

FINANCE ACT 2021 WITH FBR COMMENTARY

PRESENTATION OF



GCA TEAM

GCA OFFICIAL

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.

A close-up photograph of a wooden stamp. The stamp is rectangular and has the words "INCOME TAX" carved into its top surface in a bold, sans-serif font. The stamp is positioned on a document with some faint, illegible text and lines. The background is slightly blurred, showing the texture of the paper and the edges of other documents.

INCOME TAX

FIRST SCHEDULE

**PAKISTANI SEAFARER WORKING ON VESSELS
CLAUSE : 4**

Exemption withdrawn

RATES OF TAX FOR INDIVIDUALS AND AOPS

The rates of tax chargeable for individuals and AOPs for the TY 2022 (corresponding to the income year ending at any time between 01 July 2021 to 30 June 2022) and basic threshold have remained unchanged.

These are as under:

INDIVIDUALS (EXCEPT SALARIED) AND ASSOCIATION OF PERSONS

Taxable income	Rate of tax
Up to PKR 400,000	0%
PKR 400,001 - 600,000	5% of amount exceeding PKR 400,000
PKR 600,001 - 1,200,000	PKR 10,000 + 10% of amount exceeding 600,000
PKR 1,200,001 - 2,400,000	PKR 70,000 + 15% of amount exceeding 1,200,000
PKR 2,400,001 - 3,000,000	PKR 250,000 + 20% of amount exceeding 2,400,000
PKR 3,000,001 - 4,000,000	PKR 370,000 + 25% of amount exceeding 3,000,000
PKR 4,000,001 - 6,000,000	PKR 620,000 + 30% of amount exceeding 4,000,000
Amount exceeding PKR 6,000,001	PKR 1,220,000 + 35% of amount exceeding 6,000,000

INDIVIDUALS (SALARIED)

Taxable income	Rate of tax
Up to PKR 600,000	0%
PKR 600,001 - 1,200,000	5% of amount exceeding 600,000
PKR 1,200,001 - 1,800,000	PKR 30,000 + 10% of amount exceeding 1,200,000
PKR 1,800,001 - 2,500,000	PKR 90,000 + 15% of amount exceeding 1,800,000
PKR 2,500,001 - 3,500,000	PKR 195,000 + 17.5% of amount exceeding 2,500,000
PKR 3,500,001 - 5,000,000	PKR 370,000 + 20% of amount exceeding 3,500,000
PKR 5,000,001 - 8,000,000	PKR 670,000 + 22.5% of amount exceeding 5,000,000
PKR 8,000,001 - 12,000,000	PKR 1,345,000 + 25% of amount exceeding 8,000,000
PKR 12,000,001 - 30,000,000	PKR 2,345,000 + 27.5% of amount exceeding 12,000,000
PKR 30,000,001 - 50,000,000	PKR 7,295,000 + 30% of amount exceeding 30,000,000
PKR 50,000,001 - 75,000,000	PKR 13,295,000 + 32.5% of amount exceeding 50,000,000
Amount exceeding PKR 75,000,000	PKR 21,420,000 + 35% of amount exceeding 75,000,000

RATES OF TAX FOR COMPANIES
RATES OF TAX FOR COMPANIES REMAINS UNCHANGED WHICH ARE AS UNDER:

Companies	Rate		
	Tax Year 2021	Tax Year 2022	Tax Year 2023 and onwards
Public and Private	29%	29%	29%
Cooperative and Finance Society	29%	29%	29%
Banking	35%	35%	35%
Small	22%	21%	21%

RATE OF SUPER-TAX FOR REHABILITATION OF TEMPORARILY DISPLACED PERSONS

The levy of super tax under section 4B of the ordinance is only applicable to banking companies, the rate whereof remains unchanged for the TY 2021 and onwards being 4%.

RATE OF TAX ON DIVIDEND INCOME

Dividend from	Rate
Independent Power Producers where such tax on dividend is a passthrough item under an Implementation Agreement or Power Purchase Agreement or Energy Purchase Agreement and is required to be reimbursed by Central Power Purchasing Agency (CPPA-G) or its predecessor or successor entity	7.5%
Mutual funds and others	15%
Company where no tax is payable by such company due to exemption of income or carry forward of business losses under Part VIII of Chapter III or claim of tax credits under Part X of Chapter III	25%

RATE OF TAX ON PROFIT ON DEBT

- Table of tax rates for profit on debt is deleted.
- Profit on debt upto PKR 5,000,000 is taxable in the hands of Individuals and AOPs at the rate of 15%
- Profit on debt exceeding PKR 5,000,000 will be taxed at the normal rate of tax provided for under Part I of the 1st schedule to the Ordinance.

RATE OF TAX ON RETURN ON INVESTMENTS IN SUKUKS RECEIVED FROM A SPECIAL PURPOSE VEHICLE

Sukuks Holder	Amount of return on investment	Rates
Company	any amount	25%
Individual and AoP	more than PKR one million	12.5%
Individual and AoP	less than PKR one million	10%

RATES OF TAX FOR NON-RESIDENT TAXPAYERS FOR CERTAIN TRANSACTIONS

Type of payment	Rate (%)
Fee for offshore digital services	5%
Fee for technical services	15%
Royalty	15%
Shipping income	8%
Air transport income	3%

RATE OF TAX ON INCOME FROM PROPERTY

Sr. No (1)	Gross amount of rent (2)	Rate of tax (3)
1	Where the gross amount of rent does not exceed Rs. 300,000	Nil
2	Where the gross amount of rent exceeds Rs. 300,000 but does not exceed Rs. 600,000	5 per cent of the gross amount exceeding Rs. 300,000
3	Where the gross amount of rent exceeds Rs. 600,000 but does not exceed Rs. 2,000,000	Rs. 15,000 plus 10 per cent of the gross amount exceeding Rs. 600,000
4	Where the gross amount of rent exceeds Rs. 2,000,000	Rs. 155,000 plus 25 per cent of the gross amount exceeding Rs. 2,000,000;

RATES OF TAX ON CAPITAL GAINS ON SECURITIES

Holding period	Tax Year 2018, 2019, 2020 and 2021		Tax Year 2022 and onwards
	Security acquired before 01 July 2016	Security acquired on or after 01 July 2016	Security acquired on or after 01 July 2016
Less than 12 months	15%	15%	12.5%
More than 12 months but less than 24 months	12.5%		
More than 24 months but then security was acquired on or after 01 July 2013	7.5%		
Where the security was acquired before 01 July 2013	0%	0%	0%
Future commodity contracts entered into by the members of Pakistan Mercantile Exchange	5%	5%	5%

DISPOSAL OF IMMOVEABLE PROPERTY

SEE NEXT SLIDE

S.No	Amount of Gain	Rate of Tax
(1)	(2)	(3)
1.	Where the gain does not exceed Rs. 5 million	3.5%
2.	Where the gain exceeds Rs. 5 million but does not exceed Rs. 10 million	7.5%
3.	Where the gain exceeds Rs. 10 million but does not exceed Rs. 15 million	10%
4.	Where the gain exceeds Rs. 15 million	15%



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Capital gain on disposal of immovable properties

A separate block of taxation of capital gain on the sale of immovable property is available under the Ordinance. The gain arising on the disposal of immovable property for more than 4 years, is not taxable. The capital gain arising on the disposal of immovable properties is taxable to extent of 100%, 75%, 50% and 25%, if property is sold within 1, 2, 3 and 4 years respectively. The gain so calculated on the basis of holding period was taxable at the rates ranging from 2.5% to 10%. Now these rates have been slightly enhanced through changes in Division VIII of Part I of First schedule of the Ordinance, however, the holding period concession remains intact.

Capital gain on disposal of securities

The capital gain on sale of securities was taxable at different rates. Now the uniform reduced rate of 12.5% has been provided under law.

MINIMUM TAX

Taxpayer	Existing Rate of Tax	Proposed
(a) Oil marketing companies, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (where annual turnover exceeds PKR 1 billion)	0.75%	0.75%
(b) Pakistan International Airlines	0.75%	0.75%
(c) Poultry industry including breeding, broiler production, egg production, feed production	0.75%	0.25%
(d) Dealer or distributors of fertilizers	0.75%	0.25%
(e) Person running an online marketplace as defined in Clause (38B) of Section 2	0.75%	0.25%
(f) Oil refineries	0.75%	0.5%
(g) Motorcycle dealers registered under the Sales Tax Act, 1990	0.3%	0.5%

(h)	Distributors of pharmaceutical products, fast moving consumer goods and cigarettes	0.25%	0.25%
(i)	Petroleum agents and distributors registered under the Sales Tax Act, 1990	0.25%	0.25%
(j)	Rice mills and dealers	0.25%	0.25%
(k)	Tier-1 retailers of fastmoving consumer goods who are integrated with the FBR or its computerized system for real time reporting of sales and receipts	1.5%	0.25%
(l)	Persons engaged in the sale and purchase of used vehicles	1.5%	0.25%
(m)	Flour mills	0.25%	1.25%
	In all other cases	1.5%	1.25%



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Minimum tax on turnover

Previously, minimum tax on turnover at the rate of 1.5% of turnover was payable by all companies and individuals/ AOPs having turnover exceeding Rs. 10 million. This is an alternative tax. It is payable when the normal tax liability in cases of exemption, loss, tax credits or for any other reason, is less than tax payable on turnover basis. It can be carried forward for adjustment against next year's tax liability however it cannot be carried forward if person has sustained loss for a year. 4 different types of changes have been made in this regime which are summarized below:

- a) Generalized reduction in minimum turnover tax paid from 1.5% to 1.25%
- b) Enhanced threshold for individuals and AOPs from 10 million to 100 million to pay minimum tax
- c) Allowing carrying forward of minimum tax for adjustment against normal tax liability even in cases of loss to provide relief to businesses sustaining loss and to maximize equity
- d) Division IX of Part I of First schedule has been substituted as below:

S.No	Person(s)	Minimum Tax as percentage of the person's turnover for the year
(1)	(2)	(3)
1.	(a) Oil marketing companies, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds rupees one billion.) (b) Pakistan International Airlines Corporation; and (c) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production;	0.75%
2.	(a) Oil refineries (b) Motorcycle dealers registered under the Sales Tax Act, 1990	0.5%
3.	(a) Distributors of pharmaceutical products, fast moving consumer goods and cigarettes;	0.25%

	<p>(b) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990;</p> <p>(c) Rice mills and dealers;</p> <p>(d) Tier-1 retailers of fast moving consumer goods who are integrated with Board or its computerized system for real time reporting of sales and receipts;</p> <p>(e) Person's turnover from supplies through e-commerce including from running an online marketplace as defined in clause (38B) of section 2.</p> <p>(f) Persons engaged in the sale and purchase of used vehicles</p> <p>(g) Flour mills</p>	
4.	In all other cases	1.25%

ADVANCE TAX ON IMPORTS

Persons	Rate % (of import value as increased by customs duty, sales tax and federal excise duty)
Person importing goods classified under Part I of the Twelfth Schedule	1%
Person importing goods classified under Part II of the Twelfth Schedule	2%
Person importing goods classified under Part III of the Twelfth Schedule	5.5%

- Provided that:
 - A reduced rate of 1% to be collected on goods by manufacturer covered under rescinded SRO 1125(I)/2011 dated 31 December 2011
 - rate of collection of tax at 4% on import of finished pharmaceutical products that are not manufactured otherwise in Pakistan as certified by the drug regulatory authority of Pakistan
 - rate of collection of tax at 1% on import of CKD kits of electric vehicles for small cars or SUVs with 50 kwh battery or below and LCVS with 150 kwh battery or below
- The rate of collection of advance tax on imports of mobile phone by any person remain unchanged. These are as under:

S.No.	C&F Value of Mobile Phone (USD)	Tax in Rupees	
		In CBU condition PCT Heading 8517.1219	In CSK/ SKD condition PCT Heading 8517.1211
1.	Up to 30 except smart phones	70	0
2.	Exceeding 30 and up to 100 and smart phones up to 100	100	0
3.	Exceeding 100 and up to 200	930	0
4.	Exceeding 200 and up to 350	970	0
5.	Exceeding 350 and up to 500	3,000	5,000
6.	Exceeding 500	5,200	11,500

ADVANCE TAX ON DIVIDEND

The rate of withholding tax on payment of dividend including dividend in specie remains unchanged.

ADVANCE TAX ON PROFIT ON DEBT

- The withholding tax rate on profit on debt remains unchanged at 15%.
- Omit a proviso which provides the reduced rate of 10% on the payment of profit up to PKR 500,000 on condition of submitting a certificate in this respect to the payer.

ADVANCE TAX ON RETURN ON INVESTMENTS IN SUKUKS RECEIVED FROM A SPECIAL PURPOSE VEHICLE

- Omit section 150A
- Include WHT under section 151 on payment of a return on investment in sukuk to a sukuk holder.
- Rates of withholding tax on payment of return on sukuk remains unchanged, are as under:

Sukuks Holder	Rates of withholding (%)
Company	25%
Individual or AoP (More than one million)	12.5%
Individual or AoP (Less than one million)	10%

PAYMENTS TO NON-RESIDENTS

Types of Payment	Withholding Rate (%)
Fee for technical services	15%
Royalty	15%
Fee for offshore digital services	5%
Shipping income	8%
Air transport income	3%
Execution of a contract <ul style="list-style-type: none">contract or sub-contract under a construction, assembly or installation project in Pakistan, including a contract for the supply of supervisory activities in relation to such projectany other contract for constructions or services rendered relating thereto or a contract for advertising services rendered by TV satellite channels	7%

Types of Payment	Withholding Rate (%)
Insurance premium/ re-insurance premium	5%
Others (excluding those specifically mentioned herein)	20%
Advertisement services to a media person relaying from outside Pakistan	10%
Receipt on account of sale of goods by a PE of a non-resident in Pakistan <ul style="list-style-type: none"> <li data-bbox="216 978 445 1021">• Company <li data-bbox="216 1063 573 1106">• Other taxpayers 	4% 4.5%

Types of Payment	Withholding Rate (%)
<p>Receipt on account of rendering of following services through a PE:</p> <p>Transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services as defined in Clause (133) of Part I of the Second Schedule, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited, Pakistan Mercantile Exchange Limited and inspection and certification, testing and training services</p>	3%
<p>Receipt on account of rendering of services through a PE</p> <ul style="list-style-type: none"> • Other than above mentioned services (in the case of a company) • Other than above mentioned services (other than a company) 	<p>8%</p> <p>10%</p>

Types of Payment	Withholding Rate (%)
Receipts on account of execution of contract other than a contract for sale of goods or rendering of services <ul style="list-style-type: none"> • Sports person • Other person 	<p style="text-align: center;">10%</p> <p style="text-align: center;">7%</p>
Capital gain arising on the disposal of debt instruments and Government securities of non- resident person having no permanent establishment in pakistan and person holding POC, NICOP and CNIC including treasury bills and Pakistan investment bonds invested through special convertible rupee account (SCRA)	<p style="text-align: center;">10%</p>

3% REDUCED RATE ON NEW SERVICES INCLUDE:

telecommunication services

warehousing services

collateral management services

oilfield services

travel and tour services

ADVANCE TAX ON PAYMENT TO RESIDENT FOR GOODS, SERVICES AND EXECUTION OF CONTRACTS

Types of Payment	Rate of tax (%)
For supply of goods including toll manufacturing <ul style="list-style-type: none">• Company• Other than company	4% 4.5%
For supply of rice, cotton seeds or edible oils	1.5%
Transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services as defined in Section 65F, tracking services, advertising services (other than by print or electronic media), share registrar services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited, Pakistan Mercantile Exchange Limited and inspection and certification, testing and training services, oilfield services, telecommunication services, warehousing services, collateral management services, travel and tour services	3%

Types of Payment	Rate of tax (%)
Rendering of or providing of services including engineering services <ul style="list-style-type: none"> • Company • Other than company 	8% 10%
Electronic and print media advertising services	1.5%
On the execution of contract <ul style="list-style-type: none"> • Sportsperson • Company • Other than company 	10% 7% 7.5%

WHT RATE – EXECUTION OF CONTRACT

<u>Nature</u>	<u>Revised Rates</u>
Company	6.5%
Individual & AOP	7%

Reduce WHT rate in respect of supply of FMCG, fertilizer, electronics excluding mobile phones, sugar, cement and edible oil where the name of the distributor, dealer, sub-dealer, wholesaler is appearing in both the ATL issued under the ordinance and the ST Act, 1990, as under:

Types of Payment	Existing Rate of tax (%)	Proposed rate of tax (%)
<ul style="list-style-type: none"><li data-bbox="351 701 1141 762">• In case supply is made by a company; and<li data-bbox="351 861 1136 922">• In case supply made by any other person.	2%	0.25%

EXPORTS

Types of Payment	Rate
Export proceeds Proceeds from sale of goods to an exporter under an inland back-to-back letter of credit or any other arrangement	1% of export proceeds
Export of goods by an industrial undertaking located in an Export Processing Zone	1%
Collection by collector of customs at the time of clearing of goods exported	1%
Indenting commission	5%

EXPORTS OF SERVICES

Rate of deduction of tax on export of services with reference to section 154A of the ordinance at 1%.

CONDITIONS FOR FTR

return has been filed

withholding tax statements for the relevant tax year have been filed

sales tax returns under Federal or Provincial laws have been filed, if required under the law

no credit for foreign taxes paid shall be allowed

INCOME FROM PROPERTY

Gross amount of rent	Rate (%)
Where the gross amount of rent does not exceed PKR 300,000	Nil
Where the gross amount exceeds PKR 300,000 but does not exceed PKR 600,000	5% of gross amount exceeding PKR 300,000
Where the gross amount exceeds PKR 600,000 but does not exceed PKR 2,000,000	PKR 15,000 plus 10% of gross amount exceeding PKR 600,000
Where the gross amount exceeds PKR 2,000,000	PKR 155,000 plus 25% of gross amount exceeding PKR 2,000,000

TAX ON PRIZE AND WINNINGS

Description	Rate (%)
Prize on prize bond and crossword puzzle	15%
Winnings from a raffle, lottery, prize on winning a quiz, prize offered by a company for promotion of sale	20%

TAX ON PETROLEUM PRODUCTS

The rate of withholding tax on petroleum products remain unchanged, being 12%.

COLLECTION OF ADVANCE TAX ON BROKERAGE AND COMMISSION

Description	Rate (%)
For advertising agents	10%
Life insurance agent where commission received is less than PKR.500,000 per annum	8%
Persons not covered above	12%

COLLECTION OF TAX ON MOTOR VEHICLES

Passenger transport vehicle having capacity	PKR per seat per annum
Four or more persons but less than ten persons	50
Ten or more persons but less than twenty persons	100

Passenger transport vehicle having capacity	PKR per seat per annum
Twenty persons or more	300
Private motor vehicle having engine capacity	Rate PKR
Upto 1000cc	800
1001cc to 1199cc	1,500
1200cc to 1299cc	1,750
1300cc to 1499cc	2,500
1500cc to 1599cc	3,750
1600cc to 1999cc	4,500
2000cc to & above	10,000

Motor vehicle having engine capacity (collected in lump sum)	Rate PKR
Upto 1000cc	10,000
1001cc to 1199cc	18,000
1200cc to 1299cc	20,000
1300cc to 1499cc	30,000
1500cc to 1599cc	45,000
1600cc to 1999cc	60,000
2000cc & above	120,000

COLLECTION OF TAX ON ELECTRICITY CONSUMPTION

Description	Rate of tax
Up to PKR 500	0
Exceeds PKR 500 but does not exceed PKR 20,000	10% of the amount
Exceeds PKR 20,000	PKR 1,950 plus 12% of the amount exceeding PKR 20,000 for commercial consumers PKR 1,950 plus 5% of the amount exceeding PKR 20,000 for industrial consumers

REVISED RATES FOR DOMESTIC ELECTRICITY CONSUMPTION:

Description	Rate of tax
Amount of monthly bill up to PKR 25,000	0
Where amount of monthly bill exceeds PKR 25,000	7.5%

COLLECTION OF TAX ON TELEPHONE USERS

The rate of collection of tax on telephone subscribers remained unchanged. Reduce rate apply on collection of tax on subscribers of internet, mobile telephone and pre-paid internet or telephone cards. These are as under:

Description	Existing Rate (%)	Proposed Rate (%)
Telephone subscriber where the amount of monthly bill exceeds PKR 1,000	10% of exceeding amount	Unchanged
Subscriber of internet, mobile telephone and pre-paid internet or telephone card	12.5% of the amount of bill or sales price	10% of the amount of bill or sales price for the TY 2022 8% for succeeding TYs

ADVANCE TAX ON PURCHASE, REGISTRATION OF MOTOR VEHICLES

Engine capacity	Amount in PKR
Up to 850cc	7,500
851cc to 1000cc	15,000
1001cc to 1300cc	25,000
1301cc to 1600cc	50,000
1601cc to 1800cc	75,000
1801cc to 2000cc	100,000
2001cc to 2500cc	150,000
2501cc to 3000cc	200,000
Above 3000cc	250,000

TRANSFER OF MOTOR VEHICLE

Engine capacity	Amount in PKR
Up to 850cc	-
851cc to 1000cc	5,000
1001cc to 1300cc	7,500
1301cc to 1600cc	12,500
1601cc to 1800cc	18,750
1801cc to 2000cc	25,000
2001cc to 2500cc	37,500
2501cc to 3000cc	50,000
Above 3000cc	62,500

BOOKED MV BUT HAD NOT TRANSFERRED ON OWN NAME

Engine capacity	Amount of Tax PKR
Up to 1000cc	50,000
1000cc to 2000cc	100,000
2000cc and above	200,000

ADVANCE TAX AT THE TIME OF SALE BY AUCTION

The rate of collection of tax remains unchanged at 10% whereas the rate of collection of advance tax on sale of immovable property is 5%.

ADVANCE TAX ON SALE/ TRANSFER OF IMMOVABLE PROPERTY

THE RATE OF TAX TO BE COLLECTED ON
SALE/ TRANSFER OF IMMOVABLE
PROPERTY REMAINS UNCHANGED AT
1%.

ADVANCE TAX ON SALE TO DISTRIBUTORS, DEALERS OR WHOLESALEERS

Category of sale	Rate of tax (%)
Fertilizers	0.7%
Other than fertilizers	0.1%

Concession in the rate of WHT at 0.25% if the sales of fertilizer is made to distributors, dealers, wholesalers where his name is appearing in both the ATLS issued under the ordinance and the ST Act, 1990.

ADVANCE TAX ON SALE OF RETAILERS

Rates of collection of tax on sale to retailers on the gross amount of sale to be 0.5%.

COLLECTION OF TAX BY EDUCATIONAL INSTITUTIONS

The rate of collection of tax remains at 5% which is only applicable to persons not appearing in the ATL.

ADVANCE TAX ON PURCHASE OF IMMOVABLE PROPERTY

The rate of tax to be collected on purchase of immovable property under section 236K remains unchanged at 1% of the fair market value.

**PAYMENT TO A RESIDENT PERSON FOR RIGHT TO USE
MACHINERY AND EQUIPMENT**

The rate of tax remains
unchanged at 10%.

WITHHOLDING PROVISIONS DELETED

Section Reference	Description of withholding tax	Rate of withholding/ collection of tax
153B	Royalty paid to resident person	15%
231A	Cash withdrawal from bank account	0.6% on the person whose name is not appearing in ATL
231AA	Advance tax on transactions in bank	0.6% on the person whose name is not appearing in ATL
233A	Collection of tax by a Stock Exchange registered in Pakistan	0.02% of the purchase/ sale value
233AA	Collection of tax by NCPPL	10%
234A	CNG Stations	4%
236B	Advance tax on purchase of air ticket	5% of the gross amount of air ticket
236HA	Tax on sale of certain petroleum products	0.5% of ex-depot sales price

Section Reference	Description of withholding tax	Rate of withholding/ collection of tax
236L	Advance tax on purchase of international air ticket	PKR 16,000/ person (First/ Executive class) and PKR.12,000/ person (Other excluding Economy)
236P	Advance tax on banking transactions otherwise than through cash	0.6% on the person whose name is not appearing in ATL
236V	Advance tax on extraction of minerals	5%
236Y	Advance tax on persons remitting amounts abroad through credit or debit or prepaid cards	1%



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Omission of withholding tax provisions.

There were 38 withholding tax provisions in the Income Tax Ordinance, 2001. This high number of provisions adds to complexity and creates undue burden of compliance on different withholding agents. It also impacts country's rating on the ease of doing business index. In an effort to augment ease of business and simplify the tax laws following withholding taxes have been omitted.

Provision	Description	Sector
153B	Collection of tax on payment of royalty to residents	Royalty
231A	Collection of tax on cash withdrawal	Banking sector
231AA	Collection of tax on banking instruments	
236P	Collection of tax on banking transactions other than through cash	
236Y	Collection of tax from persons remitting amounts abroad	

	through credit or debit or prepaid cards.	
236B	Collection of tax on domestic air travel	Airlines
236L	Collection of tax on international air travel	
236V	Collection of tax on extraction of minerals	Mining sector
233A	Collection of tax from members by a stock exchange registered in Pakistan	Capital Market
233AA	Collection of tax on marginal financing by NCCPL	
234A	Collection of tax from CNG stations	CNG sector
236HA	Collection of tax on certain petroleum products	Certain petroleum products

Additionally, following withholding tax provisions have been merged with other provisions to reduce complexity of law:

Provision	Description	Merged with
150A	Deduction of tax on return on investment in Sukuks	Merged in section 151 for residents and in section 152 for non-residents which deal with such payments
152A	Deduction of tax on payments for foreign produced commercials	Merged with section 152 which deals with payments to non-residents
236S	Collection of tax on dividend in specie	Merged with section 150 which deals with dividend

SECOND SCHEDULE

CLAUSE (80)

Exemption withdrawn

CLAUSE (2)

Exemption withdrawn
for full time teacher

RECOUPMENT OF TAX CREDIT **CLAUSE : 4A**

No provision of law shall apply for recouping of any tax credit already allowed to National Power Parks Management Company (Pvt) Limited for investment in plant and machinery in the eve of privatization merely for the reason of change in ownership pattern or debt to equity ratio.

Through the act, the scope of this exemption is extended notwithstanding non-issuance of share certificates or any restructuring of its ownership pattern or debt to equity ratio prior to privatization as part of privatization.

PROFIT ON DEBT ON FEDERAL GOVT SECURITIES CLAUSES (20)

Old Tax Rate

• **10%**

New Tax Rate

• **15%**

PAYMENT OF PROFIT ON DEBT CLAUSES (22), (23) AND (23C)

- Under the existing provisions of clause (22) of part I of the second schedule, any payment received from a provident fund to which the PF Act, 1925 applies is exempt from tax. Similarly, accumulated balance due to an employee participating in a recognized provident fund is also exempt by virtue of clause (23) of Part I of the 2nd schedule. However, the accumulated balance received by an employee from a voluntary pension system is exempt up to 50% of the amount received, under clause (23A) of Part I of the 2nd schedule.
- Contributions made by an employer to a recognized PF in excess of 1/10 of the salary or PKR 150,000, and profit on debt credited on the balance to the credit of the employee in excess of 1/3 of salary or 16% as notified by the FG is treated to have been received by the employee and taxed under the head salary on an annual basis.

- Tax payments representing profit on debt earned on contributions to provident fund exceeding PKR 500,000 and on the entire amount of interest in an approved pension fund, at the rate of 10%
- It is a separate block of income (SBI).
- The manner in which the amendments are drafted gives rise to significant ambiguity on how the tax would apply and whether it would be levied on an annual basis or at the time of payment of the retirement benefits.

EXEMPTION TO INCOME OF CERTAIN CHARITABLE AND OTHER INSTITUTIONS CLAUSE (66)

- Clause (66) provides exemption from tax to any income of certain charitable and other institutions specified therein.
- FA, 2020 has substituted the list of institutions with two tables.
- **Table 1** provided a list of institutions which are fully exempt without any condition.
- **Table 2** income are exempt subject to compliance with the provisions of section 100C of the ordinance with effect from 01 July 2021.

MOVING FROM TABLE – 2 TO TABLE - 1

Abdul Sattar Edhi Foundation

Patient's Aid Foundation

Indus Hospital and Health Network

Dawat-e-Hadiya Karachi

The Citizens Foundation

Audit Oversight Board

ADDITION TO TABLE - 01

Securities and Exchange Commission of Pakistan

Privatization Commission of Pakistan

Sundus Foundation

Ali Zaib Foundation

Fauji Foundation

Make a Wish Foundation

Supreme Court Water Conservation Account

Political parties registered with the Election Commission of Pakistan

NEW ENTITIES

Layton Rahmatullah Benevolent Trust (LRBT)

Baluchistan Education Endowment Fund (BEEF)

Saylani Welfare International Trust

Chiniot Anjuman Islamia

PROFITS AND GAINS DERIVED BY A REFINERY CLAUSE (126B)

<u>Refinery</u>	<u>Condition</u>	<u>Exemption Period</u>
New Refinery	Beginning from the date of commencement of commercial production in the case of new refinery	20 years
Old Refinery	Date of completion of upgradation, modernization or expansion project of an existing refinery	10 years



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Exemption to refineries

Exemption from tax to the income of deep conversion new refineries and up gradation, modernization and expansion projects is provided under clause (126B) of Part I of Second Schedule if they undertake to invest in projects by 31.12.2021. This exemption has been made available for twenty years to new refineries and for ten years to the income arising from BMR and expansion projects of existing refineries. The availability of exemption is subject to the condition that products of these refineries meet Euro 5 standards.

PROFITS AND GAINS IN RELATION TO SPECIAL TECHNOLOGY ZONES
CLAUSE (126EA), PART I, SECOND SCHEDULE
CLAUSE (60DA), PART IV, SECOND SCHEDULE

Currently, income derived by a zone enterprise as defined in the Special Economic Zones Act, 2012 is exempt from tax for a period of 10 years reckoned from the date the developer certifies that the zone enterprise has commenced commercial operations. Similarly, such exemption is also available to a developer of zone starting from the date of signing of development agreement in special economic zone and to the co-developer as defined under the EPZ rules, 2013 subject to certain conditions.

Clause (60DA) to part IV of the second schedule added whereby no tax is proposed to be collected on the import of capital equipment as defined in section 2 of the Special Technology Zones Ordinance, 2020 by the following:

- (a) Zone developers as defined in section 2 of the STZO, 2020 for consumption in the special technology zones for the period of 10 years commencing from the date of signing the development agreement;
- (b) Zone enterprises as defined in section 2 of the STZA ordinance, 2020 for a period of ten years from the date of issuance of license by the special technology zone authority;
and
- (c) Special technology zones authority established under the STZO, 2020



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a. **Special Economic Zones**

Special Economic Zones also include some key projects of CPEC. These zones are governed under Special Economic Zones Act, 2012. The law provides for exemption from income to the zone developers, co-developers and the zone enterprises for a period of 10 years from the commencement of business. However, they were liable to pay minimum tax on their turnover at the rate of 1.5% of turnover. This was causing hardship to the investors. SEZ enterprises have been exempted from minimum tax for tax year 2021 and onwards. The exemption has been provided by including SEZ enterprises in clause (11A) of Part IV of Second Schedule.

Special Technology Zones

The establishment of Special Technology Zones is a flagship initiative of the Government. They have been established through promulgation of Special Technology Zones Ordinance, 2020 to promote innovation, technology, entrepreneurship and to attract investment in technology driven industries and enterprises. Special tax incentives have been granted including:

- a) Ten year tax exemption for Special Technology Zone Authority, Zone Developers and Zone Enterprises by introducing new clause (126EA) in Part I of Second Schedule.
- b) Exemption from minimum tax by inclusion in clause (11A) of Part IV of Second Schedule.
- c) Tax exemption on the import of capital goods.
- d) Tax exemption on dividend income of private funds from investment in zone enterprises.

EXEMPTIONS/CONCESSION UNDER STZAO

Nature of income	Entity type	Period of exemption
Dividend income and long-term capital gains from investments in zone enterprises as defined in the STZAO	Venture capital fund for investment in zone enterprises	Ten years commencing from issuance of license by the Authority to the zone enterprise
Profit and gains from the development and operations of the zones	Zone developer as defined in the STZAO	Ten years from the date of signing of the development agreement

Nature of income	Entity type	Period of exemption
Profit and gains	Zone enterprises as defined in the SZTAO	Ten years from the date of issuance of license by the Special Technology Zone Authority
Profit and gains	Special Technology Zone Authority established under SZTAO	No limit is prescribed.

No minimum tax is to be collected
who qualify for exemption under
special economic zone.

PROFITS AND GAINS DERIVED FROM SALE OF ELECTRICITY CLAUSE (132AA)

- A new clause (132AA)
- Provides exemption on profits and gains derived from sale of electricity by National Power Parks Management Company Limited commencing from the date of change of ownership as a result of privatization by the privatization commission of Pakistan.

- No minimum tax
- Tax credit already allowed for investment in plant and machinery to national power parks management company limited shall not be recouped under any provision of the law in the eve of privatization merely for the reasons of change in its ownership pattern or debt to equity ratio.



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Exemption to National Power Parks Management Company

National Power Parks Management Company Limited is undergoing privatization through Privatization Commission. Exemption to the income from sale of electricity is not available to NPPMCL being Federal Government owned company. In order to provide level playing field and facilitate demerger and privatization, the demerged entities and new entity taking over NPPMCL has been provided threefold exemptions on the recommendations of Privatization Commission.

- i. Exemption from tax on income from sale of electricity;
- ii. Exemption from minimum tax on turnover basis; and
- iii. Exemption from reversal of tax credits claimed by NPPMCL which under law become reversible due to change in ownership or change in debt/ equity ratio.

**INTERNATIONL BUYING HOUSE
CLAUSE (149)**

Exemption from
total income on:

Any sum remitted to Pakistan through banking channels in foreign currency received by an international buying house from its non-resident principal to meet its expenses in Pakistan

Any sum chargeable under the head "Salary" received by a person who, not being a citizen or resident of Pakistan, is engaged as an expert by an international buying house

- International buying house has been defined as persons acting as buying offices, buyers agents, or representatives of international buyers for facilitating exports from Pakistan and are registered as liaison offices with board of investment or companies registered with SECP.
- Provided that such buying houses act as cost centers with the sole purpose to bring export orders to Pakistan on behalf of their principals and do not enter into any local business transactions in Pakistan and their expenses are remitted to Pakistan



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International Buying Houses

International buying house act as facilitator for exports from Pakistan to their principals abroad. In order to reduce disputes the amount remitted in foreign exchange to meet the expense of these buying houses by their principals has been exempted from tax. Moreover, the salary of non-resident foreign experts employed/ engaged by international buying houses has been exempted from tax if such experts perform duties for these international buying houses. These exemptions have been incorporated in clause (149) of Part I of the Second Schedule to the Ordinance.

INCENTIVES TO BAGASSE-BASED COGENERATION POWER PROJECT - CLAUSE (132C) CLAUSE (18C), PART II OF THE SECOND SCHEDULE

- A new clause (132C)
- Grant exemption on profits and gains derived from a Bagasse/ Biomass-Based Cogeneration Power Project having one or more boilers of not less than 60 bar (kg/CM³) pressure commissioned after 01 January 2013.
- A reduced rate of tax at the rate of 7.5% for attributable dividend from a BBBCPP qualifying for exemption under clause (132C) of part I of the second schedule.
- Attributable dividend shall be determined in the ratio of accounting profit for the year attributable to such project and the total accounting profit for the year before tax.
- The profit attributable to such project would be determined by an external auditor of the company who will issue a certificate to this effect.

WITHDRAWAL OF REDUCED RATE OF WITHHOLDING TAX FOR LARGE DISTRIBUTION HOUSES CLAUSE (24A)

- A reduced rate of tax at 1% is available on sale from distributors of cigarette and pharmaceutical products and for large distribution houses who fulfill all the conditions for a large import house - section 148.
- Reduced rate benefit withdrawn.
- Consequently, supplies made by large distribution house will be subject to withholding of tax at the general rate of withholding under section 153(1)(a).

EXPANSION OF BENEFIT OF REDUCED RATE OF WITHHOLDING TAX CLAUSE (24C)

- Currently, reduced rate of 0.25% is available under section 153(1)(a) of the ordinance, in the case of dealers and sub-dealers, wholesalers and retailers of FMCG, fertilizer, sugar, cement and edible oil as recipient of payments, provided that the beneficiaries are already sales tax registered or get themselves registered for sales tax.
- **Reduced rate apply to the whole of the supply chain including distributors.**
- **Electronics (excluding mobile phones) added to above list of supplies.**
- **Beneficiaries should appear in the ATL issued under the ordinance and under the ST act, 1990.**
- **Benefit shall only be available to Tier-1 retailers as defined under the ST Act, 1990 who are integrated and configured with FBR or its computerized system for real time reporting of sales or receipts.**



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Reduced Rate of withholding tax for certain services

- a) Oilfield services have been included in list of reduced rate services in Division II, Part III of First Schedule in case of payment to non-residents.
- b) Architectural services, oilfield services, telecommunication services, collateral management services and travel & tour series have been included in list of reduced rate services in Division III, Part III of First Schedule.
- c) Rates for withholding tax on contracts under section 153(1)(c) have been reduced to 6.5% in case of companies and 7% in case of others.

EXPANSION OF BENEFIT OF REDUCED RATE OF MINIMUM TAX CLAUSE (24D)

- A reduced rate of minimum tax of 0.25% under section 113 of the ordinance is available in the case of dealers and sub-dealers, wholesalers and retailers of locally manufactured mobile phones, FMCG, fertilizer, sugar, cement and edible oil subject to the condition that the beneficiaries are appearing in the ATL issued under the ordinance and under the ST Act, 1990. The benefit of reduced rate is available to such persons who are already sales tax registered or get themselves registered under the ST Act, 1990.
- **Reduced rate apply to whole of the supply chain including distributors**
- **Electronics (excluding imported mobile phones) added to above list of sectors.**
- **Benefit shall only be available to Tier-1 retailers as defined under the ST act, 1990 who are integrated and configured with FBR or its computerized system for real time reporting of sales or receipts.**

INCREASE IN TIME THRESHOLD OF BENEFIT OF REDUCED MINIMUM TAX ON TRADERS OF YARN CLAUSE (28E)

- A reduced rate of minimum tax 0.5% under section 113 of the ordinance for the tax year 2020 is currently available to traders of yarn being individuals.
- This benefit is not available for indefinite period.

**OFFSHORE SUPPLY CONTRACT OF AN INDEPENDENT POWER PRODUCER
LOCATED WHOLLY OR PARTLY IN AJ & K
CLAUSE 18**

A new clause (18) whereby receipts of an IPP located, wholly or partly in AJK, shall attract withholding of tax at the rate of 1% subject to fulfillment of the following conditions:

(i) private power & infrastructure board (PPIB) has issued a letter of support for the project;

(ii) its EPC contract has been executed and submitted to NEPRA for EPC stage tariff determination prior to the enactment of finance act, 2018;

(iii) offshore supply contract agreement of offshore supply contractor having permanent establishment in Pakistan falls under the purview of cohesive business operation as contemplated under the ordinance; and

(iv) such 1% tax shall be full and final tax liability of the offshore contractor



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Reduced rate for specified offshore supply contracts

The offshore supplies by non-resident suppliers are subject to withholding tax at the rate of 1.4% under minimum tax regime. This rate has been reduced to 1% under final tax regime in the cases of Karot and Kohala hydro power projects situated in AJK. Enabling provision is clause (18) of Part III of the Second Schedule to the Ordinance. These amendments have been made in pursuance to the recommendations of Ministry of Energy.

**REDUCED TAX RATES ON PROFITS AND GAINS
DERIVED BY A WOMEN ENTERPRISE
CLAUSE (19)**

‘Women Enterprise’ which may take any of the following three forms:

- (a) a sole proprietorship concern owned by a woman;
- (b) an AOP all of whose members are women; or
- (c) a company with 100% shareholding held by women.

- The tax payable by a woman enterprise on profits and gains derived from business chargeable to tax under the head 'income from business' shall be reduced by 25%.
- Not be available to a business that is formed by the transfer or reconstitution or reconstruction or splitting up of an existing business.



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Women enterprises

As an affirmative action for women entrepreneurs any new proprietorship owned by a woman, any AOP having all women partners and a company having all women shareholders have been granted 25% tax reduction in tax liability in a year. Enabling provision in the form of clause (19) in Part III of second schedule has been introduced.

EXEMPTION FROM APPLICATION OF MINIMUM TURNOVER TAX CLAUSE (11A) & SECTION 113

Clause 11A of part IV of the second schedule to the ordinance prescribes the persons who are absolved from the application of minimum tax based on turnover under section 113 of the ordinance. Following persons removed from clause (11A):

Non-profit organizations approved under Clause (36) of Section 2 of the Ordinance or Clause (58) or included in Clause (61) of Part I of the Second Schedule to the Ordinance

Exporters of computer software, IT services or IT enabled services who qualified for exemption under Clause (133) of Part I of the Second Schedule to the Ordinance

Modarabas qualifying for exemption under Clause 100 of Part I of the Second Schedule to the Ordinance;

The corporatized entities of Pakistan Water and Power Development Authority in respect of their receipts from of sale of electricity;

Companies qualifying for exemption under Clause (132B) of Part I of the Second Schedule to the Ordinance in respect of receipts from a coal mining project in Sindh for supplying coal exclusively to power generation projects

Start-up as defined in Clause (62A) of Section 2 who qualifies for exemption under Clause (143) of Part I of the Second Schedule to the Ordinance

Now these exemptions have been omitted and tax credit to the tune of 100% has been introduced subject to the following conditions:

Income tax return is filed

Withholding tax statements for the relevant tax year have been filed where the person is a withholding agent; and

Sales tax returns for the periods corresponding to relevant tax year have been filed

BENEFIT OF CLAUSE (11A) EXTENDED TO THE FOLLOWING TAXPAYERS

Islamic Naya Pakistan Certificates Company Limited;

receipts from sale of electricity produced from a bagasse and biomass-based co-generation power project qualifying for exemption under Clause (132C) of Part I of the Second Schedule to the Ordinance

new entity taking over National Power Parks Management Company Limited in the eve of privatization

Zone Enterprises as defined in the Special Economic Zones Act, 2012 and Zone Developers defined in Special Economic Zone Rules, 2013 qualifying for exemption under Clause (126E), Part I of the Second Schedule to the Ordinance; and

Zone developer as defined in Section 2 of the Special Technology Zones Authority Ordinance, 2020 and Zone Enterprises as defined in Section 2 of the Special Technology Zones Authority Ordinance, 2020

**EXEMPTION FROM TAX ON IMPORT OF OXYGEN GAS,
CYLINDERS AND GENERATORS ETC.
CLAUSE (12M) READ WITH SECTION 148**

In order to fight a universally unprecedented challenge in the shape of novel corona virus pandemic and to equip the health sector, the bill seeks to insert a new clause (12M) in part IV of the second schedule to the ordinance whereby no tax would be collected on import of oxygen gas, oxygen cylinders, and oxygen concentrators/ generators/ manufacturing plants under the specified tariff for a period of one hundred and eighty days commencing from 14 May 2021.

EXEMPTION FROM TAX ON IMPORT AND EXPORT OF SPECIFIED ITEMS IN BMS CLAUSE (12N) READ WITH SECTION 148 & 154

- Coined a concept of BSM with a view to ensure sufficient availability of specified edible items within the vicinity of the borders which Pakistan shares with Iran and Afghanistan.
- Under the said concept, the provisions of section 148 regarding collection of tax at import stage and the provisions of section 154 in relation to collection of tax on export of specified items would not be applicable subject to fulfilment of the following conditions:

The goods so imported and exported shall be supplied only within the limits of BSM established in cooperation with Iran and Afghanistan

If the goods, on which exemption under this Clause has been availed, are brought outside the limits of such markets, income tax shall be charged on the import value as per provisions of Section 148 of the Ordinance

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 income tax involved and the same shall be released after presentation of consumption certificate issued by the Commissioner Inland Revenue having jurisdiction

The said exemption shall only be available to a person upon furnishing proof of having a functional business premises located within limits of the BSM;

Breach of any of the conditions specified above shall attract relevant legal provisions of the Ordinance, besides recovery of the amount of income tax along with default surcharge and penalties involved.



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Border sustenance markets

Border sustenance market is another important initiative of this Government. In order to provide enabling environment to these markets, tax on import and export of specified goods for sale in the jurisdiction of these markets has been exempted. Enabling provisions in the form of clause (12N) in Part IV of Second Schedule have been introduced.

**OIL TANKER CONTRACTOR SERVICES
CLAUSE (28F) READ WITH SECTION 153**

2% tax rate will apply for oil
tanker contractor services.

**EXEMPTION FROM WITHHOLDING OF TAX ON PAYMENT
MADE TO GOODS TRANSPORT CONTRACTOR
CLAUSE (43E) READ WITH SECTION 153**

Existing Rate

•3%

New Rate

•3.50%



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Contractors of oil tankers and goods transport

The contractors of oil tankers were subject to reduced rate of 3% for services rendered instead of normal rate of 8%. This rate has been further reduced to 2%. Necessary changes have been made through clause (28F) of Part II of second schedule.

The contractors of oil tanker services and goods transport services have also been exempted from responsibilities as withholding agent under section 153(1)(a) and 153(1)(b) subject to the condition that they pay 0.5% extra tax on their turnover in addition to tax deductible under section 153(1)(b). Necessary changes have been made through clause (clause (43D) and (43E) of Part IV of second schedule.

**EXEMPTION FROM WITHHOLDING OF TAX ON
COMMODITY FUTURES CONTRACTS
CLAUSE (43G) READ WITH SECTION 153**

Absolve the withholding of tax on payments made in respect of commodity futures contracts listed on a futures exchange licensed under the Futures Market Act, 2016.



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Futures commodity markets

Development of regulated commodity markets is another important step of the Government. In order to provide enabling environment, for warehousing services, and collateral management services a reduced rate of 3% instead of 8% have been made. In a coordinated move, the establishment of storage houses, issuance of electronic warehouse receipts and their trading on Pakistan Mercantile Exchange are further parts of agricultural transformation plan. In order to provide enabling environment for the trading of electronic warehousing receipts on Pakistan Mercantile Exchange, exemption to futures commodity contracts from withholding tax under section 153(1)(a) has been granted by introduction of clause (43G) in Part IV of the Second Schedule of the Ordinance.

Exchange Traded Funds

Exchange traded funds (ETF) are an emerging product in capital market. In order to streamline its taxation, the units of ETF have been included in the definition of security. Moreover, tax credit has also been allowed for investment in ETF at par with investment in shares and insurance premium. Necessary changes have been introduced in section 37 and 62 of the Ordinance.

REDUCED WITHHOLDING OF TAX UNDER SRO 1125 CLAUSE (45A) READ WITH SECTION 153

- Currently, payments made on account of supply of goods and rendering of services to the following five sectors attracts withholding of tax at the rate of 1%:
 - (i) textile and articles thereof;
 - (ii) carpets;
 - (iii) leather and articles thereof including artificial leather footwear;
 - (iv) surgical goods; and
 - (v) sports goods.
- In addition, goods supplied, and services rendered by yarn traders to above classes of taxpayers attracts withholding of tax at the rate of 0.5%.

Explanation added that the above reduced rate(s) would only be applicable to such local supplies and services provided by taxpayers who are engaged in the above referred categories.



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Rationalizing of withholding regime for exporters

Following two measures have been introduced to streamline withholding taxes of export oriented sector:

- a) Exporters are exempted from withholding tax provisions regarding payment for supply of goods. However, this exemption was not available when reduced rate is provided under the Ordinance for certain goods. In order to remove distortion this anomaly has been removed. Necessary changes in clause (45) of Part IV of Second Schedule have been made.
- b) Many withholding agents of export oriented sectors are defying the provision of law by misinterpreting the language. An explanation has been added that reduced rate is applicable to goods and services related to export oriented sector only. Necessary changes in clause (45A) of Part IV of Second Schedule have been made.

**EXEMPTION FROM WITHHOLDING OF TAX ON SALE OF USED
MOTOR VEHICLES BY GENERAL PUBLIC
CLAUSE (45B) READ WITH SECTION 153**

No withholding of tax would be applicable on any payment made by a person on account of purchase of used motor vehicles from general public.



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Provisions regarding used vehicles

Used vehicle market is working in an undocumented environment. In order to promote documentation and corporatization of this sector has been granted exemption from withholding tax on the purchase of used vehicle from general public and reduced minimum turnover tax from 1.5% to 0.25% . Necessary changes have been made in clause (45B) of Part IV of Second schedule.

PAYMENTS NOT SUBJECT TO WITHHOLDING OF TAX UNDER SECTION 153 CLAUSE (46AA)

- A new clause (46AA)
- Specify persons whose receipts are absolved from withholding of tax under section 153 of the ordinance.
- The aforesaid clause (46AA) is Pari Materia to SRO 586(I)/91 dated 30 June 1991.

AGRICULTURE PRODUCE

fresh milk

fish by any person engaged in fish farming

live chicken, birds and eggs by any person engaged in poultry farming

live animals by any person engaged in cattle farming

unpackaged meat; and

raw hides

EXEMPTION CONDITION

Directly purchased from the grower and such grower provides a certificate - Clause (12) of part IV of the 2nd Schedule

Agriculture produce has not been subjected to any process other than which is ordinarily performed to render such produce fit to be taken to the market

TWO MAJOR AMENDMENTS

- (i) Extended the benefit of exemption to persons receiving payments for following goods:
 - (a) live animals by any person engaged in cattle farming;
 - (b) unpackaged meat; and
 - (c) raw hides.

- (ii) Renounced the benefit to an industrial undertaking engaged in poultry processing which has not been subject to any process (other than which is ordinarily performed to render such produce fit to be taken to the market).



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Measures relating to meat industry

Organized sector of meat is facing many problems being withholding agent. Therefore, the live animals, raw hides and unpackaged meat have been included in the definition of agriculture produce so that withholding tax provisions are not attracted. Changes have been introduced in clause (46AA) of Part IV of Second Schedule.

WITHDRAWAL OF EXEMPTION FROM DEDUCTION OF TAX ON DIVIDEND, PROFIT ON DEBT & COMMISSION CLAUSE (47B)

In line with the withdrawal of exemption for a modaraba and a private equity and venture capital fund, now exemptions be withdrawn that were previously available to the above entities from taxes deducted on dividend, profit on debt and commission paid to them.

**TAX PAID AT IMPORT STAGE
CLAUSE (56) READ WITH SECTION 148**

Benefit of clause 56 regarding exemption from collection of tax at import stage to the following persons/ classes of persons and goods/ classes of goods:

Goods temporarily imported into Pakistan by international athletes which would be subsequently taken back by them within one hundred and twenty days of temporary import;

Goods produced or manufactured and exported from Pakistan which are subsequently imported in Pakistan within one year of their exportation, provided conditions of Section 22 of the Customs Act, 1969 are complied with;

plant and machinery imported for setting up of a bagasse/ biomass-based cogeneration power project qualifying for exemption under Clause (132C), Part I of the Second Schedule;

persons authorized under Export Facilitation Scheme, 2021 notified by the FBR with such scope, conditions, limitation, restrictions and specification of goods;

motor vehicles up to 850cc in CBU condition;

Printed books excluding brochures, leaflets and similar printed material, whether in single sheets (PCT code 49.01);

Newspapers, journals and periodicals, whether illustrated or containing advertising material (PCT code 49.02).

Blind talking mobile phones imported by blind persons as per rules issued by the Board



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Exemption from tax on import

Currently the import of books, corn harvester and silage making machines, motor vehicles upto 1000 cc are subject to tax at the rate of 5.5 % on import. These have been exempted from collection of advance income tax at the import stage by inclusion in Clause (56) of Part IV of the Second Schedule.

WITHDRAWAL OF EXEMPTION UNDER SECTION 153 FROM PAYMENTS RECEIVED BY LARGE IMPORT HOUSE CLAUSE 57A

- Before FA 2020, the tax so collected on the imports of goods by a large import house (“LIH “) was an adjustable tax. Similarly, the amount received by LIH was not subject to withholding of tax.
- Vide the FA, 2020, adjustability was done away. LIH is considered as minimum tax subject to the condition that in case of higher tax liability at corporate rate, the difference will be paid by the LIH.

Exemption from WHT on payment received by a LHM under section 153 of the ordinance be withdrawn.

It is now subject to WHT.

WITHDRAWAL OF CLAUSES FROM THE SECOND SCHEDULE

Clause No.	Description
4	Salary received by a Pakistani Seafarer working on a Pakistani flag vessel for 183 days or more during a tax year and a Pakistani Seafarer working on a foreign vessel where such income is remitted to Pakistan within 2 months of the relevant tax year through normal banking channels
40	Income of a newspaper employee representing local travelling allowance
53A	Perquisites received by an employee namely free or subsidized food provided by hotels and restaurants to its employees during duty hours, free or subsidized education provided by an educational institution to its children of its employees, free or subsidized medical treatment provided by a hospital or a clinic to its employees and any other perquisite for which the employee does not have to bear any marginal cost
80	Any income derived from a private foreign currency account held with an authorized bank in Pakistan in accordance with the Foreign Currency Accounts Scheme introduced by the State Bank of Pakistan by a resident individual who is a citizen of Pakistan
114AA	Any income chargeable under the head "capital gains" derived by a resident individual from the sale of constructed residential property subject to fulfillment of certain conditions

Clause No.	Description
117	Any income derived by a person from plying of any vehicle registered in the territories of Azad Jammu and Kashmir excluding income arising from the operation of such vehicle in Pakistan to a person who is resident in Pakistan and non-resident in those territories.
126N	Profits and gains derived by a taxpayer from an industrial undertaking duly certified by PTA engaged in the manufacturing of cellphones for a period of 5 years from the month of commencement of commercial production subject to fulfillment of certain conditions
18A	Reduction in tax rate to 20% for a Company setting up an industrial undertaking between the first day of July 2014 to the 30 th day of June 2017 for a period of 5 years beginning from the month in which the industrial undertaking is set up or commercial production in commenced, whichever is later, subject to fulfilment of certain conditions
2	The 25% reduction against tax payable of full time teachers or a researcher employed in a non-profit education or research institution duly recognized by Higher Education Commission, a Board of Education or a University recognized by the Higher Education Commission, including government research institution is sought to be withdrawn

THANK YOU FOR READING.

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

gcaconsultants@gmail.com

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