Government of Pakistan
Revenue Division
Federal Board of Revenue
*****

Islamabad, the 12th August, 2020.

NOTIFICATION
(Income Tax)

S. R. O. 715(I)/2020.– In exercise of powers conferred by sub-section (1) of section 237 of the Income Tax Ordinance, 2001 (XLIX of 2001), the Federal Board of Revenue is pleased to direct that the following further amendments shall be made in the Income Tax Rules, 2002, the same having been previously published vide Notification No. S.R.O. 615(I)/2020 dated the 9th July, 2020, as required under sub-section (3) of the said section, namely:–

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. Committee on Imported Goods.–(1) There shall be a Committee on Imported Goods which shall consist of the following members, namely,-

(a)	Member Inland Revenue Policy, FBR	….. *Chairperson*
(b)	Member Inland Revenue Operations, FBR	….. *Member*

(c)   Member Taxpayers Audit, FBR   ..... Member

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

(3)   The Committee on Imported Goods shall be empowered to add in the Twelfth Schedule of the Ordinance any entry thereto or omit any entry therefrom or amend any entry therein.

(4)   The Chairperson of the Committee may, *suo moto* or on application of a taxpayer being an importer of such goods, place a matter pertaining to sub-rule (3) before the committee by way of convening a meeting including a virtual meeting or by way of circulation which shall decide the matter within sixty days.

40C. Reclassification of imported goods.– (1)The Committee on Imported Goods, may after taking into consideration all relevant facts, add in the Twelfth Schedule of the Ordinance, any entry thereto or omit any entry therefrom or amend any entry therein:

Provided that such decision of the Committee shall be made by majority.

(2)   A decision under sub-rule (1) to add in the Twelfth Schedule of the Ordinance any entry thereto or omit any entry therefrom or amend any entry therein shall be notified in the Official Gazette by the Board.

DIVISION III

EXEMPTION AND REDUCED RATE CERTIFICATES

40D. Import under an Exemption Certificate.– (1) A taxpayer eligible under sub-section (1) of section 159 of the Ordinance may submit an application to the Commissioner for an exemption certificate through Iris, and submit supporting documents and data in electronic form:

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 Commissioner.

(2)   On receipt of a complete application along with the documents prescribed under sub-rule (1), the Commissioner may carry out such verification as he may consider necessary to ascertain, inter alia, whether–

(a)   such goods are relevant to the activity of the taxpayer whose income is exempt from tax under the Ordinance or is subject to hundred percent tax credit under section 100C of the Ordinance; and

(b)   similar goods previously imported by the taxpayer have not been supplied to its associate or any other person in a non-arm's length transaction.

(3)   The Commissioner may, within fifteen days of application by the taxpayer through an order in writing,–

(a)   approve such quantity of goods as it may deem fit to be imported by the person without collection of tax under section 148 of the Ordinance; or

(b)   reject the application of the taxpayer.

40E. Import under a Reduced Rate Certificate.– (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 may submit an application to the Commissioner for a reduced rate certificate 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 and the average production per day for the last two tax years;

(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; and

      (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 sub-rule (1) is made; and

(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 Commissioner:

Provided further that a taxpayer shall not be required to furnish documents and data under clause (a) and (b) where the taxpayer has been granted a reduced rate certificate under this rule in the previous tax year and the taxpayer submits a declaration to the effect that there is no change in particulars specified under clause (a) and (b).

(2)   On receipt of a complete application along with the documents prescribed under sub-rule (1), the Commissioner may, after such verification as he may consider necessary, 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:-

$$[(125\% \times A) - B] \times [1 + C]$$

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 change in turnover estimated under section 147 compared to last assessed tax year.

(3)   The Commissioner may, within fifteen days of application by the taxpayer through an order 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

(4)   All orders under sub-rule (3) shall be reviewed quarterly by the Review Committee, which shall consist of the following members, namely:-

(a)   Member Inland Revenue Operations, FBR   ..... *Chairperson*

(b)   Chief Inland Revenue Operations, FBR   ..... *Member*

(c)   Chief Income Tax Policy, FBR   ..... *Member*

40F. Monitoring by the Commissioner.–(1)   The Commissioner or an officer authorized by 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 production capacity and stock consumption as stated by the taxpayer; and

(b)   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.".

[F.No. 1(54)R&S/2020]

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