

WHT collection on IT exports: KTBA urges FBR to issue fresh directions to banks

KARACHI: Karachi Tax Bar Association (KTBA) has urged the Federal Board of Revenue (FBR) to retrain the financial institutions for not collecting withhold-tax under section 154A of the Ordinance from exporters of software/IT-enabled services.

In a letter sent to the FBR, the KTBA said that owing to the erroneous understanding of the "Section 154A - Export of Services" (inserted in the Income Tax Ordinance 2001 via Finance Act, 2021) by banks with reference to withholding/collection of export proceeds from computer software and IT-enabled Services.

It said that exemption available to export of computer software and other IT-enabled Services under clause (133) Part I of the Second Schedule to Income Tax Ordinance, 2001 was replaced (subject to certain stipulations) by one hundred percent tax-credit under Section 65F inserted provisionally via Tax Laws (Second Amendment) Ordinance, 2021 and conclusively in Finance Act, 2021.

It is thus safe for a taxpayer to claim tax-credit indigenously, upon complying conditions mentioned in sub-section (2) of Section 65F *ibid*, without seeking specific exemption from concerned Commissioner Inland Revenue, the letter added.

Furthermore, it said that the financial institutions who facilitate export proceeds have started deducting tax under the newly introduced Section 154A of the Income Tax Ordinance, 2001 (Ordinance), on export proceeds of computer software/other IT-enabled services as well, albeit, such exporters were entitled for one hundred percent tax-credit in line with Section 65F of the Ordinance.

Alternatively, some banks have also placed a requirement for withholding exemption certificate from Commissioner Inland Revenue on the score of section 159 read with section 154A of the ordinance.

The KTBA believed that rather than enforcing requirement of exemption certificate on the score of section 159 read with section 154A of the ordinance, the FBR will issue directions to banks for not collecting withholding tax under section 154A of the ordinance from exporters of software/IT-enabled services subject to the condition that such taxpayer provide registration from PSEB/P@SHA together with an undertaking as to compliance of section 65F (2) *ibid.*