

BUDGET 2021-22

TAX COMMENTARY

- The Tax Commentary contains the highlights of Finance Bill 2021 which will be generally applicable from 01 July 2021 unless specifically specified.
- The Commentary contents are our interpretation of the proposed legislation, and we strongly emphasize that reference be made to the specific wordings of the relevant statutes while considering their application to any particular scenario.
- June 11, 2021



01

Section 01:
Income Tax Ordinance, 2001 Amendments



INCOME TAX ORDINANCE, 2001

REVENUE MEASURES

- Special regime for export of services at par with export of goods to be taxed @ 1% under final tax regime.
- Elimination of block taxation of property income and shift to normal tax regime.
- Reduction of block taxation on capital gain on disposal of immovable properties if gain exceeds Rs. 20 million.
- Reduction of block taxation on capital gain on disposal of immovable properties if gain exceeds Rs. 20 million.
- Tax on “on” money on vehicles, if vehicle is disposed without registration.
- Expansion of scope of withholding tax collection from supply chain below manufacturers and importers of specified sectors (sections 236G and 236H).
- Reduction in threshold of monthly electricity bill for withholding tax on electricity consumption from 75,000 to 25,000 from domestic users not appearing on Active Taxpayers’ list.
- Removal of requirement of issuance of separate notice in concealment cases.
- Withholding of tax on rental income of sub-lessee.
- Broadening of scope of withholding agents for the purpose of collection of withholding tax on commission income (section 233).
- Streamlining withholding tax collection on sale and purchase of immovable property (section 236C and 236K).

INCOME TAX ORDINANCE, 2001

REVENUE MEASURES – continued

- Rationalization of withholding tax regime for exporters.
- Taxability of profit on debt component of GP fund and other such funds.
- Withdrawal of personal income tax exemptions.
- During the current financial year, Tax Laws (Second Amendment) Ordinance, 2021 was promulgated to implement corporate income tax reforms to provide level playing field to all businesses. Certain tax credits, concessions and exemptions were withdrawn. The provisions of the Ordinance have been made part of the Finance Bill.

INCOME TAX ORDINANCE, 2001

RELEIF MEASURES

Deletion of 12 withholding taxes

Provision Description

- 153B Collection of tax on payment of royalty to residents.
- 231A Collection of tax on cash withdrawal.
- 231AA Collection of tax on banking instruments
- 236P Collection of tax on banking transactions other than through cash.
- 236Y Collection of tax from persons remitting amounts abroad through credit or debit or prepaid cards.
- 236B Collection of tax on domestic air travel.
- 236L Collection of tax on international air travel
- 236V Collection of tax on extraction of minerals.
- 233A Collection of tax from members by a stock exchange registered in Pakistan.
- 233AA Collection of tax on marginal financing by NCCPL.
- 234A Collection of tax from CNG stations.
- 236HA Collection of tax on certain petroleum products.

INCOME TAX ORDINANCE, 2001

RELIEF MEASURES – continued

- Reduction in generalized rate on Minimum Tax on Turnover basis and increase in threshold for individuals and AOPs for chargeability of minimum tax.
- Broadening of scope of IT services by inclusion of cloud computing and data storage services.
- Exemption to Special Economic Zone Enterprises from payment of minimum tax.
- Ten year tax exemption for Special Technology Zone Authority, Zone Developers and Zone Enterprises.
- Tax exemption on the import of capital goods and dividend income of private funds from investment in special technology zone enterprise.
- Introduction of special tax regime for manufacturing SMEs.
- Exemption from tax on income of deep conversion new refineries and BMR projects of existing refineries for 10 years.
- Reduced rate of withholding tax of 3% on oilfield services, warehousing services, logistic services, collateral management services and telecommunication services.
- Inclusion of telecommunication services in definition of industrial undertaking
- Exemption to Electronic warehousing receipts traded on Pakistan Mercantile Exchange.
- Allowance of provincial WWF and WPPF as a deductible allowance while calculating income.
- Adjustment of business loss against property income.

INCOME TAX ORDINANCE, 2001

RELIEF MEASURES – continued

- Unconditional grant of exemption from tax to certain organizations.
- Withdrawal of power of Commissioner to reject advance tax estimates presented by taxpayer.
- Non recognition of gain/loss on disposal of assets to non-residents under gift from relative, inheritance and agreement to live apart.
- Reduction in tax rate on capital gain tax on disposal of securities from 15% to 12.5%.
- Withdrawal of power of tax authorities to conduct inquiry under section 122(5A).
- Inclusion of live animals, raw hides and unpackaged meat in definition of agriculture produce.
- Reduction in tax liability by 25% for women entrepreneurs.
- Exemption from tax on import of books and agriculture equipment.
- Exemption from tax for bagasse fired power generating units and reduced rate of tax on dividend income from such projects.
- Extension in time limits for availing tax benefits under section 100D and Eleventh Schedule vide Income Tax (Amendment) Ordinance 2021 dated 21.02.2021 made part of the bill.
- Tax exemptions and concessions for Roshan digital accounts and implementation of electric vehicles and mobile phone policy implemented vide Tax Laws (Amendment) Ordinance, 2021 dated 11.02.2021 made part of bill.

INCOME TAX ORDINANCE, 2001

STREAMLINING MEASURES

- Strengthening mechanism of Alternate dispute resolution.
- Elimination of requirement of filing of application for automated issuance of refund.
- Introduction of time limitation for disposal of show cause notices.
- Recording of e-hearing to be admissible evidence.
- Automated issuance of exemption certificates if application is not disposed by Commissioner within 15 days.
- Removal of requirement of updating tax profile.
- Clarity regarding taxation of income of co-operative societies from sale and services to its own members.
- Delegation of power of Federal Government to Board with the approval of Federal Minister in-charge.
- Extension of time limitation for issuance of notice for filing of return in case of foreign income or foreign assets.
- Time limitation for completion of assessment in pursuance of orders of the Commissioner.
- Streamlining measure for monitoring of withholding taxes requiring taxpayers to file online statement along with reconciliation.
- Establishment of Directorate of compliance Risk Management in FBR.

INCOME TAX ORDINANCE, 2001

DOCUMENTATION MEASURES

- Tax credit on installation of point of sale machines.
- Notification of business bank accounts made mandatory.
- Measures for the documentation of business of used cars.
- Harmonization of procedure for investigation and prosecution of offences under domestic tax laws.

02

Section 02:

SALES TAX ACT, 1990 AMENDMENTS



SALES TAX ACT 1990

REVENUE MEASURES

- The sale of goods through online market place is proposed to be brought into the sales tax net by deeming the online market place as supplier in respect of third party sales through their platform.
- For specified goods, it is proposed that it may be made mandatory for manufacturers of such goods to obtain brand license for each separate brand or stock keeping unit (SKU).
- 'Mystery Shopping' is introduced to ensure prize schemes to promote tax culture under section 56C is not misused.
- The rate of sales tax on potassium chlorate is proposed to be increased **from Rs. 80 per kg to Rs. 90 per kg** in addition to 17% standard rate.
- Zero-rating is proposed to be withdrawn from:
 - Petroleum Crude Oil
 - Parts/components of zero-rated plant and machinery
 - Import of plant and machinery by petroleum and gas sector and supply
 - Repair and maintenance of ships
- Sixth Schedule is proposed to be streamlined and exemptions other than relating to basic food items, health and education are proposed to be withdrawn.
- Eighth Schedule is proposed to be streamlined and reduced rates other than relating to basic food items, health and education are proposed to be brought into standard regime.
- Entire amount of sales tax in respect of sales of reclaimed lead and used lead batteries is proposed to be withheld at source under Eleventh Schedule.
- Sales tax on sugar is proposed to be levied on retail price by including the said product in Third Schedule.

SALES TAX ACT 1990

RELIEF MEASURES

- The minimum annual threshold of turnover from all supplies for cottage industry is proposed to be increased from Rs. 3 million to Rs. 10 million.
- The threshold of shop area in case of furniture outlet/showrooms is proposed to be increased from 1000 square feet to 2000 square feet for inclusion in Tier-1 retailer
- Public limited companies are proposed to be excluded from the purview of section 8B which will allow them to adjust input tax in excess of ninety per cent of the output tax for that tax period.
- A separate section is introduced for allowing extension of time for furnishing of return.
- Reduced rate of sales tax @ 1% on locally supply of electric vehicles granted vide Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Sixth Schedule.
- Fixed tax on SIM cards is proposed to be deleted with effect from 1st July, 2020.
- For facilitation purpose, the concept of constructive payment is proposed to be introduced in section 73 which will allow registered persons to treat the amounts of payable and receivable to and from the same party as payments.
- To provide relief to the registered persons, the benefit of compensation for delayed payment of refund is also proposed to be extended to those persons in whose case order under section 66 is passed.
- For promoting ease of doing business, the concept of Common Identifier Number (CIN) is proposed to be introduced:
 - For individuals their CNIC issued by NADRA will be Common Identifier Number.
 - For association of persons and company NTN will be Common Identifier Number.

SALES TAX ACT 1990

EXEMPTIONS INTRODUCED

- Exemption is proposed to be granted to art and printing paper for publication and printing of Holy Quran.
- Exemption on import of CKD kits for electric vehicles by manufacturers granted by Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Sixth Schedule.
- To facilitate international athletes, exemption to goods temporarily imported by athletes/sportsmen granted by Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Sixth Schedule.
- Tax exemption to auto disable syringes granted vide Tax Laws (Second Amendment) Ordinance, 2021 is proposed to be incorporated in the Sixth Schedule.
- To encourage IT industry in the country, import of plant, machinery and raw material by Special Technology Zone is proposed to be exempted from sales tax.
- To facilitate farmers and encourage storage of grain, tax exemption on locally manufactured silos is proposed to be granted till 30.06.2026.
- Exemption from value addition tax on import of electric vehicles, CKD kits for small car, 2-3 wheelers, HCVs and all these vehicles in CBU conditions was granted vide Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Twelfth Schedule.
- For establishment of Border Sustenance Markets, exemption from sales tax is proposed to be granted on food related and other consumable goods.
- In order to introduce umbrella Export Facilitation Scheme by Customs Wing, exemption on import and zero-rating on local supplies in respect of raw materials, components, parts and plant and machinery to authorized exporters is proposed.
- Rising prices of locally manufactured small cars is a major concern for low earning families. Accordingly it is proposed that small cars upto engine capacity of 850cc may be exempted from value added tax besides reducing sales tax rate from 17% to 12.5%.

SALES TAX ACT 1990

STREAMLINING MEASURES

There are various provisions in the Sales Tax Act 1990 which require some corrections or streamlining, while some changes are being proposed for the purpose of Ease of Doing Business for registered persons. At places some drafting errors also need to be corrected. All such measure are listed below:

- A new definition has been inserted to define Commissioner (Appeals).
- The definition of tier-1 retailer is streamlined through insertion of a new clause whereby a retailer who has acquired point of sale accepting payment through debit or credit cards from banking companies or any other digital payment service provider authorized by State Bank of Pakistan is also included in the definition of tier-1 retailer.
- Under section 11(5), a show-cause notice can be issued for recovery of amounts not paid or short-paid within five years of relevant date. Since sales tax is payable on monthly basis, the time bar also applies on monthly basis. However, audits are undertaken on full-6.year basis. Furthermore, audits for income tax and sales tax for the same financial or tax year are undertaken concurrently, the demand in case of sales tax may get time-barred one to two years earlier as compared to demand for income tax. In order to streamline the said provision, the words “relevant date”, is proposed to be changed with the words “end of the financial year in which the relevant date falls”
- A new sub-section is added to provide enabling provision in the Act for prescribing rules for determining transfer pricing of taxable supplies between associates to reflect fair market value in arm’s length transactions.
- Provisions regarding sharing of data with foreign countries on reciprocal basis were introduced through Tax Laws (Amendment) Ordinance, 2021 which is now being incorporated in Sales Tax Act, 1990. Moreover, mechanism for assistance in recovery of taxes on request from foreign countries on reciprocal basis is also proposed by inserting subsection (3).
- Enabling provision has been inserted in respect of request from a foreign jurisdiction under a tax treaty, a multilateral convention, and inter-governmental agreement or similar agreement or mechanism.
- A new sub-section is added to provide enabling provision in the Act for prescribing rules for determining transfer pricing of taxable supplies between associates to reflect fair market value in arm’s length transactions.
- Section 22(1) has been amended to strengthen and streamline the requirement of record keeping.
- Procedure for collection, arrangement and publishing of the rules issued under Sales Tax Act, 1990 has been streamlined.

03

Section 03:

FEDERAL EXCISE ACT 2005 AMENDMENTS



FEDERAL EXCISE ACT 2005

REVENUE MEASURES

- In order to reap reasonable revenue from this sector, federal excise on mobile phone calls exceeding three minutes @ Re 1 per call, SMS message @ Re. 0.1 per SMS, and internet data usage @ Rs. 5 per GB is being proposed. This will result into mild taxation of a broad spectrum of population.
- Electronically heated tobacco products are also proposed to be brought into the tax net by inserting new S. No. 8c of Table-1 of the First Schedule to the Federal Excise Act, 2005.

RELIEF MEASURES

- In order to facilitate the people of tribal area and encourage investment and economic growth in these areas, exemption is being given from levy of FED to the industrial units located in FATA and PATA.
- Exemption from federal excise duty to 4-wheelers granted vide Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Federal Excise Act.
- The rate of federal excise duty on telecommunication is proposed to be reduced from 17% to 16%.
- For establishment of Border Sustenance Markets, exemption from federal excise duty is proposed to be granted on food related and other consumable goods.
- Rising prices of locally manufactured small cars is a major concern for low earning families. Accordingly it is proposed that small cars upto engine capacity of 850cc may be exempted from federal excise duty.
- Federal excise duty on fruit juices was imposed vide Finance Act, 2019 and resultantly, prices of juices were increased. Moreover due to pandemic, this sector is faced with adverse situation. In order to provide relief to this sector, it is proposed to withdraw federal excise duty on juices.

04

Section 04:

THE CUSTOMS ACT, 1969 AMENDMENTS



THE CUSTOMS ACT, 1969 AMENDMENTS

INDUSTRIAL RELIEF MEASURES

- Reduction / exemption of CD, ACD & RD on import of goods falling under 589 PCT codes to incentivize the textile industry.
- Reduction / exemption of CD, ACD & RD on import of flat rolled products of HRC and stainless steel.
- Reduction / exemption of CD and ACD on raw materials and intermediary goods and point of sale machines falling under 328 tariff lines as a consequent of tariff rationalization.
- To incentivize the pharmaceutical sector and to keep the prices stable in the market,-
 - Exemption of CD & ACD on more than 350 APIs
 - Plant, machinery and equipment subject to concessionary rate of 5%
 - Exemption of CD & ACD on raw material of auto-disable syringes and Reduction in tariff on finished auto-disable syringes
- Reduction / exemption on inputs / raw materials of food processing industry.
- Reduction of CD & ACD on uncoated paper and paperboard for printing and graphic arts industry.
- Reduction / exemption of CD & ACD on Vaccines for veterinary medicines and feed additives to incentivize the dairy sector.
- Exemption of ACD on import of raw materials for cables / optical fiber manufacturers.
- Reduction / Exemption of CD & ACD on inputs for Electronics Manufacturing Industry.
- Exemption of ACD on import of raw materials for cables / optical fiber manufacturers.

THE CUSTOMS ACT, 1969 AMENDMENTS

RELEIF TO COMMON MAN:

- Reduction of ACD on goods falling under 2436 tariff lines pertaining to 20% customs duty slab from 7% to 6%.
- Extension in exemption from customs duties on import of COVID-19 related items for further six month.
- Exemption of CD & ACD on Inputs of Ready-To-Use Supplementary Foods (RUSF) and Ready-To-Use Therapeutic Food (RUTF).
- Exemption of CD & ACD on 06 life-saving drugs.
- Enhance the value of unsolicited gifts through post or courier from Rs.20,000 to 30,000.
- Exemption of CD & ACD on import of grain storage hermetic bags and cocoons.
- Rationalization of tariff structure on auto sector.

THE CUSTOMS ACT, 1969 AMENDMENTS

EXPORT FACILITATION MEASURES

- To ease of doing business, a new Uniform Export Facilitation Scheme is being proposed. The existing schemes shall be phased out in next two years.
- Bond to Bond Transfer of goods through WeBOC without prior approval of the Collector is being proposed to be allowed.

ENFORCEMENT MEASURES

- Inclusion of master bill of lading and certificate of origin in the existing definition of document to discourage origin fraud.
- Inclusion of the retailing in definition of smuggling to discourage retailers from selling smuggled goods.
- Making shipping lines responsible for re-export of banned items imported in commercial quantities.
- Discouraging smuggling by denying release of vehicles used repeatedly for smuggling against redemption fine.
- Increasing the pitch of fine in case of non-placement of invoice and packing list in container to inculcate compliance.

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