

Highlights of Amendments made Vis a Vis Finance Bill, 2022 and Finance Act, 2022

INCOME TAX ORDINANCE, 2001

Section 2 (30AD), & (30AE) – Definitions	The definitions of IT Services and IT enabled services have been amended pursuant to Section 2(30AD) and (30AE) by inserting the words “including but not limited to” to extend the scope of IT and IT enabled services. The said amendment in our opinion will enhance the discretionary power of the field formation by bringing any services on its own discretion into the definition of IT and IT enabled services. The legislature should clearly spell out the various types of IT and IT enabled services or should add the word “any other related services” which will restrict the misuse of the said definitions.
Section 4C – Super tax on high earning persons.	Amendment has been made in Section 4C by excluding Banking Companies from its purview of levy of super tax on high earning persons for the tax year 2022. They have revised the rates of applicability of the same on businesses, with super tax on high earning persons now starting from income of Rs.150 million to Rs. 300 million at the rates ranging from 1% to 4%. The legislature has also specified that in case business of airlines, automobiles, beverages, cement, chemicals, cigarette and tobacco, fertilizer, iron and steel, LNG terminal, oil marketing, oil refining, petroleum and gas exploration and production, pharmaceuticals, sugar and textiles the rate of shall be 10% where the income exceeds Rs.300 million. It is clarified that these above named business will still be liable to super tax if their earning is more than Rs.150 million upto Rs.300 million as per the above mentioned slab rates.
Section 7E – Tax on deemed income	<p>This amendment in Section 7E seems to have been made to cover the objections made that no tax can be levied under Entry 50 of Part I of the Fourth Schedule of the Constitution on capital value of the assets. However, in our view the anomaly which has been sought to be revised by this amendment has not been removed and we still stick to our view that no income treated as deemed income can be levied under the Income Tax Ordinance, 2001.</p> <p>This amendment also seeks to exempt certain categories of immoveable properties from the ambit of this amendment. Without prejudice to our</p>

	<p>contention about the legality of this amendment, we would like to submit that it is unfair to allow exemption to ex-servicemen and serving personnel of armed forces or serving personnel of Federal and provincial governments as they should be treated at par with other taxpayers.</p>
<p>Section 21 (l) & (la) – Deductions not allowed</p>	<p>In case of companies, where digital payment under Section 21(la) is applicable then payment through cross cheque and other banking channel shall not be applicable. The amendment in Section 21(la) seeks to reduce the threshold of applicability of digital payments for companies from Rs.1,000,000/- to Rs.250,000/-. Although we fully support the payment through digital mode but we think that since this is being introduced for the first time, the threshold of payment needs to be increased and reduced gradually so that the taxpayer gets to know the modalities of these payments.</p>
<p>Section 22 (13) – Depreciation</p>	<p>Since due to inflation and tremendous increase in the rate of dollars, the prices of vehicles have gone up considerably. It seems that the legislature has realized this effect and have increased the value of vehicles for the purposes of depreciation from Rs. 5 million to Rs. 7.5 Million. This in our view is a fair amendment (Section 22).</p>
<p>Section 44 – Exemptions under international agreements</p>	<p>The amendment has been made in Section 44(3) to extend the applicability of this section to Pakistani national who are working with Foreign Governments or International Agencies and by reason of their assignment become residents of Pakistan as per the provisions of the Income Tax Ordinance, 2001 who otherwise were nonresidents. These persons will not be liable to be treated as residents only for this reason. It is a fair amendment and providing equal playing field to Pakistani nationals to get the benefit of the Section which was not previously available.</p>
<p>Section 82(d) – Resident Individual</p>	<p>The amendment has been made to Section 82 by way of insertion of sub section (d) whereby the condition of being a resident has been categorized into 2 further levels. First is that the person should not have stayed in any one country for more than one hundred and eighty two days or second is that such person should not be a tax resident of any other country.</p>
<p>Section 100C(4)(e) – Tax credit for certain persons</p>	<p>The relaxation of approval of the Commissioner which was a pre-requisite for the credit under Section 100C had been initially given till 30th June, 2024 which has now been back dated to 30th June, 2023.</p>

Section 111(4) – Unexplained income or assets	This amendment has been made in Section 111 to clarify that the taxpayers whose income falls under final tax regime are allowed to take the credit in their books of accounts only to the extent of their imputable income worked out on the basis of tax deduction. If they take the credit in their books of accounts over and above their imputable income, they have to submit the financial statement/accounts duly audited by a chartered accountant.
Section 113(2)(c) – Minimum tax on the income of certain persons.	The Federal Government had taken away the benefit of carry forward of tax credit of minimum tax. Now better sense has prevailed and they have re-introduced the concept of carry forward but have restricted it to 3 years instead of 5 years.
Section 148 – Imports	This amendment in Section 148 has been made to bring back importers into the minimum tax regime. In our view it is a within time realization as Pakistan is badly in need of documentation of the supply chain and this is a step towards the right direction.
Section 149(1) – Salary	This amendment in Section 149 has been made to allow tax credit under Section 63 which was proposed to be deleted in the Finance Bill, 2022. Now taxpayer who have invested in the approved pension fund shall be allowed tax credit as per the provision of Section 63 of the Income Tax Ordinance, 2001.
Section 154(2) – Exports r/w Section 154A(1) – Export of Services	By way of this amendment in Section 154(2) indenting commission agents have been re-characterized as services and is liable to be taxed under Section 154A at the rate of 1%.
Section 231B – Advance tax on private motor vehicles	By way of this amendment in Section 231B, the rate of tax deduction which was previously applicable on private vehicles has now been made applicable for all vehicles, subject to certain exceptions.
Section 235(1A) – Electricity Consumption	By way of this amendment in Section 235(1A) the taxpayer who falls under the category of fixed tax, that tax payer is subject to tax either by discharging his tax liability via sales tax on electricity bill or income tax on electricity bill.

AMENDMENTS IN SCHEDULES TO THE INCOME TAX ORDINANCE, 2001

- Amendments have been made to the Rates tax on companies, whereby the rate of tax on Banking companies previously vide the Finance Bill raised to 45% has been reduced to 39%.
- The rates of Capital Gain on Securities have been revised from what was proposed in the Finance Bill, 2022 to what has been approved in the Finance Act, 2022.
- Clause 5 of Part 1 of the Second Scheduled omitted.
- Clause 23B of Part 1 of the Second Schedule omitted.
- Clause 66 of Part 1 of the Second Schedule new entries added.
- Clause 102A of Part 1 of the Second Schedule shall be omitted.
- Clause 152 of Part 1 of the Second Schedule added.
- Rate of tax on salary have been revised as under:

S#	Taxable Income	Rate of Tax
(1)	(2)	(3)
1.	Where taxable income does not exceed Rs. 600,000	Rs. 0
2.	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	2.5% of the amount exceeding Rs. 600,000
3.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 15,000 + 12.5% of the amount exceeding Rs. 1,200,000
4.	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,600,000	Rs. 165,000 + 20% of the amount exceeding Rs. 2,400,000
5.	Where taxable income exceeds Rs. 3,600,000 but does not exceed Rs. 6,000,000	Rs. 405,000 + 25% of the amount exceeding Rs. 3,600,000
6.	Where taxable income exceeds Rs. 6,000,000 but does not exceed Rs. 12,000,000	Rs. 1,005,000 + 32.5% of the amount exceeding amount 6,000,000
7.	Where taxable income exceeds Rs. 12,000,000	Rs. 2,955,000 + 35% of the amount exceeding Rs. 12,000,000

SALES TAX ACT, 1990

- The condition of CNIC / NTN for the purposes of invoices issued to unregistered persons retained to the extent of supplies to unregistered distributors.
- 1% final sales tax on manufacturers and importers of Pharmaceuticals sector without any input adjustment.
- The rate of fixed tax on other than Tier-1 Retailers shall be increased by 100% if the said retailers are not appearing on the active taxpayer list.
- Exemption of sales tax on fertilizer.
- Coal which is being locally produced is now subject to sales tax either at Rs.700 per metric tonne or 17% ad valorem, whichever is higher.
- Electric vehicle in CBU condition of 50 KW/H battery or below is now subject to sales tax @12.5%.
- Electric buses to be used for transport having 25 seats or more in CBU condition are now subject to sales tax @1%.
- Instead of 2% online marketplace is now required to withhold sales tax @1%.

CAPITAL VALUE TAX

- By way of this amendment the value of foreign assets has been defined as the cost of the foreign asset on the last day of the tax year. This is a fair amendment because if the Government had stuck with the word “fair market value” of the foreign assets it would have created a lot of hassles in terms of determining the value of the asset which might create hardship to the taxpayer.