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Federal Budget 2022

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FEDERAL BUDGET 2022

This memorandum gives a brief overview of Pakistan economy and significant amendments proposed by the Finance Bill 2022. All changes proposed through the Finance Bill 2022, subject to approval by National Assembly and Presidential assent, are effective July 1, 2022.

This memorandum can also be accessed at https://www.pwc.com.pk/en/tax-memorandum.html.

June 11, 2022

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KEY ECONOMIC INDICATORS

Economic Survey 2021-22

The coordinated monetary-fiscal policy approach after the COVID-19 outbreak has succeeded in reviving the real economic activity. Specifically, the fiscal-monetary stimulus packages have a cascading effect on growth through a revival in private investment. In addition, the accommodative monetary policy stance in FY2021, focused on the revival of the construction industry and mandatory housing finance targets by the SBP, together with the rebound in external demand has set the stage for stronger growth momentum in FY2022.

Comprehensive measures are needed to strengthen the reliability of overall economic performance, reinvigorate the economy, spur growth, maintain price stability, provide jobs to the youth and to rebuild the key infrastructure of the country. This will also require fiscal adjustments, and reforms in almost every sector of the economy to lay the foundation for higher, inclusive, and sustainable economic growth.

	FY 21 – 22	*FY 20 – 21*
GDP growth rate	6%	5.7%
Per capita income - US$	1,798	1,677
FDI (July – March) US$ million	1,280	1,310
Consumer price index (July – April)	11%	8.6%
Public debt (PKR billion)		
- **Domestic**	28,076	26,265
- **Foreign**	16,290	13,601
	44,366	39,866
Budget deficit - %age of GDP	6.3%	6.1%

Source: Economic Survey of Pakistan 2021-2022

BUDGET AT GLANCE

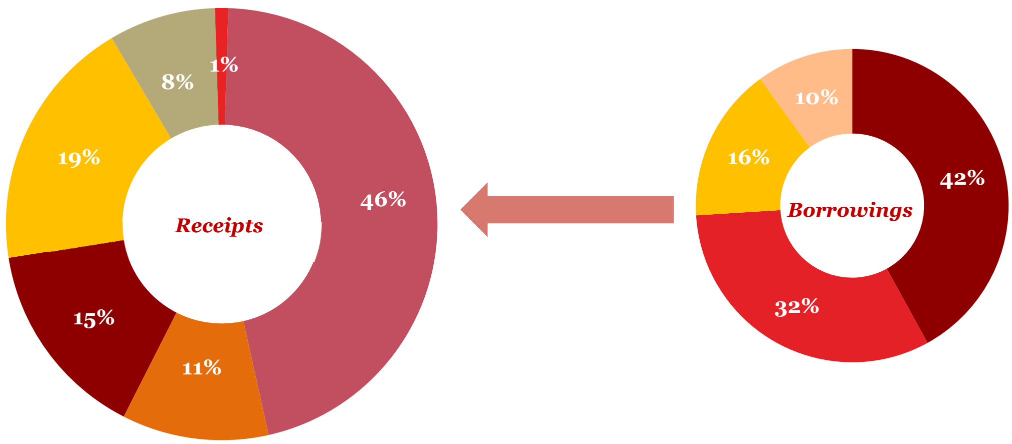
Budget Financials

The following table sets out the Key Budget Financials:

	2022-2023		2021-2022 (Revised)	
	Rs in Billion	***%***	***Rs in Billion***	***%***
Tax revenue	7,004		6,000	
Non-tax revenue	2,000		1,315	
Gross revenue receipts	9,004		7,315	
Public account receipt – net	(125)		(245)	
Total receipts	8,879	100	7,071	100
Less: Provincial share in Federal taxes	(4,100)	(46)	(3,512)	(50)
Net revenue receipts	4,779	54	3,559	50
Expenditure				
- Current expenditure	11,397	128	10,190	144
- Development expenditure	1,023	12	434	6
	12,420	140	10,624	150
Deficit	**(7,641)**	**(86)**	**(7,065)**	**(100)**
- Domestic debts non-bank	2,407		2,508	
- Domestic debts banks	1,172		873	
- Foreign debts / grants	3,166		3,114	
- Privatization proceeds	96		-	
- Surplus from provinces	800		570	
	7,641		**7,065**	

WHERE FROM THE RUPEE COMES IN AND WHERE IT GOES OUT

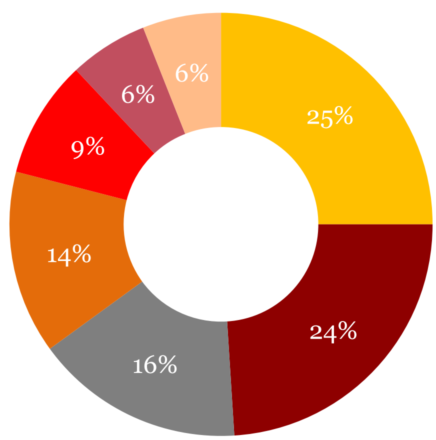
IN



- Income Tax (15%)
- Sales Tax (19%)
- Customs Duty (6%) and FED (2%)
- Others (1%)
- Borrowings (46%)
- Non-tax revenue (11%)

- Foreign debts / Grants (42%)
- Domestic debts non-bank (32%)
- Domestic debts banks (16%)
- Surplus from provinces (10%)

OUT



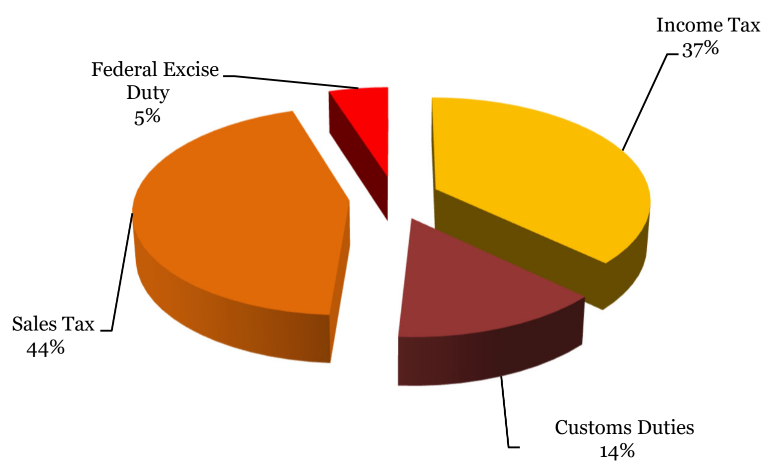
- Provincial share in Federal taxes (25%)
- Debt servicing (24%)
- Foreign Loan repayments (16%)
- Federal Government expenses including pensions (14%)
- Defence Affairs and Services (9%)
- Development expenditure (6%)
- Grants and transfers (6%)

BREAK-UP OF TAX REVENUE

There is no significant change in the ratio of direct taxes in the overall tax collection.

A substantial and incremental shift is required to decrease disparity in income and reduce the burden of indirect taxes on common man.

	FY 22 –23 Rs in Billion	FY 21 –22 (Revised) Rs in Billion
Direct Taxes:		
• Income Tax	2,558	2,191
• Workers' Welfare Fund, WPPF & Others	15	13
	2,573	2,204
Indirect Taxes:		
• Customs Duty	953	817
• Sales Tax	3,076	2,635
• Federal Excise Duty	402	344
	4,431	3,796
	7,004	6,000



EXECUTIVE SUMMARY

The Finance Bill 2022 represents the First Budget of the current coalition government which has been announced in extremely difficult economic conditions. Due to current account deficit and shortfall in local tax revenue, there has been an increased pressure on the government to adopt certain strict fiscal measures. At the same time, due to higher cost of inflation and cost of living, the government is expected to take some concrete economic decisions which could provide relief to the common man.

In the above backdrop, the current budget therefore contains certain proposals which are aimed to increase tax revenue in a manner that only the affluent or well to do class of the country is affected and the burden of such taxes is not passed on to the lower strata of society.

Important measures announced by the Government are listed as under:-

1. Poverty Alleviation tax on persons earning income above Rs 300 million at the rate of 2%.

2. General rate of tax on banking companies enhanced from 35% to 45%.

3. Deemed rental income concept introduced to collect 1% tax on Fair market value of certain immovable properties of resident persons situated in Pakistan.

4. Capital gains tax provisions relating to immovable properties situated in Pakistan revamped aiming to collect tax on sale of open plots held for a period of less than six years.

5. Capital gains on immovable properties held outside Pakistan to be taxed at normal rate irrespective of holding period.

6. Capital Value Tax at 1% on offshore assets of resident persons exceeding Rs 100 million and 5% on vehicles valuing more than Rs 5 million.

7. Advance tax from non-filer purchasers of immovable properties enhanced from 2% to 5%.

8. Slab rates for salaried individuals amended to decrease the effect on low-income employees and increasing the incidence on higher income slabs.

9. Withdrawal of tax credits on investments in listed securities & insurance policies as well as deductible allowance on house loans.

10. Minimum tax carry forward discontinued.

11. Interest income on government securities to be taxed at normal rate instead of 15%.

12. Rate of tax on income from Bahbood certificates reduced from 10% to 5%.

13. Tax credit withdrawn on income from export of software and IT services with 0.25% tax on export proceeds of such services.

14. Commercial importers to be taxed under final tax regime.

15. 10% withholding tax introduced on fees for international money transfer facilitators.

16. The rate of withholding tax on fees for offshore digital services increased from 5% to 10%.
17. CNIC condition for taxable supplies to unregistered persons withdrawn.
18. Definition of resident individual amended to include Pakistani citizens not resident in any other country.
19. Capital gains tax on disposal of listed securities revised with upward impact on holding period of less than one year.
20. Companies and AOPs required to electronically submit details of their beneficial owners.
21. Exemption from Islamabad Capital Territory Sales tax introduced on locally rendered IT and IT enabled services.
22. Exception available to listed companies on restriction to claim input tax beyond 90% withdrawn.
23. Further tax under sales tax extended to registered persons not appearing on Active Taxpayers List.
24. Sales tax exemption extended on all books imported and locally supplied.
25. FED on tobacco enhanced.
26. Telecommunication services in Islamabad subjected to higher incidence of FED.
27. The concept of essential commodities introduced in Customs law with a proposal to include in the definition of smuggled goods.
28. Sales tax exemption re-introduced on import of machinery, equipment and materials for exclusive use within the limits of Export Processing Zone.
29. Tax amnesties under promotion package of industries withdrawn.
30. Simplified tax regime for retailers and certain service providers introduced.
31. Alternative Dispute Resolution mechanism revamped.
32. Withholding tax on education fees and payments for use of machinery abolished.
33. Reinstatement of withholding tax on remittances through debit or credit cards.
34. Advance tax on registration of vehicles increased.

INCOME TAX

RECORD OF BENEFICIAL OWNERS

Every company and Association of Persons (AOP) is proposed to electronically submit details of beneficial owners and any change in their particulars. Specific rules are expected to be promulgated in this regard. A penalty of Rs 1 million is proposed for each default.

The expression 'beneficial owner' is defined to mean a natural person who-

(a) ultimately owns or controls a company or AOP, whether directly or indirectly, through at least 10% shares or voting rights; or

(b) exercise ultimate effective control, through direct or indirect means, over the company or AOP including control over the finances or decisions or other affairs of the company or AOP.

The Companies Act, 2017 also requires maintaining information in respect of ultimate beneficial owners of a company. However, such provisions require information in respect of natural persons who ultimately own or control a company through at least 25% shares or voting rights.

THE TERM 'DISTRIBUTOR' DEFINED

There are various provisions which apply on a distributor, however, the term was not defined in the Ordinance. In order to bring clarity, a definition of the term 'distributor' is proposed to mean a person appointed by a manufacturer, importer or any other person for a specified area to purchase goods from him for further supply.

SYNCHRONISED WITHHOLDING ADMINISTRATION & PAYMENT SYSTEM (SWAPS)

A new concept of withholding through SWAPS Agents is proposed to be introduced. Such agents will be the persons or class of persons as notified by the FBR who will be required to integrate with SWAPS. Such agents will be required to remit withholding tax to the respective Commissioner through digital mode and in this regard, a SWAPS payment receipt shall replace Computerized Payment Receipts.

Failure to integrate or perform roles and functions as SWAPS Agent can attract following penalties:

- Rs.50,000 for first default of seven days
- Rs. 100,000 for second default of next seven days
- Rs. 50,000 for each week after the second consecutive week of default

POVERTY ALLEVIATION TAX ON HIGH EARNING PERSONS

The Government has proposed a special tax for tax year 2022 and onwards on high earning persons for poverty alleviation, the provisions of which are almost similar to super tax. This new tax will be applicable on all persons having 'income' in excess of Rs 300 million. The rate of tax is 2% on 'income', which shall be the sum of following: -

(i) profit on debt, dividend, capital gains, brokerage and commission;

(ii) taxable income (other than brought forward depreciation and brought forward business losses) under section 9 of the Ordinance, if not included in (i);

(iii) imputable income as defined in clause (28A) of section 2 excluding amounts specified in (i); and

(iv) income computed, other than brought forward depreciation, brought forward amortization and brought forward business losses under Fourth, Fifth and Seventh Schedules.

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

The taxpayers shall be required to pay this tax along with the return of income due for tax year 2022. In case of failure to do so, the tax authorities are empowered to recover the same through self- contained provisions.

PAYMENTS TO NON-RESIDENTS FOR INTERNATIONAL FINANCIAL TRANSACTIONS & FEE FOR OFFSHORE DIGITAL SERVICES

Non-resident persons not having a Permanent Establishment (PE) in Pakistan deriving income in the form of fees for money transfer operations, card network services, payment gateway services, interbank financial telecommunications services are proposed to be taxed at the rate of 10%.

Enabling withholding provisions are also being introduced in section 152 as under:

a) The banking companies will be responsible to withhold tax while making payments on account of any transaction fee or licensing fee or service charges or commission or fee or interbank financial telecommunication services.

b) The exchange company licensed by the State Bank of Pakistan will be required to withhold tax while making payment to non-resident global money transfer operators, international money transfer operators or other persons on account of service charges or commission or fee in relation to international money transfers or other cross border remittances facilitating outward remittances.

In case of retention of above amounts by the non-resident persons, the local banking or exchange company, will be required to collect the amount of advance tax from such persons.

Non-residents protected by the double tax treaties may be entitled to invoke the business profits article to claim exemption from such tax.

The rate of tax on 'fees for offshore digital services' is also being enhanced from 5% to 10%.

DEEMED RENTAL INCOME

A resident person owning immovable properties in Pakistan is proposed to be taxed at 20% on 'deemed rental income' for tax year 2022 and onwards.

Such deemed rent shall be computed as 5% of the Fair Market Value (FMV as determined by the FBR under section 68) of such immovable properties irrespective of whether such properties are rented out for any consideration or not.

This effectively means that resident persons will be subjected to tax at 1% of FMV of their immovable properties for every tax year. Such chargeability may need to be examined.

The aforesaid tax shall not apply in case of following:

a) one self-owned immovable property;
b) self-owned business premises from which business is carried out;
c) self-owned agriculture land where agriculture activity is carried out by person but does not include farmhouse and land annexed thereto;
d) where the FMV of the property or properties, in aggregate, excluding properties mentioned in (a) and (b) does not exceed Rs. 25 million;
e) a Provincial Government, a Local Government, a local authority or a development authority;
f) land development and construction projects of builders and developers registered with Directorate General of Designated Non-Financial Businesses and Professions of Board;
g) a property which is subject to tax under section 15 of the Ordinance and the tax chargeable is more than tax chargeable under this section.

In case of actually rented out properties, the persons shall pay higher of the normal tax under section 15 and that computed under this provision. The taxpayers shall be expected to discharge this tax liability through advance tax as well as through their annual income tax returns.

The Federal Government is empowered to include or exclude any person or property within the ambit of the above provisions.

The provisions require clarity for a case where a person acquires or disposes of a property during a tax year.

CONTRIBUTION TO APPROVED GRATUITY & PENSION FUNDS

Amount in excess of 50% contributions to an approved gratuity, pension and superannuation fund is proposed to be an inadmissible expense in computing the income from business.

PAYMENTS THROUGH DIGITAL MEANS

Through the Tax Laws (Third Amendment) Ordinance, 2021, payments made by a company for a transaction under a single account head exceeding Rs 250,000 other than through 'digital means' was made inadmissible, subject to certain exclusions. Due to challenges and practical difficulties in the implementation of the said provision, the FBR deferred its implementation from time to time till December 31, 2021. Through Finance (Supplementary) Act, 2022 the effective date was deferred indefinitely till it is notified by the FBR.

The above provisions are now made part of the Finance Bill alongwith a proposal to enhance the limit of Rs 250,000 on a single account head to Rs 1 million.

EXPENDITURE BY PERSONS FAILING TO INTEGRATE BUSINESS WITH FBR'S SYSTEM

Through SRO 779(I)/2020, the FBR introduced a Chapter VIIA in the Income Tax Rules, 2002 whereby certain businesses were required to install prescribed fiscal electronic device and software for integration with FBR's system.

A new provision is now being proposed to disallow expenditure attributable to sales claimed by any person who fails to integrate his business with the FBR's system in the above prescribed manner. However, disallowance of expenditure shall not exceed 10% of the allowable deduction.

TAX DEPRECIATION

For depreciable assets used for the first time after July 1, 2020, the normal tax depreciation allowance was limited to 50% in the first year as well as in the year of disposal. Both these limits are now proposed to be withdrawn. As a result, the pre-2020 situation is proposed to be reinstated.

Furthermore, with regard to depreciation on passenger transport vehicles not plying for hire, the limit on cost at Rs 2.5 million is proposed to be enhanced to Rs 5 million. Where such vehicle is obtained on lease, the rentals relating to the principal amount are restricted to Rs 2.5 million. In line with the above proposal, this limit also needs to be enhanced.

INITIAL ALLOWANCE ON BUILDINGS

Through Finance Act, 2019, initial allowance on buildings was removed from the Third Schedule. A corresponding amendment has been now made in section 23 whereby the building being immovable property including structural improvements (even if classifiable as part of plant & machinery) will no more be eligible for initial allowance of depreciation.

CAPITAL GAINS ON IMMOVABLE PROPERTIES

Taxation of capital gains on disposal of immovable properties has been revamped.

Capital gains relating to disposal of immovable properties situated in Pakistan shall be taxed at the following rates:-

<table>
<tr><th rowspan="2">S. No</th><th rowspan="2">Holding Period</th><th colspan="3">Rate of Tax</th></tr>
<tr><th>Open Plots</th><th>Constructed Property</th><th>Flats</th></tr>
<tr><th>(1)</th><th>(2)</th><th>(3)</th><th>(4)</th><th>(5)</th></tr>
<tr><td>1.</td><td>Where the holding period does not exceed one year</td><td>15%</td><td>15%</td><td>15%</td></tr>
<tr><td>2.</td><td>Where the holding period exceeds one year but does not exceed two years</td><td>12.5%</td><td>10%</td><td>7.5%</td></tr>
<tr><td>3.</td><td>Where the holding period exceeds two years but does not exceed three years</td><td>10%</td><td>7.5%</td><td rowspan="5">0%</td></tr>
<tr><td>4.</td><td>Where the holding period exceeds three years but does not exceed four years</td><td>7.5%</td><td>5%</td></tr>
<tr><td>5.</td><td>Where the holding period exceeds four years but does not exceed five years</td><td>5%</td><td rowspan="3">0%</td></tr>
<tr><td>6.</td><td>Where the holding period exceeds five years but does not exceed six years</td><td>2.5%</td></tr>
<tr><td>7.</td><td>Where the holding period exceeds six years</td><td>0%</td></tr>
</table>

As a result of the above, capital gains relating to disposal of immovable properties situated outside Pakistan will be taxed at the applicable rates irrespective of holding period.

CAPITAL ASSETS HELD FOR MORE THAN ONE YEAR

Capital gain arising on disposal of a capital asset (other than certain securities) held for more than one year is taxable to the extent of 75%.

The Bill proposes to tax entire capital gain irrespective of holding period.

CAPITAL ASSETS ACQUIRED IN CERTAIN TAX NEUTRAL TRANSACTIONS

Capital assets acquired under certain tax neutral transactions such as by way of gift, succession, inheritance, devolution, distribution of assets on dissolution of AOP or on liquidation of company are deemed to have a cost equal to the FMV of such assets at the time of acquisition. It is further provided that in case capital asset acquired through gift is disposed of within two years of acquisition as part of a tax avoidance scheme, the cost of acquisition in the hands of acquirer is deemed to be the cost in the hands of transferor.

The above provision is in conflict with section 79(3) whereby such assets are deemed to have been transferred at the same cost as was in the hands of transferor.

The Bill proposes to omit this provision to remove the conflict.

TAX AMNESTIES FOR PROMOTION PACKAGE OF INDUSTRIES WITHDRAWN

The Income Tax (Amendment) Ordinance, 2022 introduced tax amnesties as part of a promotion package for industries. The said amnesty is available on investments in:-

a) New & existing industrial undertakings – Section 59C;
b) Industries owned by overseas Pakistanis and resident Pakistanis having declared foreign assets – Section 65H; and
c) Revival of sick units – Section 100F.

The above amnesties are proposed to be withdrawn with effect from March 2, 2022.

TAX CREDITS / DEDUCTABLE ALLOWANCE WITHDRAWN

Eligible individuals are allowed tax credits / deductible allowances in respect of the following:-

a) Profit on debt incurred on house financing – Section 60C;
b) Investment in new shares of listed companies, mutual funds or life insurance policies, Sukuk, etc. – section 62;
c) Purchase of Health insurance policies – section 62A; and
d) Investment in Approved Voluntary Pension Schemes (VPS) – section 63.

The above tax credits and deductible allowance are proposed to be withdrawn.

INCOME FROM EXPORT OF SOFTWARE & INFORMATION TECHNOLOGY SERVICES

Income tax holiday upto tax year 2025 was available on income from export of software, IT services and IT enabled services. Through Tax Laws (Second Amendment) Ordinance, 2021, the said exemption was withdrawn and a concept of 100% tax credit was introduced as part of section 65F upto tax year 2025, subject to certain conditions. Taxpayers of same sector who do not qualify for tax credit are being subjected to 1% withholding income tax on export proceeds under section 154A.

The Bill proposes to withdraw 100% tax credit regime with effect from July 1, 2022 and consequently, the entire sector will be subject to withholding tax under section 154A at 0.25% of export proceeds.

RESIDENT INDIVIDUAL

Currently, an individual is only considered as resident in Pakistan if his stay is more than 182 days in any tax year. The definition of resident individual is proposed to be amended to also include those Pakistani citizens who are not tax resident of any other country.

There may be certain practical difficulties in application of this amendment.

SIMPLIFIED TAX REGIME FOR RETAILERS & SPECIFIED SERVICE PROVIDERS

For other than Tier – 1 retailers and specified service providers, a 'final tax' is proposed to be charged on the basis of gross amount billed for commercial electricity connections at the following rates:

Gross amount of monthly bill	Tax (Rupees)
Where the amount does not exceed Rs. 30,000	3,000
Where the amount exceeds Rs. 30,000 but does not exceed Rs. 50,000	5,000
Where the amount exceeds Rs. 50,000 but does not exceed Rs. 100,000	10,000
Specified retailers and service providers through Income Tax General Order	50,000

The aforesaid tax shall be collected by the electricity companies through monthly bills in addition to withholding tax under section 235.

However, in case sales tax is collected from such retailers through electricity bills under section 3(9) of Sales Tax Act, 1990, the sales tax will constitute discharge of tax liability under this section.

The Federal Government is empowered to issue income tax general order for implementing this scheme and to specify service providers eligible for this regime.

The FBR is suggested to clarify the applicability of withholding tax under section 235 for retailers who will be subjected to collection of sales tax under section 3(9) of Sales Tax Act, 1990.

NON-PROFIT ORGANISATIONS (NPO)

Institutions mentioned in Table II of Clause 66 of Part I of the Second Schedule are eligible for income tax exemption subject to certain conditions under section 100C, including an approval from the Commissioner as an NPO under section 2(36).

The requirement of NPO approval is not applicable upto June 30, 2022. The Bill proposes to give a further relaxation of two years upto June 30, 2024.

ANTI-AVOIDANCE PROVISIONS FOR COHESIVE BUSINESS OPERATION

Through Finance Act, 2018, a new clause (g) was added to the definition of permanent establishment in section 2(41) to include a new concept of 'cohesive business operation'. The said concept was primarily applicable where the activities of a non-resident under certain contracts were split into offshore and onshore portions carried out by different legal entities of the same group resulting in no taxation on offshore portion of the contract.

General Anti-avoidance provisions of section 109 are proposed to be amended with retrospective effect from tax year 2018 to empower the Commissioner to apply the above concept in case of tax avoidance cases. This reaffirms the position that the concept of cohesive business operation was only applicable where the activities were split by a non-resident person for tax avoidance purposes.

As the concept of cohesive business operation was effective from tax year 2019, the proposed amendment to take effect from tax year 2018 appears to be a mistake.

MINIMUM TAX CARRY FORWARD

Minimum tax paid on turnover in excess of normal tax liability (including nil tax due to losses or exemption) is available for adjustment against normal tax of subsequent five tax years. This facility of carry forward is now proposed to be withdrawn.

BEST JUDGEMENT ASSESSMENT

The time limitation for passing a best judgement assessment is proposed to be enhanced from five to six years.

TIME PERIOD FOR AMENDMENT PROCEEDINGS

The Finance Act, 2021 introduced a time period of 120 days to pass an amendment order from the issuance of a show cause notice. The said period is now proposed to be extended to 180 days.

ALTERNATIVE DISPUTE RESOLUTION (ADR)

Under the revamped procedure for ADR, an aggrieved person may apply for resolution of a dispute pending before any court of law or appellate forum, through ADR mechanism in following cases:-

a) Where the liability of tax is Rs 100 million or above or admissibility of refund;
b) The extent of waiver of default surcharge & penalty; or
c) Any other specific relief required to resolve the dispute.

However, any case where criminal proceedings have been initiated fall outside the purview of ADR mechanism.

Earlier, in case of a dispute where a mixed question of law and fact was involved, the FBR was empowered to examine as to whether ADR Committee should be constituted or not. This hindrance is proposed to be removed.

Under the proposed mechanism, the taxpayer shall have a right to nominate a person from the panel notified by the FBR except where the relevant Chartered Accountant or an Advocate has been an authorised representative of the taxpayer.

TAX ON IMPORTS

Industrial undertakings

In case of goods imported by an industrial undertaking for own use, the advance tax on imports does not constitute minimum tax if the same are subjected to advance tax collection at the rate of 1% or 2%. Practically, there are various items which are in the nature of raw material but subjected to standard rate of 5.5%. The tax authorities are misinterpreting these provisions to deny the adjustability of tax collected at the rate of 5.5%.

The law is proposed to clarify that advance tax on raw materials imported by an industrial undertaking for own use will not be minimum tax irrespective of the applicable rate.

Commercial importers

The final tax regime on commercial importers has been revived. Earlier the said regime was converted in to a minimum tax regime through Finance Act, 2019. The rate of tax on imported items falling with Table II of Twelfth Schedule is enhanced from 2% to 4%.

Furthermore, advance tax on import of following items is proposed to be treated as minimum tax in respect of income arising from such imports:-

a) Edible oil;
b) Packaging material;
c) Paper and paper board; or
d) Plastics.

LIMITATION FOR MAINTENANCE OF RECORDS IN CASE OF OFFSHORE ASSETS & FOREIGN SOURCE INCOME

Through Finance Act, 2018, the provisions of section 111 were amended to empower the tax authorities to probe into the source of unexplained offshore assets and foreign source income irrespective of any limitation period.

In relation to the above provision, the Appellate Tribunal held that the provisions of section 111 cannot be applied without any regard to the limitation period particularly when section 174 only requires a taxpayer to maintain his record for a period of six years.

An amendment is now being proposed in section 174 to nullify the effect of such interpretation.

BROADENING OF TAX BASE THROUGH NADRA

Section 175B was added through Tax Laws Amendment Ordinance 2021 whereby National Database and Registration Authority (NADRA) is allowed to share its records and any information with FBR for broadening of tax base or carrying out any other purpose.

The said provision is proposed to be enacted through Finance Bill 2022.

ISSUANCE OF AUDIT REPORT

The Courts and appellate authorities have consistently taken a view that issuance of audit report on completion of income tax audit is mandatory before issuance of notice for amendment. This view was subsequently codified in sub-sections (6) & (6A) of section 177.

An amendment is now being proposed to remove the expressed requirement for issuance of audit report and it appears that henceforth once the audit is completed, the tax authorities can directly issue a notice for amendment of assessment.

PENALTY FOR NON-FILING OF RETURN OF INCOME WITHIN DUE DATE

Serial No. 1 of table in subsection (1) of section 182 provides for penalty for non-filing of return of income within time. The bill proposed following amendments:

- Higher of 0.1% of the tax payable for each day of default or Rs. 1,000 per day:
- Maximum - 200% of tax payable
- Minimum - Rs. 10,000 if 75% or more is salary income and Rs. 50,000 in other cases

PENALTY FOR NON-ISSUANCE OF PRESCRIBED INVOICE NUMBER OR WITHOUT QR CODE

Penalty has been proposed for persons integrated with FBR's system but avoid monitoring, tracking, reporting or recording of transactions or issued prescribed invoice without invoice number or QR code or bears duplicate invoice number or counterfeit QR code or defaces the prescribed invoice number or QR code or any person who abets commissioning of such offence. Such person is proposed to pay a penalty of Rs 5,000 or 200 percent of the amount of tax involved, whichever is higher.

PENALTY FOR FAILURE TO INTEGRATE WITH FBR

Penalty is proposed for person who is required to integrate his business for monitoring, tracking, reporting or recording of sales, services and similar business transactions with the Board or its computerized system, fails to get himself registered under the Ordinance, and if registered, fails to integrate in the manner as required under law.

Such person shall be liable to

- Penalty up to Rs 1,000,000, and

- If the offence continues after a period of two months of imposition of penalty as aforesaid, his business premises shall be sealed till such time he integrates his business in the manner as stipulated under sub-section (3) of section 237A of the Ordinance, as the case may be.

PENALTY FOR NOT GENERATING FISCAL INVOICES

A specific penalty provision is proposed for a person required to integrate his business as stipulated under sub-section (3) of section 237A of the Ordinance, who fails to get himself registered under the Ordinance, and if registered, fails to integrate in the manner as required under the law and rules made thereunder.

Such person shall be liable to penalty of:

- Rs 500,000 for first default, provided that such penalty shall be waived if business is integrated with in fifteen days of first default;
- Rs 1,000,000 for second default after fifteen days of order for first default;
- Rs 2,000,000 for third default after fifteen days of order for second default;
- Rs 3,000,000 for fourth default after fifteen days of order for third default;
- Sealing of business premises after fifteen days of fourth default.

CONDONATION OF TIME LIMIT

The FBR is empowered to extend the time limitation for any application to be made or any act or thing to be done. In this context, the Courts and Appellate Tribunal interpreted that such powers cannot be exercised by the FBR once the limitation period for amendment proceedings has already elapsed.

In order to nullify the effect of such interpretation, an amendment is being proposed whereby the FBR is empowered to extend the time period even after the expiry of such period.

ADVANCE TAX ON IMMOVABLE PROPERTIES

Currently, no advance tax is collected from the seller or transferor of immovable property in case the holding period is more than four years as the gain arising on such properties is not taxable. Whilst the holding period of four years is now amended to six years for open plots, the advance tax provisions have been made applicable even if the property is sold within a holding period of ten years.

WITHHOLDING TAX ON EDUCATION FEES ABOLISHED

Currently, advance tax is collected at the rate of 5% on the amount of fee paid to an educational institution subject to certain specific exclusions. The Bill proposes to omit the requirement of advance tax collection by the educational institution.

OMISSION OF WITHHOLDING TAX ON RENT OF MACHINERY

Every prescribed person is presently required to deduct tax at the rate of 10% on payment to a resident person for use or right to use industrial, commercial and scientific equipment, and on account of rent on machinery. The tax so deductible is considered as minimum tax on the income of such resident person.

The said section is now proposed to be omitted.

REINSTATEMENT OF ADVANCE TAX ON REMITTANCES THROUGH CREDIT OR DEBT OR PREPAID CARDS

Every banking company is proposed to collect advance tax, at the time of transfer of any sum remitted outside Pakistan, on behalf of any person who has completed a credit card or debit card or prepaid card transaction with a person outside Pakistan at the rate of 1% of amount remitted. The advance tax collected under this section shall be adjustable.

INCOME TAX SCHEDULES

FIRST SCHEDULE

TAX RATES FOR SALARIED INDIVIDUALS – Existing

Sr No.	Taxable income	Existing Rate
1.	Where the taxable income does not exceed Rs 600,000	0%
2.	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	5% of the amount exceeding Rs 600,000
3.	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 1,800,000	Rs 30,000 + 10% of the amount exceeding Rs 1,200,000
4.	Where the taxable income exceeds Rs 1,800,000 but does not exceed Rs 2,500,000	Rs 90,000 + 15% of the amount exceeding Rs 1,800,000
5.	Where the taxable income exceeds Rs 2,500,000 but does not exceed Rs 3,500,000	Rs 195,000 + 17.5% of the amount exceeding Rs 2,500,000
6.	Where the taxable income exceeds Rs 3,500,000 but does not exceed Rs 5,000,000	Rs 370,000 + 20% of the amount exceeding Rs 3,500,000
7.	Where the taxable income exceeds Rs 5,000,000 but does not exceed Rs 8,000,000	Rs 670,000 + 22.5% of the amount exceeding Rs 5,000,000
8.	Where the taxable income exceeds Rs 8,000,000 but does not exceed Rs 12,000,000	Rs 1,345,000 + 25% of the amount exceeding Rs 8,000,000
9.	Where the taxable income exceeds Rs 12,000,000 but does not exceed Rs 30,000,000	Rs 2,345,000 + 27.5% of the amount exceeding Rs 12,000,000
10.	Where the taxable income exceeds Rs 30,000,000 but does not exceed Rs 50,000,000	Rs 7,295,000 + 30% of the amount exceeding Rs 30,000,000
11.	Where the taxable income exceeds Rs 50,000,000 but does not exceed Rs 75,000,000	Rs 13,295,000 + 32.5% of the amount exceeding Rs 50,000,000
12.	Where the taxable income exceeds Rs 75,000,000	Rs 21,420,000 + 35% of the amount exceeding Rs 75,000,000

TAX RATES FOR SALARIED INDIVIDUALS – Proposed

Sr No.	Taxable income	Existing Rate
1.	Where the taxable income does not exceed Rs 600,000	0%
2.	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	Rs. 100
3.	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,400,000	7% of the amount exceeding Rs 1,200,000
4.	Where the taxable income exceeds Rs 2,400,000 but does not exceed Rs 3,600,000	Rs 84,000 + 12.5% of the amount exceeding Rs 2,400,000
5.	Where the taxable income exceeds Rs 3,600,000 but does not exceed Rs 6,000,000	Rs 234,000 + 17.5% of the amount exceeding Rs 3,600,000
6.	Where the taxable income exceeds Rs 6,000,000 but does not exceed Rs 12,000,000	Rs 654,000 + 22.5% of the amount exceeding Rs 6,000,000
7.	Where the taxable income exceeds Rs 12,000,000	Rs 2,004,000 + 32.5% of the amount exceeding Rs 12,000,000

Comparison

Annual taxable income	Existing tax	Proposed tax	(Saving) / Excess tax
600,000	-	-	Nil
1,200,000	30,000	100	(29,900)
2,400,000	180,000	84,000	(96,000)
3,600,000	390,000	234,000	(156,000)
6,000,000	895,000	654,000	(241,000)
12,000,000	2,345,000	2,004,000	(341,000)
18,000,000	4,845,000	3,954,000	(891,000)
24,000,000	5,645,000	5,904,000	259,000

TAX RATES FOR NON-SALARIED INDIVIDUALS – Existing

Sr No.	Taxable income	Rate
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 600,000	5% of the amount exceeding Rs 400,000
3.	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	Rs 10,000 + 10% of the amount exceeding Rs 600,000
4.	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,400,000	Rs 70,000 + 15% 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	Rs 250,000 + 20% 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	Rs 370,000 + 25% of the amount exceeding Rs 3,000,000
7.	Where the taxable income exceeds Rs 4,000,000 but does not exceed Rs 6,000,000	Rs 620,000 + 30% of the amount exceeding Rs 4,000,000
8.	Where the taxable income exceeds Rs 6,000,000	Rs 1,220,000 + 35% of the amount exceeding Rs 6,000,000

TAX RATES FOR NON-SALARIED INDIVIDUALS – Proposed

Sr No.	Taxable income	Rate
1.	Where the taxable income does not exceed Rs 600,000	0%
2.	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 800,000	5% of the amount exceeding Rs 600,000
3.	Where the taxable income exceeds Rs 800,000 but does not exceed Rs 1,200,000	Rs 10,000 + 12.5% of the amount exceeding Rs 800,000
4.	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,400,000	Rs 60,000 + 17.5% 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	Rs 270,000 + 22.5% 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	Rs 405,000 + 27.5% of the amount exceeding Rs 3,000,000
7.	Where the taxable income exceeds Rs 4,000,000 but does not exceed Rs 6,000,000	Rs 680,000 + 32.5% of the amount exceeding Rs 4,000,000
8.	Where the taxable income exceeds Rs 6,000,000	Rs 1,330,000 + 35% of the amount exceeding Rs 6,000,000

Comparison

Annual taxable income	Existing tax	Proposed tax	(Saving) / Excess tax
600,000	10,000	-	(10,000)
800,000	30,000	10,000	(20,000)
1,200,000	70,000	60,000	(10,000)
2,400,000	250,000	270,000	20,000
3,000,000	370,000	405,000	35,000
4,000,000	620,000	680,000	60,000
6,000,000	1,220,000	1,330,000	110,000

TAX RATES ON DISPOSAL OF SECURITIES

Presently, gain on disposal of securities is chargeable to tax at the rate of 12.5 per cent for tax year 2022 and onwards irrespective of the holding period.

The revised status of tax on capital gains on disposal of securities under section 37A is proposed to be as under:

Holding Period	Proposed Rate
Less than 1 year	15 %
From 1 year to 2 years	12.5%
From 2 years to 3 years	10%
From 3 years to 4 years	7.5%
From 4 years to 5 years	5%
From 5 years to 6 years	2.5%
More than 6 years	0%

RATE OF TAX WITHHOLDING ON IMPORT OF MOBILE PHONES

Tax collection on import of mobile phones of the below tabulated values are proposed to be changed as under:

Import of mobile phones of value:	Existing Rate of tax withholding		Proposed Rate of tax withholding	
	In CBU condition	In CKD / SKD condition	In CBU condition	In CKD / SKD condition
- More than USD. 350 upto USD. 500	Rs. 3,000	Rs. 5,000	Rs. 5,000	Rs. 3,000
- More than USD. 500	Rs. 5,200	Rs. 11,500	Rs. 11,500	Rs. 5,200

REDUCED RATE OF TAX WITHHOLDING FOR CERTAIN SERVICES

Rate of tax withholding on payments against rendering of services is 8 per cent. A reduced rate of 3 per cent is specified for certain service providers. The Bill now proposes such reduced rate of 3 per cent for REIT Management services and services rendered by National Clearing Company of Pakistan.

ADVANCE TAX ON PASSENGER TRANSPORT VEHICLES

Presently, advance tax on passenger transport vehicles plying for hire is collected on a uniform basis based on the seating capacity. The Bill proposes advance tax on such vehicles as under:

Seating Capacity	Existing Rate	Proposed Rate	
		Air-conditioned	Non-Air conditioned
	(Rupees per seat Per annum)		
4 to 9 persons	Rs. 50	Rs. 1,000	Rs. 500
10 to 19 persons	Rs. 100	Rs. 2,000	Rs. 1,500
20 or more persons	Rs. 300	Rs. 4,000	Rs. 2,500

ADVANCE TAX ON REGISTRATION / TRANSFER OF PRIVATE MOTOR VEHICLES

Rates of tax collection at the time of registration of the private motor vehicles is proposed to be revised as follows:

Engine Capacity	Existing Rate	Proposed Rate
Upto 8,50cc	Rs. 7,500	Rs. 10,000
851cc to 1,000cc	Rs. 15,000	Rs. 20,000
1,001cc to 1,300cc	Rs. 25,000	Rs. 25,000
1,301cc to 1,600cc	Rs. 50,000	Rs.50,000
1,601cc to 1,800cc	Rs. 75,000	Rs. 150,000
1,801cc to 2,000c	Rs. 100,000	Rs. 200,000
2,001cc to 2,500cc	Rs. 150,000	Rs. 300,000
2,501cc to 3,000cc	Rs. 200,000	Rs. 400,000
Above 3,000cc	Rs. 250,000	Rs. 500,000
Where engine capacity is not applicable and value of vehicle is Rs. 5 million or more	Nil	3% of the import value (as increased by sales tax, customs duty and FED) or invoice value in case of locally manufactured vehicle

The bill also proposes the collection of advance tax of Rs. 20,000 on transfer of private motor vehicles of unspecified engine capacity (e.g. electric vehicles) and having value of Rs. 5 million or more. The said rate of Rs. 20,000 is proposed to be reduced by 10 per cent each year from the date of first registration in Pakistan.

ADVANCE TAX ON TRANSFER OF IMMOVABLE PROPERTY

Presently, advance tax of 1 per cent is required to be collected from the buyer as well as seller which is now proposed to be increased to 2 per cent in both the cases.

ADVANCE TAX ON ADVERTISEMENT

The Bill proposes to reduce advance tax on commercial for advertisement starring foreign actors from Rs. 500,000 per second to Rs. 100,000 per second.

SECOND SCHEULE

WITHDRAWAL OF ACCUMULATED BALANCE FROM VPS

In respect of accumulated balance received from VPS offered under VPS Rules, 2005, exemption is presently available to the extent of 50% of such accumulated balance, if withdrawn in case of certain eventualities i.e. retirement, disability & death.

The restriction of 50% is proposed to be done away with and such exemption has been made available on withdrawal of the entire accumulated balance, at any point of time.

WITHDRAWAL OF TAX EXEMPTIONS

Through the Finance Bill, exemption from tax presently available in respect of following incomes is proposed to be done away:

i. Receipt of monthly installment from income payment plan invested out of accumulated balance of specified individual pension accounts or approved annuity plan; and

ii. Income representing subsidy allowed by Federal Government.

TAX EXEMPTION FOR CERTAIN CHARITABLE ORGANIZATIONS

Through the Finance Bill, income of following organizations is proposed to be exempted from income tax by way of inclusion in Table I of Clause 66:

i. The Pakistan Global Sukuk Programme Company Limited;
ii. Karandaaz Pakistan from tax year 2015 onwards;
iii. Public Private Partnership Authority for tax year 2022 and subsequent four tax years; and
iv. Hamdard Laboratories (Waqf) Pakistan.

Further, the following Organizations, presently entitled to tax exemption subject to fulfillment of conditions specified in section 100C of the Ordinance, are now proposed to be extended unconditional tax exemption as was earlier available to them prior to Finance Act, 2020:

i. Pakistan Mortgage Refinance Company Limited;
ii. Pakistan Sweet Homes Angels and Fairies Place; and
iii. Dawat-e-Islami Trust.

RATIONALIZATION OF EXEMPTION FOR COLLECTIVE INVESTMENT SCHEMES OR REIT SCHEMES

The Collective Investment Schemes or REIT Scheme are entitled to income tax exemption subject to distribution of ninety per cent of accounting income, excluding capital gains, amongst the unit/ certificate holders.

Through the Finance Bill, adjustment of 'accumulated loss' against 'accounting income' is also proposed to be allowed for the purposes of meeting the specified criteria.

The proposed amendment is aimed at addressing the impracticality associated with profit distribution by the Schemes, who having incurred accounting losses in previous tax years are not able to meet the said exemption criteria owing to lower retained earnings/ accumulated profits.

EXEMPTION FOR ELECTRIC POWER GENERATION PROJECTS

In respect of tax exemption available to electric power generation projects, the legislature, through Finance Supplementary Act, 2022, specified a condition that such exemption would be available to persons who are issued letter of intent ('LOI') by the Federal or Provincial Government by June 30, 2021 and who obtain letter of support ('LOS') by June 30, 2023. Such legislative amendment led to the ambiguity/ debate as to whether Projects, where exemption was not dependent upon LOI and LOS under relevant power policy, stood excluded from scope of such exemption or not.

In this background, through the Finance Bill, it is proposed to be clarified that the above exemption would remain available to persons who were exempt from tax on or before June 30, 2021.

It has also been proposed that exemption shall be restricted to life cycle of projects or 25 years from commencement of commercial productions, whichever elapses earlier.

TAX EXEMPTION FOR SIYAHKALEM ENGINEERING CONSTRUCTION AND TRADE COMPANY LIMITED ('SECTCL)

It is proposed that the income of SECTCL arising from contract dated May 23, 2017 entered into with Earthquake Reconstruction and Rehabilitation Authority is exempted from tax, with effect from tax year 2017.

EXEMPTION OF INCOME FROM CINEMA OPERATIONS

Income from cinema operations is proposed to be exempted from tax in cases where such operations are carried out in a tehsil where there is no cinema and further, construction of cinema is commenced on or before December 31, 2023.

REDUCED RATE OF MINIMUM TAX AND WITHHOLDING TAX IN CASE OF CERTAIN PERSONS

Through the Tax Laws (Third Amendment) Ordinance, 2021, rate of 'turnover tax' (leviable under section 113 of the Ordinance) and 'withholding tax' (deductible on supply of goods) was reduced to 0.25% in case of distributors, dealers, sub-dealers, wholesalers and retailers of 'cement' and 'steel'. Now, such amendments are proposed to be ratified by the Parliament.

WITHDRAWAL OF TAX CONCESSIONS

Through the Finance Bill, it is proposed that tax concessions available to following persons is withdrawn:

<table>
<tr><th>Persons</th><th>Income</th><th>Tax concession Presently available</th></tr>
<tr><td>- Flight engineers
- Navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority,
- Junior Commissioned Officers
- Other ranks of Pakistan Armed Forces</td><td>Flying allowance</td><td rowspan="2">Taxable @ 2.5% as a separate block of income in case allowance does not exceed basic salary</td></tr>
<tr><td>- Officers of the Pakistan Navy</td><td>Submarine allowance</td></tr>
<tr><td>- Pilots of any Pakistani airlines</td><td>Total allowance</td><td>Allowance exceeding the basic pay chargeable to tax @ 7.5%</td></tr>
<tr><td>- Ex-servicemen and serving personal of Armed Forces or ex-employees or serving personnel of Federal and Provincial Governments, as original allottee</td><td>Capital gain on first sale of immovable property</td><td>Gain reduced to 50% in case of disposal of property before three years and thereafter, 75%</td></tr>
<tr><td>- Person other than a banking or insurance company</td><td>Profit on debt from investment in Federal Government securities</td><td>Subject to final tax @ 15%</td></tr>
</table>

TAX CONCESSION ON PROFIT ON CERTAIN INVESTMENTS

Profit on investment in Bahbood Savings Certificate or Pensioners Benefit Account and Shuhada Family Welfare Account is presently subject to tax at a reduced rate of 10%.

Now, it is being proposed that the above tax rate is further reduced to 5%.

EXEMPTION FROM MINIMUM TAX TO LOCAL MOBILE PHONE MANUFACTURERS

Exemption from levy of minimum tax under section 113 of the Ordinance was earlier introduced in the case of local mobile phone manufacturers through Tax Laws (Third Amendment) Ordinance, 2021. Now, the same is proposed to be ratified through the Finance Bill.

EXEMPTION FROM APPLICABILITY OF TAX ON IMPORTS

Exemption from collection of income tax on import of following items is proposed to be allowed:

(i) Thirty million adult 3xPly Knit face masks received as humanitarian assistance from M/s Hanes Brands Inc. North Carolina, USA, for distribution within the population of Lahore Division, Govt of Punjab;

(ii) Drones donated by Ministry of Agriculture and Rural Affairs, Government of China to Pakistan through Sea Route;

(iii) Cinematographic equipment as notified by the Federal Government.

EXEMPTION FROM WITHHOLDING PROVISIONS IN CASE OF CERTAIN EXEMPT ENTITIES

In the case of entities/persons qualifying for exemption under Table I of Clause 66 of Part I of Second Schedule, exemption from collection/ deduction of taxes (excluding advance tax under section 147/147A) is proposed to be extended in the capacity of recipients of any amount.

IMMUNITY FROM AUDIT

It is proposed to preclude from audit those persons whose income tax affairs have been audited in any of the preceding four tax years. Nevertheless, the Commissioner is proposed to remain empowered to select such cases for audit with Board's approval.

TAXATION OF BANKING COMPANIES

The rate of tax applicable to the taxable income of banking companies is proposed to be enhanced to 45 per cent from 35 per cent for tax year 2023 and onwards. Also, the bill proposes to abolish super tax currently applicable on banking companies at the rate of 4 per cent from tax year 2023 and onwards.

It is also proposed that from tax year 2022 onwards, the tax on high earning persons for poverty alleviation at the rate of 2% will also be applicable on the banking companies where the income exceeds PKR 300 Million.

Description	Tax year 2022	Tax year 2023
Normal rate	35%	45%
Super tax	4%	0%
Poverty alleviation tax	2%	2%
Effective tax rate	**41%**	**47%**

Through the Finance Act, 2021, for the tax year 2022 onwards, higher rate of tax was prescribed for the banking companies in respect of the taxable income attributable to investment in the Federal Government Securities. The said rates are now proposed to be further enhanced in the following manner:

Gross advances to Deposit Ratio on the last day of the tax year	Existing Tax Rate	Proposed Tax Rate
- Upto 40%	40%	55%
- Exceeding 40% but not exceeding 50%	37.5%	49%
- Exceeding 50%	35%	42%

An explanation is also proposed to be added that the said tax rate is applicable to total income attributable to total investment in Federal Government securities.

TENTH SCHEDULE

Through the Finance Act, 2019, rules for persons not appearing on the Active Taxpayer List was introduced by way of Tenth Schedule whereby the rate of tax required to be deducted or collected was increased by 100% of the rates prescribed under the law. The said regime was in continuation of the concept of filer and non-filer under the Income Tax laws.

It is now proposed that the tax required to be collected in respect of the following sections shall be enhanced in the manner given below if the person is not appearing in the Active Taxpayer List:

Description	Rate of tax enhanced by
Advance Tax on Private Motor Vehicle (under section 231B)	200%
Advance tax on purchase or transfer of immovable property (under section 236K)	250%

It is also proposed that the provisions relating to enhanced tax liability on persons not appearing on the ATL shall not be applicable on export of services.

TWELFTH SCHEDULE

It is proposed that the following PCT code is reclassified from Part II of the Twelfth Schedule to the Part I of the Twelfth Schedule hence subject to 1% (instead of 2%) advance tax on the import value as increased by customs-duty, sales tax and federal excise duty.

PCT Code	Description
27.01	Coal; briquettes, ovoids and similar solid fuels manufactured from coal

Further, the following PCT codes are proposed to be included in Part II of the Twelfth Schedule to the Ordinance, hence, subject to advance tax at 2% (instead of 5.5%) on the import value as increased by customs-duty, sales tax and federal excise duty.

PCT Code	Description
8504.3100	SMD Inductors for LED Bulb and Lights.
8504.4090	Constant Current Power Supply of LED Lights and Bulbs.
8532.2200	Electrical Capacitors Aluminum Electrolytic for LED Bulbs and Lights.
8539.9020	Base Cap for all Kinds of LED Bulbs.
8539.9090	Bare or Stuffed Metad Clad Printed Circuit Boards (MCPCB) for all kinds of LED Bulbs. Housing / Shell, Shell Cover and Base Cap for all Kinds of LED Bulbs.
9001.9000	Lenses for LED Bulbs and Lights.
9405.1090	Housing / Shell, Shell Cover and Base Cap for all Kinds of LED Lights.
9405.9900	Bare or Stuffed Metal Clad Printed Circuit Boards (MCPCB) for all kinds of LED Lights.

SALES TAX

PRODUCTION, TRANSMISSION & DISTRIBUTION OF ELECTRICITY

The bill proposes to include 'production, transmission and distribution of electricity' in the definitions of 'goods' as well as "supply". The amendment appears to reaffirm the Federal Government's stance that such activities fall within the purview of their legislative competence rather than Provincial domain.

FEE & SERVICE CHARGES FOR VALUATION

Section 76 was inserted through Finance Act, 2019 to empower Board, with approval of the Federal Minister-in-charge, to impose fee and service charges for valuation in respect of any other service or control mechanism provided by the Board.
The bill proposes to exclude such fee and service charges imposed or levied under section 76 from the definition of 'sales tax'.
A similar amendment has also been made in the Federal Excise Act.

TIER-1 RETAILER

The bill proposes to extend the definition of the term 'Tier-1 retailer' to a person engaged in supply of articles of jewellery, or parts thereof, of precious metal.

FURTHER TAX

The concept of 'further tax' is proposed to be extended to taxable supplies made to a person who is not an active taxpayer. Currently, it is applicable only to supplies made to a person who did not obtain registration number.

FIXED TAX ON OTHER THAN TIER-1 RETAILERS

At present, retailers other than those falling in Tier-1, are subject to collection of sales tax by the electricity supplier at the rate of 5% where the monthly bill does not exceed Rs 20,000 and at the rate of 7.5% where the monthly bill exceeds Rs 20,000.

The bill now proposes collection of sales tax by the electricity supplier from such retailers as under:

- Rs 3,000 per month where the monthly bill amount does not exceed Rs 30,000;
- Rs 5,000 per month where the monthly bill amount exceeds Rs 30,000 but does not exceed Rs 50,000; and
- Rs 10,000 per month where the monthly bill amount exceeds Rs 50,000.

It is further proposed that the Board may through a general order prescribe persons or class of persons to pay Rs 50,000 per month through their monthly electricity bill.

The final tax provisions for the above retailers has also been proposed in Income Tax Ordinance under a simplified final tax regime.

TIME AND MANNER OF PAYMENT

It is proposed to empower the Federal Government to allow payment of sales tax on installment basis by:

(i) Federal Government;
(ii) Provincial Governments; or
(iii) any public sector organization

on import or supply of any goods. It is further proposed such payment on installment basis may be allowed from any previous date.

INADMISSIBLE INPUT TAX

Certain positive steps towards documentation of economy taken through the Finance Act, 2019 are proposed to be withdrawn which include:

- Restriction in the claim of input tax on goods/ services attributable to supplies made to unregistered person on pro-rata basis, for sales invoices not bearing the NIC / NTN of the recipient.
- Requirements of a 'Tax invoice' to include the particulars of NIC/ NTN of such unregistered person.

RESTRICTION ON THE CLAIM OF ADJUSTABLE INPUT TAX

Claim of admissible input tax in a tax period is restricted to the extent of 90 percent of the output tax for that period under section 8B of the Act barring certain exceptions.
Through Finance Act, 2021, a positive amendment was made to exclude public limited companies listed on the Pakistan Stock Exchange.

It is proposed to withdraw such benefit. This proposal needs to be reconsidered in the larger perspective for corporate entities operating in an organized sector.

PENALTY FOR DEFACING THE PRESCRIBED INVOICE, ETC.

It is proposed to include the defacing the prescribed invoice number or the barcode or QR code as an offence subject to levy of penalty.

Exemption - Sixth Schedule

Table-1 (Import or local supply)

Sales tax exemptions on import or local supply of globe artichoke, a flower bud used mostly for medication, is proposed to be withdrawn.

Exemptions on import or supply of the following is proposed:

S. No.	*Description*
	Table I – Import and supply
163	Goods imported by various agencies of United Nations, diplomats, diplomatic missions, privileged persons and privileged organizations which are covered under various Acts and orders, rules and regulations subject to certain conditions with effect from January 15, 2022.
164	Photovoltaic cells for solar panels
165	Goods imported by or donated to hospitals run by non-profit institutions subject to certain conditions
166	Goods excluding electricity and natural gas supplied to hospitals run by the charitable hospitals of fifty beds or more
167	*Goods temporarily imported, meant for subsequent exportation, charged to zero rate of customs duty subject to certain conditions
171	Seeds for sowing
172	Machinery, equipment and materials imported either for exclusive use within the limits of Export Processing Zone or for making exports therefrom, and goods imported for warehousing purpose in Export Processing Zone, subject to certain conditions

** Earlier, Federal government was empowered to authorize to import goods meant for subsequent exportation without payment of sales tax but now general conditional exemption has been proposed.*

At present, the import or local supply of only educational books are exempt from sales tax. Such exemption is proposed to be extended to all kinds of books.

The bill proposes to exempt import or supply of art card for printing of Holy Quran by Federal Government, Provincial Government and Nashiran-e-Quran as per the quota determined by Input/output Co-efficient Organisation (IOCO).

Table-2 (local supply only)

Through the Bill, the local supply of prepared food by restaurants and caterers is proposed to be exempted. Earlier, such supplies were taxable at the reduced rate of 7.5%, which was omitted vide Finance Supplementary Act, 2022 and made chargeable to sales tax at the standard rate of 17%.

Table-3 (Conditional Exemptions for power sector)

In order to encourage investment in and facilitate expansion of existing projects of power sector, the import of machinery equipment and spares has been proposed to be exempted from sales tax. The under-construction projects in respect whereof an implementation agreement has been signed with the Federal Government, prior to January 15, 2022, is also proposed to be entitled to such exemption.

Further, construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the construction projects of power sectors has also been proposed to be exempt from sales tax on submission of a post-dated cheque for the differential amount of sales tax along with an undertaking to pay sales tax at statutory rates in case such goods are not re-exported on conclusion of the project.

The proposed exemption is also available to primary contractors subject to the fulfilment of following conditions:

- Submission of the underlying contract;
- Submission of certificate by the chief executive officer of the contracting company on the prescribed format; and
- Goods shall not be disposed of without the prior approval of FBR on payment of sales tax leviable at import stage.

EIGHTH SCHEDULE – REDUCED RATES

Supply of Agricultural Tractors

To encourage and promote the agriculture sector, exemption is proposed in respect of import and local supply of tractors. At present it is chargeable to sales tax @ 5% under Eighth Schedule to the Act.

Supply of locally produced coal

It is proposed that supply of locally produced coal would be charged to sales tax at standard rate of 17%. Currently it is chargeable to sales tax @ 17% ad valorem or Rs 425 per metric tonne whichever is higher.

Import of electric vehicle in CBU condition

To discourage the import of vehicle in CBU condition, it is proposed that the import of electric vehicle in CBU condition would be charged to sales tax at standard rate of 17%. Currently, the import of electric vehicle in CBU condition is chargeable to sales tax at reduced rate 12.5%. The reduced rate regime was earlier prescribed through Finance (Supplementary) Act, 2022.

Import and supply of Potassium Chloride

Currently the import and supply of Potassium Chloride is chargeable to sales tax @ Rs 90/kg in addition to the sales tax charged @ 17%. Through the finance bill, it is proposed that rate of 'additional' sales tax is reduced to Rs 60/kg.

Articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal

Prior to changes introduced through Finance (Supplementary) Act, 2022, the captioned items were chargeable to sales tax at the following rates, with no input tax adjustment except the tax paid on value of gold:

> *"1.5% of the value of gold; plus 2% of the value of diamond used therein; plus 3% of the making charges"*

Through the Finance (Supplementary) Act, 2022 the aforesaid concessionary regime was withdrawn and the supply of 'articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal' were made chargeable to sales tax at standard rate of sales tax.

Through the Bill, slightly modified concessionary regime is proposed to be reinstated through insertion of entries to the Eighth Schedule to the Act. The proposed changes are as under:

Description	Rate of sales tax	Condition
Supply of articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal	3%	No input tax shall be adjusted
Import of articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal	4%	No input tax shall be adjusted

Through the Bill, it is also proposed that the supply of imported articles of jewellery etc. would be exempt from sales tax provided that sales tax @ 4% is paid at the import stage.

Supply of reclaimed lead

The Bill proposed that local supply of reclaimed lead, to registered manufacturers of lead and lead batteries, is charged to sales tax @ 1% with the condition that though the related input tax remain adjustable; no refund of input tax shall be admissible.

TWELFTH SCHEDULE

Exclusion from exemption from value addition tax on imports

Through the Bill, it is proposed to levy value addition tax @ 3% on the import of following items even if imported as raw material or intermediary goods by a manufacturer for in-house consumption:

Description	PCT heading
Compressor scrap	7204.4940
Motor scrap	7204.4990
Copper cable cutting scrap	7404.0090

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001

Modification in the scope of existing taxable service

The below entry is proposed to be substituted in Table 1 of the Schedule to the Ordinance:

Existing Entry	Proposed Entry
Services provided or rendered by hotels, motels, guest houses, marriage halls and lawns (by whatever name called) including "pandal" and "shamiana" services, clubs including race clubs, and caterers.	**Services provided or rendered by hotels, motels, guest houses, farmhouses, restaurants, marriage halls, lawns, clubs and caterers.** Services provided or rendered by hotels motels, guest houses and farmhouses. Services provided or rendered by restaurants. Services provided or rendered by marriage halls and lawns. Services provided or rendered by clubs. Services provided or rendered by caterers, suppliers of food and drinks

Reduction in tax rate of taxable services

The rate of tax for the services listed in Table 1 of Schedule to the Ordinance has been proposed to be reduced as follows:

- The rate of tax on all services currently taxable at sixteen (16) per cent have been proposed to be reduced to fifteen (15) per cent; and

- The rate of tax on services of call centres (Entry No. 42) currently taxable at seventeen (17) per cent have been proposed to be reduced to fifteen (15) per cent.

Sales tax exemption on services of IT and IT enabled services

The Bill proposes to withdraw sales tax on services of IT and IT enabled services (Entry No. 11) which are currently taxable at 5%. Consequently, these services will not be chargeable to Sales tax.

FEDERAL EXCISE DUTY

EXCISE DUTY ON GOODS

TOBACCO INDUSTRY

It has been proposed to enhance excise duty on e-liquids for electric cigarette kits, locally produced cigarettes and filter rods for cigarettes in a following way:

Description	*Existing Rate of Duty (Rs)*	*New Rate of Duty (Rs)*
E-liquids for electric cigarette kits	10 per ml	10,000 per kg
Locally manufactured cigarettes – on pack printed retail price higher than Rs 5,960 per thousand cigarettes	5,200 per thousand cigarettes	5,600 per thousand cigarettes
Locally manufactured cigarettes – on pack printed retail price less than equals to Rs 5,960 per thousand cigarettes	1,650 per thousand	1,850 per thousand
Filter rods for cigarettes	1 per filter rod (heading: 5502.9090)	1,500 per kg (respective headings)

EXCISE DUTY ON SERVICES

TRAVEL SERVICES

The bill proposes to increase duty on club, business and first-class air tickets for international travels from Rs 10,000 to Rs 50,000.

TELECOM SERVICES

Rate of duty on telecommunication services in Islamabad Capital Territory is proposed to be enhanced from 16% to 19.5% possibly to align it with the sales tax levied on such services by provinces.

CUSTOMS DUTY

ESSENTIAL COMMODITIES

The concept of essential commodities is proposed to be introduced defining the term as those items availability of which is considered vital for domestic use of consumption, as notified by the FBR from time to time in consultation with the ministries concerned. Following amendments to the Act are proposed in relation to the items notified as essential goods.

1. The essential commodities are proposed to be included in the definition of smuggled goods. This would mean that bringing into or taking out of the essential commodities in breach of any prohibition or restriction for the time being in force would render it as a smuggling; hence subject to penal actions prescribed under the Act for smuggled goods.

2. Bordering and coastal areas are proposed to be defined as all districts located along international borders including coastal areas of Pakistan, notified as such by Provincial Governments.

3. In the case of essential commodities, powers of appropriate officer to stop and search the conveyance carrying smuggled goods are proposed to be restricted to the bordering and coastal areas only.

4. In case of seizure of essential commodities, such seized goods shall be deposited in the nearest custom-house or the nearest place appointed by the Collector of Customs.

PAKISTAN SINGLE WINDOW ACT, 2021

Pakistan has ratified the agreement on Trade Facilitation of the World Trade Organization and has established PSW for managing external Trade. In this respect, Pakistan Single Window Act, 2021 (PSWA, 2021) has already been enacted.

Through the Finance Bill, following amendments are proposed to align the Customs Act with PSWA, 2021;

(i) Definition of following terms as per PSWA, 2021 are proposed to be adopted for Customs Act:-

a) other government agencies

b) Pakistan Single Window

c) trade controls

d) un-authorized access

(ii) Following penalties are proposed:

S. No. 105.	Offences	Penalties
(i)	Un-authorised access to information, data or personal details of registered user of Pakistan Single Window system or systems connected or ancillary thereto;	Imprisonment which may extend up to six months or with fine which may extend to one hundred thousand rupees or with both.
(ii)	Un-authorised copy, transmission or cause to transmit any data, information or detail in relations to Pakistan Single Window system or systems connected or ancillary thereto;	Imprisonment which may extend upto six months or with fine which may extend to one hundred thousand rupees or with both.

S. No. 105.	Offences	Penalties
(iii)	Un-authorised interference, or attempt to interfere, damage or attempt to damage any part of whole of the Pakistan Single Window system or data or system connected to or ancillary thereto;	Imprisonment which may extend to three years or fine which may extend to five hundred thousand rupees or with both.
(iv)	Use of any information system, device or data to make any illegal claim or title or cause any person to part with property or to enter into any express or Implied contract or intent to commit fraud by any input, alteration, deletion or suppression of data, resulting in unauthentic data with the intent that such data be considered or acted upon for legal purpose, as if it were authentic in relations to Pakistan Single Window system or Systems connected or ancillary thereto;	Imprisonment which may extend to four years or fine which may extend to one million rupees or with both.
(v)	Use, make, supply, retain, obtain device, system or software for offences under section 13 of The Pakistan Single Window Act, 2021 (III of 2021);	Imprisonment which may extend to six months or with fine which may extend to one hundred thousand rupees or with both.
(vi)	Obtain, sell, process, use or transmit another person's Unique User Identifier or make an attempt thereof Without authorisation;	Imprisonment which may extend to four years and fine which may extend to one million rupees or with both.
(vii)	Tamper with or attempt to tamper with, alter, re-Programme any Pakistan Single Window system or System connected or Ancillary thereto for un- authorised use;	Imprisonment which may extend to four years and fine which may extend up to one million rupees or with both and any devices or systems used in offence shall be liable to confiscation.
(viii)	Write, offer, make available, distribute or transmit a malicious code or abet in the same, with intent to cause harm to Pakistan Single Window system or data resulting in or intending to result in corruption, destruction, alteration, suppression, theft or loss to the Pakistan Single Window	Imprisonment for a term which may extend to four years and fine which may extend to five million rupees or with both.

VALIDATION OF NOTIFICATIONS

The validity of exemption notifications issued on or after July 1, 2016 is proposed to be further extended to next fiscal year i.e. up to June 2023.

TIME LIMIT FOR FINALIZATION OF PROVISIONAL DETERMINATION OF DUTIES AND TAXES

Timelines prescribed under the Act for finalization of duties, taxes and other charges payable on goods cleared on the basis of provisional determination are proposed to be reduced as follows:

(a) From six months to 90 days,
(b) extended period reduced from 90 days to 30 days.

PERIOD FOR WHICH GOODS MAY REMAIN WAREHOUSED

Presently, the maximum period for which non-perishable goods may be warehoused is 6 months, which may be extended only by the Collector of Customs and the Chief Collector of Customs on payment of surcharge @ 1 % per month.

It is proposed to authorize Additional Collector of Customs to extend the period for a period not exceeding 1 month.

CHANGE OF CONSIGNEE NAME IN CASE OF FRUSTRATED CARGO

In the case of frustrated cargo, presently, an officer of the Customs, not below the rank of Additional Collector of Customs, is authorized to allow export of such goods without payment of any duties if applied for either by the person-in-charge of the conveyance brining the cargo or the consignor of such goods.

Through the Import Policy Order, 2020 however, it is provided that custom authorities may allow change of consignee in respect of frustrated cargo, if the goods are otherwise allowed to be imported into Pakistan. In view of that, enabling provisions in the Act are now proposed to authorize the customs officer to allow changing name of the consignee to clear such goods.

CONFISCATION OF CONVEYANCE

Through Finance Act, 2021, option to pay fine in lieu of the confiscation of the conveyance, carrying smuggled / offending goods, was withdrawn where such conveyance was seized for the third time; whereas SRO 499(I)/2009 dated June 13, 2009 already prescribed that no such option to pay fine in lieu of confiscation of the conveyance be allowed in such cases.

It is now proposed to omit the provisions introduced vide Finance Act, 2021 to align the provisions of the Act.

ADJUDICATION POWERS

It is proposed to increase the monetary threshold prescribed under the Act for the adjudication powers of the Customs Officers as follows:

Adjudicating Authority	Amount of duties and other taxes involved (Rupees)	
	Present Limit	Proposed Limit
Additional Collector	Not exceeding 3 million	Not exceeding 5 million
Deputy Collector	Not exceeding 1 million	Not exceeding 2 million

PROTECTION OF ACTION TAKEN UNDER THE ACT

The protection of action, presently prescribed for the Federal Government against any suit, prosecution or other proceeding for anything done in good faith in pursuance of the Act, is proposed to be extended to the officers of the Provincial Government as well.

DETERMINATION OF PORT AND OTHER CHARGES

It is proposed to authorize Collector of Customs to fix the port charges on import and export of goods for services rendered by the terminal operators and the charges / fees for storing of seized and confiscated goods in declared State warehouses.

ADOPTION OF WCO HS VERSION 2022

Pakistan being a signatory to HS Convention has adopted HS 2022 version and incorporated its nomenclature/new HS Codes in Pakistan Customs Tariff (PCT) with adjustments of local PCT codes. Accordingly, first schedule to the Act is expected to be substituted to effect the required changes. Notifications are also expected to be issued.

REDUCTION / CONCESSIONS IN CUSTOMS DUTY

- ***Exemption of Customs Duty and Additional Customs Duty***

Customs Duty (CD) leviable on the import of following categories of items / sectors is proposed to be exempted for incentivizing the respective sectors:

- Machinery and capital goods for mechanization of farming including machinery pertaining to irrigation, drainage, harvesting, plant protection etc.
- Specified raw materials used for manufacturing of LED lights, LED bulbs (including parts thereof) and brush ware.
- 26 Active Pharmaceutical Ingredients for incentivizing Pharmaceutical manufacturers.
- Raw materials for manufacture of first aid bandages.
- Membranes for filtering / purifying water.
- The drug 'Grafalon' and gadget 'Irisvision'.
- Raw materials of Ivy leaves extract powders.
- Motor spirit.

In addition to CD, Additional Customs Duty (ACD) is also proposed to be exempted on import of the following goods:

- Raw materials imported by paper sizing industry and chlorinated paraffin wax industry and manufacturers of aluminum conductor composite cores.
- Stamping foils for manufacturing of optic fiber cables.
- Aluminum paste and powder imported by the Coating industry.
- Guts, bladders and stomachs of animals.

- ***Reduction in Customs Duty and Additional Customs Duty***

CD leviable on import of following goods is proposed to be reduced:

- Specified categories of other woven fabrics and artificial flowers / foliage of other materials imported by manufacturers of footwear.
- High-density fiber (HDF) boards of wood or other ligneous materials
- Specified fibers of polypropylene.

In addition to CD, ACD, leviable on import of following goods is also proposed to be reduced:

- Direct and reactive dyes.
- Glycerol crude and Glycerol for the coating industry.
- Goods pertaining to Aluminum, polymers of ethylene, Biaxially Oriented Polypropylene (BOPP) used by the packing industry.
- Adhesive, Epoxide resins, Filter media/ paper, Non-woven fabric media and Steel plates / sheets of prime quality imported by manufacturers of filters, other than automotive.
- Organic composite solvents and thinners imported by manufacturers of Dibutyl Orthophthalates.
- Plywood, veneered panels & similar laminated wood, poly (methyl methacrylate) and cyanoacrylate.
- Flavoring powders for food preparation for snacks manufacturers.

PROPOSED AMENDMENTS IN REGULATORY DUTIES

- ***Reduction in Regulatory Duty***

Regulatory duty has been proposed to be reduced as follows:

Description	Original rate	Proposed rate
Case hardening steel	30 %	20 %
Chrome yellow	15 %	0 %

- ***Increase in / levy of Regulatory Duty***

Through the finance bill, Regulatory duty has been proposed to be levied/ increased as follows:

Description	Original rate	Proposed rate
Motor spirit	-	10 %
Other paper, paperboard, cellulose wadding and webs of cellulose fibers.	0 %	10 %
High Carbon Wire rod	0 %	30 %
Optic Fiber Cables	10 %	20 %

<u>*Note:*</u> The notifications for amendments relating to Regulatory Duty and Additional Duty are yet to be issued. The above comments are based on 'Salient Features' issued with the finance bill.

CAPITAL VALUE TAX (CVT)

CVT at the rate of 5% was imposed through section 7 of the Finance Act, 1989 whereby the registering or attesting authority was made responsible to collect such CVT at the time of registering or attesting the transfer of immovable properties, modaraba certificates, listed shares and motor vehicles.

The CVT was withdrawn gradually and with effect from April 19, 2020; CVT was abolished on all assets.

The Bill now proposes to re-introduce CVT in respect of below-referred assets:

Category of asset	Rate of CVT	Basis of valuation	Person responsible to collect CVT
a) motor vehicle held in Pakistan where the value of motor vehicle exceeds rupees five million	2% of the value	(i) Where the vehicle is imported in Pakistan, the import value assessed by the Customs authorities as increased by customs duties;	Collector of Customs at the time of import.
		(ii) where the vehicle is manufactured or assembled locally in Pakistan, the value at which the motor vehicle is sold by the local manufacturer or assembler;	Local manufacturer or assembler at the time of sale (in case of sale on installment, the CVT shall be collected at the time of payment of first installment).
		(iii) where the vehicle is auctioned, the auction price;	Any person making sale by public auction or auction by tender ((in case of sale on installment, the CVT shall be collected at the time of payment of first installment).
		(iv) in any other case, the total consideration paid to acquire, alter or improve the vehicle;	Motor vehicle registering authority at the time of collecting motor vehicle tax except when such person has already paid CVT at time of import, purchase from local manufacturer or auction.
		The value stated in (i) through (iv) above shall be reduced by 10% for each year provided that the value shall be treated as zero: - after 10 years from year of acquisition of vehicle; or - where the value after reduction as mentioned above is less than or equal to Rs. 5 million.	

	Category of asset	Rate of CVT	Basis of valuation	Person responsible to collect CVT
b)	assets of a resident* individual, whether movable or immovable**, **held abroad** where the value of such assets exceeds Rs. 100 million. ** as defined in the Income Tax Ordinance, 2001* *** Under entry 50 of Federal Legislative List, tax on capital value of immovable property can only be imposed by provincial government. However, it appears that such restriction is applicable only on immovable property situated in a province and not outside Pakistan.*	1% of the value	The value shall be the higher of: (i) the total consideration paid to acquire, alter or improve the asset; or (ii) the fair market value of the asset.	The person holding the assets shall be liable to pay CVT at the time of filing of income tax return for the tax year.
c)	such assets or class of assets as may be specified by the Federal Government through a notification in the official Gazette.	Rate and manner of collection of CVT to be prescribed in notification.	The basis of valuation shall be as specified in such notification.	Federal Government to notify the manner in which CVT is to be collected.

- Where a person fails to collect CVT or having collected CVT fails to pay the same to the credit of the Federal Government, the Officer Inland Revenue may pass the order after giving the person an opportunity of being heard and proceed to recover the CVT under the provisions of the Income Tax Ordinance, 2001 and the Income Tax Rules, 2002 as if the CVT were an arrear of income tax. Such person will also be liable to pay Default Surcharge @ twelve per cent per annum on the tax unpaid computed for the period commencing on the date on which the CVT was due and ending on the date on which it was paid.

- The provisions of the Income Tax Ordinance, 2001 and the Income Tax Rules, 2002 in so far as relevant shall apply to the collection and recovery of CVT.

- Any person dissatisfied with any order passed by the Commissioner or an officer of Inland Revenue under this section may prefer an appeal before the Commissioner (Appeals) against the order as provided under section 127 shall apply accordingly. The provisions of the Income Tax Ordinance relating to the further appeal process shall apply in respect of Appellate Order passed by Commissioner (Appeals).

- The FBR may prescribe the manner and procedure relating to the collection and recovery of, or any other matter relating to the CVT.

The Federal Government may also exempt any asset or class of assets from CVT subject to such conditions as may be prescribed.

MOBILE HANDSET LEVY

Mobile handset levy was introduced through Finance Act, 2018 for smart phones valuing in excess of Rs 10,000, collectable by the Board in the prescribed manner. The rates currently applicable are as follows:

Category of smart phone	Rate of levy per set
For sets having import value (including duties and taxes) between Rs 10,000 and Rs 40,000.	Rs 1,000
For sets having import value (including duties and taxes) between Rs 40,000 and Rs 80,000.	Rs 3,000
For sets having import value (including duties and taxes) exceeding Rs 80,000.	Rs 5,000

The value of mobile phones and the corresponding rates of levy have been proposed to be modified as follows:

Mobile Phones having C&F Value (US Dollars)	Rate of levy per set
Upto 30	Rs 100
Above 30 and up to 100	Rs 200
Above 101 and up to 200	Rs 600
Above 201 and up to 350	Rs 1,800
Above 351 and up to 500	Rs 4,000
Above 501 and up to 700	Rs 8,000
Above 701 and above	Rs 16,000