C O N T E N T S

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For **Clients only** June 04, 2014

Finance Bill - 2014

We are pleased to present today, the 25th issue of our comments on Finance Bills. In the light of our submission we are pleased to present our comments on the Finance Bill, 2014 on the amendments proposed in the Income Tax Ordinance, 2001, Sales Tax Act, 1990, Federal Excise Act, 2005 and other relevant amendments proposed in the bill.

The present bill will be remembered in the history of our country for introducing and compiling various amendments in a very short period of time as the Government took charge just few days back. The Country is currently facing various issues in the economic field, some of which are grave and need immediate actions. It is therefore of prime importance that in this time of hardship, the common man should not be burdened.

We have time and again pointed out towards the small number of taxpayers in the country and therefore, once again suggest to the Board for expansion of tax net, to provide relief to the existing tax payers. The proposal from various forums for the taxation of agriculture income has been a persistent demand. This issue must be considered by the parliament for enlarging tax net and sharing of tax burden by all the citizens in their earning proportion. We hope these measures and active efforts by the FBR will further increase the number of taxpayers, so that the burden of tax financing is spread to our country's population at large.

This Commentary has been formulated with the sole intention of providing our clients the impact and implication of the amendments to be made, therefore, this is not an exhaustive document and for interpretation of any section, reference should be made to specific wording of the relevant section.

We would like to take this opportunity to thank Mr. Wasif Iqbal, Mr. Gul Abbas & Mr. Ammar Ather Saeed, who kept us company during the day and researched and assisted us in our efforts. They were ably assisted by Mr. Hashim Lodhi & Mr. Muhammad Usman Alam and all credits for these comments must go to them. Mr. Muhammad Hussain & Mr. Saleem Javed Qureshi provided us assistance and coordinated our efforts. Khawaja Mazharuddin & Syed Rizwan Shoaib were assigned the responsibilities to supervise the assignment. Processing and compiling of these entire comments were undertaken by Mr. Ayaz Ahmed & Syed Haris Naseem, who worked tirelessly in their efforts to bring out the final result in the shortest possible time.

Qazi Asad our printer and his team managed to print the entire manuscript in a few hours time. We would like to acknowledge the contribution of all these gentlemen.

We hope our clients will find the commentary helpful and we will be available to explain and clarify any point on which they may require clarification.

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HIGHLIGHTS (INCOME TAX)

- DISTINCTION B/W TAX FILERS AND NON-FILERS---ESTABLISHED.
- TAX ON BONUS SHARES---LEVIED.
- STOCK FUNDS---DEFINED.
- SPECTRUM LICENCES INCOME.
- JOINT VENTURE TAXABILITY---AMENDMENTS.
- NON-PROFIT ORGANIZATION, TRUSTS ETC-FILING OF RETURN MANDATORY TO AVAIL TAX BENEFITS.
- ALTERNATE CORPORATE TAX---INTRODUCED.
- ACCOUNTING INCOME---EXPLAINED.
- DEBT SECURITIES---TAXATION.
- APPELLATE TRIBUNAL---APPOINTMENT EXTENDED.
- SHIP-BREAKERS---FINAL TAXATION.
- PROFIT ON DEBIT-HIGHER TAX FOR NON-FILERS.
- NTN MANDATORY FOR COMMERCIAL ELECTRICITY AND GAS CONNECTION.
- APPOINTMENT OF SPECIAL JUDGE.

- WITHHOLDING TAX ON PURCHASE OF MOTOR VEHICLES FROM MANUFACTURERS.
- WITHHOLDING TAX ON DOMESTIC ELECTRICITY CONSUMPTION-ENHANCED.
- INCOME SUPPORT LEVY – ABOLISHED.
- AIRLINES TO BE WITHHOLDING AGENTS.
- WITHHOLDING TAX ON PURCHASE OF IMMOVABLE PROPERTY, INTERNATIONAL TICKET AND BONUS SHARES-INTRODUCED.
- TAX ON DIVIDEND---ENHANCED.
- TAX ON CAPITAL GAINS-
- WITHHOLDING ON PETROLEUM PRODUCTS---REVISED.
- WITHHOLDING TAX ON COMMISSION---REVISED.
- WITHHOLDING TAX ON MOTOR VEHICLE TAX ON REGISRATION---REVISED.
- WITHHOLDING TAX ON PHONE CHARGES---REDUCED.

- ADVANCE TAX ON WITHDRAWL OF CASH BY NON-FILERS-ENHANCED.
- SINDH PENSION FUND---EXEMPTION.
- COAL MINING PROJECTS---EXEMPTION.
- CONCESSION TO INDUSTRIAL UNDERTAKING SETUP THROUGH F.D.I.
- STEEL MELTERS AND SHIP BREAKERS---EXEMPTION.

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AMENDMENTS IN THE INCOME TAX ORDINANCE, 2001

Section 2(23A) **Filer**

A new Sub Section 23A has been introduced to define "**filer**" in the Income Tax Ordinance. It means a taxpayer whose name appears in the Active Taxpayers List issued by the Board or is a holder of taxpayer's card will come under the ambit of **filer**. In the same way clause 35B is introduced to define the "**non filer**" in the Ordinance.

SECTION 2(29)
SECTION 39
SECTION 236M **Bonus Shares:**

Amendments are proposed in clause 29 of section 2, section 39 and section 236M whereby the bonus shares issued by the corporate entity to its shareholders will be taxable. The person issuing bonus shares shall collect tax at the rate of 5% on the value of bonus shares. In case of default, said tax will be collected from the company. Such tax will be the final tax liability.

Section 59B
Section 203 **Special Judge:**

This new insertion, which defines the Special Judge appointed under section 203 which section has also been amended.

Section 61A **Stock Funds:**

A new insertion define the stock fund which means a collective investment scheme or a mutual fund where the investible funds are invested by way of equity shares in companies to the extent of more than seventy percent of the investment.

Section 37A **Debt Securities:**

Omission and amendments have been made in section 37A. Further to this new Sub section (4) has been inserted as follows.

Sub-Section 4
Debt Securities means:

(a) Corporate Debt Securities Such as term Finance Certificate SUKUK Certificate, Registered Bonds, Commercial paper, Participation Term Certificate and all kind of debts instrument issued by any Pakistani or foreign company or corporation registered in Pakistan, and

(b) Governments Debts Securities such as Treasury Bills, Federal Investment Bonds, Pakistan Investments Bonds, Foreign Currency Bonds, Governments papers, Municipal Bonds, Infrastructure Bonds and all kind off debts instruments issued by Federal Governments, provincial Governments, Local Authorities and other statutory bodies.

Section 49B **Income from Spectrum licenses:**

The amendment seeks to clarify that income received by Federal Government from spectrum Licenses with effect from first day of march 2014, shall be treated as income of the Federal government and not of Pakistan telecommunication Authority

Section 92 **Joint venture**

Amendments in Sub Section (1) is purposed to provide that if at least one member of the association of person (AOPs) is a company, the share of such company or companies shall be excluded for the purpose of computing the total income of AOPs, and the company or the companies shall be taxed separately, at the rate applicable to the companies, according to their share.

Section 100 B **Tax Credit for certain Persons:**

A new section 100B is proposed to be inserted, as follows

(1) Non-profit organization, trusts or welfare institutions, as mentioned in sub section 2 shall be allowed exemptions from tax payable, including minimum tax and final taxes, subject to the following conditions:-

(a) Return has been filed.

(b) Tax required to be deducted or collected has been complied with, and

(c) Withholding tax statement for the immediately preceding tax year have been field.

(2) The following persons are eligible for tax credit under this section:

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

It is further provided that exemptions from tax of income from business shall be restricted.

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

(i) ex-servicemen and serving personnel, including civilian employees of the Armed Forces, including their dependents or

(ii) ex-employees and serving personnel of the Federal Government or a provincial Government and their dependents, where the trust is administered by a committee nominated by the concerned Government

Such trust or welfare Institution or non-profit organizations are approved by the Chief Commissioner for this purpose.

(c) Income of University or other educational Institution being run by the non-profit organization solely for education purpose and not for profit,

(d) Any income derived from investments in securities of Federal Government, profit on debt from schedule banks, grant from Federal, provincial or district Governments, foreign grants and house property held under trust or other legal obligations, for religious or chartable purpose and is actually applied for the purpose.

Any income expended outside Pakistan will not get exemptions from tax.

Section 113 C **Alternate Corporate Tax:**

A new insertion in the ordinance which provides, for the tax year 2014 and onwards Tax payable by a company shall be higher of corporate tax or alternate corporate tax.

Alternate corporate tax is explained as tax on accounting income which shall be taxed at the rate of 17%.

Accounting income is explained as accounting profit before tax for the tax year, as disclosed in Financial statements. The sum equal to accounting income, less any amount to be excluded there from under sub-section 8 shall be treated as taxable income.

The excess of alternate Corporate tax paid over the corporate tax shall be carried forward and adjusted against the tax payable for the following years. The excess tax, if not fully absorbed in the following years then it can be carried forward for ten years immediately from the excess first computed.

These adjustments shall not affect the provisions provided to the tax payer under section 113 of this ordinance.

The amendments also provide the exclusion of certain income for computing alternate corporate tax.

The Commissioner is empowered to make adjustments for computing accounting income after providing an opportunity to taxpayer of being heard.

Section 114(1)(b)(c) **Return of income:**

The proposed amendment seeks to remove non-resident members of professional bodies from filing of Income Tax Returns under the said section.

Section 130 **Appointment of the Appellate Tribunal:**

The amendment seeks to expand the criteria for appointment of member for the appellate tribunal. Now a cost and management within the meaning of cost & management accountant 1966 having 10 year experience is eligible to become the member of the Appellate Tribunal Inland Revenue.

Section 148(8A) **Imports:**

The proposed insertion seeks to bring import of ships by ship breakers in final tax regime by adding sub-section 8A.

Section 149(3) **Salary:**

The proposed insertion seeks to bring director fee or any fee to attend the board meetings in the ambit of section 149. It is subject to 20% adjustable tax.

Section 151(3) **Profit on Debt:**

A proviso is proposed to be added to distinguish between the status of taxpayer and Non-taxpayer by differentiating the tax rate of deduction in the following manner

- Filler 10%
- Non Filler 15%

Excess 5% is adjustable in case of Non-filler, at the time of filing of return.

The intention of the said amendment is to broaden the tax base but we don't feel that the FBR support system will not clearly indicate the status of filler and non-filler, therefore, initial home work has to be properly done to get the real benefit of the said amendment. However if till the time of tax deduction somebody is unable to provide the last tax return, then there is no point to give him a chance to adjust the excess 5% while filing the tax return.

We propose that the taxpayer who is complying with the provision of the Income Tax Ordinance shall give reduction in rate of tax deduction instead of giving the chance to the non-filer to get the refund of their extra tax deduction by just filing the return, due to the said amendment.

Section 153(1)(c) **Payments for goods, services and contracts:**

The amendment seeks to expand the scope of contract by including contracts signed by the sports persons and has brought it into the final tax regime.

Section 181AA **Compulsory registration in certain cases:**

The new section is proposed to bring mandatory requirement of NTN for all new commercial or industrial connection of electricity or natural gas.

Section 231B **Advance tax on private motor vehicles**

Section 231B has been proposed to be substituted as follows :

231B. Advance tax on private motor vehicles.— *(1) Every motor vehicle registering authority of Excise and Taxation Department shall collect advance tax at the time of registration of a new locally manufactured motor vehicle, at the rates specified in Division VII of Part IV of the First Schedule.*

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

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

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

(5) The advance tax collected under this section shall be adjustable:

Provided that the provisions of this section shall not be applicable in the case of –

(a) the Federal Government;
(b) a Provincial Government;
(c) a Local Government;
(d) a foreign diplomat; or
(e) a diplomatic mission in Pakistan."

Section 235A **Domestic electricity consumption.**

A new section, 235A is proposed to be inserted, which is as follows:

*""**235A. Domestic electricity consumption.-** (1) There shall be collected advance tax at the rates specified in Division XIX of Part IV of the First Schedule on the amount of electricity bill of a domestic consumer.*

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

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

Section 235B **Tax on steel melters, re-rollers etc**

A new section, 235B is proposed to be inserted, which is as follows:

"235B. Tax on steel melters, re-rollers etc.- (1) *There shall be collected tax from every steel melter, steel re-roller, composite steel units, registered for the purpose of Chapter XI of Sales Tax Special Procedure Rules, 2007 at the rate of one rupee per unit of electricity consumed for the production of steel billets , ingots and mild steel (MS products) excluding stainless steel .*
(2) The person preparing electricity consumption bill shall charge and collect the tax under sub-section (1) in the manner electricity consumption charges are charged and collected.

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

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

Section 236 K
Section 236 L
Section 236 M

Following new sections are proposed to be inserted, which are as follows.

*“**236K. Advance tax on purchase or transfer of immovable property.**—(1) Any person responsible for registering or attesting transfer of any immovable property shall at the time of registering or attesting the transfer shall collect from the purchaser or transferee advance tax at the rate specified in Division XVIII of Part IV of the First Schedule.*

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

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

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

The above proposed insertion is to document the trading of immovable assets. This is despite the restriction of economic activities, enhancing many folds without paying the due tax and proper documentation of those assets. It is a general principal that when the business activities are restricted, people invest in property and gold. We fully support Govt’s intention to document this sector, but this insertion will only bear fruits when the collector rates are rationalized accordingly.

***236L. Advance tax on purchase of international air ticket.**— (1) Every airline, operating in Pakistan, shall collect advance tax at the rates specified in Division XX of Part IV of the First Schedule, on the gross amount of international air tickets issued to passengers booking one-way or return, from Pakistan.*

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

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

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

The proposed insertion is in the right direction, but we propose that students should be excluded from this withholding provided that documentary evidence is furnished before the Airline. The Honorable Finance Minister categorically mentioned that this amendment will not applicable in case of economy class tickets and students who are travelling abroad for their studies.

236M. Bonus shares.- *(1) Every person issuing bonus shares to a shareholder of the company, shall collect tax at the rate of five per cent on the value of the bonus shares determined on the basis of day-end price on the first day of closure of books.*

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

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

The proposed insertion is to expand the withholding tax regime without considering the fact that there is no element of payment involved when the company is issuing bonus shares to its shareholders. Under Section 158 of the Ordinance 2001 tax can only be withheld at the time of payment and if there is no payment then there is no tax deduction.

We feel it's a very harsh proposal which is without considering the fact that the shareholder is ultimately paying tax whenever dividend is paid. Therefore, stretching the scope of withholding tax will only double the burden on the taxpayer who is investing in Pakistan despite all odds.

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AMENDMENTS MADE IN THE FIRST SCHEDULE PART - I

(IB) Where the taxable income in a tax year, other than income on which the deduction of tax is final, does not exceed one million rupees of a person

(i) holding a National Database Registration Authority's Computerized National Identity Card for disabled persons; or
(ii) a taxpayer of the age of not less than sixty years on the first day of that tax year,

the tax liability on such income shall be reduced by 50%

Div. III Rate of Dividend

The rate of tax imposed under section 5 on dividend received from a company shall be:

(a) 7.5% in the case of dividends declared or distributed by purchaser of a power project privatized by WAPDA or on shares of a company set up for power generation or on shares of a company, supplying coal exclusively to power generation projects; and

(b) 10%, in all other cases:

Provided that the dividend received by a person from a stock fund shall be taxed at the rate of 12.5% for tax year 2015 and onwards, if dividend receipts are less than capital gains:

Provided further that the dividend received by a company from a collective investment scheme or a mutual fund, other than a stock fund, shall be taxed at the rate of 25% for tax year 2015 and onwards.";

Div.VII Capital Gains on disposal of Securities

S# 1	Period. 2	Tax Year. 3	Rate of tax. 4
1.	Where holding period of a security is less than six months.	2011 2012 2013 2014	10% 10% 10% 10%
2.	Where holding period of a security is [more than six months] but less than twelve months.	2011 2012 2013 2014	7.5% 8% 8% 8%

TAX YEAR 2015

3.	Where holding period of a security is less than twelve months.		12.5%
4.	Where holding period of a security is twelve months or more but less than twenty-four months.		10%
5.	Where holding period of a security is twenty-four		0%

Div.VIII Capital Gains on disposal of Immovable Property

S.No (1)	Period (2)	Rate of Tax (3)
1.	Where holding period of Immovable property is up to one year.	10%
2.	Where holding period of Immovable property is more than one year but not more than two years.]	5%
3.	Where holding period of immovable property is more than two years."	0%

Div.IX Minimum tax under section 113

S.No (1)	Person(s) (2)	Minimum Tax as percentage of the person's turnover for the year (3)
1.	(a) Oil marketing companies, Oil refineries, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds rupees one billion.); (b) Pakistan International Airlines Corporation; and (c) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production.	0.5%

2.	(a) Distributors of pharmaceutical products, fertilizers and cigarettes; (b) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990; (c) Rice mills and dealers; and (d) Flour mills.	0.2%
3.	Motorcycle dealers registered under the Sales Tax Act, 1990	0.25%
4.	In all other cases.	1%

Part II

RATE OF ADVANCE TAX

The rate of advance tax to be collected by the Collector of Customs under section 148 shall be-:

S.No (1)	Person(s) (2)	Rate (3)
1.	(i) Industrial undertaking importing re-meltable steel (PCT Heading 72.04) and directly reduced iron for its own use; (ii) Persons importing potassic fertilizers in pursuance of Economic Coordination Committee of the cabinet's decision No. ECC-155/12/2004 dated the 9th December, 2004; (iii) Persons importing urea; and (iv) Manufacturers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31st December, 2011 dated the 31st December, 2011.	1% of import value as increased by customs-duty, sales tax and federal excise duty

2.	Persons importing pulses	2% of import value as increased by customs-duty, sales tax and
3.	Commercial importers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31st December, 2011	3% of import value as increased by customs-duty, sales tax and federal excise duty
4.	Ship breakers on import of ships	4.5%
5.	Industrial undertakings not covered under S. Nos. 1 to 4	5.5%
6.	Companies not covered under S. Nos. 1 to 5	5.5%
7.	Persons not covered under S. Nos. 1 to 6	6.6%

Part III

Div. I **Advance Tax on Dividend**

The rate of tax to be deducted under section 150 shall be-

(a) 7.5% in the case of dividends declared or distributed by purchaser of a power project privatized by WAPDA or on shares of a company set up for power generation or on shares of a company, supplying coal exclusively to power generation projects;

(b) 10% for filers other than mentioned in (a) above;

(c) 15% for non-filers other than mentioned in (a) above:

Provided that the rate of tax required to be deducted by a collective investment scheme or a mutual fund shall be-

	Stock Fund	Money market Fund, Income Fund or any other fund
Individual	10%	10%
Company	10%	25%
AOP	10%	10%

Provided further that in case of a stock fund if dividend receipts of the fund are less than capital gains, the rate of tax deduction shall be 12.5%

Div. IA **Profit on Debt**:

The rate of tax to be deducted under section 151 shall be 10% of the yield or profit for filers and 15% of the yield or profit paid, for non-filers:

Provided that for a non-filer, if the yield or profit paid is rupees five hundred thousand or less, the rate shall be ten per cent";

Div. III The legislature has proposed to enhance the rate of suppliers, service providers and contractors and has proposed rates are as under:

	Companies	Other than Companies	Sports persons
Suppliers	4%	4.5%	-
Service	8%	10%	-
Contractor	7%	7.5	10%

Div. IV **Exports**

The legislature has proposed to enhance the tax rate on export oriented services from 0.5 % to 1%.

Div. VIA **Petroleum Products**

The legislature has proposed to enhance the tax rate on commission on petrol pumps operators from 10 % to 12%.

Part IV

Div. II The legislature has proposed to enhance the tax rate on brokerage and commission from 10% to 12% and on advertising agent commission from 5 % to 7.5%

Div. III **(3)** in case of other private motor cars shall be as following

S No.	**Engine capacity**	**for filers**	**for non-filer**
(1)	**(2)**	**(3)**	**(4)**
1.	upto 1000cc	Rs. 1,000	Rs.1,000
2.	1001cc to 1199cc	Rs. 1,800	Rs. 3,600
3.	1200cc to 1299cc	Rs. 2,000	Rs.4,000
4.	1300cc to 1499cc	Rs. 3,000	Rs.6000
5.	1500cc to 1599cc	Rs 4,500	Rs 9,000
6.	1500cc to 1999cc	Rs. 6000	Rs.12,000
7.	2000cc & above	Rs. 12,000	Rs.24,000

(4) where the motor vehicle tax is collected in lump sum,

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

Div. V **Telephone Users**

in the case of subscriber of mobile telephone and pre-paid telephone card	14% of the amount of bill or sales price of pre-paid telephone card or sale of units through any electronic medium or whatever form

Div. VI The legislature has proposed to enhance the rate of tax on cash withdrawal for no-filers in a day exceeding Rs. 50,000

filers	non-filers
0.3%	0.5%

Div. VII

Engine capacity	for filers	for non-filer
upto 850cc	Rs.10,000	Rs.10,000
851cc to 1000cc	Rs.20,000	Rs.25,000
1001cc to 1300cc	Rs.30,000	Rs.40,000
1301cc to 1600cc	Rs.50,000	Rs.100,000
1601cc to 1800cc	Rs.75,000	Rs.150,000
1801cc to 2000cc	Rs.100,000	Rs.200,000
2001cc to 2500cc	Rs.150,000	Rs.300,000
2501cc to 3000cc	Rs.200,000	Rs. 400,000
Above 3000cc	Rs.250,000	Rs. 450,000

Div. X **Advance tax on sale or transfer of Immovable property**

filers	non-filers
0.5%	1%

Div. XI **Advance tax on functions and gatherings**

The legislature has proposed to reduced the rate of tax to be collected under sub-section (1) & (2) of section 236D from 10% to 5%

Div. XI **Advance tax on purchase of immovable property**

The rate of tax to be collected under section 236K shall be:-

S. No	Period	Rate of Tax
(1)	(2)	(3)
1.	Where value of Immovable property is up to 3 million.	0%
2.	Where the value of Immovable property is more than 3 million	Filer 1% Non-Filer 2%

Provided that the rate of tax for Non-Filer shall be 1% upto the date appointed by the Board through notification in official gazette.

Div. XIX **Advance tax on domestic electricity consumption**

The rate of tax to be collected under section 235A shall be-

(i) 7.5% if the amount of monthly bill is Rs.100,000 or more; and

(ii) 0% the amount of monthly bill is less than Rs.100,000.

Div. XX **Advance tax on international air ticket**

The rate of the rate of tax to be collected under section 236L shall be:

S. No.	Type of Ticket	Rate	
(1)	(2)	(3)	(4)
		Filers	Non-Filers
1.	Economy	0%	0%
2.	First/Business/Club class	3%	6%”

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AMENDMENTS MADE IN THE SECOND SCHEDULE

PART-I

Clause 57(3)(xiii):	The legislature has proposed to exempt income of Sindh Pension Fund.
Clause 58, 58A , 59 & 60:	The legislature has omitted these clauses for re-characterization
Clause 66:	The legislature has omitted sub-clause (v) and re-numbered the sub clauses by adding new sub clause (xxx) by giving exemption status to Green Star Social Marketing Pakistan (Guarantee) Limited.
Clause 81A, 88 A 92A ,93A & 135	The legislature has proposed to omit these redundant clauses.
Clause 99:	The legislature has added the proviso which restricts the distribution through bonus shares or units or certificates as the case may be.
Clause 126,126 A, 126H, & 132B:	The legislature has substituted clause 126, 126 A, 126 H & 132B in the following manner: ***(126)*** *Any income derived by a public sector university* ***(126A)*** *income derived by China Overseas Ports Holding Company Limited from Gwadar Port operations for a period of twenty years, with effect from the sixth day of February, 2007.*

(126H) *Profits and gains derived by a taxpayer, from a fruit processing or preservation unit set up in Balochistan Province, Malakand Division, Gilgit-Baltistan and FATA between the first day of July, 2014 to the thirtieth day of June, 2017, both days inclusive, engaged in processing of locally grown fruits, for a period of five years beginning with the month in which the industrial undertaking is set up or commercial production is commenced, whichever is later.*

(132B) *Profits and gains derived by a taxpayer from a coal mining project in Sindh, supplying coal exclusively to power generation projects.*

PART-II

Clause 3: The legislature has redefined the clause by adding construction contracts

Clause 3A, 9B 9C, 13E 13HH, 13HHH & 17 The legislature has proposed to omit these redundant clauses.

Clause 18A: The legislature seeks to insert concession for industrial undertaking for a period of five years if 50% of the cost of the project is through owner equity Foreign Direct Investment. The rate of tax for the said industrial undertaking will be 20%. The said clause is reproduce as under:

(18A) The rate of tax as specified in Division II of Part I of the First Schedule shall be reduced to 20% for a company setting up an

industrial undertaking between the first day of July, 2014 to the thirtieth day of June, 2017, for a period of five years beginning from the month in which the industrial undertaking is set up or commercial production is commenced, whichever is later:

Provided that fifty percent of the cost of the project including working capital is through owner equity foreign direct investment.

Clause 19, 20, 23, 24, 24B, 26, 29, & 30

The legislature has omitted these redundant clauses.

PART-III

Clause 1

The legislature has proposed to enhance the tax rates on total allowances received by pilots in excess of basic pay form 2.5% to 7.5% by inserting clause 1AA. The same is reproduced as under:

(1AA) Total allowances received by pilots of any Pakistani airlines shall be taxed at a rate of 7.5%, provided that the reduction under this clause shall be available to so much of the allowances as exceeds an amount equal to the basic pay.

Clause 5,7,8,9, 10, 11,12, 13, 14 &15

The legislature has proposed to omit these clauses.

PART-IV

Clause 9A & 9AA

The legislature has proposed to insert the following clauses which are reproduced as under:

(9A) *Provisions of clause (a) of sub-section (1) of section 153, shall not apply to steel melters , steel re-rollers , composite steel units, as a payer, in respect of purchase of scrap, provided that tax is collected in accordance with section.*

(9AA) *Provisions of clause (a) of sub-section (1) of section 153, shall not apply to ship breakers as recipient of payment:*

Provided that this clause shall only apply for ships imported after the 1st July 2014.

Clauses 10, 10A, 38B, 41A, 41AA. 41AAA, 41B, 80, 84, 85, 87 & 88

The legislature has proposed to omit these clauses.

Clause 56B, 56C, 56D, 56E, 56F & 56G

The legislature has proposed to insert Clause 56B, 56C, 56D, 56E, 56F & 56G. This amendment we reiterate our comments of Finance Bill 2012 that genuine taxpayer cannot take the benefit of to opt out from PTR regime without greasing the wheel of the system, however if the Govt. really want to implement this option it needs to be properly observe so the fruit of the amendment will reach to the taxpayer. The said inserted clauses are reproduced as under:

(56B) *The provisions of sub-section (7) of section 148, and clause (a) of sub-section (1) of section 169 shall not apply to a person being a commercial importer if the person opts to file return of total income along with accounts and documents as may be prescribed, subject to the condition that minimum tax liability under normal tax regime shall not be less than 5.5%, of the imports, if the person is a company and 6% otherwise.*

(56C) *The provisions of sub-section (3) of section 153, in respect of sale of goods and clause (a) of sub-section (1) of section 169 shall not apply to a person, if the person opts to file return of total income along with accounts and documents as may be prescribed subject to the condition that minimum tax liability under normal tax regime shall not be less than 3.5% of the gross amount of sales, if the person is a company and 4% otherwise.*

(56D) *The provisions of sub-section (3) of section 153, in respect of contracts and clause (a) of sub-section (1) of section 169 shall not apply to a person if the person opts to file return of total income along with accounts and documents as may be prescribed subject to the condition that minimum tax liability under normal tax regime shall not be less than 6% of contract receipts, if the person is a company and 6.5% otherwise.*

(56E) *The provisions of sub-section (2) of section 153 and clause (a) of sub-section (1) of section 169 shall not apply in respect of a person if the person opts to file return of total income along with accounts and* *documents as may be prescribed subject to the condition that minimum tax liability under normal tax regime shall not be less than 0.5% of gross amount of services received.*

(56F) *The provisions of sub-section (2) of section 156A and clause (a) of sub-section (1) of section 169 shall not apply in respect of a person if the person opts to file return of total income along with accounts and documents as may be prescribed, subject to the condition that minimum tax liability under normal tax regime shall not be less than 10% of the commission or discount received.*

(56G) *The provisions of sub-section (3) of section 233 and clause (a) of sub-section (1) of section 169 shall not apply in respect of a person if the person opts to file return of total income along with accounts and documents as may be prescribed, subject to the condition that minimum tax liability under normal tax regime shall not be less than 10% of the commission.*

Clause 57

The legislature has proposed to clarify the ambiguity by adding the following explanation:

Explanation.- For the removal of doubt, exemption under this clause, in respect of section 153, shall only be available as a recipient and not as withholding agent

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AMENDMENTS MADE IN THE THIRD SCHEDULE

Following amendment is proposed in Part II of the Third Schedule:

Clause (1): It is proposed that rate of initial allowance under section 23 shall be reduced to 10% for buildings.

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AMENDMENTS MADE IN THE SEVENTH SCHEDULE

Following amendment is proposed in the Seventh Schedule:

Rule 6, 6A & 6B (i) for the words “income under the head “Dividend” and” the words “net income from “Dividend” and net income from” shall be substituted; and

(ii) for the words “per cent”, the words “and twelve and a half, respectively” shall be substituted; and

“ 6A. For the purpose of rule 6, net income from dividend shall be computed according to the following formula, namely:-

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

where-

A is the total amount of expenditure as per this Schedule;

B is the gross amount of dividend received; and

C is the gross amount of receipts including dividend.

6B. For the purpose of rule 6, net income from capital gains shall be computed according to the following formula, namely:-

$(A/C) \times B$

where-

A is the total amount of expenditure as per this Schedule;

B is the gross amount of capital gains; and

C is the gross amount of receipts including capital gains.

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HIGHLIGHTS (SALES TAX)

- Rationalization of sales tax on steel sector, ship breakers and steel-melters operating in the sugar mills
- Retailers are categorized in accordance with their place of business, mode of payment & consumption of electricity.
- Certain condition has been imposed for allowbility of input tax to the extent of goods and services actually used in manufacturing/sales of the taxable activity.
- Capacity tax scheme reverted to normal tax regime
- Electronic scrutiny system has been introduced.
- Further tax is not adjustable.
- Implication of SRO become the part of relevant schedules of the Sales Tax Act
- Exemption to high efficiency irrigation and green house farming equipment
- Rate of Sales Tax on local supply of tractors reduced
- Exemption from sales tax to import and supply of Hearing Aids.

- Exemption on import of plant, machinery and equipment to setup industrial units in less developed regions.

- SRO 69(I)/2006 dated 28.06.2006 resend, rapeseed, sunflower seed and canola seed are now subject to standard rate of sales tax (17%).

- Specific rates on mobiles phones.

- Enhance the power under section 40 of the Sales Tax Act, 1990.

- Redefine the rate of sales tax on CNG stations.

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AMENDMENTS IN THE SALES TAX ACT, 1990

Section 2 Seeks to insert proviso after clause 27 to give power to board to specify zones or areas for the purpose of determining the highest retail price of any brand or variety of goods.

Section 3 Seeks to insert clause aa in sub section 2 of section 3 whereas Eight Schedule has been introduced for goods which are subject to reduce rate of tax through different SROs.

Section 3 Seeks to insert sub- section 3B whereas Ninth Schedule has been introduced for rate of sales tax in respect of cellular mobile phones

Section 3 Seeks to substitute sub-section 8 of section 3. The amended sub-section is as under:

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

Section 3 Seeks to insert sub-section 9. The newly inserted sub-section is as under:

(9) Notwithstanding anything contained in sub-section (1), tax shall be charged from retailers through their monthly electricity bills, at the rate of five per cent where the monthly bill amount does not exceed rupees twenty thousand and at the rate of seven and half per cent where the monthly bill amount exceeds the aforesaid amount,

subject to the exclusions, procedure, restrictions and limitations as prescribed in Chapter II of the Sales Tax Special Procedure Rules, 2007:

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

The aforesaid amendment is to document the retail sector, however the finance minister in his speech has mention two tier of retail outlets but no relevant amendment is made in respect of the first tier i.e. retailer of National & International Chains, Retailers located in air-condition malls, retailer having debit and credit machines.

We proposed the relevant amendment should be incorporated in Finance Act to avoid in-equality in retail sector.

Section 3B Seeks to substitute sub-section 2 of section 3B. The substituted sub-section is as under:

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

The proposed amendment is to restrict the constitutional power of the court and the Court may take serious recourse of this amendment, we propose that the said sub-section should be rephrased otherwise will be struck down by the Court.

Section 7 Seeks to insert clause (iiia) in sub-section (2) of section 7. The newly inserted clause is reproduced below.

"(iiia) the goods and services against which input tax is claimed are,-

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

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

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

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

Section 8 Seeks to insert new clauses in sub-section 1 to restrict the claim of input tax. The newly inserted clauses are reproduced below.

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

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

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

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

Section 40B Seeks to add explanation in section 40B after the proviso, the newly added explanation is as under:

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

Section 50B Seeks to insert new section 50B, the newly inserted section is as under:

50B. Electronic scrutiny and intimation.- *(1) The Board may implement a computerized system for the purpose of automated scrutiny, analysis and cross-matching of returns and other available data relating to registered persons and to electronically send intimations to such registered persons about any issue detected by the system.*

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

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

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

Fifth Schedule	Seeks to enhance the list of items by transposition of different SROs.
Sixth Schedule	Seeks to enhance the list of items by transposition of different SROs.

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AMENDMENTS IN THE FEDERAL EXCISE ACT, 2005

- Board empowered to specify zones or areas for the purpose of determining the highest retail price of any brand or variety of goods.

- The rate of Federal Excise Duty on cigarettes enhanced.

- Federal Excise Duty on the cement is redefined from 400 per MT to 5% on retail price.

- Federal Excise Duty on International Travel enhanced for economy and economy plus from Rs. 3,840/- to Rs. 5,000/- and for club, business and first class from Rs. 6,840/- to 10,000/-.

- Federal Excise Duty on chartered flights introduced at the rate of 16%.

- Federal Excise Duty on locally manufactured motor vehicle withdrawn.

- Federal Excise Duty on Telecommunication services reduced to 18.5%, excluding the services taxed by the provinces.

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AMENDMENTS IN THE CUSTOMS ACT, 1969

- Regulatory duty levied on luxury items.
- Maximum general tariff rate of 30% reduced to 25%.
- Customs duty on UPS (PCT code 8504.4010) reduced from 20% to 15%to provide relief to general public.
- Customs duty on petroleum coke not-calcined (PCT code 2713.1100) decreased from 5% to lowest slab of 1% to reduce input costs for manufacturing concerns.
- Exemption of duty and taxes on Hybrid Electric Vehicles (HEVs) rationalized: HEVs upto 1800 cc granted 50% exemption of duty and taxes and above 1800 cc granted 25% exemption of duty and taxes.
- Substitution of 0% duty slab with 1% customs duty in Tariff. Socially sensitive items continued at 0% in new Fifth Schedule to the Customs Act.
- Customs duty on networking equipments increased from 5% to 10%.
- Fixed amounts of duty and taxes on used vehicles revised upward by 10% approximately.
- Customs duty on flat-rolled products of alloy steel (PCT codes 72.25 and 72.26) increased from 0 and 5% to 10% to bring them at par with flat-rolled products of non-alloy steel.

- Customs duty @ 5 % levied on import of generators above 1100 KVA (PCT code 8502.1390).
- A uniform rate of 15% customs duty levied on dyes except basic dyes (3204.1300) and indigo blue dyes (3204.1510) being used in textile sector.
- A uniform rate of 10% customs duty on all kinds of CDs/DVDs of PCT codes 8523.4000 levied.
- Customs duty on flavouring powders (PCT code 2106.9030) enhanced from 10% to 20% to avoid misclassification
- A uniform rate of 10% levied on Liquid paraffin (PCT code 2710.1995) and White oil (PCT 2710.1996) being same in nature.
- Customs duty on dryers (PCT code 8421.1900) increased from 5% to 10%.
- A uniform rate of 15% levied on starches (PCT code 11.08) to rationalize duty structure and avoid classification disputes.
- Customs duty on coloring matters (PCT code 3206.4990) enhanced from 5% to 10% to reduce the chance of misclassification.
- Customs duty on Satellite mobile phones whether or not functional on cellular networks (PCT code 8517.1230) reduced from 25% to 10%.

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