



Finance Act, 2022: Bulletin on Proposed Tax Changes



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Preamble

Dear Reader,

Hope, these words will find you in good health. As a usual annual ritual, we are pleased to present our bulletin on key changes proposed through Finance Act, 2022. This bulletin contains key changes in tax laws and our feedback wherever it is considered pertinent and relevant.

Federal budget 2022-23 is going to be the first budget of the Sharif-Led coalition government. This budget is being presented on a very critical time as at one side Pakistan is facing severe economic challenges like sky-rocketing fiscal and trade deficits, depleting foreign exchange reserves, raging inflation and rising unemployment and on other side Pakistan is facing grave political unrest. As this is the coalition government, therefore, it is facing hanging sword in the form of public outcry due to increase in cost of living.

Recently publicized Economic Survey of Pakistan for year 2021-22 has shown a very promising results as it depicts phenomenal growth in almost all sectors of the economy but, as per the current government, all this positivity is deadened due to huge fiscal deficit. In current budget, the government has claimed to propose various revenue generation measures without effecting the life of common man. Government is claiming that it has tried to shift the burden of shortfall in revenue on richer corners of society.

We would love to hear your feedback on this bulletin. Kindly, share your feedback at connect@uzandco.com. We also advice our readers to take expert opinion before acting on certain piece of information provided in this document.

UZCO-CAs wishes luck our beloved country and its citizen. May this budget and initiatives proposed therein bring prosperity for Pakistan and its citizens, aameen. Pakistan Zindabaad!!!

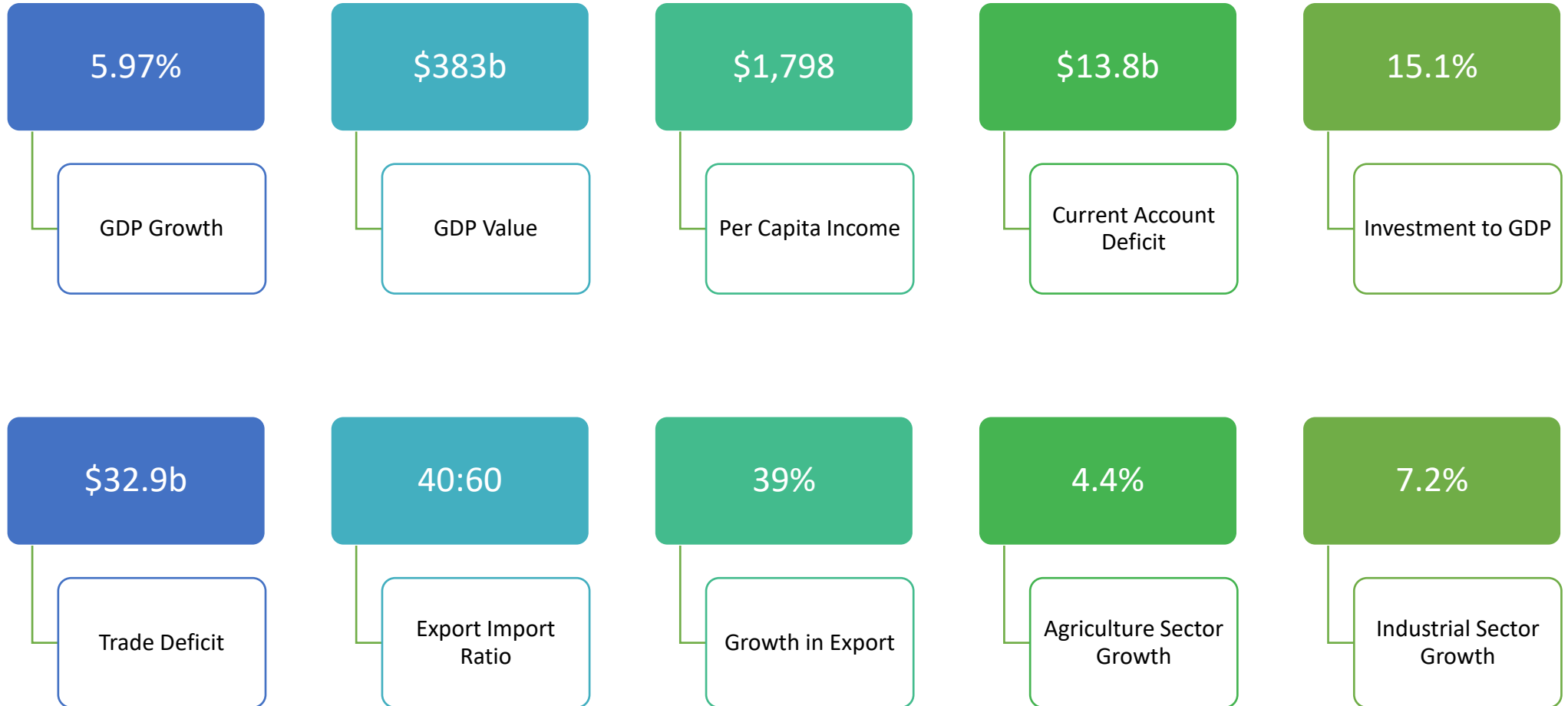
Regards,



Economic Snapshot 2021-22

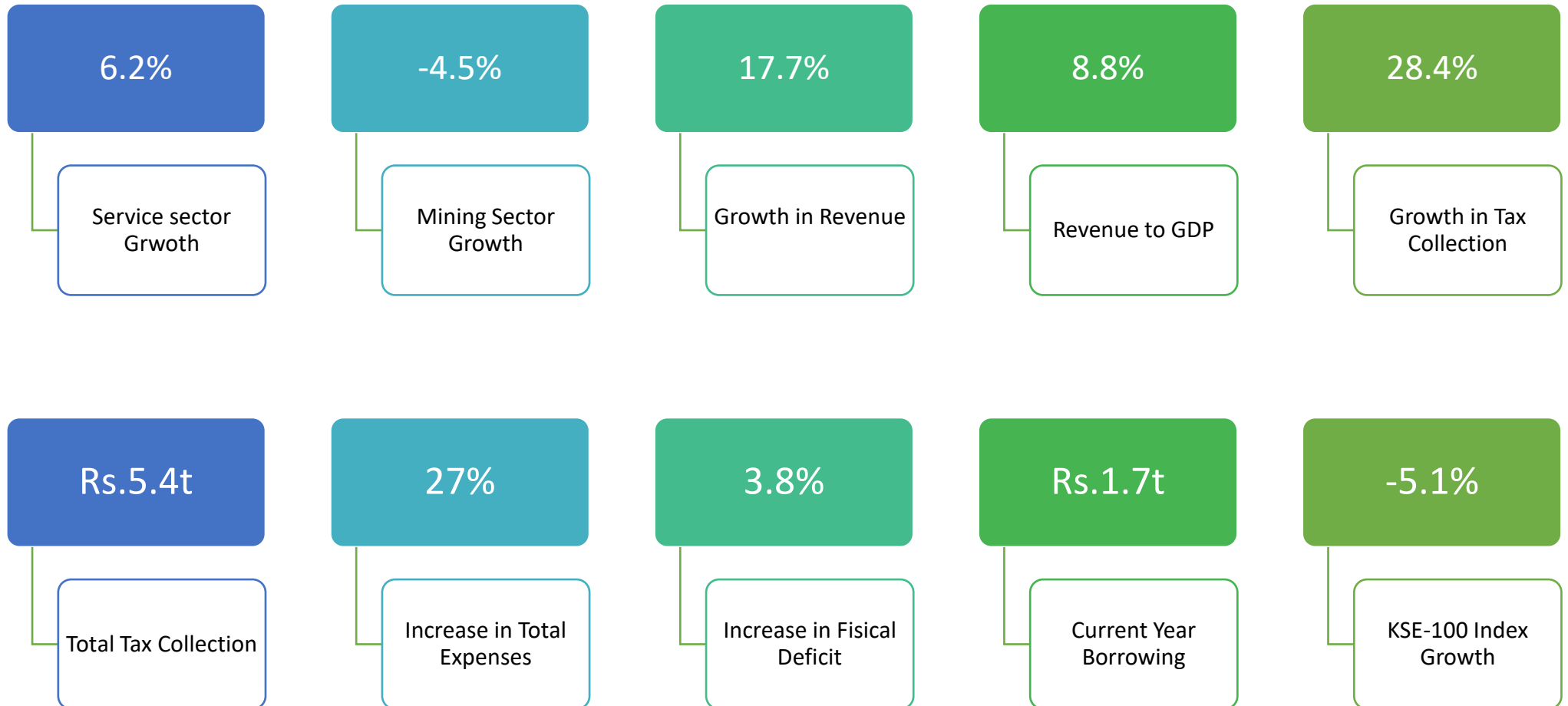


Economic Snapshot (Source: Economic Survey of Pakistan)



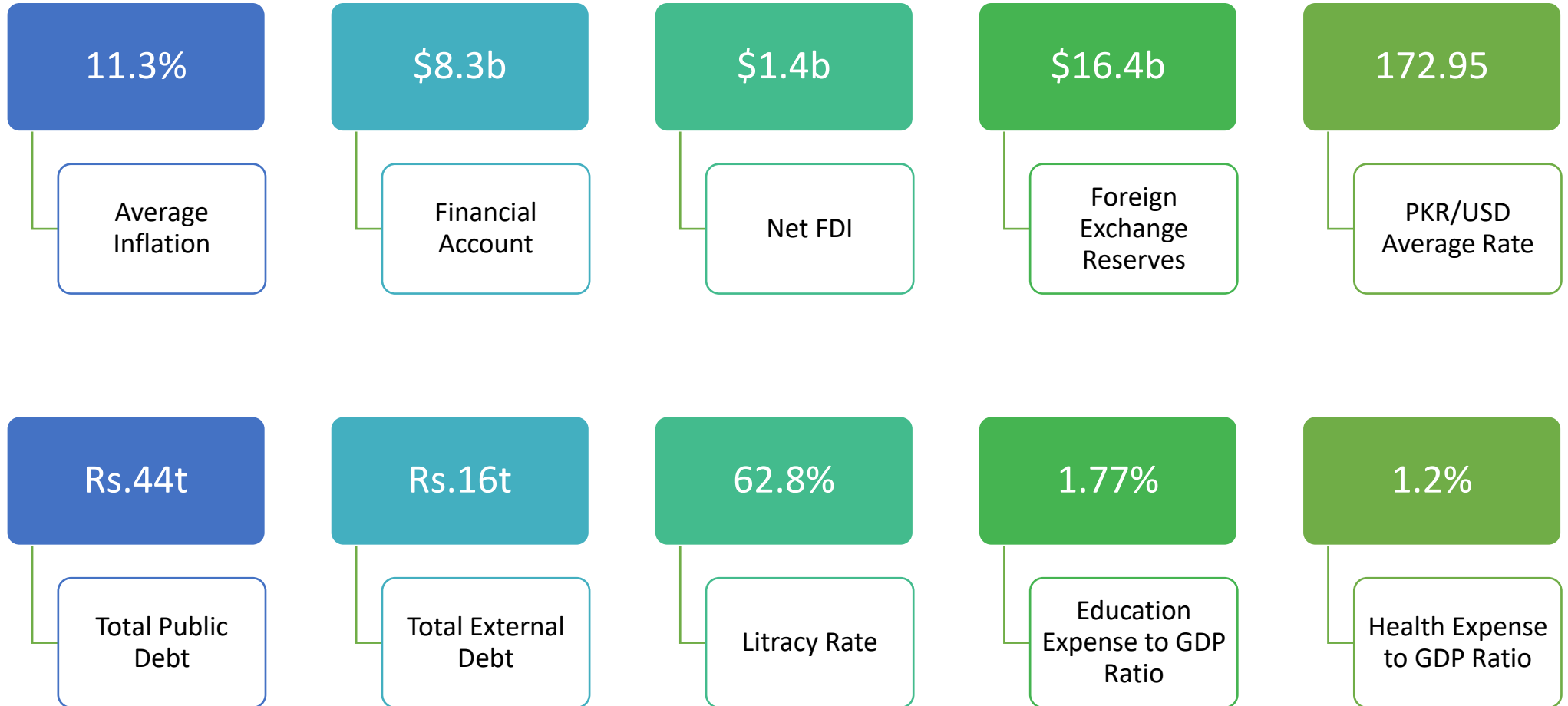


Economic Snapshot (Source: Economic Survey of Pakistan)





Economic Snapshot (Source: Economic Survey of Pakistan)





| Income Tax Ordinance, 2001



Key Changes in Income Tax Ordinance, 2001

Section/Ref	New Provision / Changes	Industry to Effect	Impact
4C	<p>Tax on High Earning Persons</p> <p>Persons earning more than Rs. 300m is now proposed to be further taxed @2% of the income</p> <p><i>UZCO-CAs Feedback:</i></p> <p><i>Yet another super tax in making. Major outcry expected from OICIC and foreign companies. This may effect government's urge to promote FDI.</i></p>	Banks, Telcos, Automobiles, Oil & Gas Exploration and Marketing Cos., Automobiles etc	Negative
7E	<p>Tax on Deemed Income (Deemed Rent on Immoveable Property)</p> <p>If an owner of an immoveable property(s) having a market value of more than Rs. 25 million would be considered to receive rent @5% of the market value of such property(s). This income will be taxed @20% and that would be final discharge of liability.</p> <p><i>UZCO-CAs Feedback:</i></p> <p><i>This is one of the major change which is being proposed under this finance act. With this change, government is trying to tax deemed rent of an immoveable property with certain exceptions. This is major cash flow challenge for tax payers as this way government is trying to tax unrealized income / capital appreciation of that particular property. This will also heavily effect real estate sector as this will discourage real estate investment. REIT is another sector that is expected to raise their concern on</i></p>	Real Estate Sector / REIT	Negative



Key Changes in Income Tax Ordinance, 2001

	<i>this provision. In our view, constructed property should have been excepted from the purview of this provision and only open plots should be targeted which is a major source of wealth pooling in Pakistan.</i>		
21ea	Reduction of Admissible Deduction Limit on Contribution to Approved Post Retirement Funds Earlier, 100% deduction was allowed as admissible deduction but now this is limited to 50%	All	Negative
21l	Admissible Limit for Payment Other than Banking Channel Limit for companies has been increased to Rs. 1m	All	Positive
22	Reduction of Depreciation Deduction in First Time Use 50% reduction limit is proposed to be deleted	All	Positive
60C	Deductible Allowance on Profit on Debt Earlier a deductible allowance was allowed on profit on debt on house loan which are now proposed to be disallowed. <i>UZCO-CAs Feedback:</i> <i>This is a major setback for discounted house loan scheme introduced by previous government.</i>	Real Estate	Negative



Key Changes in Income Tax Ordinance, 2001

62	Deductible Allowance on Investment in Shares & Insurance Earlier a deductible allowance was allowed on investment made in shares and insurance is no more available <i>UZCO-CAs Feedback:</i> <i>This might have a devastating effect on capital market, mutual funds and insurance industry. This will discourage saving culture and thus effect market liquidity position.</i>	Capital Market / Life Insurance Cos. / Assets Management Cos.	Negative
62A	Deductible Allowance on Investment in Health Insurance Earlier a deductible allowance was allowed on investment made in Health Insurance schemes is no more available	Health Insurance Companies	Negative
63	Deductible Allowance on Contribution to Approved Pension Earlier a deductible allowance was allowed on contribution to approved pension is no more available	Mutual Funds Industry	Negative
62	Tax Credit for IT Industry Tax credit are no more available on Income from exports of computer software or IT services or IT enabled services as defined in clause (30AD) and (30AE) of section 2 <i>UZCO-CAs Feedback:</i>	IT Export Industry	Negative



Key Changes in Income Tax Ordinance, 2001

	<i>This is a major blow to an industry which is in its infancy stage but bringing valuable foreign exchange and job opportunities.</i>		
82	<p>Definition of Resident</p> <p>With this Finance Act, one of the key change is proposed to be bring in the definition of Resident. Now it is proposed to expand the definition of Resident and include all those Pakistan origin citizen who doesn't fall in any tax jurisdiction of the world will automatically be considered Tax resident here in Pakistan.</p> <p><i>UZCO-CAs Feedback:</i></p> <p><i>The concept of Resident is one of the fundamental concept of tax laws in Pakistan. It determines the jurisdiction and chargeability of tax on a person. Primarily, it is targeted to those Pakistan Nationals who are living in Tax Havens like Gulf. But here legislator only consider individuals and doesn't include free-zone / off-shore companies those are owned by Pakistani Nationals. We think it would be very difficult to enforce this provision and this may also effect foreign remittances through banking channels.</i></p>		
99A	<p>Tax Regime for Retailors other Than Tier-I</p> <p>Now tax will be collected through electricity bills. Tax collected under this section would be final discharge of liability.</p> <p><i>UZCO-CAs Feedback:</i></p>	Retail Industry	



Key Changes in Income Tax Ordinance, 2001

	<i>Government has proved the notion that it cannot bring retailers in the tax net and this is testament to that. Another major shift away from the documented economy.</i>		
113	<p>Unadjusted Minimum Tax Credit</p> <p>Earlier, unadjusted minimum tax was allowed to be adjusted till 5 years but now any unutilized minimum tax would be lapsed.</p> <p><i>UZCO-CAs Feedback:</i></p> <p><i>Now effectively minimum tax becomes final tax liability. Legal debate would be started for the fate of unadjusted tax credits available as on June 30, 2022</i></p>	Loss Making Businesses	Negative
114B	<p>Consequences for Non-filing of Tax Return</p> <p>Now FBR is authorized to disconnect mobile, electricity and gas connection of the persons who are liable to file tax return but not filing it.</p> <p><i>UZCO-CAs Feedback:</i></p> <p><i>Administratively, it is tough to comply. But it is significant development towards forcing people to file their tax returns.</i></p>	Non-Filers	Negative
134A	<p>Dispute Resolution Mechanism</p> <p>A major overhaul has been proposed in Dispute Resolution Mechanism. Now the composition of DRC would consist of Chief Commissioner, one</p>	All	Positive



Key Changes in Income Tax Ordinance, 2001

	<p>member proposed by tax payer and the third one jointly proposed by FBR and tax payer. Simple majority decision of the committee would be final and binding. But before knocking doors of FBR for constituting DRC, tax payer has to withdraw any court case / appeal pending for adjudication.</p> <p><i>UZCO-CAs Feedback:</i></p> <p><i>This is an attempt to reduce the pressure on FBR for resolving old-pending cases. Apparently, it is quite favorable for tax payer to seek justice through this mechanism.</i></p>		
114B	<p>Tax Withholding on International Card Network & Payment Gateway</p> <p>Banks and money exchange companies has to deduct withholding under Division IV, Part I of the First Schedule.</p>	International Card Companies / Money Transfer / Gateways	Negative
164A	<p>SWAPS Withholding Mechanism</p> <p>A new concept of Synchronized Withholding Administration and Payment System (SWAPS) has been introduced. FBR may notify any person to act under SWAPS mechanism here SWAPS agent will have to integrate its system with FBR.</p> <p><i>UZCO-CAs Feedback:</i></p> <p><i>Likewise, Tier-1 Sales Tax Retail integration, this mechanism is being introduced for notified withholding agents to monitor tax collection and have a better control. If government functionaries are notified under this</i></p>	Taxpayers Selling to Public Sector	Positive



Key Changes in Income Tax Ordinance, 2001

	<i>system then it will give a lot of relief to those tax payers who are dealing with government functionaries and have a lot of funds blocked in form of unrealized tax challans.</i>		
175B	<p>Exchange of Data by NADRA and Indicative Income Computation</p> <p>NADRA, on its own motion or on application of FBR, will share data with FBR for broadening tax network. Further, NADRA may also compute indicative income and tax liability on systematic basis</p> <p><i>UZCO-CAs Feedback:</i></p> <p><i>Govt. has decided to accept demands from various information and data exports that NADRA can play a vital role in broadening the tax base using the data it captures and the techniques it can use to make it more relevant and meaningful. But indicative income computation would be highly subjective matter and would indulge parties in further legal battles.</i></p>	All	Positive
181E	<p>Record of Beneficial Owners</p> <p>Companies and AoPs are required to maintain records of beneficial owners and submit the same to FBR.</p>	All	
236C	<p>Exemption from Advance Tax on Immoveable Property</p> <p>Now exemption from advance tax on immoveable property only allowed if the holding period is more than 10 years. Earlier that holding period was 4 years.</p>	Real Estate	Negative



Key Changes in Income Tax Ordinance, 2001

236I	Advance Tax Collected by Education Institutions This section is proposed to be abolished	Private Education Sector	Positive
236Y	Advance Tax Collection on Foreign Debit/Credit Card Payment Now banks are liable to collect advance tax @1% and that would be adjustable tax for the card holder.	Banking Industry	Negative
237B	Prize Schemes for Public Dealing with Integrated Enterprises Board may announce prize schemes for customers dealing with integrated enterprises	Integrated Enterprises	Positive
2 nd Schedule	Income of Cinema Operators New cinema in a tehsil or town where no existing cinema, income is exempt for 5 years	Cinema	Positive
2 nd Schedule	Audit of Income Tax The provisions of section 177 and 214C shall not apply to a person whose income tax affairs have been audited in any of the preceding four tax years	All	Positive
10 th Sch. 231B 236K	Enhancement of Advance Tax Who is Not Appearing in Active List Advance tax on motor vehicle will be increased by 200% Advance tax on purchase of immoveable property motor vehicle will be increased by 250%	Banking Industry	Negative



Key Changes in Income Tax Ordinance, 2001

Key Changes in Tax Rates

Section/Ref	Taxable Income	Rate of Tax
1 st Schedule	<u>Non Salaried Person</u>	
Div I	Where taxable income does not exceed Rs. 600,000/-	0%
	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 800,000	5%
	Where taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	12.5%
	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	17.5%
	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,000,000	22.5%
	Where taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000	27.5%
	Where taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 6,000,000	32.5%
	Where taxable income exceeds Rs. 6,000,000	35%
1 st Schedule	<u>Salaried Person</u>	
Div I	Where taxable income does not exceed Rs. 600,000/-	0%
	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	Rs. 100
	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	7%
	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,600,000	12.5%
	Where taxable income exceeds Rs. 3,600,000 but does not exceed Rs. 6,000,000	17.5%
	Where taxable income exceeds Rs. 6,000,000 but does not exceed Rs. 12,000,000	22.5%
	Where taxable income exceeds Rs. 12,000,000	32.5%



Key Changes in Income Tax Ordinance, 2001

1 st Schedule Div II	<u>Companies</u> Small company Banking company Any other company	20% 42% 29%		
1 st Schedule Div IV	Royalty & fee for technical payment Others	15% 10%		
1 st Schedule Div VII	Where the holding period does not exceed one year Where the holding period exceeds one year but does not exceed two years Where the holding period exceeds two years but does not exceed three years Where the holding period exceeds three years but does not exceed four years Where the holding period exceeds four years but does not exceed five years Where the holding period exceeds five years but does not exceed six years Where the holding period exceeds six years	15% 12.5% 10% 7.5% 5% 2.5% 0%		
Div VIII	<u>Capital Gain</u> Where the holding period does not exceed one year Where the holding period exceeds one year but does not exceed two years Where the holding period exceeds two years but does not exceed three years Where the holding period exceeds three years but does not exceed four years		Plot 15% 12.5% 10% 7.5%	Const. 15% 10% 7.5% 5%
				Flat 15% 7.5% 0%



Key Changes in Income Tax Ordinance, 2001

	Where the holding period exceeds four years but does not exceed five years	5%	0%	
	Where the holding period exceeds five years but does not exceed six years	2.5%		
	Where the holding period exceeds six years	0%		
1 st Schedule	<u>Export of Services</u>			
Div IVA	Export proceeds of Computer software or IT services		0.25%	
	Others		1%	
1 st Schedule	Advance tax on purchase of immoveable property		2%	
Div XVIII				



| Sales Tax Act, 1990



Key Changes in Sales Tax Act, 1990

Section/Ref	New Provision / Changes	Industry to Effect	Impact
2	Production, Transmission and Distribution of Electricity All these value chain is included in the definition of goods and supply of goods.	Energy Sector	
3(7)	Tax Withholding Liability in Case of Market Place Market place operator would be responsible to withhold tax on behalf of third parties	Daraz / Market Places	Negative
6(5)	Tax on Installment Board may allow payment of tax on installment basis	All	Positive
8(1)(m)	Inadmissibility of Input Tax The condition of printing CNIC of buyer on invoice for admissibility of claim has done away.	All	Positive
8(1)(m)	Inadmissibility of Input Tax Public listed companies were earlier allowed to claim 100% of their input tax credit which is now restricted to 90% of the output tax as applicable in other types of companies and persons.	Listed Companies	Negative
14AB	Consequences of Non-Compliance of Tier-I Rules & Regulations Now FBR is authorized to disconnect electricity and gas connection of the persons who are non-complying with Tier-I rules & regulations.	Tier-I	Negative



Key Changes in Sales Tax Act, 1990

6 th Schedule	Exemption from Sales Tax Following are excluded from the sales tax chargeability: <ul style="list-style-type: none">a. Photovoltaic cellsb. Goods imported by or donated to hospitals run by the non-profit making institutionsc. Goods excluding electricity and natural gas supplied to hospitals run by the charitable hospitals of fifty beds or more.d. Silver, in unworked conditione. Gold, in unworked conditionf. Tractorg. Machinery, equipment and materials imported either for exclusive use within the limits of Export Processing Zone	Misc.	Positive
8 th Schedule	Changes in 8th Schedule Following changes are made in 8 th schedule: <ul style="list-style-type: none">a. Locally produced coal is now taxable at regular rateb. Gas to fertilizer company rate change from 5% to 10%c. Phosphoric acid to fertilizer co rate change from 5% to 10%d. Supply of fertilizer rate increased from 2% to 10%e. Supply of jewelry and precious metal will be taxed @3%f. Import of jewelry and precious metal will be taxed @4%	Coal Fertilizer Jewelry	Negative Negative Positive

Changes in Tax Rates



Key Changes in Sales Tax Act, 1990

Section/Ref	Previous	New / Proposed
3(9)	Tax on Retailers Other Than Tier-I Electricity bill is Rs. 20k: 5% Electricity bill is more than Rs. 20k: 7.5%	Electricity bill is Rs. 30k: Rs. 3,000 Electricity bill 30k – 50k: Rs. 5,000 Electricity bill more than 50k: Rs. 10,000



Capital Value Tax Act, 2022



Key Changes in Capital Value Tax Act, 2022

Section/Ref	New Provision	Industry to Effect	Impact
2	<p>Capital Value Tax</p> <p>Capital value tax shall be charged on the following assets:</p> <ul style="list-style-type: none">a. motor vehicle held in Pakistan where the value of motor vehicle exceeds rupees five million @2%;b. Assets of a resident individual, whether movable or immovable, held abroad where the value of such assets exceeds rupees one hundred million @1%; orc. such assets or class of assets as specified by the Federal Government through a notification in the official Gazette, at such rates and in such manner as may be specified	Automobiles	Negative



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