



BUDGET MEMORANDUM 2013

SUMMARY OF PROPOSED CHANGES IN FEDERAL BUDGET



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BRIEF SUMMARY OF CHANGES PROPOSED IN

INCOME TAX

- **Dividend Income** **Section 8 & 169(3)**
Dividend received by a company shall be treated as Final Tax instead of adjustable tax.
- **Dividend received by a Banking Company**
Reduction in rate of tax from 35% to 25% in the case of dividend received by a banking company from Money Market Fund and Income Fund.
- **Setting off of losses** **Section 56**
Business / Other Losses will no longer be available for setting off against salary.
- **Group Taxation** **Section 59AA & 59B**
Companies desiring to avail group taxation and/or group relief will be required to comply with Group Companies Registration Regulations, 2008 issued by the SECP.
- **Status of Company for NPOs** **Section 80**
Non-profit organizations, corporate society, finance society or other society brought within the ambit of the term "company", irrespective of their registration.
- **Untaxed Agricultural Income** **Section 111**
Where a taxpayer fails to correlate his/her investment or expenditure etc. via properly taxed agricultural income under the relevant Provincial agricultural tax laws, such unexplained income/expenditure etc. will be liable to be taxed under the Ordinance.
- **Minimum Tax** **Section 113**
Rate of minimum tax on gross turnover is enhanced from 0.5% to 1%.
- **Adjustment of Taxes from employer** **Section 149**
Adjustment of tax withheld from employee under other heads and tax admissible credits during the tax year will no longer be available against the tax to be withheld by the employer from salary. Earlier deductions on Telephone, Motor Vehicle, Tax Credits for Loans, Rebates on Donations were available for adjustment from employer. Now, if there any, it shall be claimed only in return and refund shall be sought from the Department.
- **Minimum tax on Builders and Developers** **Section 113A & 113B**
A minimum tax on builders and developers has been prescribed.
- A person who derives income from the business of construction and sale of residential, commercial or other buildings, shall pay minimum tax at the rate of rupees twenty five per square foot as per the construction or site plan approved by the relevant regulatory authority.

- A person who derives income from the business of development and sale of residential, commercial or other plots, shall pay minimum tax at the rate of rupees fifty per square yard as per the lay out or site plan approved by the relevant regulatory authority.
- The tax computed as above shall be paid on the basis of total number of square feet/ yards sold or booked for sale during the year.
- The tax paid under this section shall be minimum tax on the income of the builder /developer from the sale of such residential, commercial or other plots sold or booked.

➤ **Fixed / final Tax of Retailers - Abolished** **Section 113A & 113B**

By substitution of section 113A & 113B, retailers having option to pay fixed / final tax on turnover basis and those retailers falling under Sales Tax Special Procedures Rules, 2007 shall now be taxed on their normal income basis.

➤ **Filing of Return** **Section 114**

- At present, a holder of commercial or industrial electricity connection whose annual electricity bill exceeds Rs.1 million is required to file a return. This threshold of Rs 1 million is now proposed to be reduced to Rs 500,000
- Trade body members and professionals required to file return of income irrespective of amount of income earned.
- All persons having business income above Rs.300,000 are required to file a return.

➤ **Revision of Return** **Section 114|(6)**

Approval of Commissioner Inland Revenue required for revising the return of income.

➤ **Electronic Filing of Return** **Section 115**

Every salaried taxpayer required to file return. In cases where the salary income for a tax year is Rs.500,000 or more the requirement to file the return electronically in the prescribed form along with wealth statement under section 116 would still continue.

➤ **Wealth Statement** **Section 116**

Every individual taxpayer, member of an AOP and individual falling under FTR required to file a wealth statement along with a wealth reconciliation for the year.

➤ **Amnesty Schemes** **Section 120**

Power of the Board to introduce Amnesty schemes withdrawn.

➤ **Provisional Assessment** **Section 122C**

Time limit for finality of provisional assessment order reduced from 60 days to 45 days.

➤ **Advance Tax at the time of Import (other than company)** **Section 148**

Collection of tax at imports increased from the existing 5% to 5.5% in the case of imports by all taxpayers other than companies and industrial undertaking.

➤ **Advance Tax at the time of Supplies (other than company)** **Section 153(1)(a)**
General rate of collection of tax from sales of goods raised to 4% from the existing 3.5% in the case of all taxpayers other than companies.

➤ **Advance Tax at the time of Services (other than company)** **Section 153(1)(b)**
Collection of tax from rendering of “services” raised to 7% from the existing 6% for all taxpayers other than companies.

➤ **Advance Tax at the time of Contracts (other than company)** **Section 153(1)(c)**
Collection of tax from execution of contracts raised to 6.5% from the existing 6% for all taxpayers other than companies.

➤ **Withholding Tax on Property** **Section 155**
Scope of prescribed persons for withholding tax from property income broadened.

- i) the Federal Government;
- ii) a provincial Government;
- iii) a Local Government;
- iv) a company;
- v) a non profit organization;
- vi) a diplomatic mission of a foreign state; or
- vii) any other person notified by the Board for the purpose of this section.

It is proposed that the following persons would also be required to withhold tax from payment of rent –

- i) charitable institutions;
- ii) a private educational institution;
- iii) a boutique
- iv) a beauty parlor
- v) a hospital
- vi) a clinic or a maternity home
- vii) individuals or AOPs paying gross rent of Rs.1.5 million and above in a year

➤ **Tax on Income from Property**
Rate of tax applicable to income from properties enhanced.

Individuals and Association of Persons

Sr. No	Gross amount of rent	Rate of tax
1	Upto Rs.150,000	Nil
2	Rs.150,001 – Rs.400,000	5% of excess over Rs.150,000
3	Rs.400,001 – Rs.1,000,000	Rs.12,500 + 7.5% of excess over Rs.400,000
4	Rs.1,000,001 – 2,000,000	Rs.57,500 + 10% of excess over Rs.1,000,000
5	Rs.2,000,001 – 3,000,000	Rs.157,500 + 12.5% of excess over Rs.2,000,000
6	Rs.3,000,001 – 4,000,000	Rs.282,500 + 15% of excess over Rs.3,000,000

7	Over Rs.4,000,000	Rs.432,500 + 17.5% of excess over Rs.4,000,000
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Company

Sr. No	Gross amount of rent	Rate of tax
1	Upto Rs.400,000	5%
2	Rs.400,001 – Rs.1,000,000	Rs.20,000 + 7.5% of excess over Rs.400,000
3	Rs.1,000,001 – 2,000,000	Rs.65,000 + 10% of excess over Rs.1,000,000
4	Rs.2,000,001 – 3,000,000	Rs.165,000 + 12.5% of excess over Rs.2,000,000
5	Rs.3,000,001 – 4,000,000	Rs.290,000 + 15% of excess over Rs.3,000,000
6	Over Rs.4,000,001	Rs.440,000 + 17.5% of excess over Rs.4,000,000

➤ **Tax Challan is required with Withholding Certificate** **Section 164**

The certificate issued by the withholding or collection agent as sufficient evidence for claiming the tax has been withdrawn and tax challans / payment receipt shall now be required along with certificate.

➤ **Disclosure of information by Banks** **Section 165**

Provisions of section 165 to override all conflicting Banking provisions contained in any other law in respect of disclosure of information

➤ **Banks to Provide information to tax authorities** **Section 165A**

Banks no more immune from providing customers information to tax authorities.

Every bank to make arrangements to provide to the Board the following information in the prescribed form and manner:

- online access to its central database containing details of its account holders and all transactions made in their accounts.
- a list containing particulars of deposits aggregating Rs.1 million or more made during the preceding calendar month.
- a list of payments made by any person against bills raised in respect of a credit card issued to that person, aggregating to Rs.100,000/- or more during the preceding calendar month.
- a consolidated list of loans written off exceeding Rs.1 million during a calendar year, a copy of each Currency Transactions Report and Suspicious Transactions Report generated and submitted by it to the Financial Monitoring Unit under the Anti-Money Laundering Act, 2010 (VII of 2010).

➤ **Refunds** **Section 171**

Refund to be treated due from the date of the refund order and not from the date of the deemed assessment order.

➤ **Total Audit / Selection of Case** **Section 177/214(c)**

Commissioner is empowered to conduct tax audit independent of the Board's power for selecting cases for tax audit.

Further, The Board is authorized to keep the parameters for selection of cases for audit confidential.

➤ **Tax on money market transactions** **Section 233AA**

Scope of collecting advance tax by NCCPL has been broadened.

Following persons from whom tax is to be collected at 10% of profit or mark-up or interest earned:

- a) margin financiers providing any margin financing;
- b) trading financiers conducting margin trading; and
- c) lenders providing securities lending under Securities (Leveraged Markets and Pledging) Rules, 2011 in share business.

➤ **Withholding Tax on Motor Vehicles** **Section 234**

Rates of withholding tax on motor vehicles enhanced and such tax made adjustable.

Advance income tax payable at the time of paying annual motor vehicle tax, in the case of private motor vehicles, continues as under:

Engine capacity	Amount of tax
Upto 1000 cc	Rs.750
1001 cc – 1199 cc	Rs.1,250
1200 cc – 1299 cc	Rs.1,750
1300 cc – 1599 cc	Rs.3,000
1600 cc – 1999 cc	Rs.4,000
Over 1999 cc	Rs.8,000

The collection of advance tax by manufacturers or authorized dealers of motor vehicles has been enhanced and the applicable rates are as follows for tax year 2014:

Engine capacity	Amount of tax
Upto 850 cc	Rs. 10,000
851 cc – 1000 cc	Rs.20,000
1001 cc – 1300 cc	Rs.30,000
1301 cc – 1600 cc	Rs.50,000
1601 cc – 1800 cc	Rs.75,000
1801 cc – 2000 cc	Rs.100,000
Over 2000 cc	Rs.150,000

➤ **Tax on Functions at Commercial place** **Section 236D**

Advance tax @ 10% on functions and gatherings has been envisaged to be collected from a person arranging or holding a function in a marriage hall, marquee, hotel, restaurant, commercial lawn, club, a community place or any other place used for such purpose.

The term “function” has been defined to include any wedding related event, a seminar, a workshop, a session, an exhibition, a concert, a show, a party or any other gathering held for such purpose and likewise the term “prescribed person” includes the owner, a lease-holder, an operator or a manager of a marriage hall, marquee, hotel, restaurant, commercial lawn, club, a community place or any other place used for such purpose.

➤ **Tax on Foreign Films / Dramas** **Section 236E**

Advance tax on foreign-produced film, a TV drama serial or a play, for screening and viewing, shall be collected by a person responsible for censoring or certifying such foreign film, serial and drama.

Foreign-produced film	Rs.1,000,000/-
Foreign-produced TV drama serial	Rs.100,000/- per episode
Foreign-produced TV play (single episode)	Rs.100,000/-

➤ **Tax on Cable Operators** **Section 236F**

Advance tax on cable operators and electronic media shall be collected by Pakistan Electronic Media Regulatory Authority, at the time of issuance of license for distribution services or renewal of the license.

➤ **Withholding tax of Distributors / Dealers / Wholesalers** **Section 236G / 153A**

Every manufacturer or commercial importer dealing in specified goods shall collect advance tax at 0.1% of the gross amount of sales at the time of sale to distributors, dealers or wholesalers.

[Electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector]

➤ **Withholding Tax of Retailers** **Section 236H**

Every manufacturer, distributor, dealer, wholesaler or commercial importer dealing in specified goods shall collect advance tax at 0.5% of the gross amount of sales at the time of sale to retailer.

[Electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector]

➤ **Advance Tax on Educational Fee** **Section 236I**

Educational institutions shall collect advance tax either from the parents or guardian making payment of the fee to the educational institution @5% of the amount of fee. The tax will be collected in the manner the fee is charged. The tax shall not be collected from a person where the annual fee does not exceed Rs.200,000/-.

➤ **Tax Collections by Market Committees** **Section 236J**

Every market committee will collect advance tax from dealers, commission agents or arhatias at the time of issuance or renewal of license.

Group	Amount of tax (per annum)
Group or Class A:	Rs.10,000
Group or Class B:	Rs.7,500
Group or Class C:	Rs.5,000
Any other category:	Rs.5,000

➤ **Rates of Tax for Salaried and Non-Salaried Persons**

The maximum tax rate on salaried and non-salaried tax payers raised from the existing 20% to 30% and from the existing 25% to 35% respectively.

TAX RATES FOR SALARY INCOME

S. No.	Salaried taxpayers	Rate
1	Upto Rs.400,000	Nil
2	Rs.400,001 – 500,000	5% of excess over Rs.400,000
3	Rs.500,001 – 800,000	Rs.5,000 + 7.5% of excess over Rs.500,000
4	Rs.800,001 – 1,300,000	Rs.27,500 + 10% of excess over Rs.800,000
5	Rs.1,300,001 – 1,800,000	Rs.77,500 + 12.5% of excess over Rs.1,300,000
6	Rs.1,800,001 – 2,200,000	Rs.140,000 + 15% of excess over Rs.1,800,000
7	Rs.2,200,001 – 2,600,000	Rs.200,000 + 17.5% of excess over Rs.2,200,000
8	Rs.2,600,001 – 3,000,000	Rs.270,000 + 20% of excess over Rs.2,600,000
9	Rs.3,000,001 – 3,500,000	Rs.350,000 + 22.5% of excess over Rs.3,000,000
10	Rs.3,500,001 – 4,000,000	Rs.462,500 + 25% of excess over Rs.3,500,000
11	Rs.4,000,001 – 7,000,000	Rs.587,500 + 27.5% of excess over Rs.4,000,000
12	Over Rs.7,000,000	Rs.1,412,500 + 30% of excess over Rs.7,000,000

TAX RATES FOR BUSINESS INCOME AND AOP

S. No.	Taxable Income	Rate
1	Up to Rs.400,000	0%
2	Rs.400,001 – 750,000	10% of the amount exceeding Rs.400,000
3	Rs. 750,000 – 1,500,000	Rs.35,000+15% of the amount exceeding Rs. 750,000
4	Rs.1,500,000 - 2,500,000	Rs.147,500+20% of the amount exceeding Rs.1,500,000
5	Rs.2,500,000 - 4,000,000	Rs.347,500+25% of the amount exceeding Rs.2,500,000
6	Rs.4,000,000 - 6,000,000	Rs.722,500+30% of the amount exceeding Rs.4,000,000
7	Exceeding Rs.6,000,000	Rs.1,322,500+35% of the amount exceeding Rs.6,000,000

➤ **Company Taxation rate (other than Banking Company)**

Effective from tax year 2014, corporate tax rate reduced to 34%.

➤ **Advance Tax at the time of Auction**

Advance tax at the time of sale by auction or auction by a tender increased to 10% from the existing 5%.

➤ **Withdrawal of Exemptions / Reduction**

- Exemption available to free/concessional passage provided by transporters including airlines and other like concessions i.e. subsidized food, subsidized education, subsidized medical treatment provided to employee by virtue of their employment withdrawn.
- Exemption to any income of any university or other educational institutions established solely for educational purposes and not for profit withdrawn.
- Taxation at reduced rate of 2.5% on flying allowance and submarine allowance withdrawn.
- 75 percent reduction in the tax payable by a full time teacher or a researcher withdrawn.
- Reduction in rate of initial tax depreciation allowance applicable to plant and machinery from 50% to 25%.
- Exemption of withholding tax upto Rs.150,000 on DSC, SSC, POSA, TFC has been withdrawn.
- Hajj Group Operators can opt to pay fixed tax at the rate of Rs.3,500/- per Haji for the tax year 2013 and Rs.5,000/- per Haji for the tax year 2014 in respect of income from Hajj operation.
- An industrial undertaking shall not be liable to payment of tax under imports if the determined tax liability for any of the two preceding years, whichever is higher has been paid and a certificate to that effect has been issued by the concerned Commissioner.
- Tax payable at the time of import of hybrid cars reduced.

Engine capacity	Rate of reduction (%)
Up to 1200 cc	100
1201 to 1800 cc	50
1801 to 2500 cc	25

BRIEF SUMMARY OF CHANGES PROPOSED IN

SALES TAX

➤ **SCOPE OF TAX**

Section 3

Rate of Sales Tax is increased from 16% to 17% on all supplies.

➤ **Further Tax**

Section 8(6)

Where taxable supplies are made to a person who has not obtained registration number, there shall be charged, levied and paid a further tax at the rate of two per cent (2%) of the value in addition to the normal rate (17%)

The Board may levy tax on the basis of “production capacity” and on “Fixed Basis” in lieu of tax on supplies.

➤ **Tax Credits Not Allowed**

Section 8

Credit of such purchases is disallowed in respect of which discrepancy is indicated by CREST or input tax of which could not be verified from any of the supplier involved in the supply chain.

➤ **De-Registration, Blacklisting And Suspension Of Registration**

Section 21

- **Omission of words and figure from sub-section 3** i.e. *“unless the registered buyer has fulfilled his responsibilities under section 73”*

The Bill proposes to insert a new sub-section (4) in section 21 to block input tax adjustment/refunds to persons engaged in fraudulent activities i.e. issuing fake /flying invoices, claiming fraudulent input tax or refunds, does not physically exist or conduct actual business etc.

➤ **Records**

Section 22

It is proposed to prescribe inward and outward gate passes and transport receipts as legal documents for the purposes of sales tax.

➤ **Posting Of Sales Tax Officer**

Section 40B

The Bill proposes an amendment to equate the powers of Board and Chief Commissioner regarding posting of Inland Revenue Officer to monitor production, sales of taxable goods and stock position of registered person.

The Bill proposes to insert a new section to provide legal powers for monitoring or tracking by electronic or other means of productions, sales, clearances, stocks etc. of any registered person or class of persons etc.

➤ **Stay of Demand** **Section 45B**

The Bill proposes to allow Commissioner (Appeals) to grant stay of thirty days in aggregate to relax taxpayer from undue hardship in payment of tax to be recovered.

➤ **Rectification of Mistake** **Section 57**

The Bill proposes harmonize the concept of rectification of mistake in lines of Income Tax Ordinance, 2001.

➤ **Reward for Officers of Inland Revenue Officers** **Section 72**

A cash reward is proposed to be allowed to officers of Inland Revenue and Informers in cases involving concealment or evasion of sales tax on meritorious conduct in such cases. Board is proposed to prescribe the procedure in this behalf.

➤ **Bank Accounts to be Specified** **Section 73**

“Business bank account” shall mean a bank account utilized by the registered person for business transactions, declared to the Commissioner in whose jurisdiction he is registered “*through Form STR 1 or change of particulars in registration database*”.

THIRD SCHEDULE

Third Schedule lists goods that are taxable on the basis of manufacturer’s retail price.

New entries have been included in the list of items in third schedule after serial no 21 in column (1) and relating entries in column (2) & (3).

S. No	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)
22.	Finished or made-up articles of textile and leather, including garments, footwear, and bed ware, sold in retail packing	Respective headings.
23.	Household electrical goods, including air conditioners, refrigerators, deep freezers, televisions, recorders and players, electric bulbs, tube-lights, fans, electric irons, washing machines and telephone sets.	Respective headings.

24.	Household gas appliances, including cooking range, ovens, geysers and gas heaters	Respective headings.
25.	Foam or spring mattresses, and other foam products for household use	Respective headings.
26.	Auto parts and accessories sold in retail packing	Respective headings.
27.	Lubricating oils, brake fluid, transmission fluid, and other vehicular fluids and maintenance products in retail packing	Respective headings.
28.	Tyres and tubes	Respective headings.
29.	Storage batteries	Respective headings.
31.	Paints, distempers, enamels, pigments, colors, varnishes, gums, resins, dyes, glazes, thinners, blacks, cellulose lacquers and polishes sold in retail packing	Respective headings.
32.	Fertilizers	Respective headings.
33.	Cement sold in retail packing	Respective headings.
34.	Tiles sold in retail packing	Respective headings.
35.	Biscuits, confectionary, chocolates, toffees and candies	Respective headings.
36.	Other goods and products sold in retail packing	Respective headings.

Appropriate amendments have also been made in SRO 1125(I)/2011 dated 31 December 2011 to exclude finished articles and made-ups in textile and leather goods which were subjected to lower rates of sales tax. Now finished articles of textile and leather including garments, footwear, headings and bed ware sold in retail packing would be subject to sales tax at the full rate on the basis of manufacturers retail price.

SIXTH SCHEDULE

The Sixth Schedule deals with exemption of goods from levy of sales tax. The following exemptions have been withdrawn with effect from 13 June 2013

25.	Milk preparations obtained by replacing one or more of the constituents of milk by another substance, whether or not packed for retail sale.	1901.1000, 1901.9020 and 1901.9090
12	Supplies against international tender	Respective Headings

➤ **Extra Tax**
SRO 509(I)/2013 & 510(I)/2013

Effective from 12 June 2013, extra tax is to be levied at the rate of 5% on supplies of electric power and natural gas to unregistered or inactive persons having industrial or commercial connections and whose bill in any month exceeds Rupees 15,000.

Chapter IVA has been added in the Sales Tax Special Procedure Rules, 2007 to enforce the collection and payment of extra tax on supplies of electric power and natural gas.

➤ **SRO 504(I)/2013**

Leather goods, textiles, carpets, sports goods and surgical goods, if in finished condition, can no longer benefit from the lower rates of sales tax as envisaged under SRO 1125(I)/2011 dated 31 December 2011.

➤ **Rule 5 of the Sales Tax Rules, 2006**
SRO 506(I)/2013

Rule 5 of the Sales Tax Rules, 2006 outlines the specific criteria for the jurisdiction of a particular registration. Effective from 01 July 2013, the criteria for specifying the Collectorate in whose jurisdiction the registration is sought would be as under:

(a) in case of a corporate or non-corporate person, having a single manufacturing unit or business premises, the Regional Tax Office or Large Taxpayers Unit, as the case may be, in whose jurisdiction the manufacturing unit or business premises is actually located; or

(b) in case of a corporate or non-corporate person, having multiple manufacturing units or business premises, the Board may decide the place of registration of such persons.

Provided that existing registrations which fall in category of clause (a) shall stand transferred and in case of those falling in category of clause (b) the Board may decide the place of registration of such person. Corporate entities were entitled to register in the jurisdiction where its registered office is located.

Jurisdiction will change if the registered office and manufacturing units or business premises are at different locations.



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