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Monthly Technical Updates
on Accounting, Taxation & Laws

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Inside

Message from the Chairman

It gives me immense pleasure to present the seventh issue of TSPD Monthly Technical Updates. This issue covers a variety of topics related to Taxation, Stock Market, Monetary, Corporate Sector and especially the Federal Budget 2020-21 which was announced on June 12, 2020. I believe that members will find it informative and helpful in discharging their professional assignments.

I like to express my deep appreciation to all our members and their teams who have contributed in putting up the Budget Commentary 2020-21 especially Mr. Shaukat Hayat Khan Baluch, FCMA; Sayyid Mansoob Hasan, FCMA; Mr. Zahid Farooq, FCMA; Mr. Tariq Javed Kamboh, FCMA; Mr. Abdul Razzaq, FCMA and staff of TSPD Directorate, who worked hard to make this task possible.

I also want to request all members to share their valuable suggestions for further improvement in the Monthly Technical Update and identify topics of technical interest, which the Committee may consider for arranging seminars, workshops and training programs beneficial for the practicing members in terms of their capacity building and value addition.

Please do share your comments on tspd@icmap.com.pk.

Ghulam Mustafa Qazi, FCMA
Chairman TSPD Committee

Feature News

Budget Commentary 2020-21

Budget Commentary 2020-21 was prepared by the Technical Support and Practice Development (TSPD) Committee of ICMA Pakistan. The purpose of preparing the commentary was to provide a deep insight on the Federal Budget 2020-21 and enable the readers for a better understanding of changes in Income Tax, Sales Tax, Federal Excise and Customs Laws made through Finance Bill 2020. In this commentary, the experts provided their opinions on the changes/amendments to the provisions of various statutes which made it a worth reading document for the professional accounting community as well.

TSPD Committee Members who contributed in putting up the commentary were Mr. Shaukat Hayat Khan Baluch, FCMA; Sayyid Mansoob Hasan, FCMA; Mr. Zahid Farooq, FCMA; Mr. Tariq Javed Kamboh, FCMA; Mr. Abdul Razzaq, FCMA, and staff of TSPD Directorate, who worked hard to make this task possible.

The sources of information to prepare this memorandum are; Economic Survey of Pakistan, Budget in Brief and the Finance Bill 2020-21, as were available on the websites of the Ministry of Finance and Federal Board of Revenue, Government of Pakistan.

The Commentary is available at the following link:- https://www.icmap.com.pk/News_Pdf/BudgetCommentary_2020-21.pdf

Committee Activities

31st Meeting of TSPD Committee

31st Meeting of TSPD Committee was held online on June 09, 2020. Worthy Committee members participated in the meeting and had the thread-bare discussions on different matters especially those concerned with the CMAs. Members reviewed the previous activities and guided the directorate on the matters relating to the progression of practicing members ' capacity building activities.

Technical Sessions on Preparation of Budget Commentary

After the announcement of the Federal Budget 2020-21, TSPD Committee organized a Technical Session on preparation of Budget Commentary. Worthy members participated in the said session and developed teams for providing expert opinions and suggestions on the respective areas of their specialization and interest for preparation of the Commentary.

National Updates

Corporate Sector

1. DRAFT AMENDMENTS TO THE SHARIAH GOVERNANCE REGULATIONS, 2018

Securities and Exchange Commission of Pakistan (SECP) vide their S. R. O. 510(I)/2020 issued draft amendments to the Shariah Governance Regulations, 2018.

SECP proposes to constitute an Oversight Committee to conduct Shariah screening of listed companies and review the Shariah compliance of companies and securities. The oversight Committee shall comprise of the following members to oversee and establish the Shariah screening criteria:-

(a) Chairman Shariah Advisory Committee, SECP – as Head

(b) a representative of PSX;

(c) a representative of KMI;

(d) a representative of MUFAP.

This Oversight Committee shall conduct the Shariah screening for listed companies on the basis of criteria notified by PSX as per regulation 11 for the purpose of a Shariah index.

The Oversight Committee shall review the Shariah compliance of companies and securities on a bi-annual basis. The Oversight Committee shall exclude a company or security from the index as and when it becomes Shariah non-compliant. To facilitate Oversight Committee and develop Islamic capital market products, PSX shall establish a dedicated Shariah department and appoint at least one independent Shariah Advisor.

The draft amendments can be downloaded from the following link:-
https://www.secp.gov.pk/document/sro-510-i-2020-draft-amendments-to-shariah-governance-regulations-2018/?wpdmdl=39467&refresh=5ee1c60ed9d731591854606

2. Withdrawal of order of establishment of Tax Information Processing Unit (TIPU) in IR-Operations Wing, FBR

Federal Board of Revenue (FBR) vide their notification dated June 10, 2020 withdrawn the order of establishment of Tax Information Processing Unit (TIPU) in IR-Operations Wing of FBR.

For further details, please visit the following link:-
http://download1.fbr.gov.pk/Docs/20206101563837237TIPUORDER.pdf

3. AMENDMENTS TO THE INSURANCE RULES, 2017 (REDUCTION IN FEE)

Securities and Exchange Commission of Pakistan (SECP) vide their S.R.O. 550(I)/2020 notified amendments to the Insurance Rules, 2017.

Following amendments were made in the Rules:-

- In Rule 8, Annual supervision fee to be paid by every insurer registered under the Insurance Ordinance, 2000 to the SECP is reduced from "Rs. 2.00 per thousand of gross direct premium" to "Rs. 1.60 per thousand of gross direct premium" written in Pakistan during the calendar year preceding to the last year, subject to a maximum of rupees fifty million.
- In Rule 39(4), fee required for any application for issue of initial authorization to act as an insurance broker is reduced from "rupees one hundred thousand" to "rupees fifty thousand".
- In Rule 39(5), renewal fee of authorization to act as an insurance broker is also reduced from "rupees seventy five thousand rupees or rupees two for every rupees one thousand of the gross revenue" to "rupees thirty seven thousand five hundred or rupees one for every rupees one thousand of the gross revenue". The maximum limit is also reduced from "rupees five hundred thousand" to "rupees two hundred and fifty thousand."

For further details, please visit the following link:-
https://www.secp.gov.pk/document/amendments-to-the-insurance-rules-2017/?wpdmdl=39502&refresh=5ee7f110cabbe1592258832

4. AMENDMENTS TO THE PRIVATE FUNDS REGULATIONS, 2015

Securities and Exchange Commission of Pakistan (SECP) vide S.R.O. 545(I)/2020 notified amendments in the Private Funds Regulations, 2015.

According to SRO, the SECP has made registration mandatory for anyone to be engaged in business of private equity and venture capital fund management services. No person shall establish, launch, or raise money in Pakistan for investment in a private fund unless the fund is registered under these regulations. The definitions of "Eligible Investor', "Private Equity and Venture Capital Fund" and "Trustee" substituted through the SRO.

The SECP has specified that Private Fund Management Company shall submit the draft trust deed along with the name and consent of the trustee of the proposed private fund in accordance with Schedule II or draft Memorandum of Association or draft Limited Liability Partnership Agreement along with custodian agreement for approval of the commission as per schedule-III.

Upon securing in-principle approval of the commission, the Private Fund Management Company shall execute and seek registration of the trust deed in accordance with the provisions of the Trust Act, 1882 or incorporate company in accordance with Companies Act, 2017 or register limited liability partnership in accordance with Limited Liability Partnership Act, 2017, as the case may be.

Where a private fund utilises or proposes to utilise borrowing, the Private Fund Management Company shall ensure that it has necessary expertise in managing private fund employing borrowing strategies including understanding the impact of borrowing on the overall risk of a portfolio and having the ability to monitor the use of borrowing; has clearly disclosed in the Placement Memorandum of the Private Fund, at the minimum. The borrowing parameter for the Private Fund (including the maximum amount of borrowing, duration, and whether secured or unsecured), the basis of borrowing and risks involved.

The liability of the unit holder is limited to their investments in the fund. It has borrowed only from a financial institution/companies. The short-term borrowing by a Private Equity and Venture Capital Fund shall not exceed 15 percent of the size of that Private Equity and Venture Capital Fund and any long-term borrowing by a Private Equity and Venture Capital Fund shall only be repayable on the date of maturity of that Private Equity and Venture Capital Fund or shall only be obtained against an instrument convertible into equity.

For further details, please visit the following link:-
https://www.secp.gov.pk/document/sro-545-i-2020-amendments-in-the-private-funds-regulations-2015/?wpdmdl=39499&refresh=5ee824f249c431592272114

5. CHECKLIST FOR COMPLIANCE WITH THE MANDATORY REQUIREMENTS OF THE LISTED COMPANIES (CODE OF CORPORATE GOVERNANCE) REGULATIONS, 2019 BY THE LISTED COMPANIES

Securities and Exchange Commission of Pakistan (SECP) notified a checklist for compliance with the mandatory requirements of the listed companies (code of corporate governance) regulations, 2019 by the listed companies.

The checklist is developed to recognize compliance status with the mandatory requirements of the CCG Regulations by the listed companies on a particular date which is to be mentioned in the email, covering letter, or circular etc. requiring the companies to respond to the questions provided in this checklist.

It does not reflect complete list of the requirements of the CCG Regulations, therefore, the listed companies are advised by the SECP to go through Section 156 of the Companies Act, 2017 and the CCG Regulations and ensure that all the applicable provisions thereof are fully complied with. The listed insurers and listed Takaful companies must also consult the relevant Insurance and Takaful Laws including the Code of Corporate Governance for Insurers, 2016.

Monetary

6. BUDGET 2020-21

KEY HIGHLIGHTS

- The total outlay of the Federal budget 2020-21 stands at Rs.7.3 trillion.
- No new tax is introduced in the Budget 2020-21 so as to provide relief to the people.
- The total revenues are projected at Rs 6,573 billion which includes FBR revenue of Rs 4,963 billion and non-tax revenue of Rs 1,610 billion.
- Net Federal revenue is estimated at Rs 3,700 billion and the total federal expenditure is estimated at Rs 7,137 billion.
- Current expenditure of the country estimated at Rs. 6,345 billion.
- Provincial share under the NFC award is estimated at Rs 2,874 billion.
- The Budget deficit is estimated at Rs 3,437 billion which is 7% of GDP with primary balance at -0.5%.
- The size of Public Sector Development Programme (PSDP) for 2020-21 is estimated at Rs 1,324 billion out of which Rs 676 billion is allocated to provinces.
- The budget allocation for Ehsaas program is increased from Rs 187 billion to Rs 208 billion, which includes various social safety initiatives including BISP, Pakistan Bait-ul-Mal and other departments.
- Rs 179 billion is allocated to provide various subsidies in energy, food and other sectors.
- Budget allocation for Higher Education is increased from Rs 59 billion to Rs 64 billion.
- The Defence Budget of Pakistan is estimated at Rs. 1,289 billion (Almost 5% higher than the revised figures of Rs.1227 billion last year).

INCOME TAX

- In order to simplify the Withholding Taxes regime, withholding tax on the following provisions are abolished:
  - Collection of advance tax on education related expenses remitted abroad (236R)
  - Tax on steel melters and composite units (235B)
  - Withdrawal of balance under pension fund (156B)
  - Tax on local purchase of cooking oil or vegetable ghee by certain persons (148A)
  - Advance tax on functions and gatherings (236D)
  - Advance tax on cable operators and other electronic media (236F)
  - Advance tax on dealers, commission agents and arhatis etc. (236J)
  - Advance tax on insurance premium (236U)
  - Advance tax on tobacco (236X)
- The threshold for becoming Prescribed Person for Withholding of Tax on Supplies, Services and Contracts is proposed to be increased from 50 million to 100 million rupees and a similar threshold of 100 million rupees is prescribed for a sales tax registered person to become a withholding agent.
- The government proposes to abolish the bifurcation of plots and constructed property for determining holding period of capital gains which was introduced last year. The holding period for taxation of capital gains on disposal of immovable property is proposed to be restricted to 4 years which means that no tax will be levied in respect of capital gain on disposal of property held for more than 4 years.
- A tonnage tax @ an amount equivalent to 75 US cents per ton of gross registered tonnage per annum is proposed to be introduced for a Pakistan resident ship owning company registered with SECP after November 15, 2019.
- The threshold for Salary payment is proposed to be enhanced from Rs 15,000 to Rs 25,000 as allowable deduction against business income if the salary is paid in cash.
- Individuals and AOPs are proposed to be allowed to opt for net income taxation of income from house property after deduction of expenses irrespective of any threshold of income.
- Allowable deduction against rental income to claim expenditure including administration and collection charges is reduced from 6% to 2%.
- The current limit of disallowing any expenditure for a transaction, paid or payable under single account head, made other than crossed cheque, bank draft or pay order or any other crossed banking instrument (Section 21(l)) is proposed to be increased from Rs. 50,000/- to Rs.250,000/-.
- The threshold of expenditure disallowed as a business expense if made other than by a crossed cheque or direct transfer of funds to the employee’s bank account is proposed to be enhanced from Rs. 10,000/- to Rs. 25,000/-.
- Expenses incurred on account of utility bills in excess of certain limits and violation of conditions (to be prescribed) are proposed to be disallowed as deduction.
- The expenditure attributable to sales made to persons required to be registered but not registered under Sales Tax Act, 1990 is proposed to be disallowed subject to certain limits but this disallowance should not exceed 20%.
- Depreciation claim is proposed to be reduced by 50% in the first year the asset is brought into use and 50% is proposed to be allowed in the year of disposal.
- The cost allowed of lease rentals deductions on account of a passenger transport vehicle not plying for hire is proposed to be restricted to Rs 2.5 million of the principal.
- Tax credit limit in respect of donations to associated persons is proposed to be restricted to 50% of the limit for donations to non-associated persons.
- Tax credit is proposed to be restricted to the companies opting for enlistment on Pakistan Stock Exchange on or before June 30, 2022.
- The submission of a statement of voluntary contribution and donations is proposed to be introduced to claim tax credit under

section 100C by non-profit organizations. Further, donations from associated persons are proposed to be excluded from restricted Funds.

- Interest or profit on debt payable to foreign associates are proposed to be restricted to 15% of the taxable income before interest, depreciation and amortization.
- The scope of minimum tax regime under section 113 is proposed to be applicable for a permanent establishment of a non-resident person.
- Each person whose income is subject to the final taxation is required to file return of income instead of statement of final taxation.
- Un-explained receipts are proposed to be treated as business income in respect of suppressed amount of production and sales/ receipts.
- Prescribed persons are proposed to be required to submit a tax profile to the FBR within prescribed time limit failure to which may attract monetary penalties as well as exclusion from Active Taxpayers' List.
- The Commissioner is empowered to grant the approval for revision of return in case of a bonafide omission.
- The statement of final taxation under section 115 is proposed to be abolished.
- Return of income filed by the taxpayer is proposed to be subjected to automated adjustment assessment to rectify computational errors or wrongly claimed credits.
- The concept of agreed assessment is proposed to be introduced providing the taxpayer an option to settle their cases through an Assessment Oversight Committee subject to certain conditions.
- The Appeal Fee is proposed to be increased by 5 times of the existing fee, for filing appeals before the Commissioner Appeals and Appellate Tribunal. Filing of appeal before Appellate Tribunal is proposed to be subjected to payment of 10% of the demand upheld by the Commissioner (Appeals).
- The rate of tax at the import stage is proposed to be revamped through the insertion of twelfth schedule and is proposed to be reduced to 1% and 2% in case of capital goods and raw material respectively by industrial undertaking for its own use.
- The taxpayer is proposed to be allowed to withdraw his case from any court of law or any appellate authority after decision of ADRC. Furthermore, the decision of ADRC is binding upon the tax authorities, once it is conveyed by the taxpayer to the tax authorities, subject to certain conditions.
- Tax deductible under section 152 on payment made to a permanent establishment (PE) of non-resident person on account of purchase of goods, services received and execution of contract is proposed to be aligned with the registered persons.
- The rate of withholding tax on account of cohesive business operation is proposed to be reduced from 2.1% to 1.4%.
- The payment for toll manufacturing services is proposed to be treated as a sale of goods under section 153.
- Withholding statements are proposed to be file don quarterly basis.
- Audits under section 177 is proposed to be conducted electronically.
- The Commissioner is proposed to be empowered to assess default surcharge for the period of default against a person liable to pay tax, where the tax due or a part thereof is unpaid.
- Engineering services are proposed to be subjected to withholding tax at 8% instead of previous reduced rate of 3%.
- Advance tax collection is proposed to be exempted for rickshaw, motorcycle-rickshaw and any other motor vehicle having engine capacity up to 200cc.
- The Commissioner is proposed to be empowered to issue exemption certificate from collection of tax on electricity bills to a person who has discharged his advance income tax liability for the tax year.
- Advance tax is proposed to be collected in installments, where the payment in respect of a sale by public auction or auction by a tender is received in installments.
- It is proposed to treat tax deduction from income earned by a resident person from rental for use of machinery and equipment as minimum tax.
- The rate of deduction of tax on investment in Sukuk under section 150A is proposed to be enhanced from 15% to 25%.
- Payments to non-resident person for royalty, fee for technical service, insurance premium or re-insurance premium and payment to individual in respect of profit on debt earned from a debt instrument fulfilling certain conditions are proposed not to be subjected to the Tenth Schedule.
- Under section 153 of the Ordinance, reduced rate of 1.5% is proposed to be deducted on gross amount of payment received for supply to utility store corporation of Pakistan up to September 30, 2020.
- Withholding of tax on withdrawal of balance from pension fund as specified under section 156B is proposed to be withdrawn. However, the withdrawal in excess of fifty percent before the retirement age, or at the time of or after the retirement age is to be taxed as salary income at normal rate of tax or, at the option of the eligible person, at average rate of tax. Pension fund manager is made responsible for deduction of this tax.
- Exemption is proposed to be granted:
  - from income tax to the Federal Government Employees Housing Authority for the tax year 2020 and the following four tax years.
  - from collection of tax under sections 231A, 231AA and 236P in respect of foreign remittances credited to Pak Rupee Account.
  - from enhanced deduction of tax from dividend payments to non-resident persons, not appearing in Active Tax Payers List.
  - from provisions of section 236P to non-resident rupee account repatriable or a foreign currency account in Pakistan.
  - from collection of advance tax under section 148 for Importing specified medical supplies and pulses.
  - to Hajj Operations from withholding tax provisions of payments to non-residents.
  - to the Prime Minister's COVID-19 Pandemic Relief Fund-2020 from the provisions of section 151, 231A, 231AA and 236P.
  - to Ehsaas Emergency Cash Transfer Programme from the withholding provision of advance tax on brokerage and commission payment.

SALES TAX

- A person, whose input tax adjustment is blocked, is proposed to work as an active taxpayer on sales side. Buyers will be able to claim input tax on the purchases made from the person.
- A person is proposed to be excluded from the list of active taxpayers who fails to file quarterly withholding tax statement under section 165 of the Income Tax Ordinance, 2001.
- Sales tax paid with the purchase of provincial services is proposed to be excluded from the definition of input tax.

- The registered person who deals in the purchase and sale of used vehicles is proposed to pay sales tax on the gain calculated by the difference between sale and purchase price of the said vehicle.
- The sales tax is proposed to be withheld on the purchase of services from unregistered person as per Eleventh Schedule.
- The Board is proposed to decide the restrictions on wastage of material on which input tax has been claimed.
- The input of goods or services attributable to supplies made to un-registered person without mentioning CNIC or NTN, on pro-rata basis, are proposed to be disallowed.
- No CNIC or NTN of the unregistered person, proposed to be required if the supplies made by a retailer where the total transaction value does not exceed rupees one hundred thousand.
- The Commissioner is proposed to conduct audit proceedings electronically through video links, or any other facility as prescribed by the Board.
- If a required person does not integrate his POS with the computerized system of the Board Such person is proposed to be liable to pay a penalty after a period of two months and his business premises shall be sealed and an embargo shall be placed on his sales till such time he integrates his business.
- Any person who is required to share information under section 56AB, fails to do so. Such person is proposed to pay a penalty of twenty-five thousand rupees for first default and fifty thousand rupees for each subsequent default.
- Appeal fee against assessment order is proposed to be Rs. 5,000 in case of company and Rs. 2,500 in case of other person. Appeal fee other than an assessment order is proposed to be Rs. 1,000 if the person is not a company.
- The CIR (Appeals) may not admit any document or evidence which was not produced before the Officer Inland Revenue.
- Changes in Alternative Dispute Resolution:
  - Chief Commissioner Inland Revenue is proposed to be the member of the committee instead of a Commissioner.
  - Only Board is proposed to nominate the persons of the committee.
  - Name of the Retired Judge is proposed to be removed from the members of the committee.
  - The Board is proposed to communicate the appointment of to the Commissioner and the court of law or forum where dispute is pending.
  - The committee is proposed to grant stay on application by the taxpayer which may give maximum stay up to 120 days in aggregate.
  - If the aggrieved person does not communicate the decision of the committee within 60 days, the decision shall not be binding on the Commissioner.
- Any notice, order is proposed to be treated served if sent electronically through email or to the e-folder of the registered person.
- Real-time access to information and databases of NADRA, FIA, Bureau of Immigration, ICT, Provincial Excise and Taxation, Electricity/Gas suppliers and any other agency, authority, institution or organization, notified by FBR.
- A registered person is proposed to make all taxable supplies to a register person excluding supplies not exceeding a value of one hundred million Rupees in a financial year and ten million Rupees in a month.
- Zero rate on supplies of raw materials, locally manufactured plant and machinery and Exemption on import of goods are proposed to allowed to the manufacturing in the Gwadar Free Zones.
- Exemptions of sales tax is proposed to be extended up to the year 2023 on the import and supply of ships and floating crafts etc.
- Dietetic foods for the children having inherent metabolic disorder is proposed to exempted with certain conditions.
- Supplies, by the integrated retail outlets with the FBR's computerized system, is proposed to be subject to Tax @ 12% instead of 14%.
- A fixed sales tax of PKR 200 is proposed to be charged on the Import or local supplies of smart phones with value not exceeding $30.
- In Eleventh Schedule, withholding tax is proposed to be deducted in case of purchases from Non-Active taxpayer.
- 3% Value added tax is proposed to be abolished on the import of raw materials and intermediary goods for a manufacturer.

FEDERAL EXCISE DUTY

- The Board is proposed to be empowered to restrict adjustment of input FED on wastage of material.
- A newly proposed section 14C, proposes to bind the tax authorities to abide by the judgment of High Court and Appellate Tribunal deciding a question of law in case of a registered person.
- The scope of seizure and confiscation is proposed to be extended to all dutiable goods which is currently restricted to cigarettes and beverages only.
- It is proposed that the parameters with regard to selection of audit through random parametric computerized balloting shall be kept confidential by the Board.
- The Bill proposes to omit the provisions regarding the frequency of conducting an audit once in a three years which was inserted through Finance Act, 2018.
- Electronic communication of notices, orders and documents which are currently served only to public and private limited companies are proposed to be served to every registered person as well.
- FED on Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not colored or in the form of clinkers is proposed to be reduced from Rs. 2/kg to Rs. 1.75/kg in the wake of worsening effect of COVID-19 and reduction in production of cement.
- The Board is proposed to be empowered to fix minimum production on the basis of single or more inputs and for fixation of wastage.
- The Bill proposes to levy FED on:
  - caffeinated energy drinks at 25% of the retail price.
  - e-liquids for electric cigarette kits at Rs.10 per ml.
  - on double cabin (4x4) pick-up vehicles at the rate of 25% ad valorem and 7.5% ad valorem for imported and locally manufactured vehicles respectively.
- The Bill proposes to enhance FED on:
  - filter rod for cigarettes from Rs. 0.75/filter rod to Rs. 1/per filter rod.
  - cigars, cheroots, cigarillos and cigarettes of tobacco and tobacco substitutes from 65% of retail price to 100% of retail price.

CUSTOMS ACT

- The definition of 'Advance Ruling' is proposed to be revised allowing the applicant to obtain a binding 'Advance Ruling' in respect of certain questions including classification of goods, determination of origin of goods etc.
- The Bill proposes to enhance the scope of the term 'smuggle' to also include those being concerned in any ways in carrying, transporting, removing, depositing, harbouring, keeping and concealing such goods.
- The scope of fiscal fraud is proposed to be broadened and under-invoicing and over-invoicing are to be treated as fiscal fraud. Also, on case of reassessment of goods declaration under section 808, the opportunity of being heard is proposed to be provided through Customs Computerized System.
- The time period for deciding show cause notice by customs officer in respect of cases involving smuggling is proposed to be reduced to 30 days from current 90 days.
- The custom duty is proposed to be reduced on:
  - 90 tariff lines from 11% to 3% and 2 tariff lines from 11% to 0%.
  - Certain raw materials of various industries and import of raw material by manufacturers of interlining/buckram, wire rod and food packaging industry.
- The Bill proposes to exempt duties on:
  - import of raw materials by manufacturers of Wire rod and import of machinery, equipment and other project related items for setting up of internet cable landing stations
  - Hot Rolled Coils (HRC) of Iron and steel from 12.5% and 17.5% to 6% and 11%.
  - import of dietetic foods for children with inherited metabolic disorders, diagnostic kits for cancer & coronavirus, lifesaving drug Megalumine Antimonite and Ready to use Supplementary Foods (RUSF).
  - setting up new industries in erstwhile FATA area which was available till year 2020 has been proposed for extension up to 2023.
  - import of raw materials by manufacturers of Butyl Acetate, syringes & saline infusion sets, buttons, beverages can manufacturers and import of machinery, equipment and other project related items for setting up of internet cable landing stations.

The additional custom duty on import of raw materials by manufacturers of Wire rod and food packaging industry and on import of edible oils and oil seeds is proposed to be exempted under Prime Minister's COVID19 relief package.

International Update

1. GLOBAL COALITION ISSUES GUIDANCE ON HOW BUSINESSES CAN ADOPT A LONG-TERM VALUE CREATION AGENDA

In the wake of unprecedented economic disruption due to the COVID-19 pandemic, many companies are rethinking their fundamentals and assessing how their corporate purpose, strategy and business model will drive long-term success. To support businesses in this uncertain environment, the International Federation of Accountants (IFAC), International Integrated Reporting Council (IIRC), and the Association of International Certified Professional Accountants (the unified voice of the American Institute of CPAs (AICPA) and the Chartered Institute of Management Accountants (CIMA)) released new guidance for Chief Financial Officers (CFOs) and finance teams to navigate their organizations toward long-term value creation.

The report contains actionable insights for CFOs, finance teams, and other business leaders to sharpen their perspective on value creation beyond the financials, including how to:

- Understand the value creation process
- Identify principal opportunities and risks related to the organization's strategy and business model
- Develop an integrated view of performance and value, incorporating balance sheet, business, and societal perspectives; and
- Drive priorities for value creation into decision making and reporting.

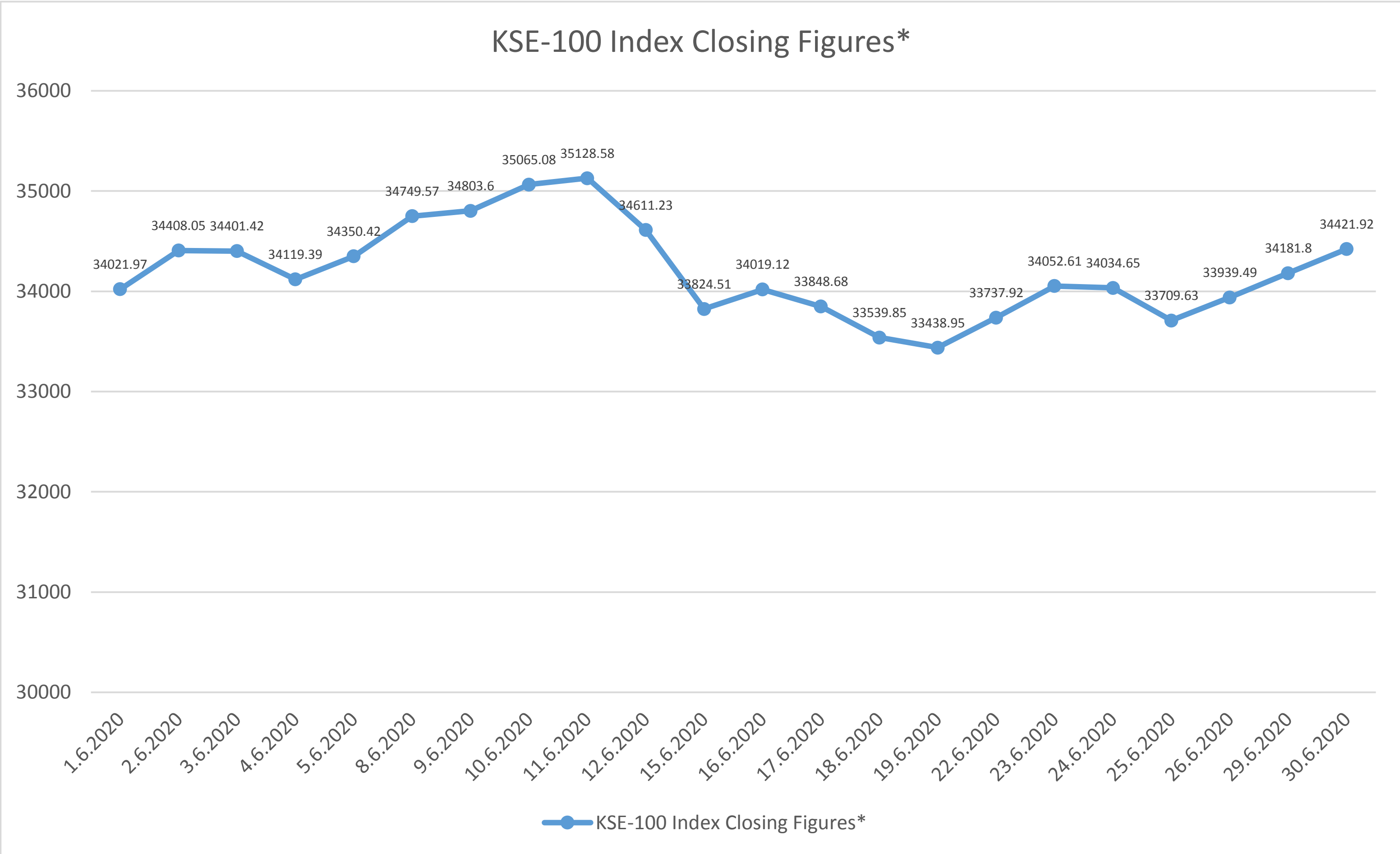
The approach outlined in this report helps CFOs and finance teams to think about how to ensure that all relevant information around performance,

Pakistan Stock Market

Pakistan Stock Market – KSE-100 Index Fluctuations during June, 2020

Date	KSE-100 Index Closing Figures*	Date	KSE-100 Index Closing Figures*	Date	KSE-100 Index Closing Figures*
1.6.2020	34021.97	11.6.2020	35128.58	23.6.2020	34052.61
2.6.2020	34408.05	12.6.2020	34611.23	24.6.2020	34034.65
3.6.2020	34401.42	15.6.2020	33824.51	25.6.2020	33709.63
4.6.2020	34119.39	16.6.2020	34019.12	26.6.2020	33939.49
5.6.2020	34350.42	17.6.2020	33848.68	29.6.2020	34181.80
8.6.2020	34749.57	18.6.2020	33539.85	30.6.2020	34421.92
9.6.2020	34803.60	19.6.2020	33438.95		
10.6.2020	35065.08	22.6.2020	33737.92		

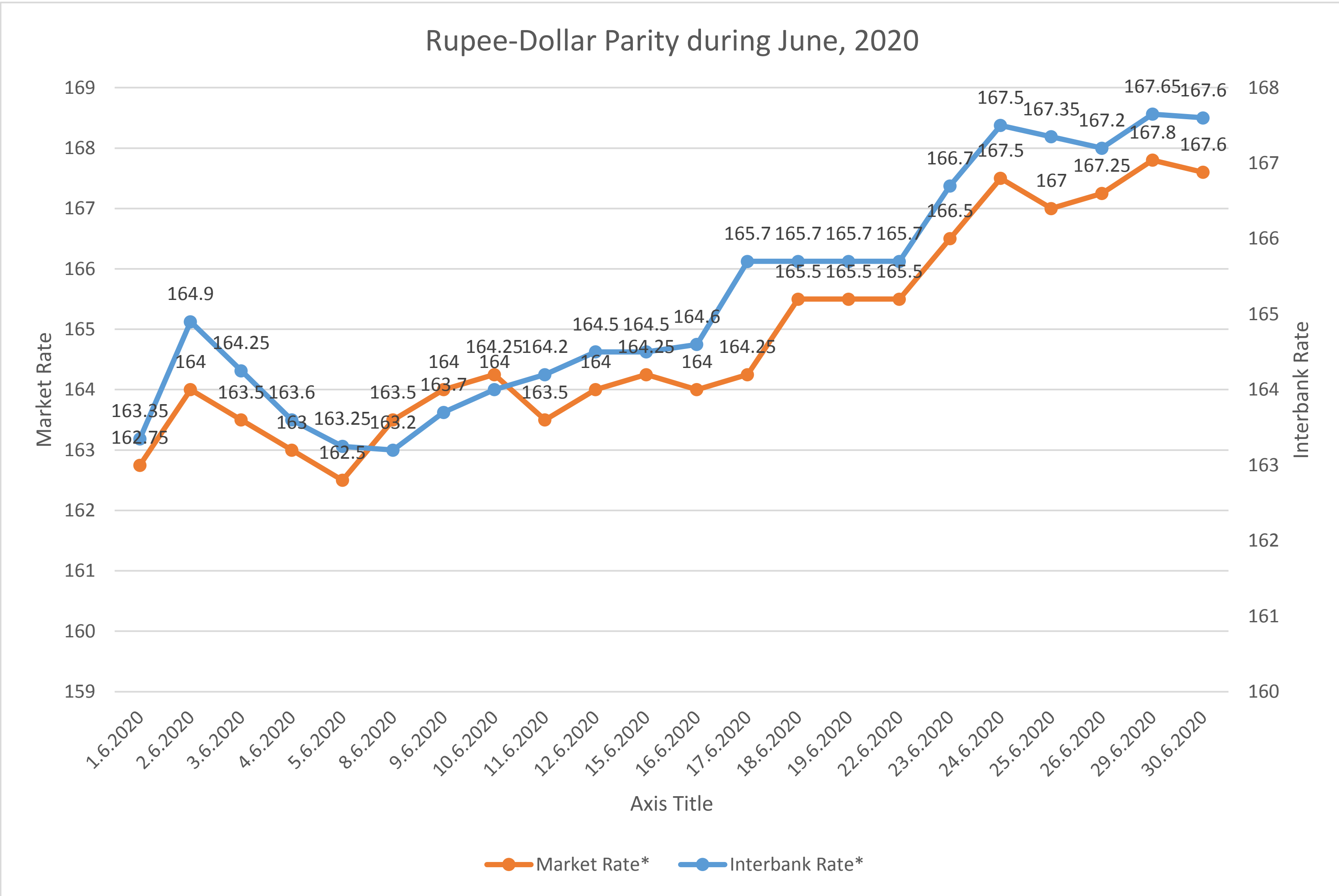
*As published in Daily Dawn



Rupee-Dollar Parity

Date	Interbank Rate*	Market Rate*	Date	Interbank Rate*	Market Rate*	Date	Interbank Rate*	Market Rate*
1.6.2020	163.35	162.75	11.6.2020	164.20	163.50	23.6.2020	166.70	166.50
2.6.2020	164.90	164.00	12.6.2020	164.50	164.00	24.6.2020	167.50	167.50
3.6.2020	164.25	163.50	15.6.2020	164.50	164.25	25.6.2020	167.35	167.00
4.6.2020	163.60	163.00	16.6.2020	164.60	164.00	26.6.2020	167.20	167.25
5.6.2020	163.25	162.50	17.6.2020	165.70	164.25	29.6.2020	167.65	167.80
8.6.2020	163.20	163.50	18.6.2020	165.70	165.50	30.6.2020	167.60	167.60
9.6.2020	163.70	164.00	19.6.2020	165.70	165.50			
10.6.2020	164.00	164.25	22.6.2020	165.70	165.50			

*As published in Daily Dawn



Budget 2020 - Economic Review & Analysis

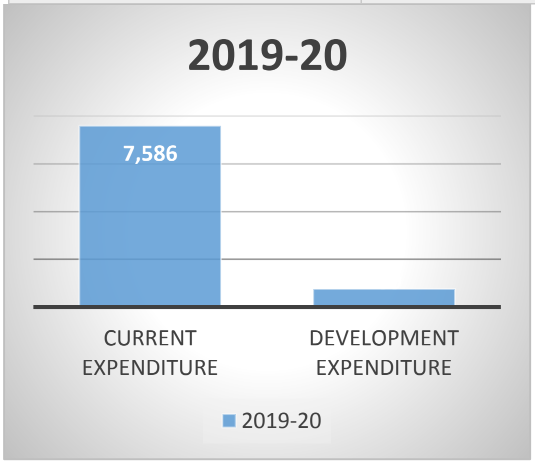
The budget for the financial year 2020-21 was presented under unpredicted economic circumstances due to spread of Covid-19 pandemic spread across the globe, which has affected the economy of the country adversely, resulting in negative GDP growth. It is uncertain whether or not the economic activities will resume to normal during the forthcoming fiscal year. If the situation continues, the budget estimates may be required to be revised. The pandemic has resulted in serious economic challenge for global economies, especially the developing countries like Pakistan, who rely on export proceeds and foreign remittances to stabilize their economy.

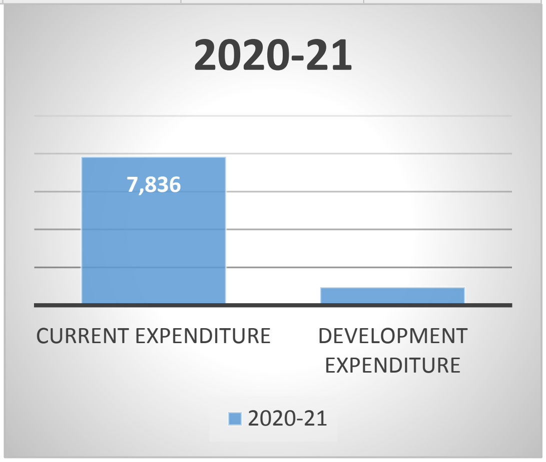
The Pakistani rupee continued depleting against US Dollar. As a result, the amount of debt depicted increasing trend in addition to burden of new local and foreign debts. Debt servicing eats up to 50% of our revenues. Therefore, a long term planning is required to get rid of this huge burden to allocate more resources for economic development.

The progress on the revenue estimates will depend upon the timing of the resumption of economic activities in the country. Under the current circumstances, reduction in current expenditure and not levying any new taxes is a good approach.

It is expected that the deficit caused by pandemic situation will subside in the coming months and economic recovery will start at the earliest. This the only way we can expect a positive GDP growth in the forthcoming fiscal year. The reduction of global oil prices and decrease in oil demand due to slow economy has mainly reduced our import bill significantly, resulting in significant reduction in trade deficit. There is a need of industrial recovery and generating more jobs opportunities to help people affected badly due to the ongoing pandemic situation. The total expenditure planned for the year is as under:-

	2019-20	%age	2020-21	%age
Current expenditure	7,586	91%	**7,836**	**89%**
Development expenditure	759	9%	**949**	**11%**
	8,345	**100%**	**8,785**	**100%**

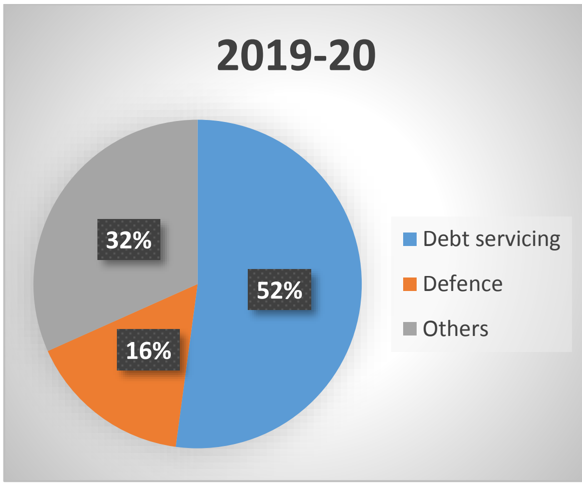


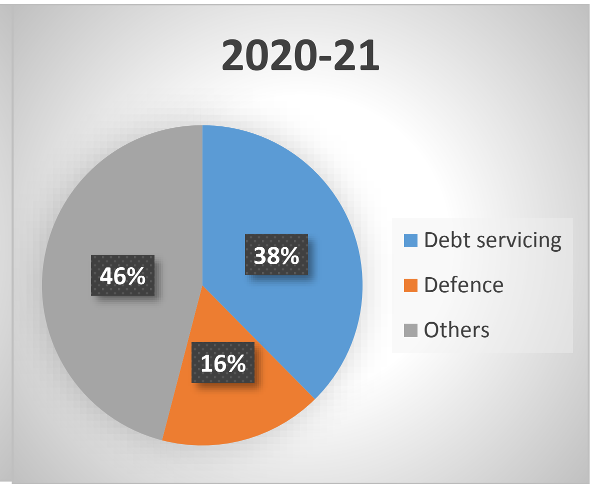


From the budget allocation we can see that most of the revenues are eaten up by current expenditure on government machinery which has consistently failed to deliver. Pakistan has been consistently lagging behind the world in almost all indicators rather going down against even the third world countries. East Pakistan now Bangladesh that was used to be far behind has now surpassed Pakistan with Present Foreign Exchange Reserves of USD 34 billion. Bangladesh exported garments worth USD 30.14 billion in 11 months of 2019 well above the total exports of Pakistan for a whole year.

The major chunks of current expenditure comprise of:-

Current Expenditure	2019-20	%age	2020-21	%age
Debt servicing	3,955	52%	**2,946**	**38%**
Defence	1227	16%	**1289**	**16%**
Others	2,404	32%	**3,601**	**46%**
Total	**7,586**	**100%**	**7,836**	**100%**





There is serious need to rethink on the expenditure of the government. The government should go for "Lean Government" and eliminate all non-productive and non-value adding activities of the government. The luxurious facilities and perquisites of the public servants need to be curtailed and wastage of public money on useless upgradation and renovation of public offices be done away with. The public servants need to be realized that their expenses are being met with financing on interest which is ultimately causing lower developmental expenditure which could raise the economic activities and standard of living of the people of Pakistan.

Apparently, the debt servicing as a percentage of budget allocation has been projected to go down from 52% of total current expenditure to 38%. And defence expenditure stays constant at around 16% of total current expenditure, despite increase in amount from 1,227 billion to 1,289 billion.

Summary of Expenditure and Receipts

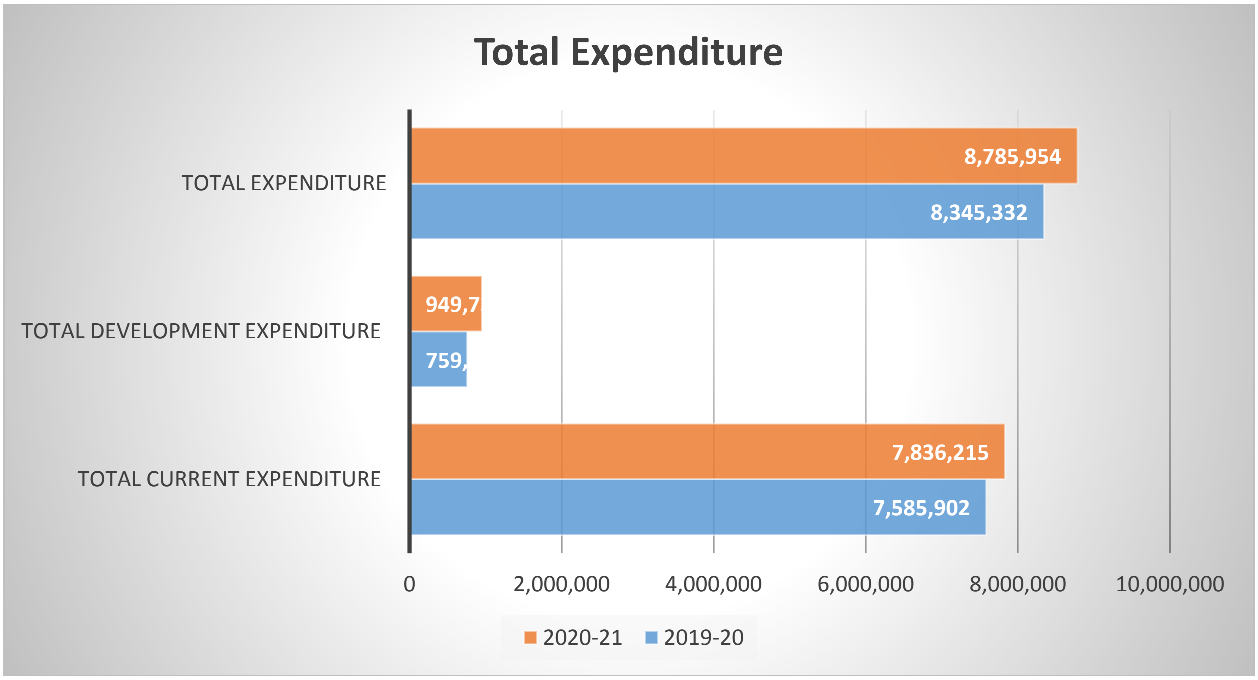
The following extract from the budget document shows the summary of expenditure and receipts:

EXPENDITURE – SUMMARY

(Rs in million)

Function Code	Description	Budget Estimates 2019-20	Revised Estimates 2019-20	Budget Estimates 2020-21
01	General Public Services	5,607,042	5,538,073	**4,428,643**
01	General Public Services	5,607,042	5,538,073	**4,428,643**
02	Defence Affairs and Services	1,152,535	1,227,388	**1,289,134**
03	Public Order and Safety Affairs	152,919	153,269	**169,927**
04	Economic Affairs	84,167	106,411	**71,751**
05	Environment Protection	470	470	**431**
06	Housing and Community Amenities	2,292	2,545	**35,680**
07	Health	11,058	12,023	**25,494**
08	Recreation, Culture and Religion	9,838	9,301	**9,822**
09	Education Affairs and Services	77,262	81,253	**83,363**
10	Social Protection	190,594	245,024	**230,907**
	a. Current Exp. on Revenue Account	**7,288,179**	**7,375,757**	6,345,150

	b. Current Exp. on Capital Account	**185,291**	**210,145**	1,491,065
1	**Total Current Expenditure (a + b)**	**7,473,470**	**7,585,902**	7,836,215
	c. Dev. Exp. on Revenue Account (i+ii)	**489,880**	**395,608**	460,121
	d. Dev. Exp. on Capital Account (i+ii)	**460,016**	**363,822**	489,617
2	**Total Development Expenditure (c+d)**	**949,896**	**759,430**	949,738
	Total - Expenditure (1+2)	**8,423,366**	**8,345,332**	8,785,954
3	**Break-up of Expenditure**			
	Revenue Account (a+c)	**7,778,058**	**7,771,365**	6,805,272
	Capital Account (b+d)	**645,307**	**573,967**	1,980,682
	Total Expenditure:	8,423,366	8,345,332	8,785,954



RECEIPTS - SUMMARY

(Rs in million)

Object Code		Description	Budget Estimates 2019-20	Revised Estimates 2019-20	Budget Estimates 2020-21
		Federal Consolidated Fund (5+6-10)	**7,260,620**	**6,130,907**	7,248,478
B	**1**	**Tax Revenue Receipts**	**5,822,160**	**4,208,459**	5,464,300
		FBR Taxes	**5,555,000**	**3,908,000**	4,963,000
		Direct Taxes	2,081,945	1,623,000	**2,043,000**
		Indirect Taxes	3,473,055	2,285,000	**2,920,000**
		Other Taxes	**267,160**	**300,459**	501,300
C	**2**	**Non-Tax Receipts**	**894,464**	**1,296,030**	1,108,926
C01		Income from Property and	269,582	243,187	**210,708**

		Enterprise			
C02		Receipts from Civil Administration etc.	430,961	809,666	**645,616**
C03		Miscellaneous Receipts	193,921	243,177	**252,602**
	3	**Total Revenue Receipts (1+2)**	**6,716,624**	**5,504,488**	6,573,226
E	**4**	**Capital Receipts**	**766,198**	**755,579**	1,326,052
E02		Recovery of Loans and Advances	183,520	131,713	**147,167**
E03		Domestic Debt Receipts (Net)	582,677	623,866	**1,178,885**
	5	**Total Internal Receipts (3+4)**	**7,482,822**	**6,260,067**	7,899,279
	6	**External Receipts**	**3,032,325**	**2,272,920**	2,222,919
		Loans	2,990,579	2,181,202	**2,157,500**
		Grants	27,950	32,490	**20,667**
		Project Loans & Grants Outside PSDP	13,796	59,228	**44,751**
	7	**Total Internal and External Receipts (5+6)**	**10,515,146**	**8,532,987**	10,122,197
	8	**Public Accounts Receipts (Net)**	**250,754**	**421,274**	215,618
		Deferred Liabilities (Net)	278,628	430,341	**227,278**
		Deposit and Reserves (Net)	(27,875)	(9,067)	**(11,660)**
	9	**Gross Federal Resources (7+8)**	**10,765,900**	**8,954,261**	10,337,815
	10	**Less Provincial Share in Federal Taxes**	**3,254,526**	**2,402,080**	2,873,719
	11	**Net Federal Resources (9-10)**	**7,511,374**	**6,552,181**	7,464,096
	12	**Cash Balance built up by the Provinces**	**422,995**	**-80,664**	242,472
	13	**Privatization Proceeds**	**150,000**	**150,000**	100,000
	14	**Credit from Banking Sector**	**338,996**	**1,723,815**	979,385
	15	Total-Resources (11+12+13+14)	8,423,366	8,345,332	8,785,954

A deficit budget

The expected deficit of the budget amounts to 55% of the total receipt which is 1% lower than the original estimate for 2019-20 but a 3% higher than the revised estimate for 2019-20.

DEFICIT FINANCING

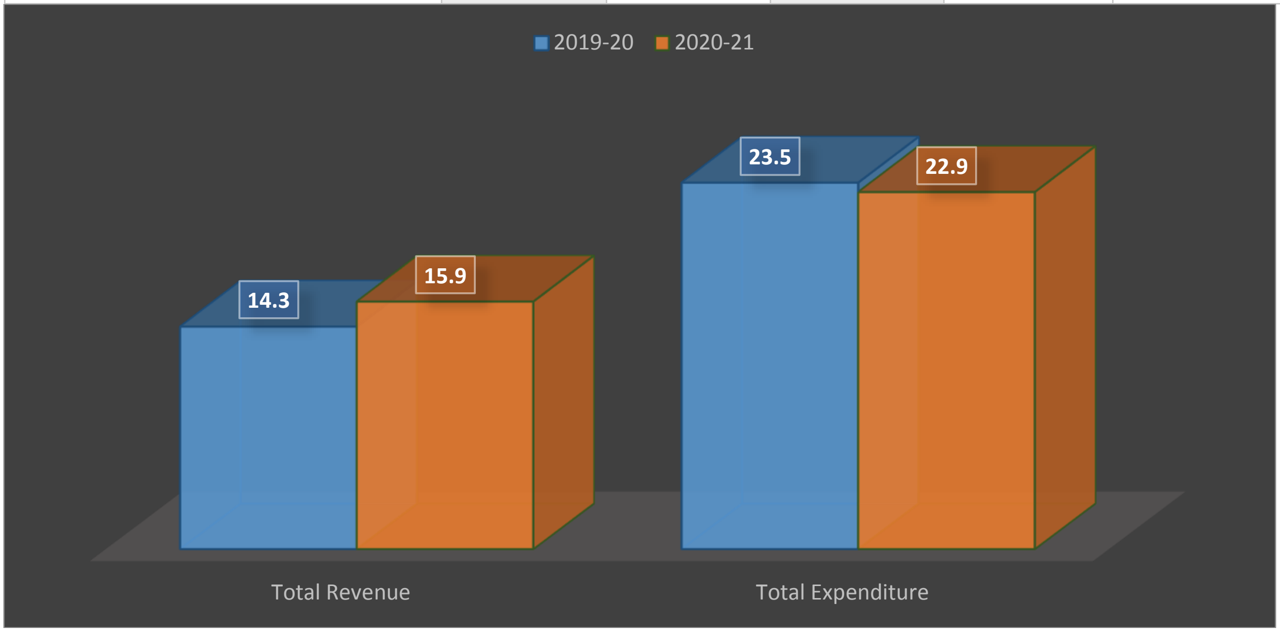
(Rs in million)

Description	Budget Estimates 2019-20	Revised Estimates 2019-20	Budget Estimates 2020-21
Capital Receipts – Note 4	766,198	755,579	1,326,052
External Receipts – Note 6	3,032,325	2,272,920	2,222,919
Cash Balance built up by the Provinces – Note 12	422,995	-80,664	242,472
Privatization Proceeds – Note 13	150,000	150,000	100,000
Credit from Banking Sector – Note 14	338,996	1,723,815	979,385
Total deficit financing	**4,710,514**	**4,821,650**	**4,870,828**
Total resources	**8,423,366**	**8,345,332**	**8,785,954**
Deficit as a percentage of budget	56%	58%	55%
Total loans – Note 4 + Note 6	**3,798,523**	**3,028,499**	**3,548,971**
Percentage of loans to total deficit	**81%**	**63%**	**73%**

Reliance has been put more on internal and external loans to the extent of 73% as can be seen from the above table. Internal loans from banking sector deprives the local business and industry of the cash.

Key Macroeconomic Indicators - Rolling Targets

Items	Budget	Revised	Budget	Target for	
	2019-20	2019-20	2020-21	2021-22	2022-23
Real GDP Growth (%)	2.4	-0.4	**2.1**	4.0	**4.5**
Inflation (%)	11 - 13	11 - 12	**6.5**	6.2	**6.0**
	As % of GDP				
Total Revenue	16.7	14.3	**15.9**	16.6	**17.3**
Tax Revenue	14.4	11.0	**13.2**	13.9	**14.5**
FBR Tax Revenue	12.6	9.4	**10.9**	11.8	**12.6**
Non Tax Revenue	2.3	3.3	**2.8**	2.8	**2.7**
Total Expenditure	23.8	23.5	**22.9**	22.3	**22.1**
Current	20.2	20.9	**20.0**	19.4	**18.8**
Development	3.6	2.6	**2.9**	2.9	**3.3**
Fiscal Balance	-7.1	-9.1	**-7.0**	-5.6	**-4.8**
Revenue Balance	-3.6	-6.6	**-4.1**	-2.7	**-1.5**
Total Public Debt - (Gross)	77.6	86.8	**87.0**	84.2	**80.7**
Total Public Debt - (Net)	73.0	82.5	**83.1**	80.8	**77.8**
GDP at market prices (Billions)	**44,003**	**41,727**	45,567	**50,443**	**55,991**



Expected Economic Growth

The GDP is expected to grow from -0.4% to 2.1. This implies the assumption that the economic activities will come to normal whereas due to the pandemic situation economic activities do not seem to come to normal level by end of October 2020 and that is further subject to non-recurrence of any subsequent wave of the covid-19.

Further, since no specific measures have been adopted to increase industrialization there does not seem to be any significant increase in business activities.

Pakistan ranks at 42 in terms of total GDP (nominal) and at 154 in terms of GDP per capital (nominal). These indicators in no way suggest any good position of Pakistan in the world economy.

Reasons of shortfall in tax collection

There are various reasons of shortfall in tax collection and low GDP of Pakistan, a few of the major reasons are as under:-

Corruption in collection of taxes

One major reason of low tax collection is corruption in tax collection. Connivance of tax practitioners and tax authorities to evade taxes is not hidden. A good percentage of tax is not collected due to exploitation of loopholes in tax administration and documentation of economy.

Stringent measures, including capital punishment, are needed for the tax authorities to prevent them from committing corruption.

Inefficiency and incompetence of tax authorities

FBR is filled with people belonging to various disciplines including medicine and engineering whereas the taxation is closely linked with accounting and cost accounting. Due to the lack of knowledge in accounting and cost accounting a lot of taxes go uncollected.

It is recommended that from the posts of Assistant Commissioners and onwards only professional accountants be appointed at the FBR. Law graduates could be hired for legal branch and other professionals can be hired on other positions as per the requirements of the job.

Inefficient dry ports

The concept of Dry ports was introduced with political motives and has proven disastrous and cost inefficient for Pakistan. The tax collection at the dry ports does not match with the economic activities carried out in those regions which benefit from those dry ports. The data can be analyzed for tax collection and expenses incurred plus economic activities of the regions.

It is recommended the concept of dry ports be done away with and customs and other duties should be charged at the port of arrival. The accounting of tax collection could be done on the basis of destination of the goods imported.

Undocumented economy

Undocumented economy is yet another big problem and challenge for Pakistan. The estimated size of the undocumented economy is from 3/4th of the documented economy to some multiples of it. Smuggled goods from all borders are a great reason for undocumented economy.

The business community is not willing to pay tax and thus tries to stay out of the documented economy. The attitude and corruption of the tax officials is also one big reason that prevents them to come to documentation.

Broad based reforms of FBR and tax mechanism are needed to maximize documentation of the Economy. Border control and corruption of taxation officials at the border are also needed to be checked.

Measures for increasing economic activities

<u>For existing businesses</u>

Relief in tax burden

Due to Covid-19business and industry has suffered greatly and due to the cash flow crisis and losses many businesses have laid off workers and their business activities are down.

Although, some cash flow relief has been provided in the form of payroll refinance yet some handholding measures are also needed like temporary reduction in tax rates.

Ease of doing business

A good measure has been taken for ease of doing business i.e. increase of threshold of prescribed person u/s 153 (7) for individuals and AOPs to 100 million and also for persons registered under GST to 100 million. Earlier there was no threshold defined for persons registered under GST.

The same measures need to be applied for MSMEs incorporated as companies. There is no logic to prescribe a company without a threshold and define a threshold for Individuals and AOPs.

For new businesses

Industries

Tax exemptions and other incentives need to be defined for new industries set up in Pakistan without any territorial limits so that potential investors could take advantage and start business and industry in Pakistan.

Startups

Startups are bringing in much needed FDI. Good incentives have already been placed in the Income Tax Ordinance, 2001 but the issuance of exemption certificate for startups is still left at the discretion of the Commissioners. This also needs to be made automatic as has been done for the listed companies in order to boost the registration of startups and more and more FDI could be received in Pakistan.

Measures for increasing foreign exchange

Import substitution

Tax and other incentives be announced for industries set up for import substitution. This will increase domestic as well as foreign investment and save precious foreign exchange from going out in the form of import bills.

Foreign Direct Investment FDI

FDI registration process be simplified as presently the responsibility has been given to Authorized Dealers who are not trained in handling Foreign Direct Investment. Either a specialized department be created at the State Bank of Pakistan staffed with finance or accounting professionals or the banks be provided training and asked to create similar department with professional staff.

Foreign investment in the secondary market of the stock exchange should be discouraged as this investment disrupts not only the stock market but also the forex market. Investment in secondary market by foreigners does not create any economic value for Pakistan rather deprives Pakistan of the foreign exchange as they manipulate the stock market make short term gains and then run away.

Foreign loans

The present deferment of repayment of foreign loans has provided temporary relief but has increased pressure on future repayment. Drastic measures are needed to meet future obligations.

Effects of Covid-19

The world is experiencing a pandemic that has damaged world economy worse than any world war. Pakistan has also suffered great loss and has negative GDP growth for the closing financial year 2020. An unprecedented situation demands unprecedented actions to increase economic activities by easing doing business and increasing domestic and foreign direct investment and increasing inflow of foreign exchange.

Legal Privileges Available to Cost and Management Accountants*

Sr.	Description	Legal Statute	Relevant Section / Rule
1	To act as an **Auditor** in case of a private limited company having paid up capital of less than Ten million	Companies Act, 2017	Section 247(b)
2	Appointment as **Special Auditors** by FBR for Income Tax Audit	Income Tax Ordinance, 2001	Section 177 (10) Income Tax Ordinance, 2001
3	Appointment as **Special Auditors** by FBR Sales Tax Audit	Sales Act, 1990	Section 32-A of Sales Act, 1990, & SRO 539(1)/2006 dated 5th June, 2006
4	To perform **Audit of Cost Accounts** as an Auditor	Companies Act, 2017	Section 250(1)
5	**Audit & Certification of Accounts** of Non Profit Organizations	Income Tax Rules, 2002	Income Tax Rules, 2002 notified through SRO 774 dated 29th July, 2006
6	Audit of Financial Statements for Agricultural Borrowers	Prudential Regulations for Agriculture Financing 2014	Part C, Regulations R-20
7	**Audit** of Financial Statements of SMEs	Prudential Regulations for Small and Medium Enterprises Financing 2013	Chapter No. 3, Regulation ME R-4
8	**Audit** of Financial Statements of Corporate and Commercial Banks	Prudential Regulations for Corporate / Commercial Banking 2011	Part B, Regulations R-3
9	To Act as **Legal Representative** of Taxpayer	Income Tax Ordinance, 2001 Income Tax Rules, 2002	Sec 223 Income Tax Ordinance, 2001 Rules 84-90 Chp XIV if Income Tax Rules, 2002
10	**Delegation of Function** by Assets Management Companies	SECP Circular, 2013	No.24/2013 dated December 06, 2013
11	Declaration for **Registration of Memorandum**	Companies Rules, 1985	Rule 4 (2) (ii)
12	Appointment as **Committee Member** on Custom matters	Customs Act, 1969	Section 195 C(2)
13	Appointment as **Member** of Settlement Commission on Custom matters	Customs Act, 1969	Section 196 K(3)
14	Appointment as **Accountant Member** of the Appellate Tribunal	Anti-Dumping Duties Ordinance, 2015	Rule 65(1)(a), No.2((1)/2015-Pub dated February 26, 2015
15	To Act as **Legal representative** in Anti-Dumping Tribunal	Anti-Dumping Duties Ordinance, 2015	No.2((1)/2015-Pub dated February 26, 2015
16	To Act as **Member** of Small Dispute Resolution Committee	Small Dispute Resolution Committees (Constitution and Procedure) Rules, 2015	Section 4(1)(b)
17	To act as an **Expert** in the Companies Act, 2017	Companies Act, 2017	Section 2(30)
18	To act as **Certifier** in the memorandum and articles	Companies Act, 2017	Section 17(3)
19	To act as **Auditor** for making report in case of return as to allotments	Companies Act, 2017	Section 70(b)
20	To act as an **Intermediary** in terms of Section 455 of the Companies Act, 2017	Intermediaries (Registration) Regulations, 2017	Section 3(i)(b)
21	To act as an **Internal Auditor** in the listed companies	Code of Corporate Governance	Code of Corporate Governance
22	To carry out the **Audit of Separated Accounts**	PTA Accounting Separation Guidelines, 2007	Sub-Clause 9(1)
23	To act as an **Expert in the Panel of Insolvency Experts**	Corporate Rehabilitation Regulations, 2019	Sub-Clause 4(ii)
24	To act as a **Provisional Manager and Official Liquidator**	Panel of Provisional Managers and Official Liquidators Regulations, 2019	Sub-Clause 4(a)
25	To act as a **member of ADRC**	Income Tax Ordinance ,2001	Section 134 A

**The above furnished details are compiled to the best of our knowledge, however, Worthy Members are encouraged to provide their inputs and feedback on the above information.*

TECHNICAL SUPPORT & PRACTICE DEVELOPMENT COMMITTEE

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