

Budget Brief | 2021-2022

Income Tax Highlights



Income Tax Ordinance

- Bill proposed to include Telecommunication companies in ambit of Industrial undertaking by introducing new subclause C to section 2 clause 29C.
- Proposed to include cloud computing services, data storage services within scope of IT enable services.
- Bill proposed a separate scheme of taxation for Small and Medium Entities (SMEs) where SMEs are given option to either tax their income at 15% of profit as final tax or on gross amount of turnover at a maximum rate of 0.5%.
- Bill proposes that profit on debt up to PKR 5,000,000 (Previously threshold was previously PKR 36,000,000) would be taxed at 15% of the gross amount as a final discharge of tax liability. Any profit on debt exceeding PKR 5,000,000 would be taxed under the head 'income from other sources' at specified rates.
- Bill proposed to provide flexibility to Individuals and AoPs deriving income chargeable to tax under the head 'income from property' to either be taxed on gross amount as a separate block or on net income at applicable rates. Income from property is proposed to be taxed on net basis, the Bill proposes to allow adjustment of loss under the head 'income from business' against income taxable under the head 'income from property'.
- Bill proposed to clarify that income derived by co-operative societies from the sale of goods, immoveable property or provision of services to its members to be taxed as Income from Business.
- Bill proposes amend section 22 in sub-section (13), in clause (d) to tax the excess amount of gain on disposal of immovable property under the head 'capital gain' under section 37.
- Gain on immoveable property is taxed as capital gain under section 37 as separate block for holding period as specified, bill proposed that taxable gain on disposal of immoveable property exceeds five million rupees, it shall be chargeable to tax under section 37. If person is habitually engaged in transactions of sale and purchase of immoveable property or such sale and purchase is adventure in the nature of trade and business such transactions shall be chargeable under the head Income from Business
- Bill proposed that if the capital asset acquired through gift is disposed of within two years of acquisition and the Commissioner is satisfied that such gift arrangement is a part of tax avoidance scheme, then the original cost in the hands of the transferor will be taken to be the cost base for the transferee as well.
- Bill proposed that WWF and WPPF paid to the provincial authorities can also be claimed as deductible allowance under sections 60A and 60B, respectively.
- Bill proposed to withdraw Tax credit on employing fresh graduates under section 64C.
- By introduction of new section 64D bill proposed that Any person who is required to integrate with Board's computerized system for real time reporting of sale or receipt,

shall be entitled to tax credit in respect of the amount invested in purchase of point of sale machine.

- i. The amount of tax credit allowed under this section for a tax year in which point of sale machine is installed, integrated and configured with the Board's computerized system shall be lesser of –
 1. amount actually invested in purchase of point-of-sale machine; or
 2. rupees one hundred and fifty thousand per machine.
- Bill proposed to allow tax credit to certain persons.
- a) persons engaged in coal mining projects in Sindh supplying coal exclusively to power generation projects.
 - b) a start-up which is certified by the Pakistan Software Export Board and the next following two tax years: and
 - c) Income from exports of computer software or IT services or IT enabled services up to the period ending on the 30th day of June 2025.
- Bill proposed to allow tax credit for specified industrial undertakings to take an investment tax credit of twenty five percent of the eligible investment amount, against tax payable under the provisions of this Ordinance including minimum and final taxes.
- Transfer of asset under certain circumstances is regarded as non-taxable under section 79 of the Ordinance if both parties are resident of Pakistan. The Bill proposes to mandate the residency requirements, for both the transferor and the transferee, only in respect of the following three categories of transactions.
- i. by reason of the compulsory acquisition of the asset under any law where the consideration received for the disposal is reinvested by the recipient in an asset of a like kind within one year of the disposal
 - ii. by a company to its shareholders on liquidation of the company
 - iii. by an association of persons to its members on dissolution of the association where the assets are distributed to members in accordance with their interests in the capital of the association
- Due of the proposed amendment no gain or loss would be recognized in the following three transactions even if the transferee is a non-resident person–
- i. between spouses under an agreement to live apart
 - ii. by reason of the transmission of the asset to an executor or beneficiary on the death of a person
 - iii. by reason of a gift of the asset to a relative, as defined in sub-section (5) of section 85.
- Bill proposed to enhance threshold for individual and AoPs for levy of minimum tax under section 113 from PKR 10,000,000 to PKR 100,000,000. If minimum tax is paid because no tax is payable or paid for the year, the entire amount of tax paid shall be carried forward for adjustment.

- The requirement to furnish a taxpayers' profile and related penalties for non-submission of such profile are proposed to be withdrawn.
- The Bill proposes to withdraw the power of the CIR to conduct such inquiry. As per Section 122(5A) the CIR is empowered to conduct an inquiry and accordingly amend the assessment of a taxpayer if he considers that the assessment is erroneous in so far it is prejudicial to the interest of revenue.
- Bill proposed to insert timeline that order under section 122(9) shall be made within one hundred and twenty days of issuance of show cause notice or within such extended period as the Commissioner may, for reasons to be recorded in writing, so however, such extended period shall in no case exceed ninety days.
- The period of 30 days for payment of tax demand, pursuant to section 137(2), is proposed not to apply in respect of tax demand created through an appeal effect order and correspondingly the same would be immediately payable.
- The Bill proposes to empower the tax authorities, by inserting new section as 146C, to recover tax from any person pursuant to a request from a foreign jurisdiction under a tax treaty, a multilateral convention or an inter-governmental or similar agreement or mechanism.
- The power of the CIR to reject advance tax estimate filed by a taxpayer under section 147(6A) are proposed to be withdrawn.
- Bill proposed advance tax to be deducted by special purpose vehicle or a company, at the time of making payment of a return on investment in sukuks to a sukuk holder from the gross amount of return on investment at the rates specified.
- Automated issuance of exemption certificate under section 153 to all companies, if the application is not disposed of by the CIR with 15 days is proposed to be allowed.
- Bill proposed to insert new section 154A by allowing authorized dealer in foreign exchange to deduct tax from the proceeds at 1% of, subject to fulfilment of prescribed conditions tax deductible under this section shall be a final tax, from following tax payers;
 - a) exports of computer software or IT services or IT enabled services in case tax credit under section 65F is not available.
 - b) services or technical services rendered outside Pakistan or exported from Pakistan.
 - c) royalty, commission or fees derived by a resident company from a foreign enterprise in consideration for the use outside Pakistan of any patent, invention, model, design, secret process or formula or similar property right, or information concerning industrial, commercial or scientific knowledge, experience or skill made available or provided to such enterprise.
 - d) construction contracts executed outside Pakistan; and
 - e) other services rendered outside Pakistan as notified by the Board from time to time.
- Bill proposes withholding of tax on rental income from sub-lease of an immovable property at the rates prescribed in section 155.

- Bill proposes to add timeline for issuing of exemption certificates under section 159 and such certificate shall be issued within fifteen days of filing of application by the company and shall be automatically processed and issued by Iris.
- Submission of annual statement in respect of taxes withheld at source under various sections of the Ordinance are proposed to be mandatory. Currently, such requirement exists only for salary payments.
- Bill proposes that every person collecting tax shall also e-file to the Commissioner a statement in the prescribed form reconciling the amounts mentioned in annual statement filed with the amounts declared in the return, audited accounts or financial statements by the due date of filing of return of income.
- Bill proposes that Board may process and issue refund to the taxpayer who has filed the return of income without requiring refund application by the taxpayer to the extent of tax credit verified by the Board's computerized system as may be prescribed.
- Bill proposes penalty for not filling return within due time if taxable income is up-to eight hundred thousand Rupees, the minimum amount of penalty shall be five thousand Rupees.
- Bill proposes penalty for not declaring bank in his registration application or fails to amend his registration profile to declare existing business bank account Such person shall pay a penalty of Rs. 10,000 for each day of default since the date of submission of application for registration or date of opening of undeclared business bank account whichever is later, if penalty worked out as aforesaid is less than Rs.100,000 for each undeclared bank account, such person shall pay a penalty of Rs.100,000 for each undeclared business bank account, this provision shall be applicable from the first day of October, 2021 during which period the taxpayer may update their registration forms.
- Bill proposes to insert new section as 203A empowering officers of Inland Revenue who on the basis of material evidence has reason to believe that any person has committed offence of concealment of income or any offence warranting prosecution under this Ordinance, may cause arrest of such person in accordance with in accordance with the relevant provisions of the Code of Criminal Procedure.
- The Board may design and prescribe e-hearing module for the purpose of conducting hearings, granting opportunity of being heard and electronically receiving any information for the purpose of this Ordinance is proposed.
- Individuals and AoPs having turnover of PKR 100,000,000 proposed to be withholding agents in respect of payment of brokerage and commission under section 233.
- Tax on domestic electricity consumption will apply at the rate of 7.5% if the monthly bill exceeds PKR 25,000 from person whose name is not in Active Taxpayer List.
- Under section 236H Collection of advance tax on sale to distributors, dealers, wholesalers and retailers expanded to pharmaceutical, poultry and animal feed, edible oil and ghee, battery, tyres, varnishes, chemicals, cosmetics and IT equipment sectors is proposed.

- The Bill proposes to extend the benefit of reduced rate of 3% withholding tax under section 153 to Oil field services, Telecommunication services, Warehousing services, Collateral Management services and Travel and tour services.
- Bill proposes that the reduced rate of 3% on specified services under section 153 would only apply to a service provider whose services are subjected to withholding tax on gross receipts and the service provider has not agitated taxation of gross receipts before any court of law.
- Bill proposes that exemption under this clause shall not be available to the payments representing profit on debt earned on provident fund contributions exceeding rupees five hundred thousand. The profit on debt exceeding rupees five hundred thousand shall be chargeable to tax @ 10% as separate block of income and the person making payment shall deduct tax at the said rate.
- Bill proposes to extend exemption from levy of minimum tax under section 113 to Zone Developers and Zone Enterprises established and operating under the Special Economic Zones Act, 2012 and Special Technology Zones Authority Ordinance, 2020.
- The bill proposes to omit the following withholding tax provisions-

Section	Description
153B	Royalty paid to a resident person
231A	Cash withdrawal from a bank by a person whose name is not appearing in ATL
231AA	Advance tax on transactions in bank by a person whose name is not appearing in ATL
233A	Collection of tax by a stock exchange registered in Pakistan on purchase / sale value
233AA	Collection of tax by NCPPL
234A	CNG Stations
236B	Advance tax on purchase of air ticket
236HA	Tax on sale of certain petroleum products
236L	Advance tax on purchase of international air ticket
236P	Advance tax on banking transactions otherwise than through cash by a person whose name is not appearing in ATL
236V	Advance tax on extraction of minerals
236Y	Advance tax on persons remitting amounts abroad through credit or debit or prepaid cards