

# SALIENT FEATURES

## Customs – Budget FY 2020-21

### Industrial Relief Measures

1. Exemption of additional custom duties on those tariff lines which are now @ 0% customs duty in tariff.
2. Reduction of custom duty on 40 raw materials of various industries.
3. Tariff rationalization under National Tariff Policy 2019, by reducing customs duty on 90 tariff lines from 11% to 3% and 0%.
4. Allowing the exemption on import of raw material to those Nashiran-e-Quran also who do not have their own in-house printing facility.
5. Reduction in regulatory duty from 12.5% and 17.5% to 6% and 11%, respectively on Hot Rolled Coils (HRC) of Iron and steel falling under PCT codes 7208 and 7225& 7226, respectively.
6. On the request of various local industries, a number of their inputs/intermediary raw materials are being allowed concessional import under new serial number of the fifth schedule through IOCO quota determination.
  - Exemption of custom duties on import of raw materials by manufacturers of Butyl Acetate.
  - Exemption of custom duty on import of raw material by manufacturer of syringes and saline infusion sets.
  - Exemption of customs duties on import of raw material by manufacturers of buttons.
  - Reduction in custom duty on import of raw material by manufacturers of interlining/buckram.
  - Reduction of custom duty and exemption of additional custom duty and regulatory duty on import of raw materials by manufacturers of Wire rod

- Exemption of custom duties and regulatory duty on import of machinery, equipment and other project related items for setting up of internet cable landing stations.
- Exemption of custom duties on import of raw material by beverage can manufacturers.
- Reduction in Custom duty and exemption from Additional custom duty on import of raw material by food packaging industry.

### **Relief to Common Man**

1. Exemption from customs duties on import of 61 COVID19 related items, which was due to expire on 20<sup>th</sup> June has been extended due to the continuation of pandemic.
2. Exemption from 2% ACD on import of edible oils and oil seeds under PM's COVID19 Relief Package has been extended.
3. Exemption of duties & taxes on import of Dietetic Foods for Children with inherited metabolic disorders.
4. Exemption of all duties & taxes on import of Diagnostic Kits for Cancer and Corona Virus.
5. Exemption of Customs duties on inputs of Ready to use Supplementary Foods (RUSF).
6. Exemption of Customs duties on import of life saving drug Meglumine Antimonite for treatment of leishmaniasis.
7. Extension up to 2023, in exemption of customs duties on imports for setting up new industries in erstwhile FATA area.

### **Miscellaneous**

1. Reduction in regulatory duty on smuggling prone items to bring these items under legal imports
2. Regulatory duty on several industrial inputs is also being reduced to decrease their cost of doing business
3. Tariff protection for domestic industry by increasing/levy of regulatory duty on import of those items which are also locally manufactured

4. Incentivizing soap manufacturing industry by reducing rate of Additional customs duty on Palm Stearin
5. Enhancing scope of concessions available to Special Economic Zones

# **SALIENT FEATURES**

## **SALES TAX**

The proposed budgetary measures pertaining to Sales Tax for FY 2020-21 are:

### **RELIEF MEASURES**

1. The minimum threshold of supplies by retailers for obtaining CNIC of the buyers is proposed to be increased from Rs 50,000 to 100,000;
2. In wake of COVID-19, the Federal Government granted exemption to health related items and equipment through SRO 237(I)/2020 dated 20-3-2020 which is going to expire on 19-6-2020. In the present circumstances vis-à-vis COVID-19, the said period is being extended for another three months starting from the 20th June 2020.
3. Exemption allowed on import of dietetic foods intended for special medical purposes for the children suffering from Inherited Metabolic Syndrome;

### **MEASURES FOR REMOVAL OF ANOMALIES**

- 3(a) In order to encourage documentation, it has been decided to provide relief to organized retail sector which is integrated online with FBR through Point of Sale system. Their existing sales tax rate is proposed to be reduced from 14% to 12%
4. Eleventh Schedule (withholding tax) is proposed to be amended to provide for deduction of the entire sales tax by the purchaser if the supplier is a Non-Active Taxpayer;
5. Rationalization of sales tax of Potassium Chlorate from Rs 70 to Rs 80 per kg to discourage illicit manufacturing of match boxes.

## **STREAMLINING MEASURES**

6. Concept of conducting audit proceedings through electronic means introduced;
7. Ninth Schedule is proposed to be amended in line with Mobile Manufacturing Policy approved by the ECC of the Cabinet;
8. Amendment in the Twelfth Schedule – excluding from VAT the manufacturers importing raw materials and intermediary goods for in-house consumption;
9. Insertion of the Tax Laws Amendment Ordinance 2019, relating to tax concessions and exemptions to Gawadar Port and Gawadar Free Zone, in the Finance Bill 2020;
10. To strengthen the Alternate Dispute Resolution process and to make it more taxpayer-friendly, it is proposed that the taxpayer is allowed to withdraw his case from any court of law or any appellate authority after decision of ADRC. Furthermore, the decision of ADRC, once it is conveyed by the taxpayer to the tax authorities, is binding upon the tax authorities;
11. The following corrective and enforcement measures are proposed:

<b>S. No.</b>	<b>Section</b>	<b>Amendments proposed</b>
1	Section 2(1): “active taxpayer”	Allowing the taxpayers to file a quarterly withholding statement rather than monthly statement.
2	Section 2(20): “output tax”	Output tax is proposed to be restricted to sales tax on services under ICT (Tax on Services) Ordinance, 2001

3	Section 2(46): “value of supply”	<ul style="list-style-type: none"> <li>• Inclusion of WAPDA as a supplier of the electric power generation; effective from 1-7-2019</li> <li>• Value of supply for used cars by car dealers will be the differential of sale price and purchase price</li> </ul>
4	Section 8(1)(m): Tax credit not allowed	The word “services” is proposed to be added to enlarge the scope of disallowance related to supplies where CNIC/NTN of purchaser is not obtained
5	Section 33 (S. No. 25) – Penalty for non-integration with Board’s computerized system	<ul style="list-style-type: none"> <li>• Period of default of six months for levy of 2<sup>nd</sup> penalty upon persons for non-integration with Board’s computerized system is proposed to be reduced to two months;</li> <li>• Penalty of embargo removed</li> </ul>
6	<b>Appeals:</b> Section 45B of ST Act 1990	Bars the Commissioner (Appeals) from accepting any evidence not presented before assessing officer;
7	Serial 103 of Table-I of Sixth Schedule – Import and supply of ships chartered by a Pakistan entity and flying the Pakistan flag	Exemption extended till 2023 in line with the Marine Policy
8	Serial 15A of Table 3 of the Sixth Schedule – Components for manufacturing LED lights	The existing table is proposed to be substituted with that of the table as given in the Customs Act to harmonize both the laws.

12. Power of tax authorities to modify orders, etc. pending adjudication in the light of question of law decided by higher courts regardless of appeal against the same is proposed;
13. The scope of section 73 is proposed to be widened to cover all registered persons supplying taxable goods;
14. Board is empowered to fix minimum production on the basis of single or more inputs and for fixation of wastage;
15. Real-time access to information and databases to the Board by various authorities such as NADRA, FIA, provincial excise & taxation departments etc.

# **SALIENT FEATURES**

## **FEDERAL EXCISE DUTY**

The proposed budgetary measures pertaining to Federal Excise Duty (FED) for FY 2020-21 are:

### **HEALTH RELATED MEASURES**

1. Increase in the rate of FED on cigars, cheroots , and cigarillos and cigarettes from 65% to 100% of retail price; increase in the rate of FED on filter rods from Rs 0.75 to Rs 1 per filter rod;
2. Levy of FED on e-liquids of electric cigarettes @ Rs 10 per ml.
3. Levy of FED on caffeinated energy drinks @ 25%;

### **MEASURES FOR REMOVAL OF ANOMALIES**

4. Levy of FED @ 7.5% ad valorem in case of locally manufactured double cabin (4x4) pick-up vehicles and @ 25% in the case of imported ones.
- 4(a) In the wake of worsening affect of COVID-19 and reduction in production of cement, it has been proposed to reduce FED on cement from Rs. 2 per kg to Rs. 1.75 per kg.

### **STREAMLINING MEASURES**

5. Concept of conducting audit proceedings through electronic means introduced;



6. To strengthen the Alternate Dispute Resolution process and to make it more taxpayer-friendly, it is proposed that the taxpayer is allowed to withdraw his case from any court of law or any appellate authority after decision of ADRC. Furthermore, the decision of ADRC, once it is conveyed by the taxpayer to the tax authorities, is binding upon the tax authorities;
7. Amendment in Section 33 of FED Act 2005 is proposed to bar the Commissioner (Appeals) from accepting any evidence not presented before assessing officer;
8. Power of tax authorities to modify orders, etc. pending adjudication in the light of question of law decided by higher courts regardless of appeal against the same is proposed in FE Act;
9. Board is empowered to fix minimum production on the basis of single or more inputs and for fixation of wastage;
10. The scope of seizure of non-duty paid goods is extended to all products subject to FED besides cigarettes and beverages;
11. Real-time access to information and databases to the Board by various authorities such as NADRA, FIA, provincial excise & taxation departments etc.

# **SALIENT FEATURES**

## **BUDGET 2020-21**

### **INCOME TAX**

#### **RELIEF MEASURES**

- **Deletion of Withholding Taxes**

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

<b>Section</b>	<b>Short Description</b>
236R	Collection of advance tax on education related expenses remitted abroad
235B	Tax on steel melters and composite units
156B	Withdrawal of balance under pension fund
148A	Tax on local purchase of cooking oil or vegetable ghee by certain persons
236D	Advance tax on functions and gatherings
236F	Advance tax on cable operators and other electronic media
236J	Advance tax on dealers, commission agents and arhatis etc.
236U	Advance tax on insurance premium
236X	Advance tax on tobacco

This measure would reduce the cost of the compliance of taxpayers, enhance the control of FBR over the withholding tax regime and would be pivotal in promoting ease of doing business.

- **Enhancement of Threshold for Becoming Prescribed Person for Withholding of Tax on Supplies, Services and Contracts**

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.

- **Reduction in Holding Period and Tax Rates for Capital Gain on Immoveable Property**

to incentivize and propel economic activity in the real estate sector, the bifurcation of plots and constructed property for determining holding period of capital gains is being done away with i.e. the holding period for taxation of capital gains on disposal of immovable property is being restricted to 4 years. In addition, rates are also being reduced on capital gains emanating from disposal of immovable property.

- **Increase in Threshold of Section 21(l)**

In order to promote ease of doing business and reduce compliance cost for taxpayers running businesses 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/-.

- **Increase in Threshold of Section 21(m)**

To promote ease of doing business and reduce compliance cost for taxpayers running businesses, 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.

- **Enabling Adjustability of Property Expenses for All Individuals/AOPs**

In order to provide a level playing field to all individuals and AOPs, and remove distortion in the taxation of property income derived by individuals and AOPs, the option of claiming expenses is being accorded to all individuals and AOPs irrespective of their property income if they choose to pay tax applicable to them as per Division I, Part I of the First Schedule.

- **Exempting Withholding Tax on Cash Withdrawal to the extent of Foreign Remittances**

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.

- **Promoting Investment in Government Debt Instruments**

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.

- **Issuance of Centralized Income Tax 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.

- **Hajj Operators to be Exempted from Withholding Tax on Payments to Non-Residents**

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

- **Explanation for excluding Vehicles Up to 200cc from the Ambit of Advance Tax**

An explanation is being 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.

- **Advance Tax on Auction of Immovable Property to be Collected in Installments**

An explanation is being added to the effect that where payments in respect of auction of property are received in instalments, the advance tax on auction of such immovable property shall also be collected in instalments in accordance with the intent of law.

- **Prompt Issuance of Exemption Certificates to Public Listed Companies**

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.

- **Collection of Advance Tax by Educational Institutions not to Apply to Persons on the ATL**

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.

- **Issuance of Exemption Certificate to Commercial and Industrial Consumers of Electricity**

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.

- **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.

- **Agreed Assessment**

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.

- **Strengthening Alternate Dispute Resolution Mechanism**

Taxpayers being apprehensive of binding nature of ADRC's 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.

- **Reduction in Rate for Permanent Establishments of Non-Resident Persons**

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.

- **Concession to Co-Developers of Special Economic Zones**

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.

- **Withholding Tax Rate on Toll Manufacturing**

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.

- **Reduction in Tax Withheld from Offshore Supplier under an EPC Contract**

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.

- **Extension of Exemption to profit from Sale of Immoveable Property to Extension in Exception for Development REITs**

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 30<sup>th</sup> June 2021.

- **Taxation Of Resident Shipping Companies**

The amendments are being made to provide an incentivized rate to new Pakistan resident ship owning companies and shall also extend the sunset clause of section 7A from 2020 to 2023.

## **PROCEDURAL MEASURES**

- **Taxpayer's 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 endeavouring to obtain all the relevant information in the income tax return, a



taxpayers 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.

- **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 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.

- **Information Regarding Certain Economic Transactions**

The government is committed to enhancing the Tax-to-GDP ratio and to augment efforts towards tax base. Therefore, withholding agents are being required to file quarterly statements of certain economic transactions. Statements of such economic transactions may be filed in respect of such sectors as notified by the Board.

- **Real-Time Access to Databases of Certain Organizations**

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.

- **Audit on the Basis of Benchmark Ratios**

Variation from sectoral benchmark ratio is a basis for audit and assessment. Therefore, under the amendment being made, 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.

- **E-Audit**

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.

- **Strengthening Compliance Regime of Non-Profit / Welfare Organizations**

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. Further, the definition of 'NPO' is being amended to include only such organizations under the ambit of the definition which are for the benefit of general public.

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.

- **Advance Tax On Extraction of Minerals to Extend to Persons on The Active Taxpayers List**

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.

- **Electricity Expense to be Treated as an Inadmissible Business Deduction**

To complement efforts towards broadening of the tax base and documentation of the economy, electricity expense is being allowed as an expense against business income subject to adherence to certain conditions.

- **Disallowance of Business Expenditure Proportionate to Sales Made to Sales Tax Unregistered Persons**

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 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.

- **Uniformity in Tax Rate for Profit on Debt**

To augment efforts for ease of doing business by banks a uniform rate of 15% is being specified on profit on debt. However, tax shall be deducted @ of 10% if the recipient of profit furnishes a certificate to the pair of profit that his income from profit on debt during the year is upto rupees 500,000.

- **Aligning Withholding and Charging Tax Rates - Dividends**

Currently, dividend is taxed at 25% if received from a company not liable to pay tax. However, the withholding tax rate on distribution of such dividend is 15%. The difference in the withholding and the charging rates has created an anomaly which is being removed by synchronizing both rates.

- **Aligning Withholding and Charging Tax Rates - Return on Investment in Sukuks**

In the existing law, the rate of tax u/s 5AA on return on investment in Sukuks received from a Special Purpose Vehicle is 25%. However, the withholding tax rate is 15%. The difference in the withholding and the charging rates has created an anomaly which is being removed by synchronizing both rates.

- **Introducing Parity between Permanent Establishment (PE) of Non-Residents and Resident Persons**

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.

- **Minimum Tax on Permanent Establishments of Non-Resident Persons**

Minimum tax under section 113 is currently levied on resident companies, individuals and AOPs. The scope of levy of minimum tax is being extended to permanent establishments of non-resident persons.

- **Minimum Tax on Manufacturing Modarabas**

Income derived by modarabas from manufacturing or trading activity is chargeable to tax but such modarabas are entitled to exemption from minimum tax. To remove this anomaly, manufacturing / trading modarabas are proposed to no longer be entitled to exemption from minimum tax.

- **Rationalizing Depreciation Deduction based on the Half Year Rule**

To rationalize accelerated deductions being offered to assets in their year of acquisition, 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 amendment is in line with international best practices.

- **Limiting Interest Deductibility to Foreign Affiliates**

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.

## **TECHNICAL MEASURES**

- **Pre-Condition of Payment of Ten Percent Tax for Filing Appeal Before the Appellate Tribunal**

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).

- **Permission Of The Commissioner For Revising Wealth Statement**

Revision of the wealth statement is being made conditional to the Commissioner's approval, as in case of return of income.

- **Exemption From 100% Higher Withholding Rates For Non-Residents**

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.

- **Explanation Regarding Renewal Of Licenses And Payment By Installments in Case of Sale of Property 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.

- **Simplifying Declaration through filling of return u/s 114 instead of filling statements under section 115(4)**

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).

- **Revision of Prescribed Fee Structure for Appeals Filed to Commissioner (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 are 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/-.

- **Revision of Prescribed Fee Structure for Appeals Filed Before the Appellate Tribunal**

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.

- **Rationalizing Tax Regime for Non-Resident Media Persons**

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.

- **Augmenting Recovery Measures Under Section 138**

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.

- **Technical Correction in Subsection (1a) of Section 210 Regarding Amendment of Recovery Order under section 161(1)**

Technical correction is being made in sub-section (1A) of section 210 whereby the Commissioner has been empowered to delegate amendment of an order of recovery under sub-section (3) of section 161 to an officer not below the rank of Additional Commissioner.

- **Penal Provision at Serial No 4a of the Table in Section 182(1) for Failing to Furnish Taxpayer Profile or Failing to do it by Due Date.**

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.

- **Penal Provision At Serial No. 4B Of The Table In Section 182(1) For Contravention Of Section 181AA**

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 provision 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.

- **Extension of Applicability of Existing Rates on Disposal of Capital Gain on Securities**

Tax rates on capital gain on disposal of securities in terms of Division VII, Part-I of the First Schedule under section 37A of the Ordinance are being extended to Tax Year 2021 and onwards.

- **Omission of Engineering Services from Reduced Rate Benefit**

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

- **Technical Correction in the Rate of Super Tax for Banks**

Super tax is being extended up to Finance Year 2021 vide Finance Act, 2019. It is proposed that Rule 7C of the Seventh Schedule may be updated by replacing 2020 with 2021.

- **Rationalization of Cost of Transport Vehicle for Claiming Deduction on Account of Lease Rentals**

In certain cases, costly vehicles are taken on lease and heavy deductions are claimed to reduce tax incidence. An amendment is, therefore, being made in section 28(1) to introduce an upper limit of Rs. 2.5 Million on cost of transport vehicles not plying for hire.

- **Filing of Withholding Statements under section 165 on Quarterly Basis**

At present, withholding tax agents are obliged to file withholding tax statements on a biannual basis. In order to augment efforts towards effective monitoring of withholding tax agents, amendments are being so that withholding tax statements are filed on a quarterly basis.

- **Tax Deducted by Prescribed Person at the Time of Payment for Use of Machinery or Equipment Shall be Minimum Tax**

Section 236Q requires prescribed person to deduct tax while making payment for use or the right to use scientific and commercial equipment or making



payment on account of rent of machinery. Advance tax withheld under this section constitutes final tax. Such tax is being made minimum as a step towards phasing out of the presumptive tax regime.

- **Enabling Amendment on the Basis of Audit**

Presently, amendment under section 122 may be made on the basis of definite information acquired from an audit or otherwise subject to fulfilment of certain other conditions. Enabling provision are being inserted whereby amendment in assessment under section 122 can also be made in pursuance of audit alone independent of the requirement of obtaining definite information from such audit.

- **Amendment under section 205**

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.

- **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.

- **Filing of Particulars as may be Prescribed Upon Furnishing of Notice for Payment to a Non-Resident Person**

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.

- **Filing Application under section 152 (4A) on Prescribed Form**

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.

- **Incorporation of Exemptions Issued through Delegated Legislation in Substantive Law**

Necessary amendment is being made to incorporate the exemptions from withholding tax provided vide SRO. 586(I)/1991 dated 30.06.1991, SRO. 947(I)/2008 dated 05.09.2008 and SRO. 1053(I)/2010 dated 22.11.2010 into the Income Tax Ordinance, 2001.

- **Incentivizing and Promoting the Construction Industry**

Necessary amendment is being made to lay the incentives provided to the construction industry through the Tax Laws (Amendment) Ordinance, 2020 before the Parliament.

- **Tax Exemptions and Concessions for the Gwadar Port and the Gwadar Free Zone**

Necessary amendment is being made to lay the incentives provided to the Gwadar Port and the Gwadar Free Zone through the Tax Laws (Second Amendment) Ordinance, 2020 before the Parliament.

- **Incorporation of Relief measures provided through SROs during the COVID pandemic**

The Federal Government took various emergency measures in view of the situation prevailing because of the COVID pandemic. These measures are being made part of the main statute.