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Federal & Provincial Finance Acts, 2022



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PREFACE

This booklet contains notes and comments on the amendments made in the fiscal laws passed by Federal and Provincial assemblies of Punjab and KPK. No Finance Bill has been laid down for Balochistan and Sindh. Further, this booklet also contains comments on various SROs issued under the provincial laws.

We consider that readers will find the booklet useful. They are, however, requested to seek specific opinion on issues emanating from the amendments.

We thank the staff which has helped us in preparing this booklet. The text of this booklet can also be accessed on our website www.pwc.com.pk

Partners
A.F. Ferguson & Co.
Karachi / Lahore / Islamabad

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AMENDMENTS ENACTED BY FINANCE ACT, 2022 VIS-À-VIS THOSE PROPOSED IN FINANCE BILL, 2022

The Federal Government presented Finance Bill 2022 in the National Assembly on June 10, 2022. After the debate in the Senate and National Assembly, the Government has passed Finance Act, 2022 which contains those proposals of Finance Bill which were eventually approved with certain modifications and certain new amendments made in the Bill during the above process. The amendments made in the fiscal laws by the Finance Act, 2022 are made effective from July 1, 2022.

Significant modifications to the Finance Bill 2022 are summarised as under:-

INCOME TAX

1. Slab rates for super tax introduced for taxpayers having income in excess of Rs 150 million. The Bill earlier proposed such threshold at Rs 300 million at a standard rate of 2%.
2. Super tax rate is enhanced to 10% for certain specified sectors for tax year 2022 whereas for banking companies such enhanced rate of super tax will be applicable for tax year 2023.
3. The proposal of final tax regime for commercial importers is withdrawn. Consequently, commercial importers will remain under minimum tax regime.
4. The proposal to restrict income tax holiday of certain IPPs withdrawn.
5. The standard rate of tax for banking companies revised at 39%.
6. The revised slab rates for salaried individuals introduced by setting below taxable limit at Rs 600,000 as against the original proposal of Rs 1,200,000. Further, the reduction in tax rates proposed in Finance Bill has not only been reversed but the tax incidence has also been enhanced (as compared to position prior to Finance Bill).
7. The right to carry forward minimum tax retained, however, the period is reduced from five to three years.
8. The tax credit on contributions to Voluntary Pension Scheme retained.
9. The resident individual will now also include a citizen of Pakistan who was not in any one foreign country for more than 182 days.
10. The credit for income covered by final tax in respect of assets declared in wealth statement or books of account in excess of imputable income is inter alia subject to submission of audited financial statements.
11. Advance tax on sale of immovable properties to be collected irrespective of holding period.
12. The rate of advance tax on imports mentioned in Part II of the Twelfth Schedule enhanced from 2% to 3.5%.
13. Reduced rate of Capital Gains Tax on listed securities based on holding period to apply on securities purchased on or after July 1, 2022.

SALES TAX

1. The requirement of CNIC / NTN for the purposes of invoices issued to unregistered persons and restriction of input tax attributed to such supplies retained to the extent of supplies to unregistered distributors.
2. Sales tax regime of pharma sector revamped with 1% final sales tax on manufacturers and importers without any input adjustment.
3. The rate of fixed tax on other than Tier-1 retailers shall be increased by 100% if the said retailers are not appearing on the Active Taxpayer List.
4. Fertilizers exempted from sales tax.
5. Value of supply not to include the amount of subsidy provided by the Federal Government or Provincial Government to the electricity consumer.
6. Through the Bill, 'locally produced coal' was proposed to be taxed at 17% which has not been approved in the Act. It has now been subject to sales tax at higher of 17% ad valorem or Rs 700 per metric tonne.
7. The proposed increase in sales tax rate from 5% to 10% for following has not been approved in the Act.
 - natural gas
 - Phosphoric acid
8. Electric vehicle in CBU condition of 50 kwh battery or below is now subject to sales tax @12.5%.
9. Electric vehicle transport buses of 25 seats or more in CBU condition are now subject to sales tax @1%.
10. Changes proposed in the rate of sales tax on different categories of mobile / satellite phones have not been approved in the Act.
11. Online marketplace is now required to withhold sales tax @1% (instead of 2%).

CAPITAL VALUE TAX (CVT)

1. The rate of CVT to be collected with effect from July 1, 2022 on motor vehicles to be 1% (as against 2% proposed through Finance Bill).
2. CVT on foreign assets is applicable for tax year 2022 and onwards, on the basis of cost translated into Rupees at the latest exchange rates.

INCOME TAX

RECORD OF BENEFICIAL OWNERS

[Sections 2(7A) & 181E]

Every company and Association of Persons (AOP) will now be required to electronically submit details of beneficial owners and any change in their particulars. Specific rules are expected to be promulgated in this regard.

A penalty of Rs 1 million will be levied for each default.

The expression 'beneficial owner' has been defined to mean a natural person who:

- (a) ultimately owns or controls a company or AOP, whether directly or indirectly, through at least 25% shares or voting rights; or
- (b) exercise ultimate effective control, through direct or indirect means, over the company or AOP including control over the finances or decisions or other affairs of the company or AOP.

THE TERM 'DISTRIBUTOR' DEFINED

[Section 2(18A)]

There are various provisions which apply on a distributor; however, the term 'distributor' was not defined in the Ordinance. To bring clarity, the term 'distributor' has now been defined to mean a person appointed by a manufacturer, importer, or any other person for a specified area to purchase goods from him for further supply.

BROADENING OF SCOPE OF 'IT SERVICES' AND 'IT ENABLED SERVICES'

[Sections 2(30AD) & (30AE)]

The inclusive definitions of captioned services provided in clauses (30AD) and (30AE) of section 2 have been elaborated and it has been provided that such services may also include services other than those enumerated in such clauses.

SYNCHRONISED WITHHOLDING ADMINISTRATION & PAYMENT SYSTEM (SWAPS)

[Sections 2(62B), 164A and 182]

A new concept of collection or deduction of withholding taxes through SWAPS Agents has been introduced. Such agents will be the persons or class of persons as notified by the FBR who will be required to integrate with SWAPS. Such agents will be required to remit withholding tax to the respective Commissioner through digital mode and in this regard, a SWAPS Payment Receipt (SPR) shall replace Computerized Payment Receipts.

All persons from whom the tax has been collected or deducted by the notified SWAPS Agents shall be eligible for credit of tax withheld against SPR issued by SWAPS Agent.

Failure to integrate or perform roles and functions as SWAPS Agent can attract following penalties:

- Rs.50,000 for first default of seven days
- Rs. 100,000 for second default of next seven days
- Rs. 50,000 for each week after the second consecutive week of default

SUPER TAX ON HIGH EARNING PERSONS

[Section 4C]

The Government has levied a special tax for tax year 2022 and onwards on high earning persons. This new tax will be applicable on all persons having 'income' more than Rs 150 million, with income being the sum of following:

- (i) profit on debt, dividend, capital gains, brokerage and commission;
- (ii) taxable income (other than brought forward depreciation and brought forward business losses) under section 9 of the Ordinance, excluding the amounts specified in (i);
- (iii) imputable income as defined in clause (28A) of section 2 excluding amounts specified in (i); and
- (iv) income computed, other than brought forward depreciation, brought forward amortisation and brought forward business losses under Fourth, Fifth and Seventh Schedules.

Corresponding amendments have also been made in the Fourth, Fifth and Seventh Schedules to levy this tax on insurance, oil exploration, mining and banking companies.

The rate of super tax is as under:

Sr No.	Income under section 4C	Rate
1.	Where income does not exceed Rs 150 million	0% of the income
2.	Where income exceeds Rs 150 million but does not exceed Rs 200 million	1% of the income
3.	Where income exceeds Rs 200 million but does not exceed Rs 250 million	2% of the income
4.	Where income exceeds Rs 250 million but does not exceed Rs 300 million	3% of the income
5.	Where income exceeds Rs 300 million	4% of the income

Enhanced super tax on specified sectors

Further, persons operating in following sectors are liable to super tax @ 10% for a specified single tax year, if the income exceeds Rs 300 million, as detailed below:

Sector	Tax Year
Banking	2023
Airlines, Automobiles, Beverages, Cement, Chemicals, Cigarettes & Tobacco, Fertilizers, Iron & Steel, LNG Terminal, Oil Marketing, Oil Refining, Petroleum and Gas Exploration and Production, Pharmaceuticals, Sugar and Textiles.	2022

The taxpayers shall be required to pay this tax along with the return of income. In case of failure to do so, the tax authorities are empowered to recover the same through self-contained provisions.

Revised Effective Corporate Tax Rates

The effective corporate tax rates, after incorporating amendments of Finance Act, 2022 are as under:

Tax Year 2022				
Type of Company	Corporate Tax	Super Tax u/s 4B	Super Tax u/s 4C*	Total
Banking Company	35%	4%	See note below	39%
Companies of sectors specified above	29%	N/A	10%	39%
Companies other than specified sectors	29%	N/A	4%	33%

Note: As per the charging provisions, banking companies will not be liable to pay super tax for tax year 2022; however, the Seventh Schedule provides for such tax to be applicable for tax year 2022 as well. It is expected that the FBR will clarify this ambiguity through an explanatory circular.

Tax Year 2023				
Type of Company	Corporate Tax	Super Tax u/s 4B	Super Tax u/s 4C*	Total
Banking Company	39%	N/A	10%	49%
Companies of sectors specified above	29%	N/A	4%	33%
Companies other than specified sectors	29%	N/A	4%	33%

Tax Year 2024				
Type of Company	Corporate Tax	Super Tax u/s 4B	Super Tax u/s 4C*	Total
Banking Company	39%	N/A	4%	43%
Companies of sectors specified above	29%	N/A	4%	33%
Companies other than specified sectors	29%	N/A	4%	33%

* Tax rates as specified in the above table would be applicable in case the company's income exceeds Rs 300 million.

**PAYMENTS TO NON-RESIDENTS FOR
INTERNATIONAL FINANCIAL TRANSACTIONS
AND FEE FOR OFFSHORE DIGITAL SERVICES
[Sections 6 & 152]**

Non-resident persons not having a Permanent Establishment in Pakistan deriving income in the form of fees for money transfer operations, card network services, payment gateway services, interbank financial telecommunications services will be taxed @ 10%.

Enabling withholding provisions have also been introduced in section 152 as under:

- The banking companies will be responsible to withhold tax while making payments on account of any transaction fee or licensing fee or service charges or commission or fee or interbank financial telecommunication services.
- The exchange company licensed by the State Bank of Pakistan will be required to withhold tax while making payment to non-resident global money transfer operators, international money transfer operators or other persons on account of service charges or commission or fee in relation to international money transfers or other cross border remittances facilitating outward remittances.

In case of retention of above amounts by the non-resident persons, the local banking or exchange company, will be required to collect the amount of advance tax from such persons.

Non-residents protected by the double tax treaties may be entitled to invoke the business profits article to claim exemption from such tax.

The rate of tax on 'fees for offshore digital services' has also been enhanced from 5% to 10%.

**TAX ON VALUE OF CAPITAL ASSETS IN PAKISTAN
(Section 7E)**

A resident person owning capital assets in Pakistan will be taxed on deemed income arising from capital assets for tax year 2022 and onwards. For this purpose, such deemed income shall be computed as 5% of the Fair Market Value (as determined by the FBR under section 68) of capital assets. The rate of tax on such income is prescribed as 20%. This translates into an effective tax at 1% of Fair Market Value of capital assets.

An exclusionary definition of 'capital asset' has been provided, which effectively means that such tax is leviable only in respect of 'immovable property' situated in Pakistan owned by resident persons.

For the purposes of such tax; however, while following immovable properties shall stand excluded, the Federal Government has been empowered to notify any exclusion or inclusion of any person and/ or property from the scope of such tax:

- (a) one immovable property owned by the resident person;
- (b) self-owned business premises from where the business is carried out by the persons appearing on the active taxpayers' list at any time during the year;
- (c) self-owned agriculture land where agriculture activity is carried out by person excluding farmhouse (defined in a specified manner) and land annexed thereto;
- (d) immovable property allotted to:
 - (i) a shaheed or dependents of a shaheed belonging to Pakistan Armed Forces;
 - (ii) a person or dependents of the person who dies while in the service of Pakistan armed forces or Federal or provincial government;
 - (iii) a war wounded person while in service of Pakistan armed forces or Federal or provincial government; or
 - (iv) an ex-serviceman and serving personnel of armed forces or ex-employees or serving personnel of Federal and provincial governments, being original allottees of the capital asset duly certified by the allotment authority;
- (e) any property from which income is chargeable to tax under the Ordinance and tax leviable is paid thereon;
- (f) immovable property in the first tax year of acquisition where tax under section 236K has been paid;
- (g) where the fair market value of the capital assets in aggregate excluding the capital assets mentioned in clauses (a) through (f) above does not exceed **Rs 25 million**;
- (h) immovable property owned by a provincial government or a local government; or
- (i) immovable property owned by a local authority, a development authority, builders and developers for land development and construction, subject to the condition that such persons are registered with Directorate General of Designated Non-Financial Business and Professions.

The constitutional validity of this tax in relation to entry 50 of the Fourth Schedule to the Constitution of Pakistan and the scope of any amount which can be deemed as income will have to be tested.

CONTRIBUTION TO APPROVED GRATUITY & PENSION FUNDS **[Section 21(ea)]**

Amount in excess of 50% contributions to an approved gratuity, pension and superannuation fund will be an inadmissible expense in computing the income from business.

PAYMENTS THROUGH DIGITAL MEANS **[Section 21(la)]**

Through the Tax Laws (Third Amendment) Ordinance, 2021, payments made by a company for a transaction under a single account head exceeding Rs 250,000 other than through 'digital means' was made inadmissible, subject to certain exclusions. Due to challenges and practical difficulties in the implementation of the said provision, the FBR deferred its implementation from time to time till December 31, 2021. Through Finance (Supplementary) Act, 2022 the effective date was deferred indefinitely till it is notified by the FBR.

It has been provided that when effective date of implementation of such provision will be notified, the companies will be required to make all payments through digital means only to claim as admissible business expense.

EXPENDITURE BY PERSONS FAILING TO INTEGRATE BUSINESS WITH FBR'S SYSTEM

[Section 21(q)]

Through SRO 779(I)/2020 dated August 26, 2020, the FBR introduced a Chapter VIIA in the Income Tax Rules, 2002 whereby certain businesses were required to install prescribed fiscal electronic device and software for integration with FBR's system.

A new provision has now been enacted to disallow expenditure attributable to sales claimed by any person who fails to integrate his business with the FBR's system in the above prescribed manner. However, disallowance of expenditure shall not exceed 8% of the allowable deduction.

TAX DEPRECIATION

[Sections 21(8) & 2(13)]

For depreciable assets used for the first time after July 1, 2020, the normal tax depreciation allowance was limited to 50% in the first year as well as in the year of disposal. Both these limits have now been withdrawn. As a result, the pre-2020 situation has been reinstated.

Furthermore, with regard to depreciation on passenger transport vehicles not plying for hire, the limit on cost at Rs 2.5 million has been enhanced to Rs 7.5 million. Where such vehicle is obtained on lease, the rentals relating to the principal amount are restricted to Rs 2.5 million. In line with the above enactment, this limit also needs to be enhanced.

INITIAL ALLOWANCE ON BUILDINGS

[Section 23(5)]

Through Finance Act, 2019, initial allowance on buildings was removed from the Third Schedule. A corresponding amendment has been now made in section 23 whereby the building being immovable property including structural improvements (even if classifiable as part of plant & machinery) will no more be eligible for initial allowance of depreciation.

CAPITAL GAINS ON IMMOVABLE PROPERTIES

(Section 37)

Taxation of capital gains on disposal of immovable property has been revamped.

Capital gains relating to disposal of immovable properties situated in Pakistan will be taxed at the following rates:-

S. No	Holding Period	Rate of Tax		
		Open Plots	Constructed Property	Flats
(1)	(2)	(3)	(4)	(5)
1.	Where the holding period does not exceed one year	15%	15%	15%
2.	Where the holding period exceeds one year but does not exceed two years	12.5%	10%	7.5%
3.	Where the holding period exceeds two years but does not exceed three years	10%	7.5%	0%
4.	Where the holding period exceeds three years but does not exceed four years	7.5%	5%	
5.	Where the holding period exceeds four years but does not exceed five years	5%	0%	
6.	Where the holding period exceeds five years but does not exceed six years	2.5%		
7.	Where the holding period exceeds six years	0%		

Consequently, capital gains relating to disposal of immovable properties situated outside Pakistan will be taxed at applicable rates irrespective of holding period.

CAPITAL ASSETS HELD FOR MORE THAN ONE YEAR **[Section 37(2)]**

Capital gains arising on disposal of capital assets (other than certain securities) held for more than one year are now fully taxable. The reduction of 25% (in computing taxable gain on disposal of such assets held for more than one year) has been done away with.

CAPITAL ASSETS ACQUIRED IN CERTAIN TAX NEUTRAL TRANSACTIONS **[Section 37(4A)]**

Capital assets acquired under certain tax neutral transactions such as by way of gift, succession, inheritance, devolution, distribution of assets on dissolution of AOP or on liquidation of company are deemed to have a cost equal to the FMV of such assets at the time of acquisition. However, where such assets were acquired by way of a gift and are disposed within two years as part of a tax avoidance scheme, their cost was deemed as the cost as was in the hands of the transferor. Section 37(4A) allowing FMV at the time of such transfer was in conflict with section 79(3) of the Ordinance. The said provision has now been omitted through the Finance Act.

EXEMPTION UNDER INTERNATIONAL AGREEMENTS **(Section 44)**

Presently, income received by any person (not being a citizen of Pakistan) engaged as a contractor, consultant, or expert on a project in Pakistan is exempt from tax to the extent provided for in a bilateral or multilateral technical assistance agreement between the Federal Government and a foreign government or public international organization, subject to certain conditions. Such exemption is limited to agreements where 'technical assistance' is being provided.

The Finance Act 2022, has enhanced the scope of above exemption by removing the term 'technical assistance' from the above provision, meaning thereby now all sorts of agreement between Federal Government and a foreign government or public international organization would be covered under the above exemption. Furthermore, the exemption would also be available to a citizen of Pakistan provided such person is either a non-resident person or a resident person solely by reason of the performance of services under the agreement.

The Act has also empowered the Federal Government to grant exemption on income of any person on a case-to-case basis through a notification in the Official Gazette in respect of an official development assistance financed loans and grant-in-aid, subject to such conditions and limitations as may be specified.

TAX AMNESTIES FOR PROMOTION PACKAGE OF INDUSTRIES WITHDRAWN **[Sections 59C, 65H & 100F]**

Amnesties, introduced vide the Income Tax (Amendment) Ordinance, 2022, with respect to the following investments have been withdrawn with effect from March 2, 2022:-

- a) New & existing industrial undertakings – Section 59C;
- b) Industries owned by overseas Pakistanis and resident Pakistanis having declared foreign assets – Section 65H; and
- c) Revival of sick units – Section 100F.

TAX CREDITS / DEDUCTIBLE ALLOWANCE WITHDRAWN **[Sections 60C, 62 & 62A]**

Tax credits and deductible allowances in respect of the following, have been withdrawn:-

- a) Profit on debt incurred on house financing – Section 60C;
- b) Investment in new shares of listed companies, mutual funds or life insurance policies, Sukuk, etc. – section 62; and
- c) Purchase of Health insurance policies – section 62A.

RESIDENT INDIVIDUAL **[Section 82]**

Previously, an individual was only considered as resident in Pakistan if his stay was for more than 182 days in any tax year. The definition of resident individual has been amended to include those Pakistani citizens who are either not tax residents of any other country or have not stayed in one foreign country for more than 182 days during a tax year.

There may be certain practical difficulties in application of this amendment.

SIMPLIFIED TAX REGIME FOR RETAILERS & SPECIFIED SERVICE PROVIDERS **[Section 99A & 235(1A)]**

For other than Tier – 1 retailers and specified service providers, a ‘final tax’ has been levied on the basis of gross amount billed for commercial electricity connections at the following rates:

Gross amount of monthly bill	Tax (Rupees)
Where the amount does not exceed Rs. 30,000	3,000
Where the amount exceeds Rs. 30,000 but does not exceed Rs. 50,000	5,000
Where the amount exceeds Rs. 50,000 but does not exceed Rs. 100,000	10,000
Specified retailers and service providers through Income Tax General Order	200,000

The aforesaid tax shall be collected by the electricity companies through monthly bills in addition to withholding tax under section 235.

However, in case sales tax is collected from such retailers through electricity bills under section 3(9) of Sales Tax Act, 1990, the sales tax will constitute discharge of tax liability under this section and thus no tax will be charged/ collected along with electricity bills.

The Federal Government is empowered to issue income tax general order for implementing this scheme and to specify service providers eligible for this regime.

NON-PROFIT ORGANISATIONS (NPO) **[Section 100C]**

Institutions mentioned in Table II of Clause (66) of Part I of the Second Schedule are eligible for income tax exemption subject to certain conditions under section 100C, including an approval from the Commissioner as an NPO under section 2(36).

The waiver from requirement of NPO approval, currently available till June 30, 2022, has been extended up to June 30, 2023.

ANTI-AVOIDANCE PROVISIONS FOR COHESIVE BUSINESS OPERATION **[Section 109]**

The general Anti-avoidance provisions of section 109 have been amended with retrospective effect from tax year 2018 to empower the Commissioner to apply the concept of ‘cohesive business’ in cases of suspected tax avoidance. This reaffirms the position that the concept of cohesive business operation was only applicable where the activities were split by a non-resident person for tax avoidance purposes.

As the concept of cohesive business operation was effective from tax year 2019, the amendment to take effect from tax year 2018 appears to be a mistake.

INCOME SUBJECT TO FINAL TAX – SOURCE EXPLANATION
[Section 111(4A)]

The credit for income subject to final tax (such as exports) in the wealth statement or books of account of a taxpayer in excess of 'imputable income' will only be acceptable if the same is supported by financial statements audited by a Chartered Accountant and is reasonably attributable to such business.

MINIMUM TAX
[Section 113]

The carry forward of unadjusted minimum tax credit (i.e., minimum tax paid in excess of normal tax liability) for subsequent five tax years has been reduced to three tax years.

Furthermore, the rate of minimum tax in case of Oil Marketing Companies has been reduced to 0.5% from 0.75%.

Further, for determining the applicability of minimum tax, super tax, levied on high earning persons, paid by a person is not to be taken into account.

BEST JUDGEMENT ASSESSMENT
[Section 121]

The time limitation for passing a best judgement assessment has been enhanced from five to six years.

TIME PERIOD FOR AMENDMENT PROCEEDINGS
[Section 122]

The time period of 120 days to pass an amendment order from the issuance of a show cause notice has been extended to 180 days.

ALTERNATIVE DISPUTE RESOLUTION (ADR)
[Section 134A]

Under the revamped procedure for ADR in all three fiscal laws, an aggrieved person may apply for resolution of a dispute pending before any court of law or appellate forum, through ADR mechanism in following cases:-

- a) Where the liability of tax is Rs 100 million or above or admissibility of refund;
- b) The extent of waiver of default surcharge & penalty; or
- c) Any other specific relief required to resolve the dispute.

However, any case where criminal proceedings have been initiated fall outside the purview of ADR mechanism.

Previously, in case of a dispute where a mixed question of law and fact was involved, the FBR was empowered to examine as to whether ADR Committee should be constituted or not. This hindrance has been removed.

Under the new mechanism, the taxpayer has a right to nominate a person from the panel notified by the FBR except where the relevant Chartered Accountant or an Advocate has been an authorised representative of the taxpayer.

Furthermore, the taxpayer will have to withdraw his appeal for seeking relief under ADR.

TAX ON IMPORTS

[Section 148]

Previously, in case of goods imported by an industrial undertaking for own use, the advance tax on imports did not constitute minimum tax if the same were subjected to advance tax collection @ 1% or 2%. There were various items which were in the nature of raw material but were subjected to standard rate of 5.5%. The tax authorities were misinterpreting these provisions to deny the adjustability of tax collected @ 5.5%.

This regime has been amended and now the advance tax on raw materials imported by an industrial undertaking for own use will not be minimum tax irrespective of the applicable rate. However, advance tax on import of following items will be treated as minimum tax in respect of income arising from such imports:-

- a) Edible oil;
- b) Packaging material;
- c) Paper and paper board; or
- d) Plastics.

REDUCTION IN TAX RATE ON INDENTING COMMISSION

[Sections 154 & 154A]

Rate of tax on indenting commission, remitted in foreign currency through banking channels, has been reduced from 5% to 1%.

INCOME FROM EXPORT OF SOFTWARE & INFORMATION TECHNOLOGY SERVICES

[Section 154A]

Income tax holiday upto tax year 2025 was available on income from export of software, IT services and IT enabled services. Through Tax Laws (Second Amendment) Ordinance, 2021, the said exemption was withdrawn and a concept of 100% tax credit was introduced as part of section 65F upto tax year 2025, subject to certain conditions. Taxpayers of the same sector who did not qualify for tax credit were being subjected to 1% withholding income tax on export proceeds under section 154A.

With effect from July 1, 2022; 100% tax credit regime on export of software, IT services and IT enabled services has been withdrawn. Withholding tax under section 154A at 0.25% of export proceeds has been levied on the entire sector and such reduced rate of tax has been made conditional upon registration with Pakistan Software Export Board.

LIMITATION FOR MAINTENANCE OF RECORDS IN CASE OF OFFSHORE ASSETS & FOREIGN SOURCE INCOME

[Section 174]

Through Finance Act, 2018, the provisions of section 111 were amended to empower the tax authorities to probe into the source of unexplained offshore assets and foreign source income irrespective of any limitation period.

In relation to the above provision, the Appellate Tribunal held that the provisions of section 111 cannot be applied without any regard to the limitation period particularly when section 174 only requires a taxpayer to maintain his record for a period of six years.

Through Finance Act, 2022 section 174 has been amended to nullify the effect of such interpretation.

BROADENING OF TAX BASE THROUGH NADRA ***[Section 175B]***

Section 175B was added through Tax Laws Amendment Ordinance 2021 whereby National Database and Registration Authority (NADRA) was allowed to share its records and any information with FBR for broadening of tax base or carrying out any other purpose.

The said provision has now been enacted through Finance Act, 2022.

PENALTY FOR NON-FILING OF RETURN OF INCOME WITHIN DUE DATE ***[Section 182]***

Serial No. 1 of table in subsection (1) of section 182 provides for penalty for non-filing of return of income within the time limit specified in law. Through the Finance Act, the following amendments have been made so as to ratify the amendments earlier introduced through Tax Laws (Third Amendment) Ordinance, 2021:

- Higher of 0.1% of the tax payable for each day of default or Rs. 1,000 per day;
- Maximum - 200% of tax payable;
- Minimum - Rs. 10,000 if 75% or more is salary income and Rs. 50,000 in other cases;
- Amount of penalty reduced by 75%, 50% & 25% in case return is filed within one, two & three months respectively after the due date.

PENALTY FOR NON-ISSUANCE OF PRESCRIBED INVOICE NUMBER OR WITHOUT QR CODE ***[Section 182]***

Penal provisions have been introduced in law for persons who are integrated with FBR's system but who avoid monitoring, tracking, reporting or recording of transactions or issued prescribed invoice without invoice number or QR code or bears duplicate invoice number or counterfeit QR code or defaces the prescribed invoice number or QR code or any person who abets commissioning of such offence. Such person shall pay a penalty of Rs. 500,000 or 200% of the amount of tax involved, whichever is higher.

PENALTY FOR FAILURE TO INTEGRATE WITH FBR ***[Section 182]***

Penal provisions have also been introduced for any person who is required to integrate his business for monitoring, tracking, reporting or recording of sales, services and similar business transactions with the Board or its computerized system, and who fails to get himself registered under the Ordinance, and if registered, fails to integrate in the manner as required under law.

Such person shall be liable to:

- Penalty up to Rs 1,000,000, and
- If the offence continues after a period of two months of imposition of penalty as aforesaid, his business premises shall be sealed till such time he integrates his business in the manner as stipulated under sub-section (3) of section 237A of the Ordinance, as the case may be.

PENALTY FOR NOT GENERATING FISCAL INVOICES ***[Section 182]***

A specific penalty provision has also been introduced for a person required to integrate his business in the prescribed manner for generating fiscal invoices as stipulated under sub-section (3) of section 237A of the Ordinance, who fails to get himself registered under the Ordinance, and if registered, fails to integrate in the manner as required under the law and rules made thereunder.

Such person shall be liable to penalty of:

- Rs 500,000 for first default, provided that such penalty shall be waived if business is integrated with in fifteen days of first default;
- Rs 1,000,000 for second default after fifteen days of order for first default;
- Rs 2,000,000 for third default after fifteen days of order for second default;
- Rs 3,000,000 for fourth default after fifteen days of order for third default;
- Sealing of business premises after fifteen days of fourth default.

CONDONATION OF TIME LIMIT

[Section 214A]

The FBR is empowered to extend the time limitation for any application to be made or any act or thing to be done. In this context, the Courts and Appellate Tribunal have interpreted that such powers cannot be exercised by the FBR once the limitation period for amendment proceedings has already elapsed.

In order to nullify the effect of such judgements, an amendment has been made in relevant provisions empowering the FBR to extend the time period even after the expiry of such period.

ADVANCE TAX ON IMMOVABLE PROPERTIES

[Section 236C]

Currently, no advance tax is collected from the seller or transferor of immovable property in case the holding period is more than four years as the gain arising on such properties is not taxable. Whilst the said holding period of four years has now been amended to six years for open plots, the advance tax provisions have been made applicable irrespective of the holding period.

This advance tax collection needs to be harmonized with corresponding taxation regime as where no tax is chargeable on disposal, collection of advance tax loses its rationale.

WITHHOLDING TAX ON EDUCATION FEES ABOLISHED

[Section 236I]

Previously, advance tax was collected by educational institutions @ 5% on the amount of fee paid to such institutions subject to certain specific exclusions. Through the Finance Act, 2022, the said provisions have been omitted, and resultantly, such advance tax collection is no longer required.

OMISSION OF WITHHOLDING TAX ON RENT OF MACHINERY

[Section 236Q]

Every prescribed person was previously required to deduct tax @ 10% on payment to a resident person for use or right to use industrial, commercial and scientific equipment, and on account of rent on machinery. The tax so deductible was considered as minimum tax on the income of such resident person.

Through the Finance Act, 2022, the said provisions have been omitted.

REINSTATEMENT OF ADVANCE TAX ON

REMITTANCES THROUGH CREDIT OR DEBT OR PREPAID CARDS

[Section 236Y]

Every banking company is now required to collect advance tax, at the time of transfer of any sum remitted outside Pakistan, on behalf of any person who has completed a credit card or debit card or prepaid card transaction with a person outside Pakistan @ 1% of amount remitted. The advance tax collected under this section shall be adjustable. The said provision was introduced in 2018 and was withdrawn through Finance Act, 2021.

INCOME TAX SCHEDULES

FIRST SCHEDULE

TAX RATES FOR SALARIED INDIVIDUALS – Revised rates

Sr No.	Taxable income	Rate
1.	Where the taxable income does not exceed Rs 600,000	Rs. 0
2.	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	2.5% of the amount exceeding Rs 600,000
3.	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,400,000	Rs 15,000 + 12.5% of the amount exceeding Rs 1,200,000
4.	Where the taxable income exceeds Rs 2,400,000 but does not exceed Rs 3,600,000	Rs 165,000 + 20% of the amount exceeding Rs 2,400,000
5.	Where the taxable income exceeds Rs 3,600,000 but does not exceed Rs 6,000,000	Rs 405,000 + 25% of the amount exceeding Rs 3,600,000
6.	Where the taxable income exceeds Rs 6,000,000 but does not exceed Rs 12,000,000	Rs 1,005,000 + 32.5% of the amount exceeding Rs 6,000,000
7.	Where the taxable income exceeds Rs 12,000,000	Rs 2,955,000 + 35% of the amount exceeding Rs 12,000,000

TAX RATES FOR SALARIED INDIVIDUALS – Previous rates

Sr No.	Taxable income	Rate
1.	Where the taxable income does not exceed Rs 600,000	0%
2.	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	5% of the amount exceeding Rs 600,000
3.	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 1,800,000	Rs 30,000 + 10% of the amount exceeding Rs 1,200,000
4.	Where the taxable income exceeds Rs 1,800,000 but does not exceed Rs 2,500,000	Rs 90,000 + 15% of the amount exceeding Rs 1,800,000
5.	Where the taxable income exceeds Rs 2,500,000 but does not exceed Rs 3,500,000	Rs 195,000 + 17.5% of the amount exceeding Rs 2,500,000
6.	Where the taxable income exceeds Rs 3,500,000 but does not exceed Rs 5,000,000	Rs 370,000 + 20% of the amount exceeding Rs 3,500,000
7.	Where the taxable income exceeds Rs 5,000,000 but does not exceed Rs 8,000,000	Rs 670,000 + 22.5% of the amount exceeding Rs 5,000,000
8.	Where the taxable income exceeds Rs 8,000,000 but does not exceed Rs 12,000,000	Rs 1,345,000 + 25% of the amount exceeding Rs 8,000,000
9.	Where the taxable income exceeds Rs 12,000,000 but does not exceed Rs 30,000,000	Rs 2,345,000 + 27.5% of the amount exceeding Rs 12,000,000
10.	Where the taxable income exceeds Rs 30,000,000 but does not exceed Rs 50,000,000	Rs 7,295,000 + 30% of the amount exceeding Rs 30,000,000
11.	Where the taxable income exceeds Rs 50,000,000 but does not exceed Rs 75,000,000	Rs 13,295,000 + 32.5% of the amount exceeding Rs 50,000,000
12.	Where the taxable income exceeds Rs 75,000,000	Rs 21,420,000 + 35% of the amount exceeding Rs 75,000,000

COMPARISON

Annual taxable income	Tax Year 2022	Tax Year 2023	(Saving) / Excess tax
600,000	-	-	-
1,200,000	30,000	15,000	(15,000)
2,400,000	180,000	165,000	(15,000)
3,600,000	390,000	405,000	15,000
6,000,000	895,000	1,005,000	110,000
12,000,000	2,345,000	2,955,000	610,000
18,000,000	4,845,000	5,055,000	210,000
24,000,000	5,645,000	7,155,000	1,510,000

TAX RATES FOR NON-SALARIED INDIVIDUALS – Revised rates

Sr No.	Taxable income	Rate
1.	Where the taxable income does not exceed Rs 600,000	0%
2.	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 800,000	5% of the amount exceeding Rs 600,000
3.	Where the taxable income exceeds Rs 800,000 but does not exceed Rs 1,200,000	Rs 10,000 + 12.5% of the amount exceeding Rs 800,000
4.	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,400,000	Rs 60,000 + 17.5% of the amount exceeding Rs 1,200,000
5.	Where the taxable income exceeds Rs 2,400,000 but does not exceed Rs 3,000,000	Rs 270,000 + 22.5% of the amount exceeding Rs 2,400,000
6.	Where the taxable income exceeds Rs 3,000,000 but does not exceed Rs 4,000,000	Rs 405,000 + 27.5% of the amount exceeding Rs 3,000,000
7.	Where the taxable income exceeds Rs 4,000,000 but does not exceed Rs 6,000,000	Rs 680,000 + 32.5% of the amount exceeding Rs 4,000,000
8.	Where the taxable income exceeds Rs 6,000,000	Rs 1,330,000 + 35% of the amount exceeding Rs 6,000,000

TAX RATES FOR NON-SALARIED INDIVIDUALS – Previous rates

Sr No.	Taxable income	Rate
1.	Where the taxable income does not exceed Rs 400,000	0%
2.	Where the taxable income exceeds Rs 400,000 but does not exceed Rs 600,000	5% of the amount exceeding Rs 400,000
3.	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	Rs 10,000 + 10% of the amount exceeding Rs 600,000
4.	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,400,000	Rs 70,000 + 15% of the amount exceeding Rs 1,200,000
5.	Where the taxable income exceeds Rs 2,400,000 but does not exceed Rs 3,000,000	Rs 250,000 + 20% of the amount exceeding Rs 2,400,000
6.	Where the taxable income exceeds Rs 3,000,000 but does not exceed Rs 4,000,000	Rs 370,000 + 25% of the amount exceeding Rs 3,000,000
7.	Where the taxable income exceeds Rs 4,000,000 but does not exceed Rs 6,000,000	Rs 620,000 + 30% of the amount exceeding Rs 4,000,000
8.	Where the taxable income exceeds Rs 6,000,000	Rs 1,220,000 + 35% of the amount exceeding Rs 6,000,000

COMPARISON

ANNUAL TAXABLE INCOME	PREVIOUS TAX	REVISED TAX	(SAVING) / EXCESS TAX
<u>600,000</u>	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>
<u>800,000</u>	<u>30,000</u>	<u>10,000</u>	<u>(20,000)</u>
<u>1,200,000</u>	<u>70,000</u>	<u>60,000</u>	<u>(10,000)</u>
<u>2,400,000</u>	<u>250,000</u>	<u>270,000</u>	<u>20,000</u>
<u>3,000,000</u>	<u>370,000</u>	<u>405,000</u>	<u>35,000</u>
<u>4,000,000</u>	<u>620,000</u>	<u>680,000</u>	<u>60,000</u>
<u>6,000,000</u>	<u>1,220,000</u>	<u>1,330,000</u>	<u>110,000</u>

TAX RATES ON DISPOSAL OF SECURITIES

Gain on disposal of listed securities (that was previously chargeable to tax @ 12.5% irrespective of the holding period) shall now be subject to revised tax rates based on holding period. The revised rates in terms of section 37A are as under:

Holding Period	Revised Rate
Less than 1 year	15 %
From 1 year to 2 years	12.5%
From 2 years to 3 years	10%
From 3 years to 4 years	7.5%
From 4 years to 5 years	5%
From 5 years to 6 years	2.5%
More than 6 years	0%

For securities (other than future commodity contracts entered into by members of Pakistan Mercantile Exchange):

- (i) the above-referred revised rates shall apply on disposal of securities acquired on or after July 1, 2022; and
- (ii) rate of 12.5% shall apply on disposal of those securities which were acquired on or before June 30, 2022 irrespective of holding period.

Previously, in respect of Mutual Fund or Collective Investment Scheme or a REIT scheme, no capital gains tax was deductible if the holding period of the security was more than 4 years. Through Finance Act, such holding period has now been increased to 6 years.

RATE OF TAX WITHHOLDING ON IMPORT OF MOBILE PHONES

Tax collection on import of mobile phones of the below stated values has been revised as under:

Import of mobile phones of value:	Previous Rate of tax withholding		Revised Rate of tax withholding	
	In CBU condition	In CKD / SKD condition	In CBU condition	In CKD / SKD condition
- More than USD. 350 upto USD. 500	Rs. 3,000	Rs. 5,000	Rs. 5,000	Rs. 3,000
- More than USD. 500	Rs. 5,200	Rs. 11,500	Rs. 11,500	Rs. 5,200

REDUCED RATE OF TAX WITHHOLDING FOR CERTAIN SERVICES

Withholding tax rate on payments against rendering of services is 8%; however, a reduced rate of 3% is specified for certain service providers. The benefit of 3% reduced rate has also been extended to REIT Management services and services rendered by National Clearing Company of Pakistan Limited.

ADVANCE TAX ON PASSENGER TRANSPORT VEHICLES

Advance tax on passenger transport vehicles plying for hire that was previously required to be collected on a uniform basis subject to seating capacity, has now been revised as below:

Seating Capacity	Previous Rate	Revsied Rate	
		<u>Air-conditioned</u>	<u>Non-Air conditioned</u>
	(Rupees per seat Per annum)		
4 to 9 persons	50	1,000	500
10 to 19 persons	100	2,000	1,500
20 or more persons	300	4,000	2,500

ADVANCE TAX ON REGISTRATION / TRANSFER OF MOTOR VEHICLES

Rates of advance tax on registration of the motor vehicles have been revised as follows:

Engine Capacity	Previous Rate	Revised Rate
Upto 850cc	Rs. 7,500	Rs. 10,000
851cc to 1,000cc	Rs. 15,000	Rs. 20,000
1,001cc to 1,300cc	Rs. 25,000	Rs. 25,000
1,301cc to 1,600cc	Rs. 50,000	Rs. 50,000
1,601cc to 1,800cc	Rs. 75,000	Rs. 150,000
1,801cc to 2,000cc	Rs. 100,000	Rs. 200,000
2,001cc to 2,500cc	Rs. 150,000	Rs. 300,000
2,501cc to 3,000cc	Rs. 200,000	Rs. 400,000
Above 3,000cc	Rs. 250,000	Rs. 500,000
Where engine capacity is not applicable and value of vehicle is Rs. 5 million or more	Nil	3% of the import value (as increased by sales tax, customs duty and FED) or invoice value in case of locally manufactured vehicle

The Act has also imposed advance tax of Rs. 20,000 on transfer of motor vehicles of unspecified engine capacity (e.g. electric vehicles) having value of Rs. 5 million or more. The said rate of Rs. 20,000 shall be reduced by 10% each year from the date of first registration in Pakistan.

For the purposes of tax collection under section 231B, the definition of 'motor vehicles' has been amended and now defined to include car, caravan automobiles, jeep, limousine, pickup, sports utility vehicle, trucks, vans, wagon and any other automobile excluding:

- a motor vehicle used for public transportation, carriage of goods and agriculture machinery;
- a rickshaw or a motorcycle rickshaw and
- any other motor vehicle having engine capacity upto 200cc.;

ADVANCE TAX ON TRANSFER OF IMMOVABLE PROPERTY

Advance tax required to be collected from the buyer and seller of immovable property has been increased from 1% to 2% of the fair market value.

ADVANCE TAX ON ADVERTISEMENT

Advance tax on commercial for advertisement starring foreign actors has been reduced from Rs. 500,000 per second to Rs. 100,000 per second.

SECOND SCHEULE

WITHDRAWAL OF TAX EXEMPTIONS

[Clauses (5) & (23B) of Part I]

The legislature has withdrawn tax exemptions in respect of following incomes:

- (i) Receipt of monthly installment from income payment plan invested out of accumulated balance of specified individual pension accounts or approved annuity plan;
- (ii) Allowance/ perquisite paid or allowed outside Pakistan by Government to a Pakistani citizen for rendering services outside Pakistan.

TAX EXEMPTION FOR CERTAIN CHARITABLE ORGANIZATIONS

[Clause (66) of Part I]

Income of following organizations has been exempted from income tax by way of inclusion in Table I of Clause (66):

- (i) The Pakistan Global Sukuk Programme Company Limited;
- (ii) Karandaaz Pakistan from tax year 2015 onwards;
- (iii) Public Private Partnership Authority for tax year 2022 and subsequent four tax years; and
- (iv) Hamdard Laboratories (Waqf) Pakistan.

It is apt to mention here that income derived by The Pakistan Global Sukuk Programme Company Limited was earlier exempted from income tax through Notification SRO 1457(I)/2021 dated November 11, 2021; however, through the Act, such tax exemption has been ratified by the Parliament. Further, the following Organizations, earlier entitled to tax exemption subject to fulfillment of conditions specified in section 100C of the Ordinance, are now extended unconditional tax exemption as was earlier available to them prior to Finance Act, 2020:

- (i) Pakistan Mortgage Refinance Company Limited;
- (ii) Pakistan Sweet Homes Angels and Fairies Place; and
- (iii) Dawat-e-Islami Trust.

Further, the following Organizations have been extended tax exemption subject to fulfillment of conditions specified in section 100C:

- (i) Burhani Qarzan Hasnan Trust;
- (ii) Saif Hospital Karachi; and
- (iii) Safiyah Girls Taalim Trust.

RATIONALIZATION OF EXEMPTION FOR COLLECTIVE INVESTMENT SCHEMES OR REIT SCHEMES

[Clause (99) of Part I]

The Collective Investment Schemes or REIT Scheme are entitled to income tax exemption subject to distribution of 90% of accounting income, excluding capital gains, amongst the unit/ certificate holders.

Through the Act, adjustment of 'accumulated loss' against 'accounting income' has been allowed for the purposes of meeting the specified criteria.

The above amendment is aimed at addressing the impracticality associated with profit distribution by the Schemes, who having incurred accounting losses in previous tax years are not able to meet the said exemption criteria owing to lower retained earnings/ accumulated profits.

TAX EXEMPTION FOR SIYAHKALEM ENGINEERING CONSTRUCTION AND TRADE COMPANY LIMITED ('SECTCL')

[Clause (150) of Part I]

Income derived by SECTCL from contract dated May 23, 2017 entered into with Earthquake Reconstruction and Rehabilitation Authority has been exempted from tax, with effect from tax year 2017.

EXEMPTION OF INCOME OF CINEMA OPERATIONS AND PRODUCTION OF FEATURE FILMS

[Clauses (151) & (153) of Part I]

Income from cinema operations has been exempted from tax for a period of five years from commencement of cinema operations.

Further profits and gains derived by a resident producer or production house from production of feature films have been exempted from tax upto June 30, 2027.

EXEMPTION OF PROFITS AND GAINS BY A VENTURE CAPITAL COMPANY AND FUND

[Clause (152) of Part I]

Profits and gains derived by a venture capital companies and venture capital funds were exempted from levy of tax upto June 30, 2024 which exemption was withdrawn through Finance Act, 2021. Such exemption has now been restored with its validity also extended to June 30, 2025.

REDUCED RATE OF WITHHOLDING TAX IN CASE OF SUPPLIES OF GOLD & SILVER

[Clause (31) of Part II]

A reduced rate of withholding tax of 1%, applicable under section 153, has been prescribed in respect of supplies of gold and silver which is also 'adjustable'.

REDUCED RATE OF MINIMUM TAX AND WITHHOLDING TAX IN CASE OF CERTAIN PERSONS

[Clause (24C) & (24D) of Part II]

Through the Tax Laws (Third Amendment) Ordinance, 2021, rate of 'turnover tax' (leviable under section 113 of the Ordinance) and 'withholding tax' (deductible on supply of goods) was reduced to 0.25% in case of distributors, dealers, sub-dealers, wholesalers and retailers of 'steel'. Now, such amendments have been ratified by the Parliament.

WITHDRAWAL OF TAX CONCESSIONS
[Clauses (1) & (1AA) of Part III]

Tax concessions earlier available to following persons are now withdrawn:

Persons	Income	Tax concession previously available
- Flight engineers - Navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority, - Junior Commissioned Officers - Other ranks of Pakistan Armed Forces	Flying allowance	Taxable @ 2.5% as a separate block of income in case allowance does not exceed basic salary
- Officers of the Pakistan Navy	Submarine allowance	
- Pilots of any Pakistani airlines	Total allowance	Allowance exceeding the basic pay chargeable to tax @ 7.5%
- Person other than a banking or insurance company	Profit on debt from investment in Federal Government securities	Subject to final tax @ 15%

TAX CONCESSION ON PROFIT ON CERTAIN INVESTMENTS
[Clause (6) of Part III]

The rate of tax on profit from investment in Bahbood Savings Certificate or Pensioners Benefit Account and Shuhada Family Welfare Account has been further reduced from 10% to 5%.

WITHDRAWAL OF EXEMPTION FROM MINIMUM TAX IN CASE OF SEZ DEVELOPERS AND ENTITIES
[Clause (11A) of Part IV]

Exemption from levy of minimum tax under section 113 of the Ordinance available to entities operating from and developers of special economic zones has been withdrawn.

This is in contrast with exemption provided in SEZ legislation and thus litigation may ensue in this respect.

EXEMPTION FROM MINIMUM TAX TO LOCAL MOBILE PHONE MANUFACTURERS
[Clause (11A) of Part IV]

Exemption from levy of minimum tax under section 113 of the Ordinance earlier introduced in the case of local mobile phone manufacturers through Tax Laws (Third Amendment) Ordinance, 2021 has now been ratified through the Act.

EXEMPTION FROM APPLICABILITY OF TAX ON IMPORTS
[Clauses (12BA), (12O) & (12P) of Part IV]

Exemptions earlier notified by the FBR in respect of collection of income tax on import of following items are now enacted through the Act:

- (i) Thirty million adult 3xPly Knit face masks received as humanitarian assistance from M/s Hanes Brands Inc. North Carolina, USA, for distribution within the population of Lahore Division, Govt of Punjab – SRO No. 1009(I)/2021 dated August 9, 2021; and
- (ii) Drones donated by Ministry of Agriculture and Rural Affairs, Government of China to Pakistan through Sea Route – SRO No. 1407(I)/2021 dated October 29, 2021.

Further, import of cinematographic equipment as notified by the Federal Government is also exempted from collection of advance tax at import stage.

EXEMPTION FROM WITHHOLDING OF TAX ON PAYMENTS TO DISTRIBUTOR, PRODUCER OR IMPORTER OF FEATURE FILMS,
[Clause (43H) of Part IV]

Withholding of tax on payments made by an exhibitor or distributor of a feature film to producer, importer or intermediary distributor has been exempted.

EXEMPTION FROM WITHHOLDING PROVISIONS IN CASE OF CERTAIN EXEMPT ENTITIES
[Clause (120) of Part IV]

Entities/persons qualifying for exemption under Table I of Clause 66 of Part I of Second Schedule are exempted from applicability of withholding provision in respect of their receipts.

IMMUNITY FROM AUDIT
[Clause (105A) of Part IV]

A person, whose income tax affairs have been audited in any of the preceding four tax years, has been granted immunity from selection of audit by the Commissioner as well as Board. Nevertheless, the Commissioner would remain empowered to select such cases for audit with Board's approval.

INAPPLICABILITY OF ENHANCED RATE OF TAX COLLECTION ON SALE/ PURCHASE OF IMMOVABLE PROPERTY BY OVERSEAS PAKISTANIS
[Clause (111AC) of Part IV]

A person whose name is not appearing in 'Active Taxpayers List' is liable to withholding/ collection of taxes at double the prescribed rates. Since, names of overseas Pakistanis, not being liable to tax filing in Pakistan, do not appear in Active Taxpayers List, such provisions meant that they were liable to enhanced amounts of tax collection while buying/ selling properties in Pakistan.

Such enhanced rates of tax collection on sale/ purchase of properties, applicable under Tenth Schedule, are now made inapplicable for overseas Pakistanis, having POCs and NICOPS.

TAXATION OF BANKING COMPANIES
(Seventh Schedule)

For tax year 2023 and onwards, the general rate of tax applicable to the taxable income of banking companies has been enhanced from 35% to 39%. The applicable rate of super tax has been explained in earlier part of this Memorandum under Section 4C.

Through the Finance Act, 2021, for tax year 2022 onwards, higher rates of tax were prescribed for the banking companies in respect of the taxable income attributable to investment in the Federal Government Securities. Such rates have now been enhanced for tax year 2022 and onwards in the following manner:

Gross advances to deposit ratio as on the last day of the tax year	Rates prior to Finance Act, 2022	Substituted through Finance Act, 2022
Upto 40%	40%	55%
Exceeding 40% but not exceeding 50%	37.5%	49%
Exceeding 50%	35% (tax year 2022 onwards)	35% (tax year 2022) 39% (tax year 2023 onwards)

In this respect, an explanation has also been added to clarify that these tax rates are applicable to total income attributable to total investment in Federal Government securities.

TENTH SCHEDULE

Through the Finance Act, 2019, rules for persons not appearing on the Active Taxpayers List ['ATL'] were introduced by way of Tenth Schedule whereby the rates of tax required to be deducted or collected were increased by 100% of the rates prescribed under the law, with few exceptions. The said regime was in continuation of the concept of filer and non-filer under the Income Tax laws.

Through the Act, the tax required to be collected in respect of the following sections are enhanced in the manner given below if the person is not appearing on the ATL:

Description	Rate of withholding tax enhanced by
Advance Tax on Private Motor Vehicle (under section 231B)	200%
Advance tax on purchase or transfer of immovable property (under section 236K)	250%

Moreover, tax withholding in respect of export of services (under section 154A) has been included in the 'exception list' (Rule 10) and, thus, the provisions relating to enhanced withholding tax would not apply in such cases.

TWELFTH SCHEDULE

The rate of advance tax on items falling within Part II of the Twelfth Schedule has been increased from 2% to 3.5% for commercial importers.

The following PCT codes have been reclassified from Part II to Part I of the Twelfth Schedule; hence, now subject to 1% advance tax on the import value as increased by customs-duty, sales tax and federal excise duty:

PCT Code	Description
07.01	Potatoes, fresh or chilled
0702.0000	Tomatoes, fresh or chilled
07.03	Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled
1006.1010	Seed for sowing
27.01	Coal; briquettes, ovoids and similar solid fuels manufactured from coal

Further, the following PCT codes have been included in Part II of the Twelfth Schedule to the Ordinance, hence, subject to advance tax at 2% on the import value as increased by customs-duty, sales tax and federal excise duty:

PCT Code	Description
3919.9020	PVC electric insulation tapes in logs exceeding 100 cm
72.04	Ferrous waste and scrap; remelting scrap ingots of iron or steel
8504.3100	SMD Inductors for LED Bulb and Lights.
8504.4090	Constant Current Power Supply of LED Lights and Bulbs.
8532.2200	Electrical Capacitors Aluminum Electrolytic for LED Bulbs and Lights.
8539.9020	Base Cap for all Kinds of LED Bulbs.
8539.9090	Bare or Stuffed Metal Clad Printed Circuit Boards (MCPCB) for all kinds of LED Bulbs. Housing / Shell, Shell Cover and Base Cap for all Kinds of LED Bulbs.
9001.9000	Lenses for LED Bulbs and Lights.
9405.1090	Housing / Shell, Shell Cover and Base Cap for all Kinds of LED Lights.
9405.9900	Bare or Stuffed Metal Clad Printed Circuit Boards (MCPCB) for all kinds of LED Lights.

SALES TAX

PRODUCTION, TRANSMISSION & DISTRIBUTION OF ELECTRICITY **[Sections 2(12) & 2(33)]**

Production, transmission and distribution of electricity has been included in the definitions of ‘goods’ as well as ‘supply’. The amendment appeared to reaffirm the Federal Government’s stance that such activities fall within the purview of their legislative competence rather than Provincial domain. The amendment attempts to address an issue between federal government and provinces on their rights to tax such activities under their sales tax laws. However, it would have been appropriate if the amendment is made with consensus, and under all the relevant sales tax laws.

FEE & SERVICE CHARGES FOR VALUATION **[Section 2(29A)]**

Section 76 was inserted through Finance Act, 2019 to empower Board, with approval of the Federal Minister-in-charge, to impose fee and service charges for valuation in respect of any other service or control mechanism provided by the Board.

Such fee and service charges imposed or levied under section 76 have been excluded from the definition of ‘sales tax’.

A similar amendment has also been made in the Federal Excise Act.

JEWELERS **[Section 2(43A)]**

The scope of definition of the term ‘Tier-1 retailer’ has been enhanced to include a person engaged in supply of articles of jewelry or parts thereof, of precious metal excluding a person whose shop area measures 300 square feet in area or less. Consequently, such persons are now required to integrate their retail outlets with Board’s computerized system for real-time reporting of sales to avoid disallowance of input tax by 60%. Further, supply of locally manufactured articles of jewelry, or parts thereof, of precious metal or of metal clad with precious metal by such person will be chargeable at 3% subject to the condition that no input tax adjustment shall be allowed.

Consequently, failure to integrate with Board’s computerized system for real-time reporting of sales will not result in disallowance of input tax since the input tax adjustment is otherwise barred. However, a penalty up to Rs 1 million will be imposed if business is not integrated and if the non-integration continues after a period of two months, business premises may be sealed till such integration.

SUBSIDY TO ELECTRICITY CONSUMER **[Section 2(46)]**

It has been clarified that value of supply will not include the amount of subsidy provided by the Federal Government or Provincial Government to the electricity consumer and has never been chargeable to tax under the Sales Tax Act, 1990. The amendment appears to refute the department’s position on the chargeability of sales tax on government subsidy to the electricity consumers.

FURTHER TAX **[Section 3(1A)]**

Presently, further tax is chargeable @ 3% (in addition to applicable rate), if taxable supplies are made to a person who has not obtained registration number.

Finance Act, 2022 provides that further tax would also be chargeable on taxable supplies made to a person who is not an active taxpayer. Under Sales Tax Act, 1990, a registered person may be delisted from Active Taxpayers List under following circumstances.

- Blacklisted or whose registration is suspended;
- Does not file the return by the due date for two consecutive tax periods;
- fails to file an Income Tax return by due date;
- fails to file income tax withholding statement.

In order to apply the amended provisions, FBR may need to amend its online portal to account for situation where a registered person may be active taxpayer, but not at the time of filing of sales tax return, or for a vice versa situation.

SALES TAX WITHHOLDING

[Section 3(7)]

It has been clarified that the services liable to sales tax under a provincial enactment will not attract sales tax withholding implications under the Sales Tax Act, 1990.

Further, the companies, as defined under the Income Tax Ordinance, 2001, engaged in exporting surgical instruments are no longer required to withhold sales tax since these have been excluded from withholding agent enlisted in the Eleventh Schedule to the Sales Tax Act, 1990.

ONLINE MARKET PLACE

[Section 3(7)]

With effect from September 15, 2021, an operator of online marketplace is liable to withhold sales tax at 2% of gross value of supplies in the case of sale of third party's goods through such online marketplace where suppliers are not active taxpayers. Such provision was introduced earlier through the Tax Laws (Third Amendment) Ordinance, 2021 which has now been ratified through Finance Act, 2022. Further, operator of online marketplace is now required to withhold sales tax at 1% (previously 2%).

FIXED TAX ON OTHER THAN TIER-1 RETAILERS

[Section 3(9)]

Earlier, retailers other than those falling in Tier-1, were subject to collection of sales tax by the electricity supplier @ 5% where the monthly bill did not exceed Rs 20,000 and @ 7.5% where the monthly bill exceeded Rs 20,000.

Now, collection of sales tax by the electricity supplier from such retailers is provided as under:

- Rs 3,000 per month where the monthly bill amount does not exceed Rs 30,000;
- Rs 5,000 per month where the monthly bill amount exceeds Rs 30,000 but does not exceed Rs 50,000; and
- Rs 10,000 per month where the monthly bill amount exceeds Rs 50,000.

It has been further provided that above rates of tax shall be increased by 100% if the name of the person is not appearing, on the date of issuance of monthly electricity bill, in the Active Taxpayers List issued under the Income Tax Ordinance, 2001.

Sales tax so collected would represent final discharge of income tax of such retailers. For that purpose, corresponding amendment has been made in the Income Tax Ordinance, 2001.

FBR has been empowered to prescribe, through a general order, persons or class of persons to pay Rs 200,000 per month through their monthly electricity bill.

TIME AND MANNER OF PAYMENT **(Section 6)**

The Federal Government has been empowered to allow payment of sales tax in respect of import or supply of any goods on installment basis by:

- (i) Federal Government;
- (ii) Provincial Governments; or
- (iii) any public sector organization

Such payment of sales tax on installment basis may be allowed by the Federal Government from any previous date.

RESTRICTION ON THE CLAIM OF ADJUSTABLE INPUT TAX **[Section 8B]**

Claim of admissible input tax in a tax period is restricted to the extent of 90% of the output tax for that period under section 8B of the Act barring certain exceptions.

Through Finance Act, 2021, a positive amendment was made to exclude public limited companies listed on the Pakistan Stock Exchange. There was a demand from corporate sector then such benefit be extended to all the companies, as input tax under the STRIVE System is allowed where supplies has paid the sales tax, and now there are lesser chances of factionary claims at least in corporate sector.

However, Finance Act, 2022, instead of extending the exclusion of section 8B to corporate sector has withdrawn such benefit from listed companies.

WAIVER OF CNIC / NTN **[Section 23(1)(b)]**

Through Finance Act, 2019 the requirement to include CNIC / NTN on tax invoice issued for supplies to unregistered persons was introduced, primarily for documentation of economy.

Through the Finance Act, 2022 the said requirement has now been restricted to supplies by manufacturer or importer to unregistered distributor. If such requirement is violated, then input tax on goods/ services attributable to such supplies will be disallowed on pro-rata basis.

PENALTIES **(Section 33)**

Defacing the prescribed invoice number or the barcode or QR code has been introduced as an offence subject to levy of penalty of higher of Rs 500,000 or 200% of the amount of tax involved. Upon conviction by a Special Judge, a simple imprisonment for a term which may extend to two years, or with additional fine which may extend to two million rupees, or with both may also be imposed.

Any person who abets commissioning of such offence has also been made liable, upon conviction by a Special Judge, to simple imprisonment for a term which may extend to one year, or with additional fine which may extend to two hundred thousand rupees, or with both.

Certain penalties were introduced through Tax Laws (Third Amendment) Ordinance, 2021 on failure of Tier-1 retailers to register and integrate business which have now been ratified in the Act.

CRIMINAL PROCEEDINGS **(Section 33A)**

The powers of the FBR to prescribe rules for initiating criminal proceedings against any specified authority for willful or deliberate acts/omissions resulting in personal benefits and undue advantage to authority, person or taxpayer have been withdrawn. Earlier, the FBR was empowered to this effect through Finance Act, 2019.

ALTERNATIVE DISPUTE RESOLUTION **(Section 47A)**

The ADR mechanism provided in Sales Tax law has been revamped in line with the amended mechanism provided in the Income Tax & Federal Excise laws.

PHARMA SECTOR **(S. No. 81 & 82 in Table I in Eighth Schedule)**

Prior to the amendments made through the Finance (Supplementary) Act, 2022, the entire pharma sector was exempt from levy of sales tax both at input as well as output stage, except for certain packing materials.

The aforesaid exemption regime was converted into a zero-rating regime for import and local supplies for finished items of pharma sector, however, sales tax was imposed at standard rate of 17% on purchase / import of Active Pharmaceutical Ingredients (API). As a result, the pharma sector was allowed to claim sales tax refund on all purchases including APIs and provincial sales tax on services. A faster – pharma system for expeditious processing of refund claims for pharma sector was introduced. These amendments were made with the aim to improve documentation of the pharma sector.

A special tax regime for Pharma Sector has now been introduced whereby manufacture or import of substances registered as drugs under the Drugs Act, 1976 shall be subject to 1% sales tax with the condition that such tax shall be final discharge of tax in the supply chain and no input tax shall be allowed to the importer and manufacturer of such goods.

Furthermore, APIs, excluding excipients, for manufacture of drugs registered under the Drugs Act, 1976 or raw materials for the basic manufacture of Active Pharmaceutical Ingredients shall also be subject to 1% sales tax with no input tax adjustment and subject to certification by DRAP and certain procedural conditions.

FIFTH SCHEDULE – ZERO RATING

Fat filled milk

Zero rating of fat filled milk sold in retail packing under a brand name has been ratified which was earlier introduced through Tax Laws (Third Amendment) Ordinance, 2021. Consequently, withdrawal of reduced rate @10% has also been ratified.

Plant & machinery

Zero rating on local supplies of raw materials, components, part and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021 notified by the Board with certain conditions has been reintroduced which was earlier withdrawn through Finance (Supplementary) Act, 2022.

SIXTH SCHEDULE – EXEMPTIONS

Table-1 (Import or local supply)

Sales tax exemption on import or local supply of globe artichoke, a flower bud used mostly for medication, is withdrawn. Consequently, import or supply of such items shall be subject to levy of sales tax at 17%.

Through Finance (Supplementary) Act, 2022, exemption on import or supply of books was restricted to only educational textbooks which was earlier available to all kinds of books. Through Finance Act, 2022 the prior position has been restored and import or supply of all kinds of books have been exempted.

Import of art card by Federal Government, Provincial Government and Nashiran-e-Quran for printing of Holy Quran as per the quota determined by Input/output Co-efficient Organisation (IOCO) has also been exempted by Finance Act, 2022.

In addition to above, following exemptions on import or supply are introduced:

S. No.	Description	Comments
163	Goods imported by various agencies of United Nations, diplomats, diplomatic missions, privileged persons and privileged organizations which are covered under various Acts and orders, rules and regulations subject to certain conditions with effect from January 15, 2022	The exemption was earlier omitted through Finance (Supplementary) Act, 2022 which has now been restored with effect from the date of its earlier omission
164	Photovoltaic cells whether or not assembled in modules or made up into panels	New insertion
165	Goods imported by or donated to hospitals run by non-profit institutions subject to certain conditions	Similar exemption was available to hospitals run by federal / provincial governments and certain non-profit making institutions prior to the omission of Serial No 52 by the Finance (Supplementary) Act, 2022. Now the same has been restored for non-profit making institutions only
166	Goods excluding electricity and natural gas supplied to hospitals run by the charitable hospitals of fifty beds or more	Prior to omission of serial No 52A by the Finance (Supplementary) Act, 2022 similar exemption was available to hospital run by specified person including charitable hospitals of 50 beds or more. Now the same has been restored to charitable hospitals of fifty beds or more
167	Goods temporarily imported, meant for subsequent exportation, charged to zero rate of customs duty subject to certain conditions	Prior to omission of serial No 57 by the Finance (Supplementary) Act, 2022 similar exemption was available which has been restored
168	Fertilizers	Fertilizers are now exempt from levy of sales tax. Earlier, it was subject to sales tax at 2% of retail price
169	Oil cake and other solid residues	The exemption was earlier omitted through Finance (Supplementary) Act, 2022 which has now been restored
170	Tractors	To encourage and promote the agriculture sector, exemption is introduced. Earlier, it was chargeable to sales tax @ 5% under Eighth Schedule to the Act.
171	Seeds for sowing	Exemption has been restored which was earlier withdrawn through the Finance (Supplementary) Act, 2022
172	Machinery, equipment and materials imported either for exclusive use within the limits of Export Processing Zone or for making exports therefrom, and goods imported for warehousing purpose in Export Processing Zone, subject to certain conditions	Exemption has been restored which was earlier withdrawn through the Finance (Supplementary) Act, 2022 through omission of Serial No 102
173	Goods produced or manufactured in and exported from Pakistan which are subsequently imported in Pakistan within one year of their exportation, provided condition of section 22 of the Customs Act, 1969 are complied with	Exemption has been restored which was earlier withdrawn through the Finance (Supplementary) Act, 2022
174	Machinery and equipment as listed at serial No 32 of the Table of Part-I of Fifth Schedule to the Customs Act, 1969 subject to specified conditions	New insertion

Table-2 (local supply only)

Local supply of prepared food or foodstuff by restaurants and caterers is exempted. Earlier, such supplies were taxable at the reduced rate of 7.5%, which was omitted vide Finance (Supplementary) Act, 2022 and made chargeable to sales tax at the standard rate of 17%.

The supply of food is a good or service has been a matter of dispute between Federal and Provincial Governments. While recently there has been underlining between Federal and Provincial Governments on jurisdiction for collection of sales tax on certain economic activities, amongst which included collection of sales tax on supply of food by Province, the amendment made by Finance Act, 2022 for allowing exemption (instead of excluding the same from the ambit of supply / goods) indicates that Federal Government does not want to concede its legal position.

Exemption from levy of sales tax on vermicillies, sheer mal, bun and rusk sold in restaurants or food chains has been introduced. Local supply of these items by bakeries and sweet shops falling in the category of Tier-1 retailers will remain taxable.

Exemption from levy of sales tax on 'All types of breads, nans and chapattis' has been introduced. Earlier, such exemption was not available on supply made by bakeries, restaurants, food chains and sweet shops falling in the category of Tier-1 retailers.

Exemption from levy of sales tax on raw hides and skins has been introduced.

Table-3 (Conditional Exemptions for power sector)

In order to encourage investment in and facilitate expansion of existing projects of power sector, the import of machinery equipment and spares has been exempted from sales tax. The under-construction projects in respect whereof an implementation agreement has been signed with the Federal Government, prior to January 15, 2022, is also entitled to such exemption.

Further, construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the construction projects of power sectors has also been exempted from sales tax on submission of a post-dated cheque for the differential amount of sales tax along with an undertaking to pay sales tax at statutory rates in case such goods are not re-exported on conclusion of the project.

The exemption is also made available to primary contractors subject to the fulfilment of following conditions:

- Submission of the underlying contract;
- Submission of certificate by the chief executive officer of the contracting company on the prescribed format; and
- Goods shall not be disposed of without the prior approval of FBR on payment of sales tax leviable at import stage.

Similar exemption was earlier available to projects for power generation through oil, gas, coal, wind and wave energy which was withdrawn through the Finance (Supplementary) Act, 2022.

EIGHTH SCHEDULE – REDUCED RATES

Supply of locally produced coal

Supply of locally produced coal is now chargeable to sales tax at higher of 17% ad valorem or Rs 700 per metric tonne. Earlier, it was chargeable to sales tax at higher of 17% ad valorem or Rs 425 per metric tonne.

Import of electric vehicle in CBU condition

To discourage the import of vehicle in CBU condition, import of electric vehicle in CBU condition is chargeable to sales tax at 17%. Earlier, the import of electric vehicle in CBU condition was subject to levy of sales tax at reduced rate of 12.5% introduced through Finance (Supplementary) Act, 2022. However, import of electric vehicle in CBU condition of 50 kwh battery or below is still subject to sales tax at 12.5%. In addition, EV transport buses of 25 seats or more in CBU condition are now subject to sales tax at 1%.

Import and supply of Potassium Chlorate

Import and supply of Potassium Chlorate is chargeable to sales tax @ Rs 60/kg in addition to the sales tax charged @ 17%. Earlier, the rate of 'additional' sales tax was Rs 90/kg.

TWELFTH SCHEDULE

Value addition tax on imports

Import of following items even if imported as raw material or intermediary goods by a manufacturer for in-house consumption is now chargeable to value addition tax at 3%:

Description	PCT heading
Compressor scrap	7204.4940
Motor scrap	7204.4990
Copper cable cutting scrap	7404.0090

Earlier such items were excluded from the levy of value addition tax.

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001**Table-1**

- Modification in the scope of taxable service**

The scope of following entry in Table-1 of the Schedule to the Ordinance has been modified and expanded as under:

Earlier Entry	Existing Entry
Services provided or rendered by hotels, motels, guest houses, marriage halls and lawns (by whatever name called) including “pandal” and “shamiana” services, clubs including race clubs, and caterers.	Services provided or rendered by hotels, motels, guest houses, farmhouses, restaurants, marriage halls, lawns, clubs and caterers.
	Services provided or rendered by hotels motels, guest houses and farmhouses.
	Services provided or rendered by restaurants.
	Services provided or rendered by marriage halls and lawns.
	Services provided or rendered by clubs.
	Services provided or rendered by caterers, suppliers of food and drinks

- Reduction in standard tax rate**

The rate of tax for the services listed in Table-1 of Schedule to the Ordinance has been reduced as follows:

- The rate of tax on all services currently taxable at 16% has been reduced to 15%; and
- The rate of tax on services of call centres (Entry No. 42) currently taxable at 17% has been reduced to 15%.

However, following services will remain taxable as under:

Description	Rate
Services provided by Property developers and promoters (including allied services) excluding the actual purchase value or documented cost of land	Rs 100 per square yard for land development and Rs 50 per square feet for building construction

Table-2

Following changes have been made

Description	Existing	Amended position
IT and IT enabled services	5%	Not chargeable
Services provided by software or IT based system development consultants	16%	5%

FEDERAL EXCISE DUTY

CRIMINAL PROCEEDINGS AGAINST AUTHORITY AND PERSONS

[Section 19A]

Section 19A was inserted in the Act through Finance Act, 2019 whereby the FBR had been empowered to prescribe rules for initiating criminal proceedings against any specified authority for willful or deliberate acts/omissions resulting in personal benefits and undue advantage to authority, person or taxpayer.

Such provisions have now been deleted through the Act.

ALTERNATIVE DISPUTE RESOLUTION (ADR)

[Section 38]

The ADR mechanism provided in FEA has been revamped in line with the amended mechanism provided in the Income Tax and Sales Tax laws.

CONDONATION OF TIME LIMIT

[Section 43]

The FBR is empowered to extend the time limitation for any application to be made or any act or thing to be done. In this context, the Courts and Appellate Tribunal interpreted that such powers cannot be exercised by the FBR once the limitation period for amendment proceedings has already elapsed. In order to nullify the effect of such interpretation, an amendment has been made in section 43 of the Act (as well as in Income Tax and Sales Tax laws) whereby the FBR is empowered to extend the time period even after the expiry of such period.

EXCISE DUTY ON GOODS

TOBACCO INDUSTRY

Excise duty on e-liquids for electric cigarette kits, locally produced cigarettes and filter rods for cigarettes has been increased as follows:

<i>Description</i>	<i>Existing Rate of Duty (Rs)</i>	<i>New Rate of Duty (Rs)</i>
E-liquids for electric cigarette kits	10 per ml	10,000 per kg
Locally manufactured cigarettes – on pack printed retail price higher than Rs 6,660 per 1000 cigarettes	5,200 per thousand cigarettes	5,900 per thousand cigarettes
Locally manufactured cigarettes – on pack printed retail price less than equals to Rs 6,660 per 1000 cigarettes	1,650 per thousand	1,850 per thousand
Filter rods for cigarettes	1 per filter rod (heading: 5502.9090)	1,500 per kg (respective headings)
Other liquified petroleum gases and gaseous hydrocarbons	Rs. 17.18 per hundred cubic metres	Rs. 60 per 100 metric tonne

EXCISE DUTY ON SERVICES

TRAVEL SERVICES

Excise duty on club, business and first-class air tickets for international travels has been increased from Rs 10,000 to Rs 50,000.

TELECOM SERVICES

Rate of duty on telecommunication services in Islamabad Capital Territory has been enhanced from 16% to 19.5% probably to align it with the sales tax levied on such services by provinces.

CUSTOMS DUTY

ESSENTIAL COMMODITIES

[Sections 2, 156, 164 AND 170A]

The concept of essential commodities is introduced through FA 2022. The term “essential commodities” has been defined to mean those items availability of which is considered vital for domestic use of consumption, as notified by the FBR from time to time in consultation with the ministries concerned. Accordingly, following amendments are introduced in relation to the items notified as essential goods.

- (i) The essential commodities are included in the definition of smuggled goods. It implies that bringing into or taking out of the essential commodities in breach of any prohibition or restriction for the time being in force would render it as a smuggling; hence subject to penal actions prescribed under the Act for smuggled goods.
- (ii) Bordering and coastal areas are defined to mean areas along international borders as notified by the FBR.
- (iii) In the case of essential commodities, powers of appropriate officer to stop and search the conveyance carrying smuggled goods are restricted to the bordering and coastal areas as notified by the FBR.
- (iv) In case of seizure of essential commodities, such seized goods shall be deposited in the nearest custom-house or the nearest place appointed by the Collector of Customs.

PAKISTAN SINGLE WINDOW ACT, 2021

[Sections 2 & 156]

Pakistan has ratified the agreement on Trade Facilitation of the World Trade Organization and has established PSW for managing external Trade. In this respect, Pakistan Single Window Act, 2021 (PSWA, 2021) has already been enacted.

Through the Finance Act, following amendments are introduced to align the Customs Act with PSWA, 2021;

- (i) Introduction of definition of following in the Customs Act, as provided in PSWA, 2021.
 - other government agencies
 - Pakistan Single Window
 - trade controls
 - un-authorized access
- (ii) Introduction of following penalties:

S. No. 105.	Offences	Penalties
(i)	If any person makes or attempts to make an un-authorized access to information, data or personal details of registered user of Pakistan Single Window system or systems connected or ancillary thereto;	Imprisonment which may extend up to 6 months or with fine which may extend to Rs. 100,000 or with both.
(ii)	If any person makes or attempts to make an un-authorized copy, transmission or cause to transmit any data, information or detail in relations to Pakistan Single Window system or systems connected or ancillary thereto;	Imprisonment which may extend upto 6 months or with fine which may extend to Rs. 100,000 or with both.

S. No. 105-	Offences	Penalties
(iii)	If any person makes an un-authorised interference, or attempt to interfere, damage or attempt to damage any part of whole of the Pakistan Single Window system or data or system connected to or ancillary thereto;	Imprisonment which may extend to 3 years or fine which may extend to Rs. 500,000 or with both.
(iv)	If any person makes or attempts to make use of any information system, device or data to make any illegal claim or title or cause any person to part with property or to enter into any express or Implied contract or intent to commit fraud by any input, alteration, deletion or suppression of data, resulting in unauthentic data with the intent that such data be considered or acted upon for legal purpose, as if it were authentic in relations to Pakistan Single Window system or Systems connected or ancillary thereto;	Imprisonment which may extend to 4 years or fine which may extend to Rs. 1 million or with both.
(v)	If any person uses, makes, supplies, retains, obtains device, system or software for offences under section 13 of The Pakistan Single Window Act, 2021 (III of 2021);	Imprisonment which may extend to 6 months or with fine which may extend to Rs. 100,000 or with both.
(vi)	If any person obtains, sells, processes, uses or transmits another person's Unique User Identifier or make an attempt thereof without authorisation;	Imprisonment which may extend to 4 years and fine which may extend to Rs. 1 million or with both.
(vii)	If any person tampers with or attempts to tamper with, alters, re-programmes any Pakistan Single Window system or System connected or Ancillary thereto for un- authorised use;	Imprisonment which may extend to 4 years and fine which may extend up to Rs. 1 million or with both and any devices or systems used in offence shall be liable to confiscation.
(viii)	If any person writes, offers, makes available, distributes or transmits a malicious code or abets in the same, with intent to cause harm to Pakistan Single Window system or data resulting in or intending to result in corruption, destruction, alteration, suppression, theft or loss to the Pakistan Single Window	Imprisonment for a term which may extend to 4 years and fine which may extend to Rs. 5 million or with both.

VALIDATION OF NOTIFICATIONS

[Section 19]

The validity of exemption notifications issued on or after July 1, 2016 is further extended to next fiscal year i.e. up to June 2023.

TIME LIMIT FOR FINALIZATION OF PROVISIONAL DETERMINATION OF DUTIES AND TAXES

[Section 81]

Timelines prescribed under the Act for finalization of duties, taxes and other charges payable on goods cleared on the basis of provisional determination are reduced as follows:

- (a) From six months to 90 days,
- (b) extended period reduced from 90 days to 30 days.

Through the Tax Laws (Third Amendment) Ordinance, 2021, an amendment was introduced in section 81 whereby no provisional determination of value was to be allowed in those cases where valuation ruling is in field, irrespective of pendency of any review or revision against such valuation. Now, such amendment is ratified through this Act.

PERIOD FOR WHICH GOODS MAY REMAIN WAREHOUSED

[Section 98]

Presently, the maximum period for which non-perishable goods may be warehoused is 6 months, which may be extended only by the Collector of Customs and the Chief Collector of Customs on payment of surcharge @ 1 % per month. The Act now authorizes Additional Collector of Customs to extend the said period for up to 1 month.

CHANGE OF CONSIGNEE NAME IN CASE OF FRUSTRATED CARGO

[Section 138]

In the case of frustrated cargo, presently, an officer of the Customs, not below the rank of Additional Collector of Customs, is authorized to allow export of such goods without payment of any duties if applied for either by the person-in-charge of the conveyance bringing the cargo or the consignor of such goods.

Through the Import Policy Order, 2020 however, it is provided that custom authorities may allow change of consignee in respect of frustrated cargo, if the goods are otherwise allowed to be imported into Pakistan. In view of that, enabling provisions in the Act are introduced to authorize the customs officer to allow changing name of the consignee to clear such goods.

CONFISCATION OF CONVEYANCE

[Section 157]

Through Finance Act, 2021, option to pay fine in lieu of the confiscation of the conveyance, carrying smuggled / offending goods, was withdrawn where such conveyance was seized for the third time; whereas SRO 499(I)/2009 dated June 13, 2009 already prescribed that no such option to pay fine in lieu of confiscation of the conveyance be allowed in such cases. The provisions introduced vide Finance Act, 2021 has now been omitted to align the provisions of the Act.

ADJUDICATION POWERS

[Section 179]

The monetary threshold prescribed under the Act for the adjudication powers of the Customs Officers has been increased as follows:

Adjudicating Authority	Amount of duties and other taxes involved (Rupees)	
	Present Limit	Revised Limit
Additional Collector	Not exceeding 3 million	Not exceeding 5 million
Deputy Collector	Not exceeding 1 million	Not exceeding 2 million

ADOPTION OF WCO HS VERSION 2022

Pakistan being a signatory to HS Convention has adopted HS 2022 version and incorporated its nomenclature/new HS Codes in Pakistan Customs Tariff (PCT) with adjustments of local PCT codes. Accordingly, first schedule to the Act has been substituted to effect the required changes.

REDUCTION / CONCESSIONS IN CUSTOMS DUTY

Exemption of Customs Duty and Additional Customs Duty

Customs Duty (CD) leviable on the import of following categories of items / sectors is exempted for incentivizing the respective sectors:

- Machinery and capital goods for mechanization of farming including machinery pertaining to irrigation, drainage, harvesting, plant protection etc.
- Specified raw materials used for manufacturing of LED lights, LED bulbs (including parts thereof) and brush ware.
- 26 Active Pharmaceutical Ingredients for incentivizing Pharmaceutical manufacturers.
- Raw materials for manufacture of first aid bandages.
- Membranes for filtering / purifying water.
- The drug 'Grafalon' and gadget 'Irisvision'.
- Raw materials of Ivy leaves extract powders.
- Motor spirit.
- Cinematographic equipment imported during the period commencing on the 1st July, 2018 and ending on the 30th June, 2023.
- Bullet proof vehicles and jammers imported by Federal Government, Provincial Government or such states and territories as are or may be included in Pakistan.
- Smartphones including those in CKD/SKD condition (subject to certain conditions prescribed for import of CKD/SKD units).

In addition to CD, Additional Customs Duty (ACD) is also exempted on import of the following goods:

- Raw materials imported by paper sizing industry and chlorinated paraffin wax industry and manufacturers of aluminum conductor composite cores.
- Stamping foils for manufacturing of optic fiber cables.
- Aluminum paste and powder imported by the Coating industry.
- Guts, bladders and stomachs of animals.

Reduction in Customs Duty and Additional Customs Duty

CD leviable on import of following goods is reduced:

- Specified categories of other woven fabrics and artificial flowers / foliage of other materials imported by manufacturers of footwear.
- High-density fiber (HDF) boards of wood or other ligneous materials
- Specified fibers of polypropylene.
- Through the Finance Bill, CD was proposed to be reduced on 10 categories of direct and reactive dyes. Such reduction in CD has now been restricted to 6 categories through the Act.

In addition to CD, ACD, leviable on import of following goods is also reduced:

- Direct and reactive dyes.
- Glycerol crude and Glycerol for the coating industry.
- Goods pertaining to Aluminum, polymers of ethylene, Biaxially Oriented Polypropylene (BOPP) used by the packing industry.
- Adhesive, Epoxide resins, Filter media/ paper, Non-woven fabric media and Steel plates / sheets of prime quality imported by manufacturers of filters, other than automotive.
- Organic composite solvents and thinners imported by manufacturers of Dibutyl Orthophthalates.
- Plywood, veneered panels & similar laminated wood, poly (methyl methacrylate) and cyanoacrylate.
- Flavoring powders for food preparation for snacks manufacturers.

AMENDMENTS IN REGULATORY DUTIES**Reduction in Regulatory Duty**

Regulatory duty has been reduced as follows:

Description	Original Rate	Revised Rate
Case hardening Steel	30 %	20 %
Chrome Yellow	15 %	0%

Increase in / levy of Regulatory Duty

Regulatory duty has been levied/ increased as follows:

Description	Original Rate	Revised Rate
Motor Spirit	-	10 %
Other paper, paperboard, cellulose wadding and webs of cellulose fibers.	0 %	10 %
High Carbon Wire rod	0 %	30 %
Optic Fiber Cables	10 %	20 %

CAPITAL VALUE TAX (CVT)

Through section 7 of the Finance Act, 1989, CVT was imposed on transfer of immovable properties, modaraba certificates, listed shares and motor vehicles.

The CVT was withdrawn gradually and with effect from April 19, 2020 CVT was abolished on all the assets.

The Act has now enacted CVT in respect of below-referred assets:

Category of asset	Rate of CVT	Basis of valuation	Person responsible to collect CVT	Applicability
a) motor vehicle held in Pakistan where the engine capacity exceeds 1300cc or in case of electric vehicles, the battery power capacity exceeds 50 kwh	1% of the value	<p>(i) Where the vehicle is imported in Pakistan, the import value assessed by the Customs authorities as increased by duties and taxes leviable at import stage;</p> <p>(ii) where the vehicle is manufactured or assembled locally in Pakistan, the ex-factory price inclusive of all duties and taxes;</p> <p>(iii) where the vehicle is auctioned, the auction price inclusive of all duties and taxes;</p> <p>Notes:</p> <p>1) The value stated in (i) through (iii) above shall be reduced by 10% for each year provided that the value shall be treated as zero after 5 years from year of acquisition of vehicle;</p> <p>2) Motor vehicle registering authority shall collect CVT at the time of registration or transfer of registration if CVT on such vehicle has not been paid at time of import, purchase from local manufacturer or auction, as the case may be.</p>	<p>Collector of Customs at the time of import.</p> <p>Local manufacturer or assembler at the time of sale (in case of sale on installment, the CVT shall be collected at the time of payment of first installment).</p> <p>Any person making sale by public auction or auction by tender (in case of sale on installment, the CVT shall be collected at the time of payment of first installment).</p>	CVT is chargeable from July 1, 2022
<p>b) Foreign assets* of resident individual (as defined in the Income Tax Ordinance, 2001) where the value of such assets on last day of the tax year in aggregate exceeds Rs. 100 million.</p> <p>* Foreign assets have been defined to mean any movable or immovable assets** held outside Pakistan, whether directly or indirectly, and includes but not limited to real estate, mortgaged assets, stock and shares,</p>	1% of the value	<p>The value shall be:</p> <p>(i) the total cost of the foreign assets on the last day of the tax year, in relevant foreign currency converted into Rupees as per exchange rates notified by State Bank of Pakistan for the said day;</p> <p>(ii) where the cost of foreign asset as provided in para (i) above cannot be determined with reasonable accuracy, the fair market value of the asset on the last day of the tax year, in relevant foreign currency converted into Rupees as per exchange rates notified by the State Bank of Pakistan for the said day;</p>	The person holding the assets shall be liable to pay CVT at the time income tax return for the tax year is due.	From tax year 2022 and onwards

Category of asset	Rate of CVT	Basis of valuation	Person responsible to collect CVT	Applicability
<i>bank accounts, bullion, cash, jewels, jewelry, paintings, accounts and loan receivables, assets held in dependents' name, beneficial ownership or beneficial interests or contribution in offshore entities or trusts.</i> <i>** Under entry 50 of Federal Legislative List, tax on capital value of immovable property can only be imposed by provincial government. However, it appears that such restriction is applicable only on immovable property situated in a province and not outside Pakistan.</i>				
c) such assets or class of assets as may be specified by Federal Government through notification in official Gazette.	Not exceeding 5%. The manner of collection of CVT to be prescribed in notification.	The basis of valuation shall be as specified in such notification.	Federal Government to notify the manner in which CVT is to be collected.	From tax year 2022 and onwards

- Where a person fails to pay or collect CVT or having collected CVT fails to pay the same to the credit of the Federal Government, the Officer Inland Revenue may pass the order after giving the person an opportunity of being heard and proceed to recover the CVT under the provisions of the Income Tax Ordinance, 2001 and the Income Tax Rules, 2002 as if the CVT were an arrear of income tax. Such person will also be liable to pay Default Surcharge @ 12% per annum on the tax unpaid computed for the period commencing on the date on which the CVT was due and ending on the date on which it was paid.
- The provisions of the Income Tax Ordinance, 2001 and the Income Tax Rules, 2002 in so far as relevant shall apply to the collection and recovery of CVT.
- Any person dissatisfied with any order passed by the Commissioner or an officer of Inland Revenue under this section may prefer an appeal before the Commissioner (Appeals) against the order as provided under section 127 shall apply accordingly. The provisions of the Income Tax Ordinance relating to the further appeal process shall apply in respect of Appellate Order passed by Commissioner (Appeals).
- The FBR may prescribe the manner and procedure relating to the collection and recovery of, or any other matter relating to the CVT.

The Federal Government may also exempt any asset or class of assets from CVT subject to such conditions as may be prescribed.

PUNJAB SALES TAX ON SERVICES

PAYMENT THROUGH BANKING CHANNEL **(Section 16A)**

Input tax was not admissible in respect of a transaction exceeding value of Rs 50,000 made other than through banking channel. Such limitation was circumvented by breaking transactions into quantum below the prescribed threshold of Rs 50,000.

Through the Punjab Finance Act, 2022, such condition has been made applicable to all payments made to same person in a tax period, in case aggregate thereof exceeds the prescribed limit of Rs 50,000.

Further, in line with the Federal Sales Tax, such condition has been waived in respect of payments on account of utilities.

EXTENT OF ADJUSTMENT OF INPUT TAX **(Section 16C)**

Registered person was not allowed to adjust input tax in a tax period in excess of 80% of the output tax. Now, such restriction is relaxed to 90% of output tax payable for a tax period.

Such amendment has harmonized provincial legislation with Federal Sales Tax wherein input tax adjustment is allowed to the extent of 90% of output tax.

TIME LIMITATION FOR ASSESSMENT **(Section 24)**

Time limitation for tax authorities to frame an 'assessment' was 8 years from the tax period in respect whereof assessment was sought to be framed.

Such time limitation has now been reduced to 5 years from end of financial year in which a tax period falls. The reduction in time limitation, however, is applicable in respect of tax periods subsequent to June 2022.

Further, previously the assessment proceedings were required to be concluded within 120 days of issuance of show-cause notice, which period could be extended only by recording in writing the reasons for delay. Such time limitation is now enhanced and Officers are empowered to conclude proceedings within 1 year from the end of financial year in which proceeding were commenced.

POWER TO AUTHORIZE ANY OFFICER TO PERFORM FUNCTIONS RELATING TO COMPULSORY REGISTRATION **(Section 27)**

The Punjab Revenue Authority was earlier empowered to authorize any officer to perform functions relating to compulsory registration of a person through notification in official Gazette. Such power is now vested with Commissioners.

RETENTION AND PRODUCTION OF RECORD **(Section 32)**

The record and documents were required to be maintained for a period of eight years after the end of the tax period to which such record and documents relate or till the final decision in any proceeding, if any proceedings were pending.

Now, for periods commencing from July 1, 2022, such time limitation is reduced to 6 years from the end of financial year in which relevant tax period falls.

PENALTIES

(Section 48)

Through the Punjab Finance Act, 2022, penalties in case of following offences are enhanced:

Offence	Previous penalty	Amended Penalty/ Change in scope, if any
Where any person fails to deposit the amount of the tax due or any part thereof upto 60 days of the time or manner laid down under the Act or the Rules.	Higher of Rs 10,000 or 5% of tax payable for the tax period.	Higher of Rs 10,000 or 5% of tax payable for the tax period, however, if the default is made good within 10 days, a penalty of Rs 500 per day will be imposed.
Any person who fails to maintain records required under the Act or the rules.	Higher of Rs 10,000 or 5% of tax payable for the period.	Higher of (i) amount ranging from Rs 10,000 to Rs 100,000; or 5% of tax payable for the period.
Where a person, without any reasonable cause, fails to produce the record or information despite receipt of a notice.	Rs 25,000 for the first default and Rs 50,000 for each subsequent default.	Rs 25,000 for the first default and Rs 100,000 for each subsequent default. Further, in case, record is not produced despite issuance three notices, non-maintenance of records will be assumed and thus penalty relating thereto shall also be imposed.
A person who knowingly or fraudulently: - submits false/ forged document; - destroys, alters, mutilates or falsifies the record; - makes false statement, declaration or presentation etc.	Higher of Rs 25,000 or 100% of tax payable, in addition to imprisonment (upon conviction)	Higher of Rs 50,000 or 100% tax payable, in addition to imprisonment (upon conviction)
Where any person violates any embargo placed on providing if service or tempers a seal placed by an officer of the Authority.	Higher of Rs 25,000 or 10% of tax recoverable, in addition to imprisonment (upon conviction)	Higher of Rs 100,000 or 100% of tax recoverable, in addition to imprisonment (upon conviction)
Where any person who fails to fulfill any of the conditions, limitations or restrictions prescribed in a notification issued under any of the provisions of the Act or the rules.	Higher of Rs 5,000 or 3% of tax payable for the period.	Higher of Rs 10,000 or 5% of tax payable for the period.
Where any person who contravenes any provision of this Act or the rules for which no penalty has specifically been provided in this section.	Higher of Rs 10,000 or 3% of tax payable for the period.	Higher of Rs 10,000 or 5% of tax payable for the period.
Where any person fails to intimate any change in particulars of registration including the particulars relating to business address, business bank account, changes in taxable/ economic activity etc. within the prescribed period.	Minimum penalty of Rs 50,000.	Rs 50,000 to Rs 100,000. Further, scope of offence has been broadened to include failure to disclose updated information in respect of business bank accounts and changes in taxable/ economic activity.
Where a registered person charges sales tax in excess to the rate provided in the Second Schedule.	Higher of Rs 10,000 per invoice or 10% of the invoice amount.	Rs 20,000 for first default and Rs 50,000 for each subsequent default. In addition thereto, business premises may be sealed upto one month in case of three defaults.

Further, certain new offences are prescribed with penalties imposed against those as under:

<i>Offence</i>	<i>Penalty</i>
Where any person fails to pay, recover or deposit the actual amount of tax or claims inadmissible tax credit or adjustment or deduction or refund.	Higher of Rs 50,000 or 100% of tax payable, in addition to imprisonment upto five years (upon conviction)
Where any person unauthorizedly issues an invoice in which an amount of tax is specified.	Such person shall be liable to pay a penalty of Rs 10,000 per invoice or 5% of the amount of tax involved, whichever is higher.
Where a bank fails to attach, or delays in attaching the bank account of a person, specified in the notice issued by an officer of the Authority, from whom tax is sought to be recovered, or fails to pay or delays payment of such amount.	Such bank shall be liable to pay a penalty of Rs 100,000 or 100% of the tax sought to be recovered, whichever is higher. The concerned manager or officer in-charge of such bank shall further be liable, upon conviction by a Special Judge, to imprisonment upto one year or with fine, which may extend to an amount equal to the amount of tax sought to be recovered or with both.
Where any person refuses to receive any notice or order issued by an officer of the Authority.	Such person shall be liable to pay a penalty of Rs 50,000 or 100% of the tax payable for the tax period to which the offence relates, whichever is higher.

TIME LIMITATION FOR RECOVERY OF TAX NOT LEVIED OR SHORT-LEVIED (Section 52)

Time limitation for tax authorities to recover tax not levied, short levied or refund inadvertently issued, was 8 years from the tax period in respect whereof default relates or the date on which refund was issued.

Such time limitation is now reduced to 5 years from end of financial year in which the relevant default of tax or refund falls. Such reduction in time limitation, however, is applicable in respect of tax periods subsequent to June 2022.

Further, earlier such recovery proceedings were required to be concluded within 120 days of issuance of show-cause notice, which period could be extended only by recording in writing the reasons for delay. Such time limitation is enhanced and Officers are empowered to conclude proceedings within 1 year of end of financial year in which proceedings are commenced.

WITHDRAWAL OF EXEMPTIONS

Exemption available for internet services provided to students valuing not more than Rs 1,500 per month is now withdrawn.

SCOPE ENHANCEMENT OF TAXABLE SERVICES WITH RETROSPECTIVE EFFECT

IT enabled services, taxable at 5% (without input tax adjustment) now include services provided by 'real estate aggregators'.

Similarly, 'ride hailing services', taxable at 4% (without input tax adjustment) now include services provided by 'cab aggregators'.

PUNJAB - OTHER LAWS

STAMP DUTY

The rate of stamp duty has been enhanced from 1% to 2% of value of property, in case of following instruments and modes of transfer of immovable property, situated in an urban area:

- Certificate of sale granted to purchaser in respect of property sold by auction;
- Conveyance, other than that related to transfer of property to or by a Real Estate Investment Trust ('REIT') or the transfer specifically dealt with under other legal provisions;
- Decree, rule or order of Court involving transfer of property based on mutual consent;
- Exchange of immovable property, including exchange between urban and rural property;
- Execution of gift deed between certain relatives; and
- Release whereby a person renounces its claim on a property, other than the release connected with mortgage of marketable securities; and
- Transfer of lease.

Further, stamp duty leviable on transfer of right or interest relating to immovable property, registered by a society/ authority has also been increased from 1% to 2% of value of property.

However, in respect of transfer of immovable property to a REIT, reduced rate of 0.5% has been prescribed through the Act and further, in case the immovable property is transferred by a REIT to the end users, stamp duty would remain leviable @ 1% of the value of property.

For the purposes levying stamp duty in relation to 'conveyance', the term 'value' has also been defined by the legislature to mean the real value but not below the value notified by District Collector under section 27-A of the Act.

MOTOR VEHICLE TAX

Motor vehicle tax is leviable on the basis of combustion engine capacity of vehicles measured in cubic centimeters ('cc'). Such criteria could not be applied in case of electric vehicles, as engine power or capacity of such vehicles is measured in 'kilowatt' and not 'cc'.

To bring electric vehicles in the ambit of this provincial tax, a parity of 1 kilowatt – 18.77 cc has been specified.

In line with the concession/ relief allowed for previous years, the following discount and rebate are allowed with respect to motor vehicle tax for financial year 2022-23:

Sr. No.	Description	Discount / Rebate
(i)	Where tax is paid through e-payment system.	Discount equal to 5% of tax being paid.
(ii)	Where annual tax is paid in lump sum by September 30, 2022.	Rebate equal to 10% of annual tax.

Payment of annual tax, in third and fourth quarters, may entail a penalty, under relevant legal provisions.

PROPERTY TAX

Similar to concessions allowed in respect of motor vehicle tax, following reliefs have been allowed for property tax for financial year 2022-23:

Sr. No.	Description	Discount/Rebate
(i)	Where tax is paid through e-payment system.	Discount equal to 5% of tax being paid.
(ii)	Where annual tax is paid in lump sum by September 30, 2022.	Rebate equal to 10% of annual tax.

Payment of annual tax, in third and fourth quarters, may entail a penalty, under relevant legal provisions.

Moreover, an 'option' to pay tax on yearly or half yearly basis or by such later date as may be notified by the Punjab Government, earlier given to the taxpayers for previous financial year, is extended to financial year 2022-2023.

Further, in line with the last year's policy, in case of payment of annual tax in third and fourth quarters, monthly surcharge would be recovered @ 1%.

LUXURY HOUSE TAX

In respect of residential houses constructed after June 30, 2022, the luxury house tax shall be levied at following rates:

Location	Category of Residential House	Rate of tax
In Lahore District including Lahore Cantonment and Walton Cantonment	Two Kanals or above with covered area of more than six thousand square feet.	Rs.300,000/- per Kanal subject to a maximum of Rs.2,500,000/-
	Eight Kanals or above with covered area of more than twelve thousand square feet.	Rs.400,000/- per Kanal subject to a maximum of Rs.4,000,000/-
In rating areas of Divisional Headquarters District (other than Lahore) and all the Cantonments in the District of Divisional Headquarter	Two Kanals or above with covered area more than six thousand square feet.	Rs.200,000/- per Kanal subject to a maximum of Rs.1,800,000/-
	Eight Kanals or above with covered area more than twelve thousand square feet	Rs.300,000/- per Kanal subject to a maximum of Rs.3,500,000/-
In remaining rating areas and Cantonments	Two Kanals or above with covered area more than six thousand square feet	Rs.125,000/- per Kanal subject to a maximum of Rs.1,500,000/-
	Eight Kanals or above with covered area more than twelve thousand square feet.	Rs.225,000/- per Kanal subject to a maximum of Rs.2,500,000/-

KPK SALES TAX ON SERVICES ACT, 2022

DEFINITIONS

[Section 2]

Most of the definitions provided in Khyber Pakhtunkhwa Finance Act, 2013 ('FA 2013') or the Regulations made thereunder have been included / carried in the Khyber Pakhtunkhwa Sales Tax on Services Act, 2022 ('Act'). However, certain new definitions have been introduced in the Act whereas few have been amended.

Following new definitions have been introduced:

Business bank account

[Section 2(l)]

It means the bank account of a person used for business transactions, subject to the condition that such account is declared by him in the prescribed application, for registration submitted for obtaining a registration number or for changing the particulars thereof,

Taxpayer

[Section 2(aa)]

It means any person, who is required or is liable to pay or is paying tax, or any sum under the Act and the rules, and includes any person, other than a Government employee, who is assigned any duty or responsibility to withhold, deduct, collect or deposit tax under this Act and the rules.

Definitions provided in the Repealed FA 2013 or regulations made thereunder are included in Act with following amendments:

Active taxpayer

[Section 2(b)]

It includes a registered person who regularly files return and pays tax as due and is appearing in the active taxpayer's list.

Banking company and Company

[Section 2(r)]

The definition of Banking company is merged into the definition of Company. Further, the expression Modaraba has been restricted to mean a modaraba company as defined in the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, and the expression any other financial institution includes a financial institution as defined in the Financial Institutions (Recovery of Finances) Ordinance, 2001, including a microfinance institution licensed under the Microfinance Institution Ordinance, 2001 and an Islamic financial Institution.

Due date

[Section 2(x)]

In relation to;

- filing of returns has been extended to 18th day of the month following the end of the tax period from the earlier date of 15th.
- 'the payment date of tax means the 15th day of the month following the end of the tax period.

Goods**[Section 2(ad)]**

The definition of 'Goods' is amended to include the materials, commodities and articles specified in chapters 1 to 97 of the First Schedule to the Customs Act, 1969.

Input tax**[Section 2(af)]**

Definition of 'input tax' earlier provided in the Khyber Pakhtunkhwa Revenue Authority Sales Tax on Services Regulations, 2017 is now included in the Act. Further, the definition is amended to exclude sales tax paid under Islamabad Capital Territory (Tax on Services) Ordinance, 2001 (ICT Ordinance). Accordingly, the taxpayers will no longer be able to claim sales tax on services paid under ICT Ordinance as input tax.

Person**[Section 2(am)]**

Definition of 'person' has been amended to include an agency.

Place of business**[Section 2(an)]**

It includes a liaison office and a person who provides services without physical presence in KP in definition of 'Place of business'.

Service**[Section 2(aaa)]**

Definition of the term 'service' is to include facilities, amenities, utilities or advantages by whatever name called and are liable to sales tax on services as specified in the First Schedule'.

Tax fraud**[Section 2(aai)]**

The scope of the term tax fraud has been enhanced to include the following:

- Issuing invoice or bill of taxable services without the provision of that taxable service; or
- Failing to pay an amount of tax collected under section 20 of the Act, and failing to pay the amount of tax withheld under section 14 of the Act or the rules; or
- Under-stating or under-paying the tax liability or over-stating the entitlement of tax credit or adjustment or claiming or obtaining in-admissible tax credit, refund or adjustment; or
- Not filing the tax return or the statement for four consecutive months or more.

The definitions of the expressions 'default surcharge, employee, financial year, fiscal law, unregistered' have been deleted.

TAXABLE SERVICE**[Section 3]**

It has been provided that the services mentioned in the First Schedule not to be considered exhaustive and all services mentioned in the Second Schedule shall be taxable services regardless of whether or not they are included in the First Schedule. Earlier, similar provisions were contained in 'Principles of application and interpretation' provided in Second Schedule.

REVERSE CHARGE

[Section 4]

It has been provided to limit the withholding of sales tax to a recipient of services who is registered as a withholding agent under the Act in contrast to the recipient of services who was:

- a registered person under the repealed Act, or
- resident of the Province regardless of whether he was registered or not.

In case of incoming international calls in the province, the telecommunication companies in Pakistan are now required to pay tax on reverse charge basis to the extent of their share of charges received from abroad. The telecommunication companies and their local representatives are to be considered recipients of service for this purpose.

ECONOMIC ACTIVITY

[Section 5]

The scope of the term ‘economic activity’ is enhanced to include provision of immovable property by way of lease, rent, license or other similar arrangement.

The term ‘commencement’ is to include origination of a service by its provider and the term ‘termination’ includes the consumption or enjoyment of a service by its recipient.

It excludes a sovereign or core function of the State, performed by the Federal Government or any other public company from the definition of economic activity. The person is to be wholly owned and controlled by the Federal Government or Government and there must be a monopoly in the performance of a State Function and a person performing a commercial activity shall not be entitled to claim any benefit or immunity to the disadvantage of its competitors.

VALUE OF TAXABLE SUPPLY

[Section 6]

It is provided that value of service shall also include open market price where the services are provided for no consideration or at a consideration that is lower than the one provided under normal circumstances. However, discounts as per normal business practices if shown on invoice will be reduced from value of taxable supply.

PROVISION OF SERVICES OVER A PERIOD OF TIME

[Section 8]

A service provided on daily basis where payment thereof is received by the end of a calendar month is to be treated as single service for the purposes of accounting, invoicing, payment of tax and declaration.

SCOPE OF TAX AND ALLIED MATTERS

[Section 9]

As per the Act, the Government is empowered to issue notification for charging, levying and collection of tax on any taxable service at such higher, lower, fixed or special rate as it may impose either on its own motion or on the recommendation of the Policy Board. Earlier, the Government was empowered to notify such changes on the recommendation of the Authority.

The Policy Board with the prior approval of the Government may notify such conditions, restrictions, limitations or otherwise fix the limit or threshold of annual turnover of any service or class of services provided by any person or class of persons or such other criteria as may be notified. Further, the Policy Board is also empowered to prescribe condition under which a particular service can be provided by a person from his place of business in KP. Earlier, both such powers were vested with the Authority.

PERSONS LIABLE TO PAY TAX

[Section 10]

Powers to specify the service or services in respect of which the liability to pay tax shall be on any person other than service provider or service recipient by notification in the official gazette have been given to the Policy Board instead of Authority as provided in previous law.

EXEMPTIONS

[Section 11]

Powers to exempt any taxable service, service or class of persons, recipient of recipients of services have been delegated to the Policy Board from the Authority.

The powers to issue notification for an exemption with such condition, restrictions or limitations mentioned in the notification in compliance to any commitment of Federal Government or Government either under any international convention, protocol, treaty or agreement or under any arrangement for foreign grant-in-aid assistance after concurrence from the Finance Department of the Government are now vested with the Management Committee.

POWER TO AMEND THE SECOND SCHEDULE

[Section 12]

The Government is empowered to notify on its own or on the recommendation of Policy Board to add, delete or amend any entry of the Second Schedule without any cap of maximum rate in contrast to the repealed provisions.

Previously, retrospective application of a notification was restricted. Now, notification issued by the Government may apply retrospectively instead of the date of notification.

SPECIAL PROCEDURE AND WITHHOLDING PROVISIONS

[Section 14]

Policy Board is empowered to prescribe special procedure for the payment of tax, registration, book-keeping, invoicing or billing requirements, returns and other related matters in respect of any service or class of services alongwith the power to require any person or class of persons to act as withholding agent within such time and manner as it may specify in the notification. Earlier, such powers were vested with the Authority.

An individual making payment on the behalf of withholding agent is personally responsible to withhold and deposit the tax due who will be personally liable to pay such tax alongwith the default surcharge and penalty in the case of failure.

INPUT TAX CREDIT NOT ALLOWED

[Section 17]

Provisions relating to restriction on input tax adjustment have been introduced in the Act which were earlier contained in the allied regulations with following additions:

- the services, provided by a person, are chargeable to a rate of tax entitled to input tax adjustment, the input tax adjustment shall be admissible in respect of the tax paid on the inputs, otherwise taxed on high rate, only to the extent, not exceeding standard rate of the tax regime to which the input relates; and
- the services or goods for which the amount of consideration is not paid from the business bank account of the recipient in the business bank account of the service provider or supplier of goods as the case may be

REFUND

[Section 19]

The provisions for claim of refund of tax paid or overpaid through inadvertence, error, misconstruction or refund on account of input tax adjustment, not claimed within relevant tax period and refund which has become due on account of any decision or judgment of any officer of the Authority, Appellate Tribunal or Court, have been introduced with certain restrictions. The manner and mode of payment of refund is to be prescribed by the Government. Earlier, there were no provisions in repealed Act relating to refund of sales tax.

SALE OR TRANSFER OF OWNERSHIP OF A BUSINESS AS AN ONGOING CONCERN

[Section 23]

The scope is enhanced by extending application thereof to sale or transfer of business providing taxable services as an ongoing concern by a registered person to a non-registered person where the registered person is required to pay tax on services provided by him and where such tax remains unpaid it shall be the first charge on the assets of the business and will be payable by the transferee of business.

ASSESSMENT OF TAX AND RECOVERY OF TAX NOT / SHORT LEVIED

[Section 27]

For computation of period of limitation for passing an order after issuance of show cause notice, exclusion on account of adjournment has been restricted upto 45 days.

It is clarified that proceedings for imposition of penalty and default surcharge are allowed in case where no tax is due but return is not filed or filed after due date.

ASSESSMENT GIVING EFFECT TO AN ORDER

[Section 28]

For giving appeal effect to an appellate order, enabling provisions are introduced to give such effect within one year from the end of the financial year in which the appellate order is served. However, one year time limit will not apply if reference or leave to appeal has been filed against the appellate order remanding the matter for de novo consideration. This provision is in line with the provisions contained in other tax laws.

REGISTRATION AND APPLICATION FOR REGISTRATION

[Section 29]

A person who is a withholding agent is now treated to be registered.

The Policy Board is empowered to require any person or class of persons engaged in providing only exempt service or services to necessarily obtain registration under the law and file return in the specified form and manner through notification in the official Gazette with the prior approval of the Government.

RECORDS

[Section 35]

A registered person is required to maintain following additional information

- record of taxable services received indicating specified particulars.
- record of purchases, including imports of goods and services, containing import documents, if any, purchase invoices and proof of payment for the purchase thereof.
- particulars of bank account(s), intended to be used for the purposes of business involving providing or rendering services, including purchases of goods and services used as inputs.

AUDIT PROCEEDINGS

[Section 37]

An authorized officer is empowered to conduct an audit of a registered person based on information furnished or required by the said officer from a registered person.

Enabling provision for conduct of audit electronically through video link or any other facility is added. This provision will enhance ease of doing business.

The time limit to respond to an audit observation report issued by the authorized officer is stipulated as within such period as specified in the audit report in contrast to 21 days provided in repealed Act.

SPECIAL AUDIT

[Section 38]

The Management Committee subject to the approval of the Policy Board is empowered to appoint a special audit panel consisting of accountants or persons as may be specified for conducting special audit of records of any registered person or even a class of registered persons. Every such special panel is to be headed and supervised by a nominated officer of the Authority.

Enabling provisions to conduct audit jointly in collaboration and association with other tax authorities or boards whether Federal or provincial are introduced.

RETURN

[Section 39]

Separate entries in respect of each portion of tax period consequent to change in tax rate are required in the return.

POWERS OF ADJUDICATION

[Section 45]

Recovery of tax not levied or short levied is to be included in the pecuniary jurisdiction and powers of adjudication of the officers. Financial limits for jurisdiction of the officers are provided as:

<i>Designation</i>	<i>Earlier limit</i>	<i>New limit</i>
	<i>----- Rupees -----</i>	
<i>Additional Collector</i>	No limit	Unchanged
<i>Deputy Collector</i>	1,000,001 to 2,500,000	2,500,001 to 5,000,000
<i>Assistant Collector</i>	1 to 1,000,000	1 to 2,500,000

The Management Committee is now required to specify the system of adjudication.

TERM OF APPOINTMENT OF SPECIAL JUDGE

[Section 46]

The term of appointment of special judge has been changed from a minimum of five years to an extendable period of three years. The jurisdiction of special judge includes notifications in addition to the Act and the rules.

**PARALLEL PROCEEDINGS BEFORE SPECIAL JUDGE
AND OFFICERS OF THE AUTHORITY**
[Section 48]

Officer of the Authority shall not be restricted from undertaking and completing the adjudicatory process or proceedings for the purpose of determination and assessment of tax, including default surcharge and penalties in any case subjudice for trial or any other proceedings before the Special Judge.

DIRECTION FOR WITHDRAWAL OF PROSECUTION BY SPECIAL JUDGE
[Section 51]

Prosecution under the Act before the Special Judge may only be withdrawn by the Management Committee with the approval of Policy Board or, as the case may be, on the direction of the Government. Previously, such prosecution could be withdrawn by the Authority on the directions or after concurrence of the Government.

PENALTIES
[Section 53]

Before signing the order, an officer of the authority is required to send the case to the Special Judge for trial if the accused person ought to receive a more severe punishment than the officer is empowered, or the case is on which ought to be tried by the Special Judge.

Following changes are made in the table containing punishment or penalty:

Sr No.	Offence	Punishments and Penalties
1.	Where a person who is required to apply for registration under this act fails to make an application for registration before providing any taxable services	The penalty is raised from Rs 10,000 to Rs 100,000 and in case of non- compliance of compulsory registration the minimum penalty to be raised from Rs 10,000 to Rs 200,000
2.	Where a person fails to furnish the return within due date	The penalty for such person is reduced from Rs 100,000 to Rs 90,000. If such person files the return within 10 days, the penalty is increased from Rs 100 to Rs 300 for each day
3.	Where a person fails to issue tax invoice.	The penalty will be higher of Rs 100,000 or 5% in contrast with earlier penalty of 3%
4.	Any person who knowingly deliberately, intentionally or fraudulently: (a) submits a fall fake untrue or forged documents; or (b) destroys, alter, mutilates or falsifies the records including a tax invoice ; (c) makes a false statement, false declaration, false representation, or false personification, or gives any false data or information; or (d) commits, causes to commit or attempts to commit tax fraud, or abets or connives in the commission of tax fraud equals to one hundred thousand rupees or more.	The penalty is raised from Rs 25,000 to Rs 100,000
5.	Where a person violates any embargo placed on providing of service or services in connection with recovery of tax	Penalty is increased from Rs 25,000 to Rs 50,000
6.	Where a person obstructs any officer of the authority in performance of official duties under the law	Penalty is increased from Rs 25,000 to Rs 50,000
7.	Where a person fails to fulfil any of the conditions, limitations, or restrictions prescribed in a notification issued under any of the provisions of this act or the rules made thereunder, or where a person contrivance any provision of this act or rules made thereunder for which no penalty has specifically been provided in this section.	Penalty is increased from Rs 5,000 to Rs 25,000

Sr No.	Offence	Punishments and Penalties
8.	Where any person intentionally, deliberately or fraudulently intervenes, alters or damages any electronically filed invoices mechanism or system prescribed or specified for the purpose of avoiding correct payment of due tax	(i) Penalty at higher of Rs 100,000 or 100% of the loss caused or believed to be caused to the tax revenue (ii) imprisonment for a term which may extend to three years or with fine equal to loss caused to the tax revenue or both
9.	Where an individual who during the course of business making the payment on behalf of withholding agent but fails to withhold or deposit the due tax	Penalty at higher of Rs 25,000 or 5% of the amount involved
10.	Where any person; (a) Fails to make the payment of consideration for goods and services from the business bank account to the service provider or the supplier of the goods, as the case may be; or (b) Fails to receive the payment of consideration for services in business bank account of service provider, as the case may be	(i) Penalty at higher of Rs. 50,000 or 10% of the amount of consideration or transaction involved (ii) upon conviction by the Special Judge, imprisonment for term which may extend to 6 months or with fine or with fine not exceeding Rs 20,000 or both

Following penalties have been omitted:

S. No.	Offence
6	Failure to produce any record or furnish any information upon receipt of a notice
8	Denial or obstruction the access to the business premises where record is kept
9	Commits tax fraud or abets in such commission amounting to Rs 20,000 or more

DEFAULT SURCHARGE

[Section 54]

Rate of default surcharge is introduced as:

- 12% per annum instead of interbank rate + 3% per annum on the amount of tax or charge or the amount of refund erroneously made; and
- 24% per annum instead of 2% per month in case, the default is on the account of tax fraud.

For calculation of default surcharge in the case of inadmissible input tax credit or refund, the period of default is reckoned from the date of adjustment of such credit or, as the case may be, refund received.

Period of default will be one month for period less than a month.

POWER TO SUMMON PERSONS

[Section 57]

An officer not below the rank of Assistant Collector of the Authority has been designated as authorized officer to summon persons to give attendance and produce documents.

ACCESS TO PREMISES, STOCKS, ACCOUNTS, RECORD AND INVENTORY STATEMENT

[Section 60]

An officer not below the rank of Assistant Collector has been designated as authorized officer for access to premises, stocks, accounts and records. Custody of records and material etc., is required to be documented into an inventory statement signed in prescribed manner. Earlier, Authority could authorize any officer in this regard.

SEARCHES UNDER WARRANT AND SEALING THE BUSINESS PREMISES

[Section 62]

Power of Collector to issue a search warrant under the Act is withdrawn. An officer of the Authority not below the rank of the Collector is empowered to seal the business premises of a person failed to comply with his obligations under the Act or the rules by an order, in writing after giving a notice in writing to such effect.

MONITORING OR TRACKING BY ELECTRONIC OR OTHER MEANS

[Section 64]

A new section regarding use of electronic means by Management Committee for monitoring and capturing the transactions or invoices has been introduced. From the date as may be specified by the Management Committee, the person, providing or rendering taxable service, shall compulsorily use electronic means and systems, including fiscal cash registers, for issuance of tax invoice under the e-invoicing system.

FILING OF APPLICATION FOR REVISION OF DECISION OR ORDER

[Section 65]

The time limit for filing an application for revision of any decision of order passed by an officer is increased from 90 days to 180 days of the date on which such order was served on the person.

APPEALS AND OTHER REMEDIES – Collector (Appeals)

[Section 66]

Following orders passed by an officer of the Authority, other than Collector, are now appealable

- Order passed for assessment of tax and recovery of tax not levied or short levied.
- Order passed for rejection of an application for registration.
- Order passed for compulsory registration.

Accordingly, the scope for appeal with Collector (Appeals) has been enhanced to enable a person to file appeal against order passed for rejection of an application for registration as well as against an order passed for compulsory registration.

Requirement to transfer an appeal to the Appellate Tribunal where no order is passed by the Collector (Appeal) within 180 days from the end of the month in which the appeal was lodged is done away. This amendment will bring law in line with federal sales tax laws.

The requirements for Collector (Appeals) to provide an opportunity to appellant to show cause against the increase in tax liability by Collector (Appeals) is withdrawn. We understand that the amendment requires reconsideration not being in line with the principle of natural justice bequeathed under the Constitution of Pakistan to every citizen and accordingly may be prone to litigation.

APPEALS AND OTHER REMEDIES – Appellate Tribunal

[Section 69]

Following orders are now appealable before the Appellate Tribunal:

- Order passed by the Collector under
 - Section 27 of the proposed Act, for assessment of tax and recovery of tax not or short levied.
 - Section 62(3) for sealing of business premises
 - any provisions of the proposed Act.

- Order passed by Management Committee under
 - Section 29(8) of the proposed Act, for rejection of application for registration
 - Section 31(1) for compulsory registration
 - Section 32(3) for suspension of registration
 - Section 33(4) for rejection of an application for de-registration
 - Section 65 for revision.

RECOVERY OF ARREARS

[Section 74]

Earlier provisions contained in section 87 of the repealed Act in respect of recovery of arrears of tax are incorporated in section 74 of the Act with following additions:

- The office of Authority is empowered to issue a show cause notice for imposition of personal penalty, not exceeding Rs 100,000 to
 - any person who holds or may subsequently hold money for or on account of the person in default deliberately avoids compliance to a notice of recovery issued to such person. However, Government departments and other public sector non-commercial institutions are exempted from issuance of said show cause notice for imposition of penalty.
 - The officer in charge of the bank branch concerned if such officer declines or otherwise is found involved in any manipulation with the defaulter upon receipt of recovery notice.
- The officer of Authority can recover the tax through direct or real time collection of sale proceeds of services by appointing an official receiver for direct deposit thereof with Government under relevant head of account.
- The officer of Authority is vested with same powers which under the Code of Civil Procedure, 1908 a Civil Court has for the purpose of recovery of an amount due under a decree.

Section 75 has been introduced through the Act to deal with a situation where a registered person makes short payment of tax due along with return. Such short-paid amount of tax due can be recovered along with default surcharge from such person by bank account attachment without giving a show cause notice. However, penalty imposition is enabled subject to issuance of show cause notice. These provisions have been given overriding effect over any provisions of the Act. We understand that current functionality of the return on web portal does not warrant such instances however, a return filed through other than web portal may trigger such situation.

POWER TO RESTRAIN CERTAIN AUTHORITIES

[Section 82]

The Management Committee is empowered to require other regulators, authorities to refrain them from issuing or renewing licenses of persons engaged in taxable services unless the person submits evidence that he is registered with KPRA.

SECOND SCHEDULE

There has been no change in Second Schedule to the repealed Act except for increase in rate of KP sales tax at 10% in contrast to the earlier rate of 5% in respect of services provided by laboratories including technical services relating to X-rays, CT Scan, M.R. Imaging (MRI), ultrasound, echo etc. or other such laboratories.

KPK FINANCE ACT – OTHER LAWS

STAMP ACT, 1899

VALUATION OF URBAN LAND

Rate of stamp duty in respect of the following has been increased as follows:

Description	Existing Duty	Revised Duty
Affidavit, including an affirmation or declaration in the case of persons by law allowed to affirm or declare instead of swearing.	Rs. 100	Rs. 150
Allotment Order or Transfer of Allotment Order issued by a developer, builder, co-operative Society, housing society or housing authority, or any other body or organization providing open plots dwelling houses or built-up commercial premises:		
(i) in respect of residential open plots.	Rs. 600	Rs. 1,200
(ii) in respect of commercial open plots.	Rs. 1,200	Rs. 2,000
Certain types of bonds not elsewhere provided		
(i) Where the amount or value secured does not exceeds Rs.500	Rs. 15	Rs. 30
(ii) Where it exceeds Rs.500/-, for every additional amount of Rs.500/- or part thereof.	Rs. 15	Rs. 30

WEST PAKISTAN URBAN IMMOVABLE PROPERTY ACT, 1958 (UIPA)

EXEMPTIONS

Section 4 has been amended to withdraw exemption of the following:

- (a) Buildings and lands vesting in Federal Government used for the purposes of profit; and
- (b) Buildings and lands vesting in Semi Government Organizations, Authorities, Boards, Autonomous Bodies, Public Sector Commercial Organizations of Federal Government and Government of KPK and Public Limited Companies.

Residential building the area of which does not exceed 3 Marla are now exempt from Urban Immovable Property Tax (UIPT) in contrast to the earlier exemption available to houses upto 5 Marla only.

UIPT is no more leviable on one property owned and occupied by a minor orphan.

RATE OF UIPT

Rate of UIPT has been decreased to 16% from 18% (of annual rent as applicable currently on) lands and buildings for commercial purposes in residential and commercial area acquired for the use by any Government or private organisation. Further, for Public Limited Companies such decrease will be applicable from July 1, 2012.

SUGARCANE DEVELOPMENT CESS

Rate of sugarcane development cess has been increased to Rs 3 per maund from Rs 1 per maund.

TOBACCO DEVELOPMENT CESS

Rate of tobacco development cess has been increased by 100%.

Further, provisions of section 11 Khyber Pakhtunkhwa Finance Act, 1996 levying tobacco development cess have been validated irrespective of any decree, judgement or order of any court.

CAPITAL VALUE TAX (CVT)

Immoveable property has been exempted from CVT for financial year 2022-23.

Sindh Sales Tax – Notifications issued by the Sindh Revenue Board

EXEMPTION ON SERVICES OF TOLL MANUFACTURING

[Notification No. SRB-3-4/21/2022 dated June 28, 2022]

Toll manufacturing is one of the services on which there is a dispute between Federal and Provincial Authorities on the taxation rights.

It has recently been reported that Provinces and Federal Government have agreed on the jurisdiction of certain services including toll manufacturing services for which taxation rights will be of the Federal Government.

Based on the above, SRB has exempted toll manufacturing or processing services as are levied to Federal sales tax under the Sales Tax Act, 1990. The exemption has been provided with effect from July 1, 2022. Services provided in the matter of manufacturing or processing of textile and leather goods for others on toll basis are subject to SST at the reduced rate of 3% (without input tax adjustment). There is no change in the said entry providing for the reduced rate of SST, which would mean that if federal sales tax is not paid on such services, then they would continue to be taxed at 3% by SRB.

Instead of conceding to transfer the right to the Federation, SRB has actually exempted toll manufacturing services from SST thereby retaining the right to tax such services in future. Furthermore, SRB while exempting such services from July 1, 2022 has left the ambiguity of taxation of such services for prior years to be decided in litigation.

ELECTION TO PAY SST AT STANDARD OR REDUCED RATES

[Notification No. SRB-3-4/23/2022 dated June 28, 2022]

Following are the taxable services for which an option/election can be filed for taxation at the standard / reduced rates:

- Franchise & intellectual property services *[Reduced rate 10% (option to be taxed at 13%)]*.
- Construction services *[Reduced rate 8% (option to be taxed at 13%)]*
- Ready mix concrete services *[Reduced rate 8% (option to be taxed at 13%)]*
- Persons engaged in inter-city transportation or carriage of goods by road or through pipeline or conduit *[Reduced rate 8% (option to be taxed at 13%)]*.
- Healthcare centres, gyms or physical fitness centres *[Standard Rate 13% (option to be taxed at reduced rate of 5%)]*.
- Beauty parlours & clinics, slimming clinics, body massage centers, pedicure centers *[Reduced Rate 10% (option to be taxed at further reduced rate of 5%)]*.

As per the amendments in special procedures for these services, election for standard/reduced rate of SST is to be submitted within 21 days of the commencement of the financial year. If the services are commenced during a financial year, the said election is to be submitted at least 14 days prior to commencement of services.

The election to pay standard/reduced rate of tax on these services, as the case may be will remain valid unless an application for withdrawal is filed at least 21 days prior to the start of the financial year for which the application of standard/reduced rate is to be revoked. For example, the election to pay SST at standard/reduced rate for the financial year 2022-2023 is to be electronically submitted by July 21, 2022 and in case the service provider intends to revoke the same, the withdrawal application is to be filed on or before June 9, 2023 which will be applicable for financial year 2023-2024 and onwards.

**SERVICES PROVIDED OR RENDERED BY PERSONS
UNDER THE SINDH SALES TAX SPECIAL PROCEDURE
(TRANSPORTATION OR CARRIAGE OF PETROLEUM OILS
THROUGH OIL TANKERS) RULES, 2018**

[Notification No. SRB-3-4/24/2022 dated June 28, 2022]

Services of inter-Province carriage of petroleum oils by road are taxable at reduced rate of 8%. Such service provider can elect to pay tax at the higher rate of 15%. Such option will automatically subject the intra-Province services of the same person to be taxed at the standard rate of 13%.

The reference to election for inter-Province services for the period ending June 30, 2022 has been omitted from the rules, thereby rendering the already filed election to continue until withdrawn. No mechanism has been prescribed for withdrawal of the election for which clarification is required. If the inter-Province services are commenced during a financial year, the election is to be electronically filed at least 10 days prior to the commencement of services.

SERVICES SUBJECT TO REDUCED RATE

**[Notification No. SRB-3-4/20/2022 dated June 28, 2022 read with
Notification No. SRB-3-4/23/2022 dated June 28, 2022]**

Effective July 1, 2022, following services have been made subject to SST at reduced rates with the condition that no input tax adjustment will be allowed:

Tariff Heading	Description of Services	Rate of Tax	
		Old	New
9819.1300	Commission agents <i>[only in relation to the commission earned by food delivery channels from home chefs for the tax periods from July 2022 to June 2024]</i>	13%	8%
9815.6000	Software or IT based system development consultants	13%	3%
9835.0000	Services provided or rendered by Call Centres	13%	3%

As per the special procedures notified for Tariff Headings 9815.6000 and 9835.0000, election for reduced rate of SST for Financial Year 2022-2023 is to be electronically submitted by July 31, 2022. If the services are commenced during a financial year, the said election is to be submitted at least 14 days prior to commencement of services. The election to pay reduced rate of tax on these services will remain valid unless an application for withdrawal is filed at least 21 days prior to the start of the financial year for which the application of reduced rate is to be revoked.

CABLE TV OPERATORS

[Notification No. SRB-3-4/17/2022 dated June 28, 2022]

Services provided by cable TV operators are exempt from SST, subject to certain conditions. The said exemption was extended from time to time till June 30, 2022. Such exemption has now been further extended till June 30, 2024.

RECRUITING AGENTS

[Notification No. SRB-3-4/18/2022 dated June 28, 2022]

A person principally engaged in providing services for recruiting persons for overseas employment outside Pakistan is required to pay SST at the reduced rate of 5% (without input tax adjustment) till June 30, 2022. The said benefit of reduced rate has been extended till June 30, 2024.

HEALTH INSURANCE SERVICES**[Notification No. SRB-3-4/19/2022 dated June 28, 2022]**

Exemption on health insurance services applicable till June 30, 2022 has been extended till June 30, 2023.

REDUCTION IN THRESHOLD FOR EXEMPT SERVICES**[Notification No. SRB-3-4/21/2022 dated June 28, 2022 read with Notification No. SRB-3-4/23/2022 dated June 28, 2022]**

Exemption is available to the following services provided the annual turnover does not exceed Rs. 4 million as provided in Notification no. SRB-3-4/7/2013 dated June 18, 2013. These thresholds have now been reduced to Rs. 2.5 million:

Tariff Heading	Description of Services
9801.2000	Services provided or rendered by Restaurants
9801.5000	Services provided or rendered by caterers, suppliers of food and drinks.

EXEMPTION ON SERVICES TO GERMAN DEVELOPMENT AGENCY**[Notification No. SRB-3-4/22/2022 dated June 28, 2022]**

Registered persons providing following taxable services (subject to certain conditions) to GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) have been exempted effective from the date of notification:

S. No.	Tariff Heading	Description of Services
1	9809.0000	Contractual execution of work or furnishing supplies
2	9814.1000	Architects or town planners
3	9814.2000	Contractor of building (including water supply, gas supply and sanitary works), electrical and mechanical works (including air Conditioning, multi-disciplinary work including turnkey projects) and similar other works
4	9815.5000	Technical, scientific and engineering consultants
5	9815.9000	Other consultants including tax consultants, human resources and personnel development consultants
6	9824.0000	Construction services
7	9848.0000	Training services

PETROLEUM PRODUCTS (PETROLEUM LEVY) ORDINANCE, 1961

Through the Finance Act, 2022, the maximum limits for petroleum levy rates as specified in the Fifth Schedule to the Petroleum Products (Petroleum Levy) Ordinance, 1961 have been enhanced as under:

S. No.	Petroleum Product	Unit	Maximum Petroleum Levy Rate (Rupees per unit)
1	High Speed Diesel Oil (HSDO)	Litre	50
2	Motor Gasoline	Litre	50
3	Superior Kerosene Oil (SKO)	Litre	50
4	Light Diesel Oil (LDO)	Litre	50
5	High Octane Blending Component (HOBC)	Litre	50
6	E-10 Gasoline	Litre	50
7	Liquefied Petroleum Gas (produced / extracted in Pakistan)	Metri c ton	30,000