

TAX COMMENTARY

, 15

Budgeting The Unbudgeted

RIAZ AHMAD
SAQIB
GOHAR
Chartered Accountants

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PREAMBLE

Alhamdulillah!

RIAZ AHMAD SAQIB GOHAR & CO. RASG is pleased to present the 'highlights, comparisons and comments' on this year's budget to its clients, friends and associates. While developing this document every endeavor has been made to keep the presentation simple, with the view to help our readers understand the amendments in the various statutes through the Finance Bill, 2015.

This commentary reflects our understanding of the legislation and we recommend that reference should be made to the precise wording of the Bill wherever necessary. We would also recommend that the professional advice should be sought before acting upon any of the amendments.

I am more than satisfied in saying that "RASG" as a team has grown and matured over the years which makes the whole exercise of designing, preparing, printing, & distributing of the Tax Commentary a 'Smooth Sail'.

Thank you very much My Team!

Regards

Gohar Manzoor
Managing partner
June 6, 2015



HIGHLIGHTS AND
HARMONIZATION
OF PROVISIONS IN
THE INCOME TAX
ORDINANCE,
SALES TAX,
CUSTOMS AND
FEDERAL EXCISE
ACTS.



Budget Highlights

Income Tax

- o One percent reduction in corporate tax rate other than banking company is proposed for Tax Year 2016
- o Exemption proposed on profits & gains of Electricity Transmission Projects set up by June 2018 for a period of ten years
- o Enhanced limit of investment proposed in quoted company shares from Rs. 1 M to Rs. 1.5 M for individual investors claiming tax credit thereon.
- o Enhanced tax credit from 15% to 20% proposed for entities opting to list on stock exchange
- o Income of a Banking company from all sources to be taxed at a uniform rate of 35%
- o CNIC of individuals to be used as National Tax Number
- o Reduction in With-holding Taxes proposed on Token Tax and Transfer of Vehicles
- o Proposal to enhance limit of equity from Rs. 25 M to Rs. 50 M to expand the scope of a Small Company
- o Reduction by 3% in tax rate for salaried and non-salaried/AOP taxpayers falling under the 1st Taxable Slab
- o Irrevocable Option proposed for Exporters to opt out of Final Tax Regime and get taxed deducted to be minimum tax
- o Capital Gain earned for holding period ranging between 2 to 4 Years is being proposed to be taxed at the rate of 7.5%.
- o Non-Filers exposed to higher with-holding taxes under various provisions
- o Progressive taxation proposed for Profit on Debt exceeding Rs. 25 million and Rs. 50 million
- o All sources of income of Banking Companies are proposed to be subject to normal rate of tax of Banking Companies
- o Tax on Dividend proposed to be enhanced from 10% to 12.5% for Filers and from 15% to 17.5% for Non-Filers
- o Reduction in threshold to Rs. 75,000 proposed for withholding on Electricity Consumption
- o With-holding Tax of 10% under final tax regime proposed for renting of machinery and on using or having right to use equipment
- o Tax at the rate of 10% is being proposed on Undistributed Reserves in excess of 100% of Paid-up Capital of profit making Listed Companies (other than Scheduled Banks & Modarabas)
- o One time Super Tax is being proposed at 4% and 3% on Banking Companies and all other taxpayers respectively, having income equal or exceeding Rs. 500 Million in Tax Year 2015
- o With-holding tax proposed on payments to electronic and print media in respect of advertising services
- o With-holding tax of 0.15% proposed on cash withdrawals by exchange companies.
- o Tax rate enhancement proposed from 10% to 12% on Commission Income and from 7.5% to 10% on Commission of Advertising Agencies

- o Introduction of special audit panels proposed for conducting audit on the discretion and directives of Federal Board of Revenue
- o Introduction of automation selection of audit proceedings proposed for retailers failing to fulfill specified conditions
- o Reward for Whistle Blowers introduced for providing credible information in respect of concealment, evasion, fraud, corruption or misconduct in respect of income tax

Sales Tax

- o Further Tax enhancement proposed from 1% to 2% on supplies to unregistered persons
- o 100% enhancement proposed on Fixed Value of sales tax on import of cellular phones
- o Exemption from chargeability of sales tax is being proposed to be withdrawn on various items.
- o Items proposed to be added in fifth, sixth and ninth schedules to the Act, to provide exemptions or charging zero/reduced rates.
- o Sales Tax on Services under Islamabad Capital Territory amended with proposed additions in several services under the said ambit
- o The electronic monitoring system is proposed to be introduced for monitoring of production of specified sectors
- o Enhanced limit at Rs. 800,000 proposed over utility bills of cottage industries
- o Grant of sales tax exemption proposed on medical appliances and tubular daylight devices
- o Input tax adjustment proposed of Pre-fabricated buildings

Federal Excise Duty

- o Average F.E.D. rise of 5% proposed on locally produced cigarettes
- o Enhancement in F.E.D. by 3% proposed on aerated water

Harmonization of provisions in the Income Tax Ordinance, Sales Tax, Customs and Federal Excise Acts.

To streamline the procedures and to harmonize the provisions of Income Tax Ordinance, 2001 Sales Tax Act, 1990, Federal Excise Act, 2005, and Customs Act, 1969, following common amendments are proposed to be made:

Definitions

Income Tax: Section 2 Clause (75)
Sales Tax: Section 2 Clause (46A)
Federal Excise: Section 2 Clause (24A)

OUR COMMENTS: A new definition is proposed to be introduced by inserting a new clause:

whistleblower - means a person who reports concealment or evasion of sales tax and tax fraud leading to detection or collection of taxes, fraud, corruption or misconduct, to the competent authority having power to take action against the person or a sales tax authority committing fraud, corruption, misconduct, or involved in concealment or evasion of taxes.'

Exemption

Income Tax: Section 53(2) (4)
Sales Tax: Section 13(2) (a) & (b)
Federal Excise: Section 13 (2)
Customs Act: Section 19 & 20

OUR COMMENTS: A very widely used term "SRO Culture" and the powers vested to manipulate said culture with the Federal Board of Revenue have been withdrawn. According to the proposed amendment Economic Coordination Committee of Cabinet has been empowered to approve/issue notifications for such immediate action to handle different emergency situations viz.:

- " whenever circumstances exist to take immediate action for the purposes of national security;
- " natural disaster;
- " national food security in emergency situations;
- " protection of national economic interests in situations arising out of abnormal fluctuation in international commodity prices;
- " removal of anomalies in taxes;
- " development of backward areas; and
- " implementation of bilateral and multilateral agreements.

Federal Board of Revenue is currently empowered to exempt any income, import or supply of goods from payment of the whole or any part of the tax chargeable. Through proposed amendment, the Finance Bill 2015 seeks to withdraw these powers of Federal Board of Revenue by omitting relevant sub-clauses in respective legislations.

Exemption

Sales Tax: Section 13(3), (6) & (7)
Federal Excise: Section 13 (3), (5) & (6)

OUR COMMENTS: The Finance Bill, 2015 seeks to insert a new sub-section each in respective legislations that requires the Federal Government to place all notification allowing exemption from payment of tax before the National Assembly. Further, the newly proposed sub-section, in each of the legislations, provides that any notification allowing exemption from payment of tax shall, if not earlier rescinded, stand rescinded on the expiry of the financial year in which it was issued.

Special Audit Panels

Income Tax: Section 177(11), (12), (13), (14), (15), (16) & (17)
Sales Tax: Section 32A(1), (2), (3), (4), (5) & (6)
Federal Excise: Section 46

OUR COMMENTS: Presently, the Federal Board of Revenue or the Commissioner is empowered to appoint a Chartered Accountant or a Firm of Chartered Accountants or a Cost and Management Accountant or a Firm of Cost and Management Accountants for conducting special audit of records of registered person or audit of refund claims. Through Finance Bill, 2015, it is proposed to withdraw these powers of Commissioner and only Federal Board of Revenue is proposed to be empowered to appoint 'special audit panels'.

Further, the existing scheme of appointment of auditors is being proposed to be replaced with 'special audit panels' which may comprise of two or more members from the following:

- " an officer or officers of Inland Revenue;
- " a firm of Chartered Accountants as defined under the Chartered Accountants Ordinance, 1961 (X of 1961);
- " a firm of Cost and Management Accountants as defined under the Cost and Management Act, 1966 (XIV of 1966); or
- " any other person as directed by the Board.

The newly proposed sub-section, in each of the legislatures, provides that an Officer of Inland Revenue shall head each special audit panel as Chairman. Further, the scope of this section has been enhanced to include forensic audit and this scope shall be determined by the Federal Board of Revenue or Commissioner Inland Revenue on a case to case basis. Through this amendment, it is being proposed to empower Federal Board of Revenue to get such audit conducted jointly with similar audits being conducted by provincial administrations of sales tax on services.

The newly inserted sub-section provides that if any one member of the 'special audit panel', other than the Chairman, is absent from conducting an audit, the proceedings of the audit may continue and the audit conducted by the special audit panel shall not be invalid or be called in question merely on the ground of such absence.

Further, another newly proposed sub-section empowers Federal Board of Revenue to prescribe rules in respect of constitution, procedure and working of 'special audit panel'.

Monitoring or Tracking by Electronic or other means

Sales Tax: Section 40C(2), (3)
Federal Excise: Section 45A (2), (3)

OUR COMMENTS: This section provides that taxable goods shall not be removed or sold by the manufacturer without affixing tax stamp, banderole, stickers, labels, etc. To enhance the monitoring or tracking of taxable goods and to take the advantage of technology, the term 'barcodes' is also proposed to be inserted in this section.

A new sub-section, in each of the legislatures, is proposed to be inserted which provides that the Federal Board of Revenue shall appoint a licensee to provide tax stamp, banderole, stickers, labels, barcodes, etc. to the registered person against a price approved by the Board. The price shall include the cost of equipment installed by licensee in premises of registered person.

Agreement for the exchange of information

Income Tax: Section 107(1), (1A)
Sales Tax: Section 56A(1) & (2)
Federal Excise: Section 47A

OUR COMMENTS: By introducing a new section, it is being proposed to empower the Federal Government to enter into bilateral or multilateral agreements with Provincial Governments or with Governments of Foreign Countries for exchange (including electronic exchange) of sales tax related information and to make necessary provisions for implementation of these agreements.

Disclosure of information by a public servant

Income Tax: Section 107(1B)
Sales Tax: Section 56B
Federal Excise: Section 47B

OUR COMMENTS: The newly inserted section seeks to prohibit any public servant to disclose any confidential information acquired under relevant legislature or in pursuance of a bilateral or multilateral agreement or tax information exchange agreement.

Reward to whistleblowers

Income Tax: Section 227B

Sales Tax: Section 72D

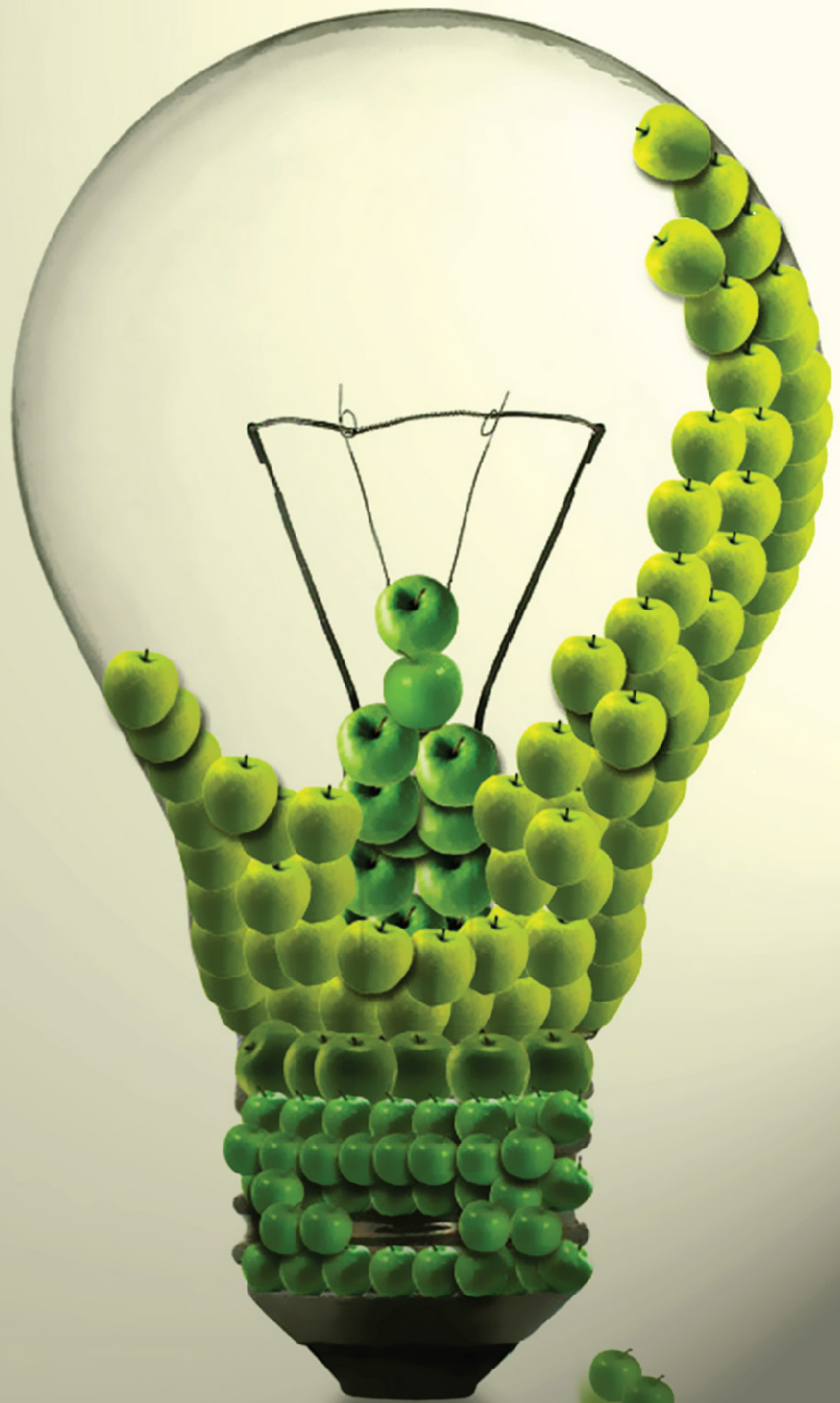
Federal Excise: Section 42D

OUR COMMENTS: To sanction reward to whistleblowers providing credible information leading to detection of fraud in cases of concealment or evasion of tax, tax fraud, corruption or misconduct, the Finance Bill, 2015 seeks to insert a new section in each of the legislatures to empower the Federal Board of Revenue, by virtue of that, the Board may also prescribe procedures and specify the apportionment of reward sanctioned for whistleblowers.

This section further provides that the claim for reward by the whistleblower shall be rejected if:

- " the information provided is of no value;
- " the Board already had the information;
- " the information was available in public records; or
- " no collection of taxes is made from the information provided from which the Board can pay the reward.

ECONOMIC OVERVIEW

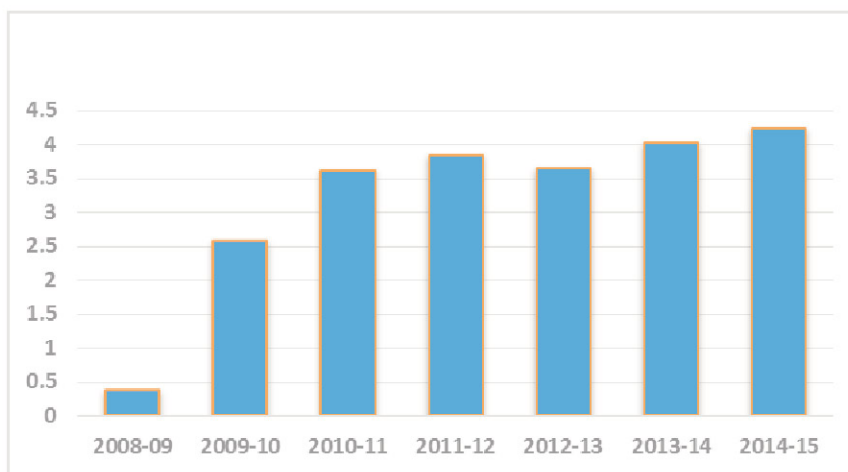


ECONOMIC OVERVIEW

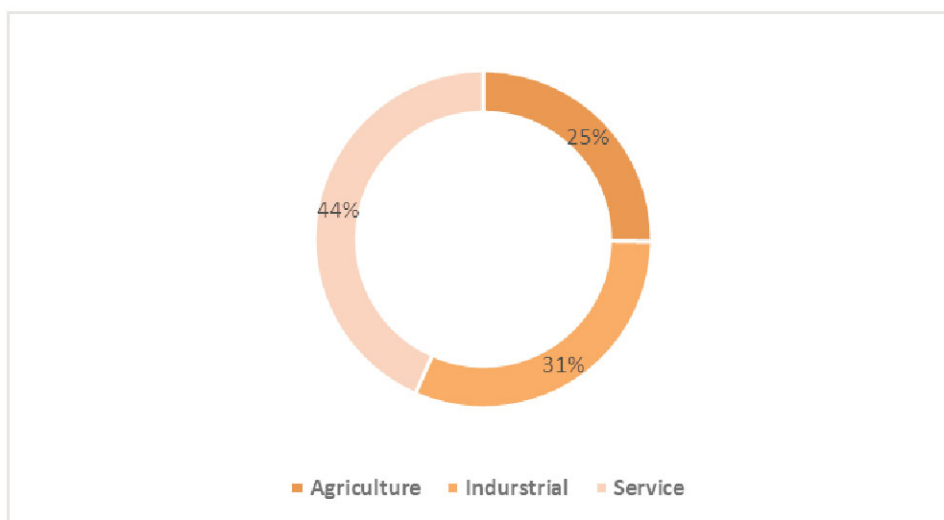
According to the Economic Survey of Pakistan 2014-15 launched by the Ministry of Finance on, Thursday, June 3, 2015, the revival of growth that started in 2013-14 has accelerated in 2014-15 as per latest indicators released by the National Accounts Committee. Pakistan succeeded in achieving a GDP growth rate of 4.24% as compared to 4.14% during 2013-14.

This upward trend has been a result of many factors such as the reform initiatives, commitment to a calibrated fiscal and monetary management and an overall improvement in macroeconomic situation. The impact of these factors was strengthened by a steep decline in oil prices, rise in foreign exchange buffers, growth in remittances and proceeds from privatization.

Historical GDP Growth Rate Trend



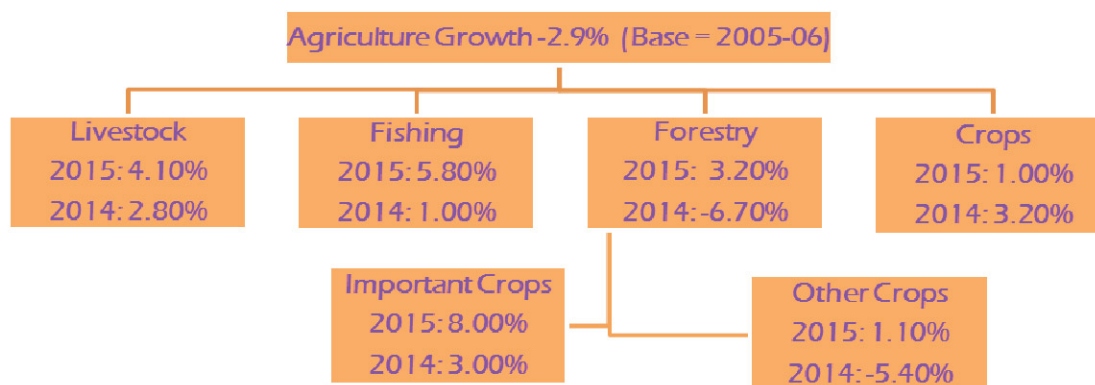
Sector wise contribution to the GDP growth



Agriculture

Government is making multiple efforts to improve the agricultural sector by introducing modern techniques and scientific methods to improve the quality and quantity of the yield. Agriculture accounts for 20.88% of GDP and 43.5% of employment. The agriculture sector has four sub sectors including: crops, livestock, fisheries and forestry.

During fiscal year 2014-15, the overall performance of agriculture sector recorded a growth of 2.9% compared to the growth of 2.7% during last year due to positive growth in all related agriculture sub sectors.



Manufacturing and Mining

Manufacturing sector accounts 13.3% of Gross Domestic Product (GDP) and 14.2% of total employed labor force. The industry specific data shows that five sub sectors recorded negative growth during the period July-March FY 2014-15 over corresponding period of last year.

Large Scale Manufacturing (LSM), accounts 10.6% of GDP, dominates the overall sector, accounting 80% of the sector's share. Large Scale Manufacturing during July-March 2014-15 registered a growth of 2.5% as compared to 4.6% in the same period last year.

Small Scale Manufacturing accounts for 1.7% of total GDP and 13.0% share in Manufacturing.

| Significant changes in manufacturing sector (LSM) | | |
|---|--|-----------|
| Groups | Growth rate in July - March (% Change) | |
| | 2013-2014 | 2014-2015 |
| Textile | | |
| Coke & Petroleum Products | 1.44 | 0.50 |
| Food, Beverages & Tobacco | 7.48 | 4.73 |
| Pharmaceuticals | 7.78 | -1.03 |
| Automobile | -0.49 | 6.38 |
| Iron & Steel Products | -0.01 | 17.02 |
| Paper & Board | 3.38 | 35.63 |
| Engineering Products | 8.03 | -7.26 |
| Rubber Products | -21.40 | -10.68 |
| Wood | 9.48 | -0.56 |
| Leather Products | -8.91 | -78.46 |
| | 12.96 | 9.62 |

Inflation

Core inflation on average basis during July-April, 2014-15, stood at 6.9% against 8.3% last year.

Inflation rate measured through Consumer Price Index (CPI) averaged at 4.8% during July-April 2014-15 against 8.7% in the same period of last year. This is the lowest level of inflation after 2003.

The food inflation during the period increased at much lower rate against non-food and overall CPI inflation because of significant decline in prices of food items. Food inflation decelerated from 7.0% to -0.03% in April 2015. The non-Food inflation decelerated from 8.5% in July 2014 to 3.7% in April 2015

Wholesale Price Index (WPI) during July-April, 2014-15, on average basis has recorded an increase of 0.03% against 8.3% last year.



Composition of CPI Inflation (July-April)

| Commodity | % Change Inflation | | Point Contribution | |
|----------------------------|--------------------|-----------|--------------------|-----------|
| | 2013-2014 | 2014-2015 | 2013-2014 | 2014-2015 |
| FOOD GROUP | | | | |
| Food, Beverages & Tobacco | 9.0 | 2.69 | 3.1 | 0.9 |
| NON-FOOD GROUP | | | | |
| Clothing & Foot ware | 13.10 | 8.43 | 1.0 | 0.6 |
| Housing & Fuel | 8.58 | 6.57 | 2.5 | 1.9 |
| Health | 6.62 | 5.84 | 0.1 | 0.1 |
| Transport | 4.67 | -3.08 | 0.3 | -0.2 |
| Communication | 3.25 | 0.24 | 0.1 | 0.0 |
| Recreation & culture | 9.18 | 3.80 | 0.2 | 0.1 |
| Education | 8.79 | 14.61 | 0.4 | 0.6 |
| NON-FOOD NON ENERGY | 8.26 | 6.93 | 4.4 | 3.7 |

Trade and Payments

Pakistan's overall external account balance posted a surplus of US\$ 2.12 billion during Jul-Apr, 2014-15 against US\$ 1.95 billion in the corresponding period of last year due to marked improvement in the current account and substantial foreign exchange inflows.

The Current account deficit almost halved to US\$ 1.4 billion during July-April 2014-15 from US\$ 2.9 billion in July-April 2013-14.

Inflows under worker's remittances recorded an increase of 16.1 % during July-April 2014-15 when compared with corresponding period last year.

Pakistan's exports to EU have increased from US\$ 6.21 billion during 2013 to US\$ 7.54 billion in 2014. Pakistan's exports to EU registered an increase of US\$ 1.32 billion in one year. This represents an increase of 21 %. Pakistan exported \$ 20.176 billion of products in the 10 months of this fiscal year as against \$ 20.834 billion a year ago. Imports amounted to \$ 34.086 billion versus \$ 34.645 billion.



Public Debt

Public debt was recorded at Rs. 16,936 billion or 61.8 % of GDP as at end-March 2015 compared with 62 % during the same period last year. Public debt recorded an increase of Rs. 940 billion during first nine months of current fiscal year as compared with Rs. 1,272 billion during the same period last year.



Education, Health and Nutrition

Education:

Education plays a pivotal role in the development of the country. High literacy rate ensures sustainable economic development, labor productivity and economic prosperity.

According to the latest Pakistan Social and Living Standards Measurement (PSLM) Survey 2013-14, the literacy rate (10 years and above) is estimated at 58% as compared to 60% in 2012-13. Similar to many developing countries, Pakistan has not made progress adequately in the field of education.



The total expenditure on education has remained around 2.0% of GDP (amounting to Rs.537.60 billion in 2013-14 as compared to Rs.479.85 billion in 2012-13.) For the past decade, with a high proportion being spent on recurrent heads mainly salaries, leaving a small amount for education sector development.

Health & Nutrition:

The government is trying to improve the health and nutrition status of people through enhanced coverage and access to essential health services. The coverage of health facilities has improved over years and the present network of health services consists of 1,142 hospital, 5,499 dispensaries, 5,438 Basic Health Units (BHUs) as compared to last years' 1,096 hospitals, 5310 dispensaries, 5,527 basic health units and 687 maternity child health centers.

The total expenditure on health during 2014-15 is estimated Rs.114.2 billion which works out as 0.4% of GDP which includes 31.93 billion for development and 82.29 billion for current expenditure.



Population, Labor Force and Employment

Population growth rate has shown improvement and it decreased from 1.95 in 2014 to 1.92 in 2015. Total population is projected at 191.71 million in 2015.

According to the Labor Force Survey 2013-14, Pakistan has 60.09 million labor force which has increased from 57.2 million. Out of this labor force, only 56.52 million people have employment and 3.58 million people are unemployed. The share of employment in the agriculture sector has decreased from 43.7% in 2012-13 to 43.48% in 2013-14. The employment share in the manufacturing sector has remained unchanged from 2013-14 i.e. 14.1%. The share in transport sector has increased from 4.98% in 2012-13 to 5.44% in 2013-14.

Energy

The government retired the circular debt (Rs.480 billion) immediately after taking oath which added 1700 MW of electricity into the system.

The installed capacity of PEPCO system has gone up to 22,577 MW by the end of March 2015 with hydro and thermal capacities occupying 7,097 MW and 15,480 MW respectively.



During the recent visit of President of China, Pakistan and China signed 51 Memorandums of Understanding (MoUs) relating to diverse aspects of bilateral relations, including the Pakistan China Economic Corridor and series of energy projects. Thus almost \$15.5 billion worth of coal, wind, solar and hydro energy projects will come online by 2017 and will add 10,400MW of energy to Pakistan's national grid.

Transport and Communication



National Highways Authority has spread over the country a sizable network of highways, expressways and motorways of about 12,131 km with active project portfolio of 72 projects costing Rs. 1,342 billion. In the current year 2014-15, the Government has allocated Rs. 111.56 billion for these development projects which would add a sizable portion of roads to the existing network.



Pakistan Railways have taken many new initiatives in line with the Government's Vision 2025 objectives for development of railways infrastructure to increase its share in the overall transport sector from 4 % to 20 % by the end of 2025.



Under the new policy initiative of Revival of PIA the PIA management has signed an agreement with the EXIM Bank of USA for a financing facility and General Electronics to overhaul and carry out maintenance of the engines of PIA Boeing Air Crafts. The steps under taken have not only reduced PIA losses from Rs. 44.3 billion to Rs. 32.0 billion in 2014 but also increased its operating revenue from Rs. 95.771 billion in 2013 to Rs. 99.519 billion in 2014



Pakistan National Shipping Corporation with a total deadweight capacity of 681,806 metric tons has improved its profitability and earned Rs. 11.424 billion during July-March, 2014-15, against Rs. 11.370 billion during corresponding period last year.



The proposed Telecom policy envisages a boost of export in telecom sector from current level of US\$ 1.4 billion to the level of US\$ 4.0 billion by 2020 and an increase in telecom revenue to the tune of Rs. 800 billion in next five years. Total subscribers have reached to the level of 134 million by end of March, 2015 as compared to just 5 million in 2004.

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Tax

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Income Tax

Definitions: Consumer Goods

Existing

“New Clause shall be added”

Section 2 Clause(13AA)

Proposed Amendment

“Consumer Goods” means goods that are consumed by the end consumer rather than used in the production of another good”.

OUR COMMENTS: The term “Consumer Goods” has been defined

Definitions: Developmental REIT Scheme

Existing

“New Clause shall be added”

Section 2 Clause(17D)

Proposed Amendment

“Developmental REIT Scheme” means Developmental REIT Scheme as defined under the Real Estate Investment Trust Regulations, 2015.

OUR COMMENTS: The term “Development REIT” has been defined in relation to introduction of tax on dividend declared by such schemes through amendments introduced. Further, clerical error seems to be there in numbering the clause, this clause should be numbered 17A rather than 17D.

Definitions: Fast Moving Consumer Goods

Existing

“New Clause shall be added”

Section 2 Clause(22A)

Proposed Amendment

“Fast Moving Consumer Goods” means consumer goods which are supplied in retail marketing as per daily demand of a consumer”.

OUR COMMENTS: The term “Fast Moving Consumer Goods” has been defined.

Definitions: Imputable Income

Existing

“New Clause shall be added”

Section 2 Clause(28A)

Proposed Amendment

“imputable income” in relation to an amount subject to final tax means the income which would have resulted in the same tax, had this amount not been subject to final tax”.

OUR COMMENTS: The term “Imputable Income” has been defined in relation to the introduction of section 4B, whereby super tax has been imposed for the rehabilitation of temporarily displaced persons.

Definitions: Income

Existing

“income” includes any amount chargeable and 236M], as income under any provision of this Ordinance.

Section 2 Clause (29)

Proposed Amendment

for the word and figure “and 236M” a comma, word and figures “, 236M and 236N” shall be substituted.

OUR COMMENTS: This clause deals with the definition of income; this amendment is of corrective nature to include income on account of bonus shares issued by unlisted companies in the scope of the said definition. The above mentioned income was introduced through Finance Act 2014 by adding

Definitions: Developmental REIT Scheme**Section 2 Clause(17D)**

Section 236 N in the Income Tax Ordinance, 2001 but the same was not included in the definition of income.

Definitions:PMEX**Section 2 Clause (42A)****Existing**

“New Clause shall be added”

Proposed Amendment

“PMEX” means Pakistan Mercantile Exchange Limited a futures commodity exchange company incorporated under the Companies Ordinance, 1984 regulated by the Securities and Exchange Commission of Pakistan”

OUR COMMENTS: The term “PMEX” has been defined in relation to the introduction of Section 236 T whereby Pakistan Mercantile Exchange Limited (PMEX) has been given the responsibility to collect tax on trades defined in the above mentioned section.

Definitions: REIT Scheme**Section 2 Clause (47A)****Existing**

“Real Estate Investment Trust (REIT) Scheme” means a REIT Scheme as defined in the Real Estate Investment Trust Regulations, 2008;

Proposed Amendment

“REIT Scheme” means a REIT Scheme as defined in the Real Estate Investment Trust Regulations 2015”.

OUR COMMENTS: The definition for the term “REIT Scheme” has been replaced due to the replacement of regulations in relation to the above; now termed as “Real Estate Investment Trust Regulation 2015”.

Definitions: RMC**Section 2 Clause (47B)****Existing**

“Real Estate Investment Trust (REITMC) Management Company” means REITMC as defined under the Real Estate Investment Trust Regulations, 2008;

Proposed Amendment

(i) for the letters “REITMC” the letters “RMC” shall be substituted;
(ii) for the figure “2008” the figure “2015” shall be substituted.

OUR COMMENTS: This amendment is proposed to update the abbreviation from “REITMC” to “RMC” in accordance with the introduction of new regulations termed as “Real Estate Investment Trust Regulations 2015”.

Definitions: Rental REIT Scheme**Section 2 Clause (47C)****Existing**

“New Clause shall be added”

Proposed Amendment

“Rental REIT Scheme” means a Rental REIT Scheme as defined under the Real Estate Investment Trust Regulations, 2015”.

OUR COMMENTS: The term “Rental REIT Scheme” has been introduced in accordance with the changes brought through Real Estate Investment Trust Regulations, 2015.

Definitions: Small Company**Section 2 Clause (59A)****Existing**

(i) has paid up capital plus undistributed reserves not exceeding twenty-five million rupees;

Proposed Amendment

(i) for the word “twenty-five”, the word “fifty” shall be substituted.

OUR COMMENTS: The definition for a Small Company in accordance with the Income Tax Ordinance, 2001 has been amended by increasing the amount of paid up capital required to be termed as a Small Company from twenty five million rupees to fifty million rupees.

Super Tax for Rehabilitation of Temporarily Displaced Persons Section 4B**Existing****Proposed Amendment**

(1) A super tax shall be imposed for rehabilitation of temporarily displaced persons, for tax year 2015, at the rates specified in Division IIA of Part I of the First Schedule, on income of every person specified in the said Division.

(2) For the purposes of this section, "income" shall be the sum of the following:-

(i) profit on debt, dividend, capital gains, brokerage and commission;

(ii) taxable income under section (9) of this Ordinance;

(iii) imputable income as defined in clause (28A) of section 2; and

(iv) income computed under Fourth, Fifth, Seventh and Eighth Schedule.

(3) The super tax payable under sub-section (1) shall be paid, collected and deposited on the date and in the manner as specified in sub-section (1) of section 137 and all provisions of Chapter X of the Ordinance shall apply.

(4) Where the super tax is not paid by a person liable to pay it, the Commissioner shall by an order in writing, determine the Super tax payable, and shall serve upon the person, a notice of demand specifying the super tax payable and within the time specified under section 137 of the Ordinance.

(5) Where the super tax is not paid by a person liable to pay it, the Commissioner shall recover the super tax payable under sub-section (1) and the provisions of Part IV, X, XI and XII of Chapter X and Part I of Chapter XI of the Ordinance shall, so far as may be, apply to the collection of super tax as these apply to the collection of tax under the Ordinance.

(6) The Board may, by notification in the official Gazette, make rules for carrying out the purposes of this section."

"New Section shall be added"

Definitions: Small Company

Section 2 Clause (59A)

OUR COMMENTS: In order to create funds for financing the affairs for the rehabilitation of temporary displaced person, a new tax by the name of super tax is being proposed to be introduced for the Tax Year 2015 only.

This tax shall be levied at the following rates:

| Person | Rate of super tax |
|---|-------------------|
| • Banking Company | 4% of the income |
| • Person, other than a banking company, having income equal to or exceeding Rs. 500 million | 3% of the income |

For the purpose of this section, the following income of a person shall be added:

- ✓ Profit on debt
- ✓ Capital gain
- ✓ Brokerage & commission
- ✓ Taxable income u/s 9
- ✓ Imputable income u/s 2(28A)
- ✓ Income computed under:
 - Fourth Schedule – profits and gains on insurance business
 - Fifth Schedule – Profit & gains from exploration & extraction of petroleum, mineral deposits, etc.
 - Seventh Schedule – Profit & gains of banking company
 - Eighth Schedule – Capital Gains

The proposed super tax shall be payable with return of total income u/s 137 (1) and the whole of the provision of Chapter X of the Income Tax Ordinance 2001 relating to filing of return, assessment, appeals, payments of tax, penalties, etc. shall apply. In case if super tax is not paid by person liable to pay, the Commissioner has been given the powers to determine the same and serve the notice of demand to recover it u/s 137 and other provisions contained in Chapters X & XI of the Ordinance.

Tax on Undistributed Reserves

Section 5A

Existing

Proposed Amendment

“New Section shall be added”

(1) Subject to this Ordinance, a tax shall be imposed at the rate of ten percent, on every public company other than a scheduled bank or a modaraba, that derives profits for a tax year but does not distribute cash dividends within six months of the end of the said tax year or distributes dividends to such an extent that its reserves, after such distribution, are in excess of hundred percent of its paid up capital, so much of its reserves as exceed hundred per cent of its paid up capital shall be treated as income of the said company: Provided that for tax year 2015, cash dividends may be distributed before the due date mentioned in sub-section (2) of section 118, for filing of return for tax year 2015.

(2) The provisions of sub-section (1) shall not apply to a company in which not less than fifty percent shares are held by the Government.

Tax on Undistributed Reserves

Section 5A

(3) For the purpose of this section, 'reserve' includes amounts set-aside out of revenue or other surpluses excluding capital reserves, share premium reserves and reserves required to be created under any law, rules or regulations.”;

OUR COMMENTS: In order to encourage distribution of dividend by public company other than the scheduled bank or modaraba that derives profit for the tax year but does not distribute cash dividend within six months of the end of the said tax year or distributes dividend to such an extent that it reserves (including amount set aside out of revenue or other surpluses excluding capital reserves, share premium reserves and reserves required to be created under any law, rules or regulations) after such distribution, are in excess of 100% of its paid up capital; it is proposed to levy tax @ 10% by treating such excess as income of the said company.

Specific for the tax year 2015, a proviso has been proposed to be added whereby cash dividend maybe distributed before the due date of filing of return for the tax year 2015 as mentioned in section 118 (2). This proviso is not applicable to a company in which not less than 50% shares are held by the government.

In our opinion, this levy would amount to double taxation of the same profit which before being transferred to the reserves was subject to normal tax. Further, by levying tax on the undistributed profit, the deprived shareholders of the company are not, in any case benefited.

This section has few more complications i.e. the same reserve remaining undistributed over the years, may be subject to this tax time and again until finally distributed as dividend; which in any case has no rationale. This section again does not clarify whether any adjustment, tax credit or refund will be allowed if dividend is distributed out of remaining reserves in the future years.

Tax on Shipping of a Resident Person

Section 7A(1)(2)

Existing

Proposed Amendment

(1) In the case of any resident person engaged in the business of shipping, a presumptive income tax shall be charged in the following manner, namely:-

(a) ships and all floating crafts including tugs, dredgers, survey vessels and other specialized craft purchased or bare-boat chartered and flying Pakistan flag shall pay tonnage tax of an amount equivalent to one US \$ per gross registered tonnage per annum; and

(b) ships, vessels and all floating crafts including tugs, dredgers, survey vessels and other specialized craft not registered in Pakistan and hired under any charter other than bare-boat charter shall pay tonnage tax of an amount equivalent to fifteen US cents

per ton of gross registered tonnage per chartered voyage provided that such tax shall not exceed one US \$ per ton of gross registered tonnage per annum:

“New Section shall be added”

Explanation.- For the purpose of this section, the expression “equivalent amount” means the rupee equivalent of a US dollar according to the exchange rate prevalent on the first day of December in the case of a company and the first

Tax on Shipping of a Resident Person

Section 7A(1)(2)

day of September in other cases in the relevant assessment year.

(2) The provisions of this section shall not be applicable after 30th June, 2020.”

OUR COMMENTS: It is proposed to levy a presumptive income tax on a resident person engaged in the business of shipping in the shape of a tonnage tax on annual basis till 30th June 2020. The presumptive income tax shall be charged in the following manner:

| Nature of Vessels | Rate of Tax |
|---|---|
| Ships and all floating crafts, etc flying Pakistan flag purchased or bare-boat chartered. | One US \$ per gross registered tonnage per annum |
| Ships and all floating crafts, etc not registered in Pakistan or hired under any charter other than bare-boat chartered | Fifteen US cents per ton of gross registered tonnage per chartered voyage or one US \$ per ton of gross registered tonnage per annum, whichever is less |

For the purpose of conversion following exchange rates should be used:

- In case of a company – exchange rate prevailing on the first day of December
- In other cases - exchange rate prevailing on the first day of September

Tax on Profit on Debt

Section 7B(1)(2)&(3)

Existing

Proposed Amendment

“New Section shall be added”

(1) Subject to this Ordinance, a tax shall be imposed, at the rate specified in Division IIIA of Part I of the First Schedule, on every person who receives a profit on debt from any person mentioned in clause (a) to (d) of sub-section (1) of section 151.

(2) The tax imposed under sub-section (1) on a person who receives a profit on debt shall be computed by applying the relevant rate of tax to the gross amount of the profit on debt.

(3) This section shall not apply to a profit on debt that is exempt from tax under this Ordinance.”

OUR COMMENTS: It is proposed to impose tax at the new rates specified in Division IIIA of Part I of the First Schedule on every person who receives profit on debt from any person mentioned in clause (a) to (d) of Section 151(1) namely:

- Clause a: on deposit or certificate under the National Saving Scheme or Post Office Saving Account.
- Clause b: on account or deposit maintained with the banking company or financial institution.
- Clause c: on a security issued by the Federal Government, Provincial Government, or a Local Authority.
- Clause d: on any bond, certificate, debenture etc. paid by a banking company or a financial institution.

Tax on Profit on Debt**Section 7B(1)(2)&(3)**

The new tax rates as detailed in **Division IIIA of Part I of the First Schedule** are as follows:

| S. No. | Where Profit on Debt | Rate of Tax |
|---------------|---|---|
| 1 | Does not exceed Rs. 25 million | 10% |
| 2 | Exceeds Rs. 25 million but does not exceed Rs. 50 million | Rs. 2.5 million plus 12.5% of amount exceeding Rs. 25 million |
| 3 | Exceeds Rs. 50 million | Rs. 5.625 million plus 15% of the amount exceeding Rs. 50 million |

Salary**Section 12(2) Clause (a)****Existing****Proposed Amendment**

any pay, wages or other remuneration provided to an employee,in paragraph (2) of Division I of Part I of the First Schedule;

(a) the colon at the end shall be omitted; and

any perquisite, whether convertible to money or not;

(b) the proviso shall be omitted;

OUR COMMENTS: Due to technical reasons, it is proposed to remove proviso; being redundant, in relation to chargeability of bonus paid or payable to corporate employees receiving salary income of 1 million rupees or more (excluding bonus) in Tax Year 2010 under para 2 of Division I of Part I of the First Schedule.

Deductions in Computing Income Chargeable Under the Head "Income from Property"**Section 15A(1) Clause (h)****Existing****Proposed Amendment**

any expenditure (not exceeding six percent of the rent chargeable to tax in respect to tax in respect of the property for the year computed before any deduction allowed under this section) paid or payable by the person in the year for the purpose of collecting the rent due in respect of the property;

any expenditure, not exceeding six per cent of the rent chargeable to tax in respect of the property for the year computed before any deduction allowed under this section, paid or payable by the person in the year wholly and exclusively for the purpose of deriving rent chargeable to tax under the head, "Income from Property" including administration and collection charges;"

OUR COMMENTS: The proposed amendment seeks to broaden the scope of the allowable deduction against income from property by allowing administration and collection charges not exceeding six percent of the rent chargeable to tax incurred wholly and exclusively for the purpose of deriving rent chargeable to tax.

Capital Gain on Sale of Securities**Section 37A(1)****Existing****Proposed Amendment**

The capital gain arising on or after the first day of July 2010, from disposal of securities held for a period of less than a year⁹, other than a gain that is exempt from tax under this

The words "held for a period of less than a year" shall be omitted;

Salary

Ordinance], shall be chargeable to tax at the rates specified in Division VII of Part I of the First Schedule

Section 12(2) Clause (a)

OUR COMMENTS: It is proposed to remove, for a technical reason; being redundant the words “held for the period of less than a year”.

Tax Credit for Investment in Shares and Insurance

Section 62(2) Clause (c)

Existing

The amount of a person’s tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely: —

$$(A/B) \times C$$

where -

A is the amount of tax assessed to the person for the tax year before allowance of any tax credit under this Part;

B is the person’s taxable income for the tax year; and

C is the lesser of —

(a) the total cost of acquiring the shares, or the total contribution or premium paid by the person referred to in sub-section (1) in the year;

(b) twenty per cent of the person’s taxable income for the year; or

(c) one million rupees.

Proposed Amendment

After the word “one”, the words “and a half” shall be inserted;

OUR COMMENTS: The proposed amendment seeks to increase the limit of investment in shares or life insurance premium paid for the purpose of tax credit from one million rupees to one and a half million rupees.

Deductible Allowance for Profit on Debt

Section 64 & 64A

Existing

(64) A person shall be entitled to a tax credit for a tax year in respect of any profit or share in rent and share in appreciation for value of house paid by the person in the year on a loan by a scheduled bank or non-banking finance institution regulated by the Securities and Exchange Commission of Pakistan or advanced by Government or the 2[Local Government] 3[or a statutory body or a public company listed on a registered stock exchange in Pakistan] where the person utilizes the loan for the construction of a new house or the acquisition of a house.

Proposed Amendment

“Section shall be omitted”

64A

(1) Every individual shall be entitled to a deductible allowance for the amount of any profit or share in rent and share in appreciation for value of house paid by the individual in a tax year

Salary

“New Section shall be added”

Section 12(2) Clause (a)

on a loan by a scheduled bank or non-banking finance institution regulated by the Securities and Exchange Commission of Pakistan or advanced by Government or the Local Government, Provincial Government or a statutory body or a public company listed on a registered stock exchange in Pakistan where the individual utilizes the Loan for the construction of a new house or the acquisition of a house.

(2) The amount of an individual's deductible allowance allowed under sub-section (1) for a tax year shall not exceed fifty percent of taxable Income or one million rupees, whichever is lower.

(3) Any allowance or part of an allowance under this section for a tax year that is not able to be deducted for the year shall not be carried forward to a subsequent tax year.

OUR COMMENTS: The proposed amendments seeks to transfer provisions of Section 64 to Section 64A along with following changes:

- Straight deductible allowance will be available to individual from total income instead of existing provision of tax credit on profit on debt paid for construction/acquisition of house.
- Deductible allowance should not exceed the lower of fifty percent of taxable income or one million rupees instead of existing provision of seven hundred and fifty thousand rupees.
- The allowance remaining unadjusted cannot be carried forward.

Tax Credit for Employment Generation by Manufacturers

Existing

Section 64B

Proposed Amendment

(1) Where a taxpayer being a company formed for establishing and operating a new manufacturing unit sets up a new manufacturing unit between 1st day of July, 2015 and 30th of June, 2018, it shall be given a tax credit for a period of ten years.

(2) The tax credit under sub-section (1) for a tax year shall be equal to one percent of the tax payable for every fifty employees registered with The Employees Old Age Benefits Institution and the Employees Social Security Institutions of Provincial Governments during the tax year, subject to a maximum of ten percent of the tax payable.

(3) Tax credit under this section shall be admissible where—

(a) the company is incorporated and manufacturing unit is setup between the first day of July, 2015 and 30th day of June, 2018, both days inclusive;

(b) employs more than fifty employees in a tax year registered with The Employees Old Age Benefits Institution and the Employees Social

“New Section shall be added”

Salary

Section 12(2) Clause (a)

Security Institutions of Provincial Governments;
(c) manufacturing unit is managed by a company formed for operating the said manufacturing unit and registered under the Companies Ordinance, 1984 (XLVII of 1984) and having its registered office in Pakistan; and
(d) the manufacturing unit is not established by the splitting up or reconstruction or reconstitution of an undertaking already in existence or by transfer of machinery or plant from an undertaking established in Pakistan at any time before 1st July 2015.

(4) Where any credit is allowed under this section and subsequently it is discovered, on the basis of documents or otherwise, by the Commissioner that any of the conditions specified in this section were not fulfilled, the credit originally allowed shall be deemed to have been wrongly allowed and the Commissioner may, notwithstanding anything contained in this Ordinance, recompute the tax payable by the taxpayer for the relevant year and the provisions of this Ordinance shall, so far as may be, apply accordingly.

(5) For the purposes of this section a manufacturing unit shall be treated to have been setup on the date on which the manufacturing unit is ready to go into production, whether trial production or commercial production.”;

OUR COMMENTS: It is proposed to give benefit to a newly incorporated manufacturing company for registering its employees with Employees Old Age Benefit Institution and Employees Social Security Institutions of Provincial Government. The new section will allow tax credit equal to one percent of its tax payable for every fifty employees registered with the aforementioned institutions subject to a maximum of ten percent of the tax payable i.e. to the extent of five hundred employees.

Tax credit will be admissible subject to following conditions:

1. A company is incorporated and manufacturing unit is set up during July 1, 2015 to June 30, 2018; (setup date means the date when manufacturing unit has started its trial or commercial production);
2. The company employs more than fifty employees registered with the institutions;
3. Manufacturing unit is managed by the company formed for the said manufacturing unit and having its registered office in Pakistan; and
4. The manufacturing unit is not established by the splitting up, reconstruction or reconstitution of an undertaking already in existence.

If it is subsequently it is discovered on the basis of documents or otherwise by the Commissioner that any of the condition specified in the section has not been fulfilled, then the credit wrongly allowed will be recomputed in the relevant year as tax payable.

Miscellaneous Provisions Relating to Tax Credits

Existing

“New Sub Section shall be added”

OUR COMMENTS: The proposed amendment applies to person who are eligible to tax credit under

- Section 65B – Tax credit for investment;
- Section 65D – Tax credit for newly established undertakings; or
- Section 65E – Tax credit for industrial undertakings established before the first day of July 2011

It is proposed to exclude the applicability of the provisions of Section 169(2)(d) which provides that the tax deducted, being final tax in nature, shall not be reduced by any tax credit allowed under this ordinance and provisions of Section 113 (1) i.e. which requires Minimum tax on turnover of a person.

Tax Credit for Enlistment

Existing

Where a taxpayer being a company opts for enlistment in any registered stock exchange in Pakistan, a tax credit equal to 4[fifteen] per cent of the tax payable shall be allowed for the tax year in which the said company is enlisted.]

OUR COMMENTS: The proposed amendment will increase the percentage of allowable tax credit from fifteen percent to twenty percent of tax payable by a company which opts for enlistment in any registered stock exchange in Pakistan. Tax credit will be allowed in the tax year in which the company is enlisted.

Tax Credit for Industrial Undertakings Established before the First day of July, 2011

Existing

The amount of credit admissible under this section shall be deducted from the tax payable, including minimum tax and final taxes payable under any of the provisions of this Ordinance, by the taxpayer in respect of the tax year in which the plant or machinery referred to in sub-section (1) is installed and for the subsequent four years.]

OUR COMMENTS: The proposed amendment will result in allowable tax credit for a period of five years tax credit beginning from the date of setting up or commencement of commercial production from the new plant or expansion project, whichever is later.

Principles of Taxation of Companies

Existing

A dividend paid by a resident company shall be

Section 65(6)

Proposed Amendment

Where the person is entitled to a tax credit under section 65B, 65D or 65E, provisions of clause (d) of sub-section (2) of section 169 and clause (d) of sub-section (1) of section 113 shall not apply.”;

Section 65C(1)

Proposed Amendment

For the word “fifteen”, the word, “twenty” shall be substituted;

Section 65E(5)

Proposed Amendment

For the words, brackets and figure “in respect of the tax year in which the plant or machinery referred to in subsection (1) is installed and for the subsequent four years” the commas and words “, for a period of five years beginning from the date of setting up or commencement of commercial production from the new plant or expansion project, whichever is later” shall be substituted;

Section 94(2)

Proposed Amendment

The word “resident” shall be omitted;

Salary

taxable in accordance with Section 5.

Section 12(2) Clause (a)

OUR COMMENTS: In order to provide for taxation of dividend paid by non-resident company, provision of Section 94(2) is being amended by virtue of which a dividend paid by all resident and non-resident companies shall be taxable under Section 5.

Tax Credit for Certain Persons

Existing

(1) Non-profit organizations, trusts or welfare institutions, as mentioned in sub-section (2) shall be allowed a tax credit equal to one hundred per cent of the tax payable, including minimum tax and final taxes payable under any of the provisions of this Ordinance, subject to the following conditions, namely:-

(i) ex-servicemen and serving personnel, including civilian employees of the Armed Forces, and their dependents; or
(ii) ex-employees and serving personnel of the Federal Government or a Provincial Government and their dependents, where the said trust is administered by a committee nominated by the Federal Government or, as the case may be, a Provincial Government;

(c) a trust or welfare institution or non-profit organization approved by Chief Commissioner for the purposes of this sub-clause;

Section 100C(1) & (2) Clause (c)

Proposed Amendment

Before the word “Non-profit” the words “The income of ” shall be inserted; and

After the word “Persons” the word “and incomes” shall be inserted; and

The word and hyphen “sub-“ shall be omitted;

OUR COMMENTS: Technical amendments have been proposed to clarify the section.

Minimum Tax on Builders

Existing

“New Sub Section shall be added”

Section 113A(3)

Proposed Amendment

This section shall not have effect till 30th June, 2018”

OUR COMMENTS: It is proposed under sub-section 3 to defer the requirement of payment of minimum tax on builders till June 30, 2018.

Minimum Tax on Land Developers

Existing

(1) Subject to this Ordinance, where a person derives income from the business of development and sale of residential, commercial or other plots, he shall pay minimum tax at the rates as the Federal Government may notify in the official Gazette. The Federal Government may also specify the mode, manner and time of payment of such

Section 113B

Proposed Amendment

For the expression “at the rates as the Federal Government may notify in the official Gazette” the words “at the rate of two per cent of the value of land notified by any authority for the purpose of stamp duty” shall be substituted;

Minimum Tax on Builders

amount of tax.

(2) The tax paid under this section shall be minimum tax on the income of the developer from the sale of such residential, commercial or other plots sold or booked.]

OUR COMMENTS: A Minimum tax on land developers has been proposed at the rate of two percent of the value of land notified by any authority for the purpose of stamp duty.

Return of Income

Existing

Subject to sub-section (6A), any person who, having furnished a return, discovers any omission or wrong statement therein, may file revised return subject to the following conditions, namely:-

(a) it is accompanied by the revised accounts or revised audited accounts, as the case may be; 1[]
(b) the reasons for revision of return, in writing, duly signed, by the taxpayers are filed with the return]2[;]3[] 4[(ba) it is accompanied by approval of the Commissioner in writing for revision of return; and]

5[(c) taxable income declared is not less than and loss declared is not more than income or loss, as the case may be, determined by an order issued under sections 121, 122, 122A, 122C, 129, 132, 133 or 221: Provided that if any of the above conditions is not fulfilled, the return furnished shall be treated as an invalid return as if it had not been furnished.]

OUR COMMENTS: It is proposed through inclusion of proviso that if the revised return to rectify the omission or wrong statement has been filed within 60 days of filing of original return, then approval of Commissioner in writing for revision of return is not required.

Best Judgment Assessment

Existing

produce before the Commissioner, or any person employed by a firm of chartered accountants 2[or a firm of cost and management accountants] under section 177, accounts, documents and records required to be maintained under section 174, or any other relevant document or evidence that may be required by him for the purpose of making assessment of income and determination of tax due thereon, the Commissioner may, based on any available information or material and to the best of his judgment, make an assessment of the taxable income 3[or income] of the person and the tax due thereon 4[and the assessment, if any, treated to have been made on the basis of

Section 113A(3)

Section 114(6)

Proposed Amendment

In the proviso, for the full stop at the end, a colon shall be substituted and thereafter the following new proviso shall be added, namely:-

“Provided further that the condition specified in clause (ba) shall not apply if revised return is filed within 60 days of filing of return.”;

Section 121(1) Clause (d)

Proposed Amendment

after for the word “or “ appearing for the first time the expression “a special audit panel appointed under sub-section (11) of section 177 or” shall be substituted;

Minimum Tax on Builders

return or revised return filed by the taxpayer shall be of no legal effect].

Section 113A(3)

OUR COMMENTS: It is proposed that the Commissioner may also make an assessment of a person taxable income and tax due thereon based on the available information / and to the best of his judgment on failure of a person to produce relevant document or evidence for the purpose of determination of taxable income to Special Audit Panel appointed / constituted under Section 177(11).

Procedure in Appeal**Section 128(1A)(1AA)****Existing****Proposed Amendment****“New Sub Section shall be added”**

The Commissioner (Appeals), after affording opportunity of being heard to the Commissioner against whose order appeal has been made, may stay the recovery of such tax for a further period of thirty days, provided that the order on appeal shall be passed within the said period of thirty days.”

OUR COMMENTS: In order to authorize the Commissioner to grant stay of recovery, Sub section 1AA has been proposed which will allow for stay of recovery of tax for a further period of thirty day provided that an opportunity of being heard has been given to the Commissioner against whose order appeal has been made.

Due Date for Payment of Tax**Section 137(2) First Proviso, Second Proviso****Existing**

Where any tax is payable under an assessment order or an amended assessment order or any other order issued by the Commissioner under this Ordinance, a notice shall be served upon the taxpayer in the prescribed form specifying the amount payable and thereupon the sum so specified shall be paid within 2[fifteen] days from the date of service of the notice 3[:]

Proposed Amendment

(a) for the word “fifteen” the word “thirty” shall be substituted;

Provided that the tax payable as a result of provisional assessment 4[order] under section 122C, as specified in the notice under sub-section (2) shall be payable 5[immediately] after a period of sixty days from the date of service of the notice6[:]

(b) in the first proviso, for the word “sixty”, the word, “forty-five” shall be substituted; and

7[Provided further that the taxpayer may pay the tax payable prior to expiry of the period of sixty days specified in the first proviso.]

(c) in the second proviso, for the word “sixty”, the word, “forty-five” shall be substituted;

OUR COMMENTS: It is proposed to increase the compliance period for payment of taxes as a result of assessment / amended assessment / other order issued by the Commissioner from fifteen days to thirty days.

Further, in case of provisional assessments, it is proposed to amend provisos in relation to notice period for payment of tax from sixty days to forty-five days.

Advance Tax Paid by the Taxpayer

Existing

Any taxpayer who is required to make payment of advance tax in accordance with subsection (4), shall estimate the tax payable by him for the relevant tax year, at any time before the last installment is due. In case the tax payable is likely to be more than the amount he is required to pay under sub-section (4), the taxpayer shall furnish to the Commissioner an estimate of the amount of tax payable by him and thereafter pay such amount after making adjustment for the amount (if any) already paid in terms of subsection (4).

Section 147(4A)

Proposed Amendment

Any taxpayer who is required to make payment of advance tax in accordance with sub-section (4), shall estimate the tax payable for the relevant tax year, at any time before the second installment is due. In case the tax payable is likely to be more than the amount that the taxpayer is required to pay under sub-section (4), the taxpayer shall furnish to the Commissioner on or before the due date of the second quarter an estimate of the amount of tax payable by the taxpayer and thereafter pay fifty per cent of such amount by the due date of the second quarter of the tax year after making adjustment for the amount (if any) already paid in terms of sub-section (4). The remaining fifty per cent of the estimate shall be paid after the second quarter in two equal installments payable by the due date of the third and fourth quarter of the tax year.”; “(4A) Any taxpayer who is required to make payment of advance tax in accordance with sub-section (4), shall estimate the tax payable for the relevant tax year, at any time before the second installment is due. In case the tax payable is likely to be more than the amount that the taxpayer is required to pay under sub-section (4), the taxpayer shall furnish to the Commissioner on or before the due date of the second quarter an estimate of the amount of tax payable by the taxpayer and thereafter pay fifty per cent of such amount by the due date of the second quarter of the tax year after making adjustment for the amount (if any) already paid in terms of sub-section (4). The remaining fifty per cent of the estimate shall be paid after the second quarter in two equal installments payable by the due date of the third and fourth quarter of the tax year.”;

OUR COMMENTS: The proposed amendment requires taxpayer to estimate the tax payable for the relevant tax year before the second installment is due instead of estimating the said amount before last installment.

The tax payer will be required to furnish an estimate of the amount of tax payable on or before the due date of the second quarter and will be required to pay fifty percent (after adjustments of advance tax already paid) by the due date of the second quarter. The remaining fifty percent to be paid in two equal installments on due date of third and fourth quarter.

Imports

Existing

Nothing contained in sub-section (1) shall apply to any goods or class of goods or persons or class of persons importing such goods or class of goods as may be specified by the Board.

Section 148(2)

Proposed Amendment

“Sub Section shall be omitted”

Advance Tax Paid by the Taxpayer

Section 147(4A)

OUR COMMENTS: To withdraw power of Board to grant exemption on goods or class of goods from advance tax at import stage, sub-section 2 has been proposed to be omitted to withdraw such power.

Tax on Local Purchase of Cooking Oil or Vegetable Ghee by Certain Persons

Section 148A

Existing

“New Section shall be added”

Proposed Amendment

148A. Tax on local purchase of cooking oil or vegetable ghee by certain persons.

(1) The manufacturers of cooking oil or vegetable ghee, or both, shall be chargeable to tax at the rate of two percent on purchase of locally produced edible oil.

(2) The tax payable under sub-section (1) shall be final tax in respect of income accruing from locally produced edible oil.”;

OUR COMMENTS: Final tax has been proposed to be levied on the manufacturers of cooking oil or/and vegetable ghee at the rate of two percent on purchase of locally produced edible oil.

Profit on Debt

Section 151(3)

Existing

(3) Tax 2[deductible] under this section shall be a final tax on the profit on debt arising to a taxpayer other than a company from provided that in the case of a non-filer other than a company the final tax shall be equal to the tax deductible in the case of filer and the tax deducted in excess of that shall be advance income tax adjustable against tax liability.

Proposed Amendment

Tax deductible under this section shall be a final tax on the profit on debt arising to a taxpayer, except where:

(a) Taxpayer is a company; or

(b) profit on debt is taxable under section 5A.”;

OUR COMMENTS: Please refer our comments under section 5A.

Payments to Non-Residents

Section 152(4A)

Existing

“New Sub Section shall be added”

Proposed Amendment

The Commissioner may, on application made by the recipient of a payment referred to in sub-section (2A) and after making such inquiry as the Commissioner thinks fit, may allow in cases where the tax deductible under sub-section (2A) is adjustable, by order in writing, any person to make the payment, without deduction of tax or deduction of tax at a reduced rate.”;

OUR COMMENTS: It is proposed that the Commissioner, through an order in writing, may allow any person, where the tax deductible under sub-section (2A) is adjustable, to make payment for goods, services and execution of contract to permanent establishment of a non-resident person without tax deduction or with deduction at reduced rates on the basis of application made by the recipient.

Payments for Goods, Services and Contracts

Section 153(3) Proviso, Cclause (b)

Payments for Goods, Services and Contracts

Existing

Tax 5[deductible] shall be a minimum tax on transaction referred to in clause (b) of sub-section (1); and

Section 153(3) Proviso, Cclause (b)

Proposed Amendment

Tax deductible on transactions referred to in clause (b) of sub-section (1) shall be,-

(i) adjustable, with effect from tax year 2009, if payments are received by a company; And (ii) a minimum tax, if payments are received by a person other than a company;”

(b) in clause (c), for the full stop, at the end, a semicolon and the word “and” shall be substituted and thereafter the following new clause shall be added, namely:-

“(d) tax deducted under clause (c) of sub-section (1) in respect of a sportsperson shall be final tax with effect from tax year 2013.”;

OUR COMMENTS: In relation to chargeability of rendering of services it is proposed to make the tax deduction on receipts of the company adjustable under normal tax with effect from tax year 2009. Further technical corrections have been made in clause (c) of proviso to cover the contract signed by the sportsperson under final tax with effect from tax year 2013.

Exports

Section 154(5)

Existing

Proposed Amendment

The provisions of sub-section (4) shall not apply to a person who irrevocably opts not to be subject to final taxation: Provided that this option shall be exercised at the time of filing of return under section 114: Provided further that the tax deducted under this sub-section shall be minimum tax.”

“New Sub Section shall be added”

OUR COMMENTS: It is proposed to create an option for exporter to opt out of final tax regime by exercising irrevocable option at the time of filing of return. However, tax deducted on proceed from export shall be minimum tax.

Exemption or Lower Rate Certificate

Section 159(3), (4) & (5)

Existing

Proposed Amendment

(3) The Board may, from time to time, by notification in the official Gazette - (a) amend the rates of withholding tax prescribed under this Ordinance; or (b) exempt persons, class of persons, goods or class of goods from withholding tax under this Ordinance.

(4) All such amendments shall have effect in respect of any tax year beginning on any date before or after the commencement of the financial year in which the notification is issued and shall not be applicable in respect of income on which tax withheld is treated as discharge of final tax liability.

(5) The Board shall place all notifications issued under sub-section (3) in a financial year before both Houses of Majlis-e-Shoora (Parliament).

“Sub Sections shall be omitted”

OUR COMMENTS: Sub-section 3 to 5 has been proposed to be omitted in order to withdraw power of Board from amending the withholding tax rates and exempting person, class of person, goods or

Payments for Goods, Services and Contracts

class of goods from withholding tax under the Ordinance.

Section 153(3) Proviso, Clause (b)

Failure to pay tax collected or deducted

Section 161(1B)

Existing

(1B) Where at the time of recovery of tax under sub-section (1) it is established that the tax that was to be deducted from the payment made to a person or collected from a person has meanwhile been paid by that person, no recovery shall be made from the person who had failed to collect or deduct the tax but the said person shall be liable to pay 1[default surcharge] at the rate of eighteen percent per annum from the date he failed to collect or deduct the tax to the date the tax was paid.

Proposed Amendment

(1B), for the word “eighteen” the word “twelve” shall be substituted;

OUR COMMENTS: Rate of default surcharge on failure by a person liable to collect tax from the payment made to a person or collected from a person has been proposed to be decreased from eighteen to twelve percent per annum.

Furnishing of Information by Financial Institutions Including Banks

Section 165B

Existing

“New Section shall be added”

Proposed Amendment

(1) Notwithstanding anything contained in any law for the time being in force including but not limited to the Banking Companies Ordinance, 1962 (LVII of 1962), the Protection of Economic Reforms Act, 1992 (XII of 1992), the Foreign Exchange Regulation Act, 1947 (VII of 1947) and any regulations made under the State Bank of Pakistan Act, 1956 (XXXIII of 1956), on the subject every financial institution shall make arrangements to provide information regarding non-resident Persons to the Board in the prescribed form and manner for the purpose of automatic exchange of information under bilateral agreement or multilateral convention.

(2) Subject to section 216, all information received under this section shall be used only for tax and related purposes and kept confidential.”;

OUR COMMENTS: This section has been proposed for the purpose of seeking information from the financial institutions (including banks) regarding non-resident persons by the Board.

Tax Collected or Deducted as a Final Tax

Section 169(1)

Existing

(a) the 4[advance tax required to be collected] is a final tax under sub-section (7) of section 148 5[] or section 234A on the income to which it relates; or

(b) the 6[tax required to be deducted] is a final tax under 7[sub-section (3) of section 151], sub-

Proposed Amendment

a) after the word “collected” the words “or paid” shall be inserted; and

b) in clause (a), after the figure “148”, the comma and figure “,148A” shall be inserted;

Furnishing of Information by Financial Institutions Including Banks

section (1B) or sub section (1BB) of section 152, 8[9[] sub-section (3) of section 153], 1[sub-section (1AAA) of section 152], sub-section (4) of section 154

2[] sub-section (3) of section 156, sub-section (2) of section 156A or sub-section

(1) and (3) of section 233 on the income from which it 3[was deductible].

Section 165B

OUR COMMENTS: This section dealing with final tax regime has been proposed to be amended in relation to the introduction of final tax through section 148A on the income relating to locally produced edible oil or manufacturers of cooking oil or vegetable ghee. Further the word “paid” is added to clause (a) of section 169 (1) to deal with amendments introduced through section 148A.

Additional Payment for Delayed Refunds

Existing

Where a refund due to a taxpayer is not paid within three months of the date on which it becomes due, the Commissioner shall pay to the taxpayer a further amount by way of compensation at the rate of 1[fifteen] per annum of the amount of the refund computed for the period commencing at the end of the three month period and ending on the date on which it was paid: Provided that where there is reason to believe that a person has claimed the refund which is not admissible to him, the provision regarding the payment of such additional amount shall not apply till the investigation of the claim is completed and the claim is either accepted or rejected

OUR COMMENTS: This amendment proposes to change the rate of compensation payable to a tax payer in case his refund is not paid within three month after date on which it becomes due. The rate proposed is KIBOR plus 0.5 percent in comparison to the earlier rate of fifteen percent.

Section 171(1)

Proposed Amendment

For the word “fifteen” the words “KIBOR plus 0.5 per cent” shall be substituted;

Notice to Obtain Information or Evidence

Existing

To furnish to the Commissioner or an authorised officer, any information relevant to any tax leviable under this Ordinance as specified in the notice; or

Section 176(1) clause (a)

Proposed Amendment

To furnish to the Commissioner or an authorised officer, any information relevant to any tax leviable under this Ordinance or to fulfill any obligation under any agreement with foreign government or governments or tax jurisdiction, as specified in the notice; or”; and

OUR COMMENTS: This amended proposes to broaden the scope of information required to be furnished to the Commissioner under section 176. Earlier, this information was limited to taxability under this ordinance; however, now information relating to fulfilling of obligations under agreements with foreign governments or tax jurisdictions can also be required to be furnished. The above change may have been proposed to gather information in relation to assets of tax payers / non-tax payers kept outside Pakistan.

Notice to Obtain Information or Evidence

Existing

“New Sub Section shall be added”

Section 176 (1A)

Proposed Amendment

A special audit panel appointed under sub-section (11) of section 177, for any tax year, may, with the prior approval of the Commissioner concerned, enter the business premises of a taxpayer, to obtain any information, require production of any record, on which the required information is stored and examine it within such premises and such panel may if specifically delegated by the Commissioner, also exercise the powers as provided in sub-section (4).”;

OUR COMMENTS: A new sub section has been proposed to give powers to the special audit panel (proposed in this Finance Bill through section 177 (11)). The powers encompasses, with the prior approval of the concerned Commissioner, entering of the business premises of a tax payer, obtaining of information, require production of record on which the required information is stored, etc. including the powers as are vested in a court under the Code of Civil Procedures, 1908 (Act V of 1908) in respect of matters as defined in section 176 (4).

Taxpayer’s Registration

Existing

Provided that the Board may in case of individuals allow, in place of National Tax Number, use of Computerized National Identity card issued by the National Database and Registration Authority

“New Sub Section shall be added”

Section 181 (4)

Proposed Amendment

“Proviso Sub Section (3) shall be omitted”

From tax year 2015 and onwards, in case of individuals having Computerized National Identity Card (CNIC) issued by the National Database and Registration Authority, CNIC shall be used as National Tax Number.”;

OUR COMMENTS: The reference given in Finance Bill for this amendment is section 181A which in our opinion should be section 181. Further, it has been proposed to introduce new sub section replacing the proviso to section 181 (3) to define the CNIC (Computerized National Identity Card) of individuals as their National Tax Number.

Offences and Penalties

Existing

Such person shall pay a penalty of Rs.2,500 for each day of default subject to a minimum penalty of fifty thousand rupees.

Such person shall pay a penalty of Rs. 100 for each day of default.

Section 182(1)(1A) & (1AA)

Proposed Amendment

For the word “fifty”, the word “ten” shall be substituted;

For the expression “Rs.100 for each day of default.”, the expression “0.1% of the taxable income per week or Rs.20,000, whichever is higher.” shall be substituted;

OUR COMMENTS: These amendments propose to reduce the minimum amount of penalty for a person who fails to furnish a statement under section 115 (Statement for Income under Final Tax Regime) or section 165 / 165A from Rs. 50,000 to Rs. 10,000. Further, to change the amount of penalty on a person who fails to furnish Wealth Statement or Wealth Reconciliation Statement from Rs. 100 for each day of default to 0.1% of the taxable income per week or Rs. 20,000, whichever is higher.

Prosecution for Making False or Misleading Statements

Existing

Sub-section (3) of section 187 shall apply in determining whether a person has made a statement to an income tax authority.

OUR COMMENTS: This amendment proposes to re-introduce the penalty for making false or misleading statements by a person. Earlier, the penalty was existent through section 187 (3) omitted through the Finance Act 2010.

Default Surcharge

Existing

any amount referred to in section 140 or 141, on or before the due date for payment shall be liable for 3[default surcharge] at a rate equal to 4[18 per cent per annum] on the tax, penalty or other amount unpaid computed for the period commencing on the date on which the tax, penalty or other amount was due and ending on the date on which it was paid

OUR COMMENTS: This amendment proposes to change the rate of default surcharge under the scope of section 205 from 18% to 12%.

Income Tax Authorities

Existing

“New Clause shall be added”

OUR COMMENTS: Proposal of this clause is pursuant to the introduction of Special Audit Panel through section 177, whereby Special Audit Panel is added as an Income Tax Authority for the purpose of the Ordinance through this clause.

Delegation

Existing

The Commissioner may delegate the powers to a firm of chartered accountants 2[or a firm of Cost and Management Accountants] appointed by the 3[Board or the Commissioner], to conduct the audit of persons 4[]for audit under section 177.

OUR COMMENTS: This amendment proposes to broaden the power of delegation of the Commissioner pursuant to the introduction of the Special Audit Panel (“The Panel”). Through this amendment the Commissioner can delegate his powers to the panel for the purpose of audit under section 177.

Section 195(3)

Proposed Amendment

For the expression “Sub-section (3) of section 187” the expression “Entry against S.No 10 in column (2) of the Table in sub-section (1) of section 182” shall be substituted;

Section 205

Proposed Amendment

For the figure “18” wherever occurring, the figure “12” shall be substituted;

Section 207(1) Clause (ga)

Proposed Amendment

Special audit panel;

Section 210(1B)

Proposed Amendment

The Commissioner may, by an order in writing, delegate to a special audit panel appointed under sub-section (11) of section 177, or to a firm of chartered accountants or a firm of Cost and Management Accountants appointed by the Board or the Commissioner to conduct an audit of person under section 177, all or any of the powers or functions to conduct an audit under this Ordinance.”;

Power or Function Exercised

Existing

Where, by virtue of an order under section 210, 5[an Officer of Inland Revenue] exercises a power or performs a function of the Commissioner, such power or function shall be treated as having been exercised or performed by the Commissioner.

OUR COMMENTS: This amendment proposes to make the power or function delegated by the Commissioner to the Special Audit Panel effective in terms of the Income Tax Ordinance, 2001.

Automatic Selection for Audit

Existing

“New Section shall be added”

Section 211(1)

Proposed Amendment

After the word “Revenue” the words, brackets and figures “or by a special audit panel appointed under subsection (11) of section 177” shall be inserted;

Section 214D

Proposed Amendment

(1) A person registered as retailer under rule (4) or rule (6) of the Sales Tax Special Procedure Rules, 2007 who does not fulfill the parameters mentioned in sub-clauses (a) to (e) of sub-section (3) shall be automatically selected for audit of income tax affairs for that tax year.

(2) Audit of Income Tax affairs of persons automatically selected under sub-section (1) shall be conducted as per procedure given in section 177 and all the provisions of the Ordinance, except the first proviso to subsection (1) of section 177, shall apply accordingly.

(3) The provisions of sections 177 and 214C for a tax year shall not apply to a person registered as retailer under rule (4) or rule (6) of the Sales Tax Special Procedure Rules, 2007 subject to the conditions that—

(a) name of the person registered under rule (4) of the Sales Tax Special Procedure Rules, 2007 appears in the sales tax active taxpayers' list ;

(b) complete return of income within the meaning of sub-section (2) of section 114 has been filed within the date it was required to be furnished as mentioned in section 118 including the date extended by the Board from time to time;

(c) the tax payable under sub-section (1) of section 137 has been paid;

(d) two percent tax on turnover under section 113 has been paid by a person registered under rule (6) of the Sales Tax Special Procedure Rules, 2007 who files a return below taxable limit and who in the preceding tax year had either not filed return or had declared income below taxable limit; and (e) twenty five percent higher tax than the previous tax year has been paid by a person

Power or Function Exercised

Section 211(1)

registered under rule (6) of the Sales Tax Special Procedure Rules, 2007 who had declared taxable income in the return for immediately preceding tax year.

(4) This section shall have effect from the date appointed by the Board through notification in official gazette”;

OUR COMMENTS: This section proposes to introduce automatic selection for audit of retailer registered under Rule 4 or Rule 6 of the Sales Tax Special Procedure Rules, 2007 for income tax affairs of the said Tax Year, if the above mentioned retailers fail to fulfill the conditions specified by Section 214 D (3). Further, the retailer selected for audit will be called by the Commissioner to furnish record under section 177 without providing the reason to do so.

Cash Withdrawal from a Bank

Section 231A(2)

Existing

Advance tax under this section shall not be collected in the case of withdrawals made by,

- (a) the Federal Government or a Provincial Government;
- (b) a foreign diplomat or a diplomatic mission in Pakistan; or
- (c) a person who produces a certificate from the Commissioner that his income during the tax year is exempt.

Proposed Amendment

“Sub Section shall be omitted”

OUR COMMENTS: This omission is in pursuant to the introduction of Section 236O whereby the persons (i.e. (a) Federal Government or Provincial Government (b) Foreign diplomat or a diplomatic mission in Pakistan (c) Person having certificate of exemption on his income during the tax year from the Commissioner) will not be subject to collection of advance tax under Chapter XII of the Ordinance.

Advance Tax on Transactions in Bank

Section 231AA(1) & (4)

Existing

Provided that this sub-section shall not be applicable in case of inter-bank or intra-bank transfer and also where payment is made through a crossed cheque for purchase of a financial instrument as referred to in sub-section (1).

Proposed Amendment

“Proviso Sub Section shall be omitted”

Advance tax under this section shall not be collected in the case of transactions made by,-

- (a) the Federal Government or a Provincial Government;
- (b) a foreign diplomat or a diplomatic mission in Pakistan; or
- (c) a person who produces a certificate from the Commissioner that its income during the tax year is exempt.]

“Sub Section shall be omitted”

OUR COMMENTS: These omissions propose to include inter-bank transfer / intra-bank transfer / purchase of financial instrument through crossed cheque within the ambit of transactions subject to collection of advance tax by banks. Further, sub-section 4 is omitted in pursuant to the proposal to introduce Section 236O.

Advance Tax on Private Motor Vehicles

Existing

Every manufacturer of a motor car or jeep shall collect, at the time of sale of a motor car or jeep, advance tax at the rate specified in Division VII of Part IV of the First Schedule from the person to whom such sale is made.

Section 231B(3),(6) & (7)

Proposed Amendment

for the words “car or jeep” the word “vehicle” shall be substituted; and

(6) For the purposes of this section the expression “date of first registration” means:-

- (a) the date of issuance of broad arrow number in case a vehicle is acquired from the Armed Forces of Pakistan;
- (b) the date of registration by the Ministry of Foreign Affairs in case the vehicle is acquired from a foreign diplomat or a diplomatic mission in Pakistan;
- (c) the last day of the year of manufacture in case of acquisition of an unregistered vehicle from the Federal or a Provincial Government; and (d) in all other cases the date of first registration by the Excise and Taxation Department.

(7) For the purpose of this section “motor vehicle” includes car, jeep, van, sports utility vehicle, pick-up trucks for private use, caravan automobile, limousine, wagon and any other automobile used for private purpose.”;

“New Sub Sections shall be added”

OUR COMMENTS: This amendment proposes to define the term “Motor Vehicle” for the purpose of the said section through sub section 7. The definition given has a broader meaning to include all types of automobile used for private purpose for the purpose of collection of advance tax within the scope of the said section. Further, it also defines the term “date of first registration” to clarify the same for all types of automobile.

Tax on Motor Vehicles

Section 234(6)

Existing

Proposed Amendment

“New Sub Section shall be added”

For the purpose of sub-sections (1) and (2) “motor vehicle” shall include the vehicles specified in sub-section (7) of section 231B.”;

OUR COMMENTS: This sub section is proposed to be added in order to define the term “Motor Vehicle” for the purpose of section 234.

Telephone Users

Existing

Telephone bill of a subscriber

Prepaid cards for telephones 2[; and]

Sale of units through any electronic medium or whatever form.]

“New Sub Clauses shall be added”

OUR COMMENTS: This amendment is proposed to include prepaid / postpaid telephone / internet users within the ambit of section 236 for the purpose of collecting advance tax.

Telephone Users

Existing

The person preparing the telephone bill shall charge advance tax under sub-section (1) in the manner telephone charges are charged.

The person issuing or selling prepaid cards for telephones shall collect advance tax under sub-section (1) from the purchasers at the time of issuance or sale of cards.

OUR COMMENTS: The proposed amendment is to give effect to the amendments proposed in section 236.

Advance Tax on Purchase of Air Ticket

Existing

There shall be collected advance tax at the rate specified in Division IX of Part IV of the First Schedule, on the purchase of gross amount of domestic air ticket.

The advance tax under this section shall not be collected in the case of,-

- (a) the Federal Government or a Provincial Government;
- (b) a person who produces a certificate from the Commissioner Inland Revenue that income of such person during the tax year is exempt.]

Section 236(1)(a) clause (b),(c),(d) & (e)

Proposed Amendment

In the marginal note, after the word “Telephone”, the words “and internet” shall be inserted;

“Clause shall be omitted”

For the full stop at the end, a semi-colon and word “; and” shall be substituted

- (d) internet bill of a subscriber; and
- (e) prepaid cards for internet.”;

Section 236(2) & (3)

Proposed Amendment

After the word “telephone”, the words “or internet” shall be inserted; and

After the word “telephones”, the words “or internet” shall be inserted;

Section 236B(1) & (4)

Proposed Amendment

For full stop at end, a colon shall be substituted and thereafter the following new proviso shall be added, namely:-

“Provided that this section shall not apply to routes of Baluchistan coastal belt, Azad Jammu and Kashmir, FATA, Gilgit- Baltistan and Chitral.”; and

“Sub Section shall be omitted”

Advance Tax on Purchase of Air Ticket**Section 236B(1) & (4)**

OUR COMMENTS: This proviso has been proposed to exclude the air tickets for the routes of Baluchistan Coastal Belt, Azad Jammu Kashmir, FATA, Gilgit- Baltistan and Chitral from the scope of advance tax under the said section. Further, sub-section 4 has been omitted in pursuant to the proposal to introduce section 236O.

Advance Tax on Sale or Transfer of Immovable Property**Section 236C(3)****Existing**

The advance tax under this section shall not be collected in the case of Federal Government, Provincial Government or a Local Government.]

Proposed Amendment

“Sub Section shall be omitted”

OUR COMMENTS: Omission is pursuant to the introduction of section 236O.

Advance Tax on Sales to Retailers**Section 236H(1)****Existing**

Every manufacturer, distributors, dealers, wholesaler or commercial importer of electronics, sugar, cement, iron and steel product, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector, at the time of sale to retailers, shall collect advance tax at the rate specified in Division XV of Part IV of the First Schedule, from the aforesaid person to whom such sales have been made.

Proposed Amendment

(i) the word and comma “fertilizer,” shall be omitted;

(ii) after the word “retailers”, the words “or wholesalers” shall be inserted;

OUR COMMENTS: This amendment is proposed to exclude fertilizer manufacturers to collect advance tax at the time of sale to retailers. Further, the amendment has proposed to include wholesalers within the scope of the Section 236H when sale is made to them by manufacturers defined in the said section

Collection of Advance Tax by Education Institutions**Section 236I(6)****Existing****Proposed Amendment**

Advance tax under this section shall not be collected from a person who is a non-resident and,-

“New Sub Section shall be added”

(i) furnishes copy of passport as an evidence to the educational institution that during previous tax year, his stay in Pakistan was less than one hundred eighty-three days;

(ii) furnishes a certificate that he has no Pakistan-source income; and

(iii) the fee is remitted directly from abroad through normal banking channels to the bank account of the educational institution.”;

OUR COMMENTS: This sub section proposes to exclude non-residential students from the scope of collection of advance tax subject to the conditions being introduced through sub section 6.

Advance Tax on Purchase or Transfer of Immovable Property

Existing

The advance tax under this section shall not be collected in the case of the Federal Government, a Provincial Government, a Local Government or a foreign diplomatic mission in Pakistan.

OUR COMMENTS: Omission in pursuant to the introduction of section 236O.

Section 236K(3)

Proposed Amendment

“Sub Section shall be omitted”

Advance Tax under this Chapter

Existing

“New Section shall be added”

Section 236O

Proposed Amendment

The advance tax under this chapter shall not be collected in the case of withdrawals made by,-

(a) the Federal Government or a Provincial Government;

(b) a foreign diplomat or a diplomatic mission in Pakistan; or

(c) a person who produces a certificate from the Commissioner that his income during the tax year is exempt.

OUR COMMENTS: This section is proposed to consolidate the exemption from advance tax provisions, available to (a) the Federal Government or a Provisional Government, (b) a foreign diplomat or a diplomatic mission in Pakistan; or (c) a person who produces a certificate from the Commissioner that his income during the tax year is exempt; on various sections as pointed out above under Chapter XII of the Ordinance.

Advance Tax on Banking Transactions Otherwise than through Cash

Existing

“New Section shall be added”

Section 236P

Proposed Amendment

(1) Every banking company shall collect advance adjustable tax from a non-filer at the time of sale of any instrument, including demand draft, pay order, special deposit receipt, cash deposit receipt, short term deposit receipt, call deposit receipt, rupee traveller's cheque or any other instrument of such nature.

(2) Every banking company shall collect advance adjustable tax from a non-filer at the time of transfer of any sum through cheque or clearing, interbank or intra bank transfers through cheques, online transfer, telegraphic transfer, mail transfer, direct debit, payments through internet, payments through mobile phones, account to account funds transfer, third party account to account funds transfers, real time account to account funds transfer, real time third

**Advance Tax on Banking Transactions
Otherwise than through
Cash**

Section 236P

party account to account fund transfer, automated teller machine (ATM) transfers, or any other mode of electronic or paper based funds transfer.

(3) The advance tax under this section shall be collected at the rate specified in Division XXI of Part IV of the First Schedule, where the sum total of payments for all transactions mentioned in sub-section (1) or subsection

(2), as the case may be, exceed fifty thousand rupees in a day.

(4) Advance tax under this section shall not be collected in the case of Pakistan Realtime Interbank Settlement Mechanism (PRISM) transactions or payments made for Federal, Provincial or local Government taxes.

OUR COMMENTS: This section is proposed to introduce collection of advance adjustable tax, at the rate specified in Division XXI of Part IV of the First Schedule, from transactions carried by a non-filer for all transactions mentioned in the said section exceeding Rs.50,000 in a day other than Pakistan Real time Inter-bank Settlement Mechanism (PRISM) or payments made for Federal, Provisional or Local government taxes.

**Payment to Residents for use of
Machinery and Equipment** **236Q**

Existing

Proposed Amendment

(1) Every prescribed person making a payment in full or in part including a payment by way of advance to a resident person for use or right to use industrial, commercial and scientific equipment shall deduct tax from the gross amount at the rate specified in Division XXIII of Part IV of the First Schedule.

(2) Every prescribed person making a payment in full or in part including a payment by way of advance to a resident person on account of rent of machinery shall deduct tax from the gross amount at the rate specified in Division XXIII of Part IV of the First Schedule.

(3) The tax deductible under sub-sections (1) and (2) shall be final tax on the income of such resident person.

(4) In this section "prescribed person" means a prescribed person as defined in sub-section (7) of section 153.

"New Section shall be added"

OUR COMMENTS: This section proposes to introduce deduction of advance tax at the rate specified in Division XXIII of Part IV of the First Schedule on payments made by "Prescribed Person" (as defined in section 153 (7)) to a resident person for use or right to use industrial, commercial or scientific equipment. Further, on payments made by the prescribed person to a resident person on account of rent of machinery.

**Collection of Advance Tax on Education
Related Expenses Remitted Abroad**

236R

Existing

Proposed Amendment

“New Section shall be added”

(1) There shall be collected advance tax at the rate specified in Division XXIV of Part-IV of the First Schedule on the amount of education related expenses remitted abroad.

(2) Banks, financial institutions, foreign exchange companies or any other person responsible for remitting foreign currency abroad shall collect advance tax from the payer of education related expenses.

(3) Tax collected under this section shall be adjustable against the income of the person remitting payment of education related expenses.

(4) For the purpose of this section, “education related expenses” includes tuition fee, boarding and lodging expenses, any payment for distant learning to any institution or university in a foreign country and any other expense related or attributable to foreign education.

OUR COMMENTS: This section proposes to introduce advance adjustable tax to be collected, at the rate specified in Division XXIV of Part-IV of the First Schedule, by person responsible for remitting foreign currency abroad (as defined in section 236R (2)) on account of education expenses remitted abroad.

Dividend in Specie

236S

Existing

Proposed Amendment

“New Section shall be added”

Every person making payment of dividend-in specie shall collect tax from the gross amount of the dividend in specie paid at the rate specified in Division I of Part III of the First Schedule.

OUR COMMENTS: This section proposes to introduce advance tax, at the rate specified in Division I of Part III of the First Schedule, on the gross amount of dividend in specie to be collected at the time of payment of the same.

**Collection of Tax by Pakistan Mercantile
Exchange
Limited(PMEX)**

236T

Existing

Proposed Amendment

(1) Pakistan Mercantile Exchange Limited(PMEX) shall collect advance tax,—

(a) at the rates specified in Division XXII of Part IV of First Schedule from its members on purchase of futures commodity contracts;

(b) at the rates specified in Division XXII of Part

**Collection of Tax by Pakistan Mercantile
Exchange
Limited(PMEX)**

236T

“New Section shall be added”

IV of First Schedule from its members on sale of futures commodity contracts;

(c) at the rates specified in Division XXII of Part IV of First Schedule from its members on purchase of futures commodity contracts in lieu of tax on the commission earned by such members;

(d) at the rates specified in Division XXII of Part IV of First Schedule from its members on sale of futures commodity contracts in lieu of tax on the commission earned by such members;

(2) The tax collected under clauses (a) to (d) of sub-section (1) shall be a minimum tax.”;

OUR COMMENTS: This section proposes to introduce the collection of advance tax by Pakistan Mercantile Exchange (PAMX) on transactions carried by members of PMEX. Further, the tax collected under this section is proposed to be minimum tax.

First Schedule

Rates of tax for business individual and association of persons (AOP) - Part I Division I

| Taxable Income | Tax Rate (%) | Proposed Tax for AOPs & Business Individuals (Rs.) | Existing Tax | Tax Impact |
|--|--|--|----------------------|------------|
| Where the taxable income does not exceed Rs. 400,000 | 0 | NIL | NIL | NIL |
| Where the taxable income exceeds Rs 400,000 but does not exceed Rs 500,000 | 7% of the amount exceeding Rs. 400,000 | 0 to 7,000 | 0 to 10,000 | 3,000 |
| Where the taxable income exceeds Rs 500,000 but does not exceed Rs 750,000 | Rs 7,000 + 10% of the amount exceeding Rs 500,000 | 7,000 to 32,000 | 10,000 to 35,000 | 3,000 |
| Where the taxable income exceeds Rs 750,000 but does not exceed Rs 1,500,000 | Rs 32,000 + 15% of the amount exceeding Rs 750,000 | 32,000 to 144,500 | 35,000 to 147,500 | 3,000 |
| Where the taxable income exceeds Rs 1,500,000 but does not exceed Rs 2,500,000 | Rs 144,500 + 20% of the amount exceeding Rs 1,500,000 | 144,500 to 344,500 | 147,500 to 347,500 | 3,000 |
| Where the taxable income exceeds Rs 2,500,000 but does not exceed Rs 4,000,000 | Rs 344,500 + 25% of the amount exceeding Rs 2,500,000 | 344,500 to 719,500 | 347,500 to 722,500 | 3,000 |
| Where the taxable income exceeds Rs 4,000,000 but does not exceed Rs 6,000,000 | Rs 719,500 + 30% of the amount exceeding Rs 4,000,000 | 719,500 to 1,319,500 | 722,500 to 1,322,500 | 3,000 |
| Where the taxable income exceeds Rs 6,000,000 | Rs 1,319,500 + 35% of the amount exceeding Rs 6,000,000" | 1,319,500 and above | 1,322,500 and above | 3,000 |
| OUR COMMENTS: The bill proposes to break down only one slab for taxpayers falling in income group of Rs. 400,000 to Rs. 750,000 by splitting the income group into two slabs, resultantly creating a small reduction of Rs. 3,000/-. This impact can be observed on the complete slab of business individuals and AOPs as produced above. | | | | |

Rate of tax for Salaried Individuals

| Taxable Income | Tax Rate (%) | Proposed Tax for AOPs & Business Individuals (Rs.) | Existing Tax | Tax Impact |
|--|---------------------------------------|--|--------------|------------|
| Where the taxable income does not exceed Rs 400,000 | 0 | NIL | NIL | NIL |
| Where the taxable income exceeds Rs 400,000 but does not exceed Rs 500,000 | 2% of the amount exceeding Rs 400,000 | 0 to 2,00 | 0 to 5,000 | 3,000 |

| | | | | |
|--|---|----------------------|----------------------|-------|
| Where the taxable income exceeds Rs 500,000 but does not exceed Rs 750,000 | Rs 2,000 + 5% of the amount exceeding Rs 500,000 | 2,000 to 14,500 | 5,000 to 17,500 | 3,000 |
| Where the taxable income exceeds Rs 750,000 but does not exceed Rs 1,400,000 | Rs 14,500 + 10% of the amount exceeding Rs 750,000 | 14,500 to 79,500 | 17,500 to 82,500 | 3,000 |
| Where the taxable income exceeds Rs 1,400,000 but does not exceed Rs 1,500,000 | Rs 79,500 + 12.5% of the amount exceeding Rs 1,400,000 | 79,500 to 92,000 | 82,500 to 95,000 | 3,000 |
| Where the taxable income exceeds Rs 1,500,000 but does not exceed Rs 1,800,000 | Rs 92,000 + 15% of the amount exceeding Rs 1,500,000 | 92,000 to 137,000 | 95,000 to 140,000 | 3,000 |
| Where the taxable income exceeds Rs 1,800,000 but does not exceed Rs 2,500,000 | Rs 137,000 + 17.5% of the amount exceeding Rs 1,800,000 | 137,000 to 259,500 | 140,000 to 262,500 | 3,000 |
| Where the taxable income exceeds Rs 2,500,000 but does not exceed Rs 3,000,000 | Rs 259,500 + 20% of the amount exceeding Rs 2,500,000 | 259,500 to 359,500 | 262,500 to 362,500 | 3,000 |
| Where the taxable income exceeds Rs 3,000,000 but does not exceed Rs 3,500,000 | Rs 359,500 + 22.5% of the Amount exceeding Rs 3,000,000 | 359,500 to 472,000 | 362,500 to 475,000 | 3,000 |
| Where the taxable income exceeds Rs 3,500,000 but does not exceed Rs 4,000,000 | Rs 472,000 + 25% of the amount exceeding Rs 3,500,000 | 472,000 to 597,000 | 475,000 to 600,000 | 3,000 |
| Where the taxable income exceeds Rs 4,000,000 but does not exceed Rs 7,000,000 | Rs 597,000 + 27.5% of the amount exceeding Rs 4,000,000 | 597,000 to 1,422,000 | 600,000 to 1,425,000 | 3,000 |
| Where the taxable income exceeds Rs 7,000,000 | Rs 1,422,000 + 30% of the amount exceeding Rs 7,000,000 | 1,422,000 and above | 1,425,000 and above | 3,000 |

OUR COMMENTS: Similarly for the salaried individuals the bill also proposes to break down only one slab for taxpayers falling in income group of Rs. 400,000 to Rs. 750,000 by splitting the income group into two slabs, resultantly creating a small reduction of Rs. 3,000/- This impact can be observed on the complete slab of Salaried Individual as produced above.

Rate of Tax for Companies - Division II

Proposed Amendment:

In clause (i), the following proviso is proposed to be added, namely:-

“Provided further that the rate of tax imposed on taxable income of a company, other than banking company shall be 32% for the tax year 2016”

OUR COMMENTS: The bill seeks to reduce the rate of tax on company other than a banking company to 32% from the existing 33% i.e. reducing the rate by 1%.

Rate of Super Tax - Division IIA

| Person | Rate of Super Tax |
|--|-------------------|
| Banking Company | 4% of the income |
| Person, other than a banking company, having income equal to or exceeding Rs.500 million | 3% of the income |

OUR COMMENTS: In order to support the temporary displaced person, the bill proposes to impose super tax on every banking company & other person having income of Rs. 500 (M) or more.

Rate of Dividend Tax - Division II**Proposed Amendment:**

- in paragraph (b), “for the figure “10”, the figure “12.5” shall be substituted;”
- in the first proviso, “for the figure “12.5” the figure “15” shall be substituted”
- in the second proviso after the word “scheme”, “the comma and words, “REIT Scheme” shall be inserted;”
- for the full stop at the end a colon shall be substituted and thereafter the following new proviso shall be added, namely:-

“Provided also that if a Developmental REIT Scheme with the object of development and construction of residential buildings is set up by thirtieth day of June, 2018, dividend received by a person from such Developmental REIT Scheme shall be reduced by fifty percent for three years from thirtieth day of June, 2018.”

OUR COMMENTS: It has been proposed to increase the tax liability on Dividend receipt by 2.5%

Rate for Profit on Debt - Division IIIA

| S. No. | Profit on Debt | Rate of Tax |
|--------|--|--|
| 1. | Where profit on debt does not exceed Rs 25,000,000 | 10% |
| 2. | Where profit on debt exceeds Rs 25,000,000 but does not exceed Rs 50,000,000 | 2,500,000 + 12.5% of the amount exceeding Rs 25,000,000 |
| 3. | Where profit on debt exceeds Rs 50,000,000 | Rs 5,625,000 + 15% of the amount exceeding Rs 50,000,000”; |

OUR COMMENTS: The Bill proposes to introduce for the first time progressive/slab rates on Profit on debt to also cater for the amounts exceeding of Rs. 25(M).

Capital Gains on Disposal of Securities - Division VII

| S. No. | Period | Tax Year 2015 | | Tax Year 2016 |
|--------|--|---------------|----------|---------------|
| | | Proposed | Existing | Proposed |
| 1. | Where holding period of a security is less than twelve months | 12.5% | 12.5% | 15% |
| 2. | Where holding period of a security is twelve months or more but less than twenty four months | 10% | 10% | 12.5% |
| 3. | Where holding period of a security is twenty four months or more but less than four years | 0% | 0% | 7.5% |

OUR COMMENTS: New tax withholding rates on Capital Gains have been proposed for Tax Year 2016 with a new limit of holding upto four years.

Capital Gains Tax – by Mutual Funds, Collective Investment Scheme or REIT

| Category | Filer | Non-Filer |
|---------------------------------------|---------------------------------------|-----------|
| Individual and association of persons | 10% for stock funds 10% for others | 17.5% |
| Company | 10% for stock funds 25% for others | 25% |

OUR COMMENTS: The Bill proposes to introduce separate withholding rates for Filer & Non-Filer on capital gain for mutual funds, collective investment & REIT schemes.

Minimum tax under section 113 - Division IX**Proposed Amendment:**

- a) Against S. No 1, in column (2), after clause (c), following new clause shall be inserted, namely:-

“(d) Dealers or distributors of fertilizers.”

- b) Against S. No 2, in column (2), in clause (a), the word “fertilizers” and the expression “consumer goods including” shall be omitted;

OUR COMMENTS: The Bill seeks to withdraw/reduce rate of turnover tax on dealers or distributors of fertilizer. Further, it is also proposed to withdraw reduced turnover tax on fertilizers and fast moving consumer goods.

Advance Tax on Imports under Section 148 - Part – II

| S. No. | Persons | Rate | |
|--------|---|--|--|
| | | Filer | Non-Filer |
| 1. | i. Industrial undertaking importing remelttable steel (PCT Heading 72.04) and directly reduced iron for its own use; ii. Persons importing potassic fertilizers in pursuance of Economic Coordination Committee of the cabinet’s decision No.ECC-155/12/2004 dated the 9th December, 2004; iii. Persons importing urea; iv. Manufacturers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31 st December, 2011 and importing items covered under S.R.O. 1125(I)/2011 dated the 31 st December, 2011 v. Persons importing Gold; and vi. Persons importing Cotton | 1% of the import value as increased by customs duty, sales tax and federal excise duty | 1.5% of the import value as increased by customs duty, sales tax and federal excise duty |
| 2. | Persons importing pulses | 2% of the import value as increased by customs-duty, sales tax and federal excise duty | 3% of the import value as increased by customs duty, sales tax and federal excise duty |
| 3. | Commercial importers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31 st December, 2011 and importing items covered under S.R.O. 1125(I)/2011 dated the 31 st December, 2011. | 3% of the import value as increased by customs-duty, sales tax and federal excise duty | 4.5% of the import value as increased by customs duty, sales tax and federal excise duty |
| 4. | Ship breakers on import of ships | 4.5% | 6.5% |
| 5. | Industrial undertakings not covered under S. Nos. 1 to 4 | 5.5% | 8% |

| | | | |
|---|--|------|-----|
| 6. | Companies not covered under S. Nos. 1 to 5 | 5.5% | 8% |
| 7. | Persons not covered under S. Nos. 1 to 6 | 6% | 9%; |
| OUR COMMENTS: The aforesaid rates of withholding on import were introduced through SRO 136(I)/2015 dated 13 th February, 2015. Now, it is proposed to confirm the same amendments through Finance Bill. | | | |

Advance Tax on Dividends - Part – III, Division I

Proposed Amendment:

- after the figure “150” the word and figure “ and 236S” shall be inserted;
- in paragraph (c), for the figure “15” the figure “17.5” shall be substituted; and
- in the first proviso, after the word “scheme” a comma and words “, REIT Scheme” shall be inserted; and
- for the full stop at the end a colon shall be substituted and thereafter the following new proviso shall be added, namely:-

“Provided further that if a Developmental REIT Scheme with the object of development and construction of residential buildings is set up by thirtieth day of June, 2018, dividend received by a person from such Developmental REIT Scheme shall be reduced by fifty percent for three years from thirtieth day of June, 2018.”;

- in the second proviso, for the figure “12.5”, the figure “15” shall be substituted;

OUR COMMENTS: It has been proposed to charge tax on specie dividend. Further, the bill also seeks to increase the dividend tax rates for non-filers.

Advance Tax on Profit on Debts - Division IA

Proposed Amendment:

for the figure “15” the figure “17.5” shall be substituted

OUR COMMENTS:

Payments to Non-Residents - Division II

| S. No. | Nature of Payment | Proposed Rate | | Existing Rate |
|--------|--|-------------------|-------------------|---------------|
| | | Filer | Non-Filer | |
| 1. | Sale of Goods - Companies - Other taxpayers | 4% 4.5% | 6% 6.5% | 3.5% |
| 2. | Services other than transport - Companies - Other taxpayers | 8% 10% | 12% 15% | 6% |
| 3. | On execution of contract - Sportsperson - Companies - Other taxpayers | 10% 7% 7.5% | 10% 10% 10% | 6% |

OUR COMMENTS: The rate of tax withholding for Non-Resident has been proposed to be increased with separate rates for Filer & Non-Filer.

Payments for Goods or Services - Division III

| S. No. | Nature of Payment | Proposed Rate | | Existing Rate |
|--------|---|---------------|------------|---------------|
| | | Filer | Non-Filer | |
| 1. | Sale of Goods - Companies - Other taxpayers | 4% 4.5% | 6% 6.5% | 4% 4.5% |
| 2. | Services other than transport - Companies | 8% | 12% | 8% |

| | | | | |
|----|--------------------------|------|-----|------|
| | - Other taxpayers | 10% | 15% | 10% |
| 3. | On execution of contract | | | |
| | - Sportsperson | 10% | 10% | 10% |
| | - Companies | 7% | 10% | 7% |
| | - Other taxpayers | 7.5% | 10% | 7.5% |

OUR COMMENTS: Initially through SRO 136(I)/2015, separate withholding rates for Filer & Non-Filer were inserted for Services only. The Bill now proposes to introduce separate rates for supplies & contracts as well.

Brokerage and Commission - Part IV Division II

| S. No. | Nature of Payment | Proposed Rate Filer | Proposed Rate Non – Filer |
|--------|--------------------------------|------------------------|------------------------------|
| 1. | Advertising Agents | 10% | 15% |
| 2. | Other brokerage and commission | 12% | 15% |

Our Comments: The Bill proposes to increase tax rates for advertising agents from the existing rate of 7.5% while introducing separate rates for Filers & Non-Filers.

Tax on Motor Vehicles - Division III

| Goods Transport Vehicle | Proposed Rates | |
|-------------------------|---------------------------------|------------------------------|
| | Filer | Non-Filer |
| | Rs. 2.50 per kg of laden weight | Rs. 4 per kg of laden weight |

OUR COMMENTS: The existing rate of five rupees per kilogram of laden weight has been proposed to be reduced to 2.5/- kg of laden weight.

Passenger Transport Vehicles plying for hire

| S. No. | Capacity | Rs per seat per annum | | |
|--------|---|-----------------------|-----------|---------------|
| | | Proposed Rate | | Existing Rate |
| | | Filer | Non-Filer | |
| 1. | Four or more persons but less than ten persons. | 50 | 100 | 25 |
| 2. | Ten or more persons but less than twenty persons. | 100 | 200 | 60 |
| 3. | Twenty persons or more. | 300 | 500 | 500 |

OUR COMMENTS: The Bill seeks to introduce separate rates for Filer & Non-Filer with increase in existing rates

Other Private Motor Vehicles

| S. No. | Engine Capacity | Proposed Rate (Rs.) | | Existing Rate (Rs.) | |
|--------|------------------|---------------------|-----------|---------------------|-----------|
| | | Filer | Non-Filer | Filer | Non-Filer |
| 1. | Upto 1000cc | 800 | 1,200 | 1,000 | 1,000 |
| 2. | 1001cc to 1199cc | 1,500 | 4,000 | 1,800 | 3,600 |
| 3. | 1200cc to 1299cc | 1,750 | 5,000 | 2,000 | 4,000 |
| 4. | 1300cc to 1499cc | 2,500 | 7,500 | 3,000 | 6,000 |
| 5. | 1500cc to 1599cc | 3,750 | 12,000 | 4,500 | 9,000 |
| 6. | 1600cc to 1999cc | 4,500 | 15,000 | 6,000 | 12,000 |
| 7. | 2000cc & above | 10,000 | 30,000 | 12,000 | 24,000 |

OUR COMMENTS: The Bill seeks to propose reduced rates for Filers and increase the rates for Non-Filers.

Division V, VI & VIA

| Division | Description | Our Comments |
|----------|------------------------------------|--|
| V | Telephone User | It has been proposed to levy 14% withholding tax on internet services. |
| VI | Cash Withdrawal from a Bank | It has been proposed to increase the rates on cash withdrawal made by Non-Filer to 0.6%. |
| VIA | Advance tax on transaction in Bank | It has been proposed to enhance tax rates on transactions in banks to 0.6%. |

Advance Tax Purchase, Registration and Transfer of Motor Vehicles - Division VII

| S. No. | Engine Capacity | Proposed Rate (Rs.) | |
|--------|------------------|---------------------|-----------|
| | | Filer | Non-Filer |
| 1. | upto 850cc | 0 | 5,000 |
| 2. | 851cc to 1000cc | 5,000 | 15,000 |
| 3. | 1001cc to 1300cc | 7,500 | 25,000 |
| 4. | 1301cc to 1600cc | 12,500 | 65,000 |
| 5. | 1601cc to 1800cc | 18,750 | 100,000 |
| 6. | 1801cc to 2000cc | 25,000 | 135,000 |
| 7. | 2001cc to 2500cc | 37,500 | 200,000 |
| 8. | 2501cc to 3000cc | 50,000 | 270,000 |
| 9. | Above 3000cc | 62,500 | 300,000 |

Our Comments: The Bill proposes to introduce separate rates on transfer of registration or ownership of private motor vehicle for Filers and Non – Filers.

Division XIV, XIX, XX & XXI

| Division | Description | Our Comments |
|----------|---|--|
| XIV | Advance tax on sale to distributors, dealers or wholesalers | The bill seeks to enhance tax collection rates on fertilizers for Non-Filers |
| XIX | Advance tax on domestic electricity consumption | The bill proposes to reduce the limit of advance tax on domestic electricity consumption to Rs. 75,000/-. |
| XX | Advance tax on international air ticket | The bill proposes to introduce fixed amount of tax on International Air Tickets against the existing rate of 3%. |
| XXI | Advance tax on Banking Transactions Otherwise than through Cash | The bill proposes collection of advance tax at the rate of 0.6% on transaction by non-filers other than cash. |

Collection of Tax by Pakistan Mercantile Exchange Limited - Division XXII

| S. No. | Nature of Transaction | Rate of Tax |
|--------|--|-------------|
| 1. | In case of sale or purchase of future commodity contract | 0.1% |
| 2. | In case of commission on sale or purchase of future commodity contract | 0.1% |

Our Comments: The bill proposes Pakistan Mercantile Exchange to collect advance tax from its members.

Division XXIII & XXIV

| Division | Description | Our Comments |
|----------|---|--|
| XXIII | Payment to a resident person for right to use machinery and equipment | The bill seeks to introduce separate rate of 10% against payment for used machinery and equipment. |
| XXIV | Collection of advance tax on education related expenses remitted abroad | The bill proposes to collect advance tax at rate of 5% on education expenses remitted abroad. |

Second Schedule

Part – I - Exemption from Total Income

| Clause | Description | Impact |
|--------|--|---|
| 20 | Any income received by a person from an annuity.....not exceeding ten thousand rupees per annum. | Exemption Withdrawn |
| 61 | Any amount paid as donation....., namely: (xlv) The Indus Hospital, Karachi. | Entitlement for tax credit on Donation. |
| 66 | Any income derived by - (xxxiii) The Indus Hospital, Karachi | Exemption Granted |
| 99A | Provided that profit and gains on sale of immovable property to a Developmental REIT Scheme with the object of development and construction of residential buildings shall be exempt upto thirtieth day of June, 2020 | Exemption Granted |
| 103A | Any income derived from inter-corporate dividend within the group companies entitled to group taxation under section 59AA or section 59B subject to the condition that return of the group has been filed for the tax year. | Condition imposed for entitlement of exemption. |
| 113 | Any income chargeable under the head "capital gains", being income from the sale of shares exemption from tax under clause (126). | Exemption withdrawn |
| 126A | Income derived by China Overseas Ports Holding Company Limited from Gwadar Port operations for a period of twenty three years, with effect from the sixth day of February, 2007. | Exemption period extended |
| 126F | Profits and gains derived.....manufacturers and suppliers of cement, sugar, beverages and cigarettes | Exemption withdrawn |
| 126I | Profits and gains derived by a taxpayer, from an industrial undertaking set up by 31st day of December, 2016 and engaged in the manufacture of plant, machinery, equipment and items with dedicated use (no multiple uses) for generation of renewable energy from sources like solar and wind, for a period of five years beginning from first day of July, 2015. | Exemption Granted |
| 126J | Profits and gains derived by a taxpayer, from an industrial undertaking set up between 1st day of July, 2015 and 30th day of June, 2016 engaged in operating warehousing or cold chain facilities for storage of agriculture produce for a period of three years beginning with the month in which the industrial undertaking is set up or commercial operations are commenced, whichever is later | Exemption Granted |
| 126K | Profits and gains derived by a taxpayer, from an industrial undertaking set up between 1 st day of July, 2015 and 31st day of December, 2016 which is engaged in operating halal meat production and has obtained halal certification, for a period of four years beginning with the month in which the industrial undertaking is set up or commercial production is commenced, whichever is later. | Exemption Granted |
| 126L | Profits and gains derived by a taxpayer, from a manufacturing unit set up in Khyber Pukhtunkhwa Province between 1st day of July, 2015 and 30th day of June, 2018 for a period of five years beginning with the month in which the industrial undertaking is set up or commercial production is commenced, whichever is later: Provided that exemption under this clause shall be admissible where: (a) the manufacturing unit is setup between the first day of July, 2015 and 30th day of June, 2018, both days inclusive; and (b) the manufacturing unit is not established by the splitting up or reconstruction or reconstitution of an undertaking already in existence or by transfer of machinery or plant from an undertaking established in Pakistan at any time before 1st July 2015. | Exemption Granted |

| | | |
|------|---|-------------------|
| 126M | Profits and gains derived by a taxpayer from a transmission line project set up in Pakistan on or after the 1st day of July, 2015. The exemption under this clause shall apply to such project which is: - (a) owned and managed by a company formed for operating the said project and registered under the Companies Ordinance, 1984 (XLVII of 1984), and having its registered office in Pakistan; (b) not formed by the splitting up, or the reconstruction or reconstitution, of a business already in existence or by transfer to a new business of any machinery or plant used in a business which was being carried on in Pakistan at any time before the commencement of the new business; and (c) owned by a company fifty per cent of whose shares are not held by the Federal Government or Provincial Government or a Local Government or which is not controlled by the Federal Government or a Provincial Government or a Local Government: Provided that the exemption under this clause shall not apply to projects set up on or after the thirtieth day of June, 2018. | Exemption Granted |
| 141 | Profit and gains derived by LNG Terminal Operators and Terminal Owners for a period of five years beginning from the date when commercial operations are commenced | Exemption Granted |
| 142 | Income from social security contributions derived by Baluchistan Employees' Social Security Institution, Employees' Social Security Institution Khyber Pakhtunkhwa, Punjab Employees' Social Security Institution and Sindh Employees' Social Security Institution. <i>Explanation.-</i> For the removal of doubt, it is clarified that all incomes other than social security contributions shall not be exempt”; | Exemption Granted |

Part – II - Reduction in Tax Rates

| Clause | Description | Impact |
|--------|---|---------------------------------|
| 13C | In respect of manufacturers of cooking oil or vegetable ghee or both, the rate of income tax on purchase of locally produced edible oil shall be 2% of the purchase price. | Reduction in tax rate withdrawn |
| 14 | In case of owners of goods transport vehicles,.....shall be reduced to Rs. 2 per kilogram of the laden weight. | Reduction in tax rate withdrawn |
| 14A | In case of passenger transport vehicles.....shall be reduced to 250 rupees per seat per annum. | Reduction in tax rate withdrawn |
| 14B | In case of owners of goods transport vehicles.....specified in Division III of Part IV of the First Schedule, shall not be refunded. | Reduction in tax rate withdrawn |
| 21 | In the case of any resident person engaged in the business of shipping.....cases in the relevant assessment year.” | Reduction in tax rate withdrawn |
| 28A | The rate of tax shall be 0.15% under section 231A on cash withdrawal by an exchange company, duly licensed and authorized by the State Bank of Pakistan, exclusively dedicated for its authorized business related transactions, subject to the condition that a certificate issued by the concerned Commissioner Inland Revenue for a financial year mentioning details and particulars of its Bank Account being used entirely for business transactions is provided.”; | Reduced rate granted |

Part – III Reduction in Tax Liability

| Clause | Description | Impact |
|--------|--|--|
| 16 | The minimum penalty for failure to furnish statement under section 115, 165 or 165A.....shall be reduced to ten thousand rupees. | Clause omitted to get in line with section 182 |

Part – IV - Exemption from Specific Provisions

| Clause | Description | Impact |
|------------|---|--|
| 11A(i) | National Investment (Unit) Trust or a collective investment scheme authorized or registered under the Non-banking Finance Companies (Establishment and Regulation) Rule, 2003 or a real estate investment trust approved and authorized under the Real Estate Investment Trust Regulations, 2015 or a pension fund registered under the Voluntary Pension System Rules, 2005, or any other company in respect of turnover representing transactions in shares, or securities listed on a registered stock exchange; | Correction of nomenclature |
| 11A(iv) | Kot Addu Power Company Limited (KAPCO) for the period it continues to be entitled to exemption under clause (138) of Part-I of this Schedule | Exemption withdrawn |
| 11A(v) | Companies, qualifying for of receipts from sale of electricity; | Exemption withdrawn for coal mining project |
| 11A(xviii) | Companies, qualifying for exemption under clause (132B) of Part-I of this Schedule, in respect of receipts from a coal mining project in Sindh, supplying coal exclusively to power generation projects. | Exemption Granted |
| 11A(xix) | LNG Terminal Operators and LNG Terminal Owners. | Exemption Granted |
| 11A(xx) | Taxpayers located in the most affected and moderately affected areas of Khyber Pakhtunkhwa, FATA and PATA for tax year 2010, 2011 and 2012 excluding manufacturers and suppliers of cement, sugar, beverages and cigarettes. | Exemption Granted |
| 11A(xxi) | Rice Mills for the Tax Year 2015 | Exemption Granted |
| 11A(xxii) | Taxpayers qualifying for exemption under clauses (126I) of Part-I of this Schedule in respect of income from manufacture of equipment with dedicated use for generation of renewable energy. | Exemption Granted |
| 11A(xxiii) | Taxpayers qualifying for exemption under clauses (126J) of Part-I of this Schedule in respect of income from operating warehousing or cold chain facilities for storage of agriculture produce. | Exemption Granted |
| 11A(xxiv) | Taxpayers qualifying for exemption under clauses (126K) of Part-I of this Schedule in respect of income from operating halal meat production, during the period mentioned in clause (126K). | Exemption Granted |
| 11A(xxv) | Taxpayers qualifying for exemption under clauses (126L) of Part-I of this Schedule in respect of income from a manufacturing unit set up in Khyber Pukhtunkhwa Province between 1st day of July, 2015 and 30th day of June, 2018. | Exemption Granted |
| 11D | The provisions of section 113C shall not apply to LNG Terminal Operators and LNG Terminal Owners | Exemption Granted |
| 16A | The provision of section 153(1)(b) shall not be applicable to the persons making payments to electronic and print media in respect of the advertising services. | Tax deduction of electronic and print media on services resumes. |
| 46 | The provisions of sub-section (1) of section 153 shall not apply to any payment received by an oil distribution company or an oil refinery and provisions of sub-section (2A) of section 152 shall not apply to Permanent Establishment of Non-resident Petroleum Exploration and Production (E&P) Companies for supply of its petroleum products. | Exemption Granted |
| 56(i) | The provisions of section 148.....except PCT Heading 9918 | Exemption withdrawn |
| 56(ia) | Petroleum oils and oils obtained from bituminous minerals crude (PCT Code 2709.0000), Furnace-oil (PCT Code 2710.1941), High speed diesel oil (PCT) Code 2710.1931), Motor spirit (PCT Code 2710.1210), J.P.1 (PCT Code 2710.1912), base oil for lubricating oil (PCT Code 2710.1993) imported by | Exemption Granted |

| | | |
|---------|--|--|
| | Pakistan State Oil Company Limited, Shell Pakistan Limited, Attock Petroleum Limited, Byco Petroleum Pakistan Limited, Admore Gas Private Limited, Chevron Pakistan Limited, Total-PARCO Pakistan(Private) Limited, Hascol Petroleum Limited, and oil refineries. | |
| 56B | Provisions of section 148.....200,000 metric tons in aggregate during the said period. | Clause deleted |
| 56H | Provisions of section 148 shall not apply.....tons in aggregate during the said period. | Exemption withdrawn |
| 57 | Explanation (ii) It is further clarified that in-house preparation and processing of food and allied items for sale to customers shall not disqualify a company from being treated as a Trading House, provided that all the conditions in this clause are fulfilled and sale of such items does not exceed two per cent of the total sales.”; | Exemption Granted |
| 59(iii) | to Pak rupee accounts or certificates referred to in clause (83) of Part-I of this Schedule | Exemption withdrawn |
| 61A | The provisions of section 231A shall not apply in respect of any cash withdrawal by exchange companies relevant details and particulars of the Bank Accounts. | Exemption withdrawn |
| 72A | The provisions of clause (I) ofnot apply in case of a Hajj Group Operatorincome from Hajj operations. | Exemption withdrawn |
| 77 | Provisions of section 148 and 153 shall not be applicable on import and subsequent supply of items with dedicated use of renewable sources of energy like solar and wind etc., even if locally manufactured, which include induction lamps, SMD, LEDs with or without ballast with fittings and fixtures, wind turbines including alternator and mast, solar torches, tubular daylighting devices such as solatube, lanterns and related instruments, PV modules with or without the related components including invertors, charge controllers and batteries. | Exemption Granted |
| 79 | The provisions of clause (b) of the proviso to sub-section (3) of section 153on payments receive by a company for providing or rendering of services. | Clause deleted to get stream line with section 153. |
| 83 | The provisions of sub-section (4) of section 116 shall not apply for the tax year 2013 to a person other than a company or a member of an association of persons falling under final tax regime (FTR) and has paid tax less than thirty five thousand rupees | Relaxation of filing of Wealth Statement for a person having FTR deduction of Rs. 35,000/- withdrawn |
| 86 | The Provisions of section 111 shall not apply to- If the said investment is made on or after the 1st day of January, 2014, and commercial production commences on or before the 30th day of June, 2017. | Exemption extended for One Year |
| 89 | The provisions of section 236I shall not apply to.....educational institution. | Exemption Withdrawn |
| 90 | The provisions of section 236D..... a foreign diplomat or a diplomatic mission of Pakistan. | Exemption Withdrawn |
| 91 | The provisions of section 148 shall not apply to- (i) Tillage and seed bed preparation equipment (ii) Seeding or planting equipment (iii) Irrigation, drainage and agro-chemical application equipment (iv) Harvesting, threshing and storage equipment (v) Post-harvest handling and processing & miscellaneous machinery | Exemption Granted |
| 92 | The provisions of section 148 shall not apply to.- Aircraft.....aviation division | Exemption Granted |
| 93 | The provisions of sub-section (1) of section 154 shall not apply to | Exemption Granted |

| | | |
|--|---|--|
| | taxpayers operating halal meat production and qualifying for exemption under clause (126K) of Part-I of this Schedule for the period specified in clause (126K) | |
|--|---|--|

Fourth Schedule

Rules for the computation of the Profits and Gains of Insurance Business

| Rule | Description | Impact |
|------|--|---------------------|
| 6A | In computing income under this Schedule, there shall not be included "capital gains"derived up to tax year ending on the thirtieth day of June, 2010. | Exemption Withdrawn |

For Rule 6B, the following table shall be substituted:

| S. No. | Period | Tax Year 2015 | Tax Year 2016 |
|--------|--|---------------|---------------|
| 1. | Where holding period of a security is less than twelve months | 12.5% | 15% |
| 2. | Where holding period of a security is twelve months or more but less than twenty four months | 10% | 12.5% |
| 3. | Where holding period of a security is twenty four months or more but less than four years | 0% | 7.5% |

| Rule | Description | Impact |
|------|--|---------------------------------------|
| 6D | The provisions of section 4B shall apply to the taxpayers under this schedule and taxed at the rates specified in Division IIA of Part I of the First Schedule | Proposed to charge Super Tax u/s. 4B. |

Fifth Schedule

Part I

Rules for the computation of the Profits and Gains from the Exploration and Production of Petroleum

| Rule | Description | Impact |
|------|---|---------------------------------------|
| 4AA | The provisions of section 4B shall apply to the taxpayers under this Part and taxed at the rates specified in Division IIA of Part I of the First Schedule.”; | Proposed to charge Super Tax u/s. 4B. |

Part II

Rules for the computation of the Profits and Gains from the Exploration and Extraction of Mineral Deposits (Other than Petroleum)

| Rule | Description | Impact |
|------|--|---------------------------------------|
| 2A | The provisions of section 4B shall apply to the taxpayers under this Part and taxed at the rates specified in Division IIA of Part I of the First Schedule | Proposed to charge Super Tax u/s. 4B. |

Seventh Schedule

Rules for the computation of the Profits and Gains of a Banking Company and Tax Payable thereon

| Rule | Description | Our Comments |
|------|---|---|
| 6 | Income computed under this Schedule shall be chargeable to tax under the head "Income from Business" and tax payable thereon shall be computed at the rate applicable in Division II of Part I of the First Schedule. | Proposed to withdraw chargeability on Dividend and Capital Gain on specific rates |
| 6A | For the purpose of rule 6, net income from dividend shall be computedreceipts including dividend. | Proposed to withdraw tax calculation formula of Dividend as now being chargeable at normal tax rate |
| 6B | For the purpose of rule 6, net income from capital gains shall be computed.....receipts including capital gains. | Proposed to withdraw tax calculation formula of Capital Gain as now being |

| | | |
|----|---|---|
| | | chargeable at normal tax rate. |
| 7B | From tax year 2015 and onwards, income from Dividend and income from Capital Gains shall be taxed at the rate specified in Division II of Part I of First Schedule. | Proposed to charge tax on dividend and capital gain at the rate of 35%. |
| 7C | For tax year 2015, the provisions of section 4B shall apply to banking companies and shall be taxed at the rate specified in Division IIA of Part I of First Schedule.” | Proposed to charge Super Tax u/s. 4B. |

Eighth Schedule

Rules for the computation of Capital Gains on Listed Securities

| Rule | Description | Our Comments |
|-------------|---|---------------------------------------|
| 8 | The provisions of section 4B shall apply to the taxpayers under this schedule and taxed at the rates specified in Division IIA of Part I of the First Schedule. | Proposed to charge Super Tax u/s. 4B. |

Sales



SALES TAX ACT, 1990 AND
ISLAMABAD CAPITAL TERRITORY
(TAX ON SERVICES) ORDINANCE, 2001

Sales Tax

Definitions

Existing

(1) "Appellate Tribunal" means the Appellate Tribunal Inland Revenue established under section 130 of the Income Tax Ordinance 2001.

OUR COMMENTS: A new definition is proposed to be introduced:

Active Taxpayer - a registered person who does not fall in any of the following categories:

- who is blacklisted or whose registration is suspended or is blocked in terms of Section 21;
- who fails to file the return under section 26 by the due date for two consecutive tax periods;
- who fails to file an income tax return under section 114 or statements under section 115, of the Income tax ordinance, 2001 by due date; and
- who fails to file two consecutive monthly or an annual withholding tax statement under section 165 of the Income Tax Ordinance, 2001.

Further, the definition of 'Appellate Tribunal' under 'clause 1' is now proposed to be shifted under newly proposed 'clause 1A'. This shifting is result of proposed insertion of definition of 'Active Taxpayer'.

Definitions

Existing

"cottage industry" means a manufacturer whose do not exceed 6[seven] hundred thousand rupees;]

OUR COMMENTS: Presently, manufacturers whose annual turnover from taxable supplies made in any tax period during the last twelve months ending any tax period does not exceed five million rupees or whose annual utility (electricity, gas and telephone) bills during the last twelve months ending any tax period do not exceed seven hundred thousand rupees fall under the definition of 'cottage industry'. For

Section 2 Clause (1) & (1A)

Proposed Amendment

"(1) "active taxpayer" means a registered person who does not fall in any of the following categories, namely:-

- (a) who is blacklisted or whose registration is suspended or is blocked in terms of section 21;
- (b) who fails to file the return under section 26 by the due date for two consecutive tax periods;
- (c) who fails to file an Income Tax return under section 114 or statement under section 115, of the Income Tax Ordinance, 2001, by the due date; and
- (d) who fails to file two consecutive monthly or an annual withholding tax statement under section 165 of the Income Tax Ordinance, 2001;

(1A) "Appellate Tribunal" means the Appellate Tribunal Inland Revenue established under section 130 of the Income Tax Ordinance, 2001;";

Section 2 Clause (5AB)

Proposed Amendment

for the word "seven", the word "eight" shall be substituted;

Definitions

promotion of cottage industry, this definition is now proposed to be amended by enhancing the utility bills limit from seven hundred thousand to eight hundred thousand.

Definitions

Existing

“Retailer” means a person 11[...] supplying goodsof consumption 12[:].
[Provided that any person,shall notify and advertise wholesale prices and retail pricesregistration under section 14.]

OUR COMMENTS: Presently, any person who combines the business of import and retail or manufacture or production with retail, his total turnover per annum is taken into account for the purposes of registration under section 14. This requirement is now proposed to be done away with.

Definitions

Existing

auction or disposal of goods to satisfy a debt owed by a person; and

possession of taxable goods held immediately before which shall or shall not constitute supply;]

“New sub-clause shall be added”

OUR COMMENTS: It is now proposed to enhance the scope of term ‘supply’ by adding a new sub clause (d) in its definition. This sub clause requires that in case of manufacture of goods belonging to another person, the transfer or delivery of such goods to the owner or to a person nominated by him will also fall in definition of ‘supply’.

Scope of tax

Existing

Subject to the provision of sub section (6) of section 8specify the taxable supplies which the further tax shall not be charged, levied and paid.

the Federal Government may, subject to such conditions and restrictions higher or lower rate or rates as may be specified in the said notification.]

OUR COMMENTS: To encourage documentation and to broaden the sales tax net, a new sub-section ‘1A’ was inserted through Finance Act, 2013 levying ‘further tax’ at the rate of one percent on supplies made to unregistered persons. The rate of ‘further tax’ is now proposed to be enhanced from one percent to two percent. Sub-clause (b) is also being substituted as a streamlining measure.

Section 2 Clause (5AB)

Section 2 Clause (28)

Proposed Amendment

the comma, words and figures “, and his total turnover per annum shall be taken into account for the purposes of registration under section 14” shall be omitted; and

Section 2 Clause 33 Sub-clause (b), (c) & (d)

Proposed Amendment

the word “and” at the end shall be omitted; and

for the colon at the end, a semi-colon and the word “and” shall be substituted,

in case of manufacture of goods belonging to another person, the transfer or delivery of such goods to the owner or to a person nominated by him.”;

Section 3 (1A) & (2) clause (b)

Proposed Amendment

for the word “one”, the word “two” shall be substituted; and

the Federal Government may, subject to such conditions and restrictions as it may impose, by notification in the official Gazette, declare that in respect of any taxable goods, the tax shall be charged, collected and paid in such manner and at such higher or lower rate or rates as may be specified in the said notification.”;

Time and manner of payment

Existing

The tax in respect of goods imported into Pakistan provision exists in this Act, apply,].

OUR COMMENTS: The proposed amendment seeks to streamline the procedure of collection and recovery of sales tax on goods imported into Pakistan as if it were a duty of customs payable under the Customs Act, 1969.

Determination of tax liability

Existing

in case of goods imported into Pakistan, he holds bill of entry or under section 79 or section 104 of the Customs Act, 1969.

OUR COMMENTS: A procedural amendment.

Tax credit not allowed

Existing

goods used in, or permanently attached to, immoveable property.....in the production or manufacture of taxable goods; and]

vehicles falling in Chapter 87 of the First Schedule for sale or re-sale.

“New clause shall be added”

“New clause shall be added”

“New clause shall be added”

OUR COMMENTS: The proposed amendment seeks not to entitle a registered person to reclaim or deduct input tax paid on:

- services in respect of which input tax adjustment is barred under the respective provincial sales tax law;
- import or purchase of agricultural machinery or equipment subject to sales tax at the rate of 7% under Eighth Schedule to this Act; and
- from the date to be notified by the Board, such goods and services which, at the time of filing of return by the buyer, have not been declared by the supplier in his return.

Section 6(1)

Proposed Amendment

after the word “enforcement”, the words “including recovery” shall be inserted;

Section 7(2) clause (ii)

Proposed Amendment

after the figure “79”, the expression “, section 81” shall be inserted;

Section 8(1) clause (h),(i),(j),(k)&(l)

Proposed Amendment

after the word “excluding”, the words “pre-fabricated buildings and” shall be inserted; and

the word “and” at the end shall be omitted;

for the full stop at the end a semi-colon shall be substituted

“(j) services in respect of which input tax adjustment is barred under the respective provincial sales tax law;

(k) import or purchase of agricultural machinery or equipment subject to sales tax at the rate of 7% under Eighth Schedule to this Act; and

(l) from the date to be notified by the Board, such goods and services which, at the time of filing of return by the buyer, have not been declared by the supplier in his return.”;

Joint and several liability of registered persons in supply chain where tax unpaid

Existing

Where a registered person receiving a taxable supplyseverally liable for payment of such unpaid amount of tax 4[:]]

Provided that the Board provisions of this section.]

OUR COMMENTS: This section made jointly and severally liable the registered persons where some or all of the tax payable remains unpaid in supply chain. The proposed amendment seeks the onus to prove such unpaid tax liability on the department.

Registration

Existing

Under this Act, registration will be required for such persons and be regulated in such manner and subject to rules as the Board may, by notification in the official Gazette, prescribe.]

Section 8A

Proposed Amendment

after the word “unpaid”, occurring for the first time, the expression “, of which the burden to prove shall be on the department” shall be inserted;

Section 14(1), (2) & (3)

Proposed Amendment

(1) Every person engaged in making taxable supplies in Pakistan, including zero-rated supplies, in the course or furtherance of any taxable activity carried on by him, falling in any of the following categories, if not already registered, is required to be registered under this Act, namely:-

(a) a manufacturer who is not running a cottage industry;

(b) a retailer who is liable to pay sales tax under the Act or rules made thereunder, excluding such retailer required to pay sales tax through his electricity bill under sub-section (9) of section 3;

(c) an importer;

(d) an exporter who intends to obtain sales tax refund against his zero-rated supplies;

(e) a wholesaler, dealer or distributor; and

(f) a person who is required, under any other Federal law or Provincial law, to be registered for the purpose of any duty or tax collected or paid as if it were a levy of sales tax to be collected under the Act;

(2) Persons not engaged in making of taxable supplies in Pakistan, if required to be registered for making imports or exports, or under any provisions of the Act, or any other Federal law, may apply for registration.

(3) The registration under this Act shall be regulated in such manner as the Board may, by notification in the official Gazette, prescribe.”;

OUR COMMENTS: Section 14 is being proposed to be substituted suggesting the registration requirements for every person who is:

Registration

Section 14(1), (2) & (3)

- engaged in making taxable supplies in Pakistan, including zero-rated supplies;
- in the course or furtherance of any taxable activity carried on by him;
- falling in any of the following categories:
 - a) a manufacturer who is not running a cottage industry;
 - b) a retailer who is liable to pay sales tax under the Act or rules made thereunder, excluding such retailer required to pay sales tax through his electricity bill under sub-section (9) of section 3;
 - c) an importer;
 - d) an exporter who intends to obtain sales tax refund against his zero-rated supplies;
 - e) a wholesaler, dealer or distributor; and
 - f) a person who is required, under any other Federal law or Provincial law, to be registered for the purpose of any duty or tax collected or paid as if it were a levy of sales tax to be collected under the Act.

The newly inserted section further proposes that persons not engaged in making of taxable supplies in Pakistan, if required to be registered for making imports or exports, or under any provisions of the Act, or any other Federal law, may apply for registration.

Active taxpayers list

Section 21A

Existing

“New Section shall be added”

Proposed Amendment

The Board shall have the power to maintain active taxpayers list in the manner as may be prescribed by rules and such rules may provide for the restrictions and limitations to be imposed on a person who ceases to be an active taxpayer.”;

OUR COMMENTS: By inserting a new section 21A, the Finance Bill, 2015, seeks to empower the Federal Board of Revenue to maintain active taxpayers list and to make rules for restrictions and limitations to be imposed on a person who ceases to be an active taxpayer.

Access to record, documents, etc.

Section 25(3)

Existing

After completion of Audit under this section or any section (36), as the case may be.]

Proposed Amendment

the words, figures and comma “or section 36, as the case may be” shall be omitted;

OUR COMMENTS: A procedural amendment.

Offences and penalties

Section 33

Existing

Provided that in case a person files a return within fifteen days of the due date, he shall pay a penalty of one hundred rupees for each day of default.

Proposed Amendment

in the proviso, for the word “fifteen”, the word “ten” shall be substituted; and

Provided that, if the amountpaid within fifteen days from the due date, the defaulter.....each day of default:

in the first proviso, for the word “fifteen”, the word “ten” shall be substituted;

OUR COMMENTS: This section prescribes that where any person fails to furnish a return / deposit the amount of tax within the due date and in case such person files a return / deposit the amount of tax within fifteen days of the due date, he shall pay a penalty of one / five hundred rupees for each day of default. Through this amendment, the time limit of fifteen days is being proposed to be reduced to ten days.

Power of the Board 6[and 7[Commissioner]] to call for records

Existing

The Board may, of its own motion, call for and examine as it may think fit:

Provided that no order imposing or enhancing any penalty.....cause and of being heard.

OUR COMMENTS: To simply the wording.

Prize schemes to promote tax culture

Existing

“New Section shall be added”

OUR COMMENTS: To encourage the general public to make purchases only from registered persons issuing tax invoices, the Federal Board of Revenue is being empowered to prescribe prize schemes by inserting a new section 56C through Finance Bill, 2015.

Section 45A(1)

Proposed Amendment

after the word “motion”, the words “, or otherwise,” shall be inserted;

Section 56C

Proposed Amendment

The Board may prescribe prize schemes to encourage the general public to make purchases only from registered persons issuing tax invoices.”;

The Fifth Schedule

Zero Rated Supplies

Supplies of locally manufactured plant and machinery to the Export Processing Zones are currently zero rated. A new serial number 6A is being proposed to be added in Fifth Schedule to prescribe the specification of these locally manufactured plant and machinery which is as under:

- i) Plant and machinery, operated by power of any description, as is used for the manufacture or production of goods by that manufacturer;
- ii) Apparatus, appliances and equipment specifically meant or adapted for use in conjunction with the machinery specified in clause (i);
- (iii) Mechanical and electrical control and transmission gear, meant or adapted for use in conjunction with machinery specified in clause (i); and
- (iv) Parts of machinery as specified in clauses (i), (ii) and (iii) identifiable for use in or with such machinery.

The proposed amendment further explains conditions, restrictions and procedures as under:

- (a) the supplier of the machinery is registered under the Act;
- (b) proper bill of export is filed showing registration number;
- (c) the purchaser of the machinery is an established manufacturer located in the Export Processing Zone and holds a certificate from the Export Processing Zone Authority to that effect;
- (d) the purchaser submits an indemnity bond in proper form to the satisfaction of the concerned Commissioner Inland Revenue that the machinery shall, without prior permission from the said Commissioner, not be sold, transferred or otherwise moved out of the Export Processing Zone before a period of five years from the date of entry into the Zone;
- (e) if the machinery is brought to tariff area of Pakistan, sales tax shall be charged on the value assessed on the bill of entry; and
- (f) breach of any of the conditions specified herein shall attract legal action under the relevant provisions of the Act, besides recovery of the amount of sales tax along with default surcharge and penalties involved.

The Finance Bill, 2015 further seeks to omit following items from zero rating:

- flavoured milk;
- yougurt;
- cheese
- butter;
- cream;
- desi ghee;
- whey; and
- milk and cream, concentrated and added sugar or other sweetening matter.

The Sixth Schedule

Exemption from chargeability of sales tax was available of following goods:

on import or supply:

- Poultry feed and its ingredients excluding soyabean meal;
- Incinerators of disposal of waste management, motorized sweepers and snow ploughs;

- Re-importation of foreign origin goods which were temporarily exported out of Pakistan subject to similar conditions as are envisaged for the purposes of applying zero-rate of customs duty under the Customs Act, 1969;
- Milk and cream;
- Yougurt;
- Whey;
- Butter;
- Desi ghee
- Cheese;
- Processed cheese not grated or powdered;
- Machinery, equipment, raw materials, components and other capital goods for use in buildings, fittings, repairing or refitting of ships, boats or floating structures imported by Karachi Shipyard and Engineering Works Limited; and
- Plant, machinery, equipment and specific items used in production of bio-diesel.

on local supply:

- Reclaimed lead if supplied to recognized manufacturers of lead batteries
- Waste paper

This exemption is now proposed to be withdrawn through omitting respective Serial Nos. and their respective headings in Table – I of the Sixth Schedule to the Act.

It is further proposed to allow exemption from chargeability of sales tax on following items by adding them in the sixth schedule:

on import or supply:

- Milk
- Milk and cream, concentrated or containing added sugar or other sweetening matter, excluding that sold in retail packing under a brand name
- Flavored milk, excluding that sold in retail packing under a brand name
- Yogurt, excluding that sold in retail packing under a brand name
- Whey, excluding that sold in retail packing under a brand name
- Butter, excluding that sold in retail packing under a brand name
- Desi ghee, excluding that sold in retail packing under a brand name
- Cheese, excluding that sold in retail packing under a brand name
- Processed cheese not grated or powdered, excluding that sold in retail packing under a brand name:
- Appliances for colostomy
- Colostomy and urostomy bags
- Tubular day lighting devices (TDDs)
- Diagnostic kits or equipment, namely:-
 - HIV Kits
 - 4C Es Trionyx
 - 5C Cell control Lnormal
 - Bovine precision multi sera
 - Pregnancy test
 - DNA SSP DRB Generic IC
 - Reticulocyte count (control) retic
 - C Control
 - Kit for vitamin B12 estimation
 - Ferritin kit
 - HEV (Hepatitis E virus)
 - ID-DA Cell
 - Urine Analysis Strips
 - Albumin beg
 - Cratinin syti

Ring
 Detektiion cups
 ISE Standard
 Alkaline phosphatase (Alb)
 Bilirubin kit
 HDL Cholesterol
 Ck creatinin kinase (mb)
 Ck nac
 Glucose kit
 Ammonia Modular
 Lac
 Ldh kit (lactate dehydrogenase kit)
 Urea uv kit
 Ua plus
 Tina quant
 Crp control
 Aslo tin
 Proteins
 Lipids
 HDL/LDL cholesterol
 Protein kit
 U Control Sera Pac
 Control HCV
 UIBC (Unsaturated iron binding capacity)
 U/CSF
 Inorganic Phosphorus kit
 Kit amplicon kit (for PCR)
 Ige
 Lc hsv
 Oligo
 NA/K/CL
 Hcy
 Standard [or calibrated]
 Hla B27
 Liss Coombs
 Typhoid kit
 HCV amp
 Urine test strips
 Strips for sugar test
 Blood glucose test strips
 Kits for automatic cell separator for collection of platelets
 Elisa or Eclia kit
 PCR kits
 Immunoblast (western blot test).
 I.C.T. (Immunochromatographic kit)
 CBC Reagent (For hematology analyzer) Complete blood count reagent

- Blood Bag CPDA-1 with blood transfusion set pack in aluminum foil with set;
- Urine drainage bags;
- Aircraft, whether imported or acquired on wet or dry lease;
- Maintenance kits for use in trainer aircrafts of PCT headings 8802.2000 and 8802.3000;
- Spare parts for use in aircrafts, trainer aircrafts or simulators;
- Machinery, equipment and tools for setting up maintenance, repair and overhaul (MRO) workshop by MRO company recognized by Aviation Division;
- Operational tools, machinery, equipment and furniture and fixtures on one-time basis for setting up Greenfield airports by a company authorized by Aviation Division;
- Aviation simulators imported by airline company recognized by Aviation Division;

On Local Supply

- Raw and pickled hides and skins, wet blue hides and skins;
- Supplies made by manufacturers of marble and granite having annual turnover less than five million rupees even if their annual utility bill is more than eight hundred thousand rupees;
- Bricks (up to 30th June, 2018);
- Crushed stone (up to 30th June, 2018);

The Eighth Schedule

Reduced rate of 5% on following goods is proposed to be withdrawn by omitting relevant Serial Nos. in the eighth schedule.

- directly reduced iron;
- Following items imported by Cell Centers, Business Processing Outsourcing facilities duly approved by the Pakistan Telecommunication Authority:
 1. Telephone sets/head sets
 2. Cat 5/Cat 6/Power cables
 3. PABX Switch
 4. Plasma TV
 5. Dedicated telephone exchange system for call centers.
 6. Other (digital call recorders)
- Proprietary Formwork System for building/structures of a height of 100 ft and above its various items/components consisting of the following, namely:-
 1. Plastic tube.
 2. Plastic tie slot filters/plugs, plastic cone.
 3. Standard steel ply panels, Special sized steel ply panels, wedges, tube clamps (B-Type & G-Type), push/pull props, brackets (structures), drop head, standard, prop tie, buard rail post (structure), coupler brace, cantilever frame, decking bean/Infill beam and doorway angles.
 4. Lifting Unit (Structures)
 5. Bolts, tie bolts, anchor bolt assembly (fastener), anchor screw (fastener).
 6. Nuts
 7. Steel pins, tie wing nut (fastener).
 8. Steel washers, water plate (fastener).
 9. Adjustable base jack (thread rod with nut and steel plate), adjustable fork head (thread rod with nut and steel channel).

Rate of sales tax is being proposed to be enhanced from 5% to 10% on following items:

- Soyabean meal;
- Oilseeds meant for sowing;
- Plant & machinery not manufactured locally and having no compatible local substitutes;
- Machinery and equipment for development of grain handling and storage facilities;
- Complete plants for relocated industries; and
- Machinery, equipment and other capital goods meant for initial installation, balancing, modernization, replacement or expansion of oil refining (mineral oil, hydro-cracking and other value added petroleum products), petrochemical and petrochemical downstream products including fibers and heavy chemical industry, cryogenic facility for ethylene storage and heading.

The Finance Bill 2015, further seeks to add following items to be charged at reduced rate of sales tax and subject to conditions provided therein:

| Description | Heading | Rate | Condition |
|---|--|------|---|
| "7. Flavoured milk | 0402.9900 | 10% | Sold in retail packing under a brand name |
| 8. Yogurt | 0403.1000 | 10% | Sold in retail packing under a brand name |
| 9. Cheese | 0406.1010 | 10% | Sold in retail packing under a brand name |
| 10. Butter | 0405.1000 | 10% | Sold in retail packing under a brand name |
| 11. Cream | 04.01 and 04.02 | 10% | Sold in retail packing under a brand name |
| 12. Desi ghee | 0405.9000 | 10% | Sold in retail packing under a brand name |
| 13. Whey | 04.04 | 10% | Sold in retail packing under a brand name |
| 14. Milk and cream, concentrated and added sugar or other sweetening matter | 0402.1000 | 10% | Sold in retail packing under a brand name |
| 15. Poultry feed, cattle feed, and their ingredients except soya bean meal of PCT heading 2304.0000 and oilcake of cottonseed falling under PCT heading 2306.1000 | 2301.2090, 2305.0000, 2306.2000, 2306.3000, 2306.4100, 2306.5000, 2309.9010, 2309.9020, 2309.9090, 2936.2100, 2936.2200, 2936.2300, 2936.2400, 2936.2500, 2936.2600, 2936.2700, 2936.2800, and 2306.4900 (Rape Seed Meal), 2308.9000 (Guar Meal), 2303.1000 (Corn Gluton Feed/Meal), 2303.1000 (Residues of starch manufacture and similar residues), 3507.9000 (Enzymes other), 2302.1000 (Maize Bran), 2302.2000 (Rice Bran), 2302.3000 (Wheat Bran), 2302.4000 (Other Cereals), 2302.5000 (Bran of Leguminous Plants), 2306.7000 (Oil- cake and other solid residues of Maize (corn) germ), 2306.4900 (Sesame Cake), 2306.9000 (Sesame Meal/other Meal), 2842.1000 (Double or complex silicates, including aluminosilicates whether or not Chemically defined), 2301.2010 (Fish Meal), 0505.9000 (Poultry by product Meal), and the following items only of Feed Grade: 2827.6000 (Potassium Iodide), 2833.2990 (Manganese Sulphate), 2833.2600 (Zinc Sulphate), 2817.4000 (Zinc Oxide), 2833.2500 (Copper Sulphate), 2833.2910 (Ferrous Sulphate), 2915.5000 (Propionic acid, its salts and esters), 2930.4000 | 5% | |

| | | | |
|--|--|-----|--|
| | (DL Methionine), 2930.4000 (Methionine Hydroxy Analogue (liquid)), 2922.4100 (Lysine Monohydro Chloride /sulphate), 2923.2000 (Lecithins), 2923.9000 (Betafin), 2922.4290 (Arganine), 2934.9910 (Furazolidone), 2922.5000 (Threonine), 2835.2600 (Mono Calcium Phosphate), 2835.2500 (Di Calcium Phosphate), and 2835.2600 (Mono Di Calcium Phosphate) | | |
| 16. Incinerators of disposal of waste management, motorized sweepers and snow ploughs | 8417.8000, 8430.2000 and 8479.8990 | 5% | |
| 17. Re-importation of foreign origin goods which were temporarily exported out of Pakistan | 99.18 | 5% | Subject to similar conditions as are envisaged for the purposes of customs duty under the Customs Act, 1969, and taxable value shall be the value determined under PCT heading 99.18 of the said Act increased by customs duty payable |
| 18. Reclaimed lead | Respective Headings | 5% | If supplied to recognized manufacturers of lead and lead batteries |
| 19. Waste paper | 47.07 | 5% | |
| 20. Plant, machinery, equipment and specific items used in production of biodiesel | Respective headings | 5% | The Alternative Energy Development Board (AEDB), Islamabad shall certify in the prescribed manner and format as per Annex-B, as given in the Sixth Schedule, that the imported goods are bonafide project requirement. The goods shall not be sold or otherwise disposed of within a period of five years of their import except with the prior approval of the FBR and payment of customs duties and taxes leviable at the time of import |
| 21. Rapeseed, sunflower seed and canola seed | 1205.0000, 1206.0000 | 16% | 16% On import by Solvent extraction industries |
| 22. Soya bean seed | 1201.1000 | 6% | |
| 23. Secondhand and worn clothing or footwear | 6309.0000 | 5% | |
| 25. Agricultural tractors | 8701.9020 | 10% | |
| 26. Tillage and seed bed preparation | | 7% | |

| | | | |
|---|------------------------|----|--|
| equipment: | | | |
| (i) Rotavator | 8432.8010 | | |
| (ii) Cultivator | 8432.2910 | | |
| (iii) Ridger | 8432.8090 | | |
| (iv) Sub soiler | 8432.3090 | | |
| (v) Rotary slasher | 8432.8090 | | |
| (vi) Chisel plow | 8432.1010 | | |
| (vii) Ditcher | 8432.1090 | | |
| (viii) Border disc | 8432.2990 | | |
| (ix) Disc harrow | 8432.2100 | | |
| (x) Bar harrow | 8432.2990 | | |
| (xi) Mould board plow | 8432.1090 | | |
| (xii) Tractor rear or front blade | 8430.6900 | | |
| (xiii) Land leveler or land planer | 8430.6900 | | |
| (xiv) Rotary tiller | 8432.8090 | | |
| (xv) Disc plow | 8432.1090 | | |
| (xvi) Soil-scrapper | 8432.8090 | | |
| (xvii) K.R.Karundi | 8432.8090 | | |
| (xviii) Tractor mounted trancher | 8701.9020 | | |
| (xix) Land leveler | 8430.6900 | | |
| 27. Seeding or planting equipment: | | 7% | |
| (i) Seed- cumfertilizer drill (wheat, rice barley, etc.) | 8432.3010 | | |
| (ii) Cotton or maize planter with fertilizer attachment | 8432.3090 | | |
| (iii) Potato planter | 8432.3090 | | |
| (iv) Fertilizer or manure spreader or broadcaster | 8432.4000 | | |
| (v) Rice transplanter | 8432.3090 | | |
| (vi) Canola or sunflower drill | 8432.3010 | | |
| (vii) Sugarcane planter | 8432.3090 | | |
| 28. Irrigation, drainage and agro- chemical application equipment: | 8421.2100, | 7% | |
| (i) Tubewells filters or strainers | 8421.9990 8424.2010 | | |
| (ii) Knapsack sprayers | | | |
| (iii) Granular applicator | 8424.2010 | | |
| (iv) Boom or field sprayers | 8424.2010 | | |
| (v) Self propelled | 8424.2010 | | |

| | | | |
|--|--|----|--|
| sprayers (vi) Orchard sprayer | 8424.2010 | | |
| 29.(i) Harvesting, threshing and storage equipment: (ii) Wheat thresher (iii) Maize or groundnut thresher or sheller (iv) Groundnut digger (v) Potato digger or harvester (vi) Sunflower thresher (vii) Post hole digger (viii) Straw balers (ix) Fodder rake (x) Wheat or rice reaper (xi) Chaff or fodder cutter (xii) Cotton picker (xiii) Onion or garlic harvester (xiv) Sugar harvester (xv) Tractor trolley or forage wagon (xvi) Reaping machines (xvii) Combined harvesters (xviii) Pruner/shears | 8433.5200 8433.5200 8433.5900 8433.5300 8433.5200 8433.5900 8433.5900 8433.4000 8433.5900 8433.5900 8433.5900 8433.5900 8433.5200 8433.5200 8716.8090 8433.5900 8433.5100 8433.5900 | | |
| 30 Post-harvest handling and processing & miscellaneous machinery: | | 7% | |
| (i) Vegetables and fruits cleaning and sorting or grading equipment (ii) Fodder and feed cube maker equipment | 8437.1000 8433.4000 | | |

The Ninth Schedule

The Ninth Schedule to the Sales Tax Act, 1990 was inserted through Finance Act, 2014 wherein specific rates of sales tax on mobile phones were introduced to protect the revenue and strengthening the legal support for charging of sales tax. These rates are now proposed to be revised as under:

| Description / Specification of Goods | EXISTING RATES | | PROPOSED RATES | |
|---|---|--|---|--|
| | Sales tax on import (payable by importer at the time of import | Sales tax chargeable at the time of registration of a new IMEI number | Sales tax on import (payable by importer at the time of import | Sales tax chargeable at the time of registration of a new IMEI number |
| A. Low Priced Cellular Mobile Phones or Satellite Phones: | Rs 150 | Rs 150 | Rs 300 | Rs 300 |
| i. All cameras: 2.0 mega- pixels or less | | | | |
| ii. Screen size: 2.6 inches or less | | | | |
| iii. Key pad | | | | |
| B. Medium Priced Cellular Mobile Phones or Satellite Phones: | Rs 250 | Rs 250 | Rs 500 | Rs 500 |
| i. One or two cameras: between 2.1 to 10 mega- pixels | | | | |
| ii. Screen size: between 2.6 inches and 5 inches | | | | |
| iii. Micro-processor: less than 2 GHZ | | | | |
| C. Smart Cellular Mobile Phones or Satellite Phones: | Rs 500 | Rs 250 | Rs 1,000 | Rs 1,000 |
| i. One or two cameras: 10 mega-pixels and above | | | | |
| ii. Touch Screen: size 5 inches and above | | | | |
| iii. 4GB or higher Basic Memory | | | | |
| iv. Operating system of the type IOS, Android V2.3, Android Gingerbread or higher, Windows 8 or Blackberry RIM | | | | |
| v. Micro-processor: 2GHZ or higher, dual core or quad core | | | | |

OTHER LAWS - FEDERAL EXCISE ACT, 2005 & CUSTOMS ACT, 1969



Amendments proposed in Federal Excise Act, 2005 (the Act) through Finance Bill, 2015

The First Schedule

The Finance Bill, 2015 seeks to increase the rate of Federal Excise Duty (FED) in the following manner:

| Item Description | Existing (% of retail price) | Proposed |
|--|----------------------------------|----------------------------------|
| Aerated waters | 9% | 12% |
| Aerated waters containing added sugar or other sweetening matter or flavored | 9% | 12% |
| Aerated waters if manufactured wholly from juices or pulp of vegetables, food grains or fruits and which do not contain any other ingredients, indigenous or imported, other than sugar, coloring materials, preservatives or additives in quantities prescribed under the West Pakistan Pure Food Rules, 1965 | 9% | 12% |
| Locally produced cigarettes if their on-pack printed retail price exceeds Rs 2,706 (proposed: 3,350) per thousand Cigarettes | Rs 2,632 per thousand Cigarettes | Rs 3,030 per thousand Cigarettes |
| Locally produced cigarettes if their on-pack printed retail price does not exceeds Rs 2,706 (proposed: 3,350) per thousand Cigarettes | Rs 1,085 per thousand Cigarettes | Rs 1,320 per thousand Cigarettes |
| Filter rod for Cigarettes | NIL | Rupee 0.75 per filter rod |

The duty of Rs 500 imposed on services provided or rendered in respect of travel by air of passengers within the territorial jurisdiction of Pakistan via Socio-economic routes is being proposed to be abolished.

The Third Schedule

Exemption from levy of excise duty is being proposed to be granted on following services by adding them in Table – II to the Third Schedule:

- White Cement;
- Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars of cylinder capacity exceeding 850cc;
- Services provided or rendered in respect of travel by air of passengers on “socio-economic routes”, which means the shortest part of journeys starting from or ending at an airport located in Makran coastal region, FATA, Azad Jammu and Kashmir, Gilgit-Baltistan or Chitral;

- Services provided or rendered in respect of travel by air of passengers on International journeys from Pakistan to:
 - (a) Hajj passengers;
 - (b) Diplomats; and
 - (c) Supernumerary crew;
- Advertisements in newspapers and periodicals; and
- Services provided or rendered by banking companies and nonbanking financial companies in respect of Hajj and Umrah, cheque book, insurance, Musharika and Modaraba financing and utility bill collection.

FEDERAL EXCISE DUTY

THE FIRST SCHEDULE

Amendments are being proposed to be made in the First Schedule to the Federal Excise Act, 2005 to change the rate of FED on following items:

| Description | Existing | Proposed |
|---|-----------------------------------|-----------------------------------|
| Aerated waters, Aerated water, containing added sugar or other sweetening matter or flavored and Aerated waters if manufactured wholly from juices or pulp of vegetables, food grains or fruits and which do not contain any other ingredient, indigenous or imported, other than sugar, coloring materials, preservatives or additives in quantities prescribed under the West Pakistan Pure Food Rules, 1965. | 9% of retail price | 12% of retail price |
| Locally produced cigarettes if their on-pack printed retail price exceeds Rs. 2,706 (Proposed: Rs. 3,350) per thousand cigarettes. | Rs. 2,630 per thousand cigarettes | Rs. 3,030 per thousand cigarettes |
| Locally produced cigarettes if their on-pack printed retail price does not exceeds Rs. 2,706 (Proposed: Rs. 3,350) per thousand cigarettes. | Rs. 1,085 per thousand cigarettes | Rs. 1,320 per thousand cigarettes |
| Filter rods for cigarettes | NIL | Re. 0.75 per filter rod |
| Facilities for travel related to services provided or rendered in respect of travel by air of passengers within the territorial jurisdiction of Pakistan via Socio-economic routes. | Rs. 5,000 | Omitted |

THE THIRD SCHEDULE

Conditional Exemption:

The Finance Act, 2015 proposes to exempt following goods and services from Federal Excise Duty:

- White Cement
- Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars of cylinder capacity exceeding 850cc.
- Services provided or rendered in respect of travel by air of passengers on “socio-economic routes”, which means the shortest part of journeys starting from or ending at an airport

located in Makran coastal region, FATA, Azad Jammu and Kashmir, Gilgit-Baltistan or Chitral

- Services provided or rendered in respect of travel by air of passengers on International journeys from Pakistan to:
 - (a) Hajj passengers;
 - (b) Diplomats; and
 - (c) Supernumerary crew
- Advertisements in newspapers and periodicals
- Services provided or rendered by banking companies and nonbanking financial companies in respect of Hajj and Umrah, cheque book, insurance, Musharika and Modaraba financing and utility bill collection.

CUSTOMS ACT, 1969 (IV OF 1969) PROPOSED AMENDMENTS

Section 32 False statement, error, etc.

The bill seeks to amend subsection (3) of the section by raising lower limit from Rs. 100 to Rs. 20,000 for Customs authorities to initiate action against any person in case of contravention.

Section 79 Declaration and assessment for home consumption or warehousing

The bill seeks to amend this section by adding goods under transshipment to be fully declared at the port of departure. Further assessment, payment of duties and other charges in case of transshipment shall be at the port of destination.

Section 121, Transshipment of goods without payment of duty

The bill seeks to add a proviso to sub section (1) of this section to provide a legal cover to authorization of transshipment permit by Customs computerized system.

Section 123 Entry, etc., of transshipment goods

The bill Seeks to add Explanation after sub-section (2) of section 123 to give legal cover to the transshipment of goods to upcountry stations from Off-Dock terminals.

Section 156 Punishment for offences

The bill Seeks to add sub-serial number (ii) to serial number 1 of the Table under section 156(1) to implement the requirement of placement of invoice and packing list inside the import container.

Further, amendment is proposed against serial number 64 of section 156(1) to cover offences of untrue declaration, illegal removal and concealment in case of transit goods.

AMENDMENTS IN THE FIRST SCHEDULE

The First Schedule is being amended by lowering the general tariff rate of 25% to 20% and substitution of 1% duty slab with 2% customs duty.

| S. No | Tariff Type / Product Name | Existing | Proposed |
|-------|---|----------|----------|
| 1. | Livestock animals including cows, bulls, oxen male goat and their carcasses and meat | 1% | 2% |
| 2. | Pure breeding animals, their carcasses, livers, offal (fresh or chilled) | 25% | 20% |
| 3. | Dairy products including yogurt, whey powder, butter, cheese, curd, natural honey | 25% | 20% |
| 4. | Vegetables including tomatoes, onions, garlic, cauliflower, peas, kidney beans, green beans, pigeon peas | 1% | 2% |
| 5. | Fruits and dry fruits including figs, pineapples, avocados, mangoes, guavas, oranges, grape fruit, lemon, water melons, apples, pears, apricots, peaches, strawberries, plum, Raspberries, kiwifruit, durians, persimmons, pomegranates, pine nut, lychees, and peel of fruits whether dried or fresh | 25% | 20% |
| 6. | Spices and seeds, ground/crushed, of various vegetables, roots, and fruits. | 1% | 2% |
| 7. | Cannabis resins and balsams, opium, guwar gum, tendu leaves, lard, pig fat, lard stearin, lard oil, sausages and similar products of various animals | 25% | 20% |
| 8. | Beet Sugar, gur, cane sugar, crystalline sugar, chewing gum, white chocolate, cocoa powder | 25% | 20% |
| 9. | Malt extracts, vermicelli, macaroni, stuffed pasta, corn flakes, bulgur wheat, ginger bread, waffles, pickles of various vegetables, asparagus, olives, sweet corn, citrus fruit juices, soups and broths, ice cream, syrup and squashes, mineral waters, vinegar and aerated waters | 25% | 20% |

| S. No | Tariff Type / Product Name | Existing | Proposed |
|-------|---|----------|----------|
| 10. | Dog or cat food, cigars, water pipe tobacco | 25% | 20% |
| 11. | Cement, clinkers, kaolin and other kaolin clays, manganese, chromium ores | 1% | 2% |
| 12. | Bituminous and other coals, furnace oil | 1% | 5% |
| 13. | Petroleum oils, oils obtained from bituminous minerals and various petroleum & natural gas products and variations | 1% | 2% |
| 14. | Sodium triphosphate, Ethylene, Ethylene glycol, Methyl tertiary butyl ether, Aluminum hydroxide | 1% | 2% |
| 15. | Formic acid, Acetic acid, Ethyl acetate, Butyl acetate, Esters of meth acrylic acid | 25% | 20% |
| 16. | Aspirin, Acrylamide methyl propane sulphonc acid, Paracetamol, , Furazolidone, Sulphamethoxazole, Sulpha-thiazolidiazine, Sulphanilamide, Ephedrine and its salts, Pseudoephedrine and its salts, Penicillin, Ampicillin, Amoxicillin and Cloxacillin capsules/ syrup | 25% | 20% |
| 17. | Urea, ammonium sulphate, ammonium nitrate, calcium nitrate, superphosphates, Acrylonitrile and various chemical or mineral fertilizers | 1% | 2% |
| 18. | Lip, eye makeup, nail polish, face powder and other make up items and materials including shampoos, tooth paste, contact lens solution, creams and dyes for hair and soap | 25% | 20% |
| 19. | Agarbatti, wax, candles, fireworks and matches | 25% | 20% |
| 20. | Plastics, polymers, insulations, baths, sink, wash basins, lavatory seats, tableware, kitchen ware, reservoirs, tanks, doors, windows, shutters, blinds, | 25% | 20% |
| 21. | Various types of tires and rubber items | 25% | 20% |
| 22. | Hides of various animals, leather of different kinds, shorn wool, fur, silk yarn | 1% | 2% |
| 23. | Item made of hides and leather items and goods | 25% | 20% |
| 24. | Coniferous, wood pulp of various trees and plants | 1% | 2% |
| 25. | Corrugated paper, Kraft paper, bleached paper and other several forms of papers including stationary and packing related items, books, note books, dairies, wallpapers, calendars, post cards | 25% | 20% |
| 26. | Holy Quran, Dictionaries, encyclopedias, digital Quran | 1% | 2% |
| 27. | fabric and its several variations including carpets, rugs, towels | 25% | 20% |
| 28. | Footwear including, ski boots, cross country, snow board boots, walking sticks, sports footwear | 25% | 20% |
| 29. | Tiles, Cubes, Setts, Curbstones, flagstones, marble, granite, blocks, bricks, corrugated sheets, items of mica, ceramic pipes, ceramic bath and crockery items, | 25% | 20% |
| 30. | Glass, wired glass, framed glass, lead crystal and its other forms used in kitchen ware and buildings | 25% | 20% |
| 31. | Pig iron, stainless steel, re-roll able steel, waste and scrap thereof | 1% | 2% |
| 32. | Knives, blades, handles, Razors, scissors, crockery items, safes, cabinets, paper trays, locks | 25% | 20% |
| 33. | Refrigerators, freezing units, heat pumps, water dispensers, gas heaters | 25% | 20% |
| 34. | Air bags, filter bags | 25% | 20% |
| 35. | Laptops, computers, Printers of different types, its spares and consumables, keyboard, mouse, other parts of computers | 1% | 2% |
| 36. | Hair dryers, electric smoothing irons, ovens, coffee makers, toasters, insect killers, | 25% | 20% |
| 37. | Pocket-size radio cassette-players, CRT monitors, LCDs, TVs, LEDs | 25% | 20% |
| 38. | Energy saving lamps, tube, battery plates | 1% | 2% |
| 39. | Cables used for telephony, networking, cable television and electricity | 25% | 20% |
| 40. | Following components of Motorcycles (including mopeds) and cycles | 0% | 35% |

| S. No | Tariff Type / Product Name | Existing | Proposed |
|-------|--|----------|----------|
| | fitted with an auxiliary motor, with or without side- cars; side- cars. (A) For front shocks: (1) Pipe seat (2) Seat bottom (3) Pipe /inner tube (4) Case bottom/outer tube (B) For rear shocks: (1) Case damper/ pump/ rebound (2) Stopper valve (C) For Engine: (1) Cam for brakes (2) Lever cam brake front & rear | | |
| 41. | Frames and Forks, and parts thereof, wheel rims and spokes, and other parts of Motorcycles (including mopeds) and cycles fitted with an auxiliary motor, with or without side- cars; side- cars. | 25% | 20% |
| 42. | Dredgers, Vessels and other floating structures for breaking up. | 1% | 2% |
| 43. | Oxygenator with accessories in Therapy Appliances | 1% | 2% |
| 44. | Gas or smoke analysis apparatus, Chromatographs and electrophoresis instruments- Spectrometers, spectrophotometers and spectrographs using optical radiations (UV, visible, IR), Other instruments and apparatus using optical radiations (UV, visible, IR), Other instruments and apparatus, Microtomes; parts and accessories | 1% | 2% |
| 45. | Gas meters, Electricity meters and Other of electricity meters | 25% | 20% |
| 46. | Revolvers, pistols, single barrel, semi-automatic or otherwise, Muzzle, loading firearms, Pump-action, Semi-automatic, Other, Shotguns, multiple barrel, including combination guns and Others, other than Arms used in Sports | 25% | 20% |
| 47. | Single-shot, Semi-automatic and other firearms and similar devices which operate by the firing of an explosive charge | 25% | 20% |
| 48. | Firing mechanisms, Frames and receivers; barrels; Pistons; locking lugs and gas buffers; Magazines and parts thereof; Silencers(sound moderators) and parts thereof; Butts; grips and plates, Slide (for pistols) and cylinders (for revolvers), Other, Shotgun barrels, Firing mechanisms, Frames and receivers, Rifle barrels, Pistons, looking lugs and gas buffers, Magazines and parts thereof, Silencers(sound moderators) and parts thereof, Flash eliminators and parts thereof, Breeches, bolts (gunlocks) and bolt carriers and Other of Other arms (for example, spring, air or gas guns and pistols, truncheons) and parts thereof | 25% | 20% |
| 49. | Cartridges, Other, Cartridges for riveting or similar tools or for captive-bolt human killers and parts thereof and Other of Bombs, grenades, torpedoes, mines, missiles and similar munitions of war and parts thereof; cartridges and other ammunition and projectiles and parts thereof, including shot and cartridge wads. | 25% | 20% |
| 50. | Seats (other than Medical, surgical, dental or veterinary furniture) | 25% | 20% |
| 51. | Furniture Items(Including wooden furniture, Hospital furniture, office furniture, Metal furniture used in offices, Mattress supports and parts thereof) | 25% | 20% |
| 52. | Lamps and lighting fittings including chandeliers, illuminated signs, illuminated name- plates and the likes, having a permanently fixed light source, and parts thereof | 25% | 20% |
| 53. | Prefabricated Buildings | 25% | 20% |
| 54. | Tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys. | 25% | 20% |
| 55. | Video game consoles and machines, articles for funfair, table or parlor games, including pintables, billiards, special tables for Casino games, playing cards and dice cups. | 25% | 20% |
| 56. | Articles for Christmas festivities and Other | 25% | 20% |
| 57. | Rackets for Tennis, Squash and Badminton sports Including cricket balls, hockey balls, polo balls, squash balls, table tennis balls, punching balls, badminton shuttle cocks. | 25% | 20% |
| 58. | Brooms, brushes, consisting of twigs or other vegetable materials bound together, with or without handles, tooth brushes including | 25% | 20% |

| S. No | Tariff Type / Product Name | Existing | Proposed |
|-------|---|----------|----------|
| | dental plate brushes, artists' brushes, writing brushes and similar brushes for application of cosmetics, paint, distemper, varnish or similar brushes, other brushes constituting parts of machines, appliances or vehicles. | | |
| 59. | Hand sieves and hand riddles. | 25% | 20% |
| 60. | Travel sets for personal toilet, sewing or shoe or clothes cleaning. | 25% | 20% |
| 61. | Buttons, press- fasteners, snap- fasteners and press- studs, Button moulds and other parts of these articles; button blanks. | 25% | 20% |
| 62. | Ball point pens; felt tipped and other porous- tipped pens and Markers; of hard rubber or plastics and others. | 25% | 20% |
| 63. | Scent sprays and similar toilet sprays, and mounts and heads therefor, powder-puffs and pads for application of cosmetics or toilet preparations | 25% | 20% |
| 64. | Vacuum flasks and other vacuum vessels, complete with cases; parts thereof other than glass inners | 25% | 20% |
| 65. | Sanitary towels (pads) and tampons, napkins and napkin liners for babies and similar articles, of any material | 25% | 20% |

AMENDMENTS IN SECOND SCHEDULE

The bill proposes to substitute the Fifth Schedule in the manner specified in the Second Schedule to the Customs Act, 1969. The proposed changes are as follows:

Part-I

Import of Plant, Machinery, Equipment and Apparatus, Including Capital Goods for various industries/sectors

- For the purpose of this part condition (i) has been amended to exclude the following words;

“and for such machinery and equipment imported as plant for setting up of a new industrial units provided the imports are made against valid contract (s) or letter (s) of credit and the total C&F value of such imports for the project is US \$ 50 million or above.”

- Custom duty of 2% is being proposed to be levied on the following, if used for agriculture purpose:

Rotavator, cultivator, ridger, sub soiler, rotary slasher, chisel plough, ditcher, border disc, disc harrow, bar harrow, mould board plow, tractor rear or front blade, land leveler or land planer, rotary tiller, disc plow, soil scrapper, K.R. karundi, tractor mounted trencher, land leveler, laser land leveler, seed-cum-fertilizer drill (wheat, rice barley, etc), cotton or maize planter with fertilizer attachment, potato planter, fertilizer or manure spreader or broadcaster, rice trans planter, canola or sunflower drill, sugar cane planter, tubewells filters, knapsack sprayers, granular applicator, boom or field sprayers, self-propelled sprayers, orchard sprayers, wheat thresher, maize or groundnut thresher or sheller, groundnut digger, potato digger or harvester, sunflower thrasher, post hole digger, straw balers, fodder rake, wheat or rice reaper, chaff or fodder cutter, cotton picker, onion or garlic harvester, sugar harvester, reaping machines, combined harvesters (new), pruner/sheers, vegetable, fruits cleaning, sorting or grading equipment, fodder, feed cube maker equipment, milking machines and pre-fabricated co2 controlled stores.

- It is proposed to withdraw custom duty on items imported by Call Centers, Business Processing Outsourcing facilities duly approved by Telecommunication Authority, complete plants for relocated industries and Proprietary Formwork System for building/structures of a height of 100 ft and above and its various items/ components.
- Plant, machinery and equipment imported for setting up Industries in FATA is amended to include the commencing period on the 1st July, 2014 and ending on the 30th June, 2019.

- Dumpers designed for off highway use, super swinger truck conveyors, mobile canal lining equipment, transit mixers, concrete placing trucks and crane lorries imported by the construction companies is levied custom duty @ 20% if the companies importing above said specialized vehicles registered with Security and Exchange Commission of Pakistan (SECP) and Pakistan Engineering Council;

• **Change in Customs Rate:**

| S. No. | Description | Customs Duty (%) | |
|--------|---|------------------|-----|
| | | Old | New |
| 1. | Agricultural Machinery, Harvesting and Threshing Machinery, Fodder rake, Pruner / shears | 5 | 2 |
| 2. | Machinery, equipment and other capital goods meant for initial installation, balancing, modernization, replacement or expansion of oil refining (mineral oil, hydro-cracking and other value added petroleum products), petrochemical and petrochemical downstream products including fibers and heavy chemical industry, cryogenic facility for ethylene storage and handling. | 5 | 10 |
| 3. | Machinery and equipment imported by an industrial concern. | 10 | 15 |

Part-III

Import of Raw Materials, Inputs for Poultry and Textile Sector and Other Goods

- Ministry of Industries, Production and Special Initiatives, approval is required to import PTA (previous it was Vitamin H2 - feed grade);
- M/s Lotte Chemical Pakistan Ltd, approval is required to import furazolidone – feed grade (previous it was goods fish feed);
- Following items have been excluded from the levy of custom duty:

Soyabean meal, high speed diesel, concentrated coccidiostats, poultry vaccines, anticoccidial namely amprolium, diaverdine, decoquinate, furaltadone, menadione, sodaluminium, pyrimethamine, toltrazuril, sulphadimerzine (mixture form with any other anticoccidial), sulphaquinoxaline (mixture form with any other anticoccidial), pet resin film grade, pet resin bottle grade, containing 85% or more by weight of wool or of fine animal hair, other yarn of wool or fine animal hair, sewing thread of synthetic filaments, whether or not put up for retail sale, high tenacity yarn of nylon or other polyamides, of aramids, other, textured yarn of nylon or other polyamides, measuring per single yarn not more than 50 tex, textured yarn of polypropylene, other of textured yarn, other yarn, single, untwisted or with a twist not exceeding 50 turns per meter, yarn of polypropylene, other yarn, single, with a twist exceeding 50 turns per meter, other yarn, multiple (folded) or cabled, other yarn, multiple (folded) or cabled, other yarn, high tenacity yarn of viscose rayon, of cellulose acetate, of cellulose acetate, elastomeric, of polypropylene, strip and like, artificial monofilament of 67 decitex or more and of which no cross-sectional dimension exceeds 1mm; strip and the like (for example, artificial straw) of artificial textile materials of an apparent width not exceeding 5 mm, synthetic filament yarn, artificial filament yarn, single yarn, multiple (folded) or cabled yarn, single yarn, multiple (folded) or cabled yarn, mixed mainly or solely with wool or fine animal hair, mixed mainly or solely with cotton, other yarn of acrylic or modacrylic staple fibers, mixed mainly or solely with wool or fine animal hair, mixed mainly or solely with cotton, other yarn, single yarn, multiple (folded) or cabled yarn, other yarn, mixed mainly or solely with wool or fine animal hair, other yarn, mixed mainly or solely with cotton and of artificial staple fibers.

- Rates for custom duty of following items have been changed;

| S. No | Description | PCT Code | Customs duty (%) | |
|-------|---|-----------------------------|------------------|-------|
| | | | Old | New |
| 1 | Fresh and Dry Fruits from Afghanistan | 08.00 | 5% | 10% |
| 2 | Growth promoter premix | 2309.902 | 5% | 10% |
| 3 | Vitamin premix | 2309.902 | 5% | 10% |
| 4 | Choline Chloride | 2309.902 | 5% | 10% |
| 5 | Mineral premix | 2309.902 | 5% | 10% |
| 6 | Cattle Feed Premix | 2309.902 | 5% | 10% |
| 7 | Vitamin B12 (feed grade) | 2309.909 | 5% | 10% |
| 8 | Vitamin H2 (feed grade) | 2309.909 | 5% | 10% |
| 9 | Fish Feed | 2309.909 | 5% | 10% |
| 10 | Poultry feed preparation (coccidiostats) | 2309.909 | 5% | 10% |
| 11 | Calf Milk Replacer(CMR)(color dyed) | 2309.909 | 5% | 10% |
| 12 | Furazolidone (feed grade) | 2934.991 | 5% | 10% |
| 13 | Pet Resin Yarn Grade | 3907.601 | 4% | 7.50% |
| 14 | Defence stores, excluding those of the National Logistic Cell | 93.00 & respective headings | 10% | 15% |

Part-V
Imports of Aviation Related Goods i.e., Aircrafts and Parts etc. by
Airline Companies / Industry

Under National Aviation Policy - 2015, the Federal Government proposes to exempt aircrafts, spare parts and maintenance kits of training aircrafts, machinery equipment & tools, machinery equipment & operational tools including furniture & fixtures, and aviation simulators for MRO workshops, new/greenfield airports(on one time basis) and airline companies(on one time basis) authorized by Aviation Department respectively.

The exemption is subject to the condition that the CEO or person authorized by the CEO of importing company (operating in Pakistan or intends to operate in Pakistan) shall certify that the imported goods/items (duly approved by Aviation Division of Government of Pakistan) are company's bona fide requirement.