

**Federal Board of Revenue**



**Directorate General of Withholding Taxes  
Islamabad**

**Standard Operating Procedure  
For  
Monitoring of  
Withholding Taxes**

**Compiled  
By  
Sardar Aminnullah Khan**

**Improved & Updated  
Upto  
July, 2011**

**Version – IV**

---

**Table of Contents**

MESSAGE BY THE CHAIRMAN .....	iv
FOREWORD.....	v
ACKNOWLEDGEMENTS .....	vi
CHAPTER 1 INTRODUCTION .....	1
CHAPTER 2 WITHHOLDING TAXES IN PAKISTAN .....	5
(A) SHORT HISTORY .....	5
(B) LEGAL STRUCTURE .....	5
I. WITHHOLDING TAXES RELATED PROVISIONS.....	5
II. DEPOSIT OF TAX.....	8
III. FILING OF TAX STATEMENTS.....	13
IV. E-FILING .....	15
V. ENFORCEMENT PROVISIONS.....	15
VI. PENALTIES FOR FAILURE TO SUBMIT PERIODIC STATEMENTS.....	17
CHAPTER 3 CHALLENGES .....	23
(A) TAXPAYERS' PROBLEMS.....	23
(B) THE PROCESSES.....	24
(C) ENFORCEMENT PROBLEMS .....	25
(D) ACCOUNTING PROBLEMS.....	26
(E) OPERATIONAL PROBLEMS .....	27
(F) I.T INITIATIVES .....	28
(G) UTILITES DATA .....	29
CHAPTER 4 MANAGEMENT OF WITHHOLDING TAXES .....	30
CHAPTER 5 OPERATIONAL GUIDELINES.....	50
(A) MODES OF MONITORING.....	50
(B) SELECTION CRITERIA.....	53
(C) PRE AUDIT ANALYSIS.....	55
(D) EXPLAINING THE PROCESSES.....	55
(E) SECTION WISE STRATEGY.....	56
I. SECTION 148 - IMPORTS.....	56
II. SECTION 149 - SALARY .....	61
III. SECTION 150 - DIVIDEND.....	65
IV. SECTION 151 – PROFIT ON DEBT .....	67
V. SECTION 152 – PAYMENTS TO NON RESIDENTS .....	70
VI. SECTION 153 – CONTRACTS EXECUTED, SUPPLY OF GOODS & SERVICES.....	77
VII. SECTION 153A - PAYMENTS TO NON-RESIDENT PERSONS.....	84
VIII. SECTION 154 - EXPORTS .....	84
IX. SECTION 155 – INCOME FROM PROPERTY .....	87
X. SECTION 156 – PRIZES AND WINNINGS .....	89
XI. SECTION 156A – PETROLEUM PRODUCTS .....	90
XII. SECTION 156 B -WITHDRAWAL OF BALANCE UNDER PENSION FUNDS.....	90
xIII. SECTION 231 A – CASH WITHDRAWAL FROM BANKS .....	91
XIV. SECTION 231 AA– COLLECTION OF ADVANCE TAX ON TRANSACTIONS IN BANKS .....	92
XV. SECTION 231 B – COLLECTION OF ADVANCE TAX ON MOTOR VEHICLES.....	94
XVI. SECTION 233 – BROKERAGE & COMMISSION.....	95
XVII. SECTION 233 A (1)(a) & (b) COMMISSION OF MEMBER OF STOCK EXCHANGE .....	97
XVIII. SECTION 233-A (1) (C) – TRADING OF SHARES .....	98

---

XIX. SECTION 233 A (1)(d) FINANCING OF CARRY OVER TRADE IN SHARE .....	98
XX. SECTION 234 – TAX ON MOTOR VEHICLES .....	100
XXI. SECTION 234 A – CNG STATIONS .....	101
XXII. SECTION 235 – ELECTRICITY CONSUMPTION .....	102
XXIII. SECTION 236 - TELEPHONES .....	104
XXIV SECTION 236A- ADVANCE TAX AT THE TIME OF SALE THROUGH AUCTION .....	106
XXV SECTION 236-B ADVANCE TAX ON PURCHASE OF AIR TICKETS .....	107
(F) MANAGEMENT INFORMATION SYSTEM .....	108
(G) MONTHLY PERFORMANCE REPORT .....	108
CHAPTER 6 CONCLUSION .....	110
DISCLAIMER .....	112

---

## Message by the Chairman, FBR

The Withholding Taxes collected by Federal Board of Revenue are significant contributors to the national exchequer. The collection of Withholding Taxes has been on rise over the years. However, during the course of interaction with the field officers, it has been observed that visible gaps exist between the actual collection of Withholding Taxes and their true potential in the economy. Besides, one of the Study Groups has identified that 110 % gap exists in collection from Salary and wages alone.

In order to streamline the management for exploiting the true potential of Withholding Taxes, the Director General Withholding Taxes was mandated with the task of formulating an SOP containing detailed guidelines on various Withholding provisions.

I appreciate and acknowledge the hard work by DG Withholding Taxes in improving and updating this comprehensive document. I am confident that the yawning gap can be bridged if the guidelines contained in this booklet are followed in letter and spirit. This would tremendously boost the revenue collection for the State.

Sohail Ahmad  
Chairman FBR  
Islamabad.

---

## Foreword

Federal Board of Revenue administers the taxes imposed / levied by the Federal Government. Direct taxes contribute 39% thereof. Major portion of such taxes is deducted or collected at source.

In view of difficulty faced in meeting the ever increasing budgetary targets, it was desired to explore all possible avenues for bringing in the extra revenues for the Government. Withholding taxes were unanimously considered the most potential source. Although, the field formations are making efforts to improve the collection out of this source yet the gaps exist. To bridge the same, the Directorate General of Withholding Taxes was established u/s 230A of the Income tax Ordinance with a mandate to improve the management of withholding taxes so as to exploit the true potential.

Besides, in order to streamline the mechanism of deduction and collection of tax by the prescribed persons and to facilitate the taxpayers in meeting their withholding taxes related obligations more conveniently, it was necessary to develop Standard Operating Procedure. The purpose is to consolidate and document the relevant provisions of the Ordinance, rules and operating procedure. It will help to implement the withholding taxes regime as an efficient and effective system and will provide the environment supporting voluntary payment of taxes in accordance with the FBR's policy of taxpayers' facilitation. This SOP will help in meeting the desirable expectations and genuine requirements of all concerned.

I am confident that these guidelines will be extremely helpful to all the stakeholders. It will help explore the potential avenues and identify the loopholes for improving the management of withholding taxes, thereby increasing the overall collection of FBR.

(Khalid Aziz Banth)  
Member Policy (Direct Taxes)  
Federal Board of Revenue

---

## Acknowledgements

Improvement and Updating of this SOP has been very inspiring and instructive. I consider it a great privilege that I had the opportunity to do it. Many people supported me in the process. In fact, I learned a lot from them. I would like to take this opportunity to thank all of them, although mentioning the following, I am afraid, may be incomplete.

Thanks are due to a number of individuals whose active involvement made this Updating possible. These include the Directors General of LTUs/RTOs and their officers, my colleagues namely Dr. Muhammad Irshad Director, Mr. Muhammad Imtiaz Deputy Director Withholding Taxes, and officers/officials of my secretariat for their requisite input.

Special thanks are due to Mr. Sajjad Haider Cheema, Commissioner Withholding Taxes RTO, Karachi and his Officers for their contribution in highlighting Enforcement difficulties of Withholding Tax Law and suggestions for improvement. I am really grateful to Mr. Imtiaz Ahmad Khan GM (Development), PRAL and his team for development of Software Application which is fully operational through FBR Portal. Domain support extended by the colleagues was outstanding.

I am personally indebted to Mr. Khalid Aziz Banth Member Policy (Direct Taxes) FBR for his able guidance provided during improvement and updating this Manual.

Last but not the least, it was because of extremely important sense of direction provided by Mr. Sohail Ahmad Chairman FBR, which made it possible to improve and update these guidelines.

Muhammad Anwar Goraya  
Director General of Withholding Taxes  
Federal Board of Revenue

---

## Chapter 1 Introduction

Major sources of Tax Revenue in the country are federal taxes comprising of Income Tax, Sales Tax, Custom duties and Federal Excise Duty. Out of total collection for previous financial year the share of Direct Taxes comes to around Rs. 445(B) i.e. 39 % of the taxes collected by FBR. Within total Direct Taxes revenue, 55% comes from various withholding taxes which are characterized by their adjustable and presumptive nature.

Withholding taxes are part of tax system ever since imposition of direct taxes. In recent years, globalization has forced many countries to alter their economies to harmonize tax policies and alignment thereof with new trade and investment policies embodied in the free trade agreements. The concept of “Hang Together” is more relevant today than ever before. Countries can neither close their borders nor their economies. Tax policies can not be isolated from the international economies either. Tax competition is almost an un-alloyed evil, working as a constraint on governmental overreach. Countries, therefore, have to take positive steps to protect the integrity of their individual and corporate tax systems from the competition so engendered.

Major areas requiring focus include taxes on salary, contracts, services, profit on debt, dividends, royalties, capital gains from stock transfers, securities, transactions and dealings with the non-residents, etc. Most of these segments fall under the umbrella of withholding tax regime; therefore, there is a requirement to review inadequacies in the system relating thereto and to simultaneously improve enforcement mechanism not only for revenue yields but for remaining competitive and responsive to the international trends and requirements.

It is generally felt that there is a need to divert more resources and concentrate on the monitoring of withholding taxes, particularly in the transition

---

period of tax reforms in the country, as these taxes have the potential to off set any dip in revenue.

There are a number of deficiencies in the system and management of Withholding Taxes such as; the Taxpayers as well as withholding agents are not meeting their withholding obligations fully. Glaring instances of violation of withholding provisions by taxpayers/withholding agents have been noted repeatedly. Their repetition needs to be stopped in future. In a number of cases tax is deducted by withholding tax agents but not timely deposited in Government Treasury and the defaulters go unpunished. Due to desk audit and no “real time” check on the business transactions/evasion, timely deposit of tax deducted by the withholding agents is open to doubts. The field formations of the Department and taxpayers suffer from major capacity constraints, regarding their obligations as “efficient tax monitors” and responsible “authorized persons” respectively. In the universal self-assessment environment, there is less emphasis on Withholding Taxes and monitoring/audit for creating requisite enforcement environment. Parameters are required to be prescribed to make the process of compliance of relevant provisions and monitoring more transparent, popular and less discretionary. The reform process initiated by the Government, which is now at an advance stage, provides an opportunity to the Department to visualize short term and long term strategy for more effective monitoring of withholding taxes. Notwithstanding significant contribution of Withholding Taxes towards the Direct Tax Revenue, the yield of Withholding Taxes is low vis-à-vis overall contribution of respective sectors to the national economy, giving rise to a need for a systemic effort for further improvement. The parameters for monitoring of withholding taxes have to be defined as more important policy thrust of the Government on increased facilitation and better education of taxpayers. Such initiatives need to promote voluntary compliance by extending better services to the taxpaying community as centrepiece of the tax policy. Thus, there is a dire need to:

- 
- Create the enabling environment, for putting the system in line with the current universal trends in tax administration.
  - Ensure adequate operating revenue for meeting the tax policy goals based on a rational Withholding Tax Regime to provide a stable and conducive environment for private sector to thrive in the age of high international competition, and
  - Extend better services to the taxpayers to help meet tax obligations conveniently.

Withholding taxes are popular in almost all countries for various strategic reasons such as the Withholding tax provisions are part of all developed tax systems and in fact, are, treated as a parameter of voluntary compliance of tax laws by the taxpaying community. The philosophy behind the Withholding Taxes is quite akin to pay-as-you-earn philosophy of taxation. Since the Withholding Taxes are transaction related, they are easy to collect.

These taxes easily cover some otherwise difficult sources of income, particularly in a country like Pakistan where the economy is predominantly un-documented and outreach of the department is limited. The Withholding Taxes solve the cash flow problem of the Government for its regularity. The taxpayers find it convenient as well as their annual tax burden is spread over the year, helping them discharge their tax liability in instalments. The Withholding tax regime provides considerable documentation to the economy and effective control to the employees of the organization.

These taxes prevent considerable escapement of income being all pervasive in the economy. In the international context, withholding taxes provide a clear picture to the other economic partners and prospective investors about the taxation regime and serves as important source of policy initiatives of a country.

---

On account of above benefits and many other factors, withholding taxes form part of all developed tax systems of the world albeit the difference in the treatment given to them by different systems may vary whether it is an Advance or a Presumptive/Final tax.

This Introduction is followed by Withholding Taxes in Pakistan wherein all relevant information on Withholding taxes is put together at one place. It includes the provisions of law as contained in the Income Tax Ordinance, 2001, Income Tax Rules, 2002 and various monitoring guidelines. The Withholding tax regime is not without challenges as is in the case with any man made statute.

Chapter 3 lists the Challenges faced by the stakeholders (Taxpayers, Withholding Tax Agents and the Department) in various areas such as processes, enforcement, accounting and audit so as to understand the issues for possible remedial steps to address the challenges.

Chapter 4 lays down the short term and long term strategy of Withholding Tax Management.

Chapter 5 is the core chapter that highlights section-wise strategy in the background of scope and selection criteria of monitoring.

The above scheme of things leads to the conclusion.

---

## Chapter 2 Withholding Taxes in Pakistan

### (a) Short history

Withholding is an act of deduction or collection of tax at source, which has generally been in the nature of an advance tax payment. It is an effective mechanism and important/timely source of revenue. Their contribution is above 50 percent of total direct taxes revenue. Increase from Rs.5 (b) in 1991 to above Rs 247(B) in 2009 speaks of exponential growth and consequential heavy reliance on withholding taxes in Pakistan.

Under the repealed Income Tax Act, 1922, tax was deducted from two main sources of income namely; salaries and interest on securities. Over the period of time, Withholding Tax net was extended by steadily introducing different Provisions in the Tax Laws. The repealed Income Tax Ordinance, 1979, brought in all the provisions of the Income Tax Act, 1922. However, in 1990s, withholding tax net was expanded extensively by providing for withholding taxes on a wider variety of transactions and making most of them presumptive. Provisions of the Income Tax Ordinance, 2001, are more or less the same, except for a few changes and additions. Important withholding provisions relate to salary, imports, exports, commission and brokerage, dividend, contracts, profit on debt, utilities, vehicle tax, stock exchange transactions and non-residents, etc., with varying rates.

### (b) Legal Structure

#### i. Withholding Tax Related Provisions

Various 'persons' are obligated to withhold tax at the time of payment and deposit the same as specified under the law. These 'persons' may be 'agents', companies, exporters, collectors or a defined

person. The Withholding Tax Agents, as specified under various provisions of I.T Ordinance, 2001, are tabulated hereunder:-

### Major Withholding Taxes Agents

Prescribed Persons / Withholding Agent	Relevant Sections
Collector of Customs	148, 154, 236A
Authorized dealer in foreign exchange	149, 154(1), 154(2)
Registration Authorities (motor vehicles)	231B
Association of persons	149, 152(1), 152(2), 156, 233
Association of persons constituted by, or under, law	149, 152(1), 152(2), 153(1), 153(3), 156, 233 236B
Banking Company	149, 151(1)(a), 151(1)(b), 151(1)(d), 152(1), 152(2), 153(1), 153(3), 154(1), 154(2), 154(3), 155, 156, 231A, 231AA, 233, 236A
Body Corporate formed by or under law in force in Pakistan	149, 151(1)(d), 152(1), 152(2), 153(1), 153(3), 155, 156, 233
Body incorporated by or under the law of a country outside Pakistan relating to incorporation of companies	149, 152(1), 152(2), 153(1), 153(3), 155, 156, 233
CNG Stations (Gas consumption bill preparer)	234A
Company as defined under the Companies Ordinance, 1984	149, 151(1)(d), 152(1), 152(2), 153(1), 153(3), 155, 156, 233, 236A 236B
Consortium	149, 152(1), 152(2), 153(1), 153(3), 156, 236A
Co-operative Society	149, 152(1), 152(2), 153(1), 153(3), 155, 156, 233
Diplomatic Mission of a foreign state	155
Direct Exporter	154(3B)
Electricity Consumption Bill Preparing Authority	235

Export House registered under DTRE Rule, 2001	154(3B)
Export Processing Zone Authority	154(3A), 236A
Federal Government	149, 151(1)(a), 151(1)(c), 152(1), 152(2), 153(1), 153(3), 155, 156, 233A, 236A
Finance Society	149, 151(1)(D), 152(1), 152(2), 153(1), 153(3), 155, 156, 233 231AA,
Foreign association, whether incorporated or not, declared to be a company by the Federal Board of Revenue	149, 152(1), 152(2), 153(1), 153(3), 155, 156, 233, 236A
Foreign consultant	149, 152(1), 152(2), 153(1), 153(3), 156, 233, 236A
Foreign contractor	149, 152(1), 152(2), 153(1), 153(3), 156, 233, 236A
Individual	149, 152(1), 152(2), 153(1), 153(3), 156 236A, 236B
Local Authority	149, 151(1)©, 152(1), 152(2), 153(1), 153(3), 155, 156, 233, 236A
Motor Vehicle Registration Authority	231B
Modaraba	149, 152(1), 152(2), 153(1), 153(3), 155, 156, 233, 236A
Motor Vehicle Tax Collection Authority	234
Non-profit organizations	149, 152(1), 152(2), 153(1), 153(3), 155, 156, 233, 236A, 236B.
Persons selling petroleum products to petrol pump operators	156A
Company	149, 150, 152(1), 152(2), 155, 156, 233, 236A 236B
Trusts/Non-profit Sector	149, 152(1), 152(2), 153(1), 153(3), 155, 156, 233
Telephone (bill preparer) & Cards (issuer & Seller)	236
Provincial Government	149, 151(1)(c ), 152(1), 152(2), 153(1), 153(3), 155,

	156, 233, 236A, 236B
Resident Company	150, 236A, 236B
Society established or constituted by or under any law for the time being in force	149, 152(1), 152(2), 153(1), 153(3), 155, 156, 233 , 236B
Stock Exchange Registered in Pakistan	233A

Some of the withholding taxes are international in character due to involvement of other countries' tax systems in view of cross-border transactions. Treaties signed by the Government of Pakistan with other countries for avoidance of double taxation of income and investments also come into play.

Main Persons responsible for tax withholding have been specified above. There may be certain other prescribed persons also, who are obliged to deduct tax from payments, such as deduction from salary and wages and payments to non-residents, etc., irrespective of the legal status of the said person. The role of such persons is pivotal in terms of use of correct input forms and indicating correct and complete particulars of payees, payment section codes, other details as per revised challan form (IT31A-Revised) and withholding statement forms.

The role of intermediaries has become very important after introduction of e-filing of Statements. They need to be properly trained in I.T. environment. Poor percentage of e-filing of withholding tax statements is an ample evidence of training needs. Each RTO should devise a schedule of training in consultation with DG (DOT), Lahore. In the context of tax deposit, role of SBP/NBP is equally important.

## ii. Deposit of Tax

Section 160 of the Income Tax Ordinance, 2001 read with Rule 43 of the Income Tax Rules, 2002, pertaining to deduction/collection and deposit of tax, are reproduced for facility of reference as under:-

**Section 160. Payment of tax collected or deducted.** - Any tax that has been collected or purported to be collected under Division II of Part V of Chapter X or deducted or purported to be deducted under Division III of Part V of Chapter X [or deducted or collected, or purported to be deducted or collected under Chapter XII] shall be paid to the Commissioner by the person making the collection or deduction within the time and in the manner as may be prescribed

**Rule 43. Payment of tax collected or deducted.** - As required under section 160 and under the Sixth Schedule to the Ordinance, the tax collected or deducted under Division II or Division III of Part V of Chapter X of the Ordinance, Chapter XII of the Ordinance or Sixth Schedule to the Ordinance shall be paid to the Commissioner by way of credit to the Federal Government,-

- (a) Where the tax has been collected or deducted by the Federal Government or a Provincial Government on the day the tax was collected or deducted; or
- (b) Where the tax has been collected or deducted by a person other than the Federal Government or a Provincial Government, by remittance to the Government Treasury or deposit in an authorized branch of the State Bank of Pakistan or the National Bank of Pakistan, within seven days from the end of each week ending on every Sunday.

The tax deducted or collected by the prescribed persons is to be deposited in the SBP, NBP or in the Treasury using the prescribed challan (IT-31A revised-II is used for the purpose). Detailed procedure is provided in the SOP for Collection Automation Project (CAP), which is briefly stated as follows:

Tax withheld is deposited by the Withholding Agents through the following ways:

- Separate Input Form (Challan) for each payee.
- Composite input form where number of “payees’ is up to 10 and
- Multiple Input Form (Challan) where number of “payees” is multiple, payment is made through one Composite Input Form for all “payees”

#### **Deposit of Tax through separate Challans**

Some of the Withholding Tax Agents prepare separate Input Forms/Challans for each “payee” whereas some of them deposit tax through a composite one. Separate Challans generally contain details of payers and the payees and are issued separately for each person. The Bank after checking the particulars of “Payer” and “Payee”, issues CPR and hands over the same along with the copy of the Input Form to the taxpayers.

#### **Deposit of Tax by Withholding Agents where number of “payees” is up to 10:**

The Withholding Agents:-

- Prepare the Input Form/challan in hard or the soft form.
- The Input Form is presented to the Bank. The Bank keys in the data on the system, strictly in accordance with the Input Form. Alternatively, the Bank uploads the data, if presented in soft mode.

- 
- Input NTN and CNIC / Registration /Incorporation Number of Taxpayer and verify the same from NTN Master Index.
  - In case of cash payment, the Bank generates one copy CPR and hands it over to the taxpayer. .
  - In cases where tax is deposited through Clearing, a token is issued on the prescribed form and CPR is issued after clearance of the payment.

**Deposit of Tax by Withholding Tax Agents, where number of “payees” is multiple:**

- Where the Withholding Tax Agents deposit tax through a single instrument (composite challan) for all “payees”, the procedure is as follows:-
  - 1) Withholding Tax Agent provides bulk-data (soft copy of data on CD, or on memory- stick etc.) for uploading into Bank’s database (the format of the data structure in Excel is available on FBR website ([www.e.fbr.gov.pk](http://www.e.fbr.gov.pk))).
  - 2) Banks upload data into the system and check NTN / FTN of the Withholding Tax Agent.
  - 3) If NTN / FTN (as input) are verified against NTN Master Index, Withholding Tax Agent’s Name and Address appears on screen.
    - 4) Check the Name of Withholding Agent on screen against that mentioned on Tax Input Form / Bulk Data.
    - 5) Verify the total amount of tax being paid against the one mentioned in Tax Input Form / in the Bulk Data.
    - 6) Input mode of payment and save data to print CPR where payment is made in cash.
    - 7) Where payment is through clearing, input the details of

cheques, etc., as applicable and issue temporary token on the prescribed form. Save data and issue CPR on confirmation of payment from the Bank.

### CPR Format - Bulk Data

 <b>INCOME TAX DEPARTMENT</b> <b>COMPUTERIZED PAYMENT RECEIPT</b>		<small>Finance Division</small> <b>Central Board of Revenue</b> <small>Government of Pakistan</small>
		<b>(CPR-IT)</b> <b>(Bulk Form)</b>
State Bank / National Bank of Pakistan — Collecting Bank Branch with Branch Code —		
Tax Year : YYYY	Payment ID : ITYYYYMMDD-8888-NNNNNN	
Salary Month : MMM (only for payment via 149)		
LTU/MTU/RTD : - - - - -	Deposit Date : DD - MM - YYYY	
Account Head (NAM) : X99999 — Description as per Chart of Accounts under NAM —		
Payment Section : 99 — Payment Section with description as per Income Tax Ordinance —		
Nature of Payment : — Current Demand/ Arrear Demand/ With Return/ Deduction at Source/ Advance Payment/ WAF/ Misc. Items, etc. —		
<b>Particulars of Taxpayer</b>		
NTN : ————	State : ————	
NIC/NCI/ Reg. No. : ————		
Name of Tax Payer : ————		
Name of Business : ————		
Address : ————		
<b>Particulars of Withholding Agent</b>		
NTN / FTR : ————	(FTR is applicable to Government Departments withholding taxes)	
Registration/ Inc. No. : ————		
Name : ————		
No. of Tax Payers : ————	Taxpayers data provided electronically : Yes/ No	
	No.	Total Amount
Mentioned by NTN	-----	-----
Mentioned by CNIC	-----	-----
Not Mentioned	-----	-----
	<b>TOTAL</b>	-----
Amount of tax in words : -----		
Mode of Payment : Cash/ Cheque/ Pay Order/ etc. with number, date, bank and branch		
CPR Printing Date : DD-MM-YYYY	Manager/ Authorized Officer	Bank Stamp

**Note:**

1. The Bank officials to exercise due care at the time of input of various fields to ensure accuracy.

2. Taxpayers are advised to send responsible persons for deposit of tax in the Bank who should check the CPR before leaving the counter.
  3. Bank to Stamp and sign the CPR and hand over CPR to the Taxpayer.
  4. After the above process, Data will be transferred by the Bank electronically on daily basis to FBR in accordance with the agreed schedule for A, B & C categories of the Branches.
  5. PRAL will apply validation checks and up-load the data on respective databases of FBR.
6. Data will then be uploaded by FBR/PRAL on RTO's/LTU's Servers

### iii) Filing of Withholding Taxes Statements

Mechanism of filing the periodic statements has been provided under Section 165 of the Income Tax Ordinance, 2001, which is reproduced as under:

**165. Statements.** - (1) Every person collecting tax under Division II of this Part [or Chapter XII] or deducting tax from a payment under Division III of this Part [or Chapter XII] shall, within two months after the end of the financial year or within such further time as the Commissioner may allow by [order] in writing, furnish to the Commissioner a statement in the prescribed form setting out-

- a. the name and address of each person from whom tax has been collected under Division II of this Part [or Chapter XII] or to whom payments have been made from which tax has been deducted under Division III of this Part [or Chapter XII] in the year;
- b. the total amount of tax collected from a person under Division II of this Part [or Chapter XII] or deducted from payments made to a

---

person under Division III of this Part [or Chapter XII] in the year;  
and

- c. such other particulars as may be prescribed

(2) In addition to the annual statement required to be furnished under sub-section (1), a person collecting tax under Division II of this Part [or Chapter XII] or deducting tax under Division III of this Part [or Chapter XII] may be required to furnish statements on a [monthly,] quarterly or six monthly basis as may be prescribed.

(3) [Board] may prescribe a statement requiring any person to furnish information periodically in respect of any transactions in the prescribed form and verified in the prescribed manner:]

(4) A person required to furnish a statement under sub-section (2), may apply in writing, to the Commissioner for an extension of time to furnish the statement after the due date and the Commissioner if satisfied that a reasonable cause exists for non-furnishing of the statement by the due date may, by an order in writing, grant the applicant an extension of time to furnish the statement.]

(5) The Board may make rules relating to electronic furnishing of statements under this section including,-

- a. Mandatory electronic filing of statement, and
- b. Determination of eligibility of the date of such statements and e-Intermediaries etc.

---

#### iv) e-Filing

In order to facilitate taxpayers in meeting their tax obligations and to reduce the compliance cost, arrangements have been made for mandatory e-filing of the WHT statements by the Corporate and Public Sectors taxpayers and AOPs on e-portal. There is, however, no restriction on the non-corporate taxpayers to file electronically. Issues like reliable communication link, security, authentication, exemption, online management and more than one payment options have been sorted out. It is necessary for building the confidence of taxpayers in the new system. Such information can form part of the database easily. The real issue is to increase the number of e-filers, which is very low. RTOs have to make all out efforts in this regard by proper coordination, education and facilitation of taxpayers besides enforcing filing by the prescribed persons in the ordinary mode.

In addition, collection of Sales Tax and Income Tax should be synchronized at the basic level like SBP/NBP/PIFRA, etc. Subsequently, when such systems are fully in place and dovetailed, separate filing of a single Return by one taxpayer, for more than one tax, should be encouraged. FBR may then provide for one-composite deposit/filing system for all Withholding Taxes under Sales Tax and Income Tax regimes with a capacity in the system for real time transfer of data simultaneously to the respective jurisdictions.

#### (c) Enforcement Provisions

Provisions regarding treatment of the defaulter for deposit of withheld tax as “Assessee - in - default” are as under:

**161. Failure to pay tax collected or deducted.** - (1) Where a person -

- 
- (a) fails to collect tax as required under Division II of this Part [or Chapter XII] or deduct tax from a payment as required under Division III of this Part [or Chapter XII] [or as required under section 50 of the repealed Ordinance]; or
- (b) having collected tax under Division II of this Part [or Chapter XII] or deducted tax under Division III of this Part [or Chapter XII] fails to pay the tax to the Commissioner as required under section 160, [or having collected tax under section 50 of the repealed Ordinance pay to the credit of the Federal Government as required under section (8) of section (50) of the repealed Ordinance.]

The person shall be personally liable to pay the amount of tax to the Commissioner [who may [pass an order to that effect and] proceed to recover the same.]

[(1A) No recovery under sub-section (1) shall be made unless the person referred to in sub-section (1) has been provided an opportunity of being heard.

(1B) Where at the time of recovery of tax under subsection (1) it is established that tax that was to be deducted from the payment made to a person or collected from a person has meanwhile been paid by that person, no recovery shall be made from the person who had failed to collect or deduct the tax but the said person shall be liable to pay additional tax at the rate of eighteen percent per annum from the date he failed to collect or deduct the tax to the date the tax was paid.]

(2) A person personally liable for an amount of tax under sub-section (1) as a result of failing to collect or deduct the tax shall be entitled to recover the tax from the person from whom the tax should have been collected or deducted.

It is important to mention here that the above provision of law is deterrent in nature. If properly used in suitable cases, enforcement of withholding provisions can significantly improve.

## Penalties for Failure to Submit Periodic Statements

The relevant provisions of law are as under:

**182. Offences and Penalties:** - (1) Any person who, commits any offence specified in column (2) of the table below shall, in addition to and not in derogation of any punishment to which he may be liable under this Ordinance or any other law, be liable to the penalty mentioned against that offence in column (3) thereof---

S.No	Offences	Penalties	Section of the ordinance to which offences has reference
1	where any person fails to furnish a return of income or a statement as required under section 115 or wealth statement or wealth reconciliation under section 165 within the due date	Such person shall pay a penalty equal to 0.1% of the tax payable for each day of default subject to minimum penalty of five thousand rupees and maximum penalty of 25% of the tax payable in respect of that tax year.	114, 115, 116 and 165
2	Any person who fails to issue cash memo or invoice or receipt when required under this ordinance or the rules made thereunder.	Such person shall pay a penalty of five thousand rupees or three percent of the amount of the tax involved, whichever is higher.	174 and chapter VII of the Income Tax Rules.
3	Any person who is required to apply for registration under this ordinance but fails to make an application for registration	Such person shall pay a penalty of five thousand rupees.	181
4.	Any person who fails to notify the changes of material nature in the particulars of registration.	Such person shall pay a penalty of five thousand rupees.	181
5	Any person who fails to deposit the amount of tax due or any part thereof in the time or manner laid down under this Ordinance or rules made thereunder.	Such person shall pay a penalty of five percent of the amount of the tax in default. For the second default an additional penalty of 25% of the amount of tax in default. For the third and subsequent defaults an additional penalty of 50% of the amount of tax in default.	137
6	Any person who repeats erroneous calculation in the return for more than	Such person shall pay a penalty of five thousand rupees or three	137

	one year whereby amount of tax less than the actual tax payable under this Ordinance is paid.	percent of the of the amount of the tax involved, whichever is higher.	
7	Any person who fails to maintain records required under this ordinance or the rules made thereunder.	Such person shall pay a penalty of ten thousand rupees of five percent of the amount of tax on income whichever is higher.	174
8	Where a taxpayer who, without any reasonable cause, in non-compliance with provision of section 177- (a) fails to produce the record of documents on receipt of first notice  (b) fails to produce the record or documents on receipt of second notice: and  (c) Fails to produce the record of documents on receipt of third notice	Such person shall pay a penalty of five thousand rupees.  Such person shall pay a penalty of ten thousand rupees; and  Such person shall pay a penalty of fifty thousand rupees.	177
9	Any person who fails to furnish the information required or to comply with any other term of the notice served under section 176.	Such person shall pay a penalty of five thousand rupees for the first default and ten thousand rupees for each subsequent default.	
10	Any person who- (a) makes a false or misleading statement to an inland Revenue Authority either in writing or orally or electronically including a statement in an application, certificate declaration, notification, return, including books of accounts made, prepared given, filed or furnished under this Ordinance; (b) furnishes or files a false or mis-leading information or document or statement to an Income Tax Authority either in writing or orally or electronically; (c) omits from a statement made or information furnished to an Income Tax Authority any matter or thing without which the statement or the information false or misleading in a material particular.	Such person shall pay a penalty of twenty five thousand rupees or 100% of the amount of tax shortfall whichever is higher;	114, 115,116,,174,176, 177 and general
11	Any person who denies or obstructs the access of the Commissioner or any officer authorized by the Commissioner to the premises, place, accounts, documents, computers or stocks.	Such person shall pay a penalty of twenty five thousand rupees or one hundred percent of the amount of tax involved, whichever is higher.	175 and 177
12	Where a person has concealed income or furnished inaccurate particulars of	Such person shall a penalty of twenty five thousand rupees or an	20, 111 and General

	such income including but not limited to the suppression of any income or amount chargeable to tax, the claiming of any deduction for any expenditure not actually incurred or any act referred to in sub-section (1) of section 111, in the course of any proceeding under this Ordinance before any Income Tax authority or the appellate tribunal.	amount equal to the tax which the person sought to evade whichever is higher. However, no penalty shall be payable on mere disallowance of a claim of exemption from tax of any income or amount declared by a person or mere disallowance of any expenditure declared by a person to be deductible unless it is proved that the person made the claim knowing it to be wrong	
13	Any person who obstructs any Income tax Authority in the performance of his official duties.	Such person shall pay a penalty of twenty five thousand rupees.	209, 210 and General
14	Any person who contravenes any of the provision of this ordinance for which no penalty has, specifically, been provided in this section.	Such person shall pay a penalty of five thousand rupees or three percent of the amount of tax involved, which-ever is higher.	General
15.	Any person who fails to collect or deduct tax as required under any provision of this Ordinance or fails to pay the tax collected or deducted as required under section 160	Such person shall pay a penalty of twenty five thousand rupees or the 10% of the amount of tax which-ever is higher.	148, 149,150, 151, 152, 153, 153A, 154, 155, 156,156A, 156B, 158, 160, 231A, 231B, 233, 233A, 234, 234A, 235,236, 236A.

(2) The penalties specified under sub-section (1) shall be applied in a consistent manner and no penalty shall be payable unless an order in writing is passed by the Commissioner, Commissioner (Appeals) or the Appellate Tribunal after providing an opportunity of being heard to the person concerned.

(3) Where a Commissioner (Appeals) or the Appellate Tribunal makes an order under sub-section (2), the Commissioner (Appeals) or the Appellate Tribunal, as the case may be, shall immediately serve a copy of the order on the Commissioner and thereupon all the provision of this Ordinance relating to the recovery of penalty shall apply as if the order was made by the Commissioner.

(4) Where in consequence of any order under this Ordinance, the amount of tax in respect of which any penalty payable under sub-section (1) is reduced, the amount of penalty shall be reduced accordingly.]

---

## Penalties for Late Payment and Default Surcharge:

The law provides for charge of default surcharge and penalties for failure on part of the taxpayers in timely deposit of tax. Relevant provisions are as follows;-

### 205. Default Surcharge: - A person who fails to pay-

- (a) any tax, excluding the advance tax under section 147 and [default surcharge] under this section;
- (b) any penalty; or
- (c) any amount referred to in section 140 or 141.

On or before the due date for payment shall be liable for [default surcharge] at a rate equal to [KIBOR plus three percent per quarter] on the tax, penalty or other amount unpaid computed for the period commencing on the date on which the tax, penalty or other amount was due and ending on the date on which it was paid.

A person who fails to pay advance tax under section 147 shall be liable for [default surcharge] at a rate equal to [KIBOR plus three percent quarter] on the amount of tax unpaid computed for the period commencing on the date on which it was due and ending on the date on which it was paid or date on which the return of income for the relevant tax year was due, whichever is earlier.]

Where in respect of any tax year, any taxpayer fails to pay tax under subsection [(4A), or] (6) of section 147 or the tax so paid is less than [ninety] percent of the tax chargeable for the relevant tax year, he shall be liable to pay [default surcharge] at the rate of [KIBOR plus three percent per quarter] on the amount of tax so chargeable or the amount by which the tax paid by him falls short of the [ninety] percent, as the case may be; and such [default surcharge] shall be calculated from the first day of April in that year to the date on which assessment

---

is made or the thirtieth day of June of the financial year next following, which is the earlier.]

(2) Any [default surcharge] paid by a person under sub-section (1) shall be refunded to the extent that the tax, penalty or other amount to which it related is held not to be payable

(3) A person who fails to [collect tax, as required under Division II of part V of this Chapter or Chapter XII or deduct tax as required under division III of Part V of this Chapter or Chapter XII or fails to ] pay an amount of tax collected or deducted as required under section 160 on or before the due date for payment shall be liable for [default surcharge] at a rate equal to [KIBOR plus three percent quarter] on the amount unpaid computed for the period commencing on the date the amount was required to be collected or deducted and ending on the date on which it was paid to the Commissioner.

(5) The Commissioner shall make an assessment of any [default surcharge] imposed under this part in accordance with the provisions of Part II of this Chapter as if the [default surcharge] were tax

(6) The provisions of Parts III and IV apply to an assessment of [default surcharge] as if it were an assessment of tax

**[205A. Reduction in [default surcharge], consequential to reduction in tax or penalty:-** where, in consequence of any order made under this Ordinance, the amount of tax or penalty in respect of which [default surcharge] is chargeable under section 205 is reduced. The [default surcharge], if any , levied under the aforesaid section shall be reduced accordingly.]

## **Prosecution**

**191. Prosecution for non-compliance with certain statutory obligations.-**

- 
- (a) comply with a notice under sub-section (3) of section 114 or sub-section (1) of section 116;]
  - (b) pay advance tax as required under section 147;
  - (c) comply with the obligation under Part V of this chapter to collect or deduct tax and pay the tax to the Commissioner;
  - (d) comply with a notice served under section 140 or 176;
  - (e) comply with the requirements of [sub-section (3) or sub-section (4) of] section 141; or
  - (f) provide reasonable facilities and assistance as required under sub-section (3) of section 175,

Shall commit an offence punishable on conviction with a fine or imprisonment for a term not exceeding on year , or both.

(2) If a person convicted of an offence under clause (a) of sub-section (1) fails, without reasonable excuse, to furnish the return of income or wealth statement to which the offence related within the period specified by the Court, the person shall commit a further offence punishable on conviction with a fine [ not exceeding fifty thousand rupees] or imprisonment for a term not exceeding two years, or both.

---

## Chapter 3 Challenges

Withholding Tax Regime, while contributing significantly, has created many problems for the taxpayers and the department alike. Deduction, deposit of tax and filing of periodic Withholding Statements is mandatory for Withholding Tax Agents. The persons obligated to do so under the Income Tax Ordinance have to fulfil these statutory obligations within a specific time span. Fulfilling these obligations mitigate businessman's tax problems arising on account of Withholding Tax. However, it is easier to have said than done. Same is true for the tax department. Management is not simple. Documenting the problems is necessary as it may facilitate the process of realizing the real issues before solving them.

With advancement in information technology, electronic filing of various statements has been introduced saving the taxpayer the trouble of waiting in the traditional queues in discharging their obligations. However, a fairly large number of Withholding Tax Agents continue to face challenges in this respect. There are advantages to pay on line to save a lot of time and hassle but a problem free electronic system of deposit of deducted tax is still to be developed along with complete ledger account of taxpayers.

The specific problems faced by stakeholders (taxpayers, withholding tax agents and the Department of Income Tax) are discussed hereunder:

**(a) Taxpayers' Problems**

1. The ever-expanding withholding tax regime overburdens corporate sector, who in order to fulfil their responsibilities and multiple obligations, have to bear cost of compliance and duplication of the same work. The requirement for deduction/collection and deposit of tax and periodic filing of the statements adds to hassle on their part.
2. Regulations regarding deduction/collection, payment and filing of

---

statements are complicated and time consuming. Due to inadequate education, small companies and offices find it difficult to meet their tax obligations in this regard.

3. Filing of individual Challans is problematic in view of multiple clientele of the large Agents. Lack of proper documentation causes problems for allowing credit of taxes paid in case of multiple Challans. The management of outstation Challans and allowing the credit there against is still more cumbersome and tedious. . Besides, no reliable 'online' national level system for verification of payments made under various withholding tax provisions is available either. Documentation issues including correct identification of "payee" are claimed to be beyond the control of withholding tax agents.
4. System of Reporting of challans is defective.
5. No instant dispute resolution mechanism is in place to solve the concurrent issues of withholding taxes. Tax wrongly deposited is not corrected by the banks despite existence of a procedure in the SOP on Collection Automation Project.

**(b) The Processes**

The processual problems are as follows:-

1. Manual processes cause inefficiency and performance problems, rather they are the stumbling block to an organized monitoring. Recent IT initiatives for e-filing by Corporate/Public sectors have partially improved the state of affairs. However, their implementation on the part of taxpayers is necessary.
2. Recording and reporting of collection is defective. NTN of Withholding Tax Agents (taxpayers and non-taxpayers) and of

---

“payees”, type of payment, exact withholding tax sections and codes are hardly indicated on the input forms and in the Withholding Tax Statements, either deliberately or for want of information.

3. General problem of absence of adequate tax culture in the country, which could improve voluntary compliance, is relevant to withholding taxes also. Continuous efforts at LTU/RTO level will improve the same.
4. Tax deposit system presents many problems such as non-documentation of the multiple challans and lists of payees. Automated tax deposit system of the Banks is not working to the satisfaction of the stake holders.
5. Electronic payment mechanism is in infancy.

**(c) Enforcement Problems**

1. Absence of organized monitoring and regular follow up in the field offices.
2. Lack of organized efforts to follow withholding tax processes during monitoring is causing inefficiencies and non-compliance.
3. The system support available through FBR e-Portal for scrutiny of withholding taxes statements is not being used by the field formations.
4. Monitoring parameters, an elaborate and uniform risk analysis and selection criteria are not available to the officers.
5. Capacity building is required in view of constraints of the officers and departmental inadequacies in terms of communication, infrastructure etc. A national management of Withholding Taxes Information Policy is missing. Requirements have multiplied after

---

introduction of e-filing system.

6. Manual processes are the stumbling block in organized monitoring. Their re-engineering and automation is overdue.
7. Collection reported by NBP has accuracy issues and is not transmitted down the line to RTOs causing isolation of officers to tax deposit system. Related problems thus continue as such.
8. Development of electronic commerce and related improvements has made the task of collection of taxes from non-residents a difficult proposition. There is a need to conduct research on this score as a project, as has been done in other countries, to weigh the implications and to suggest remedial measures. Otherwise, enforcement of collection from Non-Residents will remain challenging.
9. Legal provisions need to be synchronized with recent international trends in taxation of non-residents of electronic transactions.

**(d) Accounting Problems**

1. There is a large variety of challans in respect of different payments, pertaining to different persons, located at different stations and eligibility of different RTOs/LTUs for receiving and reporting the collection to respective jurisdiction. After creation of 16 LTUs/RTOs, it has enormous importance. Development and implementation of a proper and transparent accounting procedure is a serious problem. It creates difficulty in proper reporting for performance review and reconciliation with CGA etc.
2. The old system of book adjustments is still in vogue for some of the offices. It needs to be changed to cash collection to avoid reporting problems and related anomalies.

3. Automated systems of various stake holders need to be dovetailed for efficient reporting and timely reconciliation of collection between various stake holders. Transfer of information through the system can ensure its integrity. The matter has been taken up with Auditor General and needs follow-up.
4. Taxpayers' awareness regarding automated system of tax deposit is limited. They should take charge of related problems at their level.
5. Documentation needs to be improved for having correct information about taxpayers. Solution lies in Taxpayers' Education and effective enforcement of essential particulars like Name, NTN/CNIC and type of payment etc.
6. Old circulars on the subject like circular 12 of 1996, etc. require merger and revalidation in the functional setup.
7. Decision of Board to restrict the filing of statement to the respective places of jurisdictions needs to be examined for solution through the system.

**(e) Operational Problems**

In the context of tax deposit, role of SBP/NBP is equally important. The tax challans contain problems such as:-

- a. Bank branches do not send Computerised Payment Receipts (CPRs) in respect of all tax deposits.
- b. In most of the cases, names of "payee" and payer / deducting authority are either entered as the same on the CPR or are not entered in the appropriate column.
- c. Type of payment is missing or wrongly entered.

- 
- d. Details of multiple taxpayers are not indicated on the CPRs.
  - e. Some branches are treating multiple challans as a single challan
  - f. National Tax Number of “Payers” and “Payees” even if mentioned on the Input Form, are not entered or are incorrectly captured.
  - g. Name of RTO/LTU, Taxpayer and Payment codes are found missing in the CPRs/Input Forms.
  - h. In some of the CPRs, the Taxpayers’ names, addresses and other particulars are completely different from those mentioned on Input Form.
  - i. In case of wrong NTN, the Database accesses wrong information. Therefore, CPR does not represent taxpayer’s correct information.
  - j. Credit of multiple taxpayers is given to Withholding Tax Agent.
  - k. LTU/RTO codes are usually found missing on CPR.
  - l. Mostly challans of contractors and other sources are credited under the head salary.

**(f) I.T. Initiative:**

Purpose of stating the shortcomings of CPRs here is to explain the importance of developing an accurate and reliable data base of Taxpayers’ information for subsequent use for various purposes. Bank and the Taxpayers’ staff thus need to exercise due caution at the time of deposit of tax and capturing the data. Simultaneously, PRAL and the field officers should regularly examine the tax receipts data and intimate the discrepancies to the Banks at local level. In its absence, the existing dissatisfactory state of withholding taxes data would not improve.

---

Exemption/ lower rate mechanism also exists as provided under the law and circulars. They have been explained while stating the respective sections in the later part of this hand book. Proper application thereof has to be ensured through a system-based approach instead of leaving it to human discretion

**(g) Utilities Data**

Withholding regime covers some of the provisions regarding utilities and deduction mechanism based on bills such as electricity, gas and telephone bills. Some of the countries have developed special software for analysis of billing based information as contained in the Statements and Returns. Such software meets computational needs of Withholding Agents by providing accurate and consistent calculation. Complex calculations and formulae used by such companies for accounting the revenue and collection/deduction/deposit of tax thereon should be checked through such software to ensure that different scenarios are handled and law is applied accurately. A rule based system has been developed for this purpose. Billing audit can be useful for achieving the desired goals.

---

## Chapter 4 Management of Withholding Taxes

Withholding taxes are the backbone of direct taxes revenues. The taxpayers, on whose behalf adjustable withholding taxes are collected by a withholding tax agent, is interested in timely deposit of such taxes in the treasury and for seeking credit of the tax deposited by the prescribed persons on his behalf. It may not be so in case of presumptive taxes, particularly those undocumented and non-compliant in terms of filing of statutory annual statements u/s 115 of the Ordinance. In any case, FBR is interested that, wherever due, the Withholding Tax Agent collects / withholds such taxes at the prescribed rates and deposits in the treasury well within the prescribed time. There is a need to ensure that: a) the right environment / mechanism for identification and creation of Database of the withholding tax agents is in place, b) the field offices have adequate Hardware and Communication infrastructure in place, c) awareness of withholding taxes obligations is created aiming the agents, d) system audit of taxes collected under withholding taxes regime and is followed by subsequent field audit on a selective basis, particularly where deficiencies are observed and non-compliance is reported, e) the department extends full services and facilitates the Agents in meeting their obligations conveniently for improvement in voluntary compliance of tax laws without resorting to enforcement provisions.

### **Kinds of Agents and their enlistment**

For improving compliance of withholding taxes provisions and effective monitoring, it is imperative to enlist Withholding Tax Agents in an organized manner. The following can ordinarily be the withholding tax agents / authorized persons to collect / deduct the tax at the time of making the payment:-

#### **a) Taxpaying Organizations**

- i. Person defined as company under section 80(2) (b) of the Ordinance, i.e. Companies (Public/Private/Corporations)/Cooperative Societies,

---

registered Trusts & other taxable categories and entities.

- ii. Association of Persons registered by / under any law (includes Trusts and NPOs, etc., not registered as Company).
- iii. Non-profit Organizations registered under the relevant laws, like charitable entities.
- iv. Individual & AOPs turnover exceeding 50 million or above.
- v. Employers, irrespective of their status, who pay taxable salaries and are obliged to deduct tax from payment of salary to their employees,

**b) Non-Tax Paying Organizations**

- i. Federal and Provincial Governments / Organizations.
- ii. Local Authorities / Departments / District Governments.
- iii. Exempt entities – Trusts, Non-Profit Organizations.
- iv. International Agencies, Non-Resident entities and Diplomatic Missions, etc.
- v. Persons required to deduct tax from payments of salary to non-residents, etc.
- vi. Non-residents, Liaison Offices, Trade Offices, Branches and Agents, etc., required to deduct tax while making payments.
- vii. Any other category required as per law to deduct/collect tax under the withholding taxes regime.
- viii. Project Directors of various kinds including development projects of Federal/Provincial Governments. For proper reference and creation of database it is advisable to allot the FTN in a proper manner.

---

### **Proposed Action**

Each Regional Tax Office should undertake a comprehensive exercise in their respective jurisdictions through internal survey for knowing the exact number of prescribed persons of various kinds and develop a database thereof. This information should then be compared with the transactional data of DPCs for drawing the final list.

The Department should promote the use of NTN only as common identification. Withholding Taxes Statements should be examined with the aid of computer system, to bifurcate the Agents into NTN holders, Non-NTN holders and Non-Tax Payment Agents representing the Federal, Provincial and District Governments and others. Similarly, the “payees” indicated in the withholding taxes statements, should be bifurcated into those having NTN holders and Non-NTN holders. For the facility of the taxpayers without NTNs, RTOs will render necessary assistance for issuance of NTN in collaboration with PRAL. For large organizations, temporary facilitation centres should be created for processing NTN applications at their doorsteps.

Additionally, a matching exercise to compare and verify correctness of NTN as per NTN record and the taxpayer’s information contained in the Withholding Taxes Statements should be undertaken to raise the quality of taxpayers’ data. Discussion of quality issues, relevant to Withholding Taxes, amongst the stakeholders, may increase the integrity of data and transparency of the processes, ultimately, promoting voluntary compliance. Treasury Rules by SBP & NBP need to be followed for due diligence in tax deposit.

The role of the offices assigned the enlistment and registration of Withholding Taxes Agents is very important. They should take into account the importance of the following perspectives:-

- Revenue perspective based on taxpayers’ obligations regarding deductions and deposit of tax. There is substantial un-exploited revenue

---

potential.

- Taxpayers' segmentation that should link Withholding Agents to a range of demographic and economic variables for policy analysis of various kinds such as Sectoral contribution vis-à-vis real potential. Detailed information will help formulate National Tax Policy.
- Registration administration perspective that indicates a variety of essential data elements for administrative purposes to promote documentation and to develop the database of taxpayers. Enforcement priorities should be set by detailed and focused information on taxpayers.
- In order to tap the true potential of Withholding Taxes regime, it is imperative to follow a strategic management of Withholding Taxes.

## **Strategic Management**

A long-term vision of the Departmental needs to be developed in line with the overall reforms strategy of the Board. For development and implementation of the vision, the manual system of withholding taxes needs to be discouraged in view of mandatory e.filing.

### **a) Getting Prepared**

In order to ensure effective monitoring of withholding taxes, an action plan needs to be devised for future. For this purpose, the field officers should:

- i. Makeup their mind for regular checking of the overall correctness of the Tax Returns/Statements.
- ii. Realize that the primary objective of monitoring is to ensure compliance of withholding tax laws, to deduct / collect and timely deposit of the correct amounts of tax. For a traditional monitoring, this may normally include coordination with the individuals representing the taxation, accounting, and legal areas of business. For checking of the electronic records, the auditor, through a primary taxpayers' contact, may also

---

interact with representatives of other areas such as internal audit, data processing, management information systems, and records management.

- iii. Prioritize the withholding taxes sections for database in the light of respective jurisdictions and revenue potential of the Unit for facilitating supervision and performance reviews.
- iv. Draw a comprehensive action plan for the Unit for the financial year by setting goals, priorities and targets.
- v. To soften the overall image of the Department during direct personal contact with taxpayers through monitoring and audit of withholding taxes in a facilitation mode and in a transparent manner as taxpayers' Education and Facilitation is the corner stone of FBR's policy. After introduction of USAS, it is the withholding taxes regime that provides adequate opportunity to the Department to come to proper expectations of taxpayers in the aforesaid two important policy initiatives.
- vi. While doing this, the entire withholding processes are to be kept in mind which include:
  - (a) Identification of withholding taxes agents
  - (b) Registration / enlistment of the agents and if necessary, their e-intermediaries.
  - (c) Deduction of Tax from payments
  - (d) Preparation of Challan on correct form (IT-31-A revised)
  - (e) Deposit of tax in the Bank on the prescribed forms
  - (f) Issuance of deduction certificates to the "payees"
  - (g) Filing of periodic withholding taxes statements
  - (h) Credit of taxes deposited by the "payers"/"payees"

- 
- (i) Adjustment of Refund, wherever due.
  - (j) Compliance of other related enforcement provisions by the prescribed persons
  - (k) Related actions by the Department including effective enforcement, selection for monitoring and audit, proper credit, accounting, reporting and reconciliation of collection pertaining to Withholding Taxes.

#### **b) Monitoring of Withholding Taxes**

Monitoring of withholding taxes is a complicated and time consuming process, involving both the taxpaying community and non-taxpaying withholding taxes agents on one hand and the Department on the other. Considering their revenue potential, hassle for the taxpayers in meeting obligations as well as various problems faced by the Department, it is imperative to highlight the provisions, the issues evolved and a viable solution to such issues. In future, it may not be possible to accept withholding taxes on "as-is-where-is-basis.". Exponential growth, such as contemplated in the reforms strategy, would require focused approach and organized campaign. As stated earlier, the entire processes need to be followed on end-to-end basis. Enlistment of withholding taxes agents, permanent documentation, educational campaign regarding withholding taxes obligations in public and private sectors for promoting voluntary compliance, as well as proper scrutiny of the Statements and follow up action is need of the hour. Foremost in this regard is to understand the kinds of Withholding Taxes Agents and their enlistment.

There is a strong need for Monitoring and Audit Plan at the beginning of the year. Audit Wing has drawn Audit policy for the corporate as well non-corporate sectors, therefore, this SOP has been developed for effective monitoring and audit activities. Special strategy, if

---

required for any specific sector, should be announced at the time of starting the monitoring work by the respective field offices. In any way, a well drawn plan is needed that should be followed consistently in the long run.

Monitoring work should be carried out in an organized manner, followed by vigorous action as per law. The field offices should concentrate on each and every withholding tax provision. For their guidance, some of the important things relating to monitoring are being incorporated in this handbook. It should be regularly improved and updated for remaining current on the subject. Ultimate action is to be taken by each office on the basis of facts and circumstances of each case through transparent processes and in the light of given guidelines.

**i. Manual:**

With the increase in size of corporate enterprises and complexity of their transactions, it is hardly possible to examine the statements manually. However, with the installation of Software for monitoring of Withholding Taxes on FBR Portal, it is recommended that analysis of Statements may be carried out electronically.

**ii. Information Technology:**

As mentioned earlier Official Software on FBR Portal will enable the field officers to monitor withholding taxes more efficiently. They are advised to start using the system for the facility of examining the voluminous and complex statements. The same may be ultimately dovetailed in the integrated management system of the Board in due course as a legacy system.

The withholding taxes task needs to be performed quickly through real time checks on the transactions. Results need to be followed instantly for timely recovery of additional taxes, wherever

---

required. Besides, the innovative and complex methods used by the taxpayers as part of their tax planning can be beaten with the help of computer technology more quickly, accurately and effectively. The departmental officers are advised to use the available information and technology for monitoring purposes by taking the following actions:-

1. Lists should be compiled and examined with the help of data available on the system. For example, the statements filed on the FBR Portal. Listing of “payers” and “payees” can be completed and uploaded on the systems of the RTOs/LTUs.
2. Information from external sources can be uploaded and utilized for various purposes. For example, SECP/NADRA’s data can be utilized for proper identification and enlistment of withholding taxes agents/payees.
3. Compliance of withholding taxes provisions can be managed with the help of the available system, e.g. the non-filers, incomplete statements and incorrect particulars can be identified for further action as per law.
4. Access to internal and external data can help understand the patterns of compliance / non-compliance methods adopted by various classes of taxpayers for establishing the risks of monitoring. Historical behaviour can lead to finding the chronic defaulters and evaders.
5. Short filers can also be identified through electronic enforcement of the Statements to be followed by correspondence with the concerned taxpayers through the system for recovery of tax wherever due.
6. Linkages of the systems can help compare the Returns,

---

Statements & Invoices filed with Income Tax, Sales Tax, FED and Customs Departments for detection of evasion, if any.

In addition, once the Board has its own Data Warehouse, the system should be used for data mining, predictive analysis, impact of revenue measures on withholding taxes and changes in the withholding taxes regime itself. Complete data analysis and other proven techniques of data warehouse can be used to support the departmental efforts towards finding the delinquent taxpayers for guidance to their financial transactions in the economy and payment of due taxes thereon.

### **c) Monitoring and Audit**

The scope of monitoring in the I.T. environment needs to be understood by the departmental officers without which it is hardly possible to carry out a meaningful Withholding Taxes Audit as most of the taxpayers have developed I.T. systems for running their businesses. Main areas to be looked into and understood for monitoring in an I.T. environment include information that answers the following questions:-

- Are electronic records/books available?
- What is the origin of taxpayer's electronic records?
- What is the record retention policy of the business?
- What controls are in place to safeguard the records?
- Are detail and summary records available for the review period?
- Do the internal controls produce an acceptable level of assurance that the records are reliable?
- What internal controls are in place to support the tax accrual

---

system? One should study and evaluate the existing internal controls for the accrual and reporting of tax liabilities. This determines as to what extent we can rely on internal controls to affect the objectives, techniques, procedures and tests of monitoring.

- Do undocumented system changes exist?
- Is there an audit trail?
- Is transaction level information available, in adequate detail, to sample and determine whether the tax treatment is correct?
- When, where, and how will the electronic records be analyzed?
- Can the information be analyzed using the taxpayer's system resources?
- Are third party resources available?
- What sampling techniques and methods can be used in place of a detailed review of records?

For the above, it is necessary that the department have compatible, adequate hardware and software resources available to conduct an audit of electronic records. If no, solution would be required as to access and the ability to provide data in any acceptable format or download the same for examination.

#### **g) e-Commerce**

e-commerce is defined as any transaction involving exchange of goods and services between two or more parties using electronic modes, technological tools and techniques. An alternate definition is 'Cyberspace Trading' and 'Internet Trade.'

e-commerce encompasses two types of transactions; (i) sale of goods and services that are ordered electronically and delivered physically and (ii) sale of digital products that are ordered and delivered electronically. e-Commerce enables the traders to decide when to pay tax, if at all, on their activities. The issue revolves around the following:-

- 1 Significance of residential status and determining the source of income.
- 2 Basis of Taxation.
- 3 Character and classification of income.
- 4 Exemptions, if any.

Problems do arise as businesses can now engage in e-Commerce without having a physical presence. The virtual corporation concept is way beyond what was imagined during the formative stages of present day tax laws. Transactions can take place on computer servers anywhere. The impact of e-Commerce on Pakistan business in the borderless world of the internet could also be significant. Presently, certain products can be transmitted electronically rather than in physical form, including various forms of:

- 1 publications,
- 2 photographs,
- 3 compact disks, and
- 4 images

Information on remittances to and from abroad on such scores should be matched with the tax collections as available in the Challans data of DPCs. The deficiencies observed in the matching process may be noted for forming the basis of field monitoring and audit. Effective pursuit

---

of soft targets is necessary. The area being technical needs special guidance to the officers. OECD study cases can also be helpful.

**h) Risk Management:**

There are complex economic transactions that involve withholding of taxes. The accounts are maintained by the taxpayers. Importance given to possible tax risks depends upon the policies of an organization and its communication downwards to all departments and branches. The tax risks arise in the following situations:

- i) at the time of transaction;
- ii) business operation;
- iii) compliance of tax laws;
- iv) financial reporting;
- v) management and general reputation of a business concern and its behaviour towards the tax laws;
- vi) tax functions are carried out by the representatives of the management, directors, employees, tax consultants, analysts and legal advisers etc. For monitoring it is to be seen that procedures are effectively followed towards internal controls over tax risks.

The scope generally includes the review of management control framework, policies, processes, procedures, practices and administrative regime to effectively control the process of deduction. A plan is needed to eliminate the risk. Financial institutions conduct audit of enterprises based on financing amounts and bank assessment of company's risk. Such reports should also form the risk factor for monitoring.

---

During monitoring, one could identify ineffectiveness of controls. After this process, remedial measures should be recommended for designing adequate controls, ways to monitor the same and for adopting international best practices in the financial reporting. Special studies and adequate recommendations are required for this purpose in view of wide scope and options for use of appropriate technology for identification and management of the risk.

In addition, the confidentiality requirements as contained in Section 216 of the Ordinance should also be met. Taxpayers' data in the Withholding Taxes Statements is confidential. I.T. application and system used to capture, store or processing of data should also be security compliant.

The FBR should have a general oversight of the work, the field regarding information security and other risk management tools. They should be monitored to ascertain their objectivity and effectiveness. Use of best practices should be encouraged.

In the cases of Multi Nationals, Transfer Pricing issues arise many a times. Intra Company Charge backs are used to inflate or deflate the profit. Such service charges on related companies should be at "arms length". It is a global risk management issue. Some of the tax systems provide for the tax-flags on transactions like Management Fees, Service Charges, Head Office expenses and other charges. The officers should call for transfer pricing documents during monitoring of Large Corporate Taxpayers.

**d) Capacity Building Programmes.**

Organizations require framework to improve the performance of employees to realize objectives. They need the highest knowledge, skills and motivation to work efficiently. Although no standard formula can be

---

prescribed but one can find the suitable means for achieving success through the employees. Overall strategy should be linked with learning, people and leadership, management empowerment, recognition and rewards which are important for improvement.

It is an acknowledged fact that the Departmental inadequacies come in the way of effective monitoring of withholding taxes, particularly in respect of Field Audit. It is, therefore, essential that capacities of employees and the system are improved and follow-up actions are ensured. Training of Inspectors and Taxation Officers is of utmost importance in this regard. Directorate General (Training & Research) may be requested to initially arrange the training in the following fields:-

- i- Tax Payers' Database handling during monitoring
- ii- Computerization - Management Systems used by Taxpayers for handling Withholding Taxes related work.
- iii- Field Audit
- iv- Audit in IT environment
- v- E-payment of Taxes
- vi- Desk Audit - Micro and Macro analysis approach to explore the real potential.
- vii- Withholding Taxes related systems of Banks and procedures, out bound remittances, exports and imports etc.

**e) Developing the Database**

Statements under section 165 are filed by Withholding Taxes Agents with the prescribed authorities. Although it is mandatory to e-file these statements but are filed manually by a large number of Withholding Agents due to lack of enforcement by the field formations. In the absence of full-fledged data base, the available information cannot

---

be used for any policy planning or other research purposes. Database of such persons, prepared on the basis of periodic statements, can serve as a good guide for various purposes.

A dedicated web-site (FBR e-Portal) has been developed for the periodic reporting of deductions by withholding taxes agents, to enable the department/withholding agents to update their status through an easy-to-use but secure mechanism.

The withholding taxes agents also provide details of cases where tax was not deducted along with the relevant details on the web site. The data thus submitted by the withholding agents should be instantaneously uploaded on the main database server. Over a short period of time, this procedure shall enable formation of a comprehensive Database of Withholding Taxes in each unit and then nationally.

To take maximum advantage of this data, a software application is being developed to monitor trends/performance of various sectors of the economy represented by Withholding Taxes Agents, on individual as well as collective basis. Initially, it would be done through sectoral analysis on basis of codes. Subsequently, Data Warehouse will be used for this purpose.

**f) Data Warehouse**

A data warehouse is created on the basis of data to be collected by an enterprise from various sources of internal and external nature and application of appropriate technology. For FBR, withholding taxes are major source of information in view of all pervasiveness of the withholding tax provisions in almost all sorts of economic transactions in the economy. Re-engineering of withholding tax processes and automation for purposes of effective monitoring will essentially streamline the business and improve the quality of direct taxes data.

---

Consequently, creation of a meaningful data warehouse will be facilitated. Thereafter, its tools could be used for various analyses as envisaged in the creation of the data warehouse.

The following analysis can be conducted from the withholding data:-

- Revenue fore-casting
- Predictive analysis
- Business intelligence
- Risk management for monitoring of Withholding Taxes
- Non-compliance and tax evasion
- Collection and legislative change impact
- Performance management
- Broadening the Tax base

Initial requirement analysis for the data warehouse has been prepared for the purpose of timely implementation.

**g) Creation of Linkages -- an Integrated Approach**

At present, the taxpayers' data existing with Sales Tax, Federal Excise, Customs and Income Tax does not have inter-departmental connectivity. Resultantly, taxpayers do not bother much about the correctness of the Returns filed by them before different authorities' even under one roof. If the data, for example, on Imports, Sales Tax Returns, Income Tax Returns and Federal Excise Statements is computerized and is interlinked, all concerned departments can make use of it during normal course or at the time of audit activity of the taxpayers.

It would also serve as deterrence against tax evasion in future. It is proposed that pending integration of system, efforts should be made to first create the departmental linkages within the FBR. The connectivity

with Customs arranged at LTU, Lahore and Karachi should be formalized, arranged at LTU Islamabad and all RTOs also and put to use. As a result, Income Tax Department will have direct access to import data for verification and interlinking purposes and vice versa. Besides, both the Income Tax and Sales Tax Departments would be in a position to share the information on import/export related withholding taxes and sales data as per Sales Tax Returns and invoices. After building of complete profiles, information can be usefully matched for cross verification of declared results under the taxes administered by FBR. Subsequently, linkages can be established with other departments like Excise, Registrar of Property, Utility Companies, Post Offices, etc., engaged in collection of withholding taxes. It will enable effective monitoring of withholding taxes.

For integration of the Income Tax and Sales Tax systems, a process has to be initiated for communication between different Hardwares and for connection of Databases of the Departments. For this purpose, Software would be needed for matching the fields to make them potable and development of a centralized MIS for reporting purposes. These reports can be processed “Online” or on “batch processing” basis for placement on a centralized system for future use. For online reporting, 24 hours system connectivity has been made available for online transmission and up-dating of data. In case of batch processing of reports, data is uploaded on daily basis.

#### **h) Coordination with other Departments**

Compliance problems are partially created due to lack of proper coordination by the Department with the concerned agencies. The Board of Investment, for example, keeps information about foreign investment; State Bank has the record of financial transactions and remittances of

various profits abroad; Provincial Excise Authorities have complete record of vehicles; Registrar of Properties maintains data in respect of acquisition and transfer of immovable properties; Customs Department has complete data on imports and exports; Sales Tax Department has complete data as per Sales Tax Returns, Invoices, and so on and so forth. Organized and concerted efforts for coordination with these agencies can fairly enhance collection out of withholding taxes.

Internal departmental coordination should include reconciliation of information, as incorporated in the Withholding Taxes Statements and in the Income Tax Returns, Sales Tax Returns and summary of invoices. Moreover, regular exchange of information in the cases of Investigation and Audit and results thereof should be carried out on regular basis.

Tax avoidance is a usual phenomenon. It should, however, cause a great level of worry to the tax administrators. It is thus vital to keep them abreast of the latest thoughts and issues that surround the avoidance areas. There is no better approach than continuous research. A humble beginning in the shape of these operating procedures, I am confident, will be followed by ongoing research by all colleagues as it will make them the key drivers.

**i) Multiple Learning Platforms (MLP) for withholding taxes knowledge organization (WNO)**

The department is lagging behind in certain areas to effectively pursue the given objectives cohesively and sustaining the growth over a period of time. For this purpose, a competitive organization in terms of cost of tax compliance and knowledge that it drives is required. Working needs to be improved, particularly on account of the newly adopted system of filing consolidated statement at the place of jurisdiction although deductions take place at more than one stations. MLP needs to

---

be created to benefit from the knowledge bearers, i.e. experiences of colleagues across the country under mutual learning process, the question of present and of future are taken up in their holistic, systemic and complex framework. They can identify key factors of success in the field of monitoring and communicate them to others with possible solutions. This will contribute to create a set of knowledge and experience to be made available to the whole of the department for creating a withholding taxes knowledge organization.

Due to paucity of time the platform could not be established in the past year. However, it is expected that this idea may be converted into a practical shape during this year.

This will ensure valuable input to policy making and establishing a community of dedicated officers having interest in the management of withholding taxes. Such learning platforms and communities of interest are popular in the world to share the common heritage of experience for betterment and effectiveness of the organizations. With the passage of time, its scope can be expanded and the other stakeholders can also be added to make it more effective and useful.

---

## **Guidelines for Taxpayers**

Taxpayers need to understand that monitoring is the process through which Income Tax Department intends to see whether the withholding statements filed by them are correct and legal obligations have been fulfilled. It is, generally, a simple verification process and the department concentrates on deduction and deposit of tax. Unfortunately, even in the developed tax systems, tax monitoring or audit is considered as an experience that every sane businessman endeavours to avoid. The department has thus to be careful and vigilant during the process. Equally, the taxpayers are expected to come clean in the withholding statements and avoid discussing the same in the irrelevant circles to avoid anonymous reporting/complaints. Moreover, after introduction of e-filing of statements, system security should also be ensured for safe transmission on the Portal.

In addition to the Transparency of the monitoring process, awareness about the tax obligations is also important. It requires a regular tax education and facilitation program duly followed by the FBR. However, if the taxpayers know the right steps to be followed during monitoring programs of the department, the exercise can be completed to the satisfaction of taxpayers and the department as well.

---

## Chapter 5 Operational Guidelines

This part of the hand-book aims to address the basic policy and operational initiatives regarding monitoring and detailed “things-to-do” in respect of various withholding taxes provisions. In view of diversity of these provisions and different nature of cases, guidelines have been arranged section-wise with specific reference to the applicable rates and exemption mechanism, wherever applicable, followed by a detailed monitoring plan in the light of various modes of monitoring detailed in the ensuing paragraphs.

Whilst doing so, it has to be kept in mind that to collect/deduct, its deposit in national exchequer and reporting by way of filing periodic statements is the statutory responsibility of Withholding Taxes Agents. The basic purpose of monitoring is to enforce the withholding taxes provisions to implement the processes and procedures and to create appropriate enforcement environment against any possible default. This, in turn, will ultimately enhance the revenue yield. Therefore, an organized approach is required to achieve these broad based objectives.

### (a) Modes of Monitoring

Monitoring of withholding taxes is multi-faceted exercise and inter-alia involves examination of records/books/systems and bringing all the transactions warranting withholding in the net. The thrust will be to see the compliance level and harmonizing the withholding taxes provisions with other related processes. Apropos this, certain basic decisions are to be taken keeping in view the following modes of monitoring of withholding taxes process:-

- **Desk monitoring:** - Desk monitoring can be termed as the first monitoring step to gauge the completeness and accuracy of the Withholding Taxes Statements filed by the withholding taxes

---

agents. It is to be ensured that they are filing the statements in the prescribed format and furnish the particulars as required under the Rules. It involves scrutiny of the statements at the staff level and may add value by highlighting the shortcomings and revenue pilferage, if noticed.

- **Correspondence:** - To establish a relationship between the taxpayer and the taxman on the matters relating to withholding correspondence by way of issuance of notices is the most vital mode in the tax administration. This mode revitalizes monitoring of withholding taxes and essentially serves as a catalyst for creating awareness amongst the withholding agents. In the cases where any discrepancy has been noted during Desk Audit, Withholding Taxes Agents are required in writing to remove the discrepancy /objections raised under such monitoring.
- **Monitoring in the Tax Offices:** - The Agents are asked to visit tax offices to answer questions about the Statements filed along with the books maintained in support of the given transactions. It is followed after correspondence mechanism.
- **Field Monitoring.** It takes almost a sort of complete audit of the withholding taxes, covering all aspects to be examined in the office of the taxpayers. Only a limited number of cases are selected for such monitoring when it is considered important to examine the books and records and even the systems at taxpayers premises. Complex issues arising in a case are discussed on such occasions. Prior noticing and settling the scope and details prior to the visit is necessary to avoid delays and other problems like transparency etc. On site guidance to the taxpayers during the field audit serves the facilitation purpose also. The visit invariably is followed by the

---

activity report.

- **Investigative Monitoring.** It usually involves actions subsequent to selection of the case for complete investigation as a result of any special enquiry, information or complaint having substantial information about deliberate misuse of withholding taxes provisions to avoid payment of taxes.
- **Sectoral Case Studies and Research Based Monitoring.** It is done for statistical research and analysis of various fields and sectors of the economy as a study precedent to formulation of national withholding taxes and monitoring policy for various segments of the withholding tax regime.
- **System Audit.** This type of monitoring pertains to audit of the systems of major taxpayers to ascertain checks and balances in the system regarding deduction/ collection of withholding taxes and deposit of the same in the treasury. Banks and major corporations are often subjected to such audit to ensure compliance of the legal provisions through operations of the ERP. They are sample audits for replication elsewhere.
- **Tax Deposit Monitoring.** Recently, quite a few cases of doubtful payments/deposits/credits of tax have been reported. Besides, an automated tax deposit system has recently been fully implemented. The RTOs have since been organized on functional lines. A new system of e-filing of withholding statements has been introduced, that requires linkages with the tax payment system for timely filing and reporting of collection. It is, therefore, necessary that tax deposit should also be monitored by each RTO/LTU as a special project. The entire process/trail, right from deposit of tax in SBP/NBP through transmission of data to PRAL, accounting by

---

DPCs, transmission of challans/CPRs, recording of collection by RTOs/LTUs, reporting to the Board and reconciliation with CGA should be mapped. Major withholding sections can be selected periodically on sample basis.

**(b) Selection Criteria**

Basically, monitoring of withholding taxes is analysis of filed Statements and enforcement from non-filers. Formal selection of case for monitoring of Withholding Taxes may not be required. Yet, there are numerous aspects that can be considered for initiating the monitoring work as outlined in this SOP. The following factors are important in this regard:-

1. Incomplete or sloppy Statements;
2. Habitual non-filers/short filers;
3. Missing part of the Statements(where tax was not deducted);
4. Incorrect Statements/mathematical errors ;
5. Exempt cases like Non-residents etc;
6. Matching of information from various documents/ sources;
7. Discrepancies in Income Tax; Sales Tax Statements and Returns;
8. Statistical analysis for policy formulation and Sectoral studies;
9. Un-desirable activities like continuous under reporting etc;
10. Monitoring on the basis of case studies and research works;
11. Statistical information collected to update the data sources;
12. Selection on random basis either electronically or manually;
13. Discrepancy in Withholding Taxes Statements and Annual Statements of Accounts;

- 
14. Monitoring consequential to special enquiries, reports and judgments, etc;
  15. Selection of specific cases e.g. large taxpayers and or other revenue potential Withholding Taxes Agents likely to yield substantial revenue for the government;
  16. Risk based analysis of statements and other economic information;
  17. Issue based monitoring;
  18. Any other method or selection as decided by the concerned Commissioner in the individual cases or by the Board about specific classes;

**Cash Based Business:**

- There are certain businesses which are involved in high cash transactions. Cash withdrawals from banks could be one lead along with un-documented receivables or payables. Their reporting in the statements may not be complete. Details of vendors/suppliers are not provided either. Such cases should be included in the risk for monitoring. Poor record keepers placing low priority on improving the documentation should be on priority of monitoring.
- Executives/Directors with income above certain levels should be the focus of aggressive monitoring efforts. Their tax accounts are usually kept separate and not shared with even ordinary management. Enforcement should be ramped up in their cases for detecting the avoidance, if any. Some sort of trigger management should also be exercised to select such cases with higher probability of producing additional revenue.

---

**(c) Pre- Audit Analysis**

If a pre-monitoring analysis is conducted by the officers, they will be in a position to ascertain the true potential of specific cases, sectors and their overall impact on the revenue generating activities of the department. For this purpose, they should examine:

- nature and extent of business entities;
- past compliance behaviour, tax fraud activities;
- group activities as to compliance of tax laws;
- results of previous monitoring and tax audits by the Income Tax and the Sales Tax departments;
- overall declarations and amended Returns, etc, penalties, refunds and corporate status can give a good guidance for selection or otherwise of a case for detailed monitoring of withholding taxes;
- Past information about surveys and special/Sectoral studies can also be helpful;
- Taxpayer's complete particulars are important for follow-up;
- Cases should be assigned on the basis of skill and experience of the officers as it reduces no change monitoring and enhance productivity.

**(d) Explaining the processes**

For the sake of transparency, it is always good for the Department to state the following;

- Scope of the monitoring process;
- Process to be followed by the departmental officers for monitoring of a specific case;
- The taxpayers should be informed as to how they will be contacted;

- How the case is to be discussed and who will represent the department;
- How the record will be examined;
- How to convey the findings of the examination/discussions on the cases to the taxpayers;
- Mechanism for submitting replies by the taxpayers;
- Writing the reports about monitoring; and
- To determine future course of action under the relevant provisions of law in the light of the findings of the report, wherever requiring further action.

## (e) Section Wise Strategy

### i. Section 148 - Imports

#### Legal Basis

Section	Nature	Rate	Withholding Agents	Statements of tax collected	Relevant Rules
148	Imports	<u>3 &amp; 4%</u>	Collector of Customs	Monthly	44 44

Rate	On	Time of collection	Payable to the credit of Federal Government	Statement(s) of tax collected or deducted
<p><b>Normal rate for comm. Imports = 5 %</b>  <b>Reduced rates: @ 1%:</b>  <b>imported by industrial undertaking @ 3 %</b>  <b>Import of edible oil @ 4 %</b></p> <ul style="list-style-type: none"> <li>• Fibres, yarns and fabrics (<b>Clause: 9 Part: II 2<sup>nd</sup> Schedule</b>)</li> <li>• Goods covered by the Zero Rating Regime of the Sales Tax notified by Federal Board of Revenue.] (<b>Clause: 9 Part: II 2<sup>nd</sup> Schedule</b>)</li> <li>• In respect of Urea fertilizer imported, the tax under section 148 shall be collected at the rate of 1% of its import value as increased by customs-duty, sales tax and federal excise duty], if any levied thereon.] (<b>Clause: 23 Part: II 2<sup>nd</sup> Schedule</b>)</li> </ul>	Value of goods as determined under section 25 of the Customs Act, 1969, as if the goods were subject to ad-valorem duty increased by the Customs-Duty, FED and Sales Tax, if any, payable in respect of the import of the goods.	At the same time and manner as the customs duty is payable	On the day of collection of Customs duty.	Monthly within 15 days of end of each month Rule 43

<ul style="list-style-type: none"> <li>• Potassic fertilizers imported in pursuance of Economic Coordination Committee of the cabinet's decision No ECC - 155/12/2004 dated 9<sup>th</sup> December 2004. (Clause: 13-E Part : II 2<sup>nd</sup> Schedule             <ul style="list-style-type: none"> <li>• The following items as per (Clause: 13-G Part: II 2<sup>nd</sup> Schedule).</li> </ul> </li> <li>ii. Cement</li> <li>iv. Gold;</li> <li>v. Mobile telephone sets;</li> <li>vi. Silver;</li> </ul>				
--	--	--	--	--

### Example - 1

<u>1</u>	Gross value of imports (edible oil etc and packing material) under sub-section (8) or section 148. (imported for own use)	<b>Rs. 100 million</b>
<u>2</u>	Tax collected under sub section (1) of section 148, @ 4% as provided in clause (9A) of part II of the Second Schedule.	<b>Rs. 4 million</b>
<u>3</u>	Income as per return filed under section 114	<b>Rs. 15 million</b>
<u>4</u>	Tax payable under Division II Part I of first schedule @ 35 % on the aforesaid income.	<b>Rs. 5.250 million</b>
<u>5</u>	The taxpayer would be required to pay further tax	<b>Rs. 1.250 million</b>

### Example - II

<u>1</u>	Gross value of imports (edible oil etc and packing material) under sub-section (8) or section 148. (imported for own use)	<b>Rs. 100 million</b>
<u>2</u>	Tax collected under sub section (1) of section 148, @ 4% as provided in clause (9A) of part II of the Second Schedule.	<b>Rs. 4 million</b>
<u>3</u>	Loss as per return filed under section 114	<b>(Rs. 10 million)</b>
<u>4</u>	Tax payable under Division II Part I of first schedule @ 35 % on the aforesaid income.	<b>Nil</b>
<u>5</u>	The tax collected under sub section (1) read with sub section (8) of section 148 would be 'minimum tax'	<b>Rs. 4 million</b>

### Withholding Tax Agents

The Collectors of Customs of Sea Ports/Dry Ports are obliged to collect withholding tax on imports as per prescribed rates. In the case of goods/equipments imported through Airways, each Collector is obliged to collect tax at the time of clearance. Statements are to be filed on monthly basis.

---

Tax under this section is collected from all, except from the imports by Government or exempt entities on the basis of certificate issued by a Commissioner.

### **Monitoring Strategy**

Monitoring of this source is relatively easy, particularly due to computerization / automation of major Sea/Air Ports. Periodic checking of imports with reference to exemption and collection of tax, its deposit in the Bank and cross verification of exemption allowed with tax records would be useful. However, the following actions are required for better management of this important source:

- LTUs /RTOs should be provided connectivity with the Customs data bases. Each Unit should be provided a User ID and Password from PRAL for on line access to PaCCS and one Customs.
- The authorized officer of each RTO should coordinate with Customs authorities, hold macro analysis of imports by Government, by other agencies, those treated exempt, and perform the system audit of imports, if required.
- The exemptions allowed to the imports made by exempt entities, the cases where Commissioner issued exemption certificates or SRO based exemptions were allowed; need to be examined to ascertain their admissibility.
- Categorization of imports, as provided in the system, rules, One Customs and PaCCS software applications should be strictly enforced by the Customs authorities. Concerned RTO should coordinate the matter accordingly.
- A centralized web based system has been introduced for issuance of certificates by the Commissioners and creation of a centralized Database.

---

On-line verification of certificates by the concerned authorities will form part of it. This is necessary for ascertaining the genuineness of exemption certificates.

- PRAL should send the data received from NBP/Customs House to each RTO on daily basis as provided in the SOP for CAP.
- Tax collected as per Customs data and tax actually deposited in NBP and reported through CAP should be reconciled by PRAL on monthly basis with the RTO as part of normal exercise for reconciliation of revenue. Discrepancies, if any, should be reported to concerned Collector/ PRAL for reconciliation.
- A comprehensive scheme of allotting tax numbers is in place. All importers should essentially have a Tax Registration Number that is either NTN or Free Tax Number (FTN) and no import should be allowed without a valid tax number.
- The cases of transfer of residence or one-time individual's imports should be processed on the basis of CNIC.

In a number of cases, tax has not been deducted as per Customs data. The system of allowing exemption to the importers, therefore, needs to be streamlined by reviewing the mechanism so as to make it transparent and by placing an updated Master Index on Customs Database so that imports are made on a valid NTN/FTN only. For this purpose, instructions should be issued asking Customs authorities to allow exemption on the basis of a valid provision of law and exemption certificates only.

Necessary changes are being proposed in the PaCCS Software Application also where verification of NTN/FTN through the system is not presently available. Customs Authorities should check and enforce the NTN/FTN through the system in the Model Collectorates also. Customs Wing should affect

---

necessary changes accordingly as per decision of the Board contained in the minutes of the meeting dated 15.03.2008.

### **Monitoring of Deposited Tax**

Income Tax is collected by the Collector of Customs at imports stage on Duty paid value of imports. It is deposited in NBP along with other taxes on imports. Sequence of operations is different in Model Collectorates and others in view of two separate computer applications being applied under One Customs and PaCC Software. Detailed process of deposit of Income Tax on imports is the same as that for deposit of Customs Duty in the Bank as all taxes are collected at the time of payment of Customs Duty and deposited in NBP. The Bank signs, stamps and issues CPR and hands over the same to the taxpayer. Electronic data is stored in respective database of FBR. PRAL should run validation checks on receipt of data and also transmit the same to the concerned LTU/RTO through the system. It could be utilized for verification and reconciliation of imports, Returns, Statements and payments.

Timely filing of Monthly and Annual Statements under Rule 44 should be enforced as presently they are not being filed. Statements should be examined for policy analysis and other purposes.

## ii. Section 149 - Salary

### Legal Basis

Section	Source	Rate	Withholding Agents	Statements of tax collected	Relevant Rules
149	Salary	Different as per Division I of Part I of 1 <sup>st</sup> Schedule to the Income Tax Ordinance	Employer	Annual where salary income is less than five hundred thousand rupees Quarterly	44 44

Rate	On	Time of Deduction	Payable to the credit of Govt.	Statement
Annual average rate (to be calculated as per rate card subject to applicable reductions in tax for some of the classes)	Salary chargeable to tax	At the time the salary is actually paid	On the day deducted (Where deducted by and on behalf of the Government) Rule 43(a) and (Within 7 days from the end of each week ending on every Sunday	Monthly within 15 days of end of each month  Annual within two months of end of each financial year

Annual statement of deduction of tax filed by the employer shall be treated as return of salaried person having no other source of income.

### Monitoring

Monitoring of withholding tax on salaries is a regular feature. Nevertheless, there is scope for further improvement in view of great potential for payment of considerable perquisites, generally undisclosed. It is an important source of revenue the world over. The real potential is much higher than the present collection. All payments made to the employees have tax implications. Strong and well coordinated communication with the employers is needed for promoting greater compliance in a supportive mode with a friendly interface between FBR and the stakeholders.

The Commissioner can advise to look into the following aspects through systems of large employers like Pakistan Steel, PIA, ICI, CAA& Banks etc :-

- Comprehensive review of the statements, filed by the Employers;

- 
- Sector-wise salary surveys regarding trends of pay and allowances in different sectors;
  - Salary structure analysis of major employers;
  - Random selection of cases of senior executives of various corporate sectors including banking, oil and telecom, receiving huge salaries and perquisites, while devising monitoring plan of an organization;
  - Payments in the following heads should be reviewed along with relevant documents for ensuring proper deduction:
    - CBA agreement.
    - Appointment letter / contract (job letter).
    - Contribution to Provident Fund/Annuity.
    - Re-imbursment of medical, petrol, and entertainment.
    - Cars provided by the employers and expenditure on their acquisition and maintenance and Concessional loan facility provided by the company.
    - House accommodation - furnished/unfurnished.
    - Club bills / Hotel bills/Club subscriptions.
    - Utility bills of employees paid by the employer.
    - Free household items like Air-Conditioner, Fridge and furniture items provided.
    - Concessional travelling/Leave Fair Assistance.
    - Stock options offered and connected arrangements for payments and deduction of tax.
    - Formula of deduction of tax and mechanism for recording thereof in the books of accounts and deposit of tax.
    - Receipts of Capital nature which fall under the head "salary".

- 
- Compensation for redundancy or loss of employment and golden handshake payments.
  - Scholarships/ tuition fee of children paid by the employer.
  - Liabilities accounted for by the employer especially when new executives are hired, who owe liability to the ex-employer.
  - Concessional mark-up/free loans provided, especially, in the cases of banks and financial institutions.
  - Provision of services of Mali, Chowkidar, security system, driver and cook etc. or re-imburement of pay of servants.
  - Provision of free electricity, gas, telephone, travel and other products by the employers who deal in such business.
  - Commission and rewards including sales targets achievements and other rewards.
  - Services hired from abroad.
  - Cash medical assistance/hospitalization paid to the employees.
  - Any other allowance or perquisite provided by the employer paid in cash or in any other manner.
  - Salary payments chargeable to Withholding Tax under section 149 of the Ordinance as shown in the Annual Statements should match with the amount of expenses under this head, charged to manufacturing and P&L Account/Audited Statement of Accounts. In case of any difference, the Withholding Tax Agent may be asked to reconcile and explain the reasons for not withholding such tax.
  - Meal and entertainment claimed as business expenditure that may actually be personal, non-deductible.

- 
- In closely held companies and family owned enterprises, unreasonable compensation to Directors and employees should be checked with reference to work done and contribution made.

In the cases of Banks, actual deduction of tax from payment of salary to Branch staff and its deposit should be confirmed with reference to the separate challan for each such deposit. Payments of taxes deducted under various Sections through combined challan always create confusion. It should be ensured that each type of payment is duly supported by the relevant tax deposit challan. Misuse of one challan for various deposits is reported and should be adequately checked.

The Department should conduct System audit of Mega corporations / large companies in public and private sectors and should be replicated / shared in other cases on national basis.

It may be re-emphasized that non-cash perquisites are usually not declared in the statements. It is imperative to study terms and conditions of service provided in the service contracts/appointment letters. Non-deduction of tax on such perquisites is a common practice observed in many cases for which cognizance, as per law, has to be taken.

### iii. Section 150 - Dividend

#### Legal Basis

Section	Nature	Rate	Withholding Agents	Statements of tax collected	Relevant Rules
150	Dividend	10 % <u>Reduced rates</u> 7.5% - Paid by a purchaser of a power project privatized by WAPDA [Clause (17) of Part II of 2nd Schedule]. 7.5% - Paid by a company set up for power generation [Clause (20) of Part II of 2nd Schedule].	Every Person*  Within 7 days from the end of each week ending on Sunday	Monthly within 15 days of end of each month	Rule 43

\* By Virtue of amendment in section 150, now a resident company will also be required to deduct tax from the gross amount of dividend paid, since remittance of after – tax profits of a branch of a non-resident company is also treated as dividend.

#### Monitoring

This source is not regularly monitored. It has been observed from the transactional data of withholding taxes that during the previous financial year, small number of challans have been deposited in respect of dividend paid to the non-resident shareholders. Total deductions from this source are around 3.3 billions only. This is rather on the lower side. Therefore, it is necessary to explore the possible gaps. Organized efforts are needed including the following:

- 1 Statements under section 165 should be enforced and examined on regular basis;
- 2 List of companies having foreign equity should be obtained from BOI and other sources;
- 3 Multinational companies having subsidiaries in Pakistan should be identified;
- 4 Remittances abroad on account of dividend should be examined with

---

reference to data available with SBP;

- 5 Statements filed with SECP regarding shareholding, increase/decrease in capital, change of Directors / management / ownership and sale of shares etc should be analysed.
- 6 List of companies, which declared dividends should be obtained from SECP, Stock Exchanges and press clippings.
- 7 Reconcile the statements filed with the dividend paid to resident and non-resident shareholders as per information obtained from other sources like SECP etc.
- 8 Regulatory framework of SECP regarding dividend needs to be understood. As per the Companies Ordinance, 1984:-
  - Dividend is paid only to registered shareholders and it cannot exceed the amount proposed by the directors. Resolutions for this purpose may be referred where revenue risk is of higher nature;
  - Dividend is to be paid within 45 days of declaration in case of a listed company and within 30 days in case of any other company. Timing of declaration and deposit of tax should be linked. Ascertain the date of announcement/approval of dividend in general meeting or the date on which dividend was proposed by the directors;
  - In case of non-payment of a declared dividend within the stipulated time, the chief executive of the company shall be punishable with imprisonment for a term which may extend to two years and with fine which may extend to one million rupees. Any such action by SECP should be inquired and should form part of the risk criteria for selection of case for Audit;
  - It should be examined as to whether complete particulars of recipients have been mentioned on the challan or not?

- Confirm sources/basis for exemption/low rate deductions, if any;
- Information on recipients as contained in the statements should be sent to the relevant field officers for enforcing Returns/Statements of “Payees”, as required under the law;
- It would be appropriate to obtain a clear response (in “yes” or “no”) from all corporate taxpayers about declaration of dividend and deduction of tax.

iv. **Section 151 - Profit on Debt**

**Legal Basis**

**151(1)(a)**

Rate	On	When deduction is to be made	Payable to the credit of Federal Government	Statement(s) of tax collected or deducted
10%	Yield or profit (profit on debt) on an account, deposit or a certificate under the National Savings Schemes or Post Office Savings Account as reduced by amount of Zakat, if any, paid by the recipient under the Zakat and Ushr Ordinance, 1980	At the time the yield or profit (profit on debt) is credited to the account of the recipient or is actually paid, whichever is earlier.	On the day deducted Rule:43(a)	Monthly within 15 days of end of each month

**151(1) (b)**

10%	Profit on debt on an account or deposit maintained as reduced by amount of Zakat, if any, paid by the recipient under the Zakat and Usher Ordinance, 1980	At the time the profit on debt is credited to the account of the recipient or is actually paid, whichever is earlier	Within 7 days from the end of each week ending on Sunday	Monthly within 15 days of end of each month
-----	---	--	--	---

**151(1) (c)**

10%	Profit on debt on any security (other than those covered under section 151(1)(a)) issued by the Federal Government or a Provincial Government or a local authority as reduced by amount of Zakat, if any, paid by the recipient under the Zakat and Ushr Ordinance, 1980	At the time the profit on security is credited to the account of the recipient or is actually paid, whichever is earlier	On the day deducted (Where deducted by and on behalf of the Government) Rule:43(a)	Monthly within 15 days of end of each month
-----	--	--	--	---

**151(1) (d)**

10%	Profit on any bond, certificate, debenture, security or instrument of any kind as reduced by amount of Zakat, if any, paid by the recipient under the Zakat and Ushr Ordinance, 1980	Within 7 days from the end of each week ending of Sunday	Monthly within 15 days of end of each month
-----	--	--	---

In pursuance of sub section 3 of section 151 tax deducted under this section shall be final tax on the profit on debt arising to taxpayer other than a company from transaction referred to in clause (a),(b) and (d) of sub section (1).

**Monitoring**

The Financial and Banking Sector is organized. However, there is a variety of prescribed persons, other than Banks, who are also involved in investment and payment/receipt of profit on debt. Therefore, for effective monitoring, profits paid on debt by all sorts of Withholding Taxes Agents need to be explored and examined.

The profit on debt is not restricted to the Banks only. There are certain non-banking institutions like Modarabas, Mutual Funds, Gratuity Funds, Islamic modes, Income Funds, Bonds and Debentures etc. Profit on debt may be paid to the individual investors making investments in Bonds, income funds, trading companies selling goods on credit/deferred payment basis, financial institutions including SBP granting loan to institutional investors etc. Such sources need to be explored and documented for regular monitoring.

At the international level, the “payers” and the recipient of interest may be residents of separate countries. List of “Payers” & “Payees” should be developed and sources of profit on debt payments ascertained for monitoring.

Withholding Tax Agents, in this category, include National Savings Centres, Post Offices, Banking Companies, Financial Institutions, Federal Government, a Provincial Government or a local authority and company whereas “Profit on debt” includes Profit on any Bond, Term Finance Certificates, Debentures, Gratuity/funds, Security or any other instrument issued by

---

Companies and Finance Societies etc. All sources need to be enlisted for monitoring.

Recently, a large number of forex companies have been given the licenses for banking business. List of such companies should be obtained from SECP/SBP and their processes be examined to ascertain the business actually carried out by them for monitoring.

**For effective monitoring:**

- The officers should conduct a macro analysis of profit on debt paid by the Banks to account holders and amount of tax deducted and deposited by all branches;
- Data reported to SBP should be obtained from SBP also for cross verification;
- The systems of the Banks relating to deduction and deposit of tax should be examined along with necessary checks and balances therein for transparent deduction and deposit of tax in time in respect of all account holders;
- The issue of deduction of tax on gross amount paid or on the net amount i.e. after adjustment of profit on debt payable also needs consideration of the concerned officers on sample basis.

The officers holding jurisdiction over cases of Banks and other institutions should study the system of deduction and deposit of tax by the related prescribed persons. Such systems should be got audited through experts having adequate experience of inspection of banks, financial institutions and of system audit. The experience so gained should be replicated in other cases.

Generally, withholding agents for this source don't file complete statements. In some of the cases requisite details are now pouring in. Efforts need to be made to enforce complete Statements from all Banks. Furthermore, a

separate format should be developed in due course for the Banks and Financial Institutions so as to obtain meaningful details.

#### v. Section 152 - Payments to Non- Residents

##### Legal Basis

Section	Rate	Withholding Agents	Statements of tax collected	Relevant Rules
152(1)	15% or as per Double Taxation Agreement Division IV of Part 1 of 1 <sup>st</sup> Schedule	Person paying Royalty or fee for Technical services	Monthly within 15 days of end of each month	58
152(2)	20% or as per agreement for double taxation. Tax deducted on profit on debt from debt instruments, Govt security including Treasury bills and Pakistan Investment Board shall be final tax on profit on debt payable to non-resident person having no P-E in Pakistan and investments are exclusively made through a Special Rupee convertible account maintain with bank in Pakistan	Person making payment to non-resident	- do -	58

##### 152(1)

On	When	Statement(s) of tax collected or deducted
Gross amount of Royalty or Fee for Technical Services	At the time the Royalty or Fee for Technical Services is actually paid	Monthly within 15 days of end of each month

##### 152(2)

Rate	On	When	Statement(s) of tax collected or deducted
20% or lower rate as per agreement for avoidance of Double Taxation	Gross amount of any payment chargeable to tax including profit on debts but excluding Royalty & Fee for Technical Services.	At the time the amount is actually paid	Monthly within 15 days of end of each month

##### Monitoring

The above provisions relate to tax to be withheld from such payments to non-residents that are chargeable to tax. Basically, sub-section (7) exempts remittances made on account of imports and medical and educational expenses. Now a days, suppliers of plant and machinery also undertake its installation which, in presence of P.E., results in accrual of income in Pakistan, or, contracts

---

of "turnkey" nature for which purpose they set up an establishment in Pakistan. Such establishment may qualify to be a 'permanent establishment' u/s 2(41).

If the import of goods fall in any of the categories mentioned in sub-clauses (i) to (iv) of clause (a) of sub-section (7), the exemption does not apply and tax shall be deducted from the payments made for such supplies.

It is worthwhile to mention here that there is no specific prescribed person per se for making deductions from the non-residents. Monitoring is not being done by the field offices in a systematic manner either. Work of the field offices in this regard is challenging and they have to work hard to identify the withholding tax agents and to ensure deduction of tax from the payments made to the non-residents. Banks should also be obliged to indicate separately the payments/remittances abroad for facility of identifying such class of persons. A separate form should be designed for such information.

Generally, deductions are required from payments to non-residents on account of:-

- Royalties of all kinds like copyright royalty, film rentals, intellectual and technical services etc;
- Fee for Technical Services;
- Offshore supplies (considering the nature of contract) such as "turnkey" etc;
- Non-resident experts (involved in installation of plant & machinery etc);
- Sale/purchase of goods by Trade Offices of foreign principles independently (locally);
- Franchise Fee payments by food chains and hatch etc;
- Commission/Brokerage (including indenting and on export sales);
- Payment to Agents of non-resident Shipping/ Airlines under section 7 for

---

booking of freight. Mechanism for remittance of freight charges to such companies by the local agents be seen to ascertain/cross verify the amount of commission retained and tax deducted and deposited by the agents for themselves.

- Any other payment to a non-resident, chargeable to tax/deduction.
- The automobile/engineering industry charges heavy expenses on account of Royalty. Withholding of Tax on such payments to non-residents must be examined.
- Payment of Insurance or Re-Insurance Charges to non-resident companies should be examined specifically with reference to Tax Treaties with various countries for avoidance of double Taxation. It may also be examined whether the person making payment remits any amount without deduction of tax, assuming at its own that the recipient is exempt from tax or the recipient of such payment holds proper certificate from the concerned Commissioner of Income Tax.

#### **Key areas/documents to be examined during monitoring**

- 1 Tax Ledger and other ledgers indicating payments made to foreign concerns.
- 2 Turnkey, other international contracts, offshore supplies, consultancies and any other services.
- 3 Documents regarding non-deduction for exemptions under a Tax Treaty/Agreement for avoidance of Double Taxation.
- 4 Basis of exemption under tax treaties and evidence of residential status of "Payee" in support of claim of benefit.
- 5 To see "Tax-on-Tax" Liability in cases where employees' tax liability has been incurred or assumed by the "payer"/employer.
  - Tax rate applied by the Withholding Agent for deduction of tax from

---

different payments - tax rates being different for different payments such as royalty, technical fee, etc.

- In case of any claim of exemption or reduced rate application under a treaty, the bilateral or multilateral agreement for avoidance of Double Taxation be seen along with the relevant documents.
- Budget allocations in case of government organizations for Foreign Exchange and mechanism for its utilization.
- Remittances into and from Bank accounts of companies to/from non-residents.
- Implications of Electronic Commerce and Modern Cross Border Transactions.
- Details of salary and allowances paid to expatriate employees, partly in Pakistan and partly abroad in their home countries and mechanism of deduction of tax from total emoluments paid from Pakistan source.
- Select cases of large units and carry out Audit of payment based on its documents, check the rates applied, inspect exemptions and double taxation relief.

A difficulty in application of this section that arises for the “payers” is to determine as to whether the recipient is chargeable to tax. Sub-section (5) contains a safeguard, requiring a payer who does not intend to deduct tax, to notify the Commissioner in writing, giving the name and address of the non-resident person along with the nature and amount of the payment. If Commissioner has reasonable ground to believe that non-resident is chargeable to tax on the payments, he may, by a written notice, direct the “payer” to deduct tax.

It has been noted that such notices are sent in a limited number of cases only. At one of the major stations around 100 notices were reportedly sent whereas in more than 2500 cases of non-residents tax deduction had taken place. No reconciliation regarding numbers is available as no such mechanism exists any where in the department. State Bank of Pakistan is being asked to provide a statement of remittances made during a year so that a Data base of non-residents is available for analysis of tax liability arising out of transactions with them. Concerned officers at Karachi need to collect and disseminate the information to relevant quarters.

Another important source is satellite channels. Some of them claim to be non-residents. They have fixed place of business in Pakistan on account of advertisements which are Pakistan focused and terminate in Pakistan. Payments are made by the business concerns utilizing their Air Time. Distribution and exhibition of films, periodicals and magazines with reference to payment of royalty thereon from Pakistan is also worth considering. Requisite details should be obtained after ascertaining the true mechanism applied for booking, billing and remittances. Available information leads to the conclusion that real potential of this source has not been fully exploited. Reportedly, PTV is deducting tax. Cases of all other channels need to be examined to confirm deductions. They are to be enlisted first as withholding tax agents.

Information concerning industrial, commercial and technical expenditures is also treated as "Royalty" and tax needs to be collected there from. Departmental vigilance is needed to payment of royalty at arm's length for proper transfer pricing for other associate inter-company charges, including intangible transfer and taking entrepreneurial risks and responsibilities. Cost sharing payment assignments be checked to detect transfer of assets and profits offshore to related companies for inadequate consideration. Transfer pricing is often used for avoidance of tax through payments without deduction or lesser deduction.

---

Study of other tax systems has revealed that there are specific provisions in the law for deductions from an amount paid /credited as consideration for use of the following:-

- 1 Designs/ models/plans;
- 2 Secret formula or process;
- 3 Tapes, videos and DVDs for radio or television broadcasting;
- 4 Cable network and news channels;
- 5 Management services and rentals of moveable property;
- 6 Cinematographic films;
- 7 Subscriptions of various kinds;
- 8 Personal Services associated with use of intangible property;
- 9 Any payment to a non-resident for the above and any other purpose, sourced in Pakistan, is to be subjected to tax, hence withholding is required.

### **Internet Dealings**

E-business encompasses a wide range of emerging concepts and technologies. Generally such transactions are conducted on computer networks. In the absence of any definitive means to determine involvement in e-business, efforts can be directed towards websites ,yellow pages ,business cards, service providers ,details of products and services purchased and mode of payment, internet fee payments, credit sales and their handling, use of credit cards and other business indicators that maybe found while purchase/ lease of hardware and software and other business activities, even expense payouts and deductions may provide some clue about the internet dealings. A well designed queries and questions during the ministering can also prove helpful in finding out internet activities.

---

Internet has envisaged a tremendous growth and linked organizations internationally. Physical location of the activity of an enterprise is less important, making it difficult to determine as to where an activity is actually carried out. All and many characteristics of electronic commerce will have significance for operation of a tax system. They include lack of central control, no central registration and weak traceability of correspondence etc. Tax authorities are likely to face many interrelated challenges, such as:-

- 1 Difficulty in tracing the transaction due to lack of links;
- 2 Internet addresses are established in any taxing jurisdiction irrespective of location;
- 3 Difficult access to Books and Records, which makes the audit trail impossible;
- 4 Banking Card transactions under internet contain anonymity without a possible trace for the tax authority.

Tax operations have to be improved by using new communication facilities which can serve the dual purpose of monitoring the activities as well as quality service to the taxpayers.

The aforementioned details should be examined for effective monitoring of payments to non-residents and tax due/deducted/deposited. Concerned officials should review the potential vulnerabilities of current tax treatment of non-residents to redress the issues wherever possible.

**Vii - Section 153 - Contracts Executed, Supply of Goods & Services**  
**Legal Basis**

Section	Nature	Rate	Withholding Agents	Statement(s) of tax deducted
153(1)(a)	Payment for Goods and Services (Supply)	1.5% 3.5% Division III of Part III of 1 <sup>st</sup> Schedule	a. the Federal Govt. b. a company c. an AOP constituted by under the law c.c. a non profitable organization d. a foreign contractor or consultant e. a consortium or joint venture f. an exporter or an export house g. an AOP having turnover of 50m for tax year 2007 and onwards h. an individual having turnover of 50 million for tax year 2009 or in any subsequent tax year	Monthly within 15 days of end of each month
	Supply of cigarette and pharmaceutical	1%		
153(1)(b)	Payment on account of services rendering / providing Transport services	6% 2%		
153(1)(c)	Execution of contract	6%		

**153(1A)**

Rate	On	When	Statement(s) of tax collected or deducted
0.5%	Gross amount of payment on account of rendering or providing of services of stitching, dying, printing, embroidery, washing, sizing and weaving	At the time the amount is actually paid	Monthly within 15 days of end of each month

This source is very important in terms of overall contribution, true potential and all embracing nature in almost all economic transactions. Compliance level being low needs to be improved. There is huge potential for exponential growth in collection under this head. The figures of actual collection of tax and due on the development expenditure of the Government and deductions made by private sector need reconciliation in each Unit with

---

reference to developmental allocations by the Govt. and expenditure by private sector. Therefore, a macro analysis of activities and monitoring of all withholding agents is necessary.

The following documents/details may be examined for action taken by departmental officials:-

- Deduction for contracts executed, supplies made and services rendered;
- Payments to include Sales Tax for deduction purposes;
- Advances are also covered in the total amount of payments for deduction purposes;
- Total payments on account of
  - a) Purchases
  - b) Services
  - c) Expenses and amount of total deductions during the relevant period.
  - d) Sample checking of bills to see actual deductions on all transactions.
    - Reconciliation of payments and deductions as per tax ledgers.
    - Offshore supply contracts – tax deducted/not deducted from non-residents and intimation sent to the department for non-deduction.
    - Service/consultancy contracts – local and with non-residents
    - Special rate/reduced rate payments and basis thereof – evidence to be seen.
    - Installation works – payment to non-resident engineers and position of deduction from such charges.

- 
- Purchases of edible items, fruits and vegetables etc. by hotels and restaurants, particularly where suppliers are not documented/ identifiable from the statements/accounts.

### **Construction/Execution of Contracts/ Mega Projects**

- a. Advance payments allowed to the contractor before execution of contract.
- b. Material supplied to the contractor for execution of contract.
- c. Manpower provided to the contractor and mechanism of deduction of tax.
- d. Consideration for other amenities provided such as premises, networking facility, software and technical or other services.
- e. Any rebate or credit allowed in recognition of before time completion of project, and fine imposed for delay in completion of projects and effect thereof on deduction of tax.

A comprehensive analysis of projects should be conducted. All major organizations in public sector need to file the annual contract awards and withholding reports, stating the tax deducted from payments to prime contractors of public funded projects. Besides, the contracts are sub-let very frequently but deduction is restricted to the prescribed persons only. In the cases of sub-letting of contracts, the terms and condition and mechanism of tax deduction from the payments to sub-contractor should be examined.

The status of R.F. is no more there in the Ordinance. The Firms now fall under the definition of AOP under sub-section 9(c) & (g) of section 153. The limit of capital earlier prescribed for the firms for deduction purposes has now been removed. Therefore, deduction shall be made irrespective of capital of the AOP. Besides, it should be seen that all AOPs constituted by or under a law deduct tax under the Ordinance.

## Macro Approach

All Directors General should conduct Sectoral analysis in their jurisdictions. An analysis of cotton lint produced / ginned during the cotton season 2007-08 has been made by the DG, RTO Multan. The country-wide data collected from Pakistan Cotton Ginners Association (PCGA) for the current and immediately preceding year has been reported as under:

	Cotton Season	
	2007-08	2006-07
	Bales Produced	Bales Produced
Punjab	7,774,907	10,079,601
Sindh	2,345,000	2,319,190
<b>Total</b>	<b>10,119,907</b>	<b>12,395,791</b>

The sale of cotton lint is subject to 1% withholding tax on local supplies as provided under clause (a) of sub-section (1) of Section 153 read with SRO 600(I)/91. Tax so deducted is treated as final tax as per sub-section (6) of Section 153 of the Income Tax Ordinance, 2001. Tax revenue contributed by the cotton ginning sector has been worked out on the basis of average rate in the following manner:

### Revenue Potential

(Up to January, 2008)				Cotton Season 2006-07			
Months	Sale Rate in Rupees per Maund (37.224 Kg)		Average rate in Rupees	Months	Sale Rate in Rupees per Maund (37.224 Kg)		Average rate in Rupees
	Lowest	Highest			Lowest	Highest	
Sep. 07	2700	2950	2825	Sep. 06	2475	2725	2600
Oct. 07	2800	3200	3000	Oct. 06	2350	2550	2450
Nov. 07	Not available			Nov. 06	2375	2675	2475
Dec. 07	2950	3200	3075	Dec. 06	2470	2665	2568
Jan. 08	3100	3400	3250	Jan. 07	2415	2640	2528
AVERAGE WEIGHTED RATE			<b>3038</b>	AVERAGE WEIGHTED RATE			<b>2523</b>

Average weight per bale is normally 150 Kg which is equivalent to 4.029 Maunds. The approximate amount of tax involved would, therefore, work out as under:

## National Level

	Cotton Season 2007-08 (Up to Jan. 2008)	Cotton Season 2006-07
Total Bales Produced	10,119,907	12,398,791
Total weight @ 4.029 Maund per bale	40,773,105 maunds	49,954,729 maunds
Value at weighted average rate.	Rs.123,868,693,910	Rs.126,035,781,117
Income Tax @ 1%	Rs. 1,238,686,939	Rs.12,603,578,112

	Cotton Season 2007-08 (Up to Jan. 2008)
Total Bales Produced	7,075,399
Total Bales Sold.	6,167,721
Total weight of sold bales @ 4.029 Maund per bale	24,849,748 Maund
Value of sold bales at weighted average rate.	Rs.75,493,534,424/-
Income Tax @ 1%	Rs.754,935,344/-

During last year cotton season, against expected tax revenue of Rs.754.935 (M) collection of Rs.297.104 (M) approximately was received so far in major growing areas falling in the jurisdiction of Regional Tax Office, Multan. Exact amount of tax worked out on above formula could not be realized due to many reasons that need to be examined.

Reconciliation of payments and deductions at national level has always been a problem. A task force of different Regions needs to be constituted to develop ways and means to realize full collection. Besides, the matter should be coordinated with Pakistan Cotton Association, Pakistan Cotton Growers Association and APTMA etc.

Another such scrutiny was held in respect of development projects of the government. A list of around 2300 Federal Govt. funded projects was sent to the field. Feedback revealed that some 50 % projects were not on the list of withholding agents of the respective RTOs. Most of the Project Directors were not filing their withholding statements. Overall deductions reported for the previous year under section 153 did not reconcile with the development outlays of the year. Expenditure on PSDP has different components in terms of civil works, operational expenditure, salary and wages and others. The DGs should examine the development accounts of the Federal and Provincial as well as

---

district governments in their respective jurisdictions for ensuring proper deduction and deposit of tax on all payments on this count

Similar analysis is possible for Bank interest, cash Withdrawals, exports and the other Withholding Taxes provisions, on the above pattern and can possibly yield substantial revenue besides improving overall enforcement environment.

### **Monitoring of Services**

The service sector has shown substantial growth during the last few years, particularly in the fields of Information Technology, Education, Health, Communication and others. Development of NGO/NPO culture has made it all the more important as major development funds for various services are now being routed through NPOs. GDP contribution of service sector is around 50 pc. On the other hand, contribution of the sector towards Income Tax during last year was Rs.10 (B) only which appears to be very low. There is thus a visible gap. It needs to be bridged as donors have also pointed it out in their periodic reviews. Ordinarily, services rendered by professionals such as doctors, engineers, consultants, lawyers etc., are included in this field. It needs to be seen by Taxation Officers that taxpayers do not stretch this provision too much beyond its intended scope. Distinction between services and consultancies needs to be drawn. This sector has been neglected in the past which is apparent from small number of withholding agents at national level and even the amount of tax deducted by the private sector.

The following actions need to be taken:-

- Scrutiny of statements filed under section 165 to determine exact nature of services;
- Exact status of clients, local, non-resident, non-profit organization;

- 
- Method of providing service and ultimate payments output, wherever applicable;
  - Service/fee structure, documented/un-documented;
  - Location of premises (owned/rented/ within clients office premises) and their treatment in payments;
  - List of professionals hired / employed during the year and payments made;
  - Inventory of Plant, machinery and equipments used for rendering service whether owned/leased/rented or hired and deduction of tax, if any;
  - Services liable to withholding tax and also those where no tax has been deducted along with reasons;
  - Separation of rent, lease rentals / services and goods supplied (if any) and their tax treatment;
  - Overall reconciliation of payments, for services rendered and tax deducted;
  - Services rendered through internet and their tax treatment as to exemption/ rate applied and remittance mechanism;
  - In the cases of manufacturers, payment for purchase of goods specially in respect of raw materials, stores and spares and packing material, should be examined with reference to Section 153(1)(a) of the Ordinance;
  - Payments made by textile companies on account of services for stitching/dyeing/printing etc. should be examined with reference to Section 153(1) (b) of the Ordinance, which should also match with the Annual Statements and audited accounts of the companies.

### vii - Section 153A- Payment to non-resident media persons

#### Legal Basis

Section	Nature	Rate	Withholding Agents	Relevant rules
153A	Any payment for advertisement services to a non-resident media person relaying from outside Pakistan	10 % of the gross amount	Every person making payment	Rule 44

### viii - Section 154 - Exports

#### Legal Basis

Section	Nature	Rate.	Withholding Agents	Relevant Rules
154	Exports Indirect exports	1 %....Division IV of Part III of 1 <sup>st</sup> Schedule	Banks, EPZA Authorised dealers, Collectors & Exporters	

#### 154(1)

Rate	On	Time of Deduction	Payable to the credit of Federal Government	Statement(s) of tax collected or deducted
1%	Foreign Exchange proceeds	At the time of realization of export proceeds or indenting commission	Within 7 days from end of each week ending on every Sunday. Rule43(b)	Monthly within 15 days of end of each month

#### 154(2)

Rate	On	Time of Deduction	Payable to the credit of Federal Government	Statement (s) of tax collected or deducted
<ul style="list-style-type: none"> <li>• Foreign indenting commission = 5 %</li> <li><u>Reduced rates</u></li> <li>• [Clause (15) of Part II of 2<sup>nd</sup> Schedule]</li> <li>• Export indenting commission on export of Goods = 5%</li> <li>• [Clause (5) of Part II of 2<sup>nd</sup> Schedule]</li> </ul>	Foreign exchange proceeds	At the time of realization of export proceeds or indenting commission	Within 7 days from the end of each week ending on Sunday Rule:43(b)	Monthly within 15 days of end of each month

---

**154(3), 154(3A), 154(3B) & 154(3C)**

Rate	On	Time of Deduction	Statement(s) of tax collected or deducted
1%	Realization of proceeds on account of sale of goods to an exporter under an inland back-to-back letter of credit Realization of payments made through crossed cheques to indirect exporters against Standard Purchase Order in the format prescribed by the State Bank of Pakistan	At the time of realization of the sale proceeds	Monthly within 15 days of end of each month Rule:44(2)
1%	Proceeds of the export of goods	At the time of export of goods	Monthly within 15 days of end of each month Rule:44(2)
1%	Payment against a firm contract	At the time the amount is actually paid	Monthly within 15 days of end of each month Rule:44(2)
1%	Exporter without form "E"	At the time of clearing of such goods for export	Monthly within 15 days of end of each month Rule:44(2)

### Monitoring

This section requires the dealers in foreign exchange and a banking company to deduct tax from export proceeds and indenting commission on proceeds. While the complaints of non-compliance of these provisions are a few, there is a need for random checking of accounts of authorized persons to ensure deduction at correct rate and timely deposit of tax. It is thus necessary to obtain collective information from the Banks and be subjected to a macro analysis with reference to total exports. Bifurcation should be obtained for correct deduction on all payments.

Presently, supplies by indirect exporters are also given the rate facility of exporters. The bankers do not maintain complete record to ascertain the exact nature of direct and indirect exports. Deduction is later in time than exports making the reconciliation difficult in view of spread over of accounts to more than one year.

The following actions can be taken for proper monitoring of this source:-

- 1 Enlistment of authorized banks dealing in Foreign Exchange as Withholding Tax Agents;
- 2 Enlistment of those exporters, to whom supplies are made by indirect exporters. They are supposed to see the compliance of terms and conditions for non-deduction of tax from the payments to indirect exporters;
- 3 Reconciliation of export proceeds realized by concerned Branches with SBP's data on foreign exchange actually realized on exports;
- 4 Mechanism of tax deposited by the Bank and its accounting procedure to ascertain full compliance;
- 5 Individual cases (Payees monitoring) on sample basis for cross checking of deduction on their exports;
- 6 Indenting commission realized on:-
  - Exports, both direct as well as indirect;
  - Imports and exports as indenting commission agent;
  - On freight earnings of shipping and airlines.
  - On booking of oil and other goods by Pakistani companies from abroad.

The department shouldn't stick to exports shown by exporter and tax deducted by the bank. Data available with SBP needs to be analyzed for realizing the due revenue.

## ix - Section 155 - Income from Property

### Legal Basis

Rate	On	Time of Deduction	Payable to the credit of Federal Government	Statement(s) of tax collected or deducted
Various (Division V part III of the first schedule)	Rent of immovable property (including rent of furniture and fixtures, and amounts for services relating to such property)	At the time the rent is actually paid	On the day deducted (Where deducted by and on behalf of the Government) Rule:43(a) Within 7 days from the end of each fortnight (In other cases) Rule:43(b)	Monthly within 15 days of end of each month Rule:44(2)

This provision fetches low yield despite huge potential. It is primarily due to limited number of withholding agents/prescribed persons required to deduct tax as per law and lack of organized effort to monitor the collection. Details of rent paid by the government are not available on the records of the field offices. Even statements u/s. 155 is not fully enforced.

From monitoring angle, it is one of the overly neglected withholding provisions. The average rent of the buildings in most of the posh areas like Defence Housing Authorities, Development authorities like CDA/LDA/PDA/MDA and large societies run into hundreds of thousands now. The number of withholding agents, on the other hand, as per transactional data in DPCs is very small. Some of the sectors like foreign missions are hardly contacted for withholding purposes despite the fact that correspondence can be made with them through Ministry of Foreign Affairs.

Compliance level of this provision is not very high, ostensibly due to collusive arrangements between the landlords and tenants. Data Base of rented properties is not available either. It is, therefore, important to take the following steps immediately:-

- 
- The scope of the prescribed persons needs to be enlarged as a fairly large number of hospitals, educational institutions, AOPs, trusts and other unregistered organizations frequently hire buildings but hardly deduct tax and file prescribed statements;
  - Foreign missions should be contacted through Ministry of Foreign Affairs for withholding purposes;
  - Internal survey of properties from local Excise and Taxation, Municipal Authorities etc, in respect of properties located in their jurisdiction may be conducted;
  - Some of the rented properties belong to non-residents. Prescribed persons should be advised to make the deductions accordingly;
  - Preparation of a Database in respect of properties owned and rented, separately for existing taxpayers of the RTOs and in respect of those not assessed to tax;
  - Statements under section 165 should be examined to judge the compliance level. Self-Hiring of houses by employees should be ascertained to check deduction of tax;
  - Information from Estate Offices, Govt offices, provincial / local/ district government Offices, development authorities, housing authorities, cantonment Boards and other offices regarding rented/hired buildings should be gathered to cross check deduction;
  - Creation of interfaces with Federal/Provincial Governments, District and Local Authorities to capture relevant information through system for monitoring purposes;
  - Statements should be enforced and information regarding rented property should be transmitted to the concerned officers, both within as well as to the other RTOs;
  - Efforts should be made to capture the information on commercial properties. Daily advertisements in the print and electronic media should

be regularly glanced to see the trends of property rent;

- As per provision of Section 255, there is no exemption for Withholding of tax on payments made on account of Rent. There is a general misconception that no tax is to be withheld up to an amount of Rs.150,000/- even if taxpayer has other sources of Income. This issue is to be examined in case of rent payments.

### x- Section 156 - Prizes and Winnings

#### Legal Basis

Rate	On	Time of Deduction	Statement(s) of tax collected or deducted
10%	Prize on a prize bond;	At the time the prize or winnings are actually paid	Monthly within 15 days of end of each month Rule:44(2)
20%	Prize or winnings from a raffle, lottery, quiz or crossword puzzle;		
20%	Prize offered by companies for promotion of sale		

Tax withheld is a final tax. There is no threshold and collection is irrespective of the amount of prize.

If the prize is not paid in cash, the payer is required to collect the tax from the winner on fair market price. This collection requirement means that the payer must obtain, from the winner, requisite funds to pay the tax due which is a difficult proposition. Field offices have to work hard to implement this provision.

It is low yield item but compliance other than State Bank winnings on prize bonds is minimal. It is, therefore, proposed that following actions may be taken:-

- 1 Enforcement of statements under section 165 in respect of lotteries, prizes and other winnings by the corporate sector;
- 2 Regular scrutiny of Press Clippings regarding prizes paid in cash or kind

- and enforcement of statement under section 165 from such persons;
- 3 Review of T.V advertisements, programs regarding prize winnings, quiz shows etc;
  - 4 Enforce statements from all T.V. Channels / Companies making payment or declaring prizes;
  - 5 Review of advertisement budgets of companies from their accounts to ascertain the portion of prizes and deduction of tax;
  - 6 Coordination by the officer holding jurisdiction on the cases of "payers" and transmission of the information to concerned officers in the other tax offices.

**xi- Section 156 A - Petroleum Products**

**Legal Basis**

Rate	On	Time of Deduction	Payable to the credit of Federal Government	Statement(s) of tax collected or deducted
10%	Petroleum Products	At the time of paying the amount of sold petroleum products	On the day deducted (Where deducted by and on behalf of the Government) Rule:43(a) Within 7 days from the end of each fortnight (In other cases) Rule:43(b)	Monthly within 15 days of end of each month Rule:44(2)

**xii- Section 156 B- Withdrawal of balance under Pension Fund**

**Legal Basis**

Rate	On	Time of Deduction	Payable to the credit of Federal Government	Statement(s) of tax collected or deducted
Average rate of tax on the taxable income of 3 preceding years	Any amount withdrawn before the retirement age; or  In excess of 50% of the accumulated balance withdrawn on or after the retirement age At the time the of making the payment (withdrawal)	At the time of making the payment (Withdrawal)	Within 7 days from the end of each fortnight Rule:43(b)	Monthly within 15 days of end of each month Rule:44(2)

This is also a neglected provision. The field officers should enlist the Withholding Tax Agents, ascertain the payments and tax deducted and deposited

Monitoring of this provision could not be substantiated by any tax. A study should be conducted to draw the mechanism for effective follow-up.

### **xiii. Section 231A - Cash Withdrawal from Banks**

#### **Legal Basis**

<b>Rate</b>	<b>On</b>	<b>Time of Deduction</b>	<b>Payable to the credit of Federal Government</b>	<b>Statement(s) of tax collected or deducted</b>
0.3%	Amount withdrawn in excess of Rs. 25,000 per day	At the time of making the payment (Withdrawal)	Within 7 days from the end of each week ending on Sunday Rule:43(b)	Monthly within 15 days of end of each month Rule:44(2)

This Section envisages every banking company to deduct tax @ 0.3% for withdrawal of cash from banks. On account of cash based economy, a large number of bank transactions are made in cash. Against this, the amount of tax deducted and transactions reported by the banks is abysmally low, perhaps on account of multiple transactions below the bench mark. There is a tendency of late deposit of tax deducted.

It would be appropriate to:-

- i) Collect information from SBP and other Banks and hold an analysis of withdrawals and tax deducted;
- ii) Statements should also be enforced as present level of compliance is low. The banks deposit tax through composite challans and does not furnish particulars of the account holders;
- iii) Examination of some of the accounts has indicated short deductions. The accounts thus need to be examined. Large withdrawals should be checked on sample basis to ascertain the direction of money

towards various sectors and for taking further necessary action as per law.

**xiv Section 231AA- Collection of Advance tax on transactions in banks**

**Legal Basis**

Rate	On	Time of Deduction	Payable to the credit of Federal Government	Statement(s) of tax collected or deducted
0.3%	Amount withdrawal exceeding Rs. 25,000 per day	At the time of making the payment (Withdrawal)	Within 7 days from the end of each week ending on Sunday Rule:43(b)	Monthly within 15 days at the end of each month Rule 44(2)

A new section 231 AA has been introduced in the Income Tax Ordinance, 2001. Banking transactions shall be charged to adjustable advance tax as under:

This tax shall be chargeable only on **Purchase through Cash** of any of the following instruments:-

- i. Demand Draft;
- ii. Pay Order;
- iii. Call Deposit Receipt (CDR);
- iv. Special Deposit Receipt (SDR);
- v. Short term Deposit Receipt(STDR);
- vi. Rupee Traveller Cheque (RTC); or
- vii. Any other instrument of bearer nature;

This tax shall be collected on **Cash** sale of any of the above mentioned instrument by any;

- i. Banking Company;
- ii. Non-banking financial institution;
- iii. Exchange Company; or

- 
- iv. Any authorized dealer of foreign exchange

Such tax shall also be deductible on transfers **AGAINST CASH** including;

- i. On line transfer;
- ii. Telegraphic transfer;
- iii. Mail transfer; and
- iv. Any other mode of electronic transfer;

This tax shall also be charged on payment **if made in cash** on cancellation of any of the instruments referred above in cases where tax is not withheld on preparation of such instrument against cash.

This tax shall only be charged where total amount of payments for transactions referred to above exceeds **twenty five thousand rupees in a day**.

This tax shall not be collected on-

- i. Payment made through a crossed cheque for purchase of any of the financial instrument as referred above;
- ii. Inter-bank and intra-bank transfers;
- iii. transactions made by the federal or a provincial Government;
- iv. transactions made by a foreign diplomat or a diplomatic mission in Pakistan; and transactions made by a person who produces a certificate from the Commissioner that his income during the tax year is exempt; and
- v. online transmission of day to day collections to centralized account of a distributor, where the depositor and the beneficiary is the same, maintained under cash management arrangements provided by a bank shall be treated as **inter bank transfer**.

Tax deducted under this section shall be adjustable against overall tax liability of the taxpayer and tax deducted under the provisions of this section shall be deposited to the relevant Commissioner Inland Revenue as required under the Law.

**xv. Section 231 B - Collection of Advance tax on private Motor Vehicles (new locally manufactured motor vehicles).**

**Legal Basis**

Engine Capacity	Amount of Tax	Time of Collection	Payable to the Credit of Federal Govt.	Collecting authority	Statement (s) of tax collected or deducted
Up to 850 cc	Rs 7500	At the time of Registration	At the same time and manner as the registration charges	Excise and taxation authority	Monthly within 15 days of end of each month
851 cc to 1000 cc	Rs 10,500	do	do	<u>do</u>	
1001 cc to 1300 cc	Rs 16,875	do	do	<u>do</u>	
1301 cc to 1600 cc	Rs 16,875	do	do	<u>do</u>	
1601 cc to 1800 cc	Rs 22,500	do	do	<u>do</u>	
1801 cc to 2000 cc	Rs 16,875	do	do	<u>do</u>	
Above 2000 cc	Rs 50,000	do	do		

No tax shall be collected from

- i. Federal Government
- ii. Provincial Government
- iii. Foreign diplomat
- iv. A diplomatic mission in Pakistan
- v. Local Government

**Section 168 - Claim of service charges on collection / deduction of tax by the withholding agents**

Under the Income Tax Ordinance, 2001 the Withholding Agents are not entitled to receive any service charges for collection or deduction of tax as a Withholding Agent. However, it has been noticed that certain withholding

agents including Provincial Governments and other Autonomous Organizations are claiming service charges for acting as Withholding Agents. In order to expressly disallow such claims, new sub-section (6) and (7) have been inserted in section 168 which provides that notwithstanding any thing contained in any other law or any rules, for the time being in force, no amount is to be deducted on account of service charges from the tax withheld or collected by any person under the provisions of this Ordinance. As provided in sub-section (7) in case any amount is deducted on account of service charges by the person, the said person will be liable to pay this amount to the Federal Government and all the provisions of the Ordinance shall apply in so far as they apply to the recovery of tax.

#### xvi. Section 233 – Brokerage & Commission

##### Legal Basis

Rate	On	Time of Deduction	Payable to the credit of Federal Government	Statement(s) of tax collected or deducted
<p><b>Ordinary Rate= 10 %</b></p> <p><b>Reduced rate</b></p> <p>-Advertising agents= 5 % [Clause (26) of Part II of 2<sup>nd</sup> Schedule]</p>	Brokerage and Commission	<p>At the time the brokerage or commission is actually paid</p> <p>Or</p> <p>At the time of receiving payment where the agent retains the brokerage or commission out of proceeds remitted</p>	<p>On the day deducted (Where deducted by and on behalf of the Government) Rule:43(a)</p> <p>Within 7 days from the end of each week ending on every Sunday</p>	<p>Monthly within 15 days of end of each month Rule:44(2)</p>

This provision envisages tax on commission and brokerage. Apparent sources are imports, exports, local trading (on LC and otherwise), own indenting and bookings etc in local as well as international markets. It has been observed that monitoring of this section has not been very effective. Many sectors of the economy purportedly relate their sales to Brokers and Agents but substantial deduction is hardly seen from payment of commission and brokerage. The cases

---

of major multi-national and large Pakistani groups involve purchase/sale transactions through brokers. Sale of sugar is one such example. Their total sales run into billions but tax collected by them on commission and brokerage during the year does not commensurate with actual deductions.

The reasons and mechanism adopted to avoid proper deduction of tax such as discount mechanism need to be explored and relevant provisions of law should be enforced to ensure proper deduction. Real estate dealers are yet another important area to be broached. The Department should enlist the real estate dealers, particularly, those selling/purchasing properties on others' behalf or arranging the property rentals. The element of brokerage and required deduction of tax there from at the time of payment or adjustment of commission and discounts from the account of dealers and brokers need to be examined.

For better management of withholding under this section, it is proposed that:-

- Sale mechanism of each Authorized Person should be closely examined to find out the portion of sales through agents/brokers, the element of brokerage and deduction of tax there from at the time of payment of commission to resident agents of non-resident shipping lines;
- Regarding payments of commission to petroleum dealers, company-wise list of dealers should be obtained and compared with the amount of sale shown by the principal companies for cross checking of information;
- Details of commission paid by the non-resident shipping companies and Airlines to their authorized agents in Pakistan should be obtained to ensure proper deduction of tax at source;
- The cases of non-resident brokers should also be explored to ascertain the amount of payment and tax deducted;

- The amount of freight earned by shipping companies should be correlated with their remittances abroad. Data regarding remittances should be obtained from SBP and commercial Banks for this purpose;
- Possible miss-classification of commission and “Services rendered” for tax avoidance has been complained. It needs to be looked into in detail;
- All real estate dealers selling/purchasing properties on others' behalf or arranging the property rentals should be enlisted and prescribed persons identified to ensure deduction of tax, wherever due;
- Payment made by insurance companies towards commission to various agents and parties should be examined with reference to Section 233(1) of the Ordinance, which should also match with the Annual Statement.

**xvii . Section 233A (1) (a)&(b) - Commission of Member of Stock Exchange**  
**Legal Basis**

Rate	On	When	Payable to the credit of Federal Government	Statement(s) of tax collected or deducted
0.01%	Purchase value of the shares traded	At the time of making the payment or receiving the payment	Within 7 days from the end of each week ending on Sunday	Monthly within 15 days of end of each month Rule:44(2)
0.01%	Sale value of the shares traded	At the time of making the payment	Within 7 days from the end of each week ending on Sunday	Monthly within 15 days of end of each month Rule:44(2)

This Section provides for collection of Advance Tax by Stock Exchanges from its Members on purchase and sale of shares in lieu of commission earned by such Members. Apparently, no bungling is possible where transaction is made through Stock Exchange Trading House for being fully computerized. However, there is a need to synchronize, in due course, the computer systems of the

Department and the Stock Exchanges as is done in many other countries. It will ensure daily reporting of collection and documentation of the transactions.

**xviii . Section 233-A (1) (c) - Trading of Shares**

**Legal Basis**

Rate	On	When	Payable to the credit of Federal Government	Statement(s) of tax collected or deducted
0.01%	Value of the shares traded	At the time of making the payment	Within 7 days from end of each week	Monthly within 15 days of end of each month Rule:44(2)

Transactions of the Stock Exchange are transparent and computerized. However, a part of transactions in shares takes place out of Stock Exchange also. This is because of the fact that all 663 companies listed on Stock Exchange are not registered with CDC. To protect the revenue on such transactions, i.e. the private sale of shares, it is proposed that the companies, while transferring the shares from one person to another, should be declared as Withholding Agents for the purposes of collection of tax at the time of transfer of shares/changes in the registers of shareholders maintained by them.

**xix - Section 233-A (1) (d) - Financing of Carry Over Trade in Shares**

**Legal Basis**

Section	Nature	Rate	Withholding Agents	Statements of tax collected	Relevant Rules
233-(1)(d)	Financing of Carry Forward Trade	10 % (Division IIA of Part IV of 1 <sup>st</sup> Schedule)	Dealers of Stock Exchanges	Monthly Within 15 days of the end of each month	Rule:44(2) Rule 44(1)

Under this provision a Stock Exchange registered in Pakistan shall collect Advance Tax from its Members in respect of financing of Carry over Trade in share business as specified in Division IIA of Part IV of the First Schedule to the Income Tax Ordinance, 2001. It is an adjustable tax.

---

This trade is carried out on agreed terms and conditions. The settlement takes place on the given date and Brokers retain the interest as well as commission from their clients. The daily investment in this trade is in billions (which is capped beyond certain limits) The SECP Law provides for the CNIC for opening of an Account with a Stock Exchange Broker. The Brokers usually issue payees account cheques and the regulator conducts the audit of the Brokers to ensure that no cash transactions take place. Despite this, the collection proceeds do not commensurate with the investments made on this account.

Unfortunately, the Department presently relies on whatever collection is reported. Hardly any audit has been conducted at three stations where Stock Exchanges are operating. The pressure of the vested interest for saving the “Backbone of the economy” must be the main reason for this apathy. The accounts of all concerned are computerized. Transactions are regularly reported in the press also. Therefore, it is necessary that the Department develops a suitable mechanism for initially conducting analysis of the transactions and tax thereon. Subsequently, a system audit of the Stock Exchanges as well as the Brokers Accounts should be conducted in prior consultation with the stakeholders to avoid any mistrust and negative impact on the market.

Enquiries conducted from various quarters have revealed that the provisions of Section 233-A (1) (d) do not cover the volume of Carry over Trade between the Members in private capacity. It is not recorded in the Stock Exchange transactions either. The related regulations are thus not applicable on such transactions. It is recommended that suitable mechanism should be developed after a study into the pros and cons of this matter. Besides, a study may be conducted to assess the exact volume of Carry Over business for the purposes of ascertaining the amount of tax deducted and its relation with the overall volume of this business.

Under this provision a Stock Exchange registered in Pakistan shall collect Advance Tax from its Members in respect of financing of Carry over Trade in share business at the rate specified in Division IIA of Part IV of the First Schedule to the Income Tax Ordinance, 2001. It is an adjustable tax.

**xx - Section 234 - Tax on motor vehicles**  
**Legal Basis**

Rate	On	Time of collection	Payable to the credit of Federal Government	Statement(s) of tax collected or deducted
<p>-In the case of goods transport vehicles advance tax will be collected at the rate specified in Part IV of first schedule</p> <p>-In case of passenger transport vehicles plying for hire ranging from Rs. 25 to Rs. 100 per seat per annum</p> <p>Other private motor cars ranging from Rs. 750 to Rs. 8,000 per annum</p> <p>-Reduced rate - Rs. 1,200</p> <p>Goods transport vehicles with laden weight of 8120 kilograms or more</p> <p>-Nil after a period of ten years from the date of first registration of the vehicle in Pakistan [Paragraph (1A) of Division III of Part IV of 1<sup>st</sup> Schedule].</p>	<p>In case of good transport vehicle tax of one rupee per kilogram of the laden weight</p> <p>Registered seating capacity of passenger transport vehicles plying for hire</p> <p>Engine capacity of other private motorcars</p>	<p>At the time of collecting motor vehicle tax (if motor vehicle tax is collected in installments, the tax is also collected in installments)</p>	<p>On the day collected or within 7 days of end of each week ending on Sunday.</p>	<p>Monthly within 15 days of end of each month Rule:44(2)</p>
<p>Other Motor private cars engine capacity of-</p> <p>Upto 1000cc Rs. 750 1001cc to 1199cc Rs. 1250 1200cc to 1299cc Rs. 1750 1300cc to 1599cc Rs. 3000 1600cc to 1999cc Rs. 4000 2000cc and above Rs.8000</p>				

- 1 This source is not regularly monitored. Unfortunately Withholding Agents do not file the periodic statements. Monthly / annual statements due to be filed as prescribed vide Rule 64 of the Income Tax Rules, 2001 should be enforced.
- 2 Despite being a low yield section its effective monitoring is necessary in view of rapid growth of transport business on account of development of extensive lease business and consumer financing in the country.
- 3 The Units should conduct audit of Postal / Excise authorities with reference to vehicles registered and those on which tax has been or has not been collected.
- 4 Tax collected and actually deposited should be cross checked as some authorities like Postal Authorities and Provincial Excise Authorities hold back the tax collected in the name of “collection charges”, which are not allowable under the Law.
- 5 Focused monitoring should be carried out for Road Tax on Goods Transport vehicles, private cars and those availing exemption from tax for more than 10 years old vehicles.

The vehicle Registration System of the provinces is computerized. Data regarding registration of vehicles should directly be obtained from the Provincial Excise Departments. After full computerization of FBR, the Excise Departments should be declared as external source of databank for the Enterprise Data Warehouse so that information is regularly obtained through an interface and can effectively be utilized.

#### **xxi - Section 234A - CNG Stations**

Under this provision, the gas distribution companies are required to collect tax @4% with the gas bills. It is a revived provision and mechanism has to be developed to utilize the information for proper assessment of taxes. Some of the

RTOs have developed a formula for determining the income of the CNG stations. It should be replicated at National level.

## xxii - Section 235 - Electricity Consumption

### Legal Basis

Rate	On	Time of collection	Payable to the credit of Federal Government	Statement(s) of tax collected or deducted
Ranging from Rs. 80 to Rs.1500 of the monthly bill Exceeding Rs.20000 @ 10% for commercial consumer and the rate 5% for industrial consumers	Amount of electricity consumption charges	Along with payment of electricity consumption charges	On the day deducted (Where deducted by and on behalf of the Government) Rule:43(a)  Within 7 days from the end of each week ending on every Sunday	Monthly within 15 days of end of each month Rule:44(2)

Vide SRO 1055 (1) / 2008 necessary clarification has been issued that the provision of section 235 shall not be applicable to the taxpayer who fall under the Zero rated regime of sale tax and registered with sale tax as exporter manufacturer of

- Carpets
- Lather & articles thereof including an artificial lather foot ware
- Surgical goods
- Sports goods
- Textile and articles thereof

### Example - I

#### For tax year 2010

1.	A taxpayer (other than a company) having electricity bill amount upto thirty thousand rupees per month	Tax withheld under sun-section (1) of section 235 read with division IV of Part IV of the First Schedule = Rs. 3000 per month x 12 = Rs. 36000 per annum.
2.	Income as per return filed under section 114	Rs. 400,000
3.	Tax payable as per paragraph I of Division I of Part I of the First Schedule @ 7.5% on the declared income.	Rs. 30,000
4.	Tax withheld under sub-section 91) read with provisions of sub-section (4 of section 235 shall be the 'minimum tax'	Rs. 36000

### Example - II

For tax year 2010

1.	A taxpayer (other than a company) having electricity bill amount upto thirty thousand rupees per month	Tax withheld under sun-section (1) of section 235 read with division IV of Part IV of the First Schedule = Rs. 3000 per month x 12 = Rs. 36000 per annum.
2.	Income as per return filed under section 114	Rs. 500,000
3.	Tax payable as per paragraph I of Division I of Part I of the First Schedule @ 10 % on the declared income.	Rs. 50,000
4.	Further tax taxable as per Ordinance by the taxpayer.	Rs. 14000

### Example - III

For tax year 2010

1.	A taxpayer (other than a company) having electricity bill amount over and above thirty thousand rupees per month_- Say forty thousand rupees per month	Tax withheld under sun-section (1) of section 235 read with division IV of Part IV of the First Schedule = Rs. 4000 per month x 12 = Rs. 48000 per annum.
2.	Income as per return filed under section 114	Rs. 400,000
3.	Tax payable as per paragraph I of Division I of Part I of the First Schedule @ 7.5 % on the declared income.	Rs. 30,000
4.	Tax payable as per provisions of sub-section 940 of section 235 being the "minimum tax"	Rs. 36000
5.	Tax collected over and above thirty thousand rupees per month X 12 =	Rs. 12,000

Note: In this case, if the taxpayer has no tax liability for the tax year 2010, under any provision of the Ordinance, the tax withheld over and above (Rs. 48,000 - Rs/ 36,000 treated as minimum tax) = Rs. 12,000 shall be refunded to the taxpayer.

### Example - IV

For tax year 2010

1.	A taxpayer (other than a company) having electricity bill amount over and above thirty thousand rupees per month_- Say forty thousand rupees per month	Tax withheld under sun-section (1) of section 235 read with division IV of Part IV of the First Schedule = Rs. 4000 per month x 12 = Rs. 48000 per annum.
2.	Income as per return filed under section 114	Rs. 500,000
3.	Tax payable as per paragraph I of Division I of Part I of the First Schedule @ 10 % on the declared income.	Rs. 50,000
4.	Tax payable under the Ordinance	Rs. 50,000
5.	Tax collected withheld under sub-section (1) of section 235 read with Division IV of part IV	Rs. 48,000

	of the first Schedule	
6.	Balance tax payable by the taxpayer	Rs. 2000

Note; In this case, the taxpayer has further tax liability of Rs. 2000 on the basis of income declared for tax year 2010, under the provision of the Ordinance, the taxpayer, therefore, will not be entitled to any refund, however, he will be entitled to adjustment of tax withheld over and above thirty thousand rupees per month x twelve months = x amount which has been indicated as above.

Collection from this source is easy, number of authorized persons being few. However, there is a problem in proper utilization of information. If information is obtained electronically, it can be interpolated for considerably solving the tax base problem. Information collected through hard copies is reportedly dumped, manual checking of compliance being difficult.

The department, until establishment of interface with the data, should collect this information in soft mode, get the CNIC incorporated, and bifurcate the cases into existing and new taxpayers. Interface should be developed for report of information through the system at the earliest. List of new cases should be sent to the concerned tax offices for further action.

Matter may be taken up with regional electricity distribution companies and other Withholding Tax Agents for enforcing CNIC/NTN on the Bills and then incorporated in the monthly statements.

**xxiii - Section 236 - Telephones**

**Legal Basis**

Rate	On	When	Payable to the credit of Federal Government	Statement(s) of tax collected or deducted
-In the case of telephone subscriber (other than mobile phone) where the amount of monthly bill exceeds RS 1000 - 10% of the exceeding amount of bill. -In the case of subscriber of mobile telephone and prepaid telephone card - 10% of the amount of bill or sales price of pre-paid telephone card	-Amount of bill  -Sale price of a pre-paid card	Along with payment of telephone bill  At the time of issuance or sale of pre-paid cards	Within 7 days from the end of each week ending on Sunday	Monthly within 15 days of end of each month Rule:44(2)

1. Proper monitoring of tax collected and actually deposited.
2. Pay Card companies need much coordinated monitoring.
3. System needs to be devised in each case for proper checking of collection by Pay Card Companies.
4. The officer holding jurisdiction over telephone companies to conduct the monitoring/audit.
5. Information regarding new taxpayers need to be collected and transmitted to the concerned officer as all telephone subscribers are obliged to file the tax return but hardly any return is filed by any such person.

This Section requires collection of advance tax from the telephone subscribers and purchasers of prepaid cards for mobile phones, PTCL and other pay-phone companies. The exemptions include Government, a foreign diplomat, a diplomatic mission, and a person who produces an exemption certificate from the Commissioner.

The information is computerized and can be collected from and utilized for cross verification and broadening of tax base.

Telephone and Mobile Phone subscribers' data of PTC and Mobile Companies is computerized. It is proposed that the data should be directly obtained from the PTC and Mobile Companies. After computerization of FBR and its attached Departments, the PTC and Mobile Companies should be prioritized as external sources of data for the Data Warehouse, proposed to be created by the Board.

## XXIV - Section 236A - Advance tax at the time of sale through auction.

### Legal Base

Section	Nature	Rate	Withholding Agent	Statement of tax collected	Relevant rules
236A	Sale by auction	5% of the sale amount	As mentioned below	Monthly within 15 days of end of each month	Rule 44

In the past under section 50(7A) of the repealed Income Tax Ordinance, 1979, any person making sale by public auction of any property belonging to the Government, a Local Authority etc. was required to collect tax @ 3% of the sale price of such property. No such provision was, however, available in the income Tax Ordinance, 2001. Considering the revenue importance, a new sub-section 236A has been inserted to provide that any person making sale through public auction, of any property or goods including confiscated or attached either belonging to or not belonging to the:

- a) Government
- b) Local Government
- c) Any authority
- d) A company
- e) A foreign association declared to be company under sub-clause (vi) of clause (b) of sub-section (2) of section 80
- f) A foreign contractor
- g) A consultant
- h) A consortium
- i) Collector of Customs
- j) Commissioner of Income Tax or
- k) Any other authority

shall collect advance tax, computed on the basis of sale price of such property and at the rate specified in Division VIII of part IV of the First Schedule from the person to whom such property of goods are being sold.

The tax so collected is adjustable and taxpayer will be entitled to claim credit in the relevant tax year.

The term "sale of property" has been explained to include the award of any lease to any person, including a lease of the right to collect tolls, fees or other levies by whatever name called.

**xxv Section 236B- Collection of Advance tax on Purchase of Air Tickets**

Rate	On	Withholding Agent	Statement of Tax Collected	Relevant Rules
5%	Gross amount of Air Ticket	The Person preparing Air Ticket	Monthly within 15 days of end of each month	Rule 44

Through Finance Act 2010, a new section 236B has been inserted in the Income Tax Ordinance 2001. The new enactment provides for charge of adjustable withholding income tax on purchase of tickets for inland air travel.

This tax shall be collected @ 5% on **gross** amount of air ticket for inland travel along with the payment for the air ticket.

This advance tax shall be adjustable against the overall tax liability of the purchaser of such air ticket.

This tax shall not be charged on purchase of air ticket by the Federal / Provincial Government and by a person who produces a certificate from the relevant Commissioner Inland Revenue that Income of such person during the tax year is exempt.

Tax deducted under this section shall be paid to the relevant Commissioner Inland Revenue as required under the Law.

Tax deducted under this section shall be allowed to be adjusted against the tax liability of the person whom such ticket for inland air travel is issued. However, in cases where payment is made by the employer / parents of the dependents travellers, such adjustment can be claimed by the employer / parents.

---

### **Management Information System**

The business problems are usually solved through MIS, which covers the joint application, by an organization, of the people, information/other technologies, departmental procedures and business processes. It provides the officers with information relating to various sectors of the economy as represented through withholding taxes statements and information collected through other sources. Database should be maintained and access provided to all concerned with a facility of different reports to be generated there from as required by the field formations. A planned system of capturing/collecting the information, storing it in the database and disseminating to various offices is needed for carrying out withholding related functions.

### **Monthly Performance Report**

Performance measurement has since been developed into a normal feature of the organization. It provides an insight into the actual activities of the departmental officers in terms of compliance made by the taxpayers.

There is a departmental MPR, regularly filed on monthly basis. It contains a small part for withholding statements also, which does not provide complete picture of activities in the field of withholding taxes. There is a need to conduct constant review of performance of withholding taxes. It should cover all activities and have linkages with all internal databases. A central database should be developed for the DG Withholding taxes with forward linkages with the Board and the RTOs/LTUs. MIS should be developed and used for complete enforcement of monthly reports to be filed by the field offices for reviews and analysis on monthly and quarterly basis and for watching the trends for policy formulation and its impact.

In addition, such data should be correlated with the annual returns and other information available in the central data warehouse to be developed by the

---

Board. Trends of the economy and performance of various sectors can be viewed for matching, audit and other purposes. It should be ensured to provide online access/information to all stakeholders for better use of information.

---

## Chapter 6 Conclusion

It is a famous saying that tax grows on dollar tree. For climbing this tree, one has to ensure proper deduction and timely deposit of tax through effective monitoring and audit of Withholding Taxes in Pakistan. In the Withholding Taxes Regime, need for an organized mechanism for monitoring has been recognized at last with the creation of Directorate General of Withholding Taxes under Section 230A of the Ordinance. This is with a view to tap in the true potential of these taxes. Short-term and long-term strategy has been drawn for the stakeholders i.e. taxpayers, Withholding Taxes Agents and the Department to follow. What is needed is to act upon these guidelines in letter and spirit.

In view of expanding domain of the Withholding Taxes in the overall national revenues, the age old manual monitoring has become cumbersome and unmanageable, rather redundant. This has given rise to use of Information Technology, not only for monitoring of these taxes but also audit thereof. For this purpose, software has been developed and put into operation at FBR Portal. Full utilization of this software will, hopefully, plug the revenue leakage.

Tax avoidance is a universal phenomenon but it certainly causes a great deal of worry to the tax administrators. It is thus vital to keep them abreast of the latest thought on the subject and issues that surround the withholding arena. There is no better approach than continuous research and guidance. Improved and updated version of SOP is an effort in this direction. . FBR will continue in depth study of all provisions for the purpose of ensuring consistency and transparency in their application. All stakeholders are expected to make suitable recommendations for the future versions.

---

## **Withholding Tax Website**

FBR Portal provides information about withholding taxes, resources and guidance and support on the related matters including the tax laws, changes therein, filing flags/triggers and information about the withholding obligations. This version is available on FBR website which can be accessed and downloaded by the Withholding Agents, Intermediaries and Departmental Officers. The SOPs on Collection Automation Project, for Monitoring of Withholding taxes, the software for Bulk Data handling, Forms of Statements for online filing and deposit of tax and other related details have also been placed on this website. It is part of the Direct Taxes link on FBR Portal. It will simply help the withholding taxes agents to help file the periodic filing requirements, deduction/collection and deposit of tax in accordance with the prescribed rules and procedures. It will continually be

updated and the taxpayers can navigate this site for guidance whenever required.

---

## Disclaimer

The instructions contained in this Hand Book are being issued for the guidance of all concerned. These are to be read and followed in accordance with the Law and Rules on the subject, the prescribed procedure for deduction of tax from the payments and deposit thereof in the Treasury.

This SOP is not intended to be and should not be taken as an instrument of Law/Rules. It is simply a guide for monitoring of withholding taxes, having relevant rules, regulations and processes etc. Nothing stated in this document creates any substantive right or benefit that is legally enforceable by the other stakeholders, agencies or any other person.

These guidelines are generally current through the publication date. Changes occurring in law and procedures may impact its technical accuracy.

The instructions and material contained in this Hand Book shall not be followed or used for contravention of any Rule and Regulation of the Government.

The effects of Withholding Taxes on the economy of Pakistan in the context of economic theory are not debated. The intent of this SOP is to explain the provisions of law, rules, procedures etc. as they relate to the role of Withholding Taxes Agents. At the same time it is a guideline for the officers for enforcement of Withholding Taxes Laws.