

Ref : KTBA/07.2021/242

Date : July 28, 2021

Mr. Asim Ahmad,  
Hon'ble Chairman,  
Federal Board of Revenue,  
Islamabad.

**ANOMALOUS UNDERSTANDING OF SECTION 154A OF INCOME TAX ORDINANCE 2001 BY BANKS WITH REFERENCE TO WITHHOLDING TAX COLLECTION OF 1% INCOME TAX ON EXPORT PROCEEDS FROM I.T. AND I.T. ENABLED SERVICES**

*Respected Asim Ahmad Sahab,*

Your necessary attention is invited to a recent anomaly cropped up owing to the erroneous understanding of the "Section 154A - Export of Services" (inserted in the Income Tax Ordinance 2001 via Finance Act, 2021) by the Banks with reference to withholding/collection of export proceeds from computer software and I.T. enabled Services.

As you are cognizant of the fact that exemption available to export of computer software and other IT enabled Services under clause (133) Part I of the Second Schedule to Income Tax Ordinance, 2001 was replaced (subject to certain stipulations) by one hundred percent tax-credit under Section 65F inserted provisionally via Tax Laws (Second Amendment) Ordinance, 2021 and conclusively in Finance Act, 2021.

It is thus safe for a taxpayer to claim tax-credit indigenously, upon complying conditions mentioned in sub-section (2) of Section 65F *ibid*, without seeking specific exemption from concerned Commissioner Inland Revenue.

The reality, however, is quite to the contrary as Banks who facilitate export proceeds have started deducting tax under the newly introduced Section 154A of the Income Tax Ordinance, 2001 (Ordinance), on export proceeds of computer software/other I.T. enabled services as well, albeit, such exporters are entitled for one hundred percent tax-credit in line with Section 65F of the Ordinance. Needless to mention that Section 154A is fundamentally for export proceeds from service other than I.T. Exports.

Alternatively, some Banks have also placed a requirement for withholding exemption certificate from Commissioner Inland Revenue, on the score of Section 159 read with Section 154A of the Ordinance.

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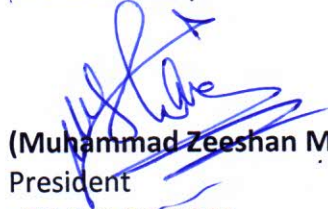
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The above understanding along with the requirement of the Banks with reference to export of computer software/other I.T. enabled Services has misgivings for being adopted without keeping Section 65F ibid, into consideration.

Given the above scenario, we believe that rather than enforcing requirement of exemption certificate on the score of Section 159 read with Section 154A of the Ordinance, the FBR will issue directions to Banks not to withhold tax under section 154A of the Ordinance from exporters of software/I.T. enabled services subject to the condition that such taxpayer provide registration from PSEB/P@SHA together with an undertaking as to compliance of Section 65F (2) ibid.

Thanks for your compassionate understanding.

Yours sincerely,



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C.C to:

- i. **Dr. Muhammad Ashfaq Ahmed**, Member-IR (Operations), FBR, Islamabad
- ii. **Ch. Muhammad Tarique**, Member-IR (Policy), FBR, Islamabad.
- iii. **Mr. Sajidullah Siddiqui**, Member (Information Technology), FBR, Islamabad.
- iv. **Mr. Aftab Hussain Nagra**, President, Pakistan Tax Bar Association.
- v. **Press and Media.**