

Tax Memorandum 2013

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**TAX MEMORANDUM
FINANCE BILL 2013**

This memorandum summarises important changes proposed in the Finance Bill 2013 relating to Income Tax, Sales Tax, Federal Excise Duty and Customs Duty. For considering precise impact of a particular change, reference should be made to the specific wordings in the relevant statute.

All changes through the Finance Bill 2013 are effective July 1, 2013, except for amendments in the First Schedule to the Customs Act, 1969 and certain amendments (identified in the memorandum) in the Sales Tax Act, 1990 and Federal Excise Act, 2005 which are effective from June 13, 2013. Effective date of amendments through various notifications are also identified in the memorandum.

The proposals introduced in the Bill are to be approved by the National Assembly, therefore, should not generally be acted upon without obtaining appropriate advice.

The memorandum can also be accessed on our website www.pwc.com/pk

June 13, 2013

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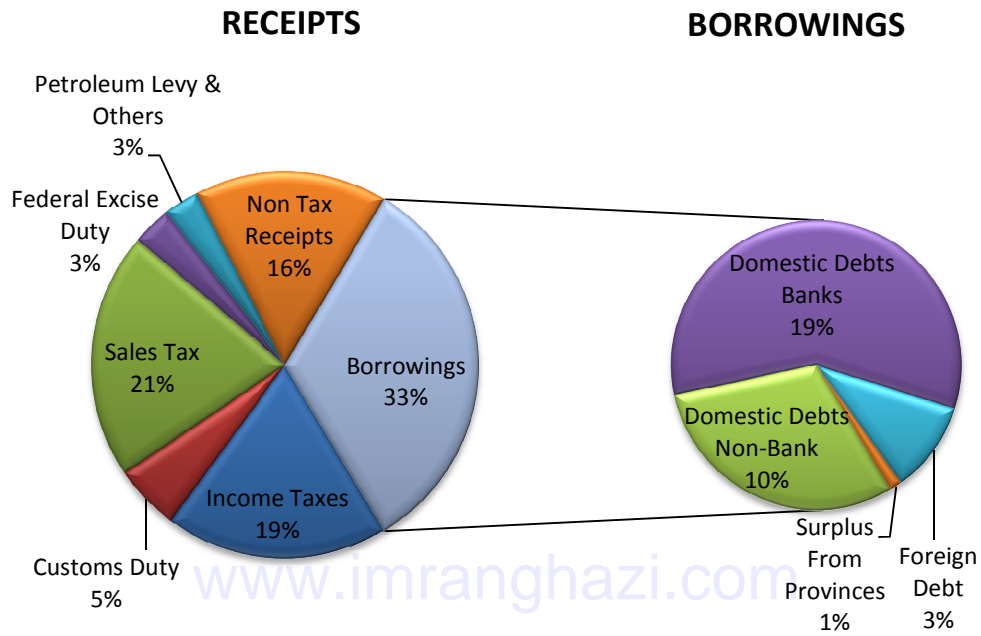
BUDGET AT A GLANCE

BUDGET FINANCIALS

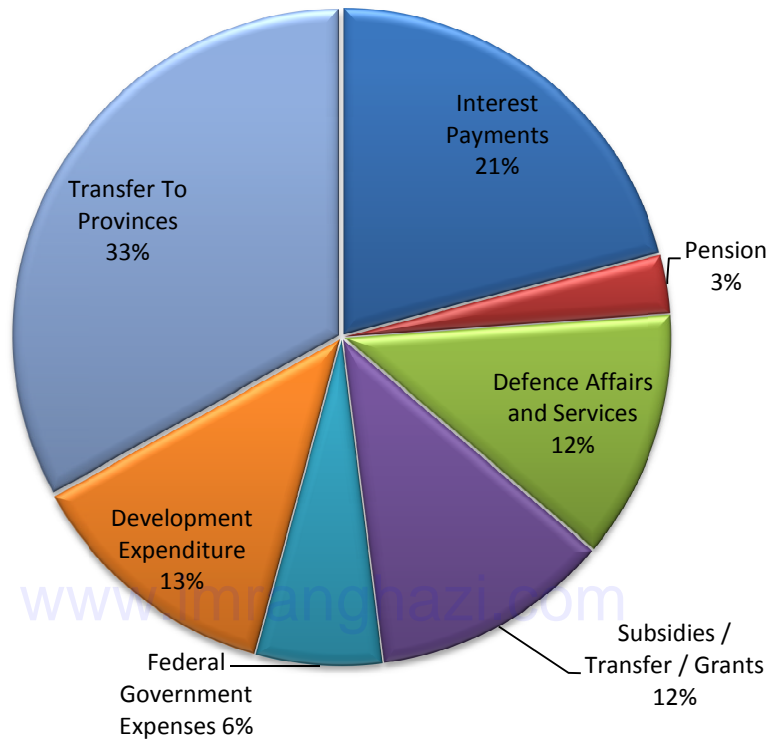
The following table sets out the Key Budget Financials

	<u>2013-2014</u>		<u>2012-2013</u>	
	<u>Rs in Billion</u>	<u>%</u>	<u>Rs in Billion</u>	<u>%</u>
Tax revenue	2,598		2,504	
Non-tax revenue	822		730	
Gross revenue receipts	3,420	100	3,234	100
Less: Transfer to Provinces	(1,503)	44	(1,460)	45
Net revenue receipts	1,917	56	1,774	55
Expenditure				
- Current expenditure	2,829		2,396	
- Development expenditure	762		564	
	3,591	105	2,960	92
Deficit	(1,674)	49	(1,186)	37
- Domestic debts non-bank	507		487	
- Domestic debts banks	975		484	
- Foreign debt	169		135	
- Surplus from provinces	23		80	
	1,674		1,186	

WHERE THE RUPEE COMES FROM



WHERE THE RUPEE GOES TO



INCOME TAX**TAXATION OF DIVIDEND INCOME OF CORPORATE TAXPAYERS***[Section 8]*

Presently dividend income of a corporate taxpayer is excluded from the ambit of Final Tax Regime (FTR) of section 8 read with section 169 and is subject to tax at the rate of 10 per cent as a separate block of income. It is proposed to bring the dividend income of corporate taxpayer under the FTR of section 8 read with section 169 as was the case prior to July 1, 2007. However, dividend income of a corporate taxpayer will continue to be taxed at the rate of 10 per cent.

SET OFF OF LOSSES*[Section 56]*

Presently loss under any head of income for the year could be set off against income under any other head for the year. It is now proposed that such loss shall not be available for set off against income under the head 'Salary' for that year.

PERSON - DEFINITION*[Section 80]*

The definition of "Company" has been enlarged to include:

- A "non-profit organization"; and
- An "entity" or a "body of persons" established or constituted by or under any law for the time being in force.

In addition to cooperative and finance societies, all other societies will now be treated as company.

UNEXPLAINED INCOME OR ASSETS*[Section 111]*

Agricultural income can be taken into account in explaining the source and nature of an asset or expenditure only to the extent of the amount worked back on the basis of agricultural income tax paid by a person under the relevant provincial laws.

MINIMUM TAX*[Section 113]*

The minimum tax payable by a resident company, individual or Association of Persons (AOPs), has been increased from 0.5 per cent to 1 per cent of their turnover.

It is proposed that in addition to corporate taxpayers, henceforth non-salaried individuals and AOPs will also be entitled to adjust minimum tax paid for the year against the tax liability (other than minimum tax) for the subsequent five tax years.

TAX ON INCOME OF CERTAIN PERSONS / MINIMUM TAX ON BUILDERS*[Sections 113A and 113B]*

Presently, retailers being individuals or AOPs having turnover upto Rs 5 million or more for any tax year, could opt to pay final tax which scheme of taxation is proposed to be withdrawn. Taxation of retailers is now inter alia dealt in section 236H.

Under the substituted sections, minimum tax is proposed at the rate of Rs 25 per square foot, as per the construction or site plan approved, on persons deriving income from the business of construction and sale of residential, commercial or other buildings.

A similar levy of minimum tax is proposed at the rate of Rs 50 per square yard, as per the layout or site plan approved, on persons deriving income from the business of land developers from sale of residential, commercial or other plots.

This minimum tax shall be paid on the basis of total number of square feet / yards sold or booked for sale during the year.

RETURN OF INCOME*[Section 114]*

It is proposed to require the following to also file a return of income:

- persons having commercial or industrial connections of electricity where the amount of annual bill exceeds Rs 500,000; presently the threshold is annual bill exceeding Rs 1,000,000.
- persons registered with any Chamber of Commerce and Industry or any trade or business association or any market committee or any professional body including Pakistan Engineering Council, Pakistan Medical and Dental Council, Pakistan Bar Council or any Provincial Bar Council, Institute of Chartered Accountants of Pakistan or Institute of Cost and Management Accountants of Pakistan.

- individuals having income under the head 'Income from Business' in excess of Rs 300,000 but not exceeding Rs 400,000 in a tax year.

Presently, the Commissioner has to allow time of at least one month or more to a person who is issued a notice to furnish his return of income. It is proposed to now empower the Commissioner to require furnishing of the return within a period of less than 30 days.

It is also proposed that the written approval of the Commissioner for revising the return will have to be filed with revised return of income.

PERSONS NOT REQUIRED TO FURNISH A RETURN OF INCOME

[Sections 115 and 118]

Presently, a taxpayer whose entire income in a tax year consists of income chargeable under the head 'Salary' is not required to file his return of income, if the employer has filed related annual statement of deduction of income tax from salary, provided his salary income for the tax year does not exceed Rs 500,000. The relief is proposed to be withdrawn and consequently such taxpayers are required to file return of income.

The requirement of electronic filing of return by the salaried individual having salary income of Rs 500,000 or more remains applicable.

WEALTH STATEMENT

[Section 116]

It is proposed to require every resident taxpayer being an individual filing return of income or statement of Final Tax to file a wealth statement irrespective of any threshold of income or tax paid.

It is also proposed that a revised wealth statement must be accompanied with revised reconciliation of wealth statement and reasons for revision thereof.

INVESTMENT TAX ON INCOME

[Section 120A]

It is proposed to withdraw power of Federal Board of Revenue (FBR) to make investment tax schemes.

PROVISIONAL ASSESSMENT*[Section 122C]*

Presently, the provisional assessment cannot be enforced, if a return of income is filed within 60 days from date of service of such provisional assessment order. It is now proposed to restrict such period to 45 days.

APPOINTMENT OF THE APPELLATE TRIBUNAL*[Section 130]*

It is proposed to allow induction of officers of Inland Revenue Service, being a law graduate, having at least 15 years of service in BS-17 and above, as Judicial members of the Tribunal.

SALARY*[Section 149]*

The responsibility for withholding tax from salary has now been extended to any "person responsible for" paying salary. Previously, it was only the "employer" who was responsible for the withholding.

It is now proposed not to consider the following, whilst determining tax to be withheld from salary payments:

- a) Charitable donations;
- b) Tax credit for investment in shares and insurance;
- c) Contribution to an "Approved Pension Fund"; and
- d) Profit paid on loan utilized for construction of a new house or acquisition of a house.

As a result, the salaried individuals will claim the above tax credits in their returns, which may result in refund.

PAYMENTS TO NON-RESIDENTS*[Section 152]*

It is proposed that definition of "prescribed person" used in sub-section (7) of section 153 would apply for the purpose of sub-section (2A) of section 152 in respect of payments to a Permanent Establishment of a non-resident for sale of goods, rendering of or providing services and execution of contracts.

PAYMENTS FOR GOODS, SERVICES AND CONTRACTS*[Section 153]*

A person registered under the Sales Tax Act, 1990 (Act), is now included in the definition of a “prescribed person” responsible for withholding tax on payments for sale of goods, services and execution of contracts.

PAYMENTS TO TRADERS AND DISTRIBUTORS*[Section 153A]*

This section required manufacturers to collect tax from traders and distributors. The operations of this section was suspended and it is now proposed to be omitted, however, similar provision with a limited scope, is being introduced in section 236G.

INCOME FROM PROPERTY*[Section 155]*

The “prescribed person” for the purposes of withholding tax from payment of rent will now also include the following:

- charitable institutions.
- private educational institutions, boutiques, beauty parlours, hospitals, clinics or maternity homes.
- individual or AOPs paying gross rent of Rs 1,500,000 and above in a year.

CERTIFICATE OF COLLECTION OR DEDUCTION OF TAX*[Section 164]*

Presently, a certificate issued by a withholding agent for tax collected or deducted is treated sufficient evidence of tax suffered for claiming credit thereof under section 168. This facilitation is proposed to be withdrawn.

The law envisages furnishing of copies of challans / receipts of payment with the return of income. It appears that such evidences will be verified by the department for allowing the credit for tax collected or deducted claimed in the return of income.

STATEMENTS*[Section 165]*

It is proposed to clarify that the provisions of section 165 shall override all conflicting provisions in following laws restricting certain divulgence of information:

- Protection of Economic Reforms Act, 1992
- Banking Companies Ordinance, 1962
- Foreign Exchange Regulations Act, 1947
- Regulations made under the State Bank of Pakistan Act, 1956.

Further, it is proposed to remove the requirement for including particulars of salary paid, where the income exceeds Rs 300,000 but does not exceed Rs 350,000 from annual statement of tax deduction from salary.

FURNISHING OF INFORMATION BY BANKS*[Section 165A]*

It is proposed that every banking company shall make arrangements to provide following to the FBR:

- online access to its central database containing details of its account holders and all transactions made in their accounts;
- list containing particulars of deposits aggregating Rs 1,000,000 or more made during the preceding calendar month;
- list of payments made by any person against bills raised in respect of a credit card issued to that person, aggregating Rs 100,000 or more during the preceding calendar month;
- consolidated list of loans written off exceeding Rs 1,000,000 during a calendar year; and
- 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.

Further, each banking company shall nominate a senior officer at the head office to coordinate with the FBR for provision of any additional information and documents as may be required by the FBR. The banking companies and their officers shall not be liable to any civil, criminal or disciplinary proceedings against them for furnishing the requisite information. The information collected shall only be used for tax purposes and kept confidential.

This provision shall be applicable notwithstanding anything contained in any law for the time being in force including but not limited to the Banking Companies Ordinance, 1962, the Protection of Economic Reforms Act, 1992, the Foreign Exchange Regulation Act, 1947 and the regulations made under the State Bank of Pakistan Act, 1956.

This provision is likely to be a source of great concern as the tax authorities have been given wide powers to probe into banking transactions in general. Also, the effect of this provision overriding other important legislations will also likely lead to litigation and, therefore, the provision needs to be revisited and suitably tailored so as to be enforced judiciously and fairly.

ADDITIONAL PAYMENT FOR DELAYED REFUNDS

[Section 171]

It is proposed to clarify that for the purposes of compensation, refund becomes due from the date of the refund order, made on an application under sub-section (1) of section 170, and not from the date of assessment of income treated to have been made by the Commissioner under section 120.

REPRESENTATIVES

[Section 172]

Any person in Pakistan can be regarded a representative of a non-resident, inter alia where such person has any business connection with the non-resident person. An explanation is proposed to be inserted whereby the expression "business connection" would include transfer of asset or business in Pakistan by a non-resident. It appears that the Commissioner is now empowered to recover tax liabilities of the non-resident from a person who has purchased assets or business from the non-resident in Pakistan. This amendment is similar to the one contained in the Indian Income Tax Act, 1961.

AUDIT

[Sections 177 and 214C]

It is proposed to clarify that the Commissioner's power to select and conduct audit of a person is independent of powers conferred on the FBR under section 214C for selection of a person for tax audit.

Apparently, the proposed amendment is aimed to nullify the effect of a recent decision of Lahore High Court holding that powers to select taxpayers' cases for audit only vested with FBR. Similar amendments are also proposed in The Act and Federal Excise Act, 2005 (FED Act).

TAXPAYERS REGISTRATION*[Section 181]*

It is proposed that the FBR may allow the use of Computerized National Identity Card as an alternative to National Tax Number (NTN).

DISPLAYING OF NTN*[Section 181C]*

Presently, NTN is required to be displayed at a conspicuous place at every place of business by a taxpayer under Rule 83(1) of the Income Tax Rules, 2002. It is now proposed to be included in the Ordinance.

It is also proposed to levy penalty of Rs 5,000 under section 182 for non compliance with this section.

OFFENCES AND PENALTIES*[Section 182]*

The following changes in penalties are proposed:

Offence	Existing penalty	Proposed penalty
Where any person fails to furnish a return of income as required under section 114 within the due date.	0.1% of the tax payable for each day of default subject to a minimum penalty of Rs 5,000 and a maximum penalty of 25% of the tax payable in respect of that tax year.	0.1% of the tax payable for each day of default subject to a minimum penalty of Rs 20,000 and a maximum penalty of 50% of the tax payable in respect of that tax year.
Where any person fails to furnish a statement as required under section 115, 165 or 165A within the due date	0.1% of the tax payable for each day of default subject to a minimum penalty of Rs 5,000 and a maximum penalty of 25% of the tax payable in respect of that tax year.	Rs 2,500 for each day of default subject to a minimum penalty of Rs 50,000.
Where a person fails to furnish wealth statement or wealth reconciliation statement.	0.1% of the tax payable for each day of default subject to a minimum penalty of Rs 5,000 and a maximum penalty of 25% of the tax payable in respect of that tax year.	Rs 100 for each day of default.

Offence	Existing penalty	Proposed penalty
Where a taxpayer who, without any reasonable cause, in non compliance with the provisions of section 177:		
(a) fails to produce the record or documents on receipt of first notice;	Rs 5,000	Rs 25,000.
(b) fails to produce the records or documents on receipt of second notice;	Rs 10,000	Rs 50,000
(c) fails to produce the record or documents on receipt of third notice.	Rs 50,000	Rs 100,000.
Any person who fails to furnish the information required or to comply with any other term of the notice served under section 176.	Rs 5,000 for first default and Rs 10,000 for each subsequent default.	Rs 25,000 for first default and Rs 50,000 for each subsequent default.

REWARD TO INLAND REVENUE OFFICERS AND OFFICIALS

[Section 227A]

It is proposed that the FBR may make rules for grant of reward to Inland Revenue Officers and officials for their meritorious conduct and informers providing credible information in cases involving concealment and evasion of income tax and other taxes. Such cash rewards will be given only after realisation of part or whole of the tax involved in such cases.

DIRECTORATE GENERALS OF LAW AND RESEARCH & DEVELOPMENT

[Sections 230B and 230C]

It is proposed to create new directorates within FBR relating to functions, jurisdiction and powers to be specified for "Directorate-General of Law" and "Directorate-General of Research and Development".

COLLECTION OF TAX BY NATIONAL CLEARING COMPANY OF PAKISTAN LIMITED (NCCPL)

[Section 233AA and Division IIB of Part IV of the First Schedule]

It is proposed to enhance the scope of collection of advance tax at the rate of 10 per cent by NCCPL from margin financiers, trading financiers and lenders on providing of any margin financing, margin trading or securities lending under Securities (Leveraged Markets and Pledging) Rules, 2011 in share business.

TAX ON GOODS TRANSPORT*[Section 234]*

Besides certain editorial changes, the tax paid under this section is proposed to be adjustable. Presently the tax paid on goods transport vehicles is under FTR.

COLLECTION OF ADVANCE TAX*[Sections 236D to 236J]*

It is proposed to collect advance tax as follows:

Section	Transactions / Persons subject to advance tax collection	Collection / withholding agent	Rate applicable
236D	Persons arranging functions and gathering related to wedding, seminar, workshop, session, exhibition, concert, show, party or any other gathering for such purpose.	Owner, lease-holder, operator / manager of marriage hall, marquee, hotel, restaurant, commercial lawn, club, community place etc.	10% of total amount of bill from the person arranging the gathering.
236E	Distributor of foreign produced films, TV plays and serials	Person responsible for censoring or certifying a foreign-produced film, TV drama serial or play.	Rs 1,000,000 on film; Rs 100,000 per TV play / episode of serial.
236F	Cable operators and other electronic media	PEMRA at the time of issuance/renewal of license	Rs 7,500 to Rs 5,000,000.
236G	Distributors, dealers and wholesaler	Manufacturers or commercial importers of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam.	0.1 per cent of the gross value of sales.
236H	Retailers	Manufacturer, distributors, dealer and wholesaler or commercial importer of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam.	0.5 per cent of the gross value of sales.
236I	Educational fee/charges where annual fee exceeds Rs 200,000.	Educational institutions	5 per cent of the fee
236J	Dealers, commission agents or arhatis, etc.	Market committee or body formed under any provincial or local law.	Rs 5,000 to Rs 10,000

FIRST SCHEDULE
TAX RATES FOR AOPs AND NON-SALARIED INDIVIDUALS

[Clause (1) of Division I of Part I of First Schedule]

Currently, income of AOPs and non-salaried individuals are taxable at rates ranging from 10 per cent to 25 per cent of taxable income.

The Bill proposes to substitute the existing slab rates with the following slabs, effective July 1, 2013:

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 750,000	10% of the amount exceeding Rs 400,000
3	Where the taxable income exceeds Rs 750,000 but does not exceed Rs 1,500,000	Rs 35,000 + 15% of the amount exceeding Rs 750,000
4	Where the taxable income exceeds Rs 1,500,000 but does not exceed Rs 2,500,000	Rs 147,500 + 20% of the amount exceeding Rs 1,500,000
5	Where the taxable income exceeds Rs 2,500,000 but does not exceed Rs 4,000,000	Rs 347,500 + 25% of the amount exceeding Rs 2,500,000
6	Where the taxable income exceeds Rs 4,000,000 but does not exceed Rs 6,000,000	Rs 722,500 + 30% of the amount exceeding Rs 4,000,000
7	Where the taxable income exceeds Rs 6,000,000	Rs 1,322,500 + 35% of the amount exceeding Rs 6,000,000

The change in effective incidence of tax liability under the proposed amendments, when compared with existing provisions, could be demonstrated as under:

S. No.	Taxable Income (per annum)	Existing Tax Liability	Proposed Tax Liability	Tax Impact	Tax Impact in Percentage
-----Rupees-----					
1	400,000	-	-	-	
2	700,000	30,000	30,000	-	0%
3	1,000,000	72,500	72,500	-	0%
4	1,300,000	117,500	117,500	-	0%
5	1,800,000	207,500	207,500	-	0%
6	2,000,000	247,500	247,500	-	0%
7	3,000,000	472,500	472,500	-	0%
8	4,000,000	722,500	722,500	-	0%
9	5,000,000	972,500	1,022,500	50,000	5%
10	6,000,000	1,222,500	1,322,500	100,000	8%
11	7,000,000	1,472,500	1,672,500	200,000	14%
12	8,000,000	1,722,500	2,022,500	300,000	17%
13	9,000,000	1,972,500	2,372,500	400,000	20%

TAX RATES FOR SALARIED INDIVIDUALS

[Clause (1A) of Division I of Part I of the First Schedule]

The Bill also proposes to substitute the tax rates applicable to salaried individuals effective July 1, 2013 as under:

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	5% of the amount exceeding Rs 400,000
3.	Where the taxable income exceeds Rs 500,000 but does not exceed Rs 800,000	Rs 5,000 + 7.5% of the amount exceeding Rs 500,000
4.	Where the taxable income exceeds Rs 800,000 but does not exceed Rs 1,300,000	Rs 27,500 + 10% of the amount exceeding Rs 800,000

S.No.	Taxable Income	Rate of tax
5.	Where the taxable income exceeds Rs 1,300,000 but does not exceed Rs 1,800,000	Rs 77,500 + 12.5% of the amount exceeding Rs 1,300,000
6.	Where the taxable income exceeds Rs 1,800,000 but does not exceed Rs 2,200,000	Rs 140,000 + 15% of the amount exceeding Rs 1,800,000
7.	Where the taxable income exceeds Rs 2,200,000 but does not exceed Rs 2,600,000	Rs 200,000 + 17.5% of the amount exceeding Rs 2,200,000
8.	Where the taxable income exceeds Rs 2,600,000 but does not exceed Rs 3,000,000	Rs 270,000 + 20% of the amount exceeding Rs 2,600,000
9.	Where the taxable income exceeds Rs 3,000,000 but does not exceed Rs 3,500,000	Rs 350,000 + 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 462,500 + 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 587,500 + 27.5% of the amount exceeding Rs 4,000,000
12.	Where the taxable income exceeds Rs 7,000,000	Rs 1,412,500 + 30% of the amount exceeding Rs 7,000,000

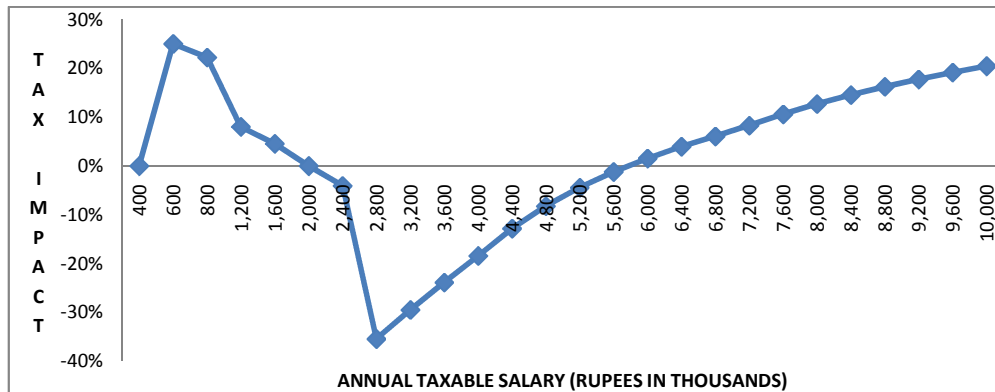
The significant changes, apart from variation in rates, are:

- There would be twelve slabs as against six slabs currently provided for.
- The highest rate of 30 per cent would apply on income exceeding Rs 7,000,000 per annum, whereas this income is currently taxable at the rate of 20 per cent.

Since progressive slab rates are proposed, the concept of 'marginal relief' introduced through Finance Act 2008 and amended through Finance Act 2009 is now proposed to be omitted.

The change in effective incidence of tax liability under the proposed amendments, when compared with existing provisions (without marginal relief), could be demonstrated as under:

S. No.	Taxable Income (per annum)	Existing Tax Liability	Proposed Tax Liability	Tax Impact	Tax Impact in Percentage
-----Rupees-----					
1	400,000	-	-	-	0%
2	600,000	10,000	12,500	2,500	25%
3	800,000	22,500	27,500	5,000	22%
4	1,200,000	62,500	67,500	5,000	8%
5	1,600,000	110,000	115,000	5,000	5%
6	2,000,000	170,000	170,000	-	0%
7	2,400,000	245,000	235,000	(10,000)	(4%)
8	2,800,000	480,000	310,000	(170,000)	(35%)
9	3,200,000	560,000	395,000	(165,000)	(29%)
10	3,600,000	640,000	487,500	(152,500)	(24%)
11	4,000,000	720,000	587,500	(132,500)	(18%)
12	4,400,000	800,000	697,500	(102,500)	(13%)
13	4,800,000	880,000	807,500	(72,500)	(8%)
14	5,200,000	960,000	917,500	(42,500)	(4%)
15	5,600,000	1,040,000	1,027,500	(12,500)	(1%)
16	6,000,000	1,120,000	1,137,500	17,500	2%
17	6,400,000	1,200,000	1,247,500	47,500	4%
18	6,800,000	1,280,000	1,357,500	77,500	6%
19	7,200,000	1,360,000	1,472,500	112,500	8%
20	7,600,000	1,440,000	1,592,500	152,500	11%
21	8,000,000	1,520,000	1,712,500	192,500	13%
22	8,400,000	1,600,000	1,832,500	232,500	15%
23	8,800,000	1,680,000	1,952,500	272,500	16%
24	9,200,000	1,760,000	2,072,500	312,500	18%
25	9,600,000	1,840,000	2,192,500	352,500	19%
26	10,000,000	1,920,000	2,312,500	392,500	20%



The increase in charge for lower slab rates needs to be rationalised.

CORPORATE TAX RATE*[Division II of Part I of the First Schedule]*

The Bill proposes to reduce the rate of tax on the taxable income of a company, other than a banking company, to 34 per cent from the existing rate of 35 per cent. The reduced rate is only applicable for the tax year 2014.

In the Budget Speech, the Finance Minister has proposed to gradually reduce the existing corporate tax rate to 30 per cent by providing a maximum reduction of 1 per cent each year.

INCOME FROM PROPERTY*[Division VI of Part I and Division V of Part III of the First Schedule]*

The annual rental income exceeding Rs 1 million derived by individuals, AOPs and companies have now been proposed to be taxed at the following progressive rates:

Rent slabs	Individuals and AOPs	Companies
<ul style="list-style-type: none"> Where the gross amount of rent exceeds Rs 1,000,000 but does not exceed Rs 2,000,000 	Rs 57,500 plus 10 per cent of the gross amount of rent exceeding Rs 1,000,000	Rs 65,000 plus 10 per cent of the gross amount of rent exceeding Rs 1,000,000
<ul style="list-style-type: none"> Where the gross amount of rent exceeds Rs 2,000,000 but does not exceed Rs 3,000,000 	Rs 157,500 plus 12.5 per cent of the gross amount of rent exceeding Rs 2,000,000	Rs 165,000 plus 12.5 per cent of the gross amount of rent exceeding Rs 2,000,000
<ul style="list-style-type: none"> Where the gross amount of rent exceeds Rs 3,000,000 but does not exceed Rs 4,000,000 	Rs 282,500 plus 15 per cent of the gross amount of rent exceeding Rs 3,000,000	Rs 290,000 plus 15 per cent of the gross amount of rent exceeding Rs 3,000,000
<ul style="list-style-type: none"> Where the gross amount of rent exceeds Rs 4,000,000 	Rs 432,500 plus 17.5 per cent of the gross amount of rent exceeding Rs 4,000,000	Rs 440,000 plus 17.5 per cent of the gross amount of rent exceeding Rs 4,000,000

The above rates would also be applicable for withholding tax.

ADVANCE TAX ON IMPORTS*[Part II of the First Schedule]*

The rates of advance tax to be collected by the Collector of Customs under section 148 are proposed to be enhanced from 5 to 5.5 per cent in case of all taxpayers excluding companies and industrial undertakings, for which the previous rate remains applicable.

WITHHOLDING TAX ON GOODS AND SERVICES*[Division III of Part III of the First Schedule]*

The rates of tax to be deducted from payments for sale of goods, services and execution of contract made to all the taxpayers, except companies, are proposed to be enhanced as follows:

Sale of goods:	from 3.5 to 4 per cent
Rendering or providing of services:	from 6 to 7 per cent
Execution of contract:	from 6 to 6.5 per cent

PRIZES AND WINNINGS*[Division VI of Part III of the First Schedule]*

The rate of withholding tax to be deducted on a prize on prize bond or crossword puzzle, is proposed to be enhanced from 10 to 15 per cent.

ADVANCE TAX ON MOTOR VEHICLES*[Division III of Part IV of the First Schedule]*

The amount of advance tax to be collected under section 234 where the motor vehicle tax is paid on a lump sum basis, has now been prescribed as follows:

Engine Capacity	Amount of Advance Tax Rs
Upto 1000cc	7,500
1001cc to 1199cc	12,500
1200cc to 1299cc	17,500
1300cc to 1599cc	30,000
1600cc to 1999cc	40,000
Above 2000cc	80,000

WITHHOLDING TAX ON CASH WITHDRAWALS FROM A BANK*[Division VI of Part IV of the First Schedule]*

The withholding tax rate on cash withdrawals from a bank is proposed to be enhanced from 0.2 to 0.3 per cent of the gross amount of withdrawal. The currently applicable limit of per day cash withdrawal upto Rs 50,000 not subject to such withholding, remains intact.

ADVANCE TAX ON PURCHASE OF MOTORCARS AND JEEPS*[Section 231B and Division VII of Part IV of the First Schedule]*

The amounts of advance tax to be collected by the Motor Vehicle registration authority on the registration of new motorcars / jeeps are proposed to be revised as under:

Engine Capacity	Existing Advance tax	Revised Advance tax
	----- Rupees -----	
Upto 850cc	7,500	10,000
851cc to 1000cc	10,500	20,000
1001cc to 1300cc	16,875	30,000
1301cc to 1600cc	16,875	50,000
1601cc to 1800cc	22,500	75,000
1801cc to 2000cc	25,000	100,000
Above 2000cc	50,000	150,000

ADVANCE TAX AT THE TIME OF SALE BY AUCTION*[Section 236A and Division VIII of Part IV of the First Schedule]*

The rate of advance tax to be collected by a person making sale of any property or goods by public auction has been enhanced to 10 per cent from the existing rate of 5 per cent of the gross sale price of such property or goods.

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SECOND SCHEDULE
PART I – EXEMPTIONS FROM TOTAL INCOME
PERQUISITE OF FREE OR CONCESSIONAL PASSAGE

[Clause (53A) of Part I of the Second Schedule]

The perquisite of free or concessional passage provided by transporters including airlines to its employees (including the members of their households and dependants) was exempted from the Salary income vide Finance Act, 2005. This exemption is now proposed to be withdrawn.

INCOME OF UNIVERSITY OR OTHER EDUCATIONAL INSTITUTIONS

[Clause (92) of Part I of the Second Schedule]

Any income of any university or other educational institution established solely for educational purposes and not for purposes of profit, was exempt from tax under clause (86) of Part I of the Second Schedule to the repealed Income Tax Ordinance, 1979. The said exemption was continued under clause (92) of Part I of the Second Schedule to the Income Tax Ordinance, 2001 (Ordinance).

The Bill proposes to withdraw the above exemption and consequently, such universities and educational institutions will now be required to compute their taxable income and pay tax at the applicable rates.

INCOME FROM ICC CHAMPIONS TROPHY 2008

[Clause (98A) of Part I of the Second Schedule]

A specific clause was inserted in 2008 to exempt any income derived by International Cricket Council Development (International) Limited (IDI), International Cricket Council (ICC), employees, officials, agents and representatives of IDI and ICC, officials from ICC members, players, coaches, medical doctors and officials of member countries, IDI partners and media representatives, other than persons who were resident of Pakistan, from ICC Champions Trophy, 2008 which was scheduled to be hosted in Pakistan.

The above clause, being redundant, is proposed to be withdrawn.

DIVIDEND IN SPECIE

[Clause (103B) of Part I of the Second Schedule]

Tax on any dividend in specie derived in the form of shares in a Company, as defined in the Companies Ordinance, 1984 was effectively deferred in a certain manner with effect from July 1, 2010. Where such shares are disposed by the recipient, the amount representing the dividend in specie is taxed at the rate of 10 per cent in accordance with section 5, and the amount representing the difference between the consideration received and the amount taxed as dividend, is taxed under the head Capital Gains under section 37 or 37A, as the case may be.

The Bill proposes to withdraw the above concession and consequently, dividend in specie will be taxed under section 5 at the rate of 10 per cent in the tax year in which the same is received by the shareholder.

SPECIAL ECONOMIC ZONES (SEZ)

[Clause (126E) of Part I of the Second Schedule]

Since July 2009, following corporate income tax holiday had been available with regard to SEZ as announced by the Federal Government:

- (a) for a period of five years for projects from the date of start of commercial operations; and
- (b) for a period of ten years for developers of the Zone from the date of start of developmental activity in the SEZ.

The Bill proposes to substitute the existing clause 126E by exempting the following:

- (a) the income derived by a zone enterprise as defined in the SEZ Act, 2012 for a period of ten years starting from the date the developer certifies that the zone enterprise has commenced commercial production; and
- (b) for a period of ten years to a developer of a zone starting from the date of signing of the development agreement in the SEZ as announced by the Federal Government.

PART II – REDUCTION IN TAX RATES

IMPORT OF HYBRID CARS

[Clause (28) of Part II of the Second Schedule]

The Bill proposes to insert a new clause (28) in Part II of the Second Schedule providing for the reduction of tax under section 148 on import of hybrid cars as follows:

Engine Capacity	Rate of reduction
Upto 1200 cc	100%
1201 to 1800 cc	50%
1801 to 2500 cc	25%

PART III – REDUCTION IN TAX LIABILITY

FLYING AND SUBMARINE ALLOWANCES

[Clause (1) of Part III of the Second Schedule]

Any amount received as following allowances is presently taxed at 2.5 per cent as a separate block of income:

- (a) flying allowance by pilots, flight engineers, navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority, Junior Commissioned Officers or other ranks of Pakistan Armed Forces; and
- (b) submarine allowance by the officers of the Pakistan Navy.

The Bill proposes to withdraw the above concessions and consequently, these allowances will be taxed at the applicable rates.

TAX PAYABLE BY A FULL TIME TEACHER OR A RESEARCHER

[Clause (2) of Part III of the Second Schedule]

The tax payable by a full time teacher or a researcher, employed in a non profit education or research institution duly recognised by Higher Education Commission, a Board of Education or a University recognised by the Higher Education Commission, including government training and research institution is presently reduced by an amount equal to 75 per cent of tax payable on his income from salary.

The above reduction in tax liability is now proposed to be withdrawn.

DISTRIBUTORS OF CIGARETTES*[Clause (7) of Part III of the Second Schedule]*

Where any company engaged in the business of distribution of cigarettes manufactured in Pakistan is required to pay minimum tax on the amount representing its turnover under section 113, the amount of tax payable under the said section is reduced by eighty per cent.

The above concession is proposed to be extended to non-corporate taxpayers i.e. Individuals and AOPs, who are engaged in the business of distribution of cigarettes manufactured in Pakistan.

PART IV – EXEMPTION FROM SPECIFIC PROVISIONS**PROFIT ON DEBT***[Clause (59)(iv)(a) of Part IV of the Second Schedule]*

In the case of any resident individual, no tax is required to be deducted under section 151 from income or profits paid on Defence Saving Certificates, Special Savings Certificates, Savings Accounts or Post Office Savings Accounts, or Term Finance Certificates (TFCs), where such deposit does not exceed Rs 150,000.

The Bill proposes to withdraw the above exemptions effective July 1, 2013.

INCOME FROM HAJJ OPERATIONS*[Clause (72A) of Part IV of the Second Schedule]*

The following provisions are proposed to be not applicable in case of a Hajj Group Operator in respect of Hajj operations, provided that the tax has been paid at the rate of Rs 3,500 per Hajji for the tax year 2013 and Rs 5,000 per Hajji for the tax year 2014 in respect of income from Hajj operations:-

(a) Section 21(l)

Any expenditure for a transaction paid or payable under a single account head which, in aggregate, exceeds Rs 50,000 made other than by a crossed cheque drawn on a bank or by crossed bank draft or crossed pay order or any other crossed banking instrument showing transfer of amount from the business bank account of the taxpayer.

(b) Section 113

Minimum tax payable at the rate of 0.5 per cent (proposed by Finance Bill 2013 to be enhanced to 1 per cent) of the turnover from all sources of the tax year where either no tax is payable or the tax paid or payable is less than the rate of minimum tax.

(c) Section 152

Requirement for every person to withhold tax from any payment made to a non-resident person other than certain exceptions laid down in the said section.

IMPORTS BY AN INDUSTRIAL UNDERTAKING

[Clause (72B) of Part IV of the Second Schedule]

Under section 148, the Collector of Customs is required to collect advance tax from every importer of goods on the value of goods at the applicable rate, which is ordinarily treated as a final tax on the income of the importer arising from the imports except inter alia in the case of import of raw material, plant, machinery, equipment and parts by an industrial undertaking for its own use.

The Bill proposes to insert a new clause in Part IV of the Second Schedule whereby the provisions of section 148 will not apply to an industrial undertaking, if the tax liability for the current tax year, on the basis of determined tax liability for any of the preceding two tax years, whichever is higher, has been paid and a certificate to this effect is issued by the concerned Commissioner.

THIRD SCHEDULE***Part II – Initial Allowance***

Currently 'eligible depreciable assets' are entitled to initial allowance at the rate of 50 per cent for plant and machinery and 25 per cent for buildings.

The Bill now proposes to reduce the rate of initial allowance to 25 per cent in the case of plant and machinery.

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SEVENTH SCHEDULE

[Rule 6 of Seventh Schedule]

The Bill proposes to reduce the rate of tax from 35 per cent to 25 per cent on dividend received from Money Market Funds and Income Funds for tax year 2014 and onwards.

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SALES TAX

INADMISSIBILITY OF INPUT SALES TAX NOT VERIFIABLE FROM 'CREST' OR IN THE 'SUPPLY CHAIN'

[Sections 2(5AC), 2(33A) and 8(1)(caa)]

Based on the discrepancies pointed out by the automated information system, 'Computerized Risk-based Evaluation of Sales Tax' ('CREST'), proceedings were initiated against taxpayers either disallowing the relevant claim of input tax or for recovery of output tax.

Discrepancies under this system include:

- (i) mismatch on cross matching of the sales tax returns of taxpayers in a supply chain i.e. both the purchaser [input] and registered supplier [output].
- (ii) on account of timing differences (in declaration of 'output tax' and claim of corresponding 'input tax').

The action was, however, not fully endorsed by Courts.

Through insertion of sub-sections (5AC) and (33A) in section 2, the terms 'CREST' and 'supply chain' are now proposed to be defined. Further, effective June 13, 2013, a new clause (caa) is proposed to be inserted in section 8(1) for disallowance of input as indicated by CREST or not verifiable from the supply chain.

The proposed amendments are seemingly aimed to validate legal status of the defaults adjudged on the basis of CREST or discrepancies otherwise unearthed by departmental officials in the supply chain.

DEFINITION OF PROVINCIAL SALES TAX

[Section 2(22A)]

The definition of 'Provincial Sales Tax', which is considered as 'input tax' under the Act, has been proposed to be substituted, whereby only those provincial laws or laws relating to Islamabad Capital Territory, which are declared by the Federal Government through notification in the official Gazette, to be provincial sales tax for the purpose of input tax.

TIME OF SUPPLY – PAYMENT OF SALES TAX ON EARLIER OF RECEIPT OF PAYMENT OR DELIVERY OF GOODS

[Section 2(44)]

Under the currently applicable provisions, sales tax is leviable at the time of actual delivery of goods regardless of the time of payment i.e. sales tax is not chargeable on 'advance payments' against purchase of goods.

Amendments are proposed in Clause (44) of section 2, defining the term 'time of supply', to the effect that sales tax becomes chargeable on earlier of receipt of payment or delivery of goods. The timing for accounting of part payment for purchase of goods, including under hire purchase and services has also been proposed.

Accordingly, any payment received in advance will undergo the incidence of sales tax and levy thereon would not be delayed until the supply of goods actually takes place.

The proposed amendment restores the legal position applicable upto June 30, 2007 when sales tax was chargeable on earlier of delivery of goods or payment of consideration. Amendments were introduced on account of litigation on the subject where different nature of advances for purchases was identified.

INCREASE IN TAX RATE FROM 16 PERCENT TO 17 PERCENT

[Section 3]

[Effective June 13, 2013]

The standard rate of sales tax for the purposes of section 3 is enhanced to 17 per cent.

IMPOSITION OF "FURTHER TAX"

[Section 3(1A)]

[Effective June 13, 2013]

Sales to 'persons who have not obtained registration' are now subject to further charge of sales tax i.e. 'further tax', at the rate of 2 per cent in addition to tax chargeable at standard rate.

Such charge is also proposed in addition to that on the basis of:

- Retail price
- Rate prescribed at a lower or higher rate as notified for certain goods
- Extra tax
- Fixed rates of taxes
- Capacity

The Federal Government, however, has been proposed to be vested with a power to notify 'taxable supplies' in respect whereof, further tax would not be applicable.

Upto June 30, 2004, this levy was applicable on “person other than a registered person” at varying rates. The usage of the words “person who has not obtained registration number” under the proposed legislation implies that the amendment seems to be aimed at broadening the ambit of the persons who would be subject to charge of further tax.

The concept of further tax then introduced was abolished as the same gave rise to arbitrage in the form of ‘flying invoices’ and other discrepancies. This aspect needs to be examined.

Present text of the proposed bill requires amendment / clarification as identified below:

- (a) Under the proposed legislation, the sales to consumers are not excluded and as such shall attract ‘further tax’ unless the Federal Government issues a notification as explained above. In the past, when levy of ‘further tax’ was applicable, not only the sales of retailers were excluded from the scope thereof but also a clarification was issued to the effect that direct sales by manufacturers to consumers were not subject to charge of further tax. This position needs to be reinstated.
- (b) Further, imposition of ‘further tax’ in respect of goods listed in Third Schedule is unwarranted as in respect of such goods, tax is already collected on the final consumer price. Likewise, ‘further tax’ on product where sales tax is collected on a fixed basis or on the basis of production capacity is not desired.

SALES TAX ON THE BASIS OF CAPACITY OR ON A FIXED BASIS

[Section 3(1B)]

[Effective June 13, 2013]

A new sub section (1B) is proposed to be inserted in section 3 empowering the Federal Government to impose sales tax on the basis of production capacity of manufacturers or on a fixed basis instead of the sales tax payable on the generalised basis i.e. ‘value of supply’ under section 3(1).

No notification has been issued with budget documents, specifying the class of goods or class of persons that would be chargeable to sales tax on a fixed basis or on the basis of production capacity. It, however, appears that this mechanism for collection of tax would be opted for in respect of such sectors in which down-stream supply chain is currently outside the tax net.

CLAIM OF INPUT SALES TAX ON PURCHASES FROM BLACKLISTED SUPPLIERS / SUPPLIERS WITH SUSPENDED SALES TAX REGISTRATION

[Section 21]

Section 21(3) provides for disallowance of input sales tax in respect of purchases from a person who has either been blacklisted or whose registration has been suspended. There was, however, an exception to this in cases where the claimant of input sales tax demonstrated compliance with provisions of section 73 of the Act.

It is now proposed that such relaxation be done away with. It implies that even if the buyer of goods demonstrates compliance with section 73, claim of input tax would not be allowed.

Further by way of insertion of sub-section 4, the FBR, Commissioner or any other authorized Officer is proposed to be empowered to block the refunds and input tax adjustments of a taxpayer in respect of whom there are reasons to believe that it is engaged in fraudulent activity or issuance of fake invoices.

While the powers to suspend the registration or blacklist a taxpayer engaged in issuance of fake invoices/ fraudulent activities already vest under provisions of section 21(1), the intentions of proposed blockade of refund etc., is not clear. It appears that disallowance of 'input tax adjustment' was intended for the customers of the person engaged in fraudulent activity / issuance of fake invoices, however, in the proposed new clause, such aspect remains ambiguous.

MAINTENANCE OF RECORDS OF GOODS MOVEMENT

[Section 22]

A new sub-clause (ea) is proposed to be inserted in section 22(1) making it mandatory for taxpayers to maintain records of goods movement to and from business premises/ undertakings / warehouses i.e. inward and outward gate passes and transport receipts. Similar amendment has also been proposed in FED Act.

The inclusion of goods movement documentation in the list of statutory records appears to counter the practices of issuance of fake invoices and dummy transactions.

Practical application of this provision needs to be examined as in the present business and commercial environment, the recommended procedures may raise problems for taxpayers.

POWERS TO CONDUCT AUDIT/ ENQUIRIES*[Section 25]*

An explanation is proposed to be added to sub section (5) of section 25 to the effect that powers to conduct audit / enquires do not stand prejudiced by FBR's authority under section 72B to select taxpayers for detailed audit and that such powers stand independently vested with Commissioners / other authorized Officers too.

Apparently, the proposed amendment is aimed at mitigating the effect of a recent decision of Lahore High Court holding that powers to select taxpayers' cases for audit only vested with FBR. Similar amendments are also proposed in Income Tax Ordinance, 2001 and FED Act as such judgment held above explained position to be applicable in respect of 'audits' to be conducted under all these fiscal laws.

POWER TO POST OFFICERS AT TAXPAYERS BUSINESS PREMISES ALSO PROPOSED TO BE VESTED WITH CHIEF COMMISSIONERS*[Section 40B]*

The provisions of section 40B(1) empower FBR to post an Officer of Inland Revenue at taxpayers' premises to monitor production, sales, stocks etc.

Now, these powers propose to include 'Chief Commissioners'.

MONITORING OR TRACKING BY ELECTRONIC OR OTHER MEANS*[Section 40C]*

Section 40C proposes to empower the FBR to:

- (i) subject any class of registered persons or class of goods to electronic monitoring as to production, sales, clearances, stocks etc. in a prescribed manner.
- (ii) specify a particular date beyond which movement of taxable goods would be subject to affixing thereon of tax stamps, banderole, stickers, etc.

Similar amendment has also been proposed in FED Act.

POWER OF STAY AGAINST RECOVERY OF DEMAND VESTED IN COMMISSIONER INLAND REVENUE (APPEALS)

[Section 45B]

In line with the amendments made in the Ordinance through Finance Act, 2012, the Commissioner Inland Revenue (Appeals) is proposed to be empowered to grant stay against recovery of a sales tax demand for an aggregate period of 30 days.

Since the Courts have ruled that Commissioner Inland Revenue (Appeals) has inherent powers to grant stay against recovery in a matter *sub judice* before him, these provisions aim to fix the duration of stay to 30 days. Similar amendment has also been proposed in FED Act.

RECTIFICATION OF MISTAKES

[Section 57]

Section 57 of the Act provides for rectification of clerical / arithmetical mistakes in an order which was limited to an administrative authority.

Section 57 is now proposed to be substituted to the effect that 'mistakes apparent from record' can now be rectified by any administrative or appellate authority i.e. Commissioner Inland Revenue, Commissioner Inland Revenue (Appeals) or the Appellate Tribunal Inland Revenue. Through these provisions, sales tax law is being proposed to be brought at par with provisions relating to rectification of mistakes in the Ordinance.

The controversy of absence of jurisdiction to rectify the orders was considered by appellate courts on a number of occasions and this amendment seeks to make up for the legal deficiency prevailing in the statutory framework.

INTIMATION AS TO BUSINESS BANK ACCOUNT BY WAY OF SUBMISSION OF A PRESCRIBED FORM

[Section 73]

The provisions of section 73 of the Act require a registered person to intimate the Commissioner Inland Revenue in respect of its 'business bank accounts'.

The explanation defining "business bank account" is now proposed to include the manner of intimation either through 'Form STR I' already notified or by 'change of particulars' in registration database.

THIRD SCHEDULE*[Effective June 13, 2013]*

With regard to goods specified in the Third Schedule, sales tax at retail price is collected from the manufacturer. The scope of Third Schedule is extended to following goods:

- Finished or made-up articles of textile and leather, including garments, footwear, and bed ware, sold in retail packing;
- 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;
- Household gas appliances, including cooking range, ovens, geysers and gas heaters;
- Foam or spring mattresses, and other foam products for household use;
- Auto parts and accessories sold in retail packing;
- Lubricating oils, brake fluid, transmission fluid, and other vehicular fluids and maintenance products in retail packing;
- Tyres and tubes;
- Storage batteries;
- Arms and ammunition;
- Paints, distempers, enamels, pigments, colours, varnishes, gums, resins, dyes, glazes, thinners, blacks, cellulose lacquers and polishes sold in retail packing;
- Fertilizers;
- Cement sold in retail packing;
- Tiles sold in retail packing;
- Biscuits, confectionary, chocolates, toffees and candies; and
- Other goods and products sold in retail packing.

No amendment has been made in Chapter XIII of Sales Tax Special Procedure Rules, 2007 which prescribes an extra tax on television sets, refrigerators, freezers, air conditioners, electric ovens, microwave ovens, washing machines, spin dryers and DVD / CD players of all types to be charged by manufacturer in respect of 'value addition' attributable to down-stream chain. In view of this, the concurrent inclusion under Chapter XIII needs to be addressed.

From a practical perspective, an immediate change in applicable regime of sales tax in respect of these items would be considerably difficult as provisions of section 3(2)(a) of the Act as to printing / embossing of 'retail price' may not be possible. Further, change of regime within a tax period may also give rise to various financial reporting and revenue controlling issues.

Moreover, the scope of last entry [other goods and products sold in retail packing] inserted in Third Schedule will lead to controversies / litigations. The proposed amendment, to this extent, is to be deleted. By reference to scheme of law, the statute extends power to specify taxable supplies in the Third Schedule to be chargeable to tax on retail price basis thus essentially 'specific' goods should be included rather than general description.

SIXTH SCHEDULE

WITHDRAWAL OF EXEMPTIONS

[Effective June 13, 2013]

Following entries are proposed to be omitted from the Sixth Schedule to the Act:

Entry	Description	PCT Heading
25.	<p>Table I</p> <p>Milk preparations obtained by replacing one or more of the constituents of milk by another substance, whether or not packed for retail sale</p>	1901.1000, 1901.9020 and 1901.9090
12.	<p>Table II</p> <p>Supplies against International tender</p>	Respective headings

Earlier, supplies against international tenders were subject to sales tax at zero per cent in terms of the relevant provisions of Fifth Schedule to the Act. Through Finance Act, 2012, the facility of zero rating on supplies against international tenders was withdrawn and these were exempted from levy of sales tax by virtue of insertion of Entry No. 12 in Table II to the Sixth Schedule.

Further, Chapter VIIA of Sales Tax Rules, 2006, laying out the procedure in respect of supplies against international tenders, is also proposed to be deleted with effect from July 1, 2013 [SRO 506(I)/2013 dated June 12, 2013].

**ZERO RATING WITHDRAWN AND SUBSTITUTED WITH EXEMPTION
SRO 501(I)/2013 AND SRO 502(I)/2013
[Effective June 13, 2013]**

'Zero rating' [available under SRO 549(I)/2008 dated June 11, 2008] has been withdrawn and 'exemption' from whole of sales tax has been extended with the exception of Cotton Seed Oil. This effectively means that input tax, if any, for such products will not be available. Earlier, input tax borne by the manufacturer was refundable.

Zero rating on 'Cotton Seed Oil', supplied to registered manufacturer of vegetable ghee and cooking oil, has been withdrawn. However, it has not been granted exemption from sales tax. Therefore, it is now chargeable to sales tax at the rate of 17 per cent.

List of exempted goods (previously zero rated):

S. No.	Description	PCT Heading
1.	Uncooked poultry meat	02.07
2.	Milk and cream	04.01 and 04.02
3.	Flavored Milk	0402.9900 and 22.02
4.	Yogurt	0403.1000
5.	Whey	04.04
6.	Butter	0405.1000
7.	Desi ghee	0405.9000
8.	Cheese	0406.1010
9.	Processed cheese not grated or powdered	0406.3000

S. No.	Description	PCT Heading
10.	Cotton seeds	1207.2000
11.	Frozen, prepared or preserved sausages and similar products of poultry meat or meat offal	1601.0000
12.	Meat and similar products of prepared frozen or preserved meat or meat offal of all types including poultry meat and fish	1602.3200,1602.3900, 1602.5000,1604.1100, 1604.1200,1604.1300, 1604.1400,1604.1500, 1604.1600,1604.1900, 1604.2010,1604.2020, 1604.2090,1604.3000
13.	Preparations for infant use, put up for retail sale	1901.1000
14.	Fat filled milk	1901.9090
15.	Soyabean meal	2304.0000
16.	Oil cake and other solid residues, whether or not ground or in the form of pellets	2306.1000
17.	Colours in sets (Poster colours)	3213.1000
18.	Writing, drawing and marking inks	3215.9010 and 3215.9090
19.	Erasers	4016.9210 and 4016.9290
20.	Exercise books	4820.2000
21.	Directly reduced iron	72.03
22.	Pencil sharpeners	8214.1000
23.	Energy saver lamps	8539.3910
24.	Sewing machines of the household type	8452.1010 and 8452.1090
25.	Purpose built taxis, whether in CBU or CKD condition which are built on girder chassis and having following features, namely:	8703.3226 and 8703.3227

S. No.	Description	PCT Heading
	(a) Attack resistance central division along with payment tray; (b) Wheelchair compartment with folding ramp; and (c) Taximeter and two-way radio system.	
26.	Bicycles	87.12
27.	Wheelchair	8713.1000 and 8713.9000
28.	Vessels for breaking up	89.08
29.	Other drawing, marking out or mathematical calculating instruments (geometry box)	9017.2000
30.	Pens and ball pens	96.08
31.	Pencils including colour pencils	96.09
32.	Compost (non-chemical fertilizer) produced and supplied locally	Respective heading
33.	Construction materials to Gawadar Export Processing Zone's investors and to Export Processing Zone Gawadar for development of Zone's infrastructure.	Respective heading

FINISHED CONSUMER GOODS OF FIVE EXPORT-ORIENTED SECTORS

SRO 504(I)/2013

Amendment in SRO 1125(I)/2011 dated December 31, 2011

[Effective June 12, 2013]

In terms of SRO 1125(I)/2011 dated December 31, 2011 [as amended from time to time] a reduced rate of 2 per cent / 5 per cent is applicable inter alia on local sales of articles covered by five export-oriented sectors i.e. textile, carpets, leather, sports and surgical goods. Through the subject notification, with effect from June 12, 2013, the concession has been restricted to goods other than 'finished' articles. Consequently, the local sale of these 'finished articles' such as 'garments' now attracts sales tax at the rate of 17 per cent.

List of items excluded from SRO 1125(I) of 2011:

Entry of Table in SRO 1125(I)/2011	Description	PCT Heading
01.	Finished articles of leather and artificial leather	Chapter 41 and heading 64.06
02.	Following items relating to textile and articles thereof: (a) finished articles of textiles and textile made-ups (b) mono-filament of more than 67 decitex (c) sun shading (d) fishing net of nylon or other material (e) rope of polyethylene or nylon (f) tyre cord fabric	Chapters 50, 51, 52, 53, 54 (excluding 5407.2000), 55, 56 (excluding 56.08 and 56.09), 57 (excluding made ups), 58, 59 (excluding 59.05, 59.10) and 60
03.	Carpets in finished condition	Chapter 57 excluding made ups)
06.	Sports goods in finished condition	Respective headings excluding finished goods.
07.	Surgical goods in finished condition	Respective headings excluding finished goods
56.	Master batches relating to other colouring matter and other preparations	3206.4900
68.	Shoe adhesives	3506.9110

SALES TAX SPECIAL PROCEDURE (WITHHOLDING) RULES, 2007**WITHHOLDING ON SUPPLIES FROM UNREGISTERED PERSON - EXTENDED
SRO 505(I)/2013***[Rule 2(3)]**[Effective June 12, 2013]*

At present, only following persons are required to withhold sales tax on purchase of taxable goods from unregistered persons:

- Federal and provincial governments
- Autonomous bodies
- Public sector organisations

Now all companies who are withholding agents under these Rules and persons registered as exporters are also required to withhold sales tax on purchase of taxable goods from unregistered persons.

SALES TAX RULES, 2006**PLACE OF JURISDICTION****SRO 506(I)/2013*****[Rule 5(1)]****[Effective July 1, 2013]*

Presently, the jurisdiction over the case of a corporate person lies with the Regional Tax Office (RTO) or Large Taxpayers Unit (LTU), in whose jurisdiction the registered office is located whereas in the case of a non-corporate person, it is determined with reference to the place where the business is actually carried on and in case of both business premises and manufacturing unit in different areas, the jurisdiction is determined with reference to the place of manufacturing unit.

The amendment sets out a revised and uniform basis for determination of place of jurisdiction as follows:

	Persons having:	Jurisdiction
(a)	Single manufacturing unit or business premises,	RTO / LTU where the manufacturing unit or business premises is actually located
(b)	Multiple manufacturing units or business premises	To be determined by FBR

Consequently, the place of jurisdiction in cases falling under category (a) shall stand automatically transferred on July 1, 2013 to the RTO or LTU in whose jurisdiction the manufacturing unit or business premises is actually located. In case of multiple manufacturing units or business premises, the FBR may decide the place of jurisdiction.

SALES TAX SPECIAL PROCEDURE RULES, 2007

EXTRA TAX ON UNREGISTERED AND INACTIVE CONSUMERS OF ELECTRICITY AND NATURAL GAS

SRO 509(I)/2013 AND SRO 510(I)/2013

[Effective from June 13, 2013]

Extra sales tax at 5 per cent of the total amount billed (excluding the amount of federal taxes) has been imposed on supply of electric power and natural gas to unregistered or registered but inactive persons having commercial and industrial connections where the monthly bill exceeds Rs 15,000. This effectively means that sales tax rate for such persons shall be 24 per cent [i.e. regular rate of 17 per cent plus 2 per cent further tax plus 5 per cent extra tax on unregistered users of electricity].

For the purposes of implementation of this provision, amendments have also been made, through insertion of Chapter IVA, in the Sales Tax Special Procedure Rules, 2007 inter alia specifying the following:

- Extra tax is not adjustable by the supplier or the consumer in their returns, and is required to be paid in full by the supplier into the government treasury.
- The amount of extra tax is required to be shown separately in the bill / invoice.
- The supplier is required to collect and pay extra sales tax in the same manner as is applicable for payment of normal sales tax.
- For claiming exemption from collection of extra tax, the consumer is required to provide sales tax registration certificate to the supplier which the latter shall verify from Active Taxpayers List (ATL) maintained by the FBR and shall further confirm that the name, address and other particulars appearing on the registration certificate or ATL, as the case may be, are the same as that of electric power and natural gas connection. The supplier, upon verifying the above, shall incorporate the sales tax registration number in the billing system and thereafter, stop charging and collecting extra tax from such person. For cases with multiple places of business, it is the responsibility of the consumer to ensure that all such places are properly declared and entered on the registration certificate and ATL. It appears, by implication, that non-inclusion of all places of business shall prohibit the supplier from extending exemption from extra tax in respect of utility bill for a place not appearing on registration certificate or ATL.

- The supplier is required to start charging extra tax once a registered person is de-registered or he does not remain active on ATL.

Sales tax registration certificate normally shows particulars of principal place of business only. It, therefore, seems that persons having multiple places of business are practically now required to obtain new / revised sales tax registration certificates from the department to get incorporated all their places of business in order to avail exemption from extra tax.

The implementation of this provision, from the perspective of supplier, requires continuous monitoring regarding the status of their consumers claiming exemption from extra tax by reviewing ATL every month.

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NOTIFICATIONS RESCINDED
SRO 500(I)/2013
[Effective June 12, 2013]

SRO Numbers	Description																								
646(I)/2005 dated June 30, 2005	Zero rating on supply of hydrogen, nitrogen and helium falling under PCT headings 2804.1000, 2804.3000 and 2804.2990 by M/s BOC Pakistan Limited to M/s Pakistan PTA Limited.																								
172(I)/2006 dated February 24, 2006	Exemption from sales tax available to members of Pakistan Film Producers Association (PFPA) on import of specified goods used in production of film making.																								
863(I)/2007 dated August 24, 2007	Consequent to exemption allowed and withdrawal of zero rating earlier available under SRO 549(I)/2008, the facility available under this notification for sales-tax free procurement of raw materials, sub-components, components, sub-assemblies and assemblies (imported or local) by manufacturers of following goods has also been taken away: <table border="1" data-bbox="778 1064 1316 1657"> <thead> <tr> <th>S. No.</th> <th>Description of goods</th> <th>PCT Headings</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>Colors in sets</td> <td>3213.1000</td> </tr> <tr> <td>2.</td> <td>Writing, drawing and marking inks</td> <td>3215.9010 and 3215.9090</td> </tr> <tr> <td>3.</td> <td>Erasers</td> <td>4016.9210 and 4016.9290</td> </tr> <tr> <td>4.</td> <td>Exercise books</td> <td>4820.2000</td> </tr> <tr> <td>5.</td> <td>Pencils sharpener</td> <td>8214.1000</td> </tr> <tr> <td>6.</td> <td>Geometry box</td> <td>9017.2000</td> </tr> <tr> <td>7.</td> <td>Pens, ball pens, markers and porous tipped pens</td> <td>96.08</td> </tr> </tbody> </table>	S. No.	Description of goods	PCT Headings	1.	Colors in sets	3213.1000	2.	Writing, drawing and marking inks	3215.9010 and 3215.9090	3.	Erasers	4016.9210 and 4016.9290	4.	Exercise books	4820.2000	5.	Pencils sharpener	8214.1000	6.	Geometry box	9017.2000	7.	Pens, ball pens, markers and porous tipped pens	96.08
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	8.	Pencils including color pencils	96.09
	9.	Milk including flavoured milk	04.01 and 0402.9900
	10.	Yogurt	0403.1000
	11.	Cheese	0406.1010
	12.	Butter	0405.1000
	13.	Cream	04.01 and 04.02
	14.	Desi Ghee	0405.9000
	15.	Whey	04.04
	16.	Milk and cream, concentrated and added sugar or other sweetening matter	0402.1000
	17.	Preparations for infant use put up for retail sale	1901.1000
	18.	Fat filled milk	1901.9090
160(I)/2010 dated March 10, 2010	Amnesty from payment of default surcharge and penalties available on payment of principal amounts by June 30, 2010 to registered person (other than cement, sugar, beverages and cigarette sectors) located in Hangu, Bannu, Tank, Kohat, Chitral, Charsadda, Peshawar, Dera Ismael Khan, Batagram, Lakki Marwat, Sawabi and Mardan. No concession is currently available under this notification, being time specific.		
164(I)/2010 dated March 10, 2010	Sales tax exemption on supply of electricity to manufacturing units (having industrial connections, other than cement, sugar, beverages and cigarette sectors) located in districts of Hangu, Bannu, Tank, Kohat, Chitral, Charsadda, Peshawar, Dera Ismael Khan, Batagram, Lakki Marwat, Sawabi, Nowshera and Mardan.		

117(I)/2011 dated February, 2011	This relates to concession of 50% reduction in sales tax available to supply of goods (other than cement, sugar, beverages and cigarette sectors) manufactured in non-tariff areas of Khyber Pakhtunkhwa (KP), Federally Administered Tribal Areas (FATA) and Provincially Administered Tribal Areas (PATA), namely, Bajaur Agency, Mohamand Agency, Khyber Agency, Orakzai Agency, Kurram Agency, North Waziristan Agency, South Waziristan Agency, Malakand Agency, District Swat, District Buner, District Shangla, District Upper Dir and District Lower Dir to the tariff areas of Pakistan.
180(I)/2011 dated March 5, 2011	Under this notification, 50% reduction in sales tax was available on supply of goods by the registered persons (other than cement, sugar, beverages and cigarette sectors) located in districts of Hangu, Bannu, Tank, Kohat, Chitral, Charsadda, Peshawar, Dera Ismael Khan, Batagram, Lakki Marwat, Sawabi, Nowshera and Mardan.

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FEDERAL EXCISE DUTY***FURTHER DUTY****[Section 3]*

The Bill proposes to levy a 'Further Duty' at the rate of two per cent of the value in addition to the normal rate, when excisable goods and services are supplied to a person who has not obtained a registration number. Federal Government will be empowered to issue a notification in the official gazette to specify the excisable goods and services whereupon such further duty will be charged, levied and collected.

RECORDS*[Section 17]*

Every person registered for FED Act is required to maintain and retain records of excisable goods purchased, manufactured and cleared by him or by his agent for the specified period. Such records will now include, inward and outward gate passes and transport receipts.

APPEALS TO COMMISSIONER (APPEALS)*[Section 33]*

The Bill proposes to expressly empower the Commissioner (Appeals) to stay the recovery of tax for a period not exceeding 30 days in aggregate, where in a particular case, he is of the opinion that the recovery of tax levied shall cause undue hardship to the taxpayer.

It is important to note that under section 37(1), the Commissioner (Appeals), in any particular case, is already empowered to dispense with the deposit of duty demanded or penalty imposed, subject to such conditions as he may deem fit to impose so as to safeguard the interest of revenue. The order for such dispensation, however, ceases to have effect on the expiration of a period of 6 months from the date of the dispensation order or decision of appeal, whichever is earlier.

POWERS OF FBR OR COMMISSIONER TO PASS CERTAIN ORDERS*[Section 35]*

An Explanation has been inserted to clarify that the powers of FBR, Commissioner or Officer of Inland Revenue vested under sections 35, 45 and 46 are independent of the powers of the FBR under section 42B. It has further being clarified that nothing contained in section 42B restricts the powers of FBR, Commissioner or officer of Inland Revenue under the aforesaid sections or to conduct audit.

REWARD TO INLAND REVENUE OFFICERS AND OFFICIALS*[Section 42C]*

It is proposed to reward officers and officials of Inland Revenue for their meritorious conduct in cases involving concealment or evasion of excise duty and other taxes. Moreover, the informer providing credible information leading to such detection would also be rewarded after realization of part or whole of the taxes involved in such cases.

It is proposed that FBR may by notification prescribe the procedure to specify the apportionment of reward for individual performance or to collective welfare of the officers and officials of Inland Revenue.

MONITORING OR TRACKING BY ELECTRONIC OR OTHER MEANS*[Section 45A]*

It is proposed that FBR may by notification prescribe the procedure to specify any registered person or class of registered persons or any goods or class of goods in respect of which monitoring or tracking of production, sales, clearances, stocks or any other related activity may be implemented through electronic or other means, as may be prescribed.

Moreover, excisable goods shall not be removed or sold by the manufacturer or any other person without affixing tax stamp, banderole, stickers, labels, etc. in any such form, style and manner as may be prescribed by FBR.

FIRST SCHEDULE**REVISION IN DUTY
(TABLE I – EXCISABLE GOODS)****AERATED BEVERAGES**

The rate of duty is proposed to be enhanced from 6% to 9% of retail price for following goods with effect from July 1, 2013:

S.No.	Description of goods	Heading number
4.	Aerated waters	2201.1020
5.	Aerated waters, containing added sugar or other sweetening matter of flavoured	2202.1010
6.	Aerated waters if manufactured wholly from juices or pulp of vegetables, food grains or fruits and which do not contain any other ingredient, indigenous or imported, other than sugar, colouring materials, preservatives or additives in quantities prescribed under the West Pakistan Pure Food Rules, 1965	Respective Headings

Further, the 'salient features' of Finance Bill provide that capacity based taxation is also being introduced in respect of the above goods.

LOCALLY PRODUCED CIGARETTES

Description and duty on the locally produced cigarettes (PCT heading 24.02) has been revised as under, with effect from June 13, 2013:

S.No.	Description of goods	Revised rate of duty
9.	Locally produced cigarettes if their on-pack printed retail price exceeds rupees two thousand two hundred and eighty six per thousand cigarettes	Rupees two thousand three hundred and twenty five per thousand cigarettes.
10.	Locally produced cigarettes if their on-pack printed retail price does not exceed rupees two thousand two hundred and eighty six per thousand cigarettes	Rupees eight hundred and eighty per thousand cigarettes

OIL SEEDS, VEGETABLE GHEE AND COOKING OIL
 [S.R.O. 507(I)/2013 and 508(I)/2013 dated June 12, 2013]

It is proposed to charge duty on oil seeds as under, with effect from June 13, 2013:

S.No.	Description of goods	PCT Heading	Rate of duty
54.	Oilseeds	Respective headings	Forty paisa per kg

Under SRO 508(I)/2013, duty of forty paisa per kg collected at import stage will be treated as duty collected in lieu of duty payable at production or manufacturing stage of vegetable ghee or cooking oil.

Under SRO 507(I)/2013, duty has also been levied at the rate of Rupee one per kilogram of locally produced oil purchased by a manufacturer of vegetable ghee and cooking oil, in lieu of the duty payable at 16 per cent on vegetable ghee and cooking oil produced or manufactured from locally produced oil. It should be paid by the producer or manufacturer of vegetable ghee and cooking oil alongwith his monthly return for the period in which the locally produced oil is purchased:

Moreover, duty on the stocks of locally produced oil purchased before June 12, 2013 and lying in the premises of vegetable ghee and cooking oil producer or manufacturer shall be paid alongwith the return filed for June, 2013.

MOTOR VEHICLES

It is proposed to charge duty on motor vehicles as under, with effect from June 13, 2013:

S.No.	Description of goods	PCT Heading	Rate of duty
55.	Motor cars, SUVs and other motor vehicles of cylinder capacity of 1800 cc or above, principally designed for the transport of persons (other than those of headings 87.02), including station wagons and racing cars of cylinder capacity of 1800 cc or above.	87.03	Ten per cent ad.val.

TABLE II – EXCISABLE SERVICES

There are certain services which are concurrently taxable by Federal and Provincial legislations. Duplication of incidence are handled by administrative instructions / orders, however, litigation and dispute crop up due to said status. No clarificatory amendment / mechanism for the same has however, been proposed in the bill.

FINANCIAL SERVICES

Description and duty on all types of financial services has been clubbed and extended as under with effect from June 13, 2013:

S.No.	Description of goods	PCT Heading	Rate of duty
8.	Services provided or rendered by banking companies, insurance companies, cooperative financing societies, modarabas, musharikas, leasing companies, foreign exchange dealers, non-banking financial institutions, Assets Management Companies and other persons dealing in any such services.	98.13	Sixteen per cent of the charges.

The duty on above services is governed by Rule 40A of the Federal Excise Rules, 2005 and SRO 474(I)/2009 dated June 13, 2009. Effectively, only those financial services would be taxable which are not exempted in the said Rule and notification.

THIRD SCHEDULE**TABLE I – GOODS**

The duty in respect of the following goods is proposed to be withdrawn, effective June 13, 2013:

S.No.	Description of goods	PCT Heading
5.	Hydraulic cement imported or purchased locally by petroleum or energy sector companies or projects subject to the same conditions and procedures as are applicable for the purposes of exemption of custom duty,	2523.9000
7.	Lubricating oil if supplied to Pakistan Navy for consumption in its vessels	Respective heading
8.	Transformer oil if used in the manufacture of transformers supplied against international tenders to a project financed out of funds provided by the international loan or aid giving agencies.	Respective heading

TABLE II – SERVICES

ASSET MANAGEMENT SERVICES

The Finance Act, 2012 inserted a specific entry in Table II of the Third Schedule whereby services provided by Asset Management Companies were exempted with effect from July 1, 2007.

The above exemption is now proposed to be withdrawn effective June 13, 2013.

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CUSTOMS DUTY**DEFINITION***[Section 2(la)]*

To provide legal cover for transshipment of goods declaration, the definition of the term 'Goods Declaration' has been expanded to also include declarations filed for 'transshipment of goods'.

DIRECTORATE GENERAL OF INPUT OUTPUT CO-EFFICIENT ORGANIZATION*[Section 3DDD]*

To provide legal cover to the Directorate General of Input Output Co-efficient Organization (IOCO), a new authority of Directorate General of IOCO has been introduced. The office of the IOCO would consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other Officers as the FBR may, by notification in the Official Gazette, appoint.

PROVISIONAL DETERMINATION OF LIABILITY*[Section 81]*

Provisional assessment and clearance of goods is allowed against bank guarantee or pay order or post dated cheque for differential amount of duty and taxes.

Henceforth, posted dated cheques will not be acceptable for provisional assessment and clearance of goods.

SCHEDULE

TARIFF RATIONALISATION

Following new PCT Codes (in bold) have been added to the Customs Tariff:

<i>PCT Heading</i>	<i>Description</i>	<i>Rate of Customs Duty</i>
39.03	Polymers of styrene, in primary forms.	
3903.9000	Other:	5
72.10	Flat- rolled products of iron or non- alloy steel, of a width of 600 mm or more, clad, plated or coated.	
7210.7010	VCM or PCM coated sheets of a thickness(excluding any coating) not exceeding 0.5 mm	5
84.18	Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; heat pumps other than air conditioning machines of heading 84.15.	
	Others:	
8418.6930	Water dispenser	30
85.17	Telephone sets, including telephones for cellular networks or for other wireless networks; other apparatus for the transmission or reception of voice, images or other data, including apparatus for communication in a wired or wireless network (such as a local or wide area network) other than transmission or reception apparatus of heading 84.43, 85.25, 85.27 or 85.28.	
	Telephones for cellular networks or for other wireless networks:	
8517.1230	Satellite mobile phone, whether or not functional on cellular networks	25
85.39	Electric filament or discharge lamps, including sealed beam lamp units and ultra- violet or infra- red lamps; arc- lamps.	
8539.3920	Energy saving tube	0
85.43	Electrical machines and apparatus, having individual functions, not specified or included elsewhere in this Chapter.	
8543.7020	Infrared insect killer	25
87.03	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 87.02), including station wagons and racing cars.	
8703.2191	Components for the assembly / manufacture of vehicles, in any kit form excluding those of heading 8703.2193 and 8703.2195	55
8703.2194	Components for the assembly / manufacture of Mini Van, in any kit form	55
8703.2195	Mini vans (CBU)	55

<i>PCT Heading</i>	<i>Description</i>	<i>Rate of Customs Duty</i>
8703.2230	Components for the assembly / manufacture of mini van, in any kit form	60
8703.2240	Mini vans (CBU)	60
8703.2321	Components for the assembly / manufacture of vehicles, in any kit form excluding of heading 8703.2323	100
8703.2322	Components for the assembly / manufacture of sport utility vehicles 4x4, in any kit form	100
8703.2323	Sport utility vehicles (SUVs 4x4)	100
8703.9010	Components for the assembly / manufacture of electric vehicles, in any kit form	50
8703.9020	Electric vehicles	50
8703.9090	Other	100
87.04	Motor vehicles for the transport of goods. g.v.w. not exceeding 5 tonnes:	
8704.3110	Components for the assembly / manufacture, in any kit form excluding those of heading 8704.3130 and 8704.3150	60
8704.3120	Components for the assembly / manufacture of mini cargo van, in any kit form	60
8704.3130	Mini cargo van (CBU)	60
8704.3140	Components for the assembly / manufacture of 3-wheeler cargo loader, in any kit form	60
8704.3150	3-Wheeler cargo loader (CBU)	60
87.11	Motorcycles (including mopeds) and cycles fitted with an auxiliary motor, with or without side- cars; side- cars.	
8711.9010	Components for the assembly / manufacture of vehicles, in any kit form, excluding those of heading 8711.9030	65
8111.9030	Electric bikes (CBU)	65

REDUCTION IN CUSTOMS DUTY

Duty on the following items has been reduced:

PCT Heading	Description	Old Rate	New Rate
39.26	Other articles of plastics and articles of other materials of headings 39.01 to 39.14.		
3926.1000	Office or school supplies	25	20
44.11	Fibreboard of wood or other ligneous materials, whether or not bonded with resins or other organic substances.		
4411.1200	Of a thickness not exceeding 5 mm	20	15
4411.1300	Of a thickness exceeding 5 mm but not exceeding 9 mm	20	15
4411.1400	Of a thickness exceeding 9 mm	20	15
4411.9200	Other:		
	Of a density exceeding 0.8 g/cm²	20	15
	Of a density exceeding 0.5 g/cm² but not exceeding 0.8 g/cm² :		
4411.9310	Not mechanically worked or surface covered	20	15
4411.9390	Other:	20	15
4411.9400	Of a density not exceeding 0.5 g/cm²	20	15
84.21	Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases.		
8421.2100	For filtering or purifying water	25	15

INCREASE IN CUSTOMS DUTY

Duty on the following items has been increased:

PCT Heading	Description	Old Rate	New Rate
08.02	Other nuts, fresh or dried, whether or not shelled or peeled.		
0802.8000	Areca nuts	* 15	* 20
14.04	Vegetable products not elsewhere specified or included.		
1404.9020	Betel leaves	Rs.200/Kg	Rs.300/Kg

* includes regulatory duty of 10 per cent which is not changed.

NOTIFICATIONS

[Effective June 13, 2013]

CHANGES IN CONCESSIONARY RATES OF CUSTOMS DUTY

[SRO 497(I)/2013 AND SRO 567(I)/2006]

WITHDRAWAL OF CONCESSIONARY DUTY

Concessionary duty on import of following goods has been withdrawn:

S. No. of SRO 567	Description of Goods	PCT Heading	Rate of concessionary duty withdrawn
16	Preparations put up in retail packing for agriculture	3808.9160	0%
24	Uncoated Kraft paper and paper board in rolls or sheets	4804.1900	5%
	Virgin craft liner	4804.1900	0%
	Virgin white top craft	4804.1900	0%
	Semi – chemical fluting paper	4805.1100	0%
28	Flat rolled products of stainless steel, of a width of 600 mm or more	7219.9090	0%
29	Silicon electrical steel sheet	7226.1900	0%
48	LCD Panels in CBU form	8528.7211	20%
	Plasma display panels in CBU form	8528.7212	20%

PROCEDURAL CHANGES IN THE CONCESSIONARY DUTY REGIME FOR PHARMACEUTICAL SECTOR

- (i) Concessionary duty for excipients / chemicals listed in Heading “B” of Table III in SRO 567(1)/2006 shall only be available to the pharmaceutical sector, as per the requirements determined by the Drug Regulatory Authority.
- (ii) Concessionary duty for packing material and raw materials for packing material listed in Heading “D” of Table III in SRO 567(1)/2006 shall now only be available to the pharmaceutical sector as per the requirements determined by the Directorate General of IOCO.

CONCESSIONARY REGIME FOR PLANT AND MACHINERY
 [SRO 498(I)/2013 AND SRO 575(I)/2006]

AGRICULTURE SECTOR

Exemption / Concessionary rate of customs duty and sales tax on import of specified agricultural machinery will now apply only where such machinery is used for agriculture sector.

TOURISM SECTOR

The following functions / authority assigned to the Ministry of Tourism, Tourism Departments of Provincial Governments, Gilgit-Baltistan, FATA and Department of Tourist Services of the Capital Administration and Development Division (for allowing concessionary rate of 5 per cent of customs duty and 100 per cent exemption from sales tax) have now been assigned to the Directorate of IOCO:

- (i) Determination of item-wise requirements of project;
- (ii) On-line furnishing of all relevant information to the Pakistan Customs Computerised System; and
- (iii) Recommendation of cases to FBR, eligible for the concession on locally manufactured goods and pre-fabricated buildings.

The aforesaid concessionary regime will now be subject to the following conditions:

- (i) Furnishing of undertaking in the prescribed form by the importer at the time of clearance of goods; and
- (ii) Certificate of installation / consumption in the prescribed form by the Assistant or Deputy Collector of Customs within one year of import to the effect that the goods have been duly installed or consumed, as the case may be.

RENEWABLE ENERGY

- (i) Certification by the Alternate Energy Development Board (AEDB), Islamabad in order to claim exemption / concession in customs duty and sales tax on import of following items, is now no longer required:

S. No. of SRO 575	Description of items
35.	Items with dedicated use of renewable source of energy like solar, wind, geothermal etc.
	- Solar Home Systems
	- Solar Parabolic Trough Power Plants
	- Solar Dish Sterling Engine
	- Solar Air-Conditioning System
	- Solar Desalination System
	- Solar Thermal Power Plant with accessories
	- Solar Water Heaters with accessories
	- PV Modules
	- Solar Cell Manufacturing Equipment
	- Pyranometers and accessories for solar data collection
	- Solar chargers for charging electronic devices
	- Remote control for solar charge controller
	- Wind Turbines
	- Wind Water Pump
	- Geothermal energy equipments
	- Any other item approved by the Alternative Energy Development Board (AEDB) and concurred to by the FBR
35A.	Items for promotion of renewable energy technologies:
	- LVD induction lamps
	- SMD, LEDs with or without ballast with fittings and fixtures
	- Wind turbines including alternators and mast
	- Solar torches
	- Lanterns and related instruments

- (ii) Import of following items with dedicated use of renewable source of energy have been exempted from customs duty and sales tax:

Description of items	PCT Heading
Submersible pums	8413.7010
Energy saving tube lights	8539.3920
Any other item approved by the AEDB and concurred to by the FBR	N/A

CHANGES IN THE CONCESSIONARY REGIME FOR HYBRID ELECTRIC VEHICLES
[SRO 499(I)/2013 RESCINDING SRO 607(I)/2012]

Import of Hybrid Electric Vehicles (HEVs) falling under the PCT Heading 87.03 was allowed exemption of 25 per cent of applicable rates of customs duty, sales tax and income tax, without any reference to engine capacity. The exemption limit has now been increased as follows:

<i>Engine Capacity</i>	<i>Extent of exemption in leviable duty and taxes</i>
Upto 1200 CC	100%
From 1201 CC to 1800 CC	50%
From 1801 CC to 2500 CC	25%

Depreciation in the duties and taxes, in case of old and used HEVs, admissible at the rate of 2 per cent per month (subject to a maximum of 60 per cent) has been withdrawn.

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INCOME SUPPORT LEVY ACT, 2013

Through the Finance Bill 2013 a new tax by the name of Income Support Levy (ISL) is proposed to be introduced through the enactment of Income Support Levy Act, 2013 (ISLA). The object of ISL is to provide for financial resources for running an income support fund for the economically distressed persons and their families.

ISL appears to have been levied by the Federal Government under the right of taxation of Federal Government as laid down in Entry 50 of Part I of Federal Legislative List in the Constitution of Islamic Republic of Pakistan. This law is effectively a reintroduction, in a different form, of wealth tax which was abolished in 2001. The reasons for abolition of wealth tax at that time were the question of double taxation, migration of capital, disincentive for documentation, and non-substantial revenue collection. All those shortcomings need to be taken into account whilst introducing the similar levy.

In case if such a levy is to be introduced then the same should only be applicable for those persons whose income tax liability is less than the incidence under this law.

SALIENT FEATURES OF ISL

- (i) The levy is applicable from tax year 2013 on individuals having "Net Movable Wealth" exceeding Rs 1 million on the last date of the tax year. The term 'Net Movable Wealth' has been defined as under:

"net movable wealth" means the amount by which the aggregate value of the movable assets belonging to a person as declared in the wealth statement for the relevant tax year, is in excess of the aggregate value of all the liabilities owed by that person on the closing date of the tax year."

Explanation.- For the purpose of this clause,-

- (i) *where liability claimed relates wholly and exclusively to an immovable asset, it shall not be claimed and allowed while computing the net movable wealth. However, where the liability claimed relates wholly and exclusively to a movable asset, it shall be claimed and allowed as a straight deduction while computing net movable wealth; and*

- (ii) *where the gross wealth of a person, declared in the wealth statement includes both movable and immovable assets and the nature of assets to which the liability relates is not determinable, the liability to be allowed while determining the net movable wealth shall be calculated by the following formula:-*

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

Where –

- A** *is the gross value of movable assets;*
B *is the gross value of both movable and immovable assets; and*
C *is the gross value of debts owed;*

- (ii) The rate of ISL is 0.5 per cent of Net Movable Wealth exceeding Rs 1 million.
- (iii) The value of movable assets declared in the wealth statement under section 116 of the Ordinance shall form the basis of ISL.
- (iv) ISL will be payable at the time of filing of the wealth statement.
- (v) The Officer of Inland Revenue has been empowered to make an assessment of ISL in the manner prescribed and all the provisions of the Ordinance relating to the collection of levy, appeals, revision and rectification shall apply so far as may be practicable.
- (vi) Where a person fails to pay ISL or ISL so paid is less than the amount payable, he shall be liable to pay default surcharge at the rate of sixteen per cent per annum on the amount not paid or the amount by which ISL paid falls short of the amount payable, calculated from the date it was payable to the date it is paid or the date of an order passed by the Officer Inland Revenue, whichever is earlier.
- (vii) FBR may, by notification in the Official Gazette, make rules for carrying out the purposes of ISLA.