

Tax Commentary

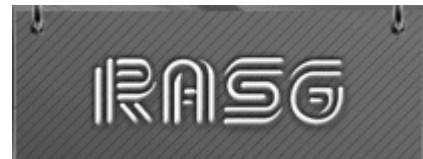
2011



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RIAZ AHMAD SAQIB GOHAR
Chartered Accountants

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Environment conducive to creativity, job security, personal and professional growth and development of team members with adherence to ethical practices

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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 our “**Tax Commentary - 2011**” 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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Alhamdulillah!

RIAZ AHMAD SAQIB GOHAR & CO. **RASG team** 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, 2011.

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

We offer special thanks to our clients, friends and associations whose support and feedback always encourages us to deliver better.

I feel very proud when I look at my team who has worked continuously for long hours; without taking a nap for the completion of this task which now after over 20 years seems a routine job.

Regards

*Gohar Manzoor
Managing Partner
June 04, 2011*

Federal Budget 2011 – 2011 Highlights



INCOME TAX

- Basic threshold of income exempt from Income Tax has been proposed to be enhanced from Rs. 300,000/- to Rs. 350,000/-. However, the condition for filing returns of income in case of Business Individuals earning normal income above Rs. 300,000/- shall remain intact.
- A company establishing new industrial undertaking for manufacturing or make investment in the purchases & installation of Plant & Machinery for the purposes of balancing, modernization and replacement (BMR) of plant and machinery (already installed therein) is allowed to take 100% tax credit of its tax liability.
- Withholding tax rate on cash withdrawals has been proposed to reduce from 0.3% to 0.2%.
- For availing investments in share market and life insurance business, the tax credit for investment in shares and for premium paid to insurance companies is being rationalized by fixing limit of investment to 15% of the taxable income or up to maximum upper limit of Rs. 500,000.
- Ceiling of contribution or premium paid to an Approved Pension Fund exceeding Rs. 500,000/- for the purpose of computing the tax relief is proposed to be withdrawn.
- In order to incentivize newly listed companies on stock exchanges in Pakistan existing tax credit of 5% has been enhanced to 15%.
- In order to broaden the tax base the responsibilities of withholding agents further enhanced.
- Filing of return of income is mandatory for commercial and industrial consumer of electricity having annual billing of rupees One Million or above.
- The rate of withholding tax on Dividends received by banks has been enhanced from 10% to 20%.

- In order to boost the national economy and encouraging foreign investment the tax withheld at the rate of 10% on government securities is proposed to be treated as final tax in case of a non-resident. The said tax collected will also be treated as final in the case of a resident person.
- CVT on Modaraba certificates and instruments of redeemable capital traded through stock exchanges is withdrawn.

SALES TAX and FEDERAL EXCISE ACT

- Reduction in general Sales Tax rate to 16% from 17%.
- Condition for adjustment of input Sales Tax claimed on fixed assets and capital goods in twelve equal installments has been withdrawn.
- Sales Tax on Sugar has been withdrawn and Federal Excise duty @ 8% is being proposed.
- Various exemptions proposed to be withdrawn from items specified in Sixth Schedule.
- Value addition tax on Commercial Importers is proposed to be increased to 3% from the existing rate of 2%.
- F.E.D. on locally manufactured cigarettes is proposed to be enhanced.
- Exemption is proposed to be withdrawn on import and local supply at Defence stores.

CUSTOMS

- Removal of Regulatory duty, particularly on edible items.
- Reduction of duty to 5% on pharmaceutical raw materials to provide relief to common man.
- Concession for butyl acetate industry through concession on import of its raw materials (Sabutol)
- Incentives for glass industry through concession on its two major raw materials namely “mirror backing paint” and “waste / scrap of glass”.
- Incentive for CNG compressors manufacturing industry through concession on its 15 components.
- Concession in machinery and equipment to incentives oil exploration companies.
- Concession on raw material of audio cassettes.
- Incentive for hi-tech car audio manufacturing industry through concession on import of mechanism for car audio system.
- Corrections in industrial SRO 565(I)/2006 to ensure expeditious clearance.
- Tariff rationalization on bars, rods and profiles of refined copper and copper alloy.
- Corrections in descriptions of PCT codes 2923.9010 and 2930.9060.
- Creation of separate PCT codes for brass scraps and armoured cash carrying vehicle.
- Tariff correction to remove ambiguity in re-import scheme.



Budget At A Glance 2011-12

	Budget Estimates			
	2010-11		2011-12	
	Rs. in Bn.	%	Rs. in Bn.	%
Resources				
Direct Taxes				
Income tax	657.7	24%	743.8	27%
Others	0.0	0%	0.0	0%
	657.7	24%	743.8	27%
Indirect taxes				
Customs	181.0	7%	206.4	7%
Sales Tax	675.0	24%	836.7	30%
Federal Excise	153.0	6%	165.6	6%
Others	112.0	4%	121.3	4%
	1121.0	41%	1330	47%
Total Tax Revenue	1778.7	64%	2073.8	74%
Non Tax Revenue	632.3	23%	658	24%
	2411.0	87%	2731.8	98%
Less Provincial Share	692	25%	1203	43%
	1719	62%	1528.8	55%
Net Capital Receipts	325.4	12%	395.65	14%
External Receipts	386.6	14%	413.83	15%
Change in Provincial Cash Balance	166.9	6%	124.88	5%
Bank Borrowings	166.5	6%	303.52	11%
	2764.4	100%	2766.7	100%
Expenditure				
Current Expenditure				
General Public Services				
Debt Servicing	873.0	32%	1034.2	37%
Others	514.7	19%	785.5	28%
	1387.7	51%	1819.7	65%
Defence Affairs & Services	442.2	16%	495	18%
Economic Affairs	66.9	2%	55	2%
	1896.8	69%	2369.7	85%
Development Expenditure				
PSDP	663.0	24%	300	11%
Others	204.6	7%	97	4%
	867.6	31%	397	15%
Total Expenditure	2764.4	100%	2766.7	100%

Economic Overview



Introduction

According to Federal Minister for Finance and Economic Affairs Abdul Hafeez Shaikh the government has failed to achieve major economic targets including GDP growth's target during the outgoing financial year 2010-2011 due to floods, security situation and soaring oil prices at international market. As per the survey, the GDP for year 2010-11 was fixed to grow at 4.5 percent, but due to several challenges including the devastating floods that hit the economy badly, the growth rate reduced to 2.4 percent.

The economic survey reveals that the devastating floods, increase in international oil prices and security situation were the three main factors that hit the country's economy and subsequently resulted in slowdown in growth rate during the fiscal year 2010-11. Despite all these challenges, several sectors of economy including exports and remittances showed considerable growth during the outgoing fiscal year. The agriculture sector registered growth of 1.2 percent. The manufacturing sector also grew by 3 percent despite increase in oil and energy prices while the services sector witnessed positive growth of 4.1 percent. Owing to the law and order situation of the country, total investment declined from 22.5 per cent of GDP in 2006-07 to 13.4 per cent of the GDP in outgoing financial year 2010-11. Similarly, the fixed investment decreased to 11.8 per cent of GDP from 13.4 per cent last year.

The government has also failed to restrict inflation rate at 9.5 per cent as it remained 14.1 per cent during July-May period of 2010-2011

Pakistan's per capita in real income has risen by 0.7 per cent during the outgoing fiscal year as against 2.9 per cent of the last year, while per capita in dollar term rose from \$1073 last year to \$1254 in 2010-11 registering an increase of 17 per cent.

According to the survey, the national savings rate has decreased to 11.8 per cent of GDP in 2010-2011 as against 15.4 per cent of GDP last year and similarly the domestic savings have also declined substantially from 16.3 per cent of GDP in 2005-06 to 9.5 per cent of the GDP in 2010-11.

The country's population stood at 177.10 in 2011 and is the sixth most populous country of the world. In the energy sector, the total installed capacity of PEPCO system is 20,681MW as on March 2011, against 20,190 MW over the same period last year. The average production of

natural gas per day stood at 4050.84 million cubic feet during July-March 2010-11 as against 4,048.76 million cubic feet over the same period last year, showing an increase of 0.05 per cent.

Despite many challenges, the overall performance of the economy has been moderately satisfactory. The recent measures announced for fiscal correction should contribute to a faster recovery and resumption of growth

The year was the first in the implementation of the NFC award. The award represented a radical break from the past as it transferred a larger share of divisible poor revenues to the provinces. An estimated additional amount of Rs.325 billion will be transferred to the provinces compared to the last year.. It is hoped that undivided responsibility of provinces in social sectors and availability of enhanced resources will lead to much improvement the quality of social sector indicators that have been lagging behind for some time.

Other key highlights of Pakistan economic survey are as follows:

The Real GDP is estimated to grow at 2.4 percent on the back of strong performance of services sector as against actual growth of 3.8 percent last year and target of 4.5 percent.

The growth in the agriculture is estimated at 1.2 percent on the back of 3.7 percent growth in the livestock sector.

Output in the manufacturing sector has witnessed expansion of 3 percent in 2010-11 as compared to expansion of 5.5 percent last year on the back of strong performance from small and medium manufacturing sector

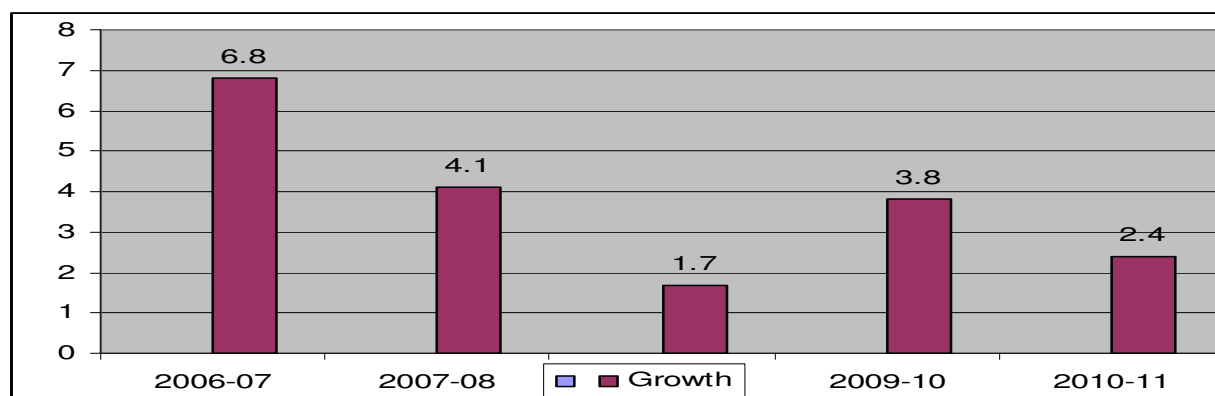
The services sector grew by 4.1 percent against the target of 4.7 percent and actual outcome of 2.9 percent. Within services sector Wholesale and retail trade sector grew at 3.9 percent as compared to 4.6 percent last year and the target for the year of 5.1 percent. Finance and insurance sector recorded negative growth of 6.3 percent in 2010-11 as against contraction of 11.3 percent last year.

Pakistan's per capita real income has risen by 0.7 percent in 2010-11 as against 2.9 percent last year.

The total investment has declined from 22.5 percent of GDP in 2006-07 to 13.4 percent of GDP in 2010-11.

Fixed investment has decreased to 11.8 percent of GDP from 13.4 percent last year.

Historical GDP growth rate shows following trend



Sectoral Contribution to the GDP growth (% Points)

Sector	2006-07	2007-08	2008-09	2009-10	2010-11
Agriculture	0.92	0.23	0.86	0.13	0.26
Industry	2.28	0.38	-0.03	2.09	-0.02
- Manufacturing	1.55	0.92	-0.69	1.01	0.55
Services	3.61	3.08	0.89	1.54	2.15
Real GDP (Fc)	6.81	3.68	1.72	3.76	2.39

AGRICULTURE

The agriculture growth this year is estimated at 1.2 % as compared with 0.6 percent during 2009-10.

Cotton production has decreased by 11.3 % over the previous year, Wheat production has increased by 3.9 % over the previous year, Rice production has decreased 29.9 % as compared to last year production, Sugarcane production has increased by 12 % over the last year last year.

MANUFACTURING & MINING

During the current fiscal year (2010-11), cement production decreased by 9.6 % .

Exports earning of the Textile products in 2010-11 (July-March) showing an increase of 29.9 percent.

During 2010-11 (July-March) in automotive industry cars, LCVs/Jeeps and two/three wheelers registered a positive growth of 16.4 percent, 20.5 percent and 12.6 percent, respectively.

The mining and quarrying sector is estimated to grow by 0.4 percent in 2010-11 as against 2.2 percent last year. Natural gas, crude oil and dolomite posted positive growth rate of 1.9 percent, 1.1 percent and 5.9 percent, respectively.

INFLATION

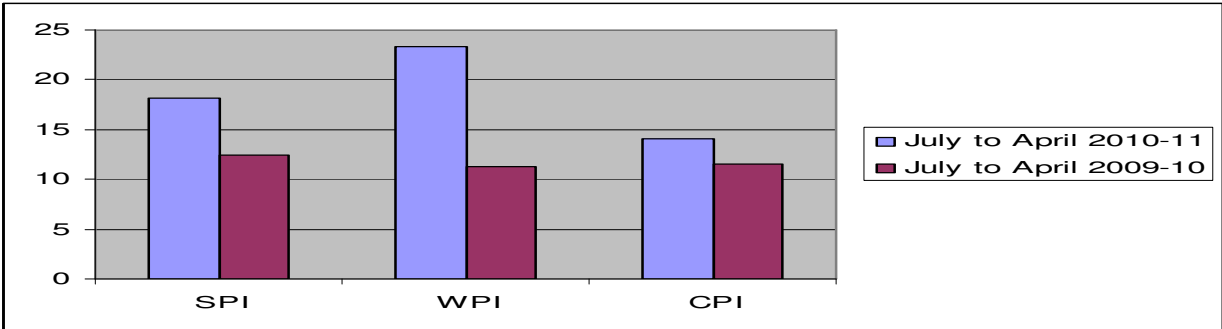
The inflation rate as measured by the changes in Consumer Price Index (CPI) stood at 14.1 percent during (July-April) of the current fiscal year 2010-11, as against 11.5 percent in the comparable period of last year.

The food inflation is estimated at 18.4 percent and non-food 10.4 percent, against 12.0 percent and 11.0 percent in the corresponding period of last year.

The Wholesale Price Index (WPI) during July-April, 2010-11 have increased by 23.3 percent, as against 11.3 percent of last year.

The Sensitive Price Indicator (SPI) has recorded an increase of 18.2 percent during July-April, 2010-11, as against 12.4 percent of last year.

The increase in inflation rate during the current year 2010-11 is attributable to the increase in food price inflation which has been mainly due to increase in prices of sugar, milk, poultry, meat, fresh vegetables and fruits owing to shortfall in production of these items and significant increase in world food stuff prices.



Annual CPI Inflation by Major Groups

Commodity Group	Weight	(July-Apr)		Point	
		2009-10	2010-11	(July-Apr)	
		Percent		2009-10	2010-11
		Percent		Percent	
CPI	100	11.5	14.1	1	14.1
Food	40.3	12.0	18.4	4.9	7.4
<i>i) Perishable</i>	5.14	14.5	35.1	0.7	1.8
<i>ii) Non perishable</i>	35.2	11.7	16.0	4.1	5.6
Non-Food	59.7	11.0	10.4	6.6	6.2
Core*	52.4	11.2	9.5	5.7	4.9
Apparel, Textile	6.1	5.8	11.7	0.4	0.7
House Rent	23.4	14.6	7.2	3.4	1.7
Energy	8.7	10.5	14.9	0.9	1.3
Transport	7.3	4.7	16.5	0.2	0.9
Household	3.3	6.4	9.9	0.2	0.3
Recreation	0.8	4.2	11.9	0.0	0.1
Education	3.5	13.3	6.0	0.5	0.2
Cleaning	5.9	10.9	11.5	0.6	0.7
Medicare	2.1	6.0	14.5	0.1	0.3

* Core Inflation (I) is defined as overall for food and

Investment and Savings

Investment is a key means for reviving economic growth to its historical levels. The total investment has declined from 22.5 percent of GDP in 2006-07 to 13.4 percent of GDP in 2010-11. Fixed investment has decreased to 18.1 percent of GDP from 20.4 percent last year. Private sector investment on average contracted by 6 percent per annum in real terms and recorded third contraction in a row. Public sector investment is crucial for catalyzing economic development and it has created spillover effects for private sector investment through massive increase in development spending particularly on infrastructure in the past. However, squeeze on development expenditures made it to decelerate at a brisk pace. It decelerated from 5.6 percent of GDP in 2006-07 to just 3.3 percent in 2010-11.

Structure of Savings and Investment (As Percent of GDP)

Description	2002-03		2003-04		2004-05		2005-06		2006-07	
	2007-08	2008-09	2008-09	2009-10	2009-10	2010-11P	2010-11P	2011-12P	2011-12P	2012-13P
Total Investment	16.9	16.6	19.1	22.1	22.5	22.1	18.2	15.4	13.4	
Changes in Stock	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	
Gross Fixed In	15.3	15.0	17.5	20.5	20.9	20.5	16.6	13.8	11.8	
- Public Investment	4.0	4.0	4.3	4.8	5.6	5.4	4.3	3.6	3.3	
- Private Investment	11.3	10.9	13.1	15.7	15.4	15.0	12.3	10.2	8.5	
Foreign Savings	-3.8	-1.3	1.6	3.9	5.1	8.5	5.7	2.2	-0.4	
National Savings	20.8	17.9	17.5	18.2	17.4	13.6	12.5	13.2	13.8	
Domestic Savings	17.6	15.7	15.4	16.3	15.6	11.5	9.8	9.3	9.5	
P: Provisional										Source: EA Wing

TRADE AND PAYMENTS

Overall exports recorded a positive growth of 27.8 percent during the first ten months (July-April) of the current fiscal year against an increase of 8.0 percent in the same period of last year.

Imports during the first ten months (July-April) of the current fiscal year (2010-11) increased by 14.7 percent compared with the same period of last year.

Worker's Remittances totaled \$ 9.1 billion in July-April 2010-11 as against \$ 7.3 billion in the comparable period of last year, depicting an increase of 23.8 percent.

Current Account Balance improved significantly during the last two years or so. Current account recorded a broad-based surplus of \$ 748 million in July-April 2010-11 as against deficit of \$3456 million in the comparable period of last year

EXTERNAL AND DOMESTIC DEBT

External debt and liabilities as percentage of GDP decreased from 31.6 percent at end-June 2010 to 28.2 percent by end-March 2011— a decrease of 3.4 percentage points.

The country's debt burden defined as external debt and liabilities as percentage of foreign exchange earnings decreased from 146.6 percent by end-June 2010 to 127.2 percent by end-March 2011.

Public Debt increased by Rs 1162 billion in the first nine months of 2010-11, reaching a total outstanding amount of Rs. 1,002,0 billion; an increase of 13.1 percent in nominal terms.

The external debt component grew by Rs 275 billion or 6.4 percent partially due to increased foreign public debt inflows and partly because of cross-currency translation effect.

POPULATION, LABOUR FORCE AND EMPLOYMENT

Pakistan is the sixth largest country in the world in terms of population with the total labor force of 54.92 million and is the 9th largest country in the world with respect of the size of its labor force in 2010.

About 3.05 million labour force is estimated as unemployed in 2009-10, with an unemployment rate of 5.6%.

Agriculture dominates the distribution of employed persons among all the major sectors leading at 45.0 during 2009-10; wholesale and retail trade has the share of 16.3 percent and manufacturing with 13.2 percent.

POVERTY

The floods of 2010 have caused a significant loss to poverty reduction efforts. The areas affected by floods were consistently lagging behind in terms of socio-economic and educational indicators as compared to the areas unaffected by floods. The loss to infrastructure and livelihood sources will push them behind further.

Food inflation in Pakistan has averaged 18 percent for the last four years which implies significant deterioration of purchasing power of the poor.

An analysis of 3 year moving average of changes in per capita income and commensurate impact on reduction in poverty headcounts suggests that large reductions in poverty headcount are associated with substantial growth in per capita GDP during 2002-2006.

The Government has prioritized the 17 pro-poor sectors for budgetary intervention through the Medium Term Expenditure Framework (MTEF) from 2008-09 to 2010-11 in the PRSP-II. An amount of Rs.482.6 has been spent on these areas during July-December 2010 which is 15.8 percent higher than in the comparable period of last year.

TRANSPORT AND COMMUNICATION

In 2010-11, Pakistan has a road network covering 259,463 kilometers including 180,866 KM of high type roads and 78,597 KM of low type roads.

Since March 2008, NHA has launched/awarded 36 development projects covering a length of above 1000 Km inclusive of a number of bridges, flyovers and interchanges.

During the year 2010-11 (July-March), in railway, there has been fall in growth rate of passenger traffic by 17.6 percent but freight traffic grows at the rate of 17.7 percent.

During the calendar year 2010, PIA earned the revenue of around Rs. 107 billion as compared to last year of Rs. 94.6 billion.

Karachi Port Trust handled a total of 20.2 million tones of cargo during 2010-11 (July-Dec).

Port Qasim Authority handled 13.1 million tones cargo during the current financial year 2010-11 (July-Dec).

First ever largest ship in Pakistan having 63,000 M ton of wheat was berthed at Gwadar Port in March 2008. Since then upto January 2011, 120 ships have been handled at Gwadar

Total Cellular subscribers at the end of December 2010 crossed the 102.8 million mark, with over 97 percent prepaid subscription in the mobile market and the post paid subscription in Pakistan is only 3 percent.

ENERGY

Crude Oil

Production of crude oil per day has increased to 65,996.50 barrels during July-March 2010-11 from 65,245.69 barrels per day during the same period last year, showing an increase of 1.15 percent.

The transport sector consumed 47.82 percent of petroleum products, followed by power sector (42.84 percent), industry (6.66 percent), other government (1.93 percent), household (0.49 percent) and agriculture (0.26 percent) during July-March 2010-11

Natural Gas

The average production of natural gas per day stood at 4050.84 million cubic feet during July-March 2010-11, as compared to 4,048.76 million cubic feet over the same period last year showing an increase of 0.05 percent.

The power sector consumed 23.81 percent of gas followed by industrial (20.15 percent), household (16.75 percent), fertilizer (15.04 percent), commercial (2.45 percent) and cement sector (0.05 percent) during July-March 2010-11

Electricity

The total installed capacity of PEPCO system is 20,681 MW as of March 2011, compared to 20,190MW in first nine months of the last fiscal year.

Total installed capacity of WAPDA stood at 11,439 MW during July-March 2010-11 of which hydel accounts 57.30 percent or 6,555 MW, thermal accounts for 42.70 percent or 4,884 MW.

During the first nine month of current fiscal year 66,928 GWh of electricity has been generated by WAPDA as against 64,935 GWh in the same period last year showing an increase of 3.07 percent.

The number of villages electrified increased to 160,110 by March 2011 from 147,038 recorded in March 2010.

CNG

Presently there are 3329 CNG stations operating throughout the country. By March 2011 about 2.5 million vehicles have been converted to CNG

Coal

Supply of coal during July-March 2010-11 has been recorded at 5.85 million tonnes compared to 5.304 million tonnes in the first nine months of last fiscal year.

Brick kilns and cement industry consumed 56.6 percent and 42.7 percent respectively of the supplied coal.

The government is developing Thar Coalfield in order to increase the share of coal in energy mix and to reduce dependency on expensive imported fuel.

Income Tax Ordinance, 2001



Definitions

SECTION 2(5)

Existing	Proposed Amendment
Assessment includes re-assessment and amended assessment and the cognate expressions shall be construed accordingly	After the word "includes", the words and comma "provisional assessment," shall be inserted; and
Comments: Assessment to include Provisional Assessment It is proposed to include the words "Provisional Assessment" in the definition of "Assessment."	

Definitions

SECTION 2(11C)

Existing	Proposed Amendment
"New Sub-Clause shall be added"	"Collective Investment Scheme" shall have the same meanings as are assigned under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003;";
Comments: Collective Investment Scheme defined.	

Income From Business

SECTION 18(1)(d)

Existing	Proposed Amendment
"New explanation after clause "d" shall be added"	<i>"Explanation.-</i> For the purposes of this clause, it is declared that the word 'benefit' includes any benefit derived by way of waiver of profit on debt or the debt itself under the State Bank of Pakistan, Banking Policy Department, Circular No.29 of 2002 or in any other scheme issued by the State Bank of Pakistan."
Comments: Profit on Debt/Debt Brought into the Ambit of Definition of Benefits: Section 18 deals with the taxation relating to income from business and it define the various modes of income which will be taxed under this head of income, such as; a) Profits and gains of any business; b) Income derived from sale of goods or provision of services; c) Income from the hire or lease of tangible moveable property; d) The fair market value of any benefit or perquisite, whether convertible into money or not, derived by a person in the course of, or by virtue of, a past, present or prospective business relationship; and e) Any management fee derived by a management company (including a modarba	

Income From Business

SECTION 18(1)(d)

management company)

In the Clause (d) above it is proposed to add an explanation by virtue of which any benefit, derived by way of waiver of profit on debt or the debt itself under the State Bank of Pakistan, Banking Policy Department, Circular No. 29 of 2002 or in any other scheme issued by State Bank of Pakistan would be covered under this clause and would be taxed accordingly. In this section of the proposed explanation brings into the tax ambit, all the benefits which are derived by the borrowers through the waiver of the profit on debts or the profit on debt itself, through various schemes of SBP. This amendment is geared towards the hot issue of debts waived in the prior years, especially through Circular No. 29 of 2002.

Profit On Debt, Financial Costs And Lease Payments

SECTION 28(1)(g)

Existing	Proposed Amendment
Any amount incurred by the..... profits derived by the Corporation on investments made in small business out of a credit line provided by the Bank on a profit and loss sharing basis;	For the word "Corporation", the letter and word "SME Bank" shall be substituted;
Comments: Seek to correct the content of the provision.	

Tax Credit for Investment in Shares and Insurance

SECTION 62(1)(2)(3)

Existing	Proposed Amendment
A person 4[other than a company] shall be entitled to a tax credit for a tax year in respect of the cost of acquiring in the year new shares offered to the public by a public company listed on a stock exchange in Pakistan where the person 5[other than a company] is the original allottee of the shares or the shares are acquired from the Privatization Commission of Pakistan	<p>A resident person other than a company shall be entitled to a tax credit for a tax year either—</p> <p>(i) in respect of the cost of acquiring in the year new shares offered to the public by a public company listed on a stock exchange in Pakistan provided the resident person is the original allottee of the shares or the shares are acquired from the Privatization Commission of Pakistan; or</p> <p>(ii) in respect of any life insurance premium paid on a policy to a life insurance company registered by the Securities and Exchange Commission of Pakistan under the Insurance</p>

Tax Credit for Investment in Shares and Insurance

SECTION 62(1)(2)(3)

<p>The amount of a person’s tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely: —</p> <p style="text-align: center;">(A/B) x C</p> <p>where –</p> <p>A is the amount of tax assessed to the person for the tax year before allowance of any tax credit under this Part;</p> <p>B is the person’s taxable income for the tax year; and</p> <p>C is the lesser of —</p> <p>(a) the total cost of acquiring the shares referred to in sub-section (1) in the year;</p> <p>(b) ten per cent of the person’s 1[taxable] income for the year; or</p> <p>(c) 2[3[three] hundred] thousand rupees.</p> <p>Where –</p> <p>(a) a person has 4[been allowed] a tax credit under sub-section (1) in a tax year in respect of the purchase of a share; and</p> <p>(b) the person has made a disposal of the share within twelve months of the date of acquisition,</p>	<p>Ordinance, 2000(XXXIX of 2000), provided the resident person is deriving income chargeable to tax under the head “salary” or “income from business.”.</p> <p>The amount of a person’s tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely: —</p> <p style="text-align: center;">(A/B) x C</p> <p>where –</p> <p>A is the amount of tax assessed to the person for the tax year before allowance of any tax credit under this Part;</p> <p>B is the person’s taxable income for the tax year; and</p> <p>C is the lesser of —</p> <p>(a) the total cost of acquiring the shares, or the total contribution or premium paid by the person referred to in sub-section (1) in the year;</p> <p>(b) fifteen per cent of the person’s taxable income for the year;</p> <p>or</p> <p>(c) five hundred thousand rupees.</p> <p>Where –</p> <p>(a) a person has been allowed a tax credit under sub-section (1) in a tax year in respect of the purchase of a share; and</p> <p>(b) the person has made a disposal of the share within thirty six months of the date of acquisition, the amount of tax payable by the person for the tax year in which the</p>
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Tax Credit for Investment in Shares and Insurance

SECTION 62(1)(2)(3)

	shares were disposed of shall be increased by the amount of the credit allowed.”
<p>Comments: The provisions of section 62 dealing with the tax credit on investment are being substituted by broadening the scope and the benefits. The salient features of the proposed changes are as under:</p> <ul style="list-style-type: none"> a) Previously, the scope of the section was applicable to a person other than a company, now it has been proposed to restrict its application to a Resident person other than a company. b) Previously the tax credit was only available on investment in new shares, by a public company, listed on stock exchange in Pakistan to the original allottee of shares. Now it is proposed to allow tax credit in respect of any insurance premium paid on policy to a life insurance company, provided the insured person is a resident person, whose income is chargeable to tax under the head of Salary or Income from Business. c) Furthermore the rate of tax credit is being increased from 10 % to 15 % and/or from Rs.300,000 to Rs.500,000. d) The time limit for retention of shares for the purpose of tax credit has been increased to 36 months of the date of acquisition from 12 months of the date of acquisition. <p>This is a good amendment for the benefit of the investors and the insured persons and will help in motivating people in making investment in the above categories.</p>	

Contribution to an Approved Pension Fund

SECTION 63(2)(ii)(iii)

Existing	Proposed Amendment
Twenty per cent of the 1[eligible] person’s taxable income for the relevant tax year; Provided that 2[an eligible person] joining the pension fund at the age of forty-one years or above, year; or Five hundred thousand rupees.]	For the semicolon and word “; or”, a full stop shall be substituted; and “Clause shall be Omitted”
<p>Comments : Ceiling on Contribution to an Approved Pension Fund Withdrawals: Under the existing provisions a tax credit was allowed for any contribution or premium paid by a person in approved pension fund under Voluntary Pension System Rules, 2005.While calculating a tax credit, there was a limit of Rs. 500,000 up to which the tax credit could be</p>	

Contribution to an Approved Pension Fund

SECTION 63(2)(ii)(iii)

allowed; now it is proposed to withdraw this ceiling.

Tax credit for enlistment

SECTION 65C(1)

Existing

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

Proposed Amendment

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

Comments: Rate of Tax Credit for Enlistment Increased from 5% to 15%:

This section was introduced by Finance Act 2010, with the intention to encourage enlistment of companies in the stock exchanges in Pakistan and a special tax credit of 5% was allowed against the tax payable. As the purpose of incentive could not be achieved, it is now proposed to further enhance the rate of tax credit from 5% to 15%.

Tax Credit for Equity Investment

SECTION 65D(1)(2)

Existing

“New Section shall be added”

Proposed Amendment

Where a taxpayer being a company
 (a) establishes a new industrial undertaking for manufacturing in Pakistan; or
 (b) invests any amount in the purchase and installation of plant and machinery, for the purposes of balancing, modernization and replacement of the plant and machinery, already installed therein, in an industrial undertaking set up in Pakistan and owned by it, with hundred percent equity owned by it, a tax credit equal to hundred percent of the tax payable shall be allowed to such company on or after first day of July,2011, for a period of five years or commencement of commercial production, whichever is later.

Where any credit is allowed under this section and subsequently it is discovered, on the basis of documents or otherwise, by the Commissioner Inland Revenue that any of the condition specified in this section was not fulfilled, the credit originally allowed shall be deemed to have been wrongly allowed and

Tax Credit for Equity Investment

SECTION 65D(1)(2)

<p>“New Section shall be added”</p>	<p>the Commissioner Inland Revenue may, notwithstanding anything contained in this Ordinance, re-compute the tax payable by the taxpayer for the relevant year and the provisions of this Ordinance shall, so far as may be, apply accordingly.</p>
<p>Comments: It is proposed to introduce a new section for the purpose of tax credit for providing incentives for Equity investment to new and existing industries. The salient features are as under;</p> <ul style="list-style-type: none"> a) The tax payer should be a company ; b) The company should establish a new industrial undertaking for manufacturing in Pakistan; or c) Further invest for BMR of plant and machinery already installed by it in Pakistan. d) The company should own 100% Equity. <p>Any company which fulfills the above conditions will be allowed tax credit equal to 100% for a period of 5 years of commencement of commercial production, whichever is later on and after July 1, 2011. Any subsequent discovery about non-fulfillment of any of the conditions will render withdrawal of the tax credit and re-computation of the tax payable.</p>	

Unexplained Income or Assets

SECTION 111(b)(c)(d)

<p>Existing</p> <p>A person has made any investment or is the owner of any money or valuable article; or</p> <p>A person has incurred any expenditure,</p> <p style="text-align: center;">“New Clause Shall be added”</p>	<p>Proposed Amendment</p> <p>The word “or”, at the end, shall be omitted;</p> <p>For the comma “,” at the end, the semicolon and word “;or” shall be substituted; and</p> <p>Any person has concealed income or furnished inaccurate particulars of income including—</p> <ul style="list-style-type: none"> (i) the suppression of any production, sales or any amount chargeable to tax; or (ii) the suppression of any item of receipt liable to tax in whole or in part;”;
<p>Comments: Scope of Un-Explained Income and Assets Enhanced</p> <p>The scope of this section which deals with un-explained income or assets has been enhanced with the inclusion of clause (d), whereby in case the person has concealed income or furnished</p>	

Unexplained Income or Assets

SECTION 111(b)(c)(d)

inaccurate particulars viz. suppression of production, sales or any amount chargeable to tax or any receipt liable to tax. The amount concealed or suppressed will be included in the income of the person and would be chargeable to the tax accordingly. This is a very important amendment whereby the importance of authentic compilation of data has become imperative and would go a long way in the accurate preparation of books of accounts.

Minimum Tax on The Income of Certain Persons

SECTION 113(2)(3)(a)

Existing	Proposed Amendment
<p>Where this section applies: (a) the aggregate of the person’s turnover as defined in subsection (3) for the tax year shall be treated as the income of the person for the year chargeable to tax;</p> <p>The gross receipts, exclusive of Sales Tax and Federal Excise duty or any trade discounts shown on invoices, or bills, derived from the sale of goods, and also excluding any amount taken as deemed income and is assessed as final discharge of the tax liability for which tax is already paid or payable;</p>	<p>In the proviso, for the word “three”, the word “five” shall be substituted;</p> <p>After the word “the”, occurring for the first time, the words “gross sales or ” shall be inserted;</p>
<p>Comments: Scope of Minimum Tax on Income Enhanced Presently, where tax paid under this section exceeds the actual tax payable the excess amount of tax paid could be carried forward and adjusted against the tax liability for 3 years immediately succeeding the tax years for which the amount was paid. Now, it is being proposed to enhance this period from 3 to 5 years. Further in the definition of “turnover” the words “gross sales” is also being included.</p>	

Taxation of Income of Certain Retailers.

SECTION 113B(b)

Existing	Proposed Amendment
<p>Who is subject to special procedure for payment of sales tax under chapter III of the Sales Tax Special Procedure Rules, 2006,</p>	<p>For the words, figures and comma “Chapter III of the Sales Tax Special Procedure Rules, 2006”, the words, figures and comma “Chapter II of the Sales Tax Special Procedures Rules, 2007” shall be substituted;</p>
<p>Comments: Seeks to correct a technical mistake in this section.</p>	

Return of income.

SECTION 114(1)(2)&(6A)

Existing	Proposed Amendment
Any non-profit organization as defined in clause (36) of section 2; and]	For the word “and”, at the end, the word “; or” shall be substituted;
Owns a motor vehicle having engine capacity above 1000 CC; and]	The word “and”, at the end, shall be omitted;
Has obtained National Tax Number.]	For the full stop at the end, the semicolon and word “; or” shall be substituted;
<p style="text-align: center;">“New Sub-Clause shall be added”</p>	Is the holder of commercial or industrial connection of electricity where the amount of annual bill exceeds rupees one million.”; and
<p style="text-align: center;">“New Sub-Section shall be added”</p>	Every individual whose income under the head ‘Income from business’ exceeds rupees three hundred thousand but does not exceed rupees three hundred and fifty thousand in a tax year is required to furnish return of income for the tax year.”;
Shall fully state all the relevant particulars or information as specified in the form of return, including a declaration of the records kept by the taxpayer; 7[and]	The word “and” , at the end, shall be omitted;
shall be signed by the person, being an individual, or the person’s representative where section 172 applies.]	For the full stop, at the end, a semi-colon shall be substituted; and
<p style="text-align: center;">“New Clause shall be added”</p>	Shall be accompanied with due payment of tax as per return of income; and
<p style="text-align: center;">“New Clause shall be added”</p>	Shall be accompanied with a wealth statement as required under section 116 and
If a taxpayer wishes to file a revised return voluntarily along with deposit	For the words “wishes to file”, the word “files” shall be substituted;

Return of income.

SECTION 114(1)(2)&(6A)

<p>Provided that in case the taxpayer wishes to deposit the amount</p>	<p>In the first proviso, for the words “wishes to deposit”, the word “deposits” shall be substituted; and</p>
<p>Provided further that in case the taxpayer wishes to revise the return after.....</p>	<p>In the second proviso, for the words “wishes to revise”, the word “revises” shall be substituted;</p>
<p>Comments: In this section the significant changes are as under:</p> <ul style="list-style-type: none"> a) User of commercial and industrial electricity connection for amount exceeding Rs.1 million annually are required to file return of total income. b) Where an individual earning income from business which exceeds Rs, 300,000 but does not exceed Rs.350,000 in a tax year would be required to file his return of total income. This amendment has various implications. The individual would be discouraged to declare business income ranging from Rs.300,000 to Rs.350,000 , for the purpose of taking credit for non filing of return of total income in the future years, provided he has not filed his return of total income. On the other hand, in case of individual earning business income files his return having income, within this range, there is a strong probability that his return may be selected for further audit/investigation resulting in enhancement of his income above taxable limits. c) Conditions for the validity of the return of income have been increased by addition of the following items: <ul style="list-style-type: none"> i) The return of income should be accompanied by tax payment challan for the amount due as per return of income. <p>Should be accompanied by wealth statement under section 116.</p>	

Persons Not Required to Furnish a Return of Income.

SECTION 115(4)

Existing	Proposed Amendment
<p>Any person who is not obliged to furnish a return for a tax year because all the person’s income is subject to final taxation under sections 1[] 2[5, 6, 7, 3[15,] 4[113A,] 5[113B,] 148, 6[clauses (a), (b) and (d) of sub-section (1) of section 151, section 152, 7[clauses (a) and (c) of sub-section (1) of section]] 153, 154, 156 8[, 156A, sub-</p>	<p>For the words, brackets, comma and figures “clauses (a), (b) and (d) of sub-section (1) of section 151” the words and figures “section 151” shall be inserted;</p> <p>For the words, brackets and figures “clauses (a) and (c) of subsection (1) of section 153”</p>

Persons Not Required to Furnish a Return of Income.

SECTION 115(4)

section (3) of section 233, clause (a) and (b) of subsection (1) of section 233A] or subsection (5) of section 234 9[or subsection (3) of section 234A]] shall furnish to the Commissioner a statement showing such particulars relating to the person’s income for the tax year in such form and verified in such manner as may be prescribed.

the words, brackets and figures “clauses (a),(c) and (d) of sub-section (3) of section 153” shall be inserted;

The words, brackets and figures “clause (a) and (b) of sub-section (1) of section 233A” shall be omitted;

Comments: Consequential changes made; for comments please refer section 151

Wealth Statement

SECTION 116(2)(2A)

Existing

Every resident taxpayer filing a return of income for any tax year 6[whose last declared or assessed income 7[or the declared income for the year], year], is five hundred thousand rupees or more] shall furnish a wealth statement 8[and wealth reconciliation statement] for that year along with such return.

Where a person files a return in response to a provisional assessment under section 122C, he shall furnish a wealth statement for that year along with that return and such

Proposed Amendment

After the word “taxpayer”, the words and commas, “,being an individual,” shall be inserted;

In the proviso, for the word “five hundred thousand rupees”, the word “one million rupees” shall be substituted;

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

“Provided that every member of an association of persons whose share from the income of such association of persons, before tax, for the year is one million rupees or more shall also furnish wealth statement and wealth reconciliation statement for the year along with return of income of the association.”; and

Where a person, being an individual or an association of persons, files a return in response to a provisional assessment order under section 122C, such return shall be

Wealth Statement

SECTION 116(2)(2A)

wealth statement shall be accompanied by a wealth reconciliation statement and an explanation of sources of acquisition of assets specified therein.]

accompanied by wealth statement along with a wealth reconciliation statement and an explanation of source of acquisition of assets specified therein in the case of an individual and wealth statements of all members in the case of an association of persons and such wealth Statements shall be accompanied by wealth reconciliation statements and explanation of source of acquisition of assets specified therein.”;

Comments: Threshold for Filing of Wealth Statements Enhanced to Rs. 1 million or above

This section deals with the requirement of filing of wealth statement whereby a tax payer was required to file his wealth statement where his income was Rs.500,000 or more. Now, it is proposed to clarify that the taxpayer for this purpose should be an individual. The threshold for the applicability of filing of wealth statement is being increased from Rs. 0.5 million to Rs. 1 million. A proviso is also being added whereby incase of a member of an association of person (AOP) deriving his share of income from the AOP amounting to Rs. 1 million or more shall also file his wealth statement accompanied by reconciliation of his wealth along with return of income of his association.

Similarly, necessary amendments are being proposed in sub-section 2A, whereby in case of provisional assessment under section 122C the requirement for filing of wealth statement along with wealth reconciliation statement, with an explanation of source of acquisition of assets is being proposed incase of an individual and members of AOP.

Appeal to the Commissioner (Appeals)

SECTION 127(1)

Existing

Any person dissatisfied with any order passed by a Commissioner or an 2[Officer of Inland Revenue] under section 121, 122, 143, 144, 3[162,] 170, 182.....

Proposed Amendment

After the word “person”, occurring for the fifth time, the words and commas “,except a provisional assessment order under section 122C,” shall be inserted;

Comments: Provisional Assessment Order made Un-appealable if not complied within 60 days

Under the provisions of income tax ordinance where a provisional assessment has been made the person is required to file his return of income along with wealth statement, wealth reconciliation statement and other documents within 60days from the date of the service of the order of provisional assessment. Failing which the same order is considered as final assessment. Now, it is proposed to make necessary changes in section 127 whereby a provisional assessment order if not complied with within 60 days from the date of the service of the order will become un-appealable.

Appointment of the Appellate Tribunal.**SECTION 130(8A)(8AA)**

Existing	Proposed Amendment
<p>Notwithstanding anything contained in sub-sections (7) and (8), the Chairman</p> <p>The Chairman or other member</p>	<p>For the word "Chairman", the word "Chairperson" shall be substituted;</p> <p>For the word "Chairman" occurring twice, the word "Chairperson" shall be substituted; and For the word "five" , the word "one" shall be substituted;</p>
<p>Comments: The word "Chairman" to be replaced by "Chairperson"</p> <p>The above proposal seeks to provide for change of nomenclature. Furthermore, the threshold for constitution of single bench is being amended to include cases where the amount of tax or penalty involved does not exceed Rs. 1 million. Presently the threshold is of Rs. 5 million.</p>	

Disposal of Appeals by The Appellate Tribunal.**SECTION 132(2)**

Existing	Proposed Amendment
<p>The Appellate Tribunal shall afford an opportunity of being heard to the parties to the appeal and, in case of default by any of the party on the date of hearing, the Tribunal may, if it deems fit, dismiss the appeal in default, or may proceed <i>ex parte</i> to decide the appeal on the basis of the available record.]</p>	<p>The words and commas "may, if it deems fit, dismiss the appeal in default, or" shall be omitted;</p>
<p>Comments: Appellate Tribunal Compelled to Decide the Appeal on the Basis of Available Record</p> <p>It is being proposed to curtail the powers of the Income Tax Appellate Tribunal for dismissals of the appeals. As a result of the proposed amendment, the Income Tax Appellate Tribunal will have to decide the appeal ex-parties, on the basis of available record in case of any default by any of the party on the date of hearing.</p>	

Due Date for Payment of Tax**SECTION 137(2)**

Existing	Proposed Amendment
<p>Where any tax is payable under an assessment order notice</p>	<p>After the word "assessment", the word "order" shall be inserted; and</p>
<p>Provided that the tax payable as a result of</p>	<p>After the word "payable", the word</p>

Due Date for Payment of Tax

SECTION 137(2)

provisional assessment notice.]	“immediately” shall be inserted;
<p>Comments: Due Date of Payment of Tax Clarified</p> <p>In order to clarify the point of time for payment of tax due against the provisional assessment order, it has been clarified that the tax payable under such cases will be due immediately after the expiry of 60 days from the issuance of such provisional assessment order.</p>	

Advance Tax Paid by The Taxpayer

SECTION 147(5B)

Existing	Proposed Amendment
Adjustable advance tax on capital gain from sale of securities shall be chargeable as under, namely:—	In first proviso, for the word “seven”, the words “twenty one” shall be substituted;
<p>Comments: Time Limit for Payment of Advance Tax Enhanced</p> <p>Under the provision of this sub section adjustable advance tax or capital gain from sale of securities is payable with in the period of 7 days, after the close of each quarter, now this time limit is being enhanced to 21 days.</p>	

Profit on Debt & Tax Collected or Deducted as a Final Tax

SECTION 151(3) Read With 169(1)(b)

Existing	Proposed Amendment
<p>Tax deducted under this section shall be a final tax on the profit on debt arising to a taxpayer other than a company from transactions referred to in clauses (a), (b) and (d) of sub-section (1)</p> <p>the deduction of tax is a final tax under 1[clauses (a), (b) and (d) of sub-section (1) of section 151, sub-section (1B) 2[or sub-section (1BB)] of section 152,] 3[sub-section (6)] of section 153, 4[section 153A,] sub-section (4) of section 154, 5[] sub-section (3) of section 156, 6[] 7[sub-section (2) of section 156A or sub-section 8[(1) and] (3) of section 233 9[]] on the income from which it has been deducted.</p>	<p>The words, brackets, comma and figure “from transactions referred to in clauses (a), (b) and (d) of sub-section (1)” shall be omitted;</p> <p>For the words, brackets, comma and figure “clauses (a), (b) and (d) of sub-section (1) of section 151” the words, brackets and figure “sub-section (3) of section 151” shall be substituted;</p> <p>For the words, brackets and figure “ sub-section (6) of section 153” the words, brackets and figure “clauses (a),(c) and (d) of subsection (3) of section 153” shall be substituted;</p>
<p>Comments: Consequential amendments made</p> <p>To provide for the consequential amendments made in section:</p> <ol style="list-style-type: none"> i. 151 i.e., In order to bring corresponding effect of changes brought in respect of tax collected under clause (c) of section 151, whereby tax collected on profit on debt from Government securities is final tax. Previously, the said tax was treated as normal tax. 	

**Profit on Debt &
Tax Collected or Deducted as a Final Tax**
**SECTION 151(3) Read With
169(1)(b)**

<p>Accordingly sub clauses (a), (b) & (d) mentioned in sub section 3 have been omitted being redundant.</p> <p>ii. 153 (Substituted).</p> <p>iii. 233A; being redundant for the purpose of this subsection; a fine tuning has been made.</p>
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**Payments For Goods, Services and
Contracts**
SECTION 153

Existing	Proposed Amendment
<p>(1) Every prescribed person making a payment in full or part including.....</p> <p>(1A) Every exporter or an export house making a payment in full or part including a payment by way of advance to a resident person or permanent establishment in Pakistan of a non-resident person for the rendering of or providing of services of stitching, dying, printing, embroidery, washing, sizing and weaving, shall at the time of making the payment, deduct tax from the gross amount payable at the rate specified in Division IV of Part III of the First Schedule.</p> <p>(2) The gross amount payable.....of the sale. 2[]</p> <p>(4) The Commissioner may, on application made by the recipient of a payment referred to in sub-section (1) 3[] and after making such enquiry as the Commissioner thinks fit, allow, by order in writing, any person to make the payment without deduction of tax.</p> <p>(5) Sub-section (1) shall not apply to –</p> <p>(a) a sale of goods where –</p> <p>(i) the sale is made by the importer of the goods;</p> <p>(ii) the importer has paid tax under section 148 in respect of the goods; and (iii) the goods are sold in the same condition they</p>	<p>Every prescribed person making a payment in full or part including.....</p> <p>(2) Every exporter or an export house making a payment in full or part including a payment by way of advance to a resident person or permanent establishment in Pakistan of a non-resident person for rendering of or providing of services of stitching, dying, printing, embroidery, washing, sizing and weaving, shall at the time of making the payment, deduct tax from the gross amount payable at the rate specified in Division IV of Part III of the First Schedule.</p> <p>(3) The tax deducted under this section on the income of a resident person or permanent establishment of a non-resident person, shall be,—</p> <p>(a) a final tax on transactions referred to in clause (a) of subsection (1), except on,—</p> <p>(i) payments received on account of supply of goods in respect of a company being a manufacturer of such goods; or</p> <p>(ii) payments received on account of sale of goods by a public company listed on a registered stock exchange in Pakistan;</p> <p>(b) a minimum tax on transactions referred to in clause (b) of sub-section (1);</p> <p>(c) a final tax on transactions referred to in</p>

Payments For Goods, Services and Contracts

SECTION 153

were in when imported;

(b) a refund of any security deposit;

(ba) a payment made by the Federal Government, a Provincial Government or a 2[Local Government] to a contractor for construction materials supplied to the contractor by the said Government or the authority;]

(bb) a cotton ginner who deposits in the Government Treasury, an amount equal to the amount of tax deductible on the payment being made to him, and evidence to this effect is provided to the —prescribed person□;]

(c) the purchase of an asset under a lease and buy back agreement by a modaraba, leasing company, banking company or financial institution; or

(d) any payment for securitization of receivables by a Special Purpose Vehicle to the Originator.

4[

5[(6) The tax deducted under this section shall be a final tax on the income of a resident person arising from transactions referred to in sub-section (1) or (1A):
Provided that sub-section (6) shall not apply to companies in respect of transactions referred to in clause (b) of sub-section (1) 6[:]]

7[Provided further that this sub-section shall not apply to payments received on account of—

(i) advertisement services, by owners of newspapers and magazines;

(ii) sale of goods and execution of contracts by a public company listed on a registered stock exchange in Pakistan 1[; and]

(iii) the rendering of or providing of services

clause (c) of subsection (1), except on payments received by a public company listed on a registered stock exchange in Pakistan on account of execution of contracts; and (d) a final tax on transactions referred to in sub-section (2).

(4) The Commissioner may, on application made by the recipient of a payment referred to in sub-section (1) and after making such inquiry as the Commissioner thinks fit, may allow in cases where tax deductible under sub-section (1) is adjustable, by an order in writing, any person to make the payment,—

(a) without deduction of tax; or

(b) deduction of tax at a reduced rate.

(5) Sub-section (1) shall not apply to —

(a) a sale of goods where the sale is made by the importer of the goods and tax under section 148 in respect of such goods has been paid and the goods are sold in the same condition as they were when imported;

(b) payments made to traders of yarn by the taxpayers specified in the zero-rated regime of sales tax (as provided under clause (45A) of Part-IV of the Second Schedule);

(c) a refund of any security deposit;

(d) a payment made by the Federal Government, a Provincial Government or a Local Government to a contractor for construction materials supplied to the contractor by the said Government or the authority;

(e) a cotton ginner who deposits in the Government Treasury, an amount equal to the amount of tax deductible on the payment being made to him, and evidence to this effect is provided to the “prescribed person”;

(f) the purchase of an asset under a lease and buy back agreement by a modaraba, leasing

**Payments For Goods, Services and
Contracts**
SECTION 153

referred to in sub-clause (b) of sub-section (1):

Provided that tax deducted under sub-clause (b) of subsection (1) of section 153 shall be minimum tax.]

(6A) 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 4[a company] being a manufacturer of such goods.

5[]

6[]

7[]

(8) Where any tax is deducted by a person making a payment to a Special Purpose Vehicle, on behalf of the Originator, the tax is credited to the Originator.

8[]

(9) In this section, –

—prescribed person means –

(a) the Federal Government;

(b) a company 1[];

(c) an association of persons 2[constituted by, or under,] law;

(cc) a non-profit organization;]

(d) a foreign contractor or consultant; 4[]

(e) a consortium or joint venture; 5[]

(f) an exporter or an export house for the purpose of sub-section (1A) 7[;]]

(g) an association of persons, having turnover of fifty million rupees or above in tax year 2007 9[or in any subsequent tax year]

(h) an individual, having turnover of fifty million rupees or above in the tax year 2009 or in any subsequent year.

11[] —services includes the services of accountants, architects, dentists, doctors,

company, banking company or financial institution; or

(g) any payment for securitization of receivables by a Special Purpose Vehicle to the Originator.

(6) Where any tax is deducted by a person making a payment for a Special Purpose Vehicle, on behalf of the Originator, the tax is credited to the Originator.

(7) In this section, -

(i) “prescribed person” means,—

(a) the Federal Government;

(b) a company ;

(c) an association of persons constituted by, or under, law;

(d) a non-profit organization;

(e) a foreign contractor or consultant;

(f) a consortium or joint venture;

(g) an exporter or an export house for the purpose of subsection (2);

(h) an association of persons, having turnover of fifty million rupees or above in tax year 2007 or in any subsequent tax year; or

(i) an individual, having turnover of fifty million rupees or above in the tax year 2009 or in any subsequent year;

(ii) “services” includes the services of accountants, architects, dentists, doctors, engineers, interior decorators and lawyers, otherwise than as an employee;

(iii)“sale of goods” includes a sale of goods for cash or on credit, whether under written contract or not;

(iv)“manufacturer” means a person who is engaged in production or manufacturing of goods, which includes-

(a) any process in which an article singly or in combination with other articles, material, components, is either converted into

Payments For Goods, Services and Contracts
SECTION 153

engineers, interior decorators and lawyers, otherwise than as an employee 12 [.] sale of goods□ includes a sale of goods for cash or on credit, whether under written contract or not 13[.]

1[—manufacturer for the purpose of this section means, a person who is engaged in production or manufacturing of goods, which includes-

(a) any process in which an article singly or in combination with other articles, material, 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; or

(b) a process of assembling, mixing, cutting 2[] or preparation of goods in any other manner.

another distinct article or product is so changed, transferred, or reshaped that it becomes capable of being put to use differently or distinctly; or

(b) a process of assembling, mixing, cutting or preparation of goods in any other manner; and

(v)“turnover” means,-

(a) the gross sales or gross receipts, inclusive of sales tax and federal excise duty or any trade discounts shown on invoices, or bills, derived from the sale of goods;

(b) the gross fees for the rendering of services for giving benefits including commissions;

(c) the gross receipts from the execution of contracts; and

(d) the company’s share of the amounts stated above of any association of persons of which the company is a member.”;

Comments: It is proposed to substitute this section with the purpose to bring clarity with regard to applicability of various provisions including re-arrangement of certain sub-sections. The significant changes proposed to be made through newly inserted clause are discussed below:

- Under the existing provision of sub section 6, the tax deducted u/s 153(1) (b) on account of rendering of services in case of corporate entities is adjustable. While under the proposed sub section 3 the tax deducted u/s 153(1)(b) on account of rendering of services is treated as minimum tax in case of all taxpayers.
- Presently, under sub section 2 tax u/s 153 is required to be deducted on gross amount inclusive of Sales Tax. Under sub section 7 clause V of the substituted section, the term gross sales or gross receipts includes Sales Tax, Federal Excise duty or any trade discounts shown on invoices or bills derived from the sale of goods. This effectively means now a withholding agent is required to withhold tax on gross amount of turnover without excluding the impact of trade discount.
- Under sub section 5 of the existing clause tax is required to be deducted on payment made to traders of yarn by the taxpayers specified in zero rated regime of sales (as provided under clause (45A) of Part-IV of the Second Schedule). Under sub section 5

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<p>clause (b) of proposed clause no tax is required to be deducted on payment made to traders of yarn by the taxpayers specified in zero rated regime of sales (as provided under clause (45A) of Part-IV of the Second Schedule).</p>
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Withdrawal of Balance Under Pension Fund

SECTION 156B(1)(b)

Existing	Proposed Amendment
<p>withdrawn, if in excess of 25% of his accumulated balance at or after the retirement age:</p>	<p>For the figure “25%”, the words “fifty percent” shall be substituted;</p>

Comments: Limit for Withdrawal Under Pension Fund Increased

This section deals with withholding tax incase of withdrawal of balance under Pension Fund. Under clause b of this section, withholding tax was only applicable, if the amount exceeded 25% of the pensioner’s accumulated balance at or after the retirement age. Now this limit is being enhanced to 50% from 25%.

Statements

SECTION 165(1)(a)(b)(c)

Existing	Proposed Amendment
<p>Every person collecting tax under Division II of this Part 9[or Chapter XII] or deducting tax from a payment under Division III of this Part 10[or Chapter XII] shall, 11[] furnish to the Commissioner a statement in the prescribed form setting out–</p> <p>(a) the name and address of each person from whom tax has been collected under Division II of this Part 1[or Chapter XII] or to whom payments have been made from which tax has been deducted under Division III of this Part 2[or Chapter XII] in 3[each quarter];</p> <p>(b) the total amount of payments made to a person from which tax has been deducted under Division III of this Part 4[or Chapter XII] in 5[each quarter];</p> <p>(c) the total amount of tax collected from a</p>	<p>After the word, “a”, occurring for the second time, the word “monthly” shall be inserted;</p> <p>After the word “name” the words and comma “Computerized National Identity Card Number, National Tax Number” shall be inserted, and for the words “in each quarter”, the words “in each month” shall be substituted;</p> <p>For the word “quarter”, the word “month” shall be substituted; and</p> <p>For the word “quarter”, the word “month”</p>

Statements

SECTION 165(1)(a)(b)(c)

<p>person under Division II of this Part 6[or Chapter XII] or deducted from payments made to a person under Division III of this Part 7[or Chapter XII] in 8[each quarter]; and</p>	<p>shall be substituted;</p>
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Comments: Monthly Filing of Statements to Replace Quarterly Filing
 In this section various amendments have been proposed basically to introduce the monthly filing of statements against withholding tax and other payments which were currently being done on quarterly basis. The concept for e-filing of these statements have also been introduced in the statute, While the filing of these statements have been made mandatory by the 5th of the month, following the month to which the withholding tax pertains. Furthermore, sub section 6 is proposed to be introduced, according to which for deduction of tax from payment against salary an annual statement is to be submitted. This annual statement should also covered the income threshold of an amount exceeding Rs.300,000 and the income not exceeding Rs.350,000 in a tax year, The proposed amendments also provides that while giving the particulars of recipients there computerized National Identity Card No. and National Tax No. should also be mentioned.

Statements

SECTION 165(2)(3)(6)

Existing	Proposed Amendment
<p>Every prescribed person collecting tax under Division II of this Part or Chapter XII or deducting tax under Division III of this Part or Chapter XII shall furnish statements under sub-section (1) as per the following schedule, namely:—</p> <p>2[Board] may prescribe a statement requiring any person to furnish information periodically in respect of any transactions in the prescribed form and verified in the prescribed manner:]</p>	<p>Every prescribed person collecting tax under Division II of this Part or Chapter XII or deducting tax from a payment under Division III of this Part or Chapter XII shall furnish or e-file statements under sub-section (1) by the 15th day of the month following the month to which the withholding tax pertains.”;</p> <p>(i) the word, “periodically” shall be omitted; and (ii) for the colon , at the end, a full stop shall be substituted; and</p> <p>Every person deducting tax from payment under section 149 shall furnish to the Commissioner an annual statement in the prescribed form and manner:</p>

Statements

SECTION 165(2)(3)(6)

<p>“New Sub-Section shall be added”</p>	<p>Provided that annual statement shall also be filed where the income exceeds rupees three hundred thousand but does not exceed rupees three hundred and fifty thousand in a tax year.”;</p>
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Comments: Monthly Filing of Statements to Replace Quarterly Filing

In this section various amendments have been proposed basically to introduce the monthly filing of statements against withholding tax and other payments which were currently being done on quarterly basis. The concept for e-filing of these statements have also been introduced in the statute, While the filing of these statements have been made mandatory by the 5th of the month, following the month to which the withholding tax pertains. Furthermore, sub section 6 is proposed to be introduced, according to which for deduction of tax from payment against salary an annual statement is to be submitted. This annual statement should also covered the income threshold of an amount exceeding Rs.300,000 and the income not exceeding Rs.350,000 in a tax year, The proposed amendments also provides that while giving the particulars of recipients there computerized National Identity Card No. and National Tax No. should also be mentioned.

Credit for Tax Collected or Deducted

SECTION 168(3)

Existing	Proposed Amendment
<p>No tax credit shall be allowed for any tax collected or deducted that is a final tax under 1[] 2[clauses (a), (b) and (d) of sub-section (1) of section 151, sub-section (1B) of section 152,] 3[sub-section (6)] of section 153, sub-section (4) of section 154, 4[section 155] sub-section (3) of section 156, 5[sub-section (2) (2) of section 156A, section 233, clauses (a) and (b) of sub-section (1) of section 233A] or 6[sub-section (5) of section 234 7[or section 234A].]</p>	<p>No tax credit shall be allowed for any tax collected or deducted that is a final tax under,— (a) sub-section (7) of section 148; (b) sub-section (3) of section 151; (c) sub-section (1B) and (1BB) of section 152; (d) clauses (a),(c)and (d) sub-section (3) of section 153; (e) sub-section (4) of section 154; (f) sub-section (3) of section 156; (g) sub-section (2) of section 156A; (h) sub-section (3) of section 233; (i) sub-section (5) of section 234; and (j) sub-section (3) of section 234A.”;</p>

Comments: To Streamline the Changes

Seeks to streamline the content of this section, with consequential changes in section 151 and section 153.

Notice to Obtain Information or Evidence**SECTION 176(5)**

Existing	Proposed Amendment
This section shall have effect notwithstanding any rule of lawinformation.	For the words “rule of law” the words “law or rules” shall be substituted;
Comments: Seeks to cater for grammatical correction	

Offences and Penalties**SECTION 182(1)**

Existing	Proposed Amendment
Any person who commits any offence specified in column (2) of the Table below shall, in addition to and not in derogation of any punishment to which he may be liable under this Ordinance or any other law, be liable to the penalty mentioned against that offence in column (3) thereof:	In the Table, against S.No.1, in column for the full stop, at the end, a colon shall be substituted and thereafter the following shall be inserted, namely: “ <i>Explanation.-</i> For the purposes of this entry, it is declared that the expression “tax payable” means tax chargeable on the taxable income on the basis of assessment made or treated to have been made under sections 120, 121, 122 or 122C.”;
Comments: Term Tax Payable Explained for the Purpose of Levying of Penalty Table Explanation This section deals with levying of penalty against various offences committed under the Income Tax Ordinance, 2001. Penalty, is leviable equal to 0.1% of the tax payable for each day of default, with a minimum penalty of Rs.5,000 and maximum penalty of 25% of the tax payable, in respect of that year. The term tax payable has been explained in the context of this offense as tax chargeable on the taxable income on the basis of assessment made or treated to have been made under sections 120(assessment),121(Best Judgment Assessment),122(Amendment of Assessment),122C(Provisional Assessment).	

Advance Ruling**SECTION 206A(4)**

Existing	Proposed Amendment
“New Sub-Section shall be added”	This section shall not apply to a non-resident taxpayer having a permanent establishment in Pakistan.
Comments: Advance Ruling not Applicable It has been proposed to introduce this new sub section, whereby the provisions relating to advance ruling shall not apply to a non resident tax payer, having a permanent establishment in Pakistan. The concept of advance ruling was inserted by Finance Act, 2003, whereby the Board was given powers to issue an advance ruling on an application made by the nonresident taxpayer.	

Advance Tax on Purchase of Air Ticket**SECTION 236B(3)(4)**

section has been made adjustable and exemption has been provided to Federal Government, Provincial Government and the person producing an exemption certificate from the Commissioner of Inland Revenue that his income is exempted from tax.

The First Schedule**PART I – DIVISION I****RATES OF TAX FOR INDIVIDUALS**

Comments: The basic limit of exemption is proposed to be enhanced upto Rs. 350,000/- from the existing limit of Rs. 300,000/- and the subsequent tax rates above taxable income of Rs. 350,000/- will remain unchanged. This exemption of taxable income will have marginal effect on the tax liability of **business individual** as the amount of tax will start from Rs. 26,250/- instead of Rs. 22,500/=. The proposed rates of tax chargeable for the tax year 2012 for a Business individual (corresponding to the income year ending at any time between July, 2011 to June, 2012 are as under:

Taxable Income	Tax Rate	Tax Charge
Upto Rs.350,000	0%	Nil
Rs.350,001 to Rs.500,000	7.5%	26,250 to 37,500
Rs.500,001 to Rs.750,000	10%	50,000 to 75,000
Rs.750,001 to Rs.1,000,000	15%	112,500 to 150,000
Rs.1,000,001 to Rs.1,500,000	20%	200,000 to 300,000
Rs. 1,500,001 and above	25%	375,000 and above

The changes in the 1st Schedule for the salaried individuals including women salaried taxpayers are summarized as under: (The same to be enhanced to Rs. 350,000 from the existing exemption of Rs. 300,000/-).

In view of the enhancement proposed in basic threshold of taxable income no tax will be levy on the salary of a person drawing Rs. 29,166/- per month which previously was Rs. 25,000/- per month

S. No	Salary Income	Tax Rate %	Tax Charge
1	Upto Rs.350,000	0%	Nil
2	Rs 350,000 to Rs. 400,000	1.5%	5,250 to 6,000
3	Rs 400,000 to Rs. 450,000	2.5%	10,000 to 11,250
4	Rs 450,000 to Rs. 550,000	3.5%	15,750 to 19,250
5	Rs 550,000 to Rs. 650,000	4.5%	24,750 to 29,250
6	Rs 650,000 to Rs. 750,000	6%	39,000 to 45,000
7	Rs 750,000 to Rs. 900,000	7.5%	56,250 to 67,500
8	Rs 900,000 to Rs. 1,050,000	9%	81,000 to 94,500
9	Rs 1,050,000 to Rs. 1,200,000	10%	105,000 to 120,000
10	Rs 1,200,000 to Rs. 1,450,000	11%	132,000 to 159,500
11	Rs 1,450,000 to Rs. 1,700,000	12.50%	181,250 to 212,500
12	Rs 1,700,000 to Rs. 1,950,000	14%	238,000 to 273,000
13	Rs 1,950,000 to Rs. 2,250,000	15%	292,500 to 337,500
14	Rs 2,250,000 to Rs. 2,850,000	16%	360,000 to 456,000
15	Rs 2,850,000 to Rs. 3,550,000	17.5%	498,750 to 621,250
16	Rs 3,550,000 to Rs. 4,550,000	18.5%	656,750 to 841,750
17	Rs. 4,550,000 and above	20%	910,000 and above

PART IV

DIVISION VI

CASH WITHDRAWAL FROM A BANK

Comments: The rate of withholding tax on cash withdrawal from bank is proposed to be reduced to 0.2% from 0.3%

Second Schedule

PART – I - EXEMPTION FROM TOTAL INCOME

Clause	Description	Status
61 (ix) (xxv)	Exemption on account of donation received by the following: - Bank of Commerce and Credit International Foundation for Advancement of Science and Technology - BCCI Foundation	Exemption withdrawn
74(A)	Exemption available to National Bank of Pakistan on Profit on debt received from PSO for foreign currency loan	Exemption withdrawn
93	Profits and gains earned by a recognized computer training institution or computer training schemes.	Exemption withdrawn
107A	Income derived from social or economic development activities by the Islamic Development Bank	Exemption granted
114A	Income derived from sale of ships and all floating crafts under the head Capital Gains	Exemption withdrawn

PART – II - REDUCTION IN TAX RATES

Clause	Description	Status
5A	Taxation of profit on debt arising from debt instruments, Government Securities including Treasury Bills and Pakistan Investment bonds paid to non-resident person u/s 152 under Final Tax Regime.	Relaxation allowed

PART – III - REDUCTION IN TAX LIABILITY

Clause	Description	Status
4	The amount of Income Tax imposed for imported old and used automotive vehicles specified as per S.R.O 577(I)/2005	Exemption limit reduced resulting in increase in tax

PART – IV - EXEMPTION FROM SPECIFIC PROVISIONS

Clause	Description	Status
11A(i)	Exemption from applicability of section 113 (Minimum Tax) to the pension funds registered under the Voluntary Pension System Rules 2005.	Exemption inserted
38C	Exemption to Islamic Development Bank from the applicability of section 151, 152, 153 & 233	Exemption inserted

Seventh Schedule

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

Clause	Comments
1 (c) (i)	<p>The rationale behind the introduction and applicability of the Seventh Schedule was to provide special provisions for the taxation of income derived by the banking companies. The Schedule provides the tax treatment of non performing advances. These provisions allow the banking companies to claim the bad debts according to the Prudential Regulations issued by the State Bank of Pakistan upto maximum of 1% of total advances.</p> <p>However, the ambiguity regarding the allowability of provisions of bad debts in excess of 1% of total advances in case of banking company and 5% of total advances in case of consumer and small and medium enterprises is clarified in this bill. The Banking Companies can carry forward the amount of provisions in excess to the said limit to succeeding years.</p>
1 (c) (ii)	<p>The bill seeks to clarify that if the provision is less than the 1 % of total advances of banking company then the actual provision shall be allowed in the year. n is less than 5% of advances for consumer and small & medium enterprises, then actual provision shall be allowed from the first day of July, 2010.</p>
6	<p>The bill seeks to impose tax @ 20% on Dividend income received by a banking company from the asset management company managed by it. Before this Finance Bill, the dividend income received by the banking companies from its management companies was taxed at the rate of 10%.</p>

Sales Tax Act, 1990



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 seventeen per cent of the value of--	For the word "seventeen", wherever occurring, the word "sixteen" shall be substituted;

Comments: Rate of sales tax has been proposed to be reduced from 17% to 16% across the board. This is a major relief measure with the objective to minimize additional burden on the lower segments of the society.

Adjustable Input Tax

SECTION 8B(1)

Existing	Proposed Amendment
Provided that the tax charged on the acquisition of fixed assets shall be adjustable against the output tax in twelve equal monthly installments.	For the first proviso, the following shall be substituted, namely:— "Provided that the restriction on the adjustment of input tax in excess of ninety per cent of the output tax, shall not apply in case of fixed assets or capital goods:";

Comments: Immediate Refund of Sales Tax on Fixed Assets or Capital Goods

Previously the input tax credit on import or local purchase of fixed assets or capital goods was allowed to be claimed in twelve (12) equal monthly installments and the claim for total input tax was restricted to the extent of ninety percent (90%) of the output tax. Now this restriction has been proposed to be done away with, in case of acquisition of capital goods. The proposed amendment aims to have a dual impact. Firstly, it seeks to remove the restriction for adjustment of input tax in twelve equal monthly installments on acquisition of fixed assets or capital goods. Secondly, it is aimed to allow immediate/full adjustment of sales tax paid on import or local purchase of capital goods. The amendment is intended to mitigate the cash flows of industrial sector and to ensure timely and quick adjustment of input tax paid.

De-registration, Blacklisting and Suspension of Registration

SECTION 21(3)

Existing	Proposed Amendment
	During the period of suspension of

De-registration, Blacklisting and Suspension of Registration

SECTION 21(3)

<p>“New sub –Section shall be added”</p>	<p>registration, the invoices issued by such person shall not be entertained for the purposes of sales tax refund or input tax credit, and once such person is blacklisted, the refund or input tax credit claimed against the invoices issued by him, whether prior or after such blacklisting shall be rejected through a self speaking appealable order and after affording an opportunity of being heard to such person.”;</p>
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Comments: Effective Enforcement of Blacklisting Regime
 A new sub-section (3) has been proposed to be inserted in Section 21 of the Sales Tax Act, 1990 (the Act) to empower Commissioner Inland Revenue to effectively enforce the blacklisting regime. It has been proposed to renounce the sales tax invoices issued during the period of suspension of registration and to reject the sales tax refund or input tax credit, whether current or prior, on blacklisting.

Return

SECTION 26(3)

<p>Existing A registered person may, subject to approval of the Commissioner Inland Revenue having jurisdiction, file a revised return within one hundred and twenty days of the filing of return under sub-section (1) or, as the case may be, sub-section (2), to correct any omission or wrong declaration made therein.</p>	<p>Proposed Amendment after the brackets and figure “(2)”, the words and brackets “or under clause (a) or clause (b) of section 27” shall be inserted;</p>
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Comments: Revision of ‘Special Return’
 Comments: The proposed amendment seeks to provide for revision of ‘special return’ filed under Section 27 by amending Section 26(3) of the Act.

Appointment of Authorities

SECTION 30(1), 30(3),30(4) & 30A

<p>Existing For the purposes of this Act, the Board may, appoint in relation to any area, person or class of persons, any person to be-</p>	<p>Proposed Amendment The word “and” shall be omitted;</p>
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Appointment of Authorities

SECTION 30(1), 30(3),30(4) & 30A

(a) A Chief Commissioner.....
 (i) an Inland Revenue Auditor Officer; and

“New Clause shall be added”

Additional Commissioner Inland Revenue, Deputy Commissioner Inland Revenue,....., to whom they are subordinate, may direct

Deputy Commissioner Inland Revenue, Assistant Commissioner Inland Revenue.....subordinate to the Additional Commissioner Inland Revenue.

The Directorate General (Intelligence and Investigation) CBR 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.

An Inspector Inland Revenue ; and;

After the word “officer”, occurring for the second time, the comma and words “, Inspector Inland Revenue” shall be inserted; and

After the word “officer”, occurring for the second time, the comma and words “, Inspector Inland Revenue ,” shall be inserted;

In the marginal note, for the letters “CBR”, the words “Inland Revenue” shall be substituted; and

For the letters “CBR”, the words “Inland Revenue” shall be substituted;

Comments: Inclusion of Sales Tax Authority

It has been proposed to amend sub-sections (1), (3) and (4) of Section 30 to include the designation of ‘Inspector Inland Revenue’ as an authority under the Act.

Nomenclature of Directorate General of Intelligence and Investigation Inland Revenue Section 30A

The proposed amendment seeks to harmonize the Section 30A with the rest of the Act by replacing the words ‘CBR’ with ‘Inland Revenue’ and to provide for the nomenclature of Directorate General of Intelligence and Investigation Inland Revenue.

Obligation to produce documents and provide information

SECTION 38B

Existing

Notwithstanding anything contained in this Actrank of a Deputy Commissioner Inland Revenue, by notice in writing, as and when specified in the notice, shall

Proposed Amendment

For the words “a Deputy”, the words “ an Assistant” shall be substituted;

Comments: Empower ‘Assistant Collector’ to Initiate Investigative Audit

Obligation to produce documents and provide information

SECTION 38B

It has been proposed to empower officers with designation 'Assistant Commissioner Inland Revenue' and above to carry out investigative audit under section 38B of the Act. Previously officers with designation 'Deputy Commissioner Inland Revenue' and above were authorized to carry out investigative audit under this Section.

Alternative Dispute Resolution

SECTION 47A(4A)

Existing

Notwithstanding anything contained in sub-section (4) 4or under sub-section (4A) 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 may pass such order may be deemed just and equitable.

Proposed Amendment

Notwithstanding anything contained in sub-section (4), the Chairman FBR and a Member nominated by him 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 may be deemed just and equitable.”;

Comments: Harmonization

The proposed amendment seeks to harmonize Section 47A (4A) of the Act by substituting it and to bring it in conformity with the Section 38 (4A) of the Federal Excise Act, 2005.

Refund to be Claimed Within One Year

SECTION 66

Existing

“New Proviso shall be added ”

Proposed Amendment

“Provided also that no refund shall be admissible under this section if incidence of tax has been passed directly or indirectly to the consumer.”;

Comments: Rejection of Refund Claims

A new proviso has been proposed to be added in Section 66, which seeks to empower Officers Inland Revenue to reject refunds claims filed under Section 66 of the Act where incidence has been passed on to the consumers.

Condonation of Time Limit

SECTION 74

Existing

“New Explanation shall be added”

Proposed Amendment

“Explanation.- For the purpose of this section, the expression “any act or thing is to be done” includes any act or thing to be done by the registered person or by the authorities specified in section 30 of this Act.”

Condonation of Time Limit**SECTION 74****Comments: Condonation of Time Limit for Tax Authorities**

The amendment seeks to empower Federal Board of Revenue to condone time limit in time bound cases dealt by authorities specified in Section 30 of the Act by explaining the expression 'any act or thing is to be done'. The explanation is aimed to bring the 'acts or things to be done by the authorities' within the ambit of this Section and provides for condonation of time limit in cases where delay is on the part of taxation authorities.

The Sixth Schedule

Comments: The proposed Finance Bill, 2011 is aimed at enhancing the sales tax revenues by rationalizing the exemption regime with the objective to minimize additional burden on the lower segments of the society and distributing the burden of extra taxation measures on exempt sectors of the economy. Accordingly, amendments have been proposed to be made in the Sixth Schedule of the Act. Further exemption from levy of sales tax on import or supply of various goods has been abolished. Previously, import or supply of:

- surgical taps;
- ultrasound gel;
- glass bangles;
- diapers for adults (patients);
- bricks;
- building blocks of cement;
- computer software;
- ambulances, firefighting vehicles, waste disposal trucks, brake down lorries, special purpose vehicles for the maintenance of streetlights and overhead cables;
- aircrafts
- ships;
- defence stores;
- equipments and machinery used in ports or airports;
- bulldozers, combined harvesters;
- fully dedicated CNG Euro-2 buses; and
- local supply of specified agricultural implements

were exempt from levy of sales tax which has now been proposed to be withdrawn. Now import or supply of all afore said goods will be subjected to standard sales tax rate of sixteen percent (16%). The exemption regime is being rationalized with objective to reduce its scope only to selected sectors. For this purpose, exemptions for levy of sales tax granted earlier through various notifications have also been withdrawn [Please refer Notification / SROs (Sales Tax) section below].

NOTIFICATIONS / SROS (SALES TAX)**SRO 487(1)/2011 [Sales Tax Rules, 2006]**

Previously, Rule 14A of the Sales Tax Rules, 2006 allowed the registered person to revise his return without prior approval from the Commissioner. However, this Rule has now been omitted through Notification No. SRO 487(1)/2011 disallowing the self revision of sales tax return.

SRO 487(1)/2011 has further amended the Rule 65(3) which extended the period of submission of Alternate Dispute Resolution Committee's report to the Federal Board of Revenue from 'sixty' days to 'ninety' days. This amendments has been made to harmonize the Rule 65(3) with Section 47A (3) of the Act.

SRO 482(1)/2011 [Sales Tax Special Procedures Rules, 2007]

An amendment has been made in Rule 58B of Special Procedures Rules, 2007 through SRO 482(1)/2011 whereby the value addition tax levied on importers and collected at import stage is being enhanced from 2% to 3%.

SRO 480(1)/2011

Through SRO 480(1)/2011, the Federal Government has rescinded various notifications issued earlier, resulting in withdrawal of exemption from levy of sales tax on:

- Dump trucks for off highway use and transit concrete mixer;
- Import and supply of local manufactured agricultural machinery, equipments and implements; and
- Import and supply of CKD kits of single cylinder agriculture diesel engines of 3 to 36 HP.

Further, Notification No 1(3)STM/2004 (Pt-II) dated August 23, 2009 has also been rescinded. Consequently, levy of sales tax on local supplies of sugar at the rate of eight percent has now been abolished.

SRO 481(1)/2011

Through SRO 481(1)/2011, amendment has been made in Notification No. SRO 551(1)/2008 dated June 11, 2008; resulted in withdrawal of exemption regarding levy of sales tax on following goods;

- CNG kits, cylinders and valves of CNG kits;
- Commercial Catalogues;
- Rock Phosphate;
- Phosphoric Acid; and
- Mineral Oil.

Serial no 27 and 28 has also been added to bring the supply of 'white crystalline sugar' and 'reclaimed lead if supplied to recognized manufacturers of lead batteries' into the ambit of exemption regime. Consequently, sales tax will not be levied on supply of these goods.

SRO 483(1)/2011

Through SRO 483(1)/2011, amendment has been made in SRO 880(1)/2007 dated September 1, 2007 to include 'calibrated' in serial no 50 and to include 'Eclia' in serial no 59 allowing for exemption from levy of sales tax.

SRO 484(1)/2011

Through SRO 484(1)/2011, the Federal Government has rescinded its Notification No SRO 364(1)/2007 dated May 3, 2007, now redundant due to withdrawal of Federal Excise Duty on cable operators.

SRO 485(1)/2011 and SRO 486(1)/2011 [Zero-Rating Regime]

The zero-rating regime is being rationalized with objective to reduce its scope only to selected sectors. The proposed Finance Bill, 2011 aimed at enhancing the sales tax revenues by rationalizing zero-rating and exempt regime with the objective to minimize additional burden on the lower segments of the society and distributing the burden of extra taxation measures on zero-rated and exempt sectors of the economy. Accordingly, changes have been proposed to be made and enforced through amendments in SRO 549(1)/2008 dated June 11, 2008 and by rescinding SRO 1161(1)/2007 dated November 30, 2007.

Through the introduction of SRO 485(1)/2011 and SRO 486(1)/2011 both dated June 3, 2011, various goods were brought out from the ambit of zero-rating regime and now sales tax at the standard rate of 16% will be applicable on supply of following goods:

- Diapers;
- Dedicated CNG buses and all other buses meant for transportation of forty or more passengers whether in CBU or CKD condition;
- Trucks and dumpers with g.v.w. exceeding 5 tonnes;
- Trailers and semi-trailers for the transport of goods having specification duly approved by the Engineering Development Board; and
- Road tractors for semi-trailers, prime movers and road tractors for trailers whether in CBU condition or in kit form.

NOTE: The Notifications proposed that all these amendments will be effective from June 4, 2011.

Federal Excise Duty



Definition of Manufacture Section 2 (2) (16)

The bill proposes to re-draft the definition of “Manufacture” given in the Act to give it a more clarified meanings while removing ambiguity that may be caused while interpreting the term.

Special Excise Duty Section 3A

The bill seeks to withdraw special excise duty of one percent on **all items** including those used by middle and lower class population. This will reduce the burden of multiple taxation on the general masses.

Default surcharge Section 8

It is proposed to insert word **per annum** in section 8 to provide for the rate of default surcharge on annual basis. The propose change will bring it at par with section 34 of Sale Tax Act, 1990

Recovery of unpaid duty or of erroneously refunded duty or arrears of duty, etc Section 14(1)

The bill seeks to enhance the period of issuance of show cause notice by the Officer of Inland Revenue from three (3) to **five (5)** years to bring it in uniformity with the Sale Tax Act, 1990

Section 14(2)

It is proposed to bind the Officer of Inland Revenue to issue order within **one hundred and twenty (120) days** from the issuance of show cause notice which may be extended by the Commissioner up to **sixty (60) days** excluding the period of adjournment and stay of maximum **thirty days**.

Power to seize Section 26

It is proposed to enhance the powers of Officer of Inland Revenue to seize **beverages** in addition to cigarettes which have been manufactured unlawfully or on which duty has not been paid accordingly.

Confiscation of cigarettes or beverages

Section 27

The bill seeks to insert the word “**beverages**” in the heading of section 27 and in its sub sections (1), (2), (3) after the word cigarettes. By virtue of this amendment, the Officer of Inland Revenue is **empowered** to confiscate counterfeit and non-duty paid beverages in addition to cigarettes.

Alternative dispute resolution

Section 38(4)

It is proposed to bind the Federal Board of Revenue to pass order **within forty five (45) days** on the recommendations of alternative dispute resolution committee to bring it in uniformity with the section 47A of the Sale Tax Act, 1990.

CHANGES IN RATE OF DUTIES

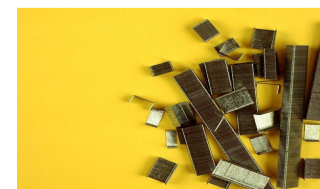
Following amendments in the rate of duty for various items have also been proposed:

Description	Existing Rate	Proposed Rate
Aerated beverage containing added sugar or other sweetening matter or flavored	12%	6%
Sweetened aerated beverage manufactured wholly from juices, pulps, etc	10%	6%
Un-manufactured tobacco	Rs 5/Kg	Rs 10/ Kg
Locally produced cigarettes (retail price exceeds twenty one rupees per ten cigarettes)	64%	65%
Locally produced cigarettes (retail price ranges between eleven rupees and fifty paise and twenty one rupees per ten cigarettes)	Rs 4.75/ ten cigarettes	Rs 6.04/ ten cigarettes
Locally produced cigarettes (retail price does not exceeds eleven rupees and fifty paise per ten cigarettes)	Rs 4.75/ ten cigarettes	Rs 6/ ten cigarettes
Cigarettes manufactured in non-tariff areas	Rs 700/ metric ton	Rs 500/ metric ton
Filter road for cigarettes	Rs 1/ cigarette	20% ad Val
Franchise fee	5%	10%

Federal excise duty is being levied on white crystalline sugar at the rate of eight percent (8%) ad val. which will be collected in the sale tax mode.

FEDERAL EXCISE DUTY HAS BEEN WITHDRAWN IN THE FOLLOWING CASES:

- ❖ Services provided by property developers or promoters
- ❖ Services provided by cable TV operators
- ❖ Solvent oil (non-composite)
- ❖ Other fuel oils
- ❖ Mineral greases
- ❖ Transformer oil
- ❖ Other mineral oil excluding sewing machine oil
- ❖ Waste oil
- ❖ Carbon black oil (carbon black feedstock) Including residue carbon oil
- ❖ Methyl tertiary butyl ether (MTBE)
- ❖ Greases
- ❖ Organic composite solvents
- ❖ Viscose-staple fiber
- ❖ Motor cars and other: Motor vehicles principally designed for the transport of persons including station wagons and racing cars of cylinder capacity exceeding 850cc.



CUSTOMS ACT, 1969 (IV OF 1969)
PROPOSED AMENDMENTS

<p>Section 15(c) Prohibition</p>	<p>This section deals with the goods which are prohibited to be brought into Pakistan through air or land or sea. Now it is proposed to amend the clause C of this section by omitting the words “or goods imported or exported in contravention of the provision of section 32”. While the section 32 deals with false statements and mis-declarations.</p>
<p>Section 21(c) Power to deliver goods without the payment of custom duties, etc.</p>	<p>This section empowers the customs authorities to deliver certain goods without the payment of customs duties. Through the proposed amendment The bill seeks to add in clause c the goods for supplies against international tenders in the category of the products which enjoy this privilege. This amendment is proposed in order to provide incentives to local manufacturers and suppliers of domestic goods against international tenders by treating these supplies as export.</p>
<p>Section 22 Re-importation of goods produced or manufactured in Pakistan.</p>	<p>It is proposed to omit the word “or deputy collector” from the proviso so that on the officer not below the rank of Assistant Collector may admit the re-importation of goods produced or manufactured in Pakistan.</p>
<p>Section 32(3A) False Statement, error, etc</p>	<p>The bill seeks to extend the limitation period of the section from three to five years for taking cognizance of offences relating to short paid duty and taxes in cases unearthed.</p>
<p>Section 33(3) Refund to be claimed within one year</p>	<p>A new sub section (3) is proposed to be inserted whereby the effective date for the start of the one year period has been clarified i.e. the said period of one year shall be reckoned from the date of the decision by the Appellate authorities.</p>
<p>Section 34 Power to Give Credit</p>	<p>Presently both Assistant Collector and Deputy Collector are empowered to give credit to a mercantile firm or a company. The bill seeks to amend the section by omitting word “or deputy collector” in order to remove the existing superfluity of power to give credit for, and keep account-current of duties and charges.</p>
<p>Section 96 Payment of Rent and Warehouse Dues</p>	<p>The proposed amendment is in line with the above amendment whereby word “or deputy collector” is being removed in order to remove the existing superfluity for authorization of rent and warehouse dues at specific rate.</p>
<p>Section 129A Levy of Transit Fee</p>	<p>The bill proposes to add new section 129A to empower the Board to levy a transit fee on any goods or class of good in transit across Pakistan to a foreign territory, by notification in the official gazette. The grant of transit</p>

	<p>facility has increased Customs facilitation and allied operation manifold. In order to provide for self-sustaining infrastructure and services at customs stations and en-route, an enabling provision for collection of transit fee has been provided under the said new section.</p>
<p>First Schedule</p>	<p>In the First Schedule following few customs tariff appearing in chapter 1 to 99 are being amended in order to facilitate trade.</p> <ul style="list-style-type: none"> ▪ In 74.04 (PCT CODE) “Copper waste and scrap” new items code are proposed to define; 7404.0010 (---Brass scrap) and 7404.0090 (---Other) at the rate of 0 CD %. ▪ CD % of PCT CODE 7407.1010 (---Bars) and 7407.2100 (---of copper-zinc base alloys brass) proposes to be reduced from 10% to 5%. ▪ In PCT CODE 87.10 “Tanks and other armoured fighting vehicles, motorised, whether or not fitted with weapons, and parts of such vehicles” new items code are proposed to be defined 8710.0010 (--Armoured cash carrying vehicles) and 8710.0090 (---Other) at the rate of 20 CD %. ▪ In PCT CODE 9918, Goods are substituted by Machinery in columns (2).

S.R.O'S

S.R.O 475(I)/2011:

There are number of corrections in industrial S.R.O 565(I)/2006 to ensure expeditious clearance and incentives to local industries such as;

- Couples of new special conditions are proposed to exempt the raw material of air conditioners, first one the Rear panel bending machine shall be substitute with press machine and second one is the addition of further machines after (vi) i.e. shearing machine, tapping machine, riveting machines, spot welding machines and evaporator bending machine.
- Hot rolled steel sheets as a raw material for washing machines will be no more exempted in excess of specified rate.
- "Copper coated steel tube (bundy tube) in coils" as a raw material for Evaporators and Condensers for air-conditioners, deep freezers and refrigerators and Industrial Evaporators & Condensers for Chilled Water Coils, and Steam Heating Coils shall be substituted with "copper coated steel tubes in coils up-to 8.5 mm dia" for exemption.
- Concession on raw material of audio cassettes.
- Steel keys a sub-component of diesel generating unit will be substituted with nut, bolt, washers (others).
- Incentives for hi-tech car audio manufacturing industry through concession on import of mechanism for audio car system.
- Incentive for CNG compressors manufacturing industry through concession on its 15 components.
- Incentives for glass industries through concession on its two major raw materials namely "mirror backing paint" and "cullet and other waste /scrape of glass".
- Incentive to butyl acetate industries through concession on import of its raw materials (sabutol).

This notification shall take effect from the 4th June, 2011.

S.R.O 476(I)/2011

By further amendments in S.R.O. 567(I)/2006 through this notification a reduction of duty to 5 % on 47 pharmaceutical raw material items shall be made to provide relief to common man. This notification shall take effect from the 4th June, 2011.

S.R.O 477(I)/2011

Exemption under clause (a) of sub section (2) of section 13 of the sales tax act, 1990 is proposed to be withdraw on following plant, machinery, equipment and apparatus by amendment through this notification with effect from 4th June, 2011;

1. Agriculture Machinery
2. Following items imported by the local assembler of vehicles and companies having CNG licenses;
 - Compressors
 - Mass flow CNG dispensers
 - Storage cylinders
 - CNG vehicles cylinder
 - CNG vehicles conversion kits
 - LPG dispensers
3. Machinery and equipment imported by any other importer
4. Following goods imported by municipal authorities/local bodies/cantonment boards
 - Ambulances
 - Fire fighting vehicles
 - Waste disposal truck
 - Incinerators for disposal waste management
 - Motorized sweepers
 - Brake down lorries
 - Special purpose vehicles for the maintenance of streetlights and overhead cables
 - Snow ploughs
 - Road sweeping lorries
5. Fire fighting vehicles and equipment imported by town and municipal authorities.
6. Aircraft spares, parts, tyres, navigational equipment, accessories for maintenance and operations of aircrafts, chemicals, lubricants and paints, air tickets, aircraft carpet, aircraft fabric, skydrol (brake fluid), laminated sheet, aluminum alloy sheets, aluminum alloy extrusions, aircrafts seats, tools, test equipment, life jackets, spares of TGS vehicle, meals trolley, ball hand seal, standard units, exterior washing liquid, air head set electronics, air head set pneumatic and sealants.
7. Following items imported by Civil Aviation Authority (CAA) for air traffic services and training:-
 - Navigation equipment
 - Surveillance equipment
 - Rescue and fire fighting equipment
 - Display system
 - Training equipment
 - Calibration equipment
 - Communication and broadcast equipment

S.R.O 478(I)/2011

Machinery and equipment (X-mass tress, well head and integral components and part thereof) as are imported by Exploration and Production companies as is in excess of 10% (instead of 15 % before this notification) ad valorem leviabale under the first schedule of the customs act, 1969 (IV of 1969) shall be exempted. This concession in Machinery and equipment to incentivize oil exploration companies shall take effect from 4th June, 2011.

S.R.O 479(I)/2011

By further amendments in S.R.O. 482(I)/2009 through this notification removal of regulatory duty on import of more than 337edible items i.e. yogurt, butter, fruits, and vegetables etc. shall be made to provide relief to common man. This notification shall take effect from the 4th June, 2011.

OTHER LAWS

Almost identical amendments have been proposed in the following statues which will provide for the remittance of any surplus of receipt over expenditure during financial year to the Federal consolidation fund and vice versa deficit if any from actual expenditure shall be made up by Federal Government.

Furthermore, recoveries on account of all penalties and fines under this ordinance and rules shall be credited to Federal Consolidated Fund.

**OIL AND GAS REGULATORY AUTHORITY ORDINANCE, 2002 (XVII OF 2002)
PROPOSED AMENDMENTS – Section 17(4) & 18 (2)**

**PAKISTAN ELECTRONIC MEDIA REGULATORY AUTHORITY ORDINANCE, 2002
PROPOSED AMENDMENTS – Section 15 (2) & 33 (C)**

**PAKISTAN TELECOMMUNICATION (RE-ORGANIZATION) ACT 1996, (XVII OF 1996)
PROPOSED AMENDMENTS – Section 23 (A)**

**REGULATION OF GENERATION, TRANSMISSION AND DISTRIBUTION OF ELECTRIC POWER ACT,
1997 (XL OF 1997) – Section 13 (2) & 29 (2)**

**SECURITIES AND EXCHANGE COMMISSION OF PAKSITAN ACT, 1997(XLL OF 1997)
PROPOSED AMENDMENTS – Section (3) (3A) & 40AA**

**PAKISTAN NUCLEAR REGULATORY AUTHORITY ORDINANCE, 2001 (III OF 2001)
PROPOSED AMENDMENTS – Section 42 (2) & 44 (5)**

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