

Government of Pakistan
Revenue Division
Federal Board of Revenue

Islamabad, the 9th July, 2020

**NOTIFICATION
(Income Tax)**

S. R. O. 615 (I)/2020.- The following draft of certain further amendments in the Income Tax Rules, 2002, which the Federal Board of Revenue proposes to make in exercise of the powers conferred by sub-section (1) of section 237 of the Income Tax Ordinance, 2001 (XLIX of 2001), is hereby published for the information of all persons likely to be affected thereby and, as required under sub-section (3) of the said section, notice is hereby given that objections or suggestions thereon, if any, may for the consideration of the Federal Board of Revenue be sent within seven days of publication of the draft in the official gazette. Any objection or suggestion which may be received from any person in respect of the said draft, before the expiry of the aforesaid period, shall be considered by the Federal Board of Revenue, namely, -

DRAFT AMENDMENT

In the aforesaid rules, in Chapter IX, after Part I, the following new Part shall be inserted, namely, -

**“PART IA
IMPORTED GOODS**

**DIVISION I
GENERAL**

40A. Application.- The provisions of this Part shall apply to addition, omission or amendment of entries in the Twelfth Schedule and application of reduced rate on goods falling under Part III of said schedule imported by persons as raw material for its own use.

DIVISION II
RECLASSIFICATION IN THE TWELFTH SCHEDULE

40B. Initiation of reclassification procedure.- (1) A taxpayer being an importer of a goods may apply to the Board to reclassify imported goods in the Twelfth Schedule to the Ordinance, if-

- (a) a capital goods has not been classified in Part I; or
- (b) a raw material has not been classified in Part II.

(2) An application under sub-rule (1) shall be examined by the Committee on Imported Goods.

(3) The Board may, suo moto, reclassify goods to Part III of the Twelfth Schedule to the Ordinance if it is found to be a finished goods.

40C. Committee on Imported Goods.- (1) The Committee on Imported Goods shall consist of the following members, namely,-

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|-----|--|----------------|
| (a) | Member Inland Revenue Policy, FBR | Chairman |
| (b) | Member Inland Revenue Operations, FBR | Member |
| (c) | Member Customs Policy, FBR | Member |
| (d) | Chairman National Tariff Commission | Member |
| (e) | Chairman Engineering Development Board | Member |

(2) The Chief Income Tax Policy shall act as secretary to the committee.

(3) If the Chairman of the Committee is satisfied that the matter merits consideration, he shall place it before the committee. by way of convening a meeting including a virtual meeting or by way of circulation.

(4) An application for reclassification shall be accepted if approved by majority:

40D. Decision of the Board. - Upon receipt of the recommendations of the committee under rule 40C, the Chairman FBR may-

- (a) reclassify such goods as it may deem fit after taking into consideration the recommendations of the Committee on Imported Goods;
- (b) refer the matter back to the committee for further examination of additional aspects as may be noted by the Board; or
- (c) reject the application of the taxpayer for reasons to be recorded in writing.

DIVISION III

CLASSIFICATION OF PERSONS OR CLASS OF PERSONS

40E. Application for import under a Reduced Rate.- (1) A taxpayer desirous of importing goods classified under Part III of the Twelfth Schedule to the Ordinance as raw material for its own use shall apply to the Board through Iris, and submit the following documents and data in electronic form, namely:-

- (a) The site plan of the manufacturing unit indicating the location of the premises and the details of the total area, covered area and manufacturing area and separate storage areas for manufactured goods, factory rejects and wastages;
- (b) complete details of the type of machinery installed;
- (c) the installed production capacity per day, the division of shifts in a day, the total shifts during the last assessed tax year, and the average production per shift;
- (d) the complete manufacturing process flow, clearly indicating, *inter alia*, the following, namely-
 - (i) the stage at which local and imported raw materials shall be

consumed;

- (ii) the stage at which finished goods shall be manufactured;
- (e) inventory statement, consumption statement and input-output ratios of locally procured and imported goods for the last assessed tax year and the period starting on the first day after the last assessed tax year and ending on the day on which an application under rule 40E is made.
- (f) An estimate of advance tax under sub-section (4A) of section 147 of the Ordinance, if not already furnished:

Provided that till such time Iris is enabled for the purpose of this sub-rule, the application and supporting documents and data may be submitted manually to the secretary of the verification committee.

(2) An application under sub-rule (1) shall be made to the verification committee, which shall consist of the following members, namely:-

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|-----|--------------------------------------|----------------|
| (a) | Member Inland Revenue Operations | Chairman |
| (b) | Chief Inland Revenue Operations, FBR | Member |
| (c) | Chief Income Tax Policy, FBR | Member |
| (d) | Chief Tariff and Trade, FBR | Member |

(3) The Secretary to the Board on Inland Revenue Operations shall act as secretary to the verification committee.

(4) Incomplete applications shall not be considered by the committee and shall be rejected.

40F. Notification of import at Reduced Rate.- (1) On receipt of a complete application along with the documents prescribed under rule 40E, Iris shall automatically calculate the quantity of raw material allowable to be imported during the tax year at reduced rate which shall be computed in accordance with the following formula, namely:-

$$[(125\% \times A) - B] \times C$$

Where –

- A is lesser of previous year's import or consumption of the raw material;
- B is the raw material available with the taxpayer at the time of application; and
- C is the percentage increase in turnover estimated under section 147 compared to last assessed tax year.

Provided that till such time Iris is enabled for the purpose of this sub-rule, computation under this sub-rule shall be submitted manually by the taxpayer to the secretary of the verification committee.

(2) The allowable quantity calculated under sub-rule (1) shall be placed before the committee:

Provided that the chairman of the committee may, if considered fit, call for a report from the Commissioner having jurisdiction over the taxpayer.

(3) The committee may, for reasons to be recorded in writing,–

(a) approve such quantity of goods as it may deem fit to be imported by the person as if such goods were classified under Part II of the Twelfth Schedule; or

(b) reject the application of the taxpayer:

Provided that approval of the Committee under clause (a) shall be granted if approved by majority:

Provided further that such majority shall include the Chairman of the committee.

(4) The taxpayer may file a representation to the Chairman FBR under section 7 of the Federal Board of Revenue Act, 2007 against a decision under sub-rule (3).

40G. Monitoring by the Commissioner.– (1) The Commissioner shall have free access to the premises, registered office or any other place where any stocks, business records or documents required under these rules are kept or maintained or whose

business activities are covered under these rules; and such officer may, at any time, inspect the goods, stocks, records, data, documents, correspondence, accounts and statements or any other record to verify, inter alia, the following, namely –

- (a) the premises is used only and exclusively for the manufacturing unit and has clearly earmarked areas for –
 - (i) storage of imported goods;
 - (ii) locally procured raw material;
 - (iii) manufacturing;
 - (iv) finished goods; and
 - (v) rejects and waste.
- (b) the production capacity and stock consumption as stated by the taxpayer; and
- (c) the raw material being imported is in line with the manufacturing activity or capacity and it is being used as raw material for own use only.

(2) The Commissioner may conduct audit of consumption, production and sales of the latest Tax Year for which return of income has been filed at any time during the year in order to verify that the quantum of annual production is in accordance with the consumption of raw materials and the input-output co-efficient.”

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