UHY Hassan Naeem & Co.
Chartered Accountants

BUDGET BRIEF | 2020-21

June 12, 2020

Intelligent Choice
Intelligent Solution

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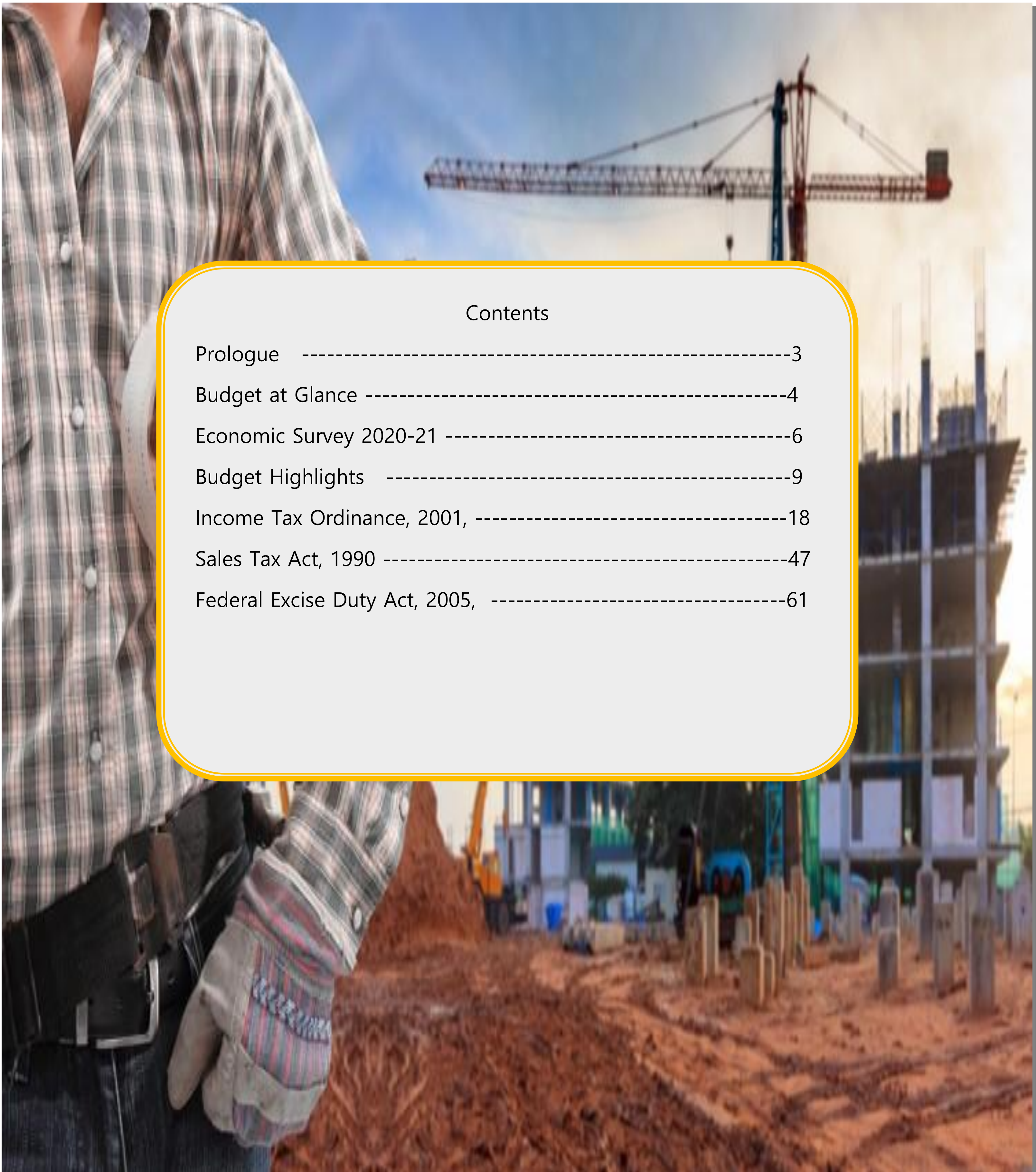

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PROLOGUE

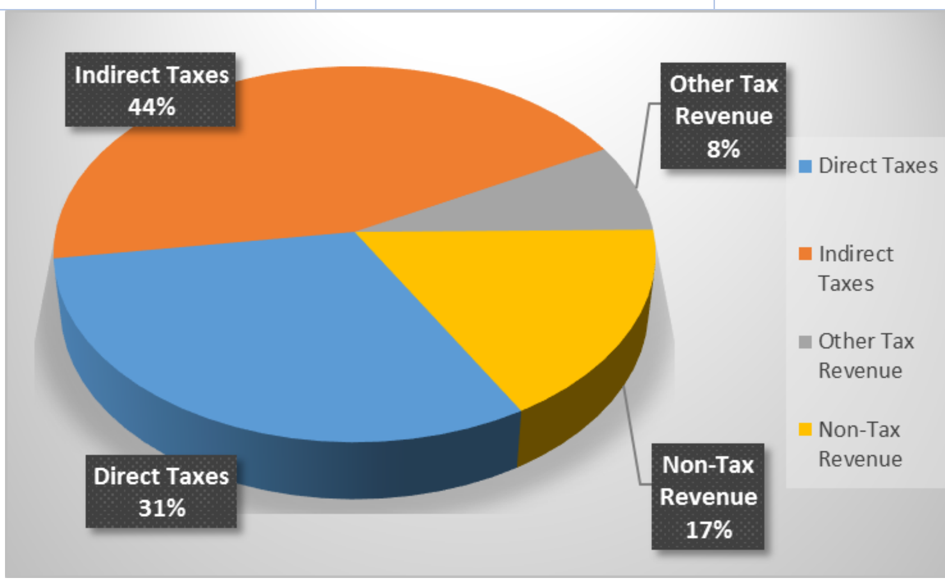
The Finance Bill 2020 for the fiscal year 2020-21 was presented before National Assembly as on 12th June 2020. The bill has proposed amendments in Income Tax Ordinance, 2001, Sales Tax Act, 1990, Federal Excise Act, 2005 inter alia other laws.

We, at the UHY, while preparing brief, focused on substantial amendments that are proposed in Income Tax & Sales Tax Law. The memorandum is brief for general understanding and detailed brief will follow after the bill have been passed in the National Assembly along with Provincial Finance Bills in respective Provincial Assemblies. Our memorandum is being prepared on basis of copies of the Finance Bill available on FBR website. The elucidations of the proposed amendments are based on our understanding of tax law and past practices.

This tax brief is for exclusive use of clients and staff of UHY Hassan Naeem & Co. The material contained in this memorandum is in the nature of brief & tax facts only, and neither purports nor is intended to be advice on any particular matter. Readers should not act or rely upon any matter or information contained in this memorandum without taking appropriate professional advice. This brief incorporates all the proposed amendments made through Finance Bill, 2020.

BUDGET AT A GLANCE

Receipts	2020-2021	2019-2020
	Rupees in Billions	
Direct Taxes	2,043	1,623
Indirect Taxes	2,920	2,285
Other Tax Revenue	501	300
Total Tax Revenue	5,464	4,208
Non-Tax Revenue	1,108	1,296
Less: Provincial Share in Federal Taxes	(2,874)	(2,402)
Total Revenue Receipts	3,699	3,102
Provisional Surplus	242	(81)
Total Resources	3941	3,021
Total Expenditures	(7,232)	(8,135)
Budget Deficit	(3,291)	(5,114)



Expenditures	2020-2021	2019-2020
	Rupees in Billions	
Markup payment	2,946	2,709
Pension	470	463
Defence expenditures	1,289	1,227
Federal Government expenditures	476	446
Grants and transfers	906	1,177
Subsidies	209	350
Others	50	1003
Current expenditures	**6,346**	**7,375**
Development Expenditures	886	759
Total Expenditure	**7,232**	**8,135**

Key Grants and Subsidies (Rs in Billions)

Particulars	2020-21	2019-20	Particulars	2020-21	2019-20
WAPDA, PEPCOs, KESC	150	260	F.Remittances TT charges	22	22
Naya Pakistan Housing	30	0	BISP/ EHSAAS	200	232
Subsidy utility stores	3	43	DLTL (Duty drawback to textile exporters)	10	30
Other Subsidies	26	46	NDMA	5	28
Grants to Provinces	85	93	Tax Refunds	0	100
Grant to AJK & GB	86	86	Daily Wager Relief	0	75
Contingent Liabilities	323	302	Locust Control	10	40
Railway Losses	42	40	Other Grants	33	36
SPD, NECOP	89	93	**Total**	**1114**	**1526**

Economic Survey 2019-2020

During the current fiscal year, economies of the world have undergone a recession because of unprecedented situation emerged due to the COVID-19. The economy of Pakistan has also been facing the situation which is not going to end soon. The deterioration of the macro-economic fundamentals and high cost of doing business have also caused unemployment in the economy.

The government is aiming to take measures to put the economy on the right track that include curb on corruption, documentation of economy, higher tariff on imports and reduction in government expenditures

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GROWTH

The economy of Pakistan like other economies has a diverse structure with three main sectors – agriculture, industry and services. Due to significant contractionary measures adopted by Federal Government and the ongoing pandemic, Pakistan's GDP growth has dropped from 1.9% in 2018-19 (Revised) to -0.38% in 2019-2020. Pakistan's projected GDP growth is estimated at 2.10% for the fiscal year 2020-2021.

There was no significant impact of COVID-19 on the Agriculture sector. Country's wheat, crop and livestock sector, drove the overall the growth of the agriculture sector which showed a growth of 2.67% in 2019-20, considerably higher than 0.58% growth achieved in last year.

A significant impact of COVID-19 has been observed in the industrial & service sector. The provisional growth in the industrial has been estimated at a negative 2.64%. However, Service sector growth declined to 0.59% as compared to 3.75% in the last year.

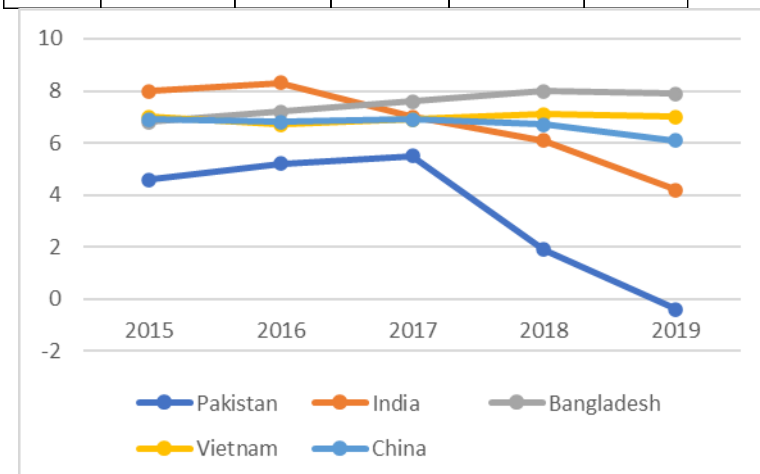
The significant growth rates

	2020P	2019	2018	2017	2016
GDP (PKR) Trillions	41.7	38.0	34.4	32.0	29.1
GDP per capita (US$)	1355	1455	1651	1630	1529
GDP Growth (%)	(.4)	1.9	5.5	5.2	4.6
Agriculture growth (%)	2.7	0.6	4.0	2.2	0.2
Industry Growth (%)	(5.6)	(0.7)	5.4	5.8	3.7
Service Growth (%)	(0.6)	3.8	6.3	6.5	5.7

GDP Comparison

Pakistan's GDP growth has remained consistent with the regional economies in the past till FY2017, but later deteriorated and lost competitiveness with the regional economies. Two competitors of Pakistan, namely Bangladesh and Vietnam, witnessed consistent growth rate during recent years and managed to capitalize on export markets and retained their respective market shares.

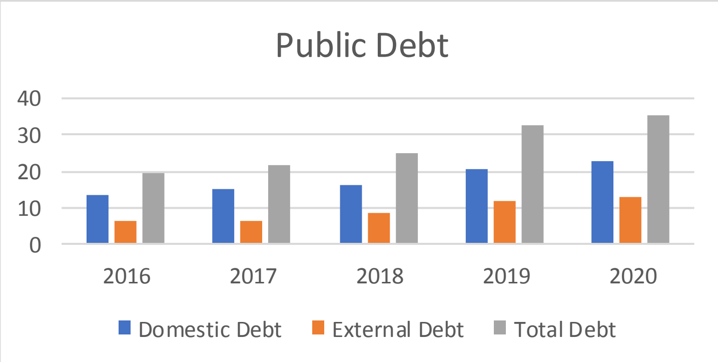
Year	Pakistan	India	B.Desh	Vietnam	China
2019	(0.4)%	4.2%	7.9%	7.0%	6.1%
2018	1.9%	6.1%	8.0%	7.1%	6.7%
2017	5.5%	7.0%	7.6%	6.9%	6.9%
2016	5.2%	8.3%	7.2%	6.7%	6.8%
2015	4.6%	8.0%	6.8%	7.0%	6.9%



Public Debt

Pakistan's debt profile has increasing trends over the last number of years. Total public debt was recorded at PKR 35.3 trillion at the end of March 2020 compared with PKR 32.7 trillion at the end of June 2019. Total Public debt stands at 84% of total GDP of the country.

Description (Rs in Trillion)	Domestic Debt	External Debt	Total Debts
March 2020	22.6	12.7	35.3
2019	20.7	12.0	32.7
2018	16.4	8.5	24.9
2017	14.9	6.6	21.5
2016	13.6	6.1	19.7



Capital Markets

During the year, Pakistan witnessed significant up and down in valuation of listed securities. The PSX recorded a modest growth of 0.61% in the first 10 months of FY2020 but then declined due to increase in interest rates and impact of COVID-19. Overall, The PSX increased by around 2.1% from 33,901 at June 30, 2019 to 34,611 on June 12, 2020.

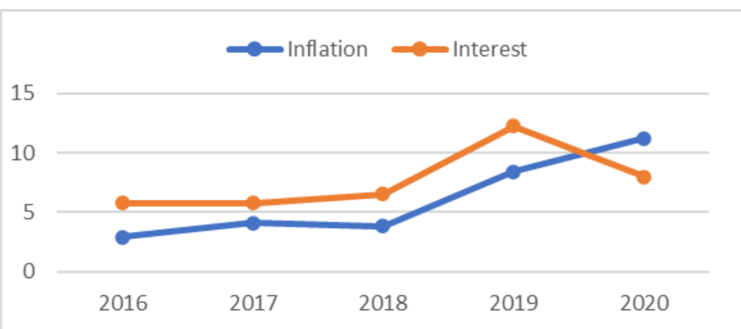
Inflation and interest rates

In 2019-20 the inflation rose significantly and as a result interest rates continued to rise. The headline inflation rate rose to 14.6% in January 2020 but declined to 11.2% in the last quarter of fiscal year.

The State Bank of Pakistan decreased interest rate from 12.25% in June 2019 to 8.0% in May 2020. The interest rate has been decreased in the expectation of lower inflation in the near future, sharp fall in global oil prices and sustained improvements in the current account.

Comparison between inflation and interest rates

Year	Inflation %	Interest %
2020	11.2	8.0
2019	6.8	12.25
2018	4.7	6.5
2017	4.8	5.75
2016	2.9	5.75



Trade and Payments

Pakistani currency is under continuous pressure due to unfavorable balance of payments as being the consumption oriented economy, imports of the company are continually growing more than its exports.

Exports during July-April, 2019-20 remained $ 19.7 billion compared to $ 20.1 billion during July-March, 2018-19, posting a decline of 2.4 percent.

The total imports during July-April FY2020 declined to $ 36.1 billion as compared to $ 40.3 billion same period last year, thus registered a decline of 16.9 percent.

During Jul-April FY2020, remittances increased to $ 18.8 billion as compared to $ 17.8 billion during same period last year, with a growth of 5.5 percent.

Year	Import	Export	Deficit	Remittances
US $ Billions				
2020	36.1	19.7	16.4	18.8
2019	44.0	20.1	23.9	21.8
2018	56.6	24.4	31.8	19.9
2017	48.7	21.9	26.8	19.3
2016	41.3	21.9	19.4	19.9

Fiscal Sector

FBR has so far collected Rs.3518 billion during the last eleven months of fiscal year as compared to Rs.3266 billion in the last year which is 7.4% higher than last year.

Despite a sharp decline in development spending, a significant rise in current expenditure kept total expenditure at a higher a higher level. Fiscal deficit for the FY 2019-20 is expected to be 9.5% of GDP.

Major Revenue collection comes from indirect taxes as compared to direct taxes.(in Millions)

Year	Direct Taxes	Customs	Sales	Excise	Total
2016	1217	407	1303	188	3113
2017	1344	497	1329	198	3368
2018	1537	608	1485	214	3844
2019	1445	686	1459	238	3829
2020 (B.E)	2082	1000	2108	365	5555

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BUDGET HIGHLIGHTS

Income Tax Ordinance, 2001

- Construction sector is proposed to be included under ambit of Industrial Undertaking for the purpose of import of Plant & Machinery.
- Where donation is made by an associate, the exclusion of restricted funds from levy of 10% income tax is proposed to be removed under section 100C.
- Pakistan resident ships owning Company registered with SECP on or after November 15, 2019 will pay a fixed tax on tonnage basis equivalent to Seventy-Five US Cents per ton of gross registered tonnage per annum.
- Individuals and AOPs are proposed to be allowed net income taxation in respect of income from property irrespective of annual rental income under normal tax regime.
- The administration & collection charges in relation to property income u/s 15, earlier allowed up to 6% of the taxable rent, is proposed to be curtailed to 2% of the rent.
- Under section 21(l) the threshold per transaction, liable to be disallowed, is increased from PKR 10,000/- to PKR 25,000/- and threshold for a payment under single account head is increased from PKR 50,000/- to PKR 250,000/-.
- The threshold for payment of salaries through banking channel is increased from PKR 15,000/- to PKR 25,000/- per month under section 21(m).
- Expenditures attributable to sales made to sales tax unregistered persons are proposed to be disallowed maximum up to 20% of total deductions/expenditures under section 21(q).

- Utility expenses proposed to be disallowed under section 21(p) if not as per prescribed conditions.
- Depreciation is proposed to be allowed up to 50% in first year of use from tax year 2021 instead of 100% and at the time of disposal 50% depreciation will be allowed instead of existing zero.
- Proposed that for the purpose of determining the deduction on account of lease rentals the cost of a passenger transport vehicle not plying for hire, to the extent of principal amount, restricted to 2.5 million rupees.
- The Capital Gain tax on sale of immoveable property has been reduced by 50%, bifurcation of open plot & constructed property abolished and holding period for taxation of capital gains on disposal of immoveable property is restricted to 4 years period.
- The exemption period for section 236C is also proposed to be 4 years.
- The tax credit benefit given to a person for giving donations to an associate is now restricted to 10% & 15 % as against existing 20% & 30 % respectively.
- Tax credit proposed to be restricted on enlistment made up to June 30th 2022. Earlier there was not time restriction.
- The provisions of Section 100D inserted through Tax Laws (Amendment) Ordinance, 2020 are proposed to be made part of the Ordinance by way of Finance Act, 2020 to give perpetuity to the incentives given to the construction industry for the boosting of economy after the pandemic.
- Interest payment to foreign affiliate, if exceeds 15% of taxable income before interest, amortization, and depreciation, is proposed to be disallowed such excess amount.

- The terms investments/Expenditures and sales/receipts are proposed to be independent to each other and as such section 111 is rationalized.
- The scope of section 113 is enhanced to Permanent Establishments of Non-resident Companies.
- The person whose income is chargeable under Final Tax Regime are now liable to file return under section 114 instead of section 115.
- Certain specified persons are proposed to be required to prepare & furnish a Tax Profile with FBR within prescribed time. Failure to file may lead to exclusion of name from ATL.
- Wealth statement is now can only be revised with prior approval of concerned Commissioner and within 5 years of due date of original filing.
- Under self-assessment scheme an Automated adjusted assessment mechanism is proposed through which computational errors will be auto rectified within 6 months of return filing.
- The scope of amendment of assessment is increased under section 122(5) as Commissioner can now proposed to make amended assessment on basis of audits without any definite information being pre-condition.
- A new agreed assessment scheme is introduced wherein if assessee wants to settle the case it can file an offer in this regard before assessment oversight committee.
- Appeals fee for filing of appeal before Commissioner Appeal and Appellate Tribunal has proposed to be increased. For Companies the rate is PKR 5,000/-, for others in case of assessment order PKR 2,500/- & in all other cases PKR 1,000/- for filing appeal before CIRA.

- In case of filing appeal before Appellate Tribunal, for Companies fee is 5,000/-& in all other cases PKR 2,500/-.
- A precondition of depositing 10% of demand upheld by CIRA is proposed for filing appeal before Appellate Tribunal to reduce demand stuck in stays/appeals.
- Scope of recovery under section 138 is enhanced in line with as provided in Sales tax Act, 1990.
- In case of Imports, a paradigm shift is being made by shifting from person specific rate to goods specific rates with a tax @1% for capital goods, 2% for raw material and 5.5% for finished goods.
- The rate of deduction of tax and the scheme of deduction of tax u/s 152 on payment to a PE of nonresidents on account of sale of goods, rendering of services & execution of contracts are proposed to be harmonized with that of resident persons including reduced rate of 3% on specified services.
- The rate of deduction of tax on account of supply of goods made from outside Pakistan under a cohesive business transaction is proposed to be reduced to 1.4% as against the current 2.1%.
- Toll manufacturing is brought under ambit of section 153(1)(a) for reduced rates in view of low profit margins.
- Reduced rate of 3% under section 153(1)(b) for engineering services is abolished.
- The threshold for being prescribed withholding agent proposed to be changed for Individuals & AOPS from existing 50 million to new 100 million. Similarly, to be prescribed person, threshold for persons registered under sales tax Act, 1990, is introduced to be PKR 100 million.
- Proposed that biannual withholding income tax statements be filed quarterly.

- In case of non-residents u/s 152, deduction on payments to non-resident media persons, relaying from outside Pakistan, is proposed to be made minimum tax.
- Tax deduction u/s 152(2A) (a) and (c) is being made minimum tax in the case of payments made to PE's of non-residents for sale/supply of goods and execution of contracts.
- In case of some other sectors, permanent establishments of non-residents are also being subjected to reduced rate of 3% in respect of various services akin to resident taxpayers.
- A legal framework is being provided in law for real-time access to databases of various organizations as well as databases of taxpayers.
- E-audit is proposed to be introduced whereby Commissioner can conduct audit through video link.
- In case taxpayer fails to furnish books of accounts during an audit, the assessment will be finalized on basis of sectoral benchmark ratios prescribed by FBR.
- Income tax withholding & charging rate on dividend is proposed to be harmonized.
- Tax at the rate of 4% on import of finished pharmaceutical goods not manufactured in Pakistan is proposed.
- The rate of tax to be deducted under section 150A on account of return on investment in Sukuks is proposed to be increased from 15% to new 25% in case Sukuk holder is a Company.
- The provisions of 10th Schedule proposed not to be attracted in case of payment of dividend to a non-resident.

- Payments to non-residents on account of royalty, fee for technical services, insurance & re-insurance and other payments are proposed to be excluded from purview of 10th Schedule.

SALES TAX ACT, 1990

- Definition of Active Taxpayer- period of failure to file two consecutive monthly withholding statement under section 165 of the ITO, 2001 now proposed to be changed into a quarter.
- In the 11th schedule, the category of supplier's changes from existing "Registered" into proposed "Active Taxpayer" and existing "Un-Registered" into proposed "Other than Active Taxpayer".
- Sales tax invoice must include NIC & NTN number in case sale to unregistered persons if value of sales inclusive of sales tax exceeds **Rs.100,000**/-.
- Provincial sales tax levied on the services excluded from the ambit of output tax and now sales tax levied on services under ICT proposed to be included in the definition of output tax.
- In the definition of value of supply, - WAPDA has also been proposed to be added in the supplier along with the IPP's.
- Powers proposed to be given to CIR to conduct the audit proceeding electronically through video links, or any other facility as prescribed by the Board.
- Fee for filing Appeal before CIR-A proposed to be increased from existing **Rs.1,000 to Rs.5,000** for Companies and other than Companies **Rs.2,500** in the assessment cases and **Rs.1,000** in other cases.

- Bar on CIR-A, proposed to be put for not accepting documents which were not willfully provided to the assessing officer at the time of assessment by the appellant.

- "Real-time access to information and databases" definition is introduced by which NADRA, FIA & ITC Provincial land record and development authorities held responsible for provision of Data.

FEDERAL EXCISE ACT, 2005

- Appeal fee proposed to be increased as provided in above sales tax section.

- FED on Caffeinated energy drinks proposed to be levied **@25%**.

- FED on Cement is proposed to reduce from Rs.2/kg to **Rs.1.75**/kg.

- FED on Imported double cabin (4x4) pick-up vehicles proposed to be imposed **25%** Ad Val.
- FED on Locally manufactured double cabin (4x4) pick-up vehicles proposed to be imposed **7.5%** Ad Val.
- FED on Filter rod for cigarettes proposed to increase from **Rs .75** per filter rod to **Rs. 1** per filter rod.

INCOME TAX ORDINANCE, 2001

2 – Definitions Additions / Changes

2(29C)(aa)-change in status of construction sector to industry;

The bill proposes to change the status of construction sector to as an "Industry" by adding the definition of builder & developer into definition of Industrial Undertaking with effect from 1st day of May, 2020. It means that now various benefits in form of tax credits or otherwise which were earlier available to other industrial undertakings on import of plant and machinery will also be available to construction industry.

2(30A)- Integrated Enterprise;

The bill seeks to add new definition of Integrated Enterprise which means such enterprises/organizations whose Point of sales/ERPs are connected with FBRs approved fiscal electronic device and software for the purposes of real time monitoring of sales / economic activities. In this regard FBR has already notified sectors to be integrated with FBR systems vide SRO. 296(I)/2020, dated April 9, 2020 and SRO 1203(I)2019, dated October 10, 2020, for income tax & sales tax purpose respectively.

2(30AC)- IRIS;

The bill proposes to add new definition of IRIS which means a web-based computer program for operation and management of Inland Revenue taxes administered by the FBR.

2(31A)- Local Government;

The bill seeks to update references of Local Government Acts in the Definition of term "Local Government" as the earlier definition was inserted in Ordinance in 2008 however till date references to respective provinces local government laws was not updated despite of the fact that those provincial laws were amended/changed. This will remove the legal anomaly of definition of local government.

7A. Tax on shipping of a resident person

The bill proposes to charge tax on a Pakistan resident ship owning company as well, registered with SECP after 15th day of November, 2019 & having its own sea worthy vessel registered under Pakistan Flag, to pay tonnage tax of an amount equivalent to seventy-five US Cents per ton of gross registered tonnage per annum.

The terminal date of applicability of section 7A has been proposes to be extended to June 30th 2023 which was going to be expired on June 30, 2020.

15A Deductions in computing income chargeable under the head "Income from Property"

A new amendment is proposed through which now deduction for expenses, incurred on a property/building e.g. repair & maintenance, against income of property is also allowed to all Individual and AOP irrespective of the annual rental income if they choose to pay tax applicable to them as per Division I, Part I of the First Schedule. Earlier deduction was only allowed if foregoing persons property income exceeding PKR 4 million.

21 Deduction not allowed (income from business)

A new amendment is proposed in order to promote ease of doing business and reduce compliance cost for taxpayers running businesses by virtue of which;

- The threshold per transaction delineated under section 21(l) is being increased from Rs. 10,000/- to Rs. 25,000/-. Similarly, the threshold of payments under a single account head liable to disallowed as a business deduction /expense under section 21(l) is being increased from Rs.50,000/- to Rs.250,000/-.

- The threshold of requirement of paying salaries through crossed cheque or direct transfer of funds to the bank accounts of employees under section 21(m) is being increased from Rs. 15,000/- per month to Rs. 25,000/- per month.

Further To compel industrial undertakings to sell to sales tax registered persons, their business expenditure equivalent to the proportion of their sales to unregistered persons is being disallowed, where sales equal or exceed rupees one hundred million per person, in the same ratio as exists between their total business expenditure and total turnover, however, the aggregate disallowance shall not exceed twenty percent of total business deductions excluding deductions under this provision.

Moreover, electricity expense is being allowed as an expense against business income subject to adherence to certain conditions which will be notified / prescribed.

22 Depreciation Deductions

The bill seeks to rationalize accelerated deductions being offered to assets in their year of acquisition. The normal depreciation for the first year of use of the asset is being restricted to 50% of deduction, which would eventually be allowed in subsequent years. This will be applicable on assets acquired in tax year 2021 & onward.

In the same way at the time of sale, 50% depreciation will be allowed on sale of assets acquired in tax year 2021 & onward.

Earlier full depreciation was allowed in first year and no depreciation was allowed in the year of disposal of such assets.

28 Profit on debt, financial costs and lease payments.

Earlier, unlimited deductions on account of lease rentals paid against lease of vehicles for business use were allowed resulting in heavy deductions against lease of costly vehicles & consequently reducing tax incidence. Now, the bill proposes to put limit on deductions allowance, to the extent of principal amount of cost of vehicle, up to PKR 2.5 million.

37, 236C Taxation of immovable property

The bill seeks to remove the bifurcation between constructed property & open plots for determining holding period for capital gains tax and now the holding period for taxation of capital gains on disposal of immovable property is being restricted to 4 years for both constructed property & open plot.

Further, rates are also being reduced on capital gains emanating from disposal of immoveable property by 50%.

- The exemption available from advance tax under section 236C, for immovable property held for a period of 5 years is now proposed to be available to immovable properties held for period exceeding 4 years.

61 Tax credit for Charitable Donations

The bill proposes to restrict tax credit in respect of donations given to an associate by a donor by lowering allowable percentage of donation made against taxable income from 30% to 15% in case of Ind/AOP & from 20% to 10% in case of Company.

65C Tax credit for enlistment

The bill proposes to restrict tax credits for enlistment in any registered stock exchange up to tax year 2022.

100C, 2(36) Non-Profit Organizations and 100% Tax Credit.

The bill proposes to restrict the scope of Non-Profit Organization definitions to include only those entities under the ambit of section 2(36) that are established for "General Public" benefits only. In view of foregoing tax revenue may increases which earlier was consumed in garb of tax credit under section 100C.

Further, Non-profit organizations (NPOs), trusts and welfare institutions, in order to be eligible for hundred percent tax credit are also being required to file a statement of voluntary contributions and donations received in the preceding tax year.

Moreover, Surplus funds of the NPOs, which are not spent during the year for welfare, are taxed at the rate of 10% with certain exclusions. One such exclusion is funds which could not be spent due to any obligation or restriction placed upon the NPO by the donor. However, where the donor is an associate of the NPO, such a restriction can be a mechanism to shift profit to the NPO. Therefore, amendment is being made so that the above exclusion does not apply in case where the donor is an associate of the NPO.

100D Special provisions relating to builders and developers

The provisions of Section 100D inserted through Tax Laws (Amendment) Ordinance, 2020 are proposed to be made part of the Ordinance by way of Finance Act, 2020 to give perpetuity to the incentives given to the construction industry for the boosting of economy after the pandemic.

106A Limiting Interest Deductibility to Foreign Affiliates

The bill introduced a new section to limit the deduction of profit on debt payable to associate enterprise for a foreign controlled resident Company (other than an insurance company, or a banking company). Many countries have introduced fixed ratio tests based on subsidiary company's interest/earnings ratio instead of Debt/Equity ratio, which has been found to be a better tool to combat base erosion and profit shifting. In light of international best practices, an interest payment to foreign affiliate, which exceeds 15% of taxable income before interest, amortization, and depreciation is being disallowed as a deduction.

111 Unexplained income or assets.

The bill seeks to rationalize the section 111 as such that where a taxpayer is unable to offer sufficient explanation in respect of suppression of sales/productions or receipts will be chargeable to tax under the head 'Income from Business" whereas if it relates to unexplained investments, expenditures etc. same will be liable to be chargeable to tax under the head "Income from Other Source". Earlier both of aforementioned was chargeable to tax under the head Income from Other source which was not justified to the extent of suppression of sales/productions/receipts which are obviously relates to business.

113 Turnover tax on permanent establishment of a non-resident company

The bill proposes to increase the scope of levy of minimum tax to permanent establishments of non-resident persons which earlier was only limited to resident Companies.

114, 115, 116, 118 & 119 Returns, Final Statements & Wealth Statement, Extension in Time

Under the current law, a person whose income is subject to final tax is required to furnish a statement u/s 115(4) instead of a return of income u/s 114. In order to simplify the tax law for compliance purposes and to promote ease of doing business, the statement declaring income subject to final tax is being incorporated as a part of the return u/s 114(2).

In case of bonafide omission or wrong statement Commissioner approval is required for revision of income tax return.

Further, the bill seeks to withdraw the facility of revision of wealth statement any time before issuance of assessment show cause notice for a tax year. Now, a person can only revise wealth statement with prior approval of Commissioner and cannot revise a wealth statement after 5 years of due date of original filing.

114A Taxpayers Profile

Complexity of return forms is an embodiment of the complexity of tax law. Nevertheless, there is a dire need to simplify return forms without compromising on data required to verify accuracy of the declared version. Instead of endeavoring to obtain all the relevant information in the income tax return, a taxpayer's profile is being prescribed in order to capture data relevant to the taxpayer. This profile shall be filed only once and not every year. Further, the profile shall be updated by the taxpayer in case of any change in particulars.

120 Automated Adjusted Assessment

In order to rectify computational errors, the returns filed by the taxpayers shall now be initially processed within six months of filing of return by making automated adjustments for any arithmetical errors, any incorrect claims, any deductions, tax credits or losses which are not allowable under the Ordinance. Such processing shall be done automatically through the system. However, a system generated prior notice will be furnished to taxpayer in its online "IRIS" web portal.

122 Amendment of Assessments

The bill proposes to remove a major anomaly about definite information that assessment under section 122(5) can be made only on basis of definite information or on audit selection in any other section instead of definite information obtained during the audit. The apex court had held in plethora of judgements that information furnished by taxpayer itself during audit proceeding cannot be termed as definite information for assessment order under ibid section.

However, this change in law has also increased the scope of amendment of assessment under ibid section through which assessment can be made without definite information on basis of audit.

122D Agreed assessment in certain cases

In order to facilitate taxpayers and reduce the burden on the formal appeal system, amendment is being made to the effect that where a taxpayer in response to a notice for amendment intends to get his case settled, he may file offer of settlement before the Assessment Oversight Committee for resolution of his dispute.

127, 129, 131 Appeals

- The prescribed fee structure under section 127(4)(a) and (b) has been static since the Finance Act, 2009. Therefore, to account for inflationary impact, for companies the rate is being increased to Rs. 5,000/-; for other cases (if appeal is filed against assessment order) to Rs. 2,500/-; whereas, in all other cases, it rates are being specified at Rs. 1,000/-.
- The prescribed fee for appeals against the orders of the Commissioner (Appeal) is Rs. 2,000/- under section 131(3). The fee structure has not been revised since the Finance Act, 2009. Therefore, to account for inflationary impact, the prescribed fee is being enhanced from Rs. 2, 000/- to Rs. 5, 000/- in case of companies and specified at Rs. 2, 500/- in all other cases.
- After the first appeal has been decided, the Appellate Tribunal has the power to stay recovery for a further period of six months. In this way, substantial demands remain unpaid for a long period of time after finalization of assessment. Therefore, under the amendment being made, after the appeal has been decided by the first appellate authority, the second appeal before the Appellate Tribunal will be made conditional to payment of ten percent amount of tax demand upheld by the Commissioner (Appeals).

134 Alternative dispute resolution

Taxpayers being apprehensive of binding nature of Alternate Dispute resolution Committee (ADRC) decisions and the precondition of withdrawal of appeals, have not opted to avail this forum. Hence, to promote the use of alternate dispute mechanism, amendment is being made under which the decision of ADRC shall not be binding upon the aggrieved person. Where the aggrieved person is satisfied with the decision of ADRC, he shall withdraw his appeal within sixty days of decision of ADRC and the decision will become binding both upon the aggrieved person and the Commissioner. In this way, the ADRC's decision will become binding once the aggrieved person is satisfied with its decision.

138 Recovery of tax out of property and through arrest of taxpayer

To make recovery of taxes more efficient and effective, recovery powers as delineated under clauses (a), (ca) and (d) of sub-section (1) of section 48 of the Sales Tax Act, 1990 are also being made available to Income Tax Authorities.

147 Quarterly Advance Tax

The bill seeks to eliminate the misstatement being made in quarterly turnover figure to avoid advance tax by introducing new automated system of turnover calculation which will be prescribed by the board separately.

148 Rationalizing Tax on Imports

In order to provide a level playing field to commercial importers viz-z-viz manufacturers, remove distortions in the incidence of income tax on the import of capital goods and raw materials, plug revenue leakages and facilitate manufacturing by SMEs, a paradigm shift in the current regime is being introduced by shifting from person-specific rates to goods specific rates cascaded according to the type of goods, with tax @1% for capital goods, 2% for raw materials and 5.5% for finished goods irrespective of status of the importer. However, the prevailing concessional rates on certain items such as remeltable scrap of iron and steel, potassic and urea fertilizers, LNG, Gold, Cotton, goods that were importable by manufacturers under the rescinded SRO 1125(I)/2011 dated 31.12.2011, mobile phones etc. are being maintained.

The tax at the rate of 4% on import of finished pharmaceutical goods not manufactured in Pakistan is proposed.

152 Payment to non-residents

For uniformity of tax treatment in case of non-residents u/s 152, deduction on payments to non-resident media persons, relaying from outside Pakistan, is proposed to be made minimum tax.

To provide a level playing field for permanent establishment of non-residents viz-a-viz resident taxpayers and remove disparity, tax deduction u/s 152(2A) (a) and (c) is being made minimum tax in the case of payments made to PE's of non-residents for sale/supply of goods and execution of contracts.

To provide a level playing field to permanent establishments of non-residents and promote ease of doing business, as in case of some other sectors, permanent establishments of non-residents are also being subjected to reduced rate of 3% in respect of various services akin to resident taxpayers.

The tax benefit available in the form of reduction of income tax liability to 30% of actual liability, to non-residents executing contracts, is being enhanced by allowing non-residents operating as part of a cohesive business operation to be liable to pay only 20% instead of 30% of their actual tax liability. Such measure shall aid in facilitating CPEC projects and rationalizing the incidence of tax upon them.

Due to treaty limitations, 100% higher rates for not appearing on ATL are being withdrawn in case of payments to non-residents for royalty, fee for technical services, insurance premium, reinsurance premium and other payments.

A requirement of filing of prescribed particulars of the recipient of payment is being introduced where an exemption from deduction of tax under section 152 is sought from the Commissioner.

Amendment is being made in sub-section (4A) of section 152 of the Ordinance whereby permanent establishments of non-resident persons applying for exemption certificate under the aforementioned sub-section in respect of payments received under section (1A) and (2A) shall be obliged to make such applications for exemption certificates on the prescribed form.

153, Division III, Part III, First Schedule - Payments on goods for goods, services and contracts

Considering the costs involved and the low profit margins of toll manufacturers, the rate of withholding tax on toll manufacturing is being synchronized with the tax rates applicable on manufacturers supplying goods. Therefore, the withholding tax rate for payment regarding toll manufacturing is being reduced to 4% for companies and 4.5% in other cases.

To facilitate public listed companies, amendment is being made to enable the Commissioner issues exemption certificate within fifteen days of filing of application, failing which the certificate will be automatically issued through the system.

To streamline tax rates, engineering services are being excluded from the list of services that enjoy a reduced tax rate of 3%.

To facilitate WHT agents and to promote ease in doing business, the threshold of turnover, to become a withholding agent, in case of an individual and an AOP is being enhanced from fifty to hundred million rupees and a similar threshold of hundred million rupees is being prescribed for a sales tax registered person to become a withholding agent.

156B Payment of royalty to resident persons

The bill proposes to remove section 156B which earlier requires a pension fund manager to deduct tax while making payment from individual pension accounts, maintained under any approved Pension Fund.

159 Application for Exemption or Lower Rate Certificate to be Made in the Prescribed Form

The Commissioner is empowered to issue exemption or lower rate certificates contingent to certain conditions under sub-sections (1) and (1A) of section 159 of the Ordinance. Amendment is being made so that applications for issuance of such certificates are being furnished by taxpayers in the prescribed manner.

165 Statements

The bill proposes to change period of filling withholding Income Tax statements from Biannual to Quarterly. The due date for filing of quarterly withholding income tax statements will be 20th of next month following the end of respective quarter.

The bill proposes to remove threshold limit of profit on debt, being more than five hundred thousand rupees, for providing statement by banks to board. Consequently, banks will be required to provide information in statements of the persons receiving profit on debt to the board irrespective of threshold of profit on debt.

168 Credit for tax collected or deducted

Tax credit under section 168 related to tax deducted by banks on account of capital gain payments, aroused on disposal of debt securities, to a non-resident company having no PE in Pakistan which have invested in debts securities through special account maintained at banks or financial institutions is proposed to be withdrawn and be brought under ambit of section 169 as final tax.

Tax credit related to tax deducted while making payment to non-resident for foreign produced commercials is also proposed to be withdrawn and be brought under ambit of section 169 as final tax.

169 Tax collected or deducted as a final tax

Technical error related to nature of advance tax charged on Imports under section 148(7), 148A and 234A which were previously classified as minimum but left included in section 169 are proposed to be removed.

Also, advance tax on Brokerage commission previously classified as minimum has been proposed to be deleted from this section.

170- Refunds

The present system of manually verifying and processing refunds is outdated and prone to corruption. Therefore, to facilitate taxpayers, impart transparency and efficiency and promote ease of doing business, a provision is being introduced to enable expeditious processing and automatic payment of refunds directly into the bank accounts of the taxpayer by the Board through a centralized processing system. The board will prescribe rules in this regard.

175- Power to enter and search premises

Commissioner has been proposed to empower with real-time electronic access to premises, place, accounts, documents or computer for audit or a survey of persons liable to tax.

175A- Real-time access to information and databases

For broadening of the tax base and checking tax evasion, it is essential that real-time access of various databases such as land record departments, excise and taxation departments, utility companies, visa and immigration offices, and others is made available to the Board. A legal framework is, therefore, being provided in law for real-time access to databases of various organizations.

177- Audit

It has been proposed through new subsection 2A, to empower commissioner to conduct audit electronically through video link or any other facility.

Variation from sectoral benchmark ratio is proposed to be basis for audit and assessment. Therefore, under the amendment being proposed, those cases selected for audit, where the taxpayer is unable to furnish books of accounts or where there are defects in accounts, the taxable income will be determined and assessment will be amended, if need be, on the basis of sectoral benchmark ratios notified by the Board..

Sectoral benchmark ratios mean standard business sector ratios notified by the Board on the basis of comparative cases for example financial ratios, production ratios, gross profit ratio, net profit ratio, recovery ratio, wastage ratio and such other ratios in respect of such sectors as may be prescribed.";

182 Penalties

Penalty for non-filing of Income tax return under section 115 and for wealth statement thereof is proposed to be withdrawn as now same persons would be required to file returns under section 114 so penalty provisions related to 114 will be attracted.

It has been observed that in some cases taxpayers' particulars are either not furnished or not updated which makes it arduous to trace new taxpayers. Therefore, a new Section 114A is being inserted under which it is made compulsory for taxpayers to file the said profile and update it by the due date. To ensure compliance, penalty of Rs 2500 shall be proposed for each day commencing from the due date subject to a minimum penalty of ten thousand rupees.

Section 181AA of the Income tax Ordinance 2001 restricts issuing industrial and commercial connections of electricity or natural gas to non-registered taxpayers .To ensure compliance with the aforementioned proven a penalty under section 181AA is being inserted @ Rs 10,000/- for each default by the authorities responsible for providing industrial and commercial connections of electricity and gas in contravention of section 181 AA.

This bill also proposes to exclude a person from active taxpayer list (ATL) who fail to furnish or update his profile; however, taxpayer can be included in ATL on payment of surcharges at prescribed rate.

205 Default Surcharge

Default surcharge is liable to be imposed upon on default of tax payment, however, can only be imposed after the period of default is delineated upon actual payment of the defaulted tax. An amendment is being made in order to enable imposition of default surcharge prior to actual payment of tax.

209 Jurisdiction of income tax authorities.

To ensure transparency, new concepts of electronic audit (e-audit) randomized allocation of cases through an automated case selection system is being introduced. After a case has been selected for audit, the jurisdiction for audit and adjudication will be assigned to separate officers through automated case selection system which is an algorithm for randomly assigning cases to officers through technological modes. Further, the concept of e-audit is being introduced which will authorize the Board to conduct audit proceedings electronically through video links and to have real-time electronic access of persons selected for audit or for survey of persons liable to pay tax.

210 Delegation

It is proposed to restrict Commissioner from delegating powers of amending an order of recovery under sub-section (3) of section 161 to an officer not below the rank of Additional Commissioner.

231B Advance tax on private motor vehicles

An explanation is proposed to be added to the effect that collection of advance tax under section 231B is not mandated in the case of motor vehicles having engine capacity up to 200cc (motorcycles and motor rickshaws) in order to impart clarity to the existing provision of law/explain the intent of law.

235 Electricity consumption

The Commissioner is empowered to issue an exemption certificate to an industrial or commercial consumer of electricity if the income of such taxpayer is exempt from tax.

However, under the auspices of S.R.O.1053(I)/2010 dated 22.11.2010 such taxpayers were entitled to obtain exemption certificates if advance tax liability for the entire year was discharged. An enabling amendment is being made whereby commercial and industrial consumers of electricity can avail exemption if advance tax liability is discharged.

236A Advance tax at the time of sale by auction

To provide clarity, an explanation is being provided in law that sale by public auction or auction by tender includes renewal of license previously sold through public auction or auction by tender, and that where payment is received in installments, advance tax is to be received with each installment.

The bill also seeks to amend and addition of a provision to reduce the rate of tax to 5% from 10% to be deducted at the sale of immoveable property by auction.

236I Advance Tax by Educational Institutions

To facilitate and encourage compliant taxpayers and ease the burden for persons paying tuition fees to educational institutions, amendment is being made to the effect that advance tax on tuition fees shall not be collected from persons whose names are appearing on the Active Taxpayers List.

236Q Payment to residents for use of machinery and equipment

It has been proposed that tax collected from resident person for use of machinery and equipment shall be minimum which was previously final.

Deletion of Withholding Taxes

To augment efforts towards simplification of the withholding tax regime, the following withholding tax provisions are being deleted.

235B	Tax on steel melters and composite units
236D	Advance tax on functions and gatherings
236F	Advance tax on cable operators and other electronic media
236J 236U	Advance tax on dealers, commission agents and arhatis etc. Advance tax on insurance premium
236R	Collection of advance tax on education related expenses remitted abroad
236X	Advance tax on tobacco

The First Schedule

Advance Tax on Dividend

150, 236S, First Schedule, Part III, Division I

The bill seeks addition of new clause for deduction of tax at the rate of 25% in case of a person receiving dividend from a company where no tax is payable by such company, due to exemption of income or carry forward of business losses.

Return on investment on Sukuks

150A, First Schedule, Part III, Division IB

The bill proposes to increase the rate of tax to be deducted to 25% from 15% on return on investment on Sukuks where the Sukuk-holder is a company.

Profit on Debt

151, First Schedule, Part III, Division IA

The bill seeks to require a taxpayer to furnish statement that his total income form profit on debt is up to PKR 500,000/- in order to avail reduced rate of 10% tax to be deducted.

Advance tax on extraction of minerals

236V, First Schedule, Part IV, Division XXVI

Under the prevalent law, advance tax is to be collected by the respective provincial authorities on the value of minerals extracted, produced, dispatched and carried away from the licenses or leased areas of the mines from persons not appearing on the Active Taxpayers List. To extend the scope of such advance tax and to enable it to realize its full potential, such advance tax is also being extended to persons whose names are appearing on the Active Taxpayers List.

Second Schedule

Part I, 23A

The bill seeks to levy tax under section 12 on withdrawal of balance from pension fund in case of withdrawal before retirement age or withdrawal at the time of or after retirement age in excess of fifty percent of the accumulated balance under the Voluntary Pension System Rules, 2005.

Part I, 61

The bill proposes add a series of institutions of which income form donations is totally exempt. Further, a proviso is added which states that if amount is donated by an associate then it will restrict the amount of donation to 15% in case of individual or AOP and 10 % in case of a company of total taxable income of a person (which in general is 30% for individual or AOP and 20% for company). Provided also that the provisions of this clause shall apply only if donation is paid by a crossed cheque drawn on a bank.

Part I, 66

This bill seeks to add a number of institutions whose any income is exempt from levy of tax under the Income Tax Ordinance, 2001. Further, another list is proposed to be added of organizations whose income is exempt subject to conditions mentioned in section 100C.

Part I, 99A

Exemption from total income (sale of immovable property to a Developmental REIT Scheme

To incentivize development and construction of residential building through REIT scheme, profit realized from sale of immoveable property has been exempted from tax if sold with the object of development and construction of residential buildings. The benefit of such exemption is being extended until 30th June 2021.

Part I, 114(AA)

Exemption from total income (Capital Gain)

The capital gain tax which is chargeable at the rates from 5% to hefty 20% under section 37 has now been reduced to zero as exemption has been granted to income of a resident individual whose income which may be chargeable under the head "Capital Gains" from sale of constructed property under foregoing head with following conditions.

- Property must be held for personal accommodation of person or by spouse or by dependents of such person at the time sale of property and had duly installed utility connections (telephone, electricity, gas, water etc.) on their respective names;
- The land area of the property does not exceed 500 square yards in case of a house and 4000 square feet in case of a flat; and

- Exemption under this clause has not previously been availed by the individual, his spouse or dependents.";

Part I, 126(A), 126(AC)

Exemption from total income for Gwadar Free Zone

The bill seeks to insert Gwadar Free Zone in clause (126A) and 126(AC) for exemption with effect from 1st June, 2020.

Part I, 126(AB)

Exemption for Profit on Debt for Specified Businesses

This bill proposes exempt profit on debt earned by "China Overseas Port Holding Company Pakistan (Private) Limited, Gwadar International Terminals Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited" and shall be deemed to have been exempt with effect from 1st June, 2020.

Part I, 126E

Exemption of Income derived by a Zone Enterprise

To promote and facilitate setting up of SEZs for bolstering investment and enabling development of SEZs on PPP mode, exemption from income is being conferred upon co-developers, subject to certain conditions.

Part I, 147

Exemption of Income of Federal Government

The bill proposes to exempt any income derived by the Federal Government Employees Housing Authority for the tax year 2020 and the following four tax years.

Part II,5AA

Reduction in tax rates (Non-resident person)

The State Bank of Pakistan has recommended certain amendments in the Income Tax Ordinance, 2001 aimed at incentivizing investment in Government Debt Instruments issued under the Public Debt Act, 1944 by non-residents and aligning the tax incidence on such non-residents investing through a foreign bank account, a Non-Resident Rupee Account Repatriable (NRAR) or a Foreign Currency Account.

In pursuance thereof the following measures are being taken: -

(i) The tax withheld on profit on debt from such government debt instruments shall be 10% of the gross amount paid which shall constitute final tax.

(ii) The rate of 100% higher withholding tax rate for those not appearing on ATL shall not apply to such profit on debt.

(iii) Exemption from collection of adjustable tax under 236P is being accorded to Non-Resident Rupee Account Repatriable (NRAR) or a Foreign Currency Account being maintained by a non-resident individual investing in such government debt instruments.

(iv) Requirement for filing a return or registration under section 181 shall not apply to a non-resident individual solely by reason of Profit on Debt earned from such government debt instruments.

Part II, 24CA

Reduction in tax rates (Supply to utility stores)

The bill seeks to reduce withholding tax rate to 3%, other than Company, on payments received as a recipient of payment for goods supplied to Utility Stores Corporation of Pakistan in respect of supply of tea, spices, salt, dry milk, sugar, pulses wheat flour and ghee from 7th April 2020 to 30th September 2020: The reduced rate is not applicable on sale of foregoing goods to Utility Store Corporation under a brand name.

Part III, 9A

Reduction in Tax Liability (Profits from low cost housing projects)

The tax payable, under the Income Tax Ordinance, 2001, on income from low cost housing project's developed or approved by NAPHDA or under Ehsaas Program will be reduced by 90% irrespective of the fact that whether project is registered or not under section 100D of the Income Tax Ordinance, 2001.

Low cost housing' means a housing scheme as developed or approved by NAPHDA or under the 'Ehsaas Program'.

Part IV, 11A

Exemption from specific provisions (Minimum Tax on Turnover)

The bill seeks to exclude from ambit of minimum tax provisions of section 113 to a modaraba qualifying for exemption under clause (100) of Part-I of this Schedule, The Prime Minister's COVID-19 Pandemic Relief Fund-2020 & the Federal Government Employees Housing Authority for the tax year 2020 and the following four tax years.

Part IV, 12B

Exemption from advance tax at import stage

The bill proposes exclude various medical goods/equipment for Covid-19 treatment, from 20th March 2020, to 30th September 2020, from provisions of section 148. Same was in field vide an SRO 316(I)/2020, dated April 16, 2020.

Part IV, 12C

Exemption from advance tax at import stage

This bill proposes a new clause where on the import of pulses, from 7th April 2020 to 30th September 2020, provisions of section 148 shall not apply.

Part IV, 46AA

Exemption from provisions of Section 153

The bill proposes to finally incorporate S.R.O 586(I)/1991, dated June 30, 1991 as clause 46AA to the Part-IV of 2nd Schedule containing exemption of withholding on various payments. Following payments/recipients of payments are covered in ibid clause;

(i) a Provincial Government;

(ii) a local authority;

(iii) persons who are residents of Azad Kashmir and execute contracts in Azad Kashmir only and produce a certificate to this effect from the concerned income tax authority;

(iv) persons receiving payments from a company or an association of persons having turnover of fifty million rupees or more or from an individual having turnover of fifty million rupees or more exclusively for the supply of agriculture produce including fresh milk, fish by any person engaged in fish farming, live chicken, birds and eggs by any person engaged in poultry farming and by an industrial undertaking engaged in poultry processing which has not been subjected to any process other than that which is ordinarily performed to render such produce fit to be taken to market;

(v) companies receiving payments for the supply of electricity and gas;

(vi) companies receiving payments for the supply of crude oil;

(vii) hotels and restaurants receiving payments in cash for providing accommodation or food or both, as the case may be; and

(viii) shipping companies and air carriers receiving payments for the supply of passenger tickets and for the cargo charges of goods transported.”;

Part IV, 72AA

Exemption from specific provisions of 152AA

To facilitate Hajj Group operators, they are being exempted from the requirement of deducting tax under section 152 whilst making payments to non-residents.

Part IV, 72B

Exemption from specific provisions of 148

The bill seeks to omit clause 72B where the provisions of section 148 shall not apply to an industrial undertaking if the tax liability for the current tax year, on the basis of determined tax liability for any of the preceding two tax years, whichever is the higher, has been paid and a certificate to this effect is issued by the concerned Commissioner etc.

Part IV, 101AA

Exemption from specific provisions of 231A, 231AA, 236P

To promote inflow of home remittances through formal channels and bolster efforts towards financial inclusion, withholding tax on cash withdrawal or on issuance of banking instruments /transfers from a domestic bank account is being exempted to the extent of remittance amount received from abroad in such account in a year.

Part IV, 102A

Exemption from specific provisions of 233

The bill seeks to add a new clause (102A) in order to provide exemption to Ehasaas Emergency Cash Transfer program from the withholding provision on brokerage and commission payments.

Part IV, 111A

Exemption from specific provisions of 10th Schedule

The bill seeks to add a new clause (111A) in order to provide exemption from 10th schedule to extent of payment of divided to non-resident persons.

Part IV, 112A

Exemption from specific provisions of 236P

The bill seeks to add a new clause (112A) in order to provide exemption from provisions of section 236P to non-resident rupee account reportable or a foreign currency account in Pakistan.

Part IV,116

Exemption from specific provisions of 151, 231A, 231AA, 236P

The bill seeks to add a new clause (116) for exempting the Prime Minister's COVID-19 Pandemic Relief Fund-2020 from the provisions of section 151, 231A, 231AA and 236P.

SALES TAX ACT, 1990

2 Definitions

- The Bill proposes different changes in the definition of "Active Taxpayer", "Output Tax" & "Value of Supply".

  (1) In the definition of "Active Taxpayer" following minor changes are proposed: –

  (i) In sub-clause (a) the words "or is Blocked" proposed to be omitted;

  (ii) In sub-clause (d) for the words "Two Consecutive Monthly", the word "Quarterly" proposed to be substitute;

  Earlier, those registered persons were not considered as "Active Taxpayer" who remained failed to file its two consecutive monthly withholding tax statement under section 165 of the Income Tax Ordinance, 2001, now bill seeks to change the period of consecutive two month to a quarter.

  (2) Output tax in relation to tax charged on provincial services, the bill proposes to exclude the provincial sales tax on services charged by RP and now proposes to include the sales tax levied on services rendered or provided by the RP under ICT (Tax on Services) Ordinance, 2001.

  (3) The following changes proposed to be made in the definition of "Value of Supply" under clause 46;

  (a) in sub-clause (h), after the words "supply of electricity by an independent power producer", the words "or WAPDA" proposed to be added with effect from July 1st 2019.

(b) After Sub-clause (i) a New sub-clause (j) added as "(J) in case of registered person who is engaged in purchasing used vehicles from general public on which sales tax had already been paid at the time of import or manufacturing, and which are, later on, sold in the open market after making certain value addition, value of supply will be the difference between sale and purchase price of the said vehicle.";

3 Scope of Tax

- The Bill seeks to make minor changes in sub-section 7 with respect to withholding agent by specifically nominating the person by adding words "being purchaser of goods or services".

7 Determination of tax liability.

- After sub-section (4), the Bill seeks to add another sub-section (5) to empower the board to issue notification for imposition of restrictions on wastage of material on which input tax has been claimed in respect of the goods or class of goods".

8 Tax credit not allowed

- The Bill seeks to disallow tax credit to the registered person on the input tax on services as well attributable to supplies made to un-registered person, on pro-rata basis, for which sale invoices do not bear the NIC number of the buyer or NTN, as the case may be, of the recipient as stipulated in section 23.

11C Power of tax authorities to modify orders, etc.

- The Bill seeks to introduce following new section to give powers to the tax authorities to modify the order in light of the question of law decided by the ATIR or High Court as the case may be.

  (1) Where a question of law has been decided by a High Court or the Appellate Tribunal in the case of a registered person, on or after first day of July, 1990, the Commissioner or an officer of Inland Revenue may, notwithstanding that he has preferred an appeal against the decision of the High Court or made an application for reference against the order of the Appellate Tribunal, as the case may be, follow the said decision in the case of the said taxpayer in so far as it applies to said question of law arising in any assessment pending before the Commissioner or an officer of Inland Revenue, until the decision of the High Court or of the Appellate Tribunal is reversed or modified.

  (2) In case the decision of High Court or the Appellate Tribunal, referred to in sub-section (1), is reversed or modified, the Commissioner or an officer of Inland Revenue may, notwithstanding the expiry of period of limitation prescribed for making any assessment or order, within a period of one year from the date of receipt of decision, modify the assessment or order in which the said decision was applied so that it conforms to the final decision.

23 Tax Invoices

- The Bill proposed to increase the existing limit of **Rs. 50,000** to **Rs. 100,000** for collection of copy of NIC of the un-registered person.

25 Access to record, documents, etc.

- The Bill proposes the conduct of audit proceeding by Commissioner electronically through video links, or any other facility as prescribed by the Board.

26 Return.

- The Bill proposes to give strength to return to be filed by registered person by proposing addition of Comma and word ", Complete".

33 Offences and penalties

- The Bill proposes to reduce the period for the person who fails to integrate his business after imposition of penalty from existing 6 Months to 2 months to seal his business premises till such time he integrates his business in the manner as stipulated under sub-section (9A) of section 3.
- The Bill also proposes to introduce penalty of **Rs.25,000** for first default and **Rs.50,000** for each subsequent default on all authorities mentioned in section 56AB such as NADRA, FIA, Electricity Suppliers & any other authorities mentioned by the board required to provide Real-time access to information and databases but fail to do so.

38 Authorized officers to have access to premises, stocks, accounts and records

- The Bill proposes to give the officer authorized in this behalf by the Board or the Commissioner to real-time electronic access.

- Furthermore, the Bill proposes to introduce new sub-section (4) through which board may make rules relating to electronic real-time access for audit or a survey of persons liable to tax.

45B Appeals

- The Bill seeks to revamp the provisions relating to filing of appeal and accordingly provided more detailed documents required to file appeal before CIR.
- Furthermore, Bill seek to increase filing of appeal fee as follows: -
    - In case appellant is a company against an assessment or in any other case- **Rs.5,000.**
    - In case appellant is other than company against an assessment- **Rs.2,500.**
    - In case appellant is other than company against any other case- **Rs.1,000**
- Further, Bill proposes to add new sub-section (5) wherein, a bar on Commissioner (Appeals) put for not to admit any documentary material or evidence which was not produced before the OIR unless the Commissioner (Appeals) is satisfied that the appellant was prevented by sufficient cause from producing such material or evidence before the OIR.

47A Alternative Dispute Resolution (ADR)

- The Bill proposed to make some structural changes in the provisions relating to the ADR. Some of those major changes are as follows: -
    a. Appointment of Chief Commissioner Inland Revenue proposed to be made instead of Commissioner Inland Revenue.
    b. **Two** persons from a penal notified by the Board comprising of CA's, CMA's ADV's having ten years of experience and reputable businessman.

c. Committee shall decide the case within **120 days** of its appointment.

d. The Committee, in case of hardships, stay recovery of tax payable for a period not exceeding **120 days** in aggregate or till the decision of case whichever is earlier.

e. Decision of the Committee is binding on the Commissioner when aggrieved person, being satisfied with the decision, has withdrawn the appeal and communicated the order of withdrawal to CIR;

   Decision of Committee is not binding on CIR if withdrawal is not communicated to CIR within **60 days** of the service of decision of committee.

f. If Committee fails to decide the case within **120 days** board shall dissolve the committee and the matter be decided by the court of law where the dispute is pending.

g. The board shall communicate the dissolution order to court of law and CIR.

h. The aggrieved person communicates the order of dissolution to the court of law as well.

i. The aggrieved person may make payment of sales tax and other taxes as decided by committee at serial no. e above and all decision and order made or passed shall stand modified to that extent.

j. The Board may prescribe the amount to be paid as remuneration for the services of the members except the Chief Commissioner IR.

56 Service of orders, decisions etc.

- The bill seeks to make following minor changes in this section; -

(i) Scope of properly service of notice, order or requisition required, sent electronically through email or to the e-folder maintained for the purpose of e-filing of sales tax-cum-Federal excise returns extended for all registered person. Earlier, this was applicable only for limited companies, both public and private.

After section 56A, the following new section proposed be inserted, namely: –

56AB Real-time access to information and databases

(1) Notwithstanding anything contained in any law for the time being in force, including but not limited to the National Database and Registration Authority Ordinance, 2000 (Ordinance VIII of 2000), and the Emigration Ordinance, 1979 (Ordinance XVIII of 1979), arrangements shall be made to provide real-time access of information and database to the Board in the prescribed form and manner by–

(a) The National Database and Registration Authority with respect to information pertaining to National Identity Card (NIC), Pakistan Origin Card, Overseas Identity Card, Alien Registration Card, and other particulars contained in the Citizen Database;

(b) The Federal Investigation Agency and the Bureau of Emigration and Overseas Employment with respect to details of international entry and exit of all persons and information pertaining to work permits, employment visas and immigration visas;

(c) The Islamabad Capital Territory and Provincial and local land record and development authorities with respect to record-of-rights including digitized edition of record-of-rights, periodic record, record of mutations and report of acquisition of rights;

(d) The Islamabad Capital Territory and Provincial Excise and Taxation Departments with respect to information regarding registration of vehicles, transfer of ownership and other associated record;

(e) All electricity suppliers and gas transmission and distribution companies with respect to particulars of a consumer, the units consumed and the amount of bill charged or paid:

Provided that where the connection is shared or is used by a person other than the owner, the name and NIC of the owner and the user shall also be furnished:

Provided further that all electricity suppliers and gas transmission and distribution companies shall make arrangements by the 1st day of January, 2021 for allowing consumers to update the ratio of sharing of a connection or the particulars of users, as the case may be; and

(f) Any other agency, authority, institution or organization, notified by the Board.

(2) The Board shall make arrangements for laying the infrastructure for real-time access to information and database under sub-section (1) and aligning it with its own database in the manner as may be prescribed.

(3) Until real-time access to information and database is made available under sub-section (1), such information and data shall be provided periodically in such form and manner as may be prescribed.

(4) Subject to section 56B, all information received under this section shall be used only for tax purposes and kept confidential"

58A Representatives

- Bill seeks to appoint representative of a non-resident for a financial year in which the relevant tax period falls. Earlier financial year was not available.
- After Clause (f) the following explanation proposed to be added namely; -

  Explanation: - For the purposes of this sub-section, non-resident person shall have the same meaning assigned thereto under the Income Tax Ordinance, 2001 (XLIX of 2001)".

73 Certain transactions not admissible

The Bill proposed to restrict all **registered person** to make supplies to a person who has obtained registration under this Act excluding supplies not exceeding of **Rs.100 Million** in a financial year and **Rs.10 Million** in a month failing which suppliers shall not be entitled to claim credit adjustment or deduction of input tax as attributable to such excess supplies to unregistered person.

Earlier restriction was only applicable to manufacturer.

The Fifth Schedule

The Bill proposes to extend the scope of zero rating to the goods specified herein under with effect from June 01, 2020 subject to conditions and restriction attached thereto.

Sr. No	Description
(1)	**(2)**
13.	Supplies of raw materials, components and goods for further manufacture of goods in the Gwadar Free Zone and export thereof, provided that in case of supply to tariff area of Pakistan, tax shall be charged on the value assessed on the Goods Declaration for import
14.	Supplies of locally manufactured plant and machinery of the following specifications, to manufacturers in the Gwadar Free Zone, subject to the conditions, restrictions and procedure given below, namely: – (i) Plant and machinery, operated by power of any description, as is used for the manufacture or production of goods by that manufacturer. (ii) Apparatus, appliances and equipment specifically meant or adapted for use in conjunction with the machinery specified in clause (i). (iii) Mechanical and electrical control and transmission gear, meant or adapted for use in conjunction with machinery specified in clause (i). (iv) Parts of machinery as specified in clauses (i), (ii) and (iii), identifiable for use in or with such machinery. **Conditions, restrictions and procedures: –** a) The supplier of the machinery is registered under the Act; b) Proper bill of export is filed showing registration number; c) the purchaser of the machinery is an established manufacturer located

	in the Gwadar Free Zone and holds a certificate from the Gwadar Port Authority to that effect; d) The purchaser submits an indemnity bond in proper form to the satisfaction of the concerned Commissioner Inland Revenue that the machinery shall, without prior permission from the said Commissioner, not be sold, transferred or otherwise moved out of the Gwadar Free Zone before a period of five years from the date of entry into the Zone; e) If the machinery is brought to tariff area of Pakistan outside Gwadar Free Zone, sales tax shall be charged on the value assessed on the Goods Declaration for import; and f) Breach of any of the conditions specified herein shall attract legal action under the relevant provisions of the Act, besides recovery of the amount of sales tax along with default surcharge and penalties involved.

The Sixth Schedule - Exemptions

- The bill seeks to make following changes in the Schedule:
- Machinery, equipment, materials and goods imported either for exclusive use within the limits of Gwadar Free Zone, or for making exports there from proposed to be exempted subject to some conditions.
- Exemption on Import and supply of ships and all floating crafts including tugs, dredgers, survey vessels and other specialized crafts etc. proposed to be extended till 2023 form existing 2020.
- Serial No. 154 proposed to be added through which exemption extended to import of Dietetic foods intended for consumption by children suffering from inherent

metabolic disorder subject to the conditions that the importer shall acquire approval and quota from Ministry.

- The Bill proposes to replace following Serial No. 15A in table-III of the 6th Schedule to the Sales Tax Act, 1990.

15A.	Parts and Components for manufacturing LED lights: -		
	(i) Housing /shell. Shell cover and base cap for all kinds of LED lights and bulbs	Respective Heading	If imported by LED light manufacturers registered under the Sales Tax Act, 1990 subject to annual quota determination by the Input Output Co-Efficient Organization **(IOCO)**.
	(ii) Bare and stuffed Metal Clad Printed Circuit Boards (MCPCB) for LED	8534.0000	
	(iii) Constant Current Power Supply for of LED Lights and Bulbs (1-300W).	8504.4090	
	(iv) Lenses for LED lights and bulbs.	9001.9000	

The Eighth Schedule – Goods Subject to Special Rates

- Following amendments are proposed in table-I of Eighth Schedule to the Sales Tax Act, 1990.

S. No	Description	New Rate	Remarks/Condition
56.	Potassium Chlorate (KCLO3)	17% along with rupees [80] per KG	Existing rate of 70 proposed to be enhanced to Rs.80 Per kg

66.	Supplies as made from retail outlets as are integrated with Board's computerized system for real-time reporting of sales.	12%	If supplied goods are finished fabric, and locally manufactured finished articles of textile and textile made-ups and leather and artificial leather subject to the condition that they have maintained 4% value addition during the last six months.

- The bill proposes to omit the words "Under this notification" which have no material effect.

The Ninth Schedule – Goods Subject to Special Rates

- Following amendments are proposed at serial No. 2 of the Ninth Schedule to the Sales Tax Act, 1990.
- Against Cell phone of Category, A, not exceeding US$ 30, exclusion is proposed to be given to smart phone by adding the expression "excluding smart phones".
- Against Cell phone of Category B, exceeding US$ 30 but not exceeding US$ 100 smart phone valuing up to US$ 30 included by adding the expression "including smart phones valuing up to US$ 30".

The Eleventh Schedule

- Following amendments are proposed to the Eleventh Schedule to the Sales Tax Act, 1990.
- Wording proposed to be substituted for items excluded for withholding of sales tax and were provided after the table, now proposes to be renumbered as the clauses i to viii.
- Registered person proposed to be called as "Active Taxpayer".

- Un-registered person proposed to be called as "Persons other than Active Taxpayers".

The Twelfth Schedule- Levy and collection of tax on specified goods on value addition

The following change is proposed to be made in the Twelfth Schedule of the Sales Tax Act, 1990.

(2) The value addition tax under this Schedule shall not be charged on, —

(i) Raw materials and intermediary goods imported by a manufacturer for in-house consumption;

Earlier scope of this provision was also available to raw material & Intermediary goods meant for use in an industrial process which were subject to customs duty at a rate less than **16%.**

Federal Excise Act, 2005

6 Adjustment of duties of excise.

- This bill proposed to add a new sub-section after sub section (2A) as follows:

  "(2AB) Notwithstanding anything contained in this Act or the rules made thereunder, the Board may, by notification in the official Gazette, may impose restrictions on wastage of material on which input tax has been claimed in respect of the goods or class of goods.";

  A parallel change has been proposed in STA, 1990, as well for imposition of restriction on wastage of material on which input tax has been claimed in respect of the goods or class of goods.

14C Power of tax authorities to modify orders, etc.

- The bill also seeks same change to be made in STA, 1990 with respect to modify the order by tax authorities. The text has already been provided in STA, 1990 portion.

26 Power to Seize.

- This Bill seeks to revamp the sub-section (1) by simplifying the wording of the sub-section (1) as follows:

  (1) The counterfeited cigarettes or beverages which have been manufactured or produced unlawfully and other dutiable goods on which duty of excise has not been paid in the manner as required under this Act and the rules made thereunder, shall be liable to seizure along with the conveyance, which has been used for the movement, carriage or transportation of such goods.

27 Confiscation of goods subject to FED.

- This bill proposes to change the name of this section from "Confiscation of cigarettes, un-manufactured tobacco or beverages" to "Confiscation of goods subject to Federal Excise Duty". -
- In subsection (2) the bill seeks to substitute the words "cigarettes, un-manufactured tobacco or beverages" wherever occurring to the words "dutiable goods"

33 Appeals to Commissioner (Appeals).

- This bill seeks to introduce a new sub-section after subsection (1A) by making some structural changes parallel to the changes proposed to STA, 1990:
- Furthermore, fee of filing of appeal proposed to **Rs.5,000** in case appellant is a company & Fee of **Rs.2,500** in case appellant is other than company for assessment case and **Rs.1,000** for cases other than assessment.

34 Appeals to the Appellate Tribunal

- This bill seeks to add a new sub-section (3) after subsection 1 and omitted sub-section (2) as follows
- (3) The Appellate Tribunal may admit, hear and dispose of the appeal as per procedure laid down in sections 131 and 132 of the Income Tax Ordinance, 2001 (XLIX of 2001), and rules made thereunder.";

38 Alternative Dispute Resolution

- The Bill proposes to bring some structural changes to the ADR which are same proposed in STA, 1990 and duly elaborated in respective section of STA, 1990.

42B Selection for audit by the Board.

- The bill proposed to add a new subsection after subsection (1) in section 42B as follows:
- "(1A) notwithstanding anything contained in this Act or any other law, for the time being in force, the Board shall keep the parameters confidential."

46 Audit.

- As per earlier sub-section (10), the audit of a registered person can be conducted only once in every three years however, the bill proposed to omit sub-section (10) resultantly audit may be conducted even in every year.

47AB Real-time access to information and databases.

- After section 47A, a new section has been proposed and same section has been proposed in STA, 1990 and elaborated in that part.

The First Schedule.

- Following insertions and substitution are proposed in First Schedule to the Federal Excise Act, 2005.

Sr. No	Description of Goods	New Rate of Duty
6a	Caffeinated energy drinks	25% of retail price
8	Cigars, cheroots, cigarillos and cigarettes, of tobacco and tobacco substitutes	100% of retail price

8a	E-liquids by whatsoever name called, for electric cigarette kits	Ten rupee per ml
13	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not colored or in the form of clinkers.	One Rupee and Seventy-five paisa per KG
55C	Imported double cabin (4x4) pick-up vehicles	25% ad val
55D	Locally manufactured double cabin (4x4) pick-up vehicles	7.5% ad val"; and
56	Filter rod for cigarettes	One Rupee per filter rod

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