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Banks Unlawfully Deducting Withholding Tax On IT Exports: KTBA

KARACHI: The Karachi Tax Bar Association (KTBA) on Wednesday said the banks are deducting withholding tax on export of software and IT-enabled services, which is unlawful, as this segment has been granted exemption.

In a letter to Asim Ahmed, chairman of the Federal Board of Revenue (FBR), the association said the banks have misunderstood Section 154A of the Income Tax Ordinance, 2001.

The FBR chairman has been informed that the exemption is available to export of computer software and other IT-enabled services under the Second Schedule of the 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 the amendment brought through the Finance Act, 2021.

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

“The reality is quite contrary to the ground realities, as [the] banks have started deducting tax under the newly-introduced Section 154A of the Ordinance on export proceeds of computer software and other IT-enabled services, as well,” KTBA president Muhammad Zeeshan Merchant said in the letter.

Such exporters are entitled to 100 per cent tax credit, the letter read. “Needless to mention that Section 154A is fundamentally for export proceeds from services other than IT exports,” the tax bar association said.

It said some banks have put a condition of withholding exemption certificate from the commissioner Inland Revenue, adding that the banks had put the condition without understanding the factual position laid down in the ordinance.

The FBR chairman has been urged to issue directives to the banks not to withhold tax under section 154A of the ordinance from the taxpayers of software and IT-enabled services.