S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal

General

1.	**Section 111(4) and amendments in 'The Protection of Economic Reforms Act, 1992'[PERA]**	**Section 111(4) provides immunity to the tax payer in respect of source of any amount which has been remitted from outside of Pakistan in foreign exchange through banking channels.** The provisions of the Reforms Act is, Presently, being misused whereby the businessmen are remitting the undeclared income through unofficial channel outside Pakistan and the same amount is brought into Pakistan in Foreign Exchange through banking channels. The effect of this transaction is that whilst no taxes are paid on such income, however, the same becomes white money at a very small cost of 3%-4%. [**Section** 4 and 5 of PERA may be referred].	It is suggested that sub-section (4) of Section 111 of the Income Tax Ordinance, 2001 should be deleted. This should be coupled with appropriate amendments in the 'The Protection of Economic Reforms Act, 1992, by excluding all the persons resident in Pakistan so as to curb the rampant practice of whitening of money under the umbrella of the Reforms Act.	In order to curb the rampant practice of whitening of money under the umbrella of the Protection of Economic Reforms Act (PERA) both income tax law as well as PERA be amended.

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
2.	**Section 30**	**Profit on non-performing debts of a banking or development finance institutions**	A new subsection (3) is proposed to be added in section 30 of the Ordinance as follows: "(3) Deduction shall not be allowed to the borrower for markup/ Interest (profit on debt) incurred on non-performing debts, if profit on debt is not paid within stipulated time and becomes overdue and is credited to suspense account by the banking company or development finance institution or non-banking finance company or Modaraba as per Prudential Regulations of the State Bank of Pakistan. However, borrower shall be allowed deduction for the amount paid in the year in which payment is made. "	Proposed sub-section will specifically cover taxation of overdue profit on debt in the hands of borrower who is presently enjoying tax benefit by way of taxable deduction of financial charges and Government remains deprived from tax revenue. Any benefit availed by way of waiver of markup/ profit/ interest on debts under any scheme issued by State Bank of Pakistan is taxable in hands of borrower as “Income from Business” under section 18 of the Ordinance. However, there is no treatment available in the Ordinance regarding overdue markup /interest/ profit on debt which remains unpaid by the borrower, who also claims this amount as tax deductible expense. The amount of overdue markup /interest/ profit on debt should be taxed in the hand of borrower. Under section 34, liabilities remaining unpaid for 3 years are

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
				required to be offered for tax.
3.	**Tax rate for banks**	**Banks are taxed at the of 35% of taxable income**	Tax rate should be reduced to 32% for TY 2016 and till TY 2018 it should be reduced to 30%, making it in line with other industries.	Imposition of flat rate on banking companies is discriminatory. It would have adverse effect on banking industry. Presently; Tax rates for business income of corporate sector have been reduced from 35% to 34% for Tax year 2014, 34% to 33% for Tax Year 2015 and reduced from 33% to 32% for Tax Year 2016 and to be reduced to 30% till TY 2018 and onwards. The Banking industry is already contributing in Government revenues higher than other industries. Further, advance tax installment payment interval for Banking Industry is monthly as compared to other industries, where quarterly interval has been advised. Furthermore, imposition of tax on capital gain and dividend at the

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
				same rate has also adversely impacted the banking sector's profitability. It is therefore recommended that tax rates for banks are rationalized and reduced in line with the other corporate sector. Tax rates for banks should be reduced to 32% for tax year 2016 & to 30% till tax year 2018 onwards and advance tax payment should be changed from monthly to quarterly.
4.	**Section 236P – Advance tax on banking transactions other than through cash**	**Advance tax @0.6% is imposed on all Non-Filers including those which are not liable to pay tax e.g. where their income falls below taxable threshold, tax is deducted at source on all of their taxable income or they are otherwise exempt from tax.**	1. This section 236P should ideally be removed. If that is not possible exemption should be provided to Students, Widows, Pensioners, salaried class and Farmers 2. Threshold of transfer/ transactions should be increased to Rs.	Widows and Pensioners receive very low compensation/income that also falls below taxable threshold. And in case they are able to save something, tax is deducted on its withdrawal that is unfair as they cannot claim credit for the amount deducted being not liable to file return. Similar is the case with the students who do not have any

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
			100,000.	source of income that is liable to tax and accounts are being maintained by them solely for payment of fee and to meet their educational and boarding expenses. Due to increase in Fee from educational institutions they have to make payments exceeding the taxable threshold that is subjected to tax. Pertinent to mention here that Educational Fee is already subjected to tax @5% u/s 236I if the fee exceeds Rs. 200,000 therefore, charging tax on students account again would be double taxation and students cannot claim the credit of amount deducted as they are not liable to file Income Tax Return. Salary is subject to deduction of tax at the time of payment and tax applicable on whole amount is deducted by the employer and deposited with Government. At the time of its withdrawal/transfer

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
				taxes again imposed that is double taxation of the same amount and unfair. Agriculture income of a person is exempt from tax u/s 41 of the Ordinance; however, under section 236P tax is collected on accounts maintained by farmers, which is unjust as they are not able to claim refund of this tax deduction. This will negatively impact the National Financial Inclusion strategy of Pakistan.
5.	**Section 165 & 165A**	**Access to Customer Information** Insertion of explanation in section 165 & addition of a new section 165A requires a general disclosure of customer information to FBR, including	The respective laws, including Banking Companies Ordinance 1962, The Protection of Economic Reforms Act, 1991 etc., containing banking secrecy provisions should be amended.	The Income Tax Law already vests power to the officials of the FBR to call for any information related to the tax payers under section 176 of the Ordinance. The Banks receive, on a very frequent basis, notices under section 176 stating the name of the persons and their

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
		giving online access to the FBR to Banks' own databases.	Accordingly, the original Section 165 should be restored and Section 165A be removed as the existence of Section 176 already allows the FBR to obtain information in the case of suspected tax evasion by any particular person.	CNIC for provision of bank statements of the customer for past several years (in certain cases dating back to 2008), Account Opening Forms, details of mortgages, hypothecation etc. All the banks are providing specific information including complete bank statements to the requesting tax officials. Copies of such statements at times run into thousands of pages. Section 165A will discourage financial inclusion/ main stream banking which is high priority for the Government and State Bank of Pakistan and it creates all kinds of risks for the customers of the bank. Moreover this will seriously hamper the FBR's drive towards documentation and promote informal and parallel sector of the economy by doing undocumented/cash

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
				transactions in land and property. These amendments are in conflict with existing provisions of the Banking Companies Ordinance, 1962 and Economic Reforms Act 1992 relating to customer confidentiality. A number of Banks are already under litigation on the subject.
6.	**FED on banking Services to the extent of Provinces should be abolished**	**As per the Constitution (Eighteenth Amendment) Act 2010, the right to levy Sales Tax on Services has been delegated to the provinces. Consequently Provinces of Sind, Punjab, KPK and Baluchistan have promulgated their Sales Tax Law on Services.**	Amendments should be made in FED Act, 2005 & Rules, to withdraw FED from the Provinces who have implemented their own Sales Tax Law.	The authority to impose tax on services exclusively vests with provinces in the wake of 18th Constitutional Amendment and agreement reached during the 7th National Finance Commission (NFC) Award between the Federal Government and the Provinces. This fact was admitted by Federal Board of Revenue (FBR) in its press release dated 01.07.2011. FBR's officers, in violation of Constitutional provisions and

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
				Article 8 of 7th NFC Award, are issuing notices to banks for levy of 16% Federal Excise Duty on banking services, in addition to sales tax imposed by the respective provinces on same services. It is a constitutional issue involving the taxation rights of Federal Government and Provincial Governments. The matter is lingering on since 2011 and needs amicable resolution as levying of both taxes will unduly burden the citizens of Pakistan and that such taxation is not warranted by supreme law of land after 18th Constitutional Amendment.
7.	**Section 3(5) of the Sales Tax Act, 1990 and S.R.O. 509(I)/ 510(I)/ of 2013**	**Through the an amendment in Sales Tax Rules 2006, additional sales tax at rate of 5 % was imposed over and above the sales tax of 17% on electricity and gas bills on unregistered person.**	This additional sales tax should not be charged to a bank's branch.	The Banks are registered person under Sale Tax / FED, however, branches are located across the country. Further, most of the branches are on rented premises where utility connections are in

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
				the name of the landlord. Accordingly, bank is treated unregistered person for these premises and additional sales tax is charged which is against the fact. Banks are burdened with additional tax which unjustified.
8.	**Amendment In Definition of Supply under Sales Tax Act, 1990**	**S.R.O. 445(I)/2004 dated June 12, 2004 excludes Murabaha transactions from the definition of "Supply" for the purpose of Sales Tax. In addition to Murabaha, the Islamic banks also use other mode of financings i.e. Musharakah, Modaraba, Musawama, Istisna and Salam.**	The definition of 'Supply' should be amended to exclude from the ambit of Sales Tax all Islamic modes of financings specifically approved by the SBP. Currently exemption from only Sales Tax is provided to Murabaha transactions vide S.R.O. 445(I)/2004 dated June 12, 2004.	In the absence of specific exemption in law, there is an ambiguity that tax officers may treat the Islamic mode of financings as trading activity i.e. sale/purchase transactions which may attract implication of Sales Tax.
9.	**The State Bank of Pakistan (SBP) has approved Musharakah, Modaraba, Murabaha,**	**New- Amendment required in Rule (3) of the Seventh Schedule to the Ordinance.**	A new sub rule be added to Rule (3) of the Seventh Schedule specifically mentioning Musharakah, Modaraba, Murabaha, Musawama, Ijarah,	The introduction of new clause in Seventh Schedule explaining / mentioning the transactions under Islamic mode of financing will remove ambiguity so as not to treat such transaction as a trading activity i.e. sale/purchase

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
	Musawama, Ijarah, Istisna And Salam as Islamic Mode of Financing		Istisnaand Salam and any other sharia compliant transaction as a financing transaction and not trading activity i.e. sale/purchase transactions.	transaction which can attract withholding of Income Tax. The Islamic Financial Accounting Standard – II Ijarah issued by the Securities and Exchange Commission of Pakistan (SECP) also confirms that such transactions are financing transactions.
10.	**Collection charges for acting as withholding agent**	**New clause should be inserted.**	Banks should be paid collection charges on performing withholding tax agent on behalf of Federal Government @ 2%.	The government has enormously widened the scope of collection/ deduction of taxes through banks by making a number of amendments in tax laws through various Finance Acts e.g. provisions of section 231A, 231AA & 236P. The banks incur substantial cost in complying with tax collection provisions as withholding agents on behalf of Government (man-hours, infra-structure use and stationary, just to mention a few). There is no provision in tax laws regarding any collection charges for rendering

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
				these services. On the contrary, the Federal Government retains 2% as collection charges from all the Provincial Governments on General Sales Tax on Services, which it collects on their behalf [see Para 9.6 at page 42 of Explanatory Memorandum on Federal Receipts 2006-2007, published by Government of Pakistan, Finance Division, Islamabad as part of Budget documents presented on June 5, 2006].

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal

Proposed changes - Seventh Schedule of Income Tax Ordinance, 2001

1.	**Restoration of the Original provisions related to bad debts – Seventh Schedule**	**Seventh Schedule of the Ordinance was introduced with the objective of eliminating or substantially reducing the disputes between the Tax Authorities and the banks in Pakistan. However, the Tax Authorities have destroyed the very spirit of the Seventh Schedule by aborting the treatment for bad debts originally enacted by making amendments even before it came in to force.**	It is suggested that the original provision of the Seventh Schedule should be restored where under provision for bad debts falling under "lost" and "doubtful" category as per the Prudential Regulations of SBP and supported by a certificate of the auditors was allowable as a tax deduction to the banks. Or alternatively; Threshold for allowing provision for bad debts should be increased to 2% of gross advances to corporate customers.	In the banking business it is imperative to take risk for earning income from advances. As such, bad debts are part of the banking business and therefore it is an expenditure incurred wholly and exclusively for conducting the banking business.

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
2.	**Rule 1 (a) of Seventh Schedule**	**Initial depreciation allowance in accounting depreciation should be added to taxable income.**	The words "initial allowance" appearing after the words "accounting depreciation" should be deleted.	There is no concept of initial depreciation allowance in accounting practices. While preparing financial statements, no initial depreciation is charged in accounts. The word "initial allowance" hence is superfluous.
3.	**Rule 1(c) of Seventh Schedule**	**Provisions for advances and off balance sheet items shall be allowed up to a maximum of 1% of total advances and provisions for advances and off-balance sheet items shall be allowed at 5% of total advances for consumers and small and medium enterprises (SMEs).**	An explanation should be inserted in Rule 1(c) of the Seventh Schedule that total advances means 'Gross Advances' before excluding the provisions for Bad & Doubtful Debts.	Misconstrued by the tax authorities, just to increase the tax collections. **Tax office is interpreting total advances as 'Net Advances' shown on the face of the balance sheet.**
4.	**Rule 1 d**	**The amount of "bad debts" classified as "sub-standard" under the Prudential Regulations issued by the State Bank of Pakistan shall not be allowed as expense.**	This condition should be removed by deleting the relevant clauses (d), (e) & (f).	The addition of bad debts falling under the “sub-standard” category is a timing difference and in the subsequent period it will change its character by falling into “doubtful” or “loss” category as the case may be or will become good and provision will be reversed and taxed accordingly.

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
5.	**Rule 2 (3)**	**Capital loss on shares of listed companies if not adjusted in same year shall be carried forward for adjustment against capital gain.**	Capital Loss on shares of listed companies, irrespective of holding period shares, should be adjusted against business income in future years, if could not be set off in first year.	Rule 2(3) says that loss on sale of shares of listed companies, disposed of within one year of the date of acquisition, if not absorbed against the business income of the year, shall be carried forward and can only be adjusted against capital gain of the coming years, with maximum carried forward limitation of six years. Rule 6 says that if shares of listed companies are disposed within one year of their acquisition, these will be taxed at the normal rate of 35%. Therefore, such losses on sale of shares of listed companies should be considered as business loss and should be set off against the business income irrespective of limitation of first year, because now flat tax rate of 35% is applicable for all income of the bank.
6.	**Rule 5 of the Seventh Schedule**	**Advance tax is collected from banks on utility bills.**	Withholding tax provision would not apply on banks with respect to payment of	Banks make payment of advance tax on monthly basis, after deduction of any withholding tax

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
			electricity bills, telephone bills and mobile bills.	already paid/deducted at source. Keeping this in view, banks have been exempted from withholding tax deduction as recipient, however, banks are liable to pay withholding tax on utility bills. Since banks make payment of advance tax on monthly basis exemption should be provided from payment of tax on utility bills. This would not cause any loss of revenue to the Government. Banks have to collect the copies of bills from entire network and keep separate record for tax purpose which in not only very lengthy and time consuming work but also involves additional costs in form of stationery, photocopy and man hours etc.
7.	**Rule 5(1) of Seventh Schedule**	**Compensation on monthly advance tax payment.**	Banks should be given KIBOR based compensation on utilization of banks' money in form of monthly advance tax.	The banks incur heavy cost for such kind of advance payments on monthly bases. For example advance tax monthly installment paid in January 2009 (Tax year 2010) credit shall be given at the

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
				time of filing return in September 2010. Banks can invest these funds to earn considerable yields, which in turn will be subject to tax and thus FBR will also benefit. If FBR insists on monthly payment of advance tax then interest on the basis of Karachi Inter Bank Offered Rate (KIBOR) should be given for utilizing the money [up to assessment year 1997-98, Department used to pay 6% compensation on such funds]. For utilizing heavy amount as advance tax from the bank every month, the government should also pay interest on the basis of KIBOR. On the income so paid by FBR, the banks will pay tax @35%, which will increase the government revenue.
8.	**Transitional provisions – Rule 8A**	**Amounts provided for in the tax year 2008 and prior to the said tax year for or against irrecoverable or doubtful advances, which were neither**	"Amounts provided for in the tax year 2008 and prior to the said tax year for or against irrecoverable or doubtful advances which	The suggested wording allows to claim only that part of the bad debts related to the period prior to Seventh Schedule which was not allowed to the banks earlier. This is

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
		claimed nor allowed as a tax deductible in any tax year, shall be allowed in the tax year in which such advances are actually written off against such provisions, in accordance with the provision of section 29 and 29A.	were not allowed as tax deductible in any tax year, shall be allowed as a deduction in the tax year when the debt is actually written off against such provisions or has become irrecoverable."	just an equitable suggestion. It is hard to comprehend a situation whereby a Bank can demonstrate that a write off of bed debts was neither claimed by the tax payer bank nor disallowed by the tax authorities.
9	**Transitional provisions – Rule 8A**	**New**	Provisions for other expenses including provisions for employees' post-retirement benefits not allowed for in tax year 2008 or before shall be allowed in the tax year in which these are actually paid or written off as the case may be.	There are certain other charges like post-retirement benefits etc. which were used to be charged to Profit and Loss account on accrual basis but were allowed by the department on actual payment basis. These have not been covered in rule 8A inserted by Finance Act 2010.
10.	**Rule 9 of the Seventh Schedule**	**The provisions of the Ordinance not specifically dealt with in the aforesaid rules shall apply, mutatis mutandis, to the banking company.**	This rule should be deleted.	For computation of tax liability, adjustments can only be made under Rule 1(a) to 1(h) and beyond that no addition can be made. Under cover of Rule 9, tax officers make adjustments beyond scope of 7th Schedule, which negates very

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
				purpose of 7th Schedule and it seems 7th schedule in not in existence. Such rule does not exist in schedule for insurance companies; therefore, it is a discriminatory treatment with banks.
11.	**New Advance Tax Regime for Banks - Rule 5 of the Seventh Schedule**	**The right of the banks to file estimate of lower tax liability for the purpose of payment of advance tax under section 147(6) has been withdrawn vide SRO 561(I)/2012 by FBR.**	SRO 561(I)/2012 should be withdrawn. The original provision of Advance Income Tax should be restored for banks through which banks can file lower estimates, if required	Amendments made through the aforesaid notification have deprived the Banks from their right of filing of estimate of lower tax liability which is available to all other categories of the taxpayer. There is no rational basis for this different treatment.

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal

Proposed changes - other than Seventh Schedule of Income Tax Ordinance, 2001

1.	**Section 64A**	**64A. Deductible allowance for profit on debt.** — (1) Every individual shall be entitled to a deductible allowance for the amount of any profit or share in rent and share in appreciation for value of house paid by the individual in a tax year on a loan by a scheduled bank or non-banking finance institution regulated by the Securities and Exchange Commission of Pakistan or advanced by Government or the Local Government, Provincial Government or a statutory body or a public company listed on a registered stock exchange in Pakistan where the individual utilizes the loan for the	1). The entire amount of Profit on debt / mark up paid on mortgage loan should be allowed as a tax deduction in the hands of individuals without any capping or threshold. Accordingly, sub-section (2) of section 64A may be deleted and sub-section (3) re-numbered as (2). 2) Alternatively, the existing capping of Rs 1 million should be enhanced to Rs 3 million. The maximum benefit of Rs 900K will be availed by a person having effective tax rate of 30%.	Rationale: There is no limit or threshold for individuals and AOPs having business income for claiming mark-up as a tax deduction. Further, considering the average ticket size of mortgage loans –say Rs 20 million, the Profit on debt / Mark up for a year would be around Rs 1.9 million, the maximum benefit of Rs 570K only would be availed by a person having effective tax rate of 30%.

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
		construction of a new house or the acquisition of a house. (2) The amount of an individual's deductible allowance allowed under sub-section (1) for a tax year shall not exceed fifty percent of taxable income or one million rupees, whichever is lower. (3) Any allowance or part of an allowance under this section for a tax year that is not able to be deducted for the year shall not be carried forward to a subsequent tax year.	This would promote the mortgage loans. It is suggested that sub-section (2) be amended to read as under: (2) The amount of an individual's deductible allowance allowed under sub-section (1) for a tax year shall not exceed fifty percent of taxable income or three million rupees, whichever is lower.	
2.	**FBR letter Ref: C57(2)Rev. Bud/2011Vol-IV-10810-R**	**FBR has given concurrent jurisdiction to RTOs to conduct WTH audits of banks at branches level.**	It should be withdrawn.	Banks are major partner of FBR in collection of withholding tax and are providing this service without any remuneration. This requirement is highly unjust and harassment of the genuine and large taxpayers. Further banks mostly have itemised and

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
				centralized system for deduction of WHT. In order to achieve benefits of centralization Tax department can overview and assess the integrity of system at Head Office level, therefore there is no need to go to each branch. There would be no gain for FBR from branch level audits; rather it would increase administrative hassle and litigations.
3.	**Disallowance of Un-realised losses and taxation of un-relaised gains including MTM of securities.** **IAS 39 & 40**	**The banking companies have not adopted and applied the requirements of IAS 39 and 40 in the preparation of its annual accounts in view of the instructions issued by the SBP under BSD circulars. However, the taxation officers are amending the assessments by subjecting to tax the unrealized losses arising as a result of Mark to Market (MTM) adjustments whereas do not allow exemption for unrealized**	In order to bring in certainty and clarity an Explanation needs to be included in the 7th Schedule, unrealized MTM gains/ losses being outcome of implementation of SBP guidelines, shall not be taken as arising out of IAS 39.	Since the applicability of IASs 39 and 40 have specifically been deferred by the SBP, the financial assets and liabilities of the banks are classified, measured and reported under the SBP's BSD circulars. Accordingly, additions made by the tax department on the plea that unrealized losses due to MTM are in accordance with IAS 39 and 40 are both factually and legally incorrect. It would not be appropriate to presume that the requirements of these are in line

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
		gains as a result of MTM adjustments.		with the measurement criteria of IAS 39 & 40.
4.	**Section 140 -Third party Tax Recovery notices to banks**	**Currently banks are receiving tax recovery notices from FBR. In certain cases one notice contains information about hundreds of tax defaulters.**	Standard procedure and time line for compliance of tax recovery notice should be introduced and a reasonable time should be allowed to the banks for acting on such recovery notices.	This will reduce the hardship between the banks, FBR and accountholders / taxpayers. This will also save the banks from penalties, ligations and contempt of court proceedings from FBR as well as clients.
5.	**Section 165, Rule 44**	**Statements of withholding taxes are filed on periodical basis i.e. monthly and annually. Law requires annual statement to be prepared on financial year basis, whereas, banks follow calendar year as Special Tax Year for preparation of financial statements and tax return filings.** However, under Rule 44(4) of the Income Tax Rules 2002, the Commissioner is empowered to obtain reconciliation of the amounts mentioned in	Changes be introduced in Section 165 read with Rule 44 for banking sector for preparation of annual withholding tax statement on calendar year basis.	To coincide two reportings at one year end and making reconciliations doable.

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
		withholding statements with the amounts mentioned in the return of income.		
6.	**Section 231 A, 231AA and 236P of the Ordinance**	**Advance tax at the rate of 0.3% is collected on cash withdrawal if total sum of withdrawal exceed Rs. 50,000/- in a day.** Advance tax @ 0.3% is collected on certain transactions amount exceeding Rs. 25,000 a day, with banks, i.e. issuance of instruments against cash, online cash transfers etc. Whereas, tax @ 0.6% (reduced to 0.3% till 29 Feb 2016) is collected on other banking transactions made by non-filers.	The Provisions should be deleted Or at least the provision of collection of tax on online transfer of funds should be deleted.	These provisions are promoting cash transactions. To avoid deduction of tax and coming in tax net, people prefer to make payments in cash. Government does not earn significant additional revenue from this source because tax deducted/collected under these provisions is adjusted against tax liability of the tax payer. Furthermore, the scope of withholding taxes under section 231A, 231AA and 236P covers almost all kinds of banking transactions. It is harming the business of banking in Pakistan and Government's policy of Financial Inclusion.

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal

Islamic Banking

1.	**Islamic modes of financing – Rule 3(2) of the Seventh Schedule**	**Rule 3: Treatment for Shariah compliant banking.—** (1) Any special treatment for 'Shariah Compliant Banking' approved by the State Bank of Pakistan shall not be provided for any reduction or addition to income and tax liability for the said 'Shariah Compliant Banking' as computed in the manner laid down in this schedule. (2) A statement, certified by the auditors of the bank, shall be attached to the return of income to disclose the comparative position of transaction as per Islamic mode of financing and as per normal accounting principles. Adjustment to the income of	Rule 3(2) of Seventh Schedule of Income Tax Ordinance, 2001 may be replaced with the following text: "The audited financial statements of Islamic Banks and Disclosure related to Islamic window operations of the conventional banks as contained in the audited financial statements submitted to the State Bank of Pakistan shall form the basis for the calculation of income tax liability as provided in this Schedule"	The audited financial statements of Islamic Banks and Islamic Windows of Conventional Banks contains a separate disclosure for Islamic Banking business including profits and loss statement, as such the requirement of separate auditors certificate for the purposes of rule 3(2) of the Seventh Schedule has no relevance. Accordingly, Sub-rule 2 of Rule 3 of Seventh Schedule needs to be replaced. This would save the unnecessary cost and burden on the banks.

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
		the company on this account shall be made according to the accounting income for purpose of this schedule.		
2.	**Section 28 (1) (h) of the Ordinance**	**Section 28 (1) (h) of the Income Tax Ordinance, 2001 allows deduction of customers of the Islamic banks in respect of amount paid by them to a banking company under scheme of Musharakah.** However, complete tax neutrality is not available in respect of other Islamic modes of financings.	New clause (h)(a) to be added after clause (h) in sub-section (1) of Section 28 of the Ordinance as follows: "Any sum paid by a person in a tax year as profit to Islamic Banks, under any Islamic mode of financing."	This will provide complete tax neutrality to Customers of Islamic banks in respect of Islamic mode of financings, other than Musharakah, which are presently not specifically covered in clause (h) of S. 28(1).
3.	**Depreciation on Assets under the Musharaka arrangement - Section 22 of Income Tax Ordinance.**	**New Explanation should be inserted.**	It is recommended that following Explanation be added in Section 22(15) in the definition of 'depreciable asset': *"Depreciable asset includes any asset used to secure the finances provided under the Islamic mode of finance (except Ijara/leasing),*	In the absence of any suitable Explanation in law, the provisions of the Islamic Modes of Financing will be ineffective and will not provide level playing field for Islamic mode of financing. Musharaka has been recognized as one of the Islamic modes of financing. However, issue arises in respect of the deductibility of tax depreciation on assets used for

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
			where such asset is used by the borrower for the purpose of his business."	structuring of Islamic Finance - "Musharaka" FBR, vide its letter C.No.4(78)TP-I/90 dated July 11, 1991 (considering the substance of the Musharaka) has already opined the said arrangement as that of lending finances/loans against the assets. The provisions of section 28(1)(h) also consider the profit under the Musharaka as profit on debt (interest) and allow the same as a deductible charge to the borrower.

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal

FED/Sales Tax

1.	**Lack of uniformity in FED/Sales Tax Rates & Exemptions**	**Presently, different rates of FED/Sales tax are being applied by FBR, PRA, SRB, KPRA and BRA for same type of services received in different territories. Furthermore, exemptions available under different laws are not uniform e.g. a customer is enjoying exemption on same services in one territory while, the same are made taxable in other territory.**	Uniformity should be brought in FED/Sales Tax rates being charged and exemptions available under Federal/Provincial Laws.	Lack of uniformity in tax rates and exemptions is creating reconciliation problems for customers.

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal

MICRO FINANCE BANKS

1	**Tax Exemption for "Not for Profit" organizations placing deposits with MFBs.**	According to clause 59 of Part 1 of Second Schedule of Income Tax Ordinance 2001, profit on debt from scheduled banks is exempt from Tax for "Not for Profit" organizations. However, if these deposits/funds are placed with the MFBs then the profit is taxable.	It is recommended that "Not for Profit" organizations should also be provided similar tax exemption facility on profit if the funds are placed with the MFBs.	This would significantly help the sector in mobilization of deposits from the "not for profit organizations".
2.	**All provident funds are required to deposit only in scheduled banks (as per requirements of the Companies Ordinance 1984 and Income Tax Rules). These requirements discourage the deposits in MFBs.**	**The Companies Ordinance, 1984.** **Specific Section/Provision/Requirement** Section 227(2)(a)(ii) of the Companies Ordinance, 1984.	Insertion should be given in the Income Tax Ordinance or the Companies Ordinance in addition to Scheduled Banks.	Implied discrimination between Scheduled Banks and MFBs should be eliminated as both are regulated by SBP.

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
3.	**Applicable rate of tax i.e. 32% of income tax is very significant keeping in view the emerging stage of microfinance industry in Pakistan. Either exemptions should be given or subsidized income tax rates should be applicable on incomes of Microfinance Banks to boost the sector, especially when they don't pay dividend.**	**The Income Tax Ordinance, 2001.** **Specific Section/Provision/Requirement** Division II (i) of Part I of First Schedule of the Income Tax Ordinance, 2001.	Dates in Clause 66 of the Second Schedule should be extended. OR Rates in Division II(i) of Part I of First Schedule should be reduced for MFBs.	To encourage the emerging industry due to low profitability and equity.

S. No	The Issue	Existing Law/Requirement	Proposal	Rationale for Proposal
4.	**Tax on retained earnings is applicable if dividend is not declared. Further, if dividend is given then tax is also applicable on such distribution of profits. These clauses discourage retention of profits in MFBs and resultantly cause decrease of equity.**	**The Income Tax Ordinance, 2001.** **Specific Section/Provision/Requirement** Section 5 and Section 5A of the Income Tax Ordinance, 2001.	All these two clauses of taxes should be exempted for microfinance banks to encourage increase of equity (through retention of profits and not giving dividends).	To encourage the retention of profits which will increase equity of MFBs.
5.	**Clarification needed with respect to definition of Microfinance Banking Company in Income Tax Ordinance and the applicability of the 7th schedule on MFBs**	**Income Tax Ordinance, 2001** **Section 2(7)**	A certain definition of a Microfinance Bank is needed by inserting new section or providing explanation in existing definition of banking company i.e. section 2(7).	Most of the scheduled commercial banks refuse to consider a Microfinance Bank as Banking Company and hence withholding tax provisions are applied by them.