



TAX PAK

NEWSLETTER BY TOLA ASSOCIATES



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MARCH 2023

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EDITORIAL NOTE

Asalam-o-alaikum everyone! Hope this monthly issue of TAXPAK finds you in good spirits and immaculate health! We welcome you to another edition of TAXPAK, our monthly publication the purpose of which is to provide a monthly update on the ongoing tax related developments in Pakistan. Alhumdulillah, so far, we have been successful in our mission to educate about, and keep the public-at-large updated of, these developments on a monthly basis.

Moreover, we would like to apprise the readers of what information you can expect in this document. This newsletter contains an elaboration of important notifications and circulars issued by the Federal Board of Revenue (“FBR”) and its provincial counterparts. Notifications from the corporate regulatory body i.e. SECP are also discussed. Furthermore, keeping in mind the aforementioned stated purpose of this document, we usually discuss a (relatively) recent judgment passed by the courts of law. This edition of TaxPak discusses the recent judgement passed by the Hon’able High court of Lahore wherein the Hon’able Lahore High Court ordered to constitute a team of experts to attain physical verification of manufacturing premises for the purposes of input tax admissibility of the Petitioners.

Furthermore, we have discussed in our newsletter our Topic of the month titled “Taxation of Small and Medium Enterprises”. The said topic provides an insight on how small and medium enterprises are taxed under the Income Tax Ordinance 2001.

All our readers are requested to visit our website www.tolaassociates.com, or download our mobile application in order to access previously published editions of this TAXPAK along with other publications, and to stay updated of future notifications.

Lastly, we request our readers to circulate this e-copy within their circle, as our primary aim is to benefit the masses. Feedback is always welcomed.

Warm Regards,

Tola Associates.

1. NOTIFICATIONS/ CIRCULARS

A. INCOME TAX

1. MONETARY PENALTY RECOVERY REGULATIONS FOR DNFBS 2023

The FBR is empowered vide SRO 290(I)/2023 dated 6th March 2023, to be an AML/CFT regulatory authority in respect of reporting for the following reporting entities:

- Real estate agents;
- Jewelers;
- Dealers in precious stones/metals; and
- Accountants who are not members of ICAP/ICMAP.

Furthermore, the AML/CFT regulatory authority shall exercise the following powers and functions:

- Issue regulations, direction, and guidelines according to sections 7A – 7H of the Anti-Money Laundering Act, 2010 (VII of 2010) (“Act”).
- Impose sanctions, including monetary and administrative penalties to the extent and in the manners as may be prescribed, on these respective reporting entities, including on their directors/ senior management/ officers, who violate any requirement or those who fail to comply with the TFS (targeted financial sanctions) regulations. However, any person aggrieved by the imposition of sanctions may prefer an appeal in a prescribed manner and time.

The FBR may follow its existing process, if any, or prescribe the process for recovery of penalty under the applicable law. Furthermore, the FBR shall initiate recovery procedure as set in the Income Tax Rules. The said notification can be accessed from [2023371132529205SRO290\(I\)of2023.pdf \(fbr.gov.pk\)](https://www.fbr.gov.pk/2023371132529205SRO290(I)of2023.pdf)

B. SALES TAX

1. IMPOSITION OF 25% SALES TAX ON IMPORT AND SUPPLY OF LUXURY GOODS

The FBR, vide SRO 297(I)/2023, dated 8th March 2023, issued a notification whereby sales tax of 25% shall be charged, levied, and paid on the value of goods imported and subsequently on their supply/retail price on goods mentioned in Table I of the Sales Tax Act, 1990 such as cosmetics, luxury products watches/jewelry/bags etc.), and Table II such as locally manufactured / assembled SUVs/CUVs/ 4x4s/ vehicles having engine capacity exceeding 1400cc to name a few.

Furthermore, this notification shall not apply on goods mentioned in the Eighth Schedule to the Sales Tax Act 1990.

The list can be read from [SRO 297 OF 2023 DATED 08.03.2023 -- IMPOSITION OF ENHANCED RATE OF 25% SALES TAX ON IMPORT AND SUPPLY OF LUXURY GOODS \(fbr.gov.pk\)](https://www.fbr.gov.pk/SRO_297_OF_2023_DATED_08.03.2023_-_IMPOSITION_OF_ENHANCED_RATE_OF_25%_SALES_TAX_ON_IMPORT_AND_SUPPLY_OF_LUXURY_GOODS)

2. SALES TAX GENERAL ORDER NO. 8 OF 2023 – TIER I RETAILERS - INTEGRATION WITH FBR'S POS SYSTEM

The FBR has issued a Sales Tax General Order (“STGO”) bearing No. 08 of 2023, dated 10th March 2023, wherein the identified Tier-1 Retailers have been directed to get themselves integrated with the FBR by the 10th of March 2023. It has also been provided that failure to comply would result in disallowance of input tax claim and shall create tax demand of the same amount. The list may be perused through the following link: [STGO 08-2023 \(fbr.gov.pk\)](https://www.fbr.gov.pk/STGO_08-2023)

3. SALES TAX GENERAL ORDER 09 OF 2023 - PROCEDURE OF SALES TAX REFUND TO MANUFACTURERES OF FIVE EXPORT ORIENTED SECTORS AND INTRODUCTION OF NEW RISK PARAMETERS FOR “FASTER”

The FBR issued a STGO No.9 of 2023, on 15th March 2023, to discuss the procedure on the sales tax refund to manufacturers of five export-oriented sectors namely, textile, carpets, leather, surgical and sports goods. The FBR also introduced new risk parameters for its automated refund processing system (“FASTER”).

FBR upgraded the automated system by incorporating benchmarks and input/output ratios after thorough consultation with Customs authorities, Textile Exporters Association of Pakistan, Hosiery Manufacturer Association, IOCO Directorate, Consultants on Textile Sector study and Inland Revenue officers.

New parameters:

- Value addition check shall be 15% for both exports and local supplies for filing Annex-H of the current tax period;
- Total amount of refund against claims filed shall not exceed the lower of the following:
 - Amount of input tax actually consumed in goods as exported/supplied at Zero-rate; or
 - 12% of the exports.
- Inadmissible inputs according to Section 8 of the Sales Tax Act, 1990 shall not be allowed during processing of refunds through FASTER;
- Input tax adjustment shall not be allowed to the manufactures of the five export-oriented sectors

on goods not pertaining to their business activity, and a list of negative list has been released.

- Suppliers who are blacklisted or have an abnormal tax profile shall not be processed by FASTER.

Risk parameters applied in automated refund processing system- Risk Parameters:

- FASTER shall defer proportionate input tax refund against export GDs under objection.
- Logical check shall be enabled in system to cross match the date of export GD with the date of purchase invoices.
- Total amount of refund sanctioned, and refund deferred shall not exceed the total amount of refund claim.
- First claim of refund by newly registered exporters for first twelve months shall be excluded from FASTER and be processed through STARR/ERS.
- Refund claim once excluded from FASTER shall not be allowed to roll back. It shall be processed only through STARR/ERS;
- For refund claim of a commercial exporters, the payment of such refund shall be made after the realization of export proceeds.
- Refund to the exporters against fixed assets shall not be processed through FASTER and shall be paid after verification of installation/utilization by the field formations.
- Expenses incurred on utilities shall be prorated on the basis of consumption between zero rated supplies and domestic sales.

The Board was empowered to add/delete/modify the annexures/conditions/benchmarks mentioned therein as and when deemed necessary after recommendations of

the field formations holding jurisdiction over the export-oriented sectors.

Lastly, approval from Member IR-Operations, FBR shall be applicable with effect from the return filed in March 2023.

Further reading: [20233161633454834STGO-09.2023-Negative-List.pdf \(fbr.gov.pk\)](https://www.fbr.gov.pk/20233161633454834STGO-09.2023-Negative-List.pdf)

4. COMPLETE EXEMPTION ON SALES TAX ON PROJECTS APPROVED BY THE SINDH PUBLIC PRIVATE PARTNERSHIP POLICY BOARD

The SRB, vide Notification No. SRB 3-4/7/2023 dated 3rd March 2023, exempted the whole sales tax payable in the taxable services for the services below-mentioned on projects approved by the Sindh Public Private Partnership Policy Board subject to the conditions and restrictions mentioned in the upcoming paragraphs.

The types of services are as follows:

- Services provided/ rendered by persons engaged in contractual execution of work/furnishing supplies;
- Contractor of building (including water supply, gas supply and sanitary works), electrical/mechanical works (including air conditioning), multi-disciplinary works and similar other works;
- Management consultants;
- Technical, scientific, and engineering consultants;
- Other consultants including tax consultants, human resources, and personnel development consultants;
- Surveyors;
- Technical testing and analysis service;
- Construction services;

- Erection, commissioning and installation services;
- Technical inspection and certification services (Quality Control Certification services, ISO Certifications);
- Valuation services (competency and eligibility testing services);
- Training services.

CONDITIONS AND RESTRICTIONS:

- Services received/procured are from registered service providers. However, these shall not apply on persons who are liable to be registered but are not registered.
- Invoices shall be prepared as per the rule 29 of the Sindh Sales Tax on Services Rules, 2011 ("Rules") wherein the word "Exempt" shall be posted against the Rate of Sindh Sales Tax and "NIL" in place of the Amount of Sindh Sales Tax while quoting the number and date of this notification on these invoices.
- The service provider shall e-file his tax return showing services as required in Annexure C of the tax return, and will ensure compliance of the provisions of the Act (15A and rules 22, 22A of the Rules, 2011)
- Independent auditors (authorized by the Private Public Partnership Node of Agency) shall issue a certificate which shall be prepared in a specified format and shall be given to the service provider with a copy being sent to the following:
 - Director General - Public Private Partnership Unit, Finance Department and
 - Commissioner (Audit) SRB.

Furthermore, no refund or adjustment of tax will be available to the service provider / service recipient. It was also directed that this notification shall be valid upto 30th June 2025. The said notification can be read from : https://www.srb.gos.pk/contents/Notifications/20230303_NO_SRB_3_4_7_2023.pdf

5. EXTENSION IN THE LAST DATE FOR E-DEPOSIT AND E-FILING OF TAX RETURNS OF SINDH SALES TAX FOR THE TAX PERIOD FEBRUARY, 2023

The SRB, vide Circular 02/2023, dated 14th March 2023, provided an extension for payment and filing of the monthly sales tax return on services for the Tax Period of February 2023. The e-deposit compliance date was fixed for 21st March 2023 and e-filing of tax returns on or before 24th March 2023. This circular was applicable on registered persons including withholding agents covered by and under the Sindh Sales Tax Special Procedure (Withholding) Rules, 2014.

For further reading: 20230314_CIRCULAR_02_2023.pdf (srb.gos.pk)

6. SINDH SALES TAX ON SERVICES ACT, 2011

The Assembly of Sindh vide Notification No. Pas/Legis-B-31/2021 dated 14th March 2023 issued an amendment to the Sindh Sales Tax on Services Act 2011 which shall now be called the Sindh Sales Tax on Services (Amendment) Act, 2021 and shall be deemed to have been taken from the 1st July 2016.

a) Definitions:

- A person shall be an active taxpayer if he is a registered person and is not suspended and has e-filed his returns consecutively for four tax periods;
- Inclusion of the words processing, clearing and settlement services provided /rendered by any persons in relation to securities, commodities, and future contracts in the definition of “business support service;
- E-file shall mean electronic filing of any document on the computerized system of the Board;
- Insertion of the definition of software / IT based system development consultant;
- Introduction of a truck aggregator wherein a truck aggregator means a person who is an aggregator/operator/intermediary/online market place/canvases/solicits/facilitates/connects the owners/drivers of trucks/other road transportation cargo vehicles with the business enterprises like manufacturers/ producers/importers/ exporters/ warehouses/ distributors/ wholesalers/ retailers/ movers/ packers through telephone, cellular phone, internet, web-based services/GPS or GPRS based services, electronic or digital means whether or not he collects/charges any fee, fare, commission, brokerage, or other charges or consideration for providing such services.

b) Simplification of the taxable service,

Earlier, a taxable service was a service mentioned in the Second schedule and conducted by a registered person due to his office/ place of business in Sindh or in the course of an economic activity (including commencement and termination)vide this Act, it has been rephrased, making is simpler and understandable.

c) Insertion of a proviso defining what does not constitute an economic activity:

A proviso was added wherein activities of the employee for which he earns any fee or commission from the employer shall also be treated as an economic activity.

d) Liability of Tax on all persons:

All persons shall be liable to pay tax (earlier only registered person was supposed to). And the provisos providing explanations regarding the computation of the amount of tax has been omitted including that a registered person shall include a withholding agent has been omitted.

e) Claim of input tax in case of following services has been disallowed:

- Services received, acquired, or procured from a person who is liable to be registered but is either not registered or does not hold a registration number;
- Goods /services received, acquired or procured is not from an active tax payer under this Act, Sales Tax Act, 1990 or under any provincial sales tax laws;
- Sales tax paid to the Federal/other Provincial Government in relation to supply of goods/provision of services if they do not permit adjustment of tax levied / paid under SRB.

f) Burden of proof

Where a person receiving a taxable service from a registered person is in the knowledge / has reasonable grounds to suspect that some / all of the tax payable would go unpaid, both shall be jointly and severally be liable for payment of such unpaid amount of tax. However, the

burden of proof of such knowledge shall lie on the department.

g) Active Taxpayers List

The SRB shall have the power to prepare and maintain an active taxpayers list in a manner it deems appropriate and shall also make rules providing restrictions/limitation on any person who ceases to be an active taxpayer or from the person who receives/procures any taxable service.

h) Requirement of submission of Auditors certificate has been waived.

Registered persons who were required to have their accounts audited were also supposed to submit an auditor's certificate certifying that payment of any sales tax due / any deficiency has been paid to the Assistant Commissioner, vide this Act, this condition has now been waived.

i) Audit proceedings electronically through video-link

The officer of the SRB conducting the audit is now empowered to conduct the audit proceedings electronically through video-link or any other mode.

j) Power to seal business premises

An officer, not below the rank of a Commissioner, is now empowered vide this Act, to seal business premises of any person if he is satisfied that the person who was supposed to be registered but did not register, or was not an active taxpayer or was consistently non-compliant with the provisions of the Act or Rules. He shall seal the business premises for no longer than 4 months, provided that he has passed the order in writing.

A proviso was also inserted wherein after the lapse of 4 months, that officer shall through an order in writing direct the de-sealing of the sealed premises.

k) Increase in the number of days for issuing an order in case of an appeal.

Earlier, Commissioner (Appeals) was required to pass an order within 120 days from the date of filing of the appeal, and the same has now increased to 180 days.

l) Amendment in the appointment of a Technical Member of the Appellate Tribunal

A person may be appointed as a Technical Member of the Appellate Tribunal if he is below 65 years of age but not lower than 50 years of age and is or was:

- Technical Member of a Customs Appellate Tribunal/ Accountant Member of an Appellate Tribunal Inland Revenue (Appeals) for not less than 1 year; or
- Commissioner SRB / Commissioner (Appeals) SRB on regular basis for not less than 5 years.

m) Service of Notice, Orders, etc.

Notice/ Order/ Requisition shall be treated as properly served to person /representative if it is sent electronically through e-mail or to the e-folder maintained for the purpose of e-filing of returns by the registered person.

It was also stated that upon expiry of 72 hours of sending the same through e-mail/e-folder, it shall be deemed to have been received by the registered person.

n) Increase in rate for issuance of duplicate sales tax documents.

Earlier the fee for obtaining a duplicate of any notice or order issued against the registered person was Rs 500 per document and Rs 200 per page, whichever is higher. The same has now been increased to Rs 1,000 per document and Rs 250 per page, whichever is higher.

o) Delegation of any functions and powers

The Board has been empowered to delegate any of its functions and powers to its Chairman, Member or officer of SRB.

p) Overriding effect of the Act

The Act has been empowered to override other laws for the time being in force.

q) Inclusion of the following taxable services:

- Services by insurance companies in relation to guarantees including an insurance guarantee at 13%;
- Services by truck aggregators and by owners/drivers of trucks/other cargo transportation vehicles using services of truck aggregator at 13%.

For further reading: [20230314 legis 31.pdf \(srb.gos.pk\)](https://www.srb.gov.pk/legis/20230314_legis_31.pdf)

7. EXTENSION OF EXEMPTION OF NDMA/PDMA FLOOD RELIEF OPERATIONS

The SRB, vide SRB 3-4/15/2023 dated 25th March 2023, further amended its earlier notification No. SRB 3-4/36/2022, whereby the date was extended from 1st

January 2023 to 1st July 2023, for the exemption on the whole of sales tax payable on services specified by the National Disaster Management Authority (“NDMA”) or Provincial Disaster Management Authority Sindh (“PDMA”) for relief operations carried out in Sindh. Further reading: [20230325_NOTIFICATION_15.pdf \(srb.gos.pk\)](#)

2. CORPORATE NOTIFICATIONS / CIRCULARS

1. AMENDMENTS TO THE SECURITIES BROKERS (LICENSING AND OPERATIONS) REGULATIONS, 2016

The SECP, vide SRO 360(i)/2023, dated 14th March 2023, has issued amendments to the Securities Brokers (Licensing and Operations) Regulations, 2016, which had been earlier published through SRO 2191(i)/2022, dated 5th December 2022. Through this notification, provisos were inserted pertaining to Broker Fiduciary Ratings of BFR 3 and BFR 2, and regulations related to Management rating were omitted.

2. PUBLIC OFFERING (REGULATED SECURITIES ACTIVITIES LICENSING) REGULATIONS, 2017

The SECP, vide SRO 361(i)/2023 dated 14th March 2023, which was earlier published vide SRO 2190(i)/2022 dated 5th December 2022, has issued amendments to the Public Offering (Regulated Securities Activities Licensing) Regulations, 2017, wherein a securities broker should have a minimum broker fiduciary rating of BFR 3+ from a credit rating company licensed by the Commission and related provisos were inserted

3. ALTERATION IN THE FIRST SCHEDULE OF THE COMPANIES ACT, 2017

The SECP, through SRO 378(i)/2023 dated 17th March 2023, has made alteration in the First Schedule of the Companies Act, 2017, wherein the existing object clause was substituted in each Memorandum of Association mentioned in Table B, C, D, & E.

4. PERMISSOIN TO CIRCULATE ANNUAL AUDITED FINANCIAL STATEMENTS ALONG WITH DIRECTOR’S REPORT TO MEMBERS THROUGH QR ENABLED CODE AND WEBLINK FOR LISTED COMPANIES

The SECP, vide SRO 389(i)/2023, dated 21st March 2023, has granted permission to listed companies to circulate annual audited financial statements (Balance sheet, Profit& Loss account, Auditor’s report) along with the director’s report to its members through QR enabled code and weblink subject to certain conditions and provisions contained in the said notification. The SECP also discontinued circulation of these statements through CD/ DVD/ USD citing them to be old technology/ obsolete.

5. REQUIREMENTS FOR NBFCs RELATING TO DIGITAL LENDING

The SECP, vide Circular No. 03 of 2023, SRO 390(i)/2023, dated 10th March 2023, has issued requirements for NBFCs relating to digital lending wherein it directed all NBFCs to abstain from engaging in any kind of app integration, app sub-letting, license sub-letting, payment services, credit scoring & credit worthiness check, and/or any other type of integration services or collaboration with any digital lending App that is not approved by the SECP’S

Circular 15 of 2022 dated December 27, 2022. The NBFCs were also directed to take all necessary measures to create awareness about inherent risks and illegality of such unauthorized lending Apps.

3. PHYSICAL VERIFICATION OF MANUFACTURING PREMISES FOR INPUT TAX ADJUSTMENT

1. INTRODUCTION

The Lahore High Court (“LHC”) ordered to constitute of a team of experts to attain physical verification of manufacturing premises in the case of DG Khan Cement Company (“Learned Petitioners”) versus Federal Board of Revenue (“Learned Respondents”) on each and every heading for which input tax adjustment had been made.

2. ARGUMENTS BY THE LEARNED RESPONDENTS

The counsel for the Learned Respondents contested that the petition is not maintainable by stating that the adjustment of input tax is not justified and barred through Section 8(1)(h) of the STA.

3. ARGUMENTS BY THE LEARNED PETITIONER

The counsel for the Learned Petitioners placed reliance on the case of **Nishat Mills Limited versus Federation of Pakistan (2020 PTD 1641)** in which the Assessing/Adjudicating Officer was directed to interpret Section 8(1)(h) and (i) of the Sales Tax Act, 1990 (“STA”) on a case-to-case basis after determining facts of each case without prejudice to the findings in this regard. They also argued that the Learned Respondents misinterpreted the relevant provisions regarding the Petitioner’s claim on input sales tax on supply of equipment and decided the case against them twice.

The counsel for the Petitioners also argued that the Respondents did not comply with the direction/observations given by the learned Division Bench of the LHC which was that a registered person is entitled to deduct (adjust) input tax, for the purpose of taxable supplies from the output tax, provided that they were made on taxable supplies, and as the Respondents did not follow this order, the Petitioner argued that this stance stood in violation of Article 201 of the Constitution, because the decision of any High Court shall be binding on all Courts subordinate to it, including Government authorities.

Moreover, the counsel for the petitioners also submitted that the company was engaged in taxable supply; therefore, they were entitled to relief. They further argued that they had requested the Learned Respondents to visit the site to confirm that an actual expansion had been done for which input was sought. To support their claim on expansion, they produced their Annual Report as evidence that capacity and actual production had indeed been massively increased due to the expansion.

4. FINDINGS OF THE LAHORE HIGH COURT (“LHC”)

The LHC observed that the exclusion of adjustment/refund of input tax does not have nexus with the taxable activity of a registered person and parameters regarding adjustment of input tax have been tabled down in Sections 8(a-m). Furthermore, these shall be read with the provisions of Sections 2 and 7 of the STA. The LHC also found that the Petitioners were fully entitled for adjustment of the input tax as the input tax claimed by them was used for industrial establishment.

The LHC also found that the Petitioner made specific requests to the Respondents to visit the manufacturing

unit which had not been complied with. Therefore, the LHC disposed of the plea upon deciding that a team of qualified/expert persons should be constituted/made to attain on-site/physical verification clarifying whether the items for which input tax claimed had been done strictly within the provisions of the STA or not. This team shall verify each and every invoice under the relevant heading to conclude whether the goods have been used for the purpose of taxable activity/supply and that the matter will only be finalized after completion of this exercise by the adjudicating authority.

4. TOPIC OF THE MONTH

TAXATION OF SMALL AND MEDIUM ENTERPRISES

For this month's edition, we have decided to discuss taxation of small and medium enterprises ("SMEs") at length. The Income Tax Ordinance, 2001 ("ITO") discusses this matter under the umbrella of Section 2(59A), 100E and the Fourteenth Schedule. We have decided to collectively discuss all of these sections to enhance the understandability of this topic.

INTRODUCTION

Special provisions under the Fourteenth Schedule to the ITO, relating to SMEs were introduced through the Finance Act, 2021 and a concessionary regime was introduced for SMEs. It was further provided through the Finance Act, 2021 that this inclusion was applicable from the Tax Year 2021 and shall apply prospectively. The Board (FBR) was also empowered to prescribe a simplified return format solely for the SMEs.

DEFINITION

Firstly, it is important to understand the definition of an SME. An SME is defined as a person who is a manufacturer who does not have turnover more than Rs. 250 million during the subject tax year and any of the previous tax year (starting from tax year 2021). For example, if annual turnover of a person during tax year 2024 was Rs. 240 million but it was Rs. 270 million during the tax year 2022, he will not be qualified to be an SME.

A manufacturer is defined as under:

A person who is engaged in production or manufacturing of goods, including:

any process in which an article singly/ combining with other articles, material, components, is either converted into another distinct article / product is so changed, transferred, or reshaped that it becomes capable of being put to use differently or distinctly; or

- a) a process of assembling, mixing, cutting or preparation of goods in any other manner
- b) In other words, any person availing concession under the Fourteenth Schedule is required to fulfill both of the following two conditions:
 - 1) Person is a manufacturer; and
 - 2) Annual turnover does not exceed Rs. 250 million during the year or any of the previous year.

It is also important to note here that a SME may be in any form such as an Individual, an AOP, or a Company.

REGISTRATION

Once a person qualifies or opts to be a SME, he shall register with the FBR, through IRIS, or with the Small and Medium Enterprises Development Authority, through its SME Registration Portal (“SMERP”).

TAXATION

There are two options available for a SME under fourteenth Schedule as under:

NORMAL TAX REGIME (“NTR”)

Where the SME opts for NTR, he shall then face two types of categories with different rates being applied on the basis of their annual turnover. The Fourteenth Schedule sets aside two types of categories, wherein tax rate for SMEs whose annual business turnover is upto Rs 100 million shall be 7.5%, and for those SMEs whose annual turnover is between Rs. 100,000,001 and Rs 250,000,000, the tax rate shall be 15%.

FINAL TAX REGIME (“FTR”)

In case the SME opts for FTR, it shall then have two tax rates applicable on the basis of gross turnover. Where annual turnover is upto Rs. 100 million, 0.25% of the gross turnover shall be applied, and where annual business turnover exceeds Rs 100 million but not exceed Rs 250 million, then 0.5% of the gross turnover shall be applied.

It is also important to note that this exercise of option shall be made at the time of filing of return and the said option will be irrevocable for three tax years. For example if a SME had opted for FTR for tax year 2021, it will be required to file returns of income under FTR for tax year 2022 and 2023

BENEFITS OF FTR OVER NTR OPTION:

| Description | NTR | FTR |
|---|-----|-----|
| Provisions of Audit/ Selection for audit by the FBR | ✓ | ✗ |
| Provisions of minimum tax on turnover | ✗ | ✗ |
| Other Provisions of the Ordinance | ✓ | ✓ |

Legend- ✓ *Applies* ✗ *Does Not Apply*

RULES / LIMITATIONS FOR AUDIT FOR NTR- SME:

1. Selection shall be made through risk based parametric computer ballot only if its tax to turnover ratio is below the tax rates under FTR option. For example, in case the turnover is upto Rs. 100 million and tax (paid under NTR) to turnover ratio is 0.45% (i.e. more than 0.25%), then audit selection will not be made.
2. The cases selected are barred to not go beyond 5% of the total population of SMEs whose tax to turnover ratio is below tax rates mentioned above. For example, total number of SMEs, whose tax to turnover ratio is below the tax rates, is 1000. Then no more than 50 SMEs will be selected for audit.

CERTAIN EXCEPTIONS ON SMES:

1. Export proceeds of SMEs shall be subject to tax at rates subject to the following under FTR:
 - a. Annual turnover does not exceed Rs 100 million- 0.25% of gross turnover;
 - b. Annual turnover exceeds Rs 100 million but not Rs 250 million- 0.5% of gross turnover;

2. Tax deductible under section 153(1)(a) of the ITO on the supply of goods shall not fall under the purview of Minimum Taxation.

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