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# 2020 Finance Bill Tax Commentary



# Tax Commentary 2020

An Information Guide

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## Preface

This tax commentary intends to unravel the various post budget queries forthcoming by our clients. We have attempted to apprise them with a comprehensive explanation of the implications and an upshot that this Finance Bill has brought about. The tax commentary encompasses the amendments in the Income Tax Ordinance, Sales Tax Act, Federal Excise and Customs Act. The applicable amendments in the laws after enactment are effective from July 1, 2020 unless otherwise specified.

The commentary should be read in conjunction with the applicable sections of respective Ordinances, Acts and Rules along with the text of the Finance Bill, 2020. This tax commentary aims to provide a general guideline, and thus should not be considered as a conclusive and enforceable document. Professional advice should be sought before acting on any newly introduced amendment in the Finance Bill or on our comments. We hope that this tax commentary enhances your perception of Budget 2020-2021.

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Although, the best efforts have been made to ensure accuracy of the information in this tax commentary, any errors and omissions are regretted.

Lahore

June 13, 2020

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**Contents**

Chapter _____	Page
<b>General</b>	
Budget '20-21' _____	01-04
<b>Commentary on the Finance Bill 2020</b>	
Finance Bill Highlights _____	05-08
<b>Income Tax</b>	
Ordinance, 2001 _____	09-26
Schedules	
First _____	27-28
Second _____	29-36
Seventh _____	37
Eleventh _____	37-41
<b>Sales Tax</b>	
Act, 1990 _____	42-45
Schedules	
Fifth _____	45
Sixth _____	45-46
Eighth _____	46
Eleventh _____	47
Twelfth _____	47
<b>Federal Excise</b>	
Act, 2005 _____	48-49
Schedules	
First _____	50
<b>Customs</b>	
Act, 1969 _____	51-54
Schedules	
First _____	55-57
Fifth _____	58-59

## Budget, 2020-2021

Budget, 2020-2021

### Salient Features of the Budget 2020-2021

The salient features of the budget 2020-2021 are as follows:

- Total outlay of budget 2020-21 is Rs 7,294.9 billion. This size is 11 percent lower than the size of budget estimates 2019-20.
- The resource availability during 2020-21 has been estimated at Rs 6,314.9 billion against Rs 4,917.2 billion in the budget estimates of 2019-20.
- The net revenue receipts for 2020-21 have been estimated at Rs 3,699.5 billion indicating an increase of 6.7 percent over the budget estimates of 2019-20.
- The provincial share in federal taxes is estimated at Rs 2,873.7 billion during 2020-21, which is 11 percent lower than the budget estimates for 2019-20.
- The net capital receipts for 2020-21 have been estimated at Rs 1,463.2 billion against the budget estimates of Rs 831.7 billion in 2019-20 reflecting an increase of 75.93 percent.
- The external receipts in 2020-21 are estimated at Rs 2,222.9 billion. This shows a decrease of 26.7% over the budget estimates for 2019-20.
- The overall expenditure during 2020-21 has been estimated at Rs 7,294.9 billion, out of which the current expenditure is Rs 6,345 billion.
- The expenditure on General Public Services is estimated at Rs 5,607.0 billion, which is 76.9 percent of the current expenditure.
- The development expenditure outside PSDP has been estimated at Rs 70.0 billion in the budget 2020-21.
- The size of Public Sector Development Program (PSDP) for 2020-21 is Rs 1,324 billion. Out of this, Rs 676 billion has been allocated to provinces.
- Federal PSDP has been estimated at Rs 650 billion, out of which Rs 418.7 billion for Federal Ministries/ Divisions, Rs 100.4 billion for Corporations, Rs 3 billion for Earthquake Reconstruction and Rehabilitation Authority (ERRA), and 7 billion for COVID responsive and other natural calamities program.



**Comparative Budgetary Position 2020-2021 & 2019-2020**
**Receipts**

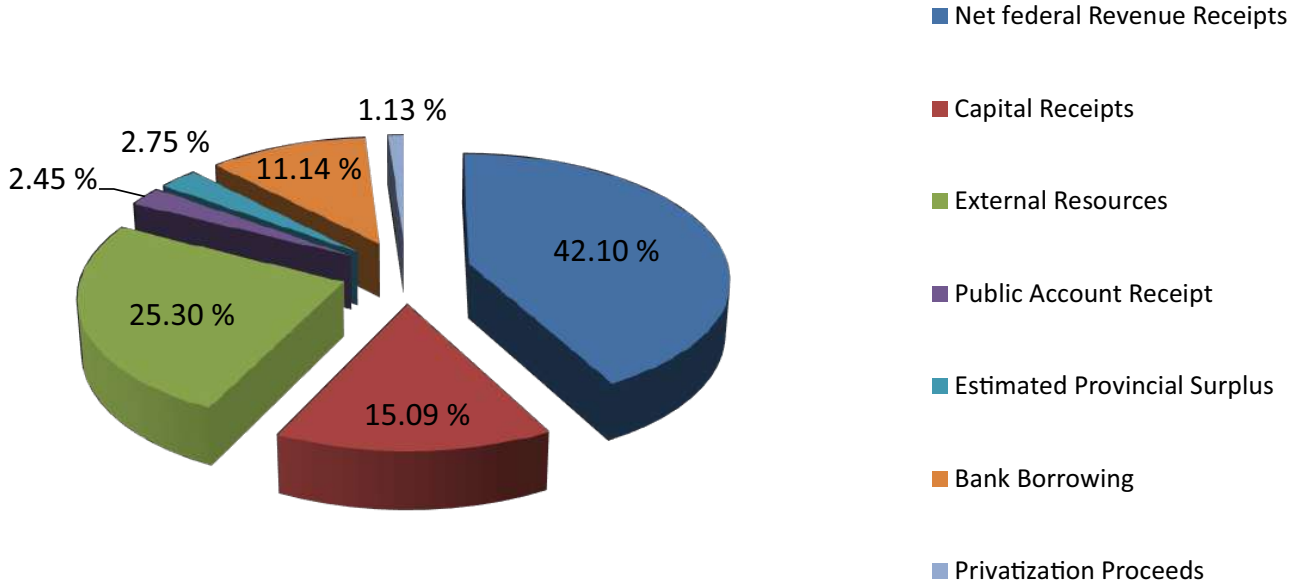
	2020-21 <i>(Rs. In Billions)</i>	2019-20 <i>(Rs. In Billions)</i>
Tax Revenue	4,963.00	5,555.00
Other Taxes	501.30	267.16
Non Tax Revenue	1,108.92	894.46
Gross Revenue Receipts	6,573.22	6,716.62
Less: Provincial Share in Taxes	<u>(2,873.7)</u>	<u>(3,254.5)</u>
Net Federal Revenue Receipts (A)	3,699.52	3,462.12
Capital Receipts (B)	1326.05	766.19
External Resources (C)	2,222.91	3,032.32
Public Accounts Receipts (D)	215.61	250.75
Estimated Provincial Surplus (E)	242.47	422.99
Bank Borrowings (F)	979.38	338.99
Privatization Proceeds (G)	100	150
<b>Total Resources (A+B+C+D+E+F+G)</b>	<u><u>8,785.94</u></u>	<u><u>8,423.36</u></u>

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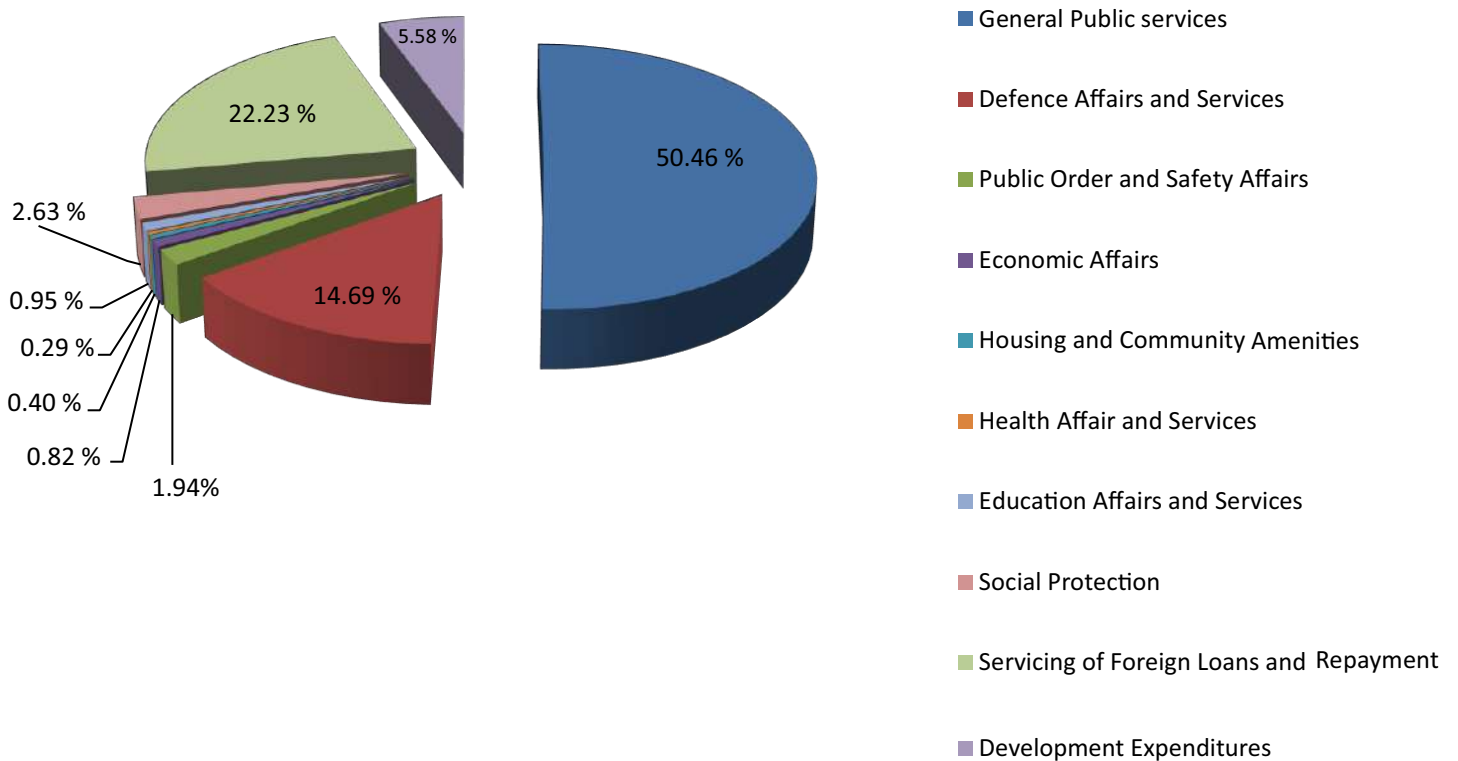
**Budget, 2020-2021**
**Expenditures**

	<b>2020-2021</b>	<b>2019-2020</b>
	<b>(Rs. In Billions)</b>	<b>(Rs. In Billions)</b>
General Public Services	4,428.64	5,607.04
Defense Affairs and Services	1,289.13	1,152.53
Public Order and Safety Affairs	169.92	152.91
Economic Affairs	71.75	84.16
Environment Protection	0.43	0.47
Housing and Community Amenities	35.68	2.29
Health Affairs and Services	25.49	11.05
Recreation, Culture and Religion	9.82	9.83
Education Affairs and Services	83.36	77.26
Social Protection	230.90	190.59
Current Expenditures	6,345.12	7,288.09
Servicing of Foreign Loans and Repayment	1,951.21	675.25
Current Expenditure on Revenue Account & Capital Account (A)	8,296.33	7,963.34
Development Expenditures (B)	489.61	460.01
Total Expenditures (A+B)	8,785.94	8,423.36

### Breakup of Receipts



### Breakup of Expenditures



Commentary

Finance Bill Tax Commentary, 2020

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## Finance Bill 2020 Highlights

### Finance Bill Highlights

#### Income Tax Highlights

- Industrial undertaking status to be granted to a person involved in the construction business
- Welfare of the general public mandated for qualification for an NPO approval
- Capping for collection and administration expenses has been reduced from 6% to 2% under the head Income from property
- Every AOP and individual deriving income from property has the option to be taxed under the normal tax regime
- Upper limit for permissible cash expenses has been increased from Rs. 50,000 to Rs. 250,000 under a single account head and Rs. 10,000 to Rs. 25,000 for a single transaction
- Threshold for payment of salary in cash enhanced from Rs. 15,000 to Rs. 25,000
- Expenditure attributable to sales made to unregistered person is disallowed upto 20% of the total deductions of a person
- 50% depreciation expense will be allowed in the year of purchase and sale
- Restricted cost of passenger transport vehicle not plying for hire to the extent of Rs. 2,500,000 for claim of lease rental
- Restricted tax credit on the donations given to an associate by a donor; 15% in the case of an individual or AOP and 10% in case of company
- Tax credit to be provided to a company that opts for enlistment upto June 30, 2022
- The NPO is required to file a statement of voluntary contributions and donations to claim a 100% tax credit
- Fixed tax regime is proposed for builders and developers
- Builders and developers to be exempted from the probe into the source subject to meeting certain conditions
- Deduction for foreign profit on debt claimed by a foreign - controlled resident company shall be disallowed upto 15%
- Unexplained receipts from suppressing production or sales shall be chargeable under income from business instead of income from other sources
- Permanent establishment of a non-resident company is required to comply with the minimum tax regime
- A person falling under the final tax regime is required to file regular form of return under Section 114
- The taxpayer's profile is required to be filed with the complete particulars
- Wealth statement will be revised subject to the approval of the Commissioner and within 5 years
- Rectification of order-in-original for apparent mistakes in income tax return rationalized
- The agreed assessment mechanism through arbitration by assessment oversight committee devised
- Enhancement of appeal fee against assessment order before CIR from PKR 1,000 to PKR 5,000 in case of appellant company and PKR 1,000 to PKR 2,500 in other cases
- Enhancement of appeal fee against any other order before CIR from PKR 1,000 to PKR 5,000 in case of appellant company and PKR 200 to PKR 1,000 in other cases
- The appellant to be required to pay conditional ten percent of the amount upheld by CIR Appeals before filing an appeal before ATIR

**Income Tax Highlights**

- Enhancement of appeal fee against assessment order before ATIR from PKR 2,000 to PKR 5,000 in case of appellant company and PKR 2,000 to PKR 2,500 in other cases
- Alternate dispute resolution mechanism proposed to be strengthened
- Goods specific criterion for advance tax on imports prescribed
- Definition of 'value of goods' rationalized by categorizing it with respect to retail price under the Third Schedule to the Sales Tax Act, 1990 and otherwise
- Withholding tax on payments to nonresidents rationalized by bringing it at par with the residents
- Withholding tax on toll manufacturing payments rationalized
- Enhancement of threshold for 'Prescribed Person' for withholding tax on supplies, services and contracts from PKR 50 million to PKR 100 million
- Abolition of withholding tax on payment of royalty to residents
- Quarterly filing of withholding tax statements proposed
- Refunds processing procedures revamped
- Powers conferred to the Commissioner to conduct electronic audit
- Penalty for non-compliance of updated taxpayer's profile prescribed
- Collection of advance tax by educational institutions relieved for the persons appearing on the ATL

**Sales Tax Highlights**

- Filing of quarterly withholding tax statements mandated for maintaining active sales tax status Intact
- Concept of 'value of supply' broadened in case of purchase of used vehicles by a registered person from general public
- The Board empowered to impose restrictions on wastage of material on which input tax has been claimed
- Input tax on services also to be proportionately disallowed along with goods where CNIC/NTN of purchaser is not obtained
- Empowerment of Commissioner or Officer Inland Revenue to disregard subjudice matters while disposing off pending assessments
- The minimum threshold of supplies by retailers for obtaining CNIC of the buyers proposed to be increased from PKR 50,000 to PKR 100,000
- Concept of electronic sales tax audit introduced
- Penalty for non-integration of business with the Board revised from six to two months
- Restriction on production of evidence in appeal in case of non - production of such evidence before the Officer of Inland Revenue
- Alternate dispute resolution mechanism devised and strengthened
- The Board empowered to have real time access to information and databases kept by various authorities
- Inadmissibility of input tax extended from registered manufacturers to all registered persons whose taxable supplies to unregistered persons exceeds the defined threshold
- Scope of zero-rating facility, exemptions and reduced rate on specified items enhanced
- Exclusion of raw materials and intermediary goods imported by a manufacturer for in-house consumption from the levy of VAT @3%



**FED Highlights**

- FBR empowered to impose restriction on wastage of material on which Input tax has been claimed in respect of goods or class of goods
- Powers prescribed to seize the counterfeited cigarettes or beverages which have been manufactured or produced unlawfully
- The CIR (Appeals) will not admit any document or material evidence which was not provided earlier before the officer without any plausible reason
- NADRA, FIA, provincial excise and taxation departments, utility companies, etc. are now required to provide information to the FBR on real-time basis
- FED at the rate of 25% of the retail price of caffeinated and energy drinks prescribed
- FED on cement reduced from Rs. 2 per kg to Rs. 1.75 per kg
- FED on cigars, cheroots and cigarettes increased from 65% to 100%
- FED at the rate Rs. 10/ml on E-liquid by whatsoever name called for electronic cigarette kits prescribed
- FED on imported and locally manufactured Double cabin 4x4 pickup vehicle at 25% ad val and 7.5% ad val respectively prescribed

**Customs Duty Highlights**

- Definition and mechanism of advance ruling prescribed
- Smuggling has been defined and the cases relating to offence involving smuggling will be finalized within 30 days
- Officers of Customs can now seek assistance from the Border Military Police also
- Goods imported into, or attempted to be exported out of, Pakistan in violation of the provisions of the law can be detained upto 15 days.
- Penal proceedings would be initiated for fraud, even having no revenue implication
- Opportunity of hearing shall be provided before reassessment of goods declaration

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## Income Tax Ordinance, 2001

Income Tax Ordinance, 2001

### *Industrial Undertaking Status to Construction Sector*

**Section 2(29C)**

By virtue of Finance Bill, 2020, the status of 'Industrial Undertaking' has been granted to a person with effect from May 01, 2020 who is directly involved in the construction of buildings, roads, bridges and other such structures or the development of land, to the extent and for the purpose of import of plant and machinery to be utilized in such activity, subject to such conditions as may be notified by the Board.

### *Newly Inserted Definitions*

**Section 2(30A, 30AC, 31A)**

The Finance Bill has proposed to define certain terms as per the followings:

**Integrated Enterprise** means a person integrated with the Board through approved fiscal electronic device and software and who fulfills obligations and requirements for integration as may be prescribed.

**IRIS means** a web based computer programme for operation and management of Inland Revenue taxes administered by the Board.

**Local Government** shall have the same meaning for respective provisions and Islamabad Capital Territory as contained in the Balochistan Local Government Act, 2010 (V of 2010), the Khyber Pakhtunkhwa Local Government Act, 2013 (XXVIII of 2013), the Sindh Local Government Act, 2013 (XLII of 2013), the Islamabad Capital Territory Local Government Act, 2015 (X of 2015) and the Punjab Local Government Act, 2019 (XIII of 2019)

### *Welfare of the General Public Mandated for NPO Approval*

**Section 2(36)**

Currently, NPO working for the welfare and development purposes is eligible to get the NPO approval from the Commissioner, Inland Revenue under Section 2(36). The Bill proposes to make stringent approval criteria and therefore NPO who are specifically working for the welfare purposes for the general public are eligible to qualify to get the NPO approval from the Commissioner, Inland Revenue.

### *Special Taxation Scheme for Shipping Business Extended to a Resident Person*

**Section 7A**

The Bill proposes to extend the special taxation scheme to a Pakistan resident ship owning company registered with the Securities and Exchange Commission of Pakistan after the 15th day of November, 2019 and having its own sea worthy vessel registered under Pakistan Flag are required to pay tonnage tax of an amount equivalent to seventy five US Cents per ton of gross registered tonnage per annum. Furthermore, the terminating date of the special taxation scheme has proposed to be extended upto June 30, 2023.

### *Collection Charges Threshold for Rental Income Curtailed*

**Section 15A (1)**

By virtue of Finance Bill 2020, threshold on allowable collection and administration expenses has been reduced from 6% to 2% of the rent chargeable while computing the income under the head Income from Property.

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*Income Tax Ordinance, 2001*
***Condition for Opting to be Taxed under Normal Tax Regime Abolished***
***Section 15A (7)***

Currently, AOPs and individuals deriving income under the head 'Income from Property' have been given the option to be taxed under the normal tax regime and claim the allowable deductions subject to the condition that the income from the property must be exceeding Rs. 4 million.

By virtue of Finance Bill 2020, the condition that the income from the property shall be exceeding Rs. 4 million has proposed to be abolished and therefore every AOP and individual have been given the option to be taxed under the normal tax regime and to claim the allowable deductions.

***Threshold for Allowable Deductions under the Head Income from Business Rationalized***
***Section 21***

The Bill proposes to amend the threshold for allowable deductions under the head 'Income from Business' as per the followings:

<b>Description</b>	<b>Existing Allowable Deduction</b>	<b>Proposed Allowable Deduction</b>
Expenses paid in cash under a single account head	Rs. 50,000	Rs. 250,000
Expenses paid in cash for a single transaction	Rs. 10,000	Rs. 25,000
Salary expenses paid in cash	Rs. 15,000	Rs. 25,000
Expenditure on account of Utility Bills	No restriction	The Board is empowered to prescribe the limits and conditions.

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*Income Tax Ordinance, 2001****Expenditure Attributable to Unregistered Sales******Section 21 (q)***

It is proposed to disallow the expenditures against the business income which are attributable to sales made to persons required to be registered but not registered under the Sales Tax Act, 1990 by an industrial undertaking computed according to the following formula, namely:

**(A/B) x C**

**A** is the total amount of deductions claimed under this Part;

**B** is the turnover for the tax year; and

**C** is the total amount of sales, exclusive of sales tax and federal excise duty to persons required to be registered but not registered under the Sales Tax Act, 1990 where sales equal or exceed rupees one hundred million per person.

However the disallowance of expenditure under this clause shall not exceed 20% of total deductions of a person.

Further, the Board may, by notification in the official Gazette, exempt persons or classes of persons from this clause on the basis of hardship.

***Reduction in Allowable Depreciation Expense******Section 22***

By virtue of the Finance Bill 2020, where a depreciable asset is used in the person's business for the first time in a tax year commencing from July 01, 2020, the depreciation deduction shall be reduced by 50%. However, an allowable deduction of 50% depreciation is proposed in the tax year when the depreciable asset is disposed-off.

***Threshold to Claim Deduction on Account of Lease Rentals Restricted******Section 28***

The Bill proposes to restrict the cost of passenger transport vehicle not plying for hire to the extent of Rs. 2,500,000 for claim of lease rental to be an allowable deduction against the business income. Such a restriction on the vehicle value for claiming depreciation is already in place. The proposal seeks to extend such restriction on the value of leased vehicles to claim the lease rentals as a permissible deduction.

***Holding Period for Taxable Gain on Immovable Property Reduced***

***Section 37***

By virtue of the Finance Bill 2020, gain arising on disposal of an immovable property is proposed to be computed as per the following holding period:

Sr. No.	Description	Taxable Gain
1.	Where the holding period of an immovable property does not exceed one year	*A
2.	Where the holding period of an immovable property exceeds one year but does not exceed two years	*A x 3/4
3.	Where the holding period of an immovable property exceeds two years but does not exceed three years	*A x 1/2
4.	Where the holding period of an immovable property exceeds three years but does not exceed four years	*A x 1/4
5.	Where the holding period of an immovable property exceeds four years	0

\* A is the amount of gain

***Tax Credit for Donation to Associate Restricted***

***Section 61***

The Finance Bill 2020 proposes to restrict the amount of donation for the purposes of the tax credit for donation to associate where the donor is:

- An individual or association of persons, restricted upto 15% of the taxable income of the person for the year
- A company, restricted upto 10% of the taxable income of the person for the year

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*Income Tax Ordinance, 2001****Timescale for Enlistment Tax Credit Prescribed******Section 65C***

By virtue of the Finance Bill 2020, the entitlement to the tax credit for a company that opts for enlistment on any stock exchange of Pakistan has been proposed to be restricted upto June 30, 2022.

***Donors Statement Mandated for NPOs for Claiming 100% Tax Credit******Section 100C (1)***

The Bill proposes to make it obligatory for a Non-Profit Organization to file a statement of voluntary contributions and donations received in the immediately preceding tax year, which has been required to be filed in the prescribed form and manner in order to claim a 100% tax credit against the tax liability.

***Funds from an Associate Restrained to be Kept as Restricted Funds******Section 100C (1B)***

Restricted funds have been described as any fund received by an NPO, but could not be spent and treated as revenue during the year due to any obligation placed by the donor. The Bill proposes to restrain an associate as a donor for placing such obligation on the fund.

***Special Tax Incentive Package for Construction Sector******Section 100D***

The Finance Bill 2020, proposes to reinforce the amendments made by virtue of the Tax Laws (Amendment) Ordinance, 2020 as per the proposed provisions:

***Fixed Tax Regime for Builders & Developers***

Applicability:

- Builders and developers have an option to be taxed on 'Fixed Tax Regime' as per 11th Schedule with effect from tax year 2020
- Tax shall be payable on project to project basis on the income, profits and gains derived from the sale of buildings or sale of plots from:
  - A new project to be completed by the 30th day of September, 2022
  - An incomplete existing project to be completed by the 30th day of September
- Any income, profits and gains of a builder or developer of an incomplete existing project earned up to tax year 2019 shall be subject to the provisions of the Ordinance as being in force prior to the commencement of the Tax Laws (Amendment) Ordinance, 2020
- Any income of a builder or developer other than income, profits and gains shall be subject to tax

**Exclusions**

- No deduction shall be allowed for any expenditure incurred in deriving the income
- The income shall not be reduced by any deductible allowance or set off of any loss
- No tax credit shall be allowed except credit for tax under Section 236K collected from the builder and developer on purchase of immovable property utilized in the project
- There shall be no refund of any tax collected or deducted
- If the tax has not been paid or short paid, the amount shall be recovered
- Minimum Tax under Section 113 and Alternative Corporate Tax under Section 113C shall not be applied on the turnover, income, profits and gains of a builder or developer for a project

**Protection from Probe into Source for Builders and Developers**

Builders and developers are exempt from the probe into the source as per the provisions of Section 111 on capital investment made in a new project in the form of money or land subject to the following conditions:

**A. Investment by an Individual**

- **Cash Investment** - money is deposited in a new bank account on or before December 31st, 2020
- **Investment of Land** - individual to have ownership title of the land at the time of promulgation of this amendment

**B. Investment through a Company / AOP**

- Company or AOP shall be a single object entity registered under the Companies Act, 2017 or the Partnership Act, 1932 by December 31, 2020
- The person shall be a member or shareholder of such AOP or company
- Capital investment in the form of money shall be invested through a crossed banking instrument deposited in the bank account of such AOP or company by December 31, 2020
- Capital investment in the form of land shall be transferred to such AOP or company by December 31, 2020 and the person shall have the ownership title of the land at the time of promulgation of this amendment.



### ***Valuation of Building under the Scheme***

The value or price of land or building shall be higher of:

- a) 130% of the fair market value as determined by the Board; or
- b) At the option of the person making investment, the lower of the values as determined by at least two independent valuers from the list of valuers approved by the State Bank of Pakistan.

### ***Valuation of Building under the Scheme***

- I. Holder of public office as defined in the Voluntary Declaration of Domestic Assets Act, 2018 or his benamidar.
- ii. Public listed company, real estate investment trust (REIT) or company whose income is exempt .
- iii. The proceeds derived from the commission of a criminal offence, including the crimes of money laundering, extortion or terror financing but excluding the offence of the Ordinance.

### ***Exempt Dividend Income***

Dividend income paid to a person by a builder or developer being a company out of the profits and gains derived from the project shall be exempt from tax.

### ***Consequences for Noncompliance***

Filing a return or declaration based on misrepresentation or suppression of facts, such return or declaration shall be void and all the provisions of the Ordinance shall apply.

No action shall be taken if such misrepresentation has been made on account of a bona fide mistake.

No action shall be taken without providing opportunity of being heard and without prior approval of the board.

### ***Key Definitions***

- a) “builder” means a person who is registered as a builder with the Board and is engaged in the construction and disposal of residential or commercial buildings;
- b) “capital investment” means investment as equity resources and does not include borrowed funds;
- c) “developer” means a person who is registered as a developer with the Board and is engaged in the development of land in the form of plots of any kind either for itself or otherwise;
- d) “existing project” means a construction or development project, which –
  - i. Has commenced before the date of commencement of the Tax Laws (Amendment) Ordinance, 2020;
  - ii. Is incomplete;
  - iii. Is completed on or before the 30th day of September, 2022; and
  - iv. A declaration is provided in the registration form under Eleventh Schedule to the effect of percentage of the project completed up to the last day of the accounting period pertaining to tax year 2019;

***iii. Investment made on account of 1st Purchaser***

- Protection from the probe into source shall be available for the first purchase or a unit of the building purchased from the builder in respect of the purchase price of the building.
- A purchase is made from the new project - full payment shall be made through a crossed banking instrument to the builder during a period starting from the date of registration with the board and ending on September 30, 2020.
- A purchase is made from an existing incomplete project - full or balance payment shall be made through a crossed banking instrument to the builder during a period starting from the date of registration with the board and ending on September 30, 2022

***iv. The Investment made by the Purchaser of Plot for the purpose of Construction***

- The purchase is made by December 31, 2020
- The full payment shall be made by December 31, 2020 through a crossed banking instrument
- Construction of such plot is commenced by December 31, 2020 and completed by September 30, 2022
- The person registers himself with the board on the online IRIS portal

***Certification for availing the Protection from Probe into Source***

The following conditions must be mandatory for availing the protection of a probe into the source:

- A person making investment shall submit a prescribed form on IRIS portal
- The money or land invested shall be utilized in a project
- Completion of the project shall be certified as per followings:
  - Builders
    - The map approving authority or NESPAK shall certify that grey structure as per the approved map has been completed by September 30, 2022
  - Developers
    - The map approving authority or NESPAK shall certify that landscaping has been completed by September 30, 2022
    - A firm of chartered accountant having an ICAP QCR rating of 'satisfactory' shall certify that at least 50% of the plots have been booked for sale and at least 40% of the sale proceeds have been received by September 30, 2022
    - At least 50% of the roads have been laid up to sub - grade level as certified by the approving authority or NESPAK.

**Key Terms**

“Foreign-controlled resident company” means a resident company in which fifty per cent or more of the underlying ownership of the company is held by a non-resident person either alone or together with an associate or associates;

“Foreign profit on debt” means interest paid or payable to a non-resident person or an associate of the foreign-controlled resident company and includes-

- (i) interest on all forms of debt;
- (ii) payments made which are economically equivalent to interest;
- (iii) expenses incurred in connection with the raising of finance;
- (iv) payments under profit participating loans;
- (v) imputed interest on instruments such as convertible bonds and zero coupon bonds;
- (vi) amounts under alternative financing arrangements such as islamic finance;
- (vii) the finance cost element of finance lease payments;

**Form of Return for Final Tax Regime Rationalized****Section 114**

A person whose income for the year is subject to final taxation are proposed to file the regular return form under Section 114 who was earlier filing the separate form of return under Section 115.

However, the board is empowered to prescribe different returns for different person, including person subject to final tax.

**Taxpayer's Profile Mandated****Section 114A****Applicability**

By virtue of the Finance Bill 2020, following persons are required to furnish a taxpayer's profile:

- (a) every person applying for registration under section 181;
- (b) every person deriving income chargeable to tax under the head, “income from business”;
- (c) every person whose income is subject to final taxation;
- (d) any non-profit organization;
- (e) any trust or welfare institution; or
- (f) any other person prescribed by the Board.

### **Key Definitions**

- e) “first purchaser” means a person who purchases a building or a unit, as the case may be, directly from the builder and does not include a subsequent or a substituted purchaser;
- f) “new project” means a construction or development project, which –
  - i. Is commenced during the period starting from the date of commencement of the Tax Laws (Amendment) Ordinance, 2020 and ending on the 31st day of December, 2020; and
  - ii. Is completed on or before the 30th day of September, 2022;
- g) “project” means a project for construction of a building with the object of disposal, or a project for development of land into plots with the object of disposal or otherwise;
- h) “registered with the Board” means registered after submission of form on project-by-project basis on the online IRIS web portal;

### **Deduction of Profit on Debt to Associated Enterprise Restricted**

### **Section 106A**

The Finance Bill 2020 proposes to insert a new section wherein a part of deduction for foreign profit on debt claimed by a foreign-controlled resident company (other than an insurance company, or a banking company) during a tax year, shall be disallowed according to the following formula, namely:–

$$[B] - [(A + B) \times 0.15]$$

**A** is the taxable income before depreciation and amortization; and

**B** is the foreign profit on debt claimed as deduction.

### **Carried Forward Deduction**

In case of computing the taxable income for a tax year, full effect cannot be given to a deduction for foreign profit on debt, the excessive amount shall be added to the amount of foreign profit on debt for the following tax year and shall be treated to be part of that deduction, or if there is no such deduction for that tax year, be treated to be the deduction for that tax year and so on for 3 tax years.

### **Timeframe**

The restriction will apply in respect of foreign profit on debt accrued with effect from the first day of July, 2020, even if debts were contracted before the first day of July, 2020.

### **Exclusions**

The restriction will not be applicable to a foreign-controlled resident company if the total foreign profit on debt claimed as deduction is less than Rs. 10 million for a tax year.

***Taxpayer's Profile Format***

A taxpayer's profile:

- (a) shall be in the prescribed form and shall be accompanied by such annexures, statements or documents as may be prescribed;
- (b) shall fully state, in the specified form and manner, the relevant particulars of—
  - (i) bank accounts;
  - (ii) utility connections;
  - (iii) business premises including all manufacturing, storage or retail outlets operated or leased by the taxpayer;
  - (iv) types of businesses; and
  - (v) such other information as may be prescribed;
- (c) shall be signed by the person being an individual, or the person's representative where section 172 applies; and
- (d) shall be filed electronically on the web as prescribed by the Board.

***Timelines***

A taxpayer's profile shall be furnished:

- (a) on or before the 31st day of December, 2020 in case of a person registered under section 181 before the 30th day of September, 2020; and
- (b) within 90 days registration in case of a person not registered under section 181 before the 30th day of September, 2020.

A taxpayer's profile shall be updated within 90 days of a change in any of the relevant particulars of the information.

***Revision of Wealth Statement with the Approval of Commissioner******Section 116***

The Finance Bill 2020 has proposed that the revision of the wealth statement shall only be made with the prior approval of the Commissioner Inland Revenue. The Commissioner shall grant approval in case of a bona fide omission or wrong statement. Further the wealth statement cannot be revised after the expiry of 5 years from the due date of filing of return of income for that tax year.

***Rectification of Order-in-Original for Apparent Mistakes Rationalized******Section 120(2A)***

The Finance Bill seeks to revise the procedure for processing of income tax returns through the automated system to arrive at correct amounts of:

- total income,
- taxable income and
- tax payable

by making adjustments for any arithmetical error, incorrect claim, disallowance of any loss, deductible allowance, tax credit or any carry forward of any loss.

However, in case any adjustment in any instance is required as envisaged above, the taxpayer would be provided an opportunity of being heard. The intimation for such a proposed adjustment would be made to the taxpayer through a system generated notice. Due consideration would be given to the response received by the taxpayer within 30 days.

The proposed subsection also time bounds the revenue authorities to make any such adjustments within six months of the filing of the return. Otherwise, the amounts declared by the taxpayer shall be considered adjusted amounts on the return filing day and the taxpayer shall be intimated automatically through IRIS.

***Agreed Assessment through Arbitration by Assessment Oversight Committee******Section 122D***

The Finance Bill seeks to insert a new Section 122D to prescribe a mechanism for an agreed assessment in certain cases.

Where a taxpayer intends to settle his case upon a notice of amendment of the assessment, he may file an offer of settlement before the assessment oversight committee. Such Committee may call for the records of the case. The Committee may also decide to accept or modify the offer through consensus and communicate its decision to the taxpayer.

If a taxpayer is satisfied with the decision of the Committee, the taxpayer shall deposit the amount of tax payable and the Commissioner shall amend assessment in accordance with the decision of the Committee upon payment of tax due. Most importantly, the taxpayer shall waive the right to appeal against such amended assessment and no further proceedings shall be undertaken for the issues decided by the Committee.

*Income Tax Ordinance, 2001*

Where a consensus could not be reached or the taxpayer is not satisfied with the decision of the Committee, the case shall be referred back to the Commissioner for a decision on the basis of reply of the taxpayer.

The Committee shall consist of:

- the Chief Commissioner, Inland Revenue
- the Commissioner, Inland Revenue; and
- the Additional Commissioner, Inland Revenue.

The provisions of this Section would not be applicable in cases involving concealment of income or where interpretation of question of law is involved.

***Enhancement of Appeal Fee before CIR Appeals***

***Section 127***

The Finance Bill proposes to enhance fee for lodging appeal against the following types of orders:

Category	Existing Fee (PKR)	Proposed Fee (PKR)
<b>Fee for Lodging Appeal against Assessment Order</b>		
Company	1,000	5,000
Individual and AOP	1,000	2,500
<b>Fee for Preferring Appeal against Other Than Assessment Orders</b>		
Company	1,000	5,000
Individual and AOP	200	1,000

***Appeal to the Appellate Tribunal***

***Section 131***

CIR Appeals would be required to specify the amount upheld in his order before serving it to the taxpayer or Commissioner. The taxpayer would be required to pay ten percent of the amount upheld by CIR Appeals before filing appeal before ATIR. This may lead to undue hardships for the taxpayer in a way that the order of CIR Appeals may entail exorbitant tax demand and it may be difficult for the taxpayer to meet this condition for filing appeal before ATIR.

Moreover, appeal fee has also been proposed to be enhanced as per the following table:

Category	Existing Fee (PKR)	Proposed Fee (PKR)
<b>Fee for Lodging Appeal against Assessment Order</b>		
Company	2,000	5,000
Individual and AOP	2,000	2,500

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*Income Tax Ordinance, 2001****Alternate Dispute Resolution Mechanism Strengthened******Section 134A***

An aggrieved person in connection with any dispute pending before a court of law or an appellate authority relating to:

- the liability of tax against the aggrieved person
- admissibility of refunds
- the extent of waiver of default surcharge and penalty; or
- any other specific relief required to resolve the dispute

may apply to the Board for the appointment of a committee for the resolution of any dispute. The Board may appoint a committee, within sixty days of receipt of such application.

The Committee would consist of Chief Commissioner, Inland Revenue and two persons from a panel notified by the Board comprising of chartered accountants, cost and management accountants, advocates, having a minimum of ten years' experience in the field of taxation and reputable businessmen.

The Board shall communicate the order of appointment of the committee to the court of law or the appellate authority where the dispute is pending and the Commissioner.

The Committee appointed shall examine the issue and conduct inquiry or audit, seek expert opinion shall decide the dispute within 125 days of its appointment.

The Committee may stay the recovery of tax payable in respect of dispute pending before it for the earlier of 120 days or till the decision of the committee.

The decision of the committee shall be binding on the Commissioner only if the aggrieved person withdraws the appeal pending before the court of law and has communicated the order of withdrawal to the Commissioner.

If the Committee fails to decide within the period of 120 days, the Board shall dissolve the committee and the matter shall be decided by the court of law or the appellate authority where it is pending.



***Goods Specific Criterion for Advance Tax on Imports Prescribed***
***Section 148***

A major change has been proposed through the Finance Bill by linking the rate of collection of tax at import stage from the importer category to the goods category. The following rates have been proposed with respect to classification of goods at the import stage :

<b>Category of Goods</b>	<b>Proposed Rate</b>
Capital goods	1%
Raw materials	2%
Finished goods	5.5%

The Finance Bill seeks to abolish the minimum tax regime for edible oil, packing material and plastic raw material and ships.

***Definition of 'Value of Goods' Rationalized***

The Finance Bill seeks to amend the definition of "Value of Goods" by categorizing it with respect to retail price under the Third Schedule of the Sales Tax Act, 1990 and Otherwise.

'Value of Goods' means:

- in case of goods chargeable to tax on the retail price under the Third Schedule of the Sales Tax Act, 1990, the retail price of such goods increased by sales tax payable in respect of the import and taxable supply of the goods; and
- in case of all other goods; the value of the goods as determined under the Custom Act, 1969 (IV of 1969), as if the goods were subject to ad valorem duty increased by the custom-duty, federal excise duty and sales tax, if any, payable in respect of the import of the goods.

***Tax on Local Purchase of Cooking Oil or Vegetable Ghee Abolished***
***Section 148A***

Advance tax at the rate of 2% applicable on local purchase of cooking oil or vegetable ghee by manufacturer has been proposed to be abolished.

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*Income Tax Ordinance, 2001****Withholding Tax on Payments to Non-Residents Rationalized******Section 152(BBB)***

The Finance Bill seeks to change final tax into minimum in case of payments made for advertisement services to non-resident media person.

Moreover, a balance has been struck between the taxation of a resident person and PE of a non-resident. Any withholding tax on payment made to a PE of a nonresident on account of sale of goods and on execution of contracts would be minimum tax which is at par with the tax liability of a resident person under such scenarios. Similarly, if the payment is received for sale of goods by a PE of a non-resident who is a manufacturer, any withholding tax would be an adjustable tax, which is again equivalent to the tax treatment applicable for a resident person.

The Finance Bill, 2020 has proposed to reduce the withholding tax from thirty percent to twenty percent of tax chargeable which effectively constitutes 2.1% (i.e. 7%\*20%) in case of payment that constitutes part of an overall arrangement of a cohesive business operation with the permission of the Commissioner.

***Withholding Tax on Payments for Goods, Services and Contracts Rationalized******Section 153***

The Finance Bill proposes to add the word “toll manufacturer” for deduction for payments of sale of goods @ 4%. By virtue of this amendment, withholding tax on toll manufacturing would definitely be equivalent to the sale of goods as previously done under the Sales Tax Act, 1990 when the toll manufacturing was expressly made part of the 'value of supply' under the said Act.

The Finance Bill also seeks to add new provisos to prescribe procedure for issuance of certificate for non-deduction of withholding tax u/s 153 to a public company listed on a registered stock exchange in Pakistan if advance tax liability has been discharged. The Commissioner shall be deemed to have issued the exemption certificate upon the expiry of fifteen days.

The Bill proposes to enhance the turnover limit for making an individual, AOP and sales tax registered person to be withholding agent from PKR 50 million to PKR 100 million

***Abolition of Withholding Tax on Payment of Royalty to Residents******Section 156B***

The Bill seeks omission of section 156B which required deduction for payment of royalty to resident person.

**Quarterly Filing of Withholding Tax Statements Prescribed**

**Sections 165**

The Finance bill has proposed to make statement u/s 165 to be furnished a quarterly basis instead of biannual basis. Following dated have also been proposed for making the quarterly compliance:

<b>Quarter Ending</b>	<b>Due Date</b>
31 <sup>st</sup> day of March	on or before the 20 <sup>th</sup> day of April
30 <sup>th</sup> day of June	on or before the 20 <sup>th</sup> day of July
30 <sup>th</sup> day of September	on or before the 20 <sup>th</sup> day of October
31 <sup>st</sup> day of December	on or before the 20 <sup>th</sup> January

**Refunds Processing Procedures Revamped**

**Section 170**

The Finance Bill seeks to make new insertions for reference to rules regulating the procedure for expeditious and automatic payment of refund through the centralized processing system.

**Procedure for Other Agencies to Furnish Information to the Board**

**Section 175A**

It has been proposed by virtue of the Finance Bill 2020 that arrangements would be made to provide real-time access of information and database to the Board in the prescribed form and manner by:

- National Database and Registration Authority
- Federal Investigation Agency and the Bureau of Emigration and Overseas Employment
- Islamabad Capital Territory and provincial and local land record and development authorities
- All electricity suppliers and gas transmission and distribution companies
- Any other agency

**Power of the Commissioner to Conduct Electronic Audit**

**Section 177(2A), (2AA)**

It has been proposed to empower the commissioner to conduct audit proceedings electronically through video links, or any other facility as prescribed by the Board.

Where a taxpayer has not furnished record or furnished incomplete records or is unable to provide a sufficient explanation regarding the defects in records, it shall be considered that taxable income has not been correctly declared and the Commissioner shall determine taxable income on the basis of sectoral benchmark ratios.

“Sectoral benchmark ratios” means standard business sector ratios notified by the Board on the basis of comparative cases and includes financial ratios, production ratios, gross profit ratio, net profit ratio, recovery ratio, wastage ratio and such other ratios in respect of such sectors as may be prescribed.

***Penalty for Non-Compliance of Updated Taxpayer's Profile Prescribed***
***Section 182***

The Bill seeks to add new serial no. 4A and 4B in the table for prescribing penalty for person who fails to furnish or update profile as follows:

Sr. No.	Offences	Penalties
4A	Any person who is required to furnish or update a taxpayer's profile, but fails to furnish or update within the due date.	<ul style="list-style-type: none"> <li>▪ Such a person shall pay a penalty of Rs. 2,500 for each day of default from the due date subject to a minimum penalty of Rs. 10,000.</li> <li>▪ Where a person fails to furnish or update a taxpayer's profile within the due date, such person shall not be included in the active taxpayers' list for the latest tax year ending prior to the aforesaid due date or extended date, except upon filing the taxpayer's profile after the due date or extended date, if the person pays surcharge as prescribed.</li> </ul>

***Withdrawal of Withholding Tax***
***Section 236***

The following withholding taxes have been proposed to be abolished:

Educational institutions are required to collect advance tax on fee at the rate of 5%. The Bill proposes to restrict the collection of advance tax by educational institutions only from persons not appearing in the active taxpayers' list.

Section Reference	Caption
236R	Collection of advance tax on education related expenses remitted abroad
235B	Tax on steel melters and composite units
156B	Withdrawal of balance under pension fund
148A	Tax on local purchase of cooking oil or vegetable ghee by certain persons
236D	Advance tax on functions and gatherings
236F	Advance tax on cable operators and other electronic media
236J	Advance tax on dealers, commission agents and arhatis etc.
236U	Advance tax on insurance premium
236X	Advance tax on tobacco

## First Schedule

### Part I

#### *Applicability of Tax on Capital Gains on Disposal of Securities Extended (Division VII)*

The Finance Bill 2020 has proposed to extend the tax applicability timescale on gains arising from the sale of shares and other securities. However, the rate of tax will remain the same as applicable for the tax years 2020 for the tax year 2021 and onwards.

#### *Tax on Capital Gains on Disposal of Immovable Property Reduced (Division VIII)*

The proposed rate of tax to be paid on disposal of immovable property shall be as follows:

Sr. No.	Amount of Gain	Existing Rate	Proposed Rate
1	Where the gain does not exceed Rs. 5 million	5%	2.5%
2	Where the gain exceeds Rs. 5 million, but does not exceed Rs. 10 million	10%	5%
3	Where the gain exceeds Rs. 10 million, but does not exceed Rs. 15 million	15%	7.5%
4	Where the gain exceeds Rs. 15 million	20%	10%

### Part II

#### *Goods Specific Rate of Advance Tax on Imports Introduced*

Currently, the advance tax rate on import stage depends on the status of the person importing the goods. The Bill proposes the person-specific rates to goods specific rates, according to the type of goods, e.g. @ 1% for capital goods, @2% for raw materials and @5.5% for finished goods irrespective of the status of the importer.

Sr. No.	Persons	Rate of Advance tax of the import value as increased by customs-duty, sales tax and federal excise duty
1	Persons importing goods classified in Part I of the Twelfth Schedule	1%
2	Persons importing goods classified in Part II of the Twelfth Schedule	2%
3	Persons importing goods classified in Part III of the Twelfth Schedule	5.5%
4	Manufacturers covered under SRO 1125(I)/2011 importing goods covered under the SRO	1%
5	Persons importing finished pharmaceutical products that are not manufactured otherwise in Pakistan, as certified by the Drug Regulatory Authority of Pakistan	4%

**Rate of Tax on the Value of Import of Mobile Phones:**

Sr. No.	C & F Value of mobile phone (in US Dollar)	Tax (in Rs.)	
		In CBU condition PCT Heading 8517.1219	In CKD/SKD condition under PCT Heading 8517.1211
1	Up to 30 except smart phones	70	0
2	Exceeding 30 and up to 100 and smart phones up to 100	100	0
3	Exceeding 100 and up to 200	930	0
4	Exceeding 200 and up to 350	970	0
5	Exceeding 350 and up to 500	3,000	5,000
6	Exceeding 500	5,200	11,500

**Part III**
**Rate of Withholding Tax on Dividend where No Tax is Payable by the Company (Division I)**

As per Division III of Part I of the First Schedule of the Income Tax Ordinance, 2001 tax on the dividend is charged @ 25% on dividend received from Company where no tax is payable by the company, due to exemption of income or carry forward of business losses, but the dividend is distributed in the tax year.

However, no withholding tax rate was prescribed while making payment of dividend by such company. To remove this confusion the Finance Bill 2020 has proposed the rate of withholding of tax @ 25% on such dividend.

**Rate of Withholding Tax on Return on Investment in Sukuk (Division IB)**

The rate of withholding of tax on return on investment on sukuk where the sukuk holder is a company is proposed to be 25% instead of 15%.

## Second Schedule

### Part I

#### *Tax on Pension Fund if Withdrawn before Retirement Age*

*(Clause 23A)*

By virtue of the Finance Bill 2020 has proposed the charging and withholding of tax on withdrawal of the balance from the voluntary pension system offered by a pension fund manager. Hence, pension fund manager shall charge and deduct tax at the average of preceding three years if withdrawal is made before retirement age or withdrawal at the time of or after retirement age is in excess of fifty percent of the accumulated balance.

#### *Approval of Certain Institutes / Fund for Donation*

*(Clause 61)*

Finance Bill 2020 has included following institutions and funds in Clause 61 for Donation purposes:

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

- Ghulam Ishaq Khan Institute of Engineering Sciences and Technology (GIKI)
- Lahore University of Management Sciences
- Dawat-e-Hadiya, Karachi
- Baitussalam Welfare Trust
- Patients' Aid Foundation
- Alkhidmat Foundation

It has further been proposed to restrict the exemption of income on account of donation to 10% and 15% of taxable income for individual and company respectively if donation is received from an associate.

It has also been made clear that the exemption under this clause shall be available only if the donation is made by a crossed cheque.

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*Income Tax Ordinance, 2001****Rate of Withholding Tax on Certain Payments to Non Residents Prescribed u/s 15 (Division II)***

The Finance Bill 2020 has proposed a reduced rate of withholding of tax @ 3% on payment to permanent establishment of non-residents on account of transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services as defined in clause (133) of Part I of the Second Schedule, tracking services, advertising services (other than by print or electronic media), share registrar services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited inspection and certification, testing and training services.

***Withholding Tax on Toll Manufacturing Curtailed u/s 153 (Division III)***

The Finance Bill 2020 has proposed to include toll manufacturing in the purview of a specified reduced tax rate. By virtue of this proposed amendment such services under toll manufacturing agreement would be subject to the rate of withholding of reduced tax rate @ 4% in case of companies and @4.5% in the case of other persons in comparison to 8% and 10% applicable on general services.

***Reduced Rate of Withholding Tax on Engineering Services u/s 153 Abolished (Division III)***

Currently engineering services are subject to a reduced rate of withholding of tax @ 3%. By virtue of the Finance Bill 2020 it has been proposed to withhold tax at normal rate in case of engineering services.

***Part IV******Advance Tax in case of Property Sold by Auction Reduced (Division VIII)***

The Finance Bill 2020 has proposed to reduce the rate of withholding tax from 10% to 5% in the case of immovable property sold by auction.



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*Income Tax Ordinance, 2001****Exemption and Straight Deduction Claim Upon Meeting NPO Conditions (Clause 66)***

The Finance Bill 2020 proposes the fulfilling of mandatory prerequisites as prescribed under the provisions of Section 100C to qualify for tax exemption envisaged under Clause 66 of Part I of 2nd Schedule to the Ordinance and to qualify for straight deduction claim available to the donors as enlisted under Clause 61 of Part I of 2nd Schedule to the Ordinance.

***Extension of Exemption on Profit and Gains of Developmental REIT Scheme (Clause 99A)***

By virtue of the Finance Bill 2020 it has been proposed to extend the exemption on profit and gains on sale of immovable property to a Developmental REIT Scheme with the object of development and construction of residential buildings up to thirtieth day of June, 2021.

***Tax on Capital Gain on the Sale of Residential Property Exempted (Clause 114AA)***

It has been proposed that any income chargeable under the head “capital gains” derived by a resident individual from the sale of residential property shall be exempt from tax subject to the following conditions:

- a) at the time of sale, the residential property was being used for the purpose of personal accommodation by the resident individual, his spouse or dependents and for which any of the utility bills is issued in the name of such individual
- b) the land area of the property does not exceed 500 square yards in case of a house and 4000 square feet in the case of a flat; and
- c) the exemption under this clause has not previously been availed by the individual, his spouse or dependents

***Certain Exemptions Relating to Gwadar Port and Gwadar Free Zones (Clause 126A, 126AB, 126AC)***

- Income derived by China Overseas Ports Holding Company Limited, China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited and the contractors and sub-contractors of aforementioned companies from Gwadar Free Zone will be exempt with effect from 1st June, 2020.
- Profit on debt derived by the China Overseas Port Holding Company Pakistan (Private) Limited, Gwadar International Terminals Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited shall be exempt with effect from 1st June, 2020.

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*Income Tax Ordinance, 2001****Exemptions Extended to Special Economic Zones******(Clause 126E)***

Income derived by a zone enterprise as defined in the Special Economic Zones Act, 2012 is exempt for a period of ten years subject to certain condition as prescribed under Clause 126E. It has been proposed that this exemption shall also be available to co-developer as defined in Special Economic Zone Rules, 2013 subject to the condition that a certificate has been furnished:

- by the developer that he has not claimed exemption under this clause and has relinquished his claim in favour of the co-developer
- by the Special Economic Zone Authority validating that the developer has not claimed exemption under this clause and has relinquished claim in favour of the co-developer

***Exemptions Extended to Federal Government Employees Housing Authority******(Clause 147)***

Any income derived by the Federal Government Employees Housing Authority for the tax year 2020 and the following four tax years shall be exempt from tax.

***Part II******Tax on Profit on Debt Paid to Non-resident Individuals u/s 152******(Clause 5AA)***

By virtue of Finance Bill 2020, the rate of tax proposed to be in respect of payments to a non-resident individual, on account of profit on debt earned from a debt instrument, whether conventional or shariah compliant, issued by the Federal Government under the Public Debt Act, 1944 and purchased exclusively through a bank account maintained abroad, a Non-Resident Rupee Account Repatriable (NRAR) or a foreign currency account maintained with a banking company in Pakistan shall be 10% of the gross amount paid. The tax deducted would be a final tax. However, tax on banking transactions u/s 236P shall not be collected. Further, a non-resident person is not required to be registered and file return solely by the reason of afore-mentioned profit on debt.

***Withholding Tax on Supplies Made to Utility Stores Corporation of Pakistan******(Clause 24CA)***

Withholding tax on goods supplied by a person, other than a company, to Utility Stores Corporation of Pakistan shall be 1.5% of the gross amount of payment in respect of supply of tea, spices, salt, dry milk, sugar, pulses wheat flour and ghee for the period commencing from the 7th day of April, 2020 and ending on 30th day of September, 2020.

However, this reduced rate shall not be applicable to supply of tea, spices, salt and dry milk which are sold under a brand name.

**Part III*****Reduction of Tax up to 90% on Approved Low Cost Housing Project******(Clause 9B)***

The tax payable on the income, profits and gains of projects of 'low cost housing' developed or approved by Naya Pakistan Housing and Development Authority (NAPHDA) or under the Ehsaas Programme shall be reduced by 90%.

**Part IV*****Exemption from Tax Deduction at Import Stage******(Clause 12A)***

As a relief measure against the global pandemic COVID-19, the Finance Bill 2020 has exempted the following goods from the 20th day of March, 2020 and ending on the 30th day of September, 2020 from the deduction of tax at the import stage:

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*Income Tax Ordinance, 2001*

S. No.	Description	PCT
1.	Real-time PCR system (standard 96-well plate and 0.2ml tube format, 5 channel)	Respective Headings
2.	Biosafety Cabinet	
3.	Auto Clave 50 Liter Capacity	
4.	Multi channel pipette (0.5-10 ì l)	
5.	Single channel pipette a) 2 ì l b) 10 ì l c) 200 ì l d) 1000 ì l	
6.	Muti channel pipette 20-200 ml	
7.	Vacuum fold	
8.	Micro Centrifuge (Non-refrigerated, Rotor capacity: 12 x 1.5 / 2.0 ml vessels, 2 x PCR strip, Max. speed: 12,100 x g (13,400 rpm))	
9.	PCR Cabinet (HEPA filter system, UV and white light)	
10.	Real-time PCR kit for the detection of Coronavirus (SARS-CoV-2)	
11.	Viral RNA Extraction Kit and machine (Automatic Extractors)	
12.	VTM (Viral Transport Medium)	
13.	Dr Oligo Synthesizer	
14.	Refrigerator/freezer (-20 °C)	
15.	Vortex Machine	
16.	Refrigerated Centrifuge Machine (Rotor capacity 1.5ml x 24, max. speed 14000 rpm)	
17.	UPS (6 KVA)	
18.	Tyvek Suits	
19.	N-95	
20.	Biohazard Bags (18 Liters)	
21.	PAPR (Powdered Air Purifying respirators)	
22.	Multimode ventilator with air compressor	
23.	Vital sign monitor with 2IBPand ETco2 two Temp.	
24.	ICU motorized patient bed with side cabinet and over bed table	
25.	Syringe infusion pump	
26.	Infusion pump	
27.	Electric suction machine	
28.	Defibrillator	
29.	X-Ray Mobile Machine	
30.	Simple Nebulizer	
31.	Ultrasound machine	
32.	Noninvasive BIPAP	
33.	ECG Machine	
34.	Pulse Oximeters	
35.	Ripple mattress	

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*Income Tax Ordinance, 2001*

<b>S. No.</b>	<b>Description</b>	<b>PCT</b>
36	Blood gas analyzer	
37	AMBU Bag	
38	Nitrile Gloves	
39	Latex Gloves	
40	Goggles	
41	Face Shields	
42	Gum Boots	
43	Mackintosh bed sheets	
44	Surgical Masks	
45	Air Ways	
46	Diaflow	
47	Disposable Nebulizer Mask Kit	
48	ECG Electrodes	
49	ETT Tube (Endotracheal Tubes) All sizes	
50	Humidifier Disposable Flexible	
51	IV Cannula all sizes	
52	IV Chambers	
53	Oxygen Recovery Kit	
54	Padded Sheets	
55	Stomach Tube	
56	Stylet for Endotracheal Tube	
57	Suction Tube control valve	
58	Tracheostomy Tube 7, 7.5, 8	
59	Ventilator Circuit	
60	Ventury Masks	
61	Disposable shoes cover (water proof)	

***Exemption from Tax Deduction on Import of Pulses***
***(Clause 12C)***

It has been proposed that tax at import stage shall not be collected from the person importing pulses for a period commencing from the 7th day of April, 2020 and ending on 30th September, 2020.

## Seventh Schedule

### *Super Tax Applicability Extended for Banking Companies*

*(Rule 7C)*

The Finance Bill, 2020 seeks to extend the chargeability of super tax on banking companies to the Tax Year 2021.

## Eleventh Schedule

### *(Rules for the Builders & Developers)*

#### *Computation of Tax Liability (Rule 2)*

The tax liability shall be computed on project to project and on the annual basis. The annual tax liability shall be worked out using the formula given below:

$$\frac{\text{Tax liability as per rates in rule 10}}{\text{Estimated project life in years}}$$

#### **Terms and Conditions:**

- The estimated project life for tax purposes shall not exceed two and half years.
- However In case of incomplete project the estimated project life shall be treated as three years from the Tax Year 2020 through Tax Year 2022 and the tax payable shall be reduced by the percentage of completion up to the last day of the accounting period pertaining to the Tax Year 2019.
- Further the tax liability of 2020 shall be paid along with the return.
- The tax liability, so calculated and paid shall be a final tax.

#### *Registration and Filing Requirements*

*(Rule 3)*

1. A builder or developer shall electronically register a project on IRIS through the FBR website on or before the 31st day of December, 2020 through submission of:
  - a) registration form as may be prescribed which shall include, inter alia, details of a member or shareholder of a builder or developer, as the case may be:  
Provided that a developer who is also a builder in the case of a project shall submit two separate forms for registration as a developer and as a builder; and
  - b) an irrevocable option to be assessed under this Schedule in respect of each project.
2. A builder or developer availing this scheme shall electronically file a return of income and wealth statement as may be prescribed accompanied with evidence of payment of due tax which shall be taken for all purposes of the Ordinance to be an assessment order issued to the taxpayer by the Commissioner to the extent of income computed under these rules.

**Exemption from Withholding Tax Deducted u/s 153****(Clause 46AA)**

The Finance Bill 2020 proposes to insert SRO 586(I)/91 under a new Clause 46AA in the Second Schedule to the Ordinance for the withholding tax exemption to the following persons:

- a Provincial Government
- a local authority
- persons who are residents of Azad Kashmir and execute contracts in Azad Kashmir only and produce a certificate to this effect from the concerned income tax authority
- persons receiving payments from a company or an association of persons having turnover of fifty million rupees or more or from an individual having turnover of fifty million rupees or more exclusively for the supply of agriculture produce including fresh milk, fish by any person engaged in fish farming, live chicken, birds and eggs by any person engaged in poultry farming and by an industrial undertaking engaged in poultry processing which has not been subjected to any process other than that which is ordinarily performed to render such produce fit to be taken to market
- companies receiving payments for the supply of electricity and gas
- companies receiving payments for the supply of crude oil
- hotels and restaurants receiving payments in cash for providing accommodation or food or both, as the case may be
- shipping companies and air carriers receiving payments for the supply of passenger tickets and for the cargo charges of goods transported

**Exemption from Tax Deduction at Import Stage****(Clause 12C)**

The following persons are proposed to be exempted from tax deduction at import stage:

- The Federal Government;
- A Provincial Government;
- A Local Government;
- A foreign company and its associations whose majority share capital is held by a foreign government
- A person who imports plant and machinery for the execution of a contract with the Federal Government or a provincial government or a local government and produces a certificate from that government;
- Companies importing high speed diesel oil, light diesel oil, high octane blending component or kerosene oil, crude oil for refining and chemical used in refining thereof in respect of such imports; and
- Petroleum (E&P) companies covered under the Customs and Sales Tax Notification No. S.R.O.678 (I)/2004, dated the 7th August, 2004, except motor vehicles imported by such companies

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*Income Tax Ordinance, 2001****Exemption from Tax Deduction for Non-resident Hajj Operators*** (Clause 72AA)

The Finance Bill 2020 has proposed that the provisions of section 152 shall not apply in case of a Hajj Group Operator in respect of Hajj operations.

***Exemption from Tax Deduction on Import of Raw Material Withdrawn*** (Clause 72B)

The Finance Bill, 2020 seeks to withdraw the exemption from tax on import of raw material by industrial undertakings.

***Exemption from Tax on Cash Withdrawal and Banking Transactions for Foreign Remittance*** (Clause 101AA)

Under the provision of section 231A, 231AA and 231P withholding tax is deducted in case a person is not appearing on ATL. The Finance Bill 2020 proposes that exemption from such tax shall be available to a Pak Rupee Account in a tax year to the extent of foreign remittances credited into such account during that tax year.

***Dividend Paid to Non-resident*** (Clause 111A)

Dividend paid to non-resident persons shall be charged at the normal rate of tax even if the name of the recipient does not appear in the ATL.

***Exemption from Withholding Tax for Prime Minister's COVID-19 Relief Fund*** (Clause 102A, 116, 117)

The provisions of withholding of taxes shall not apply to The Prime Minister's COVID-19 Pandemic Relief Fund-2020 and Ehsaas Emergency Cash Transfer Programme.



*Income Tax Ordinance, 2001*

**Certification**

**(Rule 4)**

Every builder and developer would furnish a certificate, obtained from a map approving authority or NESPAK, to FBR certifying therein:

- Total land area in square yards,
- Covered area in square feet,
- Saleable area in square feet, and
- Type (commercial or residential or industrial) of total land and saleable area

**Rate for Computation of Tax Liability**

**(Rule 10)(Rule 4)**

The rates of tax imposed on builder and developer are given in the table below:

**Rate of tax for Builder**

			<b>1</b>	<b>2</b>	
<b>Persons</b>	<b>Property Type</b>	<b>Area</b>	<b>Karachi, Lahore and Islamabad</b>	<b>Hyderabad , Sukker, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta</b>	<b>Urban Areas not specified in 1 and 2</b>
		<b>Area in Sq. ft.</b>	<b>Rate per Sq. ft.</b>		
<b>Tax on Builder</b>	Commercial Buildings	Any Size	Rs. 250	Rs.230	Rs.210
	Residential Building	up to 3000	Rs. 80	Rs. 65	Rs.50
		More than 3000 & Above	Rs.125	Rs. 110	Rs. 100

**Rate of Tax for Developer**

			1	2	
<b>Persons</b>	<b>Property Type</b>	<b>Area</b>	<b>Karachi, Lahore and Islamabad</b>	<b>Hyderabad , Sukker, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta</b>	<b>Urban Areas not specified in 1 and 2</b>
		<b>Area in Sq. Yds.</b>	<b>Rate per Sq. Yds.</b>		
<b>Tax on Builder</b>	Entire Project ( other than Industrial Area)	Any Size	Rs. 150	Rs.130	Rs.100
	Development of Industrial Area	Any Size	Rs. 20	Rs.20	Rs.10

- In case of mixed use buildings having both commercial and residential areas, the respective rates mentioned above shall apply.
- In case of development of plots and constructing buildings on the same plots as one project both rates shall apply.
- In case of development of plots and construction of buildings on the same plots for low cost housing and all the projects developed by NAPHDA the higher rates shall apply

**Payment of Tax Liability**
**(Rule 5)**

The tax so computed shall be paid in four equal quarterly installments in advance under section 147 of the Income Tax Ordinance 2001.

**Incorporation of Profit and Gains**
**(Rule 6)**

A builder or developer opting for taxation under 100D shall not be allowed to incorporate profits and gains accruing from such projects in excess of ten times of the tax computed under eleventh schedule.

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*Income Tax Ordinance, 2001****Exemption from Withholding Taxes******(Rule 7)***

The builder and developer are not required to withhold tax under section 153 of the Income Tax Ordinance on:

- Purchase of building material except steel and cement
- On services of plumbing, electrification, shuttering and other similar services other than those provided by companies

***Dividend Income Exempted******Rule 7***

The builder and developer being a company are not required to withhold tax on dividend under section 150 of Income Tax Ordinance 2001 paid out of the profit and gains from a new project.

***Restriction on Change in Pattern of Ownership before Completion of Project******(Rule 8)***

The following restrictions shall apply if exemption is claimed from the provisions of Section 111:

- A shareholder or a partner of a builder or developer shall not be allowed a change in ownership of an incomplete project except where at least fifty percent of the total project cost has been incurred up to the date of change of ownership which is to be certified by a firm of chartered accountants (having an ICAP QCR rating of 'satisfactory') notified by the FBR for this purpose
- Succession of legal heirs in case of a deceased shareholder or partner shall be allowed
- The additional partners or shareholder can only be admitted only after December 31, 2020 however such additional partners or shareholder shall not be eligible for exemption provided under sub-section 3 of section 100D

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## Sales Tax Act, 1990

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Sales Tax Act, 1990

### ***Filing of Quarterly Withholding Tax Statements Mandated for ATL***

**Section 2(i)(d)**

The Finance Bill proposes quarterly filing of withholding tax statements to keep the active sales tax status intact in place of monthly withholding tax statement.

### ***Definition of Output Tax Streamlined***

**Section 2 (20) (c)**

The definition of Output Tax has been proposed to be amended by including only sales tax levied on the services rendered or provided by the person under Islamabad Capital Territory (Tax on Services) Ordinance, 2001. Currently, Provincial Sales Tax levied on services rendered or provided by the person is included in the definition of Output Tax.

### ***The Concept of 'Value of Supply' Broadened***

**Section 2 (46) (j)**

It has been proposed to broaden the definition of “value of supplies” in case of purchase of used vehicles by a registered person from general public. Accordingly, as per the proposed amendment, in case of registered person who is engaged in purchasing used vehicles from general public on which sales tax had already been paid at the time of import or manufacturing, and which are, later on, sold in the open market after making certain value addition, value of supply will be the difference between sale and purchase price of the said vehicle.

### ***Wastage of Input Claimed Material Restricted***

**Section 7(5)**

The Finance Bill 2020 proposes to empower the Board to impose restrictions on wastage of material on which input tax has been claimed in respect of the goods or class of goods.

### ***Input Tax Credit not Allowed***

**Section 8(1)(m)**

It is proposed that “services” input tax also be proportionately disallowed along with “goods” where CNIC / NTN of purchaser is not obtained.

### ***Empowerment to Disregard Subjudice Matters for Pending Assessments***

**Section 11C**

The Commissioner or an officer of Inland Revenue may, notwithstanding that he has preferred an appeal against the decision of the High Court or made an application against the order of the Appellate Tribunal, follow the said decision in the case of the taxpayer so that it applies to said question of law arising in any assessment pending before the Commissioner or an officer of Inland Revenue, until the decision of the High Court or of the Appellate Tribunal is reversed or modified.

If the decision of High Court or Tribunal is reversed or modified by Supreme Court, the Commissioner or Officer may within a period of one year of the receipt of decision, modify the assessment or order in which the said decision was applied so that it conforms to the final decision even after the lapse of period of limitation.

**Condition for Obtaining CNIC by Retailers Relaxed**

**Section 23(1b)**

The minimum threshold of supplies by retailers for obtaining CNIC of the buyers is proposed to be increased from PKR 50,000 to PKR 100,000.

**Concept of Electronic Sales Tax Audit Introduced**

**Section 25(2A)**

By the virtue of Finance Bill, 2020, it has been proposed that the Commissioner may conduct audit proceedings electronically through video links, or any other facility as prescribed by the Board.

**Penalty on Non-Integration of Business Revised**

**Section 33 (S. No. 25)**

The Finance Bill, 2020 proposes the downward revision in the time period of default from six months to two months for levy of second penalty for a person for non-integration of business with Board's computerized system and an embargo to be placed on his sales until he integrates his business in the manner as required in the Ordinance.

**The Manner and Fee for Appeal Defined**

**Section 45B**

The Finance Bill, 2020 suggested that the appeal against the order passed by an Inland Revenue Officer shall be in the prescribed form, verified in the prescribed manner, and state precisely the grounds of appeal, accompanied by the prescribed appeal fee and lodged to the Commissioner within reasonable time.

The Finance Bill proposes to enhance fee for lodging an appeal against the following types of orders:

Category	Existing Fee (PKR)	Proposed Fee (PKR)
<b>Fee for Lodging Appeal against Assessment</b>		
Company	1,000	5,000
Individual and AOP	1,000	2,500
<b>Other Cases</b>		
Company	1,000	5,000
Individual and AOP	1,000	1,000

***Limitation on Production of Evidence in Appeal******Section 45B***

The Finance Bill, 2020 suggested that the Commissioner Appeals shall not admit any evidence unless such evidence has already been produced before the Officer Inland Revenue unless the Commissioner (Appeals) is satisfied that the appellant was prevented by sufficient cause from producing such material or evidence before the Officer Inland Revenue.

***Alternate Dispute Resolution Mechanism Strengthened******Section 47A***

An aggrieved person in connection with any dispute pending before a court of law or an appellate authority relating to:

- the liability of tax against the aggrieved person
- admissibility of refunds
- the extent of waiver of default surcharge and penalty; or
- any other specific relief required to resolve the dispute

may apply to the Board for the appointment of a committee for the resolution of any dispute. The Board may appoint a committee, within sixty days of receipt of such application.

The Committee would consist of Chief Commissioner, Inland Revenue and two persons from a panel notified by the Board comprising of chartered accountants, cost and management accountants, advocates, having a minimum of ten years' experience in the field of taxation and reputable businessmen.

The Board shall communicate the order of appointment of the committee to the court of law or the appellate authority where the dispute is pending and the Commissioner.

The Committee appointed shall examine the issue and conduct inquiry or audit, seek expert opinion shall decide the dispute within 125 days of its appointment.

The Committee may stay the recovery of tax payable in respect of dispute pending before it for the earlier of 120 days or till the decision of the committee.

The decision of the committee shall be binding on the Commissioner only if the aggrieved person withdraws the appeal pending before the court of law and has communicated the order of withdrawal to the Commissioner.

If the Committee fails to decide within the period of 120 days, the Board shall dissolve the committee and the matter shall be decided by the court of law or the appellate authority where it is pending.

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**Sales Tax Act, 1990**
***Real Time Access to Information and Data Base Granted***
***Section 56AB***

By Virtue of Finance Bill, 2020, the Board is empowered to have real time access to information and databases kept by various authorities such as NADRA, FIA, etc. with respect to information pertaining to National Identity Card (NIC), Pakistan Origin Card, Overseas Identity Card, Alien Registration Card.

***Inadmissibility of Input Tax Extended***
***Section 73(4)***

The Finance Bill, 2020, proposes to widen the proportionate inadmissibility of input taxes to all registered persons instead of limiting it to registered manufacturers whose taxable supplies to unregistered persons exceed Rs. 100 million in a financial year and Rs. 10 million in a month.

***Scope of Zero-Rating Facility Enhanced***
***Fifth Schedule***

In the Fifth Schedule to the Sale Tax, 1990, the following new clauses are proposed to be added namely:

<b>Serial No.</b>	<b>Description</b>
13	Supplies of raw materials, components and goods for further manufacture of goods in the Gwadar Free Zone and export thereof
14	Supplies of locally manufactured plant and machinery of certain specifications to the manufacturers in the Gwadar Free Zone subject to certain conditions and restrictions

***Further Exemptions from Sales Tax Introduced***
***Sixth Schedule***

Following items have been proposed to be introduced in Table I to the Sixth Schedule to the Sales Tax, 1990:

<b>Serial No.</b>	<b>Description</b>	<b>PCT Headings</b>
100D	Machinery, equipment, material and goods imported either for use within the limit of Gwadar Free Zone or for making exports therefrom subject to certain condition	Respective Heading
103	Imports and supply thereof up to 2023 by ship chartered by Pakistani entity and flying the Pakistani flag	Respective Heading
154	Dietetic foods intended for consumption by children suffering from inherent metabolic disorder subject to certain condition	Respective Heading



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**Sales Tax Act, 1990**

In Table III, following new exemptions have also been proposed to be introduced by inserting new entries:

<b>Serial No.</b>	<b>Description</b>	<b>PCT Headings</b>
15A	The following parts and components for manufacturing LED lights	
	(i) Housing /shell. shell cover and base cap for all kind of LED lights and Bulbs	Respective Heading
	(ii) Bare and stuffed Metal Clad Printed Circuit Boards (MCPCB) for LED	8534.0000
	(iii) Constant Current Power Supply for of LED Lights and Bulbs (1-300W)	8504.4090
	(iv) Lenses for LED light and Bulbs	9001.9000

**Further Expansion in Reduced Rate Items**
**Eight Schedule**

Revised sale tax rates have been introduced for the items mention below:

<b>Description</b>	<b>Previous Tax Rate</b>	<b>Revised Tax Rate</b>
Potassium Chlorate	17% along with rupees 70 per Kg	17% along with rupees 80 per Kg
Supplies made from outlets integrated with FBR	14%	12%

**Sales Tax Withholding Card**

**Eleventh Schedule**

Sr. No.	Withholding agent	Supplier Category	Rate/Extent of deduction
1	(a) Federal and provisional government departments; autonomous bodies; and public sector organizations  (b) Companies as defined in the Income Tax Ordinance, 2001 (XLIX) of 2001)	Active Taxpayers	1/5 <sup>th</sup> of the Sales Tax as shown in the invoice
2	(a) Federal and provisional government departments; autonomous bodies; and public sector organizations  (b) Companies as defined in the Income Tax Ordinance, 2001 (XLIX) of 2001)	Active Taxpayer registered as wholesaler, dealer or distributor	1/10 <sup>th</sup> of the Sales Tax as shown in the invoice
3	(a) Federal and provisional government departments; autonomous bodies; and public sector organizations	Persons other than Active Taxpayers	Whole of the tax involved or as applicable to supplies on the basis of gross value of supplies
4	Companies as defined in the Income Tax Ordinance, 2001 (XLIX) of 2001)	Persons other than Active Taxpayers	Whole of the tax involved or as applicable to supplies on the basis of gross value of supplies
5	Registered persons as recipient of advertisement services	Persons providing advertisement services	5% of gross value of supplies
6	Registered persons purchasing cane molasses	Persons other than Active Taxpayers	Whole of the tax involved or as applicable to supplies on the basis of gross value of supplies

**VAT Inapplicable on In-house Consumption**

**Twelfth Schedule**

The Finance Bill proposes to exclude raw materials and intermediary goods imported by a manufacturer for in-house consumption from the levy of further 3% ad valorem sales tax applicable to certain imported goods.

## Federal Excise Act, 2005

Federal Excise Act, 2005

### *Wastage of Input Claimed Material Restricted*

**Section 6(2AB)**

By virtue of Finance Bill 2020, it is proposed to empower the Board to impose restrictions on wastage of material on which input tax has been claimed in respect of the goods or class of goods.

### *Empowerment to Disregard Subjudice Matters for Pending Assessments*

**Section 14C**

The Commissioner or an officer of Inland Revenue may, notwithstanding that he has preferred an appeal against the decision of the High Court or made an application for reference against the order of the Appellate Tribunal, as the case may be, follow the said decision in the case of the said taxpayer in so far as it applies to said question of law arising in any assessment pending before the Commissioner or an officer of Inland Revenue, until the decision of the High Court or of the Appellate Tribunal is reversed or modified.

### *Seizure of Unlawful Production of Cigarettes and Beverages Allowed*

**Section 26(1)**

By virtue of Finance Bill 2020, it is proposed to seize the counterfeited cigarettes or beverages which have been manufactured or produced unlawfully and other dutiable goods on which duty of excise has not been paid in the manner as required under the law.

### *Appeal Filing Rationalized*

**Section 33(1A)**

An appeal under this Section shall:

- be in the prescribed form;
- verified in the prescribed manner;
- state precisely the grounds of appeal;
- be filed within the specified time.

The prescribed fee for filing the appeal shall be in the following manner:

<b>Particulars</b>	<b>Appellant Person</b>	<b>Amount(Rs.)</b>
In the case of an appeal against an assessment	Where the appellant is a company	5,000
	Where the appellant is not a company	2,500
In any other case	Where the appellant is a company	5,000
	Where the appellant is not a company	2,500

**Alternative Dispute Resolution Forum Strengthened****Section 38**

An aggrieved person in connection with any dispute pending before a court of law or an appellate authority relating to:

- the liability of tax against the aggrieved person
- admissibility of refunds
- the extent of waiver of default surcharge and penalty; or
- any other specific relief required to resolve the dispute

may apply to the Board for the appointment of a committee for the resolution of any dispute. The Board may appoint a committee, within sixty days of receipt of such application.

The Committee would consist of Chief Commissioner, Inland Revenue and two persons from a panel notified by the Board comprising of chartered accountants, cost and management accountants, advocates, having a minimum of ten years' experience in the field of taxation and reputable businessmen.

The Board shall communicate the order of appointment of the committee to the court of law or the appellate authority where the dispute is pending and the Commissioner.

The Committee appointed shall examine the issue and conduct inquiry or audit, seek expert opinion shall decide the dispute within 125 days of its appointment. The Committee may stay recovery of tax payable in respect of dispute pending before it for the earlier of 120 days or till the decision of the committee.

The decision of the committee shall be binding on the Commissioner only if the aggrieved person withdraws the appeal pending before the court of law and has communicated the order of withdrawal to the Commissioner.

If the Committee fails to decide within the period of 120 days, the Board shall dissolve the committee and the matter shall be decided by the court of law or the appellate authority where it is pending.

**Board Empowered to Have Real Time Access to Information and Database****Section 47AB**

By virtue of Finance Bill 2020 it is proposed that the following authorities shall be made arrangements to provide the real-time access of the database to the Board:

- National Database and Registration Authority;
- Federal Investigation Agency;
- Bureau of Emigration and Overseas Employment;
- The Islamabad Capital Territory and provincial and local land record and development authorities;
- Provincial Excise and Taxation Departments;
- Supplier of Electricity and other utilities;
- Any other agency, authority, institution or organization notified by the Board.

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*Federal Excise Act, 2005*
***FED on Caffeinated Energy Drinks and E-liquids Levied***
***First Schedule Table (I)***

<b>Description of Goods</b>	<b>Heading</b>	<b>Rates of Duty</b>
Caffeinated energy drinks	2202.1010 2202.9900	25% of the retail price
E-liquids by whatsoever name called, for electric cigarette kits	24.02	Rs. 10 per ml

***FED on Pick-up Vehicles Levied***
***First Schedule Table (I)***

<b>Description of Goods</b>	<b>Heading</b>	<b>Rates of Duty</b>
Imported double cabin (4x4) pick-up vehicles	8704.2190 8704.3190	25% ad val
Locally manufactured double cabin (4x4) pickup vehicles	8704.2190 8704.3190	7.5% ad val

***FED On Cement Slashed***
***First Schedule Table (I)***

The Bill proposes to increase the duty on cement from Rs. 2 per kg to Rs. 1.75 per kg.

***FED on Tobacco Products Increased***
***First Schedule Table (I)***

The Bill proposes to increase the rate of FED on cigars, cheroots and cigarettes from 65% to 100%.

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## Customs Act, 1969

Customs Act, 1969

### *Definition and Mechanism of Advance Ruling Prescribed*

*Section 2(AI), Section 212B*

The Finance Bill, 2020 has redefined “Advance Ruling” as a written decision by the Board or any officer or a committee authorized by the Board, on the request of an applicant for determination of classification, origin or applicability of a particular relief or exemption on goods prior to their importation or exportation, valid for a specified period of time.

### **Mechanism for Seeking Advance Ruling**

An applicant desirous of advance ruling shall make an application for advance ruling in respect of any of the followings:

- classification of goods in First schedule of the Customs Act
- determination of origin of goods
- applicability of notifications issued w.r.t. duty or tax chargeable under the Custom Act/ any other law
- any other matter as the Board may specify

Any decision and ruling issued shall be binding on the applicant as well as on the Customs Collectorate.

### *Definition of Smuggling Revamped*

*Section 2 Clause (S), Section 179 (3)*

The Finance Bill, 2020 proposes that smuggling means to bring into or take out of Pakistan, in breach of any prohibition or restriction for the time being in force or in any way being concerned in carrying, transporting, removing, depositing, harboring, keeping, concealing.

It is proposed that such case shall be decided within the period of 30 days from the issuance of show cause notice.

### *Powers Delegated to Officer of Customs*

*Section 7*

The Finance Bill, 2020 empowers the officers of customs to seek assistance from the Border Military Police in discharge of their official functions under this Act.

### *Detention Period for Seizure or Confiscation of Prohibited Goods Prescribed*

*Section 17*

The Customs Act, 1969 empowers the Collector of Customs that any goods are imported into, or attempted to be exported out of, Pakistan in violation of the provisions of the law such goods shall be liable to detention, for seizure or confiscation

The Finance Bill, 2020 has prescribed that such time period of detention shall not exceed 15 days, which may be extended by the Chief Collector or Director General for a period not exceeding fifteen days.

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**Customs Act, 1969*****Limit of Minimal Duties not to be Demanded*****Section 19C**

The Finance Bill, 2020 has proposed that no duties and taxes shall be demanded if the value of imported goods does not exceed five thousand rupees.

***Concept of Fiscal Fraud Revamped*****Section 32A**

By virtue of the proposed insertion the declaration of value of goods higher or lower than the actual price the value of imported goods would also come under the scope of fiscal fraud and may entail penal proceedings. It has also been proposed that even in the case of fraud, even having no revenue implication, a show cause notice shall be issued within 180 days of detection of such fraud.

***Scope of Goods Declaration Revised*****Section 80**

By virtue of Finance Bill, 2020, it has been proposed that If during the checking of goods declaration, it is found that any statement in such declaration or document or any information so furnished is not correct and reassessment of goods is required a notice shall be served to the importer through Customs Computerized System and opportunity of hearing shall be provided to fulfill the requirements of natural justice.

***Repercussions on Excessive Baggage Defined*****Section 139**

The Finance Bill, 2020 proposes that the non-declaration or false declaration of baggage by any passenger or crew member shall be considered as an offense under the Customs Act. Furthermore, any attempt to bring into or take out of Pakistan any currency, gold, precious metals or stones, in any form, through concealment in baggage or circumventing Customs controls at airports, seaports and land border Customs-stations shall be considered as an offence of smuggling.



**Punishments of Offences Revised**
**Section 156**

S. No.	Offenses	Penalties
1	<p>Goods smuggled into or out of Pakistan</p> <p>If value of goods is</p> <p>(a) 150,001 – 3,000,000</p> <p>(b) 3,000,001 – 5,000,000</p> <p>(c) 5,000,001 – 7,000,000</p> <p>(d) 7,000,001 – 10,000,000</p> <p>(e) Exceeds 10,000,000</p>	<p>Such goods shall be confiscated and such person shall be liable to accordingly:</p> <p>Penalty up to the value of goods and imprisonment of up to two years upon conviction by a Special Judge</p> <p>Penalty up to twice the value of goods and upon conviction by a Special Judge, imprisonment of two to three years</p> <p>Penalty up to thrice the value of goods and upon conviction by a Special Judge, imprisonment of two and half to five years</p> <p>Penalty up to four times the value of goods and upon conviction by a Special Judge, imprisonment of three to ten years</p> <p>Penalty up to five times the value of goods and upon conviction by a Special Judge, imprisonment of five to fourteen years and forfeiture of his movable or immovable property.</p>
2	<p>Goods comprises of gold, silver or platinum or precious stones smuggled into or out of Pakistan</p> <p>If value of currency or goods is</p> <p>(a) Up to \$ 10,000</p> <p>(b) \$10,001 - \$20,000</p> <p>(c) \$20,001 - \$50,000</p> <p>(d) \$50,001 - \$100,000</p> <p>(e) Exceeds \$100,000</p>	<p>Such goods shall be confiscated and such person shall be liable to accordingly:</p> <p>Penalty up to the value of goods and imprisonment of up to two years upon conviction by a Special Judge</p> <p>Penalty up to twice the value of goods and upon conviction by a Special Judge, imprisonment of two to three years</p> <p>Penalty up to thrice the value of goods and upon conviction by a Special Judge, imprisonment of two and half to five years</p> <p>Penalty up to four times the value of goods and upon conviction by a Special Judge, imprisonment of three to ten years</p> <p>Penalty up to five times the value of goods and upon conviction by a Special Judge, imprisonment of five to fourteen years and forfeiture of his movable or immovable property.</p>

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*Customs Act, 1969****Concept of Burden of Proof Extended to the Ownership of Property******Section 187***

Under the provisions of the Customs Act, 1969, when any person is alleged to have committed an offence under this Act the burden of onus shall lie on him. It is now proposed that the burden of proof that the property owned by him or in his name has not been acquired from the proceeds of any crime under the Act shall also lie on him. The Board shall prescribe the procedure for forfeiture of such property.

***Alternative Dispute Resolution Mechanism Revamped******Section 195C***

The Finance Bill, 2020 proposes to substitute the selection of committee members, to have a person nominated by the applicant from the panel constituted by the Board. The Board shall communicate the order of appointment of the committee to the court or appellate authority and the Collector. It is also proposed to change the period of recovery of taxes or duty payable by the applicant from the date of appointment of the committee till its decision.

***Entitlement of Importer-on-Record in Auction Sale Prescribed******Section 201***

By virtue of Finance Bill, 2020, it is proposed that if the balance shared with the owner of the goods sold via auction, tender, private offer or otherwise in that case the share of the importer-on-record shall not exceed the value declared on goods declaration.

***Benefits to Authorized Economic Operators Prescribed******Section 212A***

By virtue of Finance Bill 2020, the following additional benefits are provided to Authorized Economic Operators:

- Form any procedure or mode of collection of levies (Duty, fee, penalty, etc.) under the Custom Act
- Defer collection of any such levy wholly or partially
- Accept or substitute any bank guarantee or pay order of scheduled bank with any other financial instrument, if appropriate.

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**Customs Act, 1969**
**Custom Duty Reduced**
**First Schedule**

- The Finance Bill, 2020 seeks to reduce customs duty to zero percent for the following items:

Items	CD%	
	Current	Proposed
Other devices, appliances and instruments	3	0
Fishing vessels; factory ships and other vessels for processing or preserving fishery products.	11	0
Acetylene black	3	0
Ammonium chloride	3	0
Liquid meters	20	0
Feldspar	3	0
Vinyl acetate	3	0
Adipic acid, its salts and esters	3	0
Pickling preparations for metal surfaces; soldering brazing or welding powders and pastes consisting of metal and other materials	3	0
Preparations of a kind used as cores or coatings for welding electrodes or rods	3	0
Silicones in primary forms.	3	0
Refrigerated vessels, other than those of subheading 8901.20	11	0
Gum Rosin	3	0

- The Finance Bill, 2020 seeks to reduce customs duty for the following items:

Items	CD%	
	Current	Proposed
Vaccines for veterinary medicine	11	3
Colour lakes; preparations as specified in Note 3 to this Chapter based on colour lakes.	11	3
Vitrifiable enamels and glazes, engobes (slips) and similar preparations	11	3
Liquid lusters and similar preparations	11	3
Activated carbon	11	3
Other	11	3
Wood tar; wood tar oils; wood creosote; wood naphtha; vegetable pitch; brewers' pitch and similar preparations based on rosin, resin acids or on vegetable pitch.	11	3
Containing 1,2,3,4,5,6-hexachlorocyclohexane (HCH (ISO)), including lindane (ISO, INN)	11	3
Containing pentachlorobenzene (ISO) or hexachlorobenzene (ISO)	11	3
Containing perfluorooctane sulphonic acid, its salts, perfluorooctane sulphonamides, or perfluorooctane sulphonyl fluoride	11	3
Containing tetra-, penta-, hexa-, hepta- or octabromodiphenyl ethers	11	3
Ion exchangers	11	3

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**Customs Act, 1969**

Items	CD%	
Poly(methylene phenyl isocyanate) (crude MDI, polymeric MDI)	20	3
Ion exchangers	11	3
Poly(methylene phenyl isocyanate) (crude MDI, polymeric MDI)	20	3
Chloroparaffins liquid	11	3
Prepared binders	11	3
Single cord	20	16
Of polyurethanes	20	16
Petroleum resins	20	16
Greases	20	16
Tanning substances, tanning preparations based on chromium sulphate Disperse dyes and preparations based thereon	20	16
Formic acid	20	16
Carbon black (other than rubber grade)	20	16
Refractory products of a kind used in industrial ovens, kilns and furnaces	16	11
Shoe adhesives	16	11
Aluminium paste and powder	16	11
Dyes, synthetic	16	11
Liquid	16	11
Transformer oil	16	11
Dentists' chairs	11	3
Tankers	11	3
Signal generators	11	3
Particle accelerators	11	3
Base cap for tube light	11	3
Pressure switches	11	3
Lithium	11	3
Toroidal cores and strips	11	3
Other jacks and hoists, hydraulic	11	3
Hand- or foot- operated air pumps	11	3
Liquid elevators	11	3
Tin plates, sheets and strip, of a thickness exceeding 0.2 mm	11	3
Bars and rods	11	3
Containing by weight more than 50 % of graphite or other carbon or of a mixture of these products	11	3
Self- copy paper	11	3
Filter paper and paperboard	11	3
Sulphite wrapping paper	11	3
Unbleached	16	3
Plates, sheets and strip	11	3
Sheets	11	3
Poly(methylene phenyl isocyanate) (crude MDI, polymeric MDI)	20	3
Sulphur dichloride	11	3

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**Customs Act, 1969**

Items	CD%	
Thionyl chloride	11	3
Arsenic trichloride	11	3
Carbon disulphide	11	3
Magnesium hydroxide	11	3
Iron hydroxides	11	3
Earth colours	11	3
Bicarbonate of ammonium	11	3
Limonene(Dipentene)	11	3
Naphthalene	11	3
Benzene sulphonic acid	11	3
Acetic acid	11	3

**Levy of Custom Duty**

- The Finance bill proposed to Levy Custom Duty on following items:

Items	CD%
Forgings of crank shaft: ----Upto 10 Kg	11
Styrene acrylic emulsion	11

**Concession under Fifth schedule**
**Part I**

The Finance Bill seeks to reduce the rate of customs duty on items imported under following PCT headings under table to the Part I subject to the condition mentioned against the same.

SR. No	Description	PCT Code	Custom duty		Condition
			Current	Proposed	
23	Parts, Components and inputs for manufacturing LED lights:	Respective Heading	20	0	If imported by LED Light and Bulbs manufacturers registered under the Sales Tax Act, 1990 subject to annual quota determination by the Input Output Coefficient Organizatio
	(i) Housing/Shell, shell cover and base cap for all kinds of LED Lights and Bulbs	3810.9090			
	(ii) Pickling preparations for metal surfaces; soldering brazing or welding powders and pastes consisting of metal and other materials	3907.7000			
36	(iii) Poly Butylene Terephthalate				
	Machinery, equipment and other project related items for setting up of Submarine Cable Landing stations				If imported by Internet Service providers registered under the Sales Tax Act 1990, duly certified by the Ministry of Information Technology and Telecommunication and Pakistan Telecommunication Authority (PTA), and subject to annual quota determination by the Input Output Co-efficient Organization (IOCO).
	(i) Tubes Pipes and hollow profiles of cast iron	7303.0000	20	0	
	(ii) Articles of non-malleable cast iron	7325.1000	20		
	(iii) Static Converters	8504.4090	16		
(iv) Machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus	8517.6290	16			
37	Other Electric Conductors exceeding 32000 V	8544.6090	20	11	If imported by manufacturers of transformers, registered under the Sales Tax Act 1990.

**Part II**

The Bill proposes to reduce customs duty from 11% to 0% on “Meglumine antimonite” under PCT heading '3004.9099' without any applicable condition under Table C of Part-II.

PCT CODE	Items	CD%	
		Current	Proposed
7606.9290	(i) Coils of aluminium alloys	5	0
4804.3900	(i) Other craft paper	16	15
8529.9090	(xiii) Glass board for manufacturing TV panels (LCD, LED, OLED, HDI etc.)	10	0

By Virtue of Finance Bill, 2020 following new concessions have also been proposed:

- Organic composite solvents and thinner, not elsewhere specified or included prepared paint or vanish imported by manufactures of Butyl Acetate at the rate of 0% registered under the Sale Tax Act 1990.
- Semi-finished products of iron or non-alloy steel imported by manufactures of Wire Rods registered at the rate of 0% registered under the Sale Tax Act 1990.
- Plasticized (Poly Vinyl Chloride) imported by manufactures of disposable syringes and saline infusion sets at the rate of 0% registered under the Sale Tax Act 1990.
- Other unsaturated Polyesters imported by manufacture of buttons at the rate of 5% registered under the Sale Tax Act 1990.
- Plant machinery and equipment imported during the period commencing on 1st July, 2014 and ending on 30th June, 2023 for setting up of industries in erstwhile FATA areas at the rate of 0% subject to certain conditions.
- Import of Other Electric Conductor exceeding 32000-V imported by manufactures of transformers at the rate of 11% registered under Sale Tax Act 1990.



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