



# MEMORANDUM

2016

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*Chartered Accountants*

A member of

**mgiworldwide** 

## SUMMARY OF PROPOSED CHANGES IN FEDERAL BUDGET

### *Finance Bill 2016 - 17*

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 2016 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;  
[www.ilyassaeed.com](http://www.ilyassaeed.com)

ILYAS SAEED & CO  
*Chartered Accountants*  
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# OVERVIEW COMMENTS

## Budget and Economy

Budget, as every year, was announced by the Finance Minister on June 3, 2016, outlining the policy of Government income and expenditure outlay of Rs.4.39 Trillion. As always, every sector of business and even common people look for relief and incentives in the Budget and expect that Government allow all the reliefs without any accountability.

A common man and specially a business man expects complete fundamental gratis from Government to earn income, at the same time, Government expects from its citizens to comply with all constitutional obligations, be it taxes, abiding of law and civic responsibilities. It is common nature of human being that one likes to hold other accountable but do not like to be accountable.

In majority, one likes to seek relief from Government in every possible way but is not ready to contribute in taxes to the land where it is generated. A nation cannot prosper without contribution from its citizens in the form of taxes, ethically and honestly.

As per Economic Survey of Pakistan, economy maintains its real GDP at 4.71 percent in FY 2016 which is the higher from last years. The external sector has become more stable on account of robust growth in workers' remittances; continued flows from IFIs; and a sharp decline in global oil prices. The country's FX reserves have reached all time high above US\$ 21 billion in May 2016. Cost of ongoing business has seen a slight reduction due to reduction in petroleum product prices and reduced borrowing rates.

GDP growth received a major setback in agriculture growth on account of massive decline in cotton and rice production. However, remarkable growth is shown in industrial and services sector. Core structural issues such as energy and gas shortages are hampering the economic activities which had eaten away 2-3 percent of our growth, particularly the industrial sector was badly hit.

Worrisome factors is the decline in export, particularly textile which to some extent moving but not to the level where it should be. Global reason attributed is the slowdown in Chinese economy resulted in huge unsold stock of yarns and fabric and stiff competitive and limited demand.

The operation Zarb-e-Azb played a vital role in maintaining peace and stability in the country. Besides, joint action of civilian and security agencies in the urban areas, particularly in Karachi, has improved law and order situation in the country.

Pakistan continues to be the sixth most populated country in the world with an estimated population of 195.4 millions. Majority of this population is youth which is to be taken as advantage and be promoted and given opportunity as entrepreneurs. As a long term policy, large Scale manufacturing sector be promoted in the country with technology transfer and manufacturing facilities in Pakistan instead of depending on

imports. Agriculture, being the back bone of Pakistan economy be given top most priority in the economic policy with value addition industry.

There is no lack of commitment, enthusiasm and courage in our nation. All we need is to follow the right path continuously. Let's resolve that we will work together to shape our destiny. May Allah bless us with all the courage and strength to work together for a brighter and healthy future for us, our generations to come and forever lasting Pakistan.

**TOTAL EXPENDITURE OVER THE YEARS**

**TOTAL EXPENDITURE**



**CLASSIFICATION OF PROPOSED EXPENDITURE FOR THE YEAR**



# SALIENT FEATURES

## Of The Budget 2016

### INCOME TAX

#### Relief Measures

- Reduction in Tax Rate for Companies
- Exemptions under Gwadar Port Concession Agreement
- Exemption on Investment in Greenfield Industrial Undertakings
- Tax Credit for Employment Generation (industrial undertaking)
- Tax Credit for making sales to registered persons
- Tax Credit for Balancing, Modernization and Replacement (BMR)
- Tax Credit for Enlistment
- Tax Credit for Establishing new industry and expansion of existing plant
- Extending exemption to export of IT services
- Enhancing limit of interest on House Building Loan
- Employers' Annual Contribution in Provident Funds increased
- Tax Credit on Health Insurance
- Reduction in Tax Rate on Commission of Life Insurance Agents
- Relief on Education Expenses

#### Revenue Measures

- Advance Tax for Alternate Corporate Tax (ACT) for
- Rationalizing Rates For Capital Gain Tax On Immovable Property
- Taxation of Property Income on Gross Basis
- Persons registered with Provincial Sales Tax Authorities
- Rationalizing Minimum Tax
- Extending the Scope of Minimum Tax
- Taxation of Builders & Land Developers
- Withholding Tax on Mining
- Extending the leviability of Super Tax for year
- Increasing Cost of Non-Compliance with Tax Laws
- Rationalization of Withholding Tax on Commercial Electricity Bills

### SALES TAX & FEDERAL EXCISE

- Zero-rating of export oriented sectors  
*Enforcement through SRO, effective from 01.07.2016.*
- Exemption of sales tax on pesticides.  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Exemption of sales tax on Premises for Growth Stunting  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
  - Exemption of sales tax on import of Laptops and PCs.



- Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Increase in turnover threshold for cottage industry  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Exclusion of Secondhand and Worn Clothing from further tax levy.  
*Enforcement through SRO, effective from 01.07.2016.*
- FED at 16% withdrawn on if provincial sales tax is collected  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Exemption to Dump Trucks for Thar Coal Field  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Exemption from sales tax and Federal Excise Duty to Concession Holder of Gwadar Port Authority and its operating companies.  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Exemption from sales tax and Federal Excise Duty to businesses to be established in Gwadar Free Zone.  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Exemption to silos along with machinery and equipment for the development of grain handling and storage facilities  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Abolition of zero-rated status of stationery items.  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Abolition of zero-rated status of Milk.  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Enhancement of Federal Excise Duty on Cement.  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Levy of sales tax on sugar at reduced rate of 8% & Levy of sales tax on urea at reduced rate  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Increase in the rate of sales tax on import of Mobile Phones.  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Enhancement of rates of Federal Excise Duty on cigarettes.  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Enhancement of Federal Excise Duty on Aerated Waters.  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Introduction of optional regime for Tier-1 Retailers.  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Inclusion of mineral/bottled water in retail sale tax mode  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Enhancement of rate of sales tax on certain ingredients of poultry feed.  
*Enforced through Finance Bill, 2016, effective from 01.07.2016.*
- Marble Cutting and Polishing Industry.  
*Enforced through amendment in the Sales Tax Special Procedure Rules, 2007, effective from 01.07.2016.*
- Enhancement of fixed rate basis on steel sector, ship breakers and steel melters.  
*Enforced through amendment in the Sales Tax Special Procedure Rules, 2007, effective from 01.07.2016.*
- Rationalization of exemption available to plant, machinery, equipment, etc. for production of Bio-Diesel.



*Enforced through Finance Bill, 2016, effective from 01.07.2016.*

### CUSTOM DUTY

- Tariff slabs reduced from existing 5 to 4 by merging 2% slab and 5% slab in new 3% slab. 10% and 15% slabs substitute with 11% and 16% slabs respectively.
- Concessions of CD for Dairy, Livestock & Poultry Sectors from 5% to 2%.
- Concessions of CD for Fish Farming, fish feed pellet (floating type) machines from 5% to 2%, fish / shrimp feed 10% & 20% to 0%.
- Exemption from CD on import of Premixes to prevent growth stunting (from 5 - 20 to 0%).
- Expansion in scope of exemption on Renewable Energy Technologies.
- Expansion in scope of exemption for Charitable non-profit making Institutions Operating Hospitals.
- Relief on Cool Chain Machinery.
- Extension in relief on import of Solar Panels till June, 2017.
- Exemption from CD and taxes on disposal of old & used ambulances imported by Edhi Foundation.
- Implementation of automotive development policy (ADP) 2016-2021.

*Source: FBR*

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## BRIEF SUMMARY

### *Of The Proposed Amendments 2016*

#### INCOME TAX

- ✓ Applicability of Super Tax is proposed to be extended for Tax Year 2016.
- ✓ A new Section 7C regarding the taxability of Income of Builders is proposed to be inserted.
- ✓ A new Section 7D regarding the taxability of Income of Developers is proposed to be inserted.
- ✓ Taxes proposed to be imposed under section 7C and 7D shall be final tax.
- ✓ Separate rates of tax for property Income are proposed to be inserted.
- ✓ Deductions from Property Income are proposed to be allowed to Companies Only.
- ✓ Inadmissibility of expenses on account of non-deduction of taxes is proposed to be limited to twenty percent in case of purchases of raw materials and finished goods.
- ✓ A limit on expenditure incurred on sales promotion, advertisement and publicity at five percent of turnover is proposed to be imposed on pharmaceutical manufacturers.
- ✓ Depreciation on building, furniture, plant or machinery shall be treated as admissible expenditure and after the expiration of the exemption period.
- ✓ Gain on disposal of immovable property within five years charged to tax @ 10% and after five years at 0%.
- ✓ Future commodity contracts by the member of "Pakistan Mercantile Exchange" have been brought under the ambit of 37A "Derivative Products".
- ✓ Power of economic coordination committee to grant exemption for implementation of bilateral and multilateral agreements.
- ✓ Criteria for surrender of loss of subsidiary to the holding company in proportion to its shareholding.
- ✓ Tax credit to resident person other than company in respect of health insurance premium or contribution paid to any insurance company.
- ✓ Additional contribution of two percent per annum for each year of age exceeding forty years up to the 30th June, 2019 subject to the conditions.
- ✓ Deductible allowance against profit on debt paid on house loan from Rs.1 Million to Rs.2 Million.
- ✓ Allowance for Children education expenses incurred by an individual in a tax year if taxable income of the individual is less than Rs.1 Million.
- ✓ Enhancement in time for establishment of manufacturing unit's upto June 30, 2019.
- ✓ Tax Credit @ 2% for every fifty employees registered with EOBI and Social Security.
- ✓ Enhancement in the rate of tax credit from 2.5% to 3% of tax payable for manufacturers registered under Sales Tax Act, 1990.
- ✓ Tax Credit on investment for Balancing, Modernization and Replacement upto June 30, 2019.
- ✓ Tax Credit for enlistment to the taxpayer for the year in which the company is enlisted and for the following tax years.

- ✓ Enhancement in time for establishment of new undertaking and those established before July 2011 from 2016 to 2019 to claim 100% tax credit with relaxation in the limit of investment from 100% to 70%.
- ✓ Scope of apportionment u/s 67 is widen from expenditures to “deductions and allowances”.
- ✓ Fair market value of property to be determined as per market value, irrespective of its DC value.
- ✓ “Foreign Trust” to be included under the definition of company u/s 80.
- ✓ Federal Government to enter into any tax treaty or information exchange agreement for tax information exchange.
- ✓ Checks on transaction of taxpayer with its associates.
- ✓ Reduction in the limit of Turnover on individual and AOP from Rs.50 Million to Rs.10 Million.
- ✓ Condition for approval of commissioner for revision of return is deemed to have been relaxed.
- ✓ Advance Tax u/s 147 to include minimum Tax and Alternative Corporate Tax.
- ✓ Increase in withholding tax on dividend income @20% for non-filers.
- ✓ Foreign produced commercials to be taxed @ 20% on payment to non-resident person.
- ✓ Withholding Tax to be deducted @ 1.5% on payment to electronic and print media for advertising services.
- ✓ Concession to cotton ginner to deposit the amount equal to Tax deductible in the Government Treasury is withdrawn.
- ✓ Withholding tax @ 3% of the gross amount payable, if the supplier is a company and @ 3.5% if the supplier is other than a company on supplies of FMCG.
- ✓ Withholding tax @ 20% on prize, prize bonds or cross word puzzle for non- filers.
- ✓ Non- filer tax deducted on the income liable to be taxed as final tax.
- ✓ Enhancement in the filing of Refund application from two years to three years.
- ✓ Restriction on cash withdrawal up to Rs.50,000/- in day from all Banks.
- ✓ No advance tax collection after the expiry of 5 years from the date of first registration of motor vehicle.
- ✓ Leasing institutions to collect advance tax @ 3% of the value of the motor vehicle non-filers.
- ✓ Life Insurance Agents has been brought in the ambit of withholding.
- ✓ Withholding tax on sale and purchase value of share @ 0.02% from 0.01%.
- ✓ Withholding tax @12% on commercial electricity bill.
- ✓ Rates of advance tax on Sale and purchase of immovable property have been increased.
- ✓ Non- filers to pay advance tax on insurance premium @ 4% and life insurance premium @1% exceeding Rs.0.2 M.
- ✓ Advance tax @ 5% of the value of minerals for non- filers and 0% for filers.
- ✓ Advance tax from non- filers who are registered with provincial sales tax.

## **SALES TAX & FEDERAL EXCISE**

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

- ✓ Change in definition of cottage industry by increasing the limit of Annual turnover to 10 million from 5 million.
- ✓ Change in due of filing of return and new mechanism for filing of sales tax and FED returns is proposed for efficiency of declaration
- ✓ No input tax adjustment if supplier has not declared the supply.
- ✓ Default surcharge if sales tax not withheld
- ✓ Separate filing of sale tax return is now withdrawn in case of change of sale tax rate.
- ✓ Directorate General of Input Output Coefficient Organization is proposed to be consisted of Director Generals and as many directors as Board may appoint.
- ✓ Sales of taxable activity or Transfer of ownership that transferor will claim the input from zero rated invoice and sales tax accounted for and paid by transferee.
- ✓ Mineral/bottled water are included in 3<sup>rd</sup> schedule and sale tax charge at 17% on retail price.
- ✓ Laptops / PCs are exempted from sales tax.
- ✓ Crystalline White Sugar has been brought under reduced tax @ 8%.
- ✓ Agricultural Pesticides and Ingredients have been exempted from tax.

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# INCOME TAX ORDINANCE, 2001

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

## Super Tax

## Section 4B

By Finance Bill, 2015, a new tax was 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, by virtue of Finance Bill, 2016, the same has been proposed to be extended for tax year 2016 as well.

Computation of Super Tax is proposed to be extended by excluding Depreciation and Business Losses from the definition of income for purposes of Super Tax. Earlier taxable income under section 9 was part of the computation which was after adjustment of depreciation and business losses.

## Rates Of Super Tax

## Div IIA, Part I, 1<sup>st</sup> Sch.

| 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 |

## Tax on Builders

## Section 7C

By virtue of Finance Bill 2016, profit and gains of persons involved in the construction and sale of residential, commercial or other "Buildings" initiated and approved after 1<sup>st</sup> July 2016 shall be taxed at fixed rates. No Tax Credit shall be allowed against the liabilities arising under this section.

Consequently, section 113A which previously dealt with taxation of Builders as Minimum Tax is proposed to be omitted.

The content of the proposed section is reproduced hereunder;

The tax imposed shall be computed by applying the relevant rate of tax to the area of the residential, commercial or other building being constructed for sale.

The proposed tax rates are as follows;

|           |
|-----------|
| (REGIONS) |
|-----------|

|                                    |             |  |              |  |              |
|------------------------------------|-------------|--|--------------|--|--------------|
| (A) Karachi, Lahore and Islamabad  |             | (B) Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta |              | (C) Urban Areas not specified in A and B |              |
| <i>(For commercial buildings)</i>  |             |  |              |  |              |
| Rs. 210/ Sq. Ft                    |             | Rs. 210/ Sq. Ft  |              | Rs. 210/ Sq. Ft                          |              |
| <i>(For residential buildings)</i> |             |  |              |  |              |
| Area in Sq. Ft                     | Rate/Sq. Ft | Area in Sq. Ft   | Rate/ Sq. Ft | Area in Sq. Ft                           | Rate/ Sq. Ft |
| Up to750                           | Rs. 20      | Up to750   | Rs. 15       | Up to 750                                | Rs. 10       |
| 751 to 1500                        | Rs. 40      | 751 to 1500  | Rs. 35       | 751 to 1500                              | Rs. 25       |
| 1501 & more                        | Rs. 70      | 1501 and More  | Rs. 55       | 1501 and more                            | Rs. 35       |

## Tax on Developers

## Section 7D

By virtue of Finance Bill 2016, levy of tax has been proposed as final tax on profit and gains of persons involved in the development and sale of residential, commercial or other **“Plots”** initiated and approved after 1<sup>st</sup> July 2016. No Tax Credit shall be allowed against the liabilities arising under this section.

Consequently, section 113B which previously dealt with Minimum Tax on Developers is proposed to be omitted.

The proposed tax rates are as follows;

|                                    |             |  |              |  |              |
|------------------------------------|-------------|--|--------------|--|--------------|
| <b>(REGIONS)</b>                   |             |  |              |  |              |
| (A) Karachi, Lahore and Islamabad  |             | (B) Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta |              | (C) Urban Areas not specified in A and B |              |
| <i>(For commercial buildings)</i>  |             |  |              |  |              |
| Rs. 210/ Sq. Yd                    |             | Rs. 210/ Sq. Yd  |              | Rs. 210/ Sq. Yd                          |              |
| <i>(For residential buildings)</i> |             |  |              |  |              |
| Area in Sq. Yd                     | Rate/Sq. Yd | Area in Sq. Yd   | Rate/ Sq. Yd | Area in Sq. Yd                           | Rate/ Sq. Yd |
| Up to 120                          | Rs. 20      | Up to 120  | Rs. 15       | Up to 120                                | Rs. 10       |
| 121 to 200                         | Rs. 40      | 121 to 200   | Rs. 35       | 121 to 200                               | Rs. 25       |
| 201 and More                       | Rs. 70      | 201 and More   | Rs. 55       | 201 and more                             | Rs. 35       |

**Income from Property**

**Section 15, sub-section (6)(7)**

Earlier, Income from property u/s 15 of the Income Tax Ordinance, 2001 was charged to tax at normal applicable rates for Individuals and AOPs. Now, by Finance Bill, 2016, Income from property has been kept as Separate Block of Income and Separate tax rates are proposed to be inserted by addition of sub-section 6 under section 15.

Before Finance Act 2013, property income was taxed at fixed rates. With Finance Act 2013 (Applicable for tax year 2014) the Income from property was included under the preview of Normal Taxation. Now, proposed insertion of sub-section (7), the intention of the legislature is to again classify the Income from Property as "Separate Block of Income", to be taxed as final tax.

Tax Rates are proposed are as:

| Sr. | Particulars                    | Rate  |
|-----|--------------------------------|---|
| 1.  | Upto Rs. 200,000               | 0%  |
| 2.  | Rs. 200,001 to Rs. 600,000     | 5% of the gross amount exceeding Rs. 200,000              |
| 3.  | Rs. 600,001 to Rs. 1,000,000   | 20,000 + 10% of the gross amount exceeding Rs. 600,000    |
| 4.  | Rs. 1,000,001 to Rs. 2,000,000 | 60,000 + 15% of the gross amount exceeding Rs. 1,000,000  |
| 5.  | More than Rs. 2,000,000        | 210,000 + 20% of the gross amount exceeding Rs. 2,000,000 |

Withholding tax under this head of income by withholding agent have been brought in line with tax rate under this head of income.

**Deduction in Computing Income**

**Section 15A**

**Chargeable under the head Income from Property**

Since, Individuals and AOPs shall be taxed as separate block of income under the head of income from Property, there shall be no deduction allowed against said income. However, for companies, the rental income shall remain as normal income and deductions shall be allowed as such.

**Deductions not allowed**

**Section 21(c)**

Earlier, the expenditures incurred in respect of Salary, Rent, Brokerage, Commission, Profit on Debt, Payment to non-resident and payment for services or fee were allowed as Admissible expenditures for charging of tax under the head "Income from Business" if the tax had duly been deducted and deposited at the time of making the payment for such expenses.

Now, by virtue of Finance Bill, 2016, the proposed amendment under this section enhances the scope and includes all "expenditures" instead of specific expenditures as mentioned above.

Proviso is proposed by which the disallowance of expenditures under the said clause is proposed to be restricted to 20% of Raw material and Finished goods. Further, proviso is

proposed where if the tax has duly been paid under withholding assessment u/s 161 and 162 then disallowance shall not be made under the said clause.

The Bill further proposes to restrict expenditure incurred on sales promotion, advertisement and publicity by Pharmaceutical manufacturers at maximum of 5% of turnover. Any expenditure under the said head(s) in excess of 5% shall be inadmissible expenditure.

### **Depreciation**

### **Section 22(5)**

The Bill has proposed explanation that where Income from business is exempt from tax during the year then any depreciation on building, furniture, plant or machinery used for the purposes of business during tax year shall be treated to have been allowed as admissible expenditure and after the expiration of the exemption period, the written down value of such assets shall be determined after reducing total depreciation deductions (including any initial allowance).

With this amendment, after exemption period, the plant, machinery and equipment shall be valued after depreciation and initial allowance and consequently the allowable depreciation in taxable period shall be reduced.

### **Capital gain on disposal of immovable property**

### **Section 37**

The bill proposes to increase the exempt holding period for immovable property from two years to five years. Any gain on disposal of immovable property within five years shall be charged to capital gains tax @ 10%. Disposal after five years shall be 0%.

### **Capital gain on disposal of securities**

### **Section 37A**

Finance Bill, 2016 proposed insertion of Future commodity contracts entered into by the member of "Pakistan Mercantile Exchange" whether settled by physical delivery or not under the ambit of "Derivative Products" that have been included in the definition of "Security" under sub-section (3) of section 37A.

Consequently, the legislature has proposed omission of section 236T relevant to "Collection of Advance Tax of Future Sale and purchase of Commodity Contract". Income under Future commodity contracts entered into by the members of Pakistan Mercantile Exchange shall be taxed @ 5%.

The tax rates under this section have been increased as:

| Sr. | Holding Period  | 2015  | 2016  | Tax Rates 2017 |           |
|-----|---|-------|-------|----------------|-----------|
|     |   |       |       | Filer          | Non-filer |
| 1   | Where holding period of a security is less than twelve months.                        | 12.5% | 15%   | 15 %           | 18%       |
| 2   | Where holding period of a security is twelve months or more but less than twenty-four | 10%   | 12.5% | 12.5 %         | 16%       |

|    |  |    |      |       |     |
|----|--|----|------|-------|-----|
|    | months.  |    |      |       |     |
| 3  | Where holding period of a security is twenty-four months or more but security was acquired on or after 1 <sup>st</sup> July, 2012. | 0% | 7.5% | 7.5 % | 11% |
| 4  | Where the security was acquired before 1 <sup>st</sup> July, 2012  | 0% | 0%   | 0%    | 0%  |
| 5. | Future commodity contracts entered into by the members of Pakistan Mercantile Exchange   | 0% | 0%   | 5%    | 5%  |

**Exemption and Tax Concession in Second Schedule**

**Section 53(2)**

The power of Economic Coordination Committee of Cabinet is proposed to be extended by Finance Bill, 2016.

It has been proposed that Economic Coordination Committee of Cabinet for the implementation of bilateral and multilateral agreements entered into with any international Financial Institution or Foreign Government owned financial institution operating under an agreement, memorandum of understanding or any other arrangement with the Government of Pakistan may grant exemption from any tax imposed. The Committee may also grant reduction in tax rates including reduction in tax liability and may also grant exemption from operation of any provision of Ordinance.

**Group Relief**

**Section 59B**

Finance Bill, 2016 has proposed criteria for surrender of loss of subsidiary to the holding company in proportion to its share holding. The new insertion proposed the following formula for the calculation of surrender losses.

$$(A / 100) \times B$$

Where-

**A** is the percentage share capital held by the holding company of its subsidiary company; and

**B** is the assessed loss of the subsidiary company.

Further, in Second Schedule, the exemption granted for inter corporate dividend has been omitted under this section.

**Tax Credit for Investment in Health Insurance**

**Section 62A**

New insertion is proposed whereby a resident person other than a company whether chargeable under the head Salary and income from Business shall be entitled to a tax credit for a tax year in respect of any health insurance premium or contribution paid to any insurance company registered with SECP under Insurance Ordinance, 2000.

The amount of a person's tax credit allowed for a tax year shall be computed according to the following formula, namely: –

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

Where –

**A** is the amount of tax assessed to the person for the tax year before allowance of tax credit under this section;

**B** is the person's taxable income for the tax year; and

**C** is the lesser of –

(a) the total contribution or premium paid by the person referred to in sub-section (1) in the year;

(b) five per cent of the person's taxable income for the year; and

(c) one hundred thousand rupees.

### **Contribution to an Approved Pension Fund**

### **Section 63(2)(c)(ii)**

Any eligible person exceeding 40 years of age was entitled to make additional contribution of 2% per annum for each year starting from the first day of July, 2006. The said additional contribution has been restricted to 50% of the total taxable Income of the preceding year.

The ten years condition starting from July 1, 2006 was expiring on July 1, 2016 which has been extended by proposed further proviso to allow contribution up to July 1, 2019.

The scope of additional contribution of two percent per annum for each year of age exceeding forty years shall be available up to the 30th June, 2019 subject to the condition that the total contribution allowed to such person shall not exceed thirty percent of the total taxable income of the preceding year.

The condition of maximum 50% of taxable income is applicable but allowance is proposed for those persons who have started contribution in approved pension after 2006.

### **Deductible allowance for Profit on Debt**

### **Section 64A**

By Finance Bill, 2016, the limit for deductible allowance is proposed to be allowed against profit on debt paid on house loan from Rs.1 Million to Rs. 2 Million, subject to not exceeding 50% of taxable income.

### **Deductible Allowance for Education Expenses**

### **Section 64AB**

The Bill has proposed insertion of new section by which there shall be allowance for Children education expenses incurred by an individual in a tax year against taxable income subject to the condition that the taxable income of the individual shall be less than Rs.1 Million.

The proposed tax credit allowed shall be the lesser of the following;

- 5% of the total tuition fee paid
- 25% of the individuals taxable income or
- Rs.60,000 multiplied by the number of children



Tax Credit shall not be allowed if the taxpayer fails to furnish the NTN or Name of the educational institute. Tax Credit under this section shall not be carried forward for subsequent tax years and this credit shall not be allowed u/s 149 by employer for withholding tax under salary.

Th limit is restricted to 1 Million taxable income. Even if, a person pays his total taxable income as tuition fee, he can get maximum of (1M x 5%) 50,000/- as allowance. The rational of limits is not logically proposed.

**Tax Credit for Employment Generation  
by Manufacturers**

**Section 64B**

The Bill proposes to enhance the time frame for establishment of manufacturing unit's upto June 30, 2019. Earlier, it was upto June 30, 2018. Further, the Bill proposes to substitute Tax Credit to 2% for every fifty employees registered with EOBI and Social Security. Earlier, the same has been held at 1%.

**Tax Credit to a person registered  
under Sales Tax Act, 1990**

**Section 65A**

Earlier, every manufacturer, registered under the Sales Tax Act, 1990 was entitled to the tax credit of 2.5% of tax payable for tax year, if 90% of his Sales were to person registered under the same act. To further promote documented economy, the Bill proposes to enhance the rate of tax credit from 2.5% to 3% of tax payable while the condition of 90% of Sales to registered person remains the same.

**Tax Credit for Investment**

**Section 65B**

The Bill proposes to enhance the time frame for Tax Credit on investment on account of Balancing, Modernization and Replacement upto June 30, 2019. Earlier, it was available till June 30 ,2016.

**Tax Credit on Enlistment**

**Section 65C**

It is proposed that the Tax Credit for enlistment shall be available to the taxpayer for the year in which the company is enlisted and for the following tax years as well. Earlier, it was only restricted to the year in which the enlistment was opted.

**Tax Credit for Newly Established Undertaking**

**Section 65D**

The Bill proposes to enhance the time frame for establishment of new undertaking from June 30, 2016 to June 30, 2019 to claim 100% tax credit for establishing new industrial undertaking. The Bill also proposes to relax the limit of investment from 100% to 70% of the equity to be raised through issuance of new shares.

Further, the Bill proposes to enhance the power of assessing authority to add further checks on claim of tax credit and empower the commissioner to disallow or reduce the tax credit and to compute the tax payable for the year. It is also proposed that credit shall be disallowed if it is discovered that the Business has been discontinued in the subsequent five years after the credit has been claimed.

The Bill proposes mechanism for calculation of tax credit on account of newly established undertaking by restricting it to prorate up to issuance of equity in cash.

**Tax Credit for Industrial Undertaking  
Established before July 2011**

**Section 65E**

The Bill proposes to enhance the time frame for expansion in Plant and Machinery or undertaking a new project by an existing Industrial undertaking from June 30, 2016 to June 30, 2019.

Further, the Bill proposes to enhance the power of assessing authority to add further checks on claim of tax credit and empower the commissioner to disallow or reduce the tax credit and to compute the tax payable for the year. It is also proposed that credit shall be disallowed if it is discovered that the Business has been discontinued in the subsequent five years after the credit has been claimed.

The Bill proposes mechanism for calculation of tax credit on account of newly established undertaking by restricting it to prorate up to issuance of equity in cash.

**Apportionment of Deductions**

**Section 67**

Finance Bill, 2016 proposes to enhance the Scope of said section. Earlier, the apportionment was applicable to expenditures with their relevant head of incomes. Now, the legislature intends to clarify the scope of apportionment by inserting the expression "deductions and allowances" alongside expenditures. Now all the deductions and allowances shall also be apportioned accordingly under Rule 13.

**Fair Market Value**

**Section 68**

The Bill proposes to clarify the Fair Market Value of any property, Rent, Asset, and Service, benefit or perquisite. Now, the legislature intends to specifically exclude the value fixed or notified by the provincial authority for the purpose of stamp duty or for any other purpose for the determination of Fair Market Value in addition to the restriction or transfer or non- cash equivalence.

Now fair market value of property (land) shall be determined as per market value, irrespective of its DC value. This shall give extra arm to the assessing officer to determine and evaluate any fair market value of property (Land).

**Person**

**Section 80**

The Bill proposes to include every “Foreign Trust” under the definition of company in accordance with section 80(2)(b)(vb).

**Avoidance of Double Taxation**

**Section 107**

By proposed substation, the Federal Government is empowered to enter into any tax treaty or information exchange agreement for tax information exchange, a multilateral convention, an inter-governmental agreement, a similar arrangement or mechanism.

All the information sought under this mechanism or agreement shall be kept confidential.

**Transaction between Associates**

**Section 108**

The Bill propose to insert further checks on transaction of taxpayer with its associates. The taxpayer has been required to maintain all necessary records and documents as proposed by the legislature.

A new sub-section 4 is proposed to be inserted by which taxpayer is bound to furnish record/ documents and information regarding the transaction entered into with its associates within 30 days when required by the Commissioner in the course of proceedings. The Commissioner may grant extension of maximum 45 days for furnishing of documents on the receipt of application in writing by proposed insertion of sub-section 5.

**Minimum Tax**

**Section 113**

The Bill proposes to reduce the limit of Turnover on individual and AOP from Rs.50 Million to Rs.10 Million for applicability of Minimum tax from tax year 2017 and onward. Earlier, the limit of Rs.50 Million was imposed from tax year 2009 for individual and from tax year 2007 for AOP.

Further, proviso to sub-section 113(1) is proposed to be omitted by which companies shall have no umbrella of gross tax loss available and they shall be required in any case to pay minimum tax even in the case of gross loss.

The bill further proposes that tax payable or paid under Super Tax cannot be adjusted against the minimum tax liability.

**Return of Income - Revision**

**Section 114(6)**

The bill proposes that approval required from the commissioner is deemed to have been granted where the commissioner has not made the approval in writing within sixty days of revision of return sought or where the taxable income declared as per revise return is

more than the income declared under deemed assessment u/s 120 or where the loss declared as per revise return is less than the loss declared under deemed assessment u/s 120.

### **Provisional Assessment**

### **Section 122C**

The order passes u/s 122C on the basis of provisional assessment is treated as final assessment after the expiry of 45 days. Now, the Bill proposes to enhance the scope and Individual or an association of persons are required to present accounts and documents for conducting audit of income tax affairs for that tax year even when the return along with wealth statement has been filed within the period of 45 days allowed under section 122C.

The Bill further proposes to enhance the scope in case of companies who are required to present audited accounts or final accounts for conducting audit of income tax affairs for that tax year even when the return has been filed within the period of 45 days allowed under section 122C.

### **Advance Tax**

### **Section 147(4)(4AA) and(6A)**

Finance Bill, 2016 has proposed insertion for Advance Tax Formula to includes tax u/s 113 (minimum Tax) as well as 113C (Alternative Corporate Tax).

For advance tax purposes, tax liability under section 113 and 113C shall be taken into account.

### **Advance Tax on Dividend**

### **Section 150**

The bill proposes to increase withholding tax on dividend income for non filer @20% from tax year 2017 which was 17.5% for tax year 2016.

Further the bill also proposes to include non filer rates for Money market fund, income fund or REIT scheme or any other fund which shall be 15% for individuals and AOPs than 10% applicable to filers.

### **Payments for Foreign Produced Commercials**

### **Section 152A**

The Bill proposes tax on payment for foreign produced commercials. The tax @ 20% shall be deducted on the gross amount of payment and the same shall be treated as final tax on the income of non-resident person from such payment.

### **Payment for Goods, Services & Contracts**

### **Section 153(3) and (5)**

#### **Electronic and Print Media**

It is proposed that tax deducted on account of payment to electronic and print media for advertising services shall be Final Tax w.e.f 1<sup>st</sup> July 2016. Withholding tax was

applicable @1% from last year and was adjustable. Now it has been increased to 1.5% and is proposed to be treated as final tax.

### **Cotton Ginners**

Earlier, relaxation was granted to cotton ginners to deposit the amount equal to Tax deductible in the Government Treasury by themselves. Now, the same concession is proposed to be omitted.

### **Fast moving consumer goods**

The bill proposes to include withholding tax in the case of the supplies made by the distributors of fast moving consumer goods. FMCG was defined in Finance Act 2015. It is proposed that withholding tax @3% of the gross amount payable, if the supplier is a company and @3.5% if the supplier is other than a company shall be collected.

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

### **Section 169(4)**

Withholding tax rate for prize, prize bonds or cross word puzzle has been increased to 20% in case of non filer. For filer, rate remains as 15%.

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

### **Section 169(4)**

New insertion is proposed whereby if non filer tax is deducted on the income liable to be taxed as final tax, the excess amount over the filer rate shall be adjustable. The same shall be available for refund or carry forward for adjustment in subsequent period.

### **Refunds**

### **Section 170(2)**

Earlier a taxpayer was only eligible to file tax refund application within two years from the date of assessment order or from the date when tax was paid. Now the bill proposed to increase the time limit to three years.

### **Offences and Penalties**

### **Section 182**

The bill proposed to include financial institutions in the ambit of penalty if they fail to furnish information as sought under section 165B.

### **Cash Withdrawal from Bank**

### **Section 231A**

Explanation is proposed to be inserted whereby restriction is imposed on withdrawal of cash up to Rs.50,000/- in day from all Banks of the taxpayer.

Earlier, the practice was to withdraw maximum of Rs.50,000/- in cash without tax deduction from bank account. The proposed amendment seems logical but mechanism of its check has not been identified. Does this mean that all banks will also share the data of a taxpayer to identify the withdrawal from all banks of a person?

**Advance tax on private motor vehicles**

**Section 231B**

It is proposed that no advance tax collection shall be made after expiry of 5 years from the date of first registration.

Further, it is proposed with new insertion that every leasing company or a scheduled bank or an investment bank or a development finance institution or a modaraba shall, at the time of leasing of a motor vehicle to a nonfiler, shall collect advance tax at the rate of three per cent of the value of the motor vehicle.

**Brokerage and Commission**

**Section 233**

The bill has proposed to include Life Insurance Agents in the ambit of withholding where commission received is less than Rs.0.5 million per annum. The withholding tax shall be @8% for filer and @15% for non filer. In case, where commission is more than 0.5million, the withholding rate shall be @12% for filer and @15% for non filer.

**Collection of tax by a Stock Exchange registered in Pakistan**

**Section 233A**

The bill proposes to increase withholding tax on sale and purchase value of share @ 0.02% from 0.01%.

**Electricity Consumption**

**Section 235**

The bill proposes to increase withholding tax @12% on commercial electricity bill where bill exceeds Rs.20,000/-. Earlier the advance tax was @10% on the electricity consumption charges.

**Advance tax at the time of sale by auction**

**Section 236A**

The bill proposed to insert new sub section whereby tax collected on a lease of the right to collect tolls shall be final tax.

**Advance tax on sale or transfer of immovable property**

**Section 236C**

The bill proposed to insert new sub section whereby advance tax at the time of transfer or sale shall not be collected if the immovable property is held for a period exceeding five years.

Further, the bill proposes to enhance withholding tax as follows:

|           | <b>2016</b> | <b>2017</b> |
|-----------|-------------|-------------|
| Filer     | 0.5%        | 1%          |
| Non Filer | 1%          | 2%          |



**Advance tax on purchase or transfer of immovable property**

**Section 236K**

The bill proposes to enhance withholding tax as follows:

|           | <b>2016</b> | <b>2017</b> |
|-----------|-------------|-------------|
| Filer     | 1%          | 2%          |
| Non Filer | 2%          | 4%          |

There shall be no tax where the value of immovable property does not exceed Rs.3 Million.

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

**Section 236P**

A new section was inserted by Finance Act 2015 to charge advance tax in case of non-filers where sum total of all transactions exceeds Rs.50,000/- a day, on every banking transaction, except payment of taxes through bank. Now the bill proposes to include the limit of transaction of 50,000/- from all bank accounts of a person.

**Advance Tax on Insurance Premium**

**Section 236U**

The bill proposed to tax non filer on payment of insurance premium whereby every insurance company shall collect advance tax at the time of collection of insurance premium from non-filers in respect of general insurance premium (@ 4%) and life insurance premium (@1% exceeding Rs.0.2 M). Advance tax collected under this section shall be adjustable.

**Advance Tax on extraction of minerals**

**Section 236V**

The bill proposes to collect advance tax at the 5% of the value of minerals for non filers and 0% for filers on the value of minerals extracted, produced, despatched and carried away from the licensed or leased areas of the mines. Advance tax under this section shall be collected by the provincial authority collecting royalty per metric ton from the lease-holder of mines or any person extracting minerals. Advance tax collected under this section shall be adjustable.

**Advance Tax from provincial sales tax registered person**

**Section 236W**

The bill proposes to collect advance tax from non filer who are registered with provincial sales tax. Every provincial revenue authority shall collect advance adjustable tax at the rate of three per cent of the turnover from a non-filer who is a provincial sales tax registered person at the time of filing of sales tax return. The return shall not be considered accepted unless the tax required to be collected under this section has been deposited.

## **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;

#### **Board or Organization for Games**

#### **Clause 98**

The exemption under this clause is proposed to be restricted only to the Board or Organization established by the Government.

#### **Business Set Up in Gawadar**

#### **Clause 126AA**

Profit and gains derived by a taxpayer from businesses set up in the Gawadar Free Zone Area for a period of twenty three years with effect from the first day of July, 2016 is proposed to exempt.

#### **China Overseas Ports Holding Company**

The bill proposes to grant exemption to COPHC and its allied companies in Gawadar free zone from tax. Minimum tax shall also not be applicable to COPHC.

#### **Income from Exports of Computer Soft wares and IT Services**

#### **Clause 133**

The bill proposes to extend the exemption period up to June 2019 which was expiring on June 30, 2016. However, the bill also proposes that the exemption shall only be available if 80% of the export proceeds is brought into Pakistan into foreign exchange through normal banking channel.

## **REDUCTION IN TAX RATES**

#### **Part II**

#### **Income from construction contract and services outside Pakistan** **Clause 3**

The bill seeks to charge the rate @50% of normal tax rates which are applicable for contract and services executed in Pakistan. Consequently, the tax rates have been increased on construction contracts and services rendered outside Pakistan from 1% to 3.5% in case of contracts and from 1% to 4% in case of services.

## **EXEMPTION FROM SPECIFIC PROVISIONS**

#### **Part IV**

## **Minimum Tax not Applicable**

**Clause 11A**

### ***Transmission line project***

Companies, qualifying for exemption Part-I from taxable income in respect of profits and gains derived from a transmission line project are also exempt from minimum tax, involved in transmission line projects.

## **Trading Houses**

**Clause 57**

The bill proposes to bring trading houses under minimum tax, although with reduced rates. It is proposed to charge 0.5% minimum tax on trading houses up to tax year 2019 and 1% turnover tax thereafter.

## **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 be extended for Tax year 2016 also.

## **Import for self consumption**

**Clause 72B**

The bill seeks to impose restrictions on the exemption from withholding tax on imports by inserting provisos which outline the following:

- ✓ Quantity of raw material to be imported shall not exceed 110% from previous year.
- ✓ The taxpayer shall be deemed to be selected for audit u/s 214C for the latest tax year.

## **Unexplained investment in industrial undertaking**

**Clause 86**

Immunity allowed under section 111 (unexplained investment / income) is extended from June 2017 to 2019 for the investment made by a company in industrial undertaking if the commercial production commences before 30 June 2019.

## **Minimum tax on Companies providing services**

**Clause 94**

The exemption granted to companies providing services as minimum tax is extended from 2016 to 2017. The tax deducted under section 153(1)(b) shall be adjustable tax in case of companies providing services of freight forwarding, air cargo, courier, man power outsourcing, hotel, security guard, software development, IT services and IT enables services, tracking, advertising (other by print or electronic media), share registrar, engineering or car rentals.

Provided that irrevocable option is furnished to the Commissioner by November 2016 to furnish its accounts to the Commissioner.

#### **FOURTH SCHEDULE - Insurance Business**

##### **Holding Period of Securities**

##### **Rule 6B**

Income of capital gains on disposal of shares and dividend of listed companies, vouchers of Pakistan Telecommunication corporation, modaraba certificate or instruments of redeemable capital and derivative products and shall be taxed at rates specified for all other taxpayers. The rate is proposed to be correlated with normal tax rates.

#### **SIXTH SCHEDULE - FUNDS**

##### **Recognized Provident Fund**

Contribution made by any employer is proposed to be enhanced to Rs.150,000/- from Rs.100,000/- or 1/10<sup>th</sup> of the salary, whichever is lower.

#### **SEVENTH SCHEDULE - Banking Companies**

##### **Super Tax on Banking**

##### **Rule 7C**

Rule 7C, section 4B (super tax for rehabilitation of temporarily displaced persons) was inserted by Finance Act 2015, whereby Super Tax was applied to Banking Companies at 4%. It is proposed that the same shall be applicable for tax year 2016 as well.

## SALES TAX ACT, 1990

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

### Cottage Industry

### Section 2(5AB)

Cottage Industry is exempt from sales tax. In the definition of cottage industry, limit of annual turnover is proposed to be increased to Rs. 10m/- from Rs. 5m/-.

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 ten million or whose utility bills does during the last twelve months ending any tax period do not exceed eight hundred thousand rupees.

### Due Date

### Section 2(9)

The bill proposes to include different dates for furnishing of different parts or annexure of the returns on different dates. The dates shall be specified by the Board.

With integration of IRIS system, the supplier and purchaser information shall be auto adjusted and up dated by entry from one end. Crest adjudication shall be reduced by this integration.

### Input Tax (Disallowed under Provincial Sales Tax)

### Section 2(14)

The Bill proposes to exclude input tax levied under Provincial Sales Tax on services rendered or provided to the person.

By virtue of this, no input tax shall be claimed or allowed by Sales Tax registered person under Sales Tax Act.

### Time and manner of payment

### Section 6(2)

The bill proposed to prescribe different dates for payment of sales tax". The dates shall be prescribed by the Board.

### Determination of tax liability

### Section 7(2i)

The Bill proposed to insert the proviso to clarify that tax shall be payable if supplies are not declared by the supplier in his return or tax has duly been paid.

That registered person shall not be entitled to deduct input tax from output tax unless;

(i) *Claim input tax from taxable supply, hold invoice;*  
*“Provided that from the date to be notified by the Board in this respect, in addition to above, if the supplier has not declared such supply in his return or he has not paid amount of tax due as indicated in his return;”*

**Tax credit not allowed**

**Section 8(1)(1)**

The bill proposed addition that registered person shall not be entitled to reclaim or deduct input tax paid if the same has not been paid by the buyer.

*(1) from the date to be notified by the Board, such goods and services which, at the time of filing of return by the buyer, have not been declared by the supplier in his return “or he has not paid amount of tax due as indicated in his return.”*

**Assessment of Tax & Recovery of Tax not levied or short levied or erroneously refunded]**

**Section 11(4A)**

The bill proposed to charge default on withholding agent if they fail to deduct or deposit the withholding sales tax under Withholding Sales Tax Rules.

**Exemptions**

**Section 13(2a)**

The bill proposes to enhance the scope of exemption in matters relating to international financial institutions or foreign government-owned financial institutions under the powers of the Federal Government.

**Return**

**Section 26(2)**

With automation of the system of filing of sales tax return, separate return due to change in tax rate is proposed to be dispensed with.

**Appointment of Authorities**

**Section 30 DDD**

The bill proposed make new authority in the name and style of “Directorate General of Input Output Co-efficient Organization” where appointments of officers shall be made by the Board.

**Offences and penalties.-**

**Section 33**

The bill proposed to broaden the scope of offences & penalties ny including non-compliance penalties of Rules there under.

Any person who contravenes any of the provision of this Act *or the rules made there under* shall be liable for penalty. Earlier, no penalty was imposed for non compliance of Rules.

**Sale of taxable activity or transfer of ownership**

**Section 49(2)**

Taxable goods shall be transferred through zero rated invoice where transfer of ownership of business takes place by a registered person. There shall be no input tax for the transferee.

The proposed addition is as follows;

*“(2) In the case of sale or transfer of ownership of a taxable activity or part thereof to another registered person as an ongoing concern, the taxable goods or part thereof shall be transferred to the new owner through a zero-rated invoice and the sales tax chargeable thereon shall be accounted for and paid by the registered person to whom such taxable activity or part thereof is transferred.”*

**Disclosure of Information by public servant**

**Section 56B**

The bill proposed to enhance the scope and applicability of information under the Act by not disclosing the information acquired under any provision of this Act. Under the Freedom of Information Ordinance, 2002 (XCVI of 2002), or in pursuance of bilateral or multilateral agreements with government of foreign countries for exchange of information under this Act shall be confidential.

**Taxable Supplies @17%**

**Third Schedule**

Now mineral/bottled water shall be chargeable to tax @ 17% of the retail price. Earlier it was charged as normal trading on trading price in value addition mode.

**Zero Rated Supplies**

**Fifth Schedule**

The bill proposed to omit the following from zero rating and make these items taxable where input tax now shall be claimable.

- |   |  |
|---|--|
| (i) Colors in sets                                    | (PCT heading 3213.1000).               |
| (ii) Writing, drawing and marking inks                | (PCT heading. 3215.9010 and 3215.9090) |
| (iii) Erasers   | (PCT heading 4016.9210 and 4016.9290)  |
| (iv) Exercise books                                   | (PCT heading 4820.2000)                |
| (v) Pencil sharpeners                                 | (PCT heading 8214.1000)                |
| (vi) Geometry boxes                                   | (PCT heading 9017.2000)                |
| (vii) Pens, ball pens, markers and porous tipped pens | (PCT heading 96.08)                    |
| (viii) Pencils including color pencils                | (PCT heading 96.09)                    |
| (ix) Milk   | (PCT heading 04.01)                    |
| (xvii) Fat filled milk                                | (PCT heading 1901.9090)                |
| (xviii) Bicycles                                      | (PCT heading 87.12).                   |

**Exempt Supplies**

**Sixth Schedule**



**100A.** The bill proposed to exempt sales tax on development of Gawadar port to China Overseas Ports Holding Company Limited with certain conditions for imports and local supplies therein as:

**100 B.** Supplies made by the businesses to be established in the Gwadar Free Zone shall be exempt from sales tax for a period of twenty-three years within the Gwadar Free Zone, subject to the condition that the sales and supplies outside the Gwadar Free Zone and into the territory of Pakistan shall be subjected to sales tax.

**White crystalline sugar**

This has been excluded from exempt supplies and now being chargeable to sales tax at reduced rate of 8%

**New Additions for exemptions**

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

- Premixes for growth stunting
- Laptop computers, notebooks whether or not incorporating multimedia kit
- Personal computers
- Pesticides and their active ingredients registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971(II of 1971), stabilizers, emulsifiers and solvents. Earlier they were taxed at reduced rate of 7%.
- Dump Trucks

**Reduced Rate**

**Eighth Schedule**

- The following substitutions are proposed tax rate for items under Ingredients of Poultry Feeds and allied goods and Cattle Feeds are enhanced to 10% from 5%.
- Specific Items have been omitted from reduced rates under production of Bio Diesel.
- Silos are also included along with Storage Facility in development of Grain Handling is charged at reduced rate of 5%.

**Mobile/Satellite Phones**

**Ninth Schedule**

Sales tax on import of mobile phones has been increased as:

- Medium price Mobile phones from Rs. 500/- to Rs. 1,000/-
- Smart cellular mobile phones from Rs. 1,000/- to Rs. 1,500/-

**Five Export Oriented Sectors**

**SRO 1125(i)/2011**

“No Tax No Refund Regime” has been introduced for items specified under SRO 1125. The purchase of energy (Electricity, Gas, Furnace Oil, Coal) are proposed to be zero rated of sales tax under these 5S. Locally manufactured finished goods shall be subject to reduced rate of 5% at retail stage.

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## FEDERAL EXCISE ACT, 2005

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

### **Due Date** **Section 2 (8a)**

The bill proposes to include different dates for furnishing of different parts or annexure of the returns on different dates. The dates shall be specified by the Board.

### **Filing of return and payment of duty etc.** **Section 4 (2)**

Finance bill substituted the words “at the time of filing of his return” with the words “**by the date as prescribed in this respect**” as the board may prescribe thereafter.

### **Filing of return and payment of duty etc.** **Section 4 (3)**

The Bill proposes to omit the separate filing of returns for the month if the rate of duty changes during the month.

### **Adjustment of duties of excise** **Section 6(2A)**

The Bill proposed to insert the proviso to clarify that tax shall be payable if supplies are not declared by the supplier in his return or tax has duly been paid. Earlier to this, supplier have to produce only the proof of goods on which he is claiming sale tax.

### **Exemptions** **Section 16(2)**

The bill proposes to enhance the scope of exemption in matters relating to international financial institutions or foreign government-owned financial institutions under the powers of the Federal Government.

### **Offences, penalties, fines and allied matters** **Section 19(13)**

A new sub section is added which states that if a person is involved contravening any rule or section of this Act shall pay a penalty of five thousand rupees or 3% of the amount of duty involved, whichever is higher, previously this Act was silent about amount of penalty.

### **Disclosure of information by a public servant** **Section 47B**

The bill proposed to enhance the scope and applicability of information under the Act by not disclosing the information acquired under any provision of this Act. Under the Freedom of Information Ordinance, 2002 (XCVI of 2002), or in pursuance of bilateral or multilateral agreements with government of foreign countries for exchange of information under this Act shall be confidential.

## First Schedule (Excisable goods)

Sr.no 4, 5, 6

In Table 1 of First Schedule Sr. No 4, 5 and 6 relating to **Aerated Waters**, the rates has been amended from "10.5%" to "11.5%".

The following are new insertion after serial no 9 are hereunder;

| Sr.no | Description of Goods  | Heading/<br>sub-heading<br>Number | Rate of Duty                        |
|-------|---|-----------------------------------|-------------------------------------|
| 9a.   | For the period from 01-07-2016 to 30-11-2016, locally produced cigarettes if their on-pack printed retail price exceeds four thousand rupees per thousand cigarettes                | 24.02                             | Rs. 3,436/ per 1,000 cigarettes     |
| 9b.   | For the period from 01-12-2016 onwards, locally produced cigarettes if their on-pack printed retail price exceeds four thousand four hundred rupees per thousand cigarettes         | 24.02                             | Rs. 3,705/ and per 1,000 cigarettes |
| 10a.  | For the period from 01-07-2016 to 30-11-2016, locally produced cigarettes if their on-pack printed retail price does not exceed four thousand rupees per thousand cigarettes        | 24.02                             | Rs 1,534/ per 1,000 cigarettes      |
| 10b.  | For the period from 01-12-2016 onwards, locally produced cigarettes if their on-pack printed retail price does not exceed four thousand four hundred rupees per thousand cigarettes | 24.02                             | Rs 1,649/ per 1,000 Cigarettes      |

In Table 1 of First Schedule Sr. No 13 relating to **Portland Cement, aluminous cement etc.** the rates has been substituted from "5 % of the retail price" to "**One rupee per Kilogram**"

In Serial no.53 "**White crystalline Sugar**" and related entries in Table 1 of First Schedule, has been omitted.

In Table II of First Schedule Sr. No 1, 2, 2A, 5, 8, 11 and 13 relating to **Advertisement on cable TV network, Newspapers/periodicals, shipping agents, service provided by financial institutions, franchise services and stock brokers**, where provincial sales tax has been levied, No duty on the services of above stated serial numbers shall not be levied on the services provided in that province, otherwise duty shall be applicable as per rates already stated.

**Second schedule**

**Sr.no 3**

Column 2, 3 of Sr.3 of column 1 of Second Schedule that is relating to white crystalline sugar, has been omitted.

**Third Schedule**

**Sr.no 18**

In Serial no.18 of column 1 of table I of Third schedule related to goods “White cement” is omitted.

Following new Serial. No’s 19 and 20 are added in place of omitted Serial.no 18 relating to goods “White Cement.”

|     |   |                       |
|-----|---|-----------------------|
| 19. | Materials and equipment for construction and operation of Gawadar Port and development of Free Zone for Gawadar Port as imported by or supplied to China Overseas Ports Holding Company Limited (COPHCL) and its operating companies namely (i) China Overseas Ports Holding Company Pakistan (Private) Limited, (ii) Gwadar International Terminals Limited, (iii) Gwadar Marine Services Limited and, (iv) Gwadar Free Zone Company Limited, their contractors and sub-contractors; and Ship Bunker Oils bought and sold to the ships calling on/visiting Gawadar Port, having Concession Agreement with the Gwadar Port Authority, for a period of forty years, subject to the conditions and procedure as specified under S.No. 100A of Table-1 of Sixth Schedule to the Sales Tax Act, 1990. | Respective Headings”. |
| 20. | Supplies made by the businesses to be established in the Gwadar Free Zone for a period of twenty-three years within the Gwadar Free Zone, subject to the condition that the sales and supplies outside the Gwadar Free Zone and into the territory of Pakistan shall be subjected to Federal Excise Duty.   | Respective Headings”. |

*Your suggestions and feedback will warmly be welcome*

mgi worldwide The logo graphic consists of three thin, curved lines that sweep upwards and to the right, ending in two solid blue circular dots.



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