

FEDERAL INCOME TAX PROPOSALS

FOR THE FEDERAL BUDGET 2021 – 22

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INCOME TAX PROPOSALS HAVE BEEN DIVIDED UNDER THE FOLLOWING CATEGORIES

S.No.	Description	Page No.
A Salvaging the Manufacturing Sector		
1.	Amendment in definition and requirements related to Greenfield industrial undertaking	06
2.	Payment made under SWWF and SWPPF proposed to be included in section 60A and 60B respectively	06
3.	Re-introduction of tax credit on registered sales under section 65A	06
4.	Extension of tax credit on employment generation under section 64B	07
5.	Extension of tax credits under sections 65B, 65D and 65E	07
S.No.	Description	Page No.
B Proposal for salvaging the Corporate Sector		
1.	Reduction in corporate rate of tax	08
2.	Blanket exemption from minimum tax for entities exempt from tax under the Ordinance	08
3.	Reduction in minimum tax under section 113	09
4.	Abolishment of Alternative corporate tax under section 113C	09
5.	Restriction on setting off of depreciation losses	10
6.	Restricted cost of vehicle	11
7.	Abolishment of section 108B	11
8.	Abolishment of section 21(ca)	12
9.	Amendment in Section 21(l)/(m) relating to disallowances of for expenses paid other than through banking channel	12
10.	Amendment in section 97A in respect of Merger within wholly owned group companies	13
11.	Restoration of exemptions on Incorporate Dividend	13
S.No.	Description	Page No.
C Taxation and withholding tax regime under section 148 and 153		
1.	Amendments required under section 148 and 153	15
2.	Collection of tax at import stage	15
3.	Withholding tax regime for service sector	16
4.	Amendment in respect of collection of tax at import stage from commercial traders	18
5.	Contract and services rendered outside Pakistan	18
6.	Collection of tax at import stage- Issue related to closing stock	19

S.No.	Description	Page No.
D Proposals regarding taxation of property income		
1.	Amendments in tax regime on rental income of property income	20

S.No.	Description	Page No.
E Capital gains taxation on securities		
1.	Amendment to exclude Buy back of shares from definition of dividend	21
2.	Gain on sale of shares of Private Limited companies	21

S.No.	Description	Page No.
F Proposal for changes in taxation of Salary Income		
1.	Amendment under section 13(7)	22
2.	Amendments under section 149	22
3.	Exemption on Employer's contribution to Provident Fund	22
4.	Increase in minimum threshold on Gratuity exemption	23
5.	Increase in minimum threshold exemptions on withdrawal from Pension Fund	23

S.No.	Description	Page No.
G Proposal for changes in taxation of Non-Residents		
1.	Amendments in withholding tax provisions related to non-resident persons	24
2.	Exemption for gifts and inheritance to non-resident persons	24
3.	Amendment in definition of 'Residents' to cater flight restrictions due to pandemics	25
4.	Amendments in withholding tax provisions related payment to non-resident	25
5.	Requirement to file foreign income and asset statement by a short-term resident	26
6.	Notices to file wealth statements served on non-residents	27
7.	Amendment under section 2(19)(f)	27

S.No.	Description	Page No.
H Proposal for Changes in NPOs		
1.	Amendments in section 100C	28

S.No.	Description	Page No.
I Withholding tax provisions		
1.	Abolishment of section 153B [in view of section 236Q]	29
2.	Amendment in definition of section 159 and deletion of section 236O	29
3.	Withholding of tax at Chapter XII to be restricted to persons 'Not appearing in active taxpayers List'	30
4.	Withholding of taxes on Federal Government and Provincial Governments	30

S.No.	Description	Page No.
J Proposal for Appellate proceeding		
1.	Stays granted by Appellate Tribunal Inland Revenue	31
2.	Set-aside orders by Commissioner Appeals	32
3.	Legal cover for online appeal filing	32

S.No.	Description	Page No.
K Proposal for Departmental proceeding		
1.	Time limitation for concluding proceedings	33
2.	Automatic stay	34
3.	Discretionary power of audit/amendment of assessment	35
4.	Taxation of foreign income/asset	36
5.	Collection of Tax in the Case of Private Companies And AOP	36
6.	Allowability of Tax Payment as a Credit after Monitoring of Withholding of Taxes	37

S.No.	Description	Page No.
L Proposal for simplifying filing and other periodic compliances		
1.	Advance tax	38
2.	Penalty on late filing of return of income	42
3.	Entitlement for revision of Foreign income and asset statement (U/s116A)	42
4.	Duplicate section relating to updating of taxpayers' profile	43
5.	Notice for Discontinuance of Business	43
6.	Reconciliation of withholding tax	44

A Salvaging and bolstering the manufacturing sector

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
1	Greenfield industrial undertaking	2(27A)	The definition of Greenfield was introduced by Finance Act, 2020 through introduction of section 2(27A). One of the conditions to qualify as a Greenfield Industrial undertaking is that it is using any process or technology that has not earlier been used in Pakistan and subjecting this with requirement to get approval from Pakistan Engineering Board.	The incentive is though enshrined in the books yet it is not practically availed due to onerous requirements.	We feel that this condition is unnecessary in an economy like Pakistan which is still in process of adopting new technology and has no research and development of its own to bring new technical expertise.	Abolishing this requirement would create opportunities for local businessmen to acquire technology from developed world and lay foundation for industry and manufacturing.
2	Deductible allowance for payment made under Sindh Workers Welfare Act (SWWF) & Sindh Workers Profit Participation ACT (SWPPF)	60A & 60B	Sections 60A & 60B of the Ordinance caters for payments made under Federal WWF & WPPF Fund only, as tax deductible allowance and not for any provincial payment although the provincial laws were enacted in the years 2014 and 2015.	After the SWWF and SWPPF Acts have been introduced, companies are required to discharge this obligation to provincial authorities but cannot claim the allowances in their tax returns.	Deduction of provincial WWF & WPPF as tax deductible allowance needs to be given legal cover by inserting reference of these two enactments.	Necessary consistency will be brought to the provisions of section 60A & 60B.
3	Re-introduction of Tax credit on Registered Sales	65A	To provide incentive for documentation of economy and increase of the tax base a tax credit of 2.5% of tax liability was offered to manufacturers given in the year 2009 making 90% of their sales to persons registered under the Sales Tax Law. The tax credit was increased to 3% by Finance Act, 2016.	Years of efforts to document the economy has been pushed backwards & that too without any warning and rationale.	Tax credit be re-introduced. Further this tax credit on 90% sales be extended to persons making 90% of purchases from persons registered under the STA as well.	It will encourage the much-desired documentation of the economy.

A Salvaging and bolstering the manufacturing sector

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

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			However, this Tax credit was deleted by Finance Act, 2017.			
4	Extension of tax credit on employment generation under section 64B of the Ordinance	64B	<p>A manufacturing entity was allowed tax credit of 2% subject to maximum tax credit of 10% on employing every 50 employees registered with EOBI and SESSI.</p> <p>This credit is effectively not available afterward tax year 2019.</p>	Effort to generate employment would go in vein.	It is proposed that tax credit for employment generation by manufacturers under section 64B of the ordinance be extended and appropriate amendment in the condition for such tax credit be made	It was an excellent provision for promoting employment generation.
5	Tax credit/Exemption	65B, 65D and 65E	<p>Section 65B, 65D and 65E related to tax credit for investment, newly established industrial undertaking and industrial undertaking established before July 01, 2011.</p> <p>These are not currently available to the taxpayers for new investments.</p>	No encouragement for new investment.	Tax credits may be provided for making investment in fresh/ existing industrial undertakings, such as tax credit under 65B of the Ordinance which may be restored. Simultaneously, time limit under sections 65D and 65E may be further extended up to June 30, 2025.	To promote industrialization and new investment in the country.

B Salvaging the Corporate Sector

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
1	Corporate rate of tax	1 st Schedule Part-I	Currently corporate rate of tax in Pakistan is 29% which due to WWF and WPPF goes up to 36% which is higher than the average tax rate in Asia i.e. 21.32%.	Increased cost of doing business and regionally uncompetitive position.	<p>It is proposed that the corporate rate of tax should be decrease up to 25% by gradually decreasing 1% every year.</p> <p>The rate of tax on small companies should also gradually be reduced to 15%.</p> <p>Income of WPPF should be exempted from tax.</p> <p>The excess of WPPF as deposited in WWF fund should be also as a credit against WWF levy.</p>	The high rate of tax is encouraging tax evasion and discouraging documentation of economy and corporatization. It is also disincentive for foreign and local investment.
2	Entities exempt from tax under the Ordinance.	2 nd Schedule Part-I	<p>The legislature has conspicuously provided tax exemption to various entities in the Part I of the 2nd Schedule.</p> <p>Such entities are also subject to payment of minimum tax unless specifically exempted under Clause 11A of Pt IV of 2nd Schedule.</p>	In case corporate income tax is exempt there remains no point to levy minimum tax as well.	The clause 11A should provide blanket exemption under section 113 of the Ordinance for entities exempt under Part-I 2 nd Schedule to the Ordinance. A negative list may be prescribed.	Harmonization of substantive and procedural requirements so that exemption of income enshrined in the Part-I is actually availed by such exempt entities.

B Salvaging the Corporate Sector

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
3	Reduction of minimum tax U/S 113:	113	<ul style="list-style-type: none"> ▪ Currently rate of minimum tax is 1.5% of the turnover. ▪ The threshold for turnover in case of individuals and AOPs was decrease from 50M to 10M by the Finance Act, 2016. 	Increased cost of doing business and regressive taxation.	<ul style="list-style-type: none"> ▪ It is proposed Minimum tax on listed companies should be abolished and in case of other cases the rate of minimum tax should be gradually reduced by 0.2% annually so that by tax year 2025 the rate shall be reduced up to 0.5%. ▪ The threshold of turnover should be increase to 50M. ▪ Moreover, minimum tax should also be allowed to be carried forward for adjustment in subsequent year even in case of losses. ▪ The receipts now brought under Minimum Tax [from FTR] should be exempted from this minimum tax. 	<ul style="list-style-type: none"> ▪ Removal of minimum tax will promote industrialization. ▪ Decrease in turnover threshold affect the true declaration of turnover and created hardship for taxpayers.
4	Alternative corporate tax:	113C	As per section 113C, tax payable by company subject to tax under Division-II Part-I of 1 st Schedule or minimum tax shall be higher of Corporate tax or ACT.	Increased cost of doing business and regressive taxation.	It is proposed that ACT Should be abolished.	There is already a minimum tax regime which imposes tax on the gross turnover U/s. 113, alongside minimum tax regime for supplies, services, under various section of the Ordinance and hence ACT is only increasing

B Salvaging the Corporate Sector

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
						the complexity of the computations.
5	Restriction on setting Off of depreciation losses.	57	<p>The amendment brought through Finance Bill 2018 has done away with the allowability of full amount of unabsorbed depreciation against taxable income and has limited it up to 50% of business income.</p> <p>The only exception is income lower than Rupees 10 million.</p>	<p>It clearly implies that instead of encouraging the investment in Plant and Machinery for Industrialization in the country, the annual revenue collection targets are more sacred and important to the government and that even the new genuine taxpayers who have made investment in this investment starved country are not spared to face the brunt of lower revenue collection.</p> <p>On the other hand, the amendment has stretched the time life of adjustment of unabsorbed depreciation.</p>	<p>The amendment brought through Finance Bill 2018 relating to unabsorbed depreciation and amortization is proposed to be deleted.</p>	<p>The proposed amendment would provide a fair play to taxpayers and especially to those taxpayers who have substantial unabsorbed depreciation and amortization due genuine losses or heavy infrastructure investment.</p> <p>Currently, taxpayers with unabsorbed depreciation and amortization are already subject to payment of minimum tax and after this amendment, they may now end up paying corporate tax liability higher</p>

B Salvaging the Corporate Sector

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
						than the minimum tax.
6	Restricted cost of vehicle	22(13)	As per Sub-Section (13) of Section 22, presently the admissible cost for calculating depreciation on vehicle not plying for hire is Rs.2.5 million that was substituted through Finance Act, 2012.	The present amount has not been indexed for inflation and currency devaluation causing increase in the tax cost.	It is proposed that cost of value under this section for calculating the depreciation may be raised to Rs. 7.5 Million from Rs.2.5 Million.	Increase in the capping to cater indexed for inflation and currency devaluation.
7	Complaint taxpayer is being penalized for the default of non-compliant dealer	108B	<p>Finance Act, 2019 introduced Section 108B penalizing the compliant taxpayers for the fault/non-compliance of dealers apparently jeopardizing the freedom of trade.</p> <p>Under this section, 75% of dealer's margin shall be added to the income of the supplier where the supplier makes supplies to a person who is not registered under the sales tax and is not on active taxpayers list.</p> <p>Moreover, the Margin of dealer is to be taken at 10% for the purpose of making additions to the income of the supplier.</p>	It will increase the cost of doing business as dealer would demand compensation from manufacturer for complying with tax regulation.	It is proposed to delete section 108B of the Ordinance.	<p>These are irrational provisions and amount to interference in the business affairs of the taxpayers.</p> <p>When complete particulars of the transactions are reported by the suppliers, it is highly unreasonable on the part of FBR to shift the burden of making supplies only to the registered</p>

B Salvaging the Corporate Sector

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Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
						<p>persons listed on the Active Taxpayers List and penalize them for making supplies to unregistered persons or those who are not on the ATL. FBR should perform its duties of bringing the defaulters/ non-compliant persons into tax net on the basis of information provided by compliant taxpayers in their sales tax and income tax returns and/or as and when demanded by the tax authorities.</p>
8	Compliant taxpayer is being penalized for default of others	21(ca)	Similarly, section 21(ca) puts a restriction on admissibility of Commission exceeding 0.2% of the gross amount of supplies of items listed in the Third Schedule of Sales Tax Act, 1990, as deductible expenditure, if the person receiving the Commission is not on the Active	It will increase the cost of doing business as commission recipients would demand compensation from its supplier for complying with tax regulation	It is proposed to delete clause (ca) of section 21 of the Ordinance.	Same as 7 above.

B Salvaging the Corporate Sector

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
			Taxpayers List.			
9	Disallowances of expenses under section 21(l) for expenses paid other than through banking channel	21(l)/21(m)	Section 21(l)/ 21(m) provides for disallowance of expenses / salary respectively paid other than through banking channel on amount in aggregate exceeding Rs. 250,000/- and Rs. 25,000/- respectively.	Undue hardships for corporate taxpayers making valid purchases and salary from undocumented sector and people not maintaining bank accounts.	Section 21(l)/(m) should be amended to provide exclusion for disallowance for expenses for amount on which taxes have properly been deducted under the Ordinance.	To address the undue hardships for corporate taxpayers while dealing with undocumented sector.
10	Merger within wholly owned group companies without High court approval would be subjected to tax	97A	No gain or loss is taxable on disposal of asset from one company by virtue of Scheme of Arrangement and Reconstruction under sections 282L and 284 to 287 of the Companies Ordinance, 1984 (XLVII of 1984) or section 48 of the Banking Companies Ordinance, 1962 (LVII of 1962), if the following conditions are satisfied, namely... <i>(d) scheme is approved by the High Court, State Bank of Pakistan or Securities and Exchange Commission of Pakistan, as the case may be, on or after first day of July, 2007</i>	Extra cost and time would be incurred by the company for getting their scheme of merger sanctioned by High court which by law they are not required to.	Section 97A should be amended to the extent of amendment made in section 284(2) of the Companies Act 2017. Section 284 (2) of the Companies Act 2017 has waived-off the requirement of approval of the Scheme of Arrangement and Reconstruction by the High Court for amalgamation of two or more wholly owned companies.	In the absence of corresponding amendments under the Ordinance, approval of the High Court or the Securities and Exchange Commission of Pakistan is still required.

B Salvaging the Corporate Sector

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
11	Incorporate Dividend:	59B	Through second amendment, exemption on intercorporate dividend between companies eligible for group taxation under section 59B (Group Relief) has been revoked	The incentive for investment through expansion of groups has been done away with.	<ul style="list-style-type: none"> ▪ Group Taxation laws should be restored in its initial form as introduced via Finance Act 2007 and Finance Act 2008 ▪ Clause 103C, Part I, Second Schedule, providing exemption from Intercorporate Dividends to group companies eligible under section 59B should be reinstated ▪ Amendments made in Clause 11B, Part IV, Second Schedule via Finance Act 2015 and Finance Act 2016, should be revoked to ensure exemption from withholding tax is provided on intercorporate dividends exempt under clause 103A and clause 103C, Part I, Second Schedule 	To restore the investment incentive.

C Taxation and withholding tax regime under section 148 and 153

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
1	Companies whose accounts are prepared on accrual basis are being subjected to tax twice on a single transaction and are unable to claim refund because both the tax are minimum tax.	148 & 153	Companies whose income falls under normal tax regime with a caveat of minimum tax are required to prepare return and pay tax on accrual basis of accounting whereas tax deduction is made on their revenue on receipt basis.	<p>In Year 1, the company receives advance against revenue and no revenue is recorded in its accounts. Income tax would be deducted on advance received against revenue, which will be treated as minimum tax whereas since there is no revenue in its financial statement, there would be no corporate tax payable. Hence, minimum tax deducted would be the tax liability of the company.</p> <p>In year 2, revenue would be booked in the financial statement of the advance received last year and the company would be required to pay corporate tax in year 2 on the same transaction in which the company has already paid income tax in year 1.</p> <p>The above anomaly has arisen because minimum tax is deducted on receipt basis and corporate tax is payable on accrual basis.</p>	<p>An amendment to be made under the ordinance for companies being taxed under normal tax regime with minimum taxation.</p> <p>The following amendment can be made:</p> <p><i>“Provided where the minimum tax exceeds the tax due under normal tax regime, the excess shall be eligible for carry forward for set off in the following three succeeding tax years.”</i></p>	This will resolve the anomaly explained in the implication column and the company would not be jeopardize by subjecting it to tax twice on the same income.
2	Collection of tax at import stage	148	<p>Scheme of tax to be collected at import stage has been revamped in Finance Act 2020 as follows:</p> <ul style="list-style-type: none"> ▪ All imports have been categorized as Part I, Part II and Part III of the Twelfth Schedule chargeable at the rate of 1%, 2% & 5.5% 	<ul style="list-style-type: none"> ▪ Onerous requirement for Industrial undertakings felt under Part III; ▪ Staggering of refunds particularly if taxpayer has discharged his tax liability for obtaining exemption under section 153 of the Ordinance; and 	<ul style="list-style-type: none"> ▪ Twelfth schedule should be abolished, and all imports should be categorized as industrial undertakings or in other respective categories. ▪ Exemption procedure under clause 72B Part IV 2nd Schedule that was revoked should be restored. 	<ul style="list-style-type: none"> ▪ The introduction of Twelfth Schedule has unnecessary increased hassle particularly

C Taxation and withholding tax regime under section 148 and 153

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
			<p>respectively.</p> <ul style="list-style-type: none"> ▪ The advance tax collected under section 148 is treated as minimum tax except in case of Industrial undertaking for their own use and falling in Part I, and II of Twelfth Schedule. ▪ In case of goods classified under Part III of the Twelfth Schedule which are used both as raw material and finished goods, the Board may by notification in the official Gazette, specify that goods imported by a person or class of persons as raw material for its own use shall be treated as classified under Part II of the Twelfth Schedule, subject to such conditions and procedure as may be prescribed. ▪ Exemption procedure under clause 72B Part IV 2nd schedule revoked. 	<ul style="list-style-type: none"> ▪ Increased cost of doing business for service sectors. 	<ul style="list-style-type: none"> ▪ Rate of tax should be reduced from 5.5% to 1% for all Industrial Undertakings. ▪ Separate scheme should be introduced for service sector allowing collection of tax at import stage to be adjustable tax. 	<ul style="list-style-type: none"> for industrial undertaking falling in Part III. Hence uniform rate for Industrial Undertaking should be introduced. ▪ Revocation of exemption procedure as per clause 72B part IV 2nd Schedule has increased the cost of doing business for Industrial Undertaking . ▪ To address the issue faced by the service sector.
3	Withholding tax regime for service sector	153(1)(b)	<ul style="list-style-type: none"> ▪ Section 153(1)(b) is applicable in respect of payments against rendering 	<ul style="list-style-type: none"> ▪ Increased tax cost and cost of doing business; and 	<ul style="list-style-type: none"> ▪ It is purposed that the rate of tax across the board should be reduced to 3%. 	<ul style="list-style-type: none"> ▪ The requirement to obtain

C Taxation and withholding tax regime under section 148 and 153

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
			<p>of services at the following rates:</p> <ul style="list-style-type: none"> i. 3% in case of around 17 service sectors mentioned in 2(i) Part-I Division-III of Schedule-I. ii. 8% in case of company except for i. iii. 10% in any other cases except for ii. <p>The tax so deducted is minimum tax for all categories.</p>	<ul style="list-style-type: none"> ▪ Disincentive for documentation/corporatization. 	<ul style="list-style-type: none"> ▪ The tax so deducted should be adjustable tax for companies as was till Tax Year 2015. ▪ Separate scheme should be introduced for Individuals and AOPs based on POS integration status allowing for taxes deducted to be adjustable tax. 	<p>certificate done away and introduction of reduced rates has caused hassle between taxpayer and withholding agent regarding nature of the business due to absence of precise definitions, hence a uniform rate should be introduced.</p> <ul style="list-style-type: none"> ▪ Minimum tax increases the cost of doing business particularly for corporate sectors who maintain audited accounts

C Taxation and withholding tax regime under section 148 and 153

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
						<p>therefore this should be adjustable tax instead of minimum.</p> <ul style="list-style-type: none"> Separate scheme for Individuals based on POS integration status will encourage documentation of economy.
4	Minimum tax for commercial traders	153(1)(a)	Currently the tax deductible is minimum tax in case of commercial traders.	FBR has notified rules to POS integration which needs to be aligned as per Section 153(1)(a) for commercial traders as well.	Separate scheme should be introduced for Individuals and AOPs based on POS integration status allowing for taxes deducted to be adjustable tax.	Separate scheme for Individuals based on POS integration status will encourage documentation of economy.
5	Contract and services rendered outside Pakistan	153(1)(b)	Rate of tax on technical services rendered or royalty received by a company or other taxpayer from outside Pakistan (brought through proper banking channel) was exempt or taxable at a flat rate of 4% or 5%. This	Increased cost of doing business for export of services.	It is proposed that a uniform rate of tax should be apply instead of providing exemption or reduced rate. Export of services should be included in section 154 of the Ordinance.	This will provide level playing field for export of services while bringing them in the tax net.

C Taxation and withholding tax regime under section 148 and 153

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
			has been done away with vide second Amendment Ordinance, 2021.			
6	Collection of tax at import stage Issue related to closing stock	148	<p>The collection of tax at import stage in case of commercial importers is currently minimum tax.</p> <p>Such commercial importers are now required to compare the tax liability calculated under normal taxation regime with the tax collected at import stage. If tax liability under normal taxation regime is higher than the tax collected at import stage, then tax liability computed under normal taxation regime will become due otherwise tax collected at import stage will be their minimum tax.</p> <p>This has led to a limbo in respect of taxes deducted in respect of stock on which tax is collected but is lying in the closing stock.</p>	<p>Lack of clarity on the matter is causing difficulty in properly calculating and discharging the tax liability whilst non-addressing of the issue at IRIS is also raising difficulty in filing proper declarations.</p>	<p>This issue of opening and closing stocks of commercial importers already subjected to Final Tax in earlier years stands resolved by way of clarification issued by the Board (addressed to Lahore Chamber of Commerce and Industry).</p> <p>However proper amendment in law is required to properly address and settle this issue.</p>	<p>The proposed amendment to redress anomaly and stigma faced by the taxpayers.</p>

D Proposals regarding taxation of property income
PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
1	Property income	15	<p>At present for every person except companies the income from property is chargeable to tax at the rate specified in Division (VIA) of Part-I of the First Schedule, which is considered to be their final tax liability and they are not allowed any expenditure against gross rent, except option provided under sub-section (7) of section 15A.</p> <p>The companies are required to pay normal tax (current @ 29%) on such income after adjustment of admissible expenditure out of gross rent.</p> <p>The tax rate on rental income has been gradually increased from 20% to 35% for individuals and AOPs vide the Finance Act, 2019. Apart from that the lessor is also required to pay Sindh Sales Tax @ 3% to SRB. Which makes the total tax impact very unfair and exorbitant.</p>	<p>The current taxation framework makes the total tax impact on property income very unfair and exorbitant.</p>	<ul style="list-style-type: none"> ▪ The rental income from property, AOP or individual and company (taxable as separate block of income) be taxed at a uniform rate of 15% of the Gross Rent as full and final discharge of tax liability. ▪ Rental income taxable under Normal Tax Regime should be allowed to be adjusted against business loss. The restriction imposed through Finance Act, 2013 needs to be reconsidered. 	<ul style="list-style-type: none"> ▪ The impact of taxes (direct and indirect) on rental income will be rationalized. ▪ Investors will be encouraged to declare their genuine rental income.

E Capital gains taxation on securities and shares

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
1	Buy back of Shares	2(19)(d)	<p>As per definition of dividend the distribution made by a company to its shareholders on reduction of capital shall be deemed dividend. This situation is generally referred to as Buy-back of shares.</p> <p>On the other hand, under Rule 13P of the Income Tax Rules, 2002, the shares buy-back transaction is treated as Capital Gains. Thus, there exists a contradiction among the provisions of Ordinance and Rules.</p>	<p>Contradictory provisions in law that needs to be corrected.</p>	<p>It is proposed that following exclusion after clause (f) in sub-section (19) of section 2 be inserted.</p> <p>“Any payment made by a company on purchase of its own shares from a shareholder in accordance with the provisions of section 88 of the Companies Act, 2017 (XIX of 2017)”.</p>	<p>To align the various provisions of law.</p>
2	Gain on sale of shares of private companies	37	<p>As per section 37, gain on sale of shares of private companies shares is taxed at corporate tax rate. This gain is reduced by 25% in case the holding period is more than one year.</p>	<p>In case of gain on disposal of immovable property, the gain is exempt in case the holding period is more than 4 years.</p> <p>In case of capital gain on securities under section 37A, the gain is exempt on securities acquired before 1 July 2012.</p> <p>Hence, investment in shares of Private companies stands at comparative disadvantage.</p>	<p>It is proposed that the gain on sale of private company shares should also be allowed exemption in case if the holding period is 10 years or more.</p>	<p>In order to encourage and benefit corporatization of business.</p>

F Proposal for changes in taxation of Salary Income

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
1	Taxation of Notional Income	13(7)	The difference between the benchmark rate and the actual rate of interest is charged where actual rate of interest is charged at less than the benchmark rate by the employers on concessionary loans provided to the employees or otherwise it is treated as perquisite chargeable to tax.	The taxation of this notional income is highly unjust since it taxes the notional income of the salaried person which is against the basic principle of taxation since this notional income will never ever be received by the taxpayer.	The taxation of marginal income on loans obtained from the employer below benchmark rate should be exempted for lower threshold amounts. The minimum threshold of the loan amount on which the provisions of Section 13(7) may not apply should be raised to at least Rs.2,500,000/- from the existing limit of Rs.1,000,000/-. It is further suggested that benchmark rate currently fixed at ten percent be based on Kibor rate.	The change would result in facilitation and easement of salaried taxpayers.
2	Withholding of tax on Salary	149	As per section 149, every person paying salary to employee shall deduct tax from the amount paid at specified rate after making tax adjustment of tax credit U/s. 61, 62 ,63 and 64 and other adjustments.	Complete tax credits though legally available are not adjusted in payroll run.	This section should include all tax credit under Part X Chapter III as are admissible against salary income.	The current scheme has apparently missed tax credit under section 62A. The proposed amendment would cater all the current credits and those to be introduced from time to time.

F Proposal for changes in taxation of Salary Income

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
3	Employer contribution to Provident Fund	12	Under Clause (3), Part I, Sixth Schedule, the employer's contribution in the recognized provident fund in excess of Rs.150,000 (increased from Rs.100,000 by Finance Act, 2016) is deemed to be income of the employee.	<p>This provision is invalid as the accumulated balance (it includes employer's contribution) due and becoming payable to an employee participating in a recognized provident fund is totally exempt from tax under Clause (23), Part I, Second Schedule</p> <p>Without prejudice to foregoing, since employer's contribution does not constitute an actual receipt as the same is not at the disposal of an employee and therefore tax incidence should not be levied at the time of contribution.</p>	<p>Clause (3) Part 1, Sixth Schedule be amended to exempt employer contribution to bring it at par with clause (23) Part 1, Second Schedule.</p> <p>Alternatively, the threshold be based as Rs 150,000 or 1/10th of the salary whichever is higher.</p>	Since employer's contribution does not constitute an actual receipt as the same is not at the disposal of an employee and therefore tax incidence should not be levied at the time of contribution.
4	Gratuity exemption	12	As per clause (13)(iv) of part – I, there is existing limit of Rs.75,000/-.	Gratuity exemption not indexed for inflation.	it should be increased to Rs.300,000/-.	Considering the inflationary effect since the current limit as set at the promulgation of Ordinance has remained unchanged.
5	Withdrawal from Pension Fund	12	As per clause (23A), withdrawal of 50% of balance is exempted subject to fulfillment of conditions.	Inadequate exemption.	It is proposed to increase the exemption to the extent of withdrawal of actual amount invested in the pension fund and additional amount to be taxed at the rate of tax applicable on salaries.	To exempt the portion of investment made in pension funds.

G Proposal for changes in taxation of Non-Residents

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
1	Withholding on payments to non-residents person.	152(5A)	In case of payment to non-resident where the payment is not likely to be chargeable to tax, the payer is required to file an intimation to the Commissioner and the Commissioner is required to make an order within 30 days.	The period of 30 is on higher side and in certain cases, the non-resident recipient cannot be kept to wait for this long and gets practically in possible. Further, there is no mention in the law that if a Commissioner does not pass an order within 30 days, what should be the outcome.	It is suggested that the period of 30 days be curtailed to 15 days. Further, a proviso should be inserted that if the taxpayer is not served with an order within 15 days, the notice shall be taken as grant of exemption from withholding tax. Furthermore, in case of multiple payments of the same nature a formal agreement / approval by the Commissioner for should be treated as enough for all other similar payments.	The desired amendment will save the Commissionerate of the unnecessary administrative hassle.
2	Gift & inheritance to Non-resident	79	Receipt of Gift or inheritance is tax also in the hand of Non-Residents.	The serial setup in Pakistan with especial to the urban living has undergone complete charge on the last 20 years, which has resulted in an increased number of our Pakistani non-residents who other would very much be resident had their stay outside not been awaited with the economic realities of the country.	It is highly recommended that these Pakistanis resident should be salvaged from this under tax which is only on added reason in the basket of reasons for staying out.	This will bring the much necessary relief which is very much due.

G Proposal for changes in taxation of Non-Residents

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
3	An individual unable to fly to his home country due to Covid 19 would become a resident individual of Pakistan	82	A person would be considered a resident individual if his stay in Pakistan exceeds 183 days in a tax year.	An individual unable to fly to his home country due to Covid 19 restriction would become a resident individual of Pakistan and would be burdened with filing a return of income in Pakistan and would be liable to pay income tax on his worldwide income.	The following explanation should be added in Section 82 of the Ordinance: <i>“Any individual whose stay in Pakistan exceeds 183 days in a tax year only because he was unable to find a flight to his home due to covid 19 restriction would not be deemed to be a resident individual of Pakistan.”</i>	Similar guidelines have already been issued by OECD to ensure that resident status of individual are not altered due to travel restriction placed as a precautionary for covid 19.
4	Payment to non-resident	152	Section 152 broadly covers withholding tax incidences in the case of non-resident persons.	<ul style="list-style-type: none"> ▪ Bringing withholding tax regime at equity; and ▪ Entitling non-residents to avail treaty benefits. 	<ul style="list-style-type: none"> ▪ This section should include payment for foreign produced commercial which are currently covered under section 152A. ▪ It is Purposed that this section should include dividend paid to non-resident which are currently covered under section 150. 	<ul style="list-style-type: none"> ▪ This will allow the non-resident having no permanent establishment to avail exemption entitlement as per 152(5). ▪ Dividend to non-residents currently falls in section 150. Though the Board has clarified that DTT rates should apply however amendment in law is required. If

G Proposal for changes in taxation of Non-Residents

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
						fall under section 150, reduced treaty rates u/s 152(5) would be applicable for withholding agents for remitting dividend.
5	Requirement to file foreign income and asset statement by a short term resident	116A	Through Finance Act 2018, every resident individual taxpayer having foreign income of not less than USD 10,000/- or having foreign asset of not less than USD 100,000/- is required to file statement of foreign income and asset.	The provisions of this section do not take into account the fact that many expatriate workers may be tax residents of Pakistan, merely by virtue of their employment, whose foreign source income is otherwise exempt under section 50 of the ordinance. These expatriates have also been required to file the statement of foreign income and asset.	Sections 116A should be amended to clarify that the requirement to disclose foreign income and assets would not apply to short residents individuals whose foreign income is exempt under section 50 of the Ordinance.	Foreign expats who are Pakistani tax residents solely by virtue of their employment in Pakistan should not be required to disclose their foreign income and global assets as the law itself has exempted such income from tax in Pakistan keeping in view their short-term residence status.

G Proposal for changes in taxation of Non-Residents

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
6	Notices to file wealth statements served on non-residents	115	During the filing of Statement of Final Taxation for the Tax Year 2019 by Non-Residents, the IRIS was asking to file wealth statement from Non-Residents which otherwise a non-resident is not obliged to. However, due to language in sub-section (4) of section 116 of the Income Tax Ordinance, 2001, confusion is created.	Under section 116(2), wealth statement if only required to be filed by the resident taxpayers. Hence notices issued without legal basis also impractically requiring non-residents to file wealth reconciliation for global wealth.	It is proposed that in sub-section (4) of Section 116 after the word "Every" the word " resident " should be inserted in order to remove the confusion. Conversely it should be mentioned that such statements will be applicable on non-residents only to the extent of Pakistan assets.	To address the hardship faced by non-residents.
7	Repatriation of after tax profits by branch offices of Pakistani companies located in Azad Jammu & Kashmir	2(19)(f)	The definition of Dividend includes remittance of after-tax profit of a branch of a foreign company operating in Pakistan. Same provision is adopted in the Azad Jammu & Kashmir tax laws.	Accordingly, after tax profit of a Pakistani company operating through a branch in Azad Jammu & Kashmir, (being treated as a foreign company), is subject to double taxation i.e. on the time of distribution of dividend to its shareholders by way of withholding and depositing tax in Pakistan and again at the time of repatriation by Azad Jammu & Kashmir branch to Pakistan.	It is recommended that the remittance of after tax profit by a branch located in Azad Jammu & Kashmir of a Pakistani company or a branch located in Pakistan of a Azad Jammu & Kashmir company should be allowed exclusion from the definition of dividend like an exclusion already provided under Section 2(19)(f)(iv) of the ITO i.e. remittance of after tax profit by a branch of Petroleum Exploration and Production (E&P) foreign company, operating in Pakistan.	This will prevent double taxation of after-tax profits of branch office which could otherwise be the case when these profits are remitted to Pakistan or Azad Jammu & Kashmir where the company is resident and then distributed to the shareholder of the company.

H Proposal for Changes in NPOs

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
1	Genuine NPO being denied the benefits of 100% tax credit	100C	<p>Through Finance Act 2017 an additional condition was inserted to avail the benefit of 100% tax credit. Also, provision for taxation of surplus funds has also been introduced.</p> <p>The condition debarred the NPO could be from having Admin & management expenses of more than 15% of its total receipts. The legitimately collected funds properly invested in specified securities are subjected to tax.</p>	<p>These harsh provisions was introduced in the wake of the Trust Gap between the FBR and the NPO's whereby certain cases found susceptible of the genuineness or negligent toward compliances. Hence, the condition was imposed across the board on all NPOs regardless of the fact that nature of some of the NPOs activities is such that it is impossible for them to restrict these expenses under the threshold of 15%.</p> <p>This has resulted in many genuine NPOs being unable to claim the benefit of 100% tax credit.</p>	<p>It is recommended that NPO's should be categorized according to their nature objectives and purposes and not one single standardized rule should be made applicable. The said condition be deleted or a clarification should be issued whereby certain nature of NPO's are excluded from this condition.</p> <p>Alternatively, the provision for taxation of surplus funds should not be applicable in case those funds are invested in Federal Government securities.</p>	<p>This will ensure that genuine NPOs are not punished for the compliances under which they have no control of.</p>

I Proposals related to withholding tax provisions

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
1	Double Tax Deduction on a single transaction renting of machinery.	148& 236Q	<p>a) Income Tax deduction on import of machinery under section 148, by person other than manufacturer, at the time of imports is minimum tax.</p> <p>If the same machinery is given on rent than income tax is deducted under section 236Q, which is also minimum tax.</p> <p>b) Section 153B provides for deduction of tax on payment of royalty to resident person at the rate of 15%. Further, section 236Q also provides for deduction on payment for use or right to use equipment / machinery at rate of 10% being an adjustable tax.</p> <p>We understand that rent on use of equipment is also covered under section 153B as use of equipment is already covered under definition of 'royalty'.</p>	<p>Minimum tax is being deducted for twice on the same single transaction i.e. import and subsequent providing it on rent.</p> <p>Since both tax are minimum tax, there is no refund available to the taxpayer.</p> <p>The taxpayer is further exposed to deduction of tax on same expense i.e. under section 153B.</p>	<p>An explanation is to be added either under section 148 or 236Q that incase where a person imports an equipment and subsequently provides it on rent than at least one of the two minimum tax should be refundable to the taxpayer.</p> <p>Further, section 153B is proposed to be deleted as sections 148 and 236Q already covers this transaction.</p>	<p>It is a settled principle of law that two different taxes should not be collected on a single transaction.</p> <p>The proposed amendment will address this anomaly.</p>
2	Scope of exemption certificates	159/ 236O	Section 159 empowers the Commissioner to grant withholding tax exemption to	<p>Non synchronization of law.</p> <p>Excess tax refundable arise due to</p>	It is proposed that section 159 should be amended to empower Commissioner to grant exemption	The forestall staggering of refunds in the

I Proposals related to withholding tax provisions

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
			<p>taxpayers whose income is:</p> <ul style="list-style-type: none"> ▪ exempt from tax under this Ordinance; or ▪ subject to tax at a lower rate; ▪ is subject to hundred percent tax credit under section 100C. 	<p>withholding of taxes in excess of tax liabilities discharged during the year.</p> <p>The section 159 does not empowers the Commissioner to grant withholding tax exemption certificate in case the tax liabilities have already been discharged by the taxpayer during the year in the form of advance tax and withholding tax under various provisions of the Ordinance.</p> <p>This results in tax refundable position for the taxpayers.</p>	<p>certificates on discharge of tax liabilities by the taxpayer as already notified by the Board vide S.R.O 1053 dated 22 November 2010 with respect to withholding tax exemption under section 235.</p>	<p>hands of taxpayers causing increased cost of doing business.</p>
3	Withholding of tax	Chapter XII	<p>As per Section 231B, 234, 235, 236, 236B and 236Y, there shall be collection of advance tax from non-filers as well filers at the rate specified in the relevant schedule.</p>	<p>Disincentive for active taxpayers.</p>	<p>These provisions should be restricted to persons whose name does not appear in the active taxpayers list.</p>	<p>Encouragement for tax compliance culture.</p>
4	Withholding of taxes on Federal Government and Provincial Governments	49(3)	<p>Section 49(3) has specified that any payment received by the Federal Government, a Provincial Government or a Local Government shall not be liable to any collection or deduction of advance tax. No clarification or list of FTN entities to whom this subsection applies.</p>	<p>In absence of any SRO or underlying Rules causes unease to the withholding agents to determine proper withholding tax treatment in such case.</p>	<p>FBR should issue a separate list of Fee Tax Numbers (FTNs), who are not liable to tax withholding as provided under section 49(3) of the Ordinance through a S.R.O.</p>	<p>This will assist the withholding agents and save considerable time in deciding whether a respective FTN holder is required to produce exemption certificate or not.</p>

J Proposals for Appellate proceedings and forums

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
1	Stays granted by Tribunal	131	<p>Section 131 provides that:</p> <p>The stay order by the Appellate Tribunal ceases to have an effect after expiry of 180 days regardless of the appeal is pending adjudication.</p> <p>As such, the Commissioner may proceed to recover the tax from the taxpayer instantly after 180 days.</p>	Disregarding stays granted by Tribunal- Violation of court verdicts.	<p>This amendment brought through the Finance Act, 2018 appears to undo the effect of the judgment of the Hon'ble Islamabad High Court [Dowell Schlumberger vs. Federation of Pakistan (2016 PTD 1702)] wherein it was held that where the appeal is not decided within the said period, the stay granted by the Appellate Tribunal will continue till the decision of the appeal.</p> <p>It is proposed that the said amendment be deleted, and the earlier position of law should be restored in the interest of natural justice so as to provide relief to the taxpayer.</p>	<p>It is unreasonable to the taxpayer, who is already aggrieved with the tax demand upheld by the Commissioner (Appeals), who seeks clarity/ resolution from the Appellate Tribunal.</p> <p>Due to delay in hearing of the case by already overburdened Appellate Tribunal, the taxpayer would ultimately face coercive measures from the tax authorities in the form of recovery of tax demand due to expiry of stay order while the appeal is pending, unless a further stay order is obtained from the</p>

J Proposals for Appellate proceedings and forums

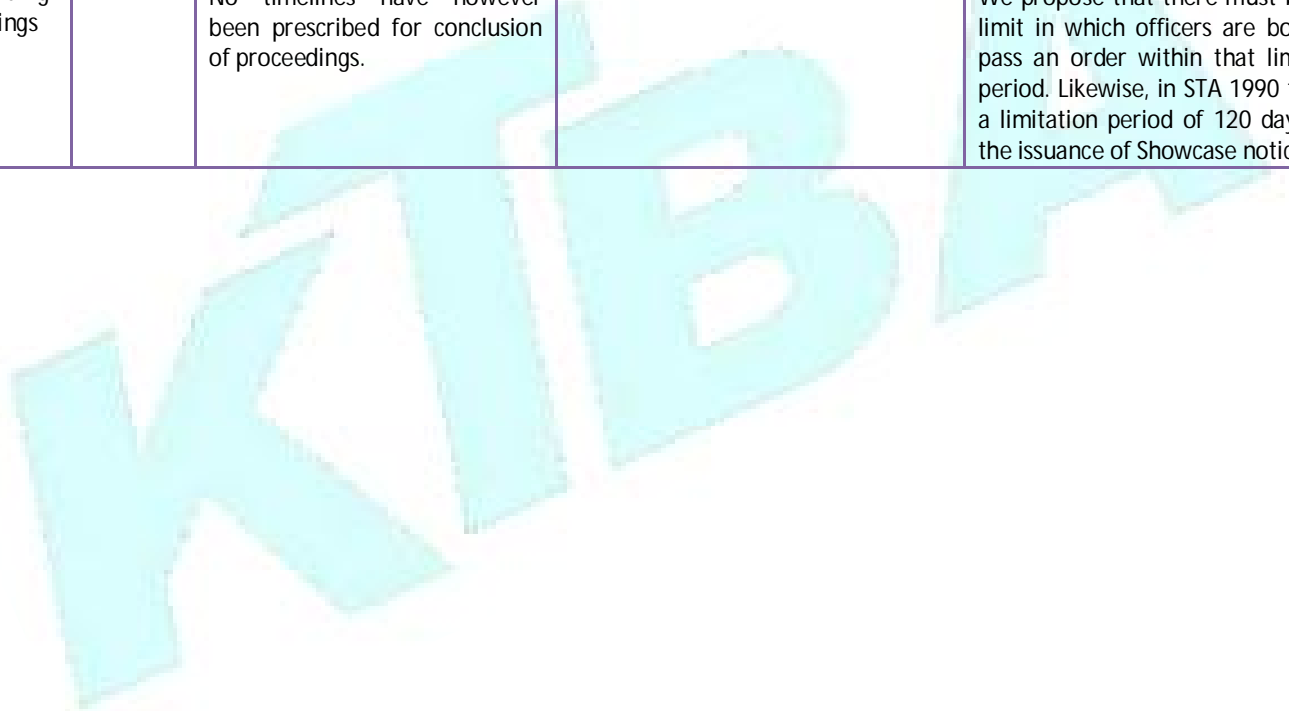
PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
						respective Honorable High Court(s).
2	Set-aside orders by Commissioner Appeals	124	<p>Sub-section 2 of section 124 of the Ordinance provides time limit to conclude set-aside proceeding pursuant to appellate directives.</p> <p>This subsection however specifically excludes from its purview the set-aside orders passed by Commissioner Appeals, apparently to bring it at par with section 129 of the Ordinance.</p>	No prescribed time limit to conclude set-aside proceedings consequent to Commissioner- Appeals directives.	<p>Where an order is set-aside by the Commissioner Appeal in any proceeding, no time limitation for passing an appeal effect order of such set aside proceedings is mentioned thereof under section 124 (2) of the Ordinance.</p> <ul style="list-style-type: none"> ▪ It is proposed that separate subsection be inserted to specify the time limits to pass appeal effect order arising out of decision of Commissioner Appeals. 	The proposed amendment seeks to address the inequity faced by taxpayers.
3	Legal cover for online appeal filing	127	Sub-section (03) of section 127 provides the form and manner for filing appeal at Commissioner Appeals.	Lacuna/ lack of legal cover for online appeal filing creating stigma.	The FBR vide S.R.O 1262 dated 26 November 2020 has introduced new rules for filing an online appeal. However, no such amendment has been made under section 127(3) of the Ordinance. Section 127(3) of the Ordinance specified the procedure of appeal and under the said procedure there is no condition of filing an online appeal. In absence of the enabling provision, new rules for filing an online appeal is rendered superfluous. We propose that enabling provision for filing an online appeal may be added to avoid unnecessary litigation issues	This amendment will bring the current mechanism of filing of an online appeal in consonance with appeal filing rules.

K Proposals for departmental functions and proceedings

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
1	Time limitation for concluding proceedings	122	<p>Sub- Section 5 of section 122 of the Income Tax Ordinance, 2001 provides time limitation for amendment of deemed assessment.</p> <p>No timelines have however been prescribed for conclusion of proceedings.</p>	Staggered unconcluded proceedings.	<p>Currently there is no bar of time limit on the officers to pass an order under section 122 of the Ordinance once show cause notice under section 122(9) is issued.</p> <p>We propose that there must be time limit in which officers are bound to pass an order within that limitation period. Likewise, in STA 1990 there is a limitation period of 120 days from the issuance of Showcase notice.</p>	<p>The proposed amendment will bring efficiency in tax culture and will also be helpful in addressing the unnecessary pendency of assessment cases</p>



2	Automatic stay	138	<ul style="list-style-type: none"> ▪ Sub-Section (2) of Section 138 provides that If the amount referred to in the notice issued under sub-section (1) is not paid within the time specified therein or within the further time, if any, allowed by the Commissioner, the Commissioner may proceed to recover from ▪ the taxpayer the said amount by one or more of the following modes, namely: ▪ attachment and sale of any movable or immovable property of the taxpayer; ▪ appointment of a receiver for the management of the movable or immovable property of the taxpayer. ▪ arrest of the taxpayer and his detention in prison for a period not exceeding six months <p>arrest of the taxpayer and his detention in prison for a period not exceeding six months</p>	<p>Provision of automatic stays not all exhaustive.</p>	<ul style="list-style-type: none"> ▪ We are of the view that if a person pays ten percent of the disputed demand under section 140 even then the recovery from taxpayers may be made through the modes envisaged under sub-section (2) of section 138 which is harsh and rendered section 140 redundant and superfluous. ▪ We propose that the condition of the payment of ten percent of amount due shall also be made applicable for section 138 to create synchronization between section 138 and 140 of the Ordinance. 	<p>The proposed amendment seeks to address the inequity afforded in the law</p>
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3	Discretionary power of audit/amendment of assessment	122, 177, 214C	<p>All the returns of income filed under Section 114 qualify for acceptance under the universal self-assessment scheme, subject to fulfillment of all the requirements and considered to be Assessment orders deemed to have been passed under Section 120(1) on the date the return is furnished.</p> <p>At present the return may be amended subject to selection of case by the concerned Commissioner under Section by specifying certain reasons and also by the Board through computer ballot under Section 214C.</p> <p>The return may also be amended by the Officers Inland Revenue under Section 122(5), subject to discovery of definite information for any material amount that escaped to have been declared.</p> <p>The return may further be amended by the Additional Commissioner Inland Revenue under Section 122(5A), if it is erroneous as well as prejudicial to the interest of revenue.</p>	<p>Rigorous proceedings causing hardship to taxpayers and leading protracted departmental and appellate proceedings.</p>	<p>The power to select the return of income may rest only with the FBR already having the powers to select the case randomly through Computer under Section 214C of the Ordinance.</p> <p>There is a dire need to explain the two terms in section 122(5A) of the Ordinance so that the taxpayers are not harassed in the garb of returns being "erroneous" and "prejudicial to the interest of revenue". The error of law or fact must be floating on the surface of the available record.</p> <p>The time limit for amendment of assessment under section 122(4) of the Ordinance, 2001 be reduced to 3 years.</p> <p>Moreover, the combined audit of income tax, sales tax and monitoring of withholding of taxes should be provided to unburden taxpayers from the exercise of producing the same records.</p>	<p>Streamlined and linear amendment procedure to promote taxpayer confidence and compliance culture promoting documentation.</p>
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4	Whether foreign income/asset acquired before promulgation of Finance act 2018 can be taxed at the time of discovery.	111	Through Finance Act 2018 amendment was made allowing FBR to tax foreign income/asset in the tax year prior to the year of discovery regardless of the fact of its actual earning date.	Foreign income/asset acquired before promulgation of Finance Act 2018 is being taxed due to time of discovery clause.	The following explanation can be inserted in Section 111: <i>"Provided that this clause will apply prospectively on income earned or asset acquired after June 30, 2018."</i>	Since the amendment was made through Finance Act 2018, its vires would apply prospectively and cannot tax income / asset acquired before its promulgation.
5	Collection of Tax in The Case of Private Companies And AOP	139	<ul style="list-style-type: none"> ▪ Sub-Section (1) of Section 139 provides that notwithstanding anything in the Companies Ordinance, 1984 (XLVII of 1984), (now Companies Act, 2017) where any tax payable by a private Company (including a private Company that has been wound-up or gone into liquidation) in respect of any tax year cannot be recovered from the Company, every person who was, at any time in that tax year:- ▪ a director of the Company, other than an employed director; or ▪ a shareholder in the Company owning not less than ten percent of the paid-up capital of the Company <p>shall be jointly and severally liable for payment of the tax due by the Company.</p>	Increased cost of doing business.	We feel that in case of limited liability companies the above provision of law is neither in line with the provisions of the Companies Ordinance, 1984 (now Companies Act, 2017) nor the international norms in this regard. We propose that every shareholder should be made responsible to pay the tax payable in accordance with his percentage of shareholding in the Company and to the maximum of his share capital in the Company	The proposed amendment seeks to address the inequity afforded in the law

6	Allowability of Tax Payment as a Credit after Monitoring of Withholding of Taxes.	161(1A)	<ul style="list-style-type: none"> ▪ As per section 161(1A) orders are passed under relevant provisions of the Income Tax Ordinance, 2001 for short fall in withholding along with additional tax and penalty which are paid by the withholder under his own NTN 	Increased tax cost for service provider and recipient.	No credit for tax payment can be availed either by the withholder or by the recipient of the amount. It is proposed that the withholder should be allowed to deposit the tax in the name of the parties whose withholding fell short.	This amendment will bring the current mechanism of Monitoring in consonance with the existing provisions of the Income Tax law.
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KATBA

L Proposals for simplifying filing and other compliances.

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
1	Advance tax	147	<ul style="list-style-type: none"> ▪ Section 147 of the Ordinance relates to quarterly payment of advance tax. ▪ As per subsection 6 a taxpayer may file an estimate of lower tax as compared to payable under section 147(4). Vide Finance Act 2018 condition has been added that the estimate shall contain turnover for the completed quarters of the relevant tax year, estimated turnover of the remaining quarters along with reasons for any decline in estimated turnover, documentary evidence of estimated expenses or deductions which may result in lower payment of advance tax and the computation of the estimated taxable income of the relevant tax year. Further that where the Commissioner is not satisfied with the documentary evidence provided or where an estimate of the amount of tax payable is not accompanied by details mentioned in the first proviso, the Commissioner may reject 	Unease of doing business and rigorous compliance requirement.	<ul style="list-style-type: none"> ▪ Sub-section 147(4A) may be restored to the position prior to amendment vide Finance Act 2015 requiring taxpayers to file an estimate of higher side. While the ultimate objective of section 147 is to discharge tax liability of 90 percent this is well achieved vide pre-amended position with check as per section 205 of the Ordinance. <p>The requirements under subsection 6 as inserted vide Finance Act 2018 tantamount to disturbing the concept of deemed assessment and should be deleted.</p>	<p>We feel that the requirement to substantiate the estimate with documentary evidence is a cumbersome exercise, as estimate is based on many factors which cannot be documented. Such as business environment.</p> <p>Further, we feel that Commissioner's satisfaction with the documentary evidence for lower estimates further complicates the issue. Generally, the Commissioner 's does not accept the lower estimate in their zeal to collect as</p>

L Proposals for simplifying filing and other compliances.

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
			<p>the estimate after providing an opportunity of being heard to the taxpayer and the taxpayer shall pay advance tax according to the formula contained in sub-section (4).</p> <p>Subsection 4A as substituted vide Finance Act 2015 states that the taxpayer shall estimate the tax payable for the relevant tax year, at any time before the second installment is due and in case the tax payable is likely to be more than the amount payable under sub-section (4), the taxpayer shall furnish to the Commissioner an estimate of the amount of tax payable by the taxpayer and thereafter pay fifty per cent of such amount by the due date of the second quarter of the tax year. The remaining fifty per cent of the estimate shall be paid after the second quarter in two equal installments payable by the due date of the third and fourth quarter of the tax year.</p>			<p>much revenue as possible.</p> <p>We feel that adequate procedure has been provided in section 205 to address any complacency in payment of advance tax which has to meet the ninety percent requirement.</p> <ul style="list-style-type: none"> ▪ We feel that in presence section 147(6) where the taxpayer files an estimate for the whole year and discharge its obligation to pay 90 percent of the liability then section 147(4A) is nothing but an additional burden on the part of taxpayer.

L Proposals for simplifying filing and other compliances.

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
						<ul style="list-style-type: none"> ▪ The purpose of section 147 is to discharge ninety percent of the liability which is due to be paid with the return. In case taxpayer files wrong estimate then he may be penalized under section 147(7) read with section 205 of the Ordinance. ▪ Subsection (7) of section 147 and section 205 of this Ordinance which provide deterrents to the taxpayers for filing a wrong estimate under subsection (6) as subsection (7) of section 147 provides

L Proposals for simplifying filing and other compliances.

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
						<p>that if there is any shortfall the same may be recovered from the taxpayer as if it was a tax due under an assessment order and subsection (1B) of section 205 provides if the taxpayer fails to pay advance tax under subsection (4A) or subsection (6) of section 147 or the tax paid is less than ninety percent of the tax chargeable for the relevant tax year, he shall be liable to pay default surcharge at the rate of KIBOR plus three percent per quarter.</p>

L Proposals for simplifying filing and other compliances.

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
						<ul style="list-style-type: none"> ▪ We believe that section 147(4A) may be deleted as 147(6) fulfils the purpose of section 147 of the Ordinance.
2	Penalty on late filing of return of income	182(1) S. No-1	Through the Finance Act 2011 the following explanation was added in Section 182: "Explanation - For the purposes of this entry, it is declared that the expression "tax payable" means tax chargeable on the taxable income on the basis of assessment made or treated to have been made under sections 120, 121, 122 or 122C.	Exorbitant penalty provisions.	In order to avoid hardship, it is recommended to add the words in bold in Explanation in section 182(1): "Explanation: For the purpose of this entry, it is declared that the expression "tax payable" means tax chargeable on the taxable income on the basis of assessment made or treated to have been made under IT sections 120, 121, 122 or 122C as reduced by tax deduction, collection and advance tax payments."	Penalty provisions on delay / failure to file return of income etc. contained in section 182 on the basis of gross tax liability instead of net tax payable with return (i.e. tax liability reduced by deduction, collection and advance tax payments) is undue burden, creating hardship and an impediment in inducing non-taxpayers to come into tax net.
3	Entitlement for	116A	Through Finance Act 2018, every	Currently there is no provision	A separate subsection should be	Entitlement will

L Proposals for simplifying filing and other compliances.

PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
	revision of Foreign income and asset statement.		resident individual taxpayer having foreign income of not less than USD 10,000/- or having foreign asset of not less than USD 100,000/- is required to file statement of foreign income and asset.	entitling the taxpayers to revise this statement in respect of bona-fide errors and omissions.	inserted to entitle the taxpayers to revise this statement in respect of bona-fide errors and omissions.	facilitate revision of such statements that will promote transparent and fair statements.
4	Duplicate section relating to taxpayers' profile	114A	Through Finance Act 2020, every prescribed person was required to update their profile under section 114A of the Ordinance. The time was filing the statement has been extended till June 30, 2021.	In presence of section 181 of the Ordinance, there appears no need to introduce a new section under section 114A for updating the profile. Confusion exist within taxpayer to understand under which situation profile is required to be updated under section 114A and under section 181.	Section 114A should be deleted. Any item required to be updated under section 114A not appearing in the form of Section 181 should be made available under section 181.	It is cumbersome for taxpayer to update two separate forms for updating of profile. There should be only one and comprehensive form for updating of profile under the ordinance.
5	Notice for Discontinuance of Business	117	The section 117 of the Ordinance relates to notice for discontinuance of business.	Due to absence of prescribed form and manner, such notices are filed by the taxpayers but are not properly marked in the tax profile of the taxpayer, hence practically the tax authorities continue to serve notices for compliance and penalty on the taxpayers despite that notice under section 117 have been filed.	It is proposed that form and manner for notice under section 117 should be prescribed and uploaded/ enabled at IRIS.	Once notice is properly filed at IRIS, the profile of the taxpayer will be updated, and unnecessary notices will not be issued.
6	Reconciliation of withholding tax	166	Provision of Rule 44 provides for that wherever required by the Commissioner, the taxpayer shall furnish a reconciliation of the amounts mentioned in the	No time limit to initiate and culminate proceedings as well as no prescribed framework for conducting withholding tax audits.	We propose that reconciliation as required under Rule 44 be made part of mandatory annual compliance likewise currently the annual statement of salary is filed on IRIS.	The said amendment will bring ease in doing monitoring

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PROPOSED AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Sr. #	Issue	Section	Description	Implication	Proposed Amendment	Rationale
			monthly statements with the amounts mentioned in the return of income, statements, related annexes and other documents submitted from time to time.		<p>The amendment will also create harmonization with withholding statements filed under section 165 of the Ordinance.</p> <p>In lieu of self-assessment as above, time limits should be specified to initiate proceedings under section 161 within five years from the filing of statements. The proceedings so initiated also be culminated within six months.</p>	<p>proceedings and also reduces the burden on the tax department as well as on the taxpayer. The amendment will also create transparency in conducting monitoring proceedings.</p>