

**GOVERNMENT OF PAKISTAN
REVENUE DIVISION
FEDERAL BOARD OF REVENUE**

C.No.4(69)IT-Budget/2018-(PT-I)

Islamabad, the 24th October, 2018.

Circular No. 06 of 2018
Income Tax

**SUBJECT:- FINANCE SUPPLEMENTARY (AMENDMENT) ACT, 2018 -
EXPLANATION OF IMPORTANT AMENDMENTS MADE IN THE
INCOME TAX ORDINANCE, 2001.**

The Finance Supplementary (Amendment) Act, 2018 has brought about certain amendments in the Income Tax Ordinance, 2001. Some significant amendments are explained hereunder:-

1. Amendment in tax rates for individuals

(a) Salaried Individuals

Through the Finance Act, 2018 rates for both salaried and non-salaried individuals were unified and threshold of taxable income was increased from Rs.400,000/- to Rs.1,200,000/-. However, a nominal tax rate of Rs.1000/- was imposed on income(s) between Rs.400,000/- to Rs.800,000/- whereas a nominal tax rate of Rs.2000/- was imposed on income(s) between Rs.800,000/- to Rs.1,200,000/-. Moreover, a tax rate of 5% was introduced for income(s) between Rs.1,200,000/- to Rs. 2,400,000/-, 10% for income(s) between Rs. 2,400,000/- to Rs.4,800,000/- and 15% for income(s) exceeding Rs.4,800,000/-.

Through the Finance Supplementary (Amendment) Act, 2018 separate tax rates have once again been introduced for salaried and non-salaried individuals respectively which shall be effective from 1st July, 2018 onwards. The tax rates applicable to salaried individuals (i.e individuals whose income chargeable under the head salary exceeds 50% of taxable income) w.e.f.1st July, 2018 shall be as follows:-

S. No.	Taxable income	Rate of tax
(1)	(2)	(3)
1.	Where the taxable income does not exceed Rs. 400,000	0%
2.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 800,000	Rs. 1,000

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3.	Where the taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	Rs. 2,000
4.	Where the taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,500,000	5% of the amount exceeding Rs. 1,200,000
5.	Where the taxable income exceeds Rs.2,500,000 but does not exceed Rs. 4,000,000	65,000 + 15% of the amount exceeding Rs. 2,500,000
6.	Where the taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 8,000,000	290,000 + 20% of the amount exceeding Rs. 4,000,000
7.	Where the taxable income exceeds Rs. 8,000,000	1,090,000 + 25% of the amount exceeding Rs. 8,000,000

A proviso has also been added wherein it has been specified that where the taxable income of salaried individual exceeds eight hundred thousand rupees the minimum tax payable shall be two thousand rupees.

It would be pertinent to mention that the tax rates for salaried individuals introduced through the Finance Supplementary (Amendment) Act, 2018 will not result in an increased tax incidence upon salaried individuals who earn income upto Rs.2.5 million per annum or upto Rs.208,333/- per month viz-a-viz the tax rates introduced through the Finance Act, 2018. Moreover, tax incidence upon salaried persons earning more than Rs.2.5 million per annum or more than Rs.208,333/- per month shall still be lower as compared to the tax incidence prior to the introduction of the Finance Act, 2018.

Every person responsible for paying salary to an employee is obliged to deduct tax under section 149 at the employee's average rate of tax at the time of payment of salary. The average rate of tax pursuant to the introduction of the Finance Supplementary (Amendment) Act, 2018 is to be computed according to the following formula in terms of sub-section (2) of section 149 of the Income Tax Ordinance, 2001:



A/B

Where

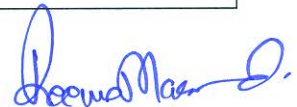
A: is the tax that would be computed according to the new tax rates as given in the above table, effective from 1st July, 2018, in respect of the employee's taxable income for a tax year and;

B: is the employee's estimated income under the head "salary" for the tax year.

Prior to the introduction of the Finance Supplementary (Amendment) Act, 2018 the average rate of tax for purposes of deduction of tax under section 149 of the Income Tax Ordinance, 2001 was being computed on the basis of the tax rates introduced through the Finance Act, 2018 i.e. the average rate of tax for the months of July, August and September, 2018 was based upon the tax rates introduced through the Finance Act, 2018. However, pursuant to the Finance Supplementary (Amendment) Act, 2018, the average tax rate for purposes of deduction under section 149 of the Ordinance is required to be recalculated for the entire tax year on the basis of the new tax rates for salaried individuals introduced through the Finance Supplementary (Amendment) Act, 2018 as delineated in the foregoing paragraph. For the remaining months of the ongoing Tax Year, tax under section 149 of the Ordinance is to be deducted at an average rate of tax which would ensure that by the end of the tax year, tax on estimated income under the head "salary" is deducted at an average rate of tax based upon the rates introduced through the Finance Supplementary (Amendment) Act, 2018 which are applicable w.e.f. 01.7.2018.

In order to further elucidate the matter the following example is being presented:-

Taxable salary income	Rs. 4,800,000
Monthly salary paid or payable	Rs. 400,000
Average rate of tax under the Finance Act, 2018 (Rs. 300,000/4,800,000 × 100 = 6.25%)	6.25%
Average rate of tax under the Finance Supplementary (Amendment) Act, 2018 (Rs. 450,000/4,800,000 × 100 = 9.375%)	9.375%
Tax deducted at average tax rate of 6.25% during July, 2018 upon payment of salary of Rs. 400,000	Rs. 25,000
Total tax deducted during the months of July, August & September, 2018 at average tax rate of 6.25% upon payment of salary of Rs.1,200,000 for these three months	Rs. 75,000

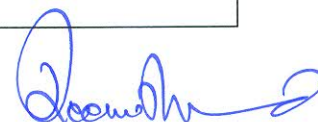


Monthly tax required to be deducted at average tax rate of Rs.9.375% computed on the basis of the Finance Supplementary (Amendment) Act, 2018	Rs. 37,500
Total tax payable for the entire tax year at the average rate of tax of 9.375% computed on the basis of the Finance Supplementary (Amendment) Act, 2018	Rs. 450,000
Tax already deducted during the months of July, August and September at average rate of tax of 6.25%	Rs. 75,000
Balance tax to be deducted in the remaining months of the ongoing tax year (Rs. 450,000 – Rs. 75,000 = Rs. 375,000)	Rs. 375,000
Tax to be deducted /withheld under section 149 of the Ordinance upon payment of monthly salary of Rs.400,000/-during the remaining months of the tax year	Rs. 41,667

(b) Non-Salaried Individuals

The Finance Supplementary (Amendment) Act, 2018 also envisages amendment in the tax rate(s) applicable to non-salaried individuals. The tax rates applicable to non-salaried individuals w.e.f 1st July, 2018 shall be as follows:-

S. No.	Taxable income	Rate of tax
(1)	(2)	(3)
1.	Where the taxable income does not exceed Rs. 400,000	0%
2.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 800,000	Rs. 1,000
3.	Where the taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	Rs. 2,000
4.	Where the taxable income exceeds Rs.1,200,000 but does not exceed Rs. 2,400,000	5% of the amount exceeding Rs. 1,200,000
5.	Where the taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,000,000	60,000 + 15% of the amount exceeding Rs. 2,400,000



6.	Where the taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000	150,000 + 20% of the amount exceeding Rs. 3,000,000
7.	Where the taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 5,000,000	350,000 + 25% of the amount exceeding Rs. 4,000,000
8.	Where the taxable income exceeds Rs. 5,000,000	600,000 + 29% of the amount exceeding Rs. 5,000,000

A proviso has also been added wherein it has been specified that where the taxable income of non-salaried individual exceeds eight hundred thousand rupees the minimum tax payable shall be two thousand rupees.

It would be pertinent to mention that the tax rates for non-salaried individuals introduced through the Finance Supplementary (Amendment) Act, 2018 will not result in an increased tax incidence upon non-salaried individuals earning upto Rs.2.4 million per annum (or upto Rs. 200,000/- per month) viz-a-viz the tax rates introduced through the Finance Act, 2018. Moreover, the tax incidence upon non-salaried individuals earning more than Rs. 2.4 million per annum (or more than Rs.200,000/- per month) shall be lower as compared to the tax incidence prior to the introduction of the Finance Act, 2018.

2. Option for closure of cases automatically selected for audit under section 214D of the Income Tax Ordinance, 2001. [Section 214E of the Ordinance]

Section 214D of the Income Tax Ordinance, 2001 provided for automatic selection for audit if a person had not filed return of income within the date it was required to be filed under section 118 of the Ordinance or within the time extended by the Board under section 214A of the Ordinance or further extended by the Commissioner under section 119 of the Ordinance or if the person had not paid the tax payable alongwith return under sub-section (1) of section 137 of the Ordinance. Section 214D was omitted through the Finance Act, 2018 i.e. with effect from 01.07.2018. As such the cases which were selected for audit under section 214D prior to 01.07.2018 are still pending. Through the Finance Supplementary (Amendment) Act, 2018 [Act No. XXXVIII of 2018], a new section 214E has been inserted in the Income Tax Ordinance, 2001 which provides an option to taxpayers for conclusion of their pending audits automatically selected under section 214D of the Ordinance upon the fulfillment of certain conditions which are clarified as under:-

- i. The taxpayer was selected for audit under sub-section (1) of the omitted section 214D;



- ii. Notice under section 122 has not been issued till 07.10.2018 as the said Act No. XXXVIII of 2018 was published in the Gazette of Pakistan, Extraordinary, Part-I on 08.10.2018.
- iii. The taxpayer revises return voluntarily, by 31.12.2018 along with payment of higher tax which is as follows:-
 - a. 25% higher tax than the tax paid with return on the basis of taxable income; or
 - b. Where no tax is payable, 2% of the turnover. Turnover shall have the same meaning as defined in sub-section (4) of section 113.
 - c. Where no turnover is declared, penalty under entry at Serial No.1 of sub-section (1) of section 182 of the Ordinance.

The taxpayer shall apply to the Commissioner on the iris system for revision of return selected for audit under section 214D stating the reason for revision as availing option under section 214E of the Ordinance. The Commissioner shall grant permission within 3 working days of receipt of application for revision after ensuring that the conditions enumerated above have been fulfilled. In case there is no reply from the Commissioner, the iris system shall automatically accept the application for revision on the 4th working day and it shall be deemed that the Commissioner has accepted the application for revision. The iris system will accept the application for revision from the date on which the application for revision has been filed. Hence, the iris system will accept the applications for revisions filed on 31.12.2018 with effect from 31.12.2018 even if the approval has been granted by the Commissioner within the next 3 working days from 31.12.2018. However, the iris system will automatically check whether notice under section 122 has not been issued till 07.10.2018 and whether 25% higher tax as compared to the tax paid alongwith return on the basis of taxable income or 2% of the turnover or penalty under entry at Serial No. 1 of sub-section (1) of section 182 as the case may be, has been paid before applying for revision. In case tax has not been paid or notice under section 122 was issued till 07.10.2018, the iris system will not accept the application for revision.

However, the condition of revision of return or payment of 25% higher tax or 2% of the turnover shall not apply if the taxable income of the taxpayer includes salary income and income subject to final taxation under sub-section (1) of section 169 or subject to taxation under section(s) 5, 5AA, 6, 7, 7A or 7B of the Ordinance e.g. if the income of a person includes, say, 40% salary, 30% dividend and 30% profit on debt the condition shall not apply. However, even if 1% of the income includes, say, business income, the above conditions shall apply. In such a situation, if no notice under section 122 has been issued by 07.10.2018, the taxpayer shall pay penalty under entry at Serial No.1 of sub-section (1) of section 182 and the audit shall stand closed.



An explanation has also been added in section 214E which clarifies that section 214E shall not apply to audits selected separately by the Commissioner under section 177 or by the Board under section 214C of the Ordinance.

3. Ban on transfer of immovable property or new vehicle to a non-filer [Section 227C, Section 182 of the Income Tax Ordinance, 2001.]

In order to reinforce efforts being made for broadening of the Tax Base and to bring about an increase in the number of return filers a new section 227C was inserted through the Finance Act, 2018 whereby a bar was placed upon acceptance and processing of applications for booking, registration or purchase of a new locally manufactured motor vehicle or for the first registration of an imported vehicle by any vehicle registering authority or a manufacturer of a motor vehicle unless the person was a filer as defined in section 2(23A) of the Ordinance. Such restriction was also placed upon authorities responsible for registering, recording or attesting transfer of any immovable property exceeding five million rupees and any application or request by a person for registering, recording or attesting transfer of any immovable property exceeding Rs. 5 Million could not be accepted or processed unless such person was a filer as defined in section 2(23A) of the Ordinance.

This restriction resulted in hardship for various categories of persons including low income earning individuals purchasing motorcycles etc and for persons acquiring property through inheritance. Moreover, this measure also negatively impacted non-resident individuals desirous of investing in the real estate sector. In order to alleviate the genuine hardship being faced by various categories of persons the Finance Supplementary (Amendment) Bill, 2018 envisages the exclusion of certain persons from the purview of section 227C of the Income Tax Ordinance, 2001 as under:-

- (i) The restriction on purchase of locally manufactured/imported vehicles by non-filers shall not extend to purchase of motorcycles having engine capacity less than 200cc. Moreover, non-filers shall also be at liberty to purchase agricultural tractors, motorcycle-rickshaws, rickshaws and any other motor vehicle having an engine capacity less than 200cc. Furthermore, persons holding a Pakistan origin card or a national identity card for overseas Pakistanis who are able to produce a certificate from a scheduled bank verifying receipt of foreign exchange remitted from outside Pakistan through normal banking channels during a period of sixty days prior to the date of booking, registration or purchase of motor-vehicle shall also not have to adhere to the condition of being a filer for the purchase of a locally manufactured or imported vehicle.
- (ii) The restriction on purchase/transfer of immovable property having value exceeding Rs. 5 million by non-filers shall not apply to legal heirs acquiring



property through inheritance. Moreover, as in the case of purchase of motor-vehicles the condition of being a filer shall not apply in respect of persons holding a Pakistan origin card or a national identity card for overseas Pakistanis who are able to produce a certificate from a scheduled bank verifying receipt of foreign exchange remitted from outside Pakistan through normal banking channels during a period of sixty days prior to the date of registering, recording or attesting transfer of immovable property valuing above Rs. 5 million.

In order to effectively enforce the bar on purchase of locally manufactured/ imported vehicles and immovable property valuing above Rs. 5 Million by non-filers the Finance Supplementary (Amendment) Act, 2018 envisages levy of various penalties upon local manufacturers of vehicles, Excise and Taxation department and authorities responsible for registering, recording or attesting transfer of immovable properties. These are detailed hereunder:-

- (i) A local manufacturer of a motor vehicle accepting or processing any application for the booking or purchase of a locally manufactured motor vehicle by a non-filer shall be liable to pay a penalty of 5% of the value of the motor vehicle under section 182 of the Income Tax Ordinance, 2001.
- (ii) A registering authority of Excise and Taxation Department accepting, processing or registering any application for registration of a locally manufactured motor vehicle or the first registration of an imported vehicle by a non-filer shall be liable to pay a penalty of 3% of the value of the motor vehicle.
- (iii) If any authority responsible for registering, recording or attesting the transfer of immovable property accepts or processes the registration or attestation of immovable property valuing above Rs. 5 million in the case of a non-filer, such authority shall be liable to pay a penalty of 3% of the value of such immovable property. It would also be pertinent to mention that authorities responsible for registering, recording or attesting the transfer of immovable properties include housing authorities, housing societies, co-operative societies, registrar of properties etc.

4. Furnishing of information by banks under section 165A of the Income Tax Ordinance, 2001

Section 165A of the Income Tax Ordinance, 2001 inserted through the Finance Act, 2013 requires banking companies to provide information to the Federal Board of Revenue notwithstanding anything contained in any law for the time being in force. By virtue of amendments introduced in section 165A of the Ordinance through the Finance



Act, 2018 banks are obliged to make arrangements for providing the following information to the Board in the prescribed form and manner:-

- (i) List of persons containing particulars of cash withdrawals exceeding Rs. 50,000/- in a day and tax deduction thereon for filers and non-filers, aggregating to Rs. 1 million or more during each preceding calendar month.
- (ii) A list containing particulars of deposits aggregating Rs. 10 million or more made during the preceding calendar month.
- (iii) A list of payments made by any person against credit card bills aggregating Rs.200,000/- or more during the preceding calendar month.

In addition to the aforementioned information(s) banks, pursuant to the passage of the Finance Supplementary (Amendment) Act, 2018 shall now also be obliged to furnish the following additional information:-

- (iv) A list of persons receiving profit on debt exceeding Rs. 1 million for filers and Rs. 500,000/- for non-filers alongwith information regarding tax deduction thereon during the preceding financial year.

It would be pertinent to mention that banks shall be obliged to provide the information mentioned at Serial No (i), (ii) and (iii) to the Board on a monthly basis whereas the information at Serial No (iv) is to be provided on an annual basis.

5. Increase in rate of advance tax on banking transactions by non-filers [Section 236P read with Division XXI Part III of the First Schedule]

Every banking company, in terms of section 236P of the Income Tax Ordinance, 2001 is obliged to collect advance adjustable tax from non-filers @ 0.4% upon sale of instruments such as demand draft, pay order, special deposit receipt, cash deposit receipt, short term deposit receipt, call deposit receipt, rupee traveller's cheques etc in excess of Rs.50,000/- per day. Similarly, such tax is also to be collected from non-filers upon transfer of funds through cheque/clearing, inter/intra-bank transfers through cheques, online/telegraphic/mail transfers, direct debits, payments through internet, mobile phones and transfer of funds through various other modes as delineated under section 236P of the Ordinance in case such transfers exceed Rs.50,000/- per day (in aggregate) from all bank accounts.

The FBR is consistently espousing the policy of increasing the cost of doing business for non-filers who are non-compliant taxpayers. Therefore, through the Finance Supplementary (Amendment) Act, 2018 the tax rate under section 236P of the Ordinance has been increased from 0.4% to 0.6%. It is envisaged that this measure shall encourage non-complaint taxpayers to join the tax net and supplement efforts targeted towards broadening of the tax base.



6. Withdrawal of tax exemptions for Provincial Governors and Ministers of the Federal Government [Clause(s) (51), (52) and (53) of Part-I of the Second Schedule to the Income Tax Ordinance, 2001].

In keeping with the government's aim of implementing a fair and equitable taxation system the Finance Supplementary (Amendment) Act, 2018 envisages the withdrawal of certain tax exemptions previously available to Provincial Governors and Ministers of the Federal Government as under:-

- (i) Exemption available to perquisite representing free of rent residential accommodation provided by the government to Provincial Governors has been withdrawn. [Clause (51) of Part-I of the Second Schedule to the Ordinance].
- (ii) Exemption available to perquisite(s) representing free conveyance provided and entertainment allowance granted by the government to Provincial Governors has been withdrawn. [Clause (52) of Part-I of the Second Schedule to the Ordinance].
- (iii) Exemption(s) available to perquisites representing rent free accommodation (in instances where value thereof exceeds 10% of the basic salary of the Ministers concerned), house rent allowance (paid by the government in lieu of rent free accommodation exceeding Rs.550,000/- per month), free conveyance and sumptuary allowance granted by the government to the Ministers of the Federal Government have been withdrawn. [Omission of Clause (53) of Part-I of the Second Schedule to the Ordinance].

7. Tax exemptions and concessions for the Supreme Court of Pakistan–Diamer Bhasha & Mohmand Dams-Fund [Clause(s) (61) and (66) of Part-I of the Second Schedule to the Income Tax Ordinance, 2001 [Clause(s) (107), (108) and (109) of Part-IV of the Second Schedule to the Income Tax Ordinance, 2001]

In view of the imminent need to build dams for addressing the water crises facing Pakistan various tax exemptions and concessions have been extended to the Supreme Court of Pakistan–Diamer Bhasha & Mohmand Dams–Fund. These exemptions and tax concessions are delineated as under:-

- (i) Exemption from Income Tax has been accorded to any donation given to the Supreme Court of Pakistan–Diamer Bhasha & Mohmand Dams Fund. [Clause (61) of Part-I of the Second Schedule to the Ordinance].
- (ii) Exemption has been accorded to any income derived by the Supreme Court of Pakistan –Diamer Bhasha & Mohmand Dams Fund. [Clause (66) of Part-I of the Second Schedule to the Ordinance].



(iii) Any person making donations to the Supreme Court of Pakistan–Diamer Bhasha & Mohmand Dams Fund shall not be required to explain the nature and source of the contribution being made to the fund under section 111 of the Income Tax Ordinance, 2001. It would however be pertinent to mention that section 111 of the Ordinance which confers the right to make inquiries regarding the nature and source of any income/assets/expenditure shall not apply only to the extent of the actual contribution/donation being made into the Supreme Court of Pakistan–Diamer Bhasha & Mohmand Dams Fund. [Clause (107) Part-IV of the Second Schedule to the Ordinance].

(iv) Exemption has been accorded to the Supreme Court of Pakistan–Diamer Bhasha & Mohmand Dams Fund from levy of minimum tax on turnover under section 113 of the Income Tax Ordinance, 2001. The fund shall also be exempt from the following withholding tax provisions:-

- (a) Section 151 (profit on debt)
- (b) Section 231A (cash withdrawals from banks)
- (c) Section 231AA (advance tax on transactions in banks)
- (d) Section 236P (advance tax on banking transactions otherwise than through cash)

[Clause (108) of Part-IV of the Second Schedule to the Ordinance].

(v) Advance tax on non-cash banking transactions under section 236P of the Ordinance by non-filers shall not be collected by banks from non-filers in the case of amounts being transferred to the Supreme Court of Pakistan–Diamer Bhasha & Mohmand Dams Fund. [Clause (109) of Part-IV of the Second Schedule to the Ordinance].



(Reema Masud)

Secretary (Income Tax Budget)