

Ref : KTBA/10.2021/268

Date : October 25, 2021

Dr. Muhammad Ashfaq Ahmed,
Hon'ble Chairman,
Federal Board of Revenue,
Islamabad.

**PRACTICAL ISSUES WITH RESPECT TO REQUIREMENTS OF
"DIGITAL MODE OF PAYMENT" FOR COMPANIES**

Dear Dr. Muhammad Ashfaq Ahmed Sahab,

We, the Karachi Tax Bar Association (KTBA), seek your kind attention towards recently inserted sub-section (1a) in section 21 of the Income Tax Ordinance, 2001, whereby in the cases of the Companies, it has been made mandatory to incur business expenditures for its admissibility broadly via digital means. This new provision of law promulgated through Tax laws (Third Amendment) Ordinance, 2021 is required to be implemented from November 01, 2021.

We at KTBA feel that the condition is remarkably in contradiction with other modes of payment through banking channels, which is historically remained in practice and is widely accepted under the provisions of the Income Tax Ordinance, 2001. We feel that this provision of law is antibusiness; sans due diligence and is incorporated without taking the stakeholders into confidence. Additionally, it is not practical for many business houses. A summary explaining certain situations (and by no means a complete synopsis) is given below:

- (a) You will appreciate that it is normal business practice that in lieu of advance delivery of goods, the buyer tenders its payment by way of post-dated cheques, which is normally accepted by the other party and is inherently a secured way of making the payment. We are afraid that this law of "digital mode of payment" is surely going to hamper the business activities, as it does not cater the situation and solution of such transactions.
- (b) Normally, it is a practice that, the port terminal charges, wharfage charges, charges for clearance of delivery orders etc., are paid in advance through crossed cheques or pay-orders. We understand that presently, the businesses, including but not limited to Port Terminal Operators and Shipping Lines, are unaware and are not ready for implantation of this "digital mode of payment". In our view, it needs a rigorous awareness campaign for them.
- (c) Furthermore, we feel that the similar issues are likely to arise and are to be faced by the Companies for making payments to the growers of various agricultural crops such as sugar cane, rice, cotton, wheat etc. We feel that a rigorous campaign is also required for the recipients of such payments.

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- (d) Moreover, in our view this “digital mode of payment” is also impractical and is likely to affect the business transactions in the cases where petty cash payments, in aggregate exceed millions of rupees, which cannot be made digitally.
- (e) Furthermore, we understand that various banks have fixed their own limitation on the quantity of making digital/online payments in a day and have also fixed the threshold of the amount and they do not allow to exceed the threshold limit fixed by them. In our view, this also needs a proper campaign without which the implementation of the law is not possible.

We are sure that you will come across with the other impediments on the subject in times to come.

We strongly believe that, unless there is a wide off the mark in conventional banking transaction, this move is likely to create lots of trouble for the Corporate Sector. It is, therefore, suggested that the mandatory condition of “digital mode of payment” for Companies as envisaged U/s. 21 (1a) of the Income Tax Ordinance, 2001, be allowed to run simultaneously with other conventional modes of payments for at least a year so that their business is not affected and is smoothly run till they are aware of this change in the mode of payment.

In the meanwhile, we are willing to further assist you in this episode.

Thanking you,
Yours sincerely,



(Muhammad Zeeshan Merchant)

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C.C. to:

- i. **Mr. Afaq Ahmed Qureshi**, Member (Inland Revenue - Policy), FBR, Islamabad.
- ii. **Mr. Qaiser Iqbal**, Member (Inland Revenue - Operations), FBR, Islamabad.
- iii. **Dr. Ashfaq Ahmad Tunio**, Member IT (Information Technology), FBR, Islamabad.
- iv. **Syed Ghulam Abbas Kazmi**, Member (Legal), FBR, Islamabad.
- v. **Mr. Rana Munir Hussain**, President, Pakistan Tax Bar Association.
- vi. **Press and Media.**