

KPK Finance Act 2020

Presentation of

GCA Team

GCA OFFICIAL

GLOBAL CHARTERED ACCOUNTANTS | GCA CONSULTANTS

Intended Users

The target audience for this GCA Budget video is **“ICAP Fraternity including Students & General Public”**. ICAP students who will appear in following upcoming attempts can use this video:

Winter-20

&

Summer-21 only.

Please note that provincial sales tax is not tested at CAF level.

KPRA

Khyber Pakhtunkhwa Revenue Authority
Government of Khyber Pakhtunkhwa



Preamble

- ✓ The KPK Finance Bill 2020 was presented in the KPK Provincial Assembly on 19 June 2020.
- ✓ GCA Consultants are pleased to summarize our comments containing our interpretation of the proposed legislations in this brief. GCA recommend that while considering their application to any particular case, reference be made to the specific wordings of the relevant statutes.
- ✓ The amendments shall take effect from first day of July 2020 subject to approval by the KPK Assembly.

Powers and functions of the Khyber Pakhtunkhwa Revenue Authority

The Bill proposes to delegate following powers and functions of the Khyber Pakhtunkhwa Revenue Authority to the Director General, Khyber Pakhtunkhwa Revenue Authority

day to day work

adjudicatory process

suspension of registration and deregistration

exercise of quasi-judicial powers

revision of any decision or order passed by the taxation officer, tax or allied matters

administrative or other operations of the Authority under the Khyber Pakhtunkhwa Finance Act, 2013 [the KP Act 2013]

Reverse charge in certain situations

The Bill proposes to broaden the scope for payment of tax under the reverse charge mode by holding liable a resident person of the province of Khyber Pakhtunkhwa to deduct the prescribed amount of tax from a person who provides taxable services from outside the province of Khyber Pakhtunkhwa and has not charged and/or paid the tax to the Khyber Pakhtunkhwa Government.

Currently, the obligation to deduct and pay tax rests upon the recipient of services who is registered under the KP Act 2013.

Standard or General rate of tax

- ✓ The Bill seeks to define 15% as the standard or general rate of tax for the purpose of the KP Act 2013. This has been proposed to harmonize the existing provisions of the KP Act 2013 with the proposed amendment requiring the registered person to opt to pay tax at standard or general rate on a service which is chargeable to the reduced rate of tax or vice versa.
- ✓ The expression tax 'paid' is being proposed to include tax deposited with the Khyber Pakhtunkhwa Government.

Option to pay tax at standard or reduced rate

- ▶ Services listed in the Second Schedule to the KP Act 2013 and those specified through the notifications issued from time to time are chargeable to tax at varying rates of 2% to 19.5%.
- ▶ The Bill seeks to insert a new section with an intention to allow the registered person to opt for paying the tax at standard or general rate after obtaining prior permission of the Khyber Pakhtunkhwa Revenue Authority, where his service is chargeable to tax at reduced rate either under the Second Schedule or under the notifications issued under the KP Act 2013 or where permission for paying tax at reduced rate has previously been obtained, in order to claim adjustment of admissible input tax.

- ▶ Likewise, permission of Khyber Pakhtunkhwa Revenue Authority will also be required for switching back to the reduced rate of tax with the condition that unadjusted amount of input tax accrued during the currency of the period when standard or general rate of tax was applicable will not be admissible against the services subsequently subjected to the reduced rate of tax.
- ▶ Permission to change from the standard or general rate to the reduce rate may be subjected to enquiry or audit as deemed necessary by the Khyber Pakhtunkhwa Revenue Authority to ascertain the genuineness of the case.
- ▶ The Khyber Pakhtunkhwa Revenue Authority is being empowered to withdraw any permission granted in respect of any person or class of persons after providing opportunity of hearing to the person or class of persons.

Short payment of tax to include short payment resulted from claim of inadmissible input tax adjustment

- ▶ Currently, the term tax ‘short payment’ refers to the output tax due on taxable services rendered by a registered person but is not paid or short paid.
- ▶ The Bill seeks to clarify the term ‘short payment’ to include such short payment which has resulted or may have resulted from taking inadmissible adjustment of input tax.

Registration status of the person liable to pay tax

- ✓ The Bill proposes to treat a person liable to withhold and/or pay tax otherwise under the KP Act 2013 or Rules or Regulations but is not registered or is not required to be registered, to be deemed as a registered person.
- ✓ Such person will be required to comply with the requirements of registration, enrollment, non-filing or non-submission of information or document and allied matters regardless of his place of residence, business or other activity.

Filing of return or declaration for exempt and non-taxable services

- ▶ In a pursuit to document the economic activities in the province of Khyber Pakhtunkhwa, the Bill seeks to insert a new section where the providers of exempt and non-taxable services may be required by the Khyber Pakhtunkhwa Revenue Authority to file monthly or periodic declarations or returns containing the information to be prescribed.
- ▶ Violation in filing of the prescribed return or declaration will be charged with the same penalty as is applicable for non-filing of return.
- ▶ Currently, penalty for failure to furnish a return within the due date is Rs. 5,000 provided that where return is filed within 10 days of the due date, penalty to be levied is Rs. 100 for each day of default.

Tax fraction formula

- ✓ The Finance Act, 2019 prescribed a formula for the tax to be calculated based on fraction.
- ✓ However, the formula was inadvertently placed under the Para 17 of the Principles of Application and Interpretation of the Second Schedule instead of under the Para 16.
- ✓ The Bill now seeks to transpose said formula to its correct place i.e. under the Para 16.



**Khyber
Pakhtunkhwa
Finance
Act, 1990**

Relation of tax on professionals, trades and callings

- ✓ The Bill proposes to exempt levy and payment of tax on professions for the year 2020-21 if the persons engaged in professions, trade, calling etc. are registered with Khyber Pakhtunkhwa Revenue Authority for sales tax on services and are on its active taxpayer list.
- ✓ Further for all arrears up to 30 June 2020 rebate is being proposed for all tax defaulters on all defaulted amount of tax at the following rates vis-à-vis payment conditions:

Sr. No.	Defaulted amount (Rs.)	Rebate	Validity
1.	Payment in 3 installments	20% of the defaulted amount	30 th June 2021
2.	Lump-sum payment	25% of the defaulted amount	30 th June 2021

**Khyber
Pakhtunkhwa
Finance
Ordinance, 2002**

Relaxation of tax on hotels

- ▶ The Bill proposes to exempt levy and payment of tax on hotels for the year 2020-21 if the hotel and management are registered with Khyber Pakhtunkhwa Revenue Authority for sales tax on service and are on its active taxpayer list.
- ▶ Further for all arrears up to 30 June 2020 rebate is being proposed for all tax defaulters on all defaulted amount of tax at the following rates vis-à-vis payment conditions:

Sr. No.	Defaulted amount (Rs.)	Rebate	Validity
1.	Payment in 3 installments	20% of the defaulted amount	30 th June 2021
2.	Lump-sum payment	25% of the defaulted amount	30 th June 2021



Khyber Pakhtunkhwa Finance Act, 2010

Exemption of capital value tax on immovable property

The Bill proposes to
allow exemption from
capital value tax on
acquisition of
immovable property:

Immovable property other than commercial property and residential flats situated in urban areas measuring at least 500 square yards or one kanal (whichever is less) and more

Description	Existing Rate of Tax	Proposed Rate of Tax
Where the value of the immovable property is recorded.	2% of the recorded value of the landed area.	Exempted
Where the value of the immovable property is not recorded.	Rs. 25 per square foot of the landed area.	Exempted
Where the immoveable property is a constructed property.	Rs. 10 per square foot of the constructed area in addition to the value worked out above	Exempted

Description	Existing Rate of Tax	Proposed Rate of Tax
Where the value of the immovable property is recorded.	2% of the recorded value of the landed area.	Exempted
Where the value of the immovable property is not recorded.	Rs. 25 per square foot of the landed area.	Exempted
Where the immoveable property is a constructed property.	Rs. 10 per square foot of the constructed area in addition to the value worked out above	Exempted

**Commercial immoveable
property including
residential flats situated
in Plazas or Multi-story
buildings of any size
situated in an urban area**

Description	Existing Rate of Tax	Proposed Rate of Tax
<p>Where the value of the immovable property is recorded.</p>	<p>2% of the recorded value of the immovable property provided that the amount of tax per Sq.ft of constructed area for floor indicated below shall not be less than:</p> <p>Rs. 8/ per Sq.ft for basement</p> <p>Rs. 10/ per Sq.ft for ground floor</p> <p>Rs. 8/ per Sq.ft for 1st floor</p> <p>Rs. 7.5/ per Sq.ft for 2nd floor</p> <p>Rs. 7/ per Sq.ft for 3rd floor and above.</p>	<p>Exempted</p>

Description	Existing Rate of Tax	Proposed Rate of Tax
Where the immoveable property is not recorded	<p>The amount of tax per Sq.ft of constructed area for floor indicated below shall be:</p> <p>Rs. 8/ per Sq.ft for basement</p> <p>Rs. 10/ per Sq.ft for ground floor</p> <p>Rs. 8/ per Sq.ft for 1st floor</p> <p>Rs. 7.5/ per Sq.ft for 2nd floor</p> <p>Rs. 7/ per Sq.ft for 3rd floor and above.</p>	Exempted

Thank you for watching the video.

Any suggestions/criticisms can be
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Disclaimer

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