Government of Pakistan
Revenue Division
Federal Board of Revenue
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C.No.4(36)IT-Budget/2019 Islamabad, the 30th July, 2019

Circular No. 09 of 2019
(Income Tax)

SUBJECT:- FINANCE ACT, 2019 - EXPLANATION OF IMPORTANT AMENDMENTS MADE IN THE INCOME TAX ORDINANCE, 2001

Finance Act, 2019 has brought about certain amendments in the Income Tax Ordinance, 2001. Some significant amendments are explained hereunder:-

1. Definitions of terms related to offshore tax evasion and consequent penalty and prosecution [Sections 2, 145, 182, 192B &195B]

Through the Finance Act, 2019, the term "offshore asset" has been defined by inserting a new clause (38AA) in section 2 which includes any movable or immovable asset held, any gain, profit or income derived, or any expenditure incurred outside Pakistan. The term "offshore evader" has been defined by inserting a new clause (38AB) in section 2 and it means a person who owns, possesses, controls, or is the beneficial owner of an offshore asset and does not declare, or under declares or provides inaccurate particulars of such asset to the Commissioners. Penalty has also been provided in serial No.22 in sub-section (1) of section 182 that where an offshore tax evader is involved in offshore tax evasion in the course of any proceedings under this Ordinance before any income tax authority or the appellate tribunal, such person shall pay a penalty of Rs.100,000 or an amount equal to 200% of the tax sought to be evaded, whichever is higher. Prosecution for concealment of an offshore asset has been provided by inserting a new section 192B according to which any person who fails to declare an offshore asset to the Commissioner or furnishes inaccurate particulars of an offshore asset and the revenue impact of such concealment or furnishing of inaccurate particulars is ten million rupees or more shall commit an offence punishable on conviction with imprisonment up to three years or with a fine up to Rs.500,000, or both.

A new sub-section (5) has been added in section 145 as per which the Commissioner may freeze any domestic asset of a person where on the basis of information received from an offshore jurisdiction, the Commissioner has reason to

believe that such person who is likely to leave Pakistan may be involved in offshore tax evasion or such person is about to dispose of any asset. The Commissioner may freeze any domestic asset of the person including any asset beneficially owned by such person for a period of 120 days or till the finalization of proceedings including recovery proceedings and any other proceedings under the Ordinance, whichever is earlier.

The term "offshore enabler" has been defined by inserting a new clause (38AC) in section 2 to include any person who enables, assists, or advises any person to plan, design, arrange or manage a transaction or declaration relating to an offshore asset, which has resulted or may result in tax evasion. Penalty has been provided in serial no. 23 of sub-section (1) of section 182 that where in the course of any transaction or declaration made by a person an enabler has enabled, guided, advised or managed any person to design, arrange or manage that transaction or declaration in such a manner which has resulted or may result in offshore tax evasion in the course of any proceedings under the Ordinance, such person shall pay a penalty of Rs.300,000 or an amount equal to 200% of the tax which was sought to be evaded, whichever is higher. Prosecution for enabling offshore tax evasion has been provided by inserting a new section 195B to the effect that any enabler who enables, guides or advises any person to design, arrange or manage a transaction or declaration in such a manner which results in offshore tax evasion, shall commit an offence punishable on conviction with imprisonment for a term not exceeding seven years or with a fine up to five million rupees or both.

The term "asset move" has been defined by inserting a new clause (5C) in section 2 and it means the transfer of an offshore asset to an unspecified jurisdiction by or on behalf of a person who owns, possesses, controls or is the beneficial owner of such offshore asset for the purpose of tax evasion. An unspecified jurisdiction means a jurisdiction which has not committed to automatically exchange information under the Common Reporting Standard with Pakistan. The term "specified jurisdiction" has been defined by inserting a new clause (60A) in section 2 and it means any jurisdiction which has committed to automatically exchange information under Common Reporting Standard with Pakistan. Penalty has also been provided in serial 24 of sub-section (1) of section 182 that any person who is involved in asset move from a specified to un-specified territory shall pay a penalty of Rs.100,000 or an amount equal to 100% of the tax, whichever is higher.

2. Tax on profit on debt [Section 7B, Division IIIA of Part I of the First Schedule]

Every person, other than a company, receiving profit on debt from persons mentioned in clauses (a) to (d) of sub-section (1) of section 151 are separately taxed at the rates provided in Division IIIA of Part I of the First Schedule. Prior to the Finance Act, 2019, the rates were 10% where profit on debt was up to Rs.5 million, 15% where profit on debt was more than 5 million but not more than Rs.25 million and 15% where profit on debt exceeded Rs.25 million. Through the Finance Act, 2019, the rates of imposition of tax under section 7B mentioned in Division IIIA, Part I of the First Schedule have been enhanced as given hereunder:-

S. No.	Profit on debt	Rate of tax
(1)	(2)	(3)
1.	Where profit on debt does not exceed Rs.5,000,000	15%
2.	Where profit on debt exceeds Rs.5,000,000 but does not exceed Rs.25,000,000	17.5%
3.	Where profit on debt exceeds Rs.25,000,000 but does not exceed Rs.36,000,000	20%";

Where the profit on debt exceeds Rs.36 million in a tax year, section 7B will not be applicable and the profit on debt will not be separately taxed for persons other than companies. In such cases, profit on debt will be chargeable to tax under the head, "Income from other sources" under section 39 and tax shall be imposed at the rates specified in paragraph (1) or (2), as the case may be, of Division I, Part I of the First Schedule.

3. Income from property [Section 15, 15A, Division VIA of Part I of the First Schedule & Division V of Part III of the First Schedule]

Income from property derived by an individual or an association of persons is separately taxed on the gross amount of rent at rates specified in Division VIA of Part I of the First Schedule. Deductions in computing income under the head, "Income from property" were not allowed to individuals and associations of persons. The rate of tax on the gross amount of rent was as under:-

S #	Gross amount of rent	Rate of tax
1.	Where gross rent does not exceed Rs.200,000	Nil
2.	Where the gross amount of rent exceeds Rs.200,000 but does not exceed Rs.600,000	5% of the gross amount exceeding Rs.200,000

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3.	Where the gross amount of rent exceeds Rs.600,000 but does not exceed Rs.1,000,000	Rs.20,000 plus 10% of amount exceeding Rs.600,000
4.	Where the gross amount of rent exceeds Rs.1,000,000 but does not exceed Rs.2,000,000	Rs.60,000 plus 15% of gross amount exceeding Rs.1,000,000
5.	Where the gross amount of rent exceeds Rs.2,000,000	Rs.210,000 plus 20% of amount exceeding Rs.2,000,000

Through the Finance Act, 2019, bracket at serial No.5 is restricted to gross rent up to Rs.4,000,000 and beyond that, three new brackets of gross rent exceeding Rs. 4 million have been introduced with rate of tax at 25%, 30% and 35%. Now the rate of tax on the gross amount of rent would be as under:-

S #	Gross amount of rent	Rate of tax
1.	Where gross rent does not exceed Rs.200,000	Nil
2.	Where the gross amount of rent exceeds Rs.200,000 but does not exceed Rs.600,000	5% of the gross amount exceeding Rs.200,000
3.	Where the gross amount of rent exceeds Rs.600,000 but does not exceed Rs.1,000,000	Rs.20,000 plus 10% of amount exceeding Rs.600,000
4.	Where the gross amount of rent exceeds Rs.1,000,000 but does not exceed Rs.2,000,000	Rs.60,000 plus 15% of gross amount exceeding Rs.1,000,000
5.	Where the gross amount of rent exceeds Rs.2,000,000 but does not exceed Rs.4,000,000	Rs.210,000 plus 20% of amount exceeding Rs.2,000,000
6.	Where the gross amount of rent exceeds Rs.4,000,000 but does not exceed Rs.6,000,000.	Rs.610,000 plus 25 per cent of the gross amount exceeding Rs.4,000,000
7.	Where the gross amount of rent exceeds Rs.6,000,000 but does not exceed Rs.8,000,000	Rs.1,110,000 plus 30 per cent of the gross amount exceeding Rs.6,000,000
8.	Where the gross amount of rent exceeds Rs.8,000,000	Rs.1,710,000 plus 35 percent of the gross amount exceeding Rs.8,000,000

However, individuals and AOPs deriving gross rent exceeding Rs.4 million will have the option to pay tax at the rates provided in Division I of Part I of the First Schedule on their income from house property. Persons availing this option can claim deductions in computing income from house property mentioned in section 15A.

The rates of deduction of tax from the gross amount of rent have also been increased similar to serial numbers 6, 7 & 8 of the table given above with three new rates at 25%, 30% and 35%.

4. Disallowance of commission [Section 21(ca)]

A new clause (ca) has been inserted in section 21 which disallows commission paid or payable in respect of supply of products listed in the Third Schedule to the Sales Tax Act, 1990 which is in excess of 0.2% of the gross amount of supplies to a person who is not appearing in the active taxpayers' list (ATL) under this Ordinance. However, the limit of 0.2% shall not apply if the commission is paid or payable to a person whose name is appearing in the ATL.

5. Amortization of intangibles [Section 24]

Amortization deduction is allowed under section 24 for the cost of a person's intangibles that have a normal useful life exceeding one year and that are wholly or partly used by the person in the tax year in deriving income from business chargeable to tax. Amortization deduction for a tax year is computed by dividing the cost of the intangible over normal useful life of the intangible in whole years. Prior to the Finance Act, 2019, sub-section (4) of section 24 stated that where an intangible had a normal useful life of more than ten years or where its useful life was not ascertainable, it was treated to have a normal useful life of 10 years. Through the Finance Act, 2019, sub-section (4) of section 24 has been substituted to the effect that an intangible shall now be amortized over its actual normal useful life which can extend beyond ten years also. Further, where the normal useful life is not ascertainable, the intangible shall be treated to have a normal useful life of 25 years. The term, "intangible" has been defined in sub-section (11) of section 24. Through the Finance Act, 2019, self-generated goodwill or any adjustment arising on account of accounting treatment as may be prescribed in rules has been excluded from the definition of "intangible".

6. Capital gain on immovable properties [Section 37, Division VIII of Part I ofthe First Schedule]

Prior to the Finance Act, 2019, capital gain on immovable property was separately taxed on the basis of holding period of property, The gain was taxed @ of 10% if the holding period is up to one year, 7.5% if the holding period was more than or equal to one year but less than two years and @ 5% if the holding period was equal to or more than two years but less than three years. The rate of tax was zero where the holding period was more than three years. The gain was calculated by deducting the cost of the asset from the consideration received by the person on disposal of the asset.

Through the Finance Act, 2019, the holding period for taxation of capital gain of open plots has been increased to eight years and for constructed properties it has been increased to four years. Where the holding period does not exceed one year, the total amount of gain will be taxed. The gain will be calculated by deducting the cost from the consideration received. If the holding period is more than one year but does not exceed eight years in the case of open plot or four years in the case of constructed property, 75% of the gain will be taxed. It is further clarified that form of immoveable property, whether open plot or constructed, will be determined at the time of sale of immoveable property.

The aforesaid is elaborated in the following manner:-

Open plots

S.No.	Holding Period	Gain
1.	Holding period of open plot is up to one year	100% gain will be taxed
2.	Holding period of open plot is more than one year but not more than eight years	75% of the gain will be taxed.
3.	Holding period of open plot is more than eight years	No gain will be taxed.

Constructed properties

S.No.	Holding Period	Gain
1.	Holding period of constructed property is up to one year	100% gain will be taxed

2.	Holding period of constructed property is more than one year but not more than four years	75% of the gain will be taxed.
3.	Holding period of constructed property is more than four years	No gain will be taxed.

The tax rates will be applicable on the gain in the following manner:-

S. No.	Amount of gain	Rate of tax
1.	Where the gain is up to Rs.5 million	5%
2.	Where the gain is more than Rs.5 million but not more than Rs.10 million	10%
3.	Where the gain is more than Rs.10 million but not more than Rs.15 million	15%
4.	Where the gain is more than Rs.15 million	20%

This is illustrated through the following examples:-

Example 1

Mr. Y purchased an open plot on 22.05.2018 at a cost of Rs.4,000,000. The plot is sold on 25.06.2020 at Rs.7,000,000. Another constructed property is acquired on 08.09.2018 at Rs.9,000,000 and sold at Rs. 14,000,000 on 25.06.2020. Assuming that both properties were acquired and sold as per value notified by the Board, the capital gain and tax thereon is calculated as under:-

Gain on sale of plot = 7,000,000 - 4,000,000 = Rs.3,000,000

As the holding period of plot is more than one year, the net gain will be Rs.3,000,000 x 3/4 = Rs.2,250,000

Gain on sale of constructed property = 14,000,000 - 9,000,000 = Rs.5,000,000

As the holding period of the constructed property is more than one year, the net gain will be Rs.5,000,000 x 3/4 = Rs.3,750,000

Total capital gain = Rs.2,250,000 + Rs.3,750,000 = Rs.6,000,000

As the total capital gain is more than Rs.5 million but less than Rs. 10 million, it will be taxed at 10% and tax payable will be Rs.600,000.

Example 2

Mr. B purchased an open plot on 22.09.2019 which cost him Rs.2,000,000. The plot was sold on 25.03.2020 at Rs.8,000,000. Another constructed property was acquired on 05.09.2019 at Rs.8,000,000 and sold at Rs. 12,000,000 on 23.05.2020.Assuming that both properties were acquired and sold as per value notified by the Board, the capital gain and tax thereon is calculated as under:-

As the holding period of plot is up to one year, gain on sale of plot = 8,000,000 - 2,000,000 = Rs.6,000,000
As the holding period of constructed property is up to one year, gain on sale of constructed property = 8,000,000 - 2,000,000 = Rs.6,000,000

Total capital gain Rs.6,000,000 + Rs.6,000,000 = 12,000,000

As the total capital gain is more than Rs.10 million but less than Rs 15 million, it will be taxed at 15% and tax payable will be Rs.1,800,000

7. Taxation of gift [Section 39]

Data analysis of Income Tax Returns filed in previous years show that huge amount of non recurring receipts from un-related persons are transferred in the garb of gifts to avoid incidence of taxation. In order to discourage this practice of undisclosed receipts , section 39 has been amended through the Finance Act , 2019 to include any amount or fair market value of any property received without consideration or received as a gift in income under the head, "Income from other sources". However, gift received from grandparents, parents, spouse, brother, sister, son or a daughter shall not be included in such income. The new provision is subject to sub-section (3) of section 39 which states that an amount received by a person otherwise than by a cross cheque drawn on a bank or through a banking channel from a person holding a National Tax Number shall be treated as income chargeable to tax under the head "Income from other sources". This means that gift received by a person is chargeable to tax if gift is not received from grandparents, parents, spouse, brother, sister, son or a daughter of the recipient. However, even if cash gift is received from the relations mentioned above but the same has not been received through cross cheque or banking channel, as the case may be, the amount of gift will still be added in income chargeable to tax under the head, "Income from other sources".

8. Tax credit for persons employing fresh graduates [Section 64C]

In order to generate employment opportunities for freshly qualified graduates, a new tax credit has been provided by introducing a new section 64C in the Ordinance. As per this section, persons employing freshly qualified graduates from a university or institution recognized by the Higher Education Commission shall be entitled to a tax credit in respect of the amount of salary paid to such freshly qualified graduates for the tax year in which such graduates are employed. For claiming this tax credit, the term "freshly qualified graduate" has been defined to mean a person who has graduated after the first day of July, 2017 from any institution or university recognized by the Higher Education Commission. The tax credit shall be computed according to the following formula:-

$$(A/B) \times C$$

where—

A is the amount of tax assessed to the person for the tax year before allowance of tax credit;

B is the person's taxable income for the tax year; and

C is the lesser of —

(a) the annual salary paid to the freshly qualified graduates in the tax year; and

(b) 5% of the person's taxable income for the year.

However, the tax credit will only be allowed to the number of freshly qualified graduates as are not exceeding 15% of the total employees in the tax year. For example, if a company employs 20 such fresh graduates in a tax year and its total employees including such fresh graduates are 100, then only annual salary of 15 fresh graduates will be counted for the purpose of computation of tax credit.

9. Reduction of tax credit on purchase of plant & machinery and eventual withdrawal [Section 65B]

Tax credit for investment in purchase of plant and machinery for the purposes of extension, expansion, balancing, modernization and replacement of already installed machinery is provided in section 65B of the Income Tax Ordinance, 2001. The rate of tax credit was 10% of the amount so invested. This section was introduced through the Finance Act, 2010 and had a sunset clause whereby this tax credit was to expire after 30.06.2015. However, the sunset clause was extended to

30.06.2016 by the Finance Act, 2016 and thereafter extended to 30.06.2019 through the Finance Act, 2016. This credit was subsequently, once again extended to 30.06.2021 through the Finance Act, 2018. Through the Finance Act, 2019, the date of expiry of this tax credit has been amended to 30.06.2019. Hence, this tax credit will not be available on any investment made after 30.06.2019. Further, for the tax year 2019, the rate of tax credit has been reduced from 10% to 5% of the amount so invested. However, the tax credits up to the tax year 2019 which have not been adjusted against the tax payable can still be carried forward beyond tax year 2019 as per provisions of sub-section (5) of section 65B.

10. Purchase of assets through banking channel [Section 75A]

A new section 75A has been introduced in the Ordinance which requires that no person shall purchase immovable property having fair market value greater than Rs.5,000,000 or any other asset having fair market value more than Rs.1,000,000 otherwise than by a crossed cheque drawn on a bank or through crossed demand draft or crossed pay order or any other crossed banking instrument showing transfer of amount from one bank account to another bank account. Fair market value of immovable property shall be the value notified by the Board under sub-section (4) of section 68 or the value fixed by the provincial authority for the purpose of stamp duty, whichever is higher. In case the transaction is not through banking channel as specified above,—

(a) such persons cannot claim deductions mentioned in sections 22, 23, 24 & 25 on such assets. Hence, no deduction for depreciation, initial allowance, intangibles and pre-commencement expenditure shall be allowable for assets purchased otherwise than through banking channel as specified above;

(b) the amount of purchase through cash which was required to paid through banking channel as stated above, shall not be treated as cost as per section 76 for computation of any gain in sale of such asset.

Further, any person purchasing immovable property having fair market value greater than five million through cash or bearer cheque shall pay a penalty of 5% of the value of property determined by the Board under sub-section (4) of section 68 or the value determined by the provincial authority for the purposes of stamp duty, whichever is higher. The above provisions of law are illustrated through the following examples.

Example 1.

Mr. A is deriving income from business and has declared taxable income as under:-

Sales	100,000,000
Cost of sales	70,000,000
Breakup of cost of sales	
Initial depreciation on machinery	10,000,000
Normal depreciation on machinery	6,000,000
Salaries	40,000,000
Fuel & utilities	14,000,000
Gross Profit	30,000,000
Admin & distribution expenses	10,000,000
Taxable income	20,000,000

Mr. A had bought machinery of Rs.40 million for the year through cash. As per section 75A, business deductions under section 22 & 23 pertaining to initial depreciation of Rs.10,000,000 and normal depreciation of Rs.6,000,000 shall not be admissible. Hence, Rs.16,000,000 will be added in taxable income resulting in taxable income of Rs.36,000,000.

Mr. A subsequently sells this machinery after three years at Rs.12,000,000. For the purpose of computing gain, the cost of the asset has to be deducted from the sale price but in this case, the machinery was purchased through cash, hence, the cash amount cannot be treated as cost. Resultantly, Rs.12,000,000 will be treated as gain chargeable to tax under the head "Income from Business".

Example 2.

Mr. B derives income from salary only. He has purchased immovable property through cash and the FBR value of the property is Rs.8,000,000 but the DC value of property for the purpose of stamp duty is Rs.6,000,000. As per serial No.21 of section 182, penalty @ 5% of FBR value of property or DC Value, whichever is higher, is to be imposed. In this case, the FBR value of property is greater than DC value, hence penalty shall be imposed @ 5% of Rs.8,000,000 at Rs.400,000.

11. Definition of resident individual [Section 82]

Prior to the Finance Act, 2019, an individual was treated as a "resident individual" for a tax year if the individual was present in Pakistan for a period, or for

periods aggregating to 183 days or more in a tax year. Through the Finance Act, 2019, in addition to the existing definition, an individual shall also be treated as a resident individual if the individual is present in Pakistan for a period aggregating to 120 days or more in a tax year and who was also present in Pakistan for a period aggregating to 365 days or more in the four preceding tax years. This is illustrated through the following examples.

Example 1.

Mr. A is in Pakistan for 183 days in Pakistan for the tax year 2019.

Status of Mr. A for TY 2019: Resident

Example 2.

Mr. A is in Pakistan for 120 days in Pakistan for the tax year 2019 and he was also present in Pakistan for 90 days in TY 2018, 60 days in TY 2017, 50 days in TY 2016 & 50 days in TY 2015.

The aggregate period of stay in Pakistan in the four preceding tax years is 250 days which is less than 365 days. Hence, he will be non-resident.

Status of Mr. A for TY 2019: Non-resident

Example 3.

Mr. A is in Pakistan for 120 days in Pakistan for the tax year 2019 and he was also present in Pakistan for 90 days in TY 2018, 130 days in TY 2017, 80 days in TY 2016 & 70 days in TY 2015.

The aggregate period of stay in Pakistan in the four preceding tax years is 370 days which is more than 365 days. Hence, he will be resident.

Status of Mr. A for TY 2019: Resident

Example 4.

Mr. A is in Pakistan for 119 days in Pakistan for the tax year 2019 and he was also present in Pakistan for 90 days in TY 2018, 130 days in TY 2017, 80 days in TY 2016 & 70 days in TY 2015.

Although, the aggregate period of stay in Pakistan in the four preceding tax years is 370 days which is more than 365 days, his stay for the tax year 2019 is less than 120 days. Hence, he will be non-resident.

Status of Mr. A for TY 2019: Non-resident

12. Collection of tax, computation of income and tax payable of persons not appearing in the ATL [Section 100 BA, the Tenth Schedule]

Prior to the Finance Act, 2019, a concept of non-filer existed in the Ordinance whereby higher tax rates of withholding were prescribed for persons who were non-filers. Such non-filers could claim adjustment of the higher tax collected at the time of filing of income tax returns. The aim was to compel the non-filers to file their returns of income. However, it was observed that the non-filers, even though subjected to higher withholding rates, still had a propensity not to file their returns. This proved detrimental to the exercise of expansion or tax base. This was due to the absence of an explicit provision specifying a standard procedure for action against such persons. Through the Finance Act, 2019, the concept of "Non-Filers" has been done away with and a new concept regarding persons not appearing in the active taxpayers' list has been introduced. This concept is a major paradigm shift from the erstwhile non-filer higher tax regime in that it not only penalizes those persons not appearing in the ATL but also introduces an effective mechanism for enforcing returns from such persons. In this regard, a new section 100BA has been introduced which provides that collection or deduction of advance income tax, computation of income and tax payable thereon shall be determined in accordance with the rules in the newly introduced "The Tenth Schedule" which envisages the entire path to be adopted by the Inland Revenue Department to enforce returns from persons who make financial transactions yet choose not to file their returns of income. The salient features of this scheme are as under:-

i. Persons whose names are not appearing in the ATL will be subjected to hundred percent increased rate of tax.

ii. Where a withholding agent is of the opinion that hundred percent increased tax is not required to be collected on the basis that the person was not required to file return, the withholding agent shall furnish a notice to the Commissioner having jurisdiction over withholding agent setting out—

   a. the name, CNIC or NTN and address of the person not appearing in the ATL;

   b. the nature and amount of the transaction on which tax is required to be collected or deducted; and

c. reason on the basis of which it is considered that the person was not required to file return or statement, as the case may be.

iii. The Commissioner shall accept or reject the contention on the basis of existing law within thirty days. In case the Commissioner fails to respond within thirty days, permission shall be deemed to be granted not to deduct tax at hundred percent increased rate. Withholding agent shall however be responsible for any inaccurate furnishing of such information and penal action may be undertaken against diligent withholding agents.

iv. Where the person's tax has been deducted or collected at hundred percent increased rate and the person fails to file return of income for the year for which tax was deducted, the Commissioner shall make a Provisional Assessment within sixty days of the due date for filing of return by imputing income so that tax on imputed income is equal to the hundred percent increased tax deducted or collected from such person and the imputed income shall be treated as concealed income. However, the imputable income so calculated or concealed income so determined shall not absolve the person so assessed, from requirement of filing of wealth statement under sub-section (1) of section 116, the nature and source of amounts subject to deduction or collection of tax under section 111, selection of audit under section 177 or 214C or subsequent amendment of assessment as provided in rule 8 and all the provisions of the Ordinance shall apply.

v. The provisional assessment shall abate if the person files its return within forty five days of completion of provisional assessment. Where the return is not filed within forty five days of provisional assessment, it shall be treated as final assessment and the Commissioner shall initiate penalty proceedings for concealment of income.

This is illustrated through the following examples:-

Example 1.

Mr.A is not appearing in the active taxpayers' list. Mr. A purchases a plot on 25.07.2019 having FBR value of Rs.12,500,000. Tax under section 236K was deducted at Rs.250,000 at the rate of 2% [the rate is 1% but 100% increased rate is prescribed under rule 1 of the Tenth Schedule] on FBR value of Rs.12,500,000. The

due date for filing of return is 30.09.2020. However, Mr.A does not file return of income till the date of provisional assessment.

The Commissioner makes a provisional assessment on 20.11.2020 as under:-

Tax collected	Rs.250,000
Imputable income for tax amount of Rs.250,000 as per paragraph (1) of Division I of the First Schedule	Rs.2,400,000
Tax payable	Rs.250,000
Tax paid	Rs.250,000
Net tax payable on provisional assessment	Nil

Mr.A does not file return of income for the tax year 2020 within 45 days i.e., by 04.01.2021 so the provisional assessment is finalized.

However, the imputed income of Rs.2,400,000 is less than the total amount of Rs.12,500,000 on which tax was deducted. As per rule 8 of Tenth Schedule Commissioner may amend an assessment order where the imputed income is less than the amount on which tax was deducted or collected under rule 1 or on the basis of definite information acquired from an audit or otherwise, therefore if the Commissioner is satisfied thatany income chargeable to tax has escaped assessment or total income has been under-assessed, or assessed at too low a rate, or has been the subject of excessive relief or refund or any amount under a head of income has been misclassified then the Commissioner can amend the assessment under rule 8, after providing opportunity of being heard, in the following manner:-

Total unexplained investment to be added in income	Rs.12,500,000
Tax payable	Rs.3,495,000
Less paid	Rs.250,000
Balance payable	Rs.3,245,000

The Commissioner may initiate penalty and prosecution proceedings under the Ordinance.

Example 2.

Mr.A is not appearing in the active taxpayers' list. Mr. A purchases a plot on 25.07.2019 having FBR value of Rs.12,500,000. Tax under section 236K was

deducted at Rs.250,000 at the rate of 2% [the rate is 1% but 100% increased rate is prescribed under rule 1 of the Tenth Schedule] on FBR value of Rs.12,500,000. The due date for filing of return is 30.09.2020. However, Mr.A does not file return of income till the date of provisional assessment.

The Commissioner makes a provisional assessment on 20.11.2020 as under:-

Tax collected	Rs.250,000
Imputable income of tax of Rs.200,000 as per paragraph (1) of Division I of the First Schedule	Rs.2,400,000
Tax payable	Rs.250,000
Tax paid	Rs.250,000
Net tax payable on provisional assessment	Nil

After the provisional assessment, Mr.A files returns of income and wealth statements for the tax years 2018 & 2019 within 45 days i.e., by 04.01.2020 so the provisional assessment is abated and the return filed is treated as assessment under section 120(1) of the Ordinance. If the source of investment in the wealth statement is explained, no further action for purchase of property shall be initiated. If it is not explained, the assessment shall be amended as explained in Example 1 above.

As per section 165, every person deducting or collecting tax is required to furnish to the Commissioner a biannual statement in the prescribed form giving the name, CNIC, NTN and address of the person from whom tax has been collected or deducted. As hundred percent increased tax is to be deducted or collected from persons not appearing on the active taxpayers' list, consequential amendment has been made in section 165 to provide that the information of tax deducted or collected under the Tenth Schedule shall also be provided along with tax deducted or collected under other provisions.

13. Report from independent chartered accountant or cost and management accountant [Section 108A]

International transfer pricing is dealt under section 108 but recent trends show that tax avoidance through transfer pricing is also increasing. In order to curb this practice a new section 108A has been added to the Ordinance. Section 108A allows the Commissioner to obtain report from an independent chartered accountant or cost & management accountant to determine the fair market value of asset, product,

expenditure or service at the time of transaction. The Commissioner may obtain report if he is of the opinion that a transaction has not been declared on arm's length principle. If the Commissioner is satisfied with the report, the fair market value of the asset, product, expenditure or service as determined in the report shall constitute definite information for the purpose of sub-section (8) of section 122 and the Commissioner may proceed to amend the assessment on the basis of this information. However, where the Commissioner is not satisfied with the report, he may seek report from another Chartered Accountant or Cost & Management Accountant. The Commissioner can seek report only with the approval of the Board. The terms and conditions and the scope of the report shall be prescribed in the rules.

14. Transactions under dealership arrangements [Section 108B]

A new section 108B has been inserted in the Ordinance which states that where products listed in the Third Schedule to the Sales Tax Act, 1990 are supplied to a person under a dealership arrangement with the dealers and such dealer is not registered under the Sales Tax Act, 1990 and also is not appearing in the ATL, an amount equal to 75% of the dealer's margin shall be added to the income of the person making supplies. Further, it is stated that 10% of the sale price shall be deemed/treated as dealer's margin. This is illustrated through the following examples:-

Example 1.

XYZ pvt Limited (selling aerated beverages through dealership arrangements)

Sales	Rs.10,000,000
Cost of sales	Rs.6,000,000
Gross Profit	Rs.4,000,000
Admin & distribution expenses	Rs.2,000,000
Taxable Income	Rs.2,000,000

The entire sales are under a dealership arrangement to dealers who are not registered under the ST Act, 1990 nor appearing in ATL.

Dealers' margin @ 10% of sale	Rs. 1,000,000
75% to be added in income	Rs. 750,000

Example 2.

XYZ Pvt Limited.

Sales	Rs. 10,000,000

Cost of sales	Rs. 6,000,000
Gross Profit	Rs. 4,000,000
Admin & distribution expenses	Rs. 2,000,000
Taxable Income	Rs. 2,000,000

The entire sales are under a dealership arrangement to dealers who are registered under the ST Act, 1990 but not appearing in ATL. As both conditions of being registered under the ST Act, 1990 and also appearing in the ATL are not met, 75% of the dealer's margin will be added in income.

Dealers' margin @ 10% of sale	Rs. 1,000,000
75% to be added in income	Rs. 750,000

15. Foreign exchange remitted from outside Pakistan through normal bankingchannels [Section 111(4)(a)]

As per sub-section (1) of section 111, where any amount is credited in a person's books of accounts or a person has made any investment or is the owner of any money or has incurred expenditure or has concealed income and the person offers no explanation about such amount, investment, money, expenditure or income or the explanation is not satisfactory, such amount or the value of suchinvestment, money, expenditure or income is added to the person's income chargeable to tax. However, the said provision is not applicable to any amount of foreign exchange which is not exceeding Rs.10 million in a tax year remitted from outside Pakistan through normal banking channels that is encashed into rupees by a scheduled bank and a certificate to this effect is produced from such bank. Through the Finance Act, 2019, the limit of ten million has been reduced to Rs. 5 million in a tax year. So if the amount of foreign exchange remitted from outside Pakistan is equivalent in rupees up to Rs.5 million in a tax year, the source of such foreign remittance cannot be asked. Even if the amount of foreign remittance is more than Rs. 5 million in a tax year, the Commissioner can only ask the source of foreign remittance. In case the source is explainable, no further proceedings will be undertaken. Foreign remittances exceeding Rs. 5 million do not attract any addition in income chargeable to tax. Only if the foreign remittance's source is not explainable, such amount will be added in income chargeable to tax.

16. Minimum tax on turnover [Section 113 and Division IX of Part I of the First Schedule]

Prior to Finance Act, 2019 the rates of minimum tax on turnover under section 113 specified in Division IX of Part I of the First Schedule were 0.5%, 0.2%, 0.25% and 1.25% respectively for persons at S. Nos. 1, 2, 3 and 4 of the Table in the said Division. Through Finance Act, 2019 the rates of minimum tax have been respectively increased to 0.75%, 0.25%, 0.3% and 1.5% for those persons respectively and the amended Table of the said Division shall be as follows:—

S. No.	Persons(s)	Minimum Tax as percentage of person's turnover for the year
(1)	(2)	(3)
1.	(a) Oil marketing companies, Oil refineries, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds rupees one billion.) (b) Pakistani Airlines; and (c) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production. (d) Dealers or distributors of fertilizer 4[; and] (e) person running an online marketplace as defined in clause (38B) of section 2.]	0.75%
2.	(a) Distributors of pharmaceutical products,fast moving consumer goods and cigarettes; (b) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990; (c) Rice mills and dealers; and (d) Flour mills.	0.25%
3.	Motorcycle dealers registered under the Sales Tax Act, 1990.	0.3%
4.	In all other cases.	1.5%

17. Minimum tax on imports [Section 148]

Advance tax collected under section 148 at the time of import of goods has been made minimum tax in cases where such tax was final before the Finance Act,

2019. However, such tax shall not be minimum on imports mentioned in sub-section (7) which are mentioned hereunder:-

a. raw material, plant, machinery, equipment and parts by an industrial undertaking for its own use;
b. motor vehicles in CBU condition by manufacturer of motor vehicles;
c. large import houses, who,—
    i. have paid-up capital exceeding Rs.250 million;
    ii. have imports exceeding Rs.500 million during the tax year;
    iii. own total assets exceeding Rs.350 million at the close of the tax year;
    iv. is a single object company;
    v. maintain computerized record of imports and sale of goods;
    vi. maintain a system of issuance of 100% cash receipt on sales;
    vii. present accounts for tax audit every year;
    viii. is registered under the Sales Tax Act, 1990 and
    ix. make sales of industrial raw material of manufacturer registered under the Sales Tax Act, 1990; and
d. a foreign produced film imported for the purposes of screening and viewing.

18. Minimum tax on certain payments to non-residents [Section 152]

Prior to the Finance Act, 2019, tax deductible under sub-section (1A) of section 152 on payment to a non-resident on execution of contracts mentioned in clauses (a), (b) & (c) was final tax if the non-resident opted for the final tax regime. Through the Finance Act, 2019, tax deductible under sub-section (1A) has been made minimum tax. Similarly, tax deductible under sub-section (1AA) of section 152 on payment to a non-resident for insurance premium or re-insurance premium was final tax. The same has now been made minimum tax.

19. Minimum tax on payment for supply of goods or execution of contracts to residents [Section 153]

Prior to the Finance Act, 2019, tax deductible under clauses (a) & (c) of sub-section (1) of section 153 for sale of goods and on the execution of a contract was final tax. Through, the Finance Act, 2019, tax deductible under clauses (a) & (c) of sub-section (1) of section 153 has been made minimum tax. However, such tax shall

not be minimum tax under section 153(1)(a) where payments are received on sale or supply of goods by a company being a manufacturer of such goods or by a public company listed on a registered stock exchange in Pakistan.

20. Changing final tax into minimum tax regime for certain persons

Prior to Finance Act 2019, persons involved in certain transactions were not required to pay tax on their actual profit. Instead, the tax collected or deducted on such transactions was treated as their final tax liability. Since the tax deducted was final tax, therefore, such persons were not subjected to detailed scrutiny through audit. The actual tax potential from such transactions is not realized due to presence of final tax regimes. Final tax regime was available for commercial importers, commercial suppliers of goods, contractors, and persons deriving brokerage or commission income and persons earning income from CNG stations. In order to tap the actual tax potential, amendments have been made through Finance Act 2019 whereby the tax collected or deducted from the aforesaid transactions shall be treated as minimum tax except for exporters, persons winning prizes and sellers of petroleum products.

21. Recovery of association of person's tax from its member [Section 139]

Sub-section (4) of section 139 provides that where any tax payable by a member of an association of persons cannot be recovered from the member, the association shall be liable for the tax due by the member. However, there was no explicit provision for recovery of association's tax from the member of association. Through the Finance Act, 2019, two new sub-sections have been inserted in section 139 providing that where any tax payable by an association of persons (AOP) for a tax year cannot be recovered from the AOP, every person who was at any time in that tax year, a member of the AOP shall be jointly and severally liable for payment of tax due by the AOP. Any member who pays tax due shall be entitled to recover the tax paid from the AOP or a share of the tax from any other member of the AOP.

22. Withholding tax on dividend [section 150, Division I of Part III of the First Schedule]

After amendments in Division I of Part III of the First Schedule, there are now two withholding tax rates on payments of dividends 7.5% and 15% for persons whose names are appearing on the active taxpayers' list. It is 7.5% if the dividend is

paid by IPPs where the dividend is a pass through item under an Implementation Agreement or Energy and which is required to re-imbursed by the CPPA-G or the CPPA-G's successor or predecessor. Withholding tax rate is 15% for other dividends.

23. Withholding tax on profit on debt [Section 151, Division IA of Part III of the First Schedule]

Persons mentioned in clauses (a) to (d) of sub-section (1) of section 151 are required to deduct tax at the time of payment of profit on debt. The rate of tax was 10% to be deducted at the time the gross amount of the profit is paid to the recipient. Through the Finance Act, 2019, the rate of tax has been increased from 10% to 15%. Hence, from 01 July, 2019, the payers of profit mentioned in sub-section (1) of section 151 are required to deduct tax @ 15% of the gross amount of yield or profit at the time of payment of profit. However, the rate of tax shall be deducted at 10% in cases where yield or profit paid is Rs.500,000 or less in a tax year.

24. Tax rate on services [Section 153, Division III of Part III of the First Schedule]

Tax deductible under clause (b) of sub-section (1) of section 153, for rendering of services is minimum tax, however, prior to the Finance Act, 2019, such tax was not minimum tax for companies of sectors mentioned in clause (94) of Part IV of the Second Schedule. The companies mentioned in clause (94) were required to pay tax @ 2% of the gross amount of turnover from all sources, and where such tax @ 2% of gross turnover was paid, such companies could obtain exemption certificate from the Commissioner under sub-section (4A) of section 153. Through the Finance Act, 2019, clause (94) has been omitted and now tax is to be deducted from the companies of sectors mentioned in the omitted clause (94) at the rate of 3% of the gross amount payable. The facility of exemption certificate is withdrawn as sub-section (4A) has been omitted.

25. Payment of royalty to resident persons [Section 153B & Division IIIB of Part III of the First Schedule]

Income from royalty is chargeable to tax under the head, "Income from other sources". However, in case of non-residents receiving Pakistan source royalty tax is separately imposed at the rate specified in Division IV of Part I of the First Schedule

which is 15% of the gross amount of royalty. In the case of resident persons, income from royalty is made part of taxable income and taxed at the rates provided in Division I or II of Part I of the First Schedule. Prior to the Finance Act, 2019, there was no withholding tax on payment of royalty to resident persons. A new section 153B has been introduced through the Finance Act, 2019 which requires every person paying royalty to a resident person to deduct tax at the rate of 15% of the gross amount payable. The tax deductible shall be adjustable against the income of the recipient of royalty.

26. Amendment of recovery order for failure to collect or deposit tax by a withholding agent [Section 161 (3)]

As per sub-section (1) of section 161, where a withholding agent fails to collect or deduct tax or deposit tax, the withholding agent shall be personally liable to pay the amount of tax and the Commissioner may pass an order to that effect and proceed to recover the defaulted tax. However, there was no provision to amend the order under sub-section (1) of section 161 in case where the order was prejudicial to revenue. Through the Finance Act, 2019, a new sub-section has been added in section 161 which authorizes the Commissioner to amend the order under sub-section (1) of section 161 after making, or causing to be made such enquiries as deemed necessary if the Commissioner considers that the order under sub-section (1) of section 161 is erroneous in so far it is prejudicial to interest of revenue.

27. Return not filed within due date [Section 182A]

Section 182A was introduced through the Finance Act, 2018. As per this section, where a person fails to file a return of income under section 114 within the due date as specified in section 118 or by the date as extended by the Board or as extended by the Commissioner, such person shall not be included in the active taxpayers' list for the year for which return was not filed within due date and such person shall not be allowed to carry forward any loss under Part VIII of Chapter IV. As a result, persons who file return after the due date would be subjected to higher tax rate for not appearing in the ATL for the whole year whereas such persons had filed their return. Through the Finance Act, 2019, a proviso has been added in clause (a) of sub-section (1) of section 182A which allows inclusion in the ATL after the due date on payment of surcharge which is Rs.20,000 in case of a company, Rs.10,000 in case of an AOP and Rs.1,000 in case of an individual. Further, clauses (c) and (d)

have been added in sub-section (1) stating that no refund shall be payable to a person during the period the person is not included in the ATL and shall also not be entitled to compensation for delayed refund for the period the person is not appearing in the ATL and such period shall not be counted for the purpose of computing additional payment for delayed refund. For example, a person has outstanding refund for the tax year 2018 but return for the tax year 2019 has not been filed even after expiry of due date. In such a situation neither refund for tax year 2018 shall be issued nor the period shall be counter for compensation for delayed refund for the period the person is not appearing in the ATL.

28. Prosecution for failure to furnish complete withholding statement Clause (ca) of sub-section (1) of section 191

The data contained in the withholding statements is essential for the purpose of expansion of tax base and to verify the declarations filed by the payees i.e. persons whose tax has been collected or deducted. Hence, it is of utmost importance that the withholding agents furnish accurate and complete particulars of persons whose tax has been deducted or collected. Accordingly, a new clause (ca) has been inserted in section 191 according to which any person who, without reasonable excuse, fails to furnish particulars or complete or accurate particulars of persons mentioned in sub-section (1) of section 165 shall commit an offence punishable on conviction with a fine or imprisonment for a term not exceeding one year, or both. Prior to the Finance Act, 2019, manufacturers, distributors, dealers, wholesalers or commercial importers of electronics, sugar, cement, iron and steel products, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sectors were not required to give the name, CNIC, NTN and addresses of persons i.e., retailers in the withholding statement filed under section 165 due to clause (81) of Part IV of the Second Schedule. However, the said clause (81) has been omitted through the Finance Act, 2019 and now the particulars mentioned above are required to be completely furnished in the withholding statement as the failure to furnish the same or furnishing incomplete or inaccurate particulars is an offence under clause (ca) of sub-section (1) of section 191. Similarly, the banking companies were not required to give particulars i.e name, CNIC, NTN and addresses of persons whose tax was deducted under section 231A (on cash withdrawal from bank) and section 151 (profit on debt) as per clause (81A), Part IV of the Second Schedule.

However, the said clause (81A) has been omitted through the Finance Act, 2019 and now the banks are required to furnish the name, CNIC, NTN and addresses of persons in the statement under section 165 of persons whose tax was deducted under section 231A and section 151 as the failure to furnish or to furnish inaccurate or incomplete particulars is a prosecutable offence as per clause (ca) of sub-section (1) of section 191.

29. Withholding taxes on sale and purchase of property [Section 236C, Section 236K]

Tax under section 236C is collected from the seller or transfer at the rate of one percent of the gross amount of consideration received. Prior to the Finance Act, 2019, this tax was not collected if the property was held for a period exceeding three years. Through the Finance Act, 2019, the period of three years has been extended to five years which means that tax under section 236C shall be collected if the immovable property is held for a period up to five years.

Through the Finance Act, 2019, the rate of tax on purchase of immovable property under section 236K has been reduced to 1% from 2%. Prior to the Finance Act, 2019, no tax was collected under section 236K on purchase of property where the value of property was up to Rs.4 million. Through the Finance Act, 2019, the threshold of Rs. 4 million for collection of tax has been removed. Now tax on purchase of property will be collected on all transactions irrespective of the value of immovable property.

30. Omission of section 236W

As per section 236W read with clause (c) of sub-section (4) of section 111, every person responsible for registering, recording or attesting transfer of any immovable property was required to collect tax at the rate of 3% of the difference between the FBR value of property and the value recorded by the authority registering or attesting the transfer in cases where FBR value was greater than the recorded value. So by paying three percent on the difference, the purchaser was not required to explain the source of difference of amount between FBR value and the recorded value. Through the Finance Act, 2019, section 236W as well as clause (c) of sub-section (4) of section 111 have been omitted. Consequently, the purchasers are now required to explain the source of investment of property up to the FBR value

of property whereas previously such purchasers were required to explain the source of investment to the extent of recorded value of property.

31. Increase in tax rates for individuals & associations of persons [DivisionI, Part I of the First Schedule]

Prior to the Finance Act, 2019, the threshold of taxable income was Rs.400,000 for salaried individuals. However, there was just a nominal fixed tax of Rs.1000 on taxable income exceeding Rs.400,000 up to Rs.800,000 and Rs.2000 fixed tax on taxable income exceeding Rs.800,000 up to Rs.1,200,000. Except the nominal fixed tax, the threshold of taxable income was Rs.1,200,000 and above this amount there were four progressive tax rates at 5%, 15%, 20% and 25% for four income slabs having income exceeding Rs.1,200,000. Through the Finance Act, 2019, the threshold of taxable income for salaried individuals has been fixed at Rs.600,000 and above Rs.600,000, there are eleven income slabs with progressive tax rates ranging from 5% to 35% as given hereunder:-

S. No	Taxable Income	Rate of Tax
(1)	(2)	(3)
1.	Where taxable income does not exceed Rs. 600,000	0%
2.	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	5% of the amount exceeding Rs. 600,000
3.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,800,000	Rs. 30,000 plus 10% of the amount exceeding Rs. 1,200,000
4.	Where taxable income exceeds Rs. 1,800,000 but does not exceed Rs. 2,500,000	Rs. 90,000 plus 15% of the amount exceeding Rs. 1,800,000
5.	Where taxable income exceeds Rs. 2,500,000 but does not exceed Rs. 3,500,000	Rs. 195,000 plus 17.5% of the amount exceeding Rs. 2,500,000
6.	Where taxable income exceeds Rs. 3,500,000 but does not exceed Rs. 5,000,000	Rs. 370,000 plus 20% of the amount exceeding Rs. 3,500,000
7.	Where taxable income exceeds Rs. 5,000,000 but does not exceed Rs. 8,000,000	Rs. 670,000 plus 22.5% of the amount exceeding Rs. 5,000,000
8.	Where taxable income exceeds Rs. 8,000,000 but does not exceed Rs. 12,000,000	Rs. 1,345,000 plus 25% of the amount exceeding Rs. 8,000,000
9.	Where taxable income exceeds Rs. 12,000,000 but does not exceed Rs.30,000,000	Rs. 2,345,000 plus 27.5% of the amount exceeding Rs. 12,000,000

10.	Where taxable income exceeds Rs. 30,000,000 but does not exceed Rs.50,000,000	Rs. 7,295,000 plus 30% of the amount exceeding Rs. 30,000,000
11.	Where taxable income exceeds Rs. 50,000,000 but does not exceed Rs.75,000,000	Rs. 13,295,000 plus 32.5% of the amount exceeding Rs. 50,000,000
12.	Where taxable income exceeds Rs.75,000,000	Rs. 21,420,000 plus 35% of the amount exceeding Rs. 75,000,000";

Prior to the Finance Act, 2019, the tax rates for salaried individuals were applicable to individuals having income under the head, "salary" exceeding 50% of his taxable income. Through the Finance Act, 2019, the salaried tax rates would be applicable to those individuals where income under the head "salary" exceeds 75% of the individuals' taxable income.

For individuals other than salaried individuals, the threshold of taxable income was Rs.400,000 prior to the Finance Act, 2019. However, there was just a nominal fixed tax of Rs.1000 on taxable income exceeding Rs.400,000 up to Rs.800,000 and Rs.2000 fixed tax on taxable income exceeding Rs.800,000 up to Rs.1,200,000. Except the nominal fixed tax, the threshold of taxable income was Rs.1,200,000 and above this amount there were five progressive tax rates at 5%, 15%, 20%, 25% and 29% for five income slabs having income exceeding Rs.1,200,000. Further, prior to the Finance Act, 2019, the tax rates for associations of persons were separately provided. The threshold of taxable income for AOPs was Rs.400,000 and there were six income slabs with progressive tax rates ranging from 5% to 30%. Through the Finance Act, 2019, tax rates for non-salaried individuals and AOPs have been unified with threshold of taxable income at Rs.400,000 and thereafter seven income slabs have been provided with progressive tax rates ranging from 5% to 35% as given hereunder:-

S. No	**Taxable Income**	**Rate of Tax**
(1)	**(2)**	**(3)**
1.	Where taxable income does not exceed Rs. 400,000	0%
2.	Where taxable income exceeds Rs. 400,000 but does not exceed Rs. 600,000	5% of the amount exceeding Rs. 400,000
3.	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	Rs. 10,000 plus 10% of the amount exceeding Rs. 600,000

4.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 70,000 plus 15% of the amount exceeding Rs. 1,200,000
5	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,000,000	Rs. 250,000 plus 20% of the amount exceeding Rs. 2,400,000
6	Where taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000	Rs. 370,000 plus 25% of the amount exceeding Rs. 3,000,000
7.	Where taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 6,000,000	Rs. 620,000 plus 30% of the amount exceeding Rs. 4,000,000
8.	Where taxable income exceeds Rs. 6,000,000	Rs. 1,220,000 plus 35% of the amount exceeding Rs. 6,000,000

32. Computation of income of a banking company [The Seventh Schedule]

The income, profits and gains and tax payable thereon of a banking company is computed as per rules in the Seventh Schedule. As per sub-rule (c) of rule 1, provisions for advances and off-balance sheet items shall be allowed up to a maximum of 1% of total advances and 5% of total advances for consumers and small and medium enterprises. Through the Finance Act, 2019, the existing sub-rule (c) of rule 1 has been clarified for the removal of any doubt by adding an explanation that provision for advances and off balance sheet items at the rate of 1% or 5%, as the case may be, shall be exclusive of reversal of such provisions, and that reversal of bad debts classified as 'doubtful' or 'loss' are taxable as the respective provisions have been allowed.

Prior to the Finance Act, 2019, the amount of 'bad debts' classified as 'doubtful' or 'loss' were allowed as expense and 'bad debts' classified as 'sub-standard' were not allowed as expense . Through the Finance Act, 2019, sub-rule (d) of rule 1 has been amended so that amount of 'bad debt' classified as 'loss' shall be allowed as expense and the amount of 'bad debt' classified as 'sub-standard' and 'doubtful' shall not be allowed as expense.

As per rule 9, the provisions of the Ordinance not specifically dealt with in the rules in the Seventh Schedule shall apply, *mutatis mutandis,* to the banking company. As such, the Commissioner has the power to conduct audit of a banking company under section 177. However, for the removal of doubt, an explanation has been added after sub-rule (h) of rule 1 clarifying that nothing contained in the

Seventh Schedule shall be so construed as to restrict power of Commissioner, while conducting audit of the income tax affairs under section 177, to call for record or such other information and documents as he may deem appropriate in order to examine accounts and records to conduct enquiry into expenditure, income, assets and liabilities of a banking company and all the provisions of the Ordinance shall be applicable accordingly.

The rate of tax on taxable income of a banking company is 35%. Through the Finance Act, 2019, a new rule 6C has been inserted in the Seventh Schedule which provides tax rate of 37.5% on taxable income from Federal Government Securities. As per this rule, the taxable income arising from additional income earned from additional investment in Federal Government securities for the tax year 2020 and onwards shall be taxed at the rate of 37.5%. A banking company shall furnish a certificate from external auditor along with accounts while e-filing return of income certifying the amount of money invested in Federal Government securities in the preceding tax year, additional investments made for the tax year and mark-up income earned from the additional investments for the tax year. "Additional income earned" has been defined to mean mark-up income earned from additional investment in Federal Government securities by the bank for the tax year. The term, "Additional Investments" has been defined to mean average investment made in the Federal Government securities by the bank during the tax year, in addition to average investments held during the tax year 2019. As per sub-rule (3) of rule 6C, the Commissioner may require the banking company to furnish details of the investments in the Federal Government securities so as to ascertain the applicability of enhanced rate of tax.

The taxable income arising from additional investment in Federal Government securities shall be computed according to the following formula:-

A x B/C

where—

A is taxable income of the banking company

B is mark-up income earned from additional investment for the tax year; and

C is the total of mark-up income and non-mark-up income of the bank as per accounts.

33. Computation of income of a banking company for imposition of super tax

The rate of super tax for a banking company is 4% of the income up to the tax year 2021. Income for the purpose of imposition of super tax is computed as per sub-section (2) of section 4B. An amendment has been made in clause (iv) of sub-section (2) to the effect that brought forward depreciation, brought forward amortization and brought forward business losses shall be excluded while computing income of a banking company for the purpose of imposition of super tax.

(**Abdul Wahid Shar**)
Secretary (Income Tax Budget)