



BUDGET 2020-2021

SALIENT FEATURES – FLASH CARD

Member firm of IAPA International

6/12/20

Fazal Mahmood & Company

Contact Partner: Mr. Fazal Mahmood
F: +92-42-37426774

A: 147 Shadman Colony 1, Lahore, Pakistan
E: info@fmc.com.pk

T: +92-42-37426771-3, +92-300-8455383
O: Islamabad – Karachi - USA

Contents

INTRODUCTION TO BUDGET 2020-2021 2

INCOME TAX..... 4

SALES TAX, CUSTOMS & FEDERAL EXERCISE DUTY 9





INTRODUCTION TO BUDGET 2020-2021

This tax memorandum gives an overview of the country's economy for the financial year 2020-2021.

BROAD PRINCIPLES OF TAXATION PROPOSALS

The proposals for the budget 2020-21 are mainly based on the following principles: -

- i. Least burden on poor and middle class
- ii. Simplification of Taxation
- iii. Covid-19 Response to ease the business
- iv. E-audit
- v. Second phase of withdrawal of exemptions to further eliminate discriminatory tax exemptions and concessions.
- vi. Expand the scheme of differential taxation for filers and non-filers for penalizing non-compliance without adding any further burden on the compliant.
- vii. Customs tariff be rationalized to reduce both the number of slabs and the maximum duty rate.
- viii. Reviewing tax laws and procedures to cut down on discretion.
- ix. Removal of sector distortions in domestic taxes.
- x. Measures for broadening of the tax base and documentation of economy.
- xi. Increasing the share of the direct taxes.

TAX MEMORANDUM FINANCE BILL 2020-21,

Fazal Mahmood & Company (Chartered Accountants) is pleased to present this tax memorandum, which is primarily aimed to help in understanding the impact of the Budget changes that are brought by the Finance Bill 2020-21 relating to Income Tax, Sales Tax Laws, Federal Excise Duty and Customs Duty. It is suggested that in order to understand the precise effect of a particular amendment, reference should preferably be made to the relevant wordings of the Act when passed. The bill was presented in the Parliament of Pakistan on June 12, 2020. Amendments and reshufflings are possible before its approval from National Assembly. It is suggested that changes should not generally be acted upon without first obtaining appropriate professional advice. This has always been a pleasure to be of service to our clients. It should neither be regarded as

comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. The Firm does not accept any responsibility for any loss arising from any action taken or not taken by anyone using this publication.

Regards,

Fazal Mahmood & Company
Chartered Accountants





INCOME TAX

Relief Measures

- Deletion of Withholding Taxes

To augment efforts towards simplification of the withholding tax regime, the following withholding tax provisions are being deleted:

- i) 236R Collection of advance tax on education related expenses remitted abroad
- ii) 235B Tax on steel melters and composite units
- iii) 156B Withdrawal of balance under pension fund
- iv) 148A Tax on local purchase of cooking oil or vegetable ghee by certain persons
- v) 236D Advance tax on functions and gatherings
- vi) 236F Advance tax on cable operators and other electronic media
- vii) 236J Advance tax on dealers, commission agents and arhatis etc.
- viii) 236U Advance tax on insurance premium
- ix) 236X Advance tax on tobacco

This measure would reduce the cost of the compliance of taxpayers, enhance the control of FBR over the withholding tax regime and would be pivotal in promoting ease of doing business.

- Enhancement of Threshold for Becoming Prescribed Person for Withholding of Tax on Supplies, Services and Contracts from **fifty to hundred million rupees and a similar threshold of hundred million rupees is being prescribed for a sales tax registered person to become a withholding agent.**

- The withholding tax statements under section 165 of the Ordinance are proposed to be filed on a quarterly basis as against the current requirement of bi-annual filing.
- Reduction in Holding Period and Tax Rates for Capital Gain on Immoveable Property to incentivize and propel economic activity in the real estate sector, the bifurcation of plots and constructed property for determining holding period of capital gains is being done away with i.e. the holding period for taxation of capital gains on disposal of immovable property is being restricted to 4 years. In addition, rates are also being reduced on capital gains emanating from disposal of immoveable property.
- Increase in Threshold of Section 21(l) per transaction delineated under section 21(l) is being increased from Rs. 10,000/- to Rs. 25,000/-. Similarly, the threshold of payments under a single from Rs.50,000/- to Rs.250,000/ along with an increase in Threshold of Section 21(m) from Rs. 15,000/- per month to Rs. 25,000/- per month.
- The definition of the term 'industrial undertaking' has been proposed to be expanded to include builders and developers for the purpose of import of plant and machinery.
- Enabling Adjustability of Property Expenses for All Individuals/AOPs. Administration and collection charges in relation to deriving income chargeable to tax under the head 'income from property' proposed to be restricted to 2% of the rent chargeable to tax, as against the existing 6%. Individuals and AOPs can now opt for net income taxation in respect of 'income from property'. Previously, this option was only available where such income exceeded PKR 4 million.
- Exempting Withholding Tax on Cash Withdrawal to the extent of Foreign Remittances

- Promoting Investment in Government Debt Instruments through a foreign bank account, a non-resident rupee account repatriable or a foreign currency account.
- Issuance of Centralized Income Tax Refunds
- Hajj Operators to be Exempted from Withholding Tax on Payments to Non- Residents
- Explanation for excluding Vehicles Up to 200cc from the Ambit of Advance Tax
- Advance Tax on Auction of Immovable Property to be Collected in installments
- Prompt Issuance of Exemption Certificates to Public Listed Companies within 15 days
- Collection of Advance Tax by Educational Institutions not to Apply to Persons on the ATL
- Lease payment deductions in respect of passenger transport vehicle not plying for hire is proposed to be restricted to the extent of principal cost of PKR 2.5 million.
- Rationalizing Tax on Imports by shifting from person-specific rates to goods specific rates cascaded according to the type of goods, with tax @1% for capital goods, 2% for raw materials and 5.5% for finished goods irrespective of status of the importer. However, the prevailing concessional rates on certain items such as re-melt-able scrap of iron and steel, potassic and urea fertilizers, LNG, Gold, Cotton, goods that were importable by manufacturers under the rescinded SRO 1125(I)/2011 dated 31.12.2011, mobile phones etc. are being maintained.

- Deductibility of interest / profit on debt paid to foreign affiliates is proposed to be restricted to 15% of taxable income before depreciation, amortization, and foreign profit on debt.
- Permanent establishment of non-residents will also now be subject to minimum tax under section 113 of the Ordinance. Currently, minimum tax is only applicable on resident companies and AOPs.
- Wealth statement can now only be revised after seeking prior approval from the CIR.
- For the purpose of filing an appeal before the ATIR, the condition of payment of 10% of the amount of tax upheld by the CIR(Appeals) is proposed to be inserted
- Tax credit on enlistment is proposed to be restricted for companies opting for enlistment on or before 30 June 2022.
- Normal depreciation in the first year of use is proposed to be allowed to the extent of 50%. Similarly, in the year of disposal, normal depreciation is proposed to be allowed to the extent of 50%. Currently, full year depreciation is allowable in the year of acquisition and no depreciation is available in the year of disposal.
- Agreed Assessment through arbitration by Assessment Oversight Committee
- Strengthening Alternate Dispute Resolution Mechanism
- Taxation of Resident Shipping Companies as per latest marine policy
- Expenditure on account of utility bills is proposed to be disallowed if in excess of the limits on violation of conditions, as may be prescribed.
- Taxpayer's Profile

- Automated Adjusted Assessment to rectify computational errors and wrongly claimed credits
- Real-Time Access to Databases of Certain Organizations
- Audit on the Basis of Benchmark Ratios
- Enabling E-Audit
- Strengthening Compliance Regime of Non-Profit / Welfare Organizations
- Electricity Expense to be Treated as an Inadmissible Business Deduction subject to non-disclosure of name of actual user from 01.01.2021
- Disallowance of Business Expenditure Proportionate to Sales Made to Sales Tax Unregistered Persons
- Rationalizing Depreciation Deduction based on the Half Year Rule
- Limiting Interest Deductibility to Foreign Affiliates
- Rationalization of Cost of Transport Vehicle for Claiming Deduction on Account of Lease Rentals
- Incentivizing and Promoting the Construction Industry
- Tax Exemptions and Concessions for the Gwadar Port and the Gwadar Free Zone
- Incorporation of Relief measures provided through SROs during the COVID pandemic



SALES TAX

- The minimum threshold of supplies by retailers for obtaining CNIC of the buyers is proposed to be increased from Rs 50,000 to 100,000
- In wake of COVID-19, the Federal Government granted exemption to health-related items and equipment through SRO 237(I)/2020 dated 20-3-2020 which is going to expire on 19-6-2020. In the present circumstances vis-à-vis COVID-19, the said period is being extended for another three months starting from the 20th June 2020.
- Even after imposition of penalty, if a person does not integrate his business with the FBR system within two months, the business premises shall be sealed until he integrates such business.
- Exemption allowed on import of dietetic foods intended for special medical purposes for the children suffering from Inherited Metabolic Syndrome.
- In order to encourage documentation, it has been decided to provide relief to organized retail sector which is integrated online with FBR through Point of Sale system. Their existing sales tax rate is proposed to be reduced from 14% to 12%
- Concept of conducting audit proceedings through electronic means introduced.
- Ninth Schedule is proposed to be amended in line with Mobile Manufacturing Policy approved by the ECC of the Cabinet. Import or local supplies of smart phones value not exceeding USD 30 is subject to fixed sales tax rate of PKR 200
- Insertion of the Tax Laws Amendment Ordinance 2019, relating to tax concessions and exemptions to Gwadar Port and Gwadar Free Zone, in the Finance Bill 2020
- Scope of sales tax withholding extended on acquisition of services
- To strengthen the Alternate Dispute Resolution process and to make it more taxpayer-friendly, it is proposed that the taxpayer is allowed to withdraw his case from any court of law or any appellate authority after decision of ADRC. Furthermore, the decision of

ADRC, once it is conveyed by the taxpayer to the tax authorities, is binding upon the tax authorities.

- The scope of section 73 is proposed to be widened to cover all registered persons supplying taxable goods.
- Board is empowered to fix minimum production on the basis of single or more inputs and for fixation of wastage.
- Real-time access to information and databases to the Board by various authorities such as NADRA, FIA, provincial excise & taxation departments etc.
- Every registered person is required to submit a complete return i.e. along with all applicable Annexures in the manner prescribed by the FBR.
- A person whose refunds or input tax adjustment is blocked will continue to be treated as an active taxpayer to facilitate buyers so as they claim input tax on purchases made from him/it.

CUSTOMS

- Exemption of additional custom duties on those tariff lines which are now @ 0% customs duty in tariff.
- Reduction of custom duty on 40 raw materials of various industries.
- Tariff rationalization under National Tariff Policy 2019, by reducing customs duty on 90 tariff lines from 11% to 3% and 0%.
- Allowing the exemption on import of raw material to those Nashiran-e-Quran also who do not have their own in-house printing facility.
- Reduction in regulatory duty from 12.5% and 17.5% to 6% and 11%, respectively on Hot Rolled Coils (HRC) of Iron and steel falling under PCT codes 7208 and 7225& 7226, respectively.
- On the request of various local industries, a number of their inputs/intermediary raw materials are being allowed concessional import under new serial number of the fifth schedule through IOCO quota determination.
- Exemption of custom duties on import of raw materials by manufacturers of Butyl Acetate.
- Exemption of custom duty on import of raw material by manufacturer of syringes and saline infusion sets.
- Exemption of customs duties on import of raw material by manufacturers of buttons.
- Reduction in custom duty on import of raw material by manufacturers of interlining/buckram.
- Reduction of custom duty and exemption of additional custom duty and regulatory duty on import of raw materials by manufacturers of Wire rod
- Exemption of custom duties and regulatory duty on import of machinery, equipment, and other project related items for setting up of internet cable landing stations.
- Exemption of custom duties on import of raw material by beverage can manufacturers.

- Reduction in Custom duty and exemption from Additional custom duty on import of raw material by food packaging industry.
- Exemption from customs duties on import of 61 COVID19 related items, which was due to expire on 20th June has been extended due to the continuation of pandemic. 2. Exemption from 2% ACD on import of edible oils and oil seeds under PM's COVID19 Relief Package has been extended. 3. Exemption of duties & taxes on import of Dietetic Foods for Children with inherited metabolic disorders.
- Exemption of all duties & taxes on import of Diagnostic Kits for Cancer and Corona Virus.
- Exemption of Customs duties on inputs of Ready to use Supplementary Foods (RUSF).
- Exemption of Customs duties on import of life saving drug Meglumine Antimonite for treatment of leishmaniasis.
- Extension up to 2023, in exemption of customs duties on imports for setting up new industries in erstwhile FATA area.
- Reduction in regulatory duty on smuggling prone items to bring these items under legal imports
- Regulatory duty on several industrial inputs is also being reduced to decrease their cost of doing business
- Tariff protection for domestic industry by increasing/levy of regulatory duty on import of those items which are also locally manufactured
- Incentivizing soap manufacturing industry by reducing rate of Additional customs duty on Palm Stearin
- Enhancing scope of concessions available to Special Economic Zones

FEDERAL EXCISE DUTY

- Increase in the rate of FED on cigars, cheroots, and cigarillos and cigarettes from 65% to 100% of retail price; increase in the rate of FED on filter rods from Rs 0.75 to Rs 1 per filter rod.
- Levy of FED on e-liquids of electric cigarettes @ Rs 10 per ml. 3. Levy of FED on caffeinated energy drinks @ 25%.
- Levy of FED @ 7.5% ad valorem in case of locally manufactured double cabin (4x4) pick-up vehicles and @ 25% in the case of imported ones.
- In the wake of worsening effect of COVID-19 and reduction in production of cement, it has been proposed to reduce FED on cement from Rs. 2 per kg to Rs. 1.75 per kg.
- Board is empowered to fix minimum production on the basis of single or more inputs and for fixation of wastage.
- The scope of seizure of non-duty paid goods is extended to all products subject to FED besides cigarettes and beverages.
- Real-time access to information and databases to the Board by various authorities such as NADRA, FIA, provincial excise & taxation departments etc.

LOCATIONS	ADDRESS	CONTACT	CONTACT PARTNER
<u>LAHORE HEAD OFFICE:</u>	147-Shadman Colony 1, Lahore 54000, Pakistan	T: +92-42-37426771-3 F: +92-42-37426774 M: +92-300-8477383 E: info@fmc.com.pk	Mr. Fazal Mahmood, FCA
<u>KARACHI BRANCH OFFICE:</u>	120/2, 13th Street, off Khayaban Rahat, Defence Phase VI, Karachi, Pakistan	T: +92-21-35842859 M: +92-300-8242393 E: zafar@fmc.com.pk	Mr. Zafar Iqbal Sobani
<u>ISLAMABAD BRANCH OFFICE:</u>	Suit # 202, First Floor, Kashif Blair Plaza G-8 Markaz, Islamabad 44000, Pakistan	T: +92-51-2280226 M: +92-300-5000270 E: faisal@fmc.com.pk	Mr. Faisal Latif, FCA
<u>USA BRANCH OFFICE:</u>	7301 Alma Drive Apt 2214 Plano Texas 75025, USA	T: +1-443-739-2144 E: atif@fmc.com.pk	Mr. Sheikh Atif Farooq, FCA
<u>WEBSITE:</u>	www.fmc.com.pk / www.iapa.net		