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FINANCE ACT 2022

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PREFACE

The Federal Government presented the Finance Bill on 10^{th} June 2022 which contains proposed amendments in direct and indirect tax laws in Pakistan. The proposed amendments are now approved by the parliament in the shape of the Finance Act, 2022 with certain changes in proposed amendments. The amendments are effective from 1st July 2022 unless a later date is provided for effectiveness of particular provision. This documents only contain the changes made vide the Finance Act to the amendments proposed vide the Finance Bill under the Income Tax, Sales Tax and Federal Excise Laws

DISCLAIMER

While preparing this synopsis care has been taken to ensure that our understanding on significant changes are explained to the reader to the best of our ability.

The synopsis provides general guidance and therefore any action or inaction on the basis of this synopsis will be readers prerogative. We however do not take any responsibility for loss, if any, sufficient by reader by taking any action on the basis of this synopsis without seeking our formal advice.

Karachi July 02, 2022

BUDGET HIGHLIGHTS

INCOME TAX

- Tax rate for banking companies has been increased from 35% to 39%. However, tax rates for other companies remains unchanged at i.e., 20% for small company and 29% for other company

- Super tax for rehabilitation of temporarily displaced persons at the rate of 4% for banking companies has been restricted till tax year 2022. From tax year 2023 and onwards said super tax will not be applicable.

- Super tax on high earning persons at the rates ranges from 1% to 4% has been imposed on every taxpayer including individuals, AOPs and companies having annual income exceeding Rs. 150 million.

- Scope of tax on certain payments to non-residents has been widened by including additional services which would be chargeable to tax at the rate of 10%. Further, tax rate for offshore digital services has also increased from 5% to 10%

- Tax on deemed income on value of capital assets situated in Pakistan having market value exceeding Rs. 25 million in aggregate has been imposed with retrospective effect i.e., from tax year 2022 and onwards.

- 8% of expenses claimed by a person is will be disallowed in case of a person who is liable to integrate his business with the Board but fail to do so.

- Claim of full depreciation of assets in the year of acquisition and no depreciation in the year of disposal has been restored. Further, eligible cost of vehicle not plying for hire for claiming depreciation has been increased from Rs. 2.5 million to Rs. 7.5 million

- Tax rate for capital gain on disposal of securities has been revised for tax year 2023 on the basis of holding period upto six years. Further, capital gain on disposal of securities having holding period of exceeding six years has been exempted.

- Capital gain tax rate on immovable property has been increased. Further holding period of property for exempt capital gain has been increased from four years to six years in respect of open plot and reduced from four years to two years in respect of flat. However, holding period of constructed property remains for four years.

- Exemption of 25% on gain on disposal of capital assets other than immovable property has been withdrawn

- Benefit of reduction in taxable income of individual on account of payment of markup on loan for acquisition or construction of new house has been withdrawn

- Tax credit for individuals for investment in share, insurance and approved pension fund has been withdrawn

- Hundred percent tax credit for IT sector on export of computer software, IT services or IT enabled services has been withdrawn.

- Tax credit on foreign investment available to newly incorporate company for industrial promotion has been withdrawn. Further, the immunity from declaration of source by foreign investor is also withdrawn

- A Pakistani citizen who is not residing in Pakistan for 183 days or more in a tax year and also not present in any country for more than 182 days during the tax year or who is not a resident taxpayer of any other country shall be considered as resident individual of Pakistan for tax purpose.

- Fixed tax shall be collected from small retailers through electricity bills.

- Exemption from obtaining NPO approval from the Commissioner for specified organizations has been extended from 30th June 2022 to 30th June 2023

- Requirement for issuance of separate notice under section 111 of the Ordinance is done away with where certain specified issues are confronted to the taxpayer through notice under section 122 of the Ordinance.

- Carry forward period of minimum tax paid under section 113 of the Ordinance has been reduced from 5 years to 3 years.

- Time period for passing order for best judgment assessment under section 121 has been extended from five years to six years from the close of tax year to which it relates.

- Time limit of 120 days for passing of order for amendment of assessment under section 122 from date of issuance of show cause notice has been extended to 180 days

- Tax collected on imports under section 148 of the Ordinance at the rate of 5.5% from an industrial undertaking has been made adjustable. Further, collection of tax at the rate of 2% has been increased to 3.5% in case of commercial importer.

- The scope of withholding tax from payment of non-resident under section 152 has been widened to include certain services subject to deduction of tax at the rate of 10%

- Withholding tax under section 153(1)(b) has been reduced in case of REIT management service and services rendered by NCCPL from 8% to 3%.

- Collection of advance tax on purchase and registration of motor vehicle has been increased

- Collection of advance tax on passenger transport motor vehicle plying for hire has been increased

- Collection of advance tax on sale of immovable property was exempt in case holding period is more than four years, such exemption has been withdrawn. Further, rate of advance tax has been increased from 1% to 2%.

- Collection of advance tax on purchase of immovable property has been increased from 1% to 2%.

- Advance tax by banks on amount remitted abroad through credit, debit or prepaid card shall be collected at the rate of 1%.

- Prize scheme to promote tax culture has been introduced to encourage general public to make purchases or avail services only from integrated enterprises issuing tax invoices

- Collection of advance tax on TV advertisements starring foreign actor has been reduced from RS. 500,000 per second to Rs. 100,000 per second.

- Withdrawal of accumulated balance out of Voluntary Pension System under Voluntary Pension System Rules, 2005 has been exempt irrespective of the amount of withdrawal.

- Collective Investment Scheme and REIT Scheme has been allowed for adjustment of accumulated loss from accounting income for the purpose of 90% distribution in order to avail exemption from total income under clause 132 of Part- of the Second Schedule.

- A reduced rate of 0.25% under section 153(1)(a) and 113 of the Ordinance shall be applied for the distributors, dealers, sub-dealers, wholesalers and retailers of steel.

- Tax liability at the reduced rate of 15% on profit on debt from Federal Government Securities for persons other than banking and insurance companies has been withdrawn.

- Tax rate on yield or profit from investment in Bahbood Savings Certificate or Pensioners Benefit Account and Shuhada Family Welfare Account has been reduced form 10% to 5%.

- Mobile phone manufacturers engaged in the local manufacturing of mobile phone devices has been exempt from minimum tax chargeable under section 113 of the Ordinance.

- The audit immunity to a person whose income tax affairs have been audited in any of the preceding four years has been provided.

SALES TAX

- The Finance Act brought “Production, Transmission and distribution of electricity” in the definition of Goods and Supply.

- The Finance Act brought Jewelers in the Category of tier –I retailer whose shop measures three hundred square feet in area or less

- The Finance Act charge further 3% sales tax to non-active taxpayer, previously this tax was only charged o the unregistered persons.

- The Finance Act increased fixed sales tax on the retailers other than Tier-1 Retailer at minimum rate of Rs.3000 per month and maximum upto Rs10,000 per month. The sales tax will have increased one hundred percent if the tax payer name does not appear in Active Taxpayer List (Income Tax). Further, it provides power to the Board to issue general order to whom tax at the amount of Rs. 200,000 could be charged.

- The Finance Act allowed sales tax on installments basis on import of any goods by Federal or Provincial Governments or any public sector organization, further the Board may allow such payment retrospectively

- The Finance Act relaxed the disallowance of input tax adjustment on pro-rata basis on sales to un-registered distributor not having CNIC or NTN which was previously being disallowed on sales to all class of persons being unregistered.

- The Finance Act withdraw the exemption available to listed companies for adjustment of 100% input tax with output tax in a tax period.

- The Finance Act provided power to Board for issuance of sales tax general orders for disconnection of gas and electric supply in cases where Tier-1 retailer fails to get itself register or fails to integrate Computerized system as required.

- The Finance Act relaxed the condition of CNIC / NTN in case of sales to unregistered distributor by manufacturer or importer which was previously being required on sales to all class on unregistered person.

- The Finance Act, omitted the provision for proceedings against authority and person mention in section 30 to 30DDD.

- The Finance Act, imposed limitation for progressing case before the Alternative dispute resolution where tax demand / refund amount exceeds 100 million rupees. Further, the mechanism for proceeding were amended in line with Income tax and Federal Excise laws.

- The Finance Act, has increased the sales tax on drugs registered under the Drug Act, 1976 from zero rate to 1%.

- The Finance Act, has exempt fertilizer from sales tax previously it was taxes under third schedule.

FEDERAL EXCISE DUTY

- The Finance Act, omitted the provision for proceedings against authority and person mention in section 29 of the Act.

- The Finance Act, imposed limitation for progressing case before the Alternative dispute resolution where tax demand / refund amount exceeds 100 million rupees. Further, the mechanism for proceeding were amended in line with Income tax and Federal Excise laws.

- Excise duty enhanced on cigarettes and related components.

- Rate of excise duty on Telecommunication services increased from 16% to 19.5 %.

- Significant increase in excise duty from Rs.10,000 to Rs.50,000 on air travel services to first class passengers on international journey from Pakistan.

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001

- Standard rate of sales tax on services specified in Table-1 of the Schedule has been reduced to 15%.

- The Act has substituted the reduced rate tariff heading from “IT services and IT-enabled services” to Services provided by software or IT-based system development consultants”

CAPITAL VALUE TAX (CVT)

- The Capital Value Tax levied at 1% on the locally and imported vehicle where;

    - the engine capacity exceeds 1300cc.
    - Electric vehicles the battery power capacity exceeds 50kwh
    - CVT at 1% on the foreign assets of resident individual of value exceeding Rs. 100 million.

SIGNIFICANT AMENDMENTS
INCOME TAX

SALARY TAXATION UNDER CLAUSE (2), DIVISION I, PART I, FIRST SCHEDULE

The Finance Act has revised tax rates for salaried individuals as follows:

	For tax year 2023		Hypothetical tax at highest salary of respective slab		
S#	**Taxable Income**	**Rate of Tax**	**at existing rate**	**at revised rate**	**Tax effect**
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	2.50%	30,000	15,000	(15,000)
3	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 15, 000 + 12.5% of the amount exceeding Rs. 1,200,000	180,000	165,000	(15,000)
4	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,600,000	Rs. 165,000 + 20% of the amount exceeding Rs. 2,400,000	390,000	405,000	15,000
5	Where taxable income exceeds Rs. 3,600,000 but does not exceed Rs. 6,000,000	Rs. 405,000 + 25% of the amount exceeding Rs. 3,600,000	895,000	1,005,000	110,000
6	Where taxable income exceeds Rs. 6,000,000 but does not exceed Rs. 12,000,000	Rs. 1,005,000 + 32.5% of the amount exceeding Rs. 6,000,000	2,345,000	2,955,000	610,000
7	Where taxable income exceeds Rs. 12,000,000	Rs. 2,955,000 + 35% of the amount exceeding Rs. 12,000,000	2,345,000	2,955,000	610,000

8	Where taxable income exceeds Rs. 30,000,000 but does not exceed 50,000,000	Rs. 2,955,000 + 35% of the amount exceeding Rs. 12,000,000	13,259,000	16,255,000	2,996,000
9	Where taxable income exceeds Rs. 50,000,000 but does not exceed 75,000,000	Rs. 2,955,000 + 35% of the amount exceeding Rs. 12,000,000	21,420,000	25,005,000	3,585,000
10	Where taxable income exceeds Rs. 75,000,000	Rs. 2,955,000 + 35% of the amount exceeding Rs. 12,000,000	30,170,000	33,755,000	3,585,000

BUSINESS INDIVIDUALS / AOPS TAXATION UNDER CLAUSE (2), DIVISION I, PART I, FIRST SCHEDULE

The Finance Act has revised tax rates for business individuals and AOPs as follows:

S#	Taxable Income	Rate of Tax	Hypothetical tax at highest salary of respective slab		Tax effect
			At existing rate	At revised rate	
1	Where taxable income does not exceed Rs. 600,000/-	0%	10000	0	(10,000)
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 800,000	5% of the amount exceeding Rs. 600,000	30000	10000	(20,000)
3	Where taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	Rs. 10,000 + 12.5% of the amount exceeding Rs. 800,000	70000	60000	(10,000)
4	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs.60,000 + 17.5% of the amount exceeding Rs. 1,200,000	250000	270000	20,000
5	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,000,000	Rs. 270,000 + 22.5% of the amount exceeding Rs. 2,400,000	370000	405000	35,000

6	Where taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000	Rs. 405,000 + 27.5% of the amount exceeding Rs. 3,000,000	620000	680000	60,000
7	Where taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 6,000,000	Rs. 680,000 + 32.5% of the amount exceeding Rs. 4,000,000	1220000	1330000	110,000
8	Where taxable income exceeds Rs. 6,000,000	Rs. 1,330,000 + 35% of the amount exceeding Rs. 6,000,000	1570000	1680000	110,000

SECTION 4B SUPER TAX FOR BANKING COMPANIES

The Finance Act has restricted application of Super Tax on banking companies under section 4B till tax year 2022. Banking companies are required to pay Super tax under Section 4C from tax 2023.

SECTION 4C SUPER TAX ON HIGH EARNING PERSONS

The Finance Act has introduced additional tax on income of every taxpayer including individuals, AOPs and companies on the basis of income as follows:

Income	Rate of Tax
does not exceed Rs. 150 million	0%
exceeds Rs 150 million but does not exceed Rs. 200 million	1%
Exceeds Rs. 200 million but does not exceed Rs. 250 million	2%
Exceeds Rs. 250 million but does not exceed Rs. 300 million	3%
Exceeds Rs. 300 million	4%

The income for the purpose of this section shall be the sum of following

i. Profit on debt
ii. Dividend
iii. Capital gains
iv. Brokerage and commission
v. Business income before adjustment of brought forward depreciation and business losses
vi. Imputable income in relation to income subject to final tax

However, for person engaged in following businesses whether partly or wholly, rate of 10% shall apply where income exceed Rs 300 million for the tax year 2022 only, instead of rate given in above table:

1. Airline,
2. Automobiles,
3. Beverages,
4. Cement

5. Chemical
6. Cigarette and tobacco
7. Fertilizer
8. Iron and steel
9. LNG terminal
10. Oil marketing,
11. Oil refining
12. Petroleum and gas exploration and production
13. Pharmaceutical
14. Sugar and
15. Textiles

Further, in case of banking companies this tax shall not apply for the tax year 2022, and for tax year 2023 the rate of tax shall be 10% instead of 4% where income exceeds Rs 300 million.

SECTION 6 TAX ON CERTAIN PAYMENTS TO NON-RESIDENTS

The Finance Act has imposed tax on payment to non-residents against fee for money transfer operations, card network services, payment gateway services, interbank financial telecommunication services rendered in Pakistan having no permanent establishment (PE) in Pakistan. Such services shall be chargeable to tax at the rate of 10% on gross amount.

Previously, payment to non-resident having no PE was subject to tax at the rate of 5% on gross amount in case of fee for offshore digital services. Tax rate of 5% on payment against fee for offshore digital services has been enhanced to 10%.

SECTION 7E TAX ON DEEMED INCOME, READ WITH DIVISION VIIIC PART I, FIRST SCHEDULE

The Finance Act has introduced a tax on deemed income at the rate of 20%. Deemed income shall be equal to 5% of fair market value on last day of tax year of capital assets situated in Pakistan. This tax shall apply from tax year 2022 and onwards. However, such tax shall not be chargeable on following properties:

(a) one capital asset owned by the resident person;

(b) self-owned business premises from which business is carried out by the persons appearing on ATL at any time during the year.

(c) self-owned agriculture land where agriculture activity is carried out excluding farmhouse and land annexed thereto.

for this purpose, “farmhouse” is defined as a house constructed on a total minimum area of 2000 square yards with a minimum covered area of 5000 square feet used as a single dwelling unit with or without an annex: Provided that where there are more than one dwelling units in a compound and the average area of the compound is more than 2000 square yards for a dwelling unit, each one of such dwelling units shall be treated as a separate farmhouse.”;

(d) capital asset allotted to:

i. Shaheed or dependents of a shaheed belonging to Pakistan Armed Forces
ii. a person or dependents of the person who dies while in the service of Pakistan armed forces or Federal or provincial government;

iii. a war wounded person while in service of Pakistan armed forces or Federal or provincial government; and
iv. an ex-serviceman and serving personal of armed forces or ex-employees or serving personnel of Federal and provincial governments, being original allottees of the capital asset duly certified by the allotment authority;

(e) any property from which income is chargeable to tax under the Ordinance and tax leviable is paid thereon;

(f) capital asset in the first year of acquisition where tax under section 236K has been paid;

(g) where the fair market value of capital assets in aggregate excluding capital assets mentioned in clause (a) to (f) does not exceed Rs. 25 million in aggregate;

(h) capital asset owned by a provincial government, or a local government;

(i) capital asset owned by a local authority, a development authority, builders and developers for land development and construction registered with Directorate General of Designated Non-Financial Businesses and Professions;

For the purpose of deemed income, "capital asset" is defined as property of any kind held by a person, whether or not connected with a business, but does not include –

i. any stock-in-trade, consumable stores or raw materials held for the purpose of business;
ii. any shares, stocks or securities;
iii. any property with respect to which the person is entitled to a depreciation deduction under section 22 or amortization deduction under section 24; or
iv. any movable asset not mentioned above;
Imposition of tax would discourage the investment in real estate in the investor's own name and would lead to undocumented economy where people would either invest and retain title of property in other's name to avoid payment of tax.

SECTION 21 DEDUCTIONS NOT ALLOWED

The Finance Act has restricted the claim of expense on account of contributions made to approved gratuity fund, superannuation fund and pension fund upto 50%.

Further, 8% of any expenditure attributable to sales shall be disallowed in case of a person required to integrate his business with Board through approved fiscal electronic device and software but he fails to do so.

SECTION 22 DEPRECIATION

The Finance Act withdraw the restriction of claiming 50% of depreciation in year of acquisition. Therefore, claiming full depreciation in year of acquisition and no depreciation in the year of disposal is restored. However, an ambiguity is created regarding restriction of claim of depreciation to the extent of 50% on asset acquired during tax year 2021 and 2022 which needs to be addressed.

Further, threshold of Rs. 2.5 million being eligible cost of vehicle not plying for hire has been enhanced to Rs. 7.5 million for claiming tax depreciation.

SECTION 37 CAPITAL GAINS ON IMMOVABLE PROPERTY

The Finance Act has classified immovable property into open plots, constructed property and flat. Further, holding period for exempt capital gain has been increased from four years to six years in case of open plot and reduced from four years to two years in case of flat. However, holding period for claim of exemption in case of constructed property remains for four years. Before amendment by this Finance Act, the capital gain on property having holding period of four years was exempt from tax irrespective of type of property.

Previously in respect of capital gain on disposal of immoveable property, holding period wise rate of capital gain tax were provided irrespective of amount of capital gain, according to which capital gain was exempt upto 25%, 50% and 75% in respect of holding period upto two years, three years and four years respectively, such exemption has been withdrawn.

The tax rates in respect of immoveable properties are as follows:

S.No	Holding Period	Rate of Tax		
		Open Plots	Constructed Property	Flats
1.	Where the holding period does not exceed one year	15%	15%	15%
2.	Where the holding period exceeds one year but does not exceed two years	12.5%	10%	7.5%
3.	Where the holding period exceeds two years but does not exceed three years	10%	7.5%	-
4.	Where the holding period exceeds three years but does not exceed four years	7.5%	5%	-
5.	Where the holding period exceeds four years but does not exceed five years	5%	-	-
6.	Where the holding period exceeds five years but does not exceed six years	2.5%	-	-
7.	Where the holding period exceeds six years	-	-	-

Furthermore, before amendment by this Act, the gain on capital assets other than immovable property is subject to tax at normal tax rates. However, exemption on 25% on such capital gain is available where holding period of such capital assets exceeds one year. The Finance Act has withdrawn the said exemption therefore, capital gain on such capital assets shall be fully taxable at normal tax rate irrespective of holding period.

The Act has made computation of capital gain on the basis of actual cost of the asset transferred by way of gift, succession, inheritance, devolution, dissolution of asset on dissolution of AOP or dissolution of asset on liquidation of company. Previously, fair market value of such assets on the date of transfer or acquisition is treated as cost of the asset for the purpose of computing capital gain. This would result in increased capital gain for the purpose of capital gain tax.

Further, collection of advance tax under section 236C of the Ordinance on sale of immovable property was not applicable in case of holding period is more than four years, the Finance Act has made applicability of collection of said tax irrespective of the holding period. Further, rate of advance tax has been enhanced from 1% to 2%.

SECTION 37A CAPITAL GAIN ON DISPOSAL OF SECURITIES

Previously, capital gain on disposal of securities was chargeable to tax at the rate of 12.5%. However, the capital gain on disposal of securities acquired before 1st July 2013 was exempt from tax. Further, capital gain on future commodity contracts was chargeable to tax at the rate of 5%.

The Finance Act has provided holding period wise rate for capital gain on disposal of securities for tax year 2023 and onwards subject to exemption where holding period exceeds six years.

The rates are as follows:

S.No	Holding Period	Existing for TY 2022 and onwards	Amended Rate of Tax for Tax year 2023 and onwards
1	Less than 1 year	12.5%	15%
2	More than 1 year less than 2 years		12.5%
3	More than 2 years less than 3 years		10%
4	More than 3 years less than 4 years		7.5%
5	More than 4 years less than 5 years		5%
6	More than 5 years less than 6 years		2.5%
7	More than 6 years		0%
8	Future commodity contracts entered into by members of Pakistan Mercantile Exchange	5%	5%

Except capital gain on disposal of future commodity contracts entered into by members of Pakistan Mercantile Exchange, the reduced rate of tax on capital gain on disposal of securities shall be applicable on securities which are acquired on or after 01 July 2022. In respect of securities acquired on or before 30 June 2022, the rate of 12.5% shall be applied on disposal of such securities irrespective of the holding period.

Further, the mutual fund or a collective investment scheme or a REIT scheme were not required to deduct Capital Gains Tax where holding period is more than four years, the Finance Act has increased the limit of holding period from more than four years to more than six years.

SECTION 59C CARRY FORWARD OF BUSINESS LOSSES OF SICK INDUSTRIAL UNITS

The Federal Government previously vide the Income Tax (Amendment) Ordinance, 2022 dated March 03, 2022 provided benefit of adjustment of brought forward business losses of sick industrial units to the acquiring company to encourage revival of sick industries through acquisition and mergers. However, the Finance Act has withdrawn said section with retrospective effect from March 02, 2022.

SECTION 60C DEDUCTIBLE ALLOWANCE FOR PROFIT ON DEBT

A reduction in taxable income to the extent of 50% of taxable income or Rs. 2 million whichever is lower was previously available to every individual paying markup / rental on loan obtained from schedule bank, NBFCs, Federal / Provincial / Local Government, statutory body or public listed company for the purpose of acquisition or construction of new house. Now the Finance Act has withdrawn the said benefit.

SECTION 62, 62A and 63 TAX CREDIT FOR INVESTMENT IN SHARES, LIFE INSURANCE, HEALTH INSURANCE AND CONTRIBUTION TO AN APPROVED PENSION FUND

The Finance Act has withdrawn tax credit available to individuals and AOPs for investment in shares, securities, life insurance, health insurance and approved pension fund.

Previously, tax benefit was available on contributing towards investment growth. This withdrawal could adversely affect the growth in capital market.

SECTION 65F and 154A TAX CREDIT FOR IT SECTOR

The Finance Act has withdrawn hundred percent tax credit available to IT sector on export of computer software, IT services or IT enabled services. Further, reduced rate of 0.25% has been introduced where such services are provided by person registered with Pakistan Software Export Board and in other case such services would be subject to tax at the rate of 1%.

Such tax deduction of 0.25% or 1% at source shall be made by foreign exchange authorized dealers at the time of realization of foreign exchange shall be full and final discharge of tax liability on income arising from such transaction subject to following conditions.

i. Return has been filed
ii. Withholding tax statement for relevant tax year has been filed
iii. Sales tax returns under Federal or Provincial laws have been filed if required under the law
iv. No credit for foreign taxes paid shall be allowed

In the absence of fulfilment of above conditions, the income of the person shall be assessed under normal tax regime. Further, such person who fulfills above conditions may also opt for normal tax through filing of option every year at the time of filing of return.

SECTION 65H and 100F TAX CREDIT AND IMMNUNITY FOR DECLARATION OF SOURCE ON FOREIGN INVESTMENT FOR INDUSTRIAL PROMOTION

The Federal Government vide the Income Tax (Amendment) Ordinance, 2022 dated March 03, 2022 incentivized the companies incorporated on or after 1st March 2022 setting up industrial undertaking having foreign investment. A one-time tax credit equal to an amount remitted and invested in business bank account of such company is available in the tax year in which commercial production commence.

Further, immunity from declaration of source of such funds invested under section 111 was also made available upon filing of statement by 30th September 2022 and upon payment of 5% of declared amount along with filing of statement.

The Finance Act has withdrawn such tax credit and immunity with retrospective effect from March 02, 2022.

SECTION 82 RESIDENT INDIVIDUAL

The Finance Act has widen the scope of resident individuals. Any Pakistani citizen who is not residing in Pakistan for 183 days or more in a tax year and also not present in any country for more than 182 days during the tax year or who is not a resident taxpayer of any other country shall be considered as resident individual of Pakistan for tax purpose. Consequently, such individual has to file tax return and declare his world income and assets in Pakistan.

SECTION 99A SPECIAL PROVISIONS RELATING TO PAYMENT OF TAX THROUGH ELECTRICITY CONNECTIONS

The Finance Act has charged fixed income tax of Rs. 3,000 to Rs. 200,000 from small retailers (other than Tier-1 retailers) through electricity bills. Further, exemption has been provided to those retailers who have paid sales tax. Following are the tax slabs for such retailers.

GROSS AMOUNT OF MONTHLY BILL	RATES
Where the amount does not exceed Rs. 30,000	Rs. 3,000
Where the amount exceeds Rs. 30,000 but does not exceed Rs. 50,000	Rs. 5,000
Where the amount exceeds Rs. 50,000 but does not exceed Rs. 100,000	Rs. 10,000
Specified retailers and service providers through Income Tax General Order	Rs.200,000

Such income tax is full and final discharge of tax liability on income of person in respect of business being carried out from the premises where the electricity connection is installed.

SECTION 100C TAX CREDIT FOR CHARITABLE ORGANIZATIONS

Previously, approval from the Commissioner under section 2(36) as Non-Profit Organization (NPO) is required in order to claim hundred percent tax credit. However, exclusion is available to those organizations covered under Table II of clause (66) of Part I of Second Schedule to the Ordinance upto 30th June 2022. The Finance Act has extended such period of exclusion to those organizations till 30th June 2023.

SECTION 111 UNEXPLAINED INCOME OF ASSETS

The Finance Act has clarified that issuance of separated notice under section 111 of the Ordinance shall not be required where the following issues are confronted to the taxpayer through notice under section 122(9) of the Ordinance.

i. Any amount credited in a person’s books of accounts
ii. Any investment made or ownership of money or valuable article
iii. Funds from which expenditure was made
iv. Suppression of any production, sales or any amount chargeable to tax
v. Suppression of any item of receipt liable to tax in whole or in part has been confronted to the taxpayer

Except for above specified cases, a separate notice under section 111 of the Ordinance in addition to notice under section 122 of the Ordinance is required to be issued by the officer where explanation is required in respect of any item covered under sub-section (1) of section 111 of the Ordinance otherwise it will be treated as without proper opportunity of being heard.

Further, Finance Act has made it certain that, where a taxpayer explains any nature and source of income as final tax, such explanation would only acceptable where such income pertains to business activity subject to final tax and taxpayer furnished financial statement audited by a Chartered Accountant. Now taxpayer is required to file audited financial statements in case the taxpayer claims assets more than imputable income.

SECTION 113 MINIMUM TAX ON THE INCOME OF CERTAIN PERSONS

Minimum tax paid in excess of normal tax liability was allowed to be carried forward for adjustment against normal tax liability of five subsequent tax years. The Finance Act has reduced the carryforward period from five years to three years.
Further, the Minimum Turnover tax in case of Oil marketing companies was applicable at the rate 0.75%, the Finance Act has further reduced the rate to 0.5%.

SECTION 114B POWERS TO ENFORCE FILING OF RETURNS

The Finance Act has empowered the Board to enforce filing of return by inactive taxpayers who are liable to file return. The Board shall issue general order containing list of such inactive taxpayer along with disconnection of mobile phone, electricity and gas connections. Such utility connection shall be restored upon filing of return or where it is verified that the such person is not liable to file return.

However, name of person shall be included in the general order where notice for filing of return is served to the taxpayer and no compliance to notice is made by the taxpayer within due date.

SECTION 121 BEST JUDGMENT ASSESSMENT

The Finance Act has extended the time period for passing an order under this section from five years to six years after the end of tax year to which it relates. This amendment is to align the time period under this provision with the period of amendment of assessment under section 122 of the Ordinance.

SECTION 122 AMENDMENT OF ASSESSMENTS

Previously, an order for amendment of assessment is required to be passed within 120 days of issuance of show cause notice. The Finance Act has extended the time limit from 120 days to 180 days in order to facilitate its field offices.

SECTION 148 IMPORTS

Previously, advance tax collected on imports under section 148 of the Ordinance at the rate of 1%, 2% or 5.5% as the case may be was minimum tax for importers except for tax collected at the rate of 1% or 2% from industrial undertaking for its own use which is treated as adjustable. The Finance Act now made tax collected at the rate of 5.5% as adjustable for industrial undertaking for own use.

The Finance Act also enhanced tax rate of 2% to 3.5% in case of commercial importers importing goods covered under Part II of Twelfth Schedule. Further, the income arising from imports of following goods has been placed under minimum tax regime.

i. Edible oil
ii. Packaging material
iii. Paper and paper board
iv. plastics

Furthermore, tax rate on import of mobile phones in CBU condition having C&F Value in USD exceeding 350 and 500 has been enhanced from Rs. 3,000 to Rs. 5,000 and Rs. 5,200 to Rs. 11,500 respectively. Further, tax rate on such mobile phone in CKD condition has been reduced from Rs. 5,000 to Rs. 3,000 and Rs. 11,500 to Rs. 5,200 respectively.

SECTION 152 PAYMENTS TO NON-RESIDENTS

The Finance Act has widened the scope of withholding tax on payment to non-resident in respect of following:

i. Every exchange company licensed by SBP is required to deduct tax at the rate of 10% from payment of services charges or commission to global money transfer operators, international money transfer or cross border remittance operators.
ii. Every banking company is required to deduct tax at the rate of 10% from payment of any transaction fee, license fee, service charges, commission or fee to card network company or payment gateway or interbank financial telecommunication services.

Such tax deduction shall be full and final discharge of tax liability on such income of non-resident person.

SECTION 153 PAYMENT FOR GOODS OR SERVICES

The Finance Act has included services provided by REIT management service and services rendered by NCCPL under specified services subject to withholding at the rate of 3%, currently these services are subject to withholding tax at the rate of 8%.

SECTION 154A EXPORT OF FOREIGN INDENTING COMMISSION

The Finance Act has reduced the rate of tax to be collected by authorized dealer in foreign exchange at the time of realization of foreign exchange proceed of indenting commission from 5% to 1%.

SECTION 164A PAYMENT OF TAX COLLECTED OR DEDUCTED BY SWAPS AGENTS

The Finance Act has introduced the concept of Synchronized Withholding Administration and Payment Systems (SWAPS). The Board is empowered to notify the persons as SWAPS agent which will be integrated with the Board for the purpose of deduction or collection of tax under the Ordinance. Such SWAP receipts shall be equally valid and acceptable as Computerized Payment Receipts (CPRs).

Where a SWAPS agent fails to integrate with Board or made default in performance of his roles and functions, in case of default penalty of Rs. 50,000 to Rs. 100,000 for first and second default respectively shall be applied which is further extendable to Rs. 50,000 on weekly basis.

SECTION 174 RECORDS

The time limit for maintenance of record is six years after the end of tax year to which it relates unless any proceeding is pending before any authority or court in such case record is required to be maintained till final decision of proceedings. The Finance Act has removed such time limit of six years for record pertaining to income, assets, expenses or transactions situated or incurred outside Pakistan for which explanation is required under section 111(2)(ii) of the Ordinance.

SECTION 177 AUDIT

Presently, the officer is required to issue audit observation report under sub-section (6) of section 177 of the Ordinance before issuance of show cause notice under section 122(9) of the Ordinance to conclude audit proceedings. The Finance Bill proposed to withdraw the said requirement. however, the Finance Act has not ratified such proposal.

SECTION 181E RECORD OF BENEFICIAL OWNER

The Finance Act introduced the definition of beneficial owner under section 2(7A) of the Ordinance which means a natural person who

i. Ultimately owns or controls a company or AOP whether directly or indirectly through at least 25% shares or voting rights; or
ii. Exercise ultimate effective control through direct or indirect means over the company or AOP including control over the finances or decisions or other affairs of the company or AOP

Through insertion of section 181E of the Ordinance, every company or AOP is required to furnish details of each beneficial owner electronically in prescribed form and also update the same where any changes occur. In case of default, penalty of Rs. 1 million shall be applied for each default.

SECTION 231B ADVANCE TAX ON PURCHASE, REGISTRATION AND TRASFER OF MOTOR VEHICLES

The Finance Act has enhanced tax rates on registration of motor vehicles on the basis of engine capacity. The comparison of previous and new rates are as follows:

S. No	Engine Capacity	Existing Rate	Revised Rate	Increase/ (Decrease)
1	Up to 850 cc	Rs.7,500	Rs.10,000	Rs.2,500
2	851cc to 1000cc	Rs.15,000	Rs.20,000	Rs.5,000
3	1001cc to 1300cc	Rs.25,000	Rs.25,000	Rs.10,000
4	1301cc to 1600cc	Rs.50,000	Rs.50,000	0
5	1601cc to 1800cc	Rs.75,000	Rs.150,000	Rs.75,000
6	1801cc to 2000cc	Rs.100,000	Rs.200,000	Rs.100,000
7	2001cc to 2500cc	Rs.150,000	Rs.300,000	Rs.150,000
8	2501cc to 3000cc	Rs.200,000	Rs.400,000	Rs.200,000
9	Above 3000cc	Rs.250,000	Rs.500,000	Rs.250,000

Further, in case where engine capacity is not available and value of vehicle is exceeding Rs. Five million, rate of tax shall be 3% of import value including custom duty, sales tax and excise duty in case of new registration and Rs. 20,000 in case of transfer of ownership.

SECTION 214A CONDONATION OF TIME LIMIT

The board is empowered to extend the time limit of any action which is to be done within given time frame or period under any provision of the Ordinance or rules made thereunder. The Finance Act has further empowered the board, to extend the said time limit before or after expiry of time limit given under any provision of the Ordinance. This apparently limits the time barred concepts made in the law.

SECTION 234 TAX ON MOTOR VEHICLE

The Finance Act has significantly enhanced the tax rate on passenger transport vehicles plying for hire as per seating capacity and with further classification of AC or non-AC. The rate ranges from Rs. 500 per seat to Rs. 4,000 per seat respectively which is currently ranges from Rs. 500 per seat to Rs. 300 per seat. The rates are as follows.

S.No	Capacity	Existing Rate	Rs. per seat per annum Non Air Conditioned	Rs. per seat per annum Air Conditioned
1.	4 or more persons but less than 10 persons	50	500	1000
2.	10 or more persons but less than 20 persons	100	1500	2000
3.	20 persons or more	300	2500	4000

SECTION 236I COLLECTION OF ADVANCE TAX BY EDUCATIONAL INSTITUTIONS

Previously the educational institutes were required to collect advance tax on the amount of fee paid to such institutions subject to certain exclusion. The Finance Act has abolished such advance tax.

SECTION 236Q PAYMENT TO RESIDENTS FOR USE OF MACHINERY AND EQUIPMENT

Previously, withholding at the rate of 10% was applicable on payment made to resident person on account of use of machinery or equipment. Withholding under this section was minimum tax on such income. However, the Finance Act has withdrawn such withholding, now a resident person deriving such income shall offer tax on net income basis under normal tax regime.

SECTION 236Y ADVANCE TAX ON PERSON REMITTING AMOUNTS ABROAD THROUGH CREDIT OR DEBIT OR PREPAID CARDS

The Finance Act has imposed collection of tax by banks at the rate of 1% on any amount remitted outside Pakistan through credit, debit or prepaid cards. Such tax was previously applicable which was withdrawn through the Finance Act, 2021.

AMENDMENT IN APPLICABLE TAX RATES
THE SECOND SCHEDULE
EXEMPTIONS AND TAX CONCESSIONS
Part-I Exemption from Total Income

Amendment in Exemption

Clause	Previous	Current
(23A) Withdrawal of accumulated balance from Voluntary Pension System	Currently withdrawal out of accumulated balance from Voluntary Pension System Offered by pension fund manager under the Voluntary Pension System Rules, 2005 is exempt in following cases: -Withdrawal up to 50% of accumulated balance at the age of retirement; or -Withdrawal in excess of 50% of the accumulated balance before or after retirement age, in case of disability or death by survivors.	Withdrawal of accumulated balance has been exempt in all case.
(66) Tax exemption for certain charitable Organizations	Income derived by the certain institutions, foundations, societies, boards, trusts and funds listed in Table-1 of sub-clause (1) of Clause (66) is exempt from total income.	Income derived by the certain institutions, foundations, societies, boards, trusts and funds has been made exempt as follows: (i) Pakistan Mortgage Refinance Company Limited (ii) The Pakistan Global Sukuk Programme Company Limited (iii) Karandaaz Pakistan from tax year 2015 onwards. (iv) Pakistan Sweet Homes Angles and Fairies Place. (v) Public Private Partnership Authority for tax year 2022 and subsequent four tax years (vi) Dawat-e-Islami Trust (vii) Hamdard Laboratories (Waqf) Pakistan Pakistan Mortgage Refinance Company Limited was previously inserted vide Tax Laws (Third Amendment) Ordinance, 2021 dated

		15.09.2021 and The Pakistan Global Sukuk Programme Company Limited was previously inserted vide SRO 1457(I)/2021 dated 11.11.2021. These amendments adopted vide this Finance Act. Income derived by Pakistan Mortgage Refinance Company Limited, Pakistan Sweet Homes Angels and Fairies Place and Dawat-e-Islami Trust were previously exempt subject to provision of section 100C of the Ordinance.
	Income derived by the certain institutions, foundations, societies, boards, trusts and funds listed in Table-2 of sub-clause (2) of Clause (66) is exempt from total income subject to provision of section 100C.	Name of following institution has been inserted in Table 2 i. Burhani Qarzan Hasnan Trust ii. Saifee Hospital Karachi iii. Saifiyah Girls Taalim Trust
(99) Exemption for Collective Investment Scheme of REIT Scheme	Income derived by a Collective Investment Scheme or a REIT Scheme is currently exempt subject to distribution of at least 90% of its accounting income as reduced by capital gain whether realized or unrealized.	Finance Act has allowed further reduction in accounting income by accumulated losses in addition to reduction by capital gain.

Exemptions introduced

Clause	Description
Clause (150) Exemption for Siyahkhalem Engineering Construction Industry and Trade Company Limited	Income derived by Siyahkalem Engineering Construction Industry and Trade Company Limited from contract dated 23rd day of May 2017 with Earthquake Reconstruction and Rehabilitation Authority, financed by the Saudi Fund for Development with effect from tax year 2017 has been exempted.
(151) Income from Cinema Operation	Any income derived by a person from cinema operations for five years from the commencement of cinema operations has been exempted.

(152) Profit and Gain derived by Venture Capital Company or Fund	Profits and gains derived between the first day of July, 2022 and the thirtieth day of June, 2025 both days inclusive, by a venture capital company and venture capital fund registered under relevant Venture Capital Companies and Funds Management Rules issued by Securities and Exchange Commission of Pakistan.
(153) Profit and gain derived from production of feature film	Profits and gains from the production of feature film derived between the first day of July, 2022 and the thirtieth day of June, 2027 both days inclusive by a resident producer or a resident production house.

Withdrawal of Exemption

Clause	Description
(5) Allowance paid by Government for services rendered outside Pakistan	Any allowance or perquisite paid or allowed as such outside Pakistan by the Government to a citizen of Pakistan for rendering service outside Pakistan.
(23B) Monthly installment from an income payment plan	Clause (23B) was inserted by Finance Act, 2012 in Part I of the Second Schedule exempting the monthly installments to be received from an income payment plan, provided that the investment, in respect whereof installments are received, (i) is made for a minimum period of ten years; and (ii) have been made out of accumulated balance maintained with either of the following: (a) individual pension accounts with a pension fund manager; or (b) an approved annuity plan or another individual pension account of eligible person; or (c) the survivors pension account maintained with any other pension fund manager as specified in the Voluntary Pension System Rules 2005. This exemption has been been withdrawn.

Part-II Reduction in Tax Rates

Clause	Previous	Current
(24C) Reduced rate under section 153(1)(a) for distributors, dealers, sub-dealers, wholesalers and retailers.	Reduced rate under clause (24C) for withholding under section 153(1)(a) on gross amount of payment to distributors, dealers, sub-dealers, wholesalers and retailers of fast-moving consumer goods, fertilizer, electronics (excluding mobile phones), sugar, cement, and edible oil at the rate of 0.25% is applicable subject to certain condition.	The Finance Act has also included distributors, dealers, sub-dealers, wholesalers and retailers of steel.
(24D) Reduced rate of minimum tax under section 113 for distributors, dealers, sub-dealers, wholesalers and retailers.	Currently reduced rate of 0.25% under 113 is applicable to distributors, dealers, sub-dealers, wholesalers and retailers of fast moving consumer goods, fertilizer, (electronics excluding mobile) phones, sugar, cement, and edible oil.	The Finance Act has also included distributors, dealers, sub-dealers, wholesalers and retailers of steel.

(31) Withholding under section 153(1)(a) on payment for sale of gold and silver and articles thereof	Such payment was subject to deduction at the rate of 4% in case of company or 4.5% in case of other than company, which was minimum tax on such income.	The Finance Act has reduced the rate of withholding to 1% and the tax so deducted shall be adjustable.

Part-III Reduction in Tax Liability

Withdrawal of Tax Concession of Reduced Rate

Clause	Description
(1) Tax liability in case of Flying allowance and submarine allowance	Any amount received as- (a) flying allowance by flight engineers, navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority, Junior Commissioned Officers or other ranks of Pakistan Armed Forces; and (b) submarine allowance by the officers of the Pakistan Navy, shall be taxed @ 2.5% as a separate block of income.
(1AAA) Reduced tax liability in case of: - Allowances received by pilots of Pakistani Airline. - Full time teacher or researchers employed in NPO and research institutions duly recognized by HEC subject to certain conditions.	- Total allowances received by pilots of any Pakistani airlines is taxable at a rate of 7.5%, - Tax payable by teacher or researcher are reduced by 25% of tax payable on his income from salary.
(20) Reduced rate of tax payable by a person other than banking or insurance companies in respect of profit on debt from investment in Federal Government securities.	Tax at reduced rate of 15% is payable by a person other than banking or insurance companies in respect of profit on debt from investment in Federal Government securities. Such tax shall be final discharge of tax liability on such profit on debt.

Enhancement of Tax Concession

Clause	Previous	Current
(6) The tax payable on amount paid as yield or profit on investment in Bahbood Savings Certificate or Pensioners Benefit Account and Shuhada Family Welfare Account.	- Currently such yield or profit is taxable at the rate of 10%	The Finance Act has further reduced the rate of tax from 10% to 5%.

Part-IV Exemption from specific provisions

Exemptions amended:

Clause	Previous	Current
(12B) Exemption from tax on import of certain pharmaceutical equipment and products for use during COVID-19 Pandemic.	The exemption was provided up to 30 June 2021.	The Finance Act has extended the period of exemption till 31 December 2021.
(60D) Exemption from tax on import under section 148 available to industrial undertakings set up in the special economic zones established by the Federal Government.	Currently exemption is available in respect of firefighting equipment to industrial undertaking set up in special economic zones.	The Finance Act has extended exemption to capital equipment imported by following defined under Special Technology Zone Authority Act, 2021: a. Zone developers; b. Zone enterprises; and c. Special Technology Zone Authority

EXEMPTIONS WITHDRAWN:

- Exemption provided under clause (86) from provision of section 111 related to unexplained income or asset provided in respect of investment made by certain person in industrial undertaking on or after the 1st day of January, 2014 and commercial production commences on or before the 30th day of June, 2019 subject to certain condition.

- The Finance Act has withdrawn exemption from minimum tax under section 113 available to zone enterprise as defined in the Special Economic Zones Act, 2012 and Zone Developer whose income is exempt under clause 126E, Part-I, Second Schedule.

EXEMPTIONS INTRODUCED:

- The Finance Act has exempted Mobile phone manufacturers engaged in the local manufacturing of mobile phone devices from minimum tax chargeable under section 113 of the Ordinance by inserting sub-clause (xlv) under clause (11A) to the Part-IV of the Second Schedule.

- Exemption from provision of section 148 of the Ordinance:

  - The Finance Act has exempted import of thirty million adult 3xPly Knit face masks received as humanitarian assistance from M/s HANES Brands Inc. North Carolina, USA for distribution within the population of Lahore Division, Government of the Punjab by inserting clause (12BA) to the Part-IV of the Second Schedule.
  - The Finance Act has exempted import of drones donated by Ministry of Agriculture and Rural Affairs (MARA), Government of China to Pakistan through Sea Route by inserting clause (12O) to the Part-IV of the Second Schedule.
  - The Finance Act has exempted import of cinematographic equipment as notified by the Federal Government by inserting clause (12P) to the Part-IV of the Second Schedule.

- The Finance Act has exempted an exhibitor or a distributor of a feature film, as a payer, on payment made to a distributor, producer or importer of a feature film from provisions of clause (b) of sub-section (1) of section 153.

- The Finance Act has exempted NPO's Listed in Table-1, of clause (66) of Part-1 of the Second Schedule from provision of advance tax provided under Division II and III of Part V of Chapter X and Chapter XII of the Ordinance, provided that, such person shall continue to perform function as withholding agent under aforesaid provision.

- The Finance Act has provided audit immunity to a person whose income tax affairs have been audited in any of the preceding four years. However, the Commissioner may select a person from audit under section 177 with the approval of the Board.

- The Finance Act has exempted non-resident individual holding Pakistan Origin Card (POC), National ID Card for Overseas Pakistani (NICOP) from applicability of 100% higher tax rate under Tenth Schedule of the Ordinance for persons not appearing in active taxpayer list in respect of advance tax under section 236Cxj/236K on sale or purchase of immovable property.

THE SEVENTH SCHEDULE

TAXABILITY OF INCOME FROM FEDERAL GOVERNMENT SECURITIES DERIVED BY BANKING COMPANIES

TAXABLE INCOME ATTRIBUTABLE TO INVESTMENT IN FEDERAL GOVERNMENT SECURITIES UNDER SUB-RULE (6A) OF RULE 6C

Through Finance Act, 2021 for tax year 2022 and onwards, taxable income attributable to investment in Federal Government Securities were made taxable at higher rate, this Finance Act has further enhanced such tax rate as follows:

Advance to Deposit ratio	Existing	Revised
If the gross advance to deposit ratio as on last day of tax year is up to 40%	40%	55%
If the gross advance to deposit ratio as on last day of tax year exceeds 40% but does not exceed 50%;	37.5%	49%
If the gross advance to deposit ratio as on last day of tax year exceeds 50%	29%	42%

RATE OF TAXES FOR BANKING COMPANIES

- The rate of tax on income of banking companies under Division IIA, Part-I of the First Schedule has been enhanced from 35% to 39% by the Finance Act which shall be applicable from tax year 2023 and onwards.
- Super tax for rehabilitation of temporarily displaced persons applicable at rate of 4% on the income of banking companies under section 4B of the Ordinance shall not be applied for the tax year 2023 and onward.
- Super tax on the income of high earning person under section 4C of the Ordinance is not applicable on banking companies for the tax year 2022, such tax would be applicable from 2023 and onward, however for tax year 2023 only the rate of tax shall be 10% instead of 4%.

THE TENTH SCHEDULE

RULES FOR PERSONS NOT APPEARING IN THE ACTIVE TAXPAYERS LIST

1. The Finance Act has provided further enhanced rate of tax in case of person not appearing in active taxpayer list in respect of following:

    i. In case of section 231B, the rate of tax shall be increased by 200% of the prescribed rate under First Schedule.

    ii. In case of section 236K, the rate of tax shall be increased by 250% of the prescribed rate under First Schedule.

2. The Finance Act has exempted section 154A, deals with Export of Services, from the provision of Tenth Schedule with respect of increase in tax rate for person not appearing in Active Taxpayer List.

THE TWELFTH SCHEDULE

1. The Finance Act has moved following PCT heading from Part-2 to Part-1 of Twelfth schedule, therefore tax at import stage would be collected at the rate of 1% instead of 2%.

PCT Heading	Description
07.01	Potatoes, fresh or chilled.
0702.0000	Tomatoes, fresh or chilled.
07.03	Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled.
1006.1010	Seed for sowing.
27.01	Coal; briquettes, ovoids and similar solid fuels manufactured from coal.

2. The Finance Act has moved following PCT heading from Part-1 to Part-2 of Twelfth schedule, therefore tax at import stage would be collected at the rate of 2% / 3.5% in case of commercial importer instead of 1%.

PCT Heading	Description
72.04	Ferrous waste and scrap; remelting scrap, ingots of iron or steel.

3. The Finance Act has added following PCT heading in Part-II of the Twelfth Schedule, therefore tax at import stage would be collected at the rate of 2% instead of 5.5%.

PCT Heading	Description
3919.9020	PVC electric insulation tapes in logs exceeding 100 cm
8504.3100	SMD Inductors for LED bulb and Lights
8504.4090	Constant Current Power Supply of LED Lights and Bulbs
8532.2200	Electrical Capacitors Aluminum Electrolytic for LED Bulbs and Lights
8539.9020	Base Cap for all Kinds of LED Bulbs
8539.9090	Bare or Stuffed Metal Clad Printed Circuit Boards (MCPCB) for all kinds of LED Bulbs. Housing / Shell, Shell Cover and Base Cap for all Kinds of LED Bulbs
8539.9090	Housing / Shell, Shell Cover and Base Cap for all Kinds of LED Lights.
9001.9000	Lenses for LED Bulbs and Lights.
9405.1090	Housing / Shell, Shell Cover and Base Cap for all Kinds of LED Lights.
9405.9900	Bare or Stuffed Metal Clad Printed Circuit Boards (MCPCB) for all kinds of LED Lights

SALES TAX

SECTION 2 (12) GOODS AND (33) SUPPLY

The Act has specifically included “Production, Transmission and distribution of electricity” in the definition of Goods and Supply. According to the said amendment production, transmission and distribution of electricity is now a Federal domain and not provincial domain as claimed by various provincial tax authorities.

Further, explanation has been added in the value of supply and now it is clarified that value does not include the amount of subsidy provided by the federal government or provincial governments to the electricity consumers and has never been chargeable to tax under the Act.

SECTION 2(29A) SALES TAX

The Act has excluded fee and service charges imposed or levied under section 76 from the definition of ‘sales tax’. Section 76 was inserted through Finance Act, 2019 to empower Board, with approval of the Federal Minister-in-charge, to impose fee and service charges for valuation in respect of any other service or control mechanism provided by the Board.

SECTION 43A TIER-1 RETAILERS

The Act has brought Jewelers under the definition of Tier-1 Retailers excluding whose shop measures three hundred square feet in area or less. Previously Jewelers were classified as normal retailers and were paying tax on electricity meter resulting in small amount of tax collection.

SECTION 3 SCOPE OF TAX

The Act extended the ambit of ‘further tax’ on taxable supplies made to a person who are not an active taxpayer. Before the amendment, further tax was required to be charged and collected from supplies made to a person who were liable to register but not registered under the Act.

Further, the Act impose fixed sales tax on retailers other than those falling in Tier-1 who are paying sales tax on electricity bill. Comparison on the rates is as follows:

Retailers	Before amendment	Now
Bill amount not exceeding Rs.20,000	5% of bill amount	Rs. 3,000 fixed
Bill amount exceeding 20,000 not exceeding Rs.30,000	7.5% of bill amount	Rs. 3,000 fixed
Bill amount exceeding 30,000 not exceeding Rs.50,000	7.5% of bill amount	Rs. 5,000 fixed
Bill amount exceeding 50,000	7.5% of bill amount	Rs.10,000 fixed

Further, the Sales tax amount will be increased 100% if the tax payer name was not appearing in the Active Taxpayer List (Income tax).

Furthermore, the Act empower Board to issue sales tax general order to prescribe persons or class of persons who would be required to pay upto Rs.200,000 sales tax per month through their monthly electricity bill.

The Board may also require any person or class of person to integrate their invoices with the FBR computerized system for real time reporting.

SECTION 6 TIME AND MANNER OF PAYMENT

Section 6 of the Act contains provisions for time and manner of payment of tax. The Act has empowered the Federal Government to allow payment of sales tax on installment basis by Federal Government, Provincial Governments or any public sector organization on import or supply of any goods.

Further the Act has given effect to this provision with retrospective application.

SECTION 8 TAX CREDIT NOT ALLOWED
SECTION 23 TAX INVOICE

Section 8 of the Act contains provisions relating to disallowance of input tax credit. The Act restricted the disallowance of input tax in respect of supplies made to unregistered person except distributor on pro-rata basis, for sales invoices not bearing the NIC / NTN of the recipient. Please note that particulars of CNIC / NTN number on invoice issued to unregistered person other than distributor was required for issuance of sales tax invoice under section 23 of the Sales Tax Act, which has also been withdrawn.

SECTION 8B ADJUSTABLE INPUT TAX

Section 8B restrict adjustment of input tax in a tax period upto 90 percent to registered person other than listed companies. Thus listing companies were allowed to make 100% adjustment of input tax against output tax liability. Now the said privilege allowed to listed companies has been withdrawn.

SECTION 14AB DISCONTINUANCE OF GAS AND ELECTRICITY CONNECTIONS

The Act has introduced a new section regarding the discontinuation of gas and electricity connection in respect of Tier-1 retailer who fails to get itself register or fails to integrate Computerized system as required.

The gas & electricity connection would be restored if those retailers fulfill the requirement or integrate request.

SECTION 33 PENALTY

The Act has imposed penalty in respect of the person who are integrated for monitoring, tracking, reporting or recording of sales but invoice does not contain QR code or have defaced the prescribed invoice number or the barcode or QR code.

SECTION 33A PROCEEDING AGAINST AUTHORITY AND PERSON

The Act has omitted section 33A for proceeding against the authorities and person for initiating criminal proceeding against the any authority mention in section 30 to 30DDD.

SECTION 47A. ALTERNATIVE DISPUTE RESOLUTION

The Act has now limited the amount of tax demand / refund exceeding to Rs.100 million for progressing for alternative dispute resolution. The Act amended the mechanism in line with Income tax and Federal Excise law.

THIRD SCHEDULE (PROVIDES LIST ON WHICH SALES TAX IS REQUIRED TO BE CHARGED ON RETAIL PRICE)

- Fertilizers has been removed from Third schedule list and has been added in list of goods specified under Sixth Schedule i.e., exempt goods.

Fifth Schedule (provides list on which sales tax at the rate of zero percent is required to be charged)

- Local supplies of raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions as specified therein has been added in the said list.

SIXTH SCHEDULE DEALS WITH EXEMPTION OF GOODS AT IMPORT (TABLE 1) LOCAL SUPPLY (TABLE 2) AND CONDITIONAL EXEMPTION (TABLE 3)

TABLE-1 (IMPORT AND SUPPLY)

Act has added following goods to be exempted from sales tax at import stage and local supply

- Goods imported by various agencies of the United Nations, diplomats, diplomatic missions, privileged persons and privileged organizations which are covered under various Acts and, Orders, rules and regulations made thereunder; and agreements by the Federal Government, with effect from the 15th day of January, 2022
- Photovoltaic cells (Solar) whether or not assembled in modules or made up into panels
- Goods imported by or donated to hospitals run by the non-profit making institutions subject to the similar restrictions, limitations, conditions and procedures as are envisaged for the purpose of applying zero-rate of customs duty on such goods under the Customs Act, 1969, (IV of 1969).
- Goods excluding electricity and natural gas supplied to hospitals run by the charitable hospitals of fifty beds or more.
- Goods temporarily imported into Pakistan, meant for subsequent exportation charged to zero-rate of customs duty subject to the similar restrictions, limitations, conditions and procedures as are envisaged for the purpose of applying zero-rate of customs duty on such goods under the Customs Act, 1969 (IV of 1969).
- Fertilizers
- Oil cake and other solid residues
- Tractor
- Seeds for sowing
- Machinery, equipment and materials imported either for exclusive use within the limits of Export Processing Zone or for making exports therefrom, and goods imported for warehousing purpose in Export Processing Zone, subject to the conditions that such machinery, equipment, materials and goods are imported by investors of Export Processing Zones, and all the procedures, limitations and restrictions as are applicable on such goods under the Customs Act, 1969 (IV of 1969) and rules made thereunder shall mutatis mutandis, apply.
- Goods produced or manufactured in and exported from Pakistan which are subsequently imported in Pakistan within one year of their exportation, provided conditions of section 22 of the Customs Act, 1969 (IV of 1969), are complied with.
- Machinery and equipment as listed at serial number 32 of the Table of Part-I of Fifth Schedule to the Customs Act, 1969 (IV of 1969), subject to the conditions, limitations and restrictions specified thereunder.

TABLE-2 (LOCAL SUPPLY)

Act has exempt following goods at supply stage

- Raw hides and skins
- Prepared food or foodstuff supplied by Restaurants and caterers

TABLE-3 (CONDITIONAL EXEMPTIONS)

Act has now provided exemption on following goods

- Machinery, equipment and spares meant for initial installation, or expansion of projects for power generation through hydel, oil, gas, coal, nuclear and renewable energy sources including under construction projects entered into an implementation agreement with the Government of Pakistan prior to 15th day of January, 2022 with certain condition i.e.,
  - Submission of the underlying contract;
  - Submission of certificate by the chief executive officer of the contracting company on the prescribed format; and
  - Goods shall not be disposed of without the prior approval of FBR on payment of sales tax leviable at import stage.
- Construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the construction of project.
  - temporarily imported goods shall be cleared against a security in the form of a post-dated cheque for the differential amount between the statutory rate of sales tax and the amount payable along with an undertaking to pay the sales tax at the statutory rates in case such goods are not re-exported on conclusion of the project.".

EIGHT SCHEDULE DEALS WITH SALES TAX AT REDUCED RATE)

The Act has amended sales tax rates on following goods

- Increased the fixed rate on locally produced coal from 425 to 700
- Reduce the additional sales tax on Import and supply of Potassium Chloride from Rs. 90/kg to Rs. 60 /kg.
- 3% on Supply of articles of jewelry, or parts thereof, of precious metal or of metal clad with precious metal and 4% on import of articles of jewelry, or parts thereof, of precious metal or of metal clad with precious metal with the condition that no input tax adjustment allowed.
- 12.50% on Electric vehicle in CBU condition of 50 kwh battery or below
- 1% on EV transport buses of 25 seats or more in CBU condition
- 1% on Manufacture or import of substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976) with the condition that no input tax adjustment is allowed.
- 1% on Active Pharmaceutical Ingredients, excluding excipients, for manufacture of drugs registered under the Drugs Act, 1976 (XXXI of 1976) or raw materials for the basic manufacture of pharmaceutical active ingredients with the condition that no input tax adjustment are allowed.

ELEVENTH SCHEDULE DEALS WITH WITHHOLDING OF SALES TAX

The Act has reduced the rate of withholding tax on Online market place from 2% to 1%.

TWELFTH SCHEDULE DEALS WITH FURTHER TAX

The Finance Act has now charged 3% value addition on Raw materials and intermediary goods imported by a manufacturer for in-house consumption

- excluding Compressor scrap (PCT heading 7204.4940),
- motor scrap (PCT heading 7204.4990) and
- copper cable cutting scrap (PCT heading 7404.0090)

FEDERAL EXCISE DUTY

SECTION 2(9) DUTY

The Finance Act has excluded fee and service charges imposed or levied under section 49 from the definition of ‘duty’. Section 49 was inserted through Finance Act, 2019 to empower Board, with approval of the Federal Minister-in-charge, to impose fee and service charges for valuation in respect of any other service or control mechanism provided by the Board.

SECTION 19A PROCEEDING AGAINST AUTHORITY AND PERSON

The Act has omitted section 19A for proceeding against the authorities and person for initiating criminal proceeding against the any authority mention in section 29.

SECTION 38. ALTERNATIVE DISPUTE RESOLUTION

The Act has now limited the amount of tax demand / refund exceeding to Rs.100 million for progressing for alternative dispute resolution. The Act amended the mechanism in line with Income tax and Federal Excise law.

FIRST SCHEDULE

The Finance Act has made following amendment in table – I (Excisable goods) and table – II (Excisable services)

TABLE-I EXCISABLE GOODS

S. No	Description	Rate of Duty	Description	Rate of Duty
		Existing		Now
9	Locally produced cigarettes if their on-pack printed retail price exceeds five thousand nine hundred and sixty rupees per thousand cigarettes	Rs.5,200 per 1,000 cigarettes	Locally produced cigarettes if their on-pack printed retail price exceeds Six thousand Six hundred and sixty rupees per thousand cigarettes	Rs.5,900 per 1,000 cigarettes
10	Locally produced cigarettes if their on-pack printed retail price does not exceed five thousand nine hundred and sixty rupees per thousand cigarettes.	Rs.1,650 per 1,000 cigarettes	Locally produced cigarettes if their on-pack printed retail price does not exceed Six thousand Six hundred and sixty rupees per thousand cigarettes.	Rs.1,850 per 1,000 cigarettes
35	Other liquefied petroleum gases and gaseous hydrocarbons	Seventeen rupees and eighteen paisa per hundred cubic meters	--do--	Rupees sixty per hundred metric tonne

TABLE-II EXCISABLE SERVICE			
S. No	Description	Rate of Duty	
		Existing	Proposed
3(b)(ii)	Services provided or rendered in respect of travel by air of passengers embarking on international journey from Pakistan, on Club, Business and First class ticket	Rs.10,000	Rs.50,000
6	Telecommunication services, excluding such services in the area of a Province where such Province has imposed Provincial sales tax and has started collecting the same through its own Board or Authority, as the case may be.	16%	19.50%

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001

The Finance Act substituted description of services as provided in Serial no. 1 of Table 1 of the Schedule to the Ordinance. The comparison of existing description with the new description is provided below:

Before amendment	NOW
Services provided or rendered by hotels, motels, guest houses, marriage halls and lawns (by whatever name called) including “pandal” and “shamiana” services, clubs including race clubs, and caterers.	Services provided or rendered by hotels, motels, guest houses, farmhouses, restaurants, marriage halls, lawns, clubs and caterers. Services provided or rendered by hotels motels, guest houses and **farmhouses**. **Services provided or rendered by restaurants.** Services provided or rendered by marriage halls and lawns. Services provided or rendered by clubs. Services provided or rendered by caterers, suppliers of food and drinks

In view of the above, the services of ‘farmhouses’ and ‘restaurants’ are now taken in the list of taxable services.

The Finance Act substituted description of services as provided in serial no. 11 of the table II of the schedule to the ordinance. The comparison of existing description with the new description in provided below

Before amendment	NOW
IT services and IT-enabled services. Explanation. - For the purpose of this entry – (a) “IT services” include software development, software maintenance, system integration, web design, web development, web hosting and network design; and (b) “IT enabled services” include inbound or outbound call centres, medical transcription, remote monitoring, graphics design, accounting services, HR services, telemedicine centers, data entry operations, locally produced television programs and insurance claims processing.	Services provided by software or IT based system development consultants

The Finance Act has changes in Table – I to the Ordinance:

DESCRIPTION	EXISTING RATE	PROPOSED RATE
	TABLE – I	
All other services (except for fixed rate services of property developers and freight forwarding agents)	16%	15%
Call centres (S.No. 42)	17%	15%

CAPITAL VALUE TAX 2022

The Finance Act impose Capital Value Tax (CVT) on the various assets at the rates mentioned in the First Schedule and reproduced in the below table:

S. No.	Assets/Description	Rate
1	Motor vehicle mentioned in clause (a) of sub-section (2)	1% of the value
2	Foreign assets mentioned in clause (b) of sub-section (2)	1% of the value
3	Assets mentioned in clause © of subsection (2)	As specified by Federal Government, not exceeding 5% of the value.”.

a) **MOTOR VEHICLE**

CATEGORY OF ASSET	PROPOSED RATE	VALUE	PERSON RESPONSIBLE TO COLLECT CVT
Motor vehicles held in Pakistan having - the engine capacity 1300cc. - Electric vehicles the battery power capacity exceeds 50kwh	1% of the value	On import value	Collector of Customs at the time of import.
		On sale price of manufacturer or assembler	Local manufacturer or assembler at the time of sale.
		On auction price	Any person making sale by public auction or auction by tender
		On total consideration paid to acquire, alter or improve the vehicle or fair market value. The value as stated above shall be reduced by 10% for each year from the end of financial year in which the motor vehicle is acquired provided that the value shall be treated as zero:	Motor vehicle registering authority at the time of collecting motor vehicle tax except when such person has already paid CVT at time of import, purchase from local manufacturer or auction.

b) **FOREIGN ASSETS OF A RESIDENT INDIVIDUAL**

The resident person holding movable or immovable assets held abroad where the value of such assets exceeds Rs. 100 million. Such assets shall be liable to pay CVT at the rate of 1% at the time of filing income tax return for the year, and the tax shall be levied on the higher of –

- total consideration paid to acquire, alter or improve the asset; or
- the fair market value of the asset;

Resident individual shall have the same meaning as defined in the Income Tax Ordinance, 2001.

Further, provisions of the Income Tax Ordinance, 2001 and the Income Tax Rules 2002 in so far as relevant, shall apply to the collection and recovery of tax, besides powers of assessments, modification of assessment as well as for right and procedure of appeal.

c) **ANY OTHER ASSET**

Federal Government is empowered to issue notification prescribing the assets or class of assets on which CVT collection and recovery at prescribe rate but not exceeding 5%.