



Compliance for Sustainable Growth

Tax Commentary 2014



A Member of
AGN International Ltd

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GOHAR

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Preamble



Alhamdulillah!

RIAZ AHMAD SAQIB GOHAR & CO. RASG is pleased to present the 'highlights, comparison and comments' on this year's budget to its client, 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, 2014.

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.

The policy makers have very intelligently introduced various amendments mostly to increase revenue to the government kitty by giving the message to the high revenue sector to contribute even more and to non compliant persons to pay the higher price for being non filers. Despite the fact that no change in the tax rates are being proposed except for corporate sector where tax rate has been reduced by 1%, however, at the same time bonus shares are being subjected to tax and Alternatives Corporate Tax @ 17% is being introduced.

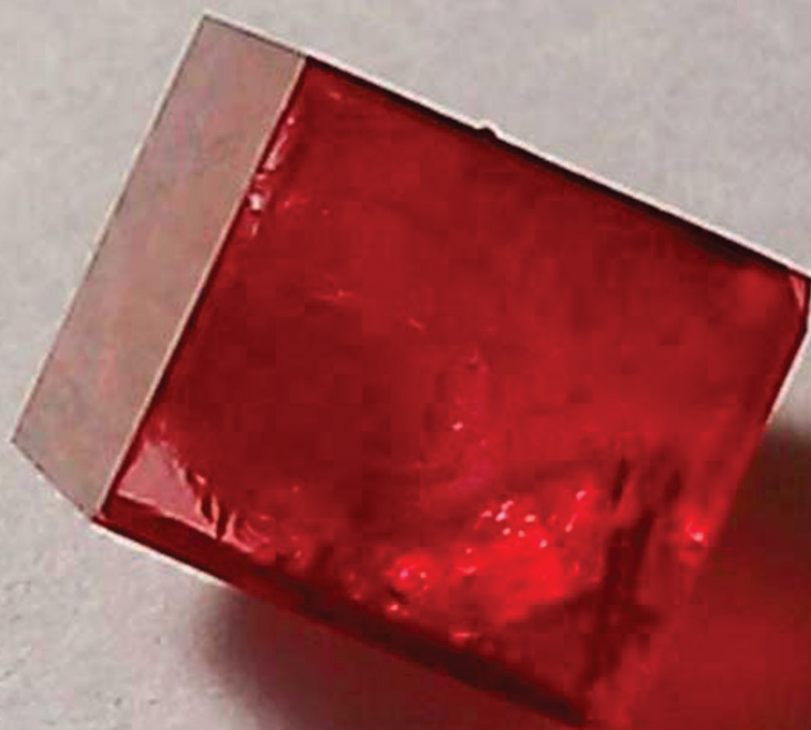
I am proud and thankful to my all team members who despite all odds have contributed 100% to complete this task in time.

Regards

Gohar Manzoor
Managing partner
June 04, 2014



Highlights *Highlights*



Budget Highlights 2014

Direct Taxes

32.4



Indirect Taxes

17.8



External Receipts

21.6



Debt Servicing

14.3



Defence Affairs & Services

11.2



Development Expenditure

2.35



BUDGET HIGHLIGHTS

Income Tax

- No changes have been proposed in tax rates for Business Individual, AOPs and Salaried Individuals.
- 50% reduction available to senior citizen also proposed for disable persons
- One percent reduction in corporate tax rate proposed.
- Alternate corporate tax @ 17% of accounting profit is proposed for corporate taxpayers with the facility to carry forward up to ten years for adjustment against Corporate tax.
- The bill proposes to provide option to file normal tax returns to persons filing Final Tax Statement for certain class of taxpayers:

Section	Particulars	Conditions to be fulfilled
148	Commercial Importers	a) Submission of accounts & prescribed documents. b) Minimum tax liability should be equal to or more than 5.5% & 6% of imports for company & others respectively.
153(3)	Supplier of Goods	a) Submission of accounts & prescribed documents. b) Minimum tax liability should be equal to or more than 3.5% & 4% of gross amount of sales for company & others respectively.
153(3)	Contractors	a) Submission of accounts & prescribed documents. b) Minimum tax liability should be equal to or more than 6% & 6.5% of contract receipts for company & others respectively.
153(2)	Services Providers to Exporters	a) Submission of accounts & prescribed documents. b) Minimum tax liability should be equal to or more than 0.5% of gross amount of services.
156A	Petroleum Pump Operator	a) Submission of accounts & prescribed documents. b) Minimum tax liability should be equal to or more than 10% of commission or discount received.
233	Brokers/Commission Agents	a) Submission of accounts & prescribed documents. b) Minimum tax liability should be equal to or more than 10% of the commission.

- 100% tax credit proposed for Non-Profit Organizations.
- Capital Gain tax reduction proposed to 12.5% while changing holding period to twelve months
- Capital gain exemption period proposed to be enhanced to twenty four months
- Separate withholding tax rates have been proposed for filers and non-filers resultantly creating extra work load for withholding agents to confirm the status.
- NTN is proposed to be a compulsory condition to obtain industrial and commercial utility connection.
- Advance tax on functions & gatherings is to be reduced to 5% from the existing rate of 10%.
- Reduction of 1% has been proposed for telephone and mobile subscriber.
- Enhancement in advance tax rates against payment for Supplies, Services, Contracts, Advertising Commission and Brokerage have been proposed.
- The scope of income has been widened to include Bonus Shares and subsequent 5% withholding also proposed
- Advance tax on purchase or transfer of immovable property valuing more than Rupees Three Million proposed
- Rate of initial depreciation on Buildings reduced to 10%.

Sales Tax

- Federal Board of Revenue empowered to specify zones or areas for determination of highest retail price of any brand or variety of goods.
- In accordance with the policy of reviewing SROs, various SROs are being transposed to Schedules by amending existing Schedules and introducing new Schedules to the Sales Tax Act, 1990.
- Sales tax on CNG stations enhanced to seventeen percent.
- Retailers will be subject to sales tax of 5 percent in case of monthly electricity bill upto Rs 20,000 and 7.5 percent in case of monthly electricity bill exceeding Rs 20,000.
- Further tax charged at the rate of 1 percent on supplies made to unregistered persons is being specifically excluded from the purview of output tax.

- Input tax adjustments restricted only to the extent of goods and services actually used in manufacturing or sales of the taxable activity.
- Federal Board of Revenue empowered to implement a computerized system for the purpose of automated scrutiny, analysis and cross-matching of returns and other available data.
- Specific rates of sales tax on mobile phones introduced.

Federal Excise Duty

- Structure of chargeability of FED on cigarettes has been replaced.
- Federal Excise Duty on cement sector to be charged at the rate of five (5) percent on retail price.
- FED on international travel has been enhanced to Rs 5,000 for 'economy and economy plus' and Rs 10,000 for 'club, business and first class'.
- FED on telecommunication services is being reduced to 18.5 percent.
- Telecommunication services subject to Provincial Sales Tax will not be chargeable to FED.
- FED at the rate of sixteen percent is being levied on chartered flights.

Other Laws

Custom Act, 1969

- Customs duty exemption for plant, machinery and equipment imported for fruit processing and preservation units set up in Gilgit-Baltistan, Balochistan and Malakand.
- In order to generate employment and encourage industrialization, plant, machinery and equipment imported for setting up industries in FATA exempted from whole of customs duty.
- Reduced rates of custom duties for specific sectors subject to conditions in newly inserted Fifth Schedule.
- Substitution of 0% duty slab with 1% custom duty tariff and maximum general tariff rate of 30% reduced to 25%.
- Revised upward to a uniform rate of 10% custom duty levied on used vehicles, networking equipment and all kinds of CDs/DVDs.

Income Support Levy Act

- Income Support Levy Act, 2013 repealed.

Pakistan Telecommunication (Re-Organization) Act, 1996 (XVII OF 1996)

- Establishment of universal service fund shall not include sale proceeds from auction of audio spectrum.

Controller General Of Accounts (Appointments, Functions And Powers) Ordinance, 2001 (XXIV OF 2001)

- Auditor General may with the prior approval of President of Pakistan conduct pre-audit checks on authorization of withdrawals and payments of Federal Government and Provincial Government against approved budgetary provision.

Gas Infrastructure Development Cess Act, 2011 (XXI OF 2011)

- Federal Government may levy any rate of cess on any category of gas consumers up to a maximum rate of Rs. 300/MMBTU provided in second schedule.
- Oil and Gas Development Company Limited (OGDCL) and any other company engaged in sale of gas to any gas consumers as notified in official gazette, shall also be included in the definition of “company”.

Economic ***Overview***

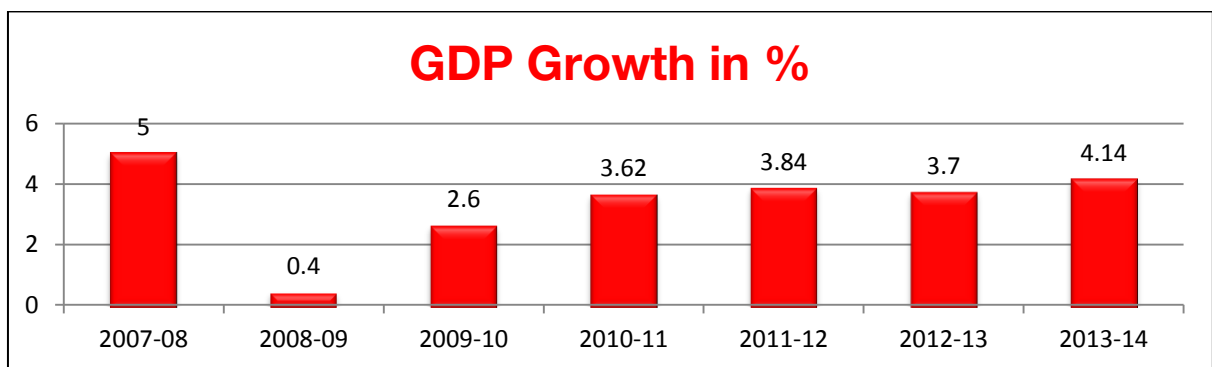


ECONOMIC OVERVIEW

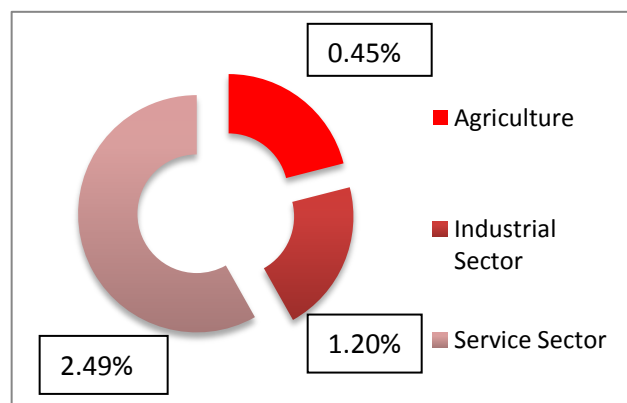
According to the Economic survey of Pakistan 2013-14 launched by Ministry of Finance Pakistan, on Monday, June 2, 2014 the economy has taken a turnaround on account of Government's serious economic agenda and efforts to implement it. Pakistan succeeded in attaining **4.14% GDP growth** in the outgoing fiscal year against the growth of **3.70%** recorded in the same period last year. This growth in 2013-14 is the highest level achievement since 2008-09. The growth momentum is broad based, as all sectors namely agriculture, industry and services have supported economic growth.

This growth indicates that steps initiated by Government like comprehensive power policy, security policy, initiatives of privatization, youth training and employment programs are improving business climate and creating more conducive environment for economic agents in the country and hence contributing towards growth.

HISTORICAL GDP GROWTH RATE TREND



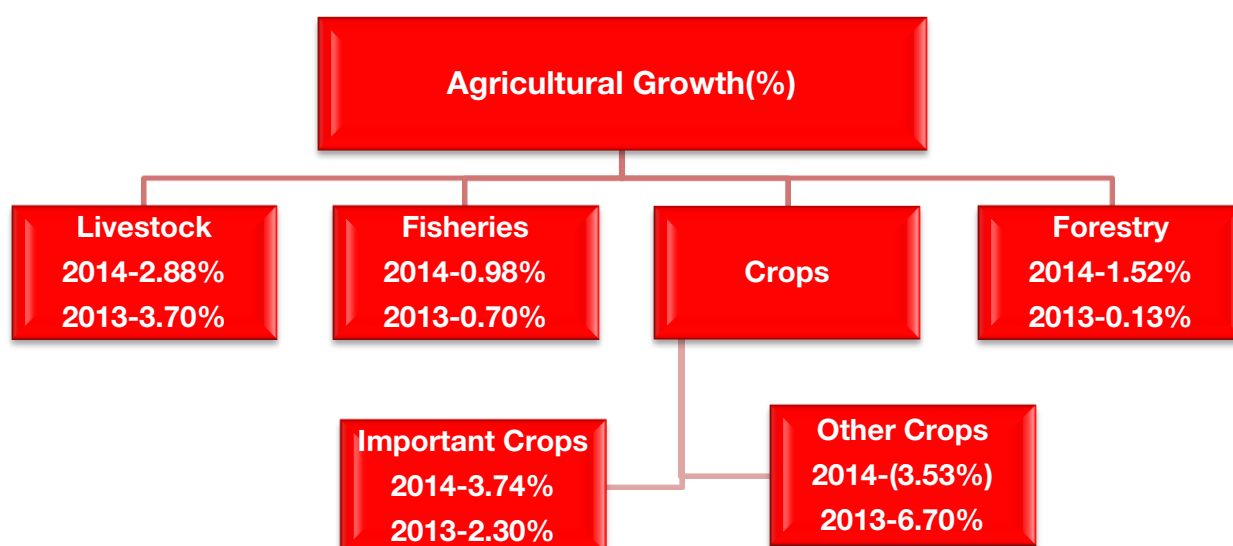
SECTOR WISE CONTRIBUTION TO THE GDP GROWTH



AGRICULTURE

Pakistan agriculture and food security concerns remain high on the policy agenda at national level. Due to concerted actions, the performance of agriculture has shown a growth rate of **2.1%** during 2013-14.

Pakistan's agriculture sector involves **43.7%** of labor force that produces their own food needs and ensures availability of food for the rest of nation and value-added activities.



MANUFACTURING AND MINING

Manufacturing accounts **13.5%** of Gross Domestic Product (GDP) and **14.1%** of total employed labor force.

Significant changes in Manufacturing sector(LSM)		
Groups	Growth rate in July – March (% change)	
	2012-2013	2013-2014
Textile	0.91	1.44
Petroleum Products	13.32	7.48
Food & Beverages	7.43	7.78
Pharmaceuticals	6.61	-0.49
Automobiles	-11.95	-0.01
Iron & Steel Products	13.24	3.38
Paper & Board	17.82	8.03
Engineering Products	-15.44	-21.40
Rubber Products	17.61	9.48
Wood	-18.98	-8.91
Leather Products	-1.74	12.96

Large Scale Manufacturing (LSM) at **10.9%** of GDP dominates the overall sector accounting **81%** of the sector's share. During the first nine month period of 2013-14, Large Scale Manufacturing posted a growth of **4.3%** as compared to growth of **3.5%** during the same period last year.

Small Scale Manufacturing accounts **1.7%** of total GDP and **12.3%** share in Manufacturing.

INFLATION

Core inflation on average basis during July-April, 2013-14, stood at **8.3%** against **9.9%** last year.

The inflation rate measured by the changes in CPI, averaged at **8.7%** during July-April, 2013-14 against **7.7%** in the comparable period last year.

The food inflation on average basis in July-April, 2013-14, is estimated at **9.3%** and non-food **8.2%**, as against **7.1%** and **8.2%** in the corresponding period last year.

The increase in food inflation during the current year has driven up the overall inflation upward. The government is finalizing the Food Security Policy, which will ensure production and availability of food items and minimize dependence on the import of essential food items.



Wholesale Price Index (WPI) during July-April, 2013-14, on annual average basis has recorded an increase of **8.3%** against **7.9%** last year.

Recorded an increase of during July-April, 2013-14 against last year. Composition of CPI Inflation (July-Apr)	% Change Inflation		Point Contribution	
	2012-13	2013-14	2012-13	2013-14
FOOD GROUP	7.1	9.3	34	40
Food, Beverages and Tobacco	6.6	9	29.8	36.1
NON-FOOD	8.2	8.2	66	60
Housing & Fuel	4.1	8.7	15.6	29
Health	14.2	6.6	6.4	1.7
Transport	10.5	4.7	9.7	3.9
Communication	2.2	3.3	0.9	1.2
Recreation & culture	18.3	9.2	4.8	2.1
Education	9.3	8.7	4.7	4
Non-Food Non Energy	9.9	8.3	68.5	50.9

TRADE AND PAYMENTS

EXTERNAL DEBT AND DOMESTIC DEBT

External debt posed at Rs. 4,711 billion by end March, 2014, representing a decrease of Rs.138 billion as compared to end June 2013. This decline in external debt during first nine months of current fiscal year is mainly attributed to net repayments and appreciation of Pak Rupee against US Dollar.

The primary source of increase in public debt during first nine months of current fiscal year was domestic debt that stood at Rs.10,823 billion representing an increase of *14 percent* over end June 2013.



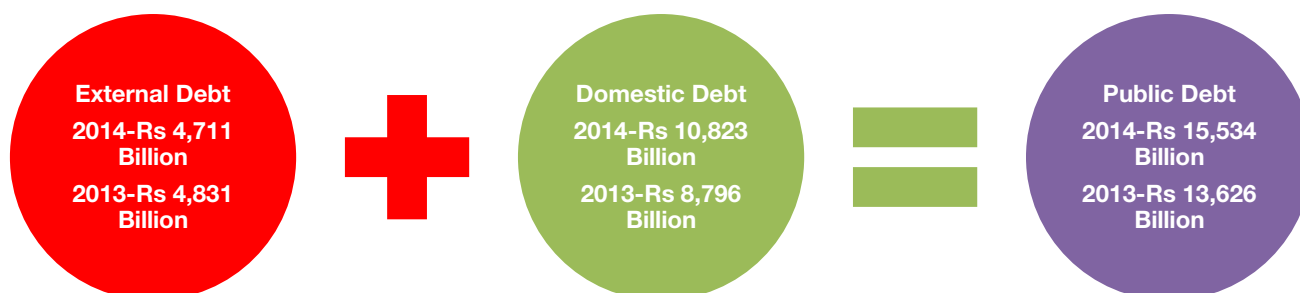
Exports during the first ten months (July-April) of the current fiscal year reached to US\$ 20,997 million rising from US\$ 20,143 million in the same period last year thereby witnessing a growth of **4.24 percent**. Imports during the first ten months (July-April), showed a growth of **1.2 percent** compared with the same period of last year and reached to \$37,105 million against \$36,665 million same period last year



Current account deficit gradually widened during current financial year (Jul-Apr) to \$ 2,162 million from \$1,574 million during last year due to higher deficit in the services account.

Worker's remittances showed a handsome growth of **11.5 percent** and reached to \$12,894.6 million during July-April, 2013-14, as against \$11,569.8 million in the comparable period of last year.

Foreign Direct Investment (FDI) increased by **133.3%** in July-April 2013-14 against increase of **29.7%** during the same period last year due to public investment in debt securities comprising special US dollar bonds Euro bonds, FEBC, DBC, T-bills and PIBs.



EDUCATION, HEALTH AND NUTRITION

Education: According to the latest Pakistan Social and Living Standards Measurement Survey 2012-13, the literacy rate (10 years and above) is estimated at **60%** as compared to **58%** in 2011-12.



The federal government is spending huge amount of **Rs.59.28 billion** during current year 2013-14, in addition to the provincial allocation of **Rs.59.440 billion** to accelerate the pace of education at all levels and to achieve the MDGs targets.

Health & Nutrition: In the whole country, there are 1,096 hospitals, 5,310 dispensaries, 5,527 basic health units and 687 maternity and child health centre's in Pakistan as compared to 1,092 hospital, 5,176 dispensaries, 5,478 basic health units and 628 maternity and child health centre's in the same period of last year.



For the current year a total outlay for health sector is budgeted at **Rs.102.3 billion** which included **Rs.27.8 billion** for development and **Rs.74.5 billion** for current expenditure which is equivalent to **0.40%** of GDP during 2013-14 as compared to **0.35%** in 2012-13.

POPULATION, LABOUR FORCE AND EMPLOYMENT

Population growth rate has shown improvement and it decreased from **1.97 percent** in 2013 to **1.95 percent** in 2014. Total population is projected at 188.02 million during the year 2014.

Total labour force has increased from **57.2 million** in 2010-11 to **59.7 million** in 2012-13.

The share of employment in agriculture sector has decreased to **43.7 percent** in 2012-13 as compared to **45.1 percent** in 2010-11.

The employment share by manufacturing sector has increased to **14.1 percent** in 2012-13 from **13.7 percent** in 2010-11.



Prime Minister launched youth assistance package which comprises schemes: Interest Free Loan Scheme, Business Loan Scheme, Youth Training Scheme, Youth **Skill**

Development Scheme, Fee Reimbursement Scheme for Students from less developed areas and Provision of Laptops Scheme.

TRANSPORT AND COMMUNICATION



Pakistan's total road network is around **263,775 Kms** which carries over **96%** of inland freight and **92%** of passenger traffic.

During current financial year 2013-14, NHA executed 83 development projects costing **Rs. 615.2 billion**. Government of Pakistan has allocated **Rs. 63.04 billion** in the Federal PSDP for construction of roads, river bridges, tunnels, flyovers and interchanges

Government of Punjab and the Federal government have jointly started twin cities Rawalpindi-Islamabad Metro-Bus service project on 23rd March, 2014 with a total cost of **Rs. 44.21 billion**. Metro bus project will be completed in next 10 months.

Telecom revenues during Jul-Mar 2013-14, was amounting to **Rs.345.5 billion** which made this sector very attractive for further investment. The introduction of 3G/4G spectrum would help in expediting socio-economic progress of the country. Auction of 3G /4G spectrum is the major achievement of the government in Telecom Sector and has earned revenue of **\$1112.8 million**.

ENERGY

Government retired the circular **debt (Rs 480 billion)** immediately after taking oath which added **1752 MW** of electricity into the system. During July–March 2013-14, the installed capacity of electricity was **23,048 MW** with hydro **6,858 MW**, thermal **15,440 MW** and nuclear **750 MW**. Thus the hydropower capacity accounts for **29.7%**, thermal **67.0%** and nuclear **3.3%**. However, electricity generation is almost 50 % of installed capacity.



In order to resolve the issue on permanent basis, the government prepared National Power Policy (2013) which was announced to provide an affordable energy in the country through efficient generation, transmission and distribution system. It is expected that the policy will set Pakistan on a trajectory of rapid economic growth and social development. **84 MW New Bong Hydropower Project**, the first hydro IPP in Pakistan/AJ&K has been commissioned.

Income Tax Ordinance, 2001



INCOME TAX

Definitions:

Filer

Existing

(8)“bonus shares” includes bonus units in a unit trust;

(9)“business” includes any trade, commerce, manufacture,.....does not include employment;

(10)“capital asset” means a capital asset as defined in section 37;

(11)“Board” means the Central Board of Revenue.....the Federal Board of Revenue established under section 3 thereof;

“New Clause shall be added”

OUR COMMENTS: The term “Filer” has been defined and two conditions namely (a) active on the tax payers list and holder of tax payer’s card have been proposed to qualify as a filer.

Definitions:

Income to Include Bonus Shares

Existing

“income” includes any amount chargeable to tax under this Ordinance, any amount subject to collection 2[or deduction] of tax under section 148, 3[150, 152(1), 153, 154, 156, 156A, 233, 233A] and, sub-section (5) of section 234, 2[any amount treated as income under any provision of this Ordinance] and any loss of income but does not include, in case of a shareholder of a 4[] company, the amount representing the face value of any bonus share or the

Section 2 clause (8),(9),(10),(11)&(23A)

Inserted

Proposed Amendment

shall be re-numbered as clauses (9), (10), (11) and (8) respectively;

“filer” means a taxpayer whose name appears in the active taxpayers’ list issued by the Board from time to time or is holder of a taxpayer’s card;”;

Section 2 (1) Clause 29

Section 39 (1) Clause (j)

Section 39 (1) after Clause (l) new clause added.

Proposed Amendment

for the word “and”, occurring for the first time, a comma shall be substituted;

after the figure “234”, the word and figure “and 236M” shall be inserted;

the words and commas “but does not include, in case of a shareholder of a company, the amount representing the face value of any bonus share or the amount of any bonus declared, issued or

Definitions:

Income to Include Bonus Shares

amount of any bonus declared, issued or paid by the company to the shareholders with a view to increasing its paid up share capital;

the fair market value of any benefit, whether convertible to.....use or exploitation of property; and

any amount received by a person from Approved Income Payment Plan or Approved Annuity Plan under Voluntary Pension System Rules, 2005;

“New clause shall be added”

OUR COMMENTS: This clause deals with the definition of income, it is proposed to include income on account of bonus shares by adding section 236M and the same will be taxed under section 39 as “Income From Other Sources”. Our detailed comments have been given in the relevant section.

Definitions:

Non-Filer

Existing

“New Clause shall be added”

OUR COMMENTS: The term Non-Filer defined.

Definitions:

Special Judge Defined

Existing

“New Clause shall be added”

OUR COMMENTS: The term Special Judge has been defined and Federal Government has been given the special powers to notify and appoint a special judge appointed under section 185 of the Customs Act, 1969.

Section 2 (1) Clause 29

Section 39 (1) Clause (j)

Section 39 (1) after Clause (l) new clause added.

paid by the company to the shareholders with a view to increasing its paid up share capital”, shall be omitted;

the word “and” shall be omitted;

after the semicolon the word “and” shall be added;

income arising to the shareholder of a company, from the issuance of bonus shares.”;

Section 2 (1) Clause 35C

Proposed Amendment

“non-filer” means a person who is not a filer;”;

Section 2 (1) clause (59B)

Proposed Amendment

“Special Judge” means the Special Judge appointed under section 203;” and

Definitions:
Stock Fund
Existing

“New Clause shall be added”

Section 2 (1) clause (61A)
Proposed Amendment

“stock fund” means a collective investment scheme or a mutual fund where the investible funds are invested by way of equity shares in companies, to the extent of more than seventy per cent of the investment;”;

OUR COMMENTS: This is a new term for collective investment schemes or mutual funds to qualify for reduce tax rates for the tax year 2015 and onwards. The relevant provisions relating to stock funds have been discussed in the ensuing pages of the relevant sections and schedules.

Definitions:
Surcharge
Existing

(1) Subject to this Ordinance, a surcharge shall be payable by every.....of this Ordinance, till the 30th June, 2011.

(2) Surcharge shall be paid, collected, deducted and deposited.....subject to the provisions of sub-section (1), for the tax year 2011 only.]

Section 4A
Proposed Amendment

“Section 4A shall be omitted”

“Section 4A shall be omitted”

OUR COMMENTS: Technical Amendment

General provisions relating to taxes imposed under sections 5, 6 and 7

Existing

(d) the tax payable by a person under sections 5, 6 or 7 shall not be..... under this Ordinance; and

(e) the liability of a person under sections 5, 6 or 7 shall be discharged to the extent that –

Section 8 Clause (d) & (e)

Proposed Amendment

in clause (d), for the word “sections”, the word “section” shall be substituted;

in clause (e), for the word “sections”, the word “section” shall be substituted.

OUR COMMENTS: Grammatical Corrections

Value of perquisites

Existing

For the purposes of this Ordinance not including sub-section (7), where the

Section 13(8)

Proposed Amendment

the word “the”, occurring last, shall be omitted;

Value of perquisites
employee sub-section (7)rate
on the loan used to acquire the 5[any
asset or property].

Section 13(8)

OUR COMMENTS: Grammatical Corrections as after amendment the word “the” has become superfluous.

Income from business

Existing

Where a lesser, being a scheduled bank or an investment bank or a development finance institution.....under the head “Income from Business”.

Section 18(3)

Proposed Amendment

for the word “lesser”, occurring twice, the word “lessor” shall be substituted;

OUR COMMENTS: Grammatical Corrections

Deductions not Allowed

Existing

any contribution made by the person to a fund that is..... approved gratuity fund;

Section 21 clause (e)

Proposed Amendment

after the word “fund”, occurring for the second time a comma shall be inserted;

OUR COMMENTS: Grammatical Corrections

Transfer to Participatory Reserve

Existing

Subject to this section, a company shall be allowed a deduction for a tax year for any amount to a..... and a banking company as defined in the Banking Tribunals Ordinance, 1984.

Section 31 (1)

Proposed Amendment

for the expression “Banking Tribunals Ordinance, 1984” the expression “Financial Institutions (Recovery of Finances) Ordinance, 2001 (XLVI of 2001)” shall be substituted;

OUR COMMENTS: Technical Correction

Capital Gains

Existing

Notwithstanding anything contained in sub sections (1) and (3), gain arising on the disposal of immovable property, held for a period up to two years, of the First Schedule.

Section 37(1A)

Proposed Amendment

the words and comma “held for a period up to two years,” shall be omitted;

OUR COMMENTS: It is a technical correction whereby time period for holding of immovable property up to two years is being deleted and the rate of chargeable tax on the capital gain on the disposal of immovable property held up to two years has been added at “Zero” in the First Schedule to remove the ambiguity.

Capital Gain on Sale of Securities

Existing

Provided that thisa period of more than a year:

Provided further.....an insurance company.

For the purposes of this section “security” means share of a public.....an instrument of redeemable capital and derivative products.

“New sub-section shall be inserted”

“New sub-section shall be inserted”

Section 37A(1),(3),(4)

Proposed Amendment

first proviso shall be omitted;

in the second proviso, the word “further” shall be omitted;

after the word “capital” the comma and words “,debt securities” shall be inserted;

“(4) For the purpose of this section, “debt securities” means-

(a) Corporate Debt Securities such as Term Finance Certificates (TFCs), Sukuk Certificates (Sharia Compliant Bonds), Registered Bonds, Commercial Papers, Participation Term Certificates (PTCs) and all kinds of debt instruments issued by any Pakistani or foreign company or corporation registered in Pakistan; and

(b) Government Debt Securities such as Treasury Bills (T-bills), Federal Investment Bonds (FIBs), Pakistan Investment Bonds (PIBs), Foreign Currency Bonds, Government Papers, Municipal Bonds, Infrastructure Bonds and all kinds of debt instruments issued by Federal Government, Provincial Governments, Local Authorities and other statutory bodies.”

OUR COMMENTS: This section deals with the taxability on gains from disposal of securities arising on or after the first day of July, 2010 provided that the securities are held for a period of less than one year. This section does not apply on gain that is exempt from tax. Now, the debt securities have been made taxable and sub-section 4 is being added to define the term “Debt Securities”.

Federal ³[Government,] Provincial Government, and ⁴[Local Government] income

Existing

Exemption under this section shall not be

Section 49(4) Proviso

Proposed Amendment

for the full stop at the end a colon shall be

Federal ³[Government,] Provincial Government, and ⁴[Local Government] income available in the case of corporation, company, of the Constitution of the Islamic Republic of Pakistan.

Section 49(4) Proviso

substituted

“Proviso shall be added”

“Provided that the income from sale of spectrum licenses by Pakistan Telecommunication Authority on behalf of the Federal Government after the first day of March 2014 shall be treated as income of the Federal Government and not of the Pakistan Telecommunication Authority.”;

OUR COMMENTS: This section provides exemptions from income of Federal, Provincial & Local Government. A proviso has been added to cater for income, from sale of spectrum licenses by Pakistan Telecommunication Authority (PTA) on behalf of Federal Government after the first day March, 2014, to be the income of Federal Government and not of PTA.

Set off of Losses of Companies Operating Hotels

Existing

Subject to sections 56 and 57, where a company registered in Pakistan or Azad Jammu and Kashmir (AJ&K).....from the tax year 2007 onword.

Section 56A

Proposed Amendment

for the word “onword”, the word “onward” shall be substituted;

OUR COMMENTS: Grammatical Correction

Group Taxation

Existing

Group taxation may.....the Central Board of Revenue.

Section 59AA(6)

Proposed Amendment

for the words “Central Board of Revenue” the word “Board” shall be substituted;

OUR COMMENTS: Technical Correction

Share of Profits of Company to be added to Taxable Income

Existing

(1) Notwithstanding the provisions of sub-section.....taxable income of the company.

(2) The company shall be allowed a tax credit in accordance with the following formula, namely: -

Section 88A

Proposed Amendment

“Section 88A shall be Omitted”

Share of Profits of Company to be added to Taxable Income

2[(A/B) x C]

(3) The tax credit.....with sub-section (3) of section 4.

Section 88A

OUR COMMENTS: Technical Correction

Principles of Taxation of Associations of Persons

Existing

an association of persons shall be liable to tax separately exempt from tax.

Section 92(1) & Proviso

Proposed Amendment

for full stop, at the end, a colon shall be substituted

“Proviso shall be added”

“Provided that if at least one member of the association of persons is a company, the share of such company or companies shall be excluded for the purpose of computing the total income of the association of persons and the company or the companies shall be taxed separately, at the rate applicable to the companies, according to their share.”;

OUR COMMENTS: An Association of Persons (AOPs) is liable to tax separately from its members. Where AOP has paid tax, the amount received by a member of the association, in the capacity as member, out of the income of the association is exempt from tax. A proviso has been added for AOPs if at least one member of the AOP is a company than share of such company will be excluded from the total income of the AOP for tax purposes and rate applicable to the company shall be applied on the share of income of the company from AOP. In other words, income of all members of AOP will be exempt from tax in their hands except companies who will be taxed separately at the rate of tax applicable to the companies.

Special Provision Relating to Capital Gain Tax

Existing

a “foreign institutional investor being a person registered with NCCPL as a foreign institutional investor; and

Section 100B(2) clause (d)

Proposed Amendment

“(d) a company, in respect of debt securities only; and”;

OUR COMMENTS: In the above section necessary changes are to be made to cater for non-applicability of rules laid down in the Eighth Schedule for capital gain tax computation for a company, in respect of Debt Securities; the term now being introduced through this Finance Bill.

Tax Credit for Certain Persons

Existing

“New section shall be added”

“New section shall be added”

Section 100C

Proposed Amendment

(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:-

(a) return has been filed;

(b) tax required to be deducted or collected has been deducted or collected and paid; and

(c) withholding tax statements for the immediately preceding tax year have been filed.

(2) Persons eligible for tax credit under this section include-

(a) any income of a trust or welfare institution or non-profit organization from donations, voluntary contributions, subscriptions, house property, investments in the securities of the Federal Government and so much of the income chargeable under the head "income from business" as is expended in Pakistan for the purposes of carrying out welfare activities:

Provided that in the case of income under the head "income from business", the exemption in respect of income under the said head shall not exceed an amount which bears to the income, under the said head, the same proportion as the said amount bears to the aggregate of the incomes from the aforesaid sources of income.

(b) a trust administered under a scheme approved by the Federal Government in this behalf and established in Pakistan exclusively for the purposes of carrying out such activities as are for the benefit and welfare of—

Tax Credit for Certain Persons

“New section shall be added”

“New section shall be added”

Section 100C

(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;

(d) income of a university or other educational institution being run by a non-profit organization existing solely for educational purposes and not for purposes of profit;

(e) any income which is derived from investments in securities of the Federal Government, profit on debt from scheduled banks, grant received from Federal Government or Provincial Government or District Governments, foreign grants and house property held under trust or other legal obligations wholly, or in part only, for religious or charitable purposes and is actually applied or finally set apart for application thereto:

Provided that nothing in this clause shall apply to so much of the income as is not expended within Pakistan:

Provided further that if any sum out of the amount so set apart is expended outside Pakistan, it shall be included in the total income of the tax year in which it is so expended or of the year in which it was set apart, whichever is the greater, and the provisions of section 122 shall not

Tax Credit for Certain Persons

“New section shall be added”

“New section shall be added”

Section 100C

apply to any assessment made or to be made in pursuance of this proviso.

Explanation.— Notwithstanding anything contained in the Mussalman Wakf Validating Act, 1913 (VI of 1913), or any other law for the time being in force or in the instrument relating to the trust or the institution, if any amount is set apart, expended or disbursed for the maintenance and support wholly or partially of the family, children or descendants of the author of the trust or the donor or, the maker of the institution or for his own maintenance and support during his life time or payment to himself or his family, children, relations or descendants or for the payment of his or their debts out of the income from house property dedicated, or if any expenditure is made other than for charitable purposes, in each case such expenditure, provision, setting apart, payment or disbursement shall not be deemed, for the purposes of this clause, to be for religious or charitable purposes; or

(f) any income of a religious or charitable institution derived from voluntary contributions applicable solely to religious or charitable purposes of the institution:

Provided that nothing contained in this clause shall apply to the income of a private religious trust which does not ensure for the benefit of the public.”

OUR COMMENTS: This is a new section for allowing tax credit equal to 100% of the tax payable (including minimum tax and final taxes) by non-profit organizations (NPOs), trusts or welfare institutions provided following conditions are met:

- a) The above tax payers have filed the return.
- b) Tax required has been duly deducted or collected and paid.
- c) Withholding tax statements have been duly filed for the immediately preceding tax year.

It is pertinent to mention that the relevant provisions were contained in Second

Tax Credit for Certain Persons

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Schedule to this Ordinance which are now being summarized and introduced as a separate section.

Following will be eligible for tax credit:

- a) Any income from donations, voluntary contributions, subscriptions, house property, investments in the securities of the Federal Government and "income from business" as is expended in Pakistan for the purposes of carrying out welfare activities subject to minimum of an amount arrived at on prorated basis.
- b) An approved trust established in Pakistan for the benefit and welfare of—
 - 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.
- c) An approved trust or welfare institution or NPO.
- d) Income of a university or other educational institution being run by a NPO.
- e) Any income expended in Pakistan which is derived from investments in securities of the Federal Government, profit on debt from scheduled banks, grant received from Federal Government or Provincial Government or District Governments, foreign grants and house property, etc.
- f) Any income of a public religious or charitable institution.

Minimum Tax on the Income of Certain Persons

Existing

This section shall apply to a resident company an individual (having turnover of fifty million rupees or above in.....) shall apply accordingly. For the purpose of this sub-section.....provision of this Ordinance.

the person shall pay as income tax for the tax year (instead of the actual tax payable under this Ordinance), an amount equal to one per cent of the person's turnover for the year;

Section 113(1) & (2) clause(b)

Proposed Amendment

for the words "equal to one per cent of the person's turnover for the year", the words "the amount of minimum tax computed on the basis of rates as specified in Division IX of Part I of First Schedule" shall be substituted; and

for the words "an amount equal to one per cent of the person's turnover for the year", the words "minimum tax computed on the basis of rates as specified in Division IX of Part I of First Schedule" shall be substituted;

OUR COMMENTS: Technical Amendment to refer the tax rates given in First Schedule.

Alternative Corporate Tax
Existing

“New section shall be added”

“New section shall be added”

“New section shall be added”

Section 113C

Proposed Amendment

(1) Notwithstanding anything contained in this Ordinance, for tax year 2014 and onwards, tax payable by a company shall be higher of the Corporate Tax or Alternative Corporate Tax.

(2) For the purposes of this section.-

(a) **“Accounting Income”** means the accounting profit before tax for the tax year, as disclosed in the financial statements or as adjusted under sub-section (7) or sub-section (11) excluding share from the associate recognized under equity method of accounting;

(b) **“Alternative Corporate Tax”** means the tax at a rate of seventeen per cent of a sum equal to accounting income less the amounts, as specified in sub-section (8), and determined in accordance with provisions of sub-section (7) hereinafter;

(c) **“Corporate Tax”** means total tax payable by the company, including tax payable on account of minimum tax and final taxes payable, under any of the provisions of this Ordinance but not including those mentioned in sections 8, 161 and 162 and any amount charged or paid on account of default surcharge or penalty and the tax payable under this section.

(3) The sum equal to accounting income, less any amount to be excluded there from under sub-section (8), shall be treated as taxable income for the purpose of this section.

(4) The excess of Alternative Corporate Tax paid over the Corporate Tax payable for the tax year shall be carried forward and adjusted against the tax payable under Division II of Part I of the First Schedule, for following year.

Alternative Corporate Tax

“New section shall be added”

“New section shall be added”

Section 113C

(5) If the excess tax, as mentioned in sub-section (4), is not wholly adjusted, the amount not adjusted shall be carried forward to the following tax year and adjusted as specified in sub-section (4) in that year, and so on, but the said excess cannot be carried forward to more than ten tax years immediately succeeding the tax year for which the excess was first computed.

Explanation.- For the purpose of this sub-section the mechanism for adjustment of excess of Alternative Minimum Tax over Corporate Tax, specified in this section, shall not prejudice or affect the entitlement of the taxpayer regarding carrying forward and adjustment of minimum tax referred to in section 113 of this Ordinance.

(6) If Corporate Tax or Alternative Corporate Tax is enhanced or reduced as a result of any amendment, or as a result of any order under the Ordinance, the excess amount to be carried forward shall be reduced or enhanced accordingly.

(7) For the purposes of determining the “Accounting Income”, expenses shall be apportioned between the amount to be excluded from accounting income under sub-section (8) and the amount to be treated as taxable income under sub-section (2).

(8) The following amounts shall be excluded from accounting income for the purposes of computing Alternative Corporate Tax:-

(i) exempt income;

(ii) income subject to tax under section 37A and final tax chargeable under sub-section (7) of section 148, section 150, sub-section (3) of section 153, sub-section (4) of sections 154, 156 and sub-section

Alternative Corporate Tax

Section 113C

(3) of section 233; and

(iii) income subject to tax credit under section 65D and 65E.

“New section shall be added”

(9) The provisions of this section shall not apply to taxpayers chargeable to tax in accordance with the provisions contained in the Fourth, Fifth and Seventh Schedules.

(10) Tax credit under section 65B shall be allowed against Alternative Corporate Tax.

(11) The Commissioner may make adjustments and proceed to compute accounting income as per historical accounting pattern after providing an opportunity of being heard.”;

OUR COMMENTS: The proposed amendment seeks to introduce a new basis of taxation for a company whereby the amount of tax to be paid will be computed by comparing the higher of minimum tax under section 113, the corporate tax on taxable profit at the rate of 33 percent and the newly introduced alternative corporate tax. One can appreciate the definitions of the terms “Accounting Income”, “Alternative Corporate Tax” and “Corporate Tax” as mentioned in the proposed amendments above.

Any excess Alternative Corporate Tax paid over the Corporate Tax can be carried forward and adjusted against normal Corporate Tax Payable up to ten tax years immediately succeeding the tax year for which the excess was first paid.

The proposed amendment proposes computation of alternative corporate tax at the rate of 17 percent on accounting income of the company whereby such income shall not include the income exempt, the income from the sale of securities, the amount of imports taxed under section 148(7), the income taxed under section 153 as final tax, the proceeds of an exporter of goods taxed under FTR, the amount prize and winnings under section 156, the amount of brokerage and commission income, the income of a newly established undertaking enjoying credits under section 65D and the income of an undertaking established before July, 2011 with 100 percent equity capital enjoying credit under section 65E.

The above proposed alternative corporate tax shall not be applicable to companies doing business of insurance, exploration and production of petroleum and banking.

*For ready reference:

-Accounting Income means - accounting profit before tax less adjustment under sub-section 7 & 11 and after apportionment of expenses relating to income under sub-

Alternative Corporate Tax

Section 113C

section 8.

- Alternative Corporate Tax means – tax @17% on accounting income less amount under sub-section 8 and determined under sub-section 7.

- Corporate Tax means – Total tax payable not including as mentioned in section[^] 8, 161 & 162 and amount of default surcharge, penalty & Alternative Corporate tax.

[^] Section 8 deals with incomes which are final under section 5 (Tax on Dividends), 6 (Tax on Certain Payments to Non – Residents) and 7 (Tax on Shipping and Air Transport Income of a Non-Resident Person).

- Taxable Income under this section means – Accounting Income – amount excluded under sub section 8.

Return of Income

Section 114(1)(b)(ix)

Existing

is registered with any chamber of commerce.....Institute of Cost and Management Accountants of Pakistan.

Proposed Amendment

after the word “is” the words “a resident person” shall be inserted;

OUR COMMENTS: The above amendment is proposed to restrict the filing of return of income by a person required to file the same under sub-clause (ix) of clause (b) of the sub-section (1) to a resident person i.e. a resident person registered with any chamber of commerce and industry or any trade or business association or any market committee or any professional body including Pakistan Engineering Council, Pakistan Medical and Dental Council, Pakistan Bar Council or any Provisional Bar Council, Institute of Chartered Accountants of Pakistan or Institute of Cost and Management Accountant of Pakistan. Therefore, waving the requirement of the filing of return of income for the non-resident professional as stated above not having taxable income as per the tax laws.

Revision by the Regional Commissioner

Section 122B

Existing

(1) The Regional Commissioner may, either of his own order has been passed by any authority subordinate to him.

Proposed Amendment

for the words “Regional Commissioner”, wherever occurring, the words “Chief Commissioner” shall be substituted.

OUR COMMENTS: The proposed amendment is a technical correction for the designation of Chief Commissioner which was earlier renamed as above from Regional Commissioner.

Appeal to the Commissioner (Appeals)

Section 127(2)(b)

Existing

1[(1) Any person dissatisfied with any order passed by a Commissioner or a Officer of Inland Revenue under

Proposed Amendment

for the words “taxation officer”, the words “Officer of Inland Revenue” shall be substituted;

Appeal to the Commissioner (Appeals)

liable to pay an amount of tax, or an.....sufficient cause from lodging the appeal within that period.

No appeal under sub-section (1), shall be made by a taxpayer again an order of tax due under sub-section (1) of Section 137.

Section 127(2)(b)

for the word “again”, the word “against” shall be substituted;

OUR COMMENTS: The above is a technical correction to present the correct name of the designation (i.e. Officer of Inland Revenue) that was substituted through the Finance (Amendment) Ordinance, 2009 but the same could not be implemented due to the above named Ordinance being lapsed. Further, by substituting the word “against” a grammatical correction is proposed in clause (b) of the above section.

Appointment of the Appellate Tribunal**Existing**

a Commissioner Inland Revenue or.....years experience as Commissioner or Collector; or

a person who has, for a period of not less than ten years.....the Chartered Accountants Ordinance, 1961 (X of 1961).

“New clause shall be added”

Section 130(4)(b)(c)&(d)**Proposed Amendment**

the word “or”, occurring at the end, shall be omitted;

for the full stop, at the end, a semicolon and the word “or” shall be substituted

“(d) a person who has, for a period of not less than ten years, practiced professionally as a cost and management accountant within the meaning of Cost and Management Accountants Act, 1966 (XIV of 1966).”;

OUR COMMENTS: The above proposed amendment widens the scope for the appointment of a person as an accountant member of the Appellate Tribunal to include a person having an experience of more than 10 years of practicing as a Cost and Management Accountant.

Imports**Existing**

is registered with Sales Tax Department; and

make sales of industrial raw material of

Section 148(7)(d)(viii)(ix) & (8A)**Proposed Amendment**

for the words “ with Sales Tax Department” the expression “under the Sales Tax Act, 1990”shall be substituted;

for the words, “ for sales tax purposes” the expression “under the Sales Tax Act,

Imports
manufacturer registered for sales tax
purposes; and]

Section 148(7)(d)(viii)(ix) & (8A)
1990” shall be substituted; and

“New sub-section shall be added”

“(8A) The tax collected under this section
at the time of import of ships by ship-
breakers shall be final tax.”;

OUR COMMENTS: This is a technical correction in the definition of a large import house, defined for the purpose of explaining a business for which tax on the import stage shall be adjustable.

Further, sub-section (8A) is proposed to clarify that the tax collected at the time of import of ships by ship breakers is final tax.

Salary
Existing

Section 149(3)&(4)

Proposed Amendment

“New sub-section shall be added”

“(3) Notwithstanding anything contained in sub-sections (1) and (2), every person responsible for making payment for directorship fee or fee for attending board meeting or such fee by whatever name called, shall at the time of payment, deduct tax at the rate of twenty percent of the gross amount payable .

“New sub-section shall be added”

(4) Tax deductible under sub-section (3) shall be adjustable.”;

OUR COMMENTS: The above sub-section is proposed to be included to tax the directorship fee or any other fee paid to a person to attend a board meeting at the rate of 20 percent on the gross amount payable, however, the same will be adjustable. The inclusion of the above under the section where tax is required to be deducted by an employer on salary may have been done on the basis that fee paid on attending board meetings is commonly paid to employed executives of a company representing the same on the board of the investee company.

Dividends
Existing
Division III of Part I

Section 150
Proposed Amendment
Division I of Part III

OUR COMMENTS: The above amendment is proposed to substitute the reference of the rates of advance tax to be deducted on dividend paid by different entities in relation to the amendments made in the First Schedule of the Ordinance differentiating the rates at which the dividend is to be taxed and the amount of tax required to be deducted by the entity paying dividend.

Profit on Debt

Existing

Where -

a person pays yield on an account, deposit.....Savings Account;]

a banking company or financial institution.....with the company or institution;

Tax deductible under this sectionthan a company from 7.

“Proviso shall be added”

Section 151(1)(3) & Proviso

Proposed Amendment

after the word “Division” for the figure “I” the figure “IA” shall be substituted; and

for the full stop, at the end, a colon shall be substituted

“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.”;

OUR COMMENTS: The amendment proposed in the proviso of sub-section (1) is made to update the reference of the rates applicable on the above section in accordance with the amendment proposed in the Part III of the first schedule. Further a proviso is proposed to be included in the sub-section 3 of the above section to restrict the tax deducted on the profit on debt of a tax payer other than a company as final tax to the extent of 10% (i.e. the rate of tax applicable on the filer) and the remaining 5% to be adjustable against his tax liability.

Payments for Goods, Services and Contracts

Existing

on the execution of a contract, other than a contract for the sale of goods or the rendering of or providing of services,

Section 153(1)(c)

Proposed Amendment

after the word and comma “contract,”, the words “including contract signed by a sportsperson” shall be inserted; and

for the words “other than” , the words “ but not including” shall be substituted;

OUR COMMENTS: The above proposed amendment is made to include in the scope of tax to be deducted on the payment made on the execution of contract, any payment made under a contract signed by a sports person, making the above contract as contract only for rendering of services on which advance tax deduction is applicable.

Prizes and Winnings

Existing

The tax deductible under sub-section (1) or collectedwinnings referred to in the said sub-sections.

Section 156(3)

Proposed Amendment

after the word “under”, occurring for the second time, the word and hyphen “sub-” shall be inserted;

Prizes and Winnings

Section 156(3)

OUR COMMENTS: The above proposed amendment is a technical correction in relation to the reference of sub-section earlier written as a section.

Exemption or Lower Rate Certificate

Existing

All such amendments shall have effect in respect of any tax year beginning on any date before or after as discharge of final tax liability.

Section 159(4)

Proposed Amendment

for the word “one”, the word “on” shall be substituted;

OUR COMMENTS: The above proposed amendment is to make a grammatical correction.

Tax Collected or Deducted as a Final Tax

Existing

the tax required to be deducted.....154 sub-section (3) of section 156, sub-section (2) of section 156A of sub-section (1) and (3) of section 233 on the income from which it was deductible.

Section 169(1)(b)

Proposed Amendment

for the word “of”, occurring for the eighth time, the word “or” shall be substituted;

OUR COMMENTS: The above proposed amendment is to make a grammatical correction.

Compulsory Registration in Certain Cases

Existing

“New section shall be added”

Section 181AA

Proposed Amendment

(1) Notwithstanding anything contained in any law, for the time being in force , any application for commercial or industrial connection of electricity or natural gas, shall not be processed and such connection shall not be provided unless the person applying for electricity or gas connection is registered under section 181.”;

OUR COMMENTS: The above proposed amendment is very interesting in nature whereby any person requiring a commercial or industrial electricity or natural gas connection shall be compulsory registered as a tax payer or else application in relation to the above mentioned connections will not be entertained by the relevant authorities.

Trial by Special Judge

Existing

Section 203(1) & Proviso

Proposed Amendment

Trial by Special Judge

The Federal Government may, by notification in the official Gazette.....within which each of them shall exercise jurisdiction.

“Proviso shall be added”

Section 203(1) & Proviso

for full stop at the end a colon shall be substituted

“Provided that the Federal Government may, by, notification in official Gazette, declare that a special judge appointed under section 185 of the Customs Act 1969 (IV of 1969) shall have jurisdiction to try offences under this Ordinance.”;

OUR COMMENTS: Special provisions are proposed to be made whereby Federal Government may by notification appoint a special judge.

Advance Tax on Private Motor Vehicles

Existing

“New section shall be added”

Section 231B

Proposed Amendment

(1) Every motor vehicle registering authority of Excise and Taxation Department shall collect advance tax at the time of registration of a new locally manufactured motor vehicle, at the rates specified in Division VII of Part IV of the First Schedule.

(2) Every motor vehicle registering authority of Excise and Taxation Department shall collect advance tax at the time of transfer of registration or ownership of a private motor vehicle, at the rates specified in Division VII of Part IV of the First Schedule.

(3) 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.

(4) Sub-section (1) shall not apply if a person produces evidence that tax under sub-section (2) in case of a locally manufactured vehicle or tax under section 148 in the case of imported vehicle was collected from the same person in respect of the same vehicle.

“New section shall be added”

Advance Tax on Private Motor Vehicles

Section 231B

“New section shall be added”

(5) The advance tax collected under this section shall be adjustable:
Provided that the provisions of this section shall not be applicable in the case of –

(a) the Federal Government;

(b) a Provincial Government;

(c) a Local Government;

(d) a foreign diplomat; or

(e) a diplomatic mission in Pakistan.”;

OUR COMMENTS: The proposed amendment substitutes the section to include motor vehicle registering authority to collect advance tax on private motor vehicles the registration of or ownership of which is transferred from a person to another person. However, the same shall not be applicable if the person provides an evidence of deduction of tax under the same section or under section 148.

Further, the section proposes an additional responsibility on the manufacturer of a motor car and jeep to collect advance tax from the person to whom the above vehicle is sold.

Domestic Electricity Consumption

Section 235A

Existing

Proposed Amendment

“New section shall be added”

(1) There shall be collected advance tax at the rates specified in Division XIX of Part IV of the First Schedule on the amount of electricity bill of a domestic consumer.

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

“New section shall be added”

(3) Tax collected under this section shall be adjustable against tax liability.

OUR COMMENTS: The above section is proposing to introduce advance tax on domestic electricity consumption where the monthly bill exceeds Rs.100,000. The introduction of this section seems to be in line with the intention of the government to

Domestic Electricity Consumption

collect tax from the people having high income level.

Section 235A

Tax on Steel Melters, Re-rollers, Etc.

Existing

“New section shall be added”

Section 235B

Proposed Amendment

(1) There shall be collected tax from every steel melter, steel re-roller, composite steel units, registered for the purpose of Chapter XI of Sales Tax Special Procedure Rules, 2007 at the rate of one rupee per unit of electricity consumed for the production of steel billets , ingots and mild steel (MS products) excluding stainless steel .

(2) The person preparing electricity consumption bill shall charge and collect the tax under sub-section (1) in the manner electricity consumption charges are charged and collected.

(3) The tax collected under sub- section (1) shall be deemed to be the tax required to be deducted under sub-section (1) of section 153, on the payment for local purchase of scrap.

(4) Tax collected under sub-section (1) shall be non-adjustable and credit of the same shall not be allowed to any person.”;

“New section shall be added”

OUR COMMENTS: This section proposes to introduce tax on the electricity consumption by steel melter, steel re-roller, composite steel unit registered under Sales Tax Special Procedure Rules, 2007. Tax so collected @ Rs.1 per unit of consumption shall neither be adjustable nor shall any credit be available to the above persons.

Advance Tax on Purchase of Air Ticket

Existing

The person preparing air ticket shall charge advance.....charges are charged.

Section 236B(2) & (2A)

Proposed Amendment

for the words “person preparing” the words “airline issuing” shall be substituted;

“(2A) The mode, manner and time of collection shall be as may be prescribed.”;

“New sub-section shall be added”

OUR COMMENTS: The proposed amendment seeks the responsibility of airlines to make charging of advance tax on air tickets rather the person preparing the air tickets. The above amendment may have been imposed to ensure that the tax is collected on

Advance Tax on Purchase of Air Ticket**Section 236B(2) & (2A)**

air tickets and the same is deposited in the government treasury, with the airline companies being more responsible persons for the collection of tax.

Advance Tax on Purchase or Transfer of Immovable Property**Section 236K****Existing**

“New section shall be added”

Proposed Amendment

(1) Any person responsible for registering or attesting transfer of any immovable property shall at the time of registering or attesting the transfer shall collect from the purchaser or transferee advance tax at the rate specified in Division XVIII of Part IV of the First Schedule.

(2) The advance tax collected under subsection (1) shall be adjustable.

(3) 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.

(4) Nothing contained in this section shall apply to a scheme introduced by the Federal Government, or Provincial Government or an Authority established under a Federal or Provincial law for expatriate Pakistanis.

“New section shall be added”

OUR COMMENTS: This amendment proposes to introduce tax on the purchase or transfer of immovable property where the value is more than Rs.3 million. The above amendment may be a continuing step of the government to tax immovable property where in the last Finance Bill the above was included in the scope of capital gain tax.

Advance Tax on Purchase of International Air Ticket**Section 236L****Existing**

“New section shall be added”

Proposed Amendment

(1) Every airline, operating in Pakistan, shall collect advance tax at the rates specified in Division XX of Part IV of the First Schedule, on the gross amount of international air tickets issued to passengers booking one-way or return, from Pakistan.

Advance Tax on Purchase of International Air Ticket

Section 236L

“New section shall be added”

(2) The airline issuing air ticket shall collect or charge advance tax under sub-section (1) in the manner air ticket charges are collected or charged, either manually or electronically.

(3) The mode, manner and time of collection under sub-section (1) and time of collection shall be as may be prescribed.

(4) The advance tax collected under sub-section (1) shall be adjustable.

OUR COMMENTS: The above amendment proposes to introduce for the collection of advance tax on the international air tickets whereas the same will be the responsibility of the airline issuing international airline tickets.

Bonus shares

Existing

“New section shall be added”

Section 236M

Proposed Amendment

(1) Every person issuing bonus shares to a shareholder of the company, shall collect tax at the rate of five per cent on the value of the bonus shares determined on the basis of day-end price on the first day of closure of books.

(2) The company issuing bonus shares shall make adequate arrangements for collection of such tax and in case of default, said tax shall be collected from the company, without prejudice to any other liability which it may incur under this Ordinance.

“New section shall be added”

(3) Tax required to be collected under this section shall be a final tax on the income of the shareholder of the company arising from issuance of bonus shares.”;

OUR COMMENTS: The proposed amendment is a very unusual one as regards to the tradition followed for taxation whereby bonus shares are proposed to be taxed at the rate of 5 percent. The above amendment not only proposes to tax bonus shares but makes the tax collected as final tax for the shareholder to whom such shares are being issued.

Savings

Existing

The authority which issued shall have the power to amended, modified, cancel or repeal any such notification, notice, direction, instruction, rule, agreement, appointment, approval or recognition.

Section 239(13)

Proposed Amendment

for the words and comma, “amended, modified”, the words and comma “amend, modify” shall be substituted;

OUR COMMENTS: The above proposed amendment is to make a grammatical correction.

First Schedule

Rates Of Tax For Individuals, AOPS And Salaried Individuals Part – I, Division – I

OUR COMMENTS: No changes have been proposed in the tax rates for Individuals, AOPs and Salaried Individuals in the Federal Budget. It has been proposed to reduce the tax liability by 50% for Disabled Person and Senior Citizen having CNIC and earning income upto Rupees One Million. Previously, this reduction was only available to senior citizens through Clause (1A) of Part III of 2nd Schedule, which is now proposed to be omitted.

Rates Of Tax On Dividends Under Section 5 Division – III

OUR COMMENTS: The bill proposes to charge reduce rate of tax on Dividends @ 7.5% to company supplying coal only to power generation projects. The rate of tax on dividend received from stock fund and collective investment scheme & mutual fund is proposed to be charged upto 12.5% & 25% respectively from the tax year 2015 and onwards.

Capital Gains On Disposal Of Securities Under Section 37A Division – VII

OUR COMMENTS: The bill seeks to reschedule the existing slab and propose enhanced tax rates for tax year 2015. The existing exemption available to holding period of securities upto one year is also proposed to be enhanced upto two years.

S. No.	Period	Rate of Tax
1.	Where holding period of a security is less than twelve months.	12.5%
2.	Where holding period of a security is twelve months or more but less than twenty-four months.	10%
3.	Where holding period of a security is twenty-four months or more.	0%

Capital Gains On Disposal Of Immovable Property Under Section 37 Division – VIII

OUR COMMENTS: The bill seeks to remove ambiguity for chargeability of gain arises on immovable property held for more than two years.

Minimum Tax Under Section 113

Division – IX

OUR COMMENTS: A new division has been proposed to insert to consolidate different tax rates given under section 113 of the Income Tax Ordinance, 2001 for certain sectors.

Details are as under:

S. No.	Person (s)	Minimum tax as percentage of the person's turnover for the year
1.	a) Oil marketing companies, Oil refineries, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds Rupees on billion) b) Pakistan International Airlines Corporation; and c) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production	0.5%
2.	a) Distributors of pharmaceutical products, fertilizers and cigarettes; b) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990; c) Rice mills and dealers; and d) Flour mills.	0.2%
3.	Motorcycle dealers registered under the Sales Tax Act, 1990.	0.25%
4.	In all other cases.	1%

Advance Tax On Imports Under Section 148

Part – II

OUR COMMENTS: A new division has been proposed to insert to consolidate different tax rates given under section 148 of the Income Tax Ordinance, 2001 for certain sectors. The bill further proposes to enhance existing tax rates upto 6%.

S. No.	Person (s)	Minimum tax as percentage of the person's turnover for the year
1.	(i) Industrial undertaking importing remeltable 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 9 th December 2004; (iii) Manufacturers covered under Notification No. S.R.O. 1125(I)/2011 dated the December 31 st 2011	1% of import value as increased by customs-duty, sales tax and federal excise duty
2.	Persons importing pulses	2% of 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 December 31 st 2011	3% of import value as increased by customs-duty, sales tax and federal excise duty
4.	Ship breakers on import of ships	4.5%
5.	Industrial undertakings not covered under S. Nos 1 to 4	5.5%
6.	Companies not covered under S. Nos 1 to 5	5.5%
7.	Persons not covered under S. Nos 1 to 6	6%

Collection Of Tax From Distributors, Dealers And Wholesalers Under Section 153A Part – II

OUR COMMENTS: The bill proposes to omit the tax rates under section 153A which was omitted by Finance Act, 2013.

Advance Tax On Dividends Under Section 150
Part – III, Division – I

OUR COMMENTS: The bill proposes to introduce separate rates i.e. 10% for filers and 15% for non-filers other than those discussed above for chargeability of tax on Dividends.

Advance Tax On Profit On Debt Under Section 151
Division – IA

OUR COMMENTS: The bill proposes to segregate rate of tax for filers - 10% and non-filer, having yield or profit upto Rs. 500,000/- 15%.

Advance Tax On Payments For Goods Or Services Under Section 153
Division – III

OUR COMMENTS: The bill proposes to increase the rate of withholding tax on payment for Goods, Services & Contracts. The bill also proposes separate withholding tax rates for sportspersons.

S. No.	Nature of payment	Proposed Rate	Existing Rate
1.	Sale of goods - Companies - Other taxpayers	4% 4.5%	3.5% 4%
2.	Services - Companies - Other taxpayers	8% 10%	6% 7% (mistakenly stated as 8 in the Bill)
3.	Contracts - Companies - Other taxpayers	7% 7.5%	6% 6.5%
4.	Sportspersons	10%	-

Advance Tax On Services To Exporters Under Section 153
Division – IV

OUR COMMENTS: The rate of tax to be deducted by exporters against various services of stitching, dying, printing, embroidery, washing, sizing and weaving is proposed to be increased to 1%.

Advance Tax On Petroleum Products Under Section 156A
Division – IV

OUR COMMENTS: The bill proposes to enhance tax rate on sale of petroleum products to 12% from the existing rate of 10%.

Advance Tax On Brokerage And Commission Under Section 233
Part – IV, Division – II

OUR COMMENTS: It has been proposed to enhance tax rate on brokerage and commission as per details given hereunder:

S. No.	Nature of payment	Tax Rate
1.	Advertising Agents	7.5%
2.	All other cases	12%

Advance Tax On Motor Vehicles Under Section 234
Division – III

OUR COMMENTS: The bill seeks to enhance tax rates on private motor cars collected in installment and lump sum and also seeks to introduce separate rates for filers & non-filers.

S. No.	Engine Capacity	for filers	for non-filer
1.	Up to 1000cc	Rs.1,000	Rs.1,000
2.	1001CC to 1199cc	Rs.1,800	Rs.3,600
3.	1200cc to 1299cc	Rs.2,000	Rs.4,000
4.	1300cc to 1499cc	Rs.3,000	Rs.6,000
5.	1500cc to 1599cc	Rs.4,500	Rs.9,000
6.	1600cc to 1999cc	Rs.6,000	Rs.12,000
7.	2000cc and above	Rs.12,000	Rs.24,000”

In case of lump sum payment:

S. No.	Engine Capacity	for filers	for non-filer
1.	Up to 1000cc	Rs.10,000	Rs.10,000
2.	1001CC to 1199cc	Rs.18,000	Rs.36,000
3.	1200cc to 1299cc	Rs.20,000	Rs.40,000
4.	1300cc to 1499cc	Rs.30,000	Rs.60,000
5.	1500cc to 1599cc	Rs.45,000	Rs.90,000
6.	1600cc to 1999cc	Rs.60,000	Rs.120,000
7.	2000cc and above	Rs.120,000	Rs.240,000”

Advance Tax On Telephone Users Under Section 236
Division – V

OUR COMMENTS: The bill proposes to reduce tax rate @ 14% for subscriber of mobile and pre-paid telephone card.

Advance tax on cash withdrawal from bank under section 231A
Division – VI

OUR COMMENTS: The bill seeks to increase the rate of tax on cash withdrawal @ 0.5% for non-filers.

Advance Tax On Purchase Of Motor Cars And Jeeps Under Section: 231B
Division – VII

OUR COMMENTS: The bill seeks to introduce new slabs in addition to the existing tax rates on purchase of Motor Cars and Jeeps and also seeks to introduce separate rates for filers & non-filers

S. No.	Engine Capacity	Tax for filers	Tax for non-filer
1.	Up to 850cc	Rs.10,000	Rs.10,000
2.	851CC to 1000cc	Rs 20,000	Rs 25,000
3.	1001cc to 1300cc	Rs.30,000	Rs.40,000
4.	1301cc to 1600cc	Rs.50,000	Rs.100,000
5.	1601cc to 1800cc	Rs.75,000	Rs.150,000
6.	1801cc to 2000cc	Rs.100,000	Rs.200,000
7.	2001cc to 2500cc	Rs.150,000	Rs.300,000”
8.	2501cc to 3000cc	Rs 200,000	Rs 400,000
9.	Above 3000cc	Rs 250,000	Rs 450,000

Advance Tax On Sale Or Transfer Of Immovable Property Under Section 236C
Division – X

OUR COMMENTS: The bill seeks to increase the rate of tax on sale or transfer of immovable property @ 1% of consideration for non-filers.

Advance tax on functions and gatherings under section 236D
Division – XI

OUR COMMENTS: It has proposed to reduce rate of tax to be collected on payments against functions and gatherings to 5% from the existing rate of 10%.

Advance tax on purchase of immovable property under section 236K
Division – XVIII

OUR COMMENTS: The bill proposes to charge advance tax on purchase of immovable property, separately for filers & non-filers, through newly inserted section 236K.

S. No.	Period	Rate of Tax
(1)	(2)	(3)
1.	Where value of Immovable property is	0%

	up to 3 million	
2.	Where value of Immovable property is more than 3 million	Filer 1%
		Non- Filer 2%

Advance tax on domestic electricity consumption under section 235A **Division – XIX**

OUR COMMENTS: The bill proposes to charge advance tax @ 7.5% on domestic electricity consumption through newly inserted section 235A for consumer having monthly billing of Rs. 100,000/- or more.

Advance Tax On International Air Ticket Under Section 236L **Division – XX**

OUR COMMENTS: The bill proposes to charge advance tax on international tickets for first / business/club class, separately for filers & non-filers, through newly inserted section 236L.

S. No.	Type of ticket	Rate	
		Filer	Non-Filer
1.	Economy	0%	0%
2.	First / Business / Club Class	3%	6%

Second Schedule

PART – I

Exemption from Total Income

Clause	Description	Our Comments
4(b)	A Pakistani seafarer working on a foreign vessel provided that such income is remitted to Pakistan, not later than two months of the relevant tax year, through normal banking channels.	Word income year substituted for tax year to make uniformity with Income Tax Ordinance, 2001
35	Any income representing compensatory allowance payable to a citizen of Pakistan locally recruited in Pakistan Mission abroad as does not exceed 75 percent of his gross salary.	Exemption withdrawn
57(xiii)	Sindh Province Pension Fund established under the Sindh Province Pension Fund Ordinance, 2002	Exemption granted
58	(1) Any income of a trust or welfare institution or non-profit organization.....aforesaid sources of income. (2) A trust administered.....for the benefit and welfare of..... a Provincial Government. (3) A trust or welfare.....for the purposes of this sub-clause.	Clause deleted and Tax Credit proposed to be allowed u/s. 100C of the Ordinance, 2001
58A	Income of a university or other educational institution.....for purposes of profit.]	Clause deleted and Tax Credit proposed to be allowed u/s. 100C of the Ordinance, 2001
59	Any income which is derived from investments in securities of the Federal Government..... to be for religious or charitable purposes.	Clause deleted and Tax Credit proposed to be allowed u/s. 100C of the Ordinance, 2001
60	Any income of a religious or charitable institution.....which does not ensure for the benefit of the public.	Clause deleted and Tax Credit proposed to be allowed u/s. 100C of the Ordinance, 2001
66(v)	Any income derived by- Hamdard Laboratories (Waqf) Pakistan.	Exemption Withdrawn
66(xxx)	Greenstar Social Marketing (Guarantee) Limited	Exemption granted
81A	Notwithstanding omission of clause (81) the existing holders of Foreign Currency Bearer Certificates... such certificates are en cashed.	Exemption withdrawn
88A	Notwithstanding omission of clause (88) the existing holders of Federal Government Securities and redeemable capital.....	Exemption withdrawn

92A	Any income of any university...in KPK,FATA & PATA...on the 30th day of June, 2011	Exemption withdrawn
93A	Profits and gains derived by..... running of vocational and technical institutewhich such institution is recognized.	Exemption withdrawn
99	“Provided that for the purpose of determining distribution of at least 90% of accounting income, the income distributed through bonus shares, units or certificates as the case may be, shall not be taken into account.”;	Proviso inserted
126	Any income derived by public sector university	Exemption granted
126A	Income derived by China Overseas Ports Holding Company Limited from Gwadar Port operations for a period of twenty years, with effect from the sixth day of February, 2007.”;	Exemption granted
126H	Profits and gains derived by a taxpayer, from a fruit processing or preservation unit set up in Balochistan Province, Malakand Division, Gilgit-Baltistan and FATA between the first day of July, 2014 to the thirtieth day of June, 2017, both days inclusive, engaged in processing of locally grown fruits, 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.”;	Exemption granted
132B	Profits and gains derived by a taxpayer from a coal mining project in Sindh, supplying coal exclusively to power generation projects.	Exemption granted
135	Any amount received on.....US Dollar Bonds Rules, 1998.	Exemption withdrawn

PART – II

Reduction in Tax Rates

Clause	Description	Our Comments
3A	The tax in respect of income for services rendered outside Pakistan.....through normal banking channel.	Reduction in tax rate withdrawn
9B	Tax under section 148 shall be collected @ 1% on import value of re-meltable steel.....industrial undertaking for its own use.	Reduction in tax rate withdrawn and reinserted in First Schedule.
9C	Tax under section 148 shall be collected @ 1% in case of Manufacturer and 3% in case of commercial importer.....S.R.O. 1125(I)/2011 dated the 31st December, 2011.	Reduction in tax rate withdrawn and reinserted in First Schedule.
13E	In respect of potassic fertilizer imported.....if any, levied thereon.	Reduction in tax rate withdrawn and

		reinserted in First Schedule.
13HH	Tax shall be.....Agriculture and Livestock (MINFAL) on May 5, 2008	Reduction in tax rate withdrawn
17	The rates of tax as.....project privatized by WAPDA.	Reduction in tax rate withdrawn and reinserted in First Schedule.
18A	The rate of tax as specified in Division II of Part I of the First Schedule shall be reduced to 20% for a company setting up an industrial undertaking between the first day of July, 2014 to the 30th day of June, 2017, for a period of five years beginning from the month in which the industrial undertaking is set up or commercial production is commenced, whichever is later: Provided that fifty percent of the cost of the project including working capital is through owner equity foreign direct investment.”	Exemption granted subject to conditions.
19	In respect of tax year commencing on or after first July 2002, the rate of income tax in respect of income of amalgamated company for its different businesses shall be the same as applicable to such businesses in the relevant tax year for the tax year in which amalgamation takes place and two tax years next following.	Reduction in tax rate withdrawn
20	The rates of tax as specified in clause (b) of Division – III of Part – I of First Schedule shall be reduced to 7.5% in case of dividend declared or distributed on share of a company set up for power generation	Reduction in tax rate withdrawn and reinserted in First Schedule.
23	In respect of Urea.....federal excise duty], if any levied thereon	Reduction in tax rate withdrawn and reinserted in First Schedule.
24	In respect of pulses imported.....federal excise duty, if any, levied thereon.	Reduction in tax rate withdrawn and reinserted in First Schedule.
24B	In case of Steel Melters.....by 30 th June 2012.	Reduction in tax rate withdrawn
26	The rate of tax as specified in.....Advertising Agents....of the amount of the payment.	Reduction in tax rate withdrawn and reinserted in First Schedule with enhanced tax rate.
29	The rate of tax under section.....under the	Clause deleted for

	Sales Tax Act, 1990	technical corrections.
30	The rate of tax as specified.....Part IV of this Schedule.	Clause deleted for technical corrections.

PART – III
Reduction in Tax Liability

Clause	Description	Our Comments
1	Any amount received as- (a) Flying allowance by flight engineers, navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority, Junior Commissioned Officers or other ranks of Pakistan Armed Forces; andbasic salary.	Reduction against flying allowance for Pilots proposed to be omitted.
1A	Where the taxable income.....reduced by 50%.	Reduction in tax liability withdrawn and reinserted in First Schedule.
1AA	Total allowances received by pilots of any Pakistani airlines shall be taxed at a rate of 7.5%, provided that the reduction under this clause shall be available to so much of the allowances as exceeds an amount equal to the basic pay.	Exemption granted
5	The tax payable under clause (c) of sub-section 1 of section 39, in respect of any amount paid as yield or profit on investment in Behbood Savings Certificate or Pensioners Benefit Account shall not exceed 10% of such profit.	Reduction in tax liability withdrawn.
7	Where any taxpayer.....reduced by eighty percent.	Reduction in tax liability withdrawn and reinserted in First Schedule.
8	For the distributors of pharmaceutical products, fertilizers, consumers' goods including fast moving consumer goods, the rate of minimum tax on the amount representing their annual turnover under section 113 shall be reduced by eighty percent.	Reduction in tax liability withdrawn for consumer goods including fast moving consumer goods others reinserted in First Schedule.
9	In cases of oil marketing companies.....exceeds rupees one billion.	Reduction in tax liability withdrawn and reinserted in First Schedule.
10	For cases of flour mills.....reduced by eighty percent.	Reduction in tax liability withdrawn and reinserted in First Schedule.

11	The amount of surcharge.....and a half months.	Clause deleted for technical corrections.
12	For the case of M/s Pakistan International Airlines Corporation.....reduced by fifty percent.	Reduction in tax liability withdrawn and reinserted in First Schedule.
13	For the petroleum agents.....reduced by eighty percent.	Reduction in tax liability withdrawn and reinserted in First Schedule.
14	For the poultry industry.....reduced by eighty percent.	Reduction in tax liability withdrawn and reinserted in First Schedule.
15	For the motorcycle dealers.....reduced by seventy five percent.	Reduction in tax liability withdrawn and reinserted in First Schedule.

PART – IV
Exemption from Specific Provisions

Clause	Description	Our Comments
9A	Provisions of clause (a) of sub-section (1) of section 153, shall not apply to steel melters , steel re-rollers , composite steel units, as a payer, in respect of purchase of scrap, provided that tax is collected in accordance with section.	Exemption granted
9AA	Provisions of clause (a) of sub-section (1) of section 153, shall not apply to ship breakers as recipient of payment: Provided that this clause shall only apply for ships imported after the 1st July 2014.	Exemption granted
10	The provisions of section 111.....after the said date.	Exemption withdrawn
10A	The provisions of serial No. 5.....Sawabi and Mardan.	Exemption withdrawn
11A(v)	Companies qualifying for exemptions under clause (132) and clause (132B) of Part – I of this Schedule, in respect of receipts from sale of electricity.	Exemption granted to coal mining project in Sindh, supplying coal exclusively to power generation projects.
38B	The provisions of section 150 shall not apply to the Islamic Development Bank.	Exemption withdrawn and reinserted in clause 38C.
38C	The provisions of section 150, 151, 152, 153	Exemption withdrawn

	and 233 shall not apply to the Islamic Development Bank.	
41A	The provisions of sub-section (7) of section 148 and clause (a) of sub-section (1) of section 169 shall not apply in respect of a person if he opts out of presumptive tax regime subject to the condition that minimum tax liability under normal tax regime shall not be less than 60% of tax already collected under sub-section (7) of section 148.	Exemption to opt normal tax regime for commercial importer withdrawn
41AA	The provisions of sub-section (4) of section 154 and clause (b) of subsection (1) of section 169 shall not apply in respect of a person if he opts out of presumptive tax regime subject to the condition that minimum tax liability under normal tax regime shall not be less than 50% of tax already deducted under subsection (4) of section 154	Exemption to opt normal tax regime for commercial exporter withdrawn
41AAA	The provisions of clause (a) of sub-section (1) of section 153 and clause (b) of sub-section (1) of section 169 shall not apply in respect of a person if he opts out of presumptive tax regime subject to the condition that minimum tax liability under normal tax regime shall not be less than 70% of tax already deducted under clause (a) of sub-section (1) of section 153.	Exemption to opt normal tax regime for suppliers and service providers withdrawn
41B	The provisions of sub-section (2).....establishment in Pakistan.	Exemption withdrawn
56B	The provisions of sub-section (7) of section 148, and clause (a) of sub-section (1) of section 169 shall not apply to a person being a commercial importer if the person opts to file return of total income along with accounts and documents as may be prescribed, subject to the condition that minimum tax liability under normal tax regime shall not be less than 5.5%, of the imports, if the person is a company and 6% otherwise.	Relaxation granted
56C	The provisions of sub-section (3) of section 153, in respect of sale of goods and clause (a) of sub-section (1) of section 169 shall not apply to a person, if the person opts to file return of total income along with accounts and documents as may be prescribed subject to the condition that minimum tax liability under normal tax regime shall not be less than 3.5% of the gross amount of sales, if the person is a company and 4% otherwise.	Relaxation granted
56D	The provisions of sub-section (3) of section 153,	Relaxation granted

	in respect of contracts and clause (a) of sub-section (1) of section 169 shall not apply to a person if the person opts to file return of total income along with accounts and documents as may be prescribed subject to the condition that minimum tax liability under normal tax regime shall not be less than 6% of contract receipts, if the person is a company and 6.5% otherwise.	
56E	The provisions of sub-section (2) of section 153 and clause (a) of sub-section (1) of section 169 shall not apply in respect of a person if the person opts to file return of total income along with accounts and documents as may be prescribed subject to the condition that minimum tax liability under normal tax regime shall not be less than 0.5% of gross amount of services received.	Relaxation granted
56F	The provisions of sub-section (2) of section 156A and clause (a) of sub-section (1) of section 169 shall not apply in respect of a person if the person opts to file return of total income along with accounts and documents as may be prescribed, subject to the condition that minimum tax liability under normal tax regime shall not be less than 10% of the commission or discount received.	Relaxation granted
56G	The provisions of sub-section (3) of section 233 and clause (a) of sub-section (1) of section 169 shall not apply in respect of a person if the person opts to file return of total income along with accounts and documents as may be prescribed, subject to the condition that minimum tax liability under normal tax regime shall not be less than 10% of the commission.	Relaxation granted
57	Explanation.- For the removal of doubt, exemption under this clause, in respect of section 153, shall only be available as a recipient and not as withholding agent.	Clarification inserted
80	The provisions of section 153A shall not apply to any manufacturer till 30 th June 2013.	Clause deleted for technical corrections.
84	For tax year 2013.....by the Board.	Clause deleted for technical corrections.
85	The provisions of section 114(6)(ba).....for tax year 2013.	Clause deleted for technical corrections.
87	The provisions of sections 182, 205, 177 and 214C.....of February 2014.	Clause deleted for technical corrections.
88	The provisions of sections 182, 205, 177 and 214C.....of February 2014.	Clause deleted for technical corrections.

Third Schedule

PART – II Initial Allowance and First Year Allowance

Clause	Description	Our Comments
1	The rate of initial allowance under section 23 on buildings is proposed to be reduced to 10% from 25%.	Deduction reduced

Seventh Schedule

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

Clause	Description	Our Comments
6	The net income from “Dividend” and net income from “Capital Gains on Sale of Shares of Listed Companies” shall be taxed at the rate of ten percent and twelve and a half respectively.	Rules proposed to be amended to allocate expenses against dividend and capital gain alongwith increase in tax rate for capital gain.

Formula for calculation of net income from Dividend & Capital Gains

6A	<p>For the purpose of Rule 6, net income from dividend shall be computed according to the following formula, namely:-</p> $(A/C) \times B$ <p>where-</p> <p>A is the total amount of expenditure as per this Schedule; B is the gross amount of dividend received; and C is the gross amount of receipts including dividend.</p>	Formula proposed to calculate net income from Dividend against allowable expenses
6B	<p>For the purpose of rule 6, net income from capital gains shall be computed according to the following formula, namely:-</p> $(A/C) \times B$	Formula proposed to calculate net income from Capital Gain against allowable expenses

	<p>where-</p> <p>A is the total amount of expenditure as per this Schedule;</p> <p>B is the gross amount of capital gains; and</p> <p>C is the gross amount of receipts including capital gains.”</p>	
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Sales Tax Act, 1990



SALES TAX

Definitions

Retail Price

Existing

“retail price”, with reference to the Third Schedule, means the price fixed by the manufacturer..... the highest of such price;

“Proviso shall be added”

Section (2) Sub Section (27)

Proposed Amendment

for the semicolon at the end a colon shall be substituted,

“Provided that the Board may through a general order specify zones or areas for the purpose of determination of highest retail price for any brand or variety of goods;”;

OUR COMMENTS: The amendment will empower the Federal Board of Revenue to specify zones or areas for determination of highest retail price of any brand or variety of goods by adding a proviso in definition of ‘retail price’.

Scope of tax

Existing

(a) taxable supplies specified in the Third Schedule shall be charged to tax.....Schedule or include any taxable supply therein; and

“New clause shall be added”

Section (3) (2) Clause (aa) and

Sub Section 3B

Proposed Amendment

(a), in the proviso, the word “and”, at the end, shall be omitted; and

“(aa) goods specified in the Eighth Schedule shall be charged to tax at such rates and subject to such conditions and limitations as specified therein; and”;

“(3B) Notwithstanding anything contained in sub-sections (1) and (3), sales tax on the import and supply of the goods specified in the Ninth Schedule to this Act shall be charged, collected and paid at the rates, in the manner, at the time, and subject to the procedure and conditions as specified therein or as may be prescribed, and the liability to charge, collect and pay the tax shall be on the persons specified therein.”;

“New sub-section shall be added”

OUR COMMENTS: Presently, various sectors are being charged to sales tax at reduced rates by virtue of SROs issued by the Federal Board of Revenue. In accordance with the policy of reviewing SROs, various SROs are being transposed to Schedules by amending existing Schedules and introducing new Schedules to the Sales Tax Act, 1990. Accordingly, new clause (aa) of sub-section 2 of Section 3 and a new sub-section (3B) are being proposed to be inserted aiming to transpose items of

Scope of tax

Section (3) (2) Clause (aa) and Sub Section 3B

various SROs to Eighth and Ninth Schedules with certain changes therein. Further details are given in the Fifth, Sixth, Eighth & Ninth Schedules.

Scope of Tax

Existing

Notwithstanding the rate of sales tax as contained in sub-section (1) and notwithstandingthe 1st day of July 2007.

Explanation.- The rate of nine per.....of nine per cent.

Section 3 (8)

Proposed Amendment

Notwithstanding anything contained in any law or notification made thereunder, in case of supply of natural gas to CNG stations, the Gas Transmission and Distribution Company shall charge sales tax from the CNG stations at the rate of seventeen per cent of the value of supply to the CNG consumers, as notified by the Board from time to time, but excluding the amount of tax, as provided in clause (46) of section 2.”;

OUR COMMENTS: The amendment was made earlier through Sales Tax (amendment) Ordinance, 2014 dated March 24, 2014 to charge sales tax from the CNG stations at an enhanced rate of seventeen percent. It is now being proposed to get approval of the Parliament to the changes made through the Presidential Ordinance.

Scope of Tax

Existing

“New sub-section shall be added”

Section 3(9)

Proposed Amendment

Notwithstanding anything contained in sub-section (1), tax shall be charged from retailers through their monthly electricity bills, at the rate of five per cent where the monthly bill amount does not exceed rupees twenty thousand and at the rate of seven and half per cent where the monthly bill amount exceeds the aforesaid amount, subject to the exclusions, procedure, restrictions and limitations as prescribed in Chapter II of the Sales Tax Special Procedure Rules, 2007:

Provided that the tax under this sub-section shall be in addition to the tax payable on supply of electricity under sub-sections (1), (1A) and (5).”;

OUR COMMENTS: As a measure to widen the scope of sales tax, it is being proposed to bring the retailers into the tax net on the basis of their electricity consumption. The Finance Bill seeks to charge sales tax to retailers by introducing a new sub-section (9)

Scope of Tax

Section 3(9)

in Section 3 to the Sales Tax Act, 1990, whereby, the retailers are proposed to be charged to sales tax as under:

- Where Retailer's monthly electricity consumption is upto Rs 20,000 5 %
- Where Retailer's monthly electricity consumption exceeds Rs 20,000 7.5%

Collection of Excess Tax, Etc

Existing

(1) Any person who has collected or collects any tax or charge.....or charge so collected to the Federal Government.

(2) Any amount payable to the Federal Government shall be admissible.

(3) The burden of proof that the incidence of tax or collecting the tax or charge.]

Section 3B Sub Section (2)

Proposed Amendment

Notwithstanding anything contained in any law or judgment of a court, including the Supreme Court and a High Court, any amount payable to the Federal Government under sub-section (1) shall be deemed to be an arrear of tax or charge payable under this Act and shall be recoverable accordingly and any claim for refund in respect of such amount shall neither be admissible to the registered person nor payable to any court of law or to any person under direction of the court."

OUR COMMENTS: The amendment made earlier through Sales Tax (amendment) Ordinance, 2014 dated March 24, 2014 in respect of collection of excess tax as arrear despite anything contained in any law or judgment of the Court including the Supreme Court and a High Court. It is being proposed to get approval of the Parliament to the changes made through the President Ordinance.

Zero rating

Existing

such other goods as may be specified by the Federal Board of.....engaged in the manufacture and supply of zero-rated goods.

Section 4 clause (d)

Proposed Amendment

for the words "zero-rated goods", the words "goods supplied at reduced rate of sales tax" shall be substituted;

OUR COMMENTS: Amendment in clause (d) of Section 4 of the Sales Tax Act, 1990 is being proposed to give effect to the current scheme of law and to suitably align it with the existing scheme.

Determination of Tax Liability

Existing

the purpose of determining his tax

Section 7 Sub Section (1)

Proposed Amendment

for the word "section", occurring for the

Determination of Tax Liability

liability in respect of taxable supplies made.....such other adjustments as are specified in Section 9

Provided that where a registered person did not deduct input tax within the relevant period, he may claim such tax in the return for any of the six succeeding tax periods.

Section 7 Sub Section (1)

first time, the words and figure “sections 8 and” shall be substituted;

after the words “output tax”, occurring for the first time, the commas, words, brackets and figures “, excluding the amount of further tax under sub-section (1A) of section 3,” shall be inserted;

OUR COMMENTS: Presently, for the determination of a person's tax liability, output tax includes further tax at the rate of one percent of the value of taxable supplies made to a person who has not obtained registration number. The Finance Bill seeks to make appropriate amendments in Section 7 of the Sales Tax Act, 1990 to specifically exclude the further tax from the purview of output tax for determination of a person's tax liability.

Determination of Tax Liability

Existing

“New clause shall be added”

Section 7(2) clause (iiia)

Proposed Amendment

the goods and services against which input tax is claimed are,—

(a) imported or purchased for the purpose of sale or re-sale by the registered person on payment of tax;

(b) used directly as raw material, ingredient, part, component or packing material by the registered person in the manufacture or production of taxable goods;

(c) electricity, natural gas and other fuel consumed directly by the registered person in his declared business premises for the manufacture, production or supply of taxable goods; or

(d) plant, machinery and equipment used by the registered person in his declared business premises for the manufacture, production or supply of taxable goods.”;

“New clause shall be added”

OUR COMMENTS: To restrict the undue claims of input tax, Finance Bill seeks to limit the input tax adjustments only to the extent of goods and services actually used in manufacturing or sales of the taxable activity. Accordingly, a new clause (iiia) is being proposed to be inserted in sub-section (2) of Section 7 that restrict the input tax adjustment only to the goods and services which are:

Determination of Tax Liability**Section 7(2) clause (iiia)**

- Imported or purchased for the purpose of sale;
- Used directly as raw material, ingredient, part, component or packing material in the manufacture or production of taxable goods;
- Electricity, natural gas and other fuel consumed directly by the registered person in his declared business premises; or
- Plant, machinery and equipment used by the registered person in his declared business premises.

Tax Credit Not Allowed**Existing**

“New clause shall be added”

Section (8) Sub Section (1) Clauses (f) to (i)**Proposed Amendment**

(f) goods and services not related to the taxable supplies made by the registered person;

(g) goods and services acquired for personal or non-business consumption;

(h) goods used in, or permanently attached to, immoveable property, such as building and construction materials, paints, electrical and sanitary fittings, pipes, wires and cables, but excluding such goods acquired for sale or re-sale or for direct use in the production or manufacture of taxable goods; and

(i) vehicles falling in Chapter 87 of the First Schedule to the Customs Act, 1969 (IV of 1969), parts of such vehicles, electrical and gas appliances, furniture, furnishings, office equipment (excluding electronic cash registers), but excluding such goods acquired for sale or re-sale.”

“New clause shall be added”

OUR COMMENTS: To restrict the undue input tax credit, Finance Bill seeks to limit the input tax adjustments only to the extent of goods and services actually used in manufacturing or sales of the taxable activity. Accordingly, new clauses from (f) to (i) are being proposed to be inserted in Section 8 of the Sales Tax Act, 1990 that restrict a registered person not to be entitled to reclaim or deduct input tax paid on:

- Goods and services not related to the taxable supplies;

Tax Credit Not Allowed**Section (8) Sub Section (1) Clauses (f) to (i)**

- Goods and services acquired for personal or non-business consumption;
- Goods used in immovable property, such as building and construction materials, paints, electrical and sanitary fittings, pipes, wires and cables; and
- Vehicles falling in Chapter 87 of the First Schedule to the Customs Act, 1969, parts of such vehicles, electrical and gas appliances, furniture, furnishings, office equipment (excluding electronic cash registers).

Posting of Inland Revenue Officer**Existing****Section (40B)****Proposed Amendment****“New explanation shall be added”**

Explanation: For the removal of doubt, it is declared that the powers of the Board, Chief Commissioner and Commissioner under this section are independent of the provisions of section 40.

OUR COMMENTS: For clarity purposes and to remove the ambiguity, an explanation is being proposed to be added in Section 40B which explains that the powers of the Federal Board of Revenue, Chief Commissioner and Commissioner, for posting of Inland Revenue Officer to monitor production and sales of taxable goods, are independent of the provisions of Section 40 which empowers Officers of Inland Revenue to search any place after obtaining a warrant from the magistrate.

Electronic scrutiny and intimation**Existing****“New Section shall be added”****Section 50 (B)****Proposed Amendment**

(1) The Board may implement a computerized system for the purpose of automated scrutiny, analysis and cross-matching of returns and other available data relating to registered persons and to electronically send intimations to such registered persons about any issue detected by the system.

(2) The intimation sent by the computerized system under sub-section (1) shall be in the nature of an advice or advance notice, aimed at allowing the registered person to clarify the issue, rectify any mistake or take other corrective action before any legal or penal action is initiated.

Electronic scrutiny and intimation

“New Section shall be added”

Section 50 (B)

(3) The computerized system shall keep record of the issues detected, intimations sent, responses received and actions taken, and shall present such information to the officer of Inland Revenue and to the Board in the prescribed manner.

“New Section shall be added”

(4) The Board may prescribe procedures and specifications for the smooth and efficient operation of the computerized system.”

OUR COMMENTS: Being a procedural measure, the Finance Bill seeks to introduce a new Section 50B to empower the Federal Board of Revenue to implement a computerized system for the purpose of automated scrutiny, analysis and cross-matching of returns and other available data relating to registered persons and to electronically send intimation about any issue detected by the system. The proposed Section further empowers the Board to prescribe procedures and specifications for the smooth and efficient operation of the computerized system.

The Fifth Schedule

Presently, various sectors of the economy are being charged to sales tax at reduced rates through issuing SROs by the Federal Board of Revenue. In accordance with the policy of reviewing SROs, various SROs are being transposed to Schedules by amending existing Schedules and introducing new Schedules to the Sales Tax Act, 1990. A brief summary of changes proposed to be made in these SROs and Schedules is as under:

Raw materials for Export Oriented Sectors

Transposition of SRO 549(I)/2008, dated June 11, 2008 to the Fifth Schedule. This notification grants zero-rating on certain goods, including petroleum crude oil, certain raw materials for export oriented sectors, etc. Since this zero-rating is considered essential, while the notification is required to be deleted, it is proposed to transfer the items in the notification to the Fifth Schedule to the Sales Tax Act, 1990.

Input Materials for Dairy and Stationary Industry

Transposition of zero-rating facility for dairy and stationery industry and input materials of these industries is being proposed. The facility of zero-rating has already been provided under SRO 670(I)/2013 dated July 18, 2013. The facility is retained and the same is proposed to be incorporated in the Fifth Schedule.

The Sixth Schedule

Crude Palm Oil to be in Line with Other Edible Oils

Uniform treatment of crude palm oil is being proposed so that exemption of sales tax and charging Federal Excise Duty is being done as in case of other edible oils.

Various Items of Pharmaceutical, Medical, Energy Savers, Raw cotton, etc. transferred to Sixth & Eighth Schedules

Transposition of SRO 551(I)/2008, dated June 11, 2008 to the Sixth Schedules with certain changes. This notification grants exemption to a number of goods such as raw material for pharmaceutical industry, iodized salt, medical equipment, components of energy saver lamps, renewable energy items, raw cotton and oil seeds for sowing etc. It is proposed to continue the exemption on certain items i.e. at S. No. 3, 4, 5, 7, 11, 13, 14, 16 and 29 of this SRO by transferring them to the Sixth Schedule of the Sales Tax Act, 1990. Re-melt able scrap (S. No. 31) is proposed to be deleted while oilseed for sowing, and raw and ginned cotton (S. No. 10 and 33) are proposed to be charged to reduced rate of sales tax of 5 percent by transferring them to the newly proposed Eighth Schedule of the Sales Tax Act, 1990. However, local supply of raw and ginned cotton shall remain exempt by transferring to the Sixth Schedule.

The Eighth Schedule

Plant and Machinery not Manufactured Locally

Transposition of SRO 727(I)/2011 to Eighth Schedule with 5 percent rate of sales tax. This notification grants exemption on import and supply of plant and machinery not manufactured locally subject to certain conditions. It is proposed to charge sales tax at reduced rate of 5 percent on such plant and machinery, subject to the same conditions, by transferring the notification to the Eighth Schedule of the Sales Tax Act, 1990.

Transposition of Various Items, etc

Transposition of SRO 501(I)/2013 dated June 12, 2013 to the Fifth, Sixth and Eighth Schedules with certain changes. This notification grants exemption to certain goods. It is proposed to charge sales tax at reduced rate of 5 percent on soya bean meal, oil cake and directly reduced iron (S. No. 15, 16 and 21) by transferring them to the Eighth Schedule to the Sales Tax Act, 1990. Purpose built taxis (S. No. 25) is proposed to be deleted, being redundant. Exemption on socially sensitive goods, such as wheelchairs and energy saver lamps, is proposed to be retained by transferring them to the Sixth Schedule to the Sales Tax Act, 1990.

The Ninth Schedule

The Finance Bill seeks to insert the Ninth Schedule to the Sales Tax Act, 1990 wherein introducing the specific rates of sales tax on mobile phones to protect the revenue and strengthening the legal support for charging of sales tax. The insertion is proposed to be made in following manner:

Description / Specification of Goods	Sales tax payable at the time of import	Sales tax payable at the time of registration of a new IMEI number
A. Low Priced Cellular Mobile Phones or Satellite Phones: i. All cameras: 2.0 mega-pixels or less ii. Screen size: 2.6 inches or less iii. Key pad	Rs 150 per phone	Rs 250 per registration
B. Medium Priced Cellular Mobile Phones or Satellite Phones: i. One or two cameras: between 2.1 to 10 mega-pixels ii. Screen size: between 2.6 inches and 4.2 inches iii. Micro-processor: less than 2 GHZ	Rs 250 per phone	Rs 250 per registration
C. Smart Cellular Mobile Phones or Satellite Phones: i. One or two cameras: 10 mega-pixels and above ii. Touch Screen: size 4.2 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	Rs 500 per phone	Rs 250 per registration

Liability, Procedure and Conditions

- i. The liability to pay sales tax at the time of import of cellular mobile phones or satellite phones shall be on the importer, and the liability to pay sales tax at the time of registration of a new International Mobile Equipment Identity (IMEI) number for the first time shall be on the Cellular Mobile Operator who registers the IMEI number in its system.
- ii. The Cellular Mobile Operators shall, if not already registered, obtain registration under the Sales Tax Act, 1990.
- iii. No IMEI shall be registered by a Cellular Mobile Operator without charging and collecting the sales tax as specified in the Table.
- iv. The Cellular Mobile Operator shall deposit the sales tax so collected through his monthly tax return in the manner prescribed in section 26 of the Sales Tax Act, 1990, and rules made thereunder.
- v. The Cellular Mobile Operator shall maintain proper records of all IMEI numbers registered for a period of six years, and such records shall be produced for inspection, audit or verification, as and when required, by an authorized officer of Inland Revenue.
- vi. The Pakistan Telecommunication Authority shall provide data regarding IMEI numbers registered with other Cellular Mobile Operators to prevent double taxation on the same IMEI number in case of switching by a subscriber from one operator to another, and to provide data regarding registration of IMEI numbers to the Board on monthly basis.
- vii. No adjustment of input tax shall be admissible to the Cellular Mobile Operator or any purchaser of cellular mobile phone against the sales tax charged and paid in terms of this Schedule.”.
- viii. Notwithstanding anything contained in any other law for the time being in force, the levy, collection and payment of sales tax under Notification No. S.R.O. 460(I)/2013 dated the 30th May, 2013, shall be always deemed to have been lawfully and validly, levied, collected and paid in accordance with sub-section (3B) of section 3 of the Sales Tax Act, 1990.

Further, the ‘salient features’ of Finance Bill provide the following proposed amendments

Rationalization of sales tax on steel sector, ship breakers and steel melters operating in the sugar mills

Registration of retailers whereby retailers part of national and international chains, located in air-conditioned malls having debit and credit machines.

Replacement of capacity tax on aerated waters. The capacity regime has led to excessive litigation and the Lahore High Court has passed order against the scheme. Therefore, the existing scheme shall be reverted to the normal tax regime.

Rescission of SRO 69(I)/2006, dated January 28, 2006. This notification grants reduced rate of sales tax 14 percent to rapeseed, sunflower seed and canola seed by solvent extraction industries. It is proposed to rescind the said notification, thereby charging standard rate of sales tax (17 percent) on these seeds.

SRO 1125(I)/2011 is being revisited and it is proposed to amend the said SRO to provide for charging of sales tax at the standard rate of 17 percent on the import of finished articles of leather and textile.

Reduction in rate of sales tax on local supply of tractors is being proposed in order to promote farm mechanization.



Other Laws

Other Laws

Federal Excise Duty

OUR COMMENTS: The Finance Bill seeks to empower the Federal Board of Revenue to specify zones or areas for determination of highest retail price of any brand or variety of goods through proposing a suitable amendment in the Act.

The First Schedule

Tobacco Sector

An amendment is being proposed to be made in the First Schedule to the Federal Excise Act, 2005 to replace the structure of chargeability of FED on cigarettes. The existing and proposed rates structure is as under:

Description	Existing	Proposed
Locally produced cigarettes if their on-pack printed retail price exceeds Rs 2,286 (Proposed: Rs 2,706) per thousand cigarettes	Rs 2,325 per thousand cigarettes	Rs 2,632 per thousand cigarettes
Locally produced cigarettes if their on-pack printed retail price exceeds Rs 2,286 (Proposed: Rs 2,706) per thousand cigarettes	Rs 880 per thousand cigarettes	Rs 1,085 per thousand cigarettes

Cement Sector

The Finance Bill seeks to replace the Federal Excise Duty on cement sector (comprising portland cement, aluminous cements, Super sulphate cements, whether or not coloured or in the form of clinkers) from existing specific rate of Rs 400 per metric ton to five (5) percent on retail price.

Automobile Sector

Federal Excise Duty at the rate of ten (10) percent was imposed on motor cars, Sports Utility Vehicles (SUVs) and other motor cars exceeding 1800cc through Finance Act, 2013. Increase in the prices had adversely affected sales resulting in decline in revenue besides hurting the local industry. Therefore, it is proposed to withdraw this Duty on locally manufactured motor vehicles exceeding 1800cc and impose on imported motor cars, Sports Utility Vehicles (SUVs) and other imported motor cars exceeding 1800cc vehicles.

Travel and Communication

Through Finance Bill 2014, an amendment is being proposed to be made in Table II of the First Schedule to the Federal Excise Act, 2005 to enhance the chargeability of FED on international travel. The existing and proposed rates structure is as under:

Description	Existing	Proposed
Economy and economy plus	Rs 3,840	Rs 5,000
Club, business and first class	Rs 6,840	Rs 10,000

Presently, all the telecommunication services are being charged to Federal Excise Duty at the rate of 19.5 percent. The Finance Bill 2014 seeks to exclude the 'telecommunication services subject to Provincial Sales Tax' from the ambit of chargeability of Duty. It is further proposed to reduce the rate of Duty on these services to 18.5 percent in view of increase in the scope of telecommunication services with the advent of 3G and 4G technologies.

It is being proposed to levy Federal Excise Duty at the rate of sixteen percent on chartered flights. A brief analysis is as under:

Description	Existing Rate	Proposed Rate
Telecommunication services	19.5%	18.5%
Telecommunication services subject to Provincial Sales Tax	19.5%	NIL
Chartered flights	NIL	16%

CUSTOMS ACT, 1969 (IV OF 1969)

Proposed Amendments

Section 2(k) & (m) - Customs-station & Land customs-station	It is proposed to merge clause 'm' in clause 'k' for a single definition of customs-stations.
Section 7-Assistance to the officers of customs	Section 7 is being amended to correct the nomenclature that is 'Federal Excise' instead of 'Central Excise'.
Section 18 - Goods dutiable	A new subsection 1A is being inserted after subsection 1 in the Fifth Schedule to levy specified conditional rates of customs duty on goods and class of goods.
Section 18A - Special Custom duty on imported goods	Section 18A is being corrected by substituting words, figure and brackets "Central Excise and Salt Act, 1944 (I of 1944)" with the words and figures "the Federal Excise Act 2005".
Section 25 - Value of imported and exported goods	The bill proposes to omit clause (d) of sub-section (5) of section 25 in order to ensure rational applicability of valuation data in cases of imported goods. Resultantly, reference to clause (d) in subsection (6) is also being omitted
Section 32 - False statement error, etc.	Word taxes in subsection (2), (3) and (3A) of section 32 is being inserted to recover non-levied and short levied taxes.
Section 80 - Checking of goods declaration by the customs	The bill seeks to insert the comma and the words "taxes and other charges levied thereon" after the word "duty" in sub-section (3) of section 80, to include taxes and other charges along with duty on reassessment of goods.
Section 81 - Provisional determination of liability	For the purpose of uniformity of the two provisions in sub-section (1) of section 81, the words taxes and other charges are being inserted.
Section 185B - Special judge, etc. to have exclusive jurisdiction	The bill seeks to make necessary changes for cases involving narcotics and narcotics substances by substituting existing clause (a) with the new one. Under the Control of Narcotics Substances Act, 1997 cases involving narcotics and narcotic substances are to be tried in Special Courts created under the said Act.
Section 194 - Appellate Tribunal	The bill proposes to amend subsection (3) of section 195 to be in line with section 202B by substituting words "Customs and Excise Group" with the words "Pakistan Customs Services". Further it is also proposed to reduce the experience of senior collector from 5 to 3 years for appointment as technical member of Appellate Tribunal.

Amendments in the First Schedule

The First Schedule is being amended by substituting few customs tariff appearing in chapter 1 to 99. Details are as under:

Reduction in Customs Tariff			
S. No	Tariff Type / Product Name	Existing	Proposed
1.	Maximum general tariff	30%	25%
2.	UPS (Un-interrupted Power Supply) of 1.5 KVA	20%	15%

Increase in Customs Tariff			
S. No	Tariff Type / Product Name	Existing	Proposed
1.	Flat rolled products of alloy steel	0 and 5%	10%
2.	Network equipment	5%	10%
3.	Coloring matters	5%	10%

Introduction in Customs Tariff			
S. No	Tariff Type / Product Name	Existing	Proposed
1.	Livestock animals including cows, bulls, oxen, male goat and their carcasses	Nil	1%
2.	Vegetables including tomatoes, onions, garlic, mushrooms, green beans, bulbs, various kinds of seeds, red chili, pepper, poly flowers, roses, chicory plants, kidney beans and pigeon peas.	Nil	1%
3.	Fuels, chemicals and fertilizers including the products having nature as mentioned above	Nil	1%
4.	Various kinds of goods and alloys including spin finish oil, printing gum etc.	Nil	1%
5.	IT equipment including the items as detailed in the schedule	Nil	1%
6.	DVDs and CDs	Nil	10%
7.	Energy saving lamps/tubes, battery blades, fully dedicated CNG/LPG buses	Nil	1%
8.	Generators having capacity above 1100KVA.	Nil	5%
9.	Dyes except basic dyes and indigo blue dyes used in textile	Nil	15%
10.	Satellite mobile phones whether or not functional on cellular networks	Nil	10%
11.	Dryers	Nil	10%
12.	Liquid paraffin and white oil	Nil	10%

Amendments In Second Schedule

The bill proposes to add the Fifth Schedule as a provision in second schedule to the Custom Act, 1969. The Fifth Schedule has following four parts:

Part-I

Import of Plant, Machinery, Equipment and Apparatus, Including Capital Goods for Various Industries/Sectors.

In order to avail the benefits given under this Part read with section 18 of the Customs Act, 1969 the following conditions shall apply besides the specific condition of particular imported plant, machinery, equipment and Apparatus:-

- (i) the imported goods as are not listed in the locally manufactured items, notified through a Customs General Order issued by the Federal Board of Revenue (FBR) from time to time or, as the case may be, certified as such by the Engineering Development Board; 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,
- (ii) the person next in hierarchy duly authorized by the Chief Executive or Head of the importing company shall certify in the prescribed manner and format that the imported items are the company's bonafide requirement. He shall furnish all relevant information online to Pakistan Customs Computerized System against a specific user ID and password.
- (iii) in case of partial shipments of machinery and equipment for setting up a plant, the importer shall, at the time of arrival of first partial shipment, furnish complete details of the machinery, equipment and components required for the complete plant, duly supported by the contract, lay out plan and drawings.

Explanation.- Capital Goods mean any plant, machinery, equipment, spares and accessories, classified in chapters 84, 85 or any other chapter of the Pakistan Customs Tariff, required for-

- a) the manufacture or production of any goods, and includes refractory bricks and materials required for setting up a furnace, catalysts, machine tools, packaging machinery and equipment, refrigeration equipment, power generating sets and equipment, instruments for testing, research and development, quality control, pollution control and the like; and
- b) use in mining, agriculture, fisheries, animal husbandry, floriculture, horticulture, livestock, dairy and poultry industry;

Fruit Farming Sector

In order to encourage industrialization and promote fruit cultivation, plant, machinery and equipment imported for setting up fruit processing and preservation industrial units in Gilgit-Baltistan, Balochistan and Malakand division are being exempted from whole of Customs Duty, whereas plant, machinery and equipment imported for setting up industries in FATA are also exempted from Customs Duty. Following reduced custom duty is leviable under this part;

1. Custom duty of 0% is levied on following plant, machinery and equipment with specific conditions;

High efficiency irrigation and drainage equipment, greenhouse farming and other greenhouse equipment (except geo-synthetic liners, PP/PE Geo synthetic films of more than 500 microns), machinery, equipment, materials, capital goods specialized vehicles (4x4 non luxury) i.e single or double cabin pickups, accessories, spares, chemicals and consumables meant for mineral exploration phase, construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the exploration phase, coal mining machinery, equipment, spares including vehicles for site use i.e. single or double cabin pickups for site use imported for Thar Coal Field, machinery equipment and spares meant for initial installation balancing, modernization, replacement or expansion of projects for power generation through nuclear and renewable energy sources like solar, wind, micro-hydel bio-energy and hydrogen cell etc, construction machinery equipment and specialized vehicles, excluding passenger vehicles imported on temporary basis as required for the construction of power project, machinery equipment and other education and research related items imported by technical institutes, training institutes, research institutes, schools, colleges and universities, 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, machinery equipment and other project related items including capital goods for setting up of power generation plants, water treatment plants and other infrastructure related projects located in an area of 30 km around the zero point in Gwadar, items with dedicated use of renewable source of energy like solar, wind, geothermal etc, items for promotion of renewable energy technologies, plant machinery equipment and specific items used in production of bio-diesel.

Agricultural Machinery

2. Custom duty of 5% is levied on following agricultural machinery if used for agriculture sector with specific conditions;

Fertilizer and plant protection equipment, harvesting and threshing machinery, dairy, livestock and poultry machinery, green house farming and

other greenhouse equipment, machinery, equipment and other capital goods for misc. agro based industries, horticulture and floriculture, fish or shrimp farming and seafood processing machinery and equipment.

Miscellaneous Sectors

3. Custom duty of 5% levied on following plant, machinery and equipment with specific conditions;

Machinery and equipment for development of grain handling and storage facilities including silos, cool chain machinery and equipment, Machinery and equipment for initial installation, balancing, modernization, replacement or expansion of desalination plants, coal firing system, gas processing plants and oil and gas field prospecting machinery, equipment, apparatus, and medical, surgical, dental and veterinary furniture, materials, fixtures and fittings imported by hospitals and medical or diagnostic institutes, the statutory rates in case such goods are not re-exported on conclusion of the project, the goods shall not be sold or otherwise disposed of without prior approval of the FBR and the payment of customs duties and taxes leviable at the time of import. These shall however be allowed to be transferred to other entitled mining companies with prior approval of the Board, machinery, equipment, materials, capital goods, specialized vehicles (4x4 non luxury) i.e. single or double cabin pickups, accessories, spares, chemicals and consumables meant for mine construction phase or extraction phase, Imports made for mine construction phase shall also be entitled to deferred payment of duty for a period of five years, construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for mine construction or extraction phase, machinery, equipment and spares meant for initial installation, balancing, modernization, replacement or expansion of projects for power generation through gas, coal, hydel and oil including under construction projects, construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the construction of project, machinery and equipment meant for power transmission and grid stations including under construction projects, 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, machinery and equipment for marble, granite and gem stone extraction and processing industries, machinery and equipment and other project related items for setting up of hotels located in an area of 30 km around the zero point in Gwadar, effluent treatment plants, wind water pump.

Industrial Sector

4. Custom duty of 10% is levied on following plant, machinery and equipment with specific conditions;

Complete plants for relocated industries, machinery and equipment imported by an industrial concern, proprietary formwork system for building/structures of a height of 100ft and above and its various items/components.

Communication Sector

5. Custom duty of 15% is levied on items imported by Call Centers, Business Processing Outsourcing facilities duly approved by Telecommunication Authority.

Part II

Import Of Active Pharmaceutical Ingredients, Excepients / Chemicals, Drugs, Packing Material / Raw Material For Packing And Diagnostic Kits And Equipments, Components And Other Goods

Import under this part shall be subject to following conditions, namely

- i. The active pharmaceutical ingredients, excepients / chemicals, packing material and raw material for packing shall be imported only for in-house use in the manufacture of specified pharmaceutical substances, as approved by the Drug Regulatory Agency of Pakistan.
- ii. The requirement for active pharmaceutical ingredients and excepients / chemicals, drugs as specified in Table A, B & C, shall be determined by the Drug Regulatory Agency of Pakistan;
- iii. The requirement for packing materials/raw materials for packing, as specified in Table-D, shall be determined by Input Output Coefficient Organization,
- iv. The designated/authorized representative person of Drug Regulatory Agency of Pakistan shall furnish all relevant information, as set out in this part, online to the Customs computerized system, accessed through the unique user identifier obtained under section 155 d of the Customs Act, 1969, along with the password thereof.

A custom duty at reduced rate of 5% shall be leviable on almost all import of active pharmaceutical ingredients, excepients / chemicals, packing materials / raw material for packing and diagnostic kits / equipment. However, custom duty rate shall vary from 0% to 10% in case of drugs.

Part-III

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

The imports under this part shall be subject to following conditions, besides the specific conditions:-

- i. Companies shall furnish all relevant information on line to the Customs Computerized System, accessed through the unique users identifier obtained under section 155d of the Customs Act, 1969, along with the password thereof, namely:-
 - a) Ministry of Industries, Production and Special Initiatives, in case of imported Vitamin H2 (feed grade);
 - b) M/s Lottee Chemical Pakistan Ltd, in case of imported fish feed; and
 - c) Ministry of Live stock and Dairy Development, in case of cattle feed premix.
- ii. The importer shall file the Goods Declaration online through Pakistan Customs Computerized System where operational, and through a normal hard copy in the Collectorates / Custom-stations, in which the Pakistan Customs Computerized System is not operational as yet.
- iii. In already computerized Collectorates and Custom-stations where the Customs Computerized System is not yet operational, the Director Reforms and Automation or any other authorized officer shall feed the requisite information about clearance/release of goods under this notification in the Customs Computerized System on daily basis, and the data obtained from the Custom-stations, which have not yet been computerized, on weekly basis.

A reduced custom duty rate varying from 0% to 10% on import of raw materials, inputs for poultry and textile sector and other goods will be levied in this part.

Part-IV

Miscellaneous

All imported goods under this part are chargeable / leviable to custom duty @ 0%.

Other Miscellaneous

Pakistan Telecommunication (Re-Organization) Act, 1996 (XVII OF 1996)

The bill proposes to amend Pakistan Telecommunication (Re-organization) Act, 1996 by omitting clause (c) of sub-section (4) of section 33A.

Section 33A Establishment of USF, clarifies to establish a Fund to be called the Universal Service Fund (USF) by the Federal Government by giving notification in the Official Gazette. As per subsection (4) of the said section the USF shall consist of –

- (a) grants made by the Federal Government and the Provincial Governments;
- (b) prescribed contribution by licensees;
- (c) sale proceeds from the auction of the right to use radio spectrum;
- (d) loans obtained from the Federal Government; and
- (e) grants and endowments received from other agencies.

As per the proposed amendment sale proceeds from the auction of the right to use radio spectrum shall not become the part of USF.

Controller General Of Accounts (Appointments, Functions And Powers) Ordinance, 2001 (XXIV Of 2001)

As per clause (b) of section **5. Function of the Controller General** of the said ordinance.

The functions of the Controller General shall be;

- (b) to authorize payments and withdrawals from the Consolidated Fund and Public Accounts of the Federal and Provincial Governments against approved budgetary provisions after pre-audited checks as the Auditor-General may, from time to time, prescribe;

The bill proposes to amend the above said clause (b), by inserting word “with the approval of president” after the word “may”. By this amendment the Auditor-General requires approval from president for pre-audit checks. Further following proviso shall be inserted at the end of the said clause;

“Provided that in case of exigency Ministry of Finance or Finance Departments, as the case may be, may authorize payments directly from the State Bank of Pakistan and submit such information to Controller General to enable him to record the transactions;”

Gas Infrastructure Development Cess Act, 2011 (XXI OF 2011)

The bill proposes amendments by inserting following proviso at the end of section **3. Levy of Cess** of the Gas Infrastructure Development Cess Act, 2011;

“Provided that the Federal Government may decide to levy any rate of Cess on any category of gas consumers subject to maximum rate provided in the Second Schedule.”

Further in Schedule I following two new serial numbers propose to be included in the definition of Company as per section 2(a);

“6. Oil and Gas Development Company Limited; and

7. Any other company engaged in sale of gas to any category of gas consumers as notified in the official gazette.”

And for existing Second schedule, the following shall be substituted, namely;-

THE SECOND SCHEDULE <i>[See Section 3]</i>		
S. No.	Sector	Maximum Rate of Cess (Rs/MMBTU)
(1)	(2)	(3)
1.	Fertilizer – Feed Stock	300
2.	Fertilizer – Fuel Stock	300
3.	Compressed Natural Gas (CNG)	300
4.	Industrial	300
5.	Captive Power	300
6.	WAPDA / KESC / GENCOs	300
7.	Independent Power Plants (IPPs)	300
8.	Commercial including Ice Factories	300
9.	Cement	300
10.	Liberty Power Plant	-
11.	Domestic	-

Income Support Levy Act 2013

The bill seeks to repeal The Income Support Levy Act 2013.