

FINANCE ACT 2021 WITH FBR COMMENTARY

PRESENTATION OF



GCA TEAM

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GLOBAL CAREER IN ACCOUNTANCY

INTENDED USERS

THE TARGET AUDIENCE FOR THIS

GCA BUDGET MEMO IS “ICAP FRATERNITY

INCLUDING STUDENTS & GENERAL PUBLIC”.

ICAP STUDENTS WHO WILL APPEAR IN FOLLOWING

UPCOMING ATTEMPTS CAN USE THIS MEMO:

WINTER-21, SPRING-22, SUMMER-22 & AUTUMN-22 ONLY.

- Effective date of applicability of these changes will be **July 1, 2021** unless otherwise mentioned.
- Nothing contained in this document shall be construed as our advice in general or on a given case, accordingly, for ascertaining any effect of these changes in general or particular, the wordings in the bill should carefully be examined, taking into consideration the applicable laws and regulations, and precise advice should be sought before taking any decision based on, or acting up on any of the contents hereof.

Excise

Duty

FILING OF RETURN AND PAYMENT OF DUTIES

SECTION 4 SUB-SECTION (4)

- Presently, under section 4, registered persons can revise their sales tax returns within 120 days of the filing of the return with the approval of the concerned CIR. However, this provision was not harmonized with section 26 *sub-section* (3) of the ST act, whereby registered persons can revise their sales tax returns within 60 days from the filing date without seeking approval of the concerned CIR, on the condition that the revision has the consequence of either reducing a refund claimed, or increasing the amount of sales tax originally paid.
- Proviso in sub-section (4) of section 4 to the FED Act added to harmonize the mechanism of revision of returns with the existing provisions of the ST Act.

RECOVERY OF UNPAID DUTY OR OF ERRONEOUSLY REFUNDED DUTY OR ARREARS OF DUTY SECTION 14 SUB-SECTION (4)

Section 14 of the FE act empowers the officer inland revenue to issue a show cause notice to any person who has not levied or paid, or short-levied or short-paid FED, or where FED has been refunded erroneously. Sub-section (2) of section 14 of the FE act further empowers the officer inland revenue to determine the duty payable by such a person together with any applicable penalty and default surcharge.

Sub-section (4), the powers of the officer inland revenue be enhanced further to provide assistance in collection and recovery of duties, in pursuance of requests from foreign jurisdictions under tax treaties, multilateral conventions, inter-governmental agreements or similar agreement or mechanism.

LICENSING OF BRAND NAME SECTION 45AA

- New section, 45AA
- Introduce a requirement for manufacturers of specified goods, to obtain brand licenses from the FBR for each brand or stock keeping unit.
- “Stock keeping unit” has not been defined in the FE Act
- In common parlance it refers to a scannable bar code, as is printed usually on product labels. This means that all items, whether existing as unique brands or being sold with unique bar codes, will require brand licensing from FBR in the manner to be prescribed by it.

AGREEMENT FOR THE EXCHANGE OF INFORMATION SECTION 47A

- The existing section 47A of the FE act empowers the FG to enter into bilateral or multilateral agreements for the exchange of information (including electronic information) with provincial governments and governments of foreign countries, with respect to FED levied under the FE act or any other law in force in Pakistan or a corresponding law in the foreign country.
- **Title of the section be amended by including the words “or assistance in recovery of duties”.**
- **Insertion of two new sub-sections, (1A) and (3).**
- **Through sub-section (1A), the FBR will be empowered to share data/ information, including real time videos and images obtained under the FE act, with the federal or provincial governments. The exercise of these enhanced powers will be subject to the limitations and conditions as may be specified by the FBR.**
- **Through sub-section (3), empower the federal government to enter into bilateral or multilateral conventions, inter-governmental agreements or other mechanisms for assistance in recovery of duties.**

FEE AND SERVICE CHARGES SECTION 49

- Section 49 was inserted in the FE act vide finance act, 2019 to empower FBR to levy fees and service charges for valuation in respect of any other service or control mechanism provided by any formation under its control, including public-private partnership arrangements.
- New sub-section (2) added through which FBR may authorize and prescribe the manner of utilization of the fees and services charges levied under this section

AMENDMENTS IN THE FIRST SCHEDULE SECTION 3I

The first schedule to the FE act, provides a list of goods and services on which FED is leviable at the rates prescribed against such goods and services.

Table I specifies the goods and table II of the schedule specifies a list of services on which FED is leviable.

TABLE-I (GOODS)

Exempt fed on the following goods upto June 30th, 2026 including electric vehicles (4 wheelers) on which exemption was earlier granted through the tax laws (amendment) ordinance, 2021 by amending existing entries as follows:

S.No.	Existing			Proposed		
	Description	Tariff Heading	Duty	Description	Tariff Heading	Duty
55	Imported motor cars, SUVs and other motor vehicles, excluding auto rickshaws, principally designed for the transport of persons (other than those of headings 87.02), including station wagons and racing cars:	87.03		Imported motor cars, SUVs and other motor vehicles, excluding auto rickshaws, principally designed for the transport of persons (other than those of headings 87.02 and till the 30 th day of June, 2026 electric vehicles (4 wheelers), including station wagons and racing cars:	87.03	
	(a) of cylinder capacity up to 1000cc		2.5% ad val	(a) of cylinder capacity up to 1000cc		2.5% ad val
	(b) of cylinder capacity from 1001cc to 1799cc		5% ad val	(b) of cylinder capacity from 1001cc to 1799cc		
	(c) of cylinder capacity 1800cc to 3000cc		25% ad val	(c) of cylinder capacity 1800cc to 3000cc		25% ad val
	(d) of cylinder capacity exceeding 3001cc		30% ad val	(d) of cylinder capacity exceeding 3001cc		30% ad val

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S.No.	Existing			Proposed		
	Description	Tariff Heading	Duty	Description	Tariff Heading	Duty
55B	Locally manufactured or assembled motor cars, SUVs and other motor vehicles, excluding auto rickshaws principally designed for the transport of persons (other than those of headings 87.02), including station wagons and racing cars:	87.03		Locally manufactured or assembled motor cars, SUVs and other motor vehicles, excluding auto rickshaws principally designed for the transport of persons (other than those of headings 87.02 and till the 30 th day of June, 2026 electric vehicles (4 wheelers)), including station wagons and racing cars:	87.03	
	(a) of cylinder capacity up to 1000cc		2.5% ad val	(a) of cylinder capacity up to 851cc to 1000cc		2.5% ad val
	(b) of cylinder capacity from 1001cc to 2000cc		5% ad val	(b) of cylinder capacity from 1001cc to 2000cc		5% ad val
	(c) of cylinder capacity 2001cc and above		7.5% ad val	(c) of cylinder capacity 2001cc and above		7.5% ad val

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RATE CHANGE

S. No.	Description of Goods	Duty Rate	
		Current	Revised
58B	(a) of cylinder capacity up to 1000c	2.5%	0%
	(b) of cylinder capacity from 1001cc to 2000cc	5%	2.5%
	(c) of cylinder capacity 2001cc and above	7.5%	5%

- PCT code of filter rod for cigarettes provided at Sr. No. 56 of the first schedule rectified from 5502.0090 to 5502.9090.
- The bill seeks to insert the following new entry in Table 1 of the first schedule to the FE Act to levy fed on electrically heated tobacco products using non-combustive tobacco heating systems:

S.No.	Description	Tariff Heading	Duty
8c	Tobacco mixture in an electrically heated tobacco product by whatever name called, intended for consumption by using a tobacco heating system without combustion	2403.9990	Rupees five thousand two hundred per kg

NEW ADDITION VIA ACT

Levy of further FED at PKR.1 per call where call duration is exceeding three minutes. Through the act, FED of 75 paisa per call has been retained on mobile phone calls with duration exceeding five minutes.

Withdraw the
exemption of sales tax
from all such items.

S.No.	Description	Tariff Heading	Duty
1	Edible oils excluding deoxidized soybean	15.07, 15.08, 15.09, 15.10, 15.11, 15.12, 15.13, 15.14, 15.15, 15.16 1517, and 15.18,	17% ad val
2	Vegetable ghee and cooking oil (a) in retail packing (b) not in retail packing	Respective heading	17% of retail price 17% ad val
57	Fruit juices, syrups and squashes, waters containing added sugar or sweetening matter etc. excluding mineral and aerated waters	Respective heading	Five percent of retail price
58	Steel billets, ingots, ship plates, bars and other long re-rolled products	Respective heading	5% ad val

TABLE-II (SERVICES)

- Reduce FED on telecommunication services from 17% to 16%.
- Levy fixed FED on the following services:

S.No.	Description	Tariff Heading	Duty
6A	Telecommunication services:		
	(a) Mobile phone call, if call duration exceeds three minutes;	Respective sub-heading of 98.12	One rupee per call in addition to the rates of duty specified under Serial No.6
	(b) Internet services;	9812.6000	Five rupees per GB in addition to the rates of duty specified under Serial No.6
	(c) SMS services;	9812.1710	Ten paise per SMS in addition to the rates of duty specified under Serial No.6

- Correct the heading of column 2 which erroneously states "description of goods" instead of "description of services".
- Exempt FED on MDR received by banking companies on services related to acceptance of digital payments.

AMENDMENTS IN THE SECOND SCHEDULE SECTION 7

Omitted the following entries
from the second schedule to the
FE act:

S.No.	Description	Tariff Heading
1	Edible oils excluding deoxidized soybean	15.07, 15.08, 15.09, 15.10, 15.11, 15.12, 15.13, 15.14, 15.15, 15.16 1517, and 15.18
2	Vegetable ghee and cooking oil	Respective heading
4	Steel billets, ingots, ship plates, bars and other long re-rolled products	Respective heading

AMENDMENTS IN THE THIRD SCHEDULE SECTION 16 SUB-SECTION (1)

The third schedule to the FE act provides a list of goods and services on which FED is exempt, subject to certain conditions and limitations as provided therein. New entries be added in table I of the third schedule to the FE act:

S.No.	Description	Tariff Heading
24	<p>The following goods, when supplied within the limits of the BSM, established in cooperation with Iran and Afghanistan:</p> <ul style="list-style-type: none"><li data-bbox="282 272 1131 305">i. Animal fats and oil and their fractions<li data-bbox="282 362 1054 395">ii. Vegetable fats and their fractions<li data-bbox="282 452 1047 485">iii. Vegetable oils and their fractions <p>Provided that, such items in case of import, shall be allowed clearance by the Customs Authorities subject to furnishing of bank guarantee equal to the amount of duty involved and the same shall be released after presentation of consumption certificate issued by the CIR having jurisdiction:</p> <p>Provided further that, the said exemption shall only be available to a person upon furnishing proof of having functional business premises located within limits of the BSM.</p>	1516.1000 1516.2010 1516.2020
25	Import and supply of raw materials, components, parts and plant and machinery by registered persons authorized under Export Facilitation Scheme, 2021 notified by FBR with such conditions, limitations and restrictions.	Respective headings



EXEMPTION FROM FEDERAL EXCISE TO INDUSTRIAL UNITS LOCATED IN FATA AND PATA:

In order to facilitate the people of tribal area and encourage investment and economic growth in these areas, levy of federal excise has been withdrawn on to the industrial units located in erstwhile FATA and PATA by omitting corresponding serial numbers in First Schedule and Second Schedule besides omitting Fourth Schedule of FEA. Corresponding amendments have also been made in the relevant provisions of the STA.

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WITHDRAWAL OF FED ON JUICES:

In order to provide relief to this sector, federal excise duty on juices has been withdrawn.

IMPOSITION OF FED ON ELECTRICALLY HEATED TOBACCO PRODUCTS

In order to discourage tobacco usage, electronically heated tobacco products have been brought under the federal excise regime by inserting new S. No. 8c of Table-1 of the First Schedule to the FEA.

REDUCTION IN FED ON LOCALLY MANUFACTURED CARS:

In order to cause reduction in prices of locally manufactured vehicles, federal excise duty has been reduced by 2.5% for each category, as prescribed under S. No. 55B of Table-1 of the First Schedule to the FEA.

REDUCTION OF FED ON TELECOMMUNICATION SERVICES:

Federal excise has been reduced from 17% to 16% on telecommunication services.

IMPOSITION OF FED ON MOBILE CALLS:

Federal excise on mobile phone calls exceeding five minutes has been imposed at 75 paisa per call.

EXEMPTION FROM FED ON MERCHANT DISCOUNT RATE (MDR):

To provide relief to businesses and promote digitization of economy, payment on account of Merchant Discount Rate has been excluded from the ambit of federal excise duty.

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001

SCOPE OF TAX SECTION 3(1A)

Export of services will
be treated as ZERO %.

SCOPE OF TAX SECTION 3(1A)

- New sub-section (1a) to tax services that are not rendered or provided in the ICT but are instead exported from the ICT, at the rate of zero percent. This may contradict the SRO issued by FBR on 01 July, 2017, whereby the export of IT services was declared as exempt from the purview of sales tax on services under the ICT ordinance. In view of this contradiction, the aforesaid SRO would be required to be subsequently rescinded.
- Nevertheless, once this proposed amendment is approved, exporters shall be eligible to seek adjustments/ refunds of admissible input tax, that was hitherto unavailable.

THANK YOU FOR READING.

**Any suggestions/criticisms can be sent
to :**

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DISCLAIMER

This GCA finance act 2021 memorandum is correct to the best of our knowledge and belief at the time of its publication. It is intended to provide only a general outline of the proposals announced in the federal budget. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. The GCA consultants/GCA official do not accept any responsibility for any loss arising from any action taken or not taken by anyone using this publication.

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