

**Government of Pakistan  
Revenue Division  
Federal Board of Revenue  
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C. No. 4(65)IT-Budget/2020-145988-R

Islamabad, 3<sup>rd</sup> September, 2020.

**Circular No. 03 of 2020  
(Income Tax)**

**SUBJECT: - FINANCE ACT, 2020 - EXPLANATION OF IMPORTANT AMENDMENTS  
MADE IN THE INCOME TAX ORDINANCE, 2001**

The Finance Act, 2020 has brought about certain amendments in the Income Tax Ordinance, 2001 (*the Ordinance, hereafter*). Some significant amendments are explained hereunder: -

**1. Amendment(s) in definition of the term “industrial undertaking” [Clause (29C) of Section 2 of the Ordinance].**

As per newly inserted sub-clause (aa) of clause (29C) of section 2 of the Ordinance, a person directly involved in the construction of buildings, roads, bridges and other such structures or the development of land shall fall within the ambit of “Industrial undertaking” to the extent and for the purpose of import of plant and machinery to be utilized in such construction or development activities from 1<sup>st</sup> May, 2020 subject to the conditions as may be notified by the Board. Similarly, as per newly inserted sub-clause (ab) of clause (29C) of section (2), resident company engaged in hotel business in Pakistan is also covered for the term industrial undertaking from 1<sup>st</sup> of July, 2020.

**2. Insertion of new definitions [Section 2]**

To impart clarity, ensure uniform interpretation and update reference to newly enacted local government laws, the terms “integrated enterprise”, “Iris” and “local Government” have now been defined/redefined under clauses (30A), (30AC) and (31A) of section 2 respectively as under: -

- i) **“Integrated enterprise”** means a person integrated with Board through approved electronic device and software, who fulfills obligations and requirements for integration as may be prescribed.

- ii) “Iris” means a web based computer programme for operation and management of Inland Revenue taxes and laws administered by the Board.
- iii) Local Government shall have the same meaning as contained in respective provincial and Islamabad Capital Territory Local Government Acts that have been newly enacted.

**3. Taxation of resident shipping companies [Section 7A, Clause (98) of Part-IV of the Second Schedule to the Ordinance]**

Final tax regime for taxing gross amount received or receivable by non-resident shipping companies at fixed tax rate under section 7 did not cover shipping income of a resident person. A new section 7A was, therefore, inserted through Finance Act, 2015, which provides for taxing shipping of residents under final tax regime. Further, dates of applicability of section 7 and clause (98) of Part-IV of Second Schedule which exempts import of ships and other floating crafts including tugs, survey vessels and other specialized crafts purchased or bare-boat chartered by a Pakistani entity and flying Pakistani flag from applicability of provision of section 148, have been extended to 30-06-2030.

Moreover, clause (c) has been added to sub-section (1) of section 7A to provide for imposition of final tax of an amount equivalent to seventy-five US cents per ton of gross registered tonnage per annum for a Pakistani resident ship owning company registered with SECP after 15<sup>th</sup> November, 2019 and having its own sea worthy vessel registered under the Pakistan flag.

**4. Enabling adjustability of property expenses against income from property for all individuals and AOP's [Section 15A].**

By the Finance Act, 2016, a dual tax treatment was introduced for property income of individuals/AOPs and companies. Individuals and AOPs had to pay fixed amount of tax on gross rentals at the rates specified in Division VIA of Part-I of First Schedule. However, certain deductions were allowable for computing property income in case of a company.

A new sub-section (7) was added to Section 15A through Finance Act, 2019 to enable Individuals/AOPs to opt for normal tax regime and claim deductions against gross

rentals as provided in the law. But that option was available only to those individuals and AOPs who derived income from property in excess of Rs.4 (Million). Finance Act, 2020 has removed this condition by making amendment in sub-section 7 of section 15A. Now all individuals/AOPs are allowed to claim deductions against gross rental income if they opt to pay tax at rates given in Divisions I of Part-I of First schedule to the Ordinance. Furthermore, deduction in respect of administration and collection charges under clause (h) of Section 15A has been reduced from 6% to 4% of the rent chargeable to tax.

**5. Increase in threshold of payments required to be made through banking channels under section 21(l) of the Ordinance.**

Section 21(l) of the Ordinance does not allow deduction against business income if claim of a business expenditure exceeds Rs. 50,000/- under a single account head in aggregate and payment is made otherwise than through crossed banking instrument, online transfer of payment or credit card from business account of the taxpayer. However, this inadmissibility of deduction did not apply if a single transaction on account of such business expenditure remained at Rs. 10,000/- or below. Finance Act, 2020 has increased these thresholds from Rs. 50,000 to Rs. 250,000/- and from Rs.10,000/- to 25,000/-respectively.

**6. Increase in threshold of salary payments required to be made through banking channels under section 21(m) of the Ordinance.**

Similarly, section 21(m) disallows expenditure on account of monthly salary against business income if it was paid in excess of threshold of Rs. 15,000 per month per employee and payment was made otherwise than through crossed cheque or direct transfer of funds to the employees bank account. Finance Act, 2020, has increased this threshold to Rs. 25,000 per month per employee for payment of salary otherwise than through crossed cheque or direct transfer of funds to the employees bank account.

**7. Expense on utility bills to be treated as an inadmissible business deduction subject to certain conditions [section 21(p)].**

Expenditure on account of utility bills is allowed against business income under section 20 of the Ordinance. A new clause (p) has been added to Section 21 to disallow it if it is incurred in excess of certain limits and is in violation of certain conditions as may be prescribed by the Board.

**8. Disallowance of business expenditure proportionate to sales made to unregistered persons for Sales Tax [Section 21(q)].**

To encourage documentation and promote voluntary compliance, clause (q) has been added to section 21, which disallows expenditure attributable to sales made by a taxpayer to persons liable to be registered but not registered under the Sales Tax Act, 1990, in case sales to such unregistered persons equal or exceeds Rs. 100 (Million) per person per annum. Disallowance will be worked out on the ratio that exists between sales to such unregistered persons to total sales. However, inadmissible deduction in this regard shall not exceed 10% of the total deductions claimed against business income under Part-IV of Chapter III of Ordinance. Moreover, the Board has been empowered to exempt a person or class of persons from the operation of this clause subject to such conditions as may be specified. The clause shall come into force w.e.f. 1<sup>st</sup> October, 2020.

**9. Rationalizing depreciation deduction based on the half year rule [Sub-section (2) and sub-section (8) of section 22 of the Ordinance].**

Prior to the Finance Act, 2020, depreciation under section 22 of the Ordinance was allowable for the entire tax year even if a newly acquired depreciable asset was used for a single day in a tax year, whereas no depreciation was allowable in the tax year in which a depreciable asset was disposed of. A new proviso has been added to sub-section (2) of section 22 of the Ordinance 2001 by Finance Act, 2020 whereby depreciation deduction admissible under Section 22 in respect of a depreciable asset used for the first time in a tax year commencing on or after 1<sup>st</sup> July, 2020 shall be reduced by 50% of the allowable depreciation for the year. Further, 50% of the allowable depreciation against such depreciable asset shall be allowable in the year of disposal as per the proviso added to sub-section (8) of Section 22 of the Ordinance.

**10. Rationalization of cost of transport vehicle for claiming deduction on account of lease rentals [Section 28(1)(b)].**

A passenger transport vehicle not plying for hire that was owned/ purchased/ acquired by a taxpayer deriving income from business is entitled for tax depreciation under section 22. Likewise, lease rentals in respect of a vehicle not plying for hire acquired under hire-purchase/ lease arrangements from approved companies are tax deductible. There is an upper cap on cost/ WDV of Rs.2.5 Million for claiming depreciation deduction u/s 22 against the said vehicle. However, prior to Finance Act,

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2020, no such cap was available in the law for claiming deduction on account of lease rentals against similar vehicles under section 28(1)(b) of the Ordinance 2001. To bring tax treatment of admissibility of depreciation and lease rentals at par, a proviso to clause (b) of sub-section (1) of section 28 has been inserted whereby whilst determining the deduction on account of lease rentals, the cost of a passenger transport vehicle not plying for hire to the extent of principal amount shall not exceed Rs.2.5 Million.

**11. Reduction in holding period and tax rates for computation of capital gains on disposal of immovable property [Section 37, Section 236C and Division VIII of Part I of the First Schedule]**

Following significant changes have been made in Section 37 by Finance Act, 2020 in respect of taxation of capital gains on disposal of immovable property:

- a. Bifurcation of immovable property into plots and constructed property has been done away with.
- b. Maximum holding period attracting taxation of capital gains on disposal of immovable property has been restricted to 4 years and percentages of taxable capital gain have been rationalized with reference to holding period.
- c. Tax rates for capital gains on disposal of immovable property have been reduced
- d. Corresponding changes in section 236C have been made in respect of holding period and tax rates.

These changes in law are summarized in the following tables:

**Holding period**

Sr.No.	Holding period of immovable property	Taxable Capital Gains	
		Before FA 2020	After FA 2020
1.	Not exceeding one year	75% of the capital gain	100% of the capital gain
2.	Exceeds one year but does not exceed two years	75% of the capital gain	75% of the capital gain
3.	Exceeds two years but does not exceed three years	75% of the capital gain	50% of the capital gain

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4.	Exceeds three years but does not exceed four years	75% of the capital gain	25% of the capital gain
5.	Exceeds four years (Constructed Property only)	0% of the capital gain	0% of the capital gain
6	Exceeds four years but doesn't exceed 8 years (Open Plots only)	75% of the capital gain	0% of the capital gain

### Tax rates

S.No.	Amount of Capital Gain on disposal of immovable property under section 37 of the Ordinance	Rates of Tax as per the Finance Act, 2019	Rates of Tax as per the Finance Act, 2020
(1)	(2)	(3)	(4)
1.	Where the gain does not exceed Rs. 5 million	5%	2.5%
2.	Where the gain exceeds Rs. 5 million but does not exceed Rs. 10 million	10%	5%
3.	Where the gain exceeds Rs. 10 million but does not exceed Rs. 15 million	15%	7.5%
4.	Where the gain exceeds Rs. 15 million	20%	10%

### 12. Incentivizing companies engaged in the hotel business [section 57(2B), Clause (11A) of Part-IV of the Second Schedule to the Ordinance]

A resident company engaged in the hotel business in Pakistan has been included in the ambit of an industrial undertaking in terms of Section 2(29C). In addition, following incentives have also been offered to the hotel business:-

- (i) A new sub-section (2B) has been inserted in section 57 of the Ordinance whereby a resident company engaged in the hotel business in Pakistan shall be allowed to carry forward business loss relating to a tax year commencing on or after the 1<sup>st</sup> of July, 2020 for a period of 8 years.
- (ii) Minimum tax under section 113 of the Ordinance shall not be applicable to the turnover of such company relating to the period from 1.4.2020 till

30.9.2020 in terms of the newly inserted sub-clause (xxxviii) in clause (11A) of Part-IV of the Second Schedule.

**13. Limiting tax credit under section 61 of the Ordinance in case of Charitable Donations given by a donor to an associate**

In terms of section 61 of the Ordinance, any person i.e an individual, AOP or company is entitled to a tax credit for any amount paid or any property given during the tax year as a donation to approved institutions/organization. However, through the Finance Act, 2020 the quantum of tax credit available to a donor has been curtailed in instances where donations are made to an associate. Amendment has been made by inserting a proviso in sub-section (2) of section 61 of the Ordinance. Resultantly, where donations are made by a donor to an associate, clause (b) component C of the formula in sub-section (2) of section 61 of the Ordinance shall now be the lesser of the following:

*(i) 15% of the taxable income in the case of an individual or an AOP*

*(ii) 10% of the taxable income in the case of a company*

**14. Limiting period of applicability of tax credit for enlistment under section 65C of the Ordinance.**

Companies opting for enlistment and getting enlisted on any registered stock exchange in Pakistan are entitled to a tax credit under section 65C of the Ordinance. Through the Finance Act, 2020, a sunset clause for availing such tax credit till 30.6.2022 has been inserted.

**15. Strengthening the compliance regime of non-profit /welfare organizations [Section 2(36)(a) and (b), 100C(1)(g),100C (1A) ]**

Clause (36) of section 2 defines a non-profit organization (NOP) and enlists various purposes that an NPO can pursue or undertake. The scope of such activities has been narrowed down by omitting the expression “development purposes” appearing in sub-clause (a) of clause (36) of section 2 of the Ordinance.

Moreover, a new clause (g) has been inserted in sub-section (1) of section 100C of the Ordinance 2001 whereby eligibility of a non-profit organization, trust or welfare institution for availing 100% tax credit has also been made contingent upon furnishing of

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a statement of voluntary contributions and donations received in the immediately preceding tax year in the prescribed form and manner.

Furthermore, an amendment has been made in sub-section (1A) of section 100C whereby, regime of taxation of surplus funds (excess of profits over expenditures) @10% has been extended to the trusts and welfare institutions.

**16. Limiting interest deductibility in the case of foreign associates [Section 106A].**

Section 106 of the Ordinance embodies thin capitalization rule which provides for disallowance of profit on debt in respect of debt owed to foreign affiliates by a foreign controlled resident company, except a financial institution, a banking company or a branch of a foreign company operating in Pakistan, if foreign debt to equity ratio is in excess of three to one at any time during a tax year.

In line with international best practices, many countries have introduced a fixed ratio test based on a subsidiary company's interest deduction to taxable income/accounting profits ratio instead of debt to equity ratio, which has been found to be a better tool for combating base erosion and profit shifting. Accordingly, a new section 106A has been introduced through the Finance Act, 2020 whereby foreign profit on debt claimed as a deduction by a foreign –controlled resident company which exceeds 15% of the taxable income before interest, depreciation and amortization shall be disallowed as a deduction during a tax year. The following example may give more clarity about the new provision: -

**Example**

M/s ABC (Pvt ) Ltd, a foreign controlled resident company has claimed profit on debt as deduction in the return of income for tax year 2021 while declaring the following position:

Taxable income as per return of income	Rs 100 M
Depreciation and amortization	Rs 10 M
Profit on debt deduction claimed in return	Rs30 M



Given the above facts, disallowance u/s 106A shall be worked out as under:

Taxable income before depreciation and amortization (A) Rs 110 M

Profit on debt deduction claimed in return (B) Rs30 M

**Profit on Debt not allowable (C) = [B] – [(A + B) x 15%]**

$$C = 30 - (110+30) \times 0.15$$

$$C = 30 - 21$$

$$C = \text{Rs.9 M}$$

Profit on debt not allowable u/s 106A Rs.9 M

Under subsection (4) of section 106A, the amount of profit on debt not allowed as deduction shall be the higher of the amount computed under section 106 and 106A, if both the provisions are simultaneously applicable in a case. It applies to profit on debt accrued from the 1st July, 2020 even if the debts were transacted before 1<sup>st</sup> July, 2020.

**17. Filing of returns u/s 114 by persons whose income for the year is subject to final taxation [section 114]**

Prior to the Finance Act, 2020 persons subject to the final tax regime were obliged to file statement of final taxation under section 115(4) of the Ordinance. This section has now been omitted since final tax regime has been phased out for most of the transactions. However, any person whose income is still subject to final tax regime, is now obligated to file normal income tax return and allied documents under the newly inserted clause (ae) in sub-section (1) of section 114 of the Ordinance.

Moreover, an enabling provision has also been inserted in clause (a) of sub-section (2) of section 114 of the Ordinance whereby the Board has been empowered to prescribe different returns for different classes of income or persons including persons subject to final taxation.

**18. Taxpayer's profile [Section 114A, section 182, section 182A (2)]**

In order to streamline the filing requirements on the part of the taxpayers, a new section 114A has been inserted through the Finance Act, 2020 which makes it mandatory for certain taxpayers to electronically file a Taxpayer's Profile containing various information such as bank accounts, utility connections, details of business premises, etc.

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The deadlines for electronically filing the said Taxpayers' Profile Form, have been given in the law as under:

<b>Registration Status</b>	<b>Last Date of Submission of Taxpayer's Profile</b>
In case of persons already registered till date/ or registered before the 30th day of September 2020	on or before the 31st day of December 2020
In case of a person registered after the 30th day of September 2020	Within ninety days of the registration

Section 114A(4) further requires that in case of any change in the particulars of information given in the Taxpayers' Profile, such change(s) shall be updated by the taxpayer within 90 days of such change(s). Moreover, in terms of the newly inserted sub-section (2) of section 182A of the Ordinance, failure to furnish or update a taxpayer's profile within the due date or within the date as extended by the Board under section 214A, will lead to exclusion from the Active Taxpayers' List (ATL) for the latest tax year ending prior to the aforesaid due date or extended date.

Once excluded, a person shall be allowed to be placed on the ATL again upon payment of surcharge of Rs. 20,000/- in the case of a company, Rs. 10,000/- in the case of an association of persons and Rs. 1,000 in the case of an individual. Penalties for non-furnishing and non-updation of the taxpayer's profile have also been prescribed in Section 182 of the Ordinance 2001.

**19. Revision of wealth statement to be made contingent upon intimation to the commissioner [Section 116(3)]**

Prior to the Finance Act, 2020 a taxpayer had the option of revising wealth statement, upon discovering any omission or wrong statement therein at any time prior to receipt of notice under section 122(9) of the Ordinance for the tax year to which it relates. Through the Finance Act, 2020 an amendment has been made in sub-section (3) of section 116 of the Ordinance whereby effective from 1<sup>st</sup> July, 2020 intimation to the Commissioner in the prescribed form and manner, shall constitute a prerequisite for revision of wealth statement. Furthermore, through newly inserted proviso to section (3) of section 116 of the Ordinance, Commissioner has been empowered to declare such revision as void, through an order in writing after providing an opportunity of being heard

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in the instances where Commissioner is of the opinion that revision under this sub-section is not for the purpose of correcting a *bonafide* omission or wrong statement.

In addition to the above, an explanation has been added in sub-section (3) of section 116 of the Ordinance wherein it has been clarified that a wealth statement cannot be revised after expiry of 5 years from the due date of filing of return of income for that tax year.

## **20. Automated adjusted assessment [ section 120(2A), section 127(1)]**

In terms of section 120 of the Ordinance, a return filed by a taxpayer is deemed to be an assessment order on the day such return is filed, and the Commissioner is taken to have made the assessment of taxable income and tax chargeable equal to the amounts declared by the taxpayer.

Through the Finance Act, 2020 a new sub-section (2A) has been inserted in section 120 wherein the return filed by a taxpayer shall be processed through the automated system to arrive at correct amounts of taxable income and tax payable by making certain adjustments whose details have been given in Section 120(2A) of the Ordinance. These adjustments will be made after providing opportunity of being heard through a system generated notice and after taking into account the reply received from the taxpayer. However, in case no reply is furnished, adjustments can be made within thirty days of the issuance of the notice.

A taxpayer aggrieved with an order passed under sub-section (2A) of section 120 of the Ordinance shall have right to appeal before the Commissioner (Appeals) under section 127 of the Income Tax Ordinance, 2001. Furthermore, in case no adjustments under sub-section (2A) of section 120 of the Ordinance are made within six months of filing of the return of income, return of income shall be deemed to have been assessed upon completion of the six months' period, and intimation to this effect shall be given to the taxpayer automatically through *Iris*.

## **21. Change in the Scope of Section 122(5)**

Prior to the Finance Act 2020, an assessment Order could only be amended under Section 122(1) or an amended order could only be further amended under Section 122(4)



on the basis of definite information acquired from audit or otherwise. Now After amendment through Finance Act 2020, assessment order can be amended or an amended order can be further amended on the basis of audit or on the basis of definite information.

## **22. Agreed assessment [Section 122D]**

Prior to the Finance Act, 2020 there was no mechanism under the Ordinance for negotiated settlement of tax disputes before finalization of an assessment/amended assessment. In order to facilitate taxpayers, reduce burden on formal appeal system and effecting speedy recoveries, a new section 122D enabling agreed assessment has been inserted through the Finance Act, 2020.

If a taxpayer intends to settle his case on or after receipt of a notice for amendment of assessment under section 122(9) of the Ordinance, he shall have the option of filing an offer of settlement in the prescribed form before the Assessment Oversight Committee for resolution of his dispute. In addition, the taxpayer shall also be obliged to file reply in response to notice for amendment of assessment under section 122(9) of the Ordinance before the concerned Commissioner.

The Assessment Oversight Committee shall comprise of the Chief Commissioner Inland Revenue, the Commissioner Inland Revenue and the Additional Commissioner Inland Revenue having jurisdiction over the taxpayer. The Committee shall examine the offer of settlement and may also call for the record of the case. Moreover, the Committee shall have the mandate to accept or modify the offer of settlement of the taxpayer through consensus after affording the taxpayer an opportunity of being heard.

In case, the Committee's decision is acceptable to the taxpayer, the taxpayer shall be obliged to deposit the amount of tax payable, including penalty and default surcharge, in accordance with the decision of the committee pursuant to which the Commissioner shall amend the assessment in accordance with the decision of the committee. Moreover, in such instances, the taxpayer shall forego his right to file appeal against such amended assessment.

In case, the Committee is unable to arrive at a consensus in respect of the offer of settlement or the taxpayer is not satisfied with the decision of the Committee, the



concerned commissioner shall decide the case on the basis of reply filed by the taxpayer in response to notice of amendment issued under section 122(9) of the Ordinance.

Cases involving concealment of income or interpretation of question(s) of law having effect on other cases have been ousted from the purview of the agreed assessments under section 122D of the Ordinance.

**23. Rationalization of fees to be deposited for filing of appeals before the Commissioner (Appeals) and the Appellate Tribunal Inland Revenue [Section 127(4), 129(4) and 131(3)]**

Through the Finance Act, 2020 appeal fees have been rationalized. A comparison of the fees for filing of appeals before the CIR (Appeals) prior to and post Finance Act, 2020 is as under: -

**Commissioner (Appeal)**

<b>Appeal against assessment order</b>	<b>Prior to the Finance Act, 2020</b>	<b>Pursuant to the Finance Act, 2020</b>
Company	1,000	5,000
Other than a company	1,000	2,500

<b>Appeals against orders other than assessment orders</b>	<b>Prior to the Finance Act, 2020</b>	<b>Pursuant to the Finance Act, 2020</b>
Company	1,000	5,000
Other than a company	200	1,000

**Appellate Tribunal Inland Revenue**

<b>Appeal against order of Commissioner Inland Revenue(Appeals)</b>	<b>Prior to the Finance Act, 2020</b>	<b>Pursuant to the Finance Act, 2020</b>
Company	2,000	5,000
Other than a company	2,000	2,500

In addition to the above, an amendment has been made in sub-section (4) of section 129 of the Ordinance through the Finance Act, 2020 whereby the Commissioner

(Appeals) has been obligated to specify the amount of tax upheld or confirmed in the appellate order passed under sub-section (1) of section 129 of the Ordinance.

**24. STRENGTHENING THE ALTERNATIVE DISPUTE RESOLUTION MECHANISM [Section 134A]**

In order to make the mechanism of alternative dispute resolution (ADR) more vibrant and effective, certain changes have been made in the income tax as well as sales tax & federal excise laws relating to constitution of Alternative Dispute Resolution Committees (ADRC), their functioning and binding value of their recommendations. Salient features of the change have already been explained in the Sales Tax Explanatory Circular No 1 of 2020 dated 6.8.2020. The same may be consulted for income tax purpose.

**25. Augmenting recovery measures [Section 138 of the Ordinance]**

As a tax laws harmonization measure, clauses (a), (ca) and (d) of sub-section (1) of section 48 of the Sales Tax Act, 1990 enabling the Commissioner to effect recovery by requiring by a notice in writing any person to stop clearance of imported goods or manufactured goods or attach bank accounts, or by sealing the business premises have also been incorporated in section 138 of the Ordinance

**26. Computation of advance tax [Section 147]**

For facilitating taxpayers and as a part of FBR's drive for business processes automation, an enabling provision sub-section (7A) has been inserted in section 147 of the Ordinance. This change aims at automating the computation of advance tax liability of a taxpayer through the Iris system. Further, Board has been empowered to prescribe the mode and manner for furnishing estimate/revised estimate and calculation of advance tax payable through Iris or any other automated system as specified by the Board

**27. Rationalizing tax on imports [section 148, Part-II of the First Schedule]**

Certain amendments have been made in section 148 of the Ordinance and a new Twelfth Schedule broadly categorizing importable goods into capital goods, raw materials and finished goods has been added to the Ordinance by the Finance Act, 2020. Resultantly, there has been an in-principle shift from person-specific tax rates to goods specific tax rates cascaded according to the type of goods, with tax @ 5.5% for finished

goods, 2% for raw materials and 1% for capital goods. Moreover, the Board has been empowered to add, omit or amend any entry in the Twelfth Schedule through a notification in the official gazette.

**The standard rates of tax to be collected at the import stage under section 148 of the Ordinance are delineated as under:-**

<b>Persons</b>	<b>Rate</b>
Persons Importing goods classified in Part-I of the Twelfth Schedule	1% of the import value of goods as increased by customs duty, sales tax and federal excise duty.
Persons Importing goods classified in Part-II of the Twelfth Schedule	2% of the import value of goods as increased by customs duty, sales tax and federal excise duty.
Persons Importing goods classified in Part-III of the Twelfth Schedule	5.5% of the import value of goods as increased by customs duty, sales tax and federal excise duty.

Import of certain goods mentioned below, will however be subject to special tax rates as follows: -

<b>Persons</b>	<b>Rate</b>
Manufacturers covered under the rescinded Notification No.S.R.O.1125(I)/2011 dated 31 <sup>st</sup> December, 2011 as it stood on the 28 <sup>th</sup> of June, 2019 on the import of items covered under the said S.R.O.	1% of the value of goods
Finished pharmaceutical products that are not manufactured otherwise in Pakistan, as certified by the Drug Regulatory Authority of Pakistan.	4% of the value of goods.

<b>Import of Mobile Phone by any person having C&amp;F value in US Dollars of :</b>	<b>CBU Condition – PCT Heading</b>	<b>CKD/SKD Condition- PCT Heading</b>
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	<b>8517.1219</b>	<b>8517.1211</b>
Upto 30 except smart phones	Rs.70	Nil
Exceeding 30 and upto 100 and smart phones up to USD 100	Rs.100	Nil
Exceeding 100 and upto 250	Rs.930	Nil
Exceeding 200 and upto 350	Rs.970	Nil
Exceeding 350 and upto 500	Rs.3,000	Rs.5,000
Exceeding 500	Rs.5,200	Rs.11,500

Moreover, in view of the difficulties faced by the importers because of the new regime, issues of exemption certificate and reduced rate certificate by the Commissioners has already been addressed by making changes in the Income Tax Rules, 2002 through SRO 715(I)/2020 dated 12.8.2020 readily accessible on the FBR's official website.

**28. Exemption from 100% higher withholding rates for non-residents [section 152, Tenth Schedule]**

Under the Tenth Schedule to the Ordinance, persons not appearing on the Active Taxpayers List (ATL) are subjected to hundred percent increased rates of withholding taxes as compared to those appearing on the ATL.

Through the Finance Act, 2020 amendments have been made in sub-rule (b) of rule 10 of the Tenth Schedule to the Ordinance whereby payments made to non-residents under sections 152(1), (1AA) and (2) shall no longer be subject to 100% higher withholding tax rates for not being/ appearing on ATL.

However, the above concession shall not be applicable to a permanent establishments of non-resident person for sale of goods under section 152(2A) (a) of the Ordinance, 2001 in view of amendment made in sub-rule (b) of rule 10 of the Tenth Schedule.

**29. Prompt issuance of exemption certificates to public listed companies [Section 153(4)]**

In order to facilitate listed public companies, amendments have been made in sub-section (4) of section 153 of the Ordinance whereby it has been made mandatory for



Commissioners to issue exemption certificates to public listed companies under section 153(1)(a) of the Ordinance as recipients of payments for sale/supply of goods within a maximum period of 15 days from the date of filing of application for such exemption certificate subject to the condition that the company has discharged its advance tax liability. If the concerned Commissioner fails to issue such exemption certificate within 15 days of receipt of exemption request, the exemption certificate shall be deemed to have been issued upon expiry of 15 days. In that eventuality, the exemption certificate shall be automatically processed and issued by Iris. However, the Commissioner has also been empowered to modify or cancel the certificate issued automatically by Iris on the basis of reasons to be recorded in writing and after providing an opportunity of being heard.

**30. Enhancement of threshold of turnover for becoming prescribed person obliged to withhold tax on payments for supplies, services and contracts**

In order to promote ease of doing business, the Finance Act, 2020 has made certain amendments whereby, effective from 01-07-2020, threshold of turnover for an individual or an AOP for categorization as a “prescribed person” in terms of sub-section (7) of section 153 of the Ordinance has been enhanced from “Rs.50 Million and above” to “Rs.100 million and above” in the preceding tax year.

Similarly, obligation to withhold tax under section 153 of the Ordinance as a “prescribed person” under sub-section (7) of section 153 of the Ordinance w.e.f. 01.7.2020 shall be limited to persons registered under the Sales Tax Act,1990 having turnover of Rs.100 Million or above in any of the preceding tax years. Prior to change, all sales tax registered persons irrespective of annual turnover, fell in the ambit of a prescribed person for the purpose of tax withholding u/s 153.

**31. Requirement for filing of withholding tax statements on a quarterly basis [Section 165]**

An amendment has been made in section 165 of the Ordinance whereby obligation to file withholding tax statements on biannual basis has been changed to quarterly basis. The due dates of furnishing quarterly withholding statements are now as under: -

Quarter ending 30 <sup>th</sup> September	On or before 20 <sup>th</sup> October
Quarter ending 31 <sup>st</sup> December	On or before 20 <sup>th</sup> January

Quarter ending 31 <sup>st</sup> March	On or before 20 <sup>th</sup> April
Quarter ending 30 <sup>th</sup> June	On or before 20 <sup>th</sup> July

Moreover, a proviso has also been inserted in sub-section (1) of section 165 of the Ordinance whereby financial institutions including banks shall not be required to file quarterly withholding tax statements under the aforementioned sub-section if the requisite information has already been furnished by the banks /financial institutions under section 165A of the Ordinance.

A new sub-section (1A) has also been inserted in section 165 of the Ordinance whereby persons involved or engaged in economic transactions as prescribed by the Board shall be obliged to furnish a quarterly withholding tax statement to the Commissioner in the prescribed form and manner.

**32. Real-Time access to databases of certain organizations [section 175A]**

In order to augment efforts towards increasing the tax to GDP ratio through broadening of tax base and improving tax compliance, a new section 175A has been inserted in the Ordinance 2001 to enable the Board to obtain/build real time access to information and databases of various organizations like NADRA, utilities companies etc. specifically mentioned in the said section and any other agency/organization as may be notified by the Board.

**33. Advance tax on extraction of minerals to extend to persons on the active taxpayers list [Division xxvi of Part-IV of the First Schedule]**

Through the Finance Act, 2020, amendment has been made in Division XXVI of Part-IV of the First Schedule whereby collection of advance tax on extraction of minerals provided in section 236V has been extended to persons whose names are appearing on the Active Taxpayers List (ATL) and the rate thereof has been specified at 5%. Previously, aforesaid provision was only applicable to persons who were not appearing on ATL.

**34. Exemption of Income for certain entities under clause (66) of Part-I of the Second Schedule to be Subject to certain conditions**

An amendment has been made through the Finance Act, 2020, whereby effective from 01-7-2021, entities listed in Table 2 of clause (66) of Part-I of the Second Schedule



shall be eligible for tax exemption subject to fulfillment of certain conditions as are contained in section 100C of the Ordinance for availing one hundred percent tax credit. However, the income of entities listed in Table 1 of clause (66) of Part-I of the Second Schedule to the Ordinance shall remain entitled to exemption without having to adhere to any such condition.

**35. Explanation regarding renewal of licenses and payment by installments in case of sale of property by auction [section 236A]**

In order to impart clarity to the existing provision of law, an explanation has been inserted in sub-section (1) of section 236A of the Ordinance to the effect that sale by public auction or auction by tender includes renewal of a license previously sold through public auction or auction by a tender, and where payments on account of sale by public auction or auction by tender are received in installments, advance tax shall also be collected with each installment.

*W. BAJWA*  
*3.9.2020*

**(Waqas Ahmed Bajwa)**  
Secretary (Income Tax Budget)