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Notice:

RASG is also pleased to notify its valued clients, friends and associates that our website, ***www.rasgco.com*** *has been uploaded with a specific interactive section of the Tax Commentary, 2008 and a digital copy of the Commentary can also be downloaded in 'PDF' format.*

Special Thanks:

For the excellent teamwork displayed by the staff of RASG as well as our other associates and printers during the preparation of this document.

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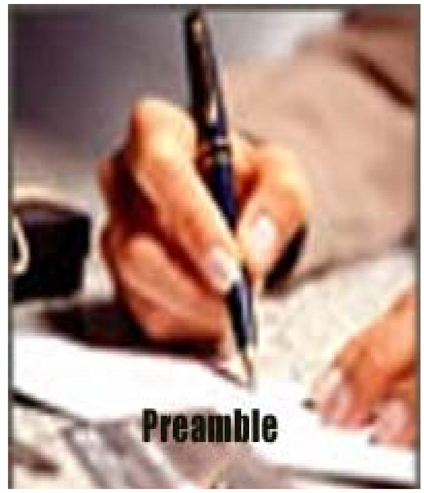
Preamble

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, 2008.*



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

This year's budget again does not provide any long term strategy as to how present problems like food shortages, double digit inflation and energy crises, are planned to be tackled.

The budget proposals are more or less stereo type, except for few cosmetic changes. What we are not appreciating is that time has come where all classes of the society should equitably contribute to the national exchequer. Why we are not prepared to tax the capital market gains, big agriculturists, etc? In every civilized society income should be taxed irrespective of its source. We look for short cuts through indirect taxes which to a great extent eventually affect the poor. One should realize that when a salaried person earning only Rs. 21,000/- per month contributes to the Government's current and developmental expenditure for availing basic amenities like electricity ,water, gas, road, health and education than why a selective class should not contribute its due share.

We realize that the new economic team has taken over recently the financial matters and we hope that in the forthcoming year due consideration will be given to sectors which can provide value addition keeping in view the basic infrastructure of our country.

KARACHI: June 12, 2008

FEDERAL BUDGET 2008-2009

INCOME TAX

- Exemption limit from Rs. 150,000 to Rs. 180,000 for salaried persons and from Rs. 200,000 to Rs. 240,000 in case of salaried women is being enhanced.
- The concepts of marginal tax relief for salaried persons is being introduced at the rate between 20% to 50%
- Minimum tax payable on the declared turnover @ 0.5% is being abolished.
- Industrial undertaking established in the specified rural and undeveloped areas now allowed to claim accelerated depreciation as first year allowance @ 90%.
- The existing exemption available to companies for group relief under section 59AA is also being extended to the companies eligible for group taxation under section 59B of the Income Tax Ordinance, 2001
- Exemption on capital gains to shares of the companies listed on stock exchange extended upto 30th June, 2010.
- To encourage amalgamation the facility of carry forward of "accumulated loss" is being allowed for the period of 6 years in case of amalgamated or amalgamating companies
- The Rice Exporters Association of Pakistan (REAP) is being allowed the facility of reduced withholding tax @ 1% in respect of payments payable for supply of rice to M/s. Utility Stores Corporation
- Income derived by a project approved by Designated National Authority (DNA) from transfer/sale of CDM emissions credit i.e. Certified Emissions Reduction (CER) etc is being abolished.
- CVT will be charged on Bank loan for the General Power of Attorney given to mortgage of property
- In case of small company if turnover exceeds Rs.250 Million the rate of tax slab is being gradually enhanced at progressive rate of 25%, 30% and 35% while keeping its status as small company.
- Income shown as unrealized gain in the case of non life insurance companies is being exempted
- Proportionate relief is being allowed in the amount of penalty imposed in tax evasion where the appellate authorities reduce the quantum.
- The waiver of additional tax and penalties etc. is being allowed if the taxpayer is able to pay principal amount of tax within a certain period
- Progressive rates of 5%, 10% and 15% is being introduced on rental income upto Rs.150,000 excluding rental income of companies.
- Uniform rates of income tax @ 2% instead of 5% and 1%, in respect of commercial and manufacturer importers respectively is being introduced.

- Withholding tax on electricity bills is being rationalized to collect the same @ 10% on bill exceeding Rs.20,000 per month which would be adjustable.
- Reduced rate of 10% is being introduced for the pensioners, senior citizens and widows who are exempt from the withholding tax in respect of profit from pensioners national saving scheme.
- Exemption from income tax available to Pakistan Cricket Board is being abolished
- Immunity from probe in respect of any moveable or immoveable assets tax is being introduced @ 2%
- With holding tax on renewal or registration private motor cars is being enhanced by 30% - 40%
- Withholding tax on monthly telephone bills exceeding Rs.1,000 will be charged @ 10%
- Association of Person and Individuals having annual turnover of Rs.50 Million to be made withholding tax agents for the tax deduction on payment relating to on sale of goods, services rendered and execution of contracts.
- Several exemptions allowed under the Second Schedule of Income Tax Ordinance, 2001 has been reviewed.
- Profit transferred by a branch of foreign company out of Pakistan is being treated as dividend and chargeable to tax @ 10% as final tax
- A new taxation system is being introduced for levy of tax @ Rs.50 per sq. ft for builders and developer of open plots would be subjected to tax @ Rs.100 per sq. yard of the plot.
- The facility of reduced tax to a cooperative society or a finance society is being abolished
- A limitation of six months is being provided in law for disposal of cases remanded back by the ITAT to CIT (A) for making a fresh order
- The provision of Seventh Schedule allowing deduction of account of non-performing loans as per prudential regulation issued by the SBP is being abolished

SALES TAX AND FEDERAL EXCISE

- General amnesty from payment of past liability to person opting to get themselves registered under Sales Tax Act, 1990
- Enhancement of Sales Tax rate from 15% to 16%
- Enhancement of Sales Tax rate of provincial services from 15% to 16%
- Time limit for adjudication of cases under Sales Tax Act, 1990 and Federal Excise Act, 2005 fixed
- Exclusion of biscuits, confectionary, snacks, electric bulb and tube lights from the Third Schedule to the Sales Tax Act, 1990

- Zero rating of Sales Tax on molasses for the manufacturing of acetic acid
- Zero rating of Sales Tax on caustic soda flakes/solid, cotton linter and sequins
- Refunds of Sales tax to foreign nationals visiting Pakistan on trade affairs
- Collection of fixed tax @ 0.75% at import and manufacturing stage in lieu of tax payable by dealers of electric bulbs
- Enhancement of rate of default surcharge from 1% to 1.5% per month
- Enhancement of monetary ceiling of single member of Appellate Tribunal
- Exemption of supplies to export processing zones
- Enhancement of FED from 5% to 10% on banking, insurance and franchise services
- Proposal to increase excise duty on telecommunication and levy of Federal Excise Duty on all telecommunication services

CUSTOMS

- Amendments in Custom Act, Rules and Procedures for further simplification by guiding principal (preliminary raw materials @ 0% - 5%, secondary /components @ 5-10% and finished goods @ 20% - 35%)
- Incentive provided to the local industry producing water dispensers, mini choopers, UPS, Cement Pipes and perforated steel products have been provided inputs at 0%, 5% and 10% rates of duty
- Fully dedicated CNG buses exempted from duty
- Pharmaceutical Industry given specified active ingredients, chemical and packaging materials at 5% duty. Eighteen medicines used for cancer/heart treatment etc. exempted from customs duty.
- Power plants imported by WAPDA on temporary basis exempted from customs duty.
- Duty rates on non-essential on luxury items have been increased.
- Customs duty @ Rs.500/- per set levied on import of mobile phone.
- Section 179 of the Custom Act is proposed to be amended for allowing adjudicating officers to decide case within 120 days.
- A new sub-section 4A is proposed to be added in section295C for redressal of grievances of an aggrieved person.

BUDGET 2008-2009

AT A GLANCE

RECEIPTS	2008-09 Rs. In billion	2008-09 %	2007-08 Rs. In billion	2007-08 %
Tax revenue -FBR	1,251.50	62	1,025.00	54.70
Non-tax revenue	427.80	21	381.49	20.36
Gross revenue receipts	1,679.30	84	1,406.49	75.05
Less: Provincial share in federal taxes	(568.30)	(28)	(497.00)	(26.52)
Net revenue receipts	1,111.00	55	909.49	48.53
Capital receipts	221.30	11	58.53	3.12
External resources	300.20	15	258.53	13.80
Self financing of PSDP by Provinces	124.40	6	122.70	6.55
Cash balance	78.90	4	51.75	2.76
Privatization proceeds	25.00	1	75.00	4.00
Bank borrowings	149.00	7	398.00	21.24
	898.80	45	964.51	51.47
TOTAL RESOURCES	2,009.80	100	1,874.00	100.00
EXPENDITURE				
Current Expenditure				
* General Public Servicing	1,197.10	60	1,055.74	56.34
Defence	296.10	15	275.00	14.67
	1,493.20	74	1,330.74	71.01
Development expenditure	516.60	26	543.26	28.99
TOTAL EXPENDITURE	2,009.80	100	1,874.00	100.00

*Includes debts servicing, transfer payments, superannuation allowance and Running of civil government, pension, subsides and unallocable.

Note: The above figures have been extracted from the budget speech.

Economic Review

According to the Economy survey released by Ministry of Finance, Government of Pakistan, Pakistan's economy grew by 5.8% against original target of 7.2% and compared to 6.8% last year.

Pakistan's total foreign exchange reserves stood at $ 12.3 billion as of 30th April 2008 compared to $ 15.6 billion at the end of June 2007. The rupee after remaining static for more than four years depreciated against US Dollar falling by 11%.

The present government accepts the failure in conduct of its financial affairs which normally happens when political changes take place in our country. It is alarming situation for present economic managers to be vigilant when there are problems in all major areas viz ;

- Inflation
- GDP growth rate
- Agriculture
- Fiscal policy
- Monitory policy
- Import and export
- Current deficit

Inflation being experienced by a common man is far high than figures revealed by economic survey which claim that inflation of food items in 15%; which is apparently not a current statement one can easily measures it by just taking comparative rates of last year for essential food stuff like wheat and rice which have increased at least 100% and 200% respectively.

The Minister in Charge Finance in his budget speech has categorically indicated following state of affairs:

"The fragile foundation of growth was exposed as the country suffered a series of shocks since the eruption of judicial crisis on March 9, 2007. This was followed by oil price shock and widespread food shortages. Just as these crises were brewing the government went into policy inaction, delaying some painful decisions needed to face these challenges, as it was politically expedient in view of presidential and parliamentary elections. The current budget has taken the brunt of all ills that were associated with these crises so much so that it is threatening to undo much of the gains which the economy had achieved in the last 4 years.

A quick account of unfavorable developments during the year would enable us to gauge the damage done to the economy:

(1) In 2007 08, the economy grew at 5.8 % compared to the target of 7.2%, and the actual growth rate of 6.8% last year;

(2) Both manufacturing and agriculture sectors have recorded very low growth of 5.4 % and 1.5 % respectively;

(3) Inflation is running at I 1 % as compared to 7.8 % last year;

(4) Budget deficit after concerted efforts of this government is still estimated at 7.0 % of GDP, against the target of 4 %;

(5) There was a phenomenal build up in subsidies in the budget, which are largely responsible for this huge deficit. These subsidies, totaling Rs. 407 billion include; petroleum Rs. 175 billion; electricity Rs. 133 billion; wheat Rs. 40 billion, and textiles and fertilizers Rs. 48 billion, of which only Rs. 114 billion were provided in the budget;

(6) Largely due to an exceptionally high fiscal deficit, balance of payments is facing unprecedented deficit as well. The current account deficit is projected at $ 11.9 billion or 7 % of GDP;

(7) Reserves have declined from a high of $ 16.5 billion in October, 2007 to less than $ 12.3 billion as at end April 2008. This has put pressure on the exchange rate which has depreciated by nearly 6.4 during July 2007 to April 2008;

(8) Much of the deficit had to be financed from borrowing from the State Bank, which is like printing more money. As much as Rs. 551 billion (up to May 2008) have been borrowed from the central bank, which is unprecedented in country's history. It is not difficult to imagine what this printing of money means. With more money and no new production, only prices are likely to increase, which is what is happening. We have to stop this process otherwise the inflation will be running much higher than what it is at present, and as we note it is already highest in country's history."

Following are some of the important highlights of the economic survey released by Ministry of Finance:

PER CAPITA INCOME

The per capita income in dollar term has grown at an average rate of 13.5 percent per annum during the last six years rising from $ 586 in 2002-03 to $ 1085 in 2007-08. The main factor responsible for the sharp rise in per capita income include acceleration in real GDP growth, stable exchange rate and four fold increase in the inflows of workers' remittances.

INVESTMENT

Total investment could not sustain its record level of 22.9 percent of GDP of the last fiscal year and declined to 21.6 percent of GDP in 2007-08. However, total investment has increased from 16.9 percent of GDP in 2002-03 to 21.6 percent of GDP in 2007-08 — showing an increase of 5.7 percent of GDP in five years.

Fixed investment has declined to 20.0 percent of GDP from 21.3 percent last year. Fixed investment grew, on average, by 16.5 percent in real terms and 30.3 percent in nominal terms per annum during the last three years (2004-07) preceding to current year.

Private investment grew by 16.3 percent per annum in real terms and 30.7 percent per annum in nominal terms during the period (2004-07). However, it declined substantially to marginal 0.9 percent in real terms and 9.7 percent in nominal terms in 2007-08. The composition of investment between private and public sector has changed considerably during the last seven years. The share of private sector investment in domestic fixed investment has increased from less than two-third (64.2%) toalmost three-fourth (73.2%) in the last seven years clearly reflecting the growing confidence of private sector in the current and future prospects of the economy.

Private sector investment grew by 9.7 percent this year as against 13.3 percent increase in last year in nominal terms.

Public sector investment has also increased by 30.0 percent per annum during the last three years and 20.2 percent during the current fiscal year in nominal terms.

National Savings at 13.9 percent of GDP has financed 65 percent of fixed investment in 2007-08 as against 77.7 percent last year. National savings as percentage of GDP stood at 13.9 percent in 2007-08 far lower than last year's level of 17.8 percent.

Domestic savings has declined to 11.7 percent of GDP from 16.0 percent of GDP.

Overall Foreign Investment during the first ten months (July-April) of the current fiscal year has declined by 32.2 percent and stood at $ 3.6 billion as against $5.3 billion in the comparable period of last year.

Foreign direct investment (private) stood at $3481.6 million during the first ten months (July-April) of the current fiscal year as against $4180.8 million in the same period last year thereby showing a decline of 16.7 percent. Almost 57 percent of FDI has come from three countries, namely, the UAE, US, and UK.

Private portfolio investment witnessed massive decline of 91 percent by recording inflow of $98.9 million as against $1097.3 million during the comparable period of last year.

Public foreign investment depicted modest inflow of only $20.5 million as against outflow of $66.6 million in the comparable period of last year.

AGRICULTURE

The agriculture growth this year is estimated at 1.5 percent as compared with 3.7 percent during 2006-07.

Cotton production at 11.7 million bales in 2007-08 has decreased by 9.3 percent in comparison to 12.9 million bales of last year.

Wheat production is estimated at 21.7 million tons in 2007-08 as against 23.3 million tons last year, showing a decrease of 6.6 percent.

Rice production has increased from 5.4 million tons in 2006-07 to 5.6 million tons in 2007-08, showing an increase of 2.3 percent.

Sugarcane production has increased by 16.8 percent in 2007-08 from 54.7 million tons in last year to 63.9 million tons in 2007-08.

MANUFACTURING & MINING

Overall manufacturing posted a growth of 5.4 percent during the first nine months of the current fiscal year against the target of 10.9 percent and 8.1 percent of last year.

Large-scale manufacturing, accounting for 70.0 percent of overall manufacturing registered a growth of 4.8 percent in the current fiscal year 2007-08 against the target of 12.5 percent and last year's achievement of 8.6 percent.

Heightened political tension, deteriorating law and order situation, growing power shortages, cumulative impact of monetary tightening and rising cost of doing business are responsible for poor showing of manufacturing in 2007-08. Taking a longer term view, the manufacturing growth exhibits a moderating trend.

The main contributors to the 4.8 percent growth during July-March 2007-08 were beverages (3 0.5%), sugar (34.0%), tea blended (10.4%)

The **mining and quarrying** sector has registered a growth rate of 4.9 percent as against a target of 4.5 percent and actual achievement of 3.0 percent last year.

With effect from January 1991 to February 2007, GoP has privatized around 166 units at Rs. 475.08 billion (approx US$ 8.9 billion).

FISCAL DEVELOPMENTS

Total revenues collected during the current year stood at Rs 1545.5 billion, higher than the targeted level of Rs 1476 billion. This increase of Rs 69.5 billion from the budgeted revenues was mainly due to higher than targeted non-tax collections.

Pakistan's tax revenue-to-GDP ratio stood at only 10 percent of GDP during 2007/08 as compared to an average of 18 percent for the developing countries indicating that substantial tax policy reforms are still needed to broaden the tax base. The indirect tax-to-GDP ratio stood at around 6 percent, while the direct tax-to-GDP ratio was calculated to be 4 percent.

Gross and Net tax collection has increased by 12.3% and 16.3% respectively. In absolute terms, these collections have gone up by Rs. 89.9 billion and 107.1 billion, respectively. Among the four federal taxes, the highest growth of 28.9% was recorded in the case of federal excise receipts, followed by sales tax (19.5%), direct taxes (12.5%) and customs (11.4%). The collection of direct taxes has suffered a substantial shortfall during July-April FY 07-08.

The total expenditure for 2007-08 was budgeted at Rs. 1875 billion — 11.9 percent higher than last year. According to revised estimates this figure stood at Rs 2228.9 billion. Two factors had a significant impact on the budgetary outlook. Firstly oil prices continued to rise at a greater pace, reaching as high as $ 115 per barrel in May 2008— an increase of over 116 percent during the fiscal year. Secondly, the lack of action on the part of the government aggravated the fiscal situation as the high international price of oil was not passed on to the domestic consumers. Consequently, the oil subsidy is projected to rise to Rs 175 billion— over shooting the targeted level by Rs 160 billion. Hoarding, smuggling and mismanagement of wheat operations forced the government to import 1.7 million tons of wheat at all time high prices.

Interest payments surpassed their targeted level by a significant margin. A sum of Rs. 375 billion was budgeted for interest payments in 2007-08. The year is likely to end with interest payments of Rs. 503.2 billion--- surpassing the targeted level by Rs 128.2 billion mainly due to two reasons. Firstly there was a slippage on account of the National Savings Scheme Secondly there was a slippage on account of floating debt and permanent debt mainly due to the substantial rise in the volume of borrowing as well as the rising interest rates.

Public debt as a percentage of GDP (a critical indicator of the country's debt burden), stood at 85 percent in end-June 2000, has declined to 55.2 percent by end-June 2007 – a reduction of almost 30 percentage points of GDP in seven years.

Domestic debt By end-June 2007 total domestic debt stood at Rs. 2610.2 billion which was estimated at 30 percent of GDP. The outstanding stock of domestic debt rose by Rs 409.9 billion and stood at Rs.

3020.1 billion by end-March 2008 or 30.3 percent of GDP. The domestic debt has increased by 15.7 percent by end-March 2008 over end-June 2007.

During July-May 10, 2007-08, money supply (M2) grew by 9 percent against the annual target of 13.7 percent and last year expansion of 14 percent for the same period.

Net domestic assets have increased to Rs.656.7 billion as compared to increase of Rs.395.5 billion in the same period of last year.

Net foreign assets have recorded a contraction of Rs.289 billion against the increase of Rs.84.6 billion in the same period of last year.

Government borrowing for budgetary support has recorded an increase of Rs.362 billion as compared to Rs.212 billion in the same period of last year. Credit to private sector amounted to Rs.369.8 billion during July-May 10,2007-08 as compared to Rs.263.4 billion in the same period last year.

Credit to manufacturing sector recorded to be Rs.193 billion compared with Rs.1 19 billion in the same period of last year. During July-March, 2007-08, there was a substantial decrease in personal loans amounting Rs.21.2 billion as compared to Rs.38.8 billion during the same period last year.

Weighted average lending and deposit rates increased to 10.9 percent and 4.2 percent in March 2008 while weighted average yields on 6 months T-bill increased to 9.4 percent in March 2008.

The Islamic Financial Industry has grown substantially and its assets has reached to a level of Rs.200 billion.

CAPITAL MARKETS

During the outgoing fiscal year 2007-08, the benchmarked stock exchange KSE-100 index demonstrated acute volatility owing to fluctuating outlook on political, macroeconomic and global grounds. The index closed at 12,130.5 points on May 30, 2008, down by 1,642 points (or 11.9 percent) from the end June position of the last year.

Nevertheless, the year 2007-2008 can be fairly termed as a record breaking epoch for the local equity market as the index managed to broke the psychological barrier of 15,500 points for the first time in the history of Pakistan. The premier index reached its all-time high of 15,676 points on April 18, 2008 while punctuating to a low of 11,955 points.

Aggregate Market Capitalization declined abruptly by Rs 273 billion, from Rs 4,019 billion in June 2007 to Rs 3,746 billion in May 2008.

Key takeovers in banking, financial and telecommunication sectors together with a successful GDR offering by Lucky Cement, assisted in retaining the ongoing growth momentum for the past few years in the local bourses.

Foreign portfolio investment showed a net outflow of US$45 million during first nine months of the fiscal year 2007-08.

The deposit rates on all schemes offered under the NSS umbrella have been revised in view of the rising interest rate scenario of the country.

Five new floatation (corporate TFCs), all linked to 6-months KIBOR, were listed on KSE during the period under review.

The Non Banking Finance Companies (NBFCs) sector has revealed striking growth in recent years especially the boom in mutual funds industry with net assets at Rs. 389 billion.

Over the years, the Securities & Exchange Commission of Pakistan (SECP) has been proactive in instigating noteworthy capital market measures in the fields of risk management, surveillance and investor protection to refurbish confidence of both foreign and domestic investors.

INFLATION

The inflation rate as measured by the changes in Consumer Price Index (CPI) stood at 10.3 percent during the first ten months (July-April) of the current fiscal year, 2007-08, as against 7.9 percent in the comparable period of last year.

The food inflation is estimated at 15.0 percent and non-food 6.8 percent, against 10.2 percent and 6.2 percent in the corresponding period of last year.

The Wholesale Price Index (WPI) during July-April, 2007-08 have increased by 13.7 percent, as against 6.9 percent of last year.

The Sensitive Price Indicator (SPI) has recorded an increase of 14.1 percent during July-April, 2007-08, as against 11.1 percent of last year.

EXPORTS

Exports were targeted at $ 19.2 billion or 12.9 percent higher than last year. Exports during the first ten months (July-April) of the current fiscal year are up by 10.2 percent – rising from $ 13847.3 million to $ 15255.5 million in the same period last year. Pakistan's export performance has been impressive in recent years (2002-03 to 2005-06) with exports registering an average growth of 16 percent per annum on the back of strong macroeconomic policies pursued at home and international trading environment remaining hospitable. Pakistan's export performance was dismal in 2006-07 as it witnessed abrupt and sharp deceleration to less than 4 percent. However, when viewed in the back of last year's performance, exports managed to recover somewhat this year but its performance has remained far short of the average growth of 16 percent achieved during 2002-03 to 2005-06

IMPORTS

Imports were targeted to increase by 5.9 percent in 2007-08 to $ 32.3 billion from last year's level of $ 30.5 billion. Imports are up by 28.3 percent during July-April 2007-08 – rising from $ 25.0 billion to $ 32.0 billion, showing an increase of almost $ 7.0 billion. The growth in imports increased substantially owing to unprecedented rise in oil and food prices. After growing at an average rate of 29 percent per annum during 2003-04, Pakistan's import growth slowed to a moderate level of 6.9 percent in the last fiscal year (2006-07). Import's growth exhibited a sharp pick up in 2007-08 in the back of extra ordinary surge in the imports of petroleum products as well as imports of food group and raw material.

Major contributions to this year's additional import bill have come from petroleum groups (40%). raw material (21%) and food groups (16.3).

MERCHANDISE TRADE DEFICIT

The merchandise trade deficit widened to $ 17 billion in the first ten months (July-April) of the current fiscal year as against $ 11 billion in the same period last year. On the basis of existing trend, trade deficit is likely to touch $ 20.5 billion or 12.3 percent of GDP during 2007-08.

REMITTANCE

Workers' remittances totaled $ 5.31 billion in the first ten months (July-April) of the fiscal year as against $ 4.45 billion in the same period last year, depicting an increase of 19.5 percent. If this trend is maintained workers' remittances are likely to touch $ 5.8 billion for the year – the highest ever in country's history.

CURRENT ACCOUNT DEFICIT

Pakistan's current account deficit further widen to $ 11.6 billion (6.8% of GDP) in the first ten months (July-April) of the current fiscal year from 6.6 billion (4.6% of GDP) in the same period last year. The deterioration in current account deficit mainly emanated from the sharply widening trade deficit along with increase in net outflows from services and income amount. However, the strong growth in current transfers on the back of impressive growth in remittances almost entirely offset the deficit in services and increase amount, thereby leaving trade deficit as fundamental source of expansion in current account deficit.

FORIEIGN EXCHANGE RESERVES

Pakistan's total foreign exchange reserves stood at $ 12,344 million at the end of April 2008 significantly lower than end June 2007 level of $ 15,646 million. During July-October 2007, reserves improved by 5.1 percent due to relatively lower current account deficit and substantial inflows in financial account. However, October onward, net outflows from portfolio investment and steep rise in the current account deficit led to a sharp decline in foreign exchange reserves of country.

PAK RUPEE DEPRECIATIES

Pakistan rupee after remaining stable for more than 4 years, lost significant value against the US dollar, depreciating by 11%

EXTERNAL DEBT AND LIABILITIES

External debt and liabilities (EDL) at the end of March FY08 were US$ 45.9 billion. The net addition of $ 5.4 billion represents a 13.3 percent increase over the stock at the end of FY07.

Pakistan contracts loans in various currencies and but for reporting purpose, EDL is expressed in dollar terms. The effect of new disbursements in external debt is only $1.2 billion while $4.2 billion are added to the stock of external debt because of translation effect. The US dollar has depreciated at a brisk pace against major currencies of the world, hence, the debt outstanding in Euro, Japanese Yen and SDR witnessed increase in dollar terms without contracting fresh loans.

Interest payments on external debt were 7.8 percent of current account receipts but declined to 2.5 percent during the same period.

EDUCATION

The government has decided to double the education budget as visualized in *Fiscal Responsibility and Debt Limitation (FRDL) Act, 2005.* This means an extra spending of 1.8 percent of GDP over and above the existing funding will be on hand during the next five years.

The overall literacy rate was 45 percent in 2001 which has increased to 55 percent in 2006-07, indicating a 10 percentage points increase over period of only six years.

Male literacy rate increased from 58 percent in 2001 to 67 percent in 2006-07 while it increased from 32 to 42 percent for female during the same period. Literacy remains higher in urban areas (72%) than in rural areas (45%) during 2006-07.

Province wise literacy data for Punjab as on the top (58 percent) followed by Sindh (55 percent), NWFP (47 percent) and Balochistan (42 percent).

The overall school attendance (age 10 years and above) is 57% (69% for male and 44% for female) in 2006-07 compared to 55% (68% for male and 42% for female) in 2004-05.

According to the Ministry of Education, there are currently 231,289 institutions in the country. The over all enrolment is recorded at 34.84 millions with teaching staff of 1.37 million.

Over the past three years, 17 new universities have been granted Charters, with the majority opened in areas where higher education opportunities were previously unavailable.

To promote research and development (R&D) activities, Higher Education Commission (HEC) has awarded 5,837 PhD scholarships (3,237 indigenous, 2,600 foreign) over the past three years.

HEALTH AND NUTRITION

At Present there are 945 hospitals, 4755 dispensaries, 5349 basic health units & sub health centers and 903 maternity and child health centers in Pakistan.

With the existing number of 127859 doctors, 8195 dentists ,62651 nurses and 103285 hospital beds ,the population and health facilities ratio turnout to be 1225 persons per doctor,19121 person per dentist, 2501 persons per nurse and 1517 persons per bed which shows an improvement over the last year.

During the fiscal year 2007-08, 43 basic health units and 13 rural health centers have been constructed. While 65 rural health centers and 950 basic health units have been upgraded.

Some 4500 new doctors, 400 dentists, 3350 nurses and 4900 paramedics have completed their academic courses.

80000 Lady Health Workers have been trained and deployed mostly in the rural areas. Moreover, some 7.5 million children have been immunized and 22 million packets of ORS distributed.

The total outlay on health sector is budgeted at Rs.60 billion (Rs.27.3 billion development and Rs. 32.7 billion current expenditure) which is equivalent to 0.6 % of GNP.

POPULATION, LABOUR FORCE AND EMPLOYMENT

Pakistan's current population is 160.9 million with a growth rate of 1.80 percent. The overall vision of the population policy is to achieve population stabilization by 2020.

The life expectancy in Pakistan for males is 64 years and for females is 66 years.

About 2.6 million labour force is estimated as un-employed in 2006-07 and unemployment rate is 5.3 percent.

To generate employment, the government has not only started President's Rozgar Scheme under which an average loan size of Rs. 100,000 is given for a maximum period of five years with a grace period of three months but has also set up two banks (1) SME Bank, which has created 47,213 employment opportunities in the country and (2) Khushali Bank, which has so far created 1118,502 job opportunities.

POVERTY

Poverty in rural areas declined from 28.13 percent to 27.0 percent, showing an improvement of 1.13 percentage points between 2004-05 and 2005-06.

Poverty in Urban areas also registered a decline from 14.94 percent to 13.1 percent during 2004-05 and 2005-06, thereby, depicting an improvement of 1.84 percentage points in the period.

ENERGY Crude Oil

Production of crude oil per day has increased to 70,166 barrels during July-March 2007-08 from 66,485 barrels per day during the same period last year, showing an increase of 5.54 percent.

The overall production of crude oil has increased to 19.3 million barrels during July-March 2007-08 from 18.2 million barrels during corresponding period last year, showing an increase of 5.9 percent.

Natural Gas: The average production of natural gas per day stood at 3,966 million cubic feet during July-March, 2007-08, as compared to 3,876 million cubic feet over the same period last year, showing an increase of 2.3 percent. The overall production of gas has increased to 1,090,620 million cubic feet during July-March 2007-08 as compared to 10,62,124 million cubic feet in the same period last year, showing an increase of 2.7 percent.

Electricity The total installed generation capacity has increased to 19,566 MW during July-March 2007-08 from 19,440 MW during the same period last year, showing a marginal increase (0.65 percent).

Total installed capacity of WAPDA stood at 11,654 MW during July-March 2007-08 of which, hydel accounts for 55.6 percent or 6,474 MW, thermal accounts for 44.4 percent or 5,180 MW. During first three quarters of current fiscal year 74,032 GWh electricity has been generated as against 71,033 GWh in the same period last year, showing an increase of 4.22 percent.

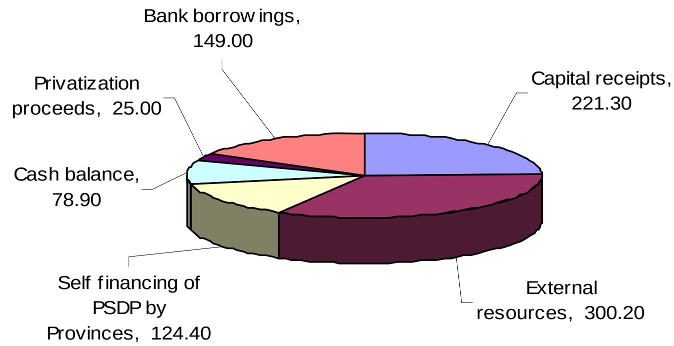
The number of villages electrified increased to 126,296 by March 2007 from 113,605 upto 2005-06, showing an increase of 11.2 percent.

CNG Presently, some 2,068 CNG stations are operating in the country. By March 2008 about 1.7 million vehicles were converted to CNG as compared to 1.35 million vehicles during the same period last year, showing an increase of 26 percent. With these developments Pakistan has become the leading country in Asia and the third largest user of CNG in the world.

ENVIRONMENT According to a recent assessment made by the World Bank the cost of environmental neglect and degradation to Pakistan's economy has amounted to Rs. 365 billion during the current year.

Pakistan is the largest user of CNG in Asia and has become the third-leading country in the world to use CNG to fuel vehicles after Argentina and Brazil. The number of petrol & diesel vehicles using CNG fuel stood at 1,700,000 for 2007-08, whereas the targeted levels were estimated at 800,000 in case of MTDF and 920,000 in case of MDGs.

GRAPHIC VIEW OF KEY ECONOMIC DATA



Expenditure

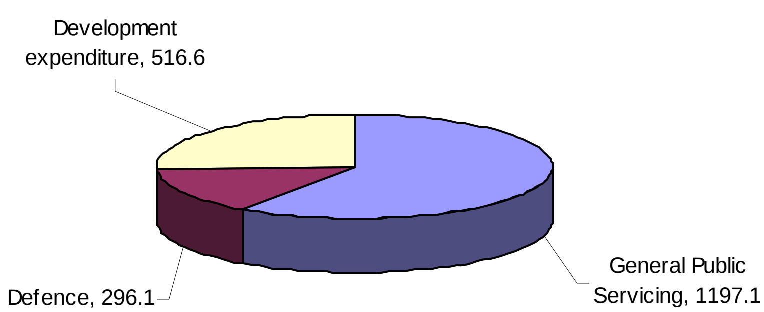


Figure 1: GDP Growth

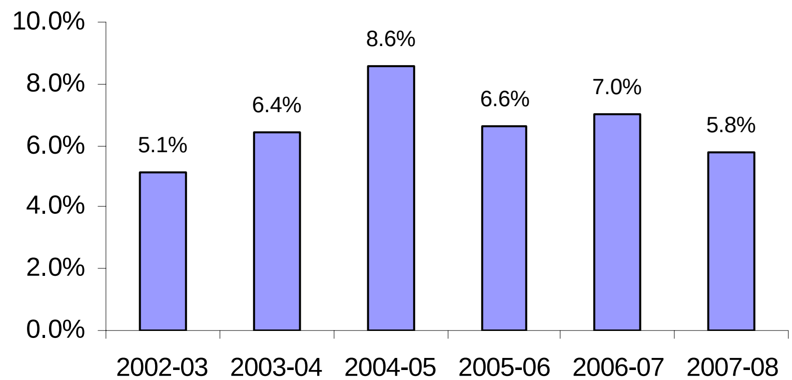
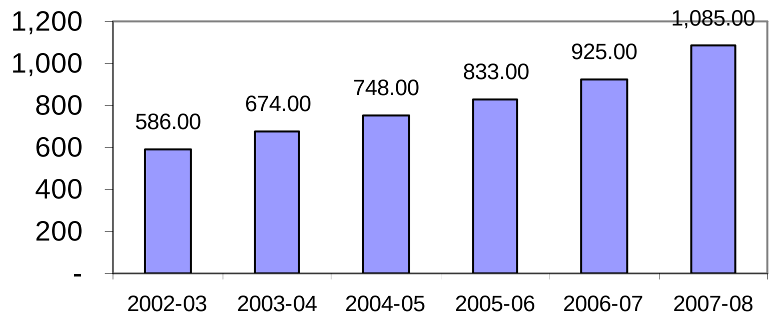
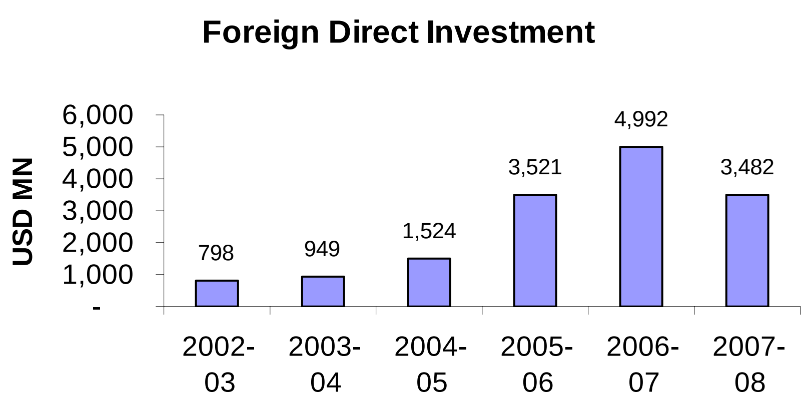
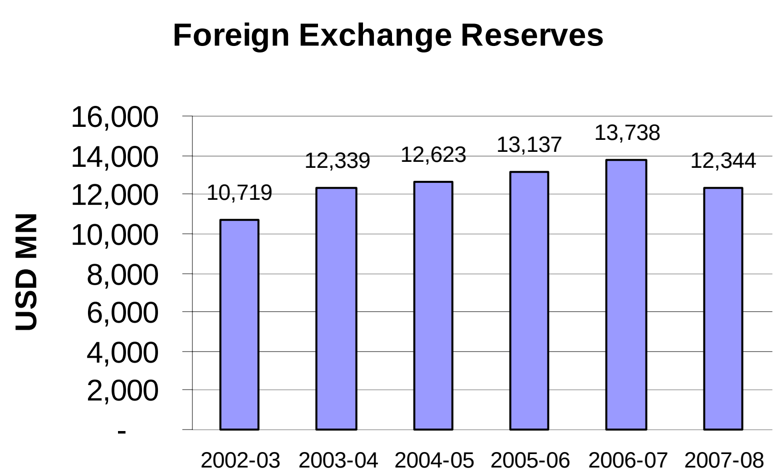
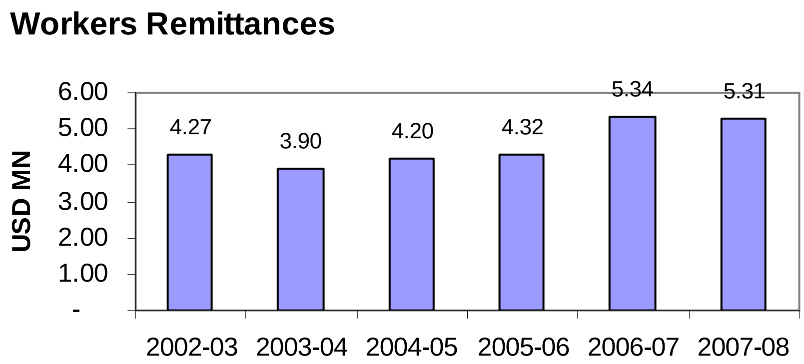


Figure 2: Capita Income in USD








Workers Remittances
USD MN
6.00
5.00
4.00
3.00
2.00
1.00
-
4.27
3.90
4.20
4.32
5.34
5.31
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08

INCOME TAX ORDINANCE, 2001

Definitions **SECTION 2 Clause (5B)**

Existing	Proposed Amendment
"assets management company" means a company registered under the Assets Management companies Rules, 1995;]	"asset management company" means an asset management company as defined under the Non-Banking Finance Companies and Notified Entities Regulations, 2007;";
Comments: Definition of the (Assets Management Company) is proposed to be changed to bring it in conformity with changes brought under Non Banking Financial Companies and Notified Entities Regulation, 2007.	

Definitions **SECTION Clause (19) d, e, f**

Existing	Proposed Amendment
(d) any distribution by a company to its shareholders on the reduction of its capital, to the extent to which the company possesses accumulated profits, whether such accumulated profits have been capitalized or not; or (e) any payment by a private company 2[as defined in the Companies Ordinance, 1984 (XLVII of 1984)] or trust of any sum (whether as representing a part of the assets of the company or trust, or otherwise) by way of advance or loan to a shareholder or any payment by any such company or trust on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company or trust, in either case, possesses accumulated profits; "New Clause"	(i) in sub-clause (d), the word "or" at the end shall be omitted; (ii) in sub-clause (e), after the colon appearing at the end, the word "or" shall be added; and (iii) in sub-clause (e) amended as aforesaid, the following new sub-clause shall be inserted, namely:- "(f) any after tax profit of a branch of a foreign company operating in Pakistan;";
Comments: it is proposed to include in the definition of dividend any after tax profit of the branch of a foreign company operating in Pakistan. This would mean that the profit transferred by branch of a foreign company shall now be treated as dividend and shall be charged to tax @ 10%. This charge of the tax shall be in the final discharge of tax liability of the branch to that extant.	

Definitions **SECTION 2 Clause 19A**

Existing	Proposed Amendment
"Eligible Person", for the purpose of Voluntary Pension System Rules, 2005, means an individual Pakistani who 3[holds] a valid National Tax Number 4[or Computerized National Identity	After the word "Card" the words "or National Identity Card for Overseas Pakistanis" shall be inserted;

Definitions **SECTION 2 Clause 19A**

Card issued by the National Database and Registration Authority] **"New Clause shall be added"**	"The terms "addressee", "automated", "electronic", "electronic signature", "information", "information system", "originator" and "transaction", shall have the same meanings as defined in the Electronic Transactions Ordinance, 2002 (LI of 2002);
Comments: The definition of the eligible person for the purpose of Voluntary Pension System Rule, 2005 is proposed to be broaden by inclusion of a person who holds valid National Identity Card for Overseas Pakistani.	

Definitions **SECTION 2 Clause19B, 19C,19D &19E**

Existing	Proposed Amendment
"New Clause shall be added"	"electronic record" includes the contents of communications, transactions……………. electronic resources and any other information in electronic form;
"New Clause shall be added"	"electronic resource" includes ………..by the Board from time to time, for the purpose of creating electronic record;
"New Clause shall be added"	"telecommunication system" includes a system……………………… any matter in manner and mode as may be prescribed by the Board from time to time.";
Comments: The new terms in connection with e-filing of the record and its electronics maintenance have been defined.	

Definitions **SECTION 2 Clause 30A, 30B, 31A, 35B,47A, 47B.**

Existing	Proposed Amendment
"investment company" means a company registered under the Investment Companies and Investment Advisors Rules, 1971;]	"investment company" means an investment company as defined under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003;";
"leasing company" means a company licensed	"leasing company" means a leasing company as

Definitions **SECTION 2 Clause 30A, 30B, 31A, 35B,47A, 47B.**

under the Leasing Companies (Establishment and Regulation) Rules, 2000;]	defined under the Non-Banking Finance Companies and Notified Entities Regulation, 2007;";
Comments: Definition of Investment Company, Leasing Company, Local Government Non Banking Financing Company, Real Estate Investment Trust (REIT) Scheme, Real Estate Investment Trust Management Company (REITMC) have been defined in the context of their statues.	

Deductions not allowed **SECTION 21 Clause (m)**

Existing	**Proposed Amendment**
any salary paid or payable exceeding 1[ten] thousand rupees per month other than by a crossed cheque or direct transfer of funds to the employee's bank account; and	for the word "ten" the word "fifteen" shall be substituted;
Comments: Presently any Salary paid or payable exceeding ten thousand rupees per month other than by a crossed cheque a direct transfer of fund to the employee's bank account is not allowed as deduction while computing business income. It is proposed to increase this limit of Rs.10,000 to Rs. 15,000.	

First Year Allowance (FYA) **SECTION 23A**

Existing	**Proposed Amendment**
"New Section shall be added"	(1) Plant, machinery and equipment installed by any industrial undertaking set up in specified rural and under developed areas, and owned and managed by a company shall be allowed First Year Allowance in lieu of initial allowance under section 23 at the rate specified in Part II of the Third Schedule against the cost of the "eligible depreciable assets" put to use after July 1, 2008. (2) The provisions of section 23 except sub-sections (1) and (2) shall mutatis mutandis apply. (3) The Federal Government may notify "specified areas" for the purposes of sub-section (1).";
Comments: This is a new section whereby plant, machinery and equipment, installed by an industrial undertaking setup in specified rural and under developed areas [To be notified] and owned and managed by a company, put to use after July 01, 2008, shall be allowed first year allowance @ 90% against the cost of "eligible depreciable assets". It is to be noted that presently the initial allowance under this section is allowed @ of 50%. Furthermore the cost of the assets will be determined in accordance with rules contained in the section 76. For the purpose of deduction only the lease rental income derived in respect of such assets will be considered for a leasing company or an investment bank, a modaraba or a scheduled bank or a development financial institution. For the purpose of clarity the "eligible depreciable asset" means, other than:	

First Year Allowance (FYA) **SECTION 23A**

(a) Road transport vehicle unless the vehicle is playing for hire.
(b) Any furniture including fitting.
(c) Any plant and machinery (that has been used previously in Pakistan)
(d) Any plant or machining in relation to which a deduction has been allowed under another section of this Ordinance for the entire cost of the asset in the tax year in which asset is acquired.

Set off of business loss consequent to amalgamation. **SECTION 57A Sub-Section (2A)**

Existing	Proposed Amendment
"New Sub-Section shall be added"	"In case of amalgamation of Non-banking Finance Company, modarabas or insurance company, the accumulated loss under the head "Income from Business" (not being speculation business losses) of an amalgamating company or companies shall be set off or carried forward against the business profits and gains of the amalgamated company and *vice versa*, up to a period of six tax years immediately succeeding the tax year in which the loss was first computed in the case of amalgamated company or amalgamating company or companies."

Comments: The section 57A deals with setoff of business loss consequent to amalgamation. Now it is proposed to add new sub-section 2A whereby the non banking financial company, modaraba insurance company if amalgamated will be allowed to setoff or carry forward their accumulated loss under the head of income from business (not been speculation business loss) of the amalgamating company (ies) upto a period of six tax years immediately succeeding the tax year in which the loss was first computed.

Charitable donations **SECTION 61(2b)**

Existing	Proposed Amendment
(i) an individual or association of persons, thirty per cent of the taxable income of the person for the year; or (ii) a company, fifteen per cent of the taxable income of the person for the year.	(i) in sub-clause (i), for the word "thirty" the word "ten" shall be substituted; and (ii) in sub-clause (ii), for the word "fifteen" the word "ten" shall be substituted;

Comments: Presently a person is entitled to a tax credit (i.e.) in case of individual or A.O.P 30% and Company 50% of taxable income in respect of any donation in cash or in kind to the specified entity. Now it is proposed to reduce this limit to 10% of the taxable income.

Geographical source of income **SECTION 101 (13A)**

Existing	Proposed Amendment
"New Sub-Section Shall be added"	"Any amount paid on account of insurance or re-insurance premium by an insurance company to an

Geographical source of income **SECTION 101 (13A)**

	overseas insurance or re-insurance company shall be deemed to be Pakistan source income.";

Comments: This section deals with geographical source of income whereby procedures have been defined to ascertain a source of income as Pakistani or otherwise. Now it is proposed to add new clause whereby any amount paid on account of insurance or re-insurance premium by insurance company to an overseas insurance or re-insurance company shall be deemed to be Pakistan source of income.

Thin capitalization **SECTION 106 (1)**

Existing	Proposed Amendment
Where a foreign-controlled resident company (other than a financial institution 1[or a banking company)] has a foreign debt-to foreign equity ratio in excess of three to one at any time during a tax year, a deduction shall be disallowed for the profit on debt paid by the company in that year on that part of the debt which exceeds the three to one ratio.	after the words and bracket "company)" occurring for the second time, the words and comma "or a branch of a foreign company operating in Pakistan," shall be inserted;

Comments: This section deals with "thin capitalization" a term used to signify the company where equity is small as compared to its debt. This method is widely used by foreign control entities to avoid tax. Presently if foreign debt to foreign equity ratio is in excess of 3:1 at any time during a tax year, deduction is not allowed for the profit on debt relating to that part of the debt exceeding 3:1 ratio. The provisions of this section are applicable to foreign control resident companies other than financial institution and banking companies. Now, it is proposed to make the provision of the section applicable to a branch of the foreign company operating in Pakistan.

Minimum tax on the income of certain persons **SECTION 113**

Existing	Proposed Amendment
This section shall apply to a resident company where, for any reason whatsoever, including the sustaining of a loss, the setting off of a loss of an earlier year, exemption from tax, the application of credits or rebates, or the claiming of allowances or deductions (including depreciation and amortisation deductions) allowed under this Ordinance or any other law for the time being in force, no tax is payable or paid by the person for a tax year or the tax payable or paid by the person for a tax year is less than one-half per cent of the amount representing the person's turnover from all sources for that year.	**"Shall be Omitted"**

Comments: It is proposed to withdraw the provision relating to minimum tax payable on the declared turnover under this section. This section was commonly known as section 80D under the Income Tax Ordinance, 1979 whereby the taxpayer was required to pay minimum tax incases where for any reason

Minimum tax on the income of certain persons **SECTION 113**

normal tax was not payable.

Taxation of builders and developers **SECTION 113C First schedule (i)AA of part1**

Existing	Proposed Amendment
"New Section shall be added"	(1) Subject to this Ordinance, a person who is a developer of land for residential, commercial or industrial purposes or a builder engaged in construction of houses, commercial or industrial property, shall be liable to pay tax at the rates specified in Division IAA of Part I of the First Schedule. (2) The tax paid under sub-section (1) shall be minimum tax on the income of such person.”;

Comments: It is proposed to introduce a new tax system for builders and developers whereby a developer of land for residential, commercial or industrial purposes would be required to pay minimum tax @ Rs. 100 per square yard of the plot and a builder engaged in construction of house, commercial or industrial property would be required to pay minimum tax @ Rs. 50 per square feet of the covered area of the unit.

Persons not required to furnish a return of income **SECTION 115(1)**

Existing	Proposed Amendment
Where the entire income of a taxpayer in a tax year consists of income chargeable under the head "Salary", the taxpayer may, instead of furnishing a return as required under section 114 furnish – (a) a certificate from the person’s employer in the prescribed form stating such particulars, and accompanied by such statements, and verified in such manner, as may be prescribed, and such certificate shall be, for the purposes of this Ordinance, treated as a return of income furnished under section 114.	“Where the entire income of a taxpayer in a tax year consists of income chargeable under the head “Salary”, Annual Statement of Deduction of Income Tax From Salary, filed by the employer of such taxpayer, in prescribed form, the same shall, for the purposes of this Ordinance, be treated as a return of income furnished by the taxpayer under section 114: Provided that where salary income, for the tax year or the last tax year is five hundred thousand rupees or more, the taxpayer shall file wealth statement as required under section 116.”;

Comments: Existing sub-section (1) relating to filing of return by salaried individuals is substituted by the new provision whereby the annual statements of deduction of income tax from salary relating to person having no other tax income shall be treated as return of total income of those taxpayers. Furthermore, the taxpayer will also be required to file his wealth statement where the salary income of the taxpayer for the current tax year or the last year is Rs. 500,000 or more.

Investment Tax on income **SECTION 120A**

Existing	Proposed Amendment
	(1) Subject to this Ordinance, the Board may make a scheme of payment of investment tax in respect of undisclosed income, representing any amount

Investment Tax on income **SECTION 120A**

"New Section shall be added"	or investment made in movable or immovable assets. (2) Where any person declares undisclosed income ……….. rate as may be prescribed. (3) Where a person has paid tax ………… the scheme and the rules, he shall – ……….. (4) For the purposes of this section …………

Comments: New section with the name of investment tax on income is proposed to be introduced with the objective of giving yet another opportunity to disclose the undeclared income and get immunity by paying tax at the nominal rate of 2%. This will be done through disclosure of any amount of investment made in moveable or immovable asset. On payment of the required tax the declarent will be entitled to incorporate the undisclosed income in his books of accounts. The declarent will not be liable to pay any further tax or penalty or liable to prosecution in respect of this income under this Ordinance. Here the point needing attention is that the safeguard with respect to additional tax charged, penalty, prosecution has been assured only under this Ordinance and not under any other statue e.g. in respect of money laundering, etc.

Assessment giving effect to an order **SECTION 124(2)**

Existing	**Proposed Amendment**
Where, by an order made under Part III of this Chapter by the Commissioner (Appeals), Appellate Tribunal, High Court, or Supreme Court, an assessment order is set aside 2[wholly or partly,] and the Commissioner is directed to make a new assessment order, the Commissioner shall make the new order within 3[one year from the end of the financial year in which] the Commissioner is served with the order	after the word "Commissioner" occurring thrice, the words, brackets and commas "or Commissioner (Appeals), as the case may be," shall be inserted;

Comments:

Decision in appeal **SECTION 129(5)(6)(7)**

Existing	**Proposed Amendment**
(5) Where the Commissioner (Appeals) has not made an order on an appeal before the expiration of three months from the end of the month ……... (6) For the purposes of sub-section (5)………… three months referred to in that subsection. (7) The provisions of sub-section (5) shall not apply …………. of three months.	in sub-sections (5), (6) and (7) for the word "three" the word "four" shall be substituted;

Comments: This section deals with the matters regarding decision in appeals. Presently the Commissioner (Appeals) is required to make an order against an appeal filed within 3 months from the

Decision in appeal **SECTION 129(5)(6)(7)**

end of the month in which the appeal was lodged. The duration of three months does not include the period during which the extension in time of hearing was sought. It is proposed to extend the period of three months to four months.

Alternative Dispute Resolution **SECTION 134A(4A)**

Existing	Proposed Amendment
"New Sub-Section shall be added"	Notwithstanding anything contained in sub-section (4), the Chairman may, on the application of an aggrieved person, for reasons to be recorded in writing, and on being satisfied that there is an error in order or decision, pass such order as he deems just and equitable.”;

Comments: By virtue of the proposed amendment it is sought to empower the chairman of the Dispute Resolution Committee to pass on order as he deems just and equitable on the application of the aggrieved party on been satisfied that there was an error in the original decision.

Due date for payment of tax **SECTION 137(1)&(2)**

Existing	Proposed Amendment
(1) [The tax payable by a taxpayer on the taxable income of the taxpayer 3[including the tax payable under section 113] [or section 113A] for a tax year shall be due on the due date for furnishing the taxpayer’s return of income for that year. (2) Where any tax is payable under an assessment order or ………...shall be paid within thirty days from the date of service of the notice;]	the words and figure “section 113 or” shall be omitted; for the word “thirty” the word “fifteen” shall be substituted;

Comments: It is proposed to reduce the time specified for payment of tax by the taxpayer from 30 days to 15 days from the date of the service of the notice.

Tax arrears settlement incentives scheme **SECTION 146B**

Existing	Proposed Amendment
"New Section shall be added"	(1) Subject to provisions of this Ordinance, the Board may make scheme in respect of recovery of tax arrears or withholding taxes and waiver of additional tax or penalty levied thereon. (2) The Board may make rules under section 237 for implementation of such scheme.”;

Comments: This is a new section which is being introduced whereby the Board is been empowered to

Tax arrears settlement incentives scheme **SECTION 146B**

introduce a scheme for recovery of tax arrears or withholding taxes and wavers of additional tax or penalty levied thereon.

Advance tax paid by the taxpayer **SECTION 147(4AA)(6A)(AB)**

Existing	Proposed Amendment
Tax liability under section 113 shall also be taken into account while working out payment of advance tax liability under this section.]	**"Shall be Omitted"**
Comments: This is a procedural amendment due to omission of section 113 that is minimum tax on turnover. Consequently the taxpayer is required to submit his estimate of the amount of advance tax payable after making adjustment for the amount of tax ,if any already paid.	

Imports **SECTION 148(4A)**

Existing	Proposed Amendment
Where, in the case of a person whose income is not subject to final taxation……………..issue certificate allowing payment of tax collectable under this section at a reduced rate of 0.5%].	**"Shall be Omitted"**
Comments: It is proposed to omit this sub-section the proposed redundant section dealt with case where the income was not subject to final taxation and the Commissioner was satisfied that the person is not likely to pay any tax other than under section 113. The Commissioner was empowered to issue certificate allowing payment of tax collectable under this section at a reduced rate of 0.5%.	

SECTION 152(1AA)(1BB)(5)(7)a,b 169(1)(b)

Existing	Proposed Amendment
"New Sub-Section shall be added"	Every person making a payment of insurance premium or re-insurance premium to a non-resident person shall deduct tax from the gross amount paid at the rate specified in Division II of Part III of the First Schedule;"; The tax deducted under sub-section (1AA) shall be a final tax on the income of the non-resident person arising out of such payment.";
Comments: By virtue of the proposed amendment every person who is making a payment of insurance premium or reinsurance premium to a non resident is required to deduct tax @ 5% of the gross amount paid. The tax so deducted would also be deemed to be final tax on the income of such non resident person arising out of such payment. The existing law also provides procedure for obtaining approval of the Commissioner where a person intends to make a payment to a non resident person without deduction of tax. Now, it is proposed to exclude from the purview of this section those payments which are liable to tax at reduced rate under relevant agreement for avoidance of double taxation. In the sub-section (7) it is proposed that in case of import of goods where title to the goods passes outside Pakistan, such imports must be supported by import documents. It is also proposed to add an explanation whereby payments to non-residents will include remittance, through foreign currency accounts and	

SECTION 152(1AA)(1BB)(5)(7)a,b 169(1)(b)

exchange companies..

Payments for goods and services **SECTION 153(5e) & (6A),(6B),9b,e,f,g,h**

Existing	Proposed Amendment
a payment made by a Small Company as defined in section 2.]	**"Shall be Omitted"**
the provisions of sub-section (6) in so far as they relate to payments on account of supply of goods from which tax is deductible under this section shall not apply in respect of any person being a manufacturer of such goods. The provision of this sub-section shall be deemed always to have been so enacted and shall have had effect accordingly.]	for the words "any person" the words "a company" shall be substituted; and

Comments: This section deals with the provision in connection with withholding of taxes from payment on account of sale of goods, providing of services, execution of contract, etc. According to this section every prescribed person while making a payment is required to withhold taxes under different situations as mentioned above. In the definition of the prescribed person following two categories of the persons are being added (a) an association of person having turnover of fifty million rupees or above (b) an individual having turnover of Rs. Twenty Five million or above.

Consequently, sub-section (5)e is being deleted which provided exemption for withholding tax on a payment made by small company as defined in section 2. Furthermore sub-section 6A is being amended to include non-corporate taxpayers, manufacturer supplying goods in the purview of presumptive tax regime.

The proposed amendment further describes the manufacturers as a person who is engaged in production of manufacturing goods, which includes:

(a) Any process in which an article singly or in a combination with other articles, materials, components, is either converted into another distinct article or produce is so changed transferred or reshaped that it becomes capable of being put to use differently or distinctly.
(b) A process of assembling, mixing, cutting, packing repacking, a preparation of goods in any other manner.

It can be concluded from the proposed amendment that from the effective date now the AOP's and the individual having turnover above prescribed limit will also be required to withhold tax. In our view this amendment will face resistance from the undocumented sector of the economy.

SECTION 153A

Payments to non-resident media persons

Existing	Proposed Amendment
"New Section shall be added"	Every person making a payment for advertisement services to a non-resident media person relaying from outside Pakistan shall deduct tax from the gross amount paid at the rate specified in Division IIIA of Part III of the First Schedule.";

SECTION 153A

Payments to non-resident media persons

Comments: New section is being introduced by virtue of which every person making a payment for advertisement services to a non-resident media person relaying from outside Pakistan would deduct tax @ 10% of the gross amount paid which would be considered as final tax liability of the taxpayers.	

SECTION 159(3)

Existing	Proposed Amendment
The Board may, from time to time, by notification in the official Gazette, amend the rates of withholding tax prescribed under the Ordinance.]	The Board may, from time to time, by notification in the official Gazette – (a) amend the rates of withholding tax prescribed under this Ordinance; or (b) exempt persons, class of persons, goods or class of goods from withholding tax under this Ordinance.”;
Comments: The power of board is been broadened by empowering it to exempt person, class of persons goods or class of goods from withholding taxes under this Ordinance.	

Records **SECTION 174(5)**

Existing	Proposed Amendment
“New Sub-Section shall be added”	The Commissioner may require any person to install and use an Electronic Tax Register of such type and description as may be prescribed for the purpose of storing and accessing information regarding any transaction that has a bearing on the tax liability of such person.”;
Comments: This section deals with the records which are required to be kept by the taxpayer. The proposed amendment empowers, the Commissioner to require any person to install and use an Electronic Tax Register.	

CHAPTER 10 Part IX

Taxpayer’s registration

Existing	Proposed Amendment
Every taxpayer shall apply in the prescribed form and in the prescribed manner for a National Tax Number [Certificate]. An application under sub-section (1) shall be accompanied by the prescribed fee.	Every taxpayer shall apply in the prescribed form and in the prescribed manner for registration. The Commissioner having jurisdiction over a case, where necessitated by the facts of the case, may also register a taxpayer in the prescribed manner.

Taxpayer's registration **CHAPTER 10 Part IX**

The Commissioner having jurisdiction over an applicant under subsection (1) may after examination of all relevant documents and evidence, and after satisfying himself of the genuineness of the application, may direct issuance of the National Tax Number 5[Certificate] for a period prescribed by Commissioner Provided that	Taxpayers' registration scheme shall be regulated through the rules to be notified by the Board.";
Comments: Existing chapter IX is been replaced with a new title as "Taxpayer Registration" which among other the things specify a form and the manner for registration of the taxpayer. It also empowers the Commissioner to register taxpayer. The detailed rules and regulation are to be notified by the board.	

Penalty for concealment of income **SECTION 184(5)**

Existing	Proposed Amendment
"New Sub-Section shall be added"	where, in consequence of any order under this Ordinance, the amount of tax in respect of which any penalty imposed under sub-section (1) is reduced, the amount of the penalty shall be reduced accordingly.";
Comments: By virtue of proposed amendment it is proposed to reduce the amount of penalty imposed as a consequence of reduction in taxpayer on which the penalty was levied.	

Prosecution for false statement in verification **SECTION 193(b)**

Existing	Proposed Amendment
in any other case, a fine.	after the word "fine" the words "not exceeding fifty thousand rupees" shall be added;
Comments: It is proposed to specify the amount of fine which could be levied if any person makes a false statement in any verification. It is proposed to levy fine not exceeding Rs. 50,000 for the default.	

Directorate-General of Withholding Taxes **CHAPTER II, Part III**

Existing	Proposed Amendment
"New Section shall be added"	The Directorate-General of Withholding Taxes shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors and Assistant Directors and such other officers as the Board, may by notification in the official Gazette, appoint. The Board may, by notification in the official Gazette, specify the functions, jurisdiction and

Directorate-General of Withholding Taxes **CHAPTER II, Part III**

	powers of the Directorate General of Withholding Taxes.”;

Comments: It is proposed to introduce a new Directorate General for the purpose of withholding taxes. The board will notify the function, jurisdiction and power of the Directorate.

Purchase of motor cars and Jeeps **SECTION 231B**

Existing	Proposed Amendment
Every manufacturer or authorized dealer of motor cars shall at the time of sale of a motor car, collect advance tax at the rate specified in Division VIII of Part IV, of the First Schedule.	Every person shall pay, at the time of registration of a new motor car or a jeep, advance tax at the rates specified in Division VII of Part IV of the First Schedule: Provided that the provisions of this section shall not be applicable in the case of (i) the Federal Government; (ii) the Provincial Government; (iii) a foreign diplomat; or (iv) a diplomatic mission in Pakistan.”;

Comments: It is proposed that every person except (i) The Federal Government (ii) the Provincial Government (iii) Foreign Diplomat (iv) A diplomatic mission of Pakistan shall pay at the time of registration of new motor car and jeeps advance tax at the following rates:

Engine Capacity	Amount of Final Tax
Upto 850CC	Rs. 10,000/-
851CC to 1000CC	Rs. 14,000/-
1001CC to 1300CC	Rs. 22,500/-
1301CC to 1600CC	Rs. 22,500/-
1601CC to 1800CC	Rs. 35,000/-
1801CC to 2000CC	Rs. 30,000/-
Above 2000CC	Rs. 50,000/-

Collection of tax by a stock exchange registered in Pakistan **SECTION 233A(a) & (b)**

Existing	Proposed Amendment
at the rates specified in Division IIA of Part IV of First Schedule from its Members on purchase of shares in lieu of 3[tax on] the commission earned by such Members; at the rates specified in Division IIA of Part IV of First [Schedule] from its Members on sale of shares in lieu of [tax on] the commission earned by such Members;	in sub-section (1), in clause (d), the brackets and word “(Badla)” shall be omitted; and for sub-section (2), the following shall be substituted, namely;

Collection of tax by a stock exchange registered in Pakistan **SECTION 233A(a) & (b)**

Comments: It is proposed that tax collected from the members of the stock exchange on various transactions be made a minimum tax. The existing tax rate prescribed on various transactions are given as under:

Nature of Payments of Transaction	Rate
On purchase of share in lieu of the Commission earned by its member	0.01% of Purchase Value
On sale of share in lieu of the Commission earned by its member	0.01% of Sale Value
From its member in respect of Trading of share	0.01% of Trade Value
From its member in respect of financing of carry over trade in share business	10% of carry over charge

It is interesting to note that section 113 which dealt with minimum tax on income is being proposed for deletion. Further, the assessment of the brokers will be subject to normal tax as their income has been brought out of the Presumptive Tax Regime.

Transport business **SECTION 234**

Existing	Proposed Amendment
Any person 8[at the time of] collecting motor vehicle tax shall also collect advance tax at the rates specified in Part IV of the First Schedule.	for the marginal note "Transport business" the marginal note "Tax on motor vehicles" shall be substituted;

Comments:

Electricity consumption **SECTION 235(4)**

Existing	Proposed Amendment
The tax collected under this section shall be minimum tax on the income of a person (other than a company). There shall be no refund of the tax collected under this section, unless the tax so collected is in excess of the amount for which the taxpayer is chargeable under this Ordinance in the case of a company.	after the word "section" occurring for the first time, the words "upto bill amount of twenty thousand rupees per month" shall be inserted;

Comments: Presently, if the amount of electricity bill exceeds Rs. 20,000 tax @ 2,000 is charged as a minimum tax on the income of a person other than company. It is proposed to collect tax @ 10% on the bill amount exceeding Rs. 20,000 p.m. as adjustable advance tax.

SECTION 237A(1) & (2)

Existing	Proposed Amendment
"New Sub-Section shall be added"	The Board may require any person to use its information system and electronic resource, in order to replace or supplement, its manual business processes by automated business processes and substitute its paper based records by electronic record. Electronic record generated, maintained, issued, served, received, filed or requisitioned through the electronic resource of the Board shall by itself sufficiently and conclusively prove its validity, authenticity and integrity and shall be treated to have been done so according to the provisions of this Ordinance.";
Comments: It is proposed to introduce the concept of electronic record whereby the board may require any person to replace his existing manual based record with electronic record.	

THE FIRST SCHEDULE

PART I – DIVISION I
RATES OF TAX FOR INDIVIDUALS AND ASSOCIATION OF PERSONS

Comments: The rates of tax chargeable for the tax year 2009 (corresponding to the income year ending at any time between July, 2008 to June, 2009 have remained unchanged and are as under:

The 1st Schedule for the non-salaried individuals and Association of Persons are summarized as under: **(The basic exemption limit in case of women tax payer will be Rs. 125,000).**

Taxable Income	Tax Rate	Taxable Income	Tax Rate
Upto Rs.100,000	Nil	Rs.300,001 to Rs.400,000	7.5%
Rs.100,000 to Rs.110,000	0.5%	Rs.400,001 to Rs.500,000	10%
Rs.110,001 to Rs.125,000	1%	Rs.500,001 to Rs.600,000	12.5%
Rs.125,001 to Rs.150,000	2%	Rs.600,001 to Rs.800,000	15%
Rs.150,001 to Rs.175,000	3%	Rs.800,001 to Rs.1,000,000	17.5%
Rs.175,001 to Rs.200,000	4%	Rs.1,000,001 to Rs.1,300,000	21%
Rs.200,001 to Rs.300,000	5%	Above Rs. 1,300,001	25%

The changes in the 1st Schedule for the salaried individuals are summarized as under: (The limit of basic exemption for salaried individuals is being enhanced from Rs.150,000 to Rs.180,000 and in case of salaried women the limit is being enhanced from Rs.200,000 to Rs.240,000)

S. #	Taxable Income	Tax Rate %	Tax Charge	Existing Tax
1	Where taxable income does not exceed Rs.180,000	0%	Nil	450
2	Where taxable income exceeds Rs.180,000 but does not exceed Rs.250,000	0.5%	900 to 1,250	450 to 1,250
3	Where taxable income exceeds Rs.250,000 but does not exceed Rs.350,000	0.75%	1,875 to 2,625	1,875 to 5,250
4	Where taxable income exceeds Rs.350,000 but does not exceed Rs.400,000	1.5%	5,250 to 6,000	8,750 to 10,000
5	Where taxable income exceeds Rs.400,000 but does not exceed Rs.450,000	2.5%	10,000 to 11,250	14,000 to 15,750
6	Where taxable income exceeds Rs.450,000 but does not exceed Rs.550,000	3.5%	15,750 to 19,250	15,750 to 24,750
7	Where taxable income exceeds Rs.550,000 but does not exceed Rs.650,000	4.5%	24,750 to 29,250	24,750 to 39,000
8	Where taxable income exceeds Rs.650,000 but does not exceed Rs.750,000	6%	39,000 to 45,000	39,000 to 56,250
9	Where taxable income exceeds Rs.750,000 but does not exceed Rs.900,000	7.5%	56,250 to 67,500	56,250 to 81,000

10	Where taxable income exceeds Rs.900,000 but does not exceed Rs.1,050,000	9%	81,000 to 94,500	81,000 to 105,000
11	Where taxable income exceeds Rs.1,050,000 but does not exceed Rs.1,200,000	10%	105,000 to 120,000	105,000 to 132,000
12	Where taxable income exceeds Rs.1,200,000 but does not exceed Rs.1,450,000	11%	132,000 to 159,500	150,000 to 181,250
13	Where taxable income exceeds Rs.1,450,000 but does not exceed Rs.1,700,000	12.50%	181,250 to 212,500	203,000 to 238,800
14	Where taxable income exceeds Rs.1,700,000 but does not exceed Rs.1,950,000	14%	238,000 to 273.000	255,000 to 292,500
15	Where taxable income exceeds Rs.1,950,000 but does not exceed Rs.2,250,000	15%	292,500 to 337,500	312,000 to 360,000
16	Where taxable income exceeds Rs.2,250,000 but does not exceed Rs.2,850,000	16%	360,000 to 456,000	360,000 to 456,000
17	Where taxable income exceeds Rs.2,850,000 but does not exceed Rs.3,550,000	17.5%	498,750 to 621,250	456,000 to 621,250
18	Where taxable income exceeds Rs.3,550,000 but does not exceed Rs.4,550,000	18.5%	656,750 to 841,750	621,250 to 864,500
19	Where taxable income exceeds Rs.4,550,000 but does not exceed Rs.8,650,000	19%	864,500 to 1,643,500	864,500 to 1,730,000
20	Where taxable income exceeds Rs.8,650,000	20%	1,730,000	1,730,000

N.B. No marginal relief has been assumed on above tax charge

A concept of marginal relief has been introduced where the total income of a taxpayer marginally exceeds the maximum limit of a slab in the table, the income tax payable shall be the tax payable on the maximum of that slab plus tax on –

(i) 20% of the amount by which the total income exceeds the said limit where the total income does not exceed Rs.500,000.

(ii) 30% of the amount by which the total income exceeds in each slab but total Income does not exceed Rs.1,050,000.

(iii) 40% of the amount by which the total income exceeds in each slab but total income does not exceed Rs.2,000,000.

(iv) 50% of the amount by which the total income exceeds in each slab but total income does not exceed Rs.4,450,000.

(v) 60% of the amount by which the total income exceeds in each slab but the total income exceeds Rs.4,450,000.”;

For the purpose of understanding of our readers we have tried to calculate the tax payable using the concept of marginal relief:

Computation of tax payable using marginal relief				
S. #	**Taxable Income**	**Tax Rate**	**Tax Chargeable**	**Total Tax Chargeable after Marginal Relief**
1	Taxable income assumed at Rs.475,000 Tax rate upto Rs.450,000 Marginal amount exceeding last slab Rs.25,000 X 20% = Rs.5,000	2.5% 3.5%	11,250 175	11,425
2	Where taxable income Rs. 950,000 Tax rate upto Rs.900,000 Marginal amount exceeding last slab Rs.50,000 X 30% = Rs.15,000	7.5% 9%	67,500 1,350	68,850
3	Where taxable income Rs.1,975,000 Tax rate upto Rs.1,950,000 Marginal amount exceeding last slab Rs.25,000 X 40% = Rs.10,000	14% 15%	273,000 1,500	274,500
4	Where taxable income Rs.4,000,000 Tax rate upto Rs. 3,550,000 Marginal amount exceeding last slab Rs. 450,000 X 50% = Rs.225,000	17.5% 18.5%	621,250 41,625	662,875
5	Where taxable income Rs.5,000,000 Tax rate upto Rs.4,550,000 Marginal amount exceeding last slab Rs.450,000 X 60% = Rs.270,000	18.5% 19%	841,750 51,300	893,050

DIVISION II
RATES OF TAX FOR COMPANIES

DIVISION II Clause (ii)

Proposed Amendment:	"Shall be Omitted"
Comments: The proposed amendment seeks to withdraw option available to societies, a corporative society to opt for rate applicable to company or an individual which ever is beneficial to them.	

DIVISION II Clause (iii)

Comments: It has been proposed to allow an enhanced amount of turnover to small companies as defined in section 2 by paying tax at higher rate yet classifying themselves as Small Companies.

S. #	Turnover	Tax Rate %
1	Where turnover does not exceed Rs.250 Million	20%
2	Where turnover exceeds Rs.250 Million but does not exceeds Rs.350 Million	25% Plus
3	Where turnover exceeds Rs.350 Million but does not exceeds Rs.500 Million	30% Plus
4	Where turnover exceeds Rs.500 Million	35% Plus

DIVISION VI
INCOME FROM PROPERTY

DIVISION VI

Comments: The rate of deduction of tax on rent has been proposed to be enhanced from 5% to 15% as applicable as per the following slab in the case of individual and AOP's

S. #		Tax Rate %
1	Where the gross amount of rent does not exceed Rs.150,000	0%
2	Where the gross amount of rent exceeds Rs.150,000 but does not exceed Rs.400,000	5% of the amount exceeding Rs.150,000
3	Where the gross amount of rent exceeds Rs.400,000 but does not exceed Rs.1,000,000	Rs.12,500 Plus 10% of the amount exceeding Rs.400,000
4	Where the gross amount of rent exceeds Rs.1,000,000	Rs.72,500 Plus 15% of the amount exceeding Rs.1,000,000

Comments: In the case of companies the following rate of deduction of tax on rent has been proposed to be applicable:

S. #		Tax Rate %
1	Where the gross amount of rent does not exceed Rs.400,000	5%
2	Where the gross amount of rent exceeds Rs.400,000 but does not exceed Rs.1,000,000	Rs.20,000 Plus 10% of the amount exceeding Rs.400,000
3	Where the gross amount of rent exceeds Rs.1,000,000	Rs.80,000 Plus 15% of the amount exceeding Rs.1,000,000

PART III
DEDUCTION OF TAX AT SOURCE
DIVISION II
PAYMENT TO NON-RESIDENTS

Comments: The new clause (IA) is proposed to be referred in section 152 whereby now the reduced withholding tax @ 5% on the gross amount of agreement will be levied

SECOND SCHEDULE - PART-I
EXEMPTION FROM TOTAL INCOME

Clause	Description	Remarks
2	Salary received by a non-resident or a resident individual employed in Shaukat Khanum Memorial Hospital and Research Center, Lahore;	Exemption withdrawn
6	Salary received by a non-resident person by virtue of his employment with British Council	Exemption withdrawn
21	Amount received in the form of income by a person from an annuity or annuities issued by the State Life Insurance Corporation of Pakistan or life insurance company registered under section 3	Exemption withdrawn

25	Amount received on the death of the beneficiary from various retirements benefit schemes under different conditions except approved superannuation fund.	Exemption withdrawn
57(3)	Amount received from Voluntary Pension System	Exemption withdrawn
61	Donation limit to specified institution as a percentage of taxable income has been reduced	For individuals and AOP from 30% to 10% and for companies from 15% to 10% of taxable income
62	Donation to President Relief Fund for earthquake victim of 2005	Exemption withdrawn
63B	Donation to 2nd session of World Islamic Economic Forum	Exemption withdrawn
66 (xix) (xx)	Pension of a former President of Pakistan and his widow Income derived by State Bank of Pakistan and SBP banking services corporation	Exemption allowed
72	Any profit on debt payable to a non resident person	Exemption withdrawn
77	Any profit derived by a non resident from Islamic mode of financing	Exemption withdrawn
82	Any profit received on Special US Dollar Bonds	Exemption withdrawn
83	Any profit received on Pak rupee account or certificate of deposit which have been created by the conversion of a foreign currency account.	Exemption withdrawn
98	Income derived by Pakistan Cricket Board	Exemption withdrawn
99	Income derived through a collective investment scheme	Exemption allowed
99A	“REIT Scheme” has been introduced for allowing exemption in place of “Real Estate Investment Trust”	Exemption allowed
103	Any distribution received from approved collective investment scheme, etc of NIT, RIET, Private Equity and Venture Capital Fund, etc.	Clause reworded to give effect to changes in other statues.
103A	The proposed amendment seeks to extend the exemption of inter company dividend to companies entitled to group relief under section 59B in addition to the companies that are eligible for group taxation under section 59AA	Group relief in taxation for inter company dividend.
110	Income derived under the head of capital gain	Exemption extended up to 30.06.2010
132 A	Payment made for the supply of plant, equipment and machinery to Hub Power Company	Exemption withdrawn
133A	Income derived by an individual from transfer of its membership right or shares of the stock exchange in Pakistan	Exemption withdrawn
138	income derived from Facilitation Agreement between President of Pakistan and taxpayer purchasing Kot Addu Power Station	Exemption withdrawn

SECOND SCHEDULE - PART-II

REDUCTION IN TAX RATES

Clause	Description	Remarks
6	Profit on Special US Dollar bond	Relaxation withdrawn

9A	Previously withholding tax on sale of motor car was charged @2.5 % which is now being withdrawn	Relaxation withdrawn
10	Income of Fauji Foundation and Army Welfare Trust was previously charged at the rate 20%	Relaxation withdrawn
13	Previously tax under section 148 was collected @ 1% on import of capital goods and raw material	Relaxation withdrawn
13C	Tax rate on purchase of locally produced edible oil has been enhanced from 1% to 2%	Relaxation withdrawn
13 G	Reduced tax rate on import value of capital goods, coal, sugar and equipment of Call Centers have been waved.	Relaxation withdrawn
13H	Reduced rate of tax of 2% on import value of raw materials for steel industry, poultry feed, stationery, energy saver lamps, edible oils, bitumen, fixed wireless terminal, pesticides and wedicides have been withdrawn	Omitted as no more required due to change in overall rates
14	Reduced tax rate on rice marketed under brand name, canned and bottled fish, precious and semi precious stone have been withdrawn	Relaxation withdrawn
15	Reduced tax rate on export of fish and fishery product have been withdrawn	Relaxation withdrawn

SECOND SCHEDULE - PART-III

REDUCTION IN TAX LIABILITY

Clause	Description	Remarks
3	Reduction in tax liability of locally manufactured cigarette	Reduction in tax liability withdrawn
5	Tax liability on yield of Bahbood Saving Certificate or Pensioners Benefit Account has been restricted to 10%.	New clause inserted

SECOND SCHEDULE - PART-IV

EXEMPTION FROM SPECIFIC PROVISIONS

Clause	Description	Remarks
11,16 19, 57	Reference of section 113 has been omitted as the main section has been withdrawn	Consequential Effect
36	Profit derived on Special US Dollar Bond issued under the Special US Dollar Bond Rule 1998	Exemption withdrawn
42A	Payment received by a person for supply of relief goods for earthquake victim against fund from the President Relief Fund for Earthquake Victim, 2005	Exemption withdrawn
43A	Payment received by a permanent establishment of non resident petroleum exploration and production companies on account of supply of petroleum product.	Exemption merged with Clause 46 below
46	The words “permanent establishment of non resident petroleum exploration and production companies’ inserted in the clause	

56	Goods classified under chapters 27, 52, 86 and 98 of Pakistan Customs Tariff will be exempt of withholding tax at import stage.	Exemption allowed
58	Telecom companies not collecting withholding tax under section 236 (1)(b) on sale of prepaid cards during the tax year 2004 would not be considered as defaulted if the amount is collected and deposited within three months.	Exemption withdrawn
65	Income derived from the transfer or sale of Clean Development Mechanism Credit i,e Certified Emission Reductions, Verified Emission Reduction.	Exemption allowed
66	No advance tax shall be deducted to the exporter cum manufacturer of 1- carpets 2- lather and article thereof including artificial lather footwear 3- Surgical goods 4- Sport goods, and 5- Textile and article thereof on electricity bills.	Exemption allowed

THIRD SCHEDULE – DEPRECIATION

Impact of amendment discussed with relevant section i,e 23 A.

FOURTH SCHEDULE

RULES FOR THE COMPUTATION OF PROFITS AND GAINS OF INSURANCE BUSINESS

Clause	Comments
Rule 5	The proposed amendment seeks to disallow as expense amount taxes to reserve to meet depreciation of investment. Deduction for expenses incurred for premium on overseas insurance unless taxes are withheld from payments. Capital gain exemption to insurance company is extended to 2010.

SIXTH SCHEDULE –I

RECOGNISED PROVIDENT FUND

Clause	Comments
Rule 3	Limit of exempt contribution of employer towards provident fund is fixed at lower of 1/10 th of salary and Rs. 100,000.

SIXTH SCHEDULE –II

APPROVED SUPER ANNUATION FUND

Clause	Comments
Rule 5	Tax from repayment of superannuation fund would now be deducted at rate prevailing in year of withdrawal instead of average rate of last three years.

SEVENTH SCHEDULE

RULES FOR THE COMPUTATION OF PROFITS AND GAINS OF A BANKING COMPANY AND TAX PAYABLE THEREON

Clause	Comments
Rule 1, 7 & 8	The provision of seventh schedule allowing deduction on account of NPL as per prudential regulation is proposed to be deleted. From next financial year such deduction would be allowed under section 29 & 29A. The loss of amalgamating bank may be carried forward and adjusted against the income of amalgamated bank within 6 succeeding years.

SALES TAX ACT, 1990

The amendments proposed in the Sales Tax Act are both procedural and revenue based. It is no secret our economy has experienced the highest inflation rate special with regard to the food items and fuel during past months. We also appreciate the budget deficit being faced by the government. However, it has been proposed to increase the rate of sales tax by 1%, which in our opinion will increase the burden on the common man.

The Salient features of the proposed amendments are being discussed in the ensuing paragraphs.

Definitions: Associates **SECTION 2(3 & 3A)**

Existing	Proposed Amendment
'associated persons' means any two or more persons who are close relatives to each other or who are interconnected with each other in the following way, namely:-- (i) If the persons, being companies or undertakings, are under common management or control or one is the subsidiary of the other; (ii) If a person who is the owner or partner or director of a company or undertaking, or who, directly or indirectly, holds or controls twenty per cent shares in such company or undertaking, is also the owner, partner or director of another company or undertaking, or, directly or indirectly, holds or controls twenty per cent shares in that company or undertaking;	(i) subject to sub-clause (ii), where two persons associate and………………… reasonably be expected to act in accordance with the intentions of a third person; (ii) two persons shall not be associates…… employees of a third person; (iii) without limiting the generality of sub- clause (i) and subject to sub-clause (iv), the following shall be treated as associates, namely……………….. "***association of persons***" includes a firm, a Hindu undivided family, any artificial juridical person and any body of persons formed under a foreign law, but does not include a company;";

Comments: The Finance Bill proposes to broaden the scope of the term associated persons defined in the Sales Tax Act, 1990. Currently, following persons are treated as the associated persons under the Act:

(1) Close relatives i.e. family, parents, brothers, sisters and dependents of the registered person;
(2) The company or undertaking in which the registered person is either owner, partner, or director or holds 20% of share, either directly or indirectly; and
(3) Two or more companies or undertaking in which the person referred to in (2) above is owner or partner or director or holds 20% of the shares (directly or indirectly).

The bill seeks to broaden the scope by covering any two or more persons where the relationship between them is such that one may be expected to influence the acts of others except when the relationship between the parties is that of employer and employee(s).

Without affecting the generality of scope referred in previous para, followings are proposed to be treated as associates:

(a) an individual and his relatives. (The term "relative" is proposed to mean an ancestor, a descendent of any of the grandparents, an adopted child of the individual or of his spouse,

Definitions: Associates **SECTION 2(3 & 3A)**

and individual's spouse and spouse of any of the previously mentioned persons).
(b) members of an association of persons.
(c) a member of an association of persons and the association, if the member (either alone or together with an associate(s)) controls fifty per cent or more of the rights to income or capital of the association.
(d) a trust and any person who benefits or may benefit under the trust.
(e) a shareholder of a company holding, either directly or through one or more interposed persons, 50% of voting powers, or rights to dividend or to the capital and the company in which the said shareholder holds such powers or rights. Additionally, two or more companies are also proposed to be considered associates if a shareholder holds previously referred powers or rights in both the companies.

Definitions: Company **SECTION 2(5AA)**

Existing	Proposed Amendment
"computerized system" means any comprehensive information technology system to be used by the Board or any other office as may be notified by the Board, for carrying out the purposes of this Act;	(a) a company as defined in the Companies Ordinance, 1984 (XL VII of 1984); (b) a body corporate formed by or under any law…. (c) a *modaraba*; (d) a body incorporated by or under the law………. (e) a trust, a co-operative society or……………… (f) a foreign association, whether incorporated……

Comments: The bill proposes to introduce the definition of "Company". The proposed definition is similar to its definition given in the Income Tax Ordinance, 2001 but it will not include a Provincial Government, a local authority and a Small Company.

Definitions: Person **SECTION 2(21)**

Existing	Proposed Amendment
'Person' includes a company, an association, a body of individuals whether incorporated or not, a public or local authority, a Provincial Government or the Federal Government;	(a) an individual; (b) a company or association of persons………… (c) the Federal Government; (d) a Provincial Government; (e) a local authority in Pakistan; or (f) a foreign government, a political subdivision…..

Comments: It has been proposed to enhance the meaning of the term "Person" by including in its meaning a foreign government, a political subdivision of a foreign government, or public international organization.

Definitions: Retail Tax **SECTION 2 (28A), 3AA & 26AA**

Existing	Proposed Amendment
retail tax' means tax levied under section 3AA	**Shall be Omitted**

Comments: The scheme of retail tax applicable to retailers who are making taxable supplies in the course or furtherance of any taxable activity carried by them is proposed to be abolished.

Definitions: Supply **SECTION 2(33)**

Existing	Proposed Amendment
supply' includes sale, lease (***) or other disposition of goods carried out for consideration and also includes -- (a) putting to private, business or non-business…... (b) auction or disposal of goods to satisfy a debt… (c) possession of taxable goods held……………. (d) (***) Provided that the Federal Government, may by notification in the official Gazette, specify such other transactions which shall or shall not constitute supply;	means a sale or other transfer of the right to dispose of goods as owner, including such sale or transfer under a hire purchase agreement: Provided that the Federal Government, may by notification in the official Gazette, specify such other transactions which shall or shall not constitute supply:";

Comments: The existing definition of "Supply" is being substituted with more qualitative and exhaustive definition. As per the proposed definition the Supply would mean a sale or other transfer of the right to dispose of goods as owner, including such sale or transfer under hire purchase agreement. Furthermore a proviso has been added empowering the federal government to specify such other transactions which shall or not constitute supply. Now if we look at the existing definition; the same is inclusive type and also covers the possession of taxable goods held immediately before a person ceases to be a registered person as supply. One could say that under the proposed definition how the issue of possession of goods immediately before the deregistration will be covered. In our opinion, the answer lies in the new definition of "taxable activity" under section 2(35)(d) which includes "anything done or undertaken during the commencement or termination of the economic activity". One can not help appreciating the beauty of the drafting.

Definitions: Taxable Activity **SECTION 2(35)**

Existing	Proposed Amendment
'taxable activity' means any activity which is carried on by any person, whether or not for a pecuniary profit, and involves in whole or in part, the supply of goods or rendering of services on which sales tax has been levied under the respective ordinance and use of goods acquired for private purposes or for the manufacture of exempt goods without making supply to any other person, whether for any consideration or otherwise, and includes any activity carried on in the form of a business, trade or manufacture;	means any economic activity carried on by a person whether or not for profit, and includes- (a) an activity carried on in the form of a business... (b) an activity that involves the supply of goods…... (c) a one-off adventure or concern in the nature….. (d) anything done or undertaken during………… but does not include- (a) the activities of an employee providing services. (b) an activity carried on by an individual…………

Definitions: Taxable Activity **SECTION 2(35)**

	(c) an activity carried on by a person other than……

Comments: Similarly the definition of the taxable activity is being changed. The salient features of the proposed definitions are as under:

1. There has to be an economic activity not necessarily for profit
2. activity has to be in the form of business, trade or manufacture
3. activity involving supply of goods
4. activity involving rendering of services
5. adventure in the nature of trade
6. anything done or undertaken during the commencement or termination of the economic activity.

However, the following activities will be out side the purview of the taxable activity:

1. activity of employee rendering services to the employer.
2. activity carried on by the individual as private recreational pursuit or hobby.
3. activity carried on by other person other than individual in the nature of recreational pursuit or hobby.

Definitions: Time of Supply **SECTION 2(44)**

Existing	Proposed Amendment
"time of supply" a supply shall be deemed to have taken place at the time of delivery of goods by the supplier:– Provided that – (a) where any goods are supplied by a registered person to an associated person and the goods are not to be removed……………….. (b) Where the goods are supplied under hire purchase agreement, the time of supply………	(a) a supply of goods, other than under hire purchase agreement, means the time at which the goods are delivered or made available to the recipient of the supply; (b) a supply of goods under a hire purchase agreement, means the time at which the agreement is entered into; and (c) services, means the time at which the services are rendered or provided;";

Comments: The bill proposes to bring in significant changes in the time of supply. Currently, the earlier of time of delivery or the receipts in respect of the supply is deemed to be time of supply. It has now been proposed that time of supply, in relation to, (1) supply of goods (other than under hire purchase agreement), be the time of delivery or tome of making available of goods to the recipient of the supply; (2) supply of goods under hire purchase agreement, be the time of entering into an agreement; and (3) services, be mean the time at which the services be rendered or provided.

Scope of Tax **SECTION 3**

Existing	Proposed Amendment
Subject to the provisions of this Act, there shall be charged, levied and paid a tax known as sales tax at the rate of fifteen per cent of the value of--	for the word "fifteen", wherever occurring, the word "sixteen" shall be substituted; and

Comments: Rate of sales tax has been proposed to be increased from 15% to 16%.

Determination of Tax Liability **SECTION 7**

Existing	Proposed Amendment
[1][Subject to the provisions of section 8B] the purpose of determining his tax liability………… Provided that the taxpayer may adjust input tax paid on the purchases in the immediate twelve preceding tax periods from the output tax subject to the condition that the taxpayer specifies the reasons for such delayed input tax adjustment in the revised sales tax return for such period or in the return for the immediately succeeding tax period.	for the proviso, the following shall be substituted, namely:- "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.";

Comments: Currently, a registered person may claim, against tax liability of any of 12 succeeding tax periods, an input tax not previously deducted within the relevant period. It has now been proposed to limit the period of such adjustment of input tax to six (6) months from twelve (12) months after the end of relevant period.

The bill also proposes to abolish the current condition of specifying the reasons of above referred delayed input tax adjustment.

Adjustable Input Tax **SECTION 8B**

Existing	Proposed Amendment
(1) Notwithstanding anything contained in this Act, in relation to a tax period……………….. Provided that the tax charged on the acquisition of fixed assets shall be adjustable against the output tax in twelve equal monthly installments after the start of production of a new unit	in the first proviso, the words "after the start of production of a new unit", shall be omitted;

Comments: Input tax charged on the acquisition of fixed assets is currently adjustable against the output tax in twelve (12) equal monthly installments after the start of production of a new unit. The bill proposes to abolish the condition that the above referred input tax can only be adjusted for new units. After the proposed amendments, registered persons bearing input tax on acquisition of fixed would be able to adjust it regardless of the question that whether or not those were purchased for a new unit.

Refund of Input Tax **SECTION 10**

Existing	Proposed Amendment
If the input tax paid by a registered person on taxable purchases made during a tax period exceeds the output tax on account of zero rated local supplies or export made during that tax period, the excess amount of input tax shall be refunded……… Provided that the Board may, subject to such conditions and restrictions as it may impose, by notification in the official Gazette, prescribe the procedure for refund of excess input tax against	for the first proviso, the following shall be substituted, namely:- "Provided that in case of excess input tax against supplies other than zero-rated or exports, such excess input tax may be carried forward to the next tax period and shall be treated as input tax for that period and the Board may, subject to such conditions and restrictions as it may impose, by notification in the official Gazette, prescribe the procedure for refund of such excess input tax;";

Refund of Input Tax **SECTION 10**

other taxable supplies;	

Comments: The Finance Bill proposes to allow carry forward of excess of input tax against supplies other than zero-rated or exports. Such excess input is currently being refunded to the registered persons.

Assessment of Tax **SECTION 11(4)**

Existing	Proposed Amendment
No order under this section shall be made by an officer of Sales Tax unless a notice to show cause is given to the person in default specifying…….. Provided that order under this section shall be made within ninety days of issuance …………..	(a) after the word "given", the words "within five years" shall be inserted; and (b) in the proviso, for the word "ninety", occurring twice, the words, "one hundred and twenty", shall be substituted;

Comments: Where a person who is required to file a tax return either fails to file the return or pays an amount less than the amount of tax actually due, an officer of Sales Tax may make an order for assessment of tax (including penalties and default surcharge) after issuing a notice to show cause to such defaulting person. Currently, no time limit from the date of default is laid down in the Act to issue such show cause notice. It has been proposed that such show cause notice may be issued within five years of the default of filing the return or paying the short amount.

The bill also proposes to enhance the time limit of making an assessment order after issuance of show cause notice. It is proposed to be changed to 120 days from 90 days. The extendable time is also proposed to be enhanced to 120 days from 90 further days.

Return **SECTION 26 (3)**

Existing	Proposed Amendment
A registered person may, subject to approval of the Collector of Sales Tax having jurisdiction, file a revised return within ninety days……………	for the word "ninety", the words "one hundred and twenty", shall be substituted;

Comments: It has been proposed that a registered person may be allowed to revise his return within 120 days of filing of the return instead of 90 days.

Offences and Penalties **SECTION 33**

Existing	Proposed Amendment
Whoever commits any offence described in column (1) of the Table below shall, in addition to and not in derogation of any punishment to which he may be liable under any other law, be liable to the penalty mentioned against that offence in column (2) thereof:— **TABLE……….**	appearing for the first time, shall be omitted; and TABLE, in column (1), serial number 20 and the entries relating thereto in columns (2) and (3) shall be omitted;

Comments: Penalty of Rs. 25,000 on failure to submit summary of sale and purchase invoices is proposed to be abolished.

Default Surcharge **SECTION 34(1)(a)**

Default Surcharge **SECTION 34(1)(a)**

Existing	Proposed Amendment
for the first six months of default, the person liable to pay any amount of tax or charge or the amount of refund erroneously made, shall pay default surcharge at the rate of one *per cent* per month, of the amount of tax due or the amount of refund erroneously made; from the seventh month onwards, the person liable to pay any amount of tax or charge	the words and comma "for the first six months of default," shall be omitted; and after the word "one", the words "and half" shall be inserted; (c) after semi colon at the end, the word "and" shall be added; and clause (b) shall be omitted;

Comments: Rate of default surcharge is proposed to be enhanced to 1.5% per month (even if period of default is up to six months). Currently, it is only 1% per month for the first six months of default. The move is apparently proposed to discourage late payments of tax by keeping the rate of default surcharge higher than the interest rates.

Recovery of tax not levied or short levied or erroneously refunded **SECTION 36(3)**

Existing	Proposed Amendment
The officer of Sales Tax empowered in………… Provided that order under this section shall be made within ninety days of issuance of show cause notice or within such extended period as the Collector (***) may, for reasons to be recorded in writing, fix, provided that such extended period shall in no case exceed ninety days**:**	in the proviso, for the word "ninety", occurring twice, the words, "one hundred and twenty", shall be substituted;

Comments: A sales tax officer may after issuing a notice to show cause make an order for recovery of tax not levied or short levied or erroneously refunded. The Act lays down that such order may be made within 90 days of issuance of the notice. This time limit may be extended by maximum of further 90 days. The bill proposes to change the time limits to 120 days from 90 days.

Appeals to Appellate Tribunal **SECTION 46(1)(7)&(9)**

Existing	Proposed Amendment
Any person including an officer of Sales Tax not below the rank of an Additional Collector, aggrieved by— any order passed by the Collector under sub-section (4) of section 45A any order passed by the Board or the Collector of Sales Tax under section 45A, may, within sixty days of the receipt of such decision or order, prefer appeal to the Appellate Tribunal.	Any person including an officer of Sales Tax not below the rank of an Additional Collector, aggrieved by any order passed by– (a) the Collector of Sales Tax (Appeals) under section 45B, (b) the Collector of Sales Tax through adjudication or under any of the provisions of this Act or rules made thereunder, (c) the Board under section 45A, may, within sixty days of the receipt of such

Appeals to Appellate Tribunal **SECTION 46(1)(7)&(9)**

Order under this section shall be passed within six months of filing of appeal. The Chairman or any other member of the Appellate Tribunal authorized in this behalf by the Chairman may, sitting singly, dispose of any case which has been allotted to the bench of which he is member where — in any disputed case, other than a case where the determination of any question having a relation to the rate of sales tax or to the value of taxable goods for purposes of assessment is in issue or is one of the points in issue, the difference in tax involved or the tax involved does not exceed fifteen hundred thousand rupees; or the amount of fine or penalty involved does not exceed fifteen hundred thousand rupees.	decision or order, prefer appeal to the Appellate Tribunal."; (b) in sub-section (7), for the words, "six", the word, "eight", shall be substituted; (c) in sub-section (9),– (i) in clause (a), for the words "fifteen hundred thousand", the words "ten million" shall be substituted; and (ii) in clause (b), for the words "fifteen hundred thousand", the words "ten million" shall be substituted;

Comments: The proposed amendment seeks to allow an officer of Sales Tax not below the rank of Additional Collector to prefer an appeal before Appellate Tribunal if he is aggrieved by an order passed by Collector of Sales Tax under any of the provisions of the Act.

The bill also seeks to amend the time allowed to Appellate Tribunal for disposal of appeals filed before it. It is proposed to amend the current time limit of six months to eight months.

The monetary limit for adjudication by a single member bench is proposed to be increased from Rs. 1.5 million to Rs. 10 million.

Representatives and their liability and obligations **SECTION 58A & 58B**

Existing	Proposed Amendment
"New Section shall be inserted"	(1) For the purpose of this Act and subject to sub-sections (2) and (3), "representative" in respect of a registered person, means – ………………..
"New Section shall be inserted"	(1) Every representative of a person shall be responsible for performing any duties or obligations imposed by or under this Act on the person, including the payment of tax……………..

Comments: A new term of "Representatives" is proposed to be introduced in the Act. The bill has also proposes liabilities and obligations of such representatives of a registered person.

Repayment of tax to persons registered in Azad Jammu & Kashmir **SECTION 61A**

Existing	Proposed Amendment
"New Section shall be inserted"	Subject to such conditions, limitations or restrictions as it may deem fit to impose, the Board may authorize the repayment in whole or in part of the input tax paid on any goods acquired in or imported into Pakistan by the persons registered in Azad Jammu and Kashmir as are engaged in making of zero-rated supplies.”;

Comments: Payment of refund of sales tax is proposed to be made to persons registered in Azad Jammu and Kashmir who are engaged in making zero-rated supplies.

The Third schedule
<u>Items Subject to Sales Tax on Retail Prices Basis</u>

Biscuits, confectionery, snacks and electric bulbs are proposed to be excluded from the scope of third schedule to the Act thereby proposing imposition of sales tax at par with other items instead of charging them @ 15% of the retail price.

The Sixth Schedule
Exemptions

Following items are proposed to be exempted from levy of sales tax:

- Energy Saver Lamps.
- Ready Mix Concrete Blocks.
- Medical equipment, apparatus, reagents, disposables, spares and donations supplied to operating hospitals of 50 beds or more.
- Goods and services purchased by non-resident entrepreneurs and traders visiting Pakistan to participate in trade fairs and exhibition subject to reciprocity.

SUMMARY OF SIGNIFICANT SALES TAX SROs

SRO 523(I)/2008	Vide S.R.O 645(I)/2007 in case of commercial importers 2% additional sales tax was levied on import stage with a condition that no further sales tax will be charged to the commercial importer at the time of supply. Now this S. R. O is being withdrawn.
SRO 524(I)/2008	A general amnesty scheme is proposed to be introduced to unregistered persons from payment of sales tax, default surcharge and penalty payable in respect of the taxable supplies made prior to 11th June 2008. To avail this amnesty three conditions apply; 1) supplies were made by the unregistered person liable to be registered under the law 2) Application for registration must be filed between June 1, 2008 to 31 July, 2008 and 3) this notification will not apply to the registered person against whom a case of tax fraud or evasion has already been framed.
SRO 525(I)/2008	This S.R.O. deals with the amendments introduced in the the Sales Tax Special Procedures Rules, 2007. For the sake of brevity the amendments are not being discussed. It is advisable to refer to the specific contents of the document.
SRO 526(I)/2008	Refund of sales tax (on export of specified goods) Rules, 2006 and Processing of refund claims of large taxpayers Rules, 2007 are being rescinded vide this SRO.
SRO 527(I)/2008	SRO 543(I)/2006 relating to submission of monthly production data has been withdrawn vide this SRO.
SRO 528(I)/2008	SRO 559(I)/2006 pertaining to submission of the monthly invoice summary for importers taxable supplies has been rescind vide this SRO.
SRO 529(I)/2008	According to the provisions of section 8B (1) a registered person is not allowed to adjust tax in excess of 90% of the output tax for the tax period. Through this notification following three types of registered persons are being excluded from the purview of this section: 1. Manufacturer consuming more than 50% of all taxable material and the material is subject to a tax rate of 18.5% to 21%. 2. Commercial importers, provided that the value of import is subject to 2% value addition tax and value of taxable purchases exceeds 50% of all taxable purchases. 3. A person making zero-rated supplies provided that such value exceeds 50% of value of taxable supplies. Included in the earlier notification the names of the wholesalers and distributors have been done away with.
SRO 530(I)/2008	Sales Tax Rules, 2006 relating to cancellation of multiple registrations, filling of returns, amended sales tax returns, processing of refund claims in LTUs , etc are being amended through this notification.
SRO 531(I)/2008	Through this S.R.O the Sales Tax Refund Rules, 2002 have been restored.
SRO 532(I)/2008	Through this S.R.O minimum value of taxable supply of locally produced coal is sought to be fixed at Rs. 1,000 per ton for collection of sales tax on coal.
SRO 535(I)/2008	Through this S.R.O Import and supply of specified fertilizers is being exempted from payment of sales tax.

SRO 536(I)/2008	By virtue of this S.R.O import and supply of pesticides and their specified active ingredients would be exempted from levy of sales tax.
SRO 537(I)/2008	Sales tax rate are being enhanced by one percent for goods specified in this notification. The tax rate would be 21% and 18.50% on specified goods mentioned in table-I and table-II respectively in S.R.O 644(I)/2007.
SRO 538(I)/2008	The supply of maize (corn) starch would be treated as taxable supply whereas caustic soda, flakes in solid form, cotton linter and sequins shall be the zero rated supplies under the notification.
SRO 539(I)/2008	Import of specified raw material for manufacturing of dextrose and saline infusion are being exempted supplies subject to specific conditions laid down in the notification.
SRO 540(I)/2008	The raw material, components and assemblies used in production of acetic acid would be treated zero rated whether import or purchased locally.
SRO 542(I)/2008	A fixed amount (Rs. 500) of sales tax shall be levied on new connection of cellular telephones. Cellular company operator shall charge the tax at the time of activation of cell phone which shall be deposited through a monthly return. No input tax shall be admissible to the said cellular phone company.
SRO 551(I)/2008	Following shall be the exempted supplies 1. Canola seed 2. Machinery, equipment and materials exclusively used within the limit of Export Processing Zones and making export from there. 3. Goods imported for warehousing purpose in Export Processing Zone.

FEDERAL EXCISE ACT, 2005

Section 2(9a) – Duty Due

The bill seeks to amend the definition of duty due by including duty on services provided or rendered in its purview. It also seeks to alter the time of payment of duty due from last day of a month to time of filing of the return.

Section 2(12a) – Franchise

The bill proposes the introduction of new terminology of "franchise" in the Act.

Section 3

The bill proposes to extend scope of the duty to services originating from abroad but terminating in Pakistan. It also seeks to make recipient of the services from abroad to be liable to pay duty on service not originating but terminating in Pakistan.

Section 4

It has been proposed that a registered person may be allowed to revise his return within 120 days of filing of the return instead of 90 days. The bill also introduces a concept of composite return for sales tax and federal excise duty.

The bill seeks to empower federal government to declare provisions of Sales Tax Act, 1990 applicable in respect of duty leviable under Federal Excise Act, 2005.

Section 8 – Default Surcharge

The bill seeks to amend the default surcharge on unpaid duty and on inadmissible refunds and drawback in line with Sales Tax Act, 1990 @ 1.5% per month.

Section 31& 33

It seeks to increase time period for passing order by adjudicating officer and Collector (Appeals) from 90 days to 120 days.

Section 35

The proposed amendment seeks to increase the time limit from two to five years for taking suo-moto action by Board and Collector on legality or propriety of order passed by their respective sub-ordinates.

Section 36

The bill proposes to amend the time limit to rectify orders by Federal Government, FBR, or any Federal Excise Officer of mistakes apparent from records is increased from three to five years.

First Schedule - Rates of Duty

The rate of duty has been proposed to be amended of following items:

Sr. #	Description	Proposed Rate
1.	Edible Oils excluding epoxidized soyabean oil	16 % ad val
2.	Vegatable Ghee and Cooking Oil	16 % ad val
3.	Locally produced cigarettes if their retail price exceeds sixteen rupees per ten cigarettes	63% of the retail price
4.	Locally produced cigarettes if their retail price exceeds seven rupees and forty three paisa per ten cigarettes but does not exceed sixteen rupees per ten cigarettes	Rs. 3.17 per ten cigarretes plus 69% per incremental rupee
5.	Locally produced cigarettes if their retail price does not exceed seven rupees and forty three paisa per ten	Rs. 3.17 per ten cigarretes
6.	Cement (Portland and other similar hydraulic cement)	Rs. 900 per metric ton
7.	Motor Cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars of cylinder capacity exceeding 850cc	5% ad val
8.	Advertisement on CCTV	16% of the charges
9.	Advertisement on Cable TV Network	16% of the charges
10.	**Facilities for travel** (a) Services provided or rendered in respect of travel by air of the passenger within the territorial jurisdiction of Pakistan (b) Services provided or rendered in respect of travel by air of the passengers embarking on international journey to or from Pakistan (i) Passengers embarking to or from SAARC region, UAE (Middle East), Saudi Arabia, Africa, Afghanistan (ii) Passengers embarking to or from Europe, Far East, China, USA, Canada, Australia, South America, others.	Sixteen per cent of the charges plus rupees twenty per ticket Rs. 3, 240 for economy and economy plus classes and Rs. 4,240 rupees for club, business and first classes. Rs. 4, 240 for economy and economy plus classes and Rs. 5,740 rupees for club, business and first classes.
11.	Inland carriage goods by air	16% of the charges
12.	Shipping agents other than NVOCC, International Freight Forwarders and Slot Carriers	16% of the charges
13.	Telecommunication services	21% of the charges
14.	Services provided or rendered in respect of insurance to a policy holder	10% of gross premium paid
15.	Non-fund services provided by banking companies and NBFCs	10% of the charges
16.	Franchise Services	10% of the charges

Third Schedule – Exemptions

(1) Exemption from duty on import of carbon black oil is proposed to be extended to all manufacturer of carbon black. Currently it is only granted to National Petrocarbon (Pvt.) Ltd.
(2) Duty on goods for further manufacture of goods in the Export Processing Zones has been proposed to be exempted.
(3) Exemption from duty is proposed for crop insurance services.

FEDERAL EXCISE DUTY

SRO 543(I)/2008	This notification makes various provisions relating to definition of arrear, banking company, computerized system, defaulter, document, e-intermediary, open market price, person computerization and appointment of e-intermediary contained in the Sales Tax Act, 1990 applicable into Federal Excise Act, 2005 in like manner..
SRO 544(I)/2008	This SRO specifies that airline to file return for carriage of goods by air by the day as per sub rule 9 of the rule 41A of the Federal Excise Rules 2005.
SRO 545(I)/2008	Federal Excise Duty levied on specified services as mentioned in Notification No 410(1)/2008, dated the 29th April, 2008 shall be withdrawn vide this notification.

CUSTOMS ACT, 1969(IV OF 1969)

Section 3DD is being introduced so as to constitute a Directorate General of Post Clearance Audit (PCA) in order to conduct post clearance audit.

It is proposed to omit clause (ab) in section 21 which deals with the power of the Board to authorize the payment of any amount to the importer or local buyer of any goods in order to compensate any commitment given to that person for levy of zero or any lower rate of customs duty on the import or local procurement of any goods

It is proposed to add a proviso to section 155F enabling the Collector of Customs in exceptional circumstances to suspend the use of unique user identifier of any person on receipt of any complaint or information about violation of the provisions of the Customs Act, 1969 in relation to the Customs Computerized System.

Section 156 deals with punishment for offences and the proposed amendment in sub-section (1) serial 43 of the Table empowers the authorities to recover the goods from any other person having custody of the goods, in order to safeguard government revenue in cases of illegal removal of goods from ports/dry ports.

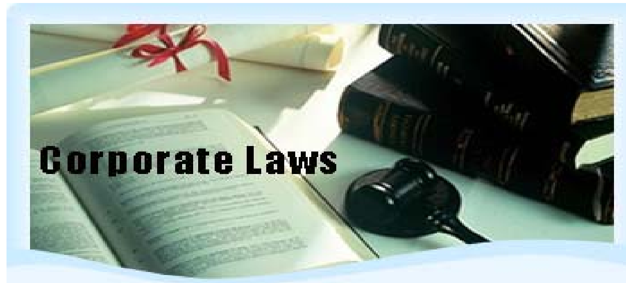
Section 179 deals with the power of adjudication and in sub-section (3), a period of ninety days, from the receipt of the contravention report, is provided to decide the case. It is now proposed to enhance such period to one hundred and twenty days. This will enable adjudicating officers to adjudicate the cases on merits after affording ample opportunity to the owners of goods to defend their cases.

Section 94-C deals with the Procedure for Appellate Tribunal. It is proposed to amend the sub-section (4) so as to enhance power of Single Bench of the Appellate Tribunal to decide the case where in any disputed case, the difference in duty or tax involved or the duty or tax involved, or the amount of fine or penalty involved does not exceed ten million rupees.

The proposed amendment intends to add new sub-section (4-A) to section 195-C enabling the Chairman, on the application of an aggrieved person for reasons to be recorded in writing and on being satisfied that there is an error in the order or decision, pass such order as he deems just and equitable.

CORPORATE LAWS

Securities and Exchange Ordinance, 1969



The amendments proposed in this Ordinance basically relate to two major issues; one relating to Insider Trading and other relating to demutualization. Due to the importance of the matter purposely; the text of the proposed amendments are being reproduced.

For the purpose of Section 2(1)(cd) is proposed to be amended to extend the scope of the definition of Commodity Futures Contracts to include transactions of contracts that are cash settled at the outset.

Very significant changes are being proposed in section 15A relating to prohibition of insider trading: It categorically states that no person shall indulge in insider trading.

According to sub section 2 **Insider trading** shall include:-

(a) an insider person transacting any deal, directly or indirectly, using inside information involving listed securities to which the inside information pertains, or using others to transact such deals;

(b) any other person to whom inside information has been passed or disclosed by an insider person transacting any deal, directly or indirectly, using inside information involving listed securities to which the inside information pertains, or using others to transact such deals;

(c) transaction by any person as specified in clauses (a) and (b), or any other person who knows, or ought to have known under normal and reasonable circumstances, that the information possessed and used for transacting any deal is inside information;

(d) an insider person suggesting or recommending to another person to engage in dealing in any listed securities to which the inside information possessed by the insider person pertains, without the inside information being disclosed to the person who has dealt in such securities.

However, according to sub section (3) the following shall not be deemed as insider trading: **–**

(a) any transaction performed under an agreement that was concluded before the time of gaining access to inside information; or
(b) the disclosure of inside information by an insider person as required under law.

(4) No contract shall be void or unenforceable by reason only of an offence under this section.

Further as per section 15B **Inside information** means:–

(a) information which has not been made public, relating, directly or indirectly to listed securities or one or more issuers and which, if it were made public, would be likely to have an effect on the prices of those listed securities or on the price of related securities;
(b) in relation to derivatives on commodities, information which has not been made public, relating, directly or indirectly, to one or more such derivatives and which are traded in accordance with accepted market practices on those markets; or
(c) in relation to persons responsible for the execution of orders concerning listed securities, information which is conveyed by a client to such person and related to the client's pending orders.

As per section 15C **Insiders** shall include:-

(a) sponsors, executive officers and directors of an issuer;
(b) sponsors, executive officers, directors and partners of a legal person or unincorporated business association, in which the issuer holds shares or voting rights, directly or indirectly, of twenty *per cent* or more;
(c) sponsors, executive officers, directors and partners of a legal person or unincorporated business association who holds, directly or indirectly, shares or voting rights of ten *per cent* or more in an issuer;
(d) sponsors, executive officers and directors of an organization, that has been engaged in the placement of listed securities or the public offer of securities or the issuing and marketing of such securities, who has had access to insider information during his employment till a period of one year after leaving employment;
(e) any natural person holding, directly or indirectly, ten *per cent* or more shares of an issuer;
(f) sponsors, executive officers and directors of credit institutions in which the issuer has an account;
(g) any person obtaining inside information as part of his employment or when discharging his usual duties in an official capacity, or in any other way relating to work performed under contract of employment or otherwise;
(h) any person obtaining inside information through unlawful means; and
(i) a spouse, lineal ascendant or descendant, partner or nominee of a person referred to in clauses (a) to (h).

According to the proposed provisions of section 15D **(Listed Companies Responsibilities to Disclose Inside Information):-**

(1) Listed companies shall inform the public, in the manner specified by the Commission, as soon as possible of inside information which directly concerns the listed securities.
(2) Listed companies may delay the public disclosure of inside information, as referred to in sub-section (1) in order not to prejudice their legitimate interests, provided that such delay will not mislead the public and provided that the company is able to ensure the confidentiality of the information. The company shall inform the Commission of the decision to delay the public disclosure of inside information forthwith.
(3) Whenever a listed company or a person acting on its behalf, discloses any inside information to any third party in the normal exercise of employment, profession or duties, complete and effective public disclosure of that information must be made simultaneously in the manner specified by the Commission:

Provided that the provisions shall not apply, if the person receiving the information owes a duty of confidentiality, regardless of whether such duty is based on a law, regulations, articles of association or contract.

(4) Listed companies or persons acting on its behalf must maintain and regularly update a list of persons employed, under contract or otherwise in the manner specified by the Commission, who have access to inside information, and provide such list to the Commission whenever the Commission requests it.
(5) Persons discharging managerial responsibilities within a listed company and, where applicable, persons closely associated with them, shall notify the Commission of transactions conducted on their own account relating to the securities of such listed company in the manner specified by the Commission.
(6) The Exchanges shall adopt structural provisions, operating procedures and surveillance techniques to detect and prevent insider trading and market abuse practices, within such time as may be specified by the Commission and according to the regulations made hereunder.

15E. Liability for contravention.- (1) Any person who contravenes the provisions of sub-section (1) of section 15A shall be liable to fine, to be imposed by the Commission, of rupees ten million or three times the amount of gain made or loss avoided by such person, or loss suffered by another person, whichever amount is higher.

(2) In addition to the fine imposed under sub-section (1), such person,–

(a) may be directed by the Commission, –
   i. to surrender to the Commission, an amount equivalent to the gain made or loss avoided by him; or
   ii. to pay any other person who has suffered a loss, an amount equivalent to the loss so suffered by such person; and
(b) may, where such person is an executive officer, director, auditor, advisor, consultant of a listed company, be removed from such office by an order of the Commission and debarred from auditing any listed company for a period of upto three years; or
(c) may, where such person is registered as a broker or agent, be liable to cancellation of registration.

(3) Where an insider person discloses inside information to any other person who is not required to possess such information for any reason, the insider person shall be liable to fine, to be imposed by the Commission, which may extend to rupees thirty million.

15F. Power to make Regulations.- The Commission may make regulations to regulate persons who produce or disseminate research concerning listed securities or issuers of listed securities and persons who produce or disseminate other information recommending or suggesting investment strategy, intended for distribution channels or for the general public.

Section 21 relates to enquiries, penalties, orders and appeals. The proposed amendment seeks to enhance the powers of the Commission to initiate enquiry on representation of a person.

In section 32E, after sub-section (1), the following new sub-section (1A) is being inserted, namely:-

"(1A) Without prejudice to the generality of the foregoing power and sub-section (2) of section 33, the rules made in pursuance of this section may *inter alia* provide for-

I. the matters to be included in any scheme of demutualization and corporatization and the manner of its approval by the members of the stock exchange;
II. the power of the Commission to approve any scheme of demutualization and corporatization including the power to impose any conditions;

III. the process and procedure to be followed for purposes of demutualization and corporatization;
IV. matters regarding appointment of directors and chairman of the board of a stock exchange after demutualization, including but not limited to restrictions, if any, on such appointments;
V. restriction of rights, if any, attached to the shares issued pursuant to corporatization;
VI. matters including restrictions, if any, on disinvestment, further issue and sale and purchase of shares of a stock exchange after demutualization;
VII. matters regarding limits or restriction on holding of shares by different categories of shareholders of a stock exchange, and the requirement for divestment of shares by shareholders in particular circumstances; and
VIII. matters regarding trading rights on a stock exchange and restrictions if any in this regard.

Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980

The salient features of the proposed amendment are summarized as under:

1- A new section 18A is being introduced to empower the registrar to issue directions to a modaraba company or the modaraba companies generally or its management as deemed fit by him in the public interest or to prevent the affairs of any modaraba from being conducted in a manner detrimental to the interest of holders of modaraba certificates or to secure the proper management of any modaraba in general.
2- By virtue of the proposed amendment new section 41A is being introduced which seeks to empower the Commission to make regulations for the purposes of this Ordinance and proposes a fine to the extent of Rs. 100,000 and in case of continuous default to a further fine of Rs. 1,000 each.
3- Through this section 41B the Commission is being empowered to issue directives, circulars, codes, guidelines, etc for the purposes of this Ordinance.

Companies Ordinance, 1984

The salient features of the proposed amendment are summarized as under:

1. The bill seeks to change the time of holding of Annual General Meetings of companies within four months of close of financial year instead of currently allowed period of three months. It has also been proposed that the amount of fine would be enhanced as follows if a default is made in compliance with provisions relating to holding of AGM:
   (i) If the default relates to a listed company, a minimum fine of Rs. 50,000 with maximum of Rs. 500,000 is proposed against Rs. 20,000 and Rs.50,000 respectively;
   (ii) If the default would be related to any other company, then maximum fine of Rs. 100,000 is proposed to be levied.

2. The proposed amendment in Section 187 seeks to extend the ineligibility criteria for becoming a director of a listed company, other than a stock exchange, to the sponsors, directors or officer of a corporate brokerage houses.

3. The bill proposes to allow NBFCs, licensed to undertake asset management services in relation to an investment company registered with the Commission and venture capital company in relation to a fund registered with the Commission, to appoint managing agents, sole purchaser, sale agents etc. by virtue of an agreement or contract.

4. The bill proposes an amendment in Section 233 (1) whereby the time of filing annual accounts and balance sheets is sought to be increased from three months to four months.
5. The Companies Ordinance, 1984 currently requires a company to pay off the dividend announced within 45 days of the declaration of dividend in case of listed company (and 30 days in case any other company). The bill proposes to empower the Commission to specify time for the payment of dividend.

Securities and Exchange Commission of Pakistan Act, 1997

The Finance Bill 2008 proposes to make following amendment in the Act:

- It seeks to clarify that the term of the Commissioner is three years from the date of appointment.

- The number of members of the Policy Board of Commission is proposed to be reduced to the position as it was prior to Finance Act, 2007.

- It proposes to empower the Commission to provide remedies to the investor for any loss inflicted by the persons involved in the brokerage business for violations of securities laws, rules, regulations, directives, codes, etc.

Insurance Ordinance, 2000

It has been proposed to increase the supervision fee to Rs. 500,000 from Rs. 100,000.

Listed Companies (Substantial Acquisition of Voting Shares and Take-overs) Ordinance, 2002

1. The bill seeks to clarify that allotment of share pursuant to right issue, in case whole or part of the issue is declined by the existing shareholders, will not qualify for exemption from the provision of the Ordinance.

2. It has been proposed that the Ordinance would now be applied on transfer of voting shares from financial institutions, including their subsidiaries, to co-promoters of the company pursuant to an agreement between such financial institution and such co-promoters.

3. The bill proposes that transaction to transfer of voting shares between relatives without consideration, acquisition of voting shares by CFS Financiers acting as financiers, transfer of voting shares from sponsors of a holding company to the holding company and acquisition of voting shares by a strategic investor in a demutualised stock exchange be specifically excluded from purview of the Ordinance.

4. The proposed amendment in the Ordinance now also requires that the acquirers in the case of transactions exempted from operations of the Ordinance shall make a disclosure of the acquisition in the prescribed manner.

5. The bill seek to empower the Commission to decide for what quantity of voting shares will the public offer be made by an acquirer. Currently, it is the option of the acquirer to make above referred decision.

6. The bill seeks to clarify that whether the acquirer is a local or foreign company, the directors will be responsible to make the disclosures as required under the Ordinance.

7. The amount of penalty for violation of the Ordinance or failing to furnish documents or refusing to comply with the directions of the Commission is proposed to be enhanced to Rs. 50 million from one million rupees with further penalty of Rs. 200,000 (as against Rs. 10,000) in case of continuing default.

SIGNIFICANT AMENDMENTS PROPOSED IN MISCELLANEOUS STATUES

Amendment of Pakistan Penal Code, 1860 & Code of Criminal Procedure, 1898:
The amendment in Section 489G relates to punishment of offence relating to counterfeiting or using documents resembling national prize bonds and unauthorized sale. These amendments were promulgated through an Ordinance now being converted into an Act as the former has expired after 120 days.

Petroleum Products (Development Surcharge) Ordinance, 1961:

An amendment in section 2(4C) is being introduced whereby the persons engaged in the licensed activities concerning Compressed Natural Gas (CNG) and Liquefied Petroleum Gas (LPG) is defined to mean as "Licensee" within the ambit of this Ordinance. In section 2(5) CNG and LPG have been included in the definition of petroleum products. While according to section 3(1A) a licensee will be required to pay development surcharge on CNG and LPG businesses.

Amendments In Section 7 Of The Finance Act, 1989 – Capital Value Tax

The bill seeks to defer levy of CVT on power of attorney in the case of a bank till the said property is transferred to the bank. It also seeks to amend the existing definition of "urban area" for the purpose of CVT.

Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997

The development surcharge of 10 paisas per unit for Neelum- Jhelum power project has been challenged in the High Courts on the ground that taxation is prerogative of the Parliament. Hence, the need to amend the law to provide for imposition of surcharge. Furthermore, fuel adjustment for distribution companies need to be legally covered on monthly basis. Thus NEPRA is being empowered to carry out such adjustment on frequent basis.

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LABOUR LAWS

PROVINCIAL EMPLOYEES' SOCIAL SECURITY ORDINANCE, 1965

Section 2 clause 8 relates to the definition of employee and under the existing provisions, the persons employed on monthly wages exceeding five thousand rupees do not come in the purview of the Law. By virtue of the proposed amendment employees appointed on monthly wages up to Rs. 10,000 will be included in the scheme.

Section 2 clause 25a and section 20A which relates to self assessment scheme according to which the employer, in order to avail the facility, is required to pay fixed rate of contribution at Rs. 210/= per employee per month. Now it is proposed to increase the rate of contribution to Rs. 360/= per employee per month. It is worth noting that for the employee the rate of contribution has not been changed.

In section 20(1) it is proposed to restrict the rate of contribution to 6% subject to maximum wage of Rs. 400 per day per employee or RS. 10,000 per month.

WEST PAKISTAN INDUSTRIAL AND COMMERCIAL EMPLOYMENT (STANDING ORDERS) ORDINANCE, 1968 (W.P. ORDINANCE NO. VI OF 1968)

In the existing Standing Order 15 para 5 the workman was entitled to subsistence allowance to the extent of 50% of the wages during the period of suspension if he his not found guilty. Now it is proposed to enhance the allowance to 100% of the wages.

11. **Amendments of Ordinance No. XXXVI of 1971**. – In the Workers Welfare Fund Ordinance, 1971 (XXXVI of 1971), the following further amendments shall be made, namely: –

Section 2, clause (f) which deals with the definition of Industrial Establishment by virtue of the proposed amendment it is intended to add clause (iva) whereby any establishment, to which the West Pakistan Shops and Establishment Ordinance, 1969 (W. P. Ordinance No. VIII of 1969), for the time being applies would be considered as Industrial Establishment. This would mean that the Scheme of WWF is being made applicable to the commercial originations also.

MINIMUM WAGES FOR UNSKILLED WORKERS ORDINANCE 1969 (W.P.ORDINANCE NO.XX OF 1969)

The proposed amendment seeks to enhance the minimum wages of the workers from Rs.4600/- per month of Rs.6000/- per month.

EMPLOYEES' OLD-AGE-BENEFITS ACT, 1976 (XIV OF 1976)

The salient features of the changes proposed are as under:

1- The employees of all such establishments, which have five or more employees, would be included in the pension scheme.
2- It is proposed to reduce rate of contribution payable by the employer from 6% to 5% under the Employees' Old-age Benefits Act, 1976.

3- The employees of Banks and Banking Companies would be included in the pension scheme under the Act.

The amount of minimum amount of pension is being increased from Rs.1500/- per month to Rs.2000/- per month.