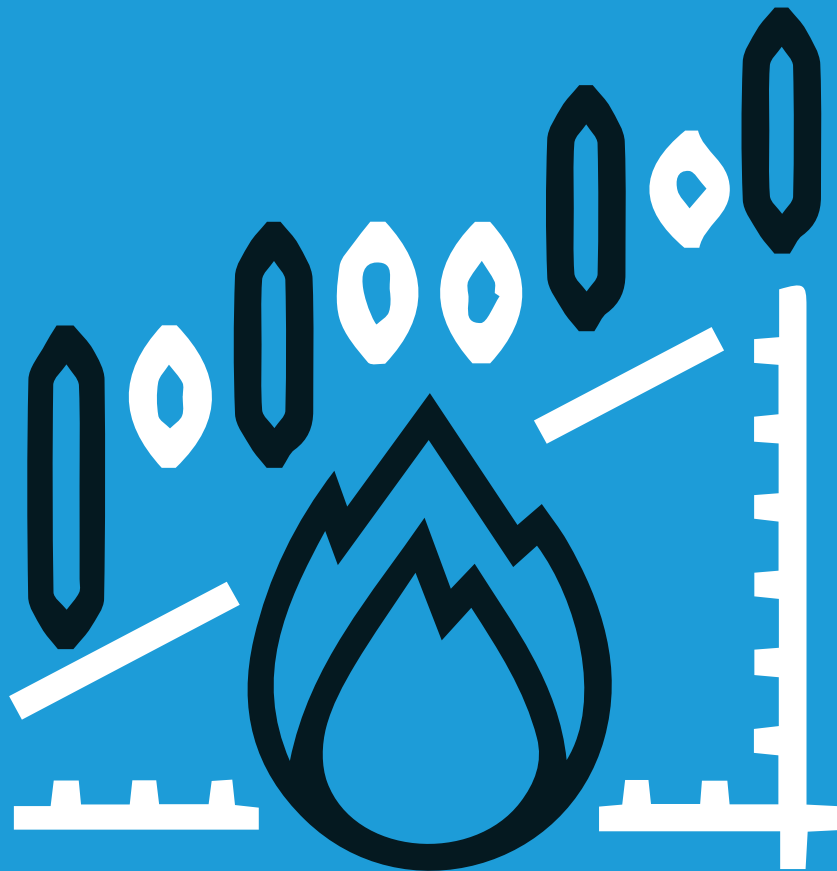


# Federal Budget

2022 - 2023

## TAX MEMORANDUM

(REVISED)



**MOORE** Shekha Mufti

Moore Shekha Mufti is an independent member firm of Moore Global International, members in principal cities throughout the world.



## 01 | Preface

This Tax Memorandum summarizes crucial changes proposed in the Finance Bill 2022 in Income Tax, Sales Tax, Federal Excise Duty and Customs Duty Laws.

All changes through the Finance Bill 2022 are effective from 01 July 2022.

The tax memorandum contains the comments, which represent our interpretation of the legislation. We, therefore, recommend that while considering their application to any particular case, reference be made to the specific wordings of the relevant statute(s).

The tax memorandum is also available online and can also be accessed at our website [www.mooreshekhamufti.com](http://www.mooreshekhamufti.com)



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# HIGHLIGHTS

## Income Tax Ordinance, 2001

- 2% Income Tax has been levied on all individuals, AOP and companies earning income of more than Rupees 300 million from tax year 2022.
- 20% Income Tax on deemed rental income of all individuals, AOP and companies on certain property exceeding Rupees 25 million from tax year 2022.
- 100% depreciation would be available on purchase of new asset.
- The upper limit of cost of motor vehicle for depreciation has been increased to 5 million from 2.5 million.
- For capital gain tax purposes the immovable property has been classified into open plot, constructed property and flats.
- The holding period for claiming exemption has been reset at 6 years for open plots, 4 years for constructed property and 2 years for flats.
- Capital gain tax on immovable property has been enhanced.
- Rebate on house loan, investment in shares & health insurance and contribution to voluntary pension scheme has been done away with.
- Full exemption on IT exports has been done away with and now they would have to pay concessional tax of 0.25% on their turnover.
- Fixed tax regime has been introduced for other than tier 1 retailers.
- Withdrawal of Income Tax (Amendment) Ordinance, 2022 in toto.
- Every Pakistani citizen would be considered as tax resident, if he is not a tax resident of any other country.
- Right of adjustment of carry forward of turnover tax payment by loss making companies has been withdrawn.



# HIGHLIGHTS

## Income Tax Ordinance, 2001

- ADRC has been given the power to entertain question of law.
- Tax on import would be adjustable for industrial undertaking with exception of edible oil, packaging, paper and plastics industry.
- Tax on import would be final for commercial importer.
- Penalty of Rupees one million has been imposed on non maintenance of records of beneficial owners by AOP and companies.
- Requirement of submitting audit report by the officer has been done away with.
- 1% tax to be paid on foreign payment through debit/credit card.
- 10% tax on rental of equipment/machinery has been done away with.
- Increase in the threshold for taxation of individuals and AOP from Rupees 400,000 to Rupees 600,000.
- Increase in the threshold for taxation of salaried individuals from Rupees 600,000 to Rupees 1,200,000
- Tax on salary has been reduced for annual salary upto 18 million.
- Tax on behbood certificate has been reduced to 5%.
- 15% final tax for companies on federal government securities income has been done away with.
- Capital value tax has been introduced at 2% on motor vehicle exceeding Rupees 5 million and 1% on foreign properties exceeding Rupees 100 million.
- Withholding and turnover tax for steel sector has been reduced to 0.25%.
- Exemption on government subsidy has been done away with



# HIGHLIGHTS

## Sales Tax Act, 1990

- In-active taxpayers now exposed to Further Tax
- Disclosure of CNIC or NTN of unregistered buyer no longer a mandatory condition
- Retailers paying sales tax via electric bills to suffer substantial enhancement in sales tax liability
- Concession of Section 8B withdrawn from listed companies
- FBR empowered to recommend disconnection of gas and electricity supply to unregistered or non-integrated retailers
- Jewelers classified as Tier-1retailers
- Online market place operators prescribed as withholding agent for third party e-commerce sale
- Detergents to be taxed under retail price mechanism
- Import of scraps of compressor, motor and copper cable cutting by industrial undertakings exposed to 3% value addition tax
- Federal or Provincial Governments or Public Sector Organization allowed to pay sales tax on installment basis
- Production, transmission and distribution of electricity expressly classified as goods
- Tax exemptions on goods imported by various agencies (UN, diplomats etc.), goods imported by or donated to hospitals run by NPOs, goods supplied to charitable hospitals excluding gas and electricity having 50 beds or more, machinery for use in EPZ and books restored
- Photovoltaic cells, tractor, prepared food or food stuff supplied by restaurants or caterers exempted from sales tax



# HIGHLIGHTS

## Sales Tax Act, 1990

- Jewelry exposed to 3% except where sales tax paid @ 4% on import stage
- Specified machinery, equipment and specialized vehicles exempted from sales tax
- Import of electric vehicle in CBU conditions, previously taxed @12.75% now taxable @ 17% irrespective of engine capacity
- Sales tax on local supply reclaimed lead reduced to 1%.



# HIGHLIGHTS

## Customs Act 1969

- Time limit for provisional assessment reduced from 180 days to 90 days
- Duty exempted on 26 Active Pharma Ingredients (APIs)
- Duty on agriculture machinery and allied industry machinery abolished
- Custom duty, additional duties & regulatory duties on 400 items rationalized
- Duty on import of basic raw materials for manufacturer of first-aid bandages exempted
- Relevant provisions of law introduced in relation to Pakistan Single Window Portal
- Rationalization and reduction of Customs Tariff Codes





## HIGHLIGHTS

### Federal Excise Act 2005

- FED enhanced on cigarettes including e-liquids, filters of electronic cigarettes
- Services rendered within Islamabad Capital Territory to be taxed at uniform rate of 15%
- FED on club, business and first class international flights increased from Rs. 10,000 to Rs. 50,000
- FED enhanced on telecommunication services from 16% to 19.5%

### Islamabad Capital Territory (Tax on Services) Ordinance 2001

- Services provided by farmhouses now liable to sales tax under ICT Law
- Restaurants and suppliers of food and drinks classified as service under ICT Law

# Income Tax Ordinance, 2001

## Changes in taxation of capital gain on property

### Section 37(1A)

After introducing the taxation of capital gains on sale of property through the Finance Act 2012, it has always remained a controversial subject and has been subjected to frequent changes and amendments in terms of either its holding period for exemption or the rate of taxation.

Once again, through the Finance Bill 2022-23, the taxation of capital gains on sale of property has been proposed to subject to major changes.

Through the above Bill, the entire concept of monetary threshold as given for the taxation on capital gain on immoveable property would completely be thrashed out and entirely a new concept of taxation of capital gains on property has been proposed.

It has been proposed that immovable property is to be classified into three (03) distinct classification of Open Plot, Constructed Property and Flats. Each classification has been proposed to be taxed according to its respective holding periods given separately.

The schedule of the same is being tabulated hereunder;

| S. No. | Holding Period of Property                     | Rate of Tax |                      |       |
|--------|--|-------------|----------------------|-------|
|        |  | Open Plots  | Constructed Property | Flats |
| 1      | Up to one year                                 | 15%         | 15%                  | 15%   |
| 2      | More than one year but less than two years     | 12.5%       | 10%                  | 7.5%  |
| 3      | More than two years but less than three years  | 10%         | 7.5%                 | 0%    |
| 4      | More than three years but less than four years | 7.5%        | 5%                   | -     |
| 5      | More than four years but less than five years  | 5%          | 0%                   | -     |
| 6      | More than five years but less than six years   | 2.5%        | -                    | -     |
| 7      | More than six years                            | 0%          | -                    | -     |

If we recall, initially, the holding period for exemption from capital gain tax on property was introduced for two (02) years, which was subsequently enhanced up to five (5) years and later on restricted up to four (04) years. However, this Tax Year, the holding period for exemption from capital gain tax on property has again been increased up to Six Years in case of Open Plots, Four Years in case of Constructed Properties and Two Years in case of Flats.

A distinctive feature of the proposed amendment remains that it envisages the property situated in Pakistan alone. This would imply that Gain on Sale of Foreign Property situated outside Pakistan, will not be taxed under the newly proposed amended provision.

### Capital gain on sales of shares (private companies) has completely been taxed Section 37(3)

If a person disposes off his capital assets consisting of shares of Private Companies, after a holding of more than a year, he was entitled to claim exemption from income tax on 1/4 part of total capital gain.

Through the Finance Bill 2022-23, the above exemption which has been there since the inception of the Ordinance given on the disposal of above shares has been done away with.

### Advance tax on sale of property Section 236C

Through the Federal Budget 2012-2013, the Federal Board of Revenue introduced the collection of Advance Tax by the person responsible for registering, recording or attesting the immovable property at the time of Sales / transfer of Property from the seller. This Advance Tax is adjustable for the Seller at the time of filing of Tax Return.

After insertion of this amendment, all societies and housing scheme societies, have become liable to collect the above advance tax.

The Advance Tax is considered as minimum tax if the Seller acquires and disposes off the Property within the same Tax Year.

This advance tax has been collected from those sellers, who sell their immovable properties with less than holding period of four years. Through the Finance Bill 2022-23, it has been proposed to enhance the holding period from four (04) to ten (10) years.

It would not be out of place to mention here that the holding period for exemption from capital gain tax on property has been proposed to retain for Six Years, Four Years and Two Years in case of Open Plot, Constructed Property and Flat respectively. While in respect of collection of Advance Tax under the above provision has been proposed to remain for Ten Years.

We understand that Section 236C of the Ordinance needs to be aligned with the holding period as described under Section 37(1A) of the Ordinance for each category of property, so the above anomaly in both provisions may be addressed accordingly.

### Purchase of Property Section 236C

The concept to collect the Advance Income Tax from purchaser on purchasing of all kind of Immoveable Properties @ 1% of the property value was introduced through the Finance Act 2014. The payment of advance income tax is made at the time of registration of the property or its transfer.

The income tax is collected by the authority of registering, recording or attesting the immovable property and can be claimed back at the time of filing the Annual Tax Return.

Through the Finance Bill 2022-23, the 1% rate of Advance Tax has finally been proposed to be enhanced to 2% in case of Filer. While, the collection of above advance tax from the non-filer would be 250% more than the rate of Filer of Tax Return (7%).

### Cost on Purchase of Property Section 37(4A)

As it appears, almost the whole catena of Section 37 has been proposed to be either deleted or substituted., The proposed deletion of sub section 4A of Section 37 carries yet another major implication for higher taxation of assets acquired through either gift or inheritance or on dissolution of AOP or a company.

The provision of capital gain tax before the proposed deletion, contained the provision that where capital assets have been acquired through Gift, Succession, Inheritance, distribution on liquidation of Company / AOP, the cost of these capital asset is taken to be the fair market value of the asset as determined on the date of its transfer / acquisition. The cost of gifted asset taken at the market value used to give a major tax break to the recipient of the gift/donee at the time of actual sale of that gifted asset.

Through the Finance Bill 2022-23, it has been proposed to omit the above provision of law. Meaning thereby, the cost of acquiring capital assets will not be the market value but will remain the same as that of the donor / person disposing off the assets. This is as per provisions contained under Section 79 of the Ordinance.

If is recalled that it was just, last year, FBR amended the above provision of law for Gifts between relatives in order to arrest any potential systematic tax avoidance scheme.

## Changes in Personal Taxation

### Change in definition of resident individual

#### Section 82

Currently, a resident individual is the one, who is present in Pakistan for a total of one hundred and eighty-three (183) days or more in a tax year or is otherwise, an employee of the Federal Government or a Provincial Government.

It has now been proposed through the finance bill 2022 that the definition of persons being "individual as resident" is extended to include every single citizen of Pakistan as a tax resident, who is not a resident of any other country. The proposed amendment appears to defeat any attempt on the part of taxpayer, to escape taxation in Pakistan on the premise that, he did not stay here for 183 days, in such an event, the taxpayer will now have to provide proof of his tax residency of the foreign country. In the event of failure to do so, he will be taken as a "tax resident" of Pakistan, being a citizen of Pakistan.

### Exempt income of AOP

#### Section 92

A much awaited explanation has been provided by the FBR that, where the Income is exempt in the hands of AOP, it will be exempt in the hands of Partner(s) as well. Through the Finance Bill 2022, the anomaly

has been resolved by the FBR, where after any attempt by the department to use the exempt share of Income from the AOP for the purpose of averaging of tax rate can be defended.

### Removal of withdrawals limit of voluntary pension scheme [vps]

#### Clause 23A of 2nd Schedule

Currently, the accumulated balance upto fifty percent (50%) only could be withdrawn from a Voluntary Pension Scheme (VPS) offered by a pension fund manager under the VPS Rules 2005 at the time of eligible person: -

- a) Retirement; or
- b) Disability; unable to work
- c) Death by his nominated survivors

Through the Finance Bill 2022, it has been proposed that any accumulated balance received from the VPS by a pension fund shall be exempt under the Ordinance.

### Tax reduced on behbood certificate

#### Clause 6 of 2nd Schedule

Currently, the tax is payable in respect of income from Behbood Certificate upto 10% of profits from Behbood Certificate as provided under Clause (6) of Part III of the Second Schedule to the Ordinance.

Now, through the Finance Bill 2022, it has been proposed that the tax on Income from Behbood Certificate is reduced to 5%. We

understand that the lower taxation should provide an impetus to investment in Behbood Certificate by the senior citizens.

### **WITHDRAWALS OF TAX CREDITS/ DEDUCTIBLE ALLOWANCES**

#### **Deductible Allowance on House Loan** Section 60C

Currently, every individual is entitled to a deductible allowance for value of house paid in a tax year on a loan by a scheduled bank or non-banking financial institution where the loan is utilized for construction of a new house or the acquisition of a house.

Through the Finance Bill 2022, it has been proposed that the deductible allowance on House Loan shall be omitted under the Ordinance.

#### **Tax Credit for investment in shares and insurance** Section 62

In order to promote Stock Market, Insurance Policies & Mutual Fund Industry, the concept to claim tax credit on Investment in Shares / Units / Insurance Policies was brought under the Ordinance through the Finance Act, 2003.

A resident person was entitled to claim tax credit in the year of investment and reduce his annual income tax liability up to 20% of the taxable income or 2(M) Rupees, whichever is lesser.

After insertion of above provision, the limit for investment in shares, units or premium along with its holding period has been subject to change over a span of time. However, from the last four (04) years, it has remained unchanged.

This year, an enhancement in the limit of investment was very much expected. The FBR on the contrary has proposed to abolish the entire provision of law altogether for the reason best known only to FBR.

If the above amendment is approved and implemented, we understand that it may create a significant impact on the individual preference for saving and investment and therefore, will consequently cost an adverse impact on Mutual Fund Industry and Insurance Companies as well.

#### **Tax Credit for investment in health insurance** Section 62A

Currently, a resident person, other than a Company shall be entitled to a tax credit in respect of any health insurance premium or contribution paid to any insurance company registered by the Securities Ordinance 2000 and who drives income chargeable to tax under the head of "Salary" or "Income from Business" shall computed as defined in said section.

The entire section is proposed to be omitted in this bill.

## Tax Credits on contribution to an Approved Pension Fund

### Section 63

Tax credit against the contribution to an approved pension fund is available at the average tax rate on taxable income for the year. The amount on which tax credit is available is the actual amount contributed by the taxpayer during a year subject to two conditions;

- The maximum contribution can be upto Rs. 500,000/- in tax year;
- The contribution should not exceed 20% of taxable income of the taxpayer.

The entire section is proposed to be omitted in this bill.

## Changes in tax rates of salary income

### Section 149, Clause-2, Division-I, Part-1 of 1st Schedule

The Finance Bill proposes to decrease the numbers of Salary Slabs from 12 to 07 slabs. The trend of salary slabs shows that the proposed change will have a negative impact on higher salary earned by the Individual and positive impact on the lower salary earned by an individual.

| Existing Salary Slab Rates |                      |                          |                          |            |
|----------------------------|----------------------|--------------------------|--------------------------|------------|
| S. No.                     | Salary Income        | Slab                     | Rate on Exceeding Amount | Fixed Tax  |
| 1                          | 600,000              | Up to 600,000            | Nil                      | Nil        |
| 2                          | 1,200,000            | 600,001 to 1,200,000     | 5%                       | Nil        |
| 3                          | 1,800,000            | 1,200,001 to 1,800,000   | 10%                      | 30,000     |
| 4                          | 2,500,000            | 1,800,001 to 2,500,000   | 15%                      | 90,000     |
| 5                          | 3,500,000            | 2,500,001 to 3,500,000   | 17.5%                    | 195,000    |
| 6                          | 5,000,000            | 3,500,001 to 5,000,000   | 20%                      | 370,000    |
| 7                          | 8,000,000            | 5,000,001 to 8,000,000   | 22.5%                    | 670,000    |
| 8                          | 12,000,000           | 8,000,001 to 12,000,000  | 25%                      | 1,345,000  |
| 9                          | 30,000,000           | 12,000,001 to 30,000,000 | 27.5%                    | 2,345,000  |
| 10                         | 50,000,000           | 30,000,001 to 50,000,000 | 30%                      | 7,295,000  |
| 11                         | 75,000,000           | 50,000,001 to 75,000,000 | 32.5%                    | 13,295,000 |
| 12                         | 75,000,000 and above |                          | 35%                      | 21,420,000 |

| Proposed Salary Slab Rates |                      |                         |                          |           |
|----------------------------|----------------------|-------------------------|--------------------------|-----------|
| S. No.                     | Salary Income        | Slab                    | Rate on Exceeding Amount | Fixed Tax |
| 1                          | 600,000              | Up to 600,000           | Nil                      | Nil       |
| 2                          | 1,200,000            | 600,001 to 1,200,000    | Nil                      | 100       |
| 3                          | 2,400,000            | 1,200,001 to 2,400,000  | 7%                       | Nil       |
| 4                          | 3,600,000            | 2,400,001 to 3,600,000  | 12.5%                    | 84,000    |
| 5                          | 6,000,000            | 3,600,001 to 6,000,000  | 17.5%                    | 234,000   |
| 6                          | 12,000,000           | 6,000,001 to 12,000,000 | 22.5%                    | 654,000   |
| 7                          | 12,000,001 and above |                         | 32.5%                    | 2,004,000 |



A Comparison of Salary tax between the existing and the proposed Slab is being tabulated as under for ease of understanding;

| INCOME FROM SALARY (S. 12)             |               |               |               |                       |          |
|--|---------------|---------------|---------------|-----------------------|----------|
| COMPARISON BETWEEN EXISTING & PROPOSED |               |               |               |                       |          |
| S. No                                  | Salary Income | Tax Year 2022 | Tax Year 2023 | Increase / (Decrease) | Impact   |
| 1                                      | 600,000       | -             | -             | -                     | -        |
| 2                                      | 1,200,000     | 30,000        | 100           | (29,900)              | Positive |
| 3                                      | 1,800,000     | 90,000        | 42,000        | (48,000)              | Positive |
| 4                                      | 2,500,000     | 195,000       | 96,500        | (98,500)              | Positive |
| 5                                      | 3,500,000     | 370,000       | 221,500       | (148,500)             | Positive |
| 6                                      | 5,000,000     | 670,000       | 479,000       | (191,000)             | Positive |
| 7                                      | 8,000,000     | 1,345,000     | 1,104,000     | (241,000)             | Positive |
| 8                                      | 12,000,000    | 2,345,000     | 2,004,000     | (341,000)             | Positive |
| 9                                      | 30,000,000    | 7,295,000     | 7,854,000     | 559,000               | Negative |
| 10                                     | 50,000,000    | 13,295,000    | 14,354,000    | 1,059,000             | Negative |
| 11                                     | 75,000,000    | 21,420,000    | 22,479,000    | 1,059,000             | Negative |

## Changes in tax rates of business income; [Individual and AOP]

Clause 1, Division-I Part-1 of 1st Schedule

The Finance Bill 2022 proposes to amend the certain "Income tax rates" on the business individuals and AOP as under:

A Comparison of Business tax between the existing and the proposed Slab is being tabulated as under for ease of understanding;

| Existing Business Income Slab Rates |                      |                        |                          |           |
|-------------------------------------|----------------------|------------------------|--------------------------|-----------|
| S. No.                              | Income from Business | Slab                   | Rate on Exceeding Amount | Fixed Tax |
| 1                                   | 400,000              | Up to 400,000          | 0%                       | -         |
| 2                                   | 600,000              | 400,001 to 600,000     | 5%                       | -         |
| 3                                   | 1,200,000            | 600,000 to 1,200,000   | 10%                      | 10,000    |
| 4                                   | 2,400,000            | 1,200,001 to 2,400,000 | 15%                      | 70,000    |
| 5                                   | 3,000,000            | 2,400,001 to 3,000,000 | 20%                      | 250,000   |
| 6                                   | 4,000,000            | 3,000,001 to 4,000,000 | 25%                      | 370,000   |
| 7                                   | 6,000,000            | 4,000,001 to 6,000,000 | 30%                      | 620,000   |
| 8                                   | 6,000,000 and Above  |                        | 35%                      | 1,220,000 |

| Proposed Business Income Slab Rates |                      |                        |                          |           |
|-------------------------------------|----------------------|------------------------|--------------------------|-----------|
| S. No.                              | Income from Business | Slab                   | Rate on Exceeding Amount | Fixed Tax |
| 1                                   | 600,000              | Up to 600,000          | 0%                       | -         |
| 2                                   | 800,000              | 600,001 to 800,000     | 5%                       | -         |
| 3                                   | 1,200,000            | 800,001 to 1,200,000   | 12.5%                    | 10,000    |
| 4                                   | 2,400,000            | 1,200,001 to 2,400,000 | 17.5%                    | 60,000    |
| 5                                   | 3,000,000            | 2,400,001 to 3,000,000 | 23%                      | 270,000   |
| 6                                   | 4,000,000            | 3,000,001 to 4,000,000 | 27.5%                    | 405,000   |
| 7                                   | 6,000,000            | 4,000,001 to 6,000,000 | 32.5%                    | 680,000   |
| 8                                   | 6,000,000 and Above  |                        | 35%                      | 1,330,000 |

A Comparison of Business tax between the existing and the proposed Slab is being tabulated as under for ease of understanding;

| INCOME FROM BUSINESS                   |                           |               |               |                       |
|--|---------------------------|---------------|---------------|-----------------------|
| Comparison Between Existing & Proposed |                           |               |               |                       |
| S. No                                  | Taxable Income (Business) | Tax Year 2022 | Tax Year 2023 | Increase / (Decrease) |
| 1                                      | 400,000                   | -             | -             | -                     |
| 2                                      | 600,000                   | 10,000        | -             | (10,000)              |
| 3                                      | 800,000                   | 20,000        | 10,000        | (10,000)              |
| 4                                      | 1,200,000                 | 70,000        | 60,000        | (10,000)              |
| 5                                      | 2,400,000                 | 250,000       | 270,000       | 20,000                |
| 6                                      | 3,000,000                 | 370,000       | 408,000       | 38,000                |
| 7                                      | 4,000,000                 | 620,000       | 680,000       | 60,000                |
| 8                                      | 6,000,000                 | 1,220,000     | 1,330,000     | 110,000               |
| 9                                      | 7,000,000                 | 1,570,000     | 1,680,000     | 110,000               |



## Changes in Taxation of Rental Income

### Taxation on deemed rental income

#### Section 7E

In order to mobilize tax revenue, an altogether a new concept of taxation of deemed rental income has been introduced for the first time in the tax history of Pakistan. It has been provided that every resident individual, AOP or Company would be deemed to have earned rental income on idle property regardless of the fact whether any rent is actually received or not. The amount of deemed rental income would be calculated as 5% of Fair Market value of the Property.

The Fair market value has now been defined under the Ordinance as value provided under section 68 of the Ordinance. This implies that FBR fair market value would be used to determine the deemed rental income.

The above deemed rental income has been proposed to be taxed at a flat rate of 20% under final tax regime from tax year 2022 and onwards. It is pertinent to mention that 20% on 5% will effectively be 1% tax on the Fair Market Value of the subject property.

It appears that almost every kind and category of immovable property is intended to be covered whether residential, commercial or industrial. This may include Hotel/Guest house, Farmhouse, Factory premises, Land, House, Shop, Warehouse,

Office, Empty or vacant shops of malls, empty shops at food court etc.

The below mentioned properties have however been excluded from the ambit of this section:

1. Single self owned property
2. Self-owned business property
3. Self-owned agriculture land other than Farmhouse
4. Fair market value of property less than Rupees 25 million
5. Land development and construction project of builders and developers registered with Directorate General of Designated Non-Financial Businesses and Professions of Board.

Provincial Government, Local Government, Local Authority or Development Authority have been excluded from the ambit of this section.

It has also been provided that rent from those properties which are already subject to tax under section 15 of the Ordinance as "income from property" would be excluded from the ambit of this section, however, if tax under section 15 of the Ordinance is less than tax calculated under this section then the differential amount of tax would be required to be paid under this section.

## Changes in Taxation of Non Residents

### Broaden the scope of tax on payments to non-residents

#### Section 6 & 152 (1DC), (1DD)

The Bill has proposed to broaden the scope to tax the income of Non-Resident person by inserting the below mentioned services in addition to Royalty, Fee for Offshore Digital Services and Fee for Technical Services under section 6 of the Ordinance:

- Fee for Money Transfer Operations,
- Card Network Services,
- Payment Gateway Services,
- Interbank Financial Telecommunication Services

The rate of taxation of Royalty or Fee for Technical Services would remain at 15% of the gross amount however for all other services it has been proposed to tax at the rate of 10%. This effectively means that the rate of taxation for fee for offshore digital payment has been proposed to be increased from 5% to 10% of gross amount.

Corresponding similar amendments have been proposed under section 152 of the Ordinance by making responsible the banks and exchange companies to deduct / collect the tax on outwards remittances on account of above specified services.

We understand that the proposed amendment is an effort to tap the Non-Resident earning and receiving payment from Pakistan. The idea though may not altogether be ruled out, however, the attempt will be foiled in case of presence of DTTs. It is settled under rule of International taxation that Business Income is taxable strictly in the Host country wherein it has its permanent office. It cannot be taxed in the source country unless it has an office in the Source Country.

### Power of recharacterization

#### Section 109

Through Finance Act 2018, the scope of Permanent establishment was broadened to include a fixed place of business that is used or maintained by a person if the person or an associate of a person carries on business at that place or at another place in Pakistan and:

- That place or other place constitutes a permanent establishment of the person or an associate of the person; or
- Business carried on by the person or an associate of the person at the same place or at more than one place constitute complementary functions that are part of a cohesive business operation.

However, the commissioner did not had any power to re-characterize the transaction which in his opinion fulfills the criteria of Permanent establishment to bring the same under the tax net. This effectively meant

that permanent establishment were able to escape from tax net.

The bill proposes to retrospectively from tax year 2018 provide the power to the Commissioner-IR to recharacterization the transaction to treat a fixed place of business in Pakistan as a Permanent Establishment (PE) of Non-Resident Person.

The objective seemingly appears to tax the income of Permanent Establishment (PE) of Non-Resident person in Pakistan.

## Changes in Taxation of Business Income

### Advance tax on import

#### Section 148(7)

The withholding regime has always varied between commercial importer and an industrial undertaking in our history of tax legislation.

A major shift was introduced by Finance Act, 2020 with respect to 5.5% rate of tax for the goods prescribed in part iii of the twelfth schedule that was stated to be 'minimum tax' under section 148(7) of the ordinance whether it was imported by a commercial importer or by an industrial undertaking and irrespective of their eventual use by an 'industrial undertaking' the minimum tax regime remained the same. This scheme of taxation was apparently never the intention of the law.

The current bill has proposed to do away with "minimum taxation" for the goods sub-

jected to 5.5% tax on import and has made them a part of 'normal taxation'. Hence, the tax deducted at import would become adjustable against tax chargeable by an 'industrial undertakings'.

This is undoubtedly a very welcoming and a necessary change for those taxpayers having the status of industrial undertakings. This amendment is in line with government policy towards phasing out of the minimum tax regime.

The bill, however, proposes that the advance tax collected under section 148 of the ordinance in following cases would remain subject to minimum tax on income of the importer in all cases;

- Import of edible oil
- Import of packing material
- Import of plastics
- Import of paper and paper board

Lastly, the Finance Bill 2022 has proposed a major departure from the normal tax regime as it has classified commercial importer yet again under Final Tax Regime. The rate of income tax withholding on their import has although been revised upward to 4%. We understand that reverting of Final Tax Regime should be revisited and reconsidered as it will only proved to a deterrence towards the much needed documentation drive of the economy.

Corresponding amendment has been proposed under section 169 of the Ordinance.

The board has retained the right to add, omit and amend any entry therein after getting necessary approval from minister incharge.

### Minimum Tax adjustment done away with

#### Section 113(2)(c)

The taxpayer paying tax on their turnover more than their normal tax on business profit do not get credit for their excess tax payment during the year where they either sustain a loss or earn lower income.

It is in this background, the provision of Section 113(2)(c) of the Ordinance was firstly enacted by the Finance Act, 2004. Subsequently it was repealed by Finance Act, 2008. It was barely last year when the Federal Board of Revenue finally restored the provisions despite a pending legislation in the Apex Court. It was certainly a well coming and necessary amendments.

For some reason, best known to the FBR, it has chosen to propose the deletion of whole of the provision altogether. We understand that apart from the direct disadvantage in tax payment, the accounting of Deferred tax asset, would also need to be reversed in this very month of June, which is also the year end.

### Depreciation:

#### Section 22(2) and (8)

Through finance bill 2022, it has been

proposed that 100% of the normal depreciation allowance in the first year of business use will now be allowable against the business income.

Earlier it was adopted in Finance Act 2020 that normal depreciation allowance of the new asset will be allowed only up to 50% in the first year of use of assets and other 50% will be allowed in the year of sale /disposal.

### Depreciation:

#### Section 22(13)

Earlier through Finance Act 2012, the cost for a depreciable asset being a passenger transport vehicle not plying for hire was fixed at two and half million rupees. This threshold has been proposed to be increased to five million in the finance bill.

Keeping in view the inflationary trend, we understand that this is a positive move by the government to the businesses.

### Initial allowance:

#### Section 23(5)

Through Finance Bill 2022, a new clause (e) has been added to section 23(5) whereby immovable property or structural improvement to the immovable property has been excluded from the definition of eligible depreciable asset for the purpose of initial allowance. The proposed amendment will bring the necessary harmonization with part-ii of the third schedule to the ordinance whereby buildings were already omitted by Finance Act 2019.

### Salary can be paid through digital mode as well

#### Section 21(M)

A person can incur salary expense other than through crossed banking instrument within a limit of Rs 25,000/- per month.

The Finance Bill 2022 has proposed to expand the channel of distribution of salary by including through digital mode in it. Now a person can make salary payment through digital mode to employee and claim it as a tax expense.

The proposed amendment was also a part of Tax Laws (Third Amendment) Ordinance, 2021 which is being ratified through the finance bill.

### Only digital payments allowed to companies

#### Payments by crossed cheques not allowed to companies anymore

#### Section 21(LA)

Cash payments have always been discouraged by tax department and it has been a hallmark of our tax laws that there has been defined a maximum cap of not more than 250,000/- in a year under one Head of Account up to which cash expense would be allowed. Any excess therefrom will fall short of being qualified as a tax expense.

Unexpectedly, through Tax Laws (Third Amendment) Ordinance, 2021 companies were barred from making payment in crossed cheques as well and that they were

asked to make their payments singularly through Digital Means to qualify for tax expense. However, such amendment has not been implemented till date due to practical issues.

Now, although the aforesaid provision has been made part of the Finance Bill, enforcement date however, is still to be prescribed by the FBR.

### Admissibility Contribution to retirement funds

#### Section 21(EA)

It has been proposed to treat an amount in excess of 50% of contribution made to an approved gratuity fund, an approved pension fund and superannuation fund as inadmissible deduction.

### Payment to residents for use of machinery and equipment

#### Section 236Q

There were these cases of double taxation on one income of the person under minimum tax regime. Income tax paid on machinery and equipment on import stage was treated as minimum tax under the provisions of sub-section (7) of section 148 of the ordinance based on the fact that it is not imported by an industrial undertaking. On the other hand, rental receipts of the these equipment was again subjected to 10% withholding tax at gross amount which was also covered under minimum tax under section 236Q of the ordinance. The taxpayer suffered from 5.5% tax on import

under section 148 which it won't get the refund from the federal board of revenue and then 10% further withholding under section 236Q of the ordinance only resulted in double taxation of the same transaction. More importantly, the irony remains that all the income tax deductions were with the same pinch of minimum taxation, which means that no refunds would accrue to the taxpayer.

In order to remove this anomaly of double taxation, the bill now proposes to omit section 236Q of the ordinance which earlier provided for withholding of income tax @ 10% on payments to a resident person for use of or right to use industrial, commercial and scientific equipment as well as on account of rent of machinery.

It remains important to recall here that before inserting this section back in 2015, there was an ambiguity as to whether the said payment was subjected to tax withholding as service under section 153(1)(b) or as contract under section 153(1)(c) of the ordinance as the provisions of the ordinance do not specifically provided for withholding of tax on payments to residents on account of hire of machinery and/or equipment.

Accordingly, there had been divergent views on withholding of tax from such payments. Some were of the view that tax was deductible on such payments under section 153(1)(b) i.e. On account of services rendered while others were of the view that withholding of tax from such payment is governed by section 153(1)(c) i.e. On

account of execution of contract.

It is highly likely that the above ambiguity would arise again after omission of this section. To remove such ambiguity, the federal board of revenue should issue a clarification in order to fill the lacuna that was embodied in the ordinance previously.

## Changes related to Withholding Provisions

### Lower tax for steel distributors etc.

Clause 24C & 24D of Part II of Second Schedule

The Finance Bill 2022 has proposed to include Distributor, Dealers, Sub-Dealers, Wholesaler and Retailer of Steel in the exclusive list of sectors, which are allowed reduced withholding and minimum tax on turnover @ 0.25% under section 153 & 113 respectively, provided they are active taxpayers in terms of relevant provisions of both the Income Tax Ordinance, 2001 and Sales Tax Act, 1990.

This amendment was originally introduced in the Tax Laws (Third Amendment) Ordinance, 2021 which was repealed.

### Certificate of collection or deduction of tax (CPR/SPR):

Section 164

Through proposed finance bill 2022 changes has been introduced in section 164 whereby the word "challan of payment" has



been substituted with “computerized payment receipt (cpr)” to harmonize the terms challan with cpr. Further, a proviso has been introduced in sub-section 1 of section 164 of the ordinance whereby swaps payment receipt (spr) has been directed to replace computerized payment receipt (cpr) in cases of persons notified as swaps agents. Swaps is meant to signify synchronized withholding administration and payment system.

### Payment of tax collected or deducted by swaps agents: Sub-section 164A

Through proposed finance bill 2022 changes has been introduced in section 164. Through proposed finance bill 2022, a new sub-section 164A has been introduced in the ordinance whereby a person collecting or deducting tax may be notified by the board to integrate with synchronized withholding administration and payment system (swaps) and to act as swaps agent within the time and in the manner as may be prescribed.

Further, the tax collected or deducted by the swaps agent and credited to the commissioner through digital mode, shall be treated as paid under section 160 of the ordinance within the time and in the manner as may be prescribed.

Furthermore, it has been deliberated that if the swaps agent does not integrate with board, he shall not be eligible for tax credit under part x of chapter iii of the ordinance or exemption under any of the provisions of

the ordinance. However, all persons, from whom the tax has been collected or deducted by the notified swaps agents, shall be eligible for tax credit withheld against spr issued by swaps agent.

We understand that aforementioned sub-section has been introduced to provide additional channels for the collection and deduction of income tax from the tax payers.

### Changes in Audit & Assessment Procedures

#### Requirement to Issue Audit Refrost has been done away with Section 177(6) & (6A);

Prior to amendment proposed by Finance Bill, an officer was bound to issue an audit report after completion of his audit.

The Finance Bill 2022-2023 proposes to omit the requirement of issuance of the audit report by the officer.

Apparently, the above amendment appears to be an attempt on the part of the FBR to nullify a ruling of Superior Courts that has held that non-issuance of audit report after completion of audit as material defect in the amendment of assessment process having the consequence of declaring the amendment assessment order as void ab-initio.

### Relief of repetitive audit once in four (04) years

Clause 105A of Part-IV of 2nd Schedule

Relaxation from repetitive audit was first introduced through Finance Act 2018 which was later withdrawn through Finance Act 2019.

The Finance Bill proposes to re-introduce the said relaxation by inserting a new clause in Part IV of Second Schedule to the Ordinance. It has been provided that a taxpayer would not be selected for Audit either under Section 177 or 214C of the Ordinance, if his income tax audit has been conducted in any of the last four (04) Tax Years. An exception to this rule, however, has been provided that a Commissioner-IR can select a taxpayer after he has taken a prior approval from the Board.

It will not be out of place to mention here that any sudden change in law, like the one made earlier by inserting and then deleting the said clause and that too which was meant to provide administrative relief to taxpayer has its own repercussions and makes him more apprehensive.

This type of amendment, therefore, should remain consistent to encourage the genuine and potential taxpayer for joining the tax net.

### Measures for Broadening of Tax Base

#### Disconnection of electricity, gas and phone connections of non-filer

Section 114B

The bill has proposed that even categorization of non-filer of tax return as a non-filer and keeping him out of actual tax payers list and making him to suffer even with higher withholding tax did not make the break through as the non-filer chose to live with higher withholding over filing his tax return. Hence, after experiencing the stigma for over a long period, a whole new concept is being proposed to achieve the objective of broadening of tax base with a new and more ferocious penalty for being a non-filer.

As amendment has been introduced with a non-obstante provision to allow the board to issue Income Tax General Order, in respect of the offended non-filer to punish him by disconnecting his Electricity, Gas and Phone connections.

The whole process of catching the non-filer is proposed to be triggered from the issuance of notice to file income tax return where after if the person fails to file return, action would be taken against him.

This punishment would be in addition to any other penal action that can be taken against the non-filer under the Ordinance.



The Commissioner has been delegated the power to restore the connections after he is satisfied that either the return has been filed or the person was actually never required to file any return of income in the first place.

We understand that the above amendment may potentially be subject to litigation as it would tantamount to encroach upon fundamental right of a citizen to have electricity, Gas and a Phone connection.

Apart from the faulty taxpayer it is suspected that Electricity or Gas or the Telephone companies or their regulators, may question unfettered powers self assumed by the FBR, in court as ones failure in his core function should not result in other's jeopardy. Since this section has been introduced with an overriding effect over their laws, we understand that this aspect remains skeptical as to whether FBR should have power to override the provisions of Pakistan Telecom Authority, NEPRA or OGRA or directly the Utility companies.

### NADRA to share, a hub of taxpayers' information to FBR

#### Section 175B & 216

The bill has proposed a new Section 175B whereby NADRA can share any information with FBR for the Broadening of tax base. This is knowingly one of the most awaited measure FBR was longing to have been taken by the government.

It is believed in certain quarters that this amendment in law will bring in a wealth of

information of hundreds of thousands of potential taxpayers in the country to FBR, who have so far not been on its radar and have been successful to dodge out of the tax net.

On the other hand, clause (kb) under Section 216(3) has been omitted, which allowed the FBR to share information with NADRA. Hence, it appears to be a one-sided affair as only NADRA is expected to provide information to FBR whereas FBR has been now barred to provide taxpayer information to NADRA.

### NADRA to act as an assessing officer of FBR

#### Section 175B (2)

To one's surprise, NADRA has been given to perform the following function:

1. To identify income, receipts, asset, properties, liabilities, expenditure or transaction that have escaped assessment.
2. To identify the above as to whether these have been under assessed or given excessive refund.
3. To identify as to whether income or asset have been misdeclared or misclassified.
4. To identify the value of assets if it is found at variance with FBR value or Provincial BOR value.
5. To identify the Market Value of these assets in absence of FBR value or of the BOR value.

## Assessment function has been outsourced to NADRA

### Section 175B (4) and (5)

As if the above wasn't sufficient enough for FBR to catch a tax dodger, the Finance Bill has also introduced a provision whereby NADRA has factually been assigned to carry out the assessment proceeding against the tax payers whereby it has to compute his taxable income and income tax liability.

It has been provided that NADRA will employ its (a) Artificial intelligence (b) mathematical and (c) statistical modelling for the purpose of the above indicative assessment.

Based on the above assessment by NADRA, FBR will do the most critical job to notify the target person about his case details finalized by NADRA and has been given the privilege to give option to the taxpayer to pay the tax either in lump sum or in installment, within a given time period either with compromised terms including discount and pardon to Penalty and Additional Tax or not.

A plain perusal of the newly introduced amendments reveals a mechanism, which is completely unheard and unprecedented whereby one organization will carry out the core job of the other organization. It is, however, what is supposedly intended by the introduction of this bill, what still needs to be looked for is the assumption of the rightful legal jurisdiction for the assessment without making it contentious and prone to

litigation.

It merits a mention that many attempts to broaden the narrowed tax base in the country have been made earlier as well and that too with huge data base of Banking information available country wide, which somehow never resulted in any tangible or notable increase in tax filers. This joint effort with NADRA can be viewed as a necessary but a desperate measure and by any means should be ensured to be successful.

Lastly, after omission of clause (kb) of Section 216(3) of the Ordinance, one can wonder as to from where NADRA would get the information of citizen to identify that the person has either not shown the identified income or asset in its wealth or return or has shown it at an inaccurate value.

## Rollback of Incentives

### Adjustment of tax losses of sick industrial unit done away with

#### Section 59C

To promote revival of sick industrial units, a new provision of Section 59C was introduced in the Ordinance through Income Tax (Amendment) Ordinance, 2022 whereby the acquiring company can adjust the current and the brought forward business loss (excluding capital loss) of the acquired company, being a sick industrial unit, to the extent of percentage of its shareholding therein against its income for a period of three years. Any loss that remains unadjusted after three years, will

continue to be carried forwarded by the acquired company.

Now, the bill proposes to withdraw the above adjustment of losses with retrospective effect i.e. 02 March 2022.

We understand that this amendment would hamper the process of privatization of loss making entities.

### Tax credit on foreign investment in industrial undertaking done away with Section 65H

With the objective of promoting and encouraging Industrial Investment in the country, a new Section 65H was introduced in the Ordinance through Income Tax (Amendment) Ordinance, 2022 to allow either, a non-resident Pakistani Individual or a resident individual, a one-time tax credit of 100% in the year of commencement, on the amount of investment made in the project. The minimum amount for equity investment was set at Rs. 50 million.

The non-resident Individual must have the non-residential status of more than five (5) years. On the other hand, the resident individual is required to have declared all his Foreign Wealth in Pakistan for the purpose.

Now, the bill proposes to withdraw the above tax credit with retrospective effect i.e. 02 March 2022.

It is a case nothing short of irrational

withdrawal of a very prudent and sane tax credit and that too without any warning that instead of maintaining the same, the FBR has surprisingly proposed to withdraw the whole of the tax credit altogether.

We understand this amendment will detract remittance from abroad and investment in Industrial Undertaking, therefore will hit the precious foreign reserves required by the country.

### Investment for industrial promotion with immunity done away with Section 100F

In another step to incentivize industrialization and mobilization of resources from undeclared/undocumented economy, a new section 100F was inserted in the Ordinance through Income Tax (Amendment) Ordinance, 2022 to grant a conditional amnesty whereby, upon payment of 5% tax, any investment of Rs 50 million or more in capital infrastructure of a newly established or an existing industrial undertaking out of undeclared sources, would be legitimized subject to fulfillment of certain conditions as specified in the section.

Now, the bill proposes to withdraw the above amnesty with retrospective effect i.e. 02 March 2022.

We understand this that this amendment will detract investment in Industrial Undertaking which will deter the government's aim to generate employment opportunity for people.

### Withdrawal of 100% tax credit to exporter of it services

#### Section 65F & 154A

Prior to amendment proposed by Finance Bill, the income from IT exports, IT services and IT enabled services were allowed 100% tax credit upto June 30, 2025 under section 65F of the Ordinance.

Through Finance Bill 2022-2023, the said tax credit has been proposed to be withdrawn.

The withdrawal of tax credit has been substituted with tax payment at a concessional rate of 0.25% on proceeds from IT exports, IT services and IT enabled services under final tax regime envisaged under section 154A of the Ordinance.

We understand that withdrawal of tax credit on export of IT or IT related services would discourage the investment in IT and software sector in Pakistan thereby decreasing the foreign exchange remittance.

### Other Important Changes

#### Tax on high networth person for poverty alleviation

##### Section 4C

History of our taxation regime is checkered with attempts to extract out deficient portion of revenue collection by highly unwarranted means of legislation. It would be recalled that previously 15%

Flood Surcharge was imposed under Section 4A of the Ordinance vide Income Tax (Amendment) Ordinance, 2011 which was payable for three and a half months (3 1/2 months) for the Tax Year 2011. Then, super Tax was imposed on banking companies and other large companies at 4% and 3% respectively through Finance Act, 2015 which is still payable by the banking companies.

The Finance Bill 2022, now, seeks to propose to impose a 2% poverty alleviation tax on every high earner whose income exceeds Rs.300 million from tax year 2022.

The poverty alleviation tax is payable evenly by Individuals, partnership firms and companies as well.

On the other hand, the term and definition of "Income" has been reinvented for this purpose alone to have included every possible earning under the Ordinance except for the exempt Income. It has been suggested as follows;

Income shall include the following head of accounts;

- Interest Income
- Dividend Income
- Capital Gains
- Brokerage & Commission Income
- All the Taxable income u/s 9 or the Ordinance (Rent, Business and Other Sources)
- Imputable Income as defined in Clause 28A of Section 2
- Income under 4th, 5th, and 7th Schedule

As can be seen that phraseology “Imputable Income” has also been used which show the determination of the government to collect this Tax from exporters as well.

It should be cleared that once the income crosses the threshold of Rupees 300 Million the whole of the Income including the 300 Million will be subject to Tax and not merely the income exceeding 300 Million.

This tax is proposed to be payable from the Tax Year 2022. It is emphasized that this tax might also attract the provisions of the quarterly advance tax payment under Section 147 of the Ordinance for making advance tax payment for the period ending June 30, 2022. However, a clarification on this procedure for making the payment of advance should be announced by FBR, sooner as the Finance Bill cannot be enforced unless it turns into Finance Act. Hence therefore the provisions of Default Surcharge should not be invoked later on based on tax payment falling short of 90% due to this extra 2% Tax as the amendment suggest otherwise.

### Not for Profit Organization; Two Years extend Section 100C

Currently, institutions, foundations, societies, boards, trust and funds are entitled to get 100% tax credit against tax payable including minimum tax and final tax subject to fulfillment of the requirements that these organization have to obtain the certificate of ‘Not for Profit

Organization’ under Section 100C of the Ordinance.

Whereas, the exclusion was given to those institutions, foundations, societies, boards, trust and funds mentioned in Table II of Clause 66, Part I, Second Schedule to the Ordinance from obtaining the certificate of ‘Non Profit Organization’ from the Commissioner-IR under Section 100C of the Ordinance without which even they could continue to operate as an NPO till June 30, 2022. After the expiry of 30 June 2022 these NPO will have to seek certificate from Commissioner-IR Office.

The Finance bill has proposed to extend grace time period upto June 30, 2024 uptill which they can continue to avail 100% tax credit under Section 100C of the Ordinance without the Commissioner-IR NPO Certificate.

Another major proposed amendment remains that following NPO have been taken under Table of Clause 66 of Part I of Second Schedule and therefore are now proposed to enjoy unconditional tax exemption;

1. Pakistan Mortgage Refinance Company Limited
2. The Pakistan Global Sukuk Programme Company Limited.
3. Karandaaz Pakistan from tax year 2015 onwards
4. Pakistan Sweet Homes Angles and Fairies Place
5. Public Private Partnership Authority for tax year 2022 and subsequent four tax

years

6. Dawat-e-Islami Trust
7. Hamdard Laboratories (Waqf) Pakistan

## Alternative Dispute Resolution

### Section 134A

In contemporary world “Alternative dispute mechanism” is popular among the tax administrations for settlement of tax disputes out of traditional courts to avoid limitations imposed by the conventional system like cumbersome technical procedures, unnecessary delay, and cost of litigation.

Though Pakistan had adopted this very concept back in 2004, however policy has not sailed well here due to trust deficit between the taxpayer and tax administration. Therefore, mechanism provided under the law has been frequently amended in recent years to lure the taxpayers for its acceptance.

Now, the finance bill 2022 again has proposed the substitution of the section providing procedure for alternative dispute resolution with following key changes;

- Disputes involving question of law having impact in identical cases can also be entertained. However, it has been expressly provided that no order passed through ADR will be having any binding force even in case of taxpayer himself in any other tax year. Presently such matter could not be resolved through ADR.
- Taxpayers has been granted the right to nominate one member of ADRC directly

and another through consensus with the Commissioner out of three members. In case of taxpayer and Commissioner IR fail to reach consensus, FBR may nominate member proposed by taxpayer.

- Cases whereby criminal proceedings have already been initiated cannot be resolved through ADR. Presently ADR can be opted for such cases as well.
- Threshold of tax liability amounting to Rs.100 Million for kicking in the ADR process
- Order of ADRC would be binding on both parties i-e taxpayer and department
- Condition of appeal withdrawal before initiation of ADR proceedings reinforced. However, in case of failure ADRC to reach any conclusion the appeal proceedings may be revived
- Certain timelines prescribed for proceedings have been changed to make the process effective and efficient

## Income Tax Through Electricity Bills from Retailers other than Tier-1 Retailers:

### Sections 99A and 235

Section 99A was introduced for the first time through Income Tax (Third Amendment) Act, 2016 whereby a scheme was introduced for the traders and retailers. Now, the Finance Bill 2022 has proposed to substitute Section 99A as follows.

It has been proposed to charge and collect income tax from retailers other than Tier-I retailers, as defined in Sales Tax Act, 1990 and specified service providers on their



commercial electricity connections as per following table:

Division IV of Part IV of First Schedule

| Gross Amount of monthly bill  | Tax       |
|---|-----------|
| Where the amount does not exceed Rs. 30,000                               | Rs.3,000  |
| Where the amount exceeds Rs. 30,000 but does not exceed Rs. 50,000        | Rs.5,000  |
| Where the amount exceeds Rs. 50,000 but does not exceed Rs. 100,000       | Rs.10,000 |
| Specified retailer and service providers through Income Tax General Order | Rs.50,000 |

However, this section will not apply on retailers who pay sales tax under Section 3(9) of the Sales Tax Act, 1990 being retailer other than Tier-1 retailer. Meaning thereby retailers who do not fall under the category of Tier-1 retailers will discharge their sales tax liability either under Section 3(9) of the Sales Tax Act, 1990 or will pay income tax under Section 99A read with Section 235(1A) of the Income Tax Ordinance, 2001 as per above table.

The tax collected or paid under this section shall be final tax on the income of persons covered under this section in respect of business being carried out from the premises where the electricity connection is installed.

It is pertinent to mention here that Section 235(1A) was inserted through Income Tax (Amendment) Ordinance, 2022 which could not be approved by the Parliament wherein professionals such as accountants, doctors, dentists, health professionals, engineers, architectures, IT professionals, tutors, trainers and other persons engage in provision of services were covered. Now, through Finance Bill 2022, apart from “Retailers” as defined above, “Specified

Service Providers” have been included in Subsection 1A of the Section 235 of the Ordinance, whereas, the term “Specified Services Providers” have not been defined for the purpose of Sections 99A and 235.

## Beneficial owner

### Section 2(7A)

A new definition of “beneficial owner” has been proposed to be introduced through the Finance Bill 2022, whereby natural person will be the “Beneficial Owner” if he either,

- Owns or controls a company or association of persons, whether directly or indirectly, with minimum of 10% shares or its voting rights; or
- Exercises ultimate control, through direct or indirect means, over the company or association of persons, including control over the finances or decisions or other affairs of the company or association of persons.

The concept has been brought in under the tax law to bring transparency and fairness in reporting about the Beneficial ownership of the company.

## Record of beneficial owners

### Section 181E

In line with the Government initiative to ensure the reporting of tax affairs this bill also has proposed a new Section about the records of beneficial owners that a company or association of persons will have to furnish particulars and updates the same either electronically in such form and

manner as may be prescribed.

## Penalties

### Section 182

The Finance Bill 2022-23 has proposed the following amendments in section 182 of the Ordinance:

The Finance Bill 2022-23 has proposed new penalties which deal with Section 181E, 164A,

237A and has been made a severe non-compliance subject to penalties;

| S. No. | Offences  | Penalties prior to Finance Bill   | Amendments proposed by Finance Bill   | Section     |
|--------|---|---|---|-------------|
| 1      | Where any person fails to furnish a return of income as required under section 114 within the due date. | 0.1% of Annual Tax per day of non-filing, subject to minimum of Rs. 40000 and maximum of 50% of the Annual Tax.<br><br>Where 75% of the total income is Salary and is lower than Rs. 5Million, the minimum penalty of Rs. 5000<br><br>Minimum penalty will be reduced to Rs. 5k if the taxable income is upto 800,000, only.<br><br>Penalty will be reduced by 75%, 50% and 25% if the return is filed within one, two or three months, respectively even after the due date or extended time.<br><br><i>Explanation - the expression "tax payable" means the tax chargeable against taxable income based on the assessment made or treated to have been made under Sections 120, 121, 122 or 122C.</i> | Penalty shall be higher of;<br>a) 0.1% of tax payable for each day of default; or<br><br>b) Rs. 1000 for each day of default.<br><br>Maximum penalty is 200% of Annual Tax. Minimum penalty shall be;<br>a) Rs. 10000 for individual with 75% or more income from salary; or<br><br>b) Rs. 50000 in all other cases.<br><br>A penalty will be reduced by 75%, 50% and 25% if the return is filed within one, two or three months, respectively even after the due date or extended time.<br><br><i>Explanation - the expression "tax payable" means the tax chargeable against taxable income based on the assessment made or treated to have been made under Sections 120, 121, 122 or 122D.</i> | 114 and 118 |

| S. No. | Offences   | Penalties   | Section |
|--------|--|---|---------|
| 30     | Contravene provisions of Section 181E in respect of Companies and Association of Persons.  | Such companies or association of persons shall pay Rs. 1M for each default.   | 181E    |
| 31     | After being duly notified by the Board as SWAPS Agents, if a person fails to integrate or perform roles and functions.   | The penalty shall pay:<br><br>i) Rs.50K for the first default of 07 days;<br>ii) Rs. 100K for the second default of next 07 days;<br>iii) Rs. 50K for each week after the second consecutive week of default:<br><br>Provided that no penalty shall be imposed if the Commissioner granted the extension from integration for such period. In addition, if the SWAPS Agent fails to integrate within such extended time, penalties shall be imposed as if no extension was granted. | 164A    |
| 32     | Any person, who is integrated for<br><br><ul style="list-style-type: none"> <li>Monitoring,</li> <li>Tracking,</li> <li>Reporting or Recording of sales,</li> <li>Services and similar business transactions</li> </ul> with the Board or its computerized system, conducts such transactions to avoid any of the above transactions or issues an invoice that does not carry the prescribed invoice number or QR code or bears duplicate invoice number or counterfeit QR code, or defaces the prescribed invoice number or QR code, or any person who abets commissioning of such offence. | The penalty shall be higher of;<br>a) Rs. 500K; or<br><br>b) 200% of the tax amount involved.   | 237A    |
| 33     | Any person, who is integrated for<br><br><ul style="list-style-type: none"> <li>Monitoring,</li> <li>Tracking,</li> <li>Reporting or Recording of sales,</li> <li>Services and similar business transactions</li> </ul> with the Board or its computerized system fails to get himself registered under the Ordinance, and if registered, fails to integrate in the manner as required under law.  | Such person shall be liable to pay a penalty up to Rs. 1M, and if continues to commit the same offence after a period of 02 months after the imposition of penalty as aforesaid, his business premises shall be sealed till such time he integrates his business in the manner as stipulated under sub-section (3) of section 237A, as the case may be.   | 237A    |



| S. No. | Offences  | Penalties  | Section |
|--------|---|--|---------|
| 34     | A person required to integrate his business as stipulated under sub-section (3) of section 237A fails to get himself registered under the Ordinance and, if registered, fails to integrate in the manner required under the law and rules thereunder. | <p>Such person shall be liable to pay</p> <p>i) Rs. 500K for the 1st default;</p> <p>ii) Rs. 1M for the 2nd default after 15 days of order for the 1st default;</p> <p>iii) Rs. 2M for the 3rd default after 15 days of order for the 2nd default;</p> <p>iv) Rs. 3M for the 4th default after 15 days of order for the 3rd default;</p> <p>Provided that if a person fails to integrate his business within 15 days of penalty imposition for 4<sup>th</sup> default, his business premises shall be sealed until his business is intenerated in the manner as specified under subsection (3) of Section 237A:</p> <p>Provided further that if the person integrates his business with the Board's computerized system before the imposition of penalty for 2<sup>nd</sup> default, the penalty for 1<sup>st</sup> default shall be waived by the Commissioner.</p> | 237A    |

in the registration form or return of income or wealth statement was inserted. In this continuation, this bill proposes to insert new clauses in connection with the prosecution for non-compliance with statutory obligations. If any person fails to comply without any reasonable excuse,

- Integrate his business with Board's computerized system; or
- Generate tax invoices verifiable by the Board's system.

Abnormal amount of penalties have been proposed for offences related to non integration of business and its misreporting.

### Prosecution for non-compliance with certain statutory obligations

#### Section 191(h) & (i)

It is recalled that in the last Finance Act, 2021 declaration of business bank accounts

## Sales Tax Act, 1990

### Goods & Supply

#### Section 2(12) and 2(33)

The Bill proposes to include 'production, transmission and distribution of electricity' in the definition of "goods" and "supply" as provided under Section 2 (12) and (33) of the Sales Tax Act 1990 (ST Act).

Since the enactment of ST Act, sales tax on supply of electricity has always been charged, levied and collected under said Act. However, to our mind, the proposed amendment has created legal ambiguities on existing taxing framework as to whether the electricity was wrongly construed within the ambit of 'goods' and 'supply' prior to Bill 2022.

An objective for introduction of said amendment could be to halt claim of Provincial Governments which portrays electric power transmission as a service and accordingly liable to Service Sales Tax under their respective Statutes. Vide Sindh Finance Act 2019, 'transmission of electricity bearing Tariff Heading 9854.0000 has been classified as a taxable service under Second Schedule to the Sindh Sales Tax on Services, Act, 2011. In view of the overlapping tax structures, we can foresee litigation on this issue before superior courts.

### TIER-1 Retailer

#### Section 2(43A)(ga)

The Bill also seeks to bring retailers of

jewellery or parts thereof or precious metal or of metal clad within the definition of Tier-1 retailer. Import and supply of 'jewellery articles and precious metals' have been taxed @ reduced tax rate of 4% & 3% respectively, without any input tax adjustment.

Consequent to such insertion, now all such retailers of aforesaid articles would be compulsorily required to be registered with FBR and integrate their Point of Sale with FBR Computerized System and comply with all the allied rules related to integration.

We understand practical enforcement of this amendment would not be an easy task either for FBR or for such taxpayers.

### Further Tax

#### Section 3(1A)

By virtue of aforesaid Section, further tax is attracted on supply of taxable goods as made by registered persons to persons who have not obtained sales tax registration under the law.

The Bill proposes to enlarge the scope of above Section whereby further tax @ 3% would also be attracted on supply of taxable goods to persons who are not listed as 'Active Tax Payer' @ FBR's Web Portal.

The aforesaid amendment aims to improve compliance level of registered persons who are simultaneously

required by legislature to maintain their “Active Taxpayer status”; otherwise, they will be penalized at par with unregistered persons.

### Online Market Place Operators Section 3(7)

The term “online market place” has been defined to include e-commerce platform, portal or similar means which facilitate for sales of goods in the manner as specified at Section 2(18A) of the Act. The Finance Act 2021 brought largely untaxed online retailing of goods under the ambit of sales tax by classifying “online market place” as deemed supplier in respect of third party sales executed through such platform. The online market platform was also recognized as ‘withholding agent’ under Eleventh Schedule to ST Act.

The Bill proposes to insert a proviso under Section 3(7) of the ST Act whereby the liability to withhold and deposit sales tax withholding has been placed on the operators of online market place who are engaged in facilitating the sales of third party. In our considered opinion, the prime objective of enhancement of said provision is to provide legal backing to withholding provision covered under Eleventh Schedule of the ST Act whereby they are categorized as withholding agent.

The said amendment was originally introduced via Tax Laws (3rd Amendment) Ordinance 2021.

### Tax Liability of Small Retailers Section 3(9)

Through Section 3(9) of ST Act, sales tax is charged from small retailers, i.e., other than those falling in Tier-1, on the basis of electricity being consumed by such persons. Through the proposed amendment in this section, the Bill seeks to enhance the amount of sales tax to such retailers through their electricity invoices / bills:

| Existing Position             |                            | Proposed Position                            |                            |
|-------------------------------|----------------------------|--|----------------------------|
| Threshold (Electricity Bill)  | Existing Rate of Sales Tax | Threshold (Electricity Bill)                 | Proposed Rate of Sales Tax |
| Upto Rs.20,000 per month      | 5%                         | Upto Rs.30,000                               | Rs. 3,000 per month        |
| More than Rs.20,000 per month | 7.5%                       | More than Rs.30,000 but less than Rs. 50,000 | Rs. 5,000 per month        |
| -                             | -                          | More than Rs.50,000                          | Rs. 10,000 per month       |

Furthermore, a proviso has been inserted in Section 3(9) of ST Act whereby it is proposed that FBR may prescribe person or class of persons who would be exposed to sales tax @ Rs. 50,000 through monthly bill.

We understand that the aforementioned proposed taxation would lead to chaos among small scale of retailers located in far-flung areas of Pakistan. Furthermore, the said taxation, being arbitrarily and exorbitant, may be challenged before court of law.

### Integration of invoice issuing machines

#### Section 3(11)

Through newly inserted sub-section 10 at Section 3 of the Act, the Board is empowered to ask any person or class of person to integrate their invoice issuing machines with Board's Computerized System for real time reporting of its sales.

The aforesaid provision has given vast powers to Board to monitor sales of any person at its own will irrespective of any class of business segment.

The said amendment was originally introduced via Tax Laws (3rd Amendment) Ordinance 2021

### Time and Manner of Payment of Sales Tax

#### Section 6(5)

The Federal Government has been empowered to allow payment of sales tax on installment basis to Federal Government or Provincial Government or any Public Sector Organization on

import or supply of goods. In addition to above, such installment facility may be allowed for past tax dues on retrospective basis.

The underlying objective of introduction of aforesaid provision seems to give legal coverage for payment of outstanding sales tax to aforesaid categories of institutions who are unable to deposit their respective tax liability in the kitty within the given timeline. We understand once such an installment plan is agreed upon, penalty and default surcharge under ST Act may not be attracted.

The above proposition creates a disparity among the Private Sector Organization, AOP and others who may not avail such an option and are exposed to default surcharge and penalties on late payment of due taxes.

### Withdrawal of CNIC & NTN Condition

#### Section 8(1) (m) and 23(1) (b)

As a significant documentation measure introduced in Year 2019, registered suppliers were made liable to disclose CNIC / NTN of their unregistered buyer on the face of the tax invoice. Suppliers whose sale invoices could not bear CNIC of the unregistered buyers, were deprived of the input tax on pro-rata basis.

While the above measure was being introduced in tax laws again and again during the past several years, a large

segment of undocumented sector strongly resisted it; ultimately they were withdrawn. This year again we witnessed Government's succumbing to external pressures and extreme resistance whereby the cardinal feature of documentation of unorganized business has been done away with especially at a time when gradual compliance of CNIC condition had already been started by the business community. We understand that the proposed omission of buyer's CNIC on the face of tax invoice will overturn the much needed and ongoing wave of documentation and strengthen the parallel economy.

### Adjustable Input Tax

#### Section 8B(1)

By virtue of Finance Act 2021, Public Limited Companies listed with Pakistan Stock Exchange (PSE) were excluded from the purview of Section 8B of the ST Act. The said amendment had given liquidity relief to such registered persons.

Now the Bill proposes reversal of this facility after affording relief of just one year to such entities. As result of such proposed amendment, Public Listed Companies may not be able to adjust input tax beyond 90% of the output tax during a tax period. We understand that the proposed omission is a step towards collection of sales tax on temporarily

basis for national kitty which would ultimately lead to cash flow hassles for such persons

### Disconnection of gas and electricity connections

#### Section 14AB

The Bill proposes the insertion of new Section 14AB to empower the Board to direct the utility companies, i.e., gas and electricity, to disconnect the distribution of unregistered or non-integrated retailers by issuing Sales Tax General Order.

However, such utility connections may be restored by Board through STGOs provided such defaulters comply with aforesaid requirement.

The provision of Section 14A was earlier introduced through Tax Laws (Third Amendment) Ordinance 2021. However, such legislation did not sail smoothly within the Parliament.

We understand that this amendment will have far-reaching effect in broadening tax net base in the country. However, there are certain other laws which prohibit such utility companies from disconnecting the supply for reasons other than prescribed therein therefore, we understand such disharmony in laws may create hurdles in enforcement of proposed law.

On the other hand, it may cause many problems for the landlords in renting

out business premises. It may create unnecessary hassles where any property is rented out to the Retailer or in the transition of tenancy where the Retailer occupies the premises.

### Penalties:

#### Section 33

The Bill proposes to insert a word 'QR Code' at Serial No. 24 of Section 33 of ST Act. This Code is necessitated to be mentioned at tax invoice by person who is integrated for monitoring, tracking and reporting of sales and production on real-time basis with FBR's Computerized System. Any non-compliance of these conditions will lead to imposition of penalty.

### Amendments in Third Schedule to ST Act

#### Serial No. 07

Currently, the 'detergents' having Tariff Heading 3402.2000 i.e. preparations put up for retail sale are charged to sales tax on retail price under the Third Schedule to ST Act. The preparations as covered under said Serial (tariff heading) includes:

1. Organic surface - active agents;
2. Surface - active preparations;
3. Washing preparations (including

4. auxiliary washing preparations) and
5. Cleaning preparations.

Now the Bill proposes to enlarge the scope by including all categories of detergents to fall under Third Schedule. Hence, it implies that all types of detergents would be subject to sales tax at retail price.

### Sixth Schedule: Table-I

#### Restoration of Exemption

Restoration of exemptions are proposed as under.

- Import by UN, diplomats, diplomatic missions, privileged organizations etc. with effects from January 15, 2022.
- Goods imported by or donated to hospitals run by NPOs.
- Goods excluding electricity and natural gas supplied to charitable hospitals having 50 beds or more excluding gas and electricity.
- Goods temporarily imported which are meant for subsequent exportation.
- Seeds for sowing.
- Machinery, equipment and materials imported for use in EPZ or for making exports therefrom subject to certain conditions.
- All kind of books.

Besides above, the legislature also proposes following new exemptions which were earlier subject to standard/

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reduced rate of sales tax as provided under Eighth Schedule to ST Ac.

- Photovoltaic cells (solar panel)
- Agricultural Tractor

### Sixth Schedule: Table - I + II

#### Withdrawal of Exemption

Following exemption are proposed to be withdrawn;

- Import of globe artichokes from Afghanistan are now exposed to sales tax @ 17%

### Sixth Schedule: Table-II

#### New Exemption

Local supply of following goods is proposed to be exempted;

- Prepared food or food stuff supplied by restaurants or caterers
- Supply of jewelry articles which suffered ST @ 4% on import stage

### Sixth Schedule: Table-III

#### Exemption

Restoration of exemption proposed as under:

- Machinery, equipment and spare parts for initial installation, balancing, modernization, replacement or expansion of projects for power generation through hydel, oil, gas, coal, nuclear and renewable energy including for construction

projects by virtue of an agreement with Government of Pakistan prior to 15 January 2022 (with certain conditions and restrictions)

- Construction machinery, equipment and specialized vehicles for construction to be imported on temporary basis.

### Eight Schedule: Table-1

The Bill proposes concessionary rate of sales tax on following goods which were earlier subject to tax at standard rate:

- Import and supply of 'jewelry articles and precious metals' are now proposed to tax at 4% & 3% respectively, without any input tax adjustment.
- Local supply of reclaimed lead to registered manufacturer of lead and lead batteries is now proposed to tax at reduce rate of 1%. However, no refund of input tax shall be admissible

### Eight Schedule: Table-1

#### Proposed Changes in tax rate

- Supply of agriculture tractors previously taxable @5% are now proposed to be exempt
- Locally produced coal now proposed to tax @17%
- Import of electric vehicle in CBU conditions, previously taxed @12.75% now taxable @ 17% irrespective of engine capacity



### Eleventh Schedule

Under Serial No. 7 of Eleventh Schedule, sales tax withholding @ 75% is applicable on various categories of lead falling under Chapter 87 and scrap batteries falling under PCT Code 8548.1010 & 8548.1090.

Now, it is proposed that above withholding obligation will be applicable on supply of all categories of scrap batteries as fallen under Chapter 85 which was otherwise subject to withholding only PCT Headings 8548.1010 and 8548.1090.

### Twelfth Schedule

At Serial No. 2(i) of said Schedule, raw materials and intermediary goods imported by manufacturer for inhouse consumption are immune from levy of value added tax @ 3% at the time of import.

By virtue of amendment through Bill, benefit under aforesaid clause on import of scraps of compressor, motor and copper cable cutting by manufacturers is being withdrawn.



# Islamabad Capital Territory (Tax on Services) Ordinance 2001

## Serial No.1 - Table-1 to The Schedule

The following new services are proposed to liable to sales tax as rendered at Islamabad Capital Territory:

- Services farmhouses,
- Services by restaurants

It appears that the proposed amendment has been introduced to implement the agreement reached with provincial government regarding jurisdiction to tax such businesses. We anticipate reduction in litigation pursuant this amendment.

- The services provided at Serial No. 1 to 59 at Table-1 of the Schedule are proposed at uniform rate of sales tax @ 15 instead of 16% or 17% ad. val. which are presently in field under the Ordinance.
- The entry related to IT and IT enabled services under Table - ii is proposed to be deleted. We understand that omission of this entry will give rise to litigation over the taxability of such services.

# FEDERAL EXCISE ACT 2005

## Amendments in First Schedule - Table I & II

The Bill proposes to increase Federal Excise Duty [FED] on following goods and services:

Table - I (Excisable Goods)

| Serial No. | Description  | Existing Duty                    | Proposed Duty                    |
|------------|--|----------------------------------|----------------------------------|
| 8a         | E-liquids by whatsoever name called, for electric cigarette kits.  | Rs.10 per ml.                    | Rs.10,000 per kg                 |
| 9          | Locally produced cigarettes if their on-pack printed retail price exceeds five thousand nine hundred and sixty rupees per thousand cigarettes.         | Rs.5,200 per thousand cigarettes | Rs.5,600 per thousand cigarettes |
| 10         | Locally produced cigarettes if their on-pack printed retail price does not exceed five thousand nine hundred and sixty rupees per thousand cigarettes. | Rs.1,650 per thousand cigarettes | Rs.1,850 per thousand cigarettes |
| 56         | Filter rod for cigarettes  | Rs.1 per filter rod              | Rs.1,500 per kg                  |

Table - II (Excisable Services)

| Serial No. | Description                    | Existing Duty | Proposed Duty |
|------------|--------------------------------|---------------|---------------|
| 3(b) (ii)  | Club, business and first class | Rs.10,000     | Rs.50,000     |
| 6          | Telecommunication Services     | 16%           | 19.5%         |

# CUSTOMS ACT, 1969

## Pakistan Single Window Portal Section 2 & 156

Pakistan ratified the agreement on Trade Facilitation of the World Trade Organization and has enacted Pakistan Single Window Act, 2021 [PSW Act] for managing external Trade. Accordingly, Pakistan Single Window Portal has already been launched. Now, vide finance bill following provisions are proposed to be inserted in Customs Act for harmonization:-

- Definitions in Section 2:
  - Other government agencies
  - Pakistan Single Window
  - Trade controls
  - Un-authorized access
- Penalties proposed for certain offences;

| S. No<br>105 | Offense  | Penalties   |
|--------------|--|---|
| (i)          | Un-authorised access to information, data or personal details of registered user of Pakistan Single Window system or systems connected or ancillary thereto;                                 | Imprisonment which may extend up to six months or with fine which may extend to one hundred thousand rupees or with both. |
| (ii)         | Un-authorised copy, transmission or cause to transmit any data, information or detail in relations to Pakistan Single Window system or systems connected or ancillary thereto;               | Imprisonment which may extend upto six months or with fine which may extend to one hundred thousand rupees or with both.  |
| (iii)        | Un-authorised interference, or attempt to interfere, damage or attempt to damage any part of whole of the Pakistan Single Window system or data or system connected to or ancillary thereto; | Imprisonment which may extend to three years or fine which may extend to five hundred thousand rupees or with both.       |

| S. No<br>105 | Offense   | Penalties   |
|--------------|---|---|
| (iv)         | Use of any information system, device or data to make any illegal claim or title or cause any person to part with property or to enter into any express or Implied contract or intent to commit fraud by any input, alteration, deletion or suppression of data, resulting in unauthentic data with the intent that such data be considered or acted upon for legal purpose, as if it were authentic in relations to Pakistan Single Window system or Systems connected or ancillary thereto; | Imprisonment which may extend to four years or fine which may extend to one million rupees or with both.  |
| (v)          | Use, make, supply, retain, obtain device, system or software for offences under section 13 of The Pakistan Single Window Act, 2021 (III of 2021);   | Imprisonment which may extend to six months or with fine which may extend to one hundred thousand rupees or with both.  |
| (vi)         | Obtain, sell, process, use or transmit another person's Unique User Identifier or make an attempt thereof without authorisation;  | Imprisonment which may extend to four years and fine which may extend up to one million rupees or with both   |
| (vii)        | Tamper with or attempt to tamper with, alter, re-Programme any Pakistan Single Window system or System connected or Ancillary thereto for un- authorised use;   | Imprisonment which may extend to four years and fine which may extend up to one million rupees or with both and any devices or systems used in offence shall be liable to confiscation. |
| (viii)       | Write, offer, make available, distribute or transmit a malicious code or abet in the same, with intent to cause harm to Pakistan Single Window system or data resulting in or intending to result in  | Imprisonment for a term which may extend to four years and fine which may extend to five million rupees or with both.   |

## Time Limit for Provisional Assessment Section 81

Times limit for finalization of provisional assessment of duties and taxes has been proposed to be reduced to 90 days whereas the extension in time for the same is now proposed to be restricted to 30 days only, presently such time limit for making such assessment is 180 days which can be extended by the competent authority for another 90 days.

### Warehousing-Non Perishable Goods Section 98

Non-perishable goods may be warehoused upto six months, which may be extended only by the Collector of Customs and the Chief Collector of Customs on payment of surcharge @ 1 % per month. It is now proposed to empower Additional Collector of Customs to extend such period for a period not more than 1 month.

### Exemption of Customs Duty and Additional Customs Duty

Import of following of goods is proposed to be exempted from customs duty to incentivize the respective sectors:

- Machinery and capital goods for mechanization of farming including machinery pertaining to irrigation, drainage, harvesting, plant protection etc.
- Specified raw materials used for manufacturing of LED lights, LED bulbs (including parts thereof) and brush ware.
- 26 Active Pharmaceutical Ingredients for incentivizing Pharmaceutical manufacturers.
- Raw materials for manufacture of first aid bandages.
- Membranes for filtering / purifying water.

- The drug 'Grafalon' and gadget 'Irisvision'.
- Raw materials of Ivy leaves extract powders.
- Motor spirit.

Additional Customs Duty (ACD) is proposed to be exempted on import of the following goods:

- Raw materials imported by paper sizing industry and chlorinated paraffin wax industry and manufacturers of aluminum conductor composite cores.
- Stamping foils for manufacturing of optic fiber cables.
- Aluminum paste and powder imported by the Coating industry.
- Guts, bladders and stomachs of animals.

### Reduction in Customs Duty and Additional Customs Duty

Customs duty on import of following goods is proposed to be reduced:

- Specified categories of other woven fabrics and artificial flowers / foliage of other materials imported by manufacturers of footwear.
- High-density fiber (HDF) boards of wood or other ligneous materials.
- Specified fibers of polypropylene.
- Additional customs duty on import of following goods is also proposed to be reduced:
- Direct and reactive dyes.

- Glycerol crude and Glycerol for the coating industry.
- Goods pertaining to Aluminum, polymers of ethylene, Biaxially Oriented Polypropylene (BOPP) used by the packing industry.
- Adhesive, Epoxide resins, Filter media/ paper, Non-woven fabric media and Steel plates / sheets of prime quality imported by manufacturers of filters, other than automotive.
- Organic composite solvents and thinners imported by manufacturers of Dibutyl Orthophthalates.
- Plywood, veneered panels & similar laminated wood, poly (methyl methacrylate) and cyanoacrylate.
- Flavoring powders for food preparation for snacks manufacturers.

### Reduction in Regulatory Duty

Regulatory duty has been proposed to be reduced from 30% to 20% in case of “Case hardening steel and from 15% to 0% for “Chrome yellow”

### Regulatory Duty Increase

Rate for regulatory duty for the following has been proposed to increase:

- Motor spirit from 0% to 10%
- Other paper, paperboard, cellulose wadding and webs of cellulose fibers from 0% to 10%.
- High Carbon Wire rod from 0% to 30%
- Optic Fiber Cables from 10% to 20%

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