

# BUDGET MEMORANDUM 2015



***ILYAS SAEED & Co***  
*Chartered Accountants*

## SUMMARY OF PROPOSED CHANGES IN FEDERAL BUDGET

### *Finance Bill 2015 - 16*

This Memorandum has been prepared as a general guide for the benefits of our clients and is available to other interested persons. This is not an exhaustive commentary and only lays out interpretations of the significant amendments proposed by the Finance Bill 2015 and takes into consideration important aspects of the changes proposed to be made.

It is recommended that the text of the Bill and the relevant notifications / provisions, where applicable, be referred to in considering the interpretation of any provision. These comments are correct to the best of our knowledge and belief at the time of printing. It is recommended that specific professional advice should be sought before any action is taken.

This Budget Memorandum can be downloaded from our web site;  
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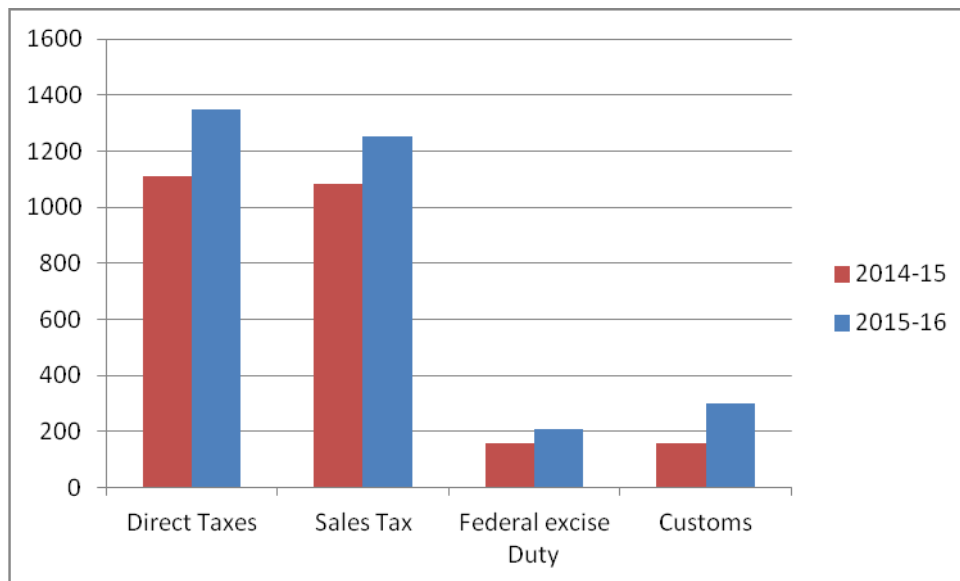
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# OVERVIEW of BUDGET

Target FY: 2014-15 and FY: 2015-16

Tax Head	2014-15	2015-16
Direct Taxes	1109.0	1347.9
Sales Tax	1082.0	1250.3
Federal excise Duty	159.0	206.4
Customs	159.0	299.1
<b>Total</b>	<b>2605.0</b>	<b>3103.7</b>



**Aggregate of revenue effect from taxation measures:**

S. No.	Tax Description	Revenue Effect		Net Effect
		(+)	(-)	
1	Customs Duties	56,600	14,650	41,950
2	Sales Tax & Federal Excise	58,060	4,060	54,000
3	Income tax	152,750	10,500	142,250
	<b>Sub total:</b>	267,410	29,210	
	<b>Total Net Revenue Impact</b>			<b>238,200</b>
	<b>Revenue through Administrative measures</b>			<b>15,000</b>
	<b>Grant Total</b>			<b>253,200</b>

# SALIENT FEATURES

## Of The Budget 2015

### INCOME TAX

#### BRIEF SUMMARY

- ✓ Slabs have been increased with change in tax rate between Rs.400,000 to Rs.500,000/- for Salary and Business income.
- ✓ Company Tax Rate has been reduced to 32%
- ✓ Non-filer categories have been introduced in almost all the withholding charging sections.
- ✓ Definition of Consumer goods & Fast moving Consumer goods have been introduced
- ✓ New definition has been inserted to define REIT Regulations 2015
- ✓ Definition of Imputable Income has been inserted
- ✓ Definition of income has been enhanced including "Bonus shares issued by companies not quoted on stock
- ✓ Scope of Small Company has been enhanced with 'Paid up Capital and Undistributed Reserves' to the limit of Rs.50 Million.
- ✓ Introduction of one time super tax for the tax year 2015 for rehabilitation of IDPs on higher income earners exceeding Rs.500 Million
- ✓ Imposition of new tax @ 10% on the undistributed reserves other than statutory reserves of all public companies (other than banks and modarabs) which exceeds their paid up capital.
- ✓ Inclusion of Shipping business of resident persons in the presumptive taxation by June 30, 2020
- ✓ New Tax rates for Profit on Debt yields have been introduced
- ✓ Allowance of 6% Administrative expenditure against the rental income
- ✓ Tax rates for Capital Gains on securities have been enhanced
- ✓ Tax exemption on Capital gains on securities where holding exceeds four years
- ✓ The amendment in second schedule for the purposes of exemption and concession only by the approval of the Economic Coordination Committee of Cabinet
- ✓ Tax Credit limit for resident person other than a company has been enhanced from Rs. 1,000,000 to Rs. 1,500,000
- ✓ Insertion of new section to allow 'deductible allowance' on profit on debt
- ✓ Tax Credit incentive for new manufacturing concerns who employ 50 or more than 50 employees, duly registered with EOBI and Social Security Department.
- ✓ Insertion of new section to allow credit against presumptive tax and against minimum tax to member of AOP.
- ✓ Tax credit for enlistment on stock exchange is enhanced from 15% to 20%
- ✓ Tax credit for installation of new plant or machinery for a period of five years
- ✓ Dividend paid by all the companies is now taxable under section 5
- ✓ Clarification on tax credit allowed on the 'income of non-profit organization'

- ✓ Insertion of new sub section to enhance the power of Board for automatic exchange of information to avoid double taxation
- ✓ Minimum tax on Builders have been abolished up to June 30, 2018
- ✓ Minimum tax on Land Developers @ 2% of the value of land notified by any authority for the purpose of stamp duty
- ✓ Conditions for Filing of revised return have been relaxed if the revised return is filed within 60 days from the filing of return
- ✓ Scope of “best Judgment Assessment” has been widen with inclusion of Special Audit Panel appointed by the Board
- ✓ Period of Stay granted by Commissioner (Appeals) is further extended to 30 days for recovery of tax subject to passing of Appellate order within these 30 days
- ✓ Period of payment of tax after the assessment order has been extended from 15 to 30 days.
- ✓ In case of Provisional assessment, the period of 60 days to make the payment of tax has been reduced to 45 days.
- ✓ Change in the procedure and estimation of advance tax
- ✓ Powers of Board have been abolished to grant exemption to any goods or class of persons importing the goods.
- ✓ Insertion of new section to charge tax @ 2% on the manufacturers of cooking oil or vegetable ghee, or both.
- ✓ Insertion of section 5A (un-distributable reserves) and proposed exclusion of the same from the preview of final tax regime u/s 151 profit on debt.
- ✓ Payment without deduction of tax or deduction of tax at a reduced rate to the permanent establishment of non-resident person in Pakistan subject to approval by Commissioner
- ✓ Tax withheld against services is an adjustable tax (w.e.f. T.Y 2009) for companies and shall be minimum tax for all other taxpayer.
- ✓ Payments to sports persons under contract shall be treated as final tax with effect from tax year 2013 irrespective of resident or non-resident status
- ✓ Option for all the exporters to pay tax as minimum tax instead of Final tax for irrevocable period
- ✓ Powers of Board to amend the rate of withholding tax or declaring exempt the person or class of persons or goods or class of goods for withholding tax has been abolished
- ✓ Rate of default surcharge in case of non-deduction of withholding tax is proposed to be reduced from 18% to 12%
- ✓ Insertion of new section to enhance the obligation of banks and financial institution to furnish the information
- ✓ Inclusion of word “paid” with the word ‘Collected’ under Section 148A
- ✓ Tax paid or collected against imports or tax on local purchase of cooking oil or vegetable ghee shall be treated as final tax.
- ✓ Reduction in the rate of additional tax payment from 15% per annum to the rate of KIBOR plus 0.5%
- ✓ For ‘Avoidance of Double Taxation Treaty’, power of Commissioner to require information has been extended.
- ✓ Power of Special Audit panel to enter the business premises of a taxpayer to obtain any information, record etc.



- ✓ Power of Special Audit Panel to conduct the audit of income tax affairs
- ✓ From Tax year 2015 and onwards, use of CNIC as NTN
- ✓ Reduction in minimum penalty from Rs.50,000 to Rs.10,000 in case of non- furnishing of statement u/s 165
- ✓ Change in penalty of Rs.100 to higher of "0.1% of the taxable income per week or Rs.20,000/- in case of non- furnishing of Wealth Statement & Wealth Reconciliation Statement
- ✓ Correct placement of penalty from section 187 to 182 on furnishing of misleading statement
- ✓ Reduction in the rate of default surcharge from 18% to 12% in case of non-payment of outstanding taxes
- ✓ Immunity from audit selection for retailers registered under Sales Tax Special Procedure upon fulfilling the certain conditions
- ✓ Insertion of the term whistleblower
- ✓ Exemption of advance tax on cash withdrawal to Government, A foreign diplomat or Diplomatic Mission and to the holder of certificate issued by the commissioner has been withdrawn
- ✓ Increase in the Cash withdrawal withholding tax for non-filer from 0.5% to 0.6%.
- ✓ Cash withdrawal withholding tax for Exchange Companies @ 0.15%
- ✓ Withdrawal of Exemption for non-deduction of advance tax in respect of inter-bank or intra-bank transfers and purchase of financial instruments through Cross cheques
- ✓ Tax @ 0.3% for filer and 0.6% for non-filer against sale of any instrument in cash.
- ✓ Substitution of the word "vehicle" to the word "car or jeep" to widen the scope of advance tax on private motor vehicles
- ✓ Introduction of the term first registration for advance tax collection on transfer of vehicles
- ✓ Amendment in the rates of advance tax on transfer of vehicles for both filers and non-filers
- ✓ Enhancement of Brokerage and Commission rates for both filer and non-filers
- ✓ Reduction in the rates of advance tax for filers at the time of motor vehicle tax by E & T Department.
- ✓ Enhancement in the rate of advance tax for non-filers at the time of motor vehicle tax by E & T Department.
- ✓ Reduction in the limit of Domestic Electricity bill from Rs. 100,000/- to Rs.75,000/- per month for charging of advance tax @ 7.5%.
- ✓ Charging of advance tax on Subscriber of Internet and Prepaid Cards of Internet @ 14%
- ✓ Exemption from advance tax on the routes of Baluchistan Costal Belt, Azad Jammu & Kashmir, FATA, Gilgit Baltistan and Chitral. Further, exemption available to Government and Other persons holding exemption certificates has been withdrawn.
- ✓ Enhancement in the rate of advance tax for fertilizer from 0.2% to 0.7% in case of filers and from 0.4% to 1.4% to non-filer
- ✓ Exclusion of sale of fertilizer from the preview of advance tax
- ✓ Exemption from advance tax in case of payment by non-resident person to educational institution on fulfilling of certain condition
- ✓ Amendment in the rate of advance tax on international air tickets

- ✓ Advance tax @ 0.6% where the sum of total of all transactions exceeds Rs.50,000/- a day on every banking transaction
- ✓ Tax @ 10% on the amount of payment against the use of equipment or rental income
- ✓ Tax @ 5% of the amount on all expenses remitted abroad in relation to educational purposes
- ✓ Imposition of tax on payment of dividend in specie
- ✓ Introduction of term Pakistan Mercantile Exchange Limited with obligation to collect advance tax @ 0.1% on all the transactions

### Relief Measures

- ✓ Reduction in Tax Rate for Companies: Continuing with the policy of reducing corporate tax rates, the rate is being further reduced to 32% for Tax Year 2016.
- ✓ Exemption to Electricity Transmission Projects for a period of 10 years, provided that the project is set up by June, 2018.
- ✓ Tax Credit for new investment in shares: To encourage saving and investment in new companies quoted on stock exchange the limit for individual investors is being enhanced to 1.5 million.
- ✓ Tax Credit for Enlistment: At present, a 15% tax credit is available to a company, if it opts for enlistment in any registered stock exchange in Pakistan. To encourage enlisting of companies on stock exchange, the credit is being enhanced to 20%.
- ✓ Reduction in Withholding Tax On Token Tax and Transfer of Vehicles.
- ✓ Expanding the Scope of Small Company: The limit of capital at Rs 25 million for qualifying as a small company is proposed to be enhanced to Rs 50 million.
- ✓ Relief to Small Taxpayers: Salaried taxpayers earning taxable income from Rs 400,000 to Rs 500,000 are chargeable to tax at a rate of 5%. To provide relief to this class the rate of tax is proposed to be reduced to 2%. Non-Salaried individual taxpayers and Association of Persons earning taxable income from Rs 400,000 to Rs 500,000 are chargeable to tax at a rate of 10%. To provide relief to these taxpayers the rate of tax is proposed to be reduced to 7%.
- ✓ Option to Exporters to Opt Out of the Final Tax Regime

### Revenue Measures

- ✓ Change in Rate of Tax and Taxable Holding Period for Securities: The rates for capital gains tax on securities are being fixed as under:
  - Held upto a period of 24 months: 15%
  - Held upto a period from 12 months to 24 months: 12.5%
  - Held upto a period from 2 years to 4 years: 7.5%

- ✓ Increasing Cost of Non-Compliance with Tax Laws: The scope of the distinction between a compliant and non-compliant taxpayer by prescribing higher withholding tax rates for those not filing income tax returns.
- ✓ Adjustable advance income tax on banking instruments and other modes of transfer for Non-Filers: Adjustable advance income tax at the rate of 0.6% of the amount of transaction is proposed to be collected on all banking instruments and other modes of transfer of funds through banks in the case of persons who do not file Income Tax returns.
- ✓ Rationalizing Tax Rates for Various Sources of Banking Companies: Presently, tax rate of 35% is applicable to banking companies from all sources except income from dividend and income from capital gains. Rate differential for different sources is proposed to be removed.
- ✓ Taxation of Dividend: The present rate of tax of 10% on dividend income is on the lower side as compared to most other countries. It is proposed that the rate be increased to 12.5%. Consequently, in case of non-filers the rate of tax is proposed to be increased from 15% to 17.5% of which 5% shall continue to be adjustable. For Mutual Funds the existing rate of 10% shall continue.
- ✓ Domestic Electricity Consumption: Due to substantial reduction in electricity prices it is proposed that the threshold of deduction of withholding tax on electricity consumption be reduced from Rs 100,000 to Rs. 75,000.
- ✓ Renting Out Machinery and Certain Equipments: At present there is no withholding tax on either use or right to use of commercial, industrial and scientific equipment or on renting out of machinery. It is proposed that a 10% withholding tax be imposed on renting out machinery and for use or right to use commercial, scientific or industrial equipment, in case of residents also, and be treated as final tax liability.
- ✓ Holders of Mutual Funds and dividend be subjected to same tax rates.
- ✓ Taxation for Not Distributing Dividend: In order to encourage public listed companies to distribute dividend which would encourage investment in stock markets, it is proposed that in the case of a listed company other than a scheduled bank or a modaraba, which does not distribute cash dividends within six months of the end of the said income year or distributes dividends to such an extent that its reserves, after such distribution, are in excess of hundred percent of its paid up capital, the excess amount may be taxed at the rate of 10%.
- ✓ Revenue for Rehabilitation of Temporarily Displaced Persons: To meet enhanced revenue needs for the rehabilitation of Temporarily Displaced Persons, it is proposed to levy a one-time tax on the affluent and rich individuals, association of persons and

companies earning income above Rs. 500 million in tax year 2015 at a rate of 4% of income for banking companies and 3% of income for all others.

- ✓ Payments in respect of advertisement expenses to print/electronic media: It is proposed that exemption from withholding tax on payments to electronic and print media in respect of the advertising services may be withdrawn.
- ✓ Reduced rate for cash withdrawals by exchange companies: It is proposed that on cash withdrawals by exchange companies may be subject to withholding tax at a reduced rate of 0.15% instead of being exempt.
- ✓ Rate of tax on commission to advertising agencies: Withholding tax at the rate of 12% as is applicable to commission agents, however, tax on commission of advertising agencies is withheld at a reduced rate of 7.5%. It is proposed that this rate be increased to 10%.

## **SALES TAX & FEDERAL EXCISE**

The budgetary measures pertaining to Sales Tax & Federal Excise are primarily aimed at:

- ✓ Rationalization of sales tax on steel sector melters, re-rollers and , ship breakers
- ✓ The rate of further tax for supplies to unregistered persons is being enhanced to 2%.
- ✓ Increase in the rate of sales tax on mobile phones to Rs. 300, 500 and 1000, from Rs. 150, 250 and 500, respectively, depending on features in the mobile set.
- ✓ Restricting zero-rating on dairy products to milk only baby formula.
- ✓ Enhancement of rates of Federal Excise Duty on locally produced cigarettes. Average tax incidence to increase from 58% to 63%
- ✓ The rate of Federal Excise Duty on aerated waters is being enhanced from 9% to 12% of retail price.
- ✓ Certain services to be added in the Islamabad Capital Territory in order to align the taxation regime on services with that being followed by the provinces.
- ✓ Exemption of sales tax on local supply of raw hides and skins to be granted as under the existing provisions of law.
- ✓ Sales Tax Rules regarding temporary registration are being introduced to facilitate the importers-cum-manufacturers.

- ✓ The electronic monitoring system is proposed to be introduced to monitor the production of specified sectors i.e. cigarettes, beverages, cement, fertilizer and sugar; and also to monitor the sales of restaurants etc.
- ✓ The limit of utility bills for cottage industry is being enhanced from 700,000 to 800,000 rupees for the promotion of cottage industry.
- ✓ Sales tax exemption on appliances for colostomy, colostomy / urosotomy bags and tubular daylight devices is being granted.
- ✓ Input tax adjustment on Pre-fabricated buildings being allowed.
- ✓ The provisions of temporary registration being inserted in the Sales Tax Rules, 2006, whereby a manufacturer shall be able to import machinery etc. without having to wait for completion of procedural formalities
- ✓ The refund on monthly basis to be allowed to persons making reduced rate supplies under SRO 1125(I)/2011 dated 31.12.2011.

### Broad Principles of Taxation Proposals

The proposals for the budget 2015-16 are mainly based on the following principles:-

- ✓ Least burden on poor and middle class
- ✓ Second phase of withdrawal of exemptions to further eliminate discriminatory tax exemptions and concessions.
- ✓ iii. Expand the scheme of differential taxation for filers and nonfilers for penalizing noncompliance without adding any further burden on the compliant.
- ✓ Customs tariff be rationalized to reduce both the number of slabs and the maximum duty rate.
- ✓ Reviewing tax laws and procedures to cut down on discretion.
- ✓ Removal of sectoral distortions in domestic taxes.
- ✓ Measures for broadening of the tax base and documentation of economy.
- ✓ Increasing the share of the direct taxes.

## **SPECIAL RELIEF PACKAGES:**

### **AGRICULTURE PACKAGE**

**a. Tax Holiday for Agricultural Delivery Chain:** Income Tax Holiday for 3 years is being introduced for new industrial undertakings engaged in (i) setting up and operating cold chain facilities, and (ii) setting up and operating warehousing facilities for storage of agriculture produce.

**b. The exemption for 4 year for Halal' Meat Production Companies** which set up 'halal' meat production plant and obtain 'halal' certification by 31st December 2016

**c. Relief to Rice Mills:** In order to provide relief to Rice Mills suffering from low global demand, exemption from minimum tax for the Tax Year 2015 is being granted.

**d. Exemption on Supply of Fish:** Exemption from withholding tax on supply of agricultural produce is to be extended to supply of fish.

**e. Import and Local Supply of Agricultural Machinery and Equipment:** In order to promote farm mechanization and enhance productivity nonadjustable sales tax at reduced rate of 7%, instead of existing rate of 17% is being imposed.

**f. Import of Agricultural Machinery:** At present Customs duty, Sales Tax and withholding tax on import of agricultural machinery in aggregate ranges from 28% to 43%.

Customs Duty, Sales Tax and Withholding Income Tax are being cumulatively reduced to 9% as under:

- i. Customs duty from existing rate of 5-20% to 2%;
- ii. Sales Tax from 17% to non-adjustable Sales Tax at 7%; and
- iii. WHT from 6% to 0%

**g. Interest Free Loans for Solar Tube Wells:** In order to facilitate the small growers and to reduce heavy expenditure incurred on diesel/electricity tube wells interest free loans of upto Rs.1 Million for setting up new solar tube wells or replacing the existing tube wells with solar tube wells shall be provided .

### **PACKAGE FOR CONSTRUCTION/HOUSING SECTORS**

**a. Housing Credit:** Mark-up on housing loans obtained by individuals from banks and other institutional lenders for construction or buying a house to be allowed as a deduction against income up to 50% of taxable income or Rs. 1 million.

#### **b. Suspension of Minimum Tax on Builders:**

The minimum tax on builders leviable for the business of construction and sale of residential and other buildings is being suspended for a period of three years.



**c. Real Estate Investment Trust (REIT) Development Schemes:**

- i. Capital Gains of any person who sells a property to a REIT development scheme formed for the development of housing sector will be exempt from Income Tax up to 30.6.2018.
- ii. If a development REIT Scheme for the development of housing sector is set up by 30.6.2018, for the first three years the rate of Income tax chargeable on dividend income of such REIT shall be reduced by 50%.

**d. Bricks and crushed stone:** Supply of bricks and crushed stone will be exempted from Sales Tax for three years up to 30.6.2018.

**e. Reduction in customs duty on import of Construction Machinery:** On import of construction machinery in used condition by the Construction Companies registered with Pakistan Engineering Council and SECP, the Customs Duty is reduced to 10%.

**INCENTIVE PACKAGE FOR MANUFACTURING:**

**a. Employment Credit to Manufacturers:** If a company, being a manufacturer, set up during next three years and employs more than 50 employees duly registered with Social Security and Employees Old Age Benefit Institution an employment tax credit equal to 1% of the income tax payable for every 50 employees shall be provided to the company, subject to a maximum of 10%.

**b. Exemption to Greenfield Projects:** On demand of various investors and business community, this exemption is being extended up to 30th June, 2017.

**c. Domestic Production of Solar and Wind Energy Equipment Manufacturing:** Exemption from income tax for 5 years is being granted to industrial undertaking engaged in the manufacturing of equipment, plant and items required to produce solar and wind energy.

**INCENTIVES FOR AVIATION SECTOR**

**a. Exemption from Customs Duty and Sales Tax:** It is proposed that Customs Duty, sales tax and withholding tax in respect of various items used in Aviation Sector may be reduced to zero subject to certain conditions:

**b. Remote Area Routes:** Infrastructure connectivity with major economic hubs is key to economic development of a region. Some areas of the country having great economic potential are however located far from existing major economic routes. In order to open up remote areas through aviation links it is proposed that air routes in Gilgit Baltistan, Makran Coastal belt, Azad Jammu and Kashmir, Chitral and FATA be exempted from payment of FED and withholding tax.

## **RELIEF MEASURES FOR KHYBER PAKHTUNKHWA**

In order to revive the economy of Khyber Pakhtunkhwa and to provide relief to the people, the following measures are being taken:

- a) Five years Income Tax holiday on all new manufacturing units set up in KP between 1-7-2015 and 30-6-2018.
- b) Exports of perishable goods namely fruits, vegetables, dairy products and meat shall be allowed against Pak currency instead of dollars w.e.f. 1-7-2015.
- c) Quota for ghee and vegetable oil under DTRE for export to Afghanistan and Central Asia is being enhanced from 1000 Metric Ton per 90 days to 1000 Metric Ton per month.
- d) The legacy issues regarding minimum tax payable on turnover under the previous KP package available for tax years 2010 to 2012 shall be resolved.

## **REVIEW OF CONCESSIONARY REGIME (SROS):**

Concessionary regime under various SROs and Schedules are being reviewed. Minimally utilized concessions are being withdrawn. Socially sensitive concessions retained. Remaining concessions either withdrawn or continued on enhanced rates. Total impact of these measures is Rs. 132 B.

## **LEGISLATIVE CHANGES:**

To curb the menace of under invoicing, specific penal provision introduced for ensuring compliance of mandatory condition of invoice and packing list.

*(Source FBR)*



# INCOME TAX ORDINANCE, 2001

*Brief comments on the significant proposed amendments in Income Tax Ordinance, 2001 are;*

## Amendments / Insertions in Definitions

## Section 2

### Consumer Goods

Definition of consumer goods has been inserted to clarify the end consumers.

#### Section 2(13AA)

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

#### Section 2(22A)

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

### Real Estate Investment Trust Scheme

New definition has been inserted to define REIT Regulations 2015 which were promulgated by SECP under Companies Ordinance to replace earlier REIT Regulations promulgated in 2008. Consequently, relevant sub sections have also been changed to correlate the change.

#### Section 2(17D)

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

#### Section 2(47A)

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

#### Section 2(47C)

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

### Imputed Income

Imputed income has explicitly been defined and clarified which had always been a subject matter of adjudication. Now it is clarified that in FTR cases, the income credit cannot be taken more than the proportionate income which would have been earned under normal taxation.

#### Section 2(28A)

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

Bonus Shares by companies not quoted on Stock Exchange

**Income**

**Section 2(29)**

The scope of definition of income has been enhanced, Bonus shares issued by quoted companies was treated and included in definition of income by Finance Act 2014. However, now it is proposed that the Bonus shares by companies not quoted on stock exchange also be inserted in the definition of income.

Earlier, Tax @ 5% was imposed by insertion of section 236N by Finance Act 2014 on the issuance of Bonus Shares by companies not quoted on stock exchange. However, this matter was subject to adjudication due to non inclusion of section 236N in the definition of income under section 2(29). By virtue of this, bonus shares issued by companies not quoted on stock are taken in the definition of income to avoid any adjudication.

**Small Company**

**Section 2(59A)**

The concept of Small Company was inserted by Finance Act 2005 with reduced corporate tax rate @ 25%. The scope of Small Company has been enhanced whereby earlier small company ‘Paid up Capital and Undistributed Reserves’ were to the limit of Rs.25 Million. Now it is proposed to enhance the same to the limit of Rs.50 Million.

All other condition for a small company remain the same as;

- (i) has paid up capital plus undistributed reserves not exceeding FIFTY million rupees;
- (ia) has employees not exceeding two hundred and fifty any time during the year;
- (ii) has annual turnover not exceeding two hundred and fifty million rupees; and
- (iii) is not formed by the splitting up or the reconstitution of company already in existence;

**Super Tax**

**Section 4B**

A new tax has been imposed for rehabilitation of IDPs on higher income earners exceeding Rs.500 Million to pay one time super tax for the tax year 2015 along with the return under section 137. However, this shall not apply to recognized funds under Schedule Sixth.

Super Tax shall be payable by Banking Companies @ 4% and @ 3% by all others of their income.

Particulars	Rate
Banking Company	4% of Income
Person other than a banking company having income equal to or exceeding Rs. 500 Million	3% of Income

Text of proposed section is;

**4B. Super tax for rehabilitation of temporarily displaced persons.—**

- (1) *A super tax shall be imposed for rehabilitation of temporarily displaced persons, for tax year 2015, at the rates specified in Division IIA of Part I of the First Schedule, on income of every person specified in the said Division.*
- (2) *For the purposes of this section, "income" shall be the sum of the following:-*
- (i) profit on debt, dividend, capital gains, brokerage and commission;*
  - (ii) taxable income under section (9) of this Ordinance;*
  - (iii) imputable income as defined in clause (28A) of section 2; and*
  - (iv) income computed under Fourth, Fifth, Seventh and Eighth Schedule.*
- (3) *The super tax payable under sub-section (1) shall be paid, collected and deposited on the date and in the manner as specified in sub-section (1) of section 137 and all provisions of Chapter X of the Ordinance shall apply.*
- (4) *Where the super tax is not paid by a person liable to pay it, the Commissioner shall by an order in writing, determine the Super tax payable, and shall serve upon the person, a notice of demand specifying the super tax payable and within the time specified under section 137 of the Ordinance.*
- (5) *Where the super tax is not paid by a person liable to pay it, the Commissioner shall recover the super tax payable under sub-section (1) and the provisions of Part IV, X, XI and XII of Chapter X and Part I of Chapter XI of the Ordinance shall, so far as may be, apply to the collection of super tax as these apply to the collection of tax under the Ordinance.*
- (6) *The Board may, by notification in the official Gazette, make rules for carrying out the purposes of this section."*

Earlier, in the year 2011, similar Surcharge was imposed @ 15% for the year on every taxpayer for flood and earthquake affecters.

**Rates of Tax On Dividend**

**Section 5**

Tax rates for Dividend income is proposed to be enhanced from 10% to 12.5% in case of filers and from 15% to 17.5% in case of non-filers. Tax rates for Dividend are as;

S3#	Dividend By	Rate (Filer)	Rate (Non-filer)
(a)	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	7.5%	7.5%
(b)	in all other cases	12.5%	17.5%

Further, proviso is proposed to be amended to take Dividend received by a person from Development of REIT Scheme in tax rates, Division I, Part III of 1<sup>st</sup> Schedule as;

Proviso	Dividend received by a (Individual, Company & AOP) from a stock fund	10% for Stock fund	15% for tax year 2016 and onwards, if dividend receipts are less than capital gains
	Dividend received by person from Collective Investment Scheme, Real Estate Investment Trust (REIT) Scheme or Mutual Fund other than Stock Fund from tax year 2015 onwards	Individual AOP Company	10% 10% 25%

The Bill also proposes that, in case if a Developmental REIT Scheme with the object of which is the development and construction of residential buildings is set-up by June 30, 2018, tax on dividend received by a person from such Developmental REIT Scheme shall be reduced by 50% for three years from June 30, 2018.

## Tax on Undistributed Reserves

## Section 5A

By virtue of this proposed insertion of new section, tax @ 10% shall be imposed on the undistributed reserves other than statutory reserves of all public companies (other than banks and modarabs) which exceeds their paid up capital. Companies, where holding of Government is more than 50% are also excluded from purview of this tax.

### “5A. Tax on undistributed reserves.-

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

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

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

## **Tax on Shipping of a Resident Person**

## **Section 7A**

Shipping business of resident persons is proposed to be included in presumptive taxation by June 30, 2020 by insertion of new section at the rates as follows;

- Flying Pakistan flag shall pay tonnage tax of an amount equivalent to one US \$ per gross registered tonnage per annum
- Not registered in Pakistan and hired under any charter other than bare-boat charter shall pay tonnage tax of an amount equivalent to fifteen US cents per ton of gross registered tonnage per chartered voyage per annum.

### **"7A. Tax on shipping of a resident person. –**

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

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

(b) ships, vessels and all floating crafts including tugs, dredgers, survey vessels and other specialized craft not registered in Pakistan and hired under any charter other than bare-boat charter shall pay tonnage tax of an amount equivalent to fifteen US cents per ton of gross registered tonnage per chartered voyage provided that such tax shall not exceed one US \$ per ton of gross registered tonnage per annum:

*Explanation.- For the purpose of this section, the expression "equivalent amount" means the rupee equivalent of a US dollar according to the exchange rate prevalent on the first day of December in the case of a company and the first day of September in other cases in the relevant assessment year.*

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

## **Tax on Profit on Debt**

## **Section 7B**

### **Tax on profit on Debt from.-**

- (a) National Savings Scheme or Post Office Savings Account;
- (b) A banking company or financial institution;

- (c) The Federal Government, a Provincial Government or a Local Government
- (d) Finance society or any other company as defined in the Ordinance

were taxed @ 10% on gross yield. However, it is proposed to enhance the tax rate on higher yields as follows;

S. No.	PROFIT ON DEBT	RATE of TAX
1	Where profit on debt does not exceed Rs 25,000,000	10 %
2	Where profit on debt exceeds Rs 25,000,000 but does not exceed Rs 50,000,000	2,500,000 + 12.5 % of the amount exceeding Rs25,000,000
3	Where profit on debt exceeds Rs 50,000,000	Rs 5,625,000 + 15 % of the amount exceeding Rs50,000,000

New section to this effect is proposed as;

**“7B. Tax on profit on debt. –**

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

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

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

**Tax Rates for Salary Income**

**Section 12**

The bill proposed to change the salary tax rate falling between Rs.400,000/- to Rs.500,000/- from existing 5% to 2%. This shall also give net effect of tax saving of .3,000/- for all income groups in the tax slabs exceeding Rs.500,000/-.

Further, existing slab rates are substituted and slabs have been increased from 11 to 12 and shall be as follows;

S. No.	Taxable Income	Rate of tax
1	Where the taxable income does not exceed Rs.400,000	0%
2	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000	2% of the amount exceeding Rs.400,000
3	Where the taxable income exceeds Rs.500,000 but does not exceed Rs.750,000	Rs.2,000+5% of the amount exceeding Rs.500,000



4	Where the taxable income exceeds Rs.750,000 but does not exceed Rs.1,400,000	Rs.14,500+10% of the amount exceeding Rs.750,000
5	Where the taxable income exceeds Rs.1,400,000 but does not exceed Rs.1,500,000	Rs.79,500+12.5% of the amount exceeding Rs.1,400,000
6	Where the taxable income exceeds Rs.1,500,000 but does not exceed Rs.1,800,000	Rs.92,000+15% of the amount exceeding Rs.1,500,000
7	Where the taxable income exceeds Rs.1,800,000 but does not exceed Rs.2,500,000	Rs.137,000+17.5% of the amount exceeding Rs.1,800,000
8	Where the taxable income exceeds Rs.2,500,000 but does not exceed Rs.3,000,000	Rs.259,500+20% of the amount exceeding Rs.2,500,000
9	Where the taxable income exceeds Rs.3,000,000 but does not exceed Rs.3,500,000	Rs.359,500+22.5% of the amount exceeding Rs.3,000,000
10	Where the taxable income exceeds Rs.3,500,000 but does not exceed Rs.4,000,000	Rs.472,000+25% of the amount exceeding Rs.3,500,000
11	Where the taxable income exceeds Rs.4,000,000 but does not exceed Rs.7,000,000	Rs.597,000+27.5% of the amount exceeding Rs.4,000,000
12	Where the taxable income exceeds Rs.7,000,000	Rs.1,422,000+30% of the amount exceeding Rs.7,000,000

Where the income of an individual chargeable under the head —salary exceeds fifty percent of his taxable income, the rates of tax to be applied shall be ‘salary tax rates’

### **Deduction in Computing Income Chargeable under Head ‘Income from Property’**

### **Section 15A(h)**

An expenditure in respect of collection charges admissible against rental income are made more explicit by substituting the current sub section (h). The words “wholly and exclusively” are being made part of the subsection with further addition of ‘administration and collection charges’. Now administrative expenditure shall also be claimable up to 6% which are incurred wholly and exclusively for the purpose of rental income.

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

The Bill propose rate of tax to be reduced from 10% to 7% on income exceeding Rs.400,000. The existing tax slabs are substituted and proposed to be increased from 7 to 8 slabs as;

S. No.	Taxable Income	Rate of tax
1	Where the taxable income does not exceed Rs.400,000	0%
2	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000	7% of the amount exceeding Rs.400,000
3	Where the taxable income exceeds Rs.500,000 but does not exceed Rs.750,000	Rs.7,000+10% of the amount exceeding Rs.500,000
4	Where the taxable income exceeds Rs.750,000 but does not exceed Rs.1,500,000	Rs.32,000+15% of the amount exceeding Rs.750,000
5	Where the taxable income exceeds Rs.1,500,000 but does not exceed Rs.2,500,000	Rs.144,500+20% of the amount exceeding Rs.1,500,000
6	Where the taxable income exceeds Rs.2,500,000 but does not exceed Rs.4,000,000	Rs.344,500+25% of the amount exceeding Rs.2,500,000
7	Where the taxable income exceeds Rs.4,000,000 but does not exceed Rs.6,000,000	Rs.719,400+30% of the amount exceeding Rs.4,000,000
8	Where the taxable income exceeds Rs.6,000,000	Rs.1,319,500+35% of the amount exceeding Rs.6,000,000

This shall also give net effect of tax saving of .3,000/- for all income groups in the tax slabs exceeding Rs.500,000/-.

### Rates of Tax for Companies

The tax rate for non-banking companies is proposed to be reduced to 32% for tax year 2016. Tax rates for companies for tax year 2016 shall be;

Corporate / Company tax rate	=	32%
Banking Company	=	35%
Small company as defined in section 2, tax rate	=	25%



## Capital gain on disposal of securities

## Section 37A

Up to year 2014, gain on disposal of securities which were held for more than a year were exempt from tax. By Finance Act 2015, the period for exemption was extended exceeding twenty four months. Now the tax rates under this section have been changed and capital gains on securities where holding exceeds four year shall be exempt from tax.

Tax rates under this section are proposed as;

Sr.	Holding Period	Tax Rates	
		T.Y 2016	T.Y 2015
1	Where holding period of a security is less than twelve months.	15 %	12.5 %
2	Where holding period of a security is twelve months or more but less than twenty-four months.	12.5 %	10%
3	Where holding period of a security is twenty-four months or more but less than four years	7.5 %	0%
4	Where holding period exceeds four years	0%	-

Further, capital gains on disposal of securities shall be charged on normal tax rate for companies in respect of debt securities.

Mutual Funds, Collective Investment Schemes and REIT Schemes shall withhold tax on capital gains arising on redemption on securities for filers @ 10% for Individuals and AOP and in case of non-filer the rate of withholding tax shall be @ 17.5%. For companies, the withholding rate shall be @ 10% for Stock Funds and 25% for others in case of filers and in case of non-filers @ 25% of all. Further, in case of Stock Funds, if the dividend received is less than the capital gains, the withholding tax rate shall be 12.5%.

## Exemption and Tax Concession in Second Schedule

## Section 53

The power of Federal Government has been curtailed to issue notifications by limiting to the approval of the Economic Coordination Committee of Cabinet in given special circumstances.

The amendment in second schedule for the purposes of exemption and concession shall only be pursuant to the approval of the Economic Coordination Committee of Cabinet, whenever circumstances exist to take immediate action for the purposes of national security, natural disaster, national food security in emergency situations, protection of national economic interests in situations arising out of abnormal fluctuation in international commodity prices, removal of anomalies in taxes, development of backward areas and implementation of bilateral and multilateral agreements.

Except to the approval of Cabinet Economic Coordination Committee, Federal Government shall not be able to make any amendment / insertion.

Further, any notification issued after the promulgation of Finance Act, 2015 shall, if not earlier rescinded, stand rescinded on the expiry of the financial year in which it was issued.

By insertion of new sub section as above, any notification issued shall not be carried on for indefinite period and shall stand expired at the end of the financial year.

### **Tax Credit on Investment in Shares and Insurance**

### **Section 62(2)**

A resident person other than a company was entitled to a tax credit for a tax year up to a maximum limit of Rupees One Million (Rs. 1,000,000) which is now proposed to be enhanced to Rupees One and Half Million (Rs. 1,500,000).

A person is now eligible to claim tax credit for any investment in new shares on stock exchange or premium on life insurance paid on the lesser of;

- ✓ 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;
- ✓ twenty per cent of the person's taxable income for the year; or
- ✓ one and a half million rupees

### **Deductible Allowance for profit on debt**

### **Section 64A**

By proposed insertion of the said section, earlier tax credit section (64) on profit on debt is proposed to be deleted. By insertion of new section, now instead of tax credit, a person shall be allowed a 'deductible allowance' not exceed fifty percent of taxable income or one million rupees, whichever is lower in a tax year.

This shall give a reasonable relief to individuals who have acquired or acquiring housing by financing from financial institution. The deductible allowance shall certainly give more relief in tax than as earlier tax credit.

New proposed insertion is as;

**64A. Deductible allowance for profit on debt.** – (1) Every individual shall be entitled to a deductible allowance for the amount of any profit or share in rent and share in appreciation for value of house paid by the individual in a tax year on a loan by a scheduled bank or non-banking finance institution regulated by the Securities and Exchange Commission of Pakistan or advanced by Government or the Local Government, Provincial Government or a statutory body or a public company listed on a registered stock exchange in Pakistan where the individual utilizes the loan for the construction of a new house or the acquisition of a house.

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

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

**Tax Credit for Manufacturers generating employment  
(New manufacturing unit)**

**Section 64B**

Tax Credit incentive is proposed for new manufacturing concerns who employ 50 or more than 50 employees, duly registered with EOBI and Social Security Department. For every 50 employees, tax credit of 1% in tax rate shall be allowed, up to a maximum credit of 10%. For claiming this credit, a company setting up manufacturing unit shall be formed between July 1, 2015 to June 30, 2018 and tax credit shall be allowed for 10 years.

**64B. Tax credit for employment generation by manufacturers. –**

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

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

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

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

(b) *employs more than fifty employees in a tax year registered with The Employees Old Age Benefits Institution and the Employees Social Security Institutions of Provincial Governments;*

(c) *manufacturing unit is managed by a company formed for operating the said manufacturing unit and registered under the Companies Ordinance, 1984 (XLVII of 1984) and having its registered office in Pakistan; and*

(d) *the manufacturing unit is not established by the splitting up or reconstruction or reconstitution of an undertaking already in existence or by transfer of machinery or plant from an undertaking established in Pakistan at any time before 1 July 2015.*

(4) *Where any credit is allowed under this section and subsequently it is discovered, on the basis of documents or otherwise, by the Commissioner that any of the conditions specified in this section were not fulfilled, the credit originally allowed shall be deemed to have been wrongly allowed and the Commissioner may, notwithstanding anything contained in this Ordinance, 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.*

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

**Provisions for Tax Credit**

**Section 65(6)**

Where tax credit is allowed to a person entitled to a tax credit being member of an association of persons, the tax credits allowed for investment, for newly established undertaking and for industrial undertakings established before first day of July 2011, the provisions of final tax or presumptive tax falling under section 169(2)(d) and minimum tax under section 113(1)(d) shall not apply.

A new sub section is proposed whereby the credit shall be available against presumptive tax and against minimum tax as well to member of AOP.

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

**Tax Credit for Enlistment**

**Section 65C**

Tax credit for enlistment on stock exchange is proposed to increase from 15% to 20% in the year of enlistment.

**Tax Credit for Industrial Undertaking**

**Established before first day of July 2011**

**Section 65E**

Earlier tax credit was allowed for the year and subsequent four years in respect of the tax year in which the plant or machinery was installed and for the subsequent four years.

Now it is proposed that the concession be granted with more logical manner for a period of five years beginning from the date of setting up or commencement of commercial production from the new plant or expansion project, whichever is later.

**Principle of Taxation of Companies**

**Section 94(2)**

It is proposed that the dividend paid by all the companies shall be taxable under section 5 as Dividend Income. Earlier, it was applicable to Resident Companies only.

**Tax credit for certain persons**

**Section 100C**

Technical correction has been made by clarifying that the 'income of non-profit organization' shall be allowed a tax credit. Where there is no income, there shall be no tax credit.

**Avoidance of Double Taxation**

**Section 107**

By proposed substitution and insertion of new sub section, the Board is empowered to automatic exchange of information with respect to taxes on income imposed under this Ordinance or any other law for the time being in force.

Further, the Board shall have the powers to obtain and collect information when solicited by another country under a tax treaty, a tax information exchange agreement, a multilateral convention, an inter-governmental agreement, a similar arrangement or mechanism.

The provisions of the Freedom of Information Ordinance, 2002 (XCVI of 2002), any information received or supplied, and any concomitant communication or correspondence made, under a tax treaty, a tax information exchange agreement, a multilateral convention, a similar arrangement or mechanism, shall be confidential subject to subsection (3) of section 216.

**Minimum Tax**

**Section 113**

**Fertilizer Dealer & distributors  
Consumer goods**

The Bill proposes to increase minimum tax for dealers and distributors of fertilizers from 0.2% to 0.5% of the turnover for the year.

Further the Bill also proposes to abolish the requirement of paying minimum tax at the rate of 0.2% of the turnover on consumer goods.

**Minimum Tax on Builders**

**Section 113A**

Minimum tax on Builders was imposed by Finance Act 2013 whereby Builders deriving income from the business of construction and sale of residential or other building were required to pay minimum taxes on the rates to be notified by the Board. Now it is proposed that this minimum tax shall not have effect up to June 30, 2018.

**Minimum Tax on Land Developers**

**Section 113B**

Minimum tax on Land Developers was imposed by Finance Act 2013 whereby Land Developers deriving income from the business of development and sale of residential or other plots were required to pay minimum taxes on the basis of area. Now it is proposed that this minimum tax shall be paid @ 2% of the value of land notified by any authority for the purpose of stamp duty.

**Return of Income - Revision**

**Section 114(6)**

Filing of revised return was subjected to various conditions which had to be met for filing of revised return including permission from commissioner and filing of revised accounts etc. Now it is proposed with the insertion of proviso that if the revised return is filed within 60 days from the filing of return, the conditions for revised return shall not apply.

**Best Judgment Assessment  
Audit (Special Audit Panel)**

**Section 121(1)(d)  
Section 177**

The scope of “**best Judgment Assessment**” is proposed to be expanded. Now, the Special Audit Panel appointed by the Board has also been empowered to make the assessment under the said section.

Consequently, Special Audit Panel has been inserted in Section 177 as;

*(11) The Board may Appoint as many special audit panels as may be necessary, to conduct an audit, including a forensic audit, of the income tax affairs of any person or classes of persons and the scope of such audit shall be as determined by the Board or the Commissioner on case to case basis. The special audit panel shall consist of two or more members from the following:-*

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

Consequently, the delegation power are also proposed to be granted to special panel in section 210 as;

*(1B) The Commissioner may, by an order in writing, delegate to a special audit panel appointed under sub-section (11) of section 177, or to a firm of chartered accountants or a firm of Cost and Management Accountants appointed by the Board or the Commissioner to conduct an audit of person under section 177, all or any of the powers or functions to conduct an audit under this Ordinance.”*

Further, under section 211, it is proposed that powers and functions also be delegated to Special Audit Panel.

**Procedure in Appeal**

**Section 128(1AA)**

A new sub- section (1AA) is proposed to be inserted in succession to sub- section (1A) which allowed Commissioner (Appeals) to grant stay up to 30 days. The stay grant authority in the law was had always been inherent power of the adjudicating authority. Now the Commissioner (Appeals) may grant further stay of 30 days for recovery of tax but would be required to pass the Appellate order within these 30 days of stay.



**Due Date for Payment of Tax**

**Section 137(2)**

From Tax Year 2009, after the assessment order a taxpayer was required to make the payment of tax due within 15 days from the date of service of order. Now it is proposed that period of payment of tax be extended from 15 to 30 days.

Earlier, the assessee was required to make the payment in case of provisional assessment order immediately after the period of 60 days. Now, the said period has been reduced to 45 days.

**Advance Tax**

**Section 147(4)**

The sub section is proposed to be substituted whereby taxpayer who is required to make payment of advance tax shall estimate the tax payable for the relevant tax year, at any time before the second installment is due. Earlier, it was before the last installment is due.

In case the tax payable is likely to be more than the amount that the taxpayer is required to pay under sub-section (4), the taxpayer shall furnish to the Commissioner on or before the due date of the second quarter an estimate of the amount of tax payable by the taxpayer and thereafter pay fifty per cent of such amount by the due date of the second quarter of the tax year after making adjustment for the amount (if any) already paid in terms of sub-section (4).

The remaining fifty per cent of the estimate shall be paid after the second quarter in two equal installments payable by the due date of the third and fourth quarter of the tax year.

**Imports**

**Section 148(2)**

The Board was empowered to specify any good or class of goods or person or class of persons importing goods on which exemption was granted in respect of payment of advance tax. Now, sub section (2) which empowers the Board is proposed to be omitted by Finance Bill, 2015-2016. Now Board shall not have power to specify the specific exemption to any goods or class of persons importing the goods.

This is in consequent to the amendment proposed under section 53.

Further, rates of withholding tax on Imports are proposed to be substituted as;

**Rate of Tax on Imports**

S. No.	PERSONS	FILER	NON FILER
1	i) Industrial undertaking importing remelttable steel (PCT Heading 72.04) and directly	1% of import value as	1.5% of import value as

	reduced iron for its own use ii) Persons importing potassic fertilizers in pursuance of Economic Coordination Committee of the cabinet's decision No. ECC-155/12/2004 dated the 9 2004; iii) Persons importing urea; and iv) Manufacturers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31December, 2011 dated the 31, 2011. v) Persons importing gold vi) Persons importing cotton	increased by customs-duty, sales tax and federal excise duty	increased by customs-duty, sales tax and federal excise duty
2	Persons importing pulses	2% of import as increased by customs-duty, sales tax and federal excise duty	3% of import as increased by customs-duty, sales tax and federal excise duty
3	Commercial importers covered under Notification No. S.R.O. 1125(I)/2011 dated 31 December, 2011.	3% of import value as increased by customs-duty, sales tax and federal excise duty	4.5% of import value as increased by customs-duty, sales tax and federal excise duty
4	Ship breakers on import of ships	4.5%	6.5%
5	Industrial undertakings not covered under S. Nos. 1 to 4	5.5%	8%
6	Companies not covered under S. Nos. 1 to 5	5.5%	8%
7	Persons not covered under S. Nos. 1 to 6	6%	9%

**Tax on local purchase of Cooking Oil or Vegetable Ghee by Certain Persons**

**Section 148A**

A new section has been proposed to be inserted by Finance Bill 2015-2016 by which the manufacturers of cooking oil or vegetable ghee, or both, shall be chargeable to tax at the rate of two percent on purchase of locally produced edible oil. Further, it shall be treated as a final tax in respect of income of edible oil supplier.

**Profit on Debt**

**Section 151(3)**

Tax Deductible on Profit on Debt was final tax in case of taxpayers other than companies. Now with proposed insertion of section 7B by Finance Bill 2015-16, Profit on Debt which are taxable under section 7B are also proposed to be excluded from the preview of final tax regime.

Withholding tax on profits shall be deducted as follows;



<b>Profit on Debt</b>	<b>Filer</b>	<b>Non Filer</b>
Less than 500,000	10%	10%
Greater than 500,000	10%	17.5%

Now with proposed insertion of section 7B, profit on debt shall be taxed at separate rates and taxes withheld shall be adjusted. Now profit on debt shall be a separate block of income for all taxpayer, including company.

*(In Finance Bill, the reference is wrongly made to Section 5A)*

**Payments to Non-Residents**

**Section 152(4A)**

Every person making a payment to a permanent establishment of non-resident person in Pakistan was liable to withhold tax irrespective. Now with insertion of sub-section 4A, by Finance Bill 2015-2016, it is proposed to empower the Commissioner to make an inquiry as the Commissioner thinks fit on the application made by the recipient of payments (permanent establishment of non-resident person in Pakistan) and grant the permission to receive payment without deduction of tax or deduction of tax at a reduced rate.

Further, tax withholding rates for permanent establishment of non-resident person in Pakistan are proposed to be substituted, whereby withholding tax rates for non-filer are also introduced.

	<b>Tax Year 2015</b>	<b>Tax Year 2016</b>	
		<b>Filer</b>	<b>Non Filer</b>
Payment to permanent establishment in Pakistan of non-residents			
• On Sale of Goods			
○ Company	3.5%	4%	6%
○ Others	3.5%	4.5%	6.5%
• For the rendering & providing of services			
○ Transport	2%	2%	2%
○ Others than transport			
▪ Company	6%	8%	12%
▪ Others	6%	10%	15%
• On the execution of a contract			
○ Sports person	-	10%	10%
○ Company	6%	7%	10%
○ Others	6%	7.5%	10%

**Payment for Goods, Services & Contracts**

**Section 153(3)**

It is proposed to substitute the clause which makes tax deduction as minimum tax for tax withheld against payment for services. Now it is proposed that tax deductible against

services shall be adjustable tax for companies (w.e.f. T.Y 2009) and shall be minimum tax for all other taxpayer.

Even before, tax deductible against services was adjustable for companies by clause 79 of Part IV of Second Schedule to the Ordinance. Now it is proposed to explicitly state the same in the section.

Further, it is proposed that payment to sports persons under contract shall be treated as final tax with effect from tax year 2013. It was already inserted as final tax by Finance Act 2015, but with the condition of resident person. Now, it is proposed that the same shall be treated as final tax w.e.f Tax Year 2013 irrespective of resident or non-resident status.

Withholding taxes for non-filers for services [(U/s 153(1)(b)] was introduced by Notification SRO 136(I)/2015, dated February 13, 2015. However, the non-filer concept for other categories is also proposed.

Section	Type of Payment	Filer Rate (%)	Non-Filer Rate (%)
153(1)(a)	Sale of any other goods		
	<ul style="list-style-type: none"> <li>• Company</li> <li>• Other than company</li> </ul>	4 4.5	6 6.5
153(1)(b)	For transport services	2	2
153(1)(b)	For other services		
	<ul style="list-style-type: none"> <li>• Company</li> <li>• Other than company</li> </ul>	8 10	12 15
153(1)(c)	Execution of Contracts -		
	<ul style="list-style-type: none"> <li>• Company</li> <li>• Other than company</li> <li>• Sports person</li> </ul>	7 7.5 10	10 10 10

### Exports

### Section 154(5)

A new sub- section is proposed to be inserted by Finance Bill 2015-2016. Now all the exporters may opt to pay tax as minimum tax instead of Final tax for irrevocable period and this option shall be exercised at the time of filing the return of Income.

### Petroleum products

### Section 156A

Tax withholding rate on commission of petroleum products is also introduced for non-filers.

Section	Type of Payment	Filer Rate (%)	Non-Filer Rate (%)
156A	Tax deducted on commission / discount allowed	12	15

**Exemption or Lower Rate Certificate**

**Section 159(5)**

Sub-section 3, 4 and 5 of the section 159 is proposed to be omitted by Finance Bill 2015-2016. The purpose of this measure is to abolish the powers of the Board provided vide sub-sections 3, 4 and 5.

Earlier, the board was given the power to issue notifications for amendment in rate of withholding tax or declaring exempt the person or class of persons or goods or class of goods for withholding tax.

**Failure to Pay Tax Collected or Deducted**

**Section 161(1B)**

In case of non-deduction of withholding tax, the rate of default surcharge under the said section is proposed to be reduced from 18% to 12%. This amendment is proposed in line with the Government Policy where interest rates have been reduced.

**Furnishing of Information by Financial Institutions  
Including Banks**

**Section 165 B**

Finance Act 2013 inserted a provision whereby all the Banks were required to furnish the information about their account holders.

A new section 165B has been proposed to be inserted by which the obligation to furnish the information by banks has been enhanced to financial institution as well and they have been required to furnish the information about the non-resident persons to the Board in a prescribe form and manner for the purpose of automatic exchange of information under bilateral agreement or multilateral convention. Further, it has also been proposed that the said information shall be used only for tax and related purposes and kept confidential.

**Tax Collected or Deducted as a Final Tax**

**Section 169(1)**

In Consequence of proposed insertion of Section 148A which deals with tax payment by manufacturers of Cooking Oil or Vegetable Ghee, it is proposed to insert the word "paid" as well with the word 'Collected'.

Tax paid or collected against imports or tax on local purchase of cooking oil or vegetable ghee shall be treated as final tax.

**Additional Payment for Delayed Refunds**

**Section 171(1)**

In line with proposed reduction in additional tax under section 205, it has been proposed to also reduce the additional payment for delayed refunds at the rate of KIBOR plus 0.5%. Earlier, it was paid at the rate of 15% per annum of the amount of refunds.

KIBOR has not been defined in the proposed amendment. However as per earlier amendment in Finance Act 2012, KIBOR was taken on quarterly basis for computation of additional tax on quarterly basis under section 205.

**Notice to obtain Information or Evidence**

**Section 176(1)**

In consequent to proposed amendment in 'Avoidance of Double Taxation Treaty', sub-section is proposed to be substitutes by Finance Bill 2015-2016 by which the power of Commissioner to require information has been extended. Now, the Commissioner may specify in the notice and require any person to fulfill any obligation under any agreement with foreign government or governments or tax jurisdiction.

A new sub-section (1A) is also proposed to be inserted by Finance Bill 2015-2016. It empowers the Special Audit panel as proposed under section 177(11) with the prior approval of the Commissioner concerned to enter the business premises of a taxpayer to obtain any information, require production of any record, on which the required information is stored and examine it within such premises.

**Audit**

**Section 177**

'Special Audit Panel' under section 11 is proposed and powers are proposed to be granted to conduct the audit under this section.

The following new clauses are proposed;

*(13) Powers under sections 175 and 176 for the purposes of conducting an audit under sub-section 11, shall only be exercised by an officer or officers of Inland Revenue, who are member or members of the special audit panel, and authorized by the Commissioner.*

*(14) Notwithstanding anything contained in sub-sections (2) and (6), where a person fails to produce before the Commissioner or a special audit panel under sub-section (11) to conduct an audit, any accounts, documents and records, required to be maintained under section 174 or any other relevant document, electronically kept record, electronic machine or any other evidence that may be required by the Commissioner or the panel, the Commissioner may proceed to make best judgment assessment under section 121 of this Ordinance and the assessment treated to have been made on the basis of return or revised return filed by the taxpayer shall be of no legal effect.*

*(15) If any one member of the special audit panel, other than the Chairman, is absent from conducting an audit, the proceedings of the audit may continue, and the audit conducted by the special audit panel shall not be invalid or be called in question merely on the ground of such absence.*

*(16) Functions performed by an officer or officers of Inland Revenue as members of the special audit Panel, for conducting audit, shall be treated to have been performed by special audit panel.*

(17) The Board may prescribe the mode and manner of constitution, procedure and working of the special audit panel.

### **Taxpayer's Registration**

### **Section 181**

It is proposed that from Tax year 2015 and onwards, individuals having CNIC shall be used as NTN.

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

*(In Finance Bill, the reference is wrongly made to 181A)*

### **Offences and Penalties**

### **Section 182**

The bill proposed to reduce the minimum penalty from Rs.50,000 to Rs.10,000 in case where any person fails to furnish a statement required to be filed in lieu of return (FTR), statements of tax collected & deducted and furnishing of information by the banks.

It is also proposed that in case of non- furnishing of Wealth Statement & Wealth Reconciliation Statement, the penalty of Rs.100 for each day of default is proposed to be substituted by "0.1% of the taxable income per week or Rs.20,000/-, whichever is higher.

### **Prosecution for making false or misleading statements**

### **Section 195**

The penalty against furnishing of misleading statement was wrongly referred to section 187 which was omitted by Finance Act 2010. Now the reference has been corrected to Section 182 where penalty against misleading statement was inserted by Finance Act 2010.

### **Default Surcharge**

### **Section 205**

Any person making default in payment of taxes is liable for additional default surcharge on the outstanding payment of taxes. By Finance Bill, 2015-2016, the rate of default surcharge has been proposed to be reduced to 12% against the existing 18%.

### **Automatic Selection for Audit**

### **Section 214D**

Finance Bill, 2015-2016 proposed audit selection criteria for persons registered as retailers under Sales Tax Special Procedures Rules. A registered retailer shall be immune from audit selection under normal procedures if he satisfies the conditions of being in Active Taxpayer list, complete tax return is filed, tax payable has been paid, 2% tax on turnover who files a return below taxable limit and 25% tax is paid higher than the last declared.

**"214D. Automatic selection for audit.-** (1) A person registered as retailer under rule (4) or rule (6) of the Sales Tax Special Procedure Rules, 2007 who does not fulfill the parameters mentioned in sub-clauses (a) to (e) of sub-section (3) shall be automatically selected for audit of income tax affairs for that tax year.

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

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

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

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

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

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

(e) twenty five percent higher tax than the previous tax year has been paid by a person registered under rule (6) of the Sales Tax Special Procedure Rules, 2007 who had declared taxable income in the return for immediately preceding tax year.

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

The proposed conditions to be met are apparently for those retailers who are registered under Sales Tax Special Procedure. It would be in discriminatory with those retailers who are not registered or who have kept themselves away from registration.

## **Reward to Whistleblower**

## **Section 227B**

A new definition is proposed in section 2(75) as;

*"whistleblower" means whistleblower as defined in section 227B;*

The bill proposed to reward any person who provides credible information leading to such detection of tax. The reward is not defined in the bill.

**"227B. Reward to whistleblowers.-** (1) The Board may sanction reward to whistleblowers in cases of concealment or evasion of income tax, fraud, corruption or misconduct providing credible information leading to such detection of tax.

(2) The Board may, by notification in the official Gazette, prescribe the procedure in this behalf and also specify the apportionment of reward sanctioned under this section for whistleblowers.

(3) The claim for reward by the whistleblower shall be rejected if –

(a) the information provided is of no value;



- (b) the Board already had the information;*
- (c) the information was available in public records; or*
- (d) no collection of taxes is made from the information provided from which the Board can pay the reward.*

*(4) For the purpose of this section, "whistleblower" means a person who reports concealment or evasion of income tax leading to detection or collection of taxes, fraud, corruption or misconduct, to the competent authority having power to take action against the person or an income tax authority committing fraud, corruption, misconduct, or involved in concealment or evasion of taxes."*

### **Cash Withdrawal**

### **Section 231A**

The said sub-section has proposed to be omitted by Finance Bill, 2015-16 after which the exemption of advance tax on cash withdrawal earlier provided to the Federal Government, Provincial Government, A foreign diplomat or Diplomatic Mission and any person who holds a certificate issued by the commissioner regarding the exemption of his income has been withdrawn under this section.

The cash withdrawal withholding tax for non-filer is proposed to be increased from 0.5% to 0.6%. Further, cash withdrawal withholding tax for Exchange Companies is proposed @ 0.15% (*Clause 28B of Part II of Second Schedule*)

### **Advance tax on Transactions in Bank**

### **Section 231AA**

Finance Bill, 2015-16 proposed to delete the proviso for non-deduction of advance tax in respect of inter-bank or intra-bank transfers and purchase of financial instruments through Cross cheques. Now tax @ 0.3% for filer and 0.6% for non-filer shall be charged against sale of any instrument in cash.

Further, exemption of advance tax on cash withdrawal earlier provided to the Federal Government, Provincial Government, A foreign diplomat or Diplomatic Mission and any person who holds a certificate issued by the commissioner regarding the exemption of his income is proposed to be withdrawn under this section.

### **Advance tax on private motor vehicles**

### **Section 231B**

In the said sub-section, the word "car or jeep" is proposed to be substituted by the word "vehicle". The said amendment may widen the scope of advance tax on private motor vehicles and not only restricted to the Car or Jeep.

A new Sub-section 6 of 231B is proposed to be inserted by Finance Bill, 2015-16. This sub-section is in succession to the earlier proviso which states that no advance tax collection shall be made on transfer of vehicles after expiry of 5 years from the date of first registration. Now, the term First Registration has been proposed to be introduced which is reproduced as hereunder;

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

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

A new Sub-section 7 of 231B is proposed to be inserted by Finance Bill, 2015-16 after which the term motor vehicle has been defined to widen the scope of advance tax.

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

Further, new rates proposed under this section as per Division VII of Part IV of First Schedule are;

New Registration Rates (Unchanged by Finance Bill);

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

Transfer of Vehicle Rates (Proposed to be Changed by Finance Bill);

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



## Brokerage and Commission

## Section 233

The concept of non-filer is also introduced under this section. Further the bill seeks to enhance withholding tax rates in the following cases as follows;

Payment by	Old Rates (%)	New Rates Filer (%)	New Rates Non-Filer (%)
Commission & Brokerage of Advertising agents	7.5	10%	15%
Commission & Brokerage in all other cases	12	12%	15%

## Tax on Motor Vehicle

## Section 234

Further, the bill seeks to reduce the existing rates of advance tax fr filers and enhance the rate for non-filers at the time of motor vehicle tax by E & T Department.

S. No.	Engine Capacity	Tax for filer	Tax for Non-filer
(1)	(2)	(3)	(4)
1.	Upto 1000cc	Rs. 800	Rs. 1,200
2.	1001cc to 1199cc	Rs. 1,500	Rs. 4,000
3.	1200cc to 1299cc	Rs. 1,750	Rs. 5,000
4.	1300cc to 1499cc	Rs. 2,500	Rs. 7,500
5.	1500cc to 1599cc	Rs. 3,750	Rs. 12,000
6.	1600cc to 1999cc	Rs. 4,500	Rs. 15,000
7.	Above 2000cc	Rs. 10,000	Rs. 30,000

Where there is no change in motor vehicle tax collected in lumpsum;

S. No.	Engine Capacity	Tax for filer	Tax 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.	Above 2000cc	Rs. 120,000	Rs. 240,000

Further, the bill proposes to enhance the withholding tax to be deducted by E & T Department on goods transport vehicles for commercial purposes @ 2.5 Rupees for filer and Rs.4 for non-filer per kilogram of laden weight from 5 Rupees per kilogram of the laden weight. Originally, the rate was reduced to Rs.2 by clause 14 of Part II of Second Schedule, which is now proposed to be omitted.

Further, the bill proposes to enhance the withholding tax to be deducted by E & T Department on passenger transport vehicles for commercial purposes for per seat per annum as;

<b>Payment by</b>	<b>Old Rates</b>	<b>New Rates Filer</b>	<b>New Rates Non-Filer</b>
Seats 4 or more but less than 10	25	50	100
Seats 10 or more but less than 20	60	100	200
Seats 20 or more	250	300	500

Originally, the rate for Vehicle of seats more than 20 was reduced to Rs.250 from Rs.500 by Clause 14A of Part II of Second Schedule. Now the same clause is also proposed to be omitted.

### **Domestic electricity consumption**

### **Section 235A**

Advance tax on domestic electricity bill was imposed by Finance Act 2014 with a limit of Rs.100,000/- bill per month. The bill now proposed to reduce the limit to Rs.75,000/- per month. Now Domestic Electricity bill exceeding Rs.75,000/- per month shall be charged with advance tax @ 7.5%.

### **Tax on Telephone & Internet Users**

### **Section 236**

The bill proposed to charge advance tax on Subscriber of Internet and Prepaid Cards of Internet @ 14% along with already applicable 14% advance tax on mobile telephone on amount of bill or sale price of prepaid card or sale of unit through any electronic medium or whatever form.

### **Advance Tax on purchase of Air Ticket**

### **Section 236B**

The bill proposed exemption from advance tax to be charged on the routes of Baluchistan Coastal Belt, Azad Jammu & Kashmir, FATA, Gilgit Baltistan and Chitral. This proposed amendment is to encourage the travel to these remote areas. Further, exemption available to Government and Other persons holding exemption certificates is proposed to be withdrawn.

### **Advance Tax on Sales to Distributors, Dealers & Wholesalers Section 236G**

The bill seeks to enhance the rate of withholding advance tax in case of fertilizer from 0.2% to 0.7% in case of filers and from 0.4% to 1.4% to non-filer

### **Advance Tax on Sales to Retailers**

### **Section 236H**

The bill seeks to enhance the scope of advance tax at the time of sale and propose to include wholesalers in it along with retailers.

Further, sale of fertilizer was also included in Dealer, Wholesalers and Distributors which is now proposed to be excluded from the preview of advance tax under this section.

Collection of Advance Tax by Educational Institutions

Section 236I

The bill proposed exemption from advance tax to be collected by Educational Institutions in the following case;

“(6) Advance tax under this section shall not be collected from a person who is a non-resident and,- furnishes copy of passport as an evidence to the educational institution that during previous tax year, his stay in Pakistan was less than one hundred eighty-three days; furnishes a certificate that he has no Pakistan-source income; and the fee is remitted directly from abroad through normal banking channels to the bank account of the educational institution.”

Exemption available under this section to Federal Government, Provincial Government, Foreign Diplomat or a diplomatic mission is withdrawn. [Clause 89 of Part IV of 2<sup>nd</sup> Schedule]

Advance Tax on International Air Tickets

Section 236L

The bill proposed to change the advance tax rates on international air tickets which was charged @4% on other than economy class. Now the bill proposes to charge advance tax on international air tickets as;

Type of ticket	Rate
First / Executive Class	Rs.16,000 per person
Others excluding economy	Rs.12,000 per person
Economy class	Nil

Advance Tax under this Chapter

Section 236O

The bill proposes that specific exemptions given under each section to the following is consolidated under this section, applicable to the tax deductions under ‘Transitional Advance Tax Provisions’. No tax under transitional advance tax provisions shall be applicable as per new insertion;

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

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

**Advance Tax on Banking Transactions  
otherwise than through Case**

**Section 236P**

A new section is proposed to charge advance tax in case of non-filers where sum total of all transactions exceeds Rs.50,000/- a day @ 0.6% on every banking transaction, except payment of taxes through bank.

*j*

**Collection of advance tax on education related  
Expenses remitted abroad**

**Section 236R**

The bill proposes to charge advance tax @ 5% of the amount on all expenses remitted abroad in relation to educational purposes including tuition fee, boarding & lodging, distant learning or any expenses attributable to foreign education. The advance tax so collected shall be adjustable against the income of person emitting the payment.

**236R. Collection of advance tax on education related expenses**

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

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

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

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

**Dividend in Specie**

**Section 236S**

The bill proposes to impose tax on payment of dividend in specie at the tax rates applicable to dividend income.

**236S. Dividend in specie.** - Every person making payment of dividend-in-specie shall collect tax from the gross amount of the dividend in specie paid at the rate specified in Division I of Part III of the First Schedule.

**Pakistan Mercantile Exchange Limited**

**Section 236T**

The bill proposes to insert new definition in section 2(42) for PMEX as;

*“PMEX” means Pakistan Mercantile Exchange Limited a futures commodity exchange company incorporated under the Companies Ordinance, 1984 (XLVII of 1984) and is licensed and regulated by the Securities and Exchange Commission of Pakistan;”*

Further, the bill proposes that PMEX shall collect advance tax @ 0.1% on all the transactions. The tax so collected shall be treated as minimum tax.

**236T. Collection of tax by Pakistan Mercantile Exchange Limited (PMEX) . – (1)** Pakistan Mercantile Exchange Limited (PMEX) shall collect advance tax, –  
(a) at the rates specified in Division XXII of Part IV of First Schedule from its members on purchase of futures commodity contracts;  
(b) at the rates specified in Division XXII of Part IV of First Schedule from its members on sale of futures commodity contracts;  
(c) at the rates specified in Division XXII of Part IV of First Schedule from its members on purchase of futures commodity contracts in lieu of tax on the commission earned by such members;  
(d) at the rates specified in Division XXII of Part IV of First Schedule from its members on sale of futures commodity contracts in lieu of tax on the commission earned by such members;  
(2) The tax collected under clauses (a) to (d) of sub-section (1) shall be a minimum tax.”

## **FIRST SCHEDULE**

*Changes in tax rates as proposed are given in the above comments under respective sections.*

## **SECOND SCHEDULE**

### **EXEMPTION FROM TOTAL INCOME**

#### **Part I**

Various amendments / omissions have been proposed in this part. The important ones are;

#### **Pakistan Postal Annuity Certificate Scheme**

#### **Clause 20**

The Finance Bill 2015-2016 seeks to omit the clause related to annuity issued under Pakistan Postal Annuity Certificate Scheme, not exceeding ten thousand rupees per annum. By omitting this clause, exemption on annuity income is no more available.

#### **Donation to Institute**

#### **Clause 61**

New sub-clause (xlv) is proposed to be inserted by Finance Bill 2015-2016, which is reproduced as hereunder:

*(xxxiii) The Indus Hospital, Karachi.*

By insertion of this sub-clause, any person pays donation to the Indus Hospital, Karachi shall be entitled to deduct such donation amount from total income.

### **Income Derived by Institute**

**Clause 66**

The Finance Bill 2015-2016 proposes to insert the name of *“The Indus Hospital, Karachi”*. By inserting new sub-clause, the income derived by the Indus Hospital, Karachi would be exempted for tax.

### **Sale of Immovable Property to REIT Scheme**

**Clause 99A**

The bill seeks to propose new proviso, which is rephrased as hereunder:

*“Provided that profit and gains on sale of immovable property to a Developmental REIT Scheme with the object of development and construction of residential buildings shall be exempt upto thirtieth day of June, 2020”*

By inserting this new proviso, the profits and gains rising from sale of immovable property to developmental REIT Scheme shall be exempted upto June 30, 2020.

### **Inter-Corporate Dividend within Group Companies**

**Clause 103A**

The new insertion is to be proposed after the figure *“59B”* by Finance Bill 2015-2016, which is reproduced as hereunder:

*“Subject to the condition that return of the group has been filed for the tax year”*

By insertion of these words in said clause, exemption can only be availed if return of group has been filed for the tax year.

### **Capital Gains**

**Clause 113**

The Finance Bill 2015-2016 seeks to omit the clause related to capital gain income raised from sale of share of public company setup in any Special Industrial Zone. By omitting this clause, the exemption on capital gain income derived for period of five years from the date of commencement of its commercial production is no more available.

### **Renewable energy Industrial Set Up**

**Clause 126 I**

The bill seeks to give exemption for generation of renewable energy industries for five years, including exemption from minimum tax.

*“Profits and gains derived by a taxpayer, from an industrial undertaking set up by 31st day of December, 2016 and engaged in the manufacture of plant, machinery, equipment and items with dedicated use (no multiple uses) for generation of renewable energy from*



*sources like solar and wind, for a period of five years beginning from first day of July, 2015."*

### **Warehousing or Cold Storage Chain Facilities for Storage of Agriculture Produce**

**Clause 126 J**

The bill seeks to give exemption for agriculture produce storage facility for three years, including exemption from minimum tax.

*Profits and gains derived by a taxpayer, from an industrial undertaking set up between 1<sup>st</sup> Day of July 2015 and 30<sup>th</sup> day of June, 2016 engaged in operating warehousing or cold chain facilities for storage of agriculture produce for a period of three years beginning with the month in which the industrial undertaking is set up or commercial operations are commenced, whichever is later.*

### **Halal Meat Production Industrial Undertaking**

**Clause 126K**

The bill seeks to give exemption to industrial undertaking involved in Halal Meat production for four years, including exemption from minimum tax.

*Profits and gains derived by a taxpayer, from an industrial undertaking set up between 1<sup>st</sup> day of July, 2015 and 31<sup>st</sup> day of December, 2016 which is engaged in operating halal meat production and has obtained halal certification, for a period of four years beginning with the month in which the industrial undertaking is set up or commercial production is commenced, whichever is later.*

Further, the said industry shall also be exempt from export tax under section 154. [Clause 93 of Part IV of 2<sup>nd</sup> Schedule]

### **Manufacturing Unit Set up in KPK**

**Clause 126L**

The bill seeks to give exemption to manufacturing units set up in KPK for five years, including exemption from minimum tax.

*(126L) Profits and gains derived by a taxpayer, from a manufacturing unit set up in Khyber Pukhtunkhwa Province between 1<sup>st</sup> day of July, 2015 and 30<sup>th</sup> day of June, 2018 for a period of five years beginning with the month in which the industrial undertaking is set up or commercial production is commenced, whichever is later:*

*Provided that exemption under this clause shall be admissible where –*

*(a) the manufacturing unit is setup between the first day of July, 2015 and 30<sup>th</sup> day of June, 2018, both days inclusive; and*

*(b) the manufacturing unit is not established by the splitting up or reconstruction or reconstitution of an undertaking already in existence or by transfer of machinery or plant from an undertaking established in Pakistan at any time before 1<sup>st</sup> July 2015.*



**Transmission Project Line**

**Clause 126M**

The bill seeks to give exemption to Transmission Project Line.

*Profits and gains derived by a taxpayer from a transmission line project set up in Pakistan on or after the 1st day of July, 2015. The exemption under this clause shall apply to such project which is –*

*(a) owned and managed by a company formed for operating the said project and registered under the Companies Ordinance, 1984 (XLVII of 1984), and having its registered office in Pakistan;*

*(b) not formed by the splitting up, or the reconstruction or reconstitution, of a business already in existence or by transfer to a new business of any machinery or plant used in a business which was being carried on in Pakistan at any time before the commencement of the new business; and*

*(c) owned by a company fifty per cent of whose shares are not held by the Federal Government or Provincial Government or a Local Government or which is not controlled by the Federal Government or a Provincial Government or a Local Government:*

*Provided that the exemption under this clause shall not apply to projects set up on or after the thirtieth day of June, 2018."*

**Profit & Gains Derived by LNG Terminals Operators & Terminal Owners**

**Clause 141**

A new clause is proposed to be inserted by Finance Bill 2015-2016, which is as hereunder:

*"Profit and gains derived by LNG Terminal Operators and Terminal Owners for a period of five years beginning from the date when commercial operations are commenced"*

**Social Security Contributions by SS Institutes**

**Clause 142**

A new clause is proposed to be inserted by Finance Bill 2015-2016, which is rephrased as hereunder:

*"Income from social security contributions derived by Balochistan Employees' Social Security Institution, Employees' Social Security Institution Khyber Pakhtunkhwa, Punjab Employees' Social Security Institution and Sindh Employees' Social Security Institution.*

*Explanation.- For the removal of doubt, it is clarified that all incomes other than social security contributions shall not be exempt"*

**REDUCTION IN TAX RATES**

**Part II**

**Manufactures of Cooking Oil & Vegetable Ghee**

**Clause 13C**

The bill seeks to omit the said clause from Part II of Second Schedule, and inserted the said clause as Section 148A.

**Goods Transport Vehicle**

**Clause 14**

The Finance Bill 2015-2016 seeks to omit the clause related to rate of tax for owners of goods transport vehicle, relevant to Section 234.

**Passenger Transport Vehicle**

**Clause 14A & 14B**

The bill seeks to omit the clause related to rate of tax for owners of passenger transport vehicle and goods transport vehicle, relevant to Section 234.

**Business of Shipping**

**Clause 21**

With proposed insertion of new Section 1A whereby shipping business of resident persons are taxed, the reduction of taxes is proposed to be omitted here.

**Cash Withdrawal (by Exchange Companies)**

**Clause 28B**

A new clause 28B is proposed to be inserted by finance bill 2015-2016, which is reproduced as herewith:

*“The rate of tax shall be 0.15% under section 231A on cash withdrawal by an exchange company, duly licensed and authorized by the State Bank of Pakistan, exclusively dedicated for its authorized business related transactions, subject to the condition that a certificate issued by the concerned Commissioner Inland Revenue for a financial year mentioning details and particulars of its Bank Account being used entirely for business transactions is provided”*

By insertion of this said clause, 100% exemption on cash withdrawal is no more available for exchange companies and even on exemption certificate granted by Commissioner Inland Revenue, but reduced rate of 0.15% shall be applicable on cash withdrawal.

**REDUCTION IN TAX LIABILITY**

**Part III**

**Failure to Furnish Statement (Minimum Penalty)**

**Clause 16**

Due to insertion of minimum penalty in section 182, the Finance Bill 2015-2016 seeks to omit this clause from part III of Second Schedule.

**EXEMPTION FROM SPECIFIC PROVISIONS**

**Part IV**

**Minimum Tax not Applicable**

**Clause 11A**

*Kot Addu Power Company*

Sub-clause (iv) of clause 11A of Part IV of Second Schedule is proposed to be omitted by Finance bill 2015-2016. By omitting of this clause, the period of exemption of Kot Addu Power Company Limited (KAPCO) is no more available.

The bill is proposed new sub-clauses to be inserted by Finance Bill 2015-2016, which are reproduced as followed:

**Coal Mining**

*“(xviii) Companies, qualifying for exemption under clause (132B) of Part-I of this Schedule, in respect of receipts from a coal mining project in Sindh, supplying coal exclusively to power generation projects.*

**Affected Areas of KPK**

*(xx) Taxpayers located in the most affected and moderately affected areas of Khyber Pakhtunkhwa, FATA and PATA for tax year 2010, 2011 and 2012 excluding manufacturers and suppliers of cement, sugar, beverages and cigarettes.*

**Rice Mills**

*(xxi) Rice Mills for the Tax Year 2015.*

**Minimum Tax on LNG Terminals**

**Clause 11A/11D**

The Finance Bill 2015-2016 seeks to exempt LNG Terminals from minimum tax (Clause 11A) and from Alternate Corporate Tax (Clause 11D)

*The provisions of section 113C shall not apply to LNG Terminal Operators and LNG Terminal Owners.”*

**Electronic & Print Media**

**Clause 16A**

The bill is proposed to omit the clause 16A from Part IV of Second Schedule. Hence, the provisions of section 153(1)(b) shall be applicable to the persons making payments to electronic and print media in respect of the advertising services. Consequently, withholding tax rates have been inserted for Print Media under section 153.

**Trading Houses**

**Clause 57**

It is clarified that in-house preparation and processing of food and allied items for sale to customers shall not disqualify a company from being treated as a Trading House, provided that all the conditions in this clause are fulfilled and sale of such items does not exceed two per cent of the total sales.

**Hajj Operators**

**Clause 72A**

It is proposed that special exemption to Hajj Operators from cash payments, minimum tax and payment to non-resident is withdrawn along with withdrawal of special rate of

tax per Hajji which was applicable as Rs.3,500/- for tax year 2013 and Rs.5,000/- for Tax Year 2014. The exemption was not extended for Tax year 2015 or onward.

### **Investment in Green Field Industries**

**Clause 86**

The exemption granted from “undisclosed income” investment made in Green Field Industries has been extended to Tax Year 2017.

### **Exemption for Agricultural Machinery**

**Clause 91**

Exemption from withholding tax at import stage has been proposed on various agricultural implements and machinery including seeds, planters and tube well accessories.

### **Air Craft Machinery**

**Clause 92**

Exemption is proposed on import stage withholding tax for air craft machinery, spares and allied parts.

## **FOURTH SCHEDULE - Insurance Business**

### **Exemption of Capital Gains from Sale of Shares**

**Rule 6A**

Earlier, Capital gains, being income from the sale of modaraba certificates or any instrument of redeemable capital, listed on any stock exchange in Pakistan or shares of a public company and the Pakistan Telecommunications Corporation vouchers issued by the Government of Pakistan, derived up to tax year ending on the thirtieth day of June, 2010 were exempt from tax. Now, the said clause is proposed to be logically omitted by Finance Bill 2015-16.

### **Holding Period of Securities**

**Rule 6B**

Due to proposed amendment in section 37A for investment in securities for the purposes of capital gains, the table under said rule is proposed to be substituted;

Sr.	Holding Period	Tax Rates	
		T.Y 2016	T.Y 2015
1	Where holding period of a security is less than twelve months.	15 %	12.5 %
2	Where holding period of a security is twelve months or more but less than twenty-four months.	12.5 %	10%
3	Where holding period of a security is twenty-four months or more but less than four years	7.5 %	0%
4	Where holding period exceeds four years	0%	-

Further, the earlier proviso categorically stating that *“The rule shall not apply to the securities held for a period of more than twelve months”* has been proposed to be omitted.

### **Super Tax on Insurance Business**

### **Rule 6D**

New rule is proposed to be inserted. By proposed rule, Section 4B (Super Tax for rehabilitation of temporarily displaced persons) shall also be imposed on the Insurance Business.

New proposed insertion is as;

*“The provisions of section 4B shall apply to the taxpayers under this schedule and taxed at the rates specified in Division IIA of Part I of the First Schedule.”*

## **FIFTH SCHEDULE - Exploration & Production of Petroleum**

New rule 4AA in Part I is proposed to be inserted. By proposed rule, section 4B (super tax for rehabilitation of temporarily displaced persons) shall also be imposed on the Petroleum Business.

New proposed insertion is as;

*The provisions of section 4B shall apply to the taxpayers under this schedule and taxed at the rates specified in Division IIA of Part I of the First Schedule.”*

A new rule 2A in Part II is proposed to be inserted. By proposed rule, section 4B (super tax for rehabilitation of temporarily displaced persons) shall also be imposed on business of Exploration and Extraction of Mineral Deposits (other than Petroleum) .

New proposed insertion is as;

*The provisions of section 4B shall apply to the taxpayers under this schedule and taxed at the rates specified in Division IIA of Part I of the First Schedule.”*

## **SEVENTH SCHEDULE - Banking Companies**

### **Tax on income computed**

### **Rule 6**

The income from ‘Dividend” and “Capital Gain” were taxed at 10% and 12.5% respectively by Finance Act, 2014. Now, by Finance Bill, 2015-16 the said rule is proposed to be omitted. Consequently, new rule 7B is proposed.

Further, the related three provision of the said rule has also proposed to be deleted.

### **Computation of net income from Dividend & Capital Gains**

### **Rule 6A/6B**

Rule 6A & 6B were relevant to computation of net income from Dividend and Capital Gains. Now, after the proposed omission of Rule 6, the said rules for computation have also been proposed to be omitted.

## **Tax on Dividend and Capital Gains**

## **Rule 7B**

Net income from Dividend and Capital Gains are proposed to be taxed at normal rates as per applicable tax rate which shall be @35% for Banking companies.

*(7B) From tax year 2015 and onwards, income from Dividend and income from Capital Gains shall be taxed at the rate specified in Division II of Part I of First Schedule.*

## **Super Tax on Banking**

## **Rule 7C**

By proposed rule 7C, section 4B (super tax for rehabilitation of temporarily displaced persons) are proposed to be applied to Banking Companies and to be taxed at 4%.

*(7C) For tax year 2015, the provisions of section 4B shall apply to banking companies and shall be taxed at the rate specified in Division IIA of Part I of First Schedule.*

## **EIGHTH SCHEDULE - NCCPL**

After Sub-rule 7, a new sub-rule 8 is proposed to be inserted. By proposed sub-rule, section 4B (super tax for rehabilitation of temporarily displaced persons) shall also be imposed on taxpayers under this schedule.

New proposed insertion is as;

*The provisions of section 4B shall apply to the taxpayers under this schedule and taxed at the rates specified in Division IIA of Part I of the First Schedule."*

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## SALES TAX ACT, 1990

The detailed comments on the significant proposed amendments in Sales Tax Act, 1990 are:

### Active Taxpayer Definition

### Section 2(1)

Finance bill 2015 proposes to define Active Taxpayer means a person who is not blocked, suspended, fails to file sales tax return for two consecutive periods, fails to file income tax return under Income Tax Ordinance or fails to file monthly statement for two consecutive months or annual withholding statement u/s 165 of the Income Tax Ordinance.

### Cottage Industry

### Section 2(5AB)

In the definition of cottage industry, limit of annual utility bills (electricity, gas and telephone) is proposed to be increased to Rs. 800,000/- from Rs. 700,000/-.

Now a 'Cottage Industry' means a manufacturer whose annual turnover from taxable supplies made in a any tax period during the last twelve months ending any tax period does not exceed five million or whose utility bills does during the last twelve months ending any tax period do not exceed eight hundred thousand rupees.

### Retailer Definition

### Section 2(28)

The bill proposes to omit a condition "and his total turnover per annum shall be taken into account for the purposes of registration under section 14 of Sales Tax Act, 1990." in the definition of retailer.

Now every retailer is required to be registered under Sales Tax Act.

### Supply Definition

### Section 2(33)

The Bill proposes to include in the definition of Supply whereby;

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

In case of transfer of goods to owner or nominee by manufacturer is also included in the definition of Supply.

### Whistleblower Definition

### Section 2(46A)

Means a person who reports concealment or evasion of sales tax and tax fraud leading to detection or collection of taxes, fraud, corruption or misconduct, to the competent authority having power to take action against the person or a sales tax authority

committing fraud, corruption, misconduct, or involved in concealment or evasion of taxes.

**Scope of Tax - Further Tax**

**Section 3(1A)**

The Bill seeks to enhance the rate of further tax for supplies to unregistered persons to 2% from 1%.

Now every supply made to unregistered person shall be charged with 2% extra tax over and above normal (17%) sales tax.

**Scope of Tax**

**Section 3(2)(b)**

The federal government has been empowered to levy such higher or lower rate in respect of any taxable good. Previously the power was with the Board, which has been now been transferred to Federal Government.

**Time and manner of payment**

**Section 6(1)**

The word "Recovery" has been added in the scope. Now if any provision relating to collection, payment, enforcement and *Recovery* of tax is not specified in Sales Tax Act, 1990, provisions of Customs Act, 1969 shall apply.

**Determination of tax liability**

**Section 7(2)**

The bill proposes to include even provisional determination of liability under the Customs Act for claim of input tax.

Now assessment under section 81 of Customs Act, 1969 which is provisional determination of liability is made part of legible claim for input tax.

**Tax Credit not allowed**

**Section 8(1)**

The Bill proposes to exclude 'pre-fabricated buildings' from the classification of immovable property in respect of which input tax credit was not allowed. Now input tax paid on purchase or import of pre fabricated building shall be allowed as input tax.

Further, tax credit shall not be claimed on following:

- Services in respect of which sales tax adjustment is not allowed under relevant provincial Sales Tax Laws.
- Import or purchase of agricultural machinery or equipment to be charged to sales tax @ 7% under Eighth Schedule.
- If Buyer's name is not appearing in the respective return filed by the relevant supplier.

### Joint and several liability of RP in supply chain where tax unpaid Section 8A

Amended is proposed whereby burden of proof shall lie with department to determine joint and several liability of registered persons where tax remains unpaid in a supply chain without prejudice to the knowledge of Registered Person.

This has been a long outstanding demand of the taxpayer to exonerate from the allegation where transaction occurred in good faith and all the modalities were complete at the time of transaction.

### Exemption

### Section 13(2)(a)

The bill seeks to omit the power of the Board's to exempt any taxable supplies.

In case of any national security, natural disaster, national food security or other emergency situations, ECC's approval is required to exempt any goods or class thereof.

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

New Sub-section is also proposed to be inserted whereby:

- ✓ The federal government is required to present all notifications under this section before National Assembly.
- ✓ All notifications shall stand rescind at the end of financial year in which issued, unless rescinded earlier.

### Registration

### Section 14

Substitution has been proposed whereby following persons making taxable supplies shall be required to register under the said Act:

- ✓ Manufacturer, not being a cottage industry.
- ✓ Retailer who is liable to pay sales tax other than those liable to pay sales tax through their Electricity bills.
- ✓ Importer
- ✓ Exporter claiming refunds against zero rated supplies.
- ✓ Wholesaler, dealer or distributor.
- ✓ Any person who is required to register under any other federal or provincial law.

Further persons engaged in imports or exports are required to be registered even if they are not making taxable supplies in Pakistan.

**Active Taxpayer List (Inserted)**

**Section 21A**

The Board is empowered to maintain Active Taxpayer's List.

**Audit by special audit panels**

**Section 32A**

The word "Auditor" has been substituted by the words "Special Audit Panels" which are required to conduct special audit and comprises two or more of the followings:

- An officer(s) of Inland Revenue
- CA firms
- CMA firms
- Any other nominated person by Board

The Chairman of Special Audit Panels shall be an officer of Inland Revenue. The Board shall determine scope, constitution, procedure and working of special audit.

**Offences & Penalties**

**Section 33**

The Bill proposes to substitute the following penalties as;

Maximum Penalty for non-filing of return within due date	Rs. 5,000/-
If a person files return within 10 days of default	Rs. 100/- per day
Before the amendment, this limit was 15 Days.	

**Monitoring or Tracking by Electronic or Other Means**

**Section 40C**

The Bill proposes that registered person shall acquire tax stamps, banderoles, stickers, labels, barcode from a licensee appointed by the Board at price approved by Board.

**Agreement for exchange of Information**

**Section 56A**

The federal government may collaborate with provincial government for exchange of information with respect of sales tax imposed under the Act.

**Disclosure of Information by public servant**

**Section 56B**

A public servant shall not disclose any information unless required to be disclosed under section 216 of the Income Tax Ordinance, 2001.

**Prize Schemes to promote tax Culture**

**Section 56C**

The Board shall announce prize schemes to encourage purchases from Registered Person issuing tax invoice.

**Reward to Whistleblower**

**Section 72D**

The Board may award to such whistleblower providing credible information resulting detection of tax concealment.

**Zero Rated Supplies**

**Fifth Schedule**

6A) Supply of following locally manufactured items by Registered Person to a Manufacturer in EPZ having registration number and ensuring its use in EPZ shall be zero rated:

- Plant & Machinery
- Apparatus, Appliances & Equipment
- Mechanical & Electrical Tools
- Parts of Machines

If machinery is moved out of EPZ, sales tax shall be charged on value as determined by Bill of Entry.

12(ix) The Following categories of goods are excluded from zero rating.

- Flavored milk
- Yogurt
- Cheese
- Butter
- Cream
- Desi ghee
- Whey
- Milk & Cream concentrated and added sugar or other sweetening matter

**Exempt Supplies**

**Sixth Schedule**

Following categories of goods are omitted from 6<sup>th</sup> Schedule Table 1, thereby are chargeable at normal / reduced tax rates:

- Homogenized preparations (PCT Heading: 1006.1010)
- Sugar beet seeds (PCT Heading: 1209.1000)
- Poultry feed & Cattle feed (PCT Headings: 2301.2090, 2305.0000, 2306.2000, 2306.3000, 2306.4100, 2306.5000)
- Incinerators of disposal of waste management motorized sweepers and snow ploughs. (PCT Headings: 8417.8000, 8430.2000, 8479.8990)
- Re-importation of foreign origin goods (PCT Heading: 99.18)

Following goods / categories of goods are inserted in 6th Schedule Table 1, thereby are exempt from sales tax:

- Green House Framing and Other Green House Equipment consisting of plastic covering and mulch film, anti-insect net and shade net (PCT Heading: 3920.1000)
- Appliances for colostomy (PCT Heading: 3006.9100)
- Colostomy and urostomy bags (PCT Heading: 3926.9050)
- Tubular day lighting devices (TDDs) (PCT Heading: 8539.3930)
- Diagnostic kits or equipment (PCT Heading: 3822.0000)

Following goods / categories of goods are omitted from 6th Schedule of local supplies only (Table 2):

- Reclaimed Lead
- Waste Paper

Following goods / categories of goods are inserted in 6th Schedule of local supplies only thereby exempt from sales tax on local supplies only (Table 2):

- Raw and pickled hides and skins wet blue hides and skins
- Supplies made by manufacturers of marble and granite having annual turnover less than Rs. 5,000,000/- even if their annual utility bill is more than Rs. 800,000/-
- Bricks
- Crushed Stone

Following goods / categories of goods are omitted from 6<sup>th</sup> Schedule, thus chargeable to normal sales tax (Table 3):

- Machinery, equipment and components imported by Karachi Shipyard and Engineering Works Limited
- Plant and machinery used in the production of bio-diesel.

### **Reduced Rate**

### **Eighth Schedule**

The reduced sales tax rate for following items has been increased to 10% from 5%.

- Soya bean Meal
- Oil seeds meant for sowing
- Imported Plant & Machine having no local substitute

The following classes of goods omitted from 5th Schedule (Zero Rated) shall be taxable at reduced rate of 10% under Eighth Schedule:

- Flavored milk
- Cream

- Yogurt
- Cheese
- Butter
- Desi ghee
- Whey
- Milk & Cream concentrated and added sugar or other sweetening matter

Following categories of goods are inserted in 8th Schedule to be taxable at respective reduced rate. (Previously exempted as per Sixth Schedule):

- Poultry feed & Cattle feed 5%
- Incinerators of disposal of waste management 5%
- Re-importation of foreign origin goods 5%
- Reclaimed Lead 5%
- Waste Paper 5%
- Plant and machinery used in the production of bio-diesel 5%

Following classes of goods are also inserted in Eighth Schedule taxable at respective reduced rate.

- Rapeseed, Sunflower seed & Canola Seed 16%
- Soya bean seed 6%
- Second hand and worn clothing or foot ware 5%
- Agricultural Tractors 10%
- Tillage & seed bed preparation equipment 7%
- Seeding or planting equipment 7%
- Irrigation & drainage equipment 7%
- Harvesting, storage & threshing equipment 7%
- Post-harvest handling & processing machinery 7%
- Machinery & equipment for developing grain 10%
- Complete plant for relocated industry 10%
- Machinery equipment for initial installation & BMR 10%

Following goods omitted from 8<sup>th</sup> Schedule (Reduced Rates), thus chargeable to normal (17%) rate:

- Items imported by Call Centers
- Proprietary formwork system for building/structures

### **Mobile/Satellite Phones**

### **Ninth Schedule**

Sales tax on import of mobile phones has been doubled as mentioned below:

- Low price Mobile phones Rs. 300/-
- Medium price Mobile phones Rs. 500/-
- Smart Mobile phones Rs. 1,000/-



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## CUSTOMS ACT

Following important changes made in the Customs Act, 1969:

### Power of Board is withdrawn

The power of the Board's to exempt any goods exported/imported is omitted. In case of any national security, natural disaster, national food security or other emergency situations, ECC's approval is required to exempt any goods or class thereof.

- ✓ The federal government is required to present all notifications under this section before National Assembly.
- ✓ All notifications shall stand rescind at the end of financial year in which issued, unless rescinded earlier.

### Recoverable Amount Limit

In section 32(3) limit of recoverable amount is extended to "twenty thousand" for application of penal actions in case custom duty is not levied or short levied.

### Transshipment Goods

- (a) In section 79(1) the words "or trans-shipment" is inserted with home consumption & warehousing. Further, in sub-section (1)(a) explanation regarding assessment and paying of duties in respect of transshipment is to be made at the port of destination is inserted.
- (b) In section 121(1) following proviso is inserted  
*"Provided that at customs-station where the Customs Computerized System is operational, the system may automatically authorize trans-shipment to other customs-station subject to risk selectivity criteria."*
- (c) In section 123(2) regarding the entry of transshipped goods the first entry station for LCL goods will be the customs- station where goods are de-consolidated.

### Penalty for not placing the Invoice inside the Container

A new entry is proposed whereby;

*"If any person contravenes the requirement of placement of invoices and packing list inside the import container/consignment is liable to a fine not exceeding Rs. 50,000/-."*

### Untrue Declaration - Penal Action

Any person who makes an untrue declaration relating to transit goods or illegally remove/conceal such goods shall also be liable to penal actions.

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# ISLAMABAD CAPITAL TERRITORY

## (Tax On Services) ORDINANCE, 2001

In the Islamabad Capital Territory (Tax on Services) Ordinance, 2001 (XLII of 2001), the following further amendments are proposed:

### Rate of Sales Tax

The rate of tax is now proposed as per the Schedule against respective description of services instead of flat rate already given for all services.

### Taxable Services

Additional services proposed to be subject to sales tax are as follows which are to be made part in taxable services schedule:

S. No.	Description	PCT Heading	Rate of Tax
1	Services provided or rendered by hotels, motels, guest houses, marriage halls and lawns (by whatever name called) including "pandal" and "shamiana" services, clubs including race clubs, and caterers	9801.1000 9801.3000 9801.4000 9801.5000 9801.6000	Sixteen percent
2	Advertisement on television and radio	9802.1000 9802.2000	Sixteen percent
3	Services provided by persons authorized to transact business on behalf of others	9805.2000 9805.4000 9805.8000	Sixteen percent
4	Courier services and cargo services by road provided by courier companies	9808.0000 9804.9000	Sixteen percent
5	Construction services excluding: (i) construction projects (ii) property developers (iii) Government civil works (iv) construction of industrial zones (v) Residential construction projects	9824.0000 9824.0000	Sixteen percent
6	Services provided by property developers and promoters (including allied services) excluding the actual purchase value or documented cost of land.	9807.0000	Rs.100 per square yard for land development, Rs.50 per square feet for building construction
7	Services provided by persons engaged in	9809.0000	Sixteen per

	contractual execution of work		cent
8	Services provided for personal care e.g beauty parlours, clinics etc.	9810.0000 9821.4000 9821.5000	Sixteen percent
9	Management consultancy services	9815.4000 9819.9300	Sixteen percent
10	Services provided by freight forwarding agents, and packers and movers	9805.3000, 9819.1400	Sixteen per cent or Rs. 400 per bill of lading, whichever is higher
11	Services provided by software or IT-based system development consultants	9815.6000	Sixteen percent
12	Services provided by technical, scientific and engineering consultants	9815.5000	Sixteen percent
13	Services provided by other consultants including personnel development services, market research services etc.	9815.9000 9818.3000 9818.2000	Sixteen per cent
14	Services provided by tour operators and travel agents	9805.5100 9805.5000 9803.9000	Sixteen percent
15	Manpower recruitment agents	9805.6000	Sixteen percent
16	Services provided by security agencies	9818.1000	Sixteen percent
17	Services provided by advertising agents	9805.7000	Sixteen percent
18	Share transfer or depository agents	9805.9000	Sixteen percent
19	Business support services	9805.9200	Sixteen percent
20	Services provided by fashion designers	9819.6000	Sixteen percent
21	Services provided by architects, town planners and interior decorators	9814.1000	Sixteen percent
22	Services provided in respect of rent-a-car	9819.3000	Sixteen percent
23	Services provided by specialized workshops or undertakings	98.20	Sixteen percent
24	Services provided for specified purposes including fumigation services, maintenance and repair	98.22	Sixteen percent

25	Services provided by underwriters, indenters, commission agents including brokers (other than stock) and auctioneers	9819.1100 9819.1200 9819.1300 9819.9100	Sixteen percent
26	Services provided by laboratories	98.17	Sixteen percent
27	Services provided by health clubs, gyms, physical fitness centres, indoor sports	9821.1000 9821.2000 9821.4000	Sixteen percent
28	Services provided by laundries and dry cleaners	9811.0000	Sixteen percent
29	Services provided by cable TV operators Technical analysis and testing services	9819.9000 9819.9400	Sixteen percent
30	Services provided by TV or radio program producers or production houses		Sixteen percent
31	Transportation through pipeline and conduit services		Sixteen percent
32	fund and asset management services		Sixteen percent
33	Services provided by inland port operators		Sixteen percent
34	Technical inspection and certification services		Sixteen percent
35	Erection, commissioning and installation services.		Sixteen percent
36	Event management services		Sixteen percent
37	Valuation services		Sixteen percent
38	Exhibition or convention services		Sixteen percent
39	Services provided in respect of mining of minerals, oil & gas		Sixteen percent
40	Services provided by property dealers and realtors		Sixteen percent
41	Call centers		Eighteen and a half percent
42	Services provided by car/automobile dealers		Sixteen percent

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## FEDERAL EXCISE ACT, 2005

In the Federal Excise Act, 2005, the following further important amendments are proposed:

### Whistle Blower

Definition of Whistleblower is now proposed which means a person who reports concealment or evasion of duty, corruption or misconduct to the competent authority having power to take action against the person committing fraud, corruption, misconduct, or involved in concealment or evasion of duty. Further, The Board may award to such whistleblower providing credible information resulting detection of tax concealment

### Power of Board to Issue Exemption

The bill seeks to omit the power of the Board's to exempt any good subject to duty.

In case of any national security, natural disaster, national food security or other emergency situations, ECC's approval is required to exempt any goods or class thereof.

New Sub-section is also proposed to be inserted whereby:

- ✓ The federal government is required to present all notifications under this section before National Assembly.
- ✓ All notifications shall stand rescind at the end of financial year in which issued, unless rescinded earlier.

### Tax Stamps, banderoles, stickers, labels etc

The Bill proposes that registered person shall acquire tax stamps, banderoles, stickers, labels, barcode from a licensee appointed by the Board at price approved by Board.

### Special Audit Panel

The Board can appoint as many "Special Audit Panels" which are required to conduct special audit and comprises two or more of the followings:

- An officer(s) of Inland Revenue
- CA firms
- CMA firms
- Any other nominated person by Board

The Chairman of Special Audit Panels shall be an officer of Inland Revenue. The Board shall determine scope, constitution, procedure and working of special audit.

### **Exchange of Information**

New section is proposed whereby;

- ✓ The federal government may collaborate with provincial government for exchange of information with respect of sales tax imposed under the Act.
- ✓ A public servant shall not disclose any information unless required to be disclosed under section 216 of the Income Tax Ordinance, 2001.

### **Excisable Goods - 1<sup>st</sup> Schedule**

Following amendments are in Table 1 of First Schedule:

<b>Description</b>	<b>Heading No.</b>	<b>Rate</b>
Aerated waters	2201.1020	9% of the retail price
Locally produced cigarettes if their on-pack printed retail price exceeds rupees three thousand three hundred and fifty per thousand cigarettes	24.02	(Rs.3,030 / Thousand) Rupees Three thousand and thirty per thousand cigarettes
Locally produced cigarettes if their on pack printed retail price does not exceed rupees three thousand three hundred and fifty per thousand cigarettes	24.02	(Rs.1,300 / Thousand) Rupees one thousand three hundred and twenty per thousand cigarettes
Filter rod for cigarettes	5502.0090	Rupee 0.75 per filter rod

### **Conditional Exemptions - 3<sup>rd</sup> Schedule**

Following goods/services are made part of conditional exemption from FED now. The new insertions in Table I & II of Third Schedule are:

<b>Description of goods/services</b>	<b>Headings</b>
White cement	25.23
Motor cars	87.03
Services provided or rendered in respect of travel by air of passengers on "socio-economic routes"	98.03
Services provided or rendered in respect of travel by air of passengers on international journeys from Pakistan	9803.1000
Advertisements in newspapers and periodicals	9802.4000
Services provided or rendered by banking companies and nonbanking financial companies	98.13

*Your suggestions and feedback will warmly be welcome*





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