

TAX INSIGHTS - AUGUST 2024

Welcome to our latest newsletter, packed with insightful updates and important information on Income Tax and Sales Tax in Pakistan. In this edition, we bring you the latest developments and changes in fiscal laws and regulations that will impact businesses and individuals. From amendments introduced through the Finance Act, 2024, to Income Tax, Sales Tax rate, and Federal Excise Duty updates, We aim to keep you well-informed and up-to-date. Additionally, we provide comprehensive summaries of key notifications and rules issued by tax authorities. Stay ahead of the curve with our newsletter and ensure compliance with the ever-evolving tax landscape in Pakistan.



INCOME TAX

Exemption of Withholding Tax on Import of Medicines for Personal Therapeutic Use:

S.R.O. 1320(1)/2024 - Under the authority granted by sub-clause (i) of clause (12E) of Part IV of the Second Schedule to the Income Tax Ordinance, 2001 (XLIX of 2001), the Federal Board of Revenue (FBR) has exempted withholding tax under section 148 on the import of specified medicines, provided the quantity does not exceed the prescribed limit. This exemption is for the personal therapeutic use of immediate family members of the individuals specified, based on a no-objection certificate (NOC) issued by the Ministry of National Health Services, Regulations, and Coordination, Government of Pakistan.

For further details, please visit (<https://download1.fbr.gov.pk/SROs/20248281582542146SRO1320.pdf>).

TAX INSIGHTS - AUGUST 2024

Notice of Proposed Amendments to the Income Tax Rules, 2002

S.R.O. 1321(I)/2024 dated 28th August 2024- The Federal Board of Revenue (FBR) has proposed draft amendments to the Income Tax Rules, 2002 exercising powers under sub-section (1) of section 237 of the Income Tax Ordinance, 2001 (XLIX of 2001). The draft amendments prescribe the simplified Form of Return for traders who were non-filers for the tax year 2023 which is published for the information and feedback of all stakeholders within seven days. For further details, please visit

[https://download1.fbr.gov.pk/SROs/20248281882023109SRONo-1321\(I\)2024.pdf](https://download1.fbr.gov.pk/SROs/20248281882023109SRONo-1321(I)2024.pdf)

SALES TAX

Extension in date of filing of Sale Tax Return

The FBR, in its Circular dated August 16, 2024, has extended the due date for filing sales tax returns for the tax period of July 2024, till 23rd August 2024.

For further details, please visit

<https://download1.fbr.gov.pk/Docs/2024816198477373ExtensionindateJuly.pdf>.

Insertion of Rule 18A in the Sales Tax Rules, 2006

The notification S.R.O. No. 1130(T)/2024, dated August 1, 2024, has amended the Sales Tax Rules, 2006 by inserting new Rule 18A. Key points of the new rule include:

- Exemption from Second Proviso of Rule 18(3) Proviso: The second proviso to sub-rule (3) of Rule 18 will not apply to certain invoices, effective March 7, 2024. These include:
 - Invoices issued by the gas transmission and distribution companies.
 - Invoices issued by the Electricity distribution companies.
 - Invoices issued by the Independent Power Producers or WAPDA provided sales tax has been paid by issuers.
 - Invoices for Third schedule items issued to distributors, wholesalers, or retailers by manufacturers or traders, if sales tax has been paid by the manufacturer and the items were not supplied by others.
 - Invoices issued by the Petroleum exploration and production companies provided sales tax has been paid by them.
 - Registered buyers, if their suppliers have paid sales tax based on the re-computed amount after deletion of certain invoices within six days of the end of the month in which their returns were taken as provisional.
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For further details, please visit

<https://download1.fbr.gov.pk/SROs/2024811382954366SRO1130.2024Dated01-08-2024.pdf>.

Explanation Regarding Important Amendments in Sales Tax Act, 1990 and Federal Excise Act, 2005.

TAX INSIGHTS - AUGUST 2024

The FBR, in its Circular No. 03 of 2024-2025 dated August 5, 2024, has explained the amendments introduced in the Sales Tax and Federal Excise Duty through Finance Act, 2024. The following amendments have been explained:

Sales Tax Amendments

1. Definitions Updates

- Associates or Associated Persons: Aligned with the definition provided under the Income Tax Ordinance, 2001.
- Board: Defined as per clause (8) of section 2 of the Income Tax Ordinance, 2001.

2. Cross Adjustment of Input Tax:

- Input Tax Paid on Provincial Services: The Board can notify exclusion of certain services from the purview of input tax adjustment.

3. Digitization of Supply Chain:

- Licensed Integrator: Defined as a person licensed to provide an electronic invoicing system.
- Penalties: New penalties for licensed integrators who fail to integrate registered persons properly.
- Electronic Invoices: Certain registered persons must issue electronic invoices as prescribed by the Board.
- Integration Requirements: The Board can mandate real-time reporting and prescribe integration methods.

4. Broadening Tax Fraud:

- Expanded Scope: Covers intentional understating or underpaying the tax liability or overstating the entitlement to a tax credit or tax refund in contravention of the duties or obligations imposed and includes suppression of sales, false input tax claims, issuing false invoices, tax evasion through fraudulent means, and tampering with evidence.

5. Criminal and Civil Liabilities:

- Separate liability: Criminal and civil liabilities are now separate liabilities.
- Stringent Punishments: Enhanced penalties for tax fraud, including imprisonment of various terms and fines up to the amount of tax evaded.

6. Time of Supply:

- Updated Definition: Sales tax liability arises at the time of delivery or payment receipt, whichever is earlier.

7. Fixation of Value of Supply:

- Board's Power: Empowered to fix values of certain imported goods and taxable supplies for retail price determination.

8. Assessment of Tax:

- New Sections: Best Judgment Assessment (Section 11D): Allows assessments based on available information if returns or documents are not provided.
- Recovery of Tax (Section 11E): Enables recovery of unpaid or erroneously refunded tax.
- Failure to Withhold Tax (Section 11F): Addresses failures to withhold or deposit sales tax.
- Limitation (Section 11G): Establishes a five-year limitation period for issuing show cause notices and completing assessments.

9. Audit Selection and Procedure:

TAX INSIGHTS - AUGUST 2024

- Amended Section 25: The Commissioner can now direct an Inland Revenue Officer (not below the rank of Assistant Commissioner) to conduct an audit of a registered person's sales tax affairs. The Commissioner must provide written reasons for the audit, based on a review of available records such as sales tax and federal excise records, income tax returns, withholding statements, financial statements, or third-party information. However, routine verifications of the input tax, output tax, refund claims, or compliance without identifying risk factors shall not constitute valid grounds for audit. This audit power of the Commissioner is distinct from the Board's authority under section 72B.
- Audit Process: The Officer will conduct the audit based on collected records and documents. Following the audit, an order may be issued under section 11E if necessary, after giving the registered person a chance to be heard. If the registered person fails to provide the required information or documents, the Officer may make a best-judgment assessment.

10. Sales Tax Return Filing Notice

- New Sub-section (2A) in Section 26: Officers can now issue notices requiring the filing of sales tax returns within 15 years from the end of the financial year in cases of tax fraud, and within 5 years for other cases.

11. Procedure for Confiscation

- Confiscation of Goods: The Board now has the authority to prescribe procedures for confiscating goods with counterfeit or missing tax stamps, banderols, stickers, labels, or barcodes.

12. Rate of Default Surcharge

- Amended Section 34: The rate of Default surcharge is now set at 12% per annum or KIBOR plus 3% per annum, whichever is higher.

13. Transfer of Cases to Appellate Tribunal

- Amended Section 43A: Cases valued over ten million rupees pending before the Commissioner (Appeals) will transfer to the Appellate Tribunal Inland Revenue on and from December 31, 2024. A new section 47AB provides that orders from the Commissioner (Appeals) or the Appellate Tribunal received before the commencement of the Tax Laws (Amendment) Act, 2024 are preserved.
- Reference Procedure: An explanation in section 133 clarifies that references against orders from the Commissioner (Appeals) communicated after the Tax Laws (Amendment) Act, 2024's commencement will go to the High Court, even if the orders were decided before the commencement of said Act.

14. Amendment in Section 73

- Payment Requirements: Payments exceeding Rs. 50,000 to a single supplier in a tax period must now be made through banking channels, to prevent invoice splitting.

15. Withdrawal of Zero-Rating under Fifth Schedule

- Zero-Rating Removal: The zero rating for certain items under the Fifth Schedule, including stationery (excluding exercise books), packaged milk, fat-filled milk, and local supplies to registered exporters under the Export Facilitation Scheme, 2021, has been withdrawn.

16. Rationalization of Exemptions under the Sixth Schedule

- Exemptions for various goods under Tables 1 and 2 of the Sixth Schedule have been either removed or shifted to the Eighth Schedule with reduced tax rates. Exemptions for items such as edible vegetables and fruits from Afghanistan, diagnostic kits, and cinematic machinery have been removed. New exemptions under Tables 1 and 2 include:
 - Supply of electricity to AJK.
 - Import of gold under the entrustment scheme (SRO 760(1)/2013).
 - Import of cystagon, cysta drops, and trientine capsules (for personal use)

TAX INSIGHTS - AUGUST 2024

- Bovine semen (PCT heading 0511.1000)
- Natural Disasters & Donations: Goods received as gifts or relief consignments in the event of natural disasters, or donations from foreign governments or organizations to federal, provincial governments, or public sector organizations are exempt from sales tax, subject to certain conditions.
- POL Products: Exemption retained for petroleum, oil, and lubricants (POL) products.
- Milk: Exemption for milk excludes branded and corporate dairy farm milk.
- Iron and Steel Scrap: Exemption for scrap is excluded if supplied by a manufacturer-cum-exporter of recycled copper under the Export Facilitation Scheme, 2021.

17. Exemptions for ex-FATA/PATA

- Exemptions for imports supply of goods, and supply of electricity in ex-FATA/PATA are extended until June 30, 2025. Regarding imports, the payment conditions have changed to require a pay order and consumption/installation certificates within six months.

18. Changes in the Eighth Schedule

- Imported LPG and Textile/Leather: Removed from reduced rate regime.
- Medicaments: Previously taxed at 1% are now taxed at the standard 18%.
- Other Goods: Items like stationery, tractors, and certain food products are now subject to a reduced rate of 10%.
- Laptops and Computers: Tax rate increased from 5% to 10%.

19. Ninth Schedule Updates

- Mobile Devices: Locally manufactured and CKD/SIGD mobile devices are now taxed at 18%. Imported mobile devices valued up to US\$500 are taxed at 18%, while those above US\$500 continue to face a 25% rate.

20. Amendments in the Eleventh Schedule

- Cement Manufacturers: Must withhold 80% of sales tax from suppliers of gypsum and limestone flux (PCT headings 2520.1010, 2520.1020, 2521.0000).
- Registered Persons: Required to withhold 80% of sales tax from suppliers of:
 - Coal (PCT headings 2701.1100, 2701.1200, 2701.1900, 2701.2000, 2704.0010, 2704.0020, 2704.0090)
 - Waste paper and paper board
 - Plastic waste
 - Crushed stone and silica
- Lead Battery Manufacturers: Must withhold 80% of sales tax from lead suppliers, up from the previous rate of 75%.

Federal Excise Duty Amendments

1. Definition of the Board

- Aligned with the Definition given under Income Tax Ordinance, 2001.

2. Rate of Default Surcharge

- Amended to 12% per annum or KIBOR plus 3% per annum, whichever is higher.

3. Penalty for Unauthorized Removal of Plant & Machinery

- New penalty for illegal removal/installation of plant/machinery valued at Rs. 50 million or above.

4. Penalty for Selling Cigarettes Without Tax Stamp

- New penalty for retailers selling cigarettes without proper tax stamps. Retail outlets will be sealed.

TAX INSIGHTS - AUGUST 2024

5. Time Limitation for Transfer of Cases from CIR (Appeals)

- Cases exceeding Rs. 5 million will be transferred to the Appellate Tribunal Inland Revenue from December 31, 2024.

6. Rationalization of FED on E-liquids for Electric Cigarette Kits

- The rate is set at Rs. 10,000 per Kg or 65% of the retail price, whichever is higher.

7. Imposition of FED

- Acetate tow: Rs. 44,000 per Kg.
- Nicotine pouches: Rs. 1200 per Kg.
- Lubricating oil: 5% ad valorem.

8. Increase in FED

- Cement: From Rs. 2 per Kg to Rs. 4 per Kg.
- Filter rods for cigarettes: From Rs. 1500 per Kg to Rs. 80,000 per Kg.
- International travel tickets: Economy/economy plus from Rs. 5,000 to Rs. 12,500, with a rebate for labor visa holders.
- Club/business/first-class international travel tickets:
 - Area 1: Rs. 350,000.
 - Area 2 (Middle East and Africa): Rs. 105,000.
 - Area 2 (Europe): Rs. 210,000.
 - Area 3: Rs. 210,000.

9. Changes in FED on Locally Manufactured Cigarettes

- The price threshold increased from Rs. 9,000 to Rs. 12,500.
- The minimum price reduced from 60% to 55% of the retail price threshold.
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10. Brand Variants

- Definition added for 'brand variant' to include similar logos, names, colors, designs, patterns, or unique marks.

11. Insertion of Table-III in First Schedule

- Imposition of FED on the first transfer/allotment of residential property and every transfer/allotment of commercial property:
 - 3% for active taxpayers.
 - 5% for non-filers who missed the return due date.
 - 7% for non-active taxpayers.
- Supply of white crystalline sugar for manufacturing, processing, or packaging: Rs. 15 per Kg, applicable only for raw material supply, not direct to consumers.

For further details, please visit ([2024851883141321EXPLANATORY-CIRCULARNO03OF2024.pdf \(fbr.gov.pk\)](#))

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