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# ***PROVINCIAL BUDGETS 2022*** ***– PUNJAB AND KPK***



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**PROVINCIAL BUDGETS 2022 – PUNJAB AND KHYBER PAKHTUNKHWA (KPK)**

This Memorandum summarizes salient features of the Punjab and KPK Finance Bills recently presented in the respective Provincial Assemblies. All changes proposed through the Provincial Bills are effective July 1, 2022, subject to approval by the respective Provincial Assemblies.

This Memorandum can also be accessed on our website [www.pwc.com/pk](http://www.pwc.com/pk)

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## PUNJAB SALES TAX ON SERVICES

### **PAYMENT THROUGH BANKING CHANNEL – SECTION 16A**

At present, input tax is 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.

It is proposed that such condition be made applicable to all payments made to the 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 is proposed to be waived in respect of payments on account of utilities.

### **EXTENT OF ADJUSTMENT OF INPUT TAX – SECTION 16C**

Presently, a registered person is not allowed to adjust input tax in a tax period in excess of 80% of the output tax.

Such restriction is proposed to be relaxed to 90% of output tax payable for a tax period.

The proposal, if implemented, will harmonize 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**

At present, the time limitation for tax authorities to frame an ‘assessment’ is **8 years** from the tax period in respect whereof assessment is sought to be framed.

It is proposed that such time limitation be reduced to **5 years** from end of financial year in which a tax period falls. Such reduction in time limitation, however, is proposed to be applicable in respect of tax periods subsequent to June 2022. The reduction in time period for finalization of assessment is a positive change.

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

### **POWER TO AUTHORIZE ANY OFFICER TO PERFORM FUNCTIONS RELATING TO COMPULSORY REGISTRATION – SECTION 27**

Presently, the Punjab Revenue Authority may, by notification in official Gazette, authorize any officer to perform functions relating to compulsory registration of a person. It is proposed that such power now be vested with Commissioner.

### **RETENTION AND PRODUCTION OF RECORD – SECTION 32**

At present, records and documents are required to be maintained for a period of **8 years** after the end of the tax period to which such record and documents relate or till the final decision in any pending proceedings.

It is proposed that for periods commencing from next financial year, such time limitation be reduced to **6 years** from the end of financial year in which relevant tax period falls. This reduction is proposed to align with reduction of time period for assessment.

## PENALTIES – SECTION 48

Through the Punjab Finance Bill, 2022, it is proposed that penalties in case of following offences be enhanced:

<b>Offence</b>	<b>Penalty (present)</b>	<b>Penalty (Proposed)</b>
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, only reduced 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: - 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 of three notices, non- maintenance of records will be assumed and penalty relating thereto shall also be imposed.
A person who knowingly or fraudulently: <ul style="list-style-type: none"> <li>submits false/ forged document;</li> <li>destroys, alters, mutilates or falsifies the record;</li> <li>makes false statement, declaration or presentation etc.</li> </ul>	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 of 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 is 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, business premises may be sealed for upto one month in case of three defaults.

Further, certain new offences are proposed to be 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 for upto 5 years (upon conviction).
Where any person unauthorizedly issues an invoice in which an amount of tax is specified.	Higher of: - Rs 10,000 per invoice; or - 5% of the amount of tax involved.
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.	Higher of: - Rs 100,000; or - 100% of the tax sought to be recovered.  The concerned manager or officer in-charge of such bank shall further be liable, upon conviction by a Special Judge, to imprisonment for upto 1 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.	Higher of: - Rs 50,000; or - 100% of the tax payable for the tax period to which the offence relates.

### **TIME LIMITATION FOR RECOVERY OF TAX NOT LEVIED OR SHORT-LEVIED – SECTION 52**

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

It is proposed that such time limitation be 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 proposed to be applicable in respect of tax periods subsequent to June 2022.

Further, such recovery proceedings are presently required to be concluded within 120 days of issuance of show-cause notice, which period can be extended only by recording in writing the reasons for delay. It is proposed that 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 presently available for internet services provided to students where such value does not exceed Rs 1,500 per month is proposed to be withdrawn.

### **SCOPE ENHANCEMENT OF TAXABLE SERVICES WITH RETROSPECTIVE EFFECT**

IT enabled services etc. which are presently taxable at 5% (without input tax adjustment) are proposed to include services provided by 'real estate aggregators'. This inclusion is deemed to have always been part of entry subject to tax at 5%.

Similarly, ride hailing services which are presently taxable at 4% (without input tax adjustment) are deemed to include services provided by 'cab aggregators'.

## PUNJAB - OTHER LAWS

### STAMP DUTY

It is proposed to enhance the rate of stamp duty from 1% to 2% of the 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, not being a 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 is also proposed to be increased from 1% to 2% of the value of property.

### MOTOR VEHICLE TAX

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

It is proposed to bring electric vehicles in the ambit of this provincial tax and for that purpose, a parity of 1 kilowatt – 18.77 cc is specified.

In line with the concession/ relief allowed for previous years, the following discounts and rebates have been proposed 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 proposed in respect of motor vehicle tax, following reliefs have been proposed for property tax for the next financial year:

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 the previous financial year, is proposed to be extended to financial year 2022-2023.

Further, in line with the last year's policy, it is proposed that 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; it is proposed that luxury house tax shall be levied at the following rates:

<i>Location</i>	<i>Category of Residential House</i>	<i>Rate of tax</i>
In Lahore District including Lahore Cantonment and Walton Cantonment	Two Kanals or above with covered area of more than 6,000 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 12,000 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 6,000 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 12,000 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 6,000 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 12,000 square feet.	Rs.225,000 per Kanal subject to a maximum of Rs.2,500,000.

## KPK FINANCE BILL – OTHER LAWS

Through Finance Bill, 2022 no changes have been proposed in law relating to sales tax on services as following three new laws have recently been passed by the provincial assembly of KPK to replace the earlier provisions.

- Khyber Pakhtunkhwa Sales Tax on Services Act, 2022 (awaiting assent by Governor)
- Khyber Pakhtunkhwa Infrastructure Development Cess Act, 2022
- Khyber Pakhtunkhwa Revenue Authority Act, 2022

Tax Memorandum on the Khyber Pakhtunkhwa Sales Tax on Services Act, 2022 and the Khyber Pakhtunkhwa Infrastructure Development Cess, 2022 is being issued separately.

### **STAMP ACT, 1899**

#### **VALUATION OF URBAN LAND**

Stamp duty in respect of the following is proposed to be increased as follows:

Description	Existing Duty	Proposed 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 is proposed to be amended to withdraw exemption of the following:

- Buildings and lands vesting in Federal Government used for the purposes of profit,
- 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,

Further, it is proposed to exempt residential building the area of which does not exceed 3 Marla from Urban Immovable Property Tax (UIPT) previously the exemption was available to houses upto 5 Marla.

It is proposed that UIPT should not be levied on one property owned and occupied by a minor orphan.



***RATE OF UIPT***

It is proposed to increase rate of UIPT from 26% to 20% (of annual rent as applicable currently on) lands and buildings in residential and commercial area acquired for the use by any Government or private organisation. Further, it is proposed that with regards to Public Limited Companies such increase will be applicable from July 1, 2012.

***SUGARCANE DEVELOPMENT CESS***

It is proposed to increase sugarcane development cess to Rs 3 per maund from Rs 1 per maund.

***TOBACCO DEVELOPMENT CESS***

It is proposed to increase the rate of tobacco development cess by 100%.

Further, it is also proposed to validate the provisions of section 11 Khyber Pakhtunkhwa Finance Act, 1996 levying tobacco development cess irrespective of any decree, judgement or order of any court.

***CAPITAL VALUE TAX (CVT)***

It is proposed to exempt levy of CVT for financial year 2022-23 on immovable property.