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ADVICE

Federal Budget Commentary 2019-20

AFTER INCORPORATION OF CHANGES MADE THROUGH FINANCE ACT

EXECUTIVE EFFICIENCY
BRANDING
FINANCE MANAGEMENT
PROGRAM PROFIT SUCCESS
INITIATIVE

Technical Support and Practice Development (TSPD) Committee
Institute of Cost and Management Accountant of Pakistan

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PREFACE



I am delighted to present the Budget Commentary for the fiscal year 2019-20, on behalf of the Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan). The purpose of preparing this commentary is to provide a deep insight on the Federal Budget 2019-20, as approved by the parliament, and to enable the readers understand various amendments introduced in taxation laws through Finance Act, 2019.

The sources of information to prepare this memorandum are; Economic Survey of Pakistan, Budget in Brief 2019-20 and the Finance Act, 2019, as were available on the websites of Ministry of Finance and Federal Board of Revenue, Government of Pakistan.

ICMA Pakistan is a leading professional accounting body working whole heartedly for betterment and uplift of the economy of Pakistan. The Institute is committed to establish a strong corporate culture, resulting in economic growth and stability in the country. Over the period, ICMA Pakistan has actively participated in arranging several pre-budget & post budget seminars, workshops & technical sessions; thus played a vital role by highlighting improvements in the existing taxation laws and suggesting concrete measures for generating tax revenues.

We value your suggestions/ proposals and comments to further improve ourselves. You can e-mail us your questions and comments at tspd@icmap.com.pk.

We hope that the Budget Commentary will be beneficial for the readers in understanding the budgetary changes and important regular compliance requirements. The strength of the institute lies with its members and professional collaboration with the corporate world, let's work for the glory of the institute unitedly and pray for its prosperity.

In the end, I am especially thankful to Zia Ul Mustafa Awan, President ICMA Pakistan, Shehzad Ahmed Malik, Honorary Secretary ICMA Pakistan, Ather Saleem Malik, Member of National Council, Muhammad Zamir FCMA, Muhammad Nawaz FCMA, Neem Uddin FCMA, Muhammad Bilal, Director TSPD, Fahad Bashir Siddiqui, Members of TSPD Committee and all other who participated and helped in development this document.

GHULAM MUSTAFA QAZI, FCMA

Chairman TSPD Committee



**INSTITUTE OF COST AND MANAGEMENT
ACCOUNTANTS OF PAKISTAN**

BUDGET AT A GLANCE

	2019-20	2018-19 (Revised)
	Amount in PKR (billion)	
Revenues		
Tax revenue	5,822	4,394
Non-tax revenue	894	638
Gross revenue receipts	6,716	5,032
Net Public Account Receipt	251	283
Total Receipts	6,967	5,314
Less: Provincial share in Federal taxes	(3,255)	(2,463)
Net revenue receipts	3,712	2,852
Expenditure		
Current expenditure	(7,473)	5,794
Development expenditure	(949)	830
	(8,422)	(6,624)
Overall fiscal deficit	(4,710)	(3,772)
Break-up of Tax Revenue		
Direct Taxes:		
• Income Tax	2073	1652
• Workers' Welfare Fund	5	4
	2,078	1,656
Indirect Taxes:		
• Customs Duty	1,001	735
• Sales Tax	2,108	1,490
• Federal Excise Duty	364	266
• Petroleum Levy	216	204
• Gas Infrastructure Cess	30	25
• Natural Gas Surcharge	10	8
• Others	15	10
	3,744	2,738
	5,822	4,394

ECONOMIC REVIEW

Overview

The economy of Pakistan is the 23rd largest in the world in terms of purchasing power parity (PPP), and 40th largest in terms of nominal gross domestic product. Economic growth in Pakistan has remained instable over the past which adds to the economic uncertainty about the country's economic conditions.

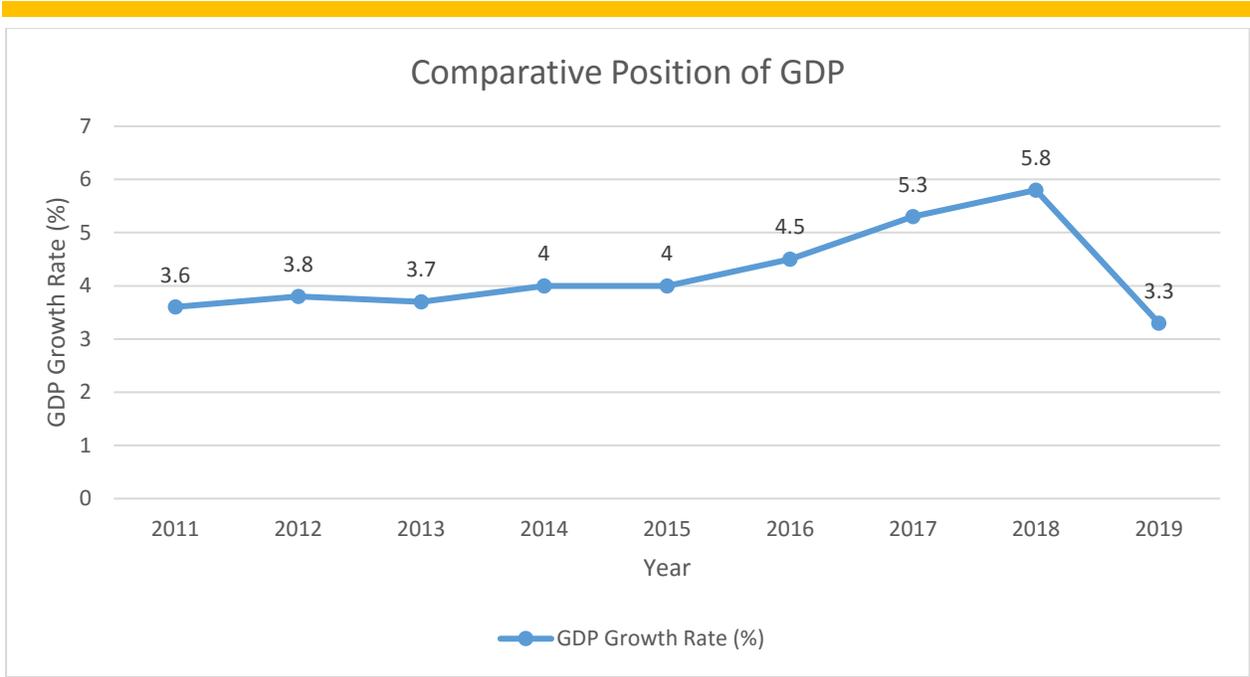
During the current fiscal year, the economy of Pakistan witnessed a down turn due to the pressure on current accounts and political uncertainty. The economic and fiscal indicators present a gloomy picture of Pakistan economy during the first year of current government. Since the beginning of current fiscal year, country's currency depreciated more than 20% and all the major indicators became negative. The government, however, is particularly focusing on the revival of the economy and is aiming to take concrete measures to put the economy on the right track.

The government has brought in a whole new economic team and is focused to take measures including curb on corruption, restoring macroeconomic stability, increase in per capita incomes, high tariff on imports, reduction in government expenditures and a documented economy. A new IMF program has been agreed, which is expected to bring some relief to struggling economy.

Growth

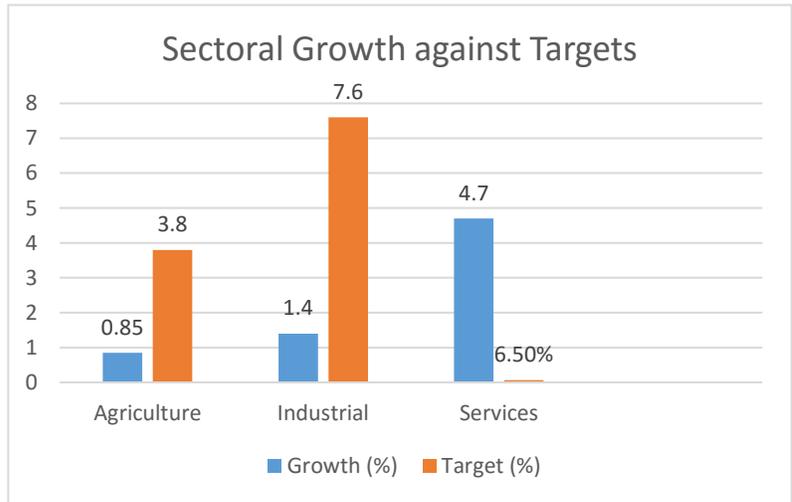
Gross domestic product (GDP) growth rate during the current financial year has plunged to 3.3 percent which is well below the targeted growth rate of 6.3% and last year growth rate of 5.8%. The current year growth rate is the lowest since 2010-11. A significant difference is witnessed in the growth rate of almost all important sectors like agriculture, industrial and service. A comparative position of GDP over the past few years is shown in following table:-

List	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 19 (Jul-Mar)
GDP at mp (Trillion Rupees)	18.2	20.0	22.4	25.2	27.4	29.1	32.0	34.4	38.5
GDP at bp (Trillion Rupees)	9.1	9.4	9.8	10.2	10.6	11.1	11.7	12.3	12.7
Per Capita Income (US\$)	1274.1	1320.5	1333.7	1388.8	1514.0	1530.8	1630.1	1652.0	1497.3
Real GDP growth rate	3.6%	3.8%	3.7%	4.0%	4.0%	4.5%	5.3%	5.8%	3.3%



Sectoral growth against target

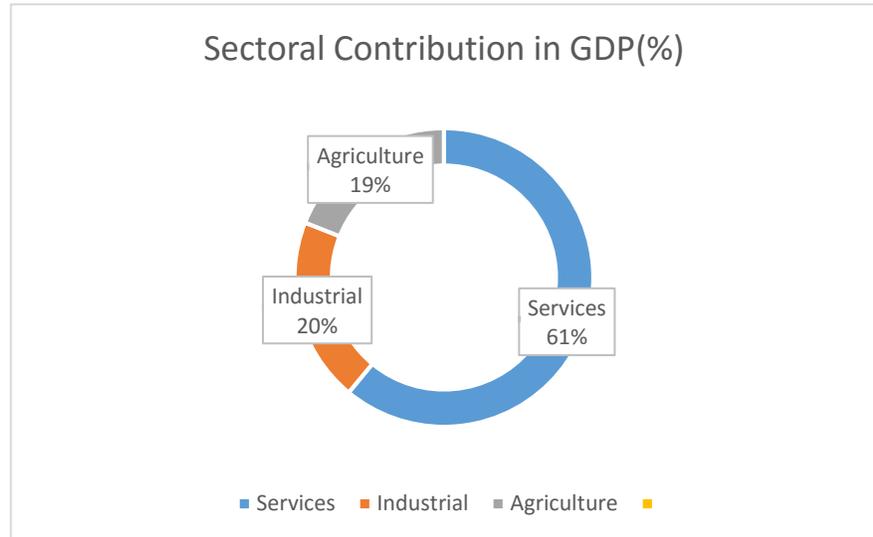
Sector	Growth (%)	Target (%)
Agriculture	0.85	3.8
Industrial	1.4	7.6
Services	4.7	6.5%



Sectoral Contribution in overall GDP

The contribution of three main sectors towards the overall GDP is as follows:-

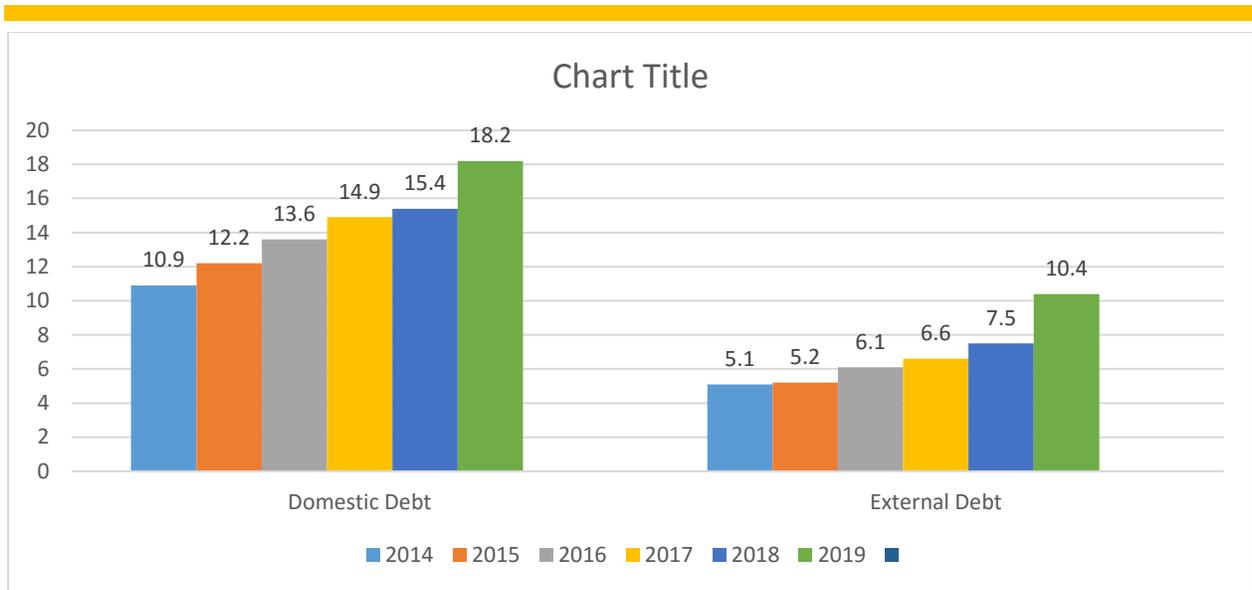
Sector	Contribution (%)
Services	61
Industrial	20
Agriculture	19
GDP Total	100



Public Debt

The total public debt of Pakistan has reached to Rs 28.6 trillion which is around 74% of GDP. An increase of Rs 3.6 trillion is witnessed within a year. External public debt contributes to Rs 1.9 trillion to the total public debt in the first 9 months. A glimpse of domestic and external debt is shown below:-

Year	2014	2015	2016	2017	2018	2019
	Rupees in Trillion					
Domestic Debt	10.9	12.2	13.6	14.9	15.4	18.2
External Debt	5.1	5.2	6.1	6.6	7.5	10.4
Total Debt	16.0	17.4	19.7	21.5	22.9	28.6



Current account deficit

Despite the devaluation of Pak rupee, the current fiscal year showed a trade deficit at USD 24 billion for July-Apr period. Exports and imports decreased by 1.9%, and 4.9% respectively during this period. Following image shows increased trade deficit gap of the country:-



Interest Rates and Inflation

In the current fiscal year, the interest rates are climbing high due to the increase in inflation. The inflation rose to an average of 7% as compared to 3.8% last year. A narrow interest rate gap between long term and short term indicates that market is expecting a reduction in the interest rates in future. The market interest rates as on June 3, 2019 are as below:-

Slabs	As on June 03, 2019 (%)	As on June 30, 2018 (%)
1 Year	12.9	7.2
3 Years	13.5	8.3
5 Years	13.5	8.8
10 Years	13.5	9.0

KEY HIGHLIGHTS OF BUDGET 2019-20

General

- The total outlay of budget 2019-20 is Rs 8,238.1 billion, which is 38.9% higher than the budget estimates of 2018-19.
- The resource availability during 2019-20 has been estimated at Rs 7,899.1 billion against Rs 4,917.2 billion for 2018-19.
- The net revenue receipts for 2019-20 have been estimated at Rs 3,462.1 billion indicating an increase of 12.8% over the preceding fiscal year.
- The provincial share in federal taxes is estimated at Rs 3,254.5 billion during 2019-20, which is 25.7% higher than the budget estimates for 2018-19.
- The net capital receipts for 2019-20 have been estimated at Rs 831.7 billion against the budget estimates of Rs 443.1 billion in 2018-19 reflecting an increase of 87.7%.
- The external receipts are estimated at Rs 3,032.3 billion, showing an increase of 171.2% over the budget estimates for 2018-19.
- The overall expenditure has been estimated at Rs 8,238.1 billion, out of which the current expenditure is Rs 7,288.1 billion.
- The expenditure on General Public Services is estimated at Rs 5,607.0 billion, which is 76.9% of the current expenditure.
- The development expenditure outside PSDP has been estimated at Rs 85.8 billion.
- The size of Public Sector Development Programme (PSDP) for 2019-20 is Rs 1,613 billion. Out of this, Rs 912 billion has been allocated to provinces.
- Federal PSDP has been estimated at Rs 701 billion, out of which Rs 348.2 billion for Federal Ministries/Divisions, Rs 348.2 billion for Corporations, Rs 5 billion for Earthquake Reconstruction and Rehabilitation Authority (ERRA), Rs 17 billion for Relief and Rehabilitation of IDPs, Rs 53 billion for Security Enhancement, Rs 5 billion for Prime Minister's Youth Skill Development Initiative, Rs 2 billion for Clean Green Pakistan Movement/Tourism, Rs 1 billion for Gas Infrastructure Development Cess, Rs 48 billion for Merged Areas of FATA 10 Years Development Plan and Rs 24 billion for Pakistan Sustainable Development Goals (SDGs) and Community Development Programme.
- To meet expenditure, bank borrowing has been estimated for 2019-20 at Rs 339 billion, which is lower by 688.7 billion than the revised estimates 2018-19 reflecting decrease at 75%.
- Minimum monthly salary has been set at PKR 17,500

Tax Rates for Salaried persons

S No	Taxable Income	Rate of Tax
1	Where taxable income does not exceed Rs 600,000	0%
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	5% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs 1,200,000 but does not exceeds Rs 1,800,000	Rs 30,000 plus 10% of the amount exceeding Rs 1,200,000
4	Where taxable income exceeds Rs 1,800,000 but does not exceed Rs 2,500,000	Rs 90,000 plus 15% of the amount exceeding Rs 1,800,000
5	Where taxable income exceeds Rs 2,500,000 but does not exceed Rs 3,500,000	Rs 195,000 plus 17.5% of the amount exceeding Rs 2,500,000
6	Where taxable income exceeds Rs 3,500,000 but does not exceed Rs 5,000,000	Rs 370,000 plus 20% of the amount exceeding Rs 3,500,000
7	Where taxable income exceeds Rs 5,000,000 but does not exceed Rs 8,000,000	Rs 670,000 plus 22.5% of the amount exceeding Rs 5,000,000
8	Where taxable income exceeds Rs 8,000,000 but does not exceed Rs 12,000,000	Rs 1,345,000 plus 25% of the amount exceeding Rs 8,000,000
9	Where taxable income exceeds Rs 12,000,000 but does not exceed Rs 30,000,000.	Rs 2,345,000 plus 27.5% of the amount exceeding Rs 12,000,000
10	Where taxable income exceeds Rs 30,000,000 but does not exceed Rs 50,000,000.	Rs 7,295,000 plus 30% of the amount exceeding Rs 30,000,000
11	Where taxable income exceeds Rs 50,000,000 but does not exceed Rs 75,000,000.	Rs 13,295,000 plus 32.5% of the amount exceeding Rs 50,000,000
12	Where taxable income exceeds Rs 75,000,000.	Rs 21,420,000 plus 35% of the amount exceeding Rs 75,000,000

Tax Rate Card for Non-salaried persons

S No	Taxable Income	Rate of Tax
1	Where taxable income does not exceed Rs 400,000	0%
2	Where taxable income exceeds Rs 400,000 but does not exceed Rs 600,000	5% of the amount exceeding Rs 600,000
3	Where taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	Rs 10,000 plus 10% of the amount exceeding Rs 600,000
4	Where taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,400,000	Rs 70,000 plus 15% of the amount exceeding Rs 1,200,000
5	Where taxable income exceeds Rs 2,400,000 but does not exceed Rs 3,000,000	Rs 250,000 plus 20% of amount exceeding Rs 2,400,000
6	Where taxable income exceeds Rs 3,000,000 but does not exceed Rs 4,000,000	Rs 370,000 plus 25% of the amount exceeding Rs 3,000,000
7	Where taxable income exceeds Rs 4,000,000 but does not exceed Rs 6,000,000	Rs 620,000 plus 30% of the amount exceeding Rs 4,000,000
8	Where taxable income exceeds Rs 6,000,000	Rs 1,220,000 plus 35% of the amount exceeding Rs 6,000,000

- Now, the promissory notes shall be issued against the refunds claims of claimants at their option by a newly formed company called FBR Refund Settlement Company Limited.
- In case of late filers, the condition of not placing the name on ATL for the whole year has been abolished.
- The Government will withhold any refund payable to a late-filer in the tax year in which the return is filed late without incurring any liability of compensation for delayed refund.
- A surcharge tax for placement on ATL after the due date of filing of return has been imposed as under:-

S No	Person	Tax Rate
1	Company	Rs 20,000
2	Association of Persons	Rs 10,000
3	Individuals	Rs 1,000

- The Government will provide incentives to persons, in the form of tax credits, for employing fresh graduates.
- Various allowances to Armed Forces Personnel such as internal security allowance and compensation in lieu of bearer allowance have been exempted from tax Revenue Measures.
- All 'gifts' will now be considered 'income from other sources', except the 'genuine gift transactions', i.e. on transactions between close family members. Consequently, any amount in cash or fair market value of any assets including immovable property shall be treated as gift.
- The rates of minimum tax have been enhanced on certain sectors from 1.25% to 1.5%, from 0.20% to 0.25%, from 0.25% to 0.3% and from 0.5% to 0.75% respectively.
- The tax slab of income from property has been limited from Rs 2,000,000/- to 4,000,000/- and thereafter three additional brackets of income between four to six million, six to eight million and exceeding eight million have been added.
- The tax rate for services at 2% of turnover has been increased to 4% of the gross amount of turnover. Further the previous rate of 2% for transport services has been increased to 3%.
- Withholding tax on royalty to a resident person is introduced at the rate of 15% of the gross amount of royalty to be deducted from resident persons.
- The tax rate for companies has been fixed at 29%.
- Income from capital gains on immovable properties has been taxed at various rates as provided under Division VIII.
- Gain on open plots shall be reduced on the basis of net present value so that where the holding period is up to one year the full gain will be taxed. Where the holding period is between one to eight years, 75% of the gain shall be taxed and there will be no tax in case the holding period is more than eight years.

- Gain on sale of constructed property is to be fully taxed where the holding period is up to one year and 75% of the gain will be taxed where the holding period is between one to four years. In case the holding period is above four years, no gains shall be taxed.
- The rate of withholding tax on purchase of immovable property has been reduced from 2% to 1%.
- Tax collected or deducted from certain persons such as commercial importers, commercial suppliers of goods, contractors, persons deriving brokerage or commission income and persons earning income from CNG stations shall now be treated as minimum tax liability except for exporters, persons winning prizes and sellers of petroleum products.
- Rate of tax on dividend received by a person from a mutual fund, stock fund and a development REIT scheme has been enhanced to 15%.
- Tax rates of Profits on debts up to Rs.36 million shall be increased as under:
 - Below Rs 5 million from previous 10% to revised 15%,
 - between Rs 5 million and 25 million from previous 12.5% to revised 17.5%
 - between 25 to 36 million tax from previous 15% to revised 20%

For amounts exceeding Rs. 36 million the profit on debt will be made part of the total income and taxed at normal rates.

- Advance tax from dealers, commission agents and arhatis at the time of issuance or renewal of licenses is enhanced for Class A from Rs. 10,000 to Rs 100,000/-, for Class B from Rs'. 7,500 to 75,000/, for Class C from Rs 5,000/- to Rs. 50,000 and for any other category from Rs. 5,000/- To Rs. 50,000/-.
- A person purchasing immovable property of fair market value greater than rupees five million and one million or more in the case of any other asset, would now be required to make payment for the said purchase through a crossed banking instrument. A penalty at the rate of five percent of FBR value of asset has been imposed for violation of this requirement.
- An enabling provision has been introduced which authorizes the Federal Government, to notify special provisions in such cities or territories, as may be specified for small businesses, construction businesses, medical practitioners, hospitals, educational institutions, and any other sector specified.
- Trusts and welfare institutions shall also be required to obtain recognition from Commissioner to avail the facility of tax credit under section 100C.
- In order to ascertain the actual market price in situations where companies evade income tax by not declaring transactions on their true market value, the Commissioner is empowered to obtain a comprehensive data of comparables from an independent Chartered Accountant or Cost and Management Accountant.
- In case where any tax payable by an association of persons cannot be recovered, the same shall be recovered from any person who is a member of the association. The member shall thereafter be allowed to recover the tax paid by him from the AOP.

- When a taxpayer is selected for tax audit, such audit and assessment shall be performed by separate and independent officers to ensure impartial treatment to the taxpayers.
- A new registration scheme is being introduced where every person deriving business income, even if below the tax threshold shall be required to register with the Board through NADRA's e-sahulat centres.

Sales Tax & Federal Excise Budgetary Measures

- Exemption from sales tax has been introduced on imports of plant, machinery, equipment for installation in tribal areas, and of industrial inputs by the industries located in the tribal areas.
- Petroleum products imported by oil marketing companies, Mobile cellular phones and satellite phones has been excluded from levy of 3% value addition sales tax.
- Brick kiln shall be taxed according to region or areas categorized as under:-
 - Category A Rs 12,500 pm
 - Category B Rs 10,000 pm
 - Category C Rs 7,500 pm
- Sales Tax Rates on food supplied by restaurants, bakeries, caterers etc. is reduced from 17% to 7.5% against which input tax adjustment shall not be allowed.
- Milk and cream, concentrated or containing added sugar or other sweetening matter shall be taxed @10%.
- SRO 1125(I)/2011 is rescinded and standard rate of 17% on items covered under SRO is restored.
- The rate of sales tax on local supplies of finished articles of textile and leather and finished fabric may be raised from pervious 6% for integrated businesses, and 9% for others, to 15% and 17%, respectively.
- Zero-rating of utilities (gas, electricity and fuels) allowed to these export-oriented sectors through various sales tax general orders has been withdrawn.
- Ginned cotton which is presently exempt shall be subjected to be taxed at reduced rate of 10%
- Special Regime of taxation of the whole of the steel sector is being abolished and normal regime is restored.
- Rates of FED on edible oils / ghee / cooking oil have been increased to 17% and normal regime for the sector is restored.
- FED on cigarettes is levied on fixed rate basis.
- Sales tax rate on sugar has been enhanced to 17%.

- Fruit juices, syrups and squashes, waters containing added sugar or sweetening matter etc. excluding mineral and aerated waters shall be subject to FED at 5% of retail price.
- Federal excise duty on cement has been increased to Rs. 2 per kg.
- FED on LNG has been increased from Rs. 17.18 per 100 cu. m to Rs. 10 per MMBTU bringing it to same level as for local gas.
- Reduced rate/minimal tax rate introduced as 1% on gold and silver. Also gold in jewellery may be taxed at 1.5%, diamond at 0.5% and making charges at 3%, with input adjustment available only in respect of gold.
- Following slabs of FED are applicable for locally manufactured / assembled cars, SUVs etc. of cylinder capacity:
 - From 0 to 1000cc 2.5%
 - From 1001cc to 2000cc 5%
 - From 2001cc and above 7.5 %
- All the special procedures and redundant SROs are abolished to enable taxpayers to easily comprehend and follow law.
- Restrictions are applied on the Federal Government to grant zero-rating under section 4, which previously had no such restrictions attached.

Customs

RELIEF MEASURES

- To standardize printing and preservation of Holy Quran, import of good quality duty free Art paper has been allowed.
- Exemption of Customs Duty (CD) on 18 medicinal inputs/items
- Exemption of CD on Modular/ Particle Free Operation Theatre
- Exemption of CD on Medicines for certain rare diseases
- Incentive to promote tourism by reducing duty on pre-fabricated structures for hotels

INCENTIVIZING LOCAL INDUSTRY:

- Exemption of CD on more than 1650 raw materials/industrial inputs
- Reduction of CD on Writing & Printing Papers
- Exemption of CD on Raw materials of Paper Industry
- Exemption of CD on import of Wood
- Reduction of CD on Glass Board for LED Panel manufacturing

- Reduction of CD on input goods for paper based Liquid Food Packaging Industry
- Reduction of CD on Acetic Acid
- Reduction of CD on Nonwoven fabrics
- Exemption of CD on Machinery Parts / Accessories for Textile Sector
- Exemption of CD on Elastomeric Yarn
- Rationalization of CD on Aluminium Beverage Cans & Inputs thereof
- Exemption of CD on raw material for hemodialyzers used by kidney patients
- Tariff rationalization on Home Appliance Sector
- Reduction of CD on Base Oil as input for Coning Oil, White Oil and other Textile Oils
- Reduction of CD on Raw Material for Manufacturing of Pre-Sensitized Printing Plates
- Exemption of CD on Preparations for Metal Surfaces as input for Solar Panels
- Exemption of CD on Foundation Cloth
- Reduction of Duty on Wooden Sheets for Veneering
- Reduction of CD on Oxalic Acid
- Reduction of CD on Raw Material of Powder Coating Industry
- Reduction of CD on Raw Material for Paper Sizing Agents
- Reduction of CD on Bobbins & Spools of Paperboard
- Exemption of CD for Hydrocracker Industry for oil refining
- Rationalization of tariff structure for SIM card manufacturing industry

REGULATORY DUTY (RD):

- Reduction of RD on Mobile Phones
- Reduction of RD on smuggling prone items and other industrial inputs
- Reduction of RD on Tyres

REVENUE MEASURES:

- Increase in rate of Additional Customs Duty for certain non-essential items
- Withdrawal of exemption on import of LNG

SIGNIFICANT CHANGES IN INCOME TAX ORDINANCE, 2001

The Finance Act, 2019 applies following significant amendments in the Income Tax Ordinance, 2001:

Definitions - Active Taxpayers' List for AJK

[Section 2(1A)]

The Act includes in Active Taxpayers List, under section 181A of the Income Tax Ordinance, 2001, such list issued by the Azad Jammu and Kashmir Council Board of Revenues or Gilgit-Baltistan Council Board of Revenues.

Tax on Profit on Debt

[Section 7B(3)]

Previously section 7B(3) did not apply to a profit on debt that is exempt from tax under this Ordinance. Now the Finance Act, 2019 further provides that this section will also not apply on profit on debt exceeding thirty-six million rupees. This means that now the profits on debt exceeding rupees thirty-six million will be taxed under normal regime.

Deductions not allowed

[Section 21(c)]

A new clause has been inserted under the section 21(c) as (ca) to bring under the heading "deductions not allowed" any amount of commission paid or payable in respect of supply of products listed in the Third Schedule of the Sales Tax Act, 1990, where the amount of commission paid exceeds 0.2 percent of gross amount of supplies thereof unless the person to whom commission is paid or payable, as the case may be, is registered under the Sales Tax Act, 1990 and is appearing in the active taxpayer list under this Ordinance.

Intangibles

[Section 24]

Through amendment in this section, the useful life of an intangible asset that does not have an ascertainable useful life has been fixed at twenty-five years.

The Act further excludes self-generated goodwill or any adjustment arising on account of accounting treatment in the manner as may be prescribed, from the definition of intangibles.

Capital Gains

[Section 37]

The existing Section 37(1A) provides for taxation of capital gains as per slabs provided in First Schedule, Part 1, Division 8 up to three years.

The Act has now omitted sub-section (1A) and introduced a new sub-section (3A) after sub-section 3 to compute the gain arising on disposal of immovable property, being an open plot, as per the following table:

S.No.	Holding Period	Gain
(1)	(2)	(3)
1	Where the holding period of open plot does not exceed one year	A
2	Where the holding period of open plot is exceeds one year but does not exceed eight years	A x 3/4
3	Where the holding period of open plot exceeds eight years	0

Here **A** is the amount of the gain determined under sub-section (2). Now the gain as computed above is applicable to be charged to tax as per new slabs ranging from 5% to 20%.

The Act further introduces a new sub-section (3B) to compute the amount of any gain arising on disposal of immovable property, being a constructed property, in accordance with the following table:

S.No.	Holding Period	Gain
(1)	(2)	(3)
1	Where the holding period of constructed property does not exceed one year	A
2	Where the holding period of constructed property exceeds one year but does not exceed four years	A x 3/4
3	Where the holding period of constructed property exceeds four years	0

Here **A** is the amount of the gain determined under sub-section (2). Now the gain as computed above is to be charged to tax at newly provided rates as discussed under the relevant provisions.

Income from other sources

[Section 39]

The Act inserts a new sub-section (1a) after sub-section (1) to include, under the head “income from other sources”, any amount or fair market value of any property received without consideration or received as gift, other than gift received from grandparents, parents, spouse, real brother, real sister, son or a daughter.

Tax credit on investment in health insurance

[Section 62A]

The Act has omitted the expression “being a filer”, wherever occurring, in sub-section (1), of section 62A. Now the tax credit on investment in health insurance will also be available to all.

Tax credit for persons employing fresh graduates

[Section 64C]

In order to incentivize the businesses to employ fresh graduates, a new section 64C has been inserted, which provides that:

- 1) A person employing freshly qualified graduates from a university or institution recognized by Higher Education Commission, shall be entitled to a tax credit in respect of the amount of annual salary paid to the freshly qualified graduates for a tax year in which such graduates are employed.
- 2) The amount of tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely:

$$(A/B) \times C$$

Where—

A is the amount of tax assessed to the person for the tax year before allowance of tax credit under this section;

B is the person's taxable income for the tax year; and

C is the lessor of —

- a) the annual salary paid to the freshly qualified graduates referred to in sub-section (1) in the year; and
- b) five percent of the person's taxable income for the year;

- 3) The tax credit shall be allowed for salary paid to the number of freshly qualified graduates not exceeding fifteen percent of the total employees of the company in the tax year.
- 4) In this section, "freshly qualified graduate" means a person who has graduated after the first day of July, 2017 from any institution or university recognized by the Higher Education Commission.

Tax credit for investment

[Section 65B]

The Section 65B provides tax credit to companies investing in the purchase of plant & machinery for the purpose of extension, expansion, balancing, modernization and replacement of the plant & machinery already installed. The Finance Act, has now reduced the tax credit from 10% to 5%.

Further in case of any amount of tax payable is less than the amount of credit, the balance amount not adjusted can be carried forward to the next year and so on. The Act now provides, by inserting a proviso in sub-section (1) of section 65B that this credit under sub-section (5) shall continue to apply after tax year 2019.

Purchase of assets through banking channel

[Section 75A]

The Act inserts a new Section 75A after section 75, which provides that no person shall purchase an immovable property having fair market value greater than rupees five million; or any other asset having fair market value more than one million rupees, otherwise than by a crossed cheque drawn on a bank or through crossed demand draft or crossed pay order or any other crossed banking instrument showing transfer of amount from one bank account to another bank account.

For the purposes of this section, fair market value means value notified by the Board under sub-section (4) of section 68 or value fixed by the provincial authority for the purposes of stamp duty, whichever is higher.

It further provides that in case the transaction is not undertaken in the manner specified in above, such asset shall not be eligible for any allowance under sections 22, 23, 24 and 25 of this Ordinance; and such amount shall not be treated as cost in terms of section 76 of this Ordinance for computation of any gain on sale of such asset.

Resident individual

[Section 82]

The existing provisions term a person a Resident if he stays in Pakistan for 183 days or more during a tax year. Now, the Act inserts a new sub-section (ab) in section 82 to term a person as Resident if he/ she is present in Pakistan for a period of, or periods amounting in aggregate to, one hundred and twenty days or more in the tax year and who, in the four years preceding the tax year, has been in Pakistan for a period of, or periods amounting in aggregate to, three hundred and sixty-five days or more.

Specific procedure for certain persons

[Section 99C]

A new section 99C has been inserted in the Ordinance, which provides the following:

“Notwithstanding anything contained in this Ordinance, the Federal Government may, by notification in the Official Gazette, prescribe special procedure for scope and payment of tax, record keeping, filing of return and assessment in respect of such small businesses, construction businesses, medical practitioners, hospitals, educational institutions and any other sector specified by the Federal Government, in such cities or territories, as may be specified therein.”

Specific procedure relating to persons not appearing in Active Taxpayers' List

[Section 100BA]

In order to provide income tax procedure for a person whose name is not appearing in the Active Tax payers list, a new section 100BA has been inserted in the Ordinance, which states the following:

“(1) The collection or deduction of advance income tax, computation of income and tax payable thereon shall be determined in accordance with the rules in the Tenth Schedule.

(2) The provisions of the Tenth Schedule shall have effect notwithstanding anything to the contrary contained in this Ordinance.”

Tax credit for certain persons

[Section 100C]

The existing sub-section allows 100% tax credit to non-profit organizations subject to the following conditions:

- a) Tax return has been filed.
- b) Tax required to be deducted or collected and paid has been deducted or collected and paid.
- c) Withholding statement for the immediately preceding tax year has been filed.

d) Administrative and management expenses do not exceed 15% of total receipts.

The Act now adds a new condition, namely:

"(e) approval of the Commissioner has been obtained as per the requirement of clause (36) of section 2:

Provided that this clause shall take effect from the first day of July, 2020; and

(f) none of the assets of trusts or welfare institutions confers, or may confer, a private benefit to the donors or family, children or author of the trust or his descendants or the maker of the institution or to any other person:

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

Further, the power of the Chief Commissioner under sub-section (2), clause (c) to approve a trust or welfare institution of an NPO, have been abolished by omitting the clause (c).

Report from independent CA or CMA

[Section 108A]

A new section 108A has been introduced empowering the Commissioner to obtain a report from an independent Cost and Management Accountant or Chartered Accountant to determine the fair market value of an asset, product, service or expenditure, if he is of the opinion that a transaction has not been declared at arm length. The section is being reproduced hereunder:

- (1) Where the Commissioner is of the opinion that a transaction has not been declared at arm's length, the Commissioner may obtain report from an independent chartered accountant or cost and management accountant to determine the fair market value of asset, product, expenditure or service at the time of transaction.
- (2) The scope, terms and conditions of the report shall be as may be prescribed.
- (3) Where the Commissioner is satisfied with the report of the independent chartered accountant or cost and management accountant, the fair market value of asset, product, expenditure or service determined in the report shall be treated as definite information for the purpose of sub-section (8) of section 122.
- (4) Where the Commissioner is not satisfied with the report of the independent chartered accountant or cost and management accountant, the Commissioner may record reasons for being not satisfied with the report and seek report from another independent chartered accountant or cost and management accountant, to determine the fair market value of asset, product, expenditure or service at the time of transaction.
- (5) The Commissioner shall seek report under sub-section (1) or sub-section (3), as the case may be, with prior approval of the Board.

The Act inserts a new section 108B, which provides the following:

- 1) Where a person supplies products listed in the Third Schedule to the Sales Tax Act, 1990 or any other products as prescribed by the Board, under a dealership arrangement with the dealers who are not registered under the Sales Tax Act, 1990 and are not appearing in the active taxpayers' list under this Ordinance, an amount equal to seventy-five percent of the dealer's margin shall be added to the income of the person making such supplies.
- 2) For the purposes of operation of this section, ten percent of the sale price of the manufacturer shall be treated as dealers' margin."

The purpose of this provision is to ensure documentation, tap the income of dealers and bring the whole distribution chain into the tax net.

Through amendment in the section 111(4)(a) the limit of foreign exchange remittances through banking channel, which can be questioned by the tax authorities, has been reduced from existing Rs. 10 million to Rs. 5 million per year.

The Act also omits the clause (c) of sub-section (4) of section 111. Under the omitted clause, tax authorities could not probe valuation of immovable property, where its registered value is lower than FBR value under section 68. Now the Act applies to withdraw the immunity available under section 111(4)(c).

Through this amendment, the threshold of owner of Immoveable property has been enhanced from 250 Sq. Yards to 500 Sq. Yards for mandatory filing of annual income tax return.

The Act matches the tax return filling date for salaried individuals from August 31st to September 30th.

A new section 120B has been inserted in the Act to provide protection, under the Income Tax Ordinance, 2001, to persons availing tax amnesty under the Asset Declaration Act, 2019 in order to boost the confidence of the declarants. The section states the following:

“(1) Where any person entitled to declare undisclosed assets, undisclosed expenditure and undisclosed sales under the Assets Declaration Act, 2019 declares such assets, expenditures or sales to pay tax, no proceedings shall be undertaken under this Ordinance in respect of such declaration.

(2) Notwithstanding anything contained in any other law, for the time being in force, sub-section (3) of section 216, except the provisions of clauses (a) and (g) of sub-section (3) of section 216, particulars of

the persons making declaration under the Assets Declaration Act, 2019 or any information received in any declaration made under the said Act shall be confidential.”

CMAAs added in ADRC

[Section 134A(2)(ii)]

Through this amendment, Cost and Management Accountants, have been added in the Alternate Dispute Resolution Committee (ADRC) provided in the section 134A.

Further, the minimum requirement of 10 years’ experience has been prescribed to be a member of ADRC.

Collection of tax from members of AOPs

[Section 139(5)]

Under this newly inserted sub-section, Tax Authorities can now recover the Tax liability of AOP from its member for that particular year and further such member can recover such tax from AOP or share of tax from another member of such AOP.

Empowering Commissioner to freeze Assets Person leaving Pakistan

[Section 145(5)]

This amendment empowers the Commissioner, on the basis of information received from any offshore jurisdiction, to freeze any domestic asset of the person including any asset beneficially owned by the person for a period of 120 days or till the finalization of the proceedings under this ordinance, whichever is earlier, where Commissioner believes that the person leaving Pakistan may be involved in offshore tax evasion.

Advance tax from provincial sales tax registered person

[Section 147A (8)]

Through this amendment the word “filer” has been replaced with the words “Active tax payer” list to coincide with the other amendments introduced in the law.

Tax Collected at Import Stage

[Section 148(7) & (8A)]

Through this amendment in section 148(7), the tax collected at import stage has been declared as minimum tax instead of final tax and similarly the tax collected on import of ships by ship-breakers has also been declared as minimum tax instead of existing final tax.

Profit on debt

[Section 151(3)]

Through this amendment, the tax deducted & collected on profit on debts treated as minimum tax instead of final tax.

Payment to non-residents

[Section 152(1b) & (4B)]

Through amendment in section 152(1B), the tax deducted under section 152(1A) on execution a contract or subcontract under a construction, assembly or installation project in Pakistan, including a contract for supply of supervisory activities in relation to such project or any other contract for construction or services

rendered or contract for advertisement services rendered by TV Satellite channels, from non-resident person, has been declared to be minimum tax instead of final tax.

A new sub-section (4B) has been added in section 152, whereby the commissioner is empowered to allow the person in response to application filled by a person intending to make a payment, that constitute part of an overall arrangement of cohesive business operation as referred to in paragraph (ii) of sub-clause (g) of clause (41) of section 2, after the deduction of tax equal to 30% of tax chargeable. The credit of such tax deducted would be available to a permanent establishment of the non-resident person accounting for overall profits arising on overall cohesive business operations.

Payment for goods, services and contracts

[Section 153]

Through amendment in section 153, sub-section 3 the tax deductible for sale of goods under sub-section (1) (a) and on execution of contracts under sub-section (1) (c) has been made minimum tax instead of final tax, except for the payments less than Rs. 75,000 in aggregate during a financial year.

Further, the tax deductible under clause (a) has been declared as “not to be minimum” instead of being adjustable under existing regime.

Under the clause (b), the tax deductible shall now be a minimum tax on transactions referred to in clause (b) of subsection (1) “rendering or providing of services”.

Payment for royalty to resident persons

[Section 153B]

A new section 153B has been inserted, which states the following:

“(1) Every person paying an amount of royalty, in full or in part including by way of advance, to a resident person shall deduct tax from the gross amount payable (including Federal excise duty and provincial sales tax, if any) at the rate specified in Division IIIB of Part III of the First Schedule.

(2) The tax deductible under sub-section (1) shall be adjustable.”;

Amendment of recovery order by Commissioner

[Section 161(3)]

A new sub-section (3) has been inserted under section 161, empowering the commissioner to revise the recovery orders, which states the following:

“(3) The Commissioner may, after making, or causing to be made, such enquiries as he deems necessary, amend or further amend an order of recovery under sub-section (1), if he considers that the order is erroneous in so far it is prejudicial to the interest of revenue:

Provided that the order of recovery shall not be amended, unless the person referred to in sub-section (1) has been provided an opportunity of being heard.”;

Statements

[Section 165]

The Act inserts the reference of newly inserted Tenth Schedule to the Ordinance “Rules for Persons not appearing in ATL” in section, which relates to withholding tax statement. This seems to further emphasize

the fact that complete and accurate particulars of the persons not appearing in active taxpayer list should be included in the statement under section 165 of the Ordinance.

Furnishing of Information by Banks

[Section 165A]

Previously, this section required the banks to provide to the Board, in the prescribed manner, the particulars of the cash withdrawals exceeding Rs. 50,000 in a day, deposits of Rs. 10 million or more during preceding month and credit card bills payments. The Act has now replaced the concept of filer and no-filer with the concept of “person not appearing in Active Taxpayers’ List”.

In furtherance, the threshold for reporting profit on debt by banks has been reduced to Rs. 500,000 from previous threshold of Rs. 1,000,000.

Credit for tax collected or deducted

[Section 168]

As the concept of final tax regime has been replaced with the Active Taxpayers regime, the sub-section (3) of section 168 has been omitted.

Tax collected (or paid) or deducted as a final tax

[Section 169]

Sub-section (4) of section 169, has been replaced with the following:

“(4) Where the tax collected or deducted is final tax under any provision of this Ordinance and hundred percent higher tax rate has been prescribed for the said tax under the Tenth Schedule, the final tax shall be the tax rate prescribed in the First Schedule and the excess tax collected under the Tenth Schedule specified for persons not appearing in the active taxpayers’ list shall be adjustable in case the return is filed before finalization of assessment as provided in rule 4 of the Tenth Schedule.”

Payment of refund through income tax refund bonds

[Section 171A]

The Act inserts a new section 171A after section 171 to establish the refund payment mechanism. The section provides the following:

“(1) Notwithstanding anything contained in sections 170 and 171, the income tax refunds payable under this Ordinance may also be paid through income tax refund bonds to be issued by FBR Refund Settlement Company Limited, in book-entry form through an establishment licensed by the Securities and Exchange Commission of Pakistan as a central depository under the Securities Act, 2015 (III of 2015), in lieu of payment to be made through issuance of cheques or bank debit advice.

(2) The Board shall issue a promissory note to FBR Refund Settlement Company Limited, hereinafter referred to as the company, incorporating the details of refund claimants and the amount of refund determined as payable to each for issuance of income tax refund bonds, hereinafter referred to as the bonds, of the same amount.

(3) The bonds shall be issued in values in multiples of one hundred thousand rupees.

(4) The bonds so issued shall have a maturity period of three years and shall bear annual simple profit at ten percent.

(5) The bonds shall be traded freely in the country's secondary markets.

(6) The bonds shall be approved security for calculating the statutory liquidity reserve.

(7) The bonds shall be accepted by the banks as collateral.

(8) There shall be no compulsory deduction of *Zakat* against the bonds and *Sahib-e-Nisab* may pay *Zakat* voluntarily according to *Shariah*.

(9) After period of maturity, the company shall return the promissory note to the Board and the Board shall make the payment of amount due under the bonds, along with profit due, to the bond holders.

(10) The bonds shall be redeemable in the manner as in subsection (9) before maturity only at the option of the Board along with simple profit payable at the time of redemption in the light of general or specific policy to be formulated by the Board.

(11) The refund under sub-section (1) shall be paid in the aforesaid manner to the claimants who opt for payment in such manner.

(12) The Federal Government may notify procedure to regulate the issuance, redemption and other matters relating to the bonds, as may be required."

Audit

[Section 177]

The Act has substituted the sub-section (6) with the following new sub-section, namely:-

"(6) After completion of the audit, the Commissioner shall, after obtaining taxpayer's explanation on all the issues raised in the audit, issue an audit report containing audit observations and findings."; and

The Act also inserts a new sub-section (6A) after sub-section (6), namely:

"(6A) After issuing the audit report, the Commissioner may, if considered necessary, amend the assessment under sub-section (1) or sub-section (4) of section 122, as the case may be, after providing an opportunity of being heard to the taxpayer under sub-section (9) of section 122."

Business licence scheme

[Section 181D]

In order to bring all businesses into the tax net, The Act inserts a new sub-section 181D, after section 181C, which requires every person engaged in any business, profession or vocation to obtain and display a business licence as prescribed by the Board. The procedure and rules for such licensing have not been prescribed yet. It is suggested to prescribe simple licensing and taxation procedures for the small businesses.

The rates of penalties have been revised as below:

S No.	Offence	Existing Penalties	Revised Penalties
1	Failure to furnish a return under section 114 within the due date	0.1% of the tax payable for each day of default subject to maximum penalty of 50% of the tax payable; provided that penalty so worked out is less than Rs. 20,000, the person shall pay a penalty of Rs. 20,000.	The minimum penalty has been applicable to be increased to Rs. 40,000. However, If seventy-five percent of the income is from salary and the amount of income under salary is less than five million rupees, the minimum amount of penalty shall be five thousand rupees.
2	Failure to furnish wealth statement and/or wealth reconciliation statement under section 116	Such person shall pay penalty of 0.1% of the taxable income per week or Rs. 20,000 whichever is higher.	The minimum penalty has been increased to Rs. 100,000.
3	A person who is required to apply for registration but fails to make an application for registration.	Such person shall pay a penalty of Rs. 5,000	Rs. 10,000
6	Any person who repeats erroneous calculation in the return for more than one year, when the amount of tax less than the actual tax payable is paid.	Such person shall pay a penalty of Rs. 5,000 or 3% of the tax involved, whichever is higher.	The minimum penalty has been increased to Rs. 30,000.
11	Any person who denies of abstracts the access of the Commissioner or any officer authorized by the Commissioner to the premises, place, accounts, documents, computer or stocks.	Such person shall pay a penalty of Rs. 25,000 or 100% of the amount of tax involved, whichever is higher.	The penalty of Rs. 25,000 has been increased to Rs. 50,000.
12	Any person who conceals his income, expenses or furnishes an incorrect particulars of such income or any act referred to in sub-section (1) of section 111	Such person shall pay a penalty of Rs. 25,000 or amount equal to tax, which he sought to evade, whichever is higher.	The penalty of Rs. 25,000 has been increased to Rs. 100,000
15	Any person who fails to collect or deduct tax or fails to pay the tax collected or	Such person shall pay a penalty of Rs. 25,000 or 10% of the amount of tax, whichever is higher.	The penalty of Rs. 25,000 has been increased to Rs. 40,000

	deducted as required under section 160.		
21	Any person who purchases immovable property having fair market value greater than rupees five million through cash or bearer cheque. (Section 75A)	-	Such person shall pay a penalty of five percent of the value of property determined by the Board under subsection (4) of section 68 or by the provincial authority for the purposes of stamp duty, whichever is higher.
22	Where an offshore tax evader is involved in offshore tax evasion in the course of any proceedings under this Ordinance before any Income Tax authority or the appellate tribunal.	-	Such person shall pay a penalty of one hundred thousand rupees or an amount equal to two hundred per cent of the tax which the person sought to evade, whichever is higher.
23	Where in the course of any transaction or declaration made by a person an enabler has enabled, guided, advised or managed any person to design, arrange or manage that transaction or declaration in such a manner which has resulted or may result in offshore tax evasion in the course of any proceedings under this Ordinance.	-	Such person shall pay a penalty of three hundred thousand rupees or an amount equal to two hundred per cent of the tax which was sought to be evaded, whichever is higher.
24	Any person who is involved in asset move as defined in clause (5C) of section 2 of the Ordinance from a specified territory to an un-specified territory.	-	Such person shall pay a penalty of one hundred thousand rupees or an amount equal to one hundred per cent of the tax whichever is higher.
25	Where a Reporting Financial Institution fails to comply with any provisions of section 165B of the Ordinance or Common Reporting Standard Rules in Chapter XIAA of Income Tax Rules, 2002.	-	Such Reporting Financial Institution shall pay a penalty of Rs.10,000 for each default and an additional Rs. 10,000 each month until the default is redressed.
26	Where a Reporting Financial Institution files an incomplete or inaccurate report under provisions of section 165B of the Ordinance and Common	-	Such Reporting Financial Institution shall pay a penalty of Rs.10, 000 for each default and an additional Rs. 10,000

	Reporting Standard Rules in Chapter XIAA of Income Tax Rules, 2002.		each month until the default is redressed.
27	Where a Reporting Financial Institution fails to obtain valid self-certification for new accounts or furnishes false self-certification made by the Reportable Jurisdiction Person under Common Reporting Standard Rules in Chapter XIAA of Income Tax Rules, 2002.	-	Such Reporting Financial Institution shall pay a penalty of Rs.10,000 for each default and an additional Rs. 10,000 each month until the default is redressed.
28	Where a Reportable Jurisdiction Person fails to furnish valid self-certification or furnishes false self-certification under Common Reporting Standard Rules in Chapter XIAA of Income Tax Rules, 2002.	-	Such Reportable Jurisdiction Person shall pay a penalty of Rs. 5,000 for each default and an additional Rs. 5,000 each month until the default is redressed.

Return not filed within due date

[Section 182A]

A proviso has been introduced after sub-section (1) of section 182A, which suggests to include a person in the active taxpayers' list, who files a return after due date, if he pays a surcharge at rupees:

- (i) twenty thousand in case of a company;
- (ii) ten thousand in case of an association of persons;
- (iii) one thousand in case of an individual."

The Act also inserts clause (c) under sub-section (1), which states that if a person does not file return within the due date, he will not be issued refund during the period he is not included in the active taxpayers' list. Further, he will not be entitled for additional payment for delayed refund under section 171 as per newly inserted clause (d).

Prosecution for non-compliance with certain statutory obligations

[Section 191]

Section 191 describes offences, which are punishable on conviction with a fine or imprisonment for a term not exceeding one year or both. A new clause (ca) has been inserted under sub-section (1) after clause (c) to include under this conviction, a person who does not furnish particulars or complete or accurate particulars of persons mentioned in sub-section (1) of section 165 "Statements".

Prosecution for concealment of an offshore asset

[Section 192B]

A new section 192B has been inserted through Finance Act, 2019 which states the following:

“(1) Any person who fails to declare an offshore asset to the Commissioner or furnishes inaccurate particulars of an offshore asset and revenue impact of such concealment or furnishing of inaccurate particulars is ten million rupees or more, shall commit an offence punishable on conviction with imprisonment up to three years or with a fine up to five hundred thousand rupees or both.”

Prosecution for non-compliance with notice under section 116A

[Section 195A]

A new section 195A has been inserted, which states as under:

“Any person who, without reasonable excuse, fails to comply with a notice under sub-section (2) of section 116A; shall commit an offence punishable on conviction with imprisonment up to one year or with a fine up to fifty thousand rupees or both.”

Prosecution for enabling offshore tax evasion

[Section 195B]

A new section 195B has been inserted, which provides the following:

“Any enabler who enables, guides or advises any person to design, arrange or manage a transaction or declaration in such a manner which results in offshore tax evasion, shall commit an offence punishable on conviction with imprisonment for a term not exceeding seven years or with a fine up to five million rupees or both.”

Disclosure of information by a public servant

[Section 216(6B) & (6C)]

The following two new sub-sections (6B) and (6C) have been inserted in section 216, after sub-section (6A):

“(6B) Nothing contained in sub-section (1) shall prevent the Board from publishing the names of offshore evaders, in the print and electronic media, who have evaded offshore tax equal to or exceeding rupees two and half million.

(6C) Nothing contained in sub-section (1) shall prevent the Board from publishing the names of offshore tax enablers, in the print and electronic media who have enabled offshore tax evasion.”

Proceedings against persons

[Section 216A]

A new section 216A has been inserted to enable the Board to prescribe rules for certain persons. The section reads as follows:

“(1) Subject to section 227, the Board shall prescribe rules for initiating proceedings including criminal proceedings against any authority mentioned in section 207 and officer of the Directorates General mentioned in Part II and Part III of Chapter XI including any person subordinate to the aforesaid authorities or officers of the Directorates General who wilfully and deliberately commits or omits an act which results in personal benefits and undue advantage to the authority or the person or taxpayer or both.

(2) Where proceedings under sub-section (1) have been initiated against a person or authority, the Board shall simultaneously intimate the relevant Governmental agency to initiate criminal proceedings against the taxpayer.

(3) The proceedings under this section shall be without prejudice to any liability that the authority, person or taxpayer may incur under any other law for the time being in force.”

Restriction on purchase of certain assets

[Section 227C]

The previous section 227C prohibited the purchase of immovable property exceeding Rs. 5 million and vehicles by a non-filer. This section has now been omitted.

Automated Impersonal tax regime

[Section 227D]

A new section 227D has been inserted to enable the Board to design an automated taxation regime to minimize the interaction between the taxpayer and tax officials. The section read as follows:

“(1) The Board may design an alternate impersonal taxation regime whereby personal interaction will be minimized.

(2) The Board may, by notification in the official Gazette, prescribe the procedure in this behalf.

(3) This section shall be applicable only for low risk and compliant taxpayers as may be prescribed.”

Directorate General of Immovable property

[Section 230F]

Under the sub-section (23), after the date of appointment, the provisions of clause (c) of sub-section (4), section 236(c), Section 236(w), clause (4) of section 111 etc., were not to be applied. This provision has now been withdrawn.

Directorate General of Special Initiative

[Section 230G]

A new section 230G has been inserted in the Ordinance, which states the following:

“(1) The Directorate General of Special Initiative shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may, by notification in the official Gazette, appoint.

(2) The Board may, by notification in the official Gazette,—

(a) specify the functions, jurisdiction and powers of the Directorate General of Special Initiative and its officers; and

(b) confer the powers of authorities specified in section 207 upon the Directorate General and its officers.”

Directorate General of Valuation

[Section 230H]

A new section 230H has been inserted in the Ordinance, which states the following:

“(1) The Directorate General of Valuation shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may, by notification in the official Gazette, appoint.

(2) The Board may, by notification in the official Gazette,—

- (a) specify the functions, jurisdiction and powers of the Directorate General of Valuation and its officers; and
- (b) confer the powers of authorities specified in section 207 upon the Directorate General and its officers.”;

Brokerage and commission

[Section 233]

Through amending this section, the tax on brokerage and commission has now been declared to be minimum tax instead of final tax under existing provisions.

Collection of tax by a stock exchange in Pakistan

[Section 234]

By amending this section, the tax collected by stock exchange in Pakistan has now been declared to be minimum tax instead of final tax under existing provisions.

Advance tax on sale or transfer of immovable property

[Section 236C]

The sub-section (3) has been amended by enhancing the holding period of the immovable property from 3 years to 5 years for the purpose of not deducting the advance tax.

Tax on purchase or transfer of immovable property

[Section 236W]

The section 236W has been omitted. The omission results in not deducting the advance tax of 3% of the amount computed under clause (c) of sub-section (4) of section 111.

Rates of Tax for Individuals and Association of Persons

First Schedule, Part I, Division I

The rates of tax have on income of every individual and association of persons except a salaried individual have been revised as under:

S No	Taxable Income	Rate of Tax
1	Where taxable income does not exceed Rs 400,000	0%
2	Where taxable income exceeds Rs 400,000 but does not exceed Rs 600,000	5% of the amount exceeding Rs 600,000
3	Where taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	Rs 10,000 plus 10% of the amount exceeding Rs 600,000
4	Where taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,400,000	Rs 70,000 plus 15% of the amount exceeding Rs 1,200,000

5	Where taxable income exceeds Rs 2,400,000 but does not exceed Rs 3,000,000	Rs 250,000 plus 20% of amount exceeding Rs 2,400,000
6	Where taxable income exceeds Rs 3,000,000 but does not exceed Rs 4,000,000	Rs 370,000 plus 25% of the amount exceeding Rs 3,000,000
7	Where taxable income exceeds Rs 4,000,000 but does not exceed Rs 6,000,000	Rs 620,000 plus 30% of the amount exceeding Rs 4,000,000
8	Where taxable income exceeds Rs 6,000,000	Rs 1,220,000 plus 35% of the amount exceeding Rs 6,000,000

Rates of Tax for salaried individuals

First Schedule, Part I, Division I

Following revised tax rates for an individual, whose income chargeable under the head “salary” exceeds seventy-five percent of his taxable income have been introduced in the Finance Act, 2019:

S No	Taxable Income	Rate of Tax
1	Where taxable income does not exceed Rs 600,000	0%
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	5% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs 1,200,000 but does not exceeds Rs 1,800,000	Rs 30,000 plus 10% of the amount exceeding Rs 1,200,000
4	Where taxable income exceeds Rs 1,800,000 but does not exceed Rs 2,500,000	Rs 90,000 plus 15% of the amount exceeding Rs 1,800,000
5	Where taxable income exceeds Rs 2,500,000 but does not exceed Rs 3,500,000	Rs 195,000 plus 17.5% of the amount exceeding Rs 2,500,000
6	Where taxable income exceeds Rs 3,500,000 but does not exceed Rs 5,000,000	Rs 370,000 plus 20% of the amount exceeding Rs 3,500,000
7	Where taxable income exceeds Rs 5,000,000 but does not exceed Rs 8,000,000	Rs 670,000 plus 22.5% of the amount exceeding Rs 5,000,000
8	Where taxable income exceeds Rs 8,000,000 but does not exceed Rs 12,000,000	Rs 1,345,000 plus 25% of the amount exceeding Rs 8,000,000
9	Where taxable income exceeds Rs 12,000,000 but does not exceed Rs 30,000,000.	Rs 2,345,000 plus 27.5% of the amount exceeding Rs 12,000,000
10	Where taxable income exceeds Rs 30,000,000 but does not exceed Rs 50,000,000.	Rs 7,295,000 plus 30% of the amount exceeding Rs 30,000,000
11	Where taxable income exceeds Rs 50,000,000 but does not exceed Rs 75,000,000.	Rs 13,295,000 plus 32.5% of the amount exceeding Rs 50,000,000
12	Where taxable income exceeds Rs 75,000,000.	Rs 21,420,000 plus 35% of the amount exceeding Rs 75,000,000

Tax rates for companies

First Schedule, Part I, Division II

Under the previous provisions, the rate of tax on companies, other than banking companies, was to be decreased by 1% every year till 25% for tax year 2023 and onwards. The Act now holds the rate of tax at 29% for such companies for the tax year 2019 and onwards.

The corporate tax rates for small companies and banking companies will remain at 25% and 35% respectively.

Rate of super tax

First Schedule, Part I, Division IIA

The Act has revised the rates of super tax as provided below:

Person	Applicable super tax rates				
	Current Rates	Tax year 2018	Tax year 2019	Tax year 2020	Tax year 2021
Banking companies	4%	4%	3%	2%	0
Other than banking companies having income of Rs. 500 million or more	3%	3%	2%	1%	0

Tax rate of tax on dividend

First Schedule, Part I, Division III

The rate of tax on dividend have been revised as under:

S No.	Subscription	Applicable Rate
1	Distributed by purchaser of a power project privatized by WAPDA, or on shares of a company set up for power generation, or shares of company supplying coal exclusively to power generation projects	7.5%
2	Dividend from mutual fund, stock fund and REIT scheme	15%
3	For companies paying dividend having no tax payable due to exemption of income or carry forward of business losses under Part VIII of Chapter III or claim of tax credits under Part X of Chapter III."	25%

Tax rate on profit on debt

First Schedule, Part I, Division IIIA

The Act amends the rates of tax on profit on debt as follows:

S No.	Description	Rate of Tax
1	Where profit on debt does not exceed Rs.5,000,000	15%
2	Where profit on debt exceeds Rs.5,000,000 but does not exceed Rs.25,000,000	17.5%
3	Where profit on debt exceeds Rs.25,000,000 but does not exceed Rs.36,000,000	20%

Notes:

- Where the profit on debt exceeds Rs. 36 million, it shall be chargeable to tax at normal rates.
- The rate of withholding tax is also applicable to be increased to 15% from existing rate of 10%, however, where the yield or profit is Rs. 500,000 or less, the applicable rate shall be 10%.

Income from property

First Schedule, Part I, Division VIA

The serial 5 has been amended and new serials 6, 7 and 8 have been inserted, revising the rates of tax on income from property under section 15:

S No.	Subscription	Applicable Rate
5	Where the gross amount of rent exceeds Rs. 2,000,000 but does not exceed Rs. 4,000,000	Rs. 210,000 plus 20% of the gross amount exceeding Rs. 2,000,000
6	Where the gross amount of rent exceeds Rs.4,000,000 but does not exceed Rs.6,000,000.	Rs.610,000 plus 25 per cent of the gross amount exceeding Rs.4,000,000
7	Where the gross amount of rent exceeds Rs.6,000,000 but does not exceed Rs.8,000,000	Rs.1,110,000 plus 30 per cent of the gross amount exceeding Rs.6,000,000
8	Where the gross amount of rent exceeds Rs.8,000,000	Rs.1,710,000 plus 35 percent of the gross amount exceeding Rs.8,000,000”;

Capital gain on disposal of securities

First Schedule, Part I, Division VII

S N	Period	Tax Year 2015	Tax Year 2016	Tax Year 2017	Tax Year 2018, 2019 and 2020	
					Securities acquired before 1.7.2016	Securities acquired after 1.7.2016
1	Where holding period of a security is less than twelve months	12.5%	15%	15%	15%	15%
2	Where holding period of a security is twelve months or more but less than twenty-four months	10%	12.5%	12.5%	12.5%	
3	Where holding period of a security is twenty- four months or more but the security was acquired on or after 1st July, 2013.	0	7.5%	7.5%	7.5%	
4	Where the security was acquired before 1st July, 2013	0	0	0	0	0
5	Future commodity contracts entered into by the members of Pakistan Mercantile Exchange	0	0	5%	5%	5%

Tax on builders

First Schedule, Part I, Division VIII

The Division VIII (Division VIIIA and Division VIIIB providing rates of tax on builders and developers under section 7C and 7D respectively), Part I has been omitted. Further, for Division VIII the following shall be substituted, namely:-

S No.	Amount of gain	Rate of tax
(1)	(2)	(3)
1.	Where the gain does not exceed Rs. 5 million	5%
2.	Where the gain exceeds Rs. 5 million but does not exceed Rs. 10 million	10%
3.	Where the gain exceeds Rs. 10 million but does not exceed Rs. 15 million	15%
4.	Where the gain exceeds Rs. 15 million	20%

S No.	Persons	Minimum tax as %age of turnover
1	a) Oil marketing companies, oil refineries, Sui Southern Gas Company Limited, Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds Rs. 1 billion); b) Pakistan Airlines; c) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production d) Dealers or distributors of fertilizers; and e) Persons running an online marketplace as defined as defined in clause (38B) of section 2	0.75%
2	a) Distributors of pharmaceutical products, FMCG and cigarettes b) Petroleum agents and distributors who are registered under Sales Tax Act, 1990; c) Rice mills and dealers; and d) Flour mills	0.25%
3	Motorcycle dealers registered under Sales Tax Act, 1990	0.3%
4	In all other cases	1.5%

The existing table under in the Part II has been omitted and the following new tables have been inserted:

S No.	Person	Rate
1	i) Industrial undertaking importing remeltable steel (PCT Heading 72.04) and directly reduced iron for its own use; ii) Persons importing potassic fertilizers in pursuance of Economic Coordination Committee of the cabinet's decision No.ECC-155/12/2004 dated the 9th December, 2004; iii) Persons importing urea; iv) Manufacturers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31st December, 2011 and importing items covered under S.R.O. 1125(I)/2011 dated the 31st December, 2011; v) Persons importing Gold; vi) Persons importing Cotton; and vii) Persons importing LNG	1% of the import value as increased by customs-duty, sales tax and federal excise duty.
2	Persons importing pulses	2% of the import value as increased by customs-duty, sales tax and federal excise duty
3	Commercial importers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31 st December, 2011 and importing items covered under S.R.O. 1125(I)/2011 dated the 31 st December, 2011.	3% of the import value as increased by customs-duty, sales tax and federal excise duty
4	Persons importing coal	4%

5	Persons importing finished pharmaceutical products that are not manufactured otherwise in Pakistan, as certified by the Drug Regulatory Authority of Pakistan	4%
6	Ship breakers on import of ships	4.5%
7	Industrial undertakings not covered under S. Nos. 1 to 6	5.5%
8	Companies not covered under S. Nos. 1 to 7	5.5%
9	Persons not covered under S.Nos. 1 to 8	6%

Profit on debt

First Schedule, Part III, Division IA

The existing rate of 10% tax on profit on debt under section 151 has been enhanced to 15%. The rate shall be 10% in cases, where yield or profit paid is rupees five hundred thousand rupees or less.

Payment for goods or services

First Schedule, Part III, Division III

The existing clause (2) has been replaced as under:

“(2) The rate of tax to be deducted from a payment referred to in clause (b) of sub-section (1) of section 153 shall be—

- (i). 3% of the gross amount payable, in the cases 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, engineering services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited inspection, certification, testing and training services;
- (ii). In case of rendering of or providing of services other than sub-clause (i),
 - (a) in case of a company, 8% of the gross amount payable;
 - (b) in any other case, 10% of the gross amount payable; and
 - (c) in respect of persons making payments to electronic and print media for advertising services, 1.5% of the gross amount payable;”

Royalty paid to non-resident persons

First Schedule, Part III, Division V

The Act applies 15% rate of tax of gross amount payable to be deducted under section 153B as royalty paid to non-resident persons.

Income from property

First Schedule, Part III, Division V

The serial 5 to the Division V has been amended and new serials 6, 7 and 8 have been inserted revising the rates of tax on income from property under section 155:

S No.	Subscription	Applicable Rate
5	Where the gross amount of rent exceeds Rs. 2,000,000 but does not exceed Rs. 4,000,000	Rs. 210,000 plus 20% of the gross amount exceeding Rs. 2,000,000

6	Where the gross amount of rent exceeds Rs.4,000,000 but does not exceed Rs.6,000,000.	Rs.610,000 plus 25 per cent of the gross amount exceeding Rs.4,000,000
7	Where the gross amount of rent exceeds Rs.6,000,000 but does not exceed Rs.8,000,000	Rs.1,110,000 plus 30 percent of the gross amount exceeding Rs.6,000,000
8	Where the gross amount of rent exceeds Rs.8,000,000	Rs.1,710,000 plus 35 percent of the gross amount exceeding Rs.8,000,000”;

Brokerage and commission

First Schedule, Part IV, Division II

The Act substitutes Division II as follows:

“The rate of tax for deduction or collection under section 233 shall be as set out in the following Table, namely:—

TABLE

S No.	Person	Rate of tax
1	Advertising agents	10%
2	Life insurance agents where commission received is less than Rs. 0.5 million per annum	8%
3	Persons not covered in 1 and 2 above	12%

Tax on motor vehicles

First Schedule, Part IV, Division III

The Act revises the rates of collection of tax on motor vehicles under section 234 as follows:

In case of passenger transport:

S No.	Capacity	Rate per seat per annum
1	Four or more persons but less than ten persons.	Rs. 50
2	Ten or more persons but less than twenty persons	Rs. 100
3	Twenty persons or more	Rs. 300

In case of other private motor vehicles:

S No.	Engine Capacity	Rate per seat per annum
1	Up to 1000CC	Rs. 800
2	1001CC to 1199CC	Rs. 1,500
3	1200CC to 1299CC	Rs. 1,750
4	1300CC to 1499CC	Rs. 2,500
5	1500CC to 1599CC	Rs. 3,750
6	1600CC to 1999CC	Rs. 4,500
7	2000CC & above	Rs. 10,000

In case where the motor vehicles tax is collected in lump sum:

S No.	Engine Capacity	Rate per seat per annum
1	Up to 1000CC	Rs. 10,000
2	1001CC to 1199CC	Rs. 18,000

3	1200CC to 1299CC	Rs. 20,000
4	1300CC to 1499CC	Rs. 30,000
5	1500CC to 1599CC	Rs. 45,000
6	1600CC to 1999CC	Rs. 60,000
7	2000CC & above	Rs. 120,000

Advance tax on purchase, registration and transfer of motor vehicles

First Schedule, Part IV, Division VII

The Act revises the rates of collection of tax on purchase, registration and transfer of motor vehicles under sub-section (1) and (3) of section 231B as follows:

S No.	Engine Capacity	Rate per seat per annum
1	Up to 850CC	Rs. 7,500
2	851CC to 1000CC	Rs. 15,000
3	1001CC to 1300CC	Rs. 25,000
4	1301CC to 1600CC	Rs. 50,000
5	1601CC to 1800CC	Rs. 75,000
6	1801CC to 2000CC	Rs. 100,000
7	2001CC to 2500CC	Rs. 150,000
8	2501CC to 3000CC	Rs. 200,000
9	Above 3000CC	Rs. 250,000

The rate of tax under sub-section (2) of section 231B on transfer of registration or ownership, have been revised as follows:

S No.	Engine Capacity	Rate per seat per annum
1	Up to 850CC	-
2	851CC to 1000CC	Rs. 5,000
3	1001CC to 1300CC	Rs. 7,500
4	1301CC to 1600CC	Rs. 12,500
5	1601CC to 1800CC	Rs. 18,750
6	1801CC to 2000CC	Rs. 25,000
7	2001CC to 2500CC	Rs. 37,500
8	2501CC to 3000CC	Rs. 50,000
9	Above 3000CC	Rs. 62,500

Advance tax on sale to distributors, dealers or wholesalers

First Schedule, Part IV, Div XIV

The Act applies following rates of collection of tax under section 236G:

S No.	Category of sale	Rate of tax
1	Fertilizers	0.7%
2	Other than fertilizers	0.1%

Advance tax on sale to retailers

First Schedule, Part IV, Div XV

The Act revises the rate of collection of tax under section 236H on the gross amount of sales as follows:

S No.	Category of sale	Rate of tax
1	Electronics	1%
2	Others	0.5%

Advance tax on dealers, commission agents and arhatis etc.

First Schedule, Part IV, Div XVII

The Act revises the rate of collection of advance tax under section 236J on the gross amount of sales as follows:

S No.	Group or class	Amount of tax (per annum)
1	Group or class A	Rs. 100,000
2	Group or class B	Rs. 75,000
3	Group or class C	Rs. 50,000
4	Any other category	Rs. 50,000

Advance tax on purchase of immovable property

First Schedule, Part IV, Div VIII

The Act reduces the advance tax collected on purchase of immovable property under section 236K from 2% to 1%.

Reduction in tax liability

2nd Schedule, Part III

Teachers and researchers

The Act reduces the tax on full time teacher or researchers as provided in clause (2), from previous 40% to revised 25% on his income from salary. A proviso has also been inserted, which states that this clause shall not apply to teachers of medical profession who derive income from private medical practice or who receive share of consideration received from patients.

Capital Gain on disposal of immovable property

A new clause (9A) has been inserted, which says:

"The amount of tax payable on income chargeable under the head, "Capital Gains" on disposal of immovable property shall be reduced by fifty percent on the first sale of immovable property acquired or allotted to ex-servicemen and serving personnel of Armed Forces or ex-employees or serving personnel of Federal and Provincial Governments, being original allottees of the immovable property, duly certified by the allotment authority."

Clause (43E)

The existing clause (43E) states that the provisions of clause (a) of sub-section (1) of section 153 shall not apply in case of goods transport contractors, provided that such contractors pay tax at the rate of 2.5% on payments for rendering or providing of carriage services. This rate is now increased to 3%.

Clauses (81), (81A), (94) and (105) have been omitted.

The previous part I of Third Schedule dealt with the initial allowance at 25% and 15% for plant and machinery and buildings respectively. The Act omits the initial allowance in case of buildings.

After rule 6D, a new rule 6E has been inserted to authorize the Commissioner to examine and amend the amount of income of an insurance company as disclosed in the financial statement presented to the Securities and Exchange Commission of Pakistan with respect to commission paid and claimed for losses.

The clause (1) of the Schedule has been amended. The amended clause states that “provision for advances and off-balance sheet items allowed under this clause, at the rate of 1 percent or 5 percent, as the case may be, shall be exclusive of reversals of such provisions”.

It further states that “reversal of “bad debts” classified as “doubtful” or “loss” are taxable as the respective provisions have been allowed under this clause; and

With effect from tax year 2020 and onward; reversal of “bad debts” classified as “loss” are taxable as the respective provisions have been allowed under this clause.

The bad debts classified as doubtful or sub-standard by Prudential Regulations issued by State Bank of Pakistan shall not be allowed as expense.”

“6C. Enhanced rate of tax on taxable income from Federal Government securities.— (1) The taxable income arising from additional income earned from additional investment in Federal Government securities for the tax years 2020 and onwards, shall be taxed at the rate of 37.5% instead of the rate provided in Division II of Part I of the First Schedule.”

The Act inserts the Tenth Schedule in the Ordinance to provide rules for the persons not appearing in the Active Taxpayers’ List. The complete Tenth Schedule has been reproduced below:

1. Rate of deduction or collection of tax—Where tax is required to be deducted or collected under any provision of this Ordinance from persons not appearing in the active taxpayers' list, the rate of tax required to be deducted or collected, as the case may be, shall be increased by hundred percent of the rate specified in the First Schedule to this Ordinance.

2. Persons not required to file return or statement.—(1) Where the withholding agent is satisfied that a person not appearing in the active taxpayers' list was not required to file a return of income under section 114, or a statement under sub-section (4) of section 115, as the case may be, he shall before collecting or deducting tax under this Ordinance, furnish to the Commissioner a notice in writing electronically setting out—

- (a) the name, CNIC or NTN and address of the person not appearing in the active taxpayers' list;
- (b) the nature and amount of the transaction on which tax is required to be collected or deducted; and
- (c) reason on the basis of which it is considered that the person was not required to file return or statement, as the case may be.

(2) The Commissioner, on receipt of a notice under sub-rule (1), shall within thirty days pass an order accepting the contention or making the order under sub-rule (3).

(3) Where the withholding agent has notified the Commissioner under sub-rule (1) and the Commissioner has reasonable grounds to believe that the person not appearing in the active taxpayers' list was required to file return or statement, as the case may be, the Commissioner may, by an order in writing, direct the withholding agent to deduct or collect tax under rule 1:

Provided that in case the Commissioner does not pass any order within thirty days of receipt of notice under sub-rule (1), the Commissioner shall be deemed to have accepted the contention under sub-rule (2) and approval shall be treated to have been granted.

3. Provisional assessment.—(1) Where for a tax year a person's tax has been collected or deducted in accordance with rule 1 and the person fails to file return of income or statement, as the case may be, for that tax year within the due date provided in section 118 or as extended by the Board, the Commissioner shall notwithstanding anything contained in sub-sections (3) and (4) of section 114 or sub-section (5) of section 115, within sixty days of the due date provided in section 118 or as extended by the Board make a provisional assessment of the taxable income of the person and issue a provisional assessment order specifying the taxable income assessed and tax due thereon.

(2) In making the provisional assessment under sub-rule (1), the Commissioner shall impute taxable income on the amount of tax deducted or collected under rule 1 by treating the imputed income as concealed income for the purposes of clause (d) of sub-section (1) of section 111.

4. Finalization or abatement of provisional assessment.— (1) The provisional assessment under rule 3, shall be treated as the final assessment order after the expiry of forty-five days from the date of service of order of provisional assessment and the provisions of this Ordinance shall apply accordingly.

(2) The provisional assessment shall stand abated and shall be taken to be assessment finalized under sub-section (1) of section 120 where the returns of income for the relevant tax year and the preceding tax

year along with prescribed forms, statements or documents are filed by the person within a period of forty-five days of receipt of provisional assessment order.

(3) Where returns have been filed before provisional assessment or under sub-rule (2), the tax deducted or collected under rule 1 shall be adjustable against the tax payable in the return filed for the relevant tax year.

5. Where the provisional assessment has been treated as final assessment under sub-rule (1) of rule 4, the Commissioner may within thirty days of the final assessment initiate proceedings for imposition of penalties under section 182 on account of non-furnishing of return and concealment of income.

6. For the purposes of this Schedule, imputed income means— (a) income for individuals and association of persons which would have resulted in the amount of tax given in paragraph (1) of Division I of the First Schedule equal to the tax collected or deducted under rule 1 for not appearing in the active taxpayers' list; or

(b) income for companies which would have resulted in the amount of tax given in Division II of the First Schedule equal to the tax collected or deducted at the higher rate under rule 1 for not appearing in the active taxpayers' list.

7. Where the withholding agent fails to furnish in the withholding statement complete or accurate particulars of persons not appearing on active taxpayers' list, the Commissioner shall initiate proceedings under sections 182 and 191 against the withholding agent within thirty days of filing of withholding statement under section 165.

8. Amendment of assessment

(1) The Commissioner may amend an assessment order where on the basis of definite information acquired from an audit or otherwise, the Commissioner is satisfied that—

(a) any income chargeable to tax has escaped assessment; or

(b) total income has been under-assessed, or assessed at too low a rate, or has been the subject of excessive relief or refund; or

(c) any amount under a head of income has been misclassified.

(2) Notwithstanding the provisions of sub-rule (1), where a provisional assessment has been treated as final assessment or where in response to the provisional assessment, return has been filed within forty five days or where assessment has been amended under sub-rule (1) and the assessment order is considered erroneous in so far it is prejudicial to the interest of revenue, the Commissioner may, after making or causing to be made, such enquiries as he deems necessary, amend the assessment order.

(3) For the purposes of sub-rule (1), "definite information" shall have the same meaning as defined in sub-section (8) of section 122.

9. Provisions of Ordinance to apply—The provisions of this Ordinance not specifically dealt with in the aforesaid rules shall apply, *mutatis mutandis*, in the case of proceedings against the persons not appearing on active taxpayers' list.

10. The provisions of this Schedule shall not apply on tax collectible or deductible in case of the following sections:-

- (a) tax deducted under section 149;
- (b) tax deducted under section 152 other than sub-section (1), (1AA), (2), (2A)(b) and (2A)(c) of section 152
- (c) tax collected or deducted under section 154;
- (d) tax deducted under section 155;
- (e) tax deducted under section 156B.
- (f) tax deducted under section 231A;
- (g) tax deducted under section 231AA;
- (h) tax collected under section 233AA;
- (i) tax deducted under section 235;
- (j) tax deducted under section 235A;
- (k) tax collected under section 235B;
- (l) tax collected under section 236B;
- (m) tax collected under section 236D;
- (n) tax collected under section 236F;
- (o) tax collected under section 236I;
- (p) tax collected under section 236J ;
- (q) tax collected under section 236L;
- (r) tax collected under section 236P;
- (s) tax collected under section 236Q;
- (t) tax collected under section 236R;
- (u) tax collected under section 236U;
- (v) tax collected under section 236V;
- (w) tax collected under section 236X."

SIGNIFICANT CHANGES IN SALES TAX ACT, 1990

Cottage Industry

[Section 2(5AB)]

The previous condition, in respect of Cotton Industry, having annual utility bills not exceeding Rs. 800,000 has been abolished. Further, the annual turnover limit from all supplies of Rs. 10 million in the last twelve tax periods has been reduced to Rs. 3 million for being declared as a cottage industry.

The Cottage Industry has been redefined as a manufacturing concern, which fulfils each of following conditions, namely:-

- (a) does not have an industrial gas or electricity connection;
- (b) is located in a residential area;
- (c) does not have a total labour force of more than ten workers; and
- (d) annual turnover from all supplies does not exceed three million rupees;

Retail Price Regime

[Section 2(27), 3(2)]

The Government has brought the Commercial Importer of goods, listed in Third Schedule, into the Retail Price Regime. Accordingly the Commercial importer shall now charge sales tax on Retail Price fixed by them. It includes all duties, charges and taxes, other than the sales tax, at which any article should be sold to consumers.

The commercial imports of taxable goods, subject to certain exclusions, are also liable to minimum Value Addition Tax (VAT) at the rate of 3% ad valorem which is allowed to be adjusted against output tax but no refund will be allowed for such VAT amount. However, such amount would be carried forward in subsequent periods for adjustment.

Value of Supply

[Section 2(46)]

Through amendment in this section, the Act applies:

- to exclude goods specified in the Third Schedule from the definition of value of supply in case of imported goods.
- to substitute the definition of value of supply in respect of toll manufacturing of goods as actual consideration received by the manufacturer for the value addition carried out in relation to goods belonging to another person.
- to define value of supply of electricity by an independent power producer, the amount received on account of energy purchase price only; and the amount received on account of capacity purchase price, energy purchase price premium, excess bonus, supplemental charges etc. shall not be included in the value of supply.
- to define value of supply of electric power and gas by a distribution company, the total amount billed including price of electricity and natural gas, as the case may be, charges, rents, commissions and all

duties and taxes local, provincial and federal but excluding the amount of late payment surcharge and the amount of sales tax.

Empowering the Board with the powers of Federal Government

The Federal Government has delegated its powers to the Board in the following sections:

Section	Powers
Section 2(33)- Supply	To specify such other transactions which shall or shall not constitute supply, subject to the issuance of notification in the official Gazette.
Section 2(43)- Tax Period	To specify any period to be treated as 'Tax Period' by notification in the official Gazette.
Section 3(3A)- Tax on taxable supply	To specify goods in respect of which the liability to pay tax shall be of the person receiving the supply by a notification in the official Gazette.
Section 7(3)- Determination of tax liability	To allow, by a special order, a registered person to deduct input tax paid by him from the output tax determined or to be determined as due from him under this Act.
Section 8(6)- Tax credit not allowed	To specify any goods or class of goods, which a registered person cannot supply to any person, who is not registered under this Act, by notification in the official Gazette.
Section 37B(13)- Procedure to be followed on arrest of a person	To authorize, by notification in the official Gazette, any other officer working under the Board to exercise the powers and perform the functions of a sales tax officer under this section, subject to such conditions.

Retailers

[Section 2(43A) & 3(9), (9A)]

The Act includes a retailer having shop measuring area of 1,000 square feet or more, in the category of Tier-1 Retailer.

Previously all Retailers were required to pay sales tax at the rate of five percent on their monthly electricity bill of less than Rs 25,000 and seven and half percent where monthly bill exceeded Rs 25,000, depending on amount of electricity bills subject to Sales Tax Special Procedure Rules, 2007; however, the Tier-1 Retailers were excluded from this limitation. Also the electricity supplier was required to deposit the amount so collected directly without adjusting against his input tax. The concerned Commissioner IR was required to issue Order to the electricity supplier regarding exclusion of the person who is either Tier-1 Retailer or not a retailer.

The option to pay 2% turnover tax by the Tier-1 Retailers has been withdrawn. The Tier-1 Retailers are now required to pay sales tax at the rate as applicable to the goods sold under relevant provisions of this Act or a notification issued there under. Provided that the customers of a Tier-1 retailer shall be entitled to receive a cash back of up to five percent of the tax involved, from such date in the manner and to the extent, as may be prescribed by the Board. Through this applicable amendment, the government is indirectly encouraging end-users to buy from the Tier-1 retailers.

Fixed Tax Rate on Brick Kiln

[Section 3(1B)]

A new Tenth Schedule has been introduced for prescribing alternate method of taxation on Brick kiln falling under PCT heading 6901.1000. Fixed rates with reference to area, cities / locations are prescribed ranging from Rs. 7,500 to Rs. 12,500 through monthly return.

Sales Tax rates for withholding

[Sections 3(7)]

Sales Tax Special Procedure (Withholding) Rules, 2007 is transformed into a newly introduced eleventh schedule to the Act, whereby the tax will be withheld by the buyer at the rate as specified in the eleventh Schedule.

According to the newly introduced schedule, the Sales tax withholding rate has been increased to 5% of gross value of supplies in case of supplies made by unregistered persons to the Companies as defined in the Income Tax Ordinance, 2001. Further, in case of advertisement services, if a registered person is the recipient of advertisement services, then whole of sales tax applicable is required to be withheld by the person providing advertisement services.

Zero Rating

[Section 4]

Powers of the Board to grant zero rating through General Orders have been withdrawn. The powers of Federal Government to grant zero rating is revamped and are now applicable to be granted only in circumstances which require to take immediate action for the purpose of national security, natural disaster, national foods security in emergency situations and implementation of bilateral and multilateral agreements.

Determination of tax liability

[Section 7]

The section 7 has been amended to allow a taxpayer to claim input tax adjustment on bill issued in case of supply of electricity or gas, if such bill is bearing his registration number and the address where the connection is installed.

Levy and collection of tax on specified goods on value addition

[Section 7A]

The Act introduces a new Twelfth Schedule to the Act through which the existing provisions of the Sales Tax Special Procedure Rules, 2007 relating to importers are transformed. The import of cellular mobile phones, satellite phone and Furnace Oil is exempted from payment of 3% minimum VAT. Further, the exemption of 3% minimum VAT on LNG/RLNG and second hand and worn clothing or footwear (PCT Heading 6309.0000) has been withdrawn.

Earlier, all goods imported by a manufacturer for in-house consumption are excluded from payment of 3% minimum VAT. The Act, however, restricts the exclusion from payment of 3% minimum VAT only on raw materials and intermediary goods meant for use in an industrial process, which are subject to customs duty at 16% or 20% ad valorem under First Schedule to the Customs Act, 1969.

Determination of tax liability

[Section 8(m)]

The Act withdraws restriction on claim of input tax paid on import of scrap of compressors falling under PCT heading 7204.4940.

Adjustable input tax

[Section 8B]

A new sub-section 6 has been inserted through the Finance Act, 2019 after sub-section 5 in section 8B, which reads as follows:–

“(6) In case a Tier-1 retailer does not integrate his retail outlet in the manner as prescribed under sub-section (9A) of section 3, during a tax period or part thereof, the adjustable input tax for whole of that tax period shall be reduced by 15%.”;

Zero Rating

[Section 13]

in section 13, in sub-section (2), for clause (a), the following has been substituted:

“Federal Government, by notification in the official Gazette, may exempt any supplies made or imports of any goods or class of goods from the whole or any part of the tax chargeable under this Act whenever circumstances exist to take immediate action for the purposes of national security, natural disaster, national food security in emergency situations and implementation of bilateral and multilateral agreements, subject to the conditions and limitations specified therein”.

Tax Invoices

[Section 23]

Through amendment in section 23, it is now required that a registered person making a taxable supply shall specifically mention particulars on tax invoices in Urdu or English language.

For the earlier clause (b), the following new clause has been substituted:-

“(b) name, address and registration, number of the recipient and NIC or NTN of the unregistered person, as the case may be, excluding supplies made by a retailer where the transaction value inclusive of sales tax amount does not exceed rupees fifty thousand, if sale is being made to an ordinary consumer.

Explanation. — For the purpose of this clause, ordinary consumer means a person who is buying goods for his own consumption and not for the purpose of re-sale or processing:

Provided that the condition of NIC or NTN shall be effective from 1st August, 2019;”

The Act also requires a supplier of textile yarn and fabric to mention count, denier and construction, in addition to description, on tax invoice at the time of making taxable supply.

After clause (g), in the second proviso, the following new proviso has been added:–

“Provided also that if it is subsequently proved that CNIC provided by the purchaser was not correct, liability of tax or penalty shall not arise against the seller, in case of sale made in good faith.”

Access to record, documents, etc.

[Section 25]

The third proviso to the Section, inserted through Finance Act, 2018, regarding restriction of audit once in every 3 years is omitted through this Act.

Return

[Section 26]

Automatic approval for revision of return to a person is allowed through the Act if revised return is filed, with more tax payable or lesser amount of refund claimed, within sixty days of filing of return.

Offences and Penalties

[Section 33]

The previous penalty rates for not filing return after 10 days of due date have been increased from Rs. 5,000 to Rs.10,000. Similarly, per day penalty of Rs. 100 for late filing the return within 10 days of due date, has been increased to Rs. 200 per day.

Proceedings against persons

[Section 33A]

A new section has been introduced to initiate criminal proceedings against any authority mentioned in sections 30 to 30DDD including any person subordinate to the aforesaid authorities, who willfully and deliberately commits or omits an act which results in personal benefits and undue advantage to the authority or the person or taxpayer or both. After initiation of proceedings against a person or authority, the Board shall simultaneously intimate the relevant government agency to initiate criminal proceedings against the taxpayer.

The proceedings under this section shall be without prejudice to any liability that the authority, person or taxpayer may incur under any other law for the time being in force.

CMAs added in ADRC

[Section 47A]

Through this amendment, the Cost and Management Accountants, have been added in the Alternate Dispute Resolution Committee (ADRC) as provided in the section 47A.

Further, the minimum requirement of 10 years' experience has been prescribed to be a member of ADRC.

Liability for payment of tax in case of private companies or business enterprises

[Section 58]

For section 58, the following has been substituted:

“(1) Notwithstanding anything contained in the Companies Act, 2017 (XIX of 2017), where any private company or business enterprise is wound up and any tax chargeable on the company or business enterprise, whether before, or in the course, or after its liquidation, in respect of any tax period cannot be recovered from the company or business enterprise, every person who was an owner of, or partner in, or director of, or a shareholder, owning not less than ten per cent of the paid-up capital, in the company or business enterprise, as the case may be, during the relevant period shall jointly and severally with such persons, be liable for the payment of such tax.

(2) Any director or partner who pays tax under sub-section (1) shall be entitled to recover the tax paid from the company or a share of the tax from any other director or partner, as the case may be.

(3) A shareholder who pays tax under sub-section (1) shall be entitled to recover the tax paid from the company or from any other shareholder, owning not less than ten percent of the paid up capital, in proportion to the shares owned by that other shareholder.

(4) The provisions of this Act shall apply to any amount due under this section as if it were tax due under an order for assessment made under this Act.”;

Selection of audit by the Board

[Section 72B]

This section provides that the Board will select persons or classes of persons for audit of tax affairs through computer ballot which may be random or parametric as the Board may deem fit. The Act has now inserted a new sub-section (1A) in section 72B, which provides the following:

“(1A) Notwithstanding anything contained in this Act or any other law, for the time being in force, the Board shall keep the selection parameters confidential.”

It is pertinent to mention that the Lahore High Court in its judgment, has directed the Board to formulate and make public the selection parameters for audit. The Act, however, requires the Board to keep the selection parameters confidential.

Fee and Service Charges

[Section 76]

A new Section has been inserted after Section 75, through the Finance Act, 2019 which states:-

“The Federal Government may, by notification in the official Gazette, subject to such conditions, limitations or restrictions as it may deem fit to impose, levy fee and service charges for valuation, in respect of any other service or control mechanism provided by any formation under the control of the Board, including ventures of public-private partnership, at such rates as may be specified in the notification.”;

Rescindment of certain SROs

[S.R.O. 1125 & 769]

In order to avoid leakage of revenue due to misuse of S.R.O. 1125(I)/2011, it has been rescinded and the following revisions have been made:-

- a standard rate of 17% has been restored on the items covered under the SRO
- sales tax rate on local supplies of finished articles of textile, leather & finished fabric has been enhanced to 15% for integrated business.
- zero-rating on supply of electricity and gas to these export-oriented sectors has been withdrawn.
- refund of sales tax to said sectors has been made automated.

SRO 769(I)/2009 has also been rescinded due to which the facility of zero rating on import and supply of polyethylene and polypropylene for manufacture of monofilament yarn and net cloth will be withdrawn.

The Third Schedule

The Act includes certain new items in Third Schedule as detailed hereunder:

S No.	Description
38	Household electrical goods, including air conditioners, refrigerators, deep freezers, televisions, recorders and players, electric bulbs, tube-lights, electric fans, electric irons, washing machines and telephone sets.
39	Household gas appliances, including cooking range, ovens, geysers and gas heaters.
40	Foam or spring mattresses and other foam products for household use.
41	Paints, distempers, enamels, pigments, colours, varnishes, gums, resins, dyes, glazes, thinners, blacks, cellulose lacquers and polishes sold in retail packing
42	Lubricating oils, brake fluids, transmission fluid, and other vehicular fluids sold in retail packing
43	Storage batteries excluding those sold to automotive manufacturers or assemblers
44	Tyres and tubes excluding those sold to automotive manufacturers or assemblers
45	Motorcycles
46	Auto rickshaws
47	Biscuits in retail packing with brand name
48	Tiles
49	Auto-parts, in retail packing, excluding those sold to automotive manufacturers or assemblers

The Sixth Schedule

a) Through amendment in the Sixth Schedule, the Act grants exemption on the following items:-

S No.	Description
Table I (Import or Supplies)	
151	Supplies and imports of plant, machinery, equipment for installation in tribal areas and of industrial inputs by the industries located in the tribal areas, as defined in the Constitution of Islamic Republic of Pakistan, as made till 30 th June, 2023, to which the provisions of the Act or the notifications issued thereunder, would have not applied had Article 247 of the Constitution not been omitted under the Constitution (Twenty- fifth Amendment) Act, 2018 (XXXVII of 2018): Provided that, in case of imports, the same shall be allowed Clearance by the Customs authorities on presentation of a post-dated cheque for the amount of sales tax payable under the Sales Tax Act, 1990, and the same shall be returned to the importer after presentation of a consumption or installation certificate, as the case may be, in respect of goods imported as issued by the Commissioner Inland Revenue having jurisdiction: Provided further that if plant, machinery and equipment, on which exemption is availed under this serial number, is transferred or supplied outside the tribal areas, the tax exempted shall be paid at applicable rate on residual value
152	Supplies of electricity, as made from the day of assent to the Constitution (Twenty-fifth Amendment) Act, 2018, till 30 th June, 2023, to all residential and commercial consumers in tribal areas, and to such industries in the tribal areas which were set and started their industrial production before 31 st May, 2018, but excluding steel and ghee or cooking oil industries
153	Steel billets, ingots, ship plates, bars and other long re-rolled profiles, on such imports and supplies by the manufacturer on which federal excise duty is payable in sales tax mode.
Table II (local Supplies Only)	
25	Cotton Seed Oil

The Eighth Schedule

Revised Rate of Tax on Milk & Cream

In Table-1, in column (1),–

(i) against S. No. 14, for the entries in columns (1), (2), (3), (4) and (5), the following shall be substituted, namely:–

“14	Milk and cream, concentrated or containing added sugar or other sweetening matter	0402.1000 and 0402.2000	10%	Sold in retail packing under a brand name”;
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The Sixth Schedule

The Act has made certain changes to various items under various serial numbers. The revised serial numbers with the revised description have been reproduced below:

S No.	Description
Table I (Import or Supplies)	
19	Cereals and products of milling industry, other than wheat and meslin flour, as sold in retail packing bearing brand name or a trade mark
36 & 37	Silver and Gold (in unworked condition). The Act has omitted these two serial numbers and their related entries in column 2 & 3.
52A	Goods excluding electricity and natural gas supplied to hospitals run by the Federal or Provincial Governments or charitable operating hospitals of fifty beds or more or the teaching hospitals of statutory universities of two hundred or more beds.
82	Frozen prepared or preserved sausages and similar products of poultry meat or meat offal as sold in retail packing bearing brand name or a trade mark.
83	Meat and similar products of prepared frozen or preserved meat or meat offal of all types including poultry, meat and fish as sold in retail packing bearing brand name or a trade mark.
85	Fat filled milk as sold in retail packing bearing brand name or a trade mark.
Table II (Local Supplies Only)	
16	Raw Cotton (ginned cotton has been omitted)

Reduced Rates of Sales Tax

b) The Act imposes reduced rate of sales tax on the following items:-

S No.	Description	Rate
59	Products of milling industry, except wheat and meslin flour, as sold in retail packing under a brand name or trademark	10%
60	Fat filled milk as sold in retail packing under a brand name or trademark	10%
61	Silver in unworked condition	1%
62	Gold in unworked condition	1%
63	Articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal. (No input tax adjustment to be allowed except of the tax paid on gold)	1.5% of value of gold, plus 0.5% of value of diamond, used therein, plus

		3% of making charges
64	Supplies of Prepared Food, foodstuff and sweetmeats supplied by restaurants, bakeries, caterers and sweetmeat shops subject to condition that no input tax adjustment shall be allowed	7.5%
65	Ginned cotton	10%
66	Supplies as made from retail outlets as are integrated with Board's computerized system for real-time reporting of sales, if supplied goods are finished fabric, and locally manufactured finished articles of textile and textile made-ups and leather and artificial leather subject to the condition that they have maintained 4% value addition during the last six months	14%
67	LNG imported for servicing CNG sector and local supplies thereof	5%
68	Frozen prepared or preserved sausages and similar products of poultry meat or meat offal	8%
69	Meat and similar products of prepared frozen or preserved meat or meat offal of all types including poultry, meat and fish	8%

The Ninth Schedule

The Act reduces the fixed rate of sales tax on cellular mobile phones as under:-

S.No.	Description	Sales tax on import or local supply	Sales tax chargeable at the time of registration (IMEI number by CMOs)
2.	Cellular mobile phones or satellite phones to be charged on the basis of import value per set, or equivalent value in rupees in case of supply by the manufacturer, at the rate as indicated against each category:--		
	A. Not exceeding US\$ 30	Rs. 135	Rs. 135
	B. Exceeding US\$ 30 but not exceeding US\$ 100	Rs. 1,320	Rs. 1,320
	C. Exceeding US\$ 100 but not exceeding US\$ 200	Rs. 1,680	Rs. 1,680
	D. Exceeding US\$ 200 but not exceeding US\$ 350	Rs. 1,740	Rs. 1,740
	E. Exceeding US\$ 350 but not exceeding US\$ 500	Rs. 5,400	Rs. 5,400
	F. Exceeding US\$ 500	Rs. 9,270	Rs. 9,270

The Tenth Schedule

The Act has inserted Tenth Schedule to specify that tax on bricks, falling in PCT heading 6901.1000, shall be paid on fixed basis, on monthly return, at the rates specified in the Table below:–

S.No.	Region or area	Tax payable per month
(1)	(2)	(3)
1.	Lahore, Rawalpindi and Islamabad districts	Rs. 12,500
2.	Attock, Chakwal, Jehlum, Mandi Bahauddin, Sargodha, Gujrat, Sialkot, Narowal, Gujranwala, Hafizabad, Sheikhpura, Kasur, Nankana Sahib, Chiniot, Faisalabad, Jhang, Toba Tek Singh, Okara and Sahiwal districts	Rs. 10,000
3.	Khushab, Mianwali, Bhakar, Layyah, Muzaffargarh, Dera Ghazi Khan, Rajanpur, Multan, Lodhran, Khanewal, Vehari, Bahawalpur, Pakpattan, Bahawalnagar, Rahim Yar Khan districts; and Sindh, Khyber-Pakhtunkhwa and	Rs. 7,500

The Eleventh Schedule

The Act has inserted Eleventh Schedule to specify that rates for withholding or deduction by the withholding agents under section 3 sub-section (7):-

S No.	Withholding agent	Supplier category	Rate or extent of deduction
(1)	(2)	(3)	(4)
1.	(a) Federal and provincial government departments; autonomous bodies; and public sector organizations (b) Companies as defined in the Income Tax Ordinance, 2001 (XLIX of 2001)	Registered persons	1/5th of Sales Tax as shown on invoice
2.	(a) Federal and provincial government departments; autonomous bodies; and public sector organizations (b) Companies as defined in the Income Tax Ordinance, 2001 (XLIX of 2001)	Person registered as a wholesaler, dealer or distributor	1/10th of Sales Tax as shown on invoice
3.	Federal and provincial government departments; autonomous bodies; and public sector organizations	Unregistered persons	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)	Unregistered persons	5% of gross value of supplies
5.	Registered persons as recipient of advertisement services	Person providing advertisement services	Whole of sales tax applicable
6.	Registered persons purchasing cane molasses.	Unregistered persons	Whole of sales tax applicable

(i) Electrical energy;

- (ii) Natural gas;
- (iii) Petroleum products as supplied by petroleum production and exploration companies, oil refineries, oil marketing companies and dealers of motor spirit and high speed diesel;
- (iv) Vegetable ghee and cooking oil;
- (v) Telecommunication services;
- (vi) Goods specified in the Third Schedule to the Sales Tax Act, 1990;
- (vii) Supplies made by importers who paid value addition tax on such goods at the time of import; and
- (viii) Supplies made by an Active Taxpayer as defined in the Sales Tax Act, 1990 to another registered persons with exception of advertisement services.

The Twelfth Schedule

The following new schedule titled “The Twelfth Schedule” has been inserted through Finance Act, 2019 to provide for taxation under sub-section (2) of section 7A:

S. No. (1)	Goods or class of goods (2)	PCT Heading (3)	Rate (4)
1.	All imported goods subject to exclusions as in conditions and procedure given after the Table	Respective Heading	3% ad valorem

Procedure and conditions:–

- (1) The sales tax on account of minimum value addition as payable under this Schedule (hereinafter referred to as value addition tax), shall be levied and collected at import stage from the importer on all taxable goods as are chargeable to tax under section 3 of the Act or any notification issued thereunder at the rate specified in the Table in addition to the tax chargeable under section 3 of the Act or a notification issued thereunder:
- (2) The value addition tax under this Schedule shall not be charged on,—
 - (i) Raw materials and intermediary goods meant for use in an industrial process which are subject to customs duty at a rate less than 16% ad valorem under First Schedule to the Customs Act, 1969;
 - (ii) The petroleum products falling in Chapter 27 of Pakistan Customs Tariff as imported by a licensed Oil Marketing Company for sale in the country;
 - (iii) Registered service providers importing goods for their in-house business use for furtherance of their taxable activity and not intended for further supply;
 - (iv) Cellular mobile phones or satellite phones;
 - (v) LNG / RLNG;
 - (vi) second hand and worn clothing or footwear (PCT Heading 6309.000);
 - (vii) gold, in un-worked condition; and

(viii) silver, in un-worked condition.

(3) The value addition tax paid at import stage shall form part of input tax, and the importer shall deduct the same from the output tax due for the tax period, subject to limitations and restrictions under the Act, for determining his net liability. The excess of input tax over output tax shall be carried forwarded to the next tax period as provided in section 10 of the Act.

(4) In no case, the refund of excess input tax over output tax, which is attributable to tax paid at import stage, shall be refunded to a registered person.

(5) The registered person, if also dealing in goods other than imported goods, shall be entitled to file refund claim of excess carried forward input tax for a period as provided in section 10 or in a notification issued there under by the Board after deducting the amount attributable to the tax paid at import stage i.e. sum of amounts paid during the claim period and brought forward to claim period. Such deducted amount may be carried forward to subsequent tax period”.

SIGNIFICANT CHANGES IN FEDERAL EXCISE ACT, 2005

Powers to the Federal Government shifted to Board

[Sections 2,7(2) & 22(13)]

The notification power of the Federal Government has been shifted with the approval of the Minister-in-charge in respect of the following Sections/ sub-sections:

Section	Powers
Section 2(23a)- Supply	To specify such transactions which constitute supply subject to the issuance notification in the official Gazette.
Section 7(2)- Application for the provisions of the Sales Tax Act, 1990	To declare that any of the provisions of the Sales Tax Act, 1990 shall, with such modifications and alterations as it may consider necessary applicable in same manner in respect of the duty leviable under this Act.
Section 22(13)- Tax on taxable supply	To authorize, by notification in the official Gazette, any other officer working under the Board to exercise the powers and perform the functions of an officer of inland revenue under this section, subject to such conditions, if any, that it may deem to fit to impose.

Above amendments will decrease legislative burden of Federal Government/ Cabinet enabling it to retain substantive powers of making law and to assign the Board with respect to the procedural powers.

Levy, collection and payment of duty

[Sections 3(5A)]

A new mechanism of levying duty in respect of steel products in lieu of sales tax under the Sales Tax Act, 1990 has been introduced by inserting a new subsection (5A). It specifies that the minimum production of steel product for a month shall be determined on the basis of a single or more inputs as consumed in the production process as per criterion specified in the Fourth Schedule of the Act. If the minimum production so determined exceeds the actual supplies for the month, such minimum production shall be treated as quantity supplied during the month and the liability to pay duty shall be discharged accordingly.

Through this amendment, it seems that the Government appears to facilitate steel sector to adjust its input tax/duty and exclude it from the fixed sales tax regime.

Exemption

[Sections 16(2)]

The powers of Federal Government have been restricted to grant exemption to any goods or class of goods or any services or class of services from the whole or any part of the duty leviable under this Act. The Government will not be able to grant exemption in such circumstances which require to take immediate action for the purpose of national security, natural disaster, national food security in emergency situations and implementation of bilateral and multilateral agreements, subject to such conditions as may be specified therein.

The Act imposes penalty on those persons who sell cigarettes in retail at a price lower than the retail price and amount of sales tax as printed thereon. The amount of penalty may extend to twenty thousand Rupees.

A new Section has been inserted through the applicable Bill which empowers the Board to prescribe rules for initiating criminal proceedings against Federal Excise officers and their subordinates, who willfully and deliberately commits or omits an act which results in personal benefits and undue advantage to the authority or the person or taxpayer or both. The Board shall simultaneously intimate the relevant government agency to initiate criminal proceedings against the taxpayer where proceedings under subsection (1) have been initiated against them. The proceedings shall be without prejudice to any liability that the authority, person or taxpayer may incur under any other law for the time being in force.

Through this amendment, the Cost and Management Accountants have been added in the Alternate Dispute Resolution Committee (ADRC) provided in the section 38.

Further, the minimum requirement of 10 years' experience has been prescribed to be a member of ADRC.

A new Section has been inserted after Section 48, through the Finance Act, 2019 which states the following:-

“The Federal Government may, by notification in the official Gazette, subject to such conditions, limitations or restrictions as it may deem fit to impose, levy fee and service charges for valuation, in respect of any other service or control mechanism provided by any formation under the control of the Board, including ventures of public-private partnership, at such rates as may be specified in the notification.”;

The First Schedule

(A) The Act has made the following amendments in the First Schedule:

- In serial number 1, the duty on Edible oils excluding deoxidized soybean has been enhanced from sixteen percent to seventeen percent.
- Serial number 2 has been substituted as follows:

“2.	Vegetable ghee and cooking oil	
	(a) in retail packing	Seventeen per cent of retail price
	(b) not in retail packing	Seventeen per cent ad val.”;

Revision of Rates of Duty on Aerated Water etc.

The earlier rate of eleven and half percent as provided under serial numbers 4, 5 and 6, have been enhanced to thirteen percent for:

- Aerated waters (PCT 2202.1020),
- Aerated waters, containing added sugar or other sweetening matter or flavored (PCT 2202.1010); and
- Aerated waters if manufactured wholly from juices or pulp of 3 [] vegetables, food grains or fruits and which do not contain any other ingredient, indigenous or imported, other than sugar, coloring materials, preservatives or additives in quantities prescribed under the West Pakistan Pure Food Rules, 1965 (under respective headings)

Duty on Unmanufactured Tobacco

The rate of duty per kg of un-manufactured tobacco has been reduced from Rs. 300 per kg to Rs. 10 per kg.

Duty on Cigarettes

The Act has enhanced the duty on cigarettes under serial numbers 9 and 10 as provided below:

“9.	Locally produced cigarettes if their on-pack printed retail price exceeds five thousand nine hundred and sixty rupees per thousand cigarettes.	24.02	Rupees five thousand two hundred per thousand cigarettes
10.	Locally produced cigarettes if their on-pack printed retail price does not exceed five thousand nine hundred and sixty rupees per thousand cigarettes.	24.02	Rupees one thousand six hundred and fifty per thousand cigarettes”;

Duty on Imported Vehicles

In columns (2), (3) and (4) of serial numbers 55 and 55A have been substituted with the following entries to provide for rates of FED on the vehicles as specified hereunder:

55	Imported motor cars, SUVs and other motor vehicles, excluding auto rickshaws, principally designed for the transport of persons (other than those of headings 87.02), including station wagons and racing cars	87.03
	(a) of cylinder capacity up to 1000cc	2.5% <i>ad val.</i>
	(b) of cylinder capacity from 1001cc to 1799cc	5% <i>ad val.</i>
	(c) of cylinder capacity 1800cc to 3000cc	25% <i>ad val.</i>
	(d) of cylinder capacity exceeding 3001cc	30% <i>ad val.</i> ”;

Duty on Locally Manufactured Vehicles

The Act has revised the rates of duty on locally manufactured and assembled vehicles falling under serial number. The revised rates are provided below:

55B	Locally manufactured or assembled motor cars, SUVs and other motor vehicles, excluding auto rickshaws principally designed for the transport of persons (other than those of headings 87.02), including station wagons and racing cars:	87.03
	(a) of cylinder capacity up to 1000cc	2.5% <i>ad val.</i>
	(b) of cylinder capacity from 1001cc to 2000cc	5% <i>ad val.</i>

(c) of cylinder capacity 2001cc and above	7.5% <i>ad val.</i>
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Duty on Juices etc.

The following new serial numbers and corresponding entries relating thereto have been inserted:

57	Fruit juices, syrups and squashes, waters containing added sugar or sweetening matter etc. excluding mineral and aerated waters	Respective headings	Five percent of retail price.
58	Steel Billets, ingots, ship plates, bars and other long re-rolled products	Respective headings	Seventeen percent <i>ad val.</i>

The Fourth Schedule

Minimum production of steel products

The Act has inserted this new schedule to determine the minimum production of steel products and related procedure & terms. It provides the following:

The minimum production for steel products shall be determined as per criterion specified against each in the Table below:

S. No.	Product	Production criteria
(1)	(2)	(3)
1.	Steel billets and ingots	One metric ton per 700 kwh of electricity consumed
2.	Steel bars and other re-rolled long profiles of steel	One metric ton per 110 kwh of electricity consumed
3.	Ship plates and other re-rollable scrap	85% of the weight of the vessel imported for breaking"; and

Procedure and conditions:—

(i) Both actual and minimum production, and the local supplies shall be declared in the monthly return. In case, the minimum production exceeds actual supplies for the month, the liability to pay duty shall be discharged on the basis of minimum production:

Provided that in case, in a subsequent month, the actual supplies exceed the minimum production, the registered person shall be entitled to get adjustment of excess duty on account of excess of minimum production over actual supplies:

Provided further that in a full year, as per financial year of the company or registered person, or period starting from July to June next year, in other cases, the duty actually paid shall not be less than the liability determined on the basis of minimum production for that year and in case of excess payment no refund shall be admissible:

Provided also that in case of ship-breaking, the liability against minimum production, or actual supplies, whichever is higher, shall be deposited on monthly basis on proportionate basis depending upon the time required to break the vessel.

(ii) The payment of FED on ship plates in aforesaid manner does not absolve ship breakers of any tax liability in respect of items other than ship plates obtained by ship-breaking.

(iii) The melters and re-rollers employing self-generated power shall install a tamperproof meter for measuring their consumption. Such meter shall be duly locked in room with keys in the custody of a nominee of the Commissioner Inland Revenue having jurisdiction. The officers Inland Revenue having jurisdiction shall have full access to such meter.

(iv) The minimum production of industrial units employing both distributed power and self-generated power shall be determined on the basis of total electricity consumption.”.

SIGNIFICANT CHANGES IN CUSTOMS ACT, 1969

Customs Controls

[Applicable Section 2(ic)]

The definition of 'Customs controls' has been added after omitted clause (ib). Customs controls are defined as measures applied by the officers of customs or through Customs Computerized System to manage risks and ensure compliance.

Risk Management System

[Applicable Section 2(qb), (qc)]

The Act inserts a new definition of 'Risk Management System', which means the systematic application of Customs Controls and Management Procedures on pre-arrival, Customs clearance processes and post clearance of goods and passengers, for identifying, analyzing, evaluating, monitoring, reviewing and treating the risk associated with them.

A new definition of Risk Management Committee has been inserted as:-

(qc) "Risk Management Committee" means a committee headed by a BS-21 officer of Customs, constituted under the rules, to review functioning and supervise implementation of the Risk Management System and shall comprise as many BS-19 and BS-20 officers of Customs as may be notified by the Board; and";

Selectivity Criteria

[Applicable Sections 2(rrr)]

The Act provides definition of 'Selectivity Criteria', which means the risk parameters determined by the Risk Management Committee constituted under the rules for the application of Risk Management System.

Powers and functioning of the Directorates, etc.

[Section 3E]

Directorates General have been brought in the ambit of this section, which now empowers the Board to specify, by notification in the official Gazette, the functions, jurisdiction and powers of the Directorates General and Directorates and their officers specified in the Act.

Empowering the Board with the powers of Federal Government

The Federal Government has now shifted its powers to the Board in the following sections, namely:-

Section	Powers
Section 18D- Levy of fee and service charges	To impose, levy fee and service charges for examination, scanning, inspections, sealing and desealing, valuation check or in respect of any other service or control mechanism provided by any formation under the control of the Board, including ventures of public-private partnership, at such rates as may be specified in the notification.
Section 30- Date of determination of rate of import duty	To specify any other date for the determination of rate of Duty for any goods or class of goods.
Section 30A- Date of determination of rate of duty	To specify any other date for the determination of rate of duty in respect of any goods or class of goods.

for clearance through the Customs Computerized System	
Section 31- Date for determination of rate of duty on goods exported	To specify any other date for determination of the rate of duty for any goods or class of goods.
Section 155A - Application of the Customs Computerized System	To determine the date for application of all or specific provisions of Act related to the Customs computerized system on any Customs station

General power to exempt from customs-duties

[Section 19]

Under this section, the Federal Government has been empowered to exempt any goods imported into, or exported from, Pakistan or into or from any specified port or station or area therein, from the whole or any part of the customs duties including fine, penalty or any other amount in the case of certain specified circumstances including removal of anomalies in duties, development of backward areas. However, the powers of Federal Government in respect of 'removal of anomalies in duties, development of backward areas' are withdrawn through this Bill.

Power to determine the customs value

[Section 25A]

Through this Act, the powers of the Collector of Customs to determine the customs value of any goods or category of goods imported into or exported out of Pakistan on his own motion have been withdrawn. However, the Collector of Customs may determine the same on a reference made to him by any person or an officer of Customs.

False statement error

[Section 32(3A)]

The Act brings the exporters into the ambit of this section through which a show cause notice can be served to an importer where any duty, taxes or charge has not been levied or has been short-levied or has been erroneously refunded which is discovered as a result of an audit or examination of an importer's accounts.

Compounding of offence

[Section 32B]

The Act has empowered the Director Customs to compound any offence on payment of duty or tax due along with payment of penalty. Earlier this power was only bestowed to the Collector.

Mis-declaration of value for illegal transfer of fund

[Applicable Section 32C]

A new section has been inserted after Section 32B, which states the following:-

“32C. Mis-declaration of value for illegal transfer of funds into or out of Pakistan

(1) Without prejudice to any action that may be taken under this Act or any other law, for the time being in force, if any person overstates the value of imported goods or understates the value of exported goods or vice versa, or using other means including short-shipment, over-shipment, with a view to illegally transferring funds into or out of Pakistan, such person shall be served with a notice to show cause within

a period of two years from the date of detection of such mis-declaration as to why penal action shall not be initiated:

Provided that if goods have not been cleared from customs, such goods shall also be liable to be seized:

Provided further that a team consisting of Additional Collector, duly assisted by an expert in the relevant field and an officer of State Bank of Pakistan (SBP) as specified, shall submit a report in writing with evidence for the Chief Collector. The said report shall also be furnished to the SBP for action, if any, under the law regulated by SBP.

(2) Any proceedings under this section shall not be initiated without the explicit approval of the Board.”;

Refund to be claimed within one year

[Section 33]

Through amendment in section 33, the Act empowers the Board to specify the jurisdiction and powers of the officers of Customs to sanction refund in terms of amount of Customs duty and other taxes involved, by notification in the official Gazette.

Further, it also applies that the refund claim filed under this section is required to be disposed of within a period not exceeding one hundred and twenty days from the date of filing of such claim and such refund shall subject to pre-audit.

Declaration & assessment for home-consumption

[Section 79]

The Act reduces the time for filing of declaration of Goods for home consumption or warehousing or transshipment or for any other approved purposes, from fifteen to ten days from the date of arrival of goods.

Establishment of Risk Management System

[Applicable Section 80B]

A new section has been inserted through which Risk Management System will be used for the purpose of enforcing Customs Controls in such manner as may be prescribed by the rules.

Provisional determination of liability

[Section 81]

The scope of Section 81 have been broadened to cover Section 131 as well. The section will cover the assessment of exported goods and thereby entitle an officer of Customs, during the checking of the goods declaration to satisfy himself of the correctness of the assessment of the goods and may require chemical or other test or a further inquiry, an officer, not below the rank of Assistant Collector of Customs, may order that the duty, taxes and other charges payable on such goods, be determined provisionally.

Reduction in time period in case of goods not cleared or warehoused or transhipped or exported or removed from the port

[Section 82]

The time period for placing un-cleared goods on their arrival on port has been reduced from twenty days to fifteen days and further extendable period has also been reduced from ten days to five days.

Warrant to be given when goods are warehoused

[Section 90(2), applicable 90(4)]

The Act requires that whenever any goods are lodged in a public warehouse or a licensed private warehouse, the issuance of warrant and subsequent transfer of warrant shall take place through system generated documents where the Customs Computerized system is operational. Presently, the warehouse-keeper delivers a warrant signed by him as such to the person lodging the goods.

A new sub-section has also been inserted through which the Board is empowered to make rules for regulating the transfer of goods.

Period for which goods may remain warehoused

[Section 98, 98(3)]

The warehousing period of perishable goods has been reduced from three months to one month. The Chief Collector is applicable to be empowered to extend the time period for warehousing of non-perishable goods till the time as he may deem fit. Further, the Board is also empowered to regulate the period for which the goods may remain in the warehouse in addition to the Federal Government.

Punishment for offences

[Section 156]

Following new/ revised penalties have been imposed under the Act:-

"14	If any person commits an offence under (i) sub-section (1) or sub-section (2) of section 32;	such person shall be liable to a penalty not exceeding two hundred thousand rupees or three times the value of the goods in respect of which such offence is committed, whichever be greater; and such goods shall also be liable to confiscation; and upon conviction by a Special Judge he shall further be liable to imprisonment for a term not exceeding three years, or to fine, or to both;	32";
	(ii) sub-section (3) or sub-section (3A) of section 32,	such person shall be liable to a penalty not exceeding fifty thousand rupees or two times the value of the goods in respect of which such offence is committed, whichever be greater.	32";
"14B	If any person commits an offence under section 32C,	Such person shall be liable to penalty not exceeding two hundred thousand rupees or three times the value of goods in respect of which such offence is committed whichever is greater; and such goods shall also be liable to confiscation; and upon conviction by a special judge he shall further be liable to imprisonment for a term not exceeding ten years and to a fine which may extend up to one million rupees; and shall also be liable to forfeiture of property involved in money laundering or property of corresponding value in accordance with the provisions of the Anti-Money Laundering Act, 2010 (XIV of 2010).	32C"
"47A	If the goods declaration is not filed within the prescribed period of ten days,	The owner of such goods shall be liable to a penalty at the rate of rupees five thousand per day for the initial five days of default and at the rate of rupees ten thousand per day for each day of default thereafter.	79";

Proceedings against persons

[Section 156A]

Through amendment in section 156A, the Board has been empowered to prescribe rules for initiating criminal proceedings against Custom officers and their subordinates, who willfully and deliberately commits or omits an act which results in personal benefits and undue advantage to them. It also empowers the Board to simultaneously intimate the relevant Government agency to initiate criminal proceedings against the taxpayer. The proceedings shall be initiated without prejudice to any liability that the authority, person or taxpayer may incur under any other law for the time being in force.

Power of adjudication

[Section 179]

The Act withdraws the powers of the Assistant Collector to adjudicate cases and applies to enhance the pecuniary limit of cases adjudicated by Superintendent and Principal Appraiser from fifty thousand to one hundred thousand. It also reduces the time period for passing an order to ninety days from one hundred and twenty days of issuance of show cause notice.

Option to pay fine in lieu of confiscated goods

[Section 181]

The scope of this section has been enhanced to cover any violation under the Act.

Appeals to Collector (Appeals)

[Section 193]

The Act has enhanced the scope of this section by giving an option for appeal against an order passed under section 131 of the Act.

Procedure in appeal

[Section 193A]

The statutory time period for deciding an appeal by Collector (Appeals) has been reduced from one hundred and twenty days to ninety days.

Appellate Tribunal

[Section 194]

Prime Minister of Pakistan has been authorized, instead of Federal Government, to select the Chairman of the Tribunal and to set terms and conditions of appointment of the chairman and judicial and technical members of the Tribunal. Further, the appointment of an advocate of High Court as judicial member of the Tribunal shall be in accordance with the Civil Servants Act, 1973 and the Federal Public Service Commission Ordinance, 1977. The technical member of the Board shall be an officer of Pakistan Customs Service equivalent in rank of member of the Board or Chief collector of Customs or Director General or a Collector or Director or Chief of Board having at least three years' experience in that position. It is also applicable to include Director or Chief of the Board with minimum three years' experience for appointment as technical member in Appellate Tribunal, to make selection of advocate of High Court as judicial member subject to FPSC Ordinance, 1977 and Civil Servants Act, 1973 and to fix the tenure of the technical member to two years.

Powers of Board or Collector to pass certain orders

[Section 195]

The Act reassigns the powers to the Chief Collectors from Collector of Customs to probe the records of any proceeding under the Act, assess the legality of any decision or order of subordinate officers and pass order accordingly. Further, the time limit for re-opening of cases is also applicable to be reduced from two years to one hundred and twenty days subject to an extension of sixty days.

Alternative Dispute Resolution

[Section 195C]

The Act enhances the timeline for the composition of ADR from 30 days to 60 days and also prescribes the guidelines for the appointment of the members of ADR as follows:-

- a) an officer of customs not below the rank of Chief Collector
- b) a person to be nominated by the applicant from a panel notified by the Board, comprising
 - i. senior chartered accountants and senior advocates having minimum ten year experience in the field of taxation provided that the nominee is or has not been auditor or authorized tax representative of the person; and
 - ii. reputable businessmen as nominated by Chambers of Commerce and Industry:
 - iii. retired judge not below the rank of District and Session Judge to be nominated through consensus by the other members of the ADR

Further, the aggrieved person is required to withdraw the appeal file before the court or appellate tribunal after constitution of the committee by the Board.

Owner to make all arrangements and bear all expenses

[Section 200]

The scope of examination has been enhanced to include exported goods placed at custom stations to be undertaken by custodian of the cargo with operational customs computerized system. The related cost of the examination shall be borne by the exporter.

Authorised economic operators program

[Section 212A]

The approval of the Federal Government to make rules for authorized economic operators program has been withdrawn.

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001

Following amendments have been made in the Islamabad Capital Territory (Tax on Services) Ordinance, 2001:-

- Sales Tax rates applicable to the Call Centres has been reduced from 18.5% to 17%
- Further, sixteen new services have been included under the Schedule to ICT Ordinance which are to be taxed at the rate of **16%** as under: -

S. No.	Description	Rate (%)
43	Advertisement on hoarding boards, pole signs and signboards, and websites or internet	Sixteen
44	Services provided by landscape designers	Sixteen
45	Sponsorship services	Sixteen
46	Services provided or rendered by legal practitioners and consultants	Sixteen
47	Services provided by accountants and auditors	Sixteen
48	Service provided or rendered by Stockbrokers, future brokers and commodity brokers, money exchanger, surveyors, outdoor photographers, event photographers, videographers, art painters, auctioneers (excluding value of goods) and registrar to an issue	Sixteen
49	Services provided by race clubs: Entry/ admission and other services	Sixteen
50	Services provided or rendered by corporate law consultants	Sixteen
51	Visa processing services, including advisory or consultancy services for migration or visa application filing services	Sixteen
52	Debt collection services and other debt recovery services	Sixteen
53	Supply chain management or distribution (including delivery) services	Sixteen
54	Services provided or rendered by persons engaged in intercity transportation or carriage of goods by road or through pipeline or conduit	Sixteen
55	Ready mix concrete services	Sixteen
56	Public relations services	Sixteen
57	Training or coaching services other than education services	Sixteen
58	Cleaning services including janitorial services, collection of waste and processing of domestic waste	Sixteen

DISCLAIMER

The Commentary on Finance Act, 2019-20 has been prepared as a general guide line for the benefits of Corporate Sector Organizations, Industries, Consulting Services and management Accountants and other interested persons.

We hope that the commentary on Finance Act, 2019-20 will be beneficial to all.

Although every care has been taken in the publication of this commentary, however, the Institute shall not be responsible for any loss or damage cause to any person on account of errors or omission which might have crept in.

For clarification, original document may be consulted.