IN THE NAME OF ALLAH ALMIGHTY, THE MOST MERCIFUL, MOST BENEFICENT

COMMENTARY ON FEDERAL & PROVINCIAL FINANCE ACTS 2022

Separate commentary on Information Technology sector included

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SUMMARY OF ECONOMIC PERFORMANCE 2021-22

- The real GDP posted a growth of **5.97** % in FY-2022. The economy of Pakistan rebounded from the pandemic (**0.94** % contraction in FY 2020) and continued to post a V-shaped economic recovery which is higher than **5.74** % recorded in last year.

- For July-Apr FY-2022, the current account deficit remained **$13.8** billion against the deficit of **$0.5** billion last year resulting in widening the saving –investment Gap. For FY-2022, investment to GDP ratio remained **15.1** % compared to **14.6** % recorded in FY-2021.

- Industrial sector recorded a growth of 7.2 % in FY-2022 compared to 7.8 % growth in FY-2021. Within Manufacturing, Large-Scale Manufacturing (LSM) holds **74** % while its share in the industry is **48** %.

- Services sector still constitutes the largest share of **58** % in GDP even in the new methodology used for the change of Base of National Accounts on 2015-16.

- 4.9 % growth in Finance and Insurance

- 3.7 % growth in Real Estate Activities

- 8.7 % growth in Education

- 2.2 % growth in Human health and social work activities

- 3.8 % growth in other private services.

- Public Administration and social security (general government) activities posted negative growth of 1.2 % mainly due to high deflator value.

FISCAL DEVELOPMENT

- Total revenues increased by 17.7 (8.8 % of GDP). A significant increase in tax collection was the key factor in boosting revenue growth, which more than offset the decline in non-tax revenues.

- Total tax collection (Federal & Provincial) grew by **28.1 %**. Non tax revenues, fell at **14.3 %**

- Current expenditures grew by **21.2** %. Higher growth in non-markup expenditures lifted up the total current spending. Total expenditures grew by **27.0** %.

- Total development expenditure increased significantly by **54.6**%. The federal PSDP grew by 28.1%.

- FBR tax collection during July-May, FY-2022, increased by **28.4**%. The direct taxes collection increased by **28.5** %, sales tax by **28.2** %, FED by **14.6** %, and customs by **34.0** % during the first eleven month of FY-2022.

- Fiscal deficit increased to **3.8** % of GDP.

- The headline inflation CPI averaged at **11.3**%. The urban food inflation during July-May, FY-2022 is recorded at **12.5** % and non-food **10.2** % as against **12.6** % and **5.4** % in the corresponding period last year.

- The Rural food inflation during July-May, FY-2022 is recorded at **11.8** % and non-food **11.5** % as against **13.4** % and **7.2** % in the corresponding period last year.

- Urban and Rural Core inflation during July-May, FY-2022 stood at **7.8** % and **8.6** % respectively against **5.9** % and **7.6** % last year.

BUDGET IN BRIEF

- GDP target set at 5%.
- Inflation targets at 11.5%.
- Fiscal deficit to be targeted at 4.9% of GDP in FY23.
- PKR 202 billion has been allocated for Transport & Communications sector.
- Exports & Imports target at USD 35bn, & imports at USD 70bn, respectively.
- Current account deficit targeted at 2.2% of GDP as compared to 4.1% deficit of FY22.
- Remittances expected at USD 33.2bn in FY23 as compared to USD 31.1bn in the last year.
- PKR 3,950 bn for debt servicing has been allocated as compared to PKR 3,144bn in FY22.
- Targeted subsidies at PKR 699bn.
- Total tax collection target at PKR 7,004 bn as compared to Tax collection of PKR 6,000 bn in FY22.
- Allocation for Benazir Income Support programme has been increased to PKR 364bn as compared to 250bn in the last year.
- PSDP allocation set at PKR 800bn.
- PKR 65 billion has been allocated to Higher Education Commission.
- PKR 21 billion has been allocated for increase in the production of crops and livestock.
- PKR 800bn has been set for PSDP in FY23 which has been PKR 1,000bn in 2018.
- PKR 136 billion has been allocated under PSDP for provinces, Azad Kashmir and Gilgit Baltistan.
- PKR 73 billion has been allocated for the Energy sector for the improvement in transmission, distribution & production of electricity. Under this allocation, PKR 12bn would be spent on Mohmand Dam.
- PKR 183 billion has been allocated for water and energy projects.
- PKR 202 billion has been allocated for Transport and Communication sector.
- PKR 51 billion has been allocated for Higher Education projects.

- PKR 10 billion allocated to combat climate changes.
- PKR 17 billion allocated for Information and Technology sector.
- PKR 11 billion has been allocated to improve agriculture productivity.
- PKR 20 billion has been allocated for the K-IV project.
- Salaries of Govt employees to be increased by 15%.

Budget 2022-23 at a Glance			
(Rs. In Billion)			
RESOURCES		**EXPENDITURE**	
Tax Revenue (FBR)- Federal Consolidated Fund	7,004	A. Current	8,694
		Interest Payments	3,950
Non-Tax Revenue	2,000	Pension	530
		Defence Affairs & Services	1,523
a) Gross Revenue Receipts	9,004	Grants and Transfers to Provinces & Others	1,242
		Subsidies	699
b) Less Provincial Share	4,100	Running of Civil Govt.	550
1. Net Revenue Receipts (a-b)	4,904	Provision for Disaster/Emergency/Covid	100
2. Non- Bank Borrowing (NSSs & Others) - Public Account	1,996	Provision for Pay & Pension	100
3. Net External Receipts - Fed. Consolidated Fund	533		
4. Estimated Provincial Surplus	800	B. Development	808
5. Bank Borrowing (T-Bills, PIBs, Sukuk) - Fed. Consolidated Fund	1,172	Federal PSDP	727
6. Privatization Proceeds - Fed. Consolidated Fund	96	Net Lending	81
TOTAL RESOURCES (1 to 6)	**9,502**	**TOTAL EXPENDITURE(A+B)**	**9,502**

SALIENT FEATURES OF FINANCE ACT 2022

INCOME TAX ORDINANCE, 2001

1. In section 2 definitions are inserted for the terms “beneficial owner”, “distributor”, “fair market value” “Synchronized Withholding Administration and Payment System agent” (SWAP agent) and “tax invoice”.

2. A new Section 4C has imposed super tax on high earning persons (Individuals, AOPs and Companies) for tax year 2022 and onwards. While general rate of super tax is between 1% to 4% on different level of income exceeding Rs. 150 million, the rate of tax for specified sectors is 10% for tax year 2022 if their income exceeds Rs 300 million.

3. Scope of section 6 (Tax on certain payments to non-residents) has been widened to cover fee for money transfer operations, card network services, payment gateway services, interbank financial telecommunication services. Consequential changes are also introduced in section 152. The rate of tax on payment of fee for offshore digital services has been increased from 5% to 10%.

4. A tax on “deemed rental income” has been imposed by inserting a new Section 7E whereby, subject to certain condition and exclusions, a resident person shall be treated to have received rent equal to five percent of the fair market value (if exceeds 25 million) of capital assets (other than exempted under section 7E) situated in Pakistan. Such deemed income is proposed to be taxed at the rate of 20%. The tax imposed under section 7E is under final tax regime.

5. A new sub clause **“ea”** in Section 21 is inserted to disallow expense in respect of contribution made in excess of 50% by a person to an approved gratuity fund, an approved pension fund and an approved superannuation fund.

6. Till the date of application of clause (la) of section 21 is notified, all persons including companies shall continue to ensure that all expenditure (with some exclusions) under an account head which in aggregate exceeds Rs.250,000, are paid through banking channels. When clause “la” is applicable, companies shall ensure that all such expenditure are paid through digital means from bank accounts of the taxpayer notified to the Commissioner under section 114A.

7. As per new clause **“r”** of Section 21, 8% of allowable deduction shall be disallowed to any person who is required to integrate but fails to integrate his business with FBR through approved fiscal electronic device and software.

8. Depreciation deduction on depreciable assets used in the business for the first time in a tax year has been restored to 100% in the year of acquisition and no depreciation in the year of disposal.

9. As provided under Section 22(13), Cost of vehicle for depreciation calculation purposes which was earlier restricted to Rs. 2.5 million has been enhanced to Rs. 7.5 million.

10. Immovable property or structure improvement to immovable property are excluded from “eligible depreciable assets” for the purpose of initial allowance.

11. The limit of 25% exemption of gain on sale of capital assets after one year holding period has been withdrawn.

12. 25%, 50%, 75% and full exemption available for capital gain on sale of immovable property after one year, two-year, three year and four years respectively has been withdrawn and now complete exemption is available if holding period is six years in case of open plots, four years in case of constructed property and two years in case of flats. The applicable rates of tax have also been increased on the amount of taxable gain.

13. As per Finance Act, 2022 where a capital asset becomes property of a person as a result of gift, bequest, will, inheritance distribution of asset by AOP or company, the cost of asset in the hands of recipient shall be the same as cost in hands of transferor in line with section 79(3) of ITO 2001.

14. Rate of taxes on capital gain arising on disposal of securities defined under section 37A for tax year 2023 and onwards has been revised. Further, the new reduced rates shall apply on capital gains arising on disposal of securities acquired on or after July 01, 2022. For capital gain on securities acquired on or before June 30, 2022, rate of 12.5% shall apply irrespective of holding period of such securities.

15. The amendment earlier introduced by Income Tax Amendment Ordinance, 2022 in respect of carry for losses by sick industrial units under section 59C has been withdrawn from the date of promulgation of the said ordinance i.e., 02 March 2022.

16. Deductible allowance for profit on debt as per Section 60C as well as tax credit for investment in shares and insurance and tax credit for investment in health insurance allowed under Section 62 and 62A respectively have been withdrawn.

17. Tax credit under section 65F for income from export of computed software, IT services or IT enabled services has been omitted. Now export incomes of such services will be subject to deduction of tax under Section 154A at 0.25% of the proceeds (subject to certain conditions) which will be treated as final tax under section 154A.

18. The amendment earlier introduced by Income Tax Amendment Ordinance, 2022 in respect of tax credit and amnesty scheme for investment in industrial undertaking under section 65H and section 100F respectively has been withdrawn.

19. Scope of resident person has been enhanced whereby any citizen of Pakistan, who is not present in any other country for more than one hundred and eighty- two days during the tax year or who is not resident of any other country shall also be treated as a person resident in Pakistan.

20. Section 92 is amended to clarify extension of exemption available to members of AOP in case of exemption of AOP.

21. A fixed tax regime on small retailers has been implemented which will be collected along with electricity bills.

22. Condition for Commissioner's approval under section 2(36) for persons mentioned in table-II, Clause 66, Part-I, 2nd schedule has been made applicable from first day of July 2023 instead of 2022.

23. The scope of Section 109 has been widened by adding new clause in this section to treat a place of business in Pakistan as permanent establishment from tax year 2018 onwards if such business fulfills the criteria specified in sub-clause (g) of clause (41) of section 2.

24. Section 111 has been amended to clarify the remittances through banking channel and include various other channels in it while the requirement to issue separate notice under section 111 has been explained so that a notice under section 122 shall suffice for proceedings under section 111 as well.

25. Amount of minimum tax in excess of normal tax is allowed to be carried forward to five years. The time limit for carry forward is now reduced to three years.

26. FBR has been given the power to issue general order for filing of Income Tax Return under section 114B, to those non-filers who are liable to file return with certain consequences like disabling of mobile phones or mobile phone

SIMS, discontinuation of electricity and gas connections. The said section was earlier introduced vide Income Tax Third Amendment Ordinance, 2021 now enacted through this Act.

27. Time limit to amend the assessment under section 121 (Best Judgment Assessment) has been increased to 6 years from current 5 years after the end of tax year to which it relates. Further, time limit to pass an order under Section 122 after issuance of show cause notice under section 122(9) has been increased to 180 days from the current 120 days.

28. Those taxpayers who have disputed tax liability of one hundred million or above may apply to the board for creation of committee for settlement under section 134A. The board will make committee within forty-five days of receipt of application and committee will decide the case with in one hundred and twenty days upon condition that the taxpayer will withdraw the filed case from higher authorities if any.

29. Tax collected on income of imported items (edible oil, packaging material, paper and paper board or plastics) shall be minimum tax hence limiting the application of minimum tax under section 148.

30. A new explanation has been provided which states that provision to maintain record for six years after the end of the year to which they relate, shall not apply to investment, money, valuable article or expenditure discovered by the Commissioner which are situated or incurred outside Pakistan or concealed income is foreign-source.

31. Every company and AOP will update the information of beneficial owners in the prescribed manners as defined in ordinance. And non-compliant to section 181E will pay a penalty of Rs. 1,000,000/- for each default.

32. Exemption period for advance tax on sale of immovable property has been omitted which means that now advance tax under section 236C is required to be collected on every sale/ transfer of immovable property irrespective of holding period.

33. The board may prescribe prize scheme in order to encourage the public for purchasing from integrated enterprises issuing tax invoices.

34. Income Tax slab rates have been revised under division I of Part I of First Schedule where the number of income slab remains unchanged, the basic threshold for non-charging of income tax for non-salaried taxpayers has been increased from PKR 400,000 to PKR 600,000. The Act has also revised the tax rate for salaried taxpayers. The numbers of income slabs have been reduced from the existing slabs 12 to 7.

35. The rate of tax to be deducted under section 154A proposed to be 0.25% on export proceeds of computer software or IT services or IT enabled services and 1% in any other cases.

36. Advance tax collected by educational institutions under Section 236I and deduction of tax under section 236Q on payments to resident for use of machinery and equipment has been withdrawn.

37. A new section namely Advance tax on persons remitting amounts abroad through credit or debit or prepaid cards has been inserted which requires every banking company to collect advance tax, at the time of transfer of any sum remitted outside Pakistan, on behalf of any person who has completed a credit card or debit card or prepaid card transaction with a person outside Pakistan at 1% of the gross amount remitted abroad. The advance tax collected under this section shall be adjustable.

38. The rates of tax from small companies and other than small companies shall 20% and 29% respectively while rates of tax for banking companies shall be 39%.

39. Advance tax collected under Section 234 on passenger transport vehicles has been enhanced. Similarly, advance tax collected at the time of registration of vehicles under Section 231B has also been enhanced. For vehicles with engine capacity of 1600 cc or more, the tax is proposed to be increased by 100%.

40. The rate of advance tax under section 236C is increased from 1% to 2% for filer while in case of non-filer such rate shall be increased by 100% i.e., for non-filer the rate under section 236C shall be 4%.

41. The rate of collection of tax under section 236K from purchaser has also been increased from 1% to 2% whereas in case of non-filer such rate is to be increased by 250% i.e., 7% rate will be applicable on non-filer.

42. Advance tax on advertisement starring foreign actor collected under Section 236CA has been decreased from 500,000 per second to Rs. 100,000 per second.

43. The Act has omitted the threshold of 50% in case of accumulated balance received from the voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005;

44. The following institutions, foundations, societies, boards, trusts and funds, in Table-1 of clause 66 of Part-1 to the Second Schedule have been included to provide exemption from taxes:

    1) Pakistan Mortgage Refinance Company Limited
    2) The Pakistan Global Sukuk Programme Company Ltd
    3) Karandaaz Pakistan from tax year 2015 onwards
    4) Pakistan Sweet Homes Angles and Fairies Place
    5) Public Private Partnership Authority for tax year 2022 and subsequent four tax years
    6) Dawat-e-Islami Trust
    7) Hamdard Laboratories (Waqf) Pakistan

45. A new clause 150 is added where income of 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 shall be exempted;

46. The act has introduced by inserting clause 151, the exemption on income derived by a person from cinema operations for five years from the commencement of cinema operations.

47. The act has introduced the exemption for 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.

48. The act has introduced the exemption on 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.

49. The act has provided the reduce rate of tax under clause (a) of sub-section (1) of section 153 to 0.25% on steel provided that beneficiary is appearing on ATL and integrated with Board;

50. The act has also prescribed that the minimum tax u/s 113 is decreased to 0.25% of the revenue from steel and cement provided that beneficiary is appearing on ATL and integrated with Board;

51. The tax rate from income of Behbood Saving Certificate has been reduced from 10% to 5%;

52. The act has exempted the application of section 113 to Mobile phone manufacturers engaged in the local manufacturing of mobile phone devices;

53. The provisions of section 148 shall not apply on 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;

54. The provisions of section 148 shall not apply on import of drones donated by Ministry of Agriculture and Rural Affairs (MARA), Government of China to Pakistan through Sea Route;

55. The provisions of sections 147, 151, 152, 236A and 236K shall not apply to the Second Pakistan International Sukuk Company Limited, the Third Pakistan International Sukuk Company Limited and The Pakistan Global Sukuk Programme Company Limited, as a payer;

56. The provisions of sections 151, 153, 155 and 236C shall not apply to the Second Pakistan International Sukuk Company Limited, the Third Pakistan International Sukuk Company Limited and the Pakistan Global Sukuk Programme Company Limited, as a recipient;

57. The provisions of sections 37, 236C and 236K shall not apply to National Highway Authority in respect of transfer of immovable property to the Pakistan Global Sukuk Programme Company Limited and in respect of transfer of immoveable property to National Highway Authority from the Second Pakistan International Sukuk Company Limited or the Pakistan Global Sukuk Programme Company Limited;

58. The provisions of section 177 and 214C shall not apply to a person whose income tax affairs have been audited in any of the preceding four tax years. Provided that the Commissioner may select a person under section 177 for audit with approval of the Board.

59. In case of banking companies, for tax year 2022 and onwards, the taxable income attributable to investment in the Federal Government securities shall be taxed at the rate of

    a. 55% instead of rate provided in Division II of Part I of the First schedule if the gross advances to deposit ratio as on last day of the tax year is upto 40%;
    b. 49% instead of rate provided in Division II of Part I of the First schedule if the gross advances to deposit ratio as on last day of the tax year exceeds 40% but does not exceed 50%;
    c. at the rates provided in Division II of Part I of the First schedule if gross advances to deposit ratio as on last day of the tax year exceeds 50%;

60. The 100% extra tax on non-active taxpayer shall not be applicable on tax deducted u/s 154A of the Ordinance.

SALES TAX ACT, 1990

1. The definition of the terms “Goods” and “Supply” is amended to include production, transmission and distribution of electricity.

2. The Finance Act, 2022 broaden the scope of Tier-1 retailer by including Persons engaged in supply of articles of jewelry, precious metal, metal clad with precious metal in the definition of “Tier-1 Retailer”.

3. The Finance Act, 2022 broaden the scope of further tax by imposing such tax on taxable supplies made to a registered person, who is not an active taxpayer.

4. Section 3(7) has been amended whereby requirement of withholding on purchase of services liable to pay sales tax under the provincial enactment is excluded.

5. The online marketplace facilitating the sale of third-party goods, the liability to withhold tax on taxable supplies of such third party shall be on the operator of such market place as provided against Serial No. 8 of Eleventh Schedule of the ACT. The rate of withholding tax provided in in Eleventh Schedule is 2% of gross value of supplies. Accordingly, an operator of online market place for example Daraz.com would be required to withhold 2% sales tax in respect of supplies made by third party suppliers using Daraz platform. (The application of this provision is subject to notification by FBR as per Eleventh Schedule)

6. Sales Tax on “Retailers other than Tier-1 retailers” has revised and now instead of paying sales tax calculated as a percentage of bill amount, fixed tax of rupees three thousand per month shall be charged where the monthly bill amount does not exceed rupees thirty thousand, rupees five thousand per month where the monthly bill amount exceeds rupees thirty thousand but does not exceed rupees fifty thousand and rupees ten thousand per month where the monthly bill amount exceeds rupees fifty thousand.

7. Section 6 is amended to provide that; the Federal Government may allow the payment of sales tax on installment basis on supply or import of goods by the Federal or Provincial Government and any other public sector organization.

8. The claim of input tax in proportion to sales to registered and unregistered person section 8(1)(m) has been made restricted to supplies made to unregistered distributors only.

9. Restriction has been imposed on Public Limited Companies Registered in Pakistan stock exchange for adjustment of input tax in excess of ninety per cent of the output tax.

10. A new sub section has been inserted whereby the Board have powers to direct the Gas and Electricity distribution companies to discontinue the connections of any person including Tier- 1 retailers who fail to register for sales tax and also not integrated their system with Board. This was earlier introduced through Third Amendment Ordinance, 2021.

11. Serial number 19 omitted to abolish zero rating regime for pharma sector.

12. The books are made exempted under Sixth Schedule, previously only “educational text books” were exempted.

13. Exemption available to goods imported by various agencies of the United Nations, diplomats, diplomatic missions, privileged persons and privileged organizations is restored with effect from January 15, 2022.

14. Import and supply of Photovoltaic cells is exempted, whether or not assembled in modules or made up into panels.

15. Exemption available to goods imported by or donated to hospitals run by the non-profit making institutions is restored.

16. Goods supplied to hospitals run by the charitable hospitals of fifty beds or more are made exempted excluding supply of electricity and natural gas, again it's a case of restoration of exemption withdrawn earlier.

17. Machinery, equipment and materials imported for use within the limits of Export Processing Zone or for making exports is made exempted subject to certain conditions.

18. Tractors and Seeds for sowing is exempted from levy of sales tax.

19. Prepared food/foodstuff supplied by Restaurants and caterers is proposed to be exempted from charge of sales tax under Sales Tax Act 1990 and now is to be taxed as "services" under Islamabad Capital Territory (Tax on Services) Ordinance, 2001.

20. All types of breads, nans and chapattis exempted.

21. Supply of articles of jewelry, or parts thereof, of precious metal or of metal clad with precious metal is to be taxed at reduced rate of 3% without input adjustment.

22. Manufacture or import of substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976) 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 made subject to reduced rate of tax of 1% subject to certain conditions.

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001

23. The Sales on number of services under ICT (Tax on Services) Ordinance, 2001 is reduced from 16% to 15%.

24. The business of restaurants is now chargeable to sales tax as services instead of supply of goods.

25. The reduced rate of tax (5%) available on "IT & IT enabled services has been withdrawn and now sales tax @ 5% is applicable for "software or IT based system development consultants".

FEDERAL EXCISE ACT, 2005

1. The Act levied FED on e-liquids of electric cigarettes kits at the rate of Rupees ten thousand per kg instead of Rupees ten per ml;

2. The Act increased FED on locally produced cigarettes (if their on-pack printed retail price exceeds Rs. 6,660 per thousand cigarettes) from five thousand two hundred to Five thousand nine hundred rupees per thousand cigarettes;

3. The Act increased FED on locally produced cigarettes (if their on-pack printed retail price does not exceed Rs. 6,660 per thousand cigarettes) from Rs. 1650 to Rs. 1850 per thousand cigarettes;

4. FED on Liquified Petroleum Gases (LPG) and gaseous hydrocarbons revised from Seventeen rupees and eighteen paisa per hundred cubic meters to Rupees sixty per hundred metric tones

5. The FED on travel from Pakistan through Club, business and first class shall be increased from 10 thousand to 50 thousand;

6. The FED on Telecommunication services increased from 16% to 19.5%.

CUSTOMS ACT, 1969 (IV OF 1969)

1. Definition for “bordering and coastal areas” as clause “bbc” shall be inserted, which means all districts located along international borders including coastal areas of Pakistan, notified as such by Provincial Governments.

2. The definition of document at clause “KKa” is broadened by the inclusion of statement “standardized information and documents lodged with a single-entry point through Pakistan Single Window”.

3. Definition of “essential commodities” as clause “(kkd) is added, whereby items which are necessary and important for domestic use & consumption shall be notified.

4. The provisional determination liability period is reduced from “six months” to “90 days”, and final determination which in no case shall exceed “thirty days” instead of “ninety days” is proposed.

5. The act inserted punishments with respect to unauthorized access, use, transmit, and selling of information in relation to Pakistan Single Window system;

6. The Option for furnishing of sufficient guarantee for release of the conveyance used in removal of goods liable to be confiscated is omitted.

7. Procedure in case of seizure of essential commodities is added.

8. The power of Additional collector to impose penalty is increased from “three million” to “five million” rupees.

9. The power of Deputy Collector to impose penalty is increased from “One million” to “two million” rupees.

CAPITAL VALUE TAX

1. Capital value tax shall be charged as per following details:

Assets	Rate of CVT	Time of payment of tax
If engine capacity exceeds 1300cc or battery power exceeds 50kwh	1% of value	First time at the time of purchase/ import Thereafter, at the time of payment of motor vehicle token tax w.e.f. 1st July 2022
Assets of resident person held abroad exceeding rupees one hundred million	1% of value	Annually with tax return w.e.f. Tax year 2022 onwards
Such asset or assets as specified by Federal Government		As specified by Federal Government, not exceeding 5% of the value

SECTION WISE COMMENTARY

AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Beneficial owner
Section 02(7A), Section 181E and 182

Clause 7A has been inserted in section 2 to provide definition of "beneficial owner" as follows:

Quote
"Beneficial owner" means a natural person who –

(a) ultimately owns or controls a Company or association of persons, whether directly or indirectly, through at least twenty five percent shares or voting rights; or

(b) exercise ultimate effective control, through direct or indirect means, over the company or association of persons including control over the finances or decisions or other affairs of the company or association of persons; **unquote**

Section 181E has been inserted to require every company and Association of Persons (AOP) to electronically furnish particulars of beneficial owners. Serial # 30 is added to table under section 182 to provide penalty of Rs. one million (Rs.1,000,000) for each default by company or AOP, as the case may be.

Distributor
Clause 18A of Section 02
Definition for Distributor has been added by inserting new clause 18A after clause 18 which states that distributor means a person appointed by a manufacturer, importer or any other person for a specified area to purchase goods from him for further supply.

Fair market value
Clause 22AA of Section
New clause 22AA has been inserted after clause 22 which states that FMV will be considered same as mentioned in section 68 of the Ordinance.

IT & IT enabled services
Clause 30AD and 30AE
Scope of IT & IT enabled services has been broadened to include any other service in the definition having nature of IT and IT enabled services.

Synchronized Withholding Administration and Payment System agent
Clause 62B of Section 02 & Section 164A

Finance Act has inserted new clause 62B after clause 62A as follows:

Quote Synchronized Withholding Administration and Payment System agent" or "SWAPS agent" means any person or class of persons notified by Board to collect or deduct withholding taxes through Synchronized Withholding Administration and Payment System. **Unquote**
Section 164A has been inserted which provides that FBR may notify any person or class of persons to be SWAPS agent. Such SWAPS agents will be required to integrate with SWAPS and act as SWAPS agents. Procedural changes

with respect to CPRs and other related items have also been made in section 164. If SWAPS agent fails to integrate than such agents will not be eligible for tax credits & exemptions.

Serial # 31 has been added to section 182 to provide penalties for violation of section 164A.

Tax Invoice
Clause 66A of Section 02

A new clause 66A has been inserted which stated that Tax Invoices will be those which are prescribed in Income Tax Rules 2002.

Tax on taxable Income
Section 04
Clause (a) of Sub-section (4) of Section 4

Before Finance Act 2022	After Finance Act 2022
separate taxation as provided in sections 5, 6 and 7;	separate taxation as provided under this chapter;

Sub-section (5) of Section 4

Before Finance Act 2022	After Finance Act 2022
Income referred to in sub-section (4) shall be subject to tax as provided for in section 5, 6 or 7, or Part V of Chapter X, as the case may be, and shall not be included in the computation of taxable income in accordance with section 8 or 169, as the case may be.	Income referred to in sub-section (4) shall be subject to tax as provided for under this chapter, or Part V of Chapter X, as the case may be, and shall not be included in the computation of taxable income in accordance with section 8 or 169, as the case may be.

Super tax on high earning persons for poverty alleviation
Section 4C
New section 4C namely "Super tax on high earning persons" has been inserted through which super tax on high earning persons has been levied for tax year 2022 and onwards.

The definition of "income" for the purpose of section 4C shall be the sum of following:

i. Profit on debt, dividend, capital gains, brokerage and commission;
ii. Taxable income (other than brought forward depreciation and brought forward business losses) under section 9 of the Ordinance excluding amounts specified in clause (i);
iii. imputable income as defined in clause (28A) of section 2 excluding amounts specified in clause (i); and
iv. Income computed, other than brought forward depreciation, brought forward amortization and brought forward business losses under Fourth, Fifth and Seventh Schedules.

The tax payable under this section will be paid along with income tax return for tax year 2022 and in case of failure to pay tax, the Commissioner is empowered to determine the tax payable and serve the notice of demand for recovery of tax.

Corresponding amendments have also been made in the Fourth, Fifth and Seventh Schedules to levy this tax on insurance, oil exploration, mining and banking companies.

Super tax on high earning persons is not applicable to banking companies for tax year 2022.
The rate of super tax is provided under Division IIB Part I of First Schedule as follows:

Other than banking companies (tax year 2022 only)

0-150,000,000	0% of the income
150,000,001-200,000,000	1% of the income
200,000,001-250,000,000	2% of the income
250,000,001-300,000,000	3% of the income
Above 300,000,000	4% of the income

For banking companies

For TY 2023 where income exceeds Rs. 300,000,000	10% of the income

For the following sectors the rate of super tax is 10% for tax year 2022 where the income exceeds Rs.300 million:

1. Airlines
2. Automobiles
3. Beverages
4. Cement
5. Chemicals
6. Cigarette and tobacco
7. Fertilizer
8. Iron and steel
9. LNG terminals
10. Oil marketing
11. Petroleum and gas exploration and production
12. Pharmaceuticals
13. Sugar and
14. Textiles

Tax on certain payments to non-resident
Section 6 & 152
The rate of tax on payment of fee for offshore digital services has been increased from 5% to 10% while 10% rate of tax is also prescribed for payment against "fee for money transfer operations, card network services, payment gateway services and interbank financial telecommunication services".

The tax imposed under section 6 is under final tax regime.

Section 152 has also been amended whereby exchange companies and banking companies have been required to deduct tax on such payments.

SECTION 7E "Tax on deemed income"
The Act has imposed tax for tax year 2022 and onwards in respect of deemed rental income at the rate of 20% on a resident person owning capital assets in Pakistan. The definition of capital assets provided in section 7E excludes all movable property hence the tax is practically levied on immovable property only. The text of definition is produced hereunder for ease of reference:
Quote "capital asset" means 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 in clauses (i), (ii) or (iii)

The resident person shall be treated to have received rent equal to five percent of the fair market value of a capital asset situated in Pakistan held on the last day of the tax year.

The following immovable properties are excluded for the purpose of tax under section 7E:

i. one self-owned immovable property;
ii. self-owned business premises from where the business is carried out by the persons appearing on the active taxpayers' list at any time during the year;
iii. self-owned agriculture land where agriculture activity is carried out by person excluding farmhouse and land annexed thereto;
iv. Capital asset allotted to –
    (i) A 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; or
    (iv) Ex-serviceman and serving personal of armed forces or ex-employees or serving personal of Federal and provincial governments, being original allottees of the capital asset duly certified by the allotment authority.
v. Any property from which income is chargeable to tax under ITO 2001 and tax leviable is paid thereon;
vi. Capital asset in the first tax year of acquisition where section 236K has been paid;
vii. where the fair market value of the property or properties, in aggregate, excluding properties mentioned in clauses (a), (b), (c), (d), (e) and (f) does not exceed twenty-five million Rupees;
viii. Capital asset owned by a Provincial Government, a Local Government, a local authority, a development authority, builders and developers for land development and construction who are registered as DNFBP.

The definition of farm house (referred in clause "c" above) is provided as follows:

Quote "farmhouse" means 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. **Unquote**
The definition of farm house is interesting and likely to give rise to some debates.

The tax imposed under section 7E is under final tax regime.

Deductions not allowed
Clause ea of Section 21
A new clause **"ea"** in Section 21 has been inserted to disallow expense in excess of 50% of contribution made by a person to an approved gratuity fund, an approved pension fund and an approved superannuation fund.

Payment through Digital Means
Clause (l) and (Ia) of Section 21

A new clause "la" was inserted in Section 21 through Tax Laws (Third Amendment) Ordinance, 2021 dated September 15, 2021 whereby expenditure (with some exclusions) paid other than through digital means was disallowed to companies. Implementation of clause "la" was however deferred till December 31, 2021 through various circulars and through Finance (Supplementary) Act, 2022 the effective date was deferred indefinitely till it is notified by the FBR. The said change is now ratified through Finance Act 2022 however clause "la" will still remain inapplicable till notified by FBR and till such notification clause "l" shall remain applicable on companies.

Accordingly, till the date of application of clause (la) is notified, all persons including companies shall continue to ensure that all expenditure under an account head which in aggregate exceeds Rs.250,000, are paid through banking channels with following exceptions:

1. Expenditure not exceeding Rs.25,000;
2. Expenditure on account of;
    a. utility bills;
    b. freight charges;
    c. travel fare;
    d. postage; and
    e. and payment of taxes, duties, fee, fines or any other statutory obligation.

When clause "la" is applicable, companies shall ensure that all expenditure under an account head which in aggregate exceeds Rs.250,000, are paid through digital means from bank accounts of the taxpayer notified to the Commissioner under section 114A with following exceptions:

1. Expenditure not exceeding Rs.25,000;
2. Expenditure on account of;
    a. utility bills;
    b. freight charges;
    c. travel fare;
    d. postage; and
    e. and payment of taxes, duties, fee, fines or any other statutory obligation.

Salary payment
Clause (m) of Section 21

Before Finance Act 2022	After Finance Act 2022
any salary paid or payable exceeding twenty-five thousand rupees per month other than by a crossed cheque or direct transfer of funds to the employee's bank account;	any salary paid or payable exceeding twenty-five thousand rupees per month other than by a crossed cheque or direct transfer of funds to the employee's bank account **or through digital means**;

Expenses disallowed due to non-integration
Clause (r) of Section 21
As per new clause **"r"** of Section 21, expenditure attributable to sales shall be disallowed to any person who is required to integrate but fails to integrate his business with FBR through approved fiscal electronic device and software. However, disallowance of expenditure shall not exceed 8% of the allowable deduction.

Depreciation on acquisition and disposal of assets
Section 22(2) and 22(8)
The depreciation deduction on depreciable assets used in the business for the first time in a tax year has been restored to 100% in the year of acquisition and no depreciation in the year of disposal.

Depreciation on vehicles not plying for hire
Section 22(13) and 28(1)(b)
In clause (a) of sub-section (13) of section 22, depreciation on passenger transport vehicles not plying for hire, the limit on cost at Rs 2.5 million is enhanced to Rs 7.5 million. Where such vehicle is obtained on lease, the rentals relating to the principal amount are restricted to Rs 2.5 million under section 28(1)(b) however corresponding amendment in section 28(1)(b) has not been made which requires correction.

Initial Allowance
Section 23
Initial allowance on buildings was removed from the Third Schedule through Finance Act, 2019. Now section 23 has been updated whereby the building being immovable property including structural improvements will no more be eligible for initial allowance of depreciation.

Capital Gains
Section 37(1), (2) & (3)
Capital gain (other than capital gain on immovable property/ certain securities and exempt gains) on disposal of capital asset was reduced by 25% if the capital asset is held for a period of more than one year. Sub-section 3 to section 37 has been omitted and as a result now the full amount of gain is taxable on such capital assets (generally shares of private companies and personal movable property referred in section 38(5)).

Capital Gains on immovable property
Section 37(1A), 3A & 236C
Section 37(1A) has been amended and a notable inclusion are the words “situated in Pakistan” which effectively suggests that capital gains on sale of immovable property “in Pakistan” is now subject to section 37(1A) whereas capital gains on immovable property situated outside Pakistan is subject to section 37(1) hence subject to normal tax rates.

The capital gains on immovable property are now taxable as per following rates:

Sr. No.	Holding Period	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 does not exceed two years	12.5%	10%	7.5%
3	Where the holding period exceeds two years does not exceed three years	10%	7.5%	0%
4	Where the holding period exceeds three years does not exceed four years	7.5%	5%	-
5	Where the holding period exceeds four years does not exceed five years	5%	0%	-
6	Where the holding period exceeds five years does not exceed six years	2.5%	-	-
7	Where the holding period exceeds six years	0%	-	-

Sub-section 3 of section 236C provides that advance tax under section 236C on sale of immovable property shall not be collected if the property is held for a period of more than four years. Sub-section 3 has been omitted by Finance Act 2022 which means that now advance tax under section 236C is required to be collected on every sale/ transfer of immovable property irrespective of holding period. Such collection of advance tax does not appear rational when the capital gain itself is exempt from tax after certain period as per above table.

Moreover, the rate of advance tax under section 236C is increased from 1% to 2% for filer while in case of non-filer such rate shall be increased by 100% i.e., for non-filer the rate under section 236C shall be 4%.

The rate of collection of tax under section 236K from purchaser has also been increased from 1% to 2% whereas in case of non-filer such rate is to be increased by 250% i.e., 7% rate will be applicable on non-filer.

Capital Gains
Section 37(4A)
Where a capital asset becomes property of a person as a result of gift, bequest, will, inheritance distribution of asset by AOP or company, then cost of such asset in the hand of transferor was deemed to be the fair market value at the time of transfer of such asset to the recipient. This provided opportunity of tax avoidance scheme which was mitigated last year by introduction of a proviso to sub-section 4A. Now, Finance Act 2022 has omitted sub-section 4A and resultantly now the cost of asset in the hands of recipient shall be the same as cost in hands of transferor in line with section 79(3) of ITO 2001.

Capital Gain on Sale of Securities
Section 37A
Capital gain arising on disposal of securities defined under section 37A are taxable for tax year 2023 and onwards at the following rates:

Sr. No.	Holding Period	Tax rate for tax year 2023 and onwards
1	Where the holding period does not exceed 1 year	15%
2	Where the holding period exceeds 1 year but does not exceed 2 years	12.5%
3	Where the holding period exceeds 2 years but does not exceed 3 years	10%
4	Where the holding period exceeds 3 years but does not exceed 4 years	7.5%
5	Where the holding period exceeds 4 years but does not exceed 5 years	5%
6	Where the holding period exceeds 5 years but does not exceed 6 years	2.5%
7	Where the holding period exceeds 6 years	0%

The above reduced rates shall apply on capital gains arising on disposal of securities acquired on or after July 01, 2022. For capital gain on securities acquired on or before June 30, 2022, rate of 12.5% shall apply irrespective of holding period of such securities.

Capital gains in respect of future commodity contracts entered into by members of Pakistan Mercantile Exchange are taxable at the rate of 5% irrespective of holding period.

For more details, please see comments on First Schedule.

Exemption under International Agreements
Section 44(2) & (4)
Exemption under section 44(2) is available, subject to certain conditions, to persons working under bilateral or multilateral “technical assistance” agreement between Federal Government and a foreign government or public international organization. This exemption was not available to citizen of Pakistan however Finance Act 2022 has

extended this exemption to citizen of Pakistan who is not a resident person or resident solely by reason of the performance of services under the agreement. Moreover, the text “technical assistance” has been omitted hence enhancing the scope of exemption to other than technical assistance agreements as well.

Sub-section 4 has also been inserted empowering the Federal Government to issue notification for exemption of any person on a case-to-case basis in respect of an official development assistance financed loans and grant-in-aid. Such exemption may be subject to certain conditions and limitations as may be specified.

Carryforward of business losses of sick industrial units
Section 59C
This section was inserted by Income Tax (Amendment) Ordinance, 2022, now it has been omitted by Finance Act 2022 with effect from March 02, 2022.

Deductible allowances
Section 60C
Deductible allowance on account of profit on debt paid for house construction/ acquisition was allowed subject to certain conditions under section 60C. Finance Act 2022 has omitted section 60C hence this allowance is not available anymore.

Tax credit on investment in shares/ life insurance
Section 62
Tax credit was available on investment in shares or life insurance subject to certain conditions under section 62. Finance Act 2022 has omitted section 62 hence tax credit on such investments is no more available.

Tax credit on investment in health insurance
Section 62A
Tax credit was available on investment in health insurance subject to certain conditions under section 62A. Finance Act 2022 has omitted section 62A hence tax credit on such investments is no more available.

Tax Credit for certain persons
Section 65F
100% tax credit was available under section 65F in respect of income from export of computer software or IT services or IT enabled services subject to certain terms & conditions. This credit is now replaced by final tax regime under section 154A whereby tax @ 0.25% is applicable on export proceeds subject to certain conditions. Please see commentary on section 154A for further details.

Tax credit for foreign investment for industrial promotion
Section 65H
This section was inserted by Income Tax (Amendment) Ordinance, 2022, now it has been omitted by Finance Act 2022 with effect from March 02, 2022.

Resident individual
Section 82
Presently, an individual shall be treated as resident individual, if he is present in Pakistan for a period of 183 or more days. Now, the scope of definition has been widened by including citizen of Pakistan, who is not present in any other country for more than one hundred and eighty- two days during the tax year or who is not a resident taxpayer of any other country.

Principles of taxation of associations of persons
Section 92

Presently, the income of association of persons (AOP) is taxed in the hands of AOP and share received from AOP is exempt in the hands of members of the AOP. The Act has added explanation that where income of AOP is exempt from tax, share received by members from such exempt income shall also be exempt in the hands of members of AOP.

Special provisions relating to payment of tax through electricity connections
Section 99A

Section 99A has been substituted from "***Special provisions relating to traders***" to "***Special provisions relating to payment of tax through electricity connections***" vide which new taxation regime for retailers other than tier-I retailers as defined in Sales Tax Act, 1990 and specified service providers whereby such retailer and service providers shall be liable to pay income tax through their commercial electricity connection at the following rates;

Sr. No.	Gross amount of monthly bill	Tax
1	Where the amount does not exceed Rs. 30,000	3,000
2	Where the amount exceeds Rs. 30,000 but does not exceed Rs. 50,000	5,000
3	Where the amount exceeds Rs. 50,000 but does not exceed Rs. 100,000	10,000
4	Specified retailers and service providers through Income Tax General Order	Up to Rs.200,000

The above tax collected shall be final tax on the income of person, in respect of business being carried out from the premises where the electricity connection is installed. An exclusion has been provided to those retailers who have paid sales tax under the Sales Tax Act 1990 on their electricity connections in accordance with section 3(9) of the Sales Tax Act, 1990. The tax paid under the Sales Tax Act, 1990, shall constitute discharge of tax liability under the above scheme.

The Act has empowered the Board with the approval of Minister in-charge to issue income tax general order for;

a) Provide the scope, time, payment, recovery, penalty, default surcharge, adjustment or refund of tax payable under this section in such manner and with such conditions as may be specified
b) Provide record keeping, filing of return, statement and assessment in such manner and with such conditions as may be specified;
c) Provide mechanism of collection, deduction and payment of tax in respect of any person; or
d) Include or exempt any person or classes of persons, any income or classes of income from the application of this section, in such manner and with such conditions as may be specified.

Tax credit for charitable organizations
Section 100C

Entities mentioned in clause 66, part I, Second Schedule were provided exemption from requirement of "approval of Commissioner" for the purpose of 100% tax credit till June 30, 2022. This date has been extended till June 30, 2023.

Special provisions relating to investment for industrial promotion
Section 100F

This section was inserted by Income Tax (Amendment) Ordinance, 2022, now it has been omitted by Finance Act 2022 with effect from March 02, 2022.

Re-Characterization of income and deductions
Clause (e) Sub-Section 01 of Section 109

The Commissioner has power to recharacterize or disregard certain transactions, which were incurred specifically for tax avoidance, or transactions not having substantial economic effect or transactions not have commercial substance. Now, the scope of this section is widened by adding new clause in this section to treat a place of business in Pakistan as permanent establishment from tax year 2018 onwards if such business fulfills the criteria specified in sub-clause (g) of clause (41) of section 2.

Unexplained income or assets
Section 111
Currently, this section is not applied to foreign remittances remitted through normal banking channel not exceeding Rupees Five million. Now, by inserting explanation after sub-section 4 the scope of normal banking channels has been clarified to include remittances through money service bureaus, exchange companies or money transfer operators shall be deemed to constitute normal banking channels.

A new sub-section 4A has been inserted whereby taxpayer shall not be entitled to take credit of FTR income as is in excess of imputable income while explaining the nature and source of his assets/ income mentioned in section 111(1) unless the excess amount is reasonably attributable to the business activities subject to final tax and the taxpayer furnishes financial statements audited by Chartered Accountants. An explanation has been added to sub-section 5 whereby it is clarified that a separate notice for proceedings under section 111 is not required to be issued if notice under section 122(9) has been issued.

Minimum tax
Section 113
Minimum tax under section 113 is required to be paid where tax payable or paid is less than or equal to minimum tax under section 113. The term tax payable or paid is defined by way of explanation under section 113(1) which is amended to include newly introduced super tax under section 4C. Moreover, the amount of minimum tax in excess of normal tax is allowed to be carried forward to five years. The time limit for carry forward is now reduced to three years. The applicable rates of minimum tax for tax year 2023 are as follows:

Person(s)	**Tax as %age of annual turnover**
a. SNGPL and SSGCL (where annual turnover exceeds Rs. 1 billion) b. PIA c. Poultry industry including poultry breeding, broiler production, egg production and poultry feed production	0.75%
a. Oil refineries b. Motorcycle dealer (Sales Tax Registered) c. Oil Marketing companies	0.50%
a. Distributors of pharmaceutical products, FMCG and cigarettes b. Petroleum agents and distributors (Sales Tax Registered) c. Rice mills and dealers; d. Teir-1 Retailers of FMCG (Integrated with FBR's software for real time reporting) e. Persons turnover from supplies through e commerce including running online market place. f. Persons engaged in trading of used vehicles; and g. Flour mills. h. Distributors, dealers, sub-dealers, wholesalers and retailers of fast-moving consumer goods, fertilizer, electronics excluding mobile phones, sugar, cement, steel, and edible oil if appearing on ATL issued under STA, 1990, ITO, 2001. Tier-1 Retailers integrated with FBR's software for real time reporting. (Second Schedule)	0.25%
In all other cases	1.25%

Powers to enforce filing of returns
Section 114B
A new section has been inserted to increase the tax base. This section empowers FBR/Board/Commissioner to issue general order to increase its tax base by compelling persons who are not appearing on active taxpayers list but are liable to file return. The tools to force persons to file tax return include disabling of mobile phones or mobile phone SIMS, discontinuance of electricity connection and discontinuance of gas connection. But above tools would be applied after fulfilling following conditions that: -

- Notice related to file tax return has been issued to such person.
- Date of compliance of above notice has been elapsed and
- Such person has not filed the tax return.

FBR/Board/Commissioner have also been given powers to issue general order which may restore connections of mobile phones, mobile phone SIMS and connections of electricity and gas, if they are satisfied that that the taxpayer has filed the return or the person was not liable to file return under the provisions of ITO 2001.

Best judgement assessment
Section 121
Currently, the time barred limit of an assessment order is five years after the end of the tax year or the income year to which it relates which is now extended to six years.

Amendment of assessments
Section 122
Currently, the time limit of issuance of assessment order is within 120 days of issuance of show cause notice which has now been extended to 180 days.

Alternative Dispute Resolution
Section 134A
The mechanism and application of section 134A for the purpose of resolution of tax disputes through Alternate Dispute Resolution mechanism has seen many changes in the past few years and this has again been modified to make this arrangement effective. Following are key ingredients of this section now:

- The disputes that can be brought into ADR are limited to the following:
    - the liability of tax of one hundred million and above against the aggrieved person or admissibility of refund, as the case may be;
    - the extent of waiver of default surcharge and penalty; or
    - any other specific relief required to resolve the dispute.
- The disputer must be under litigation in any court of law or an appellate authority except where criminal proceedings have been initiated.
- An initial offer including an offer of taxpayment shall be made by taxpayer from which the applicant would not be entitled to retract.
- A committee shall be formed by FBR within 45 days of receipt of application.
- Appeal shall be withdrawn after constitution of committee and till the order of withdrawal by the Court/ appellate authority, the committee shall not commence proceedings. If the order of withdrawal is not communicated within 75 days of the appointment of committee, the committee shall stand dissolved.
- The dispute may be decided by majority within 120 days of appointment of committee.
- The committee decision shall not be a binding precedent.

- Recovery of tax shall be deemed stayed after withdrawal of appeal till decision by the Committee of dissolution of Committee whichever is earlier.
- The decision shall be binding on CIR and the aggrieved person.
- If the Committee does not decide within 120 days, the Committee shall be dissolved and the matter shall be deemed pending before Court/ appellate authority which issued order of withdrawal of appeal. The Court/ appellate authority shall then decide matter within six months of communication of order of dissolution of committee.

Section 148 "Imports"

The income tax collected under section 148 from industrial undertakings on imports for own use is treated as minimum tax except where such tax is paid in respect of imports subject to tax @ 1% or 2%. This restriction has been relaxed and now any imports by industrial undertaking for own use are not subject to minimum tax irrespective of applicable tax rate under section 148.

However advance tax collected on imported of edible oil, packaging material, paper and paper board or plastics shall be minimum tax in respect of income arising from such imports.

The rates of tax as on imports are as under:

<table>
<tr><th>Description</th><th>Rate</th></tr>
<tr><td>Persons importing goods classified in Part I of the Twelfth Schedule</td><td rowspan="3">1% of the import value as increased by customs-duty, sales tax and federal excise duty</td></tr>
<tr><td>Manufacturers covered under SRO 1125(I)/2011 dated December 31, 2011 (as it stood on June 28, 2019)</td></tr>
<tr><td>Importers of CKD kits of electric vehicles for small cars or SUVs with 50 kwh battery or below and LCVs with 150 kwh battery or below</td></tr>
<tr><td colspan="2">Persons importing goods classified in Part II of the Twelfth Schedule</td></tr>
<tr><td>In case of commercial importers</td><td>3.5% of the import value as increased by customs-duty, sales tax and federal excise duty</td></tr>
<tr><td>Others</td><td>2% of the import value as increased by customs-duty, sales tax and federal excise duty</td></tr>
<tr><td>Persons importing goods classified in Part III of the Twelfth Schedule</td><td>5.5% of the import value as increased by customs-duty, sales tax and federal excise duty</td></tr>
<tr><td>Persons importing finished pharmaceutical that are not manufactured in Pakistan, as certified by DRAP</td><td>4%</td></tr>
</table>

Further the rate of tax on import of mobile phones are as under
:

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

Salary
Section 149
Section 149 requires employer to withhold tax from salary while benefit of tax credits under Chapter X are required to be given to employee while calculating such tax. Due to withdrawal of tax credits, the reference to such tax credits has also been omitted from section 149.

Payments to non-residents
Section 152
Sub-section 1DC of Section 152
A new sub-section has been inserted which requires every exchange company licensed by State Bank of Pakistan to deduct tax at the time of making payment of services charges or commission or fee, or any charges irrespective of the name, to the global money transfer operators, international money transfer operators or such other persons engaged in international money transfers or cross-border remittances for facilitating outward remittances.

Provided that where the company retains money in relation to above mentioned service charges from the amount payable, the company shall be deemed to have paid the said charges and will deduct tax accordingly. The rate of tax will be imposed as per Division IV part I of First Schedule i.e., 15% of the Gross amount of royalty or fee for technical services and 10% in any other case.

The tax so deducted is under final tax regime.

Sub-section 1DD of Section 152
Another sub-section has been inserted which requires every banking company while making payment to card network company or payment gateway or any other person, of any transaction fee or licensing fee or service charges or commission or fee by whatever name called or interbank financial telecommunication services, shall deduct tax at the rate specified in Division IV Part I of First Schedule.

The tax so deducted is under final tax regime.

Export of Services
Section 154
Export of services is under final tax regime under section 154A whereby tax @ 1% is required to be deducted by banks from export proceeds however the export of IT & IT enabled services was eligible for 100% tax credit under section 65F subject to conditions prescribed therein.

In case a person rendering IT & IT enabled services was not eligible for 100% tax credit under section 65F than such person would fall under section 154A whereby 1% tax is deemed final discharge of tax liability subject to conditions prescribed under section sub-section 2 of section 154A.

Now 100% tax credit under section 65F has been withdrawn and income from export of IT & IT enabled services is subject to final tax regime under section 154A albeit at a lower rate of 0.25% of export proceeds subject to following conditions:

1. The exporter is registered with and duly certified by Pakistan Software Export Board.
2. Return has been filed.
3. Withholding statements have been filed if required under ITO 2001.
4. Sales tax returns of Federal & Provincial sales tax laws have been filed if required under the law.
5. No credit of foreign tax paid is allowed.

In case an exporter is not registered with and duly certified by PSEB than such exporter will be subject to 1% tax but shall still remain within final tax regime. However, if the exporter fails to fulfil other conditions or opts out of final tax regime than income of such exporter shall be under normal tax regime.

Foreign commission due to an indenting agent is also included in final tax regime under section 154A.

Records
Sub-section 3 of Section 174
A new explanation has been provided which states that provision to maintain record for six years after the end of the year to which they relate, shall not apply to investment, money, valuable article or expenditure discovered by the Commissioner which are situated or incurred outside Pakistan or concealed income is foreign-source.

National Database and Registration Authority (NADRA)
Section 175B
Section 175B has been inserted whereby NADRA has been allowed to share records and information with FBR for the purpose of broadening the tax base. The said section was earlier inserted by Tax Laws Amendment Ordinance 2021 and is now enacted through Finance Act 2022.

Prosecution for non-compliance with certain statutory obligations
Section 191
New clauses “h” and “I” have been inserted in sub-section 1, according to which if a person fails to integrate his business with Board’s computerized system or generate tax invoice verifiable by Board’s system, it shall be treated as an offence punishable on conviction with a fine or imprisonment for a term not exceeding one year, or both.

Uniform
Section 209A
A new section namely Uniform has been inserted which states that the Board may by notification in the official gazette, prescribe rules for wearing of uniform by officers and staff of Inland Revenue Service of Pakistan.

Offences and Penalties
Section 182

Offence	Penalty Before Finance Act 2022	Penalty After Finance Act 2022
Where any person fails to furnish a return of income as required under section 114 within the due date	Such person shall pay a penalty equal to 0.1% of the tax payable in respect of that tax year for each day of default subject to a maximum penalty of 50% of the tax payable provided that if the penalty worked out as aforesaid is less than 3[forty] thousand rupees or no tax is payable for that tax year such person shall pay a penalty of forty thousand rupees. Provided that 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 Provided further that if taxable income is up-to eight hundred thousand Rupees, the minimum amount of penalty shall be five thousand Rupees: Provided also that the amount of penalty shall be reduced by 75%, 50% and 25% if the return is filed within one, two and three months respectively after the due date or extended due date of filing of return as prescribed under the law. *Explanation.* — For the purposes of this entry, it is declared that the expression "tax payable" means tax chargeable on the taxable income on the basis of assessment made or treated to have been made under section 120, 121, 122 or 122C.	Such person shall pay a penalty equal to higher of – (a) 0.1% of the tax payable in respect of that tax year for each day of default; or (b) rupees one thousand for each day of default Provided that minimum penalty shall be (i) rupees ten thousand in case of individual having seventy-five percent or more income from salary; or (ii) rupees fifty thousand in all other cases: Provided further that maximum penalty shall not exceed two hundred percent of tax payable by the person in a tax year: Provided also that the amount of penalty shall be reduced by 75%, 50% and 25% if the return is filed within one, two and three months respectively after the due date or extended due date of filing of return as prescribed under the law; *Explanation*. — For the purposes of this entry, it is declared that the expression "tax payable" means tax chargeable on the taxable income on the basis of assessment made or treated to have been made under section 120, 121, 122 or 122D.

The Act also introduced the following new penalties in addition to existing penalties by adding serial number 30,31,32,33 and 34 in the table.

S. No.	Offences	Penalties	Section of the Ordinance to which offence has reference
30	Any company or Association of Persons who contravenes the provisions of Section 181E	Such company or Association of Persons shall pay a penalty of Rs. 1,000,000/- for each default.	181E
31	Any person who fails to integrate or perform roles and functions as specified,	Such person shall pay a penalty of: (i) Rs.50,000 for first default of 07 days (ii) Rs. 100,000 for second default of next 07 days	164 A

	after being duly notified by the Board as SWAPS Agent	(iii) Rs. 50,000 for each week after the second consecutive week of default: Provided that no penalty shall be imposed for the period for which extension from integration is granted by the Commissioner subject to the condition that, if the SWAPS Agent fails to integrate within such extended time, penalties shall be imposed as if no extension was granted	
32	Any person, who is integrated for monitoring, tracking, reporting or recording of sales, services and similar business transactions with the Board or its computerized system, conducts such transactions in a manner so as to avoid monitoring, tracking, reporting or recording of such transactions, or issues an invoice which does not carry the prescribed invoice number or QR code or bears duplicate invoice number or counterfeit QR code, or defaces the prescribed invoice number or QR code, or any person who abets commissioning of such offence	Such person shall pay a penalty of five hundred thousand rupees or two hundred per cent of the amount of tax involved, whichever is higher.	237A
33	Any person, who is required to integrate his business for monitoring, tracking, reporting or recording of sales, services and similar business transactions with the Board or its computerized system, fails to get himself registered under the Ordinance, and if registered, fails to integrate in the manner as required under law.	Such person shall be liable to pay a penalty up to one million rupees, and if continues to commit the same offence after a period of two months after imposition of penalty as aforesaid, his business premises shall be sealed till such time he integrates his business in the manner as stipulated under sub-section (3) of section 237A, as the case may be.	237A
34	A person required to integrate his business as stipulated under sub-section (3) of section 237A, who	Such person shall be liable to pay- i) penalty of five hundred thousand rupees for first default; ii) penalty of one million rupees for second default after fifteen days of order for first default;	237A

	fails to get himself registered under the Ordinance, and if registered, fails to integrate in the manner as required under the law and rules made thereunder.	iii) penalty of two million rupees for third default after fifteen days of order for second default; iv)penalty of three million rupees for fourth default after fifteen days of order for third default: Provided that if such person fails to integrate his business within fifteen days of imposition of penalty for fourth default, his business premises shall be sealed till such time he integrates his business in the manner as stipulated under sub-section (3) of section 237A: Provided further that if the person integrates his business with the Board's computerized system before imposition of penalty for second default, penalty for first default shall be waived by the Commissioner	

Condonation of time limit
Section 214A

Before Finance Act 2022	After Finance Act 2022
Where any time or period has been specified under any of the provisions of the Ordinance or rules made there-under within which any application is to be made or any act or thing is to be done, the Board may, in any case or class of cases, permit such application to be made or such act or thing to be done within such time or period as it may consider appropriate	Where any time or period has been specified under any of the provisions of the Ordinance or rules made there-under within which any application is to be made or any act or thing is to be done, the Board may at any time before or after the expiry of such time or period, in any case or class of cases, permit such application to be made or such act or thing to be done within such time or period as it may consider appropriate

This addition clarifies that the power of Board to condone any time limit or period can be exercised at any time before or after the expiry of such time or period.

Disclosure of information by a public servant
Sub-section 2 of Section 216

Before Finance Act 2022	After Finance Act 2022
Notwithstanding anything contained in the Qanun-e-Shahadat, 1984 (P.O. Order No. 10 of 1984), or any other law for the time being in force, no court or other authority shall be, save as provided in this Ordinance, entitled to require any public servant to produce before it any return, accounts, or documents contained in, or forming a part of the records relating to any proceedings under this Ordinance, or any records of the Income Tax Department generally, or any part thereof, or to give evidence before it in respect thereof.	Notwithstanding anything contained in the *Qanun-e-Shahadat*, 1984 (P.O. No. 10 of 1984), the National Accountability Ordinance, 1999 (XVIII of 1999), the Federal Investigation Agency Act, 1974 (VIII or 1975) and the Right of Access to Information Act, 2017 (XXXIV of 2017), or any other law for the time being in force, no court or other authority shall, save as provided in the Ordinance, require any public servant to produce before it any return, accounts, or documents contained in, or forming a part of the records relating to any proceedings under the Ordinance, or declarations made under the Voluntary Declaration of Domestic Assets Act, 2018, the Foreign Assets (Declaration and Repatriation) Act, 2018 or the Assets Declaration Act, 2019 or any records of the Income Tax Department generally, or any part thereof, or to give evidence before it in respect thereof.

Proceeding against authority and persons
Section 216A
The Act has omitted the above-mentioned section which empowered the Board to initiate criminal proceedings against any authority and officer of the Directorate General who willfully and deliberately commits or omits an act which results in under benefit or advantage to the authority or the officer or official or to any other person.

Advance tax on motor vehicles
Section 231B
The word "private" has been removed from this section while definition of motor vehicles has been substituted under sub-section to now read as follows:

Quote "motor vehicle includes car, caravan automobiles, jeep, limousine, pickup, sports utility vehicle, trucks, vans, wagon and any other automobile excluding–

i. a motor vehicle used for public transportation, carriage of goods and agriculture machinery;
ii. a rickshaw or a motorcycle rickshaw and
iii. any other motor vehicle having engine capacity upto 200cc." **unquote**

Collection of advance tax by educational institutions
Section 236I
The Act has omitted the above-mentioned section which required the educational institutions to collect advance tax on the amount of fee paid from a person not appearing on the active taxpayers list.

Payment to residents for use of machinery and equipment
Section 236Q
The Act has omitted the above-mentioned section which required every prescribed person while making payment in full or in part to a resident person for use or right to use industrial, commercial and scientific equipment to deduct tax from the gross amount.

Advance tax on persons remitting amounts abroad through credit or debit or prepaid cards
Section 236Y
A new section namely Advance tax on persons remitting amounts abroad through credit or debit or prepaid cards has been inserted which requires every banking company to collect advance tax, at the time of transfer of any sum remitted outside Pakistan, on behalf of any person who has completed a credit card or debit card or prepaid card transaction with a person outside Pakistan at 1% of the gross amount remitted abroad. The advance tax collected under this section shall be adjustable.

Electronic records
Section 237A
A new sub-section has been inserted whereby in case of an integrated enterprise, no sale shall be made or service shall be rendered, as the case may be, without generating fiscal invoices as prescribed.

Prize schemes to promote tax culture
Section 237B
A new section has been inserted namely Prize schemes to promote tax culture which empowers the Board to prescribe prize schemes to encourage the general public to make purchases, or avail services only from integrated enterprises issuing tax invoices. This section also empowers the Board to prescribe procedure for mystery shopping in respect of invoices issued by integrated enterprises randomly.

The First Schedule
Following changes in tax rates are made in the First schedule to ITO 2001. Some changes already explained in above commentary are not repeated. For more detailed version of applicable tax rates, it is advisable to see our tax rate card.

Rates of Tax
Part-I
Division-I
Clause-II (Rates of tax for Non-Salaried Individuals & Association of Persons)

The Act has revised the tax rates applicable on non-salaried taxpayers and AOPs. While the number of income slab remains unchanged, the basic threshold for non-charging of income tax for non-salaried taxpayers has been increased from PKR 400,000 to PKR 600,000.

Taxable Income	Rate of Tax
Up to PKR 600,000	-
PKR 600,001 – 800,000	5% of amount exceeding PKR 600,000
PKR 800,001 – 1,200,000	PKR 10,000 + 12.5% of amount exceeding PKR 800,000
PKR 1,200,001 – 2,400,000	PKR 60,000 + 17.5% of amount exceeding PKR 1,200,000
PKR 2,400,001 – 3,000,000	PKR 270,000 + 22.5% of amount exceeding PKR 2,400,000
PKR 3,000,001 – 4,000,000	PKR 405,000 + 27.5% of amount exceeding PKR 3,000,000
PKR 4,000,001 – 6,000,000	PKR 680,000 + 32.5% of amount exceeding PKR 4,000,000
Amount exceeding PKR 6,000,000	PKR 1,330,000 + 35% of amount exceeding PKR 6,000,000

Due to such changes, non-salaried taxpayers and AOPs deriving annual taxable income of up to PKR 1.8 million (i.e., monthly income of approximately PKR 150,000) would benefit from the revised rates. However, where annual income exceeds PKR 1.8 million, such taxpayers would be adversely affected by the revised rates.

Clause-II (Rates of tax for Salaried Individuals)

The Act has revised the tax rate for salaried taxpayer. The numbers of income slabs have been reduced from the existing slabs 12 to 7. The following table is enacted for the taxation of salaried taxpayers for the Tax Year 2023.

Taxable Income	Rate of Tax
Where taxable income does not exceed Rs. 600,000	0%
Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000.	2.5% of the amount exceeding Rs. 600,000
Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	15,000+ 12.5% of the amount exceeding Rs. 1,200,000
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
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
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
Where taxable income exceeds Rs.12,000,000	Rs. 2,955,000 + 35% of the amount exceeding Rs. 12,000,000

The enacted tax rates taken away the proposed tax relief sought to be provided to the taxpayer belong to the lower salaried class. On the other hand, tax rate enacted has been increased for the individuals belonging to higher salary income. The following table provides the comparison between different amounts of salaries taxed at current tax rates and tax liability as per tax approved by the Finance Act.

Sr. No.	Annual Taxable Salary (Rs.)	Annual Tax Liability		
		Existing rates	Approved rates	Increase/(Decrease)
1	600,000	0	0	-
2	1,200,000	30,000	15,000	(15,000)
3	1,800,000	90,000	90,000	-
4	2,500,000	195,000	185,000	(10,000)
5	3,500,000	370,000	385,000	15,000
6	5,000,000	670,000	755,000	85,000
7	8,000,000	1,345,000	1,655,000	310,000
8	12,000,000	2,345,000	2,955,000	610,000
9	30,000,000	7,295,000	9,255,000	1,960,000
10	50,000,000	13,295,000	16,255,000	2,960,000
11	75,000,000	21,420,000	25,005,000	3,585,000

Division II
Rates of Tax for Companies

Types of Companies	Rate of Tax
Small Company	20%
Banking Company	39%
Any Other Company	29%

The rate of small companies through finance Act has been reduced to 20% from the existing rate of 21% whereas for banking company, there is a substantial increase in tax rates from 35% to 39%. The rate for other companies remains unchanged.

Division IIA:
In Division IIA, following change is made through this finance Act, against Serial No. 1, in heading of column (6), for the expression "Tax Year 2021 and onwards", the expression "Tax Years 2021 and 2022", shall be substituted.

Division IIB:
Super Tax on high earning persons:
The Act has changed the title of Section 4C which now reads as "Super tax on high earning persons". Super tax shall be levied at following rates:

Sr. No.	Income Under Section 4C	Rate of Tax
1	Exceeding PKR 150 million to PKR 200 million	1%
2	Exceeding PKR 200 million to PKR 250 million	2%
3	Exceeding PKR 250 million to PKR 300 million	3%
4	Above PKR 300 million	4%

The Finance Act further provides that the rate of Super Tax would be 10% for the persons, where the income exceeds Rs. 300 million for the tax year 2022, who are engaged, whether partly or wholly in the business of

- Airlines
- Automobiles
- Beverages
- Cements
- Cigarette and Tobacco
- Fertilizer
- Iron and Steel
- LNG Terminal
- Oil Marketing
- Oil Refining
- Petroleum and Gas Exploration and Production
- Pharmaceuticals
- Sugar
- Textiles

For tax year 2023, 10% rate of super tax is prescribed for banking companies where income exceeds Rs.300 million.

Division IV:

Rate of Tax on Certain Payments to Non-Residents:

"The rate of tax imposed under section 6 on payments shall be 15% of the gross amount of royalty or fee for technical services and 10% in any other case."

Division VII:

Tax Rates on Disposal of Securities:

Holding Period	**New Rates**
Less than 1 year	15%
1 to 2 years	12.5%
2 to 3 years	10%
3 to 4 years	7.5%
4 to 5 years	5%
5 to 6 years	2.5%
More than 6 years	0%

The reduced rates of tax as per above table on capital gain arising on disposal shall apply where the securities are acquired on or after the first day of July, 2022.

Presently, gain on disposal of securities is chargeable to tax at the rate of 12.5 per cent for tax year 2022 and onwards where the securities are acquired on or before the 30th day of June, 2022 irrespective of the holding period.

The rate of tax for future commodity contracts entered into by member of Pakistan Mercantile Exchange is 5%.

The rate of tax in respect of debt securities shall be as specified in Division II, Part I of First Schedule i.e., 20% for small companies, 39% for banking companies and 29% for other companies.

Further a mutual fund or a collective investment scheme or a REIT scheme shall deduct Capital Gains Tax at the rates as specified below, on redemption of securities as prescribed namely:

Category	**Rate**
Individual & AOP	10% of stock funds & other funds
Companies	10% of stock funds and 25% of other funds

In case of a stock fund if dividend receipts of the fund are less than capital gains, the rate of tax deduction shall be 12.5%. However, no capital gain shall be deducted where the holding period is more than six years. This proviso shall be applicable only in case of mutual fund or collective investment scheme or REIT scheme.

Reduced rate of tax withholding for certain services
Section 153
Rate of tax withholding on payments against rendering of services is 8 per cent. A reduced rate of 3 per cent is specified for certain service providers. Through this bill such reduced rate of 3 per cent for REIT Management services and services rendered by National Clearing Company of Pakistan.

PART-IV:
Division-III:
Advance tax on passenger transport vehicles:
Presently, advance tax on passenger transport vehicles plying for hire is collected on a uniform basis based on the seating capacity. Through this Act, advance tax on such vehicles as under:

Capacity Engine	Existing Rate	New Rates	
		Air Condition	Non-Air-Condition
4 to 9 Passenger	Rs. 50	Rs. 1000	Rs. 500
10 to 19 people	Rs. 100	Rs. 2000	Rs. 1500
20 or more person	Rs. 300	Rs. 4000	Rs. 2500

Advance tax on motor vehicles
Section 231B

Advance tax at the time of registration/ sale by manufacturer	
Engine Capacity	**Tax**
Engine capacity upto 850CC	10,000
Engine capacity more than 851CC and less than 1,000CC	20,000
Engine capacity more than 1,001CC and less than 1,300CC	25,000
Engine capacity more than 1,301CC and less than 1,600CC	50,000
Engine capacity more than 1,601CC and less than 1,800CC	150,000
Engine capacity more than 1,801CC and less than 2,000CC	200,000
Engine capacity more than 2,001CC and less than 2,500CC	300,000
Engine capacity more than 2,501CC and less than 3,000CC	400,000
Engine capacity more than 3,000CC	500,000
In cases where engine capacity is not applicable, and value of vehicle is Rs. 5 million or more:	
Imported vehicle	3% of the import value as increased by customs-duty, sales tax, and federal excise duty
Locally manufactured or assembled	3% of the invoice value
Advance tax on transfer of motor car/jeep	
Engine capacity upto 850CC	-
Engine capacity more than 851CC and less than 1,000CC	5,000
Engine capacity more than 1,001CC and less than 1,300CC	7,500
Engine capacity more than 1,301CC and less than 1,600CC	12,500
Engine capacity more than 1,601CC and less than 1,800CC	18,750
Engine capacity more than 1,801CC and less than 2,000CC	25,000
Engine capacity more than 2,001CC and less than 2,500CC	37,500
Engine capacity more than 2,501CC and less than 3,000CC	50,000
Engine capacity more than 3,000CC	62,500
In cases where engine capacity is not applicable, and value of vehicle is Rs. 5 million or more	20,000
Locally manufactured motor vehicle sold prior to registration	
Engine capacity up to 1000CC	50,000
Engine capacity more than 1001 CC and less than 2000CC	100,000
Engine capacity more than 2001CC	200,000

DIVISION XA
Advance tax on advertisement
Through this finance Act, advance tax on commercial for advertisement starring foreign actors is reduce from Rs. 500,000 per second to Rs. 100,000 per second.

AMENDMENTS IN SECOND SCHEDULE

Part I – Exemption from payment of tax

Clause (5) allowances outside Pakistan

Previously, any allowance or perquisite paid or allowed as such outside Pakistan by the Government to a citizen of Pakistan for rendering service outside Pakistan was exempt from tax. Through this Act, the said exemption has been withdrawn.

Clause 23B Individual Pension Account

At present, the amounts received as monthly installment from an income payment plan invested out of the accumulated balance of an individual pension accounts with a pension fund manager or an approved annuity plan or another individual pension account of eligible person or the survivors pension account maintained with any other pension fund manager as specified in the Voluntary Pension System Rules 2005 are exempt from tax provided that accumulated balance is invested for a period of ten years. Through this Act, the said exemption has been withdrawn.

Clause 66 Exemption to Approved Non- Profit Organizations

Presently, any income derived by the institutions, foundations, societies, boards, trusts and funds listed in Table-1 to the clause 66 shall be exempt from tax.

The Act includes the following institutions, foundations, societies, boards, trusts and funds in the list of Table 1:
i) Pakistan Mortgage Refinance Company Limited
ii) The Pakistan Global Sukuk Programme Company Limited
iii) Karandaaz Pakistan from tax year 2015onwards
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

Further, the following Organizations have been extended tax exemption subject to fulfillment of conditions specified in section 100C:

(i) Burhani Qarzan Hasnan Trust;
(ii) Saifee Hospital Karachi; and
(iii) Safiyah Girls Taalim Trust.

Clause 99 Exemptions to Collective investment scheme or REIT

Exemption to collective investment scheme or REIT is available subject to distribution of 90% income as reduced by capital gains. Now accumulated losses are also allowed to be adjusted before distribution of 90% income.

Clause 126EA STZA

Through this Act, ‘Special Technology Zones Authority Ordinance, 2020’ has been replaced with ‘Special Technology Zones Authority Act, 2021 (XVII of 2021)’ wherever stated under Clause 126EA.

Clause 150 Exemption to Specified Industries

The Act introduce the exemption on 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.

Clause 151 Exemption to Specified Industries
The act has introduced the exemption on income derived by a person from cinema operations for five years from the commencement of cinema operations.

Clause 152 Exemption to Specified Industries
The act has introduced the exemption for 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.

Clause 153 Exemption to Specified Industries
The act has introduced the exemption on 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.

Part II Reduced rate of tax
Clause 24C & 24D Part II, Second Schedule:
The Act reduces rate of tax under clause (a) of sub-section (1) of section 153 and minimum tax under section 113 to 0.25% on steel provided that beneficiary is appearing on ATL and integrated with Board;

Clause 31 Part II, Second Schedule:
The rate of tax under clause (a) of sub-section (1) of section 153 shall be 1% on payment for sale of gold and silver and articles thereof and the tax so deducted shall be adjustable

Part III – Reduction in tax liability

Clauses (1) and (1AA), Part III of the Second Schedule
Special Rates of Tax for Flying, Submarine and Total Allowances Withdrawn
Any amount received as flying allowance by the flight engineers, navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority, Junior Commissioned Officers or other ranks of Pakistan Armed Forces and submarine allowance received by officers of Pakistan Navy is being taxed at the reduced rate of 2.5% subject to the condition that reduction shall be available to respective allowance that does not exceed the basic salary of the person.

Similarly, total allowances received by a pilot of any Pakistani airlines are taxable at the reduced rate of 7.5% by virtue of Clause (1AA), subject to the condition that reduction shall be available to so much of the allowance as exceeds an amount equal to basic pay.

The above benefits have been withdrawn and the above allowances will be taxable as part of salary income.

Clause (6) Tax rates on Bahbood certificates
The tax rate from income of Behbood Saving Certificate has been reduced from 10% to 5%

Clause (20) Investment in Federal Government securities
Previously, the tax payable in respect of profit on debt from investment in Federal Government securities was fifteen percent of the gross amount of the profit on debt whereby the tax so payable was final tax. The said clause has been omitted through this Act.

Part IV Exemption from specific provisions
Clause 11A Minimum tax exemption to Mobile phone manufacturers
The exemption has been provided from minimum tax under section 113 to Mobile phone manufacturers engaged in the local manufacturing of mobile phone devices.

New clauses introduced

(12BA) The provisions of section 148 shall not apply on import of thirty million adult 3xPly Knit face masks received as humanitarian assistance from M/s HANES Brands Inc. 96 North Carolina, USA for distribution within the population of Lahore Division, Government of the Punjab.”;

(12O) The provisions of section 148 shall not apply on import of drones donated by Ministry of Agriculture and Rural Affairs (MARA), Government of China to Pakistan through Sea Route.

(12P) The provisions of section 148 shall not apply on import of machinery and equipment as listed in S. No 32 of Part-I of Fifth Schedule to the Customs Act, 1969 subject to the same conditions and limitations as specified therein.

(43H) The provisions of clause (b) of sub-section (1) of section 153 shall not apply to 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

(60DA) Through this Act, ‘Special Technology Zones Authority Ordinance, 2020’ has been replaced with ‘Special Technology Zones Authority Act, 2021 (XVII of 2021)’ wherever stated under Clause 60DA.

Clause (95),(96), (97A)

Exemption to Pakistan global Sukuk Program

The Act has provided exemptions from sections 147, 151, 152, 236A and 236K as a payer and from sections 151, 153, 155 & 236C as a receiver to the Second Pakistan International
Sukuk Company Limited, the Third Pakistan International Sukuk Company Limited and The Pakistan Global Sukuk Programme Company Limited.

The provisions of sections 37, 236C and 236K shall not apply to National Highway Authority in respect of transfer of immovable property to the Pakistan Global Sukuk Programme Company Limited and in respect of transfer of immoveable property to National Highway Authority from the Second Pakistan International Sukuk Company Limited or the Pakistan Global Sukuk Programme Company Limited

Immunity from audit - Clause (105A) Part IV

The Act has provided immunity from audit under section 177 and 214C to a person whose income tax affairs have been audited in any of the preceding four tax years. However, the Commissioner may select the person for audit with approval of the Board.

Clause (111AC) The provisions of section 100BA and rule 1 of the Tenth Schedule shall not apply to non-resident individual 99 holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) in respect of transactions on which tax is collectible under section 236C and 236K of the Ordinance.

(120) The provisions of Divisions II and III of Part V of Chapter X and Chapter XII of the Ordinance for deduction or collection of withholding tax shall not apply to the persons mentioned in Table 1 of clause (66) of Part I of the second schedule as recipients of payment: Provided that such persons shall continue to perform functions as withholding and collecting agent under the aforesaid provisions.

Clause 86 omitted

Previously the exemption to provisions of section 111 was available on investment made by an individual in green field industrial undertaking, association of persons in an industrial undertaking and investment made by a company in an industrial undertaking if the said investment is made on or after the 1st day of January, 2014 and commercial production commences on or before the 30th day of June, 2019. The Finance Act 2022 has omitted the said clause.

SEVENTH SCHEDULE

In rule 6C, sub-rule 6A has been substituted as follows:

Quote "(6A) For tax year 2022 and onwards, the taxable income attributable to investment in the Federal Government securities shall be taxed at the rate of:

(i) 55% instead of rate provided in Division II of Part I of the First schedule if the gross advances to deposit ratio as on last day of the tax year is upto 40%;
(ii) 49% instead of rate provided in Division II of Part I of the First schedule if the gross advances to deposit ratio as on last day of the tax year exceeds 40% but does not exceed
50%; and
(iii) at the rates provided in Division II of Part I of the First schedule if gross advances to deposit ratio as on last day of the tax year exceeds 50%.

Explanation. - For the removal of doubt, it is clarified that the tax rate under this sub-rule is applicable to total income attributable to total investment in Federal Government securities **Unquote**

TENTH SCHEDULE

In case of a person whose name is not appearing in active taxpayer list, rate of tax to be collected under section 231B (advance tax on private motor vehicles) shall be increased by 200%.

In case of a person whose name is not appearing in active tax payer list, the rate of collection of tax under section 236K (advance tax on purchase of immovable property) shall be increased by 250%.

Furthermore, the 100% extra tax is not applicable to the tax deducted for export of services under section 154A of the ordinance.

TWELFTH SCHEDULE

Table of Items for Application of Tax on Imports

The rate of advance tax on items falling within Part II of the Twelfth Schedule has been increased from 2% to 3.5% for commercial importers

The Act has amended the Twelfth Schedule to the Ordinance, as under

PART-I

PCT code 72.04 and entries related thereto (Ferrous waste and scrap; remelting scrap ingots of iron or steel) has been omitted and inserted in Part II.

Following entries have been omitted from Part I and inserted in Part I hence are subject to 1% advance tax on the import value as increased by customs-duty, sales tax and federal excise duty –

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.

PART-II

Apart from omission of entries referred above, following entries have been inserted and are subject to advance tax at 2% on the import value as increased by customs-duty, sales tax and federal excise duty:

3919.9020	PVC electric insulation tapes in logs exceeding 100 cm

72.04	Ferrous waste and scrap; remelting scrap ingots of iron or steel.

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 Metad Clad Printed Circuit Boards (MCPCB) for all kinds of LED Bulbs
8539.9090	Housing/Shell, Shell Cover and Base Cap for all Kinds of LED Bulbs
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.

THIRTEENTH SCHEDULE

Table 1

All entities mentioned in Table-I of clause (66) of Part-I of the Second Schedule of the Ordinance have been added in the Table-1, Thirteenth Schedule.

Effectively, for those charitable organizations appearing in thirteenth schedule, section 61 provides a tax credit to taxpayer who pay donation to such organizations. Finance Act 2022 enhances the list of charitable organizations by including all those organizations appearing in table 1 of clause 66 of part 1 of second schedule.

AMENDMENTS IN SALES TAX ACT, 1990

The following are the changes made to Sales tax Act, 1990 through Finance Act 2022:

Production, Transmission and Distribution of Electricity
Section 2(12) and Section 2(33)
An expression ***"production, transmission and distribution of electricity"*** is added in the definitions of "Goods" and "Supply" under Section 2(12) and under Section 2(33) of the Sales Tax Act, 1990 respectively.

Apparently, pursuant to a recent decision of the Sindh High Court (SHC) where, the distribution of goods was classified as a service in certain conditions, these amendments may have been introduced to strengthen the case of the Federal Government i.e., the mere distribution and transmission of electricity is liable to Federal Sales Tax, being a supply of taxable goods.

Fee and Service Charges
Section 2(29A)(b) and Section 76
The Finance Act, 2022 exclude "fees and service charges levied under Section 76" from the scope of sales tax, aimed at providing legal protection to the fee of PKR 1, recently levied by the FBR under Section 76 of the Sales Tax Act, 1990 on issuance of POS invoices.

Tier-1 Retailer
Section 2(43A)
The Finance Act, 2022 broaden the scope of Tier-1 retailer as defined in section 2(43A) by including persons engaged in the supply of articles of jewelry, or parts thereof, of precious metal, or of metal clad with precious metal, other than retailers whose shop area does not exceed to the extent of three hundred square feet.

Value of supply
Section 2(46)
An explanation has been added to clarify that the subsidy provided by the Federal Government or Provincial Governments to the electricity consumers shall not be included in the value of supply and has never been chargeable to sales tax.

Further Tax
Section 3(1A)
Further tax at the rate of 3% is charged, levied and paid on taxable supplies made to a person who has not obtained a Sales Tax Registration Number. However, the Finance Act, 2022 broaden the scope of further tax by imposing such tax on taxable supplies made to a registered person, who is not an active taxpayer.

Withholding agent
Section 3(7)
Section 3(7) requires any person being purchaser of goods/services to act as a withholding agent. Now a new amendment has been introduced through Finance Act, 2022 in Section 3(7) and requirement of withholding on purchase of services liable to pay sales tax under the provincial enactment is excluded. This amendment is clarificatory in nature to avoid disputes created by the tax officers for payment of sales tax on non-withholding of sales tax on services subject to the levy of provincial sales tax. Moreover, operator of online market place is made liable to withhold sales tax where online market place facilitates sale of third-party goods. However, this provision will become effective from the date to be notified by FBR.

Retailers
Section 3(9)

Currently, sales tax is charged from retailers (other than Tier-1 retailers) through monthly electricity bills as per the rates applicable on the value of supply of electricity as prescribed below:

Monthly Electricity Bill	Existing Rate of Sales Tax
Does not exceed PKR 20,000	5%
Exceeds PKR 20,000	7.50%

The Finance act 2022 substitutes the rates of sales tax with the following fixed slabs of Sales Tax:

Monthly Electricity Bill	New Monthly Sales Tax
Does not exceed PKR 30,000	PKR 3,000 per month
Exceeds PKR 30,000 but does not exceed PKR 50,000	PKR 5,000 per month
Exceeds PKR 50,000	PKR 10,000 per month

FBR may prescribe persons or class of persons, through a general order, who shall pay tax up to Rs. 200,000 per month through their monthly electricity bills.

A new proviso has been introduced through Finance Act, 2022 in sub-section 3(9) whereby it is provided that rates of tax shall be increased by one hundred percent if the name of person is not appearing in active taxpayers list issued by FBR for income tax purposes (under section 181A of the Ordinance) on the date of issuance of monthly electricity bill.

Online Integration
Section 3(11)

Through Finance Act, 2022 sub-section 11 is inserted in Section 3 of the Sales Tax Act, 1990 to provide a general power to the FBR to require any person or class of persons, to integrate their invoice issuing machines with the FBR's Computerized System for real-time reporting of sales.

Time and Manner of Payment
Section 6(5)

Through Finance Act, 2022 a new Sub-section 5 is inserted to Section 6 of the Sales Tax Act, 1990 whereby the Federal Government, through a notification, may allow the payment of Sales Tax on an installments basis by the Federal or Provincial Governments, or any public sector organization on the import or supply of any goods or class of goods. This facility may be allowed subject to any conditions, limitations and from any previous date, as specified in the notification.

Invoicing and Tax Credit not Allowed
Section 23(1)(b) and Section 8(1)(m)

Clause (b) of Sub-section 1 of Section 23 of the ST Act requires a registered person to mention the NIC number or the NTN of the recipient in case of supplies made to unregistered persons. Moreover, Section 8(1)(m) of the ST Act provides that a registered person is not entitled to claim or deduct input tax paid on goods or services attributable to supplies made to unregistered persons, on a pro-rata basis, where the sales invoices do not mention the NIC number or NTN, as stipulated under Section 23 of the ST Act.

Through Finance Act, 2022 requirements of mentioning NTN or NIC number under Section 23(1)(b) is now restricted to supplies made by a manufacturer or importer to unregistered distributors. Similarly, bar on deduction of input tax as placed under Section 8(1)(m) has been restricted to supplies made to unregistered distributors.

Adjustable Input Tax

Section 8B(1)

Section 8B(1) restricts the adjustment of input tax to the extent of 90% of the output tax in relation to a tax period. Through the Finance Act, 2021, an exception to the above restriction was introduced for public limited companies listed on the Pakistan Stock Exchange.

Through Finance Act, 202 public limited companies listed on the Pakistan Stock Exchange will not be able to adjust their input tax, in excess of 90% of their output tax, for a tax period (earlier they are exempted from this 90% restriction).

Discontinuance of Gas and Electricity Connections

Section 14AB

Finance Act, 2022 adopted the proposal made through the Tax Laws (Third Amendment) Ordinance, 2021 dated 15 September 2021, where a new Section 14A was inserted empowering the FBR to discontinue the supply of gas and electricity to the following persons, while notifying the gas and electricity distribution companies:

Persons	Reasons
Any person including Tier-1 retailers	Fails to register for Sales Tax purposes
Registered Tier-1 retailers	Not integrated with the FBR's Computerized System

Subsequently, upon due registration or integration by such persons, FBR may also issue orders for restoration of their gas and electricity connections.

Offences and Penalties

Sr No.24 of the Table in Section 33

Serial No. 25 of the Table of Section 33 is amended through Finance Act, 2022 whereby expression "Sub-section (9A)" was replaced with expression "Section 40C" through the Tax Laws (Third Amendment) Ordinance, 2021. The aforementioned amendment is now part of the law through the Act.

Moreover, Serial no. 25A has been substituted to read as follows (effectively endorsing provisions introduced through previous amendment ordinances/ acts).

Offence	Penalty	Section of The Act to Which Offence Has Reference
25AB. A person required to integrate his business as stipulated under Subsection (9A) of section 3, who fails to get himself registered under the Act, and if registered, fails to integrate in the manner as required	Such person shall be liable to pay: (i) penalty of five hundred thousand rupees for first default; (ii) penalty of one million rupees for second default after fifteen days of order for first default; (iii) penalty of two million rupees for third default after fifteen days of order for second default; (iv) penalty of three million rupees for fourth default after fifteen days of order for third default: Notwithstanding above, the business premises of such person shall be liable to be sealed by an officer of Inland Revenue in the manner prescribed.	Sub section (9A) of section 3

Alternate Dispute Resolution
Section 47A
In line with changes in ITO 2001, similar changes have been made in Sales tax act 1990 in relation to mechanism of alternate dispute resolution. See commentary under Income Tax Ordinance, 2001.

Condonation of time limit
Section 74
Changes similar to section 214A of ITO 2001 are made in section 74 of Sales tax act 1990. See commentary for section 214A.

Third Schedule
Section 3(2)(a)
The Third Schedule lists down the goods that are subject to sales tax at retail price. Through the Finance Act, serial # 7 has been modified and reference of relevant headings is replaced with specific code while Serial No. 32 of the Third Schedule related to fertilizer has been omitted.

Moreover, the Act has provided exemption on the import or local supply of fertilizers by introducing Serial No. 168 in the Sixth Schedule.

Fifth Schedule
Section 4
Zero rating of fat filled milk introduced through Tax Laws (Third (Amendment) Ordinance, 2001 is ratified by Finance Act 2022.
Serial number 19 omitted to abolish zero rating regime for pharma sector.

Serial # 21 inserted to provide zero rating for Local supplies of raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021. Notifications, conditions and restrictions are to be issued by FBR.

Sixth Schedule
Section 13

Table 1 (on import and local supplies)

- The Sixth schedule deals with exemptions of goods from levy of sales tax. The Finance Act, 2022 amend the following serials numbers (introduced amendments are highlighted):

S. No	Existing		New	
	Description	**Tariff Heading**	**Description**	**Tariff Heading**
13	Edible vegetables imported from Afghanistan including roots and tubers, except ware potato and onions, whether fresh, frozen or otherwise preserved (e.g., in cold storage) but excluding those bottled or canned	Not reproduced here due to large number	Same description	Omitted tariff headings “0709.5910, 0709.5990”
32	Newsprint and educational textbooks but excluding brochures, leaflets and directories	4801.0000, 4901.9100, 4901.9990 and 4903.0000	Newsprint and books but excluding brochures, leaflets and directories	Respective headings
137	Paper weighing 60 g/m2, art paper and printing paper for printing of Holy Quran imported by Federal or Provincial Governments and Nashiran-e-Quran as per quota determined by IOCO	4802.5510, 4810.1990, 4810.1910 and 4802.6990	Paper weighing 60 g/m2, art paper, printing paper and art card for printing of Holy Quran imported by Federal or Provincial Governments and Nashiran-e-Quran as per quota determined by IOCO	4802.5510, 4810.1990, 4810.1910, 4802.6990 and 4810.2900

- Further, the Finance Act amended the reference to tariff headings in Serial 45, 120 and 133. Accordingly, scope of exemption available on dextrose and saline infusion, diagnostic kits and pesticides would be extended to other classifications of these goods.

- Following serial numbers have been inserted:

S. No.	Detail	Section
163	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: Provided that such goods are charged to zero-rate of CD under the Customs Act, and the conditions laid therein. Provided further that exemption under this serial shall be available with effect from the 15 January, 2022.	99.01, 99.02, 99.03 and 99.06
164	Photovoltaic cells whether or not assembled in modules or made up into panels	8541.4200 and 8541.4300
165	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.	99.13 and 99.14
166	Goods excluding electricity and natural gas supplied to hospitals run by the charitable hospitals of fifty beds or more.	Respective Headings
167	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 CD such goods under the Customs Act.	99.19, 99.20 and 99.21
168	Fertilizer	Respective headings
169	Oil cake and other solid residues (see note below)	Respective Headings
170	Tractor (see note below)	8701.9220 and 8701.9320
171	Seeds for sowing	Respective headings
172	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	Respective headings
173	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. (See note below)	Respective headings
174	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. (See note below)	Respective headings

Notes

- **Tractors:** Supply of agricultural tractor is subject to sales tax at reduced rate of 5% under Serial No.25 of Eighth Schedule to the ST Act. The Finance Act, 2022 exempts the import or local supply of tractors from levy of sales tax. Exemption provided to tractors has now been re-numbered to Serial No. 170 instead of 168.

- **Oil Cake and Other solid residues** were exempted through Serial No. 155 of Sixth Schedule. Such exemption was withdrawn through the Finance (Supplementary) Act, 2022. Now, the Finance Act, 2022 has restored exemption on import and local supplies of Oil Cake and Other solid residues.

- Earlier, **re-importation of locally manufactured goods** was exempted which was withdrawn through the Finance (Supplementary) Act, 2022. Now, the Finance Act, 2022 has restored exemption on re-importation of locally manufactured goods.

- Import of various **cinematographic machinery and equipment** which fall under Serial no 32 of the Table-I of Fifth Schedule to the Customs Act 1961 has been declared as exempt through the Act.

<u>Table 2 (Local Supplies)</u>

- The following modifications have been made in table 2:

S. No	Existing		New	
	Description	**Tariff Heading**	**Description**	**Tariff Heading**
7	"Breads, vermicillies, nans, chapattis, sheer mal, bun and rusk excluding those sold in bakeries, restaurants, food chains and sweet shops falling in the category of Tier-1 retailers.	Respective headings	~~Breads,~~ vermicillies, ~~nans, chapattis,~~ sheer mal, bun and rusk excluding those sold in bakeries, ~~restaurants, food chains~~ and sweet shops falling in the category of Tier-1 retailers.	Respective headings
11	Supply of ware potato and onion	0701.9000 and 0703.1000	Omitted	Omitted
32	Yogurt, excluding that sold in retail packing under a brand name	0403.1000	Yogurt, excluding that sold in retail packing under a brand name	Respective headings
45	Edible vegetables including roots and tubers, except ware potato and onions, whether fresh, frozen or otherwise preserved (e.g., in cold storage) but excluding those bottled or canned.	A large number of headings not reproduced here.	Edible vegetables including roots and tubers~~, except ware potato and onions,~~ whether fresh, frozen or otherwise reserved (e.g., in cold storage) but excluding those bottled or canned	Respective headings
52	-	-	Raw hides and skins	Respective headings
53	-	-	Prepared food or foodstuff supplied by Restaurants and caterers	Respective headings
54	-	-	All types of breads, nans and chapattis	Respective headings

Table 3 (Plant, Machinery, Equipment and Apparatus, including Capital Goods)

- The Finance Act, 2022 inserted the following entry in Table 3 of the Sixth Schedule for granting exemption on imports:

S. No.	Description	Tariff Heading	Conditions
22	1. Machinery, equipment and spares meant for initial installation, balancing, modernization, replacement 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 15 January 2022. Construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the construction of project.	Respective headings	(i) This concession shall also be available to primary contractors of the project upon fulfilment of the following conditions, namely: (a) the contractor shall submit a copy of the contract or agreement under which he intends to import the goods for the project; (b) the Chief Executive or head of the contracting company shall certify in the prescribed manner and format as per Annex-A that the imported goods are the projects bona fide requirement; and (c) the goods shall not be sold or otherwise disposed of without prior approval of the FBR on payment of sales tax leviable at the time of import; (ii) 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.

Table 4 Border Sustenance Markets

- In serial # 80, tariff heading 0403.2000 is added.

<u>Eighth Schedule</u>
Section 3(2) (aa)
The Eighth Schedule lists down the goods that are subject to sales tax at reduced rate or specified rate subject to such conditions and limitations as specified therein.

- Serial # 25 omitted i.e., reduced rate (5%) on tractors replaced by exemption under Sixth Schedule (S#170).
- Serial # 52 omitted i.e., reduced rate (2%) on fertilizer replaced by exemption under Sixth Schedule (S#168).
- Serial # 60 omitted i.e., reduced rate (10%) on fat filled milk replaced by zero rating under Fifth Schedule (S#.17)
- Serial # 75 omitted i.e., reduced rate (5%) on import of electric vehicles in CBU condition now replaced by full rate of 17%.
- Serial # 47 modified i.e., fixed rate for locally produced coal has been enhanced to 700 per metric ton (425 was earlier rate) or 17% ad valorem, whichever is higher.
- Serial # 56 modified – earlier rate for Potassium Chlorate (KCLO3) was 17% along with PKR 90/ kg, new rate 17% along with PKR 60/ kg.

Following new entries are made after serial # 77:

S. No.	Description	Tariff Heading		Conditions
78	Supply of articles of jewelry, or parts thereof, of precious metal or of metal clad with precious metal.	71.13	3%	No input tax shall be adjusted
79	Electric vehicle in CBU condition of 50 kwh battery or below	8703.8090	12.5%	
80	EV transport buses of 25 seats or more in CBU condition	Respective Heading	1%	
81	Manufacture or import of substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976)	Respective heading	1%	Subject to the conditions that: (i) Tax charged and deposited by the manufacturer or importer, as the case may be, shall be final discharge of tax in the supply chain (ii) No input tax shall be adjusted by the manufacturer or importer
82	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.	Respective heading	1%	Subject to the conditions that: (i) DRAP shall certify item-wise requirement of manufacturers of drugs and APIs and in case of import shall furnish all relevant information to Pakistan Customs Computerized System; and (ii) No input tax shall be adjusted by the manufacturer or importer.

- **Note on Pharma Sector**
  Serial no. 19 of the Fifth Schedule
  Serial no. 81 and 82 of the Eight Schedule
  - Serial # 104 & 105 provided exemption to substance registered as drug under the Drugs Act, 1976 and raw materials for the basic manufacture of pharmaceutical active ingredients and for manufacture of pharmaceutical products.
  - The Finance (Supplementary) Act, 2022 withdrew exemption and made import & supply of pharmaceutical products subject to zero rating regime by inserting Serial No. 19 to the Fifth Schedule of the Act while active pharmaceutical ingredients or raw materials for manufacture of drugs had become taxable at standard rate of 17%. Resultantly, significant refunds became due to pharmaceutical sector and their cashflows were directly affected.
  - Now through the Finance Act 2022 Serial No. 19 of the Fifth Schedule has been omitted and new Serial Nos. 81 & 82 have been introduced in Table 1 of the Eighth Schedule.
  - The rate of sales tax on active pharmaceutical ingredients meant for the manufacturing of drugs or raw materials for the basic manufacture of pharmaceutical active ingredients is levied at the rate of 1% without adjustment of input tax. Similarly, the import of substances registered as drugs would also be subject to 1% sales tax at import stage. The supply of locally manufactured or imported drugs are also now subject to sales tax at the rate of 1% without adjustment of input tax.
  - Moreover, the tax charged or deposited by manufacturer or importer would be the final discharge of tax in the supply chain. Effectively, wholesalers/distributors or retailers dealing only in supply of drugs once again have been excluded from the sales tax regime.

Eleventh Schedule

Section 3(7)

Eleventh Schedule provides for responsibilities & rates for sales tax withholding by payers. The following changes have been made by Finance Act 2022:

- Companies exporting surgical equipment have been excluded from list of withholding agents at serial # 04 of the Table.
- Tariff heading "8548.1010" and "8548.1090" has been replaced with "respective headings" at serial # 07 where prescribed withholding agents are "Registered persons manufacturing lead batteries".
- The rate of withholding tax by operators of online market place is reduced from 2% to 1%.

Twelfth Schedule

Section 7A (2)

Twelfth Schedule to the ST Act levies minimum value addition tax at the rate of 3% at import stage however such minimum value addition tax is exempt on import of raw materials and intermediary goods imported by a manufacturer for in-house consumption. The exemption is now withdrawn on import of compressor scrap (tariff heading 7204.4940), motor scrap (tariff heading 7204.4990) and copper cable cutting scrap (tariff heading 7404.0090).

AMENDMENTS IN ICT (TAX ON SERVICES) ORDINANCE, 2001

- The Finance Act has reduced the rate of tax on services to 15% currently subject to tax at the rate of 16% under table 1 of the schedule to the Ordinance, except service provided by "Software or IT-based system development consultant".

- The rate of tax on services of call centers (Sr. No. 42) has reduced to 15% currently subject to tax at the rate of 17%.

- The Act has substituted the description of "IT services and IT-enabled services" at Sr. No 11 in Table 2 of the Schedule in ICT Ordinance 2001, with "services provided by software or IT-based system development consultants".

- The Act has included the services of "Farmhouses", "Restaurants" and "Supplier of food and drinks" in purview of sales tax under Islamabad Capital Territory (Tax on Services) Ordinance 2001.

- The below entries in Sr. No. 01 have substituted in table 1 of the schedule to the Ordinance.

Previous			Modified		
Description	PCT Heading	Rate of Tax	Description	PCT Heading	Rate of Tax
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.	9801.1000 9801.3000 9801.4000 9801.5000 9801.6000	16%	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.	98.01	15%

Withdrawal of reduced rate on IT & IT enabled services:

The Finance Act withdraw “IT services and IT-enabled services” and the reduced rate of 5% thereon from Table 2 of the schedule to the ICT Ordinance 2001. After the amendments the scope of 5% tax rate is limited to only “services provided by software or IT-based system development consultants”.

The below entry in Sr. No. 11 has substituted in Table-2 of the schedule to the Ordinance.

Previous			Modified		
Description	PCT Heading	Rate of Tax	Description	PCT Heading	Rate of Tax
Services provided by software or IT-based system development consultants.	9815.6000	16%	Services provided by software or IT based system development consultants.	9815.6000	5%

Through the Finance Supplementary Act 2022, the category of IT services and IT-enabled services and the reduce rate of 5% was added to the Table-2 of the schedule to the ICT Services Ordinance 2001.

There is a view by some consultants that IT & IT-enabled services are exempt from tax in Islamabad.

However, we understand that neither it was legislative intent nor FBR supports “exempt interpretation” hence litigation is highly likely leading to hefty litigation cost. It is pertinent to note that if the “exempt view of some consultants is taken to be correct than it means that the Government has imposed 5% rate on core IT services i.e., Services provided by software or IT based system development consultants while other IT & IT enabled services are exempted which in our humble opinion is not legislative intent.

FEDERAL EXCISE ACT, 2005

Definition
Section 2(9)
The definition of duty is modified to exclude "fee and service charges imposed and collected under section 49".

Proceedings against authority and persons
Section 19A
This section has been omitted.

Alternate Dispute Resolution
Section 38
Like ITO 2001 and Sales Tax Act 1990, provisions relating to alternate dispute resolution have been modified.

Removal of difficulties and condonation of time limit
Section 43
Like ITO 2001 and Sales Tax Act 1990, provisions relating to condonation of time limit have been modified.

Uniforms
Section 50
Like ITO 2001 and Sales Tax Act 1990, provisions relating to staff uniform have been inserted.
Amendments in the First Schedule:
Following Changes have been made in the first schedule in the federal excise Act, 2005.

Table-1

Sr. NO.	Description	Change
8a	E-Liquids for E cigarette kits	Current rate "Rupees ten pe ml" changed to "Rupees ten thousand per Kg"
9	Locally Produced Cigarettes if their on pack printed retail price exceeds five thousand nine hundred and sixty rupees per thousand cigarettes.	Current description "Rupees five thousand Nine hundred and sixty" changed to "six thousand six hundred and sixty" Rate of duty changed from "Rupees five thousand two hundred" changed to "six thousand six hundred and sixty"
10	Locally Produced Cigarettes if their on pack printed retail price does not exceed five thousand nine hundred and sixty rupees per thousand cigarettes.	Current description "Rupees five thousand Nine hundred and sixty" changed to "six thousand six hundred and sixty" Rate of duty changed from "One thousand Six hundred and fifty" changed to "One thousand Eight hundred and fifty"
35	Other Liquefied petroleum Gases and gaseous hydrocarbons	Rate changed from "Seventeen rupees and eighteen paisa per hundred cubic meters" to "Rupees sixty per hundred metric tonnes"
56	Filter rod for cigarettes	Rate changed from "Rs.one per filter rod" to "Rupees fifteen hundred per kg"

Table-2

Sr. NO.	Description	Current Rate of Duty	Rate of Duty
3	Club, business and first-class air ticket	Ten thousand rupees	Fifty Thousand Rupees
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%	19.5%

CHANGES IN SINDH SALES TAX LAWS

Exemption - Cable TV Operators –
Tariff Heading: 9819.9000 (SRB-3-4/17/2022 dated June 28, 2022)

- Exemption to Cable TV Operators (stand-alone service provider) now extended till June 30, 2024
- Conditions to avail exemptions are: -
    - Filing of Sindh Sales Tax Returns for tax periods from July 2016 to June 2022
    - Payment of Sindh Sales Tax Liability for tax period from July 2016 to June 2022
    - Payment of Sindh Sales Tax withholding liability for tax period from July 2016 to June 2022

Exemption - Health Insurance Services –
Tariff Heading: 9813.1600 (SRB-3-4/19/2022 dated June 28, 2022)

- Exemption period for Health Insurance Services other than its related –re-insurance service extended till 30th June 2023

Exemption - Restaurants and Caterers –
Tariff Heading 9801.2000 & 9801.5000 (SRB-3-4/21/2022 dated June 28, 2022)

Revenue threshold to claim exemption was Rs. 4.0 million now reduced to Rs. 2.5 million.
Effective from July 01, 2022

Exemption - Toll Manufacturing Services –
Tariff Heading 9830.0000 (SRB-3-4/21/2022 dated June 28, 2022)

- Toll Manufacturing Service is a manufacturing or processing for others on toll basis.
- Toll Manufacturing Service is Exempt from Sindh Sales Tax as are levied to Federal sales tax under the Sales Tax Act, 1990 effective from July 01, 2022
- Toll Manufacturing Service is one of the Service on which there is dispute between Federal and Provincial Tax Authorities on Taxation Rights.

Exemption - Services rendered to GIZ (Deutsche Gesellschaft fur Internationale Zusammenarbeit) (SRB-3-4/22/2022 dated June 28th 2022)

- SRB granted exemption from Sindh Sales Tax for following services if rendered or provided to GIZ (Deutsche Gesellschaft fur Internationale Zusammenarbeit):

Tariff Heading	Description of Services	Tariff Heading	Description of Services
9809.0000	Contractual execution of work or furnishing supplies	9815.9000	Other consultants including tax consultants, human resources and personnel development consultants
9814.1000	Architects or town planners	9824.0000	Construction services
9848.0000	Training services	9814.2000	Contractor of building (Including water supply, gas supply and sanitary works), electrical and mechanical works (including air Conditioning, multi-disciplinary work including turn-key projects) and similar other works
9815.5000	Technical, scientific and engineering consultants		

- Exemption is subject to following conditions: -
    - Service Provider is actually registered with the Sindh Revenue Board.
    - Invoice shall indicate the description and tariff heading of the service & also showing the rate of sales tax as "exempt under notification no.SRB-3-4/22/2022 dated 28th June, 2022".
    - Service provider duly report such transaction in his Sales Tax return.

Lower Rate of 5% for Recruiting Agents –
Tariff Heading: 9805.6000 SRB-3-4/18/2022 dated June 28, 2022

- Lower Rate of 5% for Recruiting Agents (only overseas recruiting agents) now extended till June 30, 2024 earlier it was till June 30, 2022
- Conditions to avail lower rate are: -
    - Filing of Sindh Sales Tax Returns for tax periods from July 2016 to June 2022
    - Payment of Sindh Sales Tax Liability for tax period from July 2016 to June 2022
    - Payment of Sindh Sales Tax withholding liability for tax period from July 2016 to June 2022

Reduced Rate - Commission Agents –
Tariff Heading 9819.1300 (SRB-3-4/20/2022 dated June 28, 2022)

- “Commission Agents” can opt Reduced Rate @ 8% effective from July 01, 2022 with following conditions: -

    - The reduced rate is only available in relation to the Commission Earned by Food Delivery Channels from home chefs for the tax periods from July, 2022 to June, 2024.
    - Input tax credit/adjustment shall not be admissible.

Reduced Rate – IT Sector Tariff Heading 9815.6000 & Call Center
Tariff Heading 9835.0000 (SRB-3-4/20/2022 dated June 28, 2022)

- “IT Sector” & Call Center” now can opt Reduced Rate @ 3% effective from July 01, 2022.
- Conditions to opt Reduced Rate:
    - Input tax credit/adjustment shall not be admissible.
    - Option to opt Reduced rate can exercise as per following: -
        - Existing business; within 31 days after the commencement of financial year 2022-23 i.e., on or before July 31, 2022
        - Any new person starting business at least 14 days before starting his economic activity.

IT Sector and Calls Center Reduced Rate Process
Impact of Notifications

- The combined impact of these two notifications is
    - Software or IT based system development consultants and call centers have been provided to elect either of the following options
        - 3% sales tax rate without input tax adjustment
        - 13% sales tax rate with input tax adjustment

Procedure for option

- Registration required under section 24 of Sindh Sales Tax on Services Act 2011
- Value of services shall be gross amount of services rendered
- General rate of sales tax will be 13% unless option of 3% is exercised

- The option is to be exercised by submitting Forms at SRB web portal (Form S for IT and Form L for call centers)

Due Dates

- **Due Date: Now this is very important as it is only one time option, if not exercised now you are fixed with 13% tax rate**
- **Existing business:** The form must be submitted within 31 days after the commencement of financial year 2022-23 i.e., on or before **July 31, 2022**
- Any **new person** starting business shall submit this form at least **14 days** before starting his economic activity

Withdrawal of option

- The option can be withdrawn for subsequent years by giving an application **21 days prior to start** of the relevant financial year.
- For example, if option is required to be withdrawn for financial year 2023-24 then application must be submitted at least 21 days before June 30, 2023.
- Payment for sales tax to be made by 15th
- Sales tax return shall be filed within next 3 days
- Records are required to be kept as per applicable rules

Timelines for election of reduced rate for certain services

Rule	Nature of service	Normal rate	Option rate
Rule 36	Franchise services	13%	10%
Rule 42B	Construction services	13%	8%
Rule 42BB	Ready mix concrete	13%	8%
Rule 42C	Beauty parlor	13%	8%
Rule 42CC	Healthcare	13%	5%
Rule 42G	Inter-city transport	13%	5%

Reduced rate option is available for other services as before however timelines have been provided to avail/ revoke such option as follows:

- The option for reduced rate is to be submitted every financial year within 21 days of start of financial year.
- Such option shall remain valid for subsequent years as well unless application for withdrawal is submitted 21 days prior to the financial year for which the taxpayer wants to revoke the option.
- For new business such option is to be submitted at least 14 days prior to commencement of economic activity.

SINDH SALES TAX SPECIAL PROCEDURE (TRANSPORTATION OR CARRIAGE OF PETROLEUM OILS THROUGH OIL TANKERS) RULES, 2018 [Notification No. SRB-3-4/24/2022 dated June 28, 2022]

Reduced rate	8%
Optional higher rate	15%

The option of higher rate was valid till June 30, 2022 and now the option already exercised is valid till withdrawn.

AMENDMENTS IN PUNJAB TAX LAWS

Certain transactions not admissible

Section 16A

- In order to be admissible transaction to claim input tax credit, refund as per section **16A---**

  Payment of amounts of one or more transactions made to the same person in one tax period where the aggregate of such amounts exceeds fifty thousand rupees including the amount of sales tax shall be made via banking channel. However, payments on account of utilities are excluded.

  Previously requirement of banking channel was only applicable if a transaction value exceeds fifty thousand rupees threshold.

Extent of adjustment of input tax

Section 16C

- Extent of input tax adjustment allowed in a tax period as per section **16C** is proposed to be enhanced from eighty percent to ninety percent (80%---90%) of output tax of that tax period.

Assessment of tax

Section 24

- Time period for issuance of notice for assessment under section **24(2)** for tax periods ending before 01 July 2022, the time period is 8 years.
- However, for tax periods ending on or after 01 July 2022, the time period has been reduced to 5 years from the end of the financial year in which the tax period falls.
- Time limit for making an order under section **24(3)** is enhanced to 1 year from the end of the financial year in which the show cause notice is issued. Earlier it was 180 days from the date of issuance of show cause notice, extendable to another 60 days for reasons to be recorded in writing.
- In calculating period for assessment order under section 24(3), the words "time taken through adjournments by the person" are deleted.

Compulsory registration

Section 27

- Sub-section 3 has been amended to empower Commissioner to authorize any other officer to perform functions for the compulsory registration of a person for any of the taxable services.

Retention of record

Section 32

- Time period for retention of record has been kept the same as 8 years for tax periods before July 2022. However, for tax periods after 01 July 2022, the time period for retention of record has been reduced to 6 years from the end of the financial year to which such record relates.

Recovery of tax not or short levied

Section 52

- Time period for issuance of notice reduced to five years from the end of the financial year in which relevant tax period falls, for periods after 1st July 2022. For earlier tax periods time limit is within 8 years of the relevant tax period.

- Time limit for making an order under section **52(4)** is enhanced to 1 year from the end of the financial year in which the show cause notice is issued. Earlier it was 180 days from the date of issuance of show cause notice, extendable to another 60 days for reasons to be recorded in writing.

- In calculating period for assessment order under section 52(4), the words “or the time taken through adjournments by the petitioner not exceeding thirty days” are deleted.

Changes in Second Schedule

- Exemption available to students for internet services up to PKR 1,500/- month has been withdrawn. Now all such services are taxable at 19.5%.
- Inclusion of real estate marketplace (online platforms) within the ambit of information technology-enabled or information technology-based services for charging of tax @ 5 % without input adjustment.
- Inclusion of online car hire services within the ambit of ride-hailing services for charging of tax @ 4% without input adjustment.

AMENDMENTS IN CUSTOMS ACT 1969

Definitions

- The definition of document has been broadened "Standardized information and documents lodged with a single-entry point through Pakistan Single Window" is added.
- The following new definition has been inserted in section 2 of Customs Act, 1969:
  "Bordering and coastal areas" means all districts located along international boarders including coastal areas of Pakistan, notified as such by Provincial Governments"

  "Essential Commodities" means those items availability of which is considered vital for domestic use or consumption, as notified by the Board, from time to time, in consultation with the ministries concerned.

DISCHARGE OF CARGO AND ENTRY INWARDS OF GOODS (Section 81)

The Act has amended the 6-month period to ninety days for goods to be allowed to be cleared or delivered on the basis of provisional determination.
Further, the collector of custom can only extend the above-mentioned period up to thirty days only for exceptional nature goods.
Finance Act 2022 has also inserted third proviso in sub section (1) of section 81 which prohibits provisional determination of value in those cases where a Valuation Ruling (VR) issued under section 25A of the Customs Act is already in field irrespective of whether any review or revision is pending against such VR.

New Penal Provisions Prescribed (Section 156)

- Penalty for certain offences related to Pakistan Single Window System or system connected or ancillary. The newly inserted S. No. and entries related are presented below:

105(i)	Un-authorized access to information, data or personal details of registered user of Pakistan Single Window system or systems connected or ancillary thereto.	Imprisonment which may extend up to six months or with fine which may extend to one hundred thousand rupees or with both.
(ii)	Un-authorized copy, transmission or cause to transmit any data, information or detail in relations to Pakistan Single Window system or systems connected or ancillary thereto.	Imprisonment which may extend upto six months or with fine which may extend to one hundred thousand rupees or with both.
(iii)	Un-authorized interference, or attempt to interfere, damage or attempt to damage any part of whole of the Pakistan Single Window system or data or system connected to or ancillary thereto.	Imprisonment which may extend to three years or fine which may extend to five hundred thousand rupees or with both.
(iv)	Use of any information system, device or data to make any illegal claim or title or cause any person to part with property or to enter into any express or implied contract or intent to commit fraud by any input, alteration, deletion or suppression of data, resulting in unauthentic data with the intent that such data be considered or acted upon for legal purpose, as if it were authentic in relations to Pakistan Single Window system or Systems connected or ancillary thereto.	Imprisonment which may extend to four years or fine which may extend to one million rupees or with both.

(v)	Uses, makes, supplies, retains, obtains device, system or software for offences under section 13 of the Pakistan Single Window Act, 2021 (III of 2021).	Imprisonment which may extend to six months or with fine which may extend to one hundred thousand rupees or with both.
(vi)	Obtains, sells, process, uses or transmits another person's Unique User Identifier or makes an attempt thereof without authorization.	Imprisonment which may extend to four years and fine which may extend to one million rupees or with both.
(vii)	Tampers with or attempts to tamper with, alters, re-programmes any Pakistan Single Window system or system connected or ancillary thereto for un-authorized use.	Imprisonment which may extend to four years and fine which may extend up to one million rupees or with both and any devices or systems used in offence shall be liable to confiscation.
(viii)	Writes, offers, makes available, distributes or transmits a malicious code or abets in the same, with intent to cause harm to Pakistan Single Window system or data resulting in or intending to result in corruption, destruction, alteration, suppression, theft or loss to the Pakistan Single Window system or data, or any attempt thereof.	Imprisonment for a term which may extend to four years and fine which may extend to five million rupees or with both.

Procedure in case of seizure of essential commodities (Section170A)
In case of seizure of essential commodities, as notified by the Board, such seized goods shall be deposited in the nearest custom-house or the nearest place appointed by the Collector of Customs, as the case may be, for deposit of goods so seized.

Power of adjudication (Sec 179)
The Finance Act, 2022 amended the financial authority of Additional Collector and Deputy Collector in order to reduce the workload of adjudicating authorities and expedite the resolution of legal disputes which are given below

Additional Collector	Five million rupees.
Deputy Collector	Two million rupees.

Reference to High Court

- Finance Act substitutes the word “Collector or Director of Intelligence and Investigation, or Director of Valuation” with the word “an officer of custom” for the purpose of reference to high court.

SPECIAL SUPPLEMENT

INFORMATION TECHNOLOGY SECTOR

INCOME TAX ORDINANCE 2001

- Start–up = 100% Tax credit regime (conditions apply)- No change from last year
- Export of IT services with PSEB registration = Final Tax Regime (FTR) with tax rate of 0.25% of export proceeds (conditions apply)
- Export of IT services without PSEB registration = FTR with tax rate of 1% of export proceeds (conditions apply)
- Local IT services or Exporter who does not fulfill conditions = business income which will be taxed based on the status of person i.e., individual, AOP and Company

Startup Definition

- Start-up means business of resident individual, AOP or company commenced on or after July 01, 2012
- Person is engaged in technology driven products or services
- Person is registered with PSEB
- Annual turnover is less than Rs.100 million in each of last five years.

Start-up Conditions for 100% tax credit

- 100% tax credit is available in the year in which start-up is certified by PSEB and following two years subject to following conditions
- Return has been filed
- Withholding statements have been filed if person is withholding agent
- Sales tax return has been filed if person is required under relevant Federal & Provincial sales tax laws

Start-up Exemption Certificate

- If start-up is engaged in export of technology driven products or services, start-up can obtain exemption certificate from tax deduction under section 154 or 154A as the case may be
- If start-up is engaged in local supply of products or services or both, start-up can obtain exemption certificate from tax deduction under section 153.
- i.e., Start-up has exemption on both his export and local income.

Export of IT Services with PSEB

- 0.25% tax will be deducted by banks on receipt of export proceeds in Pakistan which shall be FTR subject to following conditions;
- Return has been filed;
- Withholding statements have been filed if person is withholding agent
- Sales tax return has been filed if person is required under relevant Federal & Provincial sales tax laws;
- No credit of foreign taxes paid is allowed;

Export of IT Services without PSEB

- 1% tax will be deducted by banks on receipt of export proceeds in Pakistan which shall be FTR subject to following conditions;
- Return has been filed;
- Withholding statements have been filed if person is withholding agent;
- Sales tax return has been filed if person is required under relevant Federal & Provincial sales tax laws;
- No credit of foreign taxes paid is allowed

Local IT services or Exporter who does not fulfill conditions

Small Company	Other than small company	Individual/ AOP with more than Rs.100 million turnover in any year after tax year 2017	Individual/ AOP with less than Rs.100 million turnover
Tax liability is higher of following: i. 20% of taxable income ii. 17% of accounting income iii. 1.25% of turnover iv. Minimum tax paid under section 153	Tax liability is higher of following: i. 29% of taxable income ii. 17% of accounting income iii. 1.25% of turnover iv. Minimum tax paid under section 153	Tax liability is higher of following: i. % of taxable income as per slab rates ii. 1.25% of turnover iii. Minimum tax paid under section 153	Tax liability is higher of following: i. % of taxable income as per slab rates ii. Minimum tax paid under section 153

Frequently Ask Questions (FAQs)

Q1. What is Final Tax Regime (FTR)?

Answer: FTR means that the tax deducted by banks on export proceeds is final tax and no more tax is required to be paid on the income.

Q2. Is a certificate or application required for opting FTR?

Answer: No certificate or application is required for opting FTR. Every year the person just needs to file his return showing his income under FTR. However, a person can opt out of FTR and offer his income under Normal Tax Regime (NTR).

Q3. Why would a person opt for NTR?

Answer: A person may opt for NTR if a person has losses or tax credits available due to which he expects to pay lesser tax than FTR. The option to offer tax under NTR is required to be filed along with return every year otherwise the return will be treated under FTR.

Q4. When filing of withholding statements become necessary?

Answer: when a person is withholding agent, common examples are:

- Salary – Every employer whose employee has taxable salary
- Rent – Every company while for Individual/ AOP – generally when rent is more than Rs.1.5 million per annum
- Goods & services – Every company while for individual/ AOP when turnover is more than Rs.100 million

Q5. What about super tax for start-ups?

Answer: For start-ups the income level of start-ups is too low to attract super tax.

Q6. What about super tax for exporters with 0.25% FTR?

Answer: The concept of imputable income applies. A company with gross turnover of approximately Rs.17.5 billion would attract first slab of super tax i.e., 1%.

Q7. What about super tax for exporters with 1% FTR?

Answer: Again, the concept of imputable income applies. A company with gross turnover of approximately Rs.4.4 billion would attract first slab of super tax i.e., 1%.

Q8. What about super tax for local IT service providers with 1% FTR?

Answer: For local service providers only, super tax is applicable as follows:

Income as defined in section 4C	Rate of super tax
More than Rs.150 million up to Rs.200 million	1% of income
More than Rs.200 million up to Rs.250 million	2% of income
More than Rs.250 million up to Rs.300 million	3% of income
More than Rs.300 million	4% of income

Q9. When filing of sales tax return is necessary for exporter of IT services?

Answer: For exporters in Islamabad jurisdiction, it is mandatory and all revenue is to be reported as zero rated. For others it is advisable to file sales tax return in whichever jurisdiction you are operating and report exempt exports.

Q10. What is taxation of freelancer?

Answer: Freelancer:

- Can claim 100% tax credit if start-up conditions are met
- Can fall under 0.25% if registered with PSEB and FTR conditions are met
- Can fall under 1% FTR if not registered with PSEB but FTR conditions are met
- Otherwise, tax is to be paid as normal business income

Q11. How do you see remote workers verses freelancers' verses salaried persons?

Answer: There is currently nothing in law to distinguish between remote workers and freelancers.
A remote worker is hence at an advantage as compared to salaried persons because he/ she can claim 100% tax credit or 0.25% FTR or 1% FTR depending on the conditions he meet (most likely 1% FTR) hence still at an advantage compared to salaried persons.

Q12. Remote workers are a problem for local companies?

Answer: Remote workers pose a challenge for local companies as either local company find it difficult to retain good employees because foreign competitor offers them tax free salary (reduced tax salary) as remote worker or the local company has to increase its cost of doing business by increasing salaries which again impacts competing ability as to price.
Q13. Are double rates for non-filers applicable?

Answer: No, double rates for non-filers are not applicable on IT sector FTR.

Q14. What are slab rates of salaries persons?

Slab	Applicable rate
Up to 600,000	0%
600,001-1,200,000	2.5% of the amount above 600,000
1,200,001-2,400,000	15,000+12.5%of the amount above 1,200,000
2,400,001-3,600,000	165,000 + 20% of the amount above 2,400,000
3,600,001-6,000,000	405,000 + 25% of the amount above 3,600,000
6,000,001-12,000,000	1,005,000 + 32.5% of the amount above 6,000,000
Above 12,000,000	2,955,000+35% of the amount above 12,000,000

Q15. what are slab rates for non-salaried persons and AOPs?

Slabs	Rates
0-600,000	0%
600,001-800,000	5% of the amount above 600,000
800,001-1,200,000	10,000 + 12.5% of the amount above 800,000
1,200,001-2,400,000	60,000 + 17.5% of the amount above 1,200,000
2,400,001-3,000,000	270,000 + 22.5% of the amount above 2,400,000
3,000,001-4,000,000	405,000 + 27.5% of the amount above 3,000,000
4,000,001-6,000,000	680,000 + 32.5% of the amount above 4,000,000
Above 6,000,000	1,330,000+35% of the amount above 6,000,000

Q16. Is there any other way I can have zero income tax for my IT services?

Answer: Yes, get a special technology zone enterprise license and enjoy 10 years exemption.

Q17. Any incentive for venture capitals?

Answer: Yes, profits & gains during July 01, 2022 to June 30, 2025 are exempt for venture capital company and fund registered under relevant Venture Capital Companies and Funds Management Rules issued by Securities and Exchange Commission of Pakistan.

Sales Tax in Islamabad

- Previously it was 5% on IT & IT enabled services now 5% for only “software or IT based system development consultants”, rest all IT sector has to charge 15% while software (intangible goods) sellers are to charge 17%. (Input adjustment allowed against all rates)
- Definition of IT & IT enabled services also deleted which was as under:
- ✓ “(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 center, medical transcription, remote monitoring, graphics design, accounting services, HR services, telemedicine centers, data entry operations, locally produced television programs and insurance claims processing.

Provincial Sales Tax

Sindh Sales Tax

- The software or IT based system development consultants have been given the option to charge 13% sales tax with input adjustment or 3% sales tax without input adjustment.
- To exercise the option of 3% sales tax Form S must be filed on or before July 31, 2022.
- For call centers, same option is available upon filing of Form L while due date is same i.e., July 31, 2022.
- No change in the status of export of services i.e., previously exempt services are still exempt.

Punjab Sales Tax

- No change in rate of sales tax in Punjab i.e., exports are still exempted while local services are subject to 5% (without input adjustment) for IT sector falling under serial # 22 of the table for taxable services.
- It is added in serial # 22 that Real estate aggregators shall always be deemed to be included in serial # 22.
- Rail hiding services at serial # 69 are deemed to have always included cab aggregator services. Rate of tax is unchanged i.e., 4% (without input adjustment).

Khyber Pakhtunkhwa Sales Tax

- No change in rate of sales tax and previously applicable rates will remain intact i.e.
- 2% (without input adjustment) for IT service providers falling under serial # 15 of table for taxable services
- 5% (without input adjustment) for IT service providers falling under serial # 19 of table for taxable services

Baluchistan Sales Tax

- No change in rate of sales tax and previously applicable rates will remain intact i.e.
- 6% (without input adjustment) for IT service providers falling under tariff heading 9868

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