



A Brief on Tax Laws

(Second Amendment) Ordinance, 2021

Income Tax

First Year Allowance for Industrial Undertakings Withdrawn

Under the provisions of section 23A of the Income Tax Ordinance, 2001 any industrial undertaking set up in specified rural and underdeveloped areas and managed by a company is allowed first year allowance @ 90% on the cost of any plant, machinery and equipment installed by such undertaking. Tax Laws (Second Amendment) Ordinance, 2021 has withdrawn such allowance.

(Section 23A, Part II of the Third Schedule)

Tax Benefit of Straight Deduction on Donations Withdrawn

Currently donation made to organizations falling under clause 61 of the Second Schedule is eligible for straight deduction from taxable income of donor. This clause has now been omitted and the eligible organizations have been enlisted under the newly inserted Thirteenth Schedule where tax credit on donations made to such organizations would be allowed instead of straight deduction.

This tax credit shall also be available to the persons eligible for tax credit u/s 100C of the Income Tax Ordinance, 2001.

(Section 61, Clause 61 of Part-I of Second Schedule, Thirteenth Schedule)

Tax Exemption for Startups and I.T Sector Switched over to 100% Tax Credit

By virtue of the Tax Laws (Second Amendment) Ordinance, 2021, tax credit equal to one hundred percent of the tax payable including minimum taxes and final taxes payable under any of the provisions of the Income Tax Ordinance, 2001 shall be available to the following persons:

PERSONS

- A startup as defined in clause 62A of section 2 for the tax year in which the startup is certified by the Pakistan Export Board and the following two tax years
- Persons deriving income from exports of computer software or IT services or IT enabled services up to the period ending on the 30th day of June, 2025 where eighty per cent of the export proceeds is brought into Pakistan in foreign exchange remitted from outside Pakistan through normal banking channels
- Persons engaged in coal mining projects in Sindh supplying coal exclusively to power generation projects

CONDITIONS

- Return has been filed
- Tax required to be deducted or collected has been deducted or collected and paid
- Withholding tax statements for the immediately preceding tax year have been filed
- Sales tax returns for the tax periods corresponding to relevant tax year have been filed.

No such credit will preclude the applicability of the provisions of section 214C and section 177.

(Section 65F, Clause 132B, 133, 143 of Part-I, Second Schedule)

Tax Holiday for Greenfield Industrial Undertaking and Renewable Energy Projects Withdrawn

The Tax Laws (Second Amendment) Ordinance, 2021 has withdrawn the tax holiday available to the Greenfield Industrial Undertaking and Renewable Energy Projects under the second schedule of the Income Tax Ordinance, 2001.

However, it has allowed **25% tax credit** of the eligible investments made by eligible persons against the tax payable under the Income Tax Ordinance, 2001 including minimum and final taxes. Any such tax credit not fully adjusted during the year of investment shall be carried forward up to two tax years.

- **Eligible Investment**

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

- **Eligible Person**

● ● ● Greenfield Industrial

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

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

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

● ● ● Other Industrial Undertaking

Industrial undertaking set up by the 30th day of June 2023 and engaged in the manufacture of plant, machinery, equipment and items with dedicated use (no multiple uses) for generation of renewable energy from sources like solar and wind, for a period of five years beginning from the date such industrial undertaking is set up.

(Section 65G, Clause 126I, 126O of Part-I, Second Schedule)

100% Tax Credit for Charitable Organizations and NPO's Rationalized

<i>Persons Eligible to Claim Tax Credit</i>	<i>Income Eligible for Tax Credit</i>	<i>Conditions to Claim Tax Credit</i>
<ul style="list-style-type: none"> ▶ Persons specified in Table II of Clause 66 of Part I of the Second Schedule of Income Tax Ordinance, 2001 ▶ A trust administrated under a scheme approved by Federal Government and established in Pakistan exclusively for the purposes of carrying out such activities as are for the welfare of ex-employees and serving personnel of Federal Government or a Provincial Government or Armed Forces including civilian employees of armed forces and their dependents where the said trust is administered by a committee nominated by the Federal Government or Provincial Government ▶ A trust ▶ A welfare institution registered with Provincial or Islamabad Capital Territory social welfare department ▶ A Not for Profit Company registered with SECP under section 42 of Companies Act, 2017 ▶ A welfare society registered with Provincial or Islamabad Capital Territory laws related to registration of Cooperative Societies ▶ A <i>Waqf</i> registered under Mussalman Waqf Validating Act, 1913 or any other law for the time being in force or in the instrument relating to the trust or the institution ▶ A university or education institution being run by NPO existing solely for education purposes and not for the purposes of profit ▶ A religious or charitable institution for the benefit of public registered under any law for the time being in force ▶ International Non-Governmental Organizations approved by Federal Government. 	<ul style="list-style-type: none"> ▶ Income from donations, voluntary contributions and subscriptions ▶ Income from house property ▶ Income from investments in the securities of the Federal Government ▶ Profit on Debt from Scheduled Bank and Microfinance Banks ▶ Grants received from Federal, Provincial Local or Foreign Government ▶ So much of Income chargeable under the head "Income from Business" as is expended in Pakistan for the purposes of carrying out welfare activities ▶ Any income of persons mentioned in Clause a, b and h of sub-section (2) of this section 	<ul style="list-style-type: none"> ▶ Return has been filed ▶ Tax required to be deducted or collected has been deducted or collected and paid ▶ Withholding tax statements for the relevant tax year have been filed ▶ The administrative and management expenditure does not exceed 15% of the total receipts: Provided that clause (d) shall not apply to a non-profit organization, if- <ul style="list-style-type: none"> ■ Charitable and welfare activities of the non-profit organization have commenced for the first time within last three years; or ■ Total receipts of the non-profit organization during the tax year are less than one hundred million Rupees ▶ Approval of the Commissioner has been obtained as per the requirement of clause (36) of section 2 (provided that this clause shall take effect from the first day of July 2022) ▶ None of the assets of trusts or welfare institution confers, or may confer, a private benefit to the donors or family, children or author of the trust or his descendants or the maker of the institution or to any other person ▶ Provided that where such private benefit is conferred, the amount of such benefit shall be added to the income of the donor ▶ A statement of voluntary contributions and donations received in the immediately preceding tax year which has been filed in the prescribed form and manner ▶ Notwithstanding anything contained in sub-section (1), surplus funds of non-profit organizations, trusts or welfare institutions shall be taxed at a rate of ten per cent

(Section 100C)

Penal Provisions Rationalized

The Tax Laws (Second Amendment) Ordinance, 2021 has amended following penal provisions:

Sr. No.	Description	Relevant Section of Ordinance	Current Penalty	New Penalty
1	Late/Non Filing of Income Tax Return where the Taxable Income is up to Rs. 800,000	114	0.1% of the tax payable in respect of that tax year for each day of default subject to a maximum penalty of 50% of the tax payable up to maximum of Rs. 25,000	Minimum Penalty of Rs. 5,000. Provided that the amount of penalty shall be reduced by 75%, 50% and 25% if the return is filed within one, two and three months respectively after the due date or extended due date of filing of return as prescribed under the law.
2	Late/Non Filing of Withholding Tax Statement in case it is established that no tax was required to be deducted or collected during the relevant period	115, 165, 165A and 165B	Rs.2,500 for each day of default from the due date subject to a minimum penalty of Rs. 10,000	Minimum Penalty of Rs. 10,000.
3	Penalty on the repeated erroneous calculations in the return for more than one year to the extent of the tax shortfall occurring.	137	Higher of: ▶ Rs. 30,000 ▶ 3% of Amount of Tax Involved	Higher of: ▶ Rs. 30,000 ▶ 3% of Amount of Tax Involved Provided that No penalty shall be charged as result of taxpayer taking arguable position on the application of the Ordinance to the Taxpayer's position.
4	Penalty on making false or misleading statement to Inland Revenue Authority or omission from a statement or information made to Income Tax Authority	114, 114A, 118, 116, 174, 176 and 177	Higher of: ▶ Rs. 25,000 ▶ 100% of the amount of tax shortfall	Higher of: ▶ Rs. 25,000 ▶ 50% of the amount of tax shortfall
5	Penalty on obstructing the commissioner or any officer authorized by the commissioner to the premise, place, accounts, documents etc.	175 and 177	Higher of: ▶ Rs. 50,000 ▶ 100% of the amount of tax involved	Higher of: ▶ Rs. 50,000 ▶ 50% of the amount of tax involved
6	Penalty on any person who fails to collect or deduct tax as required under any provision of this Ordinance or fails to pay the tax collected or deducted as required under section 160.	Division II or Division III of Part V of Chapter X or Chapter XII	Higher of: ▶ Rs. 40,000 ▶ 10% of the amount of tax	Higher of: ▶ Rs. 40,000 ▶ 10% of the amount of tax
7	Penalty on any person who fails to display his business license on place of business in addition to the NTN Certificate.	181C and 181D	No Penalty	Rs. 5,000

(Section 182)

Tax Exemption for Newly Established Refinery Provided

The Tax Laws (Second Amendment) Ordinance, 2021 has provided the exemption on profits and gains of newly establish refineries subject to the following conditions:

 The refinery is approved by Federal Government before December 31, 2021

 It produces at least 100,000 barrels from deep conversion refinery per day

The existing refineries can enjoy the same benefit by providing an undertaking to Federal Government in writing before December 31, 2021.

(Clause 126B, Part I, Second Schedule)

Incentives for Sub-dealers, Wholesalers and Retailers of Locally manufactured Mobile Phones

Sub-dealers, wholesalers and retailers of fast moving consumer goods, fertilizers, sugar, cement and edible oil shall pay tax at reduced rates of 0.25% subject to the condition that they are already registered or get themselves registered under Sales Tax Act, 1990. Tax Laws (Second Amendment) Ordinance, 2021 has provided the benefit of such reduced rate to the sub-dealers, wholesalers and retailers of locally manufactured mobile phones.

(Clause 24D, Part II, Second Schedule)

Extension in 50% Reduced Tax Liability on Low Cost Housing Project

The Tax Laws (Second Amendment) Ordinance, 2021 has extended the benefit of reduced tax liability on income derived from low cost housing project to the projects commencing on or before June 30, 2024.

(Clauses 9 & 9 (A), Part III Second Schedule)

A Complete List of Withdrawn Exemptions

The Tax Laws (Second Amendment) Ordinance, 2021 has withdrawn the following tax exemptions available under the Second Schedule:

Sr. No.	Clause Reference	Description
1	57(1) (iii)	Income from voluntary contributions, house property and investments in securities of Federal Government derived by Sheikh Sultan Trust, Karachi
2	64A	Donation to Prime Minister's Special Fund for Victim of Terrorism
3	64B	Donation to Chief Minister's (Punjab) Relief for Internally Displaced Persons of NWFP
4	64C	Donation to Prime Minister's Flood Relief Fund 2010 and Provincial Chief Minister's Relief Funds, for victims of flood 2010
5	65	Donations made by non-official or private sector sources in Pakistan to the Waqf for Research on Islamic History, Art and Culture, Istanbul set up by the Research Centre for Islamic History, Art and Culture (IRCICA)
6	72A	Any income derived by Sukuk holder in relation to Sukuk issued by "The Second Pakistan International Sukuk Company Limited"
7	74	Profit on debt derived by Hub Power Company Limited on or after July 01, 1991
8	90	Profit on debt payable by an industrial undertaking in Pakistan on : <ul style="list-style-type: none"> ▶ Money borrowed under loan agreement with an approved financial institution in foreign country ▶ moneys borrowed or debts incurred by person in foreign country in respect of the purchase outside Pakistan of capital plant and machinery in any case where the loan or debt is approved by the Federal Government, having regard to its terms generally and in particular to

		the terms of its payment, from so much of the tax payable in respect thereof as exceeds the tax or taxes on income paid on such interest in the foreign country
9	90A	Profit on Debt on bonds issued by Pakistan Mortgage Refinance Company for a period of five years with effect from the 1st day of July, 2018
10	91	Income of a text-book board of a Province established under any law for the time being in force
11	98	Income derived by any Board or other organization established in Pakistan for the purposes of controlling, regulating or encouraging major games and sports recognized by Government
12	99A	Profits and gains accruing to a person on sale of immovable property: <ul style="list-style-type: none"> ▶ to a REIT Scheme up to June 30, 2015 ▶ to a Developmental REIT Scheme with the object of development and construction of residential buildings and to rental REIT up to June 30, 2023
13	100	Income other than income from manufacturing or trading activity, of a Modaraba registered under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980
14	101	Profits and gains derived by a venture capital company and venture capital fund registered under Venture Capital Companies and Funds Management Rules, 2000 and a Private Equity and Venture Capital Fund from July 01,2000 to June 30, 2024
15	103	Distribution received by a taxpayer from a collective investment scheme registered by the Securities and Exchange Commission of Pakistan under the Non-Banking Finance Companies and Notified Entities Regulations, 2007, including National Investment (Unit) Trust or REIT Scheme or a Private Equity and Venture Capital Fund out of the capital gains of the said Schemes or Trust or Fund.
16	103C	Dividend income derived by a company, if the recipient of the dividend, for the tax year, is eligible for group relief under section 59B
17	104	Dividend income of the Pak-Libya Holding Company derived by the Libyan Arab Foreign Investment Company
18	105	Dividend income of the Saudi-Pak Industrial and Agricultural Investment Company Limited derived by the Government of Kingdom of Saudi Arabia
19	105A	Dividend income of the Pak-Kuwait Investment Company in Pakistan from the year of incorporation of Pak- Kuwait Investment Company derived by Kuwait Foreign Trading Contracting and Investment Company or Kuwait Investment Authority
20	110B	Gain on transfer of a capital asset, being a membership right held by a member of an existing stock exchange, for acquisition of shares and trading or clearing rights acquired by such member in new corporatized stock exchange in the course of corporatization of an existing stock exchange
21	110C	Gain by a person on transfer of a capital asset, being a bond issued by Pakistan Mortgage Refinance Company to refinance the residential housing mortgage market from July 01, 2018 to June 30, 2023
22	114	Income chargeable under the head "capital gains" derived by a person from an industrial undertaking set up in an area declared by the Federal Government to be a "Zone" within the meaning of the Export Processing Zones Authority Ordinance, 1980 (IV of 1980).
23	126BA	Profits and gains derived by a refinery set up between the 1st day of July, 2018 and the 30th day of June, 2023 with minimum 100,000 barrels per day production capacity for a period of twenty years beginning in the month in which the refinery is set up or commercial production is commenced, whichever is later. Exemption under this clause is also available to existing refineries, if: <ul style="list-style-type: none"> ▶ existing production capacity is enhanced by at least 100,000 barrels per day; ▶ the refinery maintains separate accounts for income arising from aforesaid additional production capacity; and ▶ the refinery is a deep conversion refinery.
24	126G	Profit and gains derived for a period of five years from the date of start of commercial production by the companies from specified projects that have been declared 'Pioneer Industry' by Economic Coordination Committee of the Cabinet. The Companies and projects are: <ul style="list-style-type: none"> ▶ M/s. Astro Plastics (Pvt.) Ltd. from their Biaxially Oriented Polyethylene, Terephthalate (BOPET) Project ▶ M/s. Novatex Ltd. from their Biaxially Oriented Polyethylene Terephthalate (BOPET) Project
25	126I	Profits and gains derived by a taxpayer, from an industrial undertaking set up by 31st day of December, 2016 and engaged in the manufacture of plant, machinery, equipment and items with dedicated use (no multiple uses) for generation of renewable energy from sources like solar and wind, for a period of five years beginning from first day of July, 2015. This exemption is also available to such undertaking set up between the 1st March, 2019 and the 30th June, 2023 for a period of five years beginning from the date such industrial undertaking is set up.
26	126O	Profits and gains of a company from a green field industrial undertaking for a period of five years incorporated on or after the first day of July, 2019 provided that the green field industrial undertaking is not formed by the splitting up or reconstitution of an undertaking already in

		existence or by transfer of machinery or plant from an undertaking established in Pakistan before the commencement of the new business
27	131	<p>1. Any income of company registered under the Companies Ordinance 1984 (XLVII of 1984), and having its registered office in Pakistan, as is derived by it by way of:</p> <ul style="list-style-type: none"> ▶ Royalty ▶ Commission ▶ fees <p>from a foreign enterprise in consideration for the use outside Pakistan of any patent, invention, model, design, secret process or formula or similar property right, or information concerning industrial, commercial, or scientific knowledge, experience or skill made available or provided to such enterprise by the company or in the consideration of technical services rendered outside Pakistan to such enterprise by the company under an agreement in this behalf</p> <p>2. Any Income of any other taxpayer as is derived by him, in the income year relevant to assessment year beginning with the first day of July, 1982 and any assessment year thereafter, by way of fees for technical services rendered outside Pakistan to a foreign enterprise under an agreement entered into in this behalf: - The exemption is available subject to condition that income is received in Pakistan</p>
28	132A	Profit and gains derived by Bosicor Oil Pakistan Limited for a period of seven and half years beginning from the day on which the refinery is set up or commercial production is commenced whichever is later
29	132B	Profits and gains derived by a taxpayer from a coal mining project in Sindh, supplying coal exclusively to power generation projects
30	133	Income from exports of computer software or IT services or IT enabled services up to the June 30, 2025
31	135A	Income derived by a non-resident from investment in OGDCL exchangeable bonds issued by the Federal Government
32	136	<p>Income of a special purpose vehicle as defined in the Asset Backed Securitization Rules, 1999 made under the Companies Ordinance, 1984.</p> <p>Provided that, if there is any income which accrues or arises in the accounts of the special purpose vehicle, after completion of the process of the securitization or redemption of sukuks, it shall be returned to the Originator as defined by the said rules within the income year next following the year in which the income has been determined and such income shall be taxable in the hands of the Originator.</p>
33	141	Profit and gains derived by LNG Terminal Operators and Terminal Owners for a period of five years beginning from the date when commercial operations are commenced
34	143	Profit and gains derived by a start-up as defined in clause (62A) of section 2 for the tax year in which the start-up is certified by the Pakistan Software Export Board and the following two tax years
35	146	Income which was not chargeable to tax prior to the commencement of the Constitution (Twenty-fifth Amendment) Act, 2018 of any individual domiciled or company and association of persons resident in the Tribal Areas forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan under paragraph (d) of Article 246 of the Constitution with effect from the 1st day of June 2018 to the 30th day of June, 2023.
36	148	Income derived by the Federal Government Employees Housing Authority and Naya Pakistan Housing and Development Authority for the tax year 2020 and the following four tax years

(Part I Second Schedule)

Tax Benefit of Reduced Tax Rates Withdrawn

The Tax Laws (Second Amendment) Ordinance, 2021 has omitted the following reduction in tax rates previously allowed under Part-II of Second Schedule of Income Tax Ordinance, 2001:

Sr. No.	Clause Reference	Description	Current Rate of Tax	New Rate of Tax		
1.	3	<ul style="list-style-type: none"> ▶ Income from services rendered outside Pakistan ▶ Income from construction contracts executed outside Pakistan 	<ul style="list-style-type: none"> ▶ 1.5% ▶ 3.5% in case of Company ▶ 3.75% in Other Cases 	<ul style="list-style-type: none"> ▶ 3% ▶ 7% in case of Company ▶ 7.5% in Other Cases 		
2.	3B	Income of Pakistan Cricket Board derived from sources outside Pakistan	4%	Normal Rates		
3.	5B	Capital Gains derived by a person from sale of shares or assets by a private limited company to Private Equity and Venture Capital Fund	10%	Rates u/s 37A		
4.	18	Total income of Modaraba excluding such part of total income to which Division III of Part I of the First Schedule or section 153 or section 154 applies	25%	Normal Rates		
5.	18B	Income of Company whose shares are traded on stock exchange if: <ul style="list-style-type: none"> a) It fulfills prescribed shari'ah compliant criteria approved by State Bank of Pakistan, Securities and Exchange Commission of Pakistan and Board; b) Derives income from manufacturing activities only 	27%	Normal Rates		
6.	24AA	The Rate of Income Tax in case of M/S CR-NORINCO JV (Chinese Contractor) as recipient, on payments arising out of commercial contract agreement signed with the Government of Punjab for installation of electrical and mechanical (E&M) equipment for construction of the Lahore Orange Line Metro Train Project.	6%	7%		
			Engine Capacity	Rate		
			Up to 1200 CC	100%		
			1201 CC to 1800 CC	50%		
			1801 CC to 2500 CC	25%		
7.	28A	Income Tax on Import of hybrid cars.		Rates specified in Twelfth Schedule of Income Tax Ordinance, 2001		
8.	28B	Income Tax on cash withdrawal by an exchange company, duly licensed and authorized by the State Bank of Pakistan, exclusively dedicated for its authorized business related transactions, Subject to the condition that a certificate issued by the concerned Commissioner Inland Revenue for a financial year mentioning details and particulars of its Bank Account being used entirely for business transactions is provided.	0.15%	0	If Company is in ATL	
				0.6%	If Company is not in ATL	

(Part II, Second Schedule)

Sales Tax

Newly Inserted Exemptions

The Tax Laws (Second Amendment) Ordinance, 2021 has provided period specific sales tax exemption on the following goods:

Sr. No.	Description	Respective Heading
159.	Import of auto disable Syringes till 30 th June, 2021 <ul style="list-style-type: none">▶ with needles▶ without needles	9018.3110 9018.3120
160.	Import of following raw materials for the manufacturers of auto disable syringes till 30 th June, 2021 <ul style="list-style-type: none">▶ Tubular metal needles▶ Rubber Gaskets	9018.3200 4016.9310

(Sixth Schedule)



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