

Banks withhold tax on export of IT services

KARACHI: Tax practitioners have pointed out that banks are deducting withholding tax on proceeds from exports of computer software and IT enabled services, which are granted 100 per cent tax credit.

Muhammad Zeeshan Merchant, President, Karachi Tax Bar Association (KTBA) in a letter to Asim Ahmed, Chairman, Federal Board of Revenue (FBR) sent on Wednesday highlighted anomalous understanding of Section 154A of Income Tax Ordinance, 2001 by banks with reference to withholding tax collection of one per cent income tax on export proceeds from IT and IT enabled services.

KTBA president informed the FBR chairman that the exemption is available to export of computer software and other IT enabled services under Second Schedule of Income Tax Ordinance, 2001 by allowing 100 per cent tax credit under Section 65 of the Ordinance, which was made part of the statute by amendment brought through Finance Act, 2021.

The amendment was made to facilitate taxpayers to claim tax credit without seeking specific exemption from tax authorities.

The reality is quite contrary as banks have started deducting tax under the newly introduced Section 154A of the Ordinance on exports proceeds of computer software and other IT enabled services as well. Such exporters are entitled to one hundred percent tax credit.

Needless to mention that Section 154A is fundamentally for export proceeds from services other than IT exports, Merchant said.

KTBA president said that some banks have put a requirement of withholding exemption certificate from commissioner inland revenue.

He said that the banks had put the conditions without understanding the factual position laid down in the Ordinance.

The KTBA urged the FBR chairman to issue directions to banks not to withhold tax under section 154A of the Ordinance from taxpayers of software and IT enabled services subject to the condition that such taxpayer.