



Government of Pakistan
Secretary Withholding Tax.
(Tel./Fax 051-9201448)
Email: secretary.wht@fbr.gov.pk

C.No.1(20)WHT/2011.

Islamabad, August 27, 2011.

Circular No.10 of 2011
(Income Tax)

Subject: **Special Exemption Allowed to Growers of Agricultural Produce, Incidental Expenses of Oil Tankers' and Steel Melters**

Clause (12) of Part-IV of Second Schedule to the Income Tax Ordinance 2001 (XLIX of 2001) has been substituted through SRO 787(I)/2011 dated 22nd August 2011, in order to allow specific exemptions/concessions in withholding tax deductible under clause (a) of sub-section (1) of section 153 to the following categories:

- i) On sales made by growers of agricultural produce;
- ii) On incidental expenses incurred by owners/contractors of oil tankers; and
- iii) On local purchase of scrap steel by steel melters.

2. Since the agricultural income as defined in Section 41 is exempt under the Ordinance, subjecting the growers to the withholding regime under section 153(1)(a) on sale of agricultural produce would have been an anomaly & unfair. Therefore, their sale receipts from agricultural produce have been exempted from withholding tax. The expenditure on purchase of agricultural produce from its grower has also been exempted from the applicability of clause (I) of section 21, which requires payment through crossed banking instruments / banking channel. The grower in order to avoid payment of withholding tax shall be required to provide a certificate to the person making payment directly to the growers as prescribed in the said notification.

3. In view of the peculiar characteristics of Cotton crop, it has been decided by the Board that the ginner purchasing cotton from the grower will be required to forward a copy of the certificate furnished by the grower to the concerned RTO/LTU. The authenticity of the particulars provided in the said certificate may be verified by the relevant Inland Revenue authority within one year, and no question shall be asked from

the ginnerers after lapse of one year after the date the certificate was received by such authority. The concerned RTOs/LTUs are required to set up a special cell for obtaining and processing the information/documents regarding transactions of agricultural produce. It will be the responsibility of the concerned Chief Commissioner to ensure that all the Commission Agents/traders of agricultural produce whose receipts have been subjected to withholding tax are borne on tax roll and filing their returns of income.

4. The provision of particulars as prescribed in the certificate about the measurement and identity of agricultural land is optional for the growers, and department shall not insist on this requirement.

5. The person purchasing agricultural produce through a commission agent shall be required to deduct advance tax @ 10% on the amount of commission paid to the agent and tax u/s 153(1)(a) shall not be deductible on such transactions. The grower making sales through such commission agent shall also not be required to furnish the prescribed certificate.

6. Exemption provided under sub-clause (a) of clause (12) of Part-IV of Second Schedule to the Ordinance, is not available to the traders of agricultural produce and withholding tax shall be deductible from them at the prescribed rates.

7. Payments made by the owners / contractors of oil tankers for meeting necessary incidental trip expenses paid to crew of oil-tankers, have also been exempted from the provisions of clause (a) of sub-section (1) of section 153. However this exemption shall not be allowed to the owners of oil tankers made under any other head of their business expenditure;

8. The rate of deduction withholding tax under clause (a) of sub-section (1) of section 153 has been reduced from 3.5% to 1%, in case of local purchases of scrap steel made by the steel melters who have opted for the Sales Tax Special Procedure Rules 2007 relating to steel melters, and are regularly filing returns under the said scheme. The benefit of this reduction in rate of tax cannot be allowed to those steel melters who are outside the ambit of Sales Tax Special Procedure Rules 2007, or who have failed to file Sales Tax Returns regularly.



(MOHAMMED IMTIAZ)