS

The power to grant approval to an offer to buy the imported goods sought to be cleared at value declared by the importer in the goods declaration is proposed to be shifted from the 'Board' to the 'Chief Collector'.

REVIEW OF THE VALUE DETERMINED

Presently, no time limit has been prescribed for the Director General Valuation to determine value in a revision petition filed before him. Through the Finance Bill, a time limit of 60 days from the filing of the review petition or initiation of proceedings on his own motion has been proposed for such proceedings to be concluded.

MUTILATION OR SCRAPPING OF GOODS

It has been proposed that the request for allowing mutilation or scrapping of goods for the purpose of charging duty at applicable rates of scrapped / mutilated goods shall be made 'before the filing of goods declaration'.

DATE OF DETERMINATION OF IMPORT DUTY RATE

Presently, where the goods declaration has been manifested in advance of the arrival of the conveyance, the date of determination of the import duty rate (relevant date) is the date on which the manifest of the conveyance is delivered at the port of first entry.

It has now been proposed that in such a case the relevant date shall be the date on which the goods declaration is manifested. However, the relevant date for goods declaration in respect of which the rate of duty changes after the submission of the goods declaration and before the berthing or cross-over event of the vessel or the vehicle respectively, shall be the date on which the vessel has berthed or the vehicle has crossed-over the border.

TIME LIMIT FOR DECISION OF CASES

Cases involving any contravention under the Act (duty short levied, not levied, penalty etc.) are generally required to be decided within 90 days (extendable up to 60 days) of issuance of show cause notice.

It is proposed to limit the time allowed for deciding the cases where goods are lying at sea-port, airport or dry port, to 30 days of the issuance of show cause notice which can be extended by another 15 days by Collector of Customs, if so required.

THRESHOLD FOR ISSUANCE OF SHOW CAUSE NOTICE

The Customs authority may issue show cause notice for recovery of duty, taxes or charge not levied or short-levied or erroneously refunded subject to the prescribed time limitation. However, the above is applicable where the recoverable amount is:

- a. Rs 100 or more in case the default is discovered as a result of an audit / examination or by any other means;
- b. Rs 20,000 or more in case the default is by reason of inadvertence, error or misconception.

Through the Finance Bill it has been proposed to harmonize the above threshold by increasing the threshold of Rs 100 in (a) above to Rs 20,000.

SUSPENSION OF UNIQUE USER IDENTIFIER

It has been proposed that the unique user identifier of a registered user / person may only be suspended after giving notice and affording reasonable opportunity of hearing to the person.

IMPORT MANIFEST FOR CONVEYANCE

Presently an import manifest is required to be delivered to the Customs officer within 24 hours after arrival of a conveyance other than a vessel at land customs station or customs airport. The above timeline has been proposed to be revised as: (a) within three hours of landing for customs airport; and (b) at the time of entry into the country for land customs-station.

AMENDMENT OF IMPORT MANIFEST

It is proposed that a person in-charge of a conveyance may amend the import manifest / cargo declaration before the berthing of the vessel or the crossover of the vehicle without any permission by the Customs authorities subject to the rules notified by the Board.

RE-EXPORT OF BANNED / RESTRICTED GOODS

To harmonize the provisions of Customs Act, 1969 and the Import Policy Order, it has been proposed that in case any goods, banned or restricted through a notification issued by the Federal Government are not cleared or auctioned within 60 days of their arrival, the Collector of Customs may direct the importer / shipping line to re-export the same out of Pakistan.

AMENDMENT OF GOODS DECLARATION

Presently, an amendment / rectification of a bona fide error may be made in goods declaration in respect of quantity or value of any goods at any time before the warehousing of the goods is completed and not subsequently. The said condition has now been proposed to be removed and such rectification in goods declaration may be made on directions of the Collector of Customs for reasons to be recorded in writing.

EXTENSION IN PERIOD OF WAREHOUSED GOODS

Goods may remain in the warehouse for a period of six months following the date of their admission. The said period can presently be extended up to one month (by the Collector of Customs subject to prescribed conditions), however, it is now proposed to increase said period of extension up to six months.

CORRECTION CERTIFICATE FOR CLERICAL ERRORS

In respect of any clerical or typographical error in computerized goods declaration, it is proposed that the importer / exporter may apply to the concerned officer for issuance of correction / corrigendum certificate that may be granted upon satisfaction of the officer.

PENALTIES

Below amendments have been proposed in penalties for the stated offences:

<i>Offence</i>	<i>Penalty</i>
Contravention in the requirement of placement of invoice and packing list inside the import container or consignment.	Existing penalty: not exceeding Rs 50,000 <u>Proposed penalty:</u> 1 st time: Rs 100,000 2 nd time: Rs 500,000 3 rd time: Rs 1,000,000 4 th time: confiscation of goods & blockage of WeBOC user ID for 1 year
If any person fails to attach or electronically upload mandatory documents required under sections 79 or 131 of the Customs Act, 1969.	<u>Proposed penalty:</u> 1 st time: Rs 50,000 2 nd time: Rs 100,000 3 rd time: Rs 150,000 4 th time: Rs 200,000 5 th time & onwards: Rs 250,000

Moreover, penalty of Rs 100,000 applicable for not filing the goods declaration within the prescribed period of 10 days is proposed to be omitted.

CONFISCATION OF CONVEYANCE

In cases where a conveyance used in removal of any goods liable to confiscation has been seized for the third time, it is proposed that no option to pay fine in lieu of the confiscation shall be given in order to discourage such practices.

VALIDITY OF ADVANCE RULING

The validity of an advance ruling being binding on the Customs has been proposed to be increased from 1 year to 3 years in accordance with the international benchmarks.

GOODS THROUGH GREEN CHANNEL

It has been proposed that the goods declaration through green channel may be examined by the Customs authority with prior approval of the Collector of Customs.

DOCUMENTS FOR IMPORTED GOODS

Through the Finance Bill, certain mandatory documents for assessment of goods as may be prescribed by the Board are proposed to be filed by an importer along with the goods declaration.

REDUCTION / CONCESSIONS IN CUSTOMS DUTY

Customs Duty and Additional Customs Duty leviable on the import of following categories of items / sectors is proposed to be reduced as follows;

Description	Proposed Rate
Specified machinery, equipment and other goods for textile sector, subject to condition that imported by textile industrial units registered with Ministry of Textile Industrial & not locally manufactured.	0%
Glucose precursors, Yeast, Toxin Binders, Energy supplements for cows transition period, Acidifiers, Electrolytes for calves, Biotin, Buffers, Copper boluses and Non-protein nitrogen sources - vaccines for veterinary medicines and feed additives imported by dairy sector.	5%
Specified goods for tourism projects, subject to certification by the concerned Secretary of Provincial Tourism Department or equivalent Authorized Officer of the Federal Government as bona fide requirement of the approved projects with objective to promote tourism industry.	50% of prevailing rate of Custom Duty
Medicaments used as input by poultry industry.	3%
PVC Emulsion grade imported by Sales Tax registered manufacturers of artificial leather subject to quota determination by Input Output Co-efficient Organization (IOCO) and also subject to lab test	0%
Release paper imported by Sales Tax registered manufacturers of artificial leather subject to quota determination by IOCO	3%

Description	Proposed Rate
Specified inputs, if imported by manufacturers of Ready to Use Supplementary Foods (RUSF) and Ready-To-Use Therapeutic Food (RUTF), duly authorized by United Nations World Food Program (UNWFP) and subject to annual quota determination by IOCO.	0%
Imiglucerase, Alghlucosidase Alfa, Laronidase, Agalsidase, Protactant Alfa and Caffeine Citrate – lifesaving drugs	0%
Grain storage hermetic bags and cocoons subject to certification by Ministry of National Food Security and Research (MoNFS&R) that imported goods are bona fide requirement for use in the Agriculture Sector. The authorized officer of the Ministry shall furnish all relevant information online to Pakistan Customs Computerized System against specific user ID and Password obtained under section 155D of the Customs Act, 1969.	0%
Inputs relating to footwear industry, if imported by Sales Tax registered Shoe manufacturers subject to quota determination by IOCO.	5%
Raw material i.e. Film of ethylene for manufacturer of aseptic plastic packaging is proposed to 15% from 16%, if imported by a Sales Tax registered manufacturer of aseptic plastic packages meant for liquid foods, subject to quota determination by IOCO.	15%
Ednozym Pectofruit, Endozym Pectofruit PR, Endozym Alphamyl MG, Silite Normal Speed, Silite High Speed and Spindasol FJ under if imported by Sales Tax registered manufacturers of Food Processing Industry, subject to quota determination by IOCO.	3%

- Following exemptions are proposed to incentivize the pharmaceutical sector:

- Exemption of Customs Duty and Additional Customs Duty on more than 350 Active Pharmaceutical Ingredients, subject to the conditions specified in Part II of the Fifth Schedule of the Customs Act.
- Concessional rate of 5% on import of plant, machinery and equipment, if imported by registered pharmaceutical manufacturers for their own use, subject to No Objection Certificate (NOC) from Ministry of Health.
- Exemption of customs duty on imported finished auto-disable syringes is proposed to be reduced to 10%. Furthermore, exemption of customs duty on specified raw materials such as Polypropylene, Propylene copolymers, Plasticised, Epoxide resins, Biaxially Oriented Polypropylene (BOPP) film, laminated, etc. imported by registered manufacturers of Auto-Disable Syringes with quota determination by IOCO and subject to NOC from Ministry of National Health Services Regulation and Coordination is proposed to be reduced to 0%.

Description	Rate
CKD and Spare parts of Electric Vehicles 4-wheelers:	
i) EV Specific components for assembly/manufacture in any kit-form (CKD)	Concessional rate of 1% is proposed till June 30, 2026 subject to certification and quota determination by EDB.
ii) Components for assembly / manufacture in any kit-form (CKD)	
- Non-Localised Parts	Concessional rate of 10% is proposed till June 30, 2026
- Localised Parts	Concessional rate of 25% is proposed till June 30, 2026
	<i>Subject to fulfillment of conditions mentioned at Para- 2 of the SRO 656(I) / 2006 dated 22.06.2006.</i>

- Rationalization of tariff structure for auto sector

Description	Rate
Import of 4 wheeler Electric Vehicles (CBU)	Concessional rate of 10% is proposed to be allowed till June 30, 2022 which is proposed to increase to 25% from July 1, 2022 to June 30, 2026.
Import of first 100 4 wheeler Electric Vehicles (CBU) per company	Concessional rate of 50% of the above rates is proposed till June 30, 2026 subject to approval/certification by Engineering Development Board (EDB) which shall also monitor compliance with EV Policy 2020.

EXEMPTION OF CUSTOMS DUTY, ADDITIONAL CUSTOMS DUTY AND REGULATORY DUTY ON IMPORT OF COVID 19 RELATED ITEMS

Exemption from customs duty, regulatory duty and additional customs duty allowed on import of COVID-19 related items vide SRO 1251(I)/2020 dated November 23, 2020 till June 30, 2021 is proposed to be extended for a further period of six months.

OTHER ANNOUNCEMENTS

Following announcements have been made in the Salient Features issued with the Budget documents, for which notifications are expected to be issued.

Reduction in additional customs duty

Additional Customs Duty currently applicable at 7% on import of goods, subject to customs duty at rate of 20%, is proposed to be reduced to 6%.

Increase in Regulatory Duty

With the objective to support local industry and encourage import substitution, increase in RD rates are proposed as under:

- Mobile Phones
- Non-essential / luxury items

Reduction in Regulatory Duty

- Cocoa paste, butter and powder being industrial input goods.
- Goods imported by the textile sector.
- Flat rolled products of Hot Rolled Coil (HRC) and stainless steel.
- Export of molasses, skin and hides to boost positive image of the country with our important trading partners across the world.

Other relief and rationalization measures

- Enhance the value of unsolicited gifts through post or courier from Rs 20,000 to 30,000.
- Raw materials for Paint Industry.
- Inputs for Electronics Manufacturing Industry.
- Raw materials / inputs of furniture, coating, boiler manufacturing industry, bobbins and cops manufacturing industry etc.
- Import of flat rolled products of Hot Rolled Coil (HRC) and stainless steel.
- Raw materials and intermediary goods and point of sale machines.
- Uncoated paper and paperboard used in Printing and Graphic Arts Industry.

EXPORT FACILITATION SCHEME

It is proposed to integrate all existing export schemes used by the exporters into a uniform scheme, which will phase out all existing schemes in next two years' time. Notification is expected to be issued by FBR. It is also proposed to allow Bond to Bond transfer of goods through WeBOC without prior approval of the Collector. Notification is expected to be issued by FBR.