

TAX INSIGHTS - # 01 - MARCH, 2023

Welcome to our monthly issue of Tax Insights on the Income Tax and Sales Tax in Pakistan. This month, we present you important information on amendments introduced in fiscal laws through the Finance (Supplementary) Act, 2023, proposed changes in the Income Tax Rules, 2002, which focus on maintaining records of beneficial owners. In addition, we have updates on Sales Tax, including an increase in the standard rate and enhanced taxes on luxury items. Don't miss out on the latest update on the integration of Tier 1 retailers with Federal Board of Revenue's (FBR) POS system and the elimination of the monthly sales tax return reporting option for the pharmaceutical industry. Stay informed with our insights and follow us for more updates.



INCOME TAX

1. Finance (Supplementary) Act, 2023

The Federal Government has introduced Finance (Supplementary) Act, 2023 (Bill) to amend certain laws relating to taxes and duties.

The Act has amended the following fiscal laws:

- Sales Tax Act, 1990,
- Income Tax Ordinance, 2001,
- Federal Excise Act, 2005

The Act has received assent from the President on 23' February' 2023 and has been published in the Gazette of Pakistan, Extraordinary, Part-I, dated 23' February' 2023 as Act No. X of 2023. The Act introduced a 10% advance income tax on functions and gatherings and addressed the treatment of capital gain on disposal of shares that were not transacted through SECP/NCCPL. Additionally, the Sales Tax Act, 1990 and the Federal

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Excise Act, 2005 were also amended. To read more about these amendments, please download our comments from the following link:

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2. AMENDMENTS IN SEVENTH SCHEDULE

The Federal Government has introduced amendments to Rule 8 of the Seventh Schedule, which includes exemptions for calculating profits and gains, and tax payable by banking companies. Two new sub-rules have been inserted after sub-rule (3) through S.R.O. No. 213(I)/2023 and S.R.O. No. 226(I)/2023 on 22nd February' 2023 and 27th February' 2023, respectively. Sub-rule (4) exempts non-resident banking companies approved by the Federal Government from tax chargeable under the Ordinance on profit and capital gains from debt and debt instruments approved by the Federal Government. Sub-rule (5) exempts the banking companies from applicability of sub-rule (6A) of Rule 6 for tax year 2024. Sub-rule (6A) was introduced through Finance Act, 2022 and states that for the tax year 2022 and onwards, the taxable income from investment in Federal Government securities is taxable at enhanced rates, based on the gross *advances to deposit* ratio.

3. SHARING OF DECLARATION OF ASSETS OF CIVIL SERVANTS RULES, 2023

The FBR has published the Sharing of Declaration of Assets of Civil Servants Rules, 2023 via SRO 80(i)/2023. These rules apply to civil servants in BS 17-22 and outline the compliance requirements and responsibilities of banking companies, as well as procedures for sharing information on assets. The purpose of these rules is to facilitate the sharing of asset information between civil servants and banking companies. The rules can be read from following link:

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4. PROPOSED CHANGES TO INCOME TAX RULES, 2002: MAINTAINING RECORDS OF BENEFICIAL OWNERS.

The FBR has proposed to insert a new chapter XIII A in the Income Tax Rules through S.R.O No. 229(I)/2023 dated 28th February' 2023 titled as "Record of Beneficial Owners". According to draft published by FBR, these rules shall apply to all companies and AOPs, and require electronic submission of the requisite form by 31st December' 2023, for existing entities. The rules provide definitions of chain of ownerships, contractual association, direct and indirect means, joint control arrangement, and ultimate effective controls. The draft also specifies the documents required to maintain a record of beneficial owners holding 25% or more direct ownership right. A cascading process containing three tests is introduced, which will be applied in succession, and companies and AOPs must retain records of beneficial owners for ten years while the FBR will retain them for fifteen years. Moreover, the rules exempt the general public as the beneficiary or class of beneficiary for Non Profit Organization under section 2(36) of the Income Tax Ordinance, 2001, while settlor, trustee, founder, promoter, beneficiary, or class of beneficiary shall be considered the beneficial owner otherwise.

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5. MONETARY PENALTY RECOVERY REGULATIONS FOR DNFBS 2023

Through notification S.R.O. 290(l)/2023 dated March 06, 2023, the FBR (Federal Board of Revenue) was given the authority to regulate AML/CFT (Anti-Money Laundering/Combating Financing of Terrorism) for reporting entities including real estate agents, jewelers, dealers in precious stones/metals, and accountants who are not members of ICAP/ICMAP. The FBR can issue regulations and impose sanctions, including monetary and administrative penalties, on reporting entities that violate AML/CFT requirements or fail to comply with TFS regulations. Anyone who disagrees with sanctions may appeal in a prescribed manner and time. The FBR may follow an existing process or prescribe the process for penalty recovery under applicable law. Recovery procedures will follow the rules set in the Income Tax Rules.

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SALES TAX

1. INCREASE IN SALES TAX STANDARD RATE FROM 17% TO 18% FOR IMPROVED REVENUE GENERATION

The Federal Government has increased the standard sales tax rate from 17% to 18% for taxable goods falling under sub-section (1) of section 3 of the Sales Tax Act, 1990. This change was implemented through S.R.O. 179(1)/2023, dated 14' February' 2023.

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2. SALES TAX ENHANCED ON LUXURY ITEMS FROM 18% TO 25%

The Federal Government has enhanced the sales tax on luxury items by increasing the rate from 18% to 25% through S.R.O. 297(1)/2023 dated 08' March' 2023. The enhanced sales tax will be charged on the import of goods and their subsequent supply or on the retail price of the goods mentioned in Table-I and Table-II of the notification. The imported goods listed in Table-I include aerated water and juices, confectionary, vehicles in CBU condition, sanitary and bathroom wares, carpets (excluding those from Afghanistan), chandeliers and lighting devices or equipment, chocolates, cigarettes, cigars, e-cigarettes, corn flakes, and other ready-to-use cereals, cosmetics, and shaving items. The increase in sales tax rate will not be applicable on the goods chargeable to tax at special tax rates as specified in the Eighth Schedule.

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3. INTEGRATION OF TIER-1 RETAILERS WITH FBR'S POS SYSTEM THROUGH SALES TAX GENERAL ORDER NO. 7 OF 2023.

FBR has issued Sales Tax General Order No. 07 of 2023, dated 09' February' 2023. This order mandates further 96 Tier-1 Retailers to integrate with FBR's POS system by 10' February' 2023. Failure to comply with this order will result in the disallowance of input tax claims and creation of a tax demand.

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4. ELIMINATION OF MONTHLY SALES TAX RETURN REPORTING OPTION FOR PHARMACEUTICAL INDUSTRY POST FINANCE ACT, 2022

On 23rd February 2023, the FBR issued a directive to Pakistan Revenue Automation Limited (PRAL) through its U.O. No. 1(8)ST-L&P/STR/2022-PT/17670R. The directive instructed PRAL to update Annex-C of sales tax return for Pharmaceutical Industries to enable them post sales according to the amendment made in the Fifth Schedule through Finance Act, 2022 for the tax periods between January and June 2022. Additionally, the directive stated that no option to report exempt sales was available in Annex-C for the tax period of July 2022.

5. SPECIAL PROCEDURE FOR COLLECTION AND PAYMENT OF SALES TAX (ELECTRIC POWER SUPPLY BY DISCOS) RULES, 2023

Through S.R.O. 376(1)/2023 dated March 21, 2023, in exercise of the powers conferred by section 71 of the Sales Tax Act, 1990, the Federal Board of Revenue is pleased to make the rules regarding Special Procedure for Collection and Payment of Sales Tax (Electric Power Supply by DISCOs) Rules, 2023.

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6. SINDH SALES TAX EXEMPTION 100% RELATEING TO THE SERVICES PROVIDED OR RENDERED FOR RELIEF WORK RELATING TO FLOOD EFFECTED AREAS IN SINDH.

Sindh Revenue Board vide notification SRB-3-4-36/2002 dated September 13, 2022 had provided 100% exemption sales tax exemption on following services as are certified by National Disaster Management Authority or Provincial Disaster Management Authority to be meant for flood relief operations carried out in Sindh Province.

- Services provided or rendered for free distribution as donation or charity.
- Services provided or rendered by caterers, suppliers of food and drinks for free distribution as donation or charity.
- Advertisement for charity for and donations in Prime Minister's Flood Relief Fund or in the Chief Minister's Flood Relief Fund.
- Renting of machinery, equipment and appliances and other tangible goods acquired and used for rehabilitation and reconstruction.
- Labour and manpower supply services provided in the course of flood relief operations.
- Services provided or rendered by persons engaged in inter city transportation or carriage of flood relief goods by roads.

The above notification was effective till 01 January 2023. SRB now vide notification [SRB-3-4/15/2023](#) dated March 25, 2023 has extended the effective date to 01 July 2023 unless earlier rescinded.

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