

**Government of Pakistan
Revenue Division
Federal Board of Revenue
Inland Revenue**

C.No.4(21) IT-Budget/2022

Islamabad, the 21st July, 2022.

Circular No. 15 of 2022-23
(Income Tax and CVT)

Subject: Finance Act, 2022 - Explanation of Important Amendments made in the Income Tax Ordinance, 2001

The Finance Act, 2022 has brought about certain amendments in the Income Tax Ordinance, 2001 (the Ordinance, hereafter). Some significant amendments are explained hereunder: -

1. Incorporation of Ordinances in Finance Act, 2022

During the financial year 2021-22, two Ordinances were issued. Some changes in the enactments through the Ordinances have now been made part of Finance Act, 2022.

(a) Income Tax (Amendment) Ordinance, 2022.

Certain provisions were enacted through this Ordinance on 2nd March, 2022. However, section 59C, 65H and 100F have been omitted through Finance Act, 2022.

(b) Tax Laws (Third Amendment) Ordinance, 2021.

The Tax Laws (Third Amendment) Ordinance, 2021 Ordinance was promulgated on 15th September, 2021 and lapsed on 11th May, 2022 during the currency of financial year 2021-22. Certain amendments brought through this Ordinance have been incorporated in Finance Act, 2022 after necessary modification.

2. Disclosure of Beneficial Ownership.


Previously companies and AOPs were not required to disclose the natural individuals who are ultimate beneficial owners. Thus beneficial ownership could be hidden through intervening companies and trusts. To bring

transparency and to remove this obscurity, as per best international practices, companies and AOPs are now required to disclose details of their beneficial owners who are natural persons.

Definition of term 'beneficial owner' has been provided by inserting new clause (7A) in section 2 of the Ordinance. Corresponding new section 181E has been inserted in the Ordinance whereby every company and association of persons will furnish electronically, particulars of its beneficial owners and will be required to update these particulars as and when there is a change in particulars of beneficial owners. Penalty of Rs. 1,000,000 has also been prescribed by incorporating entry No. 30 in the Table, in sub-section (1) of section 182 for each default of company or association of persons who contravenes the provisions of section 181E of the Ordinance.

3 Banking Companies.

Tax rates for banking companies are enhanced as explained hereunder:

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- (i) The taxable income arising from additional income of banking companies earned from additional investment in Federal Government securities for tax year 2020 and 2021 was taxable at the rate of 37.5% instead of rates provided in Division II of Part I of First Schedule. This provision was further amended through Finance Act, 2021, whereby income attributable to investment in the Federal Government securities of banking companies was made taxable on the basis of advances to deposit ratios at graduated tax rates of 40%, 37.5% and 35%, if ratio was upto 40%, 40-50% and above 50% respectively.

The Finance Act, 2022 has introduced enhanced rates of tax on taxable income of banks attributable to investment in Federal Government securities. The enhanced rates for tax year 2022 are 55%, 49% and 35% if gross advances to deposit ratio was upto 40%, 40-50% or above 50% respectively. For tax year 2023, and onwards tax rates will be 55%, 49% and 39% if gross advances to deposit ratio is upto 40%, 40 -50% or above 50% respectively. The changes have been incorporated by substituting sub-rule (6A) of rule 6C of Seventh Schedule to the Ordinance.

- (ii) The tax rate on income of banking companies has been enhanced to 39% for tax year 2023 from current 35% through amendment in Division II of Part I of First Schedule of the Ordinance. Additionally, the application of section 4B has been restricted upto tax year 2022 in case of banking companies.

4. Super tax on High Earning Persons

A new section 4C has been introduced through Finance Act, 2022 and this section will apply for tax year 2022 and onwards. Except for the persons whose income as envisaged in this section is below Rs. 150 million, all other persons including those assessed under Fourth, Fifth and Seventh Schedules to the Ordinance are liable to pay super tax on graduated rates ranging from 1% to 4% based on graduated income slabs provided in Division IIB of Part I of First Schedule given as under:

S. No	Income under section 4C	Rate of Tax
1.	Where income does not exceed Rs. 150 million	0% of the income
2.	Where income exceeds Rs. 150 million but does not exceed Rs. 200 million	1% of the income
3.	Where income exceeds Rs. 200 million but does not exceed Rs. 250 million	2% of the income
4.	Where income exceeds Rs. 250 million but does not exceed Rs. 300 million	3% of the income
5.	Where income exceeds Rs. 300 million	4% of the income

However, for tax year 2022 the rate of super tax under this section will be 10% instead of 4%, where the income of the persons engaged, partly or wholly, in business of airlines, automobiles, beverages, cement, chemicals, cigarette & tobacco, fertilizer, iron & steel, LNG terminal, oil marketing, oil refining, petroleum & gas exploration and production, pharmaceuticals, sugar and textiles exceeds Rs.300 million. For tax year 2023, this super tax on income of banking companies will be 10% if the income for the year exceeds Rs. 300 million.


For the purposes of this section, the income will be the sum of the following:

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

Super tax payable under this section will be paid on the date and manner as specified in under section 137(1) of the Ordinance. In case of default by the person liable to pay super tax under this section, Commissioner through an order in writing will determine the liability of the person and proceed to recover the same under applicable provisions of the Ordinance.

5. Tax on Deemed Income from Immovable Property

A new section 7E has been introduced through Finance Act, 2022 whereby for tax year 2022 and onwards, a resident person is treated to have derived income equal to five percent of fair market value of the capital assets situated in Pakistan which will be chargeable to tax at the rate of 20% under Division VIIC of Part I of First Schedule of the Ordinance. Following exclusions have been provided to which this section will not apply:

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- (i) One capital asset owned by the resident person;
 - (ii) Self-owned business premises from where the business is carried out by the persons appearing on the active taxpayer's list at any time during the year;
 - (iii) Self-owned agriculture land where agriculture activity is carried out by the person but excluding farmhouse and annexed land. Farmhouse has been defined in this section;
 - (iv) Capital asset allotted to –
 - (a) A Shaheed or dependents of a Shaheed belonging to Pakistan Armed Forces;

- (b) A person or dependents of a person who dies while in the service of Pakistan armed forces or federal or provincial government;
- (c) A war wounded person while in service of Pakistan armed forces or federal or provincial government;
- (d) An ex-serviceman and serving personnel of armed forces or ex-employees or serving personnel of federal and provincial governments who are original allottees of the capital asset as duly certified by the allotment authority;
- (v) Any property from which income is chargeable to tax under the Ordinance and tax leviable has been paid;
- (vi) Capital asset in the first year of acquisition on which tax under section 236K has been paid;
- (vii) Where fair market value of the capital assets in aggregate excluding capital assets mentioned in serial nos. (i) to (vi) above does not exceed rupees twenty-five million;
- (viii) Capital assets which are owned by a provincial government or local government;
- (ix) Capital assets owned by local authority, a development authority, builders and developers for land development and construction subject to the condition that such persons are registered with Directorate General of Designated Non-Financial Businesses and Professions.

6. **Capital Gain on Disposal of Immoveable Properties and Other Capital Assets**

Earlier, the gain arising on the disposal of immovable property after the holding period of 4 years was exempt from tax. Now the holding period concession will separately apply which for open plots is six years, for constructed property is four years and for flats is two years. Further, whole amount of gain on disposal of immovable property will be taxable at graduated rates provided in Division VIII of Part I of First Schedule of the Ordinance given as under:

S.No	Holding Period	Rate of Tax		
		Open Plots	Constructed Property	Flats
1.	Where the holding period does not exceed one year	15%	15%	15%
2.	Where the holding period exceeds one year but does not exceed two years	12.5%	10%	7.5%
3.	Where the holding period exceeds two years but does not exceed three years	10%	7.5%	0
4.	Where the holding period exceeds three years but does not exceed four years	7.5%	5%	-
5.	Where the holding period exceeds four years but does not exceed five years	5%	0	-
6.	Where the holding period exceeds five years but does not exceed six years	2.5%	-	-
7.	Where the holding period exceeds six years	0%	-	-

The concessional taxation regime for capital gains has been made applicable only to disposal of immovable properties situated in Pakistan. The benefit of holding period and concessional rate of tax is not available in respect of capital gains arising on disposal of immovable property situated outside Pakistan.

Furthermore, to streamline capital gains taxation regime, the concessions earlier available under sub-sections (3) and (3A) of section 37 in terms of reduction in capital gain by certain percentages on disposal of capital assets held for more than one year has been withdrawn.

Sub-section (4A) of section 37 has been omitted. Accordingly, non-recognition provision of section 79 will apply to determine the cost of acquisition on transfer of capital asset under the circumstances contained therein.

7. Capital Gain on Disposal of Securities

A separate block of taxation of capital gains on disposal of securities is available under the Ordinance. Earlier, flat tax rate of 12.5% was applicable on gain on disposal of securities irrespective of holding period. Now graduated tax rates have been provided with respect to securities acquired after 1st day of July, 2022, by substituting the Table in Division VII of Part I of First Schedule as under:

S.No	Holding Period	Rate of Tax for Tax year 2023 and onwards
1.	Where the holding period does not exceed one year	15%
2.	Where the holding period exceeds one year but does not exceed two years	12.5%
3.	Where the holding period exceeds two years but does not exceed three years	10%
4.	Where the holding period exceeds three years but does not exceed four years	7.5%
5.	Where the holding period exceeds four years but does not exceed five years	5%
6.	Where the holding period exceeds five years but does not exceed six years	2.5%
7.	Where the holding period exceeds six years	0%
8.	Future commodity contracts entered into by members of Pakistan Mercantile Exchange	5%

However, gain on disposal of securities acquired on or before 30th day of June, 2022 will continue to be charged to tax at the earlier flat rate of 12.5% irrespective of the holding period.

8. Deductions not allowed

Section 21 of the Income Tax Ordinance provides for disallowance of certain business expenditures as deductions. Following new clauses have been inserted in this section as explained hereunder:

- (i) Earlier, the whole amount of employer contribution to an approved gratuity fund, an approved pension fund or an approved superannuation fund was allowed as deduction. Now, clause (ea) has been inserted whereby the allowable deduction is restricted to fifty percent of employer contribution to these funds and the remaining fifty percent of the employer contribution is not allowed as deduction.
- (ii) The Board through notification in official gazette may require a person to integrate his business with Board through approved fiscal electronic device and software. If the notified person fails to integrate his business with the Board, then any expenditure, not exceeding eight percent of allowable deduction attributable to sales, will be disallowed as deduction under newly inserted clause (r).

9. Depreciation and Initial Allowance

Finance Act, 2020 introduced restriction on claim of depreciation deduction by fifty percent on a depreciable asset used in a person's business for the first time. In continuation thereof, the person was allowed fifty percent depreciation deduction in the year of disposal of such depreciable assets. Now this restriction has been lifted and a person who introduces a depreciable asset in his business for the first time will be entitled to claim hundred percent depreciation deduction. The corresponding entitlement to claim fifty percent depreciation deduction during the year of disposal has been withdrawn.

Furthermore, the cost of a depreciable asset being passenger transport vehicle not plying for hire was restricted to two and half million rupees for the purpose of depreciation deduction. This limit has been enhanced to seven and half million rupees.

Immovable property or structural improvement to the immovable property have been excluded from the definition of eligible depreciable asset for the purposes of initial allowance.

10. Export of services

A special regime u/s 154A for export of IT and IT enabled services was introduced through Finance Act, 2021 whereby 1% final tax was collected on realization of export proceeds of these services. Moreover, hundred

percent tax credit was available against this final tax to the exporters of IT and IT enabled services u/s 65F upon fulfilling few conditions mentioned therein.

In order to simplify the tax regime for exporters of IT and IT enabled services, the 100% tax credit regime under section 65F has been withdrawn and a reduced rate of final tax of 0.25% has been provided for exporters of IT and IT enabled services who are registered with the Pakistan Software Export Board (PSEB). Corresponding changes in section 65F have been made accordingly. Furthermore, scope of definitions of IT services and IT enabled services contained in clause (30AD) and clause (30AE) of section 2 of the Ordinance has been clarified and widened through the Finance Act, 2022.

Previously, the amount of foreign commission due to an indenting commission agent was charged to tax, at the rate of 5%, under sub-section (2) of section 154 of the Ordinance. Now, this rate has been reduced to 1% by incorporating clause (da) in sub-section (1) of section 154A of the Ordinance. Corresponding changes have been made in section 154 accordingly.

Moreover, provisions of Tenth Schedule will not apply on tax collectible under section 154A of the Ordinance. Necessary change has been incorporated in rule 10 of Tenth Schedule in this regard.

11. Elimination of certain tax credits and deductible allowance

Tax credits available to an individual u/s 62 for investment in shares and insurance, u/s 62A for investment in health insurance and deductible allowance u/s 60C for profit on debt have been omitted. Corresponding change in section 149 has also been incorporated accordingly.

12. Definition of Resident Individual

The scope of the definition of resident individual has been further expanded through insertion of clause (d) to section 82. Now a person being a citizen of Pakistan whose stay in any other country is not more than one hundred and eighty-two days during a tax year or who is not a resident taxpayer of any


other country will also be treated as resident individual for the purpose of the Ordinance.

13. Exemption to Members in Case of Exempt Income of Association of Persons (AOP)

Under present legal dispensation, income of an AOP is taxed and the share income received by the partners is exempt. Where the income of AOP is exempt, the share income of partners is also exempt. In order to remove any ambiguity, an explanation has been inserted in section 92 of the Ordinance to the effect that if income of AOP is exempt then the share income of its partners shall also be exempt.

14. Payment of Tax Through Electricity Connections

In order to collect income tax from certain retailers and specified service providers a special fixed tax regime has been introduced through insertion of section 99A of the Ordinance. Now retailers, other than Tier-I retailers as defined in Sales Tax Act, 1990, and specified service providers will pay fixed income tax through their commercial electricity bills which has been provided in clause (3) of Division IV of Part IV of First Schedule to the Ordinance in the following manner:



Gross amount of monthly bill	Tax
Where the amount does not exceed Rs. 30,000	Rs.3,000
Where the amount exceeds Rs. 30,000 but does not exceed Rs. 50,000	Rs.5,000
Where the amount exceeds Rs. 50,000 but does not exceed Rs. 100,000	Rs.10,000
Retailers and service providers as notified by the Board in the income tax general order	Up to Rs.200,000

This is final tax on the income of persons covered in this section in respect of business being carried out from the premises for which tax is collected under this section. Retailers from whom tax has been collected in terms of sub-section (9) of section 3 of Sales Tax Act, 1990 shall not be required to

pay tax under section 99A of the Ordinance and the tax collected under the Sales Tax Act, 1990 is also a final discharge of income tax liability under section 99A of the Ordinance. The Board with the approval of Minister in-charge is empowered to determine the scope, mode, manner, record keeping, mechanism of collection and deduction etc and to include or exempt any person or class of person, any income or class of income through issuance of income tax general order for the purpose of this section.

Furthermore, enabling provision has been provided by inserting sub-section (1A) in section 235 of the Ordinance to collect tax through electricity bills from retailers other than Tier-I retailers as defined in Sales Tax Act, 1990 and specified service providers for the purpose of this section.

15. Separate Notice for Concealment of Income not Required.

In order to avoid duplication of notices and to streamline the amendment of assessment proceedings, an explanation has been inserted in section 111 whereby a separate notice under this section is not required to be issued if explanation regarding nature and source has been confronted under sub-section (9) of section 122 of the Ordinance.

16. Minimum Tax on Turnover

Minimum tax on turnover under section 113 is payable by a resident company, permanent establishment of a non-resident company, an individual or an AOP having turnover of Rs. 100 million and above under certain specific situations mentioned therein. Following major changes have been introduced in the minimum tax on turnover regime:


- (a) Previously, a person who had paid minimum tax on turnover under section 113 was allowed to carry forward the said tax for five succeeding tax years. Now this carry forward has been restricted to three years.
- (b) The rate of minimum tax on turnover of Oil Marketing Companies have been brought down from 0.75% to 0.5%.

17. Time Limitation in Case of Best Judgment Assessment.

Currently time limit of 5 years has been prescribed for best judgment assessment. This limit has been enhanced to 6 years in line with other time limitations prescribed under law.

18. Revamping of Alternate Dispute Resolution Mechanism

Through the Finance Act, 2022, the mechanism of alternate dispute resolution has been revamped. Major departure points from previous regime are highlighted as under:

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- a) Disputes involving tax liability of one hundred million or above only can now be brought for settlement. Previously, there was no such bar for filing of application under this mechanism.
 - b) Disputes involving question of fact and law both can now be brought by a taxpayer for settlement by the committee subject to the condition that decision by the committee will not be cited or taken as a precedent in any other case or in the same case for a different tax year. Previously, disputes involving interpretation of question of law having effect on other cases were specifically excluded from the purview of dispute resolution committee.
 - c) The scope of initial proposition has been expanded which now includes proposal from the taxpayer to settle the matter, including an offer for payment of tax which cannot be withdrawn.
 - d) The choice available to a taxpayer to appoint a member of dispute resolution committee has been enhanced. Now a taxpayer can nominate a member from a panel notified by the Board in this regard or an Officer of Inland Revenue Service who has retired in BS21 or above or a reputable business person as nominated by a Chamber of Commerce and Industry. The third member of the committee will be selected through consensus by Chief Commissioner Inland Revenue (being other member of the committee) having jurisdiction over the case and taxpayer's nominee member jointly from the panel notified by the Board in this regard.

- e) Taxpayer and the Chief Commissioner Inland Revenue having jurisdiction over the case either individually or both as the case may be, will withdraw their appeal pending before a court of law or appellate authority after the constitution of committee but before commencement of proceeding by the committee. Previously, there was no requirement of withdrawal of appeal and the taxpayer could choose to pursue his appeals in case he did not accept the committee's decision.
- f) The committee members will decide the dispute pending before the committee through majority. Earlier, consensus decision by committee members was required for dispute resolution.
- g) The decision by committee will be binding on both the taxpayer and Chief Commissioner Inland Revenue having jurisdiction over the case. Previously, it was binding on Chief Commissioner only after it had been accepted by the taxpayer through withdrawal of appeal.

The changed procedure of dispute resolution will ensure that it is focused on high revenue yielding cases and does not result in wastage of time and resources for the taxpayer as well as field formations by being an effective alternative and not a parallel mechanism to the appeal process.

19. **Withholding Tax on Imports for Industrial Undertaking:**


Following changes have been incorporated with regard to WHT on import under section 148 of the Ordinance.

- a) Withholding tax on imports collected at 1% and 2% on goods falling under Part I and II of Twelfth Schedule to the Ordinance respectively is adjustable for an industrial undertaking if goods have been imported for own use. In numerous circumstance, goods imported by an industrial undertaking for own use may fall under Part III of Twelfth Schedule to the Ordinance on which tax at 5.5% is collectible at import stage. This resulted in a situation whereby tax collected at 5.5% on import of goods by an industrial undertaking for its own use became minimum tax. For the purpose of streamlining, tax collectible from an industrial

undertaking on import of all goods for own use has been made adjustable.

- b) Tax collectible under section 148 on import of edible oil, packaging material, paper and paper board, and plastics has been made minimum tax whether imported by an industrial undertaking for own use or by a commercial importer.
- c) The rate of withholding tax on import of goods falling in Part II of Twelfth Schedule of the Ordinance has been enhanced from 2% to 3.5% for commercial importers, which shall be minimum tax.
- d) Certain goods have been shifted from Part II to Part I of the Twelfth Schedule. The goods included in Part I are subject to tax @ 1% irrespective of import by industrial undertaking or commercial importers.

20. Taxation of Certain Payments to Non-Resident:

 Two new sub-sections (1DC) and (1DD) have been inserted in section 152 of the Ordinance. Under sub-section (1DC), service charges/commission/fee, by whatever name called, paid by an exchange company licensed by the State Bank of Pakistan to a non-resident person has been brought under the tax net. Now these exchange companies have been made liable to deduct tax at the time of making payment of service charges or commission or fee to the global money transfer operators, international money transfer operators or such other persons engaged in international money transfers or cross-border remittances for facilitating outward remittances.

Similarly, under sub-section (1DD), every banking company has been made liable to deduct tax at the time of making payment to card network company or payment gateway or any other person, on any transaction fee or licensing fee or service charges or commission or fee by whatever name called or interbank financial telecommunication services.

This final tax on the income of non-resident person and rates have been provided in Division IV of Part I of First Schedule. Corresponding changes in this regard have been made in sections 6 and 8 of the Ordinance.

21. Automated System of Collection and Deduction of Withholding Taxes

Currently, withholding agents are required to collect and deduct tax at the time of making payment and deposit the same in government treasury within the prescribed time period. Similarly, withholding agents are required to file quarterly and annual withholding statements which consumes time and resources of taxpayers leading to increased compliance cost. Moreover, certain large withholding tax agents like banks, DISCOs, TELCOs, Government institutions etc. are still depositing tax through a single payment receipt for multiple taxpayers. In order to streamline withholding tax collection and deduction mechanism, enabling provision for the placement of a fully automated system by the name Synchronized Withholding Administration and Payment System (SWAPS) has been introduced under section 164A of the Ordinance. A withholding agent notified under section 164A will be called a SWAPS agent. The notified SWAPS agent will be integrated with Board and withholding tax will be deposited in government treasury on real time basis simultaneously at the time of making third party payment processed through SWAPS by the SWAPS agent. It will also result in auto populated withholding statements thereby saving time and reducing cost of compliance for the business.

SWAPS Payment Receipt (SPR) will be generated upon deposit of tax in this manner which will be a valid document for the purpose of claiming credit against tax payable under the provisions of this Ordinance. In case if a notified SWAPS agent fails to integrate with the Board in the manner prescribed, the said agent will not be eligible for credit under Part X of Chapter III of the Ordinance and exemption under any of the provisions of the Ordinance. All other provisions of the Ordinance not specifically dealt with in newly inserted section 164A will mutatis mutandis apply on a notified SWAPS agent. Corresponding changes have been made in section 164 of the Ordinance.

22. Rationalization and Simplification of Withholding Tax Regime

(a) Omission of certain withholding tax provisions.

Following withholding provisions have been omitted through Finance Act, 2022:

Provision	Description	Sector
236I	Collection of advance tax by educational institutions	Educational Institutions
236Q	Payment to residents for use of machinery and equipment	Industry & Construction

(b) Advance Tax on Motor Vehicles:

- (i) Provision of section 231B was limited to private motor vehicles. The scope of withholding tax has now been enhanced through omission of the word 'private' from the heading and elsewhere in the section. Further, an inclusive definition of motor vehicle has been provided in the substituted sub-section (7) of section 231B with following exclusions:



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

Except motor vehicles mentioned at i, ii and iii above, provision of section 231B will apply on motor vehicles of all makes and models irrespective of its private or commercial use by the end users.

- (ii) The withholding tax amount required to be collected at the time of purchase or registration of motor vehicle has been enhanced with engine capacity of 1601cc and above. In cases of electric vehicles where engine capacity of a vehicle is not available and value of vehicle is rupees five million or more, the amount of tax collected will be 3% of import value as increased by customs duty, sales tax and federal excise duty in case of imported vehicles or invoice value in case of locally manufactured or assembled vehicles.

- (iii) Rates of tax required to be collected at the time of transfer of registration or ownership of a motor vehicles have been provided in clause (2) in the Table in Division VII of Part IV of First Schedule of the Ordinance. A new proviso has been inserted whereby a vehicle in which engine capacity is not applicable (electric vehicles) and the value of said vehicle is rupees five million or more, then tax amount of rupees twenty thousand will be collected at the time of transfer of registration or ownership of such vehicle.
- (iv) In case of a person not appearing in active taxpayer list, tax collectible under this section will increase by two hundred percent. Necessary change has been incorporated in rule 1 of Tenth Schedule of the Ordinance

(c) Increase in Advance Tax Rate on Passenger Transport Vehicles.

Currently advance tax on passenger transport vehicles plying for hire is collected on the basis of seating capacity of vehicle by Excise and Taxation authorities. The rates of adjustable advance tax on such vehicles provided in Division III of Part IV of First Schedule of the Ordinance have been enhanced by substituting the Table in the following manner.

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

In case of a person not appearing on active taxpayers list, rate of tax will increase by hundred percent under rule 1 of Tenth Schedule to the Ordinance.

(d) **Advance Tax on Sale/Transfer [u/s 236C] or Purchase of Immovable Property [u/s 236K]**

- (i) The rate of advance tax on sale or transfer and on purchase or transfer of immovable property has been enhanced from 1% to 2%. Moreover, sub-section (3) of section 236C has been omitted. Now advance tax on sale or transfer of immovable property will be collected under this section irrespective of holding period.
- (ii) In case of purchaser of immovable property who is not appearing on the active taxpayers list, rate of tax to be collected under section 236K will increase by two hundred and fifty percent of the rate specified in Division XVIII of Part IV of First Schedule. Necessary change has been incorporated in rule 1 of Tenth Schedule to the Ordinance.

(e) **Reduced Rate of Withholding Tax for Certain Services**

REIT management services and services rendered by National Clearing Company of Pakistan Limited have been included in list of reduced rate services in Division III of Part III of First Schedule.

(f) **Collection of Tax from Persons Remitting Amounts Abroad**

Section 236Y was omitted vide Finance Act, 2021. Now this section is reinserted. Every banking company will collect this adjustable advance tax at the time of remitting money outside Pakistan on behalf of a person who has completed a credit card, debit card or prepaid card transaction with a person outside Pakistan. The rate will increase by 100% in case of persons not on Active taxpayers list.

23. Second Schedule to the Ordinance

Major changes incorporated in Second Schedule to the Ordinance are highlighted as under:

(a) **Withdrawal of exemptions**

- (i) Exemption on allowance or perquisite which is paid or allowed outside Pakistan by the Government to a citizen of Pakistan for

rendering services outside Pakistan was earlier available under clause (5) of Part I of Second Schedule to the Ordinance. This exemption has now been withdrawn.

- (ii) Exemption was earlier available under clause (23B) of Part I of Second Schedule to the Ordinance on amounts received as monthly installment from an income payment plan invested out of accumulated balance of specified pension/annuity account / plans subject to condition mentioned therein. This exemption has now been withdrawn.

(b) Conditional Exemption to Collective Investment Scheme or REIT Scheme

Any income derived by a Collective Investment Scheme or a REIT Scheme is exempt from tax under clause (99) of Part I of Second Schedule to the Ordinance if not less than ninety percent of its accounting income of that year as reduced by realized or unrealized capital gains is distributed amongst the unit or certificate holders or shareholders. Now, further reduction in accounting income of that year has been allowed through adjustment of accumulated losses for these persons in addition to reduction by realized or unrealized capital gains.

(c) Tax Incentives for Film Industry

In order to promote local film industry, following new measures have been introduced:

- (i) Five years tax exemption has been granted by inserting clause (151) in Part I of Second Schedule to the Ordinance to a person who derives any income from cinema operations, starting from the commencement of cinema operations.
- (ii) Through insertion of clause (153) in Part I of Second Schedule to the Ordinance, exemption has been granted to profit and gains derived by a resident producer or a resident production house from

production of feature films during the period from 1st day July, 2022 to 30th day of June, 2027.

- (iii) Similarly, exclusion from provisions of section 148 of the Ordinance has been provided through insertion of Clause (12P) in Part IV of Second Schedule on import of machinery and equipment as listed in serial no. 32 of Part-I of Fifth Schedule to the Customs Act, 1969 subject to the conditions and limitations specified therein.
- (iv) Moreover, through insertion of clause (43H) in Part IV of Second Schedule, exclusion from the provisions of clause (b) of sub-section (1) of section 153 has been provided to an exhibitor or a distributor of a feature film, as payer, on payment made to a distributor, producer or importer of feature film.

(d) **Incentive for Venture Capital Companies and Venture Capital Funds**

Through insertion of clause (152) in Part I of the Second Schedule, exemption has been granted to profits and gains derived by venture capital companies and venture capital funds for the period from 1st day of July, 2022 to 30th day of June, 2025, as are registered with the Securities and Exchange Commission of Pakistan under relevant applicable rules.

(e) **Reduced rate of withholding and minimum tax on turnover for jewelers**

Jewelers are withholding agents if falling under definition of prescribed persons for the purpose of section 153 of the Ordinance. Jewelry is a household item in Pakistan which may require to be sold to jewelers for reshaping by common persons. In order to mitigate full impact of withholding tax required to be deducted under clause (a) of sub-section (1) of section 153, reduced rate of withholding at the rate of 1% has been provided on payment against transactions of sale of gold, silver and articles thereof by inserting clause (31) in Part II of Second Schedule to the Ordinance.

(f) **Reduction in Tax on Bahbood Savings Certificates**

Currently profit from investment in bahbood savings certificates, pensioners benefit account and *Shuhuda* family welfare account enjoys exemption from withholding tax. However, profit is taxable at the maximum rate of 10% under the head income from other sources which has now been reduced to 5%. Necessary change has been incorporated in clause (6) of Part III of Second Schedule to the Ordinance.

(g) **Restriction on Frequent Audit Proceedings**

A new clause (105A) has been inserted in Part IV to Second Schedule to the Ordinance whereby the provisions of section 177 and 214C shall not apply to a person whose income tax affairs have been audited in any of the preceding four tax years. However, the Commissioner may select a person for audit with prior approval of the Board.

Example:

Taxpayer A's audit of income tax affairs of tax year 2017 has been finalized in tax year 2022. Taxpayer A can only be audited again after four tax years i.e. in tax year 2027.

(h) **Streamlining Certain Withholding Sections for Non-Resident Pakistanis in Respect of Immovable Property**

Some of non-resident Pakistanis may not be required to file income tax return by virtue of applicable provisions of the Ordinance. Therefore they do not appear on the active taxpayers list and hence likely to suffer the mischief of rule 1 of Tenth Schedule of the Ordinance. In order to facilitate non-resident Pakistanis holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP), provisions of section 100BA and rule 1 of the Tenth Schedule will not apply on them in respect of transactions on which tax is collectible under section 236C and 236K of the Ordinance that apply on purchase or sale of immovable property.

(i) **Withdrawal of Reduced Rate Benefit on Investment in Federal Government Securities for certain persons**

Profit on debt up to Rs. five million received by a person other than a company is charged to tax under section 7B at the rate of 15% under Division IIIA of Part I of First Schedule of the Ordinance as fixed and final discharge of tax liability. Provisions of section 7B do not apply in case of companies and for individuals/AOPs receiving profit in excess of five million rupees. However, by virtue of clause (20) of Part III of Second Schedule of the Ordinance, reduced rate of final tax at 15% was made applicable on profit on debt as separate block of income for all persons other than banking companies or insurance companies insofar the profit was derived from investment in Federal Government securities. This clause has now been omitted through Finance Act, 2022.

24. **Imposition of Capital Value Tax 2022(CVT):**

Capital Value Tax 2022 has been imposed under Section 8 of the Finance Act, 2022 on below mentioned assets for tax year 2022 and onwards. In case of a motor vehicle held in Pakistan, CVT is to be charged and collected from the 1st day of July, 2022:

S. No.	Assets/Description	Rate
1	Motor vehicle held in Pakistan (i) the engine capacity exceeds 1300 cc; or (ii) in case of electric vehicles, the battery power capacity exceeds 50kwh	1% of the value
2	Foreign assets of a resident individual where the value of such assets on the last day of the tax year in aggregate exceeds Rupees one hundred million	1% of the value
3	Such assets or class of assets as specified by the Federal Government through a notification in the official Gazette	As specified by Federal Government, not exceeding 5% of the value.

A. CVT on Motor Vehicles Held in Pakistan.

(i) Value of Motor Vehicles

The value of vehicle for the purpose of CVT is provided in the following manner:

- (a) **Imported vehicle:** the import value assessed by the Customs authorities as increased by all duties and taxes leviable at import stage and Collector of Custom will collect CVT at import stage.
- (b) **Vehicle manufactured or assembled locally in Pakistan:** the ex-factory price inclusive of all duties and taxes and local manufacturer or assembler will be responsible for collecting CVT.
- (c) **Auctioned Vehicle:** the auction value inclusive of all duties and taxes and any person making sale by public auction or auction by tender will collect CVT.

Furthermore, the value of motor vehicle will be reduced by ten percent each year and no CVT will be collected after five years from the end of financial year in which motor vehicle has been imported, auctioned or locally purchased.

(ii) Collection of CVT on Motor Vehicles

CVT on motor vehicle is to be collected at the time of import, purchase from local manufacturer or assembler and auction. Every motor vehicle registering authority of Excise and Taxation Department is required to collect CVT at the time of registration of motor vehicle with effect from 1st day of July, 2022 except where the CVT has already been collected from the same person applying for registration at the time of import, purchase from local manufacturer or at auction stage in respect of same motor vehicle.

CVT is to be collected by the Motor vehicle Registration Authority at the time of transfer of registration or ownership of motor vehicle. This means that CVT on every subsequent sale/transfer of motor vehicle whenever occurring within the prescribed five years period is to be collected.

B. CVT on Foreign Assets of a Resident Individual

An inclusive definition of the foreign assets has been provided which, inter alia, includes assets held abroad indirectly and under the beneficial ownership by the resident individual. The value of foreign assets will be total cost of the foreign assets on the last day of the tax year in relevant foreign currency which is converted into rupees as per exchange rates notified by State Bank of Pakistan for the said day. In case the cost of foreign assets cannot be determined with reasonable accuracy, the fair market value on the last day of tax year will be taken for this purpose and rupee conversion is applied in the aforesaid manner. The resident person holding foreign assets will pay CVT at the time the income tax return for the tax year is due.

The officer of Inland Revenue has been empowered to pass an appealable order to recover CVT along with default surcharge from a person who fails to pay CVT or to collect CVT or fails to pay to the credit of the Federal Government after having collected CVT, by holding the person personally liable in this regard.

Provisions of Income Tax Ordinance, 2001 and Income Tax Rules, 2002 are applicable to collection, payment, recovery, or refund of CVT. Board is also empowered to prescribe rules for any matter relating to the capital value tax.


(Naveed Mukhtar)

Secretary (Income Tax Budget)

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