

# **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" engraved in a bold, black, sans-serif font. The stamp is positioned on a document, and a wooden handle is visible at the top, suggesting it is being used or about to be used. The background shows a ruler and some faint numbers on the document, indicating a financial or legal context.

**INCOME TAX**

# FIFTH SCHEDULE

# **EXEMPTION FROM TAX OF PROFITS FROM REFINING OR CONCENTRATING MINERALS DEPOSITS**

This rule is deleted now  
and exemption withdrawn.

# SEVENTH SCHEDULE



# **RULE : 6C (FINANCE ACT 2019)**

- Deals with taxable income of a banking company arising from additional income earned from additional investment in FG securities.
- **Additional income earned** means markup income earned from additional investment in FG securities by the bank for the TY.

# **ADDITIONAL INVESTMENTS**

Average investment made in FG securities by the bank during the tax year, in addition to the average investments held during the tax year 2019.

# FORMULA

$$A \times B/C$$

Where –

A. Is taxable income of the banking company;

B. Is markup income earned from the additional investment for the tax year; and

C. Is the total of the mark-up income and non-make-up income of the banking company as per accounts.

For TY 2022 and onwards, tax rate on taxable income attributable to investment in FG securities shall be determined based on asset to deposit ratio as on last day of the tax year rather than normal tax rate of 35% as under:

<b><u>Asset to deposit ratio as on last day of the tax year</u></b>	<b><u>Tax rates</u></b>
<b>Upto 40%</b>	<b>40%</b>
<b>Exceeds 40% but does not exceed 50%</b>	<b>37.5%</b>
<b>Exceeds 50%</b>	<b>35%</b>

**It is pertinent to note that the above amendments were not proposed through finance bill announced on June 11, 2021.**

# TENTH SCHEDULE

# **RENT OF IMMOVABLE PROPERTY SUBJECT TO THE APPLICATION OF TENTH SCHEDULE**

- As per the tenth schedule, wherever tax is required to be deducted or collected under any provision of the ordinance from a person whose name is not appearing in ATL, the rate of withholding will be doubled in case of deduction or collection of tax from such person. However, the schedule provides exception in case of several payments on which provisions of the tenth schedule do not apply. Currently, the payment of rent of immovable property is ousted from the mischief of the tenth schedule.
- **This rule is withdrawn now.**



# **THIRTEENTH SCHEDULE**

# LIST OF 13<sup>TH</sup> SCHEDULE

**any Sports Board or institution recognized by the Federal Government for the purposes of promoting, controlling or regulating any sport or game.**

**The Citizens Foundation**

**Fund for Promotion of Science and Technology in Pakistan**

**Fund for Retarded and Handicapped Children**

**National Trust Fund for The Disabled**

**Fund for Development of Mazaar of Hazarat Burn i Imam**

**Rabita-e-Islami's Project for printing copies of the Holy Quran**

**Fatimid Foundation, Karachi**

**Al-Shifa Trust**

**Society for the Promotion of Engineering Sciences and Technology in Pakistan**

**Citizens-Police Liaison Committee, Central Reporting Cell, Sindh Governor House, Karachi**

**ICIC Foundation**

**National Management Foundation**

**Endowment Fund of the institutions of the Agha Khan Development Network (Pakistan listed in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network**

**Shaheed Zulfiqar Ali Bhutto Memorial Awards Society**

**Iqbal Memorial fund**

**Cancer Research Foundation of Pakistan, Lahore**

**Shaukat Khanum Memorial Trust, Lahore.**

**Christian Memorial Hospital, Sialkot**

**National Museums, National Libraries and Monuments or institutions declared to be National Heritage by the Federal Government**

**Mumtaz Bakhtawar Memorial Trust Hospital, Lahore.**

**Kashmir Fund for Rehabilitation of Kashmir Refugees and Freedom Fighters**

**Institutions of the Agha Khan Development Network (Pakistan) listed in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network**

**Azad Kashmir President's Mujahid Fund,1972**

**Businessmen Hospital Trust, Lahore**

**National Institute of Cardiovascular Diseases, (Pakistan) Karachi**

**Premier Trust Hospital, Mardan**

**Faisal Shaheed Memorial Hospital Trust, Gujranwala**

**Khair-un-Nisa Hospital Foundation, Lahore**

**Sind and Balochistan Advocates' Benevolent Fund**

**Rashid Minhas Memorial Hospital Fund**

**Any relief or welfare fund established by the Federal Government**

**Mohatta Palace Gallery Trust**

**Bagh-e-Quaid-e-Azam project, Karachi**

**Any amount donated for Tameer-e-Karachi Fund**

**Pakistan Red Cres-cent Society**

**Sank of Commerce and Credit International Foundation for Advancement of Science and Technology**

**Federal Board of Revenue Foundation**

**The Indus Hospital, Karachi**

**Pakistan Sweet Homes Angels and Fairies Place**

**Al-Shifa Trust Eye Hospital**

**Aziz Tabba Foundation**

**Sindh Institute of Urology and Transplantations Trust and Society for the Welfare of SIUT**

**Sharif Trust**



**The Kidney Centre Post Graduate Institute**

**Pakistan Disabled Foundation**

**Sardar Trust Eye Hospital, Lahore**

**Supreme Court of Pakistan — Diامر Bhasha & Mohmand Dams — Fund**

**Layton Rahmat ullah Benevolent Trust (LRBT)**

**Akhuwat**

**The Prime Minister's COVID-19 Pandemic Relief Fund-2020**

**Ghulam Ishaq Khan Institute of Engineering Sciences and Technology (GIKI)**

**Lahore University of Management Sciences**

**Dawat-e-Hadiya, Karachi**

**Bait us salam Welfare Trust**

**Patients' Aid Foundation**

**Al khidmat Foundation**

**Alamgir Welfare Trust International**

**Prime Minister's Special Fund for victims of terrorism**

**Chief Ministers (Punjab) Relief Fund for Internally Displaced Persons (IDPs) of KPK**

**Prime Ministers Flood Relief Fund 2010 and Provincial Chief Ministers Relief Funds for victims of flood 2010**

**Waqf for Research on Islamic History, Art and Culture,  
Istanbul**

# **INTERIM ORDINANCE**

# **AMENDMENTS INTRODUCED THROUGH INTERIM ORDINANCES**

During the financial year 2020-2021, the following ordinances were introduced:

- the income tax (amendment) ordinance, 2021;
- the tax laws (amendment) ordinance, 2021; and
- the tax laws (second amendment) ordinance, 2021.



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### **Incorporation of Ordinances in Finance Act, 2021.**

During the currency of financial year 2021-22, three Ordinances were issued. These have been made part of Finance Act, 2021.

**a. Income Tax (Amendment) Ordinance, 2021**

It was issued to extend certain deadlines under section 100D and Eleventh Schedule under Prime Minister's construction package.

**b. Tax Laws (Amendment) Ordinance, 2021**

It was issued to incorporate incentives regarding investments made through Roshan Digital Accounts and to implement Electric Vehicles and Mobile Phones Devices policies of the government.

**c. Tax Laws (Second Amendment) Ordinance, 2021**

It was issued to implement corporate income tax reforms whereby certain allowances, tax credits and exemptions were withdrawn. However, in order to properly implement and streamline withdrawal of exemptions, a grandfathering clause in the form of new section 242 has been introduced in the Ordinance which states that existing beneficiaries of concessions at the time of repeal of allowances, tax credits and exemptions shall continue to enjoy the benefits of repealed provisions subject to the conditions and limitations specified in the repealed provisions.

**INCOME TAX (AMENDMENT)**

**ORDINANCE, 2021**



## **SECTION 100D – SPECIAL PROVISIONS RELATING TO BUILDERS AND DEVELOPERS**

The Prime Minister of Pakistan announced an incentive package for the construction sector. In this connection, section 100D read with 11th schedule of the ordinance was introduced through income tax (amendment) ordinance, 2020 providing separate tax regime for builders & developers.

# PROJECT COMMENCEMENT, COMMISSIONING AND ESTIMATED PROJECT LIFE

Description	Existing Date / Period	New Date / period
Project completion of new and existing Projects	30 September 2022	30 September 2023
Commencement of new project	31 December 2020	31 December 2021
Maximum estimated project life	2.5 years	3.5 years

# REGISTRATION

Description	Existing Date / Period	New Date / period
Where immunity with respect to source of funds <ul data-bbox="165 821 445 1013" style="list-style-type: none"><li data-bbox="165 821 369 878">• Aailed</li><li data-bbox="165 949 445 1013">• Not aailed</li></ul>	31 December 2020  31 December 2020	30 June 2021  31 December 2021

# IMMUNITY FROM INQUIRY WITH RESPECT TO FUNDS

Description	Existing Date / Period	New Date / period
Deposit of money into bank account by an individual. Transfer of funds into bank through a crossed banking instrument by a Company or an AoP(s).	31 December 2020	30 June 2021
Transfer of land to a Company or an AoP(s) as investment with a condition that person shall have ownership of land as on 19 April 2020.	31 December 2020	30 June 2021

# OTHER CONDITIONS

Description	Existing Date / Period	New Date / period
Last date for first purchaser of building or unit of building to make full payment through crossed banking instrument.	30 September 2022	31 March 2023
Date after which additional partners or shareholders in a project may join. However, immunity under section 111 of the Ordinance will not be available.	31 December 2020	31 December 2021

## **SECTION 120 – ASSESSMENTS**

Concept of self-assessment  
has been restored.



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### **Income of builders and developers in excess of 10 times tax paid**

Builders and developers have been provided fixed tax regime and immunity from probe for sources of investment subject to conditions and limitations provided in section 100D and Eleventh schedule of the Ordinance. They have been further allowed to incorporate profits from such projects equal to 10 times of the taxes paid under fixed tax regime. The income in excess of 10 times was chargeable to tax at the normal applicable rates. Now changes have been introduced in Eleventh schedule to the effect that the income of builders and developers from such project in excess of 10 times of tax paid shall be chargeable at reduced rate of 20%.



**THE TAX LAWS (FIRST  
AMENDMENT) ORDINANCE, 2021**

# **INCENTIVE FOR NON- RESIDENTS**

# INCENTIVES FOR NON-RESIDENT INDIVIDUALS

Description	Rate	Conditions
Remittance of proceeds on account of capital gain by a banking company on disposal of government securities	10% withholding tax u/s 152	<ul style="list-style-type: none"><li>● Final tax for NRIs whose transactions are routed through FCVA or NRVA</li></ul>
Immovable property: <ul style="list-style-type: none"><li>▪ Sale</li><li>▪ Purchase</li></ul>	1% (u/s 236C) 1% (u/s 236K)	<ul style="list-style-type: none"><li>● No capital gain tax u/s 37 on sale of immovable property</li></ul>

# EXEMPTIONS FROM TOTAL INCOME AND WITHHOLDING OF TAX

- Profit on debt from foreign currency account and a rupee account held with scheduled banks in Pakistan is exempt from tax for certain persons prescribed under clauses (78) and (79) of part I of the second schedule to the ordinance, respectively.
- The first amendment ordinance has substituted the categories of these persons in the following manner:

Clause	Current category of persons	New category of persons
(78)	Citizens of Pakistan and foreign nationals residing abroad, foreign association of persons, companies registered and operating abroad and foreign nationals residing in Pakistan	Non-resident individuals, non-resident association of person and non-resident companies
(79)	Citizen of Pakistan residing abroad	Non-resident individuals holding POC or NICOP or CNIC

NRIs claiming exemptions under these clauses will be exempt from payment of tax under section 151 and 152 of the ordinance as the rate of withholding tax has been zero percent.

# **EXEMPTION RESTRICTED TO FOLLOWING PERSONS:**

**Pakistan Origin Card (POC) or**

**National ID Card for Overseas Pakistanis (NICOP) or**

**Computerized National ID Card (CNIC)**

# INCENTIVES FOR RESIDENT CITIZENS OF PAKISTAN

- The first amendment ordinance has also introduced certain concessions to resident citizens of Pakistan on account of their investment in Naya Pakistan Certificates and other government securities through FCVA, where such FCVA has already been declared to FBR.
- In such a case, profit on debt from government debt securities (whether conventional or shariah compliant) would be subject to tax withholding at 10%, which shall be considered as full and final discharge of tax liability.



# OTHER BENEFITS

**NRIs are not required to obtain National Tax Number and to file return of income, subject to the following conditions:**

- **Investment is made through FCVA or NRVA**
- **Has no Pakistan source income, other than interest income and capital gain on government securities, gain on immovable property, dividend income and capital gain on listed securities and interest income from FCVA and NRVA**
- **Higher tax rates for withholding of tax (as applicable to persons not appearing on ATL) will not be applicable to NRIs investing through FCVA/ NRVA**
- **Withholding taxes on the following transactions will not be applicable to NRIs operating through FCVA/ NRVA:**
  - **Cash withdrawal from bank (Section 231A)**
  - **Sale of banking instrument or online transfer of money etc. (Section 231AA)**
  - **All banking transactions, other than cash (Section 236P)**

# **THE TAX LAWS (SECOND AMENDMENT) ORDINANCE, 2021**

## **FURNISHING OF RETURN OF INCOME-TIMELINE FOR ISSUANCE OF NOTICES [SECTION 114(4)]**

- Commissioner was empowered to issue notice requiring taxpayer to file tax return for any of last five completed tax years or any of last 10 completed tax years in case of non-filer
- Said limit shall not be followed if the commissioner is satisfied that the taxpayer has foreign income or foreign asset. In such case there would be no time limit to issue notice.

# **CONDITIONS FOR FILLING OF REVISED ACCOUNTS AT THE TIME OF REVISION OF RETURN [SECTION 114(6)]**

- Previously, in case of revision of return the taxpayer was required to accompany revised or audited accounts along with return.
- However, now the commissioner has been given power to waive off this condition that if the commissioner is satisfied that revised accounts are not necessary then he may waive the said requirement.

# **WITHDRAWAL OF TAX CREDITS**

**Persons employing fresh graduates**

**Enlistment at SE**

**First year allowance**

**Depreciation on below the ground installation @ 100% abolished**

**Exemption of profits from refining or concentrating mineral deposits**

**INDUSTRIAL UNDERTAKING**  
**SECTION 2(29C)**

Board is **NOT** empowered to include in the definition of an industrial undertaking, any undertaking other than those particularly provided in the definition.

# **CAPITAL GAINS TAX ON SCRA OF A NON-RESIDENT COMPANY**

## **SECTION 152(1E)**

Capital gains arising on debt instruments and government securities, in Pakistan, to:

- non-resident companies not having PE investing through special convertible rupee accounts (SCRA); and,
- non-resident individuals holding POC, NICOP, or CNIC investing through Roshan Digital Accounts (RDA); were subject to tax at the rate of 10% of the gross amount, as a final discharge of tax liability. Banks were therefore obliged to collect tax at the rate of 10% at the time of recognizing such capital gains in the respective accounts of the non-residents.

Second amendment ordinance has now replaced the terms 'non-resident company' and 'capital gains' to cater to all 'persons' and their 'incomes'



# **THE THIRTEENTH SCHEDULE**

## **THIRTEENTH SCHEDULE AND CLAUSES (61), (64A), (64B), (64C), AND (65) OF PART I OF THE SECOND SCHEDULE**

- Currently, clauses (61), (64A), (64B), (64C) and (65) of part I of the second schedule states that any donations made to the entities specified in the said clauses shall not form part of the total income of the donor.
- All above clauses omitted.
- Consolidated the entities in a single list in a newly introduced thirteenth schedule.
- Donations made to such entities would now entitle the donor for a tax credit under section 61.
- The effect of such amendment is that the benefit on donations would be restricted per the conditions of section 61

# **CHARITABLE DONATIONS SECTION 61 AND THIRTEENTH SCHEDULE**

Section 61 of the tax ordinance provides that a taxpayer shall be entitled to a tax credit for any sum paid or property given as a donation to certain persons. The tax credit is allowed to the donor based on his effective tax rate for the year. There is, however, a cap on the amount of donation eligible for tax credit under this section; being 30% of taxable income (where donor is an individual or AOP) and 20% (where donor is a company). These percentage are reduced by 50% where donor and donee are associates.

- The second amendment ordinance has expanded the availability of such tax credit to amounts paid as voluntary contributions and subscriptions to these institutions.
- Further, the list of donees' has also been extended to persons eligible for a tax credit under section 100c, and entities, organizations and funds mentioned in the thirteenth schedule.

**TAX CREDIT FOR SPECIFIED INDUSTRIAL UNDERTAKINGS**  
**SECTION 65G**  
**CLAUSES (126I) AND (126O), PART I OF THE SECOND SCHEDULE**

- A new section 65G
- Provides for tax credit of 25% of eligible investment amount made by industrial undertaking covered under the aforesaid clauses.
- This tax credit will be available against normal tax payable including minimum tax and final taxes, if any.
- Unadjusted amount of tax credit may be carried forward to two subsequent TY.

## **ELIGIBLE INVESTMENT**

Investment made for the purchase and installation of new machinery, buildings, equipment, hardware and software, except self-created software and used capital goods.

# **GREENFIELD INDUSTRIAL UNDERTAKING**

**Greenfield industrial undertaking, as defined in clause (27A) of section 2 of the Income Tax Ordinance, 2001, engaged in:**

- **The manufacture of goods or materials or the subjection of goods or materials to any process which substantially changes their original condition; or**
- **Ship building**

**Provided that the person has been incorporated between the 30th day of June, 2019 and the 30th day of June, 2024; and not formed by the splitting up or reconstitution of an undertaking already in existence or by transfer of machinery, plant or building from an undertaking established in Pakistan.**

# **EXEMPTIONS WITHDRAWN FROM 2<sup>ND</sup> SCHEDULE**

**The Tax Laws (Second Amendment) Ordinance, 2021  
has withdrawn the following tax exemptions available  
under the 2<sup>nd</sup> schedule.**

**(PART I SECOND SCHEDULE)**

<b>S.No</b>	<b>Clause Reference</b>	<b>Description</b>
<b>1</b>	<b>72A</b>	<b>Any income derived by Sukuk holder in relation to Sukuk issued by “The Second Pakistan International Sukuk Company Limited”</b>
<b>2</b>	<b>74</b>	<b>Profit on debt derived by Hub Power Company Limited on or after July 01, 1991</b>
<b>3</b>	<b>90</b>	<b>Profit on debt payable by an industrial undertaking in Pakistan on :</b> <ul style="list-style-type: none"> <li>• <b>Money borrowed under loan agreement with an approved financial institution in foreign country</b></li> <li>• <b>Moneys borrowed or debts incurred by person in foreign country in respect of the purchase outside Pakistan of capital plant and machinery in any case where the loan or debt is approved by the Federal Government, having regard to its terms generally and in particular to the terms of its payment, from so much of the tax payable in respect thereof as exceeds the tax or taxes on income paid on such interest in the foreign country</b></li> </ul>
<b>4</b>	<b>90A</b>	<b>Profit on Debt on bonds issued by Pakistan Mortgage Refinance Company for a period of five years with effect from the 1st day of July, 2018</b>
<b>5</b>	<b>91</b>	<b>Income of a text-book board of a Province established under any law for the time being in force</b>



<b>S.No</b>	<b>Clause Reference</b>	<b>Description</b>
<b>6</b>	<b>98</b>	<b>Income derived by any Board or other organization established in Pakistan for the purposes of controlling, regulating or encouraging major games and sports recognized by Government</b>
<b>7</b>	<b>99A</b>	<b>Profits and gains accruing to a person on sale of immovable property:</b> <ul style="list-style-type: none"><li>• <b>to a REIT Scheme up to June 30, 2015</b></li><li>• <b>to a Developmental REIT Scheme with the object of development and construction of residential buildings and to rental REIT up to June 30, 2023</b></li></ul>
<b>8</b>	<b>100</b>	<b>Income other than income from manufacturing or trading activity, of a Modaraba registered under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980</b>
<b>9</b>	<b>101</b>	<b>Profits and gains derived by a venture capital company and venture capital fund registered under Venture Capital Companies and Funds Management Rules, 2000 and a Private Equity and Venture Capital Fund from July 01,2000 to June 30, 2024</b>

<b>S.No</b>	<b>Clause Reference</b>	<b>Description</b>
<b>10</b>	<b>103</b>	<b>Distribution received by a taxpayer from a collective investment scheme registered by the Securities and Exchange Commission of Pakistan under the Non-Banking Finance Companies and Notified Entities Regulations, 2007, including National Investment (Unit) Trust or REIT Scheme or a Private Equity and Venture Capital Fund out of the capital gains of the said Schemes or Trust or Fund.</b>
<b>11</b>	<b>103C</b>	<b>Dividend income derived by a company, if the recipient of the dividend, for the tax year, is eligible for group relief under section 59B</b>
<b>12</b>	<b>104</b>	<b>Dividend income of the Pak-Libya Holding Company derived by the Libyan Arab Foreign Investment Company</b>
<b>13</b>	<b>105</b>	<b>Dividend income of the Saudi-Pak Industrial and Agricultural Investment Company Limited derived by the Government of Kingdom of Saudi Arabia</b>

<b>S.No</b>	<b>Clause Reference</b>	<b>Description</b>
<b>14</b>	<b>105A</b>	<b>Dividend income of the Pak-Kuwait Investment Company in Pakistan from the year of incorporation of Pak- Kuwait Investment Company derived by Kuwait Foreign Trading Contracting and Investment Company or Kuwait Investment Authority</b>
<b>15</b>	<b>110B</b>	<b>Gain on transfer of a capital asset, being a membership right held by a member of an existing stock exchange, for acquisition of shares and trading or clearing rights acquired by such member in new corporatized stock exchange in the course of corporatization of an existing stock exchange</b>
<b>16</b>	<b>110C</b>	<b>Gain by a person on transfer of a capital asset, being a bond issued by Pakistan Mortgage Refinance Company to refinance the residential housing mortgage market from July 01, 2018 to June 30, 2023</b>
<b>17</b>	<b>114</b>	<b>Income chargeable under the head “capital gains” derived by a person from an industrial undertaking set up in an area declared by the Federal Government to be a “Zone” within the meaning of the Export Processing Zones Authority Ordinance, 1980 (IV of 1980).</b>

<b>S.No</b>	<b>Clause Reference</b>	<b>Description</b>
18	126BA	<p><b>Profits and gains derived by a refinery set up between the 1st day of July, 2018 and the 30th day of June, 2023 with minimum 100,000 barrels per day production capacity for a period of twenty years beginning in the month in which the refinery is set up or commercial production is commenced, whichever is later. Exemption under this clause is also available to existing refineries, if:</b></p> <ul style="list-style-type: none"><li><b>existing production capacity is enhanced by at least 100,000 barrels per day;</b></li><li><b>the refinery maintains separate accounts for income arising from aforesaid additional production capacity; and</b></li><li><b>the refinery is a deep conversion refinery.</b></li></ul>

<b>S.No</b>	<b>Clause Reference</b>	<b>Description</b>
<b>19</b>	<b>126G</b>	<p><b>Profit and gains derived for a period of five years from the date of start of commercial production by the companies from specified projects that have been declared 'Pioneer Industry' by Economic Coordination Committee of the Cabinet. The Companies and projects are:</b></p> <ul style="list-style-type: none"><li><b>• M/s. Astro Plastics (Pvt.) Ltd. from their Biaxially Oriented Polyethylene, Terephthalate (BOPET) Project</b></li><li><b>• M/s. Novatex Ltd. from their Biaxially Oriented Polyethylene Terephthalate (BOPET) Project</b></li></ul>

<b>S.No</b>	<b>Clause Reference</b>	<b>Description</b>
<b>20</b>	<b>126G</b>	<b>Profit and gains derived for a period of five years from the date of start of commercial production by the companies from specified projects that have been declared 'Pioneer Industry' by Economic Coordination of the Cabinet.</b>
<b>21</b>	<b>132A</b>	<b>Profit and gains derived by Bosicor Oil Pakistan Limited for a period of seven and half years beginning from the day on which the refinery is set up or commercial production is commenced whichever is later</b>

<b>S.No</b>	<b>Clause Reference</b>	<b>Description</b>
22	131	<p><b>1. Any income of company registered under the Companies Ordinance 1984 (XLVII of 1984), and having its registered office in Pakistan, as is derived by it by way of:</b></p> <ul style="list-style-type: none"><li><b>• Royalty</b></li><li><b>• Commission</b></li><li><b>• fees</b></li></ul> <p><b>from a foreign enterprise in consideration for the use outside Pakistan of any patent, invention, model, design, secret process or formula or similar property right, or information concerning industrial, commercial, or scientific knowledge, experience or skill made available or provided to such enterprise by the company or in the consideration of technical services rendered outside Pakistan to such enterprise by the company under an agreement in this behalf</b></p> <p><b>2. Any Income of any other taxpayer as is derived by him, in the income year relevant to assessment year beginning with the first day of July, 1982 and any assessment year thereafter, by way of fees for technical services rendered outside Pakistan to a foreign enterprise under an agreement entered into in this behalf: - The exemption is available subject to condition that income is received in Pakistan</b></p>

<b>S.No</b>	<b>Clause Reference</b>	<b>Description</b>
<b>23</b>	<b>132B</b>	<b>Profits and gains derived by a taxpayer from a coal mining project in Sindh, supplying coal exclusively to power generation projects</b>
<b>24</b>	<b>141</b>	<b>Profit and gains derived by LNG Terminal Operators and Terminal Owners for a period of five years beginning from the date when commercial operations are commenced</b>
<b>25</b>	<b>136</b>	<b>Income of a special purpose vehicle as defined in the Asset Backed Securitization Rules, 1999 made under the Companies Ordinance, 1984. Provided that, if there is any income which accrues or arises in the accounts of the special purpose vehicle, after completion of the process of the securitization or redemption of sukuk, it shall be returned to the Originator as defined by the said rules within the income year next following the year in which the income has been determined and such income shall be taxable in the hands of the Originator.</b>
<b>26</b>	<b>57(1) (iii)</b>	<b>Income from voluntary contributions, house property and investments in securities of Federal Government derived by Sheikh Sultan Trust, Karachi</b>



<b>S.No</b>	<b>Clause Reference</b>	<b>Description</b>
27	146	<b>Income which was not chargeable to tax prior to the commencement of the Constitution (Twenty-fifth Amendment) Act, 2018 of any individual domiciled or company and association of persons resident in the Tribal Areas forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan under paragraph (d) of Article 246 of the Constitution with effect from the 1st day of June 2018 to the 30th day of June, 2023.</b>



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## Incentive for REIT schemes

The income of REIT schemes is exempt from tax under clause (99) of Part I of Second Schedule subject to conditions and limitations prescribed therein. The REIT schemes have been provided following further concessions

- a) Gain arising on the disposal of immovable property to development and residential REIT is exempt upto 2023. Now this exemption has been extended on disposal of immovable property to all types of REITs.
- b) The rate of tax on dividend income from REIT scheme was 25%. It has been reduced to 15%. Necessary changes have been incorporated in the schedules.

## **Exemption to Bagasse fired power generating units**

Following concessions have been provided for Bagasse fired power generation units.

- a) Exemption to income from tax - clause (132C), Part I, Second Schedule.
- b) Reduced rate of tax of 7.5% on Dividend income from such projects - clause (18C), Part II, Second Schedule.
- c) Exemption from minimum tax on turnover basis – clause (11A), Part IV, Second Schedule.
- d) Exemption to baggase fired power generation units on import of plant and machinery under section 148 - clause (56), Part-IV, of Second Schedule.

# CLAUSES EXPIRED/ EXPIRING ON 30 JUNE 2021

**18A**

**72**

**126C**

**126H**

**126J**

**126K**

**126L**

**126N**

**Benefit provided in above clauses will remain available to existing beneficiaries.**



<b>S.No</b>	<b>Clause Reference</b>	<b>Description</b>	<b>Taxation</b>
<b>1</b>	<b>2</b>	<b>Income of persons whose profits or gains from business are computed under the Fifth Schedule as is derived from letting out to other similar persons any pipeline for the purpose of carriage of petroleum.</b>	<b>First Schedule</b>
<b>2</b>	<b>3</b>	<b>Income from services rendered outside Pakistan and construction contracts executed outside Pakistan are charged at 50% of the applicable rates provided that receipts from services and income from contracts are brought into Pakistan in foreign exchange through normal banking channel.</b>	<b>First Schedule</b>
<b>3</b>	<b>3B</b>	<b>Income of Pakistan Cricket Board</b>	<b>Normal rate</b>
<b>4</b>	<b>5B</b>	<b>Capital gains derived by a person from sale of shares or assets by a private limited company to Private Equity and Venture Capital Fund</b>	<b>Sec: 37</b>
<b>5</b>	<b>18</b>	<b>Rate of income tax in the case of Modaraba of 25% of total income</b>	<b>29%</b>
<b>6</b>	<b>18B</b>	<b>Shariah Complaint Listed Company is entitled to reduction in the rate of tax by 2%</b>	<b>No reduction &amp; normal rate</b>

<b>S.No</b>	<b>Clause Reference</b>	<b>Description</b>	<b>Taxation</b>
<b>7</b>	<b>24AA</b>	<b>CR-NORINCO JV as a recipient, on payments arising out of commercial contract signed with the Government of Punjab for installation of electrical and mechanical (E&amp;M) equipment for construction of the Lahore Orange Line Metro Train Project is 6% of the gross amount of payment.</b>	<b>7%</b>
<b>8</b>	<b>28A</b>	<b>Import of hybrid cars</b>	<b>12<sup>th</sup> Schedule</b>
<b>9</b>	<b>28B</b>	<b>Cash withdrawal by a licensed exchange company, exclusively dedicated for its authorized business related transactions</b>	<b>0% if ATL 0.6% if not ATL.</b>

# **CLAUSES AMENDED**

**Clause : 66 (The income of “Islamic Naya Pakistan Certificates Company Limited (INPCCL) shall now be exempted under this Second Amendment Ordinance.)**

**Clause : 75 (The Second Amendment Ordinance limits the income exemption of foreign agency to the extent of Profit on debt and capital gains. It further excluded a foreign national from the ambit of such exemption.)**

**Clause : 132 (Profits and gains derived by a taxpayer from an electric power generation project set up in Pakistan was exempt from tax. The Second Amendment Ordinance restricts the exemption for the following:**

- **(i) persons entering into agreements,**
- **(ii) To whom letter of intents is issued, for setting up an electric power generation project in Pakistan up to 30 June 2021.)**





**FEBR**

**PAKISTAN**

## **Unconditional grant of exemption from tax to different organizations**

Certain public sector and well renowned organizations and funds have been included in Table I of clause (66) of Part I of the Second Schedule.

# **CLAUSES AMENDED**

**Clause : 24D (Minimum tax under Section 113 in case of dealers and sub dealers, sellers and retailers of, fast moving consumer goods, fertilizers, sugar, cement and edible oil shall be 0.25% subject to certain conditions. The Second Amendment Ordinance also added locally manufactured mobile phones in the list of the above goods.)**

**Clause : 9 (Clause (9) provides reduction in tax payable to the extent of 50% on profits and gains derived by a person from low cost housing projects. The Second Amendment Ordinance has inserted a proviso according to which exemption under this clause shall continue to remain available to such projects which commence on or before the 30 June 2024.)**

# **CLAUSES AMENDED**

**Clause : 9B (Clause (DB) provides reduction in tax payable to the extent of 90% on the income, profits and gains of projects of 'low cost housing' developed or approved by Naya Pakistan Housing and Development Authority (NAPHDA) or under the Ehsaas Programme. The Second Amendment Ordinance has inserted a proviso according to which exemption under this clause shall continue to remain available to such projects which commence on or before the 30 June 2024.)**

**100% TAX CREDIT FOR  
CHARITABLE ORGANIZATIONS  
AND NPO'S RATIONALIZED**

# PERSONS ELIGIBLE TO CLAIM TAX CREDIT

**Persons specified in Table II of Clause 66 of Part I of the Second Schedule of Income Tax Ordinance, 2001**

**A trust administrated under a scheme approved by Federal Government and established in Pakistan exclusively for the purposes of carrying out such activities as are for the welfare of ex-employees**

**A trust**

**A welfare institution registered with Provincial or Islamabad Capital Territory social welfare department**

# PERSONS ELIGIBLE TO CLAIM TAX CREDIT

**A Not for Profit Company registered with SECP under section 42 of Companies Act, 2017**

**A welfare society registered with Provincial or Islamabad Capital Territory laws related to registration of Cooperative Societies**

**A Waqf registered under Mussalman Waqf Validating Act, 1913 or any other law for the time being in force or in the instrument relating to the trust or the institution**

**A university or education institution being run by NPO existing solely for education purposes and not for the purposes of profit**

# **PERSONS ELIGIBLE TO CLAIM TAX CREDIT**

**A religious or charitable institution for the benefit of public registered under any law for the time being in force**

**International Non-Governmental Organizations approved by Federal Government.**



# **INCOME ELIGIBLE FOR TAX CREDIT**

**Income from donations, voluntary contributions and subscriptions**

**Income from house property**

**Income from investments in the securities of the Federal Government**

**Profit on Debt from Scheduled Bank and Microfinance Banks**

**Grants received from Federal, Provincial Local or Foreign Government**

**So much of Income chargeable under the head “Income from Business” as is expended in Pakistan for the purposes of carrying out welfare activities**

**Any income of persons mentioned in Clause a, b and h of sub-section (2) of this section**

# **CONDITIONS TO CLAIM TAX CREDIT (SECTION 100C)**

**Return has been filed**

**Tax required to be deducted or collected has been deducted or collected and paid**

**Withholding tax statements for the relevant tax year have been filed**

**Approval of the Commissioner has been obtained as per the requirement of clause (36) of section 2  
(provided that this clause shall take effect from the first day of July 2022)**

**None of the assets of trusts or welfare institution confers, or may confer, a private benefit to the donors or family, children or author of the trust or his descendants or the maker of the institution or to any other person**

**Provided that where such private benefit is conferred, the amount of such benefit shall be added to the income of the donor**

**A statement of voluntary contributions and donations received in the immediately preceding tax year which has been filed in the prescribed form and manner**

**Notwithstanding anything contained in sub-section (1), surplus funds of non-profit organizations, trusts or welfare institutions shall be taxed at a rate of ten per cent**

**The administrative and management expenditure does not exceed 15% of the total receipts: Provided that clause (d) shall not apply to a non-profit organization, if-**

- **Charitable and welfare activities of the non-profit organization have commenced for the first time within last three years; or**
- **Total receipts of the non-profit organization during the tax year are less than one hundred million Rupees**

# EXAMPLE

	<u>Before</u>	<u>After</u>
<b>Total Income</b>	<b>3,200,000</b>	<b>3,200,000</b>
<b>less: Donation to institutions under clause 61</b>	<b>(640,000)</b>	<b>-</b>
<b>Taxable income</b>	<b>2,560,000</b>	<b>3,200,000</b>
<b>Tax at slab rate</b>	<b>282,000</b>	<b>420,000</b>
<b>Less: Rebate at average rate</b>	<b>-</b>	<b>(84,000)</b>
<b>Net Tax Liability</b>	<b>282,000</b>	<b>336,000</b>



# **TAX CREDIT FOR CERTAIN PERSONS [SECTION 65F]**

100% tax credit from:

- Normal tax
- Minimum tax
- Alternate corporate tax
  - Final tax

**Coal mining projects in Sindh supplying coal exclusively to the power generation projects**

**Startup for the tax year in which the startup is certified by the Pakistan Software Export Board and the next following two tax years;**

**Income from exports of computer software or IT services or IT enabled services up to the period ending on the 30th day of June, 2025:**

- **Provided that 80% of the export proceeds is brought into Pakistan in FE remitted from outside Pakistan through normal banking channels.**

# CONDITIONS

**Return has been filed**

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

**Sales tax returns for the tax periods corresponding to relevant tax year have been filed if the person is required to file ST Return under any of the Federal or Provincial sales tax laws**

**PENAL PROVISIONS**

**RATIONALIZED**

<b>S.No`</b>	<b>Description</b>	<b>Relevant Section of Ordinance</b>	<b>Current Penalty</b>	<b>New Penalty</b>
1	<b>Late/Non Filing of Income Tax Return</b>	114	<b>0.1% of the TP for each day of default subject to a maximum penalty of 50% of the TP provided that if the penalty worked out as aforesaid is less than PKR 40,000 or no tax is payable for that TY, such person shall pay a penalty of PKR 40,000/-.</b>	<b>0.1% of the TP for each day of default subject to a maximum penalty of 50% of the TP provided that if the penalty worked out as aforesaid is less than PKR 40,000/- or no tax is payable for that TY, such person shall pay a penalty of PKR40,000/-.</b>

<b>S.No`</b>	<b>Description</b>	<b>Relevant Section of Ordinance</b>	<b>Current Penalty</b>	<b>New Penalty</b>
1			<p><b>Provided that If 75% of the income is from salary and income is less than PKR 5,000,000/-, the minimum amount of penalty shall be PKR 5,000/-.</b></p> <p><b>Explanation. — “TP” means tax chargeable on the taxable income on the basis of assessment made or treated to have been made under Section 120, 121, 122 or 122C.</b></p>	<p><b>Provided that If 75% of the income is from salary and the income is less than PKR 5,000,000/-, the minimum amount of penalty shall be PKR 5,000/-.</b></p> <p><b>Taxable income is up to PKR 800,000/-, the minimum amount of penalty shall be PKR 5,000/-.</b></p>

<b>S.No`</b>	<b>Description</b>	<b>Relevant Section of Ordinance</b>	<b>Current Penalty</b>	<b>New Penalty</b>
				<p><b>Penalty shall be reduced by 75%, 50% and 25% if the return is filed within one, two and three months respectively after the due date or extended due date of filing of return as prescribed under the law.</b></p> <p><b>Explanation. — “TP” means tax chargeable on the taxable income on the basis of assessment made or treated to have been made under Section 120, 121, 122 or 122C.</b></p>

<b>S.No</b>	<b>Description</b>	<b>Relevant Section of Ordinance</b>	<b>Current Penalty</b>	<b>New Penalty</b>
<b>2</b>	<b>Where any person fails to furnish a statement as required under Section 165, or 165A, 165A or 165B within the due date.</b>	<b>130</b>	<b>PKR 5000 if the person had already paid the tax collected or withheld by him within the due date for payment and the statement is filed within 90 days from the due date for filing the statement and, in all other cases, a penalty of PKR 2500 for each day of default from the due date subject to a minimum penalty of PKR 10,000.</b>	<b>PKR 5000 if the person had already paid the tax collected or withheld by him within the due date for payment and the statement is filed within 90 days from the due date for filing the statement and, in all other cases, a penalty of PKR 2500 for each day of default from the due date subject to a minimum penalty of PKR 10,000.</b>



<b>S.No</b>	<b>Description</b>	<b>Relevant Section of Ordinance</b>	<b>Current Penalty</b>	<b>New Penalty</b>
				<b>Provided that where it stands established that no tax was required to be deducted or collected during the relevant period, minimum amount of penalty shall be PKR 10,000/-.</b>

<b>S.No</b>	<b>Description</b>	<b>Relevant Section of Ordinance</b>	<b>Current Penalty</b>	<b>New Penalty</b>
<b>3</b>	<b>Any person who repeats erroneous calculation in the return for more than one year whereby amount of tax paid less than the actual tax payable under this Ordinance.</b>	<b>115, 165, 165A and 165B</b>	<b>Rs.5000 if the person had already paid the tax collected or withheld by him within the due date for payment and the statement is filed within 90 days from the due date for filing the statement and, in all other cases, a penalty of Rs.2500 for each day of default from the due date subject to a minimum penalty of Rs.10,000.</b>	<b>Rs.5000 if the person had already paid the tax collected or withheld by him within the due date for payment and the statement is filed within 90 days from the due date for filing the statement and, in all other cases, a penalty of Rs.2500 for each day of default from the due date subject to a minimum penalty of Rs.10,000.</b>

<b>S.No</b>	<b>Description</b>	<b>Relevant Section of Ordinance</b>	<b>Current Penalty</b>	<b>New Penalty</b>
				<b>Provided that where it stands established that no tax was required to be deducted or collected during the relevant period, minimum amount of penalty shall be ten thousand Rupees.</b>

<b>S.No</b>	<b>Description</b>	<b>Relevant Section of Ordinance</b>	<b>Current Penalty</b>	<b>New Penalty</b>
<b>4</b>	<b>Any person who repeats erroneous calculation in the return for more than one year whereby amount of tax paid less than the actual tax payable under this Ordinance.</b>	<b>137</b>	<b>PKR 30,000 or 3% of the amount of the tax involved, whichever is higher.</b>	<b>PKR 30,000 or 3% of the amount of the tax involved, whichever is higher.</b>  <b>No penalty shall be imposed to the extent of the tax shortfall occurring as a result of the taxpayer taking a reasonably arguable position on the application of this Ordinance to the taxpayer's position</b>

<b>S.No</b>	<b>Description</b>	<b>Relevant Section of Ordinance</b>	<b>Current Penalty</b>	<b>New Penalty</b>
<b>5</b>	<b>Any person who fails to display his NTN or business license at the place of business as required under this Ordinance or the rules made thereunder.</b>	<b>181C and 181D</b>	<b>PKR 5000</b>	<b>PKR 5000</b>

<b>S.No</b>	<b>Description</b>	<b>Relevant Section of Ordinance</b>	<b>Current Penalty</b>	<b>New Penalty</b>
<b>6</b>	<b>Any person who fails to collect or deduct tax as required under any provision of this Ordinance or fails to pay the tax collected or deducted as required under Section 160.</b>	<b>Division II or Division III of Part V of Chapter X or Chapter XII</b>	<b>Higher of PKR 40,000/- or 10% of the amount of tax</b>	<b>Higher of PKR 40,000/- or 10% of the amount of tax</b>
<b>7</b>	<b>Any person who denies or obstructs the access of the Commissioner or any officer authorized by the Commissioner to the premises, place, accounts, documents, computers or stocks.</b>	<b>175 &amp; 177</b>	<b>Higher of PKR 50,000/- or 50% of the amount of tax</b>	<b>Higher of PKR 50,000/- or 50% of the amount of tax</b>

<b>S.No</b>	<b>Description</b>	<b>Relevant Section of Ordinance</b>	<b>Current Penalty</b>	<b>New Penalty</b>
<b>8</b>	<b>Any person who—  (a) makes a false or misleading statement to an Inland Revenue Authority either in writing or orally or electronically including a statement in an application, certificate, declaration, notification, return, objection or other document including books of accounts made, prepared, given, filed or furnished under this Ordinance</b>	<b>114, 116, 174, 176, 177, 114A, 118</b>	<b>Higher of PKR 50,000/- or 50% of the amount of tax shortfall</b>	<b>Higher of PKR 50,000/- or 50% of the amount of tax shortfall</b>

<b>S.No</b>	<b>Description</b>	<b>Relevant Section of Ordinance</b>	<b>Current Penalty</b>	<b>New Penalty</b>
	<p><b>(b) furnishes or files a false or misleading information or document or statement to an Income Tax Authority either in writing or orally or electronically;</b></p> <p><b>(c) omits from a statement made or information furnished to an Income Tax Authority any matter or thing without which the statement or the information is false or misleading in a material particular.</b></p>		<p><b>Provided that in case of an assessment order deemed under Section 120, no penalty shall be imposed to the extent of the tax shortfall occurring as a result of the taxpayer taking a reasonably arguable position on the application of this Ordinance to the taxpayers' position.</b></p>	<p><b>Provided that in case of an assessment order deemed under Section 120, no penalty shall be imposed to the extent of the tax shortfall occurring as a result of the taxpayer taking a reasonably arguable position on the application of this Ordinance to the taxpayers' position.</b></p>



**PENALTY OMITTED**

**227C**

**THANK YOU FOR READING.**

**Any suggestions/criticisms can be sent  
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# DISCLAIMER

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