

**WITHHOLDING TAX ON GOODS AND SERVICES**  
**TAX YEAR 2011 (1<sup>st</sup> July 2011 to 30<sup>th</sup> June 2012)**

[Provisions applicable w.e.f. 1.7.2011 onwards]

- 1) Section 153(1) of the Income Tax Ordinance, 2001 provides that every prescribed person making a payment in full or part including a payment by way of advance to a resident person or permanent establishment in Pakistan of a non-resident person:

- (a) for sale of goods;
- (b) for rendering of or providing of services;
- (c) or the execution of a contract, other than a contract for the sale of goods or rendering of or providing of services,

SHALL, AT THE TIME OF MAKING THE PAYMENT, DEDUCT TAX FROM THE GROSS AMOUNT PAYABLE (including Sale Tax) AT THE RATE SPECIFIED IN DIVISION III OF PART III OF THE FIRST SCHEDULE.

- 2) EVERY EXPORTER OR AN EXPORT HOUSE making a payment in full or part including a payment by way of advance to a resident person or permanent establishment in Pakistan of a non-resident person for rendering of or providing of services of STICHING, DYING, PRINTING, EMBROIDERY, WASHING, SIZING AND WEAVING, shall at the time of making the payment, deduct tax from the gross amount payable at the rate specified in Division IV of the Part III of the First Schedule.

**[Sub-section (2) of section 153] o**

- 3) The following terms are defined in sub-section (7) of section 153 are as under:

**“PRESCRIBED PERSON”** means:

- a) Federal Government
- b) A company
- c) An association of persons constituted by or under law.
- d) A non-profit organization
- e) A foreign Consultant and Contractor
- f) A Consortium or Joint Venture
- g) An exporter or an Export House for the purpose of Sub-Section (2)
- h) An association of persons having turnover of Rs.50 million or above in tax year 2007 or in any subsequent tax year or
- i) An individual having turnover of Rs.50 million or above in the tax year 2009 or in any subsequent year.

**“SERVICES”** includes the services of accountant, architect, dentist, doctors, engineers, interior decorator and lawyers otherwise than as an employee.

**“SALE OF GOODS”** includes a Sale of goods for cash or on credit, whether under written contract or not...

**\*AOP Constituted by or under A Law:**

The Central Board of Revenue through their letter no. (17) WHT-IT/91-Pt, dated 2-11-2002 has clarified that a partnership constituted through an instrument of partnership deed and registered with the Registrar of Firms under the Partnership Act, 1932 does not fall within the meaning of the Prescribed Persons as given in section 153(9) of the Ordinance.

Further, the CBR under their letter C.No1 (17) WHT/91-Pt, dated 29-9-2002 has clarified that an ordinary Association of Persons (AOP) which is created by an agreement, does not also fall within the definition of the **“prescribed person”**.

- 4) Commissioner of Income Tax on application by a recipient is authorized to allow any person to make payment without deduction or deduction at a lower rate.  
**[Sub-section (4) of section 153]**
- 5) **The section of withholding tax on goods and services is not applicable to:**
  - (a) A sale of goods where the sale is made by the importer of the goods and the importer has paid tax under section 148 in respect of the goods; and the goods are sold in same condition they were in when imported.
  - (b) Payments made to traders of yarn by the tax payers specified in the Zero-rated regime of Sales Tax (as provided under clause (45A) of Part-IV of the Second Schedule)
  - (c) A refund of any security Deposit
  - (d) A payment made by the Federal Government, a Provincial Government or local authority to a contractor for construction material supplied to the contractor by the said Government or the authority
  - (e) A cotton Ginner who deposit an amount equal to the amount of tax deductible on the payment being made to him, and evidence is provided to the “Prescribed Person”
  - (f) The purchase of an asset under a lease and buy back agreement by a modarba, leasing company, banking company or financial institution; or
  - (g) Any payment for securitization of receivables by a Special Purpose Vehicle to the Originator; or
- 6) Further, According to SRO 586(I)/91, dated 30.6.1991:

The following recipients are specified to whom this section 50(4)/153 shall not apply. This notification is valid as the same is saved by section 239(12) of the Ordinance.

- (i) A Provincial Government
- (ii) A Local Authority
- (iii) Persons who are resident of tribal areas or Azad Kashmir and execute contracts in tribal areas as the case may be, Azad Kashmir only and produces certificate to this effect from Political Agent or District Authority from the Income Tax Officer concerned.
- (iv) Person who produces a certificate from the Commissioner of Income Tax to the effect that their income during the year is exempt from Tax.
- (v) Persons receiving payments from a company exclusively for the supply of agricultural produce, including fresh milk, live chicken birds and eggs by any person engaged in poultry farming and by an industrial undertaking engaged in poultry processing which has not been subjected to any process other than that which is ordinarily performed to render such produce fit to be taken to market;
- (vi) Companies receiving payments for the supply of electricity and gas.
- (vii) Companies receiving payments for the supply of crude oil;
- (viii) Attock Refinery Ltd., National Refinery Ltd and Pakistan Refinery Ltd receiving payments for the supply of their products;
- (ix) Pakistan State Oil Company, Shell Pakistan Ltd. And Caltex Oil Pakistan Ltd., receiving payments for the supply of petroleum products;
- (x) Hotels and restaurants receiving payments in cash for providing accommodation or food or both as the case may be;
- (xi) Shipping companies and air carriers receiving payments for the supply of passenger tickets and for the cargo charges of goods transported.
- (xii) PERSONS RECEIVING PAYMENTS:-
  - (a) **Not exceeding** TWENTY FIVE THOUSAND ON ACCOUNT OF SUPPLY OF GOODS IN A FINANCIAL YEAR; AND
  - (b) **Not exceeding** RUPEES TEN THOUSAND ON ACCOUNT OF SERVICES RENDERED OR EXECUTION OF A CONTRACT, IN A FINANCIAL YEAR;

- (xiii) Provided that where the total payments in a financial year, exceeds rupees twenty five thousand on account of supply of goods, or rupees ten thousand on account of services rendered or execution of contract, the payer shall deduct tax from the payments including the tax on payments made earlier without deduction of tax during the same financial year;
- (xiv) Person receiving payments for supply of cotton seed;
- (xv) Person, being manufacturer of goods, who produces a certificate from the Commissioner concerned to the effect that his income during the income year is not likely to be chargeable to tax due to assessed losses or carried forward;
- (xvi) Person, being owner of one goods transport vehicle, receiving payment once in a financial year from a payer on account of carriage of goods on behalf of such payer on a single journey undertaken during the said financial year;
- (xvii) Person, whose income is not liable to final taxation and who produce a certificates from the commissioner to the effect that their income during the income year is not likely to be chargeable to tax due to assessed losses carried forward; and
- (xviii) Person whose income is not liable to final taxation and from whom tax has been deducted u/s 153 (1) and the aggregate of tax deducted u/s 153 (1), is equal to or exceeds the tax payable u/s 147 in respect of that income year and a certificates to that effect from the commissioner is produced by him.

7) **Exemptions from specific provisions:**

**Part IV- Clause**

The Second Schedule of the Ordinance provides for not application of the provisions of section 153 in respect of the payments made as follows:

- (16)** To the institutions of the Aga Khan Development Network (Pakistan);
- (38)** To Special purpose vehicle for the purpose of securitization;
- (42)** The Section 153(6) shall not apply on payment received by a person for providing services by way of operation of container or chemical or oil terminal at a sea-port in Pakistan or of an infrastructure project covered by the Government's Investment Policy, 1997;
- (42A)** The Section 153(6) shall not apply on payments received by a person for supply of relief goods for earthquake victims against funds from the President Relief Fund for Earthquake Victims,

2005, or any other such source of the Government or the purchases made by approved voluntary Non-Profit Organization or welfare bodies for the aforesaid purposes

- (43A)** To payments received by a person including of permanent Establishment of Non-resident Petroleum Exploration and Production (E&P) Companies on account of supply of petroleum product imported by the same person under the Government of Pakistan's de-regulation policy of POL products;
- (43B)** The provision of section 153 (1) (a) shall not apply to payments received on sale of air tickets by traveling agents, who have paid withholding tax on their commission.
- (45)** To any manufacturers-cum-exporter as the prescribed person. provided that.
- a) The manufacturers-cum-exporter shall deduct tax from payments made in respect of goods sold in Pakistan.
  - b) If tax has not been deducted from payments on account of supply of goods in respect of goods sold in Pakistan, the tax shall be paid by the manufacturer, if the sale in Pakistan are in excess of five percent of export sales; and
  - c) Nothing contained in this clause shall apply to payments made on account of purchase of goods in respect of which special rates of tax deduction have been specified under the provisions of the repealed ordinance.
- (45A)** According to this section the local Sales, Supplies & Services provided or rendered to the following categories of Sales Tax Zero-Rated Tax Payers. The applicable rate of W.H.Tax shall be **One Percent.**
- (i) Textile and articles thereof;
  - (ii) Carpets;
  - (iii) Leather and articles thereof including artificial leather footwear;
  - (iv) Surgical goods; and
  - (v) Sports goods;
- (46)** To any payment received by an oil distribution company or an oil refinery for supply of its petroleum products. The provision of section 153(1) shall not apply:

- (46A)** To any payment receive by a manufacturer of Iron & Steel Products relating to sell of goods manufactured by him. The provision of sub-section (6) of section 153 shall not apply
- (47A)** To payment received by a resident person for supply of such goods as were imported by the same person and on which tax has been paid under section 148. The provision of section 153 shall not apply.
- (47B)** Any person making payment to National Investment Unit Trust or a collective investment scheme or a modarba or approved pension fund or an approved income payment plat or a REIT scheme or a Private Equity and Venture Capital Fund or a recognized provident fund of an approved superannuation fund or an approved gratuity fund. The provision of sections 150, 151 and 233 shall not apply.
- (47D)** The provision of section 153 (6A) shall not apply to cotton ginners.
- (57)** The provision of section 153 shall not apply to companies operating Trading House which-
- i. have paid up capital of exceeding Rs. 250 million;
  - ii. own fixed assets exceeding Rs. 300 million at the close of the tax year;
  - iii. maintain computerized records of imports and sale of goods;
  - iv. maintain a system for issuance of 100% cash receipt on sale;
  - v. present accounts for tax audit every year; and
  - vi. Is registered with Sale Tax Department.

Provided that the exemption under this clause shall not be available, if any of the aforementioned conditions are not fulfilled in a tax year;

**(57A)** Large Import Houses will be exempt from withholding tax U/S 153 and 169 provided all the conditions provided U/S 148 are fulfilled.

**(60)** To fully as well partly designed/assembled cipher devices, for use within the country as are verified by Cabinet Division (NTISB) with reference to design, quality and quantity.

**8) WITHHOLDING TAX RATES:**

	Of the gross amount Payable    %
(1) For the sale of goods u/s 153(1)(a):	
(a) Sale of Rice, Cotton Seed or Edible Oils	1.5
(b) Sale of any other goods	3.5
(2) For the rendering of or providing of services U/S 153 (1) (b) shall be:	
(a) in the case of transport services,	2.00
(b) All Others	6.00
(3) On Execution of contracts u/s 153(1)(c): On execution of contract other than a contract for the Sale of goods or the rendering of services	6.00
(4) For providing services u/s 153(1A)	0.50
(5A) Any payment for Advertisement services to a non-resident media person relaying from outside Pakistan	10
(5B) Supplies to Sales Tax zero-rated taxpayer (textile, carpet, Leather, footwear, surgical and sports goods SRO.333 (I)/2011 dated 2.5.2011	1

**SPECIAL RATES:**

The CBR through SRO.600 (1)/91 dated 1/7/91 has prescribed reduced Withholding tax rates on the following transactions:

(i) on supply of cotton lint	1.0
(ii) on supply of raw wool	1.0
(iii) on supply of rice	1.0

**REDUCTION IN TAX RATES: PART II- CLAUSE**

The Second Schedule to the Ordinance allows deduction of tax at source at lower rate than normal rate of tax to the following persons:

**(4)** Tax in respect of income from services rendered outside Pakistan shall be charged at the lower of ONE PERCENT of the gross receipts, provided that such receipts are brought into Pakistan in foreign exchange through normal banking channel.

**(3A)** Tax in respect of income from construction contracts outside Pakistan shall be chargeable at the rate of ONE PERCENT of the gross receipts provided that such income is brought into Pakistan in foreign exchange through normal banking channel.

**(21)** In the case of any resident person engaged in the business of shipping shall be charged as prescribed in the clause.

The tax deducted under section 153 is full and final discharge of its tax liability of the following persons:

Supply of Goods.	Rate	
Individual / AOP	3.50%	Full & Final
Limited Companies	3.50%	Full & Final - 2007
Manufacturer / Individual / AOP	3.50%	Adjustable - 2006 & 2007 2008 PTR / Adjustable (S.R.O.847(1) /2007. Dated: 22-08-2007.
Public Companies listed on a Registered Stock Exchange of Pakistan	3.50%	Adjustable
<b>Services / Contract</b>		
Individual / AOP	6.00%	Full & Final
Limited Companies	6.00%	Adjustable
Services / Contract Services	6.00%	Full & Final
Manufacturer	6.00%	Full & Final
Goods & Transport	2.00%	Full & Final
Advertisement, Security, Owner of Newspaper & Magazine Individual / AOP	6.00%	Full & Final

The rate of withholding Tax under the Income Tax Ordinance, 2001 and the status of Tax deducted and collected are:

Payments	Tax Rate	Status of Tax deducted or collected	
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<b>(a)</b> Supplies of goods other than those specified in (b) below.	3.5%	Final for residents (other than manufacturer-cum-supplier)	
<b>(b)</b> Supplies to Sales Tax zero-rated taxpayer (textile, carpet, leather, footwear, surgical and sports goods SRO.333(I)/2011 dated 2.5.2011	1%	Final	
<b>(c)</b> Supply of rice, cotton, cotton seed or edible oils.	1.5%	Final (except in case of listed companies and companies engaged in manufacturing)	
<b>(d)</b> Rice sold by Rice Exporters Association of Pakistan to Utility Store Corporation	1%	Final	
<b>(e)</b> Services rendered other than transport services.	6%	Minimum Tax.	
<b>(f)</b> Transport services.	2%	Minimum Tax.	
<b>(g)</b> Services to Sales Tax zero-rated taxpayer (textile, carpet, leather, footwear, surgical and sports goods [SRO.333 (I)/2011 dated 2.5.2011.	1%	Minimum tax	
<b>(h)</b> Execution of contract, other than contract for supply of goods or rendering of services.	6%	Final (except in case of listed companies)	
<b>(i)</b> Services of stitching, dying, printing, embroidery and washing rendered or provided to an exporter or an export house.	0.5%	Full & Final	
<b>(j)</b> Any payment for Advertisement services to a non-resident media person relaying from outside Pakistan	10%	Final	

Tax collected or deducted under section 153 withholding of Income Tax Ordinance, 2001 has to be reported periodically on prescribed form as follows.

Nature of Payments / Transaction	Period of Statement	Due Date	
Payment for Supply / Services / Contracts.	Monthly Annually	15 <sup>th</sup> day of every month.	