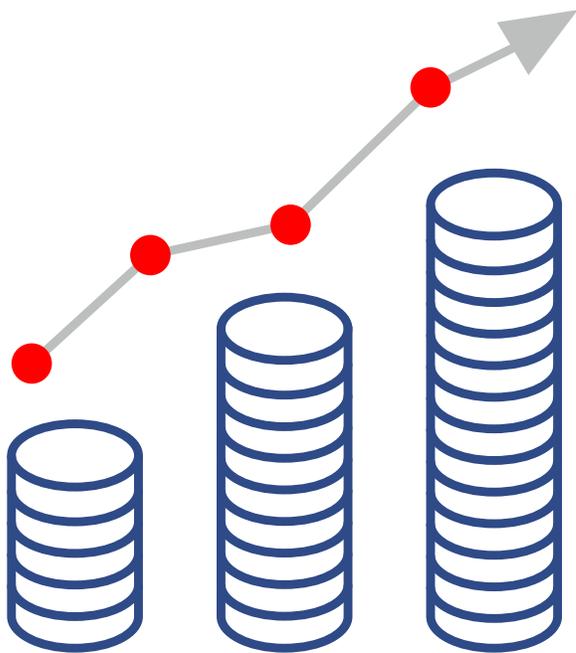


Budget Brief 2021



Budget Brief Prologue

The information contained in this briefing is based on the Finance Bill 2021. This given information is correct to the best of our knowledge. This briefing is intended to provide a general outline of the subject covered which includes the important changes proposed through the Finance Bill 2021. The Memorandum included comments on the highlights of the changes brought through by the Bill in Income Tax Ordinance 2001, Sales Tax Act 1990, Customs Act 1969 and Federal Excise Act 2005.

Table of Contents

◆	About Us	01
◆	Budget at a Glance	02
◆	Salient Features of Budget 2021	
.....	Income Tax	04
.....	Sales Tax	08
◆	Taxable Income	
.....	Corporate Tax Rates	09
.....	Tax Rate for Association of Persons (AOP)	09
.....	Tax Rate for Business Individuals	10

About Us

Sanallah & Co. is an accounting, tax consultancy and advisory services firm that strive to provide highest quality service to its clients. The partners and professional staff associated with S&Co. comes with a diversified experience from well reputed audit firms and industry.

Moreover, S&Co. is providing services to over 1000 clients who have significant presence across manufacturing, services, commercial and other sectors within the country.

S&Co. Pakistan brings together clients, offer innovative solutions and endeavours to exceed client expectations. The firm espouses a modified, responsive and personal methodology toward client service and offers a complete range of services across various industries.

In addition to above, S&Co. has a strong support staff comprising of CA, ACCA, ICMA professionals and other certified bodies that have expertise in various disciplines and have varied experience.

© Sanallah & Co. 2020

All Rights Reserved.

www.sanallah.co

Budget at a Glance

INCOME TAX

1. Enhancement of threshold for becoming prescribed person for withholding of tax on supplies, services and contracts from 50 to 100 million.
2. Reduction in holding period and tax rates for capital gain on immovable property restricted to 4 years.
3. Increase in threshold of paying salaries through crossed cheque from Rs. 15,000/- per month to Rs. 25,000/- per month.
4. Exempting withholding tax on cash withdrawal to the extent of foreign remittances.
5. Issuance of centralized income tax refunds automatic payment of refunds directly into the bank accounts of the taxpayers.
6. Hajj operators to be exempted from withholding tax on payments to non-residents.
7. Explanation for excluding vehicles up to 200cc from the ambit of advance tax.
8. Prompt issuance of exemption certificates to public listed Companies within 15 days of filing of application.
9. Collection of advance tax by educational institutions not to apply to persons on the ATL.
10. Rationalizing tax on imports with tax @1% for capital goods, 2% for raw materials and 5.5% for finished goods.
11. Withholding tax rate on toll manufacturing reduced to 4% for companies and 4.5% in other cases.
12. Reduction in tax withheld from offshore supplier under an EPC contract to pay only 20% instead of 30% of their actual tax liability.
13. Taxpayer's profile in case of any change in particulars.
14. Automated adjusted assessment initially processed within 6 months.
15. Real-time access to databases of certain organizations as land record departments, excise and taxation departments, utility companies, visa and immigration offices, and others is made available to the Board.
16. Strengthening compliance regime of non-profit/welfare organizations to file a statement of voluntary contributions and donations received.
17. Advance tax on extraction of minerals to extend to persons on the active taxpayers list.
18. Uniformity in tax rate for profit on debt rate is 15%.
19. Pre-condition of payment of 10% tax for filing appeal before the appellate tribunal.
20. Permission of the commissioner required for revising wealth statement.
21. Simplifying declaration through filing of return u/s 114 instead of filing statements under section 115(4).
22. Revision of prescribed fee structure for appeals filed to commissioner (appeals) for companies increased to Rs. 5,000/-, to Rs. 2,500/-, other cases Rs.1,000/-.

23. Revision of prescribed fee structure for appeals filed before the appellate tribunal Rs. 2,000/- to Rs. 5,000/- in case of companies, Rs. 2,500/- in all other cases.
24. It is made compulsory for taxpayers to file the said profile and update it by the due date. To ensure compliance, penalty of Rs. 2,500/- shall be proposed.
25. Filing of withholding statements under section 165 on quarterly basis.

SALES TAX

1. The minimum threshold of supplies by retailers for obtaining CNIC of the buyers is proposed to be increased from Rs 50,000 to 100,000.
2. Federal government granted exemption to health related items and equipment through SRO 237(I)/2020 upto 20th Sep, 2020.
3. Retail sector which is integrated online with FBR through point of sale system. Their existing sales tax rate is proposed to be reduced from 14% to 12%.
4. Eleventh schedule (withholding tax) is proposed to be amended to provide for deduction of the entire sales tax by the purchaser if the supplier is a non-active taxpayer.
5. Real-time access to information and databases to the board by various authorities such as NADRA, FIA, provincial excise & taxation departments etc.
6. Who fails to file quarterly WHT statement treated as in-active taxpayer.

CUSTOM

1. Exemption from custom duties on import of COVID-19 related items.
2. Exemption from 2% ACD on import of edible oils and oil seeds under COVID-19 relief package has been extended.
3. Exemption of customs duties on inputs of ready to use supplementary foods.
4. Exemption of customs duties on import of life saving drug.
5. Reduction of custom duty on 40 raw materials of various industries.

FEDERAL EXCISE DUTY (FED)

1. Increase in the rate of FED on cigars and cigarettes from 65% to 100% of retail price; increase in the rate of FED on filter rods from Rs. 0.75 to Rs. 1 per filter rod.
2. Levy of FED on caffeinated energy drinks @ 25%.
3. Levy of FED @ 7.5% is in proportion for locally manufactured double cabin (4x4) pick-up vehicles and @ 25% in the case of imported ones.
4. It has been proposed to reduce FED on cement from Rs. 2 per kg to Rs. 1.75 per kg.

SALIENT FEATURES OF BUDGET 2021

INCOME TAX

1. Enhancement of threshold for becoming prescribed person for withholding of tax on supplies, services and contracts:

To become a withholding agent, in case of an individual and an AOP is being enhanced from fifty to hundred million

2. Reduction in holding period and tax rates for capital gain on immovable property:

The holding period for taxation of capital gains on disposal of immovable property is being restricted to 4 years. In addition, rates are also being reduced on capital gains emanating from disposal of immovable property.

3. Increase in threshold of section 21(m):

The threshold of requirement of paying salaries through crossed cheque or direct transfer of funds to the bank accounts of employees 12 under section 21(m) is being increased from Rs. 15,000/- per month to Rs. 25,000/- per month.

4. Exempting withholding tax on cash withdrawal to the extent of foreign remittances:

Withholding tax on cash withdrawal or on issuance of banking instruments/transfers from a domestic bank account is being exempted to the extent of remittance amount received from abroad in such account in a year.

5. Issuance of centralized income tax refunds:

A provision is being introduced to enable expeditious processing and automatic payment of refunds directly into the bank accounts of the taxpayer by the Board through a centralized processing system.

6. Hajj operators to be exempted from withholding tax on payments to non-residents:

To facilitate Hajj group operators, they are being exempted from the requirement of deducting tax under section 152 whilst making payments to non-residents.

7. Explanation for excluding vehicles up to 200cc from the ambit of advance tax:

Motorcycles and motor rickshaws.

8. Prompt issuance of exemption certificates to public listed Companies:

To facilitate public listed Companies, amendment is being made to enable the commissioner issues exemption certificate within fifteen days of filing of application, failing which the certificate will be automatically issued through the system.

9. Collection of advance tax by educational institutions not to apply to persons on the ATL:

To facilitate and encourage compliant taxpayers and ease the burden for persons paying tuition fees to educational institutions, amendment is being made to the effect that advance tax on tuition fees shall not be collected from persons whose names are appearing on the active taxpayers list.

10. Rationalizing tax on imports:

Type of goods, with tax @1% for capital goods, 2% for raw materials and 5.5% for finished goods. The prevailing concessional rates on certain items such as remelttable 15 scrap of iron and steel, potassic and urea fertilizers, LNG, gold, cotton, goods that were importable by manufacturers under the rescinded SRO 1125(I)/2011 dated 31.12.2011, mobile phones etc. are being maintained.

11. Withholding tax rate on toll manufacturing:

The withholding tax rate for payment regarding toll manufacturing is being reduced to 4% for companies and 4.5% in other cases.

12. Reduction in tax withheld from offshore supplier under an EPC contract:

To non-residents executing contracts pay only 20% instead of 30% of their actual tax liability.

13. Taxpayer's profile:

Further, the profile shall be updated by the taxpayer in case of any change in particulars.

14. Automated adjusted assessment:

In order to rectify computational errors, the returns filed by the taxpayers shall now be initially processed within six months of filing of return by making adjustments for any arithmetical errors, any incorrect claims, any deductions, tax credits or losses which are not allowable under the ordinance. Such processing shall be done automatically through the system.

15. Real-time access to databases of certain organizations:

For broadening of the tax base and checking tax evasion, it is essential that realtime access of various databases such as land record departments, excise and taxation departments, utility companies, visa and immigration offices, and others is made available to the Board. A legal framework is, therefore, being provided in law for real-time access to databases of various organizations.

16. Strengthening compliance regime of non-profit/welfare organizations:

NPOs for hundred percent tax credit are also being required to file a statement of voluntary contributions and donations received in the preceding tax year. Surplus funds of the NPOs, which are not spent during the year for welfare, are taxed at the rate of 10% with certain exclusions.

17. Advance tax on extraction of minerals to extend to persons on the active taxpayers list:

On the value of minerals extracted, produced, dispatched and carried away from the licenses or leased areas of the mines from persons not appearing on the active taxpayers list. To extend the scope of such 19 advance tax and to enable it to realize its full potential, such advance tax is also being extended to persons whose names are appearing on the active taxpayers list.

18. Uniformity in tax rate for profit on debt:

Rate of 15% is being specified on profit on debt. However, tax shall be deducted @ of 10% if the recipient of profit furnishes a certificate to the pair of profit that his income from profit on debt during the year is upto Rs. 500,000.

19. Pre-condition of payment of ten percent tax for filing appeal before the appellate tribunal:

After the appeal has been decided by the first appellate authority, the second appeal before the appellate tribunal will be made conditional to payment of ten percent amount of tax demand upheld by the commissioner (Appeals).

20. Permission of the commissioner for revising wealth statement:

Revision of the wealth statement is being made conditional to the commissioner's approval, as in case of return of income.

21. Simplifying declaration through filling of return u/s 114 instead of filling statements under section 115(4):

The statement declaring income subject to final tax is being incorporated as a part of the return u/s 114(2).

22. Revision of prescribed fee structure for appeals filed to commissioner (appeals):

For companies the rate are being increased to Rs. 5,000/-; for other cases (if appeal is filed against assessment order) to Rs. 2,500/-; whereas, in all other cases, it rates are being specified at Rs. 1,000/-.

23. Revision of prescribed fee structure for appeals filed before the appellate tribunal:

The prescribed fee is being enhanced from Rs. 2,000/- to Rs. 5,000/- in case of companies and specified at Rs. 2,500/- in all other cases.

24. Penal provision at serial no 4a of the table in section 182(1) for failing to furnish taxpayer profile or failing to do it by due date:

It is made compulsory for taxpayers to file the said profile and update it by the due date. To ensure compliance, penalty of Rs. 2,500/- shall be proposed for each day commencing from the due date subject to a minimum penalty of ten thousand rupees.

25. Filing of withholding statements under section 165 on quarterly Basis:

At present, withholding tax agents are obliged to file withholding tax statements on a biannual basis. In order to effective monitoring of withholding tax agents withholding tax statements are filed on a quarterly basis.

26. Deletion of 9 sectors from WHT Regime:

Below are including in those sectors:

SECTION	DESCRIPTION
236R	Collection of advance tax on education related expenses remitted abroad.
148A	Tax on local purchase of cooking oil or vegetable ghee by certain persons.
236J	Advance tax on dealers, commission agents and arhatis etc.
236U	Advance tax on insurance premium.

SALES TAX

1. Requirement of CNIC on supplies made by retailers:

In the finance bill, it is proposed to increase limit from Rs. 50,000 to Rs. 100,000.

2. Exemption to health-related items and equipments:

In wake of COVID-19, the Federal Government granted exemption to health related items and equipments through SRO 237(1)/2020 upto September 2020.

3. Reduction in rates - Retail sector:

Supplies made from retail outlets which are integrated with Board's computerized system will now be subject to reduction of rates from 14% to 12% to encourage documentation.

4. Deduction of entire sales tax by the purchaser if the supplier is a non-active taxpayer:

Eleventh schedule (withholding tax) is proposed to be amended to provide for deduction of the entire sales tax by the purchaser if the supplier is a non-active taxpayer.

5. Real-time access to information to the Board:

Real-time access to information and databases to the Board by various authorities such as NADRA, FIA, provincial excise & taxation departments etc.

6. Filing of WHT statements:

Anyone who fails to file quarterly WHT statements, now be treated as in-active taxpayer, the list issued by FBR is provided in section 2(1) of sales tax act.

CORPORATE TAX RATES

TAX YEAR	RATE OF TAX
2020	28%
2021	27%
2022	26%
2023 - Onwards	25%

TAX RATES FOR ASSOCIATION OF PERSONS

(No change as 2020)

S#	TAXABLE INCOME	RATE
1.	Where the taxable income does not exceed Rs. 400,000	0%
2.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 600,000	5% of the amount excess over Rs. 400,000
3.	Where the taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	Rs. 10,000 + 10% of the amount excess over Rs. 600,000
4.	Where the taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 70,000 + 15% of the amount excess over Rs. 1,200,000
5.	Where the taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,000,000	Rs. 250,000 + 20% of the amount excess over Rs. 2,400,000
6.	Where the taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000	Rs. 370,000 + 25% of the amount excess over Rs. 3,000,000
7.	Where the taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 6,000,000	Rs. 620,000 + 30% of the amount excess over Rs. 4,000,000
8.	Where the taxable income exceeds Rs. 6,000,000	Rs. 1,220,000 + 35% of the amount excess over Rs. 6,000,000

TAX RATES FOR SALARIED & BUSINESS INDIVIDUALS

(No change as 2020)

S#	TAXABLE INCOME	RATE
1.	Where the taxable income does not exceed Rs. 600,000	0%
2.	Where the taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	5% of the amount excess over Rs. 600,000
3.	Where the taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,800,000	Rs. 30,000 + 10% of the amount excess over Rs. 1,200,000
4.	Where the taxable income exceeds Rs. 1,800,000 but does not exceed Rs. 2,500,000	Rs. 90,000 + 15% of the amount excess over Rs. 1,800,000
5.	Where the taxable income exceeds Rs. 2,500,000 but does not exceed Rs. 3,500,000	Rs. 195,000 + 17.5% of the amount excess over Rs. 2,500,000
6.	Where the taxable income exceeds Rs. 3,500,000 but does not exceed Rs. 5,000,000	Rs. 370,000 + 20% of the amount excess Rs. 3,500,000
7.	Where the taxable income exceeds Rs. 5,000,000 but does not exceed Rs. 8,000,000	Rs. 670,000 + 22.5% of the amount excess Rs. 5,000,000
8.	Where the taxable income exceeds Rs. 8,000,000 but does not exceed Rs. 12,000,000	Rs. 1,345,000 + 25% of the amount excess Rs. 8,000,000
9.	Where the taxable income exceeds Rs. 12,000,000 but does not exceed Rs. 30,000,000	Rs. 2,345,000 + 27.5% of the amount excess Rs. 12,000,000
10.	Where the taxable income exceeds Rs. 30,000,000 but does not exceed Rs. 50,000,000	Rs. 7,295,000 + 30% of the amount excess Rs. 30,000,000
11.	Where the taxable income exceeds Rs. 50,000,000 but does not exceed Rs. 75,000,000	Rs. 13,295,000 + 32.5% of the amount excess Rs. 50,000,000
12.	Where the taxable income exceeds Rs. 75,000,000	Rs. 21,420,000 + 35% of the amount excess Rs. 75,000,000

Sanullah & Co. is an Accounting, Tax Consultancy and Advisory services firm that strive to provide highest quality service to its clients. The partners and professional staff associated with S&Co. comes with a diversified experience from well reputed audit firms and industry.

Moreover, S&Co. is providing services to over 1000 clients who have significant presence across manufacturing, services, commercial and other sectors within the country.

S&Co. brings together clients, offer innovative solutions and endeavours to exceed client expectations. The firm espouses a modified, responsive and personal methodology toward client service and offers a complete range of services across various industries.

In addition to above, S&Co. has a strong support staff comprising of CA, ACCA, ICMA professionals and other certified bodies that have expertise in various disciplines and have varied experience. Visit our website www.sanullah.co to explore our services further.

The information contained in this briefing is based on the Finance Bill 2021. The given information is correct to the best of our knowledge. The briefing is intended to provide a general outline of the subject covered which includes the important changes proposed through the Finance Bill 2021. The Memorandum includes comments on the highlights of the changes brought forward through by the Bill in Income Tax Ordinance 2001, Sales Tax Act 1990, Custom Act 1969 and Federal Excise Act 2005.

S&Co.

Taxation | Accountancy | Corporate | Consultancy

Karachi Office:

Suite # 101 & 102, 1st Floor, Kawish Crown Plaza, Shahrah-e-Faisal, Karachi 75400

Phone: +92 (21) 34330002, 34330004 | Cell: +92 (300) 8251660, +92 (300) 8643268

E-mail: tax@sanullah.co | URL: www.sanullah.co