



*cutting through complexity*

KPMG Taseer Hadi & Co.  
Chartered Accountants

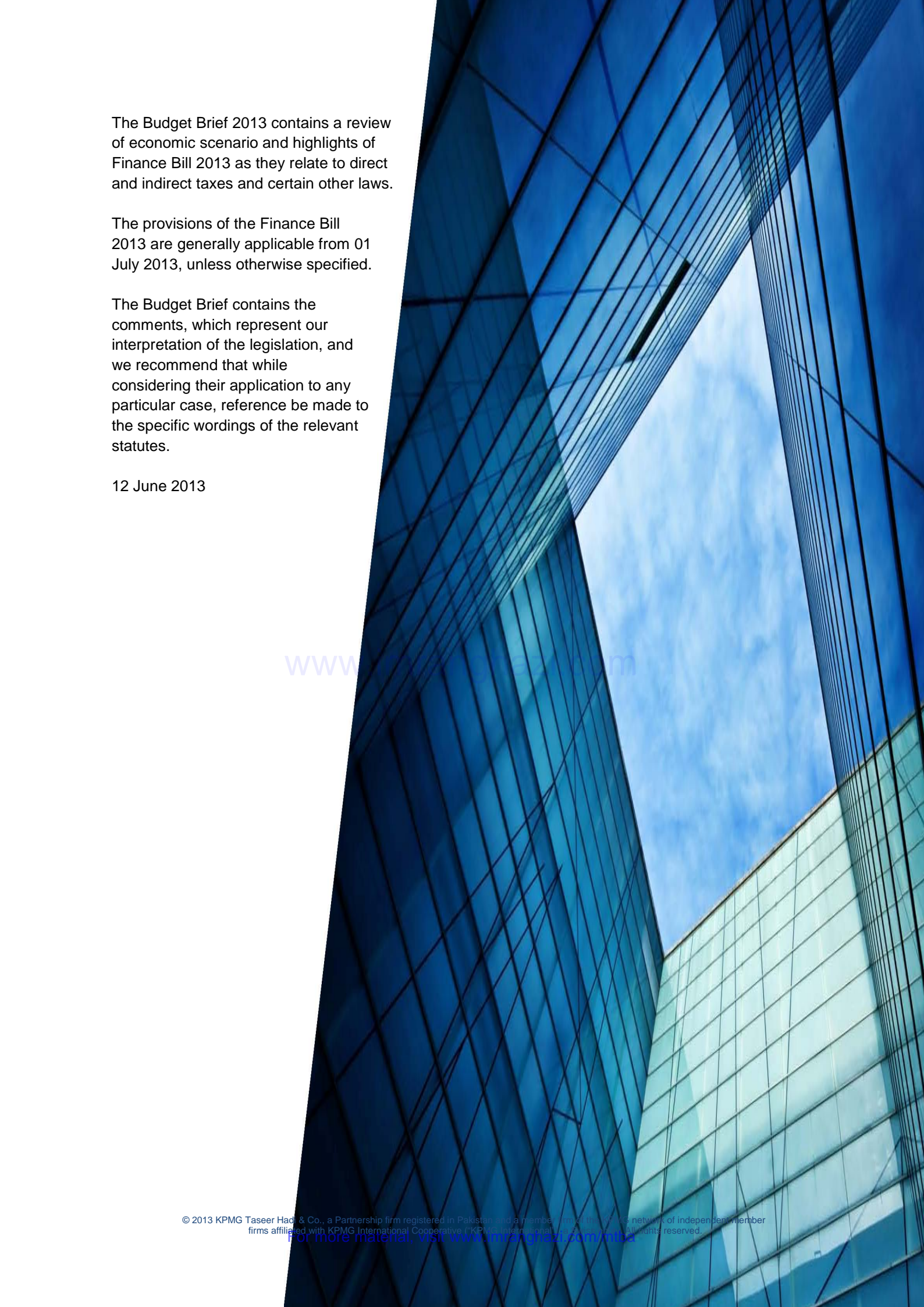
# Budget Brief 2013

An Economic and Tax Commentary

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The Budget Brief 2013 contains a review of economic scenario and highlights of Finance Bill 2013 as they relate to direct and indirect taxes and certain other laws.

The provisions of the Finance Bill 2013 are generally applicable from 01 July 2013, unless otherwise specified.

The Budget Brief contains the comments, which represent our interpretation of the legislation, and we recommend that while considering their application to any particular case, reference be made to the specific wordings of the relevant statutes.

12 June 2013

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# Budget at a Glance



	Budget Estimate 2012-13	%	Revised Estimate 2012-13	%	Budget Estimate 2013-14	%
------(Rupees in billion) -----						
<b>Tax Revenue</b>						
<b>Direct Taxes</b>						
Income tax	914.0	28.5	761.1	21.9	948.7	23.8
Others	18.0	0.6	18.0	0.5	27.0	0.7
	932.0	29.1	779.1	22.4	975.7	24.5
<b>Indirect Taxes</b>						
Customs	247.5	7.7	241.2	6.9	279.0	7.0
Sales tax	1,076.5	33.6	864.5	24.9	1,053.5	26.4
Federal excise	125.0	3.9	122.2	3.5	166.8	4.2
Carbon surcharge on POL and CNG	120.0	3.7	115.0	3.3	120.0	3.0
Others	2.6	0.1	2.6	0.1	3.1	0.1
	1,571.6	49.1	1,345.5	38.7	1,622.4	40.7
<b>Total Tax Revenue</b>	<b>2,503.6</b>	<b>78.2</b>	<b>2,124.6</b>	<b>61.1</b>	<b>2,598.1</b>	<b>65.2</b>
<b>Non Tax Revenue</b>	<b>733.2</b>	<b>22.9</b>	<b>711.9</b>	<b>20.5</b>	<b>821.9</b>	<b>20.6</b>
	3,236.8	101.1	2,836.5	81.6	3,420.0	85.8
<b>Less: Provincial Share</b>	<b>1,458.9</b>	<b>45.5</b>	<b>1,221.0</b>	<b>35.1</b>	<b>1,502.3</b>	<b>37.7</b>
	1,777.9	55.5	1,615.5	46.5	1,917.7	48.1
<b>Net Capital Receipts</b>	<b>477.8</b>	<b>14.9</b>	<b>106.0</b>	<b>3.0</b>	<b>493.2</b>	<b>12.4</b>
External Receipts	384.0	12.0	243.5	7.0	576.4	14.5
Change in Provincial cash balance	79.5	2.5	(62.2)	(1.8)	23.1	0.6
Bank Borrowings	483.8	15.1	1,575.5	45.3	975.0	24.4
	3,203.0	100.0	3,478.3	100.0	3,985.4	100.0
<b>Expenditure</b>						
<b>Current Expenditure</b>						
<b>General Public Services</b>						
Debt Servicing – interest	925.7	28.9	1,028.7	29.6	1,153.5	28.9
Debt Servicing - Foreign Loans Repayment	216.0	6.7	187.3	5.4	366.8	9.2
Grants and transfers	312.3	9.8	334.6	9.6	337.2	8.5
Superannuation and pensions	129.1	4.0	167.4	4.8	171.3	4.3
Subsidies	209.0	6.5	367.5	10.6	240.4	6.0
Others	84.7	2.6	58.4	1.7	88.2	2.2
	1,876.8	58.6	2,143.9	61.7	2,357.4	59.1
Defence Affairs & Services	545.4	17.0	570.3	16.4	627.2	15.8
Economic Affairs	53.6	1.7	49.7	1.4	52.3	1.3
Public order and safety affairs	70.2	2.2	72.0	2.1	78.5	2.0
Education affairs and services	47.9	1.5	52.4	1.5	59.3	1.5
Others	18.0	0.6	18.7	0.5	21.4	0.5
	2,611.9	81.5	2,907.0	83.6	3,196.1	80.2
<b>Development Expenditure</b>						
Federal PSDP	360.0	11.2	388.4	11.1	540.0	13.5
Development loans and grants to provinces	76.8	2.4	75.5	2.2	77.5	2.0
Others	154.3	4.8	107.4	3.1	171.8	4.3
	591.1	18.5	571.3	16.4	789.3	19.8
<b>Total Expenditure</b>	<b>3,203.0</b>	<b>100.0</b>	<b>3,478.3</b>	<b>100.0</b>	<b>3,985.4</b>	<b>100.0</b>



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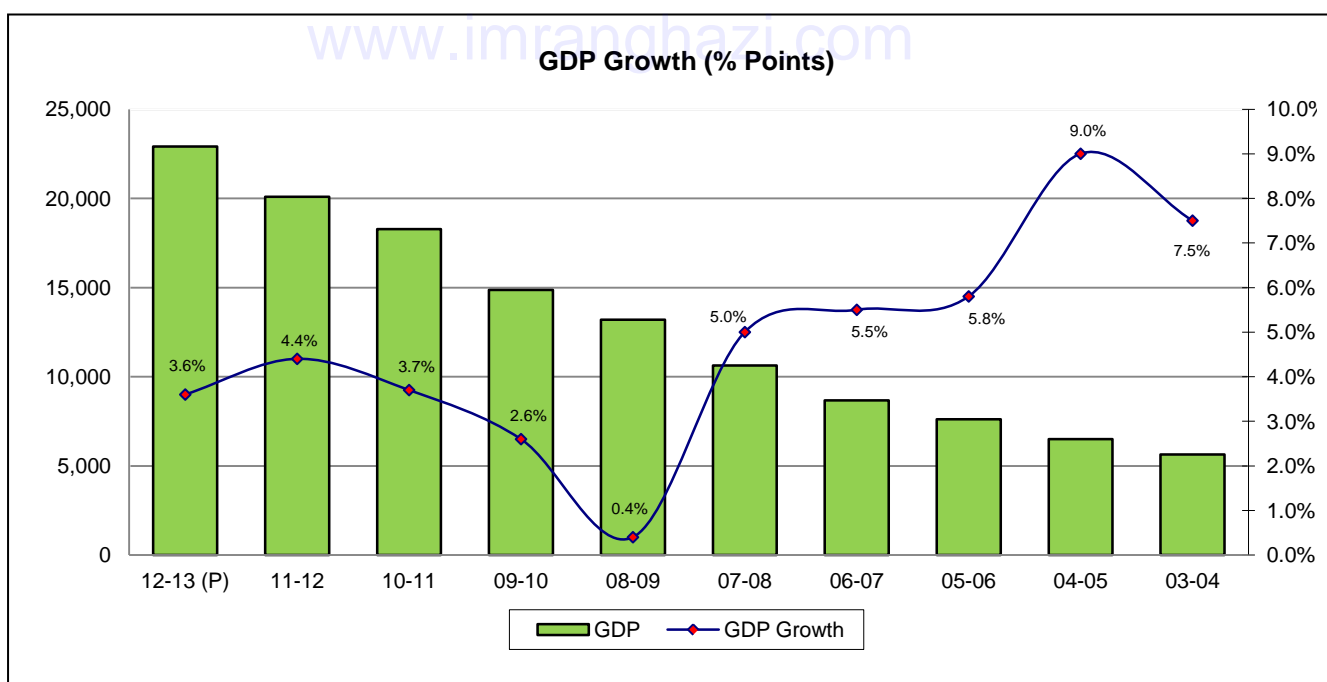
# Economic Analysis



## GDP Growth

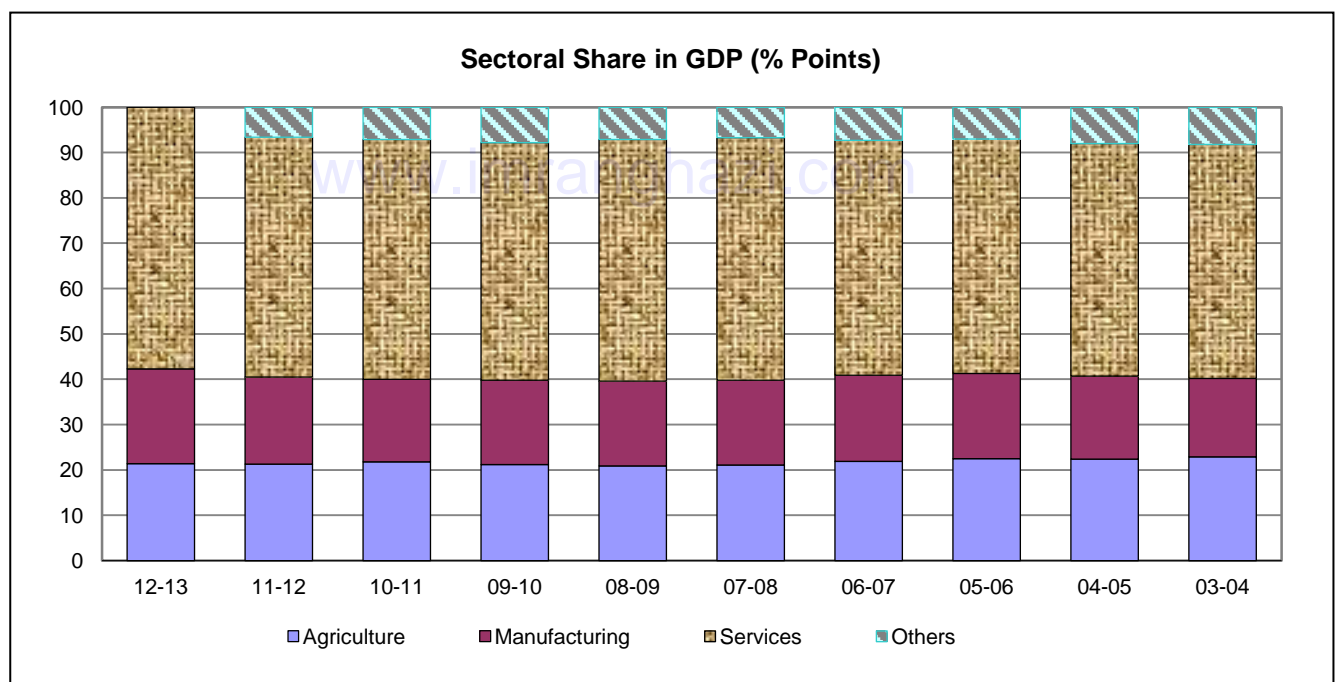
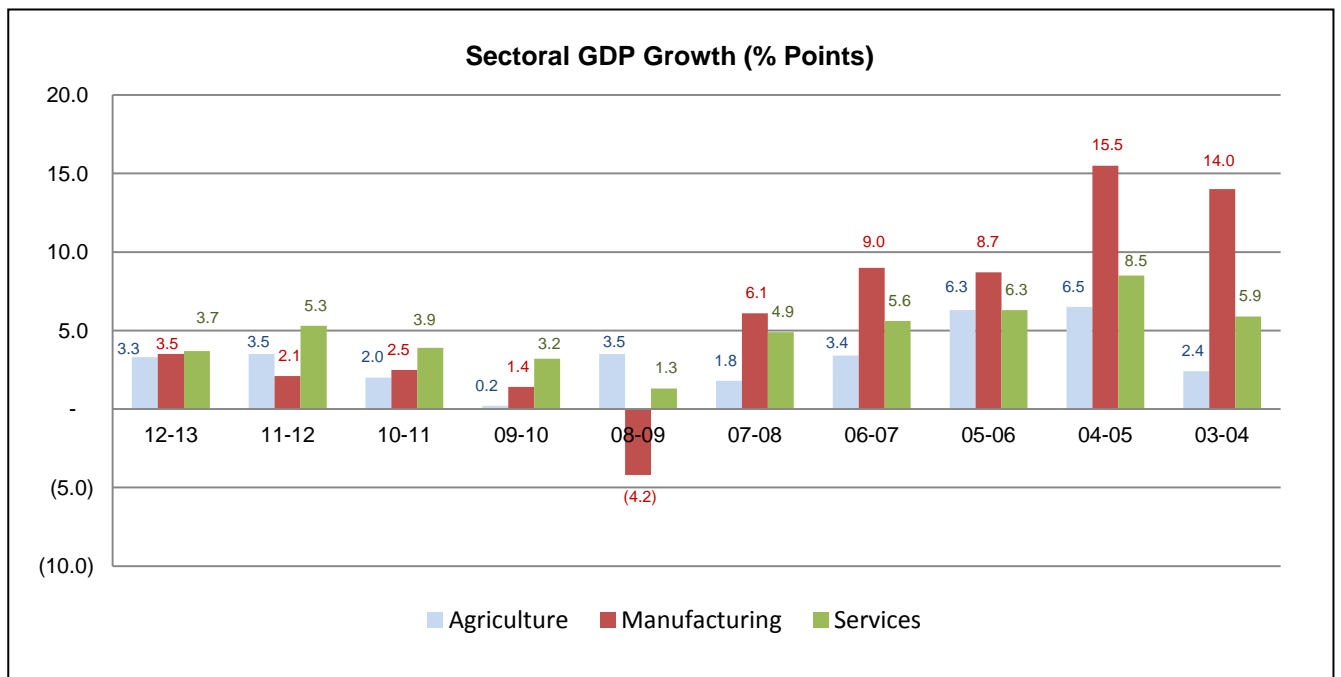
	12-13 (P)	11-12	10-11	09-10	08-09	07-08	06-07	05-06	04-05	03-04
Nominal GDP US\$ billion	238	225	214	177.0	168	170	143.0	127.4	109.5	98.0
Nominal GDP Rs. million	22,909	20,091	18,285	14,867	13,200	10,638	8,673	7,623	6,500	5,641
Real GDP Growth %	3.6	4.4	3.7*	2.6*	0.4*	5.0*	5.5*	5.8	9.0	7.5
Sectoral GDP Growth %										
Agriculture	3.3	3.5	2.0*	0.2*	3.5*	1.8*	3.4*	6.3	6.5	2.4
Manufacturing	3.5	2.1	2.5*	1.4*	-4.2*	6.1*	9.0*	8.7	15.5	14.0
Services	3.7	5.3	3.9*	3.2*	1.3*	4.9*	5.6*	6.5	8.5	5.9
Sectoral Share in GDP %										
Agriculture	21.4	21.3	21.8	21.2	20.9	21.1	21.9	22.5	22.4	22.9
Manufacturing	20.9	19.2	18.2	18.6	18.7	18.7	19.0	18.8	18.3	17.3
Services	57.7	52.9	52.9	52.4	53.3	53.5	51.8	51.7	51.3	51.6

\*Base year 2005-06



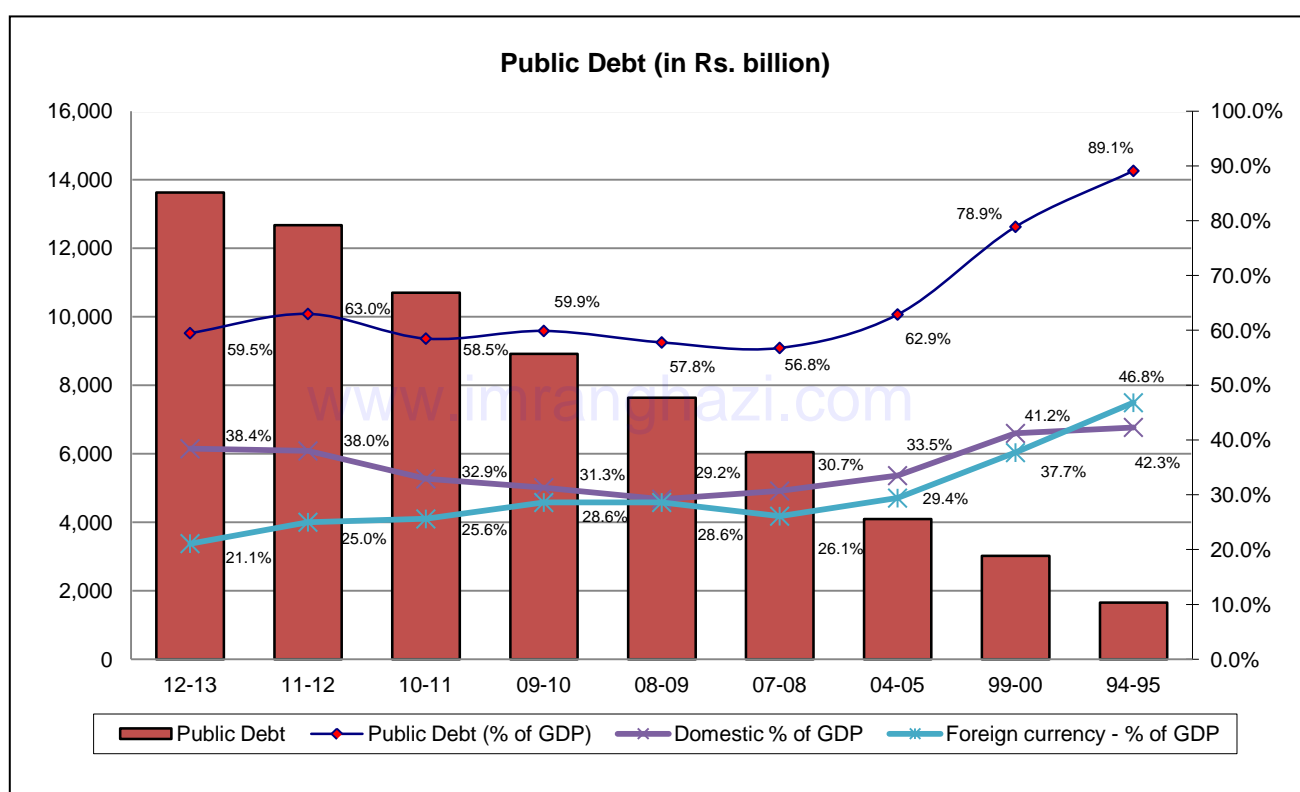


## GDP Growth



## Public Debt

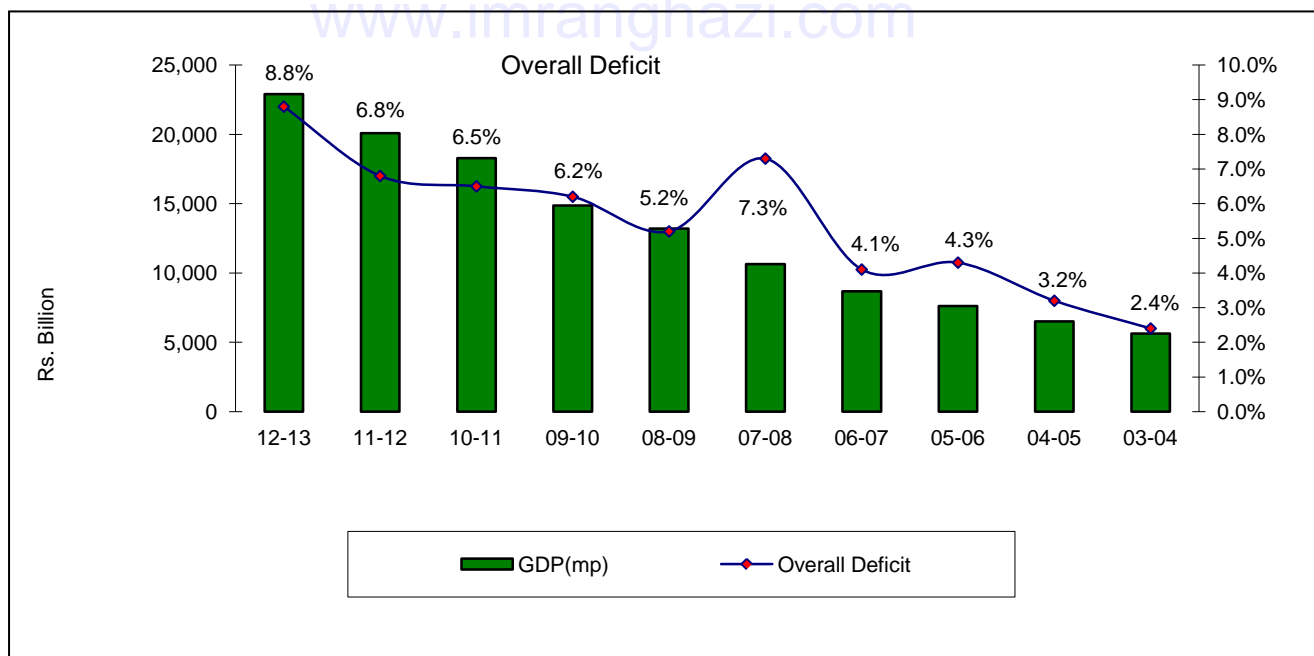
	12-13 (P)	11-12 (P)	10-11 (P)	09-10	08-09	07-08	04-05	99-00	94-95
Public Debt (Rs. billion)	13,626	12,667	10,700	8,911	7,629	6,044	4,091	3,018	1,662
Domestic	8,796	7,637	6,016	4,651	3,852	3,266	2,178	1,576	790
Foreign currency	4,830	5,030	4,684	4,260	3,777	2,778	1,913	1,442	872
Public Debt (% of GDP)	59.5	63.0	58.5	59.9	57.8	56.8	62.9	78.9	89.1
Domestic	38.4	38.0	32.9	31.3	29.2	30.7	33.5	41.2	42.3
Foreign currency	21.1	25.0	25.6	28.6	28.6	26.1	29.4	37.7	46.8



## Overall Deficit

	12-13 (Jul-Apr)	11-12	10-11	09-10	08-09	07-08	06-07	05-06	04-05	03-04
(US \$ million)										
Exports	20,501	24,696	25,356	19,673	19,121	20,427	17,278	16,553	14,482	12,396
Imports	33,042	40,461	35,872	31,209	31,747	35,397	26,989	25,017	18,996	13,604
Trade Balance	-12,541	-15,765	-10,516	-11,536	-12,626	-14,970	-9,711	-8,464	-4,514	-1,208
Services – net	-619	-3,192	-1,940	-1,690	-3,381	-6,457	-4,170	-4,432	-3,293	-1,387
Current Transfer – net	14,832	17,544	15,687	12,562	11,154	11,476	10,585	10,548	8,659	6,116
(Workers' remittances)	11,570	13,186	11,201	8,906	7,811	6,449	5,494	4,600	4,168	3,871
Income Account Balance – net	-3,090	-3,245	-3,017	-3,281	-4,407	-3,923	-3,582	-2,667	-2,386	-2,207
Current Account	-1,418	-4,658	214	-3,945	-9,260	-13,874	-6,878	-5,015	-1,534	1,314
Overall deficit (% of GDP)	8.8*	6.8	6.5	6.2	5.2	7.3	4.1	4.3	3.2	2.4

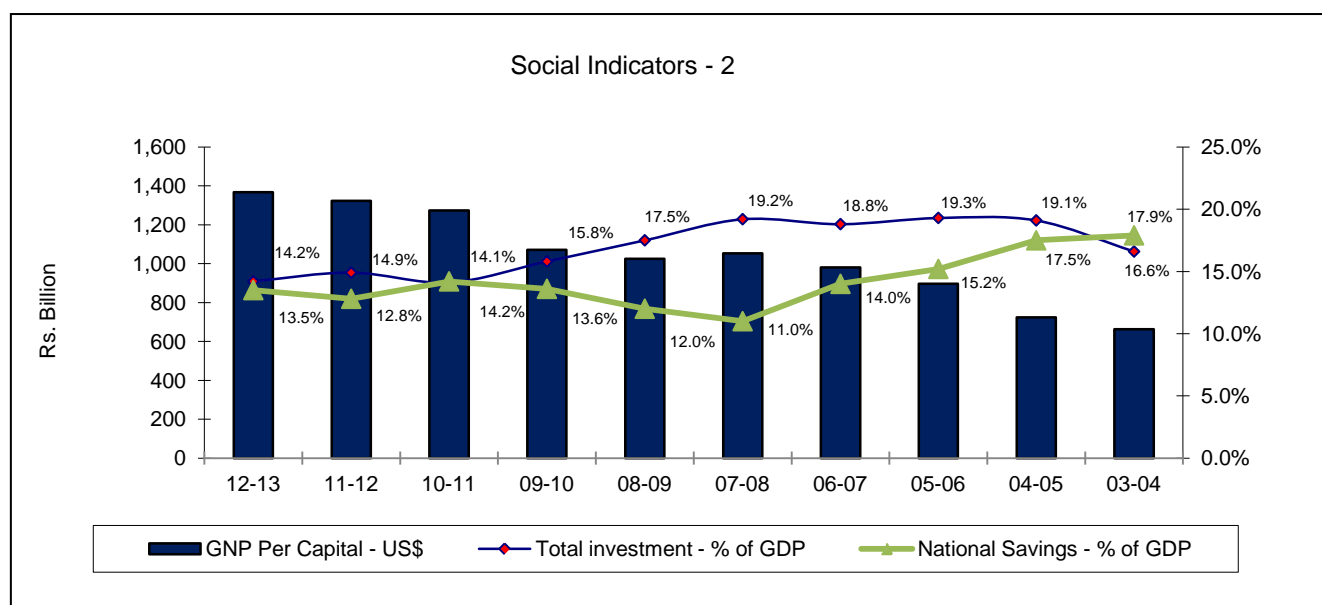
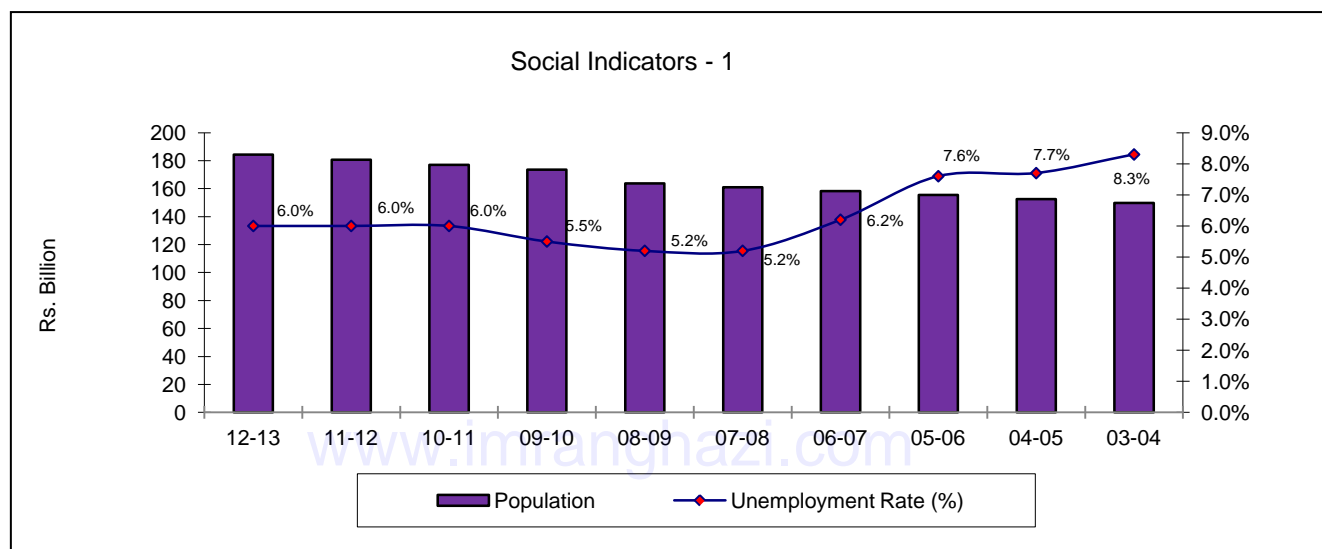
\* revised estimate as per budget speech deficit of Rs. 2,024 billion.





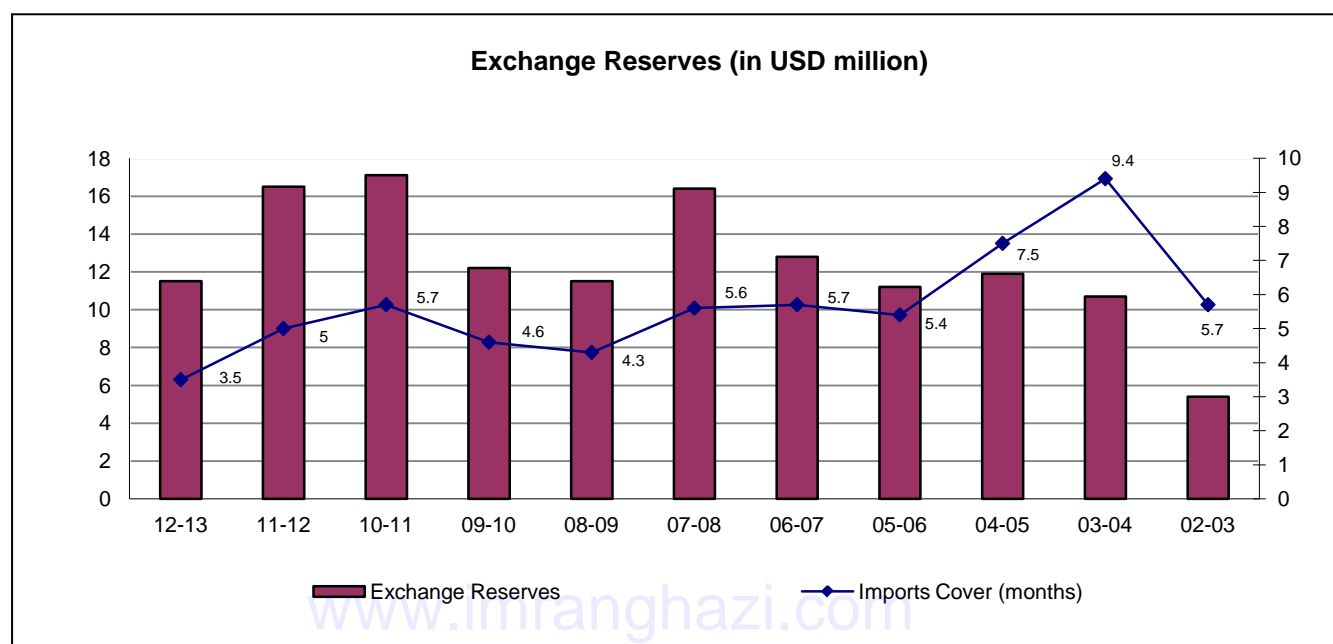
## Social Indicators

	12-13	11-12	10-11	09-10	08-09	07-08	06-07	05-06	04-05	03-04
Population (millions)	184.4	180.7	177.1	173.5	163.8	161.0	158.2	155.4	152.5	149.7
Unemployment rate (%)	6.0	6.0	6.0	5.5	5.2	5.2	6.2	7.6	7.7	8.3
GNP per capita – US\$	1,368	1,323	1,274	1,072	1,026	1,053	980	897	724	663
Total investment - % of GDP	14.2	14.9	14.1	15.8	17.5	19.2	18.8	19.3	19.1	16.6
National Savings - % of GDP	13.5	12.8	14.2	13.6	12.0	11.0	14.0	15.2	17.5	17.9



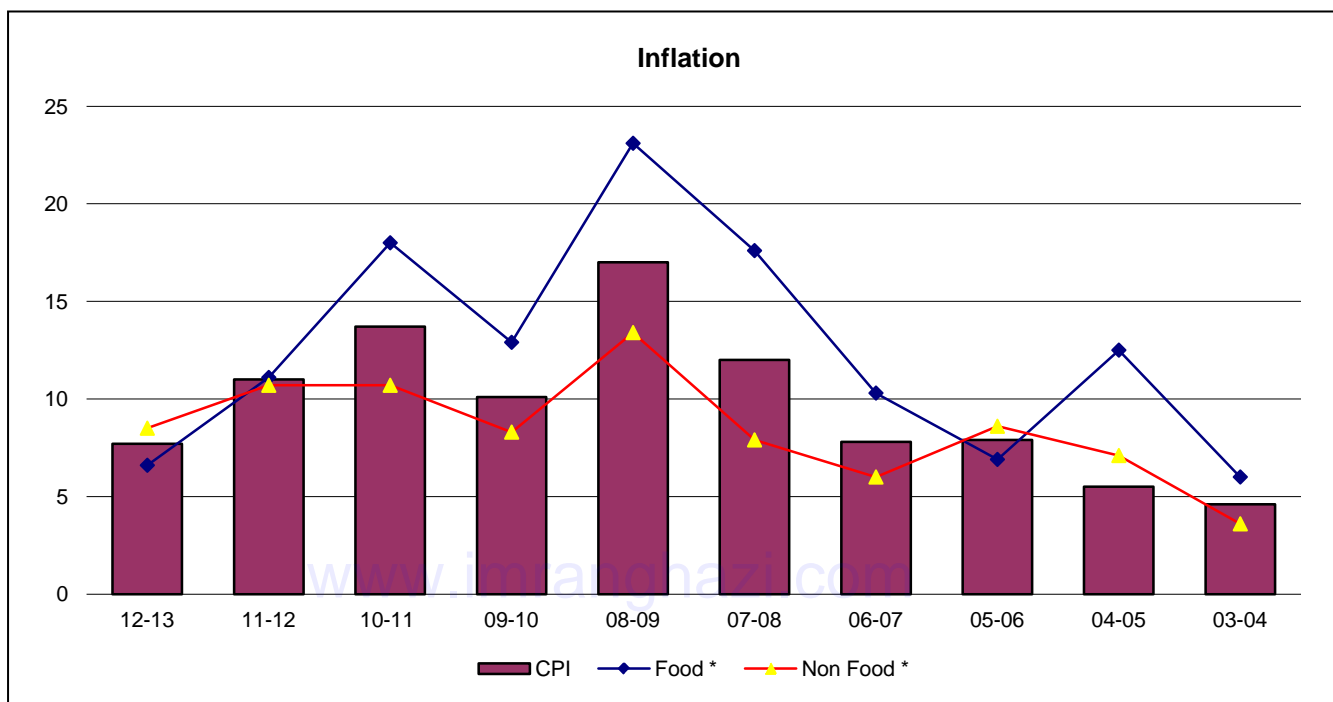
## Exchange Reserves

	12-13	11-12	10-11	09-10	08-09	07-08	06-07	05-06	04-05	03-04
Exchange reserves (US\$ billion)	11.5	16.5	17.1	12.2	11.5	16.4	12.8	11.2	11.9	10.7
Imports Cover (months)	3.5	5	5.7	4.6	4.3	5.6	5.7	5.4	7.5	9.4
Rupee to USD parity	96.2	89.2	85.5	83.8	78.5	62.5	60.6	59.9	59.4	57.6



## Inflation

	12-13 (Jul-Apr)	11-12	10-11	09-10	08-09	07-08	06-07	05-06	04-05	03-04
CPI	7.7	11.0	13.7	10.1	17.0	12.0	7.8	7.9	5.5	4.6
Food *	6.6	11.1	18.0	12.9	23.1	17.6	10.3	6.9	12.5	6.0
Non Food *	8.5	10.7	10.7	8.3	13.4	7.9	6.0	8.6	7.1	3.6





## Average retail prices of essential items

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (Jul-Apr)
Kerosene (per ltr)	24.95	29.11	36.19	39.09	43.44	66.79	72.65	84.89	104.84	116.32
Gas (100 cf)	79.45*	34.60*	88.92	99.79	97.17	96.19	103.87	110.20	132.73	118.85
Petrol super (per ltr)	33.69	40.74	55.12	56.00	57.83	67.68	67.56	75.70	92.93	101.49
Electricity charges (upto 50 units)	2.54	2.47	2.14	2.49	2.76	1.40	1.53	1.84	1.89	2.00
Tele local call charges (per call)	2.31	2.31	2.31	2.31	2.31	2.38	2.62	3.59	3.59	3.70
Wheat flour (avg quality per kg)	11.71	13.28	13.06	13.64	18.07	25.53	28.73	29.44	30.26	34.20
Basmati rice (broken per kg)	19.04	20.19	20.16	23.11	37.77	47.12	43.92	50.32	60.36	68.48
Beef (cow / buffalo with bone per kg)	75.45	94.83	106.84	117.87	123.30	143.82	174.49	215.42	252.41	267.45
Chicken (Farm per kg)	57.50	66.43	66.08	74.16	83.39	103.13	126.22	130.98	150.07	140.38
Mutton (goat avg quality per kg)	154.31	185.19	202.10	224.07	236.49	262.03	316.52	411.48	482.04	513.72
Eggs (hen farm per Dozen)	30.03	37.45	35.07	38.31	49.45	58.80	65.67	72.78	86.95	95.38
Sugar (open market per kg)	19.01	23.45	31.16	31.85	27.92	38.72	57.11	72.72	60.99	53.16
Milk (fresh per ltr)	19.23	21.28	23.90	26.72	30.45	36.62	42.32	50.10	58.17	64.90
Tea (in packet super quality per 250 gm)	64.68	61.99	62.62	68.39	68.28	88.89	108.98	123.19	135.19	177.10
Cooking oil (Dalda per 2.5 ltr)	203.98	204.99	204.41	224.48	316.32	371.38	359.05	435.88	502.60	535.63

\* The units were changed from 100cm to 100 cf.

# Economic Scenario



## Economic Analysis – A Differential View

Government accounting, is perhaps the most complicated and confusing system of bookkeeping, disclosure and presentation of financial records and data in the world. Considering that the Government does not even issue a balance sheet, the hype over corporate frauds by regulators is quite perplexing. If economists, after centuries cannot devise reliable standards for accounting and reporting of a nation's true state of affairs, any pretensions of comprehension and analysis thereon need to be digested with a pinch of salt.

The situation is further complicated by the methodology and assumptions applied in collating historic data; even in developed countries certain key variables are at best guesstimates. Accordingly the belief that economic data relating to any developing nation is accurate, appropriate and complete is indeed naïve.

On top of all that, if conventional wisdom is to be considered impeccable and a significant undocumented economy actually exists, then realistically all primary economic indicators are proportionately inaccurate.

With this background, let's move to, arguably, the most quoted statistic in the world, the GDP. As someone appropriately said, once an economic indicator becomes popular, it loses its predictive value; and, to add to that, its significance.

While everybody's cost might be somebody's income in economics, in the accounting world these are referred to as inter divisional transactions and eliminated on consolidation.

According to the Economic Survey 2012-13 (the Survey), the GDP growth rate was 3.6%; still much below the 2008 growth levels. When compared with the Economic Survey 2011-12, there are significant modifications in historic rates due to change of base year to 2005-06.

The fact that the country has been unable to meet one third of its demand for energy for the last couple of years at least, even this growth is indeed miraculous. A nation's productive capacity is the true determinant of its GDP. Irrespective, according to the Survey, Nominal GDP now stands at Rs. 23 trillion, a 14% increase over last year nominal GDP.

Average inflation for 2012-13, is expected to be around 7.75%, a steady improvement over the last few years. However, CPI in any case has an inflation bias, the basket in theory includes items which people buy, but buying is directly proportionate to price; if the price increases, people stop buying.

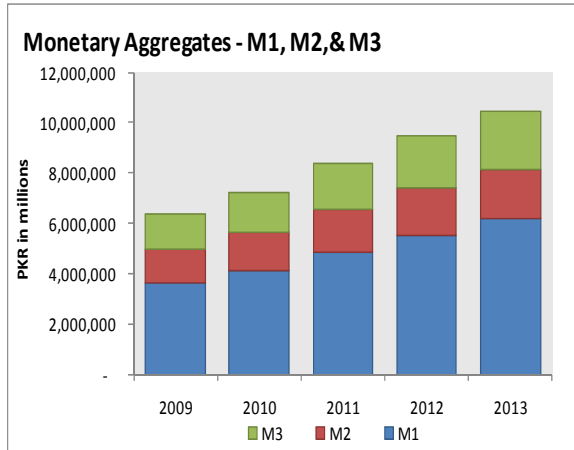
Pertinently, if utilities and commodity prices doubled over the last 5 years, accompanied by a depreciating Pak Rupee, any assertion that inflation has steadily declined over the same period is difficult to digest.

The real interest rate, calculated using the one year T-Bill rates, of approximately 3.95% exceeds the GDP growth rate. If real interest rates are higher than real growth, compounding of interest will be fatalistic.

Per Capita Income (mp-Rs), has increased by around 11.4% to Rs. 131,543 (USD1,368), at the cutoff date of 17 May 2013, when compared with per capita income as of 30 June 2012.

In the absence of a comprehensive assessment of changes in a nation's productivity, it is realistic to analyze GDP, Per Capita Income and inflation in tandem with monetary growth. According to State Bank of Pakistan (SBP), during the period July 2012 to March 2013, M3 increased by 10.47% to Rs. 10.451 trillion. The uncertain element in this context is money velocity, which continues to be determined after the affect and allowing for the impact of the undocumented economy, increases the related uncertainty of the assumptions made.

The most worrying aspect of the economy however is the increase in Public Debt to unsustainable level at Rs.13.6 trillion (March 2013), comprising domestic debt of Rs. 8.8 trillion and external debt of Rs. 4.8 trillion. It is indeed bothersome that in five years the country's total debt and liabilities have more than doubled. It is almost impossible to reconcile increase in debt obligation with annual budget statements. The Survey also differs with SBP's estimates of total public debt, although the difference is immaterial.



Contracting debt for ill conceived subsidies is hardly productive. The deserving poor definitely need to be insulated against rising power tariff, and losses of State Owned Enterprises are at unpalatable levels, albeit simply borrowing more, is definitely not the optimum solution. There is an urgent need for the government to be weary of quick fixes; there is a need to think things through. Any solution for circular debt without revisiting tariffs will be half baked.

Nonetheless, domestic debt is in substance manageable, since again referring to accounting concepts, everybody's debt is somebody's asset within the same entity and hence adjustable on consolidation. Specifically, the Keynesian model of infrastructural spending in times of recession through domestic debt is making a global comeback, and at 60% of GDP the government still has some space to borrow but it should be for capital investment only.

Besides, domestic debt can always be repaid through inflation, taxation, or economic growth; however, economic growth remains the preferred option.

Although the revenue collection is on the rise, but unfortunately it is still not sufficient to service debt obligations after all other expenditure, resulting in incurrance of an equivalent amount of additional debt. While indirect taxes continue to be around 63% of tax collection for the last few years, probably in excess of 70% if withholding taxes are categorized as indirect, this is not necessarily a bad thing. Across the western world, indirect tax collection is on the rise and there is a researched view that increases in direct taxes has an adverse affect on economic growth.

In view of the fact that the government borrowing has already crowded out private credit, increased direct taxes will marginalize private equity as well. Under these circumstances expecting the private sector to play its part in economic growth would be difficult.

Even in the case of agricultural tax, while it might be equitable, but in the first instance it may not result in any mentionable addition to tax collection, and on the other hand it can have an inflationary impact on commodity prices.

Another fallacy which needs to be addressed at this point relates to the defence expenditure which has averaged around 30% of revenue receipts for the last five years; however, analyzing quantum of



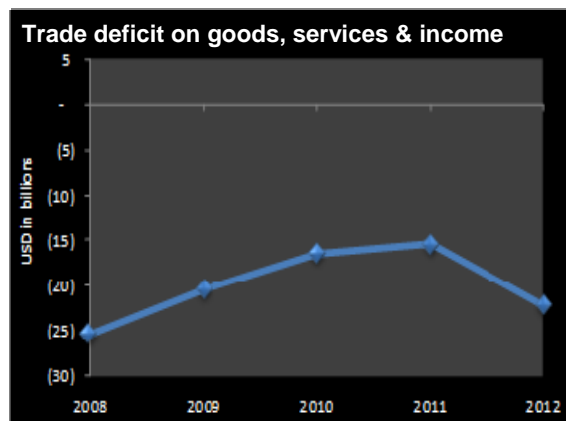
defence expenditure in isolation is meaningless. National security is not a choice; resources, for Pakistan to spend what is needed to protect its border, have to be made available.

It is the increasing public debt external exposure, currently at Rs. 4.8 trillion, which is catastrophic, especially in light of upcoming repayments and dwindling foreign reserves, which stood at USD11.6 billion on 24 May 2013. This brings the analysis to the very crux of what exactly, under accounting norms, qualifies to be the primary determinant of a country's state of affairs.

All transactions with third parties constitute the true "profit" of a nation. Unfortunately, Pakistan has fared badly in this category. For the period July 2012 to April 2013, the country's trade deficit, including goods, services and income, stood at USD16.25 billion.

The quantum of deficits over the years, raise questions about the rationale of such trading.

Worker's remittance at USD11.57 billion during the same period bolstered the situation to a large extent. A very pertinent question at this stage is what would have been the government's strategy if worker's remittances, which remain unpredictable, had stagnated at 2009 levels? Ignoring debt obligation, the exposure from trade deficit alone would have been in excess of USD20 billion!



In this context hoping for an increase in worker's remittance and praying for a decline in oil prices is hardly a prescient strategy; constructive efforts are the need of the hour. This is not to say that the country should stop trading altogether, critical imports such as oil, technology and capital goods need to be bartered. The suggestion is to adopt the ancient mercantilist, as far as possible, approach; trade is good as long as the bullion comes home! On a similar note, Foreign Direct Investment is productive if it is geared towards technology, import substitution or export oriented. With the current economic, political and security situation of the country, foreign investors will generally have a smaller payback horizon, which is why already there is a deficit on net income account.

One can only empathize with the new government; however given political will to disentangle lobbies & cartels and a commitment of purpose, the situation is retrievable. Uncertain times demand uncertain actions. For decades domestic economic managers and pundits have always adhered to the dictates of conventional economic thought, with less than desirable results, in fact the situation has worsened over time. Perhaps it is time to unlearn the mistakes of the recent past!

The following suggestion, while not all inclusive, provide a flavour of the steps needed:

- A detailed analysis and proactive monitoring of trade activities and directly or indirectly discouraging luxury imports and services through duties or taxes.
- Significant increase in indirect taxation on luxuries.
- Elimination of across the board subsidies with a focus on targeted subsidies for the deserving poor only.
- Conversion of all aid activities, domestic or international primarily towards employment creation rather than social development.

- Determined government intervention in setting up power generation even at the cost of deficit financing and increased debt.
- Revision of power tariff to ensure that the rich subsidize the poor.
- Defining limits through prudential regulations on the maximum amount banks can lend to the government, other than for power sector, directly or indirectly.
- Provisions of debt at discounted rates, and other incentives, to the private sector for projects which create employment, are export oriented or are geared towards import substitution, primarily a focus on manufacturing.
- Restructuring and improved governance of Public Sector Enterprises including management by public sector to avoid continuous drain on the national resources.

GDP is a combination of consumption, investment, government spending and net trade balance. Since nothing much can be done about consumption and government spending, the above suggestions focus upon investment and improvement in net trade balance.

Let the nation unite on a common economic agenda, irrespective of political differences, to ensure economic stability.

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## Comparative Economic Indicators 2013

Description	Bangladesh	India	Sri Lanka	Pakistan
GDP growth rates	6.0%	5.7%	6.3%	3.6%
GDP (Nominal, USD billion)	135.1	1,972.8	65.3	238.0
GDP per capita (USD)	891	1,591	3,134	1,368
Overall fiscal deficit (% of GDP)	4.8%	4.9%	5.2%	4.6%
Gross public debt (% of GDP)	N/A	66.4%	79.0%	59.5%
Inflation (Average Consumer Price Change %)	6.5%	10.8%	7.9%	7.7%
Population (million)	152	1,240	21	184.4
Unemployment rate	7.9%	9.4%	4.9%	6.0%
Investments (% of GDP)	26.9%	35.1	31.8	14.2%
Gross National Savings (% of GDP)	30.2%	30.2%	26.6%	12.2%
Exchange Reserves (USD billion)	14.8	287.9	6.7	11.5
Exchange Rate LCU:USD	77.75	58.39	127.7	96.2
Workers Remittances (USD billion)	12	64	6	12

Source:

BD and LK 2013 estimates are from [economywatch.com](http://economywatch.com)

IN and PK 2013 actual are from Economic Survey and Budget documents. Some figures have been taken from [tradingeconomics.com](http://tradingeconomics.com) and World Bank.



# Highlights



## Income Tax

- New slabs introduced for individuals (other than salaried individuals) and association of persons [AoP], accordingly the taxable income exceeding Rs. 6 million is now taxable @ 35%
- 6 new slabs introduced for salaried individuals thereby rationalizing the salary tax with the maximum tax rate of 30% on taxable income exceeding Rs. 7 million while marginal relief withdrawn
- Corporate tax rate reduced to 34% from 35% for the Tax Year 2014 for companies other than banking companies
- New slab rates introduced to tax rental income of individual & AoP and such income exceeding Rs. 4 million, with a maximum rate of 17.5%
- Dividend income in the hands of companies is once again brought under the final tax regime
- Benefit of set off of losses for the year is no more available against salary income
- Rate of initial allowance reduced from 50% to 25% on plant and machinery
- The scope of 'company' extended to include a co-operative society, finance society or any other society, 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
- The scope of unexplained income extended to the agricultural income which cannot be worked out on the basis of agricultural income tax paid under the provincial law
- Rate of minimum tax again enhanced to one percent, however, entitlement of carry forward of minimum tax extended to individuals and AoPs as well
- The builders of residential, commercial or other buildings proposed to be liable to pay minimum tax at the rate of Rs. 25 per square *foot*, as per the construction or site plan, sold or booked for sale during the year
- Land developers on development and sale of residential, commercial or other plots are proposed to be liable to pay minimum tax at the rate of Rs. 50 per square *yard*, as per the lay out plan, sold or booked for sale during the year
- Members of Chamber of Commerce and Industry, trade or any business association, any market committee or any professional body including PEC, PMDC, Bar Councils, ICAP and ICMAP made liable to file return of income
- Written approval of the Commissioner made mandatory for revision of return
- Filing of wealth statement made mandatory for every person required file the return of total income. Every person other than company and AoP filing statement under final tax regime is now required to file wealth statement irrespective of the quantum of tax paid during the year



- Electronic filing of return of total income along with wealth statement made mandatory for salaried individuals having taxable salary of Rs. 500,000 or more in a tax year
- Requirement of filing of annual statement of deduction of income tax from salary done away with
- Powers of the Board withdrawn to make investment scheme with respect to undisclosed income representing any amount or investment made in movable or immovable assets
- Time limit for finality of provisional assessment order reduced to 45 days from 60 days
- An officer of Inland Revenue Service and a law graduate having 15 years of service in BS-17 and above can now be appointed as judicial member of Appellate Tribunal
- The adjustment of tax withheld under other sections of the Ordinance and tax credits admissible under section 61, 62, 63 and 64 during the tax year are no more available for adjustment at the time of deduction of tax at source
- Persons registered under the Sale Tax Act, 1990 are now covered as prescribed persons to withhold income tax under section 153
- Scope of withholding income tax from payments of rent enhanced by introducing various classes of persons as 'prescribed person' i.e. charitable institution, private educational institution, boutique, beauty parlor, hospital, clinic, maternity home and the individuals or association of persons paying gross rent of Rs. 1.5 million and above in a year
- Certificate of deduction of tax no more covered as sufficient evidence of collection or deduction for purposes of allowing tax credit under section 168
- The disclosure requirement in withholding statements under section 165 to override conflicting provisions contained under various laws i.e. the Protection of Economic Reforms Act, 1992, Banking Companies Ordinance, 1962, Foreign Exchange Regulations Act, 1947, and regulations made under the State Bank of Pakistan Act, 1956
- Banks are required to make arrangements to provide the Board online access to their central database in prescribed form and manner
- Compensation for delayed refund to be computed from the date of issuance of refund order instead of the date of order passed under section 120
- 'Business connection' has been defined to include transfer of an asset or business in Pakistan by a non-resident person for the purpose of representative of a non-resident person in a tax year
- For selection of taxpayer for audit, powers of commissioner are proposed to be explained so as to be treated as independent from powers of the Board
- The Board is proposed to be empowered for allowing individuals to use their Computerized National Identity Card instead of National Tax Number
- Person deriving taxable income from business to display National Tax Number at a conspicuous place at every place of his business
- Penalties for non compliances to the requirements under the Ordinance are proposed to be enhanced significantly

- Parameters for selection of audit through computer balloting by the Board are proposed to remain confidential
- Cash reward scheme to be introduced for Inland Revenue officers and officials on detection of cases involving concealment or evasion of income tax; and to the informer for providing credible information leading to detection of taxes
- NCCPL's powers being enhanced to collect advance tax at the rate of 10% from margin financiers, trading financiers and lenders
- Persons being owner of goods transport vehicle are proposed to be taxed under NTR instead of under final tax regime
- Person arranging a function, in a marriage hall, marquee, hotel, restaurant, commercial lawn, club, a community place or any other place used for such purpose, to collect adjustable advance tax at the rate of 10%. Food, services or any other facility provided by any person also need to be subjected to collection of advance tax @ 10%
- Rs. 1 million to be collected as adjustable advance tax at the time of censoring or certifying foreign films; and Rs. 100,000 per episode to be collected as adjustable advance tax at the time of censoring or certifying foreign TV drama serial or play
- PEMRA to collect adjustable advance tax at varying tax rates at the time of issuance of license for distribution services or renewal of the license to the licensees
- The manufacturers and commercial importers of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector to collect adjustable advance tax @ 0.1% from the distributors, dealers and wholesalers
- The manufacturers, distributors, dealers, wholesalers or commercial importers of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector to collect adjustable advance tax at the rate of 0.5% from the retailers
- The educational institutions to collect adjustable advance tax at the rate of 5% if annual fee exceeds Rs. 200,000 for a year
- Market committees to collect adjustable advance tax at the time of issuance or renewal of licenses from dealers, commission agents or arhatis etc. at varying rates ranging from Rs. 5,000 to Rs. 10,000
- Withholding tax at import stage enhanced to 5.5% in case of all taxpayers other than industrial undertakings and companies, which remain taxed at 5%
- Withholding tax rates enhanced for taxpayers other than companies, on sale of goods (from 3.5% to 4%), on rendering of services (from 6% to 7%) and on execution of contract (from 6% to 6.5%)
- Withholding tax rate on prize bonds or cross-puzzle increased from 10% to 15%
- Lump sum various rates from Rs. 7,500 to Rs. 80,000 of advance tax introduced for vehicle registration with engine capacity of 1000cc to 2000cc
- Rate of advance tax to be collected on cash withdrawals enhanced from 0.2% to 0.3%

- Advance tax on registration of new vehicles enhanced with engine capacity of 850cc to above 2000cc from Rs. 10,000 to Rs. 150,000
- Rate of advance tax to be collected at the time of auction enhanced from 5% to 10%
- Exemption of free or concessional passage provided to employees by the transporters and airlines is proposed to be withdrawn
- Exemption available to universities and educational institutions stands withdrawn
- Exemption on specie dividend stands withdrawn
- Tax holiday of 10 years proposed to be extended to Special economic zone
- Reduction in tax rates on import of hybrid cars proposed ranging from 25% to 100% depending upon the engine capacity of the car
- Reduction in tax liability withdrawn on Flying and sub marine allowance
- Reduction of 75% of tax liability available to full time teachers and researchers also stands withdrawn
- Reduction in minimum tax liability by 80% is proposed to be provided to all taxpayers engaged in the business of distribution of cigarettes manufactured in Pakistan
- Exemption from withholding tax withdrawn from DSCs, SSCs, saving accounts and TFCs where such deposits do not exceed Rs. 150,000
- Hajj Group operators in respect of Hajj operations are proposed to be allowed to make cash payments, exemption from minimum tax and from withholding tax obligations from payments to non-residents subject to the condition income tax of Rs. 3,500 per Hajji for the Tax Year 2013 and Rs. 5,000 for Tax Year 2014 is paid.
- Exemption from withholding tax at import stage is proposed to be granted to an industrial undertaking subject to payment of tax during the year based on higher of preceding two years tax liability
- Dividend income from money market funds and income funds in the hands of banking company will be charged to tax at the rate of 25% from the Tax Year 2014 onwards.

## Income Support Levy

- Income Support Levy has been levied on persons whose net movable wealth exceeds Rs. 1 million as per wealth statement, in order to provide financial resources for running income support fund for economically distressed persons or families of the Society
- The levy at the rate of 0.5% is payable for every tax year commencing from the Tax Year 2013 onwards
- While working out the net wealth liabilities will be allowed as deduction from movable assets if they relate to moveable assets; and in case the nature of assets to which liability relates are not determinable then deduction shall be allowed on proportionate basis of the immovable and movable assets of the individual

- The Officer of Inland Revenue as defined under the Ordinance shall be empowered to assess, raise and recover the levy under the provisions of the Ordinance
- Default surcharge at the rate of 16% per annum is chargeable on the amount not paid or paid in short
- The matters with respect to appeals, revisions and rectifications as per provisions of the Ordinance will apply

## Sales Tax

- Standard rate of sales tax increased from 16% to 17% with effect from 13 June 2013
- Further tax at the rate of 2% reintroduced on supply of taxable goods in addition to standard rate of sales tax, if such supplies are made to a person not having registration number with effect from 13 June 2013
- Sales tax on advance payments reintroduced through the Bill
- Extra sales tax at the rate of 5% is collectible through electricity or gas bills in addition to sales tax at standard rate from such unregistered commercial and industrial consumers of electricity and gas whose monthly bill in each case exceeds Rs. 15,000. Procedures for this new tax regime laid down under Sales Tax Special Procedure Rules, 2007
- Expansion in list of items which are chargeable to sales tax on retail price with effect from 13 June 2013 inter-alia including lubricating oils, cement, fertilizers, tyres & tubes, batteries, tiles, biscuits & confectionary items, paints, varnishes, household electrical goods including air conditioners, finished articles of textile & leather, etc.
- Sales tax rate enhanced on specified finished products of five export sectors from 2% to 17% by virtue of amendments under SRO.1125(I)/2011 effective 13 June 2013
- Zero-rating on cotton-seed oil withdrawn and standard rate of 17% applies with effect from 13 June 2013
- Sales tax exemption on milk products withdrawn with effect from 13 June 2013
- Scope of Withholding Sales Tax regime enhanced to require the companies to withhold sales tax at the applicable rate in respect of taxable purchases from unregistered persons
- Exemption to supplies against international tender is withdrawn with effect from 13 June 2013
- Zero-rating regime applicable on specified dairy products, stationery articles, etc. substituted by exemption regime under SRO.549(I)/2008 with effect from 13 June 2013
- Disallowing of input tax adjustment on the basis of discrepancies indicated by CREST or if purchases if not verifiable in the supply chain
- Records relating to gate passes, inward or outward and transport receipt form part of the list of prescribed records to be maintained by a registered person
- FBR to monitor or track manufacturing activities, sales, clearances, stocks or any other related activity through electronic or other means

- Provincial sales tax for the purpose of admissibility of input tax credit to be notified by the Federal Government through notification or laws relating to Islamabad Capital Territory
- Powers to block refunds or input tax adjustment given to FBR, the Commissioner or officer authorized by FBR against the fake or flying invoice, claiming fraudulent input tax or refunds etc.
- Commissioner (Appeal) empowered to grant stay for maximum period of 30 days against recovery proceeding in hardship cases
- Rectification powers of any mistake apparent from records brought in line with the income tax Ordinance
- Explanation added to clarify that the Commissioner or officer of Inland Revenue empowered to call for information from taxpayer for audit and to conduct the audit; and to have access to premises, stocks, accounts, records, etc to conduct audit irrespective of the provisions relating to computer balloting or parametric selection of cases for audit by the Board
- Concessionary notification in relation to 13 districts of Khyber Pakhtunkhwa, FATA and PATA stand withdrawn with immediate effect, as such standard sales tax rate 17% shall be applicable
- Cash reward scheme introduced for Inland Revenue officers and officials on deduction of cases involving concealment or evasion of sales tax; and to the informer for providing credible information which leads to detection of taxes

## Federal Excise Duty

- Federal Government empowered to levy Further Duty at 2% of the value of excisable goods and services in addition to applicable rate of FED when such goods / services are supplied to persons not having registration number.
- Federal Excise Duty [FED] on aerated beverages increased from 6% to 9% of retail price with effect from 01 July 2013
- Introduction of capacity based taxation on aerated waters
- Three tier structure of chargeability of FED on cigarettes is being replaced by a two tier specific rate structure with effect from 13 June 2013
- FED @ 40 paisa per kg on imported oil seeds and Rs. 1 per kg on locally produced oil charged with effect from 13 June 2013
- 10% ad – valorem FED is to be charged on motor vehicles of cylinder capacity of 1800cc and above with effect from 13 June 2013
- FED on financial services is being expanded by making all kinds of financial services chargeable to FED at the rate of 16% with effect from 13 June 2013, yet mark-up remains an exclusion from value of excisable financial services.
- Exemption of FED on hydraulic cement withdrawn with effect from 13 June 2013, as such FED shall apply at Rs.400 per metric ton.
- Services provided or rendered by Assets Management Companies brought in FED net with effect from 13 June 2013, however Provincial sales tax shall continue to apply on services of AMCs in Sindh and Punjab.



- Records relating to gate passes, inward or outward and transport receipt form part of the list of prescribed records to be maintained by a registered person

## Customs

- Custom duty and other taxes on Hybrid Electric Vehicles are reduced from 25% to 100%, according to vehicle's engine capacity
- Duty free import of "bio re-absorbable vascular scaffold" (heart stents) proposed
- Exemption of duty on energy saving tubes on which presently duty is at 20%
- Reduction of customs duty on office and school supplies from 25% to 20% proposed
- Duty free import of solar submersible pumps presently dutiable at 20%
- Reduction of duty on water treatment & purifying machinery from 25% to 15% proposed
- Duty on betel nuts increased from 5% to 10% and on betel leaves from Rs 200 per kg to Rs 300 per kg proposed
- Reduction of duty on Medium Density Fiber (MDF) Board from 20% to 15% proposed
- Trans-shipment of goods proposed to be included in the definition of Goods Declaration
- Port authority, container freight station etc., to entertain the delay certified by the customs officer and to allow refund so received against demurrage charges on account of such delay
- Post-dated cheque no more acceptable for provisional assessment



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# Income Tax

## Significant Amendments



### Tax rates

#### Final tax rates

#### *Tax rates (other than salary income)*

The Finance Bill seeks to propose revision in the tax rates of the following tax payers / type of income:

		Existing	Proposed
Individuals (other than salary income and AOPs)	First Schedule, Division I, Clause 1	Please refer Page # 39	Please refer Page # 39
Rental Income	Section 15	0% to 10%	0% to 17.5%
Company (other than Banking Company)	First Schedule, Division II(i)	35%	34%
Imports of Goods In case of taxpayers (other than industrial undertaking and companies)	Section 148	5%	5.5%
Supply of goods in case other than companies	Section 153(1)(a)	3.5%	4%
Rendering of or providing of services by person other than companies	Section 153(1)(b)	6%	7%
Execution of contracts by person other than companies	Section 153(1)(c)	6%	6.5%
Withholding tax rates on income from property.	Section 155	5% to 10%	5% to 17.5%
On prizes and winnings	Section 156	10%	15%

### Fixed tax rates

Fixed tax regimes for retailers under section 113A and 113B have been omitted.

### Withholding tax rates

Withholding tax rates table is given on page # 46 to 52.

### *Section 152(8)*

The term 'prescribed person' for the purpose of withholding tax payment to be made to Permanent Establishment of non-resident on account of sale of goods or rendering of or providing of services and for execution of contracts under section 152(2A) has been defined to have the same meaning as prescribed under section 153(7).

## Section 153(7)

A person registered under the Sales Tax Act, 1990 has also been defined as 'the prescribed person' for the purpose of withholding tax under section 153.

## Collection of tax by NCCPL

### Section 233AA

NCCPL is required to collect advance tax from members of stock exchange in respect of margin financing in share business @10%.

The Finance Bill proposes to extend the scope of withholding tax to margin financiers, trading financiers and lenders in respect of providing any margin financing, margin trading or securities lending under Securities (Leveraged Markets and Pledging) Rules, 2011 in share business @ 10% of profit or markup or interest earned by the members, margin financiers or securities lender.

## Minimum tax rates

### Section 113

The Finance Bill proposes the following amendments in respect of minimum tax on income:

- The general tax rate of 0.5% is proposed to be enhanced to 1% of the turnover.
- Hitherto the companies are entitled to adjust minimum tax against current year's tax liability and carry forward the unadjusted excess minimum tax paid to the following five tax years.

The Finance Bill proposes to extend the eligibility of carry forward of unadjusted minimum tax to individuals and AOPs in the same manner as for companies.

- A person deriving income from business of construction and sale of residential, commercial or other buildings has been made liable to minimum tax @ Rs. 25 per square foot as per construction or site plan approved by the regulatory authority.
- A person deriving income from development and sale of residential, commercial or other plots has been made liable to minimum tax @ Rs. 50 per square yards as per layout or approved site plan.

## Final rate card

Final rate card is given on page # 38 to 44.

## Computation of income

### Salary Taxation

#### S.114, 115,118, First Schedule Clause 1A

The Finance Bill seeks to propose following amendment for salary taxation.

- Twelve slabs rates have been proposed in place of existing six slabs rate.
- The maximum tax rate of 20% on salary income exceeding Rs. 2,500,000 is now proposed to be enhanced to 30% on salary exceeding Rs. 7,000,000.

- The provisions relating to marginal relief under Clause 1A are proposed to be omitted.
- Where entire income of a person consists of salary and is less than Rs. 500,000 the annual statement of tax deduction filed by the employer of such tax payer was treated in lieu of return of income of the employee. The Finance Bill now proposes for filing of return (manually or through e-portal) by any employee earning salary income less than Rs. 500,000 despite the employer has filed annual statement of salary.
- The requirement of electronic filing of return of income by an employee, whereas salary income exceeds Rs. 500,000, has been moved from section 115 to section 118.
- Currently an employer paying salary to an employee is allowed to adjust following after obtaining documentary evidences
  - tax credits in respect of donations (S.61)
  - tax credit on investment in shares (S.62)
  - contribution to approved pension fund (S.63) and; profit on debt (S.64).
  - tax withheld from the employee under any other head during the tax year.

The Finance Bill proposes to withdraw the provisions relating to afore-stated adjustments, against withholding tax obligation. Further, The Finance Bill also proposes to substitute the word 'employer' with "person responsible for paying salary". Accordingly, the person responsible for paying salary shall now be required to deduct tax without any adjustment.

## Dividend

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### *Taxation of dividend income of a company*

#### *Section 8*

Hitherto companies are liable to pay tax on dividend income @ 10%. However such dividend income was available for set-off against business losses for the year.

The Finance Bill now proposes to withdraw this benefit of adjustment against business losses thereby making the dividend income of a company liable to tax @ 10% as final tax.

## Income from property

### *Scope of prescribed person for the purpose of withholding tax from income from property extended*

#### *Section 155(3)*

Section 155 requires a prescribed person to deduct tax from payment of rent of immovable property. The term prescribed person has been defined in sub-section 3. The Finance Bill now proposes to include following in the category of prescribed person for withholding tax.

- Charitable institution
- Private educational institution



- a boutique, a beauty parlour, a hospital, a clinic or a maternity home
- individuals or association of persons paying gross rent of rupees one and a half million and above in a year

## Income from business

The Finance Bill has proposed reduction in the percentage of initial depreciation on plant and machinery to 25%.

## Exemptions and Concessions

### New exemptions and concessions

The Finance Bill has proposed to insert some new exemptions and concessions as follows:

- Collection of tax under section 148 on import of Hybrid Cars shall be at reduced rates mentioned in withholding tax rates table given on page # 46 [Clause 28 of Part II of Second Schedule].
- Tax required to be collected on imports, by persons involved in producing a foreign film, a TV Drama Serial or a Play, shall be adjustable against the normal tax liability of the said person [Clause 56A of Part IV of Second Schedule].
- Provisions of Section 21 (I), 113 and 152 regarding payments through banking channel, minimum tax and withholding tax from payments to non-resident respectively shall not apply to the Hajj Group Operator in respect of Hajj Operations provided that tax has been paid at the rate Rs. 3,500 per Hajji for tax year 2013 and Rs. 5,000 per Hajji for tax year 2014 in respect of the income from Hajj operations [Clause 72A of Part IV of Second Schedule].
- The provision of Section 148 regarding withholding tax on imports shall not apply to 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 Commissioner [Clause 72B of Part IV of Second Schedule].

### Exemptions / concessions withdrawn

The Finance Bill has proposed to withdraw following exemptions and concessions:

- Free or concessional passage provided by transporters including airlines to its employees (including the members of their household and dependents) by virtue of their employment [Clause 53A (i) of Part I of Second Schedule].
- Income of any university or other educational institution established solely for educational purposes and not for the purpose of profit [Clause 92 of Part 1 of Second Schedule].
- Dividend in specie derived in the form of shares in a company as defined in the Companies Ordinance, 1984 [Clause 103B of Part I of Second Schedule].
- Reduced rate of tax of 2.5% in respect of any amounts received as flying allowance by pilots, flights engineers, navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority, Junior Commissioned Officer or other ranks of Pakistan Armed Forces and Submarine allowance by the officers of the Pakistan Navy [Clause 1 of Part III of Second Schedule].
- Reduction in tax liability of 75% of tax payable in respect of salary income of full time teacher or a researcher, employed in a non profit education or research institution duly recognized by HEC, a

Board of Education or a University recognized by the HEC including Government training and research institution [Clause 2 of Part III of Second Schedule].

- Exemption from withholding tax on account of income or profit paid to a resident individual on DSCs, SSCs, Saving Accounts or Post Office Saving Accounts or TFCs where such deposit does not exceed Rs. 150,000 [Clause 59 sub clause (iv) paragraph “a” of Part IV of Second Schedule].

## Modifications in exemptions / concessions

- Clause 126E of Part I of Second Schedule has been substituted to provide tax exemption to :
  - income derived by a zone enterprise as defined in the Special Economic Zone Act, 2012 for a period of ten years starting from the date the developer certifies that the zone enterprise has commenced commercial operations
  - a developer of zone for a period of ten years starting from the date of signing of the development agreement in the special economic zone as announced by the Federal Government.

## Set-off and carry forward of losses

### *Set-off of losses*

#### *Section 56*

Hitherto a person is entitled to set-off losses sustained under a head of income against person's income under any other head including salary income.

The Finance Bill now proposes to disentitle set-off of losses against salary income meaning thereby that income under the head salary shall be liable to tax without any adjustment of losses.

### *Group taxation and Group relief*

#### *Sections 59AA & 59B*

Sections 59 AA and 59 B deal with group taxation and group relief wherein there is a mandatory compliance requirement in respect of corporate governance as may be specified by the SECP from time to time.

The Finance Bill proposes to make compliance to Group Designation Rules and Regulation in order to qualify for group taxation or group relief under the Ordinance.

## Taxation of special industries

### *Banks*

Dividend received by banking companies from Money Market and Income Funds shall be taxed at the rate of 25% instead of 35% in tax year 2014.

## Compliance and procedures

### Returns and statements

#### *Requirements for filing of tax returns*

#### *Sections 114, 115, 116 & 118*

Section 114 lists the categories of persons who are required to file the return of total income.

The Finance Bill proposes to revise some of the conditions as follows:

- A holder of commercial and industrial connection of electricity will be required to file the return of total income where the amount of annual bill exceeds Rs. 500,000 as against Rs. 1,000,000 prescribed earlier.
- Further, a person shall also be required to file return of income who is 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.

If required by the Commissioner through a notice a person was obliged to file return of income within 30 days from the service of the notice or such longer period specified by the Commissioner. The Finance Bill now proposes that the Commissioner may even require filing of returns within a period of less than 30 days.

#### *Revision of returns*

#### *Section 114(6A)*

A person is entitled to revise a return of total income subject to the conditions that the revised return is accompanied by the revised audited accounts, and the reason for revision are duly filed and taxable declared income is not less than and loss declared is not more than the declared income or loss.

The Finance Bill proposes to prescribe another condition for revision of return that the return can only be revised with the prior approval of the Commissioner and the revised return should accompany the approval of the Commissioner for such revision.

#### *Requirement for filing of the Wealth Statement*

#### *Section 116*

The Finance Bill proposes to revise the requirements for filing of wealth statement in the following manner:

Currently an individual whose last declared or assessed income is Rs. 1,000,000 or more is required to furnish wealth statement and wealth reconciliation statement alongwith return of total income.

The Finance Bill seeks to withdraw the said threshold of declared or assessed income of Rs. 1,000,000 for filing of wealth statement.

Similarly the threshold of share of income of Rs. 1,000,000 in the case of member of AOP, for filing of wealth statement is also proposed to be withdrawn.

Further a person (other than company or AOP) is now required to file the wealth statement under section 115(4) without any threshold of tax paid under FTR.

### *Revision of wealth statement*

Currently if a person discovers any omission or wrong statement in the wealth statement filed, he is eligible to revise the aforesaid wealth statement at any time before deemed assessment is amended under section 122(4).

The Finance Bill now prescribes a condition that revised wealth reconciliation and the reason for revision of wealth statement to be submitted along with revised wealth statement.

### *Certificate of collection or deduction of tax*

#### *Section 164*

Withholding tax agent is required to deposit tax into the government treasury through a challan. A certificate issued by such withholding tax agent is currently treated as sufficient evidence for the purpose of collection and deduction of tax and the recipient was entitled to claim the credit of tax paid on the basis of said certificate.

The Finance Bill now proposes to prescribe that the said certificate shall not be considered as sufficient evidence of payment of tax. Accordingly the recipient shall be required to file challans in order to claim credit for tax paid.

### *Access of information from banks*

#### *Sections 165 and 165A* [www.imranghazi.com](http://www.imranghazi.com)

A very significant provision is proposed to be inserted as section 165A for access of information from the banks. Under the proposed section every banking company shall make arrangements to provide to the board the following:

- 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 rupees one 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 rupees one hundred thousand or more during the preceding calendar month;
- A consolidated list of loans written off exceeding rupees one million 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 (VII of 2010).

These provisions will apply notwithstanding anything contained in any law for the time being in force including but not limited to the Banking Companies Ordinance, 1962 (LVII of 1962), the Protection of Economic Reforms Act, 1992 (XII of 1992), the Foreign Exchange Regulation Act, 1947 (VII of 1947) and the regulations made under the State Bank of Pakistan Act, 1956 (XXXIII of 1956).

A consequential explanation is also proposed to be inserted in section 165(1) to provide for overriding of all conflicting provisions in so far as divulgence of information under section 165.

## Audit

### *Section 177*

This section prescribes the procedure for conducting of tax audit of return filed by a taxpayer. Whereas, 214C empowers the Board to select person or class of person to audit the income tax affairs through ballot which may be random or parametric. The Superior Courts have held that it is only the Board which can select a person or class of persons for the purpose of audit through ballot. However, the Finance Bill proposes to amend the provision of section 177 and 214C to provide that;

- the Board shall keep the parameters confidential for the purpose of selection of tax audit; and
- the Commissioner can independently exercise powers to select a return to conduct tax audit.

These amendments are proposed to be introduced as explanation with the intention to have a retrospective effect. This appears to be an attempt to circumvent the effect of recent court judgements.

## Assessment / amended assessment

### *Scheme for Investment tax withdrawn*

Section 120A inserted by Finance Act 2008 contained provision for payment of investment tax in respect of undisclosed income or investment subject to scheme approved by the Board.

The Finance Bill seeks to omit this section to withdraw the powers of the Board to prescribe any such scheme.

### *Time limit for filing of return / withholding statement after provisional assessment curtailed*

### *Section 122C*

If a person fails to furnish return of income under section 114(3) and 114(4) the Commissioner can make a provisional assessment order based on the available information and material or according to his best judgment. This order shall be treated as final assessment order after the expiry of sixty (60) days from its service.

However, if the person in whose case provisional assessment is made, files a return and wealth statement within period of sixty days then the provisional assessment is treated to have no effect.

The Finance Bill proposes to curtail the period of sixty days to forty-five days for filing of the return and the wealth statement.

## Appeals

### *Appointment of Judicial Member of Appellate Tribunal*

### *Section 130*

Hitherto a person was eligible to be appointed as a judicial member of the Appellate Tribunal if the said person:



- has exercised the power of District Judge and is qualified to be a Judge of High Court, or
- has been an advocate of High Court and is qualified to be a judge of High Court

The Finance Bill now proposes to extend the eligibility criteria for appointment of Judicial Member to an Officer of Inland Revenue Service and law graduate having at least fifteen (15) years of service in BS-17 and above.

It may be noted that Officers of Inland Revenue are already eligible to be appointed as Accountant Members.

The position of Judicial Member was left for the individuals having appropriate experience of Judiciary. Entitling the Officer of Inland Revenue Service to be appointed as Judicial Member may impair availability of judicial expertise.

## Penalties and Additional Tax

### Section 182

The Finance Bill proposes following enhancement in penalties:

S. No.	Offences	Relevant Section	Existing Penalties	Proposed Penalties
(1)	(2)	(3)	(4)	(5)
1	Failure to furnish a return of income as required under section 114 within the due date	114 and 118	Equal to 0.1% of tax payable for each day of default subject to a minimum penalty of Rs. 5,000 and a maximum penalty of 25% of tax payable of that tax year	Equal to 0.1% of tax payable in respect of that tax year for each day of default subject to a minimum of Rs 20,000 and maximum penalty of 50% of tax payable
1A	Where any person fails to furnish a statement as required under section 115, 165 or 165A within the due date	115, 165 and 165A	--	A penalty of Rs 2,500 for each day of default subject to a minimum penalty of Rs 50,000
1A A	Where any person fails to furnish wealth statement or wealth reconciliation statement	114, 115 and 116	--	A penalty of Rs 100 for each day of default
2	Failure to issue cash memo or invoice or receipt as required under the Ordinance or the Rules	174 and Chapter VII of the Income Tax Rules	Higher of Rs 5,000 or 3% of amount of tax involved	No change
3	Failure to make an application for registration under the Ordinance	181	Rs 5,000	No change

S. No.	Offences	Relevant Section	Existing Penalties	Proposed Penalties
(1)	(2)	(3)	(4)	(5)
4	Failure to notify changes of material nature in the particulars of registration	181	Rs 5,000	No change
5	Failure to deposit amount of tax due or any part thereof within prescribed time or manner as laid down under the Ordinance or Rules	137	5% of the amount of tax in default  For the second default an additional penalty of 25% of the amount of tax in default  For the third and subsequent defaults an additional penalty of 50% of the amount of tax in default	No change
6	Repetition of erroneous calculation in the return for more than one year whereby less amount of tax than the actual tax payable under this Ordinance is paid	137	Higher of Rs 5,000 or 3% of the amount of tax involved	No change
7	Failure to maintain records required under the Ordinance or that Rules	174	Higher of Rs 10,000 or 5% of the amount of tax on income	No change
8	Without any reasonable cause, non compliance with the provisions of section 177 by failure to produce record or documents on receipt of:  a) first notice;  b) second notice; and  c) third notice	177	Rs 5,000;  Rs 10,000; and  Rs 50,000	Rs 25,000;  Rs 50,000; and  Rs 100,000
9	Failure to furnish information required or to comply with any other term of the notice served under section 176	176	Rs 5,000 for the first default and Rs 10,000 for each subsequent default	Rs 25,000 for the first default and Rs 50,000 for each subsequent default
10	For  (a) making a false or	114,115, 116,174, 176,177	Higher of Rs 25,000 or	

S. No.	Offences	Relevant Section	Existing Penalties	Proposed Penalties
(1)	(2)	(3)	(4)	(5)
	<p>misleading statement either in writing or orally or electronically including a statement in an application, certificate, declaration, notification, return, objection or other document including books of accounts made, prepared, given, filed or furnished under this ordinance;</p> <p>(b) furnishing or filing of a false or misleading information or document or statement either in writing or orally or electronically;</p> <p>(c) omission from a statement made or information furnished in any matter or thing without which the statement or the information is false or misleading in a material particular</p>	and general.	<p>100% of the amount of tax shortfall.</p> <p>Provided that in case of an assessment order deemed under section 120, no penalty shall be imposed to the extent of the tax shortfall occurring as a result of the taxpayer taking a reasonably arguable position on the application of this Ordinance to the taxpayer's position</p>	No change
11	On denial or obstructing the access of the Commissioner or any officer authorized by the Commissioner to the premises, place, accounts, documents, computers or stocks	175 and 177	Higher of Rs. 25,000 or 100% of the amount of tax involved	No change
12	Concealment of income or furnishing inaccurate particulars of income	20, 111 and General.	Higher of Rs 25,000 or an amount equal to tax sought to evade	No change
13	Obstruction of any Income tax Authority in the performance of his official duties	209, 210 and General	Rs 25,000	No change
14	Contravention of any of the provision of this Ordinance for which no penalty has, specifically, been provided in this section	General	Higher of Rs 5,000 or 3% of amount of tax involved	No change
15	Failure to collect or deduct tax as required under any provision of this Ordinance or failure to pay the tax collected or deducted as required under	148, 149, 150, 151, 152, 153, 153A, 154, 155, 156,	Higher of Rs 25,000 or 10% of amount of tax	No change

S. No.	Offences	Relevant Section	Existing Penalties	Proposed Penalties
(1)	(2)	(3)	(4)	(5)
	section 160	156A, 156B, 158, 160, 231A, 231B, 233, 233A, 234, 234A, 235, 236, 236A		
16	Fails to display NTN certificate at the place of business as required under the Ordinance or Rules	181C	--	Rs. 25,000

## Company re-defined

### Section 80

The Finance Bill proposes to expand the definition of the term 'company' given in section 80 to include:

- non-profit organization
- an entity or a body of person established or constituted under any other law for the time being in force.

Further, a cooperative society, a finance society or any other society is included regardless of the established or constituted by or under any law.

## Taxation of Agriculture Income

Under the constitution of Pakistan taxation of Agriculture Income is a provincial subject and accordingly section 41 exempts agriculture income from taxation under the Ordinance.

Whereas, section 111 contains the provisions for taxation of unexplained income or assets or incurring of expenditure.

The Finance Bill proposes to insert proviso to section 111 (1) to provide that an explanation in respect of investment made, money or valuable article owned and expenditure made out of agriculture income shall be accepted to the extent of imputed agriculture income on which tax has been paid under the relevant provincial law.

## Refunds & compensation

### Additional payment for delayed refunds

#### *Section 171*

An explanation is proposed to be inserted after section 171(2) to provide that for the purpose of compensation, delayed refunds shall become due from the date of refund order instead of the date of the deemed assessment order under section 120.

## Representative of non-resident

#### *Section 172*

For the purpose of treating a person as representative of a non-resident the Finance Bill proposes to explain that “business connection” would include the transfer of an asset or business in Pakistan by a non-resident.

## Tax payers registration

### Individuals entitled to use CNIC in place of NTN

#### *Section 181*

The Finance Bill proposes to empower the Board to allow use of CNIC in place of NTN in case of individuals.

## Display of NTN

#### *Section 181C*

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The Finance Bill proposes to reinsert a provision requiring every person deriving income from business to display NTN at a conspicuous place at every place of business.

## Administration

### Incentive to the Inland Revenue officer and officials

#### *Section 227A*

The Finance Bill proposes to insert a new section by virtue of which the Board has been empowered to announce cash rewards for the officer and officials of Inland Revenue Services for meritorious conduct upon realization of part or whole of the taxes in cases involving concealment or evasion of income tax and other taxes. This reward scheme also includes the informers providing credible information leading to such detection.

## Tax Rate Card

The Finance Bill proposes to revise tax rates for individuals deriving income from salary, other than salary and association of persons. The proposed rates are applicable with effect from 01 July 2013 (tax year 2014) except where otherwise specified.

We have tabulated the existing and proposed rates below:

### 1. Salary individuals

#### *Clauses (IA), Div I, Part I, First Schedule*

Taxable income (Rs.)	Existing Rate	Proposed Rate
Upto 400,000	0	0
<b>400,001 to 500,000</b>	5% of the amount exceeding Rs 400,000	5% of the amount exceeding Rs 400,000
<b>500,001 to 750,000</b>		Rs 5,000 + 7.5% of the amount exceeding Rs 500,000
750,001 to <b>800,000</b>	Rs 17,500 + 10% of the amount exceeding Rs 750,000	Rs 27,500 + 10% of the amount exceeding Rs 800,000
<b>800,001 to 1,050,000</b>		
1,200,001 to <b>1,300,000</b>		
<b>1,300,001 to 1,450,000</b>	Rs 95,000 + 15% of the amount exceeding Rs 1,500,000	Rs 77,500 + 12.5% of the amount exceeding Rs 1,300,000
1,450,001 to 1,500,000		
1,500,001 to 1,700,000		
1,700,001 to <b>1,800,000</b>		
<b>1,800,001 to 1,950,000</b>	Rs 175,000 + 17.5% of the amount exceeding Rs 2,000,000	Rs 140,000 + 15% of the amount exceeding Rs 1,800,000
1,950,001 to 2,000,000		
2,000,001 to <b>2,200,000</b>	Rs 420,000 + 20% of the amount exceeding Rs 2,500,000	Rs 200,000 + 17.5% of the amount exceeding Rs 2,200,000
<b>2,200,001 to 2,500,000</b>		Rs 270,000 + 20% of the amount exceeding Rs 2,600,000
2,500,001 to <b>2,600,000</b>		Rs 350,000 + 22.5% of the amount exceeding Rs 3,000,000
<b>2,600,001 to 3,000,000</b>	Rs 462,500 + 25% of the amount exceeding Rs 3,500,000	Rs 587,500 + 27.5% of the amount exceeding Rs 4,000,000
<b>3,000,001 to 3,500,000</b>		
<b>3,500,001 to 4,000,000</b>		
<b>4,000,001 to 7,000,000</b>	Rs 1,412,500 + 30% of the amount exceeding Rs 7,000,000	Rs 1,412,500 + 30% of the amount exceeding Rs 7,000,000
<b>7,000,001 and above.</b>		

The concept of Marginal Relief has been removed.

The comparative tax incidences at the existing and proposed rates are given on next page.



Gross Salary Rs.	Tax liability		Tax incidence	
	Existing Rs.	Proposed Rs.	(reduction) / increase Rs.	(reduction) / increase %
400,000	-	-	-	-
500,000	5,000	5,000	-	-
600,000	10,000	12,500	2,500	25
800,000	22,500	27,500	5,000	22.2
1,000,000	42,500	47,500	5,000	11.8
1,500,000	92,500	102,500	10,000	10.8
2,000,000	170,000	170,000	-	0
2,500,000	262,500	252,500	(10,000)	(3.8)
3,000,000	512,500	350,000	(162,500)	(31.7)
3,500,000	620,000	462,500	(157,500)	(25.4)
4,000,000	720,000	587,500	(132,500)	(18.4)
7,000,000	1,320,000	1,412,500	92,500	7
8,000,000	1,520,000	1,712,500	192,500	12.7

## 2. Individuals (other than salaried individuals) and association of persons (AOP)

### Clause 1, Div I, Part I, First Schedule

S. No.	Taxable income Rs.	Existing Rate	Proposed Rate
1	Upto 400,000	0	0
2	400,001 to 750,000	10% of the amount exceeding Rs 400,000	10% of the amount exceeding Rs 400,000
3	750,001 to 1,500,000	Rs 35,000 + 15% of the amount exceeding Rs 750,000	Rs 35,000 + 15% of the amount exceeding Rs.750,000
4	1,500,001 to 2,500,000	Rs 147,500 + 20% of the amount exceeding Rs 1,500,000	Rs 147,500 + 20% of the amount exceeding Rs 1,500,000
5	2,500,001 to 4,000,000	Rs 347,500 + 25% of the amount exceeding Rs 2,500,000	Rs 347,500 + 25% of the amount exceeding Rs 2,500,000
6	4,000,001 to 6,000,000		Rs 722,500 + 30% of the amount exceeding Rs 4,000,000
7	6,000,001 and above		Rs 1,322,500 + 35% of the amount exceeding Rs 6,000,000

The comparative tax incidences at the existing and proposed rates are given as under:

Taxable income Rs.	Tax liability		Tax incidence	
	Existing Rs.	Proposed Rs.	(reduction) / increase Rs.	(reduction) / increase %
400,000	-	-	No change	0
1,100,000	87,500	87,500	No change	0
1,500,000	147,500	147,500	No change	0
2,500,000	347,500	347,500	No change	0
4,000,000	722,500	722,500	No change	0
6,000,000	1,222,500	1,322,500	100,000	8.2
8,000,000	1,722,500	2,022,500	300,000	17.4
12,000,000	2,722,500	3,422,500	700,000	25.7
25,000,000	5,972,500	7,972,500	2,000,000	33.5
50,000,000	12,222,500	16,722,500	4,500,000	36.8

### 3. Companies

#### *Div II, Part I, First Schedule*

	Existing Rate %	Proposed Rate %
Small company	25	No change
Modaraba	25	No change
Banking company	35	No change
All other companies (for tax year 2014)	35	34
<ul style="list-style-type: none"> <li>○ The Finance Minister in his budget speech stated that tax rate for companies shall be further reduced to 30% from tax year 2015. However, no such amendment has been proposed in the Finance Bill.</li> </ul>		

#### 4. Tax rate on Dividend Income

##### *Div III, Part I, First Schedule*

	Existing %	Proposed %
Dividend received from a company	10	No change
Dividend received from purchaser of power project privatized by WAPDA	7.5	No change
Dividend received from a company set up for power generation.	7.5	No change
Dividend received by a banking company from its asset management company.	20	No change
Dividend received by a banking company from a money market fund and income fund. (for tax year 2013)	25	25
(for tax year 2014 and onwards)	35	25

#### 5. Capital Gains on securities

##### *Div VII, Part I, First Schedule*

5.1 Below rates are applicable to all tax payers excluding banking and insurance companies.

Holding period	Tax Year	Existing %	Proposed %
Less than six months	2013	10	No change
	2014	10	No change
	2015	17.5	No change
Six months or more but less than twelve months	2013	8	No change
	2014	8	No change
	2015	9.5	No change
	2016	10	No change
Twelve months or more	-	0	No change

5.2 Rates applicable to insurance companies.

Holding period	Tax Year	Existing %	Proposed %
Less than six months	2013	12.5	No change
	2014	15	No change
	2015	17.5	No change
Six months or more but less than twelve months	2013	8.5	No change
	2014	9	No change
	2015	9	No change

5.3 Rates applicable to banking companies.

Holding period	Existing %	Proposed %
Less than twelve months	35	No Change
More than twelve months	10	No Change

6. Tax rate on Capital Gain on Immovable Property

*Div VIII, Part I, First Schedule*

Holding period	Existing %	Proposed %
Upto one year	10	No change
More than one year but not more than two years	5	No change

7. Property Income

*Div VI, Part I, First Schedule*

7.1 Applicable to all tax payers other than a company

Taxable income Rs	Existing %	Proposed %
Upto 150,000	Nil	No change
150,001 to 400,000	5% of the amount exceeding Rs150,000	No change

Taxable income Rs	Existing %	Proposed %
400,001 to 1,000,000	Rs 12,500 plus 7.5% of the amount exceeding Rs 400,000	No change
1,000,001 to 2,000,000	Rs 57,500 plus 10% of the amount exceeding Rs 1,000,000	No change
2,000,001 to 3,000,000		Rs 157,500 plus 12.5% of the amount exceeding Rs 2,000,000
3,000,001 to 4,000,000		Rs 282,500 plus 15% of the amount exceeding Rs 3,000,000
Above 4,000,001		Rs 432,500 plus 17.5% of the amount exceeding Rs 4,000,000

7.2 Applicable to a company

Taxable income Rs	Existing %	Proposed %
Upto 400,000	5%	No change
400,001 to 1,000,000	Rs 20,000 plus 7.5% of the amount exceeding Rs 400,000	No change
1,000,001 to 2,000,000	Rs 65,000 plus 10% of the amount exceeding Rs 1,000,000	No change
2,000,001 to 3,000,000		Rs 165,000 plus 12.5% of the amount exceeding Rs.2,000,000
3,000,001 to 4,000,000		Rs 290,000 plus 15% of the amount exceeding Rs.3,000,000
Above 4,000,001		Rs 440,000 plus 17.5% of the amount exceeding Rs.4,000,000

## 8. Shipping and Air transport income of Non Residents

### *Div V Part I First Schedule*

	Existing %	Proposed %
Shipping income	8	No change
Air transport income	3	No change

## 9. Turnover of Retailer (Individual and Association of Persons)

### *Section 113A, 113B and Div IA, Part I, First Schedule and 236H*

	Existing Rate	Proposed
Turnover upto Rs 5 million for any tax year	1%	The fixed tax regime for retailers proposed to be omitted. Advance tax collection at the rate of 0.5% under section 236H is proposed to be inserted as adjustable against the retailer's liability on net income.
Where turnover exceed Rs 5 million	Rs 25,000 + 0.5% of turnover exceeding Rs 5 million.	
Where turnover exceed Rs 10 million	Rs 50,000 + 0.75% of turnover exceeding Rs 10 million.	

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## Withholding tax provisions

The Bill proposes to prescribe following new provisions for withholding / collection of tax.

Section	Type of Payment	Rate / Amount
236D	Advance tax on functions and gatherings – On total amount of bill of a person arranging or holding a function (including payment of food, service or facility) in a marriage hall, marquee, hotel, restaurant, commercial lawn, club, a community place or any other place used for such purposes.	10%
236E	Advance tax on foreign produced films, TV play and serials. Any person responsible for censoring or certifying a foreign produced film, a TV drama serial or a play, for screening and viewing shall at the time of censoring or certifying collect advance tax in the following manner.	
	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
236F	Advance tax on cable operators and other electronic media. Pakistan Electronic Media Regulatory Authority [PEMRA] shall collect advance tax at the time of issuance or renewal of license for distribution services in the following manner.	
	In case of Cable Televisions Operators  License category as provided in PEMRA Rules 2009	Varying tax amount for issuance and renewal of license
	In case of other distribution services  Type of channel as provided in PEMRA Rules 2009  Satellite TV station  Landing rights per channel	Varying tax amount for issuance and renewal of license
236G	Advance tax on sales of specified goods to distributors, dealers and wholesalers	0.1%
236H	Advance tax on sales of specified goods to retailers	0.5%
236I	Collection of advance tax by educational institutions on the amount of annual fee (exceeding Rs 200,000)	5%

Section	Type of Payment	Rate / Amount
236J	Advance tax on dealers, commission agents and arhatis etc. Every market committee shall collect advance tax at the time of issuance of license to dealers, commission agents or arhatis in the following manner.	
	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

### Withholding tax rates table – existing and proposed

The following table summarizes existing and proposed withholding tax rates for all classes of person and treatment of withholding tax as adjustable or final tax liability.

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
		Existing	Proposed	Existing		Proposed	
				Ind & AOP	Company	Ind & AOP	Company
<b>148</b>	<b>Collection of tax at Imports</b>						
(a)	Value of goods inclusive of customs duty and sales tax imported by;  - Industrial undertaking	5	5 / Exempt subject to conditions	Adjustable / Minimum in case of edible oil & packing materials	Adjustable / Minimum in case of edible oil & packing materials	Adjustable / Minimum in case of edible oil & packing materials	Adjustable / Minimum in case of edible oil & packing materials
	- Other companies	5	No Change	-	Final / adjustable subject to conditions	-	Final / adjustable subject to conditions
	- Other taxpayers	5	5.5	Final / adjustable subject to conditions	-	Final / adjustable subject to conditions	-
(b)	Import by persons covered under SRO. 1125(I)2011 dated 31 December 2011  - Manufacturer	1	No Change	Adjustable	Adjustable	Adjustable	Adjustable
	- Commercial importers	3	No Change	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions
(c)	Import of hybrid cars with engine capacity;						

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
	- Upto 1200 cc - 1201 to 1800 cc - 1801 to 2500 cc	5 5 5	0 2.5 / 2.75 3.75 / 4.125	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions
<b>149</b>	<b>Salary</b>	Progressive rates	Progressive rates	Adjustable	N/A	Adjustable	N/A
<b>150</b> (a)	<b>Dividend</b> Dividend distributed by purchaser of a power project privatized by WAPDA and company set up for power generation.	7.5	No change	Final	Final	Final	Final
(b)	Dividend payment by other companies	10	No change	Final	Final	Final	Final
(c)	Remittance of after tax profit by a branch other than branch of a E&P companies (subject to treaty provisions, if applicable)	10	No change	Final	Final	Final	Final
<b>151</b>	<b>Profit on debt</b>						
(a)	Yield on an account, deposit or a certificate under the National Savings Scheme or Post office saving account	10	No change	Final	Adjustable	Final	Adjustable
(b)	Profit on a debt, being an account or deposit maintained with a banking company or a financial institution	10	No change	Final	Adjustable	Final	Adjustable
(c)	Profit on any security by Federal Government issued, a Provincial Government or a local Government other than profit on National Saving Scheme or Post Office Saving account to any person	10	No change	Final	Adjustable	Final	Adjustable
(d)	Profit on any bond, certificate, debenture, security or instrument of any kind (excluding loan agreement between a borrower and a banking company or a development finance institution) issued by a banking company, a financial institution, company as defined in the Companies Ordinance, 1984 and a body corporate formed by or under any law for the time being in force, to any person other than a financial institution	10	No change	Final	Adjustable	Final	Adjustable

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
		Existing	Proposed	Existing		Proposed	
				Ind & AOP	Company	Ind & AOP	Company
<b>152</b>	<b>Payments to non-residents</b>						
(a)	Royalty and technical fee	15	No change	Final	Final	Final	Final
(b)	Execution of a contract or sub-contract under the construction, assembly or installation project in Pakistan including a contract for the supply of supervisory activities in relation to such projects or any other contract for construction or services rendered relating thereto	6	No change	Final subject to option	Final subject to option	Final subject to option	Final subject to option
(c)	Contract for advertisement services rendered by TV Satellite channel	6	No change	Final subject to option	Final subject to option	Final subject to option	Final subject to option
(d)	Insurance premium or re-insurance premium	5	No change	Final	Final	Final	Final
(e)	Advertisement services relaying from outside Pakistan	10	No change	Final	Final	Final	Final
(e)	Profit on debt to non-resident person not having a PE in Pakistan	10	No change	Adjustable / Final in specified situations	Adjustable / Final in specified situations	Adjustable / Final in specified situations	Adjustable / Final in specified situations
(f)	Other payments (other than Hajj Group Operator)	20	No change	Adjustable	Adjustable	Adjustable	Adjustable
152(2 A)	<b>Payments to PE of a non-resident</b>						
(a)	Sale of goods	3.5	No change	Adjustable	Adjustable	Adjustable	Adjustable
(b)	Transport services	2	No change	Adjustable	Adjustable	Adjustable	Adjustable
(c)	Other services	6	No change	Adjustable	Adjustable	Adjustable	Adjustable
(d)	Execution of a contract	6	No change	Adjustable	Adjustable	Adjustable	Adjustable
153	<b>Goods, services and execution of a contract</b>						
(a)	Sales of rice, cotton seed or edible oils	1.5	No change	Final / adjustable subject to conditions	Final (Adjustable for manufacturer / listed company subject to conditions)	Final / adjustable subject to conditions	Final (Adjustable manufacturer / listed company) / subject to conditions
(d)	Sale of any other goods in the case of; - Company	3.5	No change	-	Final / (Adjustable for manufacturer /	-	Final / (Adjustable for manufacturer / listed

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
					listed company)/ subject to conditions		company)/ subject to conditions
	- Other tax payers	3.5	4	Final / adjustable subject to conditions	-	Final / adjustable subject to conditions	-
(e)	Passenger transport services	2	No change	Minimum	Adjustable	Minimum	Adjustable
(f)	Other services in the case of;						
	- Company	6	No change	-	Adjustable	-	Adjustable
	- Other tax payers	6	7	Minimum	-	Minimum	-
(g)	Execution of a contract in the case of;						
	- Company	6	No change	-	Final / Adjustable for listed company	-	Final / Adjustable for listed company
	- Other tax payer	6	6.5	Final	-	Final	-
(h)	Deduction by exporter or an export house on rendering of certain services	0.5	0.5	Final	Final	Final	Final
<b>154</b>	<b>Exports</b>						
(a)	Export proceeds, Proceeds from sales of goods to an exporter under an inland back-to-back letter of credit or any other arrangement, export of goods by an industrial undertaking located in an Export Processing Zone, Collection by a collector of customs at the time of clearing of goods exported	1	No change	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions
(b)	Indenting commission	5	No change	Final / adjustable subject to filing of option & conditions	Final / adjustable subject to filing of option & conditions	Final / adjustable subject to filing of option & conditions	Final / adjustable subject to filing of option & conditions
<b>155</b>	<b>Income from Property</b>						
	Annual rent of immovable property including rent of furniture and fixtures and amounts for services relating to such property	Progressive rates	Progressive rates	Tax imposed is final, instead of tax withheld	Tax imposed is final, instead of tax withheld	Tax imposed is final, instead of tax withheld	Tax imposed is final, instead of tax withheld
<b>156</b>	<b>Prizes and winnings</b>						
(a)	Amount of prize bond winning	10	15	Final	Final	Final	Final
(b)	Prize on cross-word puzzle	10	15	Final	Final	Final	Final
(c)	Amount of raffle/lottery	20	No change	Final	Final	Final	Final

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
	winning, prize on winning a quiz, prize offered by a company for promotion of sales						
<b>156A</b>	<b>Petroleum products</b>						
	Commission and discount to petrol pump operators	10	No change	Final	Final	Final	Final
<b>156B</b>	<b>Withdrawal of balance under pension fund</b>						
	Withdrawal of amount before the retirement age or it is in excess of 50% of the accumulated balance at or after the retirement age	Slab rates	Slab rates	Adjustable	N/A	Adjustable	N/A
<b>231A</b>	<b>Cash withdrawal</b>						
	Cash withdrawal exceeding Rs 50,000	0.2 of the amount withdrawn	0.3 of the amount withdrawn	Adjustable	Adjustable	Adjustable	Adjustable
<b>231AA</b>	<b>Transactions in banks</b>						
	Withdrawal made through any mode of banking transactions including Demand Draft, Payment Order, Online Transfer, Telegraphic Transfer, CDR, STDR, RTC exceeding Rs 25,000 in a day	0.3 of the transaction	No change	Adjustable	Adjustable	Adjustable	Adjustable
<b>231B</b>	<b>Purchase of Motor Vehicle</b>	Varying slabs	Varying slabs	Adjustable	Adjustable	Adjustable	Adjustable
<b>233</b>	<b>Brokerage &amp; Commission</b>						
(a)	Payment of brokerage and commission	10	No Change	Final	Final	Final	Final
(b)	Commission to advertisement agent	5	No Change	Final	Final	Final	Final
<b>233A</b>	<b>Collection of tax by stock exchange</b>						
(a)	On purchase of shares, in lieu of commission of the Member	0.01 of purchase value	No change	Adjustable	Adjustable	Adjustable	Adjustable
(b)	On Sale of shares, in lieu of commission of the Member	0.01 of sale value	No change	Adjustable	Adjustable	Adjustable	Adjustable
<b>233AA</b>	<b>Collection of tax by NCCPL</b> On margin financing, trading financiers and lenders	10	10	Adjustable	Adjustable	Adjustable	Adjustable
<b>234</b>	<b>Tax on motor vehicle</b>						



Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
	Registered laden weight/ Seating capacity/ Engine capacity	Varying rates	Varying rates	Adjustable / Final in respect of income earned through plying or hiring out of goods transport vehicle	Adjustable / Final in respect of income earned through plying or hiring out of goods transport vehicle	Adjustable	Adjustable
<b>234A</b>	<b>CNG stations</b> -On amount of gas bill	4	No change	Final	Final	Final	Final
<b>235</b>	<b>Electricity bill of industrial / commercial consumers</b>						
(a)	On electricity bill below Rs 20,000	Slab rates	No change	Minimum	Adjustable	Minimum	Adjustable
(b)	On electricity bill exceeding Rs 20,000	5 /10	No change	Minimum /Adjustable if the bill amount exceeds Rs 30,000	Adjustable	Minimum /Adjustable if the bill amount exceeds Rs 30,000	Adjustable
<b>236</b>	<b>Telephone bill</b>						
(a)	Telephone bill exceeding Rs 1,000	10	No change	Adjustable	Adjustable	Adjustable	Adjustable
(b)	Prepaid card for telephones	10	No change	Adjustable	Adjustable	Adjustable	Adjustable
(c)	Sale of units through any electronic medium or whatever form	10	No change	Adjustable	Adjustable	Adjustable	Adjustable
<b>236A</b>	<b>Sale by auction / tender</b>						
	Sale price of the property	5	10	Adjustable	Adjustable	Adjustable	Adjustable
<b>236B</b>	<b>Purchase of air ticket</b> - On gross amount of purchase of domestic air ticket	5	No change	Adjustable	Adjustable	Adjustable	Adjustable
<b>236C</b>	<b>Sale or transfer of immovable property</b> – On gross amount of consideration	0.5	No change	Adjustable	Adjustable	Adjustable	Adjustable
<b>236D</b>	<b>Advance tax on functions and gatherings</b> – On total amount of bill of arranging or holding a function including payment of food, service or facility.	-	10	Adjustable	Adjustable	Adjustable	Adjustable
<b>236E</b>	<b>Advance tax on foreign produced films, TV play and serials.</b>	-	Varying amount	-	-	Adjustable	Adjustable
<b>236F</b>	<b>Advance tax on cable operators and other electronic media.</b> On issuance or renewal of	-	Varying amount	-	-	Adjustable	Adjustable

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
	license for distribution services.						
236G	Advance tax on sales of specified goods to distributors, dealers and wholesalers	-	0.1	-	-	Adjustable	Adjustable
236H	Advance tax on sales of specified goods to retailers	-	0.5	-	-	Adjustable	Adjustable
236I	Collection of advance tax by educational institutions	-	5 On amount of fee exceeding Rs 200,000	-	-	Adjustable	Adjustable
236J	Advance tax on issuance or renewal of license to dealers, commission agents and arhatis etc.	-	Varying amount	-	-	Adjustable	Adjustable
37A	Capital gain on redemption of securities						
	a) Holding period less than six months	10	10	Adjustable	Adjustable	Adjustable	Adjustable
	b) Holding period more than six month but less than twelve months	8	8	Adjustable	Adjustable	Adjustable	Adjustable

# Income Support Levy Act, 2013



- The Finance Bill has proposed Income Support Levy through Income Support Levy Act. The purpose of the levy is to provide financial assistance and other social protection and safety net measures to economically distressed persons and families.
- The rate of levy is 0.5% of net moveable assets held by a person on the last date of the tax year exceeding one million rupees.
- Liabilities against moveable assets will be admissible as a deduction for computing net moveable wealth. Where nature of assets (moveable or immovable) to whom liabilities relate is not determinable, proportionate liability will be allowed as a deduction.
- The levy is payable alongwith the wealth statement.
- Administrative and recovery proceedings under the Income Tax Ordinance, 2001 sh all apply

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# Sales Tax

## Significant Amendments



### Time of supply

#### *Section 2 (44)*

The question of levy of sales tax on advance receipt had been under litigation before various appellate forums. However, this issue was settled by the Supreme Court of Pakistan, whereby, it was held that sales tax was payable on advance receipt.

The Bill now seeks to amend the definition of time of supply, whereby, the levy of sales tax on advance payment is reintroduced (earlier it was omitted through the Finance Bill 2007) and the time of supply for the levy of sales tax is earlier of delivery of goods or receipt of payment against that supply.

### Further tax @ 2% - reintroduced

#### *Section 3(1A)*

The concept of further tax was earlier introduced by Finance Act, 1998 which was done away through the Finance Act, 2004. The Finance Bill now seeks to insert new sub section (1A) under section 3 of the Sales Tax Act, 1990 through which further tax regime is re-introduced, whereby person who has not obtained sales tax registration number shall be subject to a further tax @ 2% of the value in addition to:

- (a) General Sales Tax
- (b) Rate of sales tax on retail price on taxable supplies specified in third schedule
- (c) Extra amount of tax in addition to (a) and (b) above as Federal Government may specify
- (d) Tax in lieu of General Sales Tax

It is a major revenue generating measure with a view to compel persons engaged in taxable activity to get them registered under the Sales Tax Act, 1990.

### Appeals - Powers to grant stay

#### *Section 45B (1A)*

The Finance Bill now proposes to provide specific powers to Commissioner (Appeals) for grant of stay up to thirty days in aggregate against the recovery of tax demand. Similar powers are also available with Commissioner (Appeals) under the relevant provisions of the Income Tax Ordinance, 2001. This amendment seems to be a step towards harmonization of tax laws.

### Rectification of mistake

#### *Section 57*

The Bill seeks to substitute the existing section 57 of the Act in order to harmonize provisions relating to rectification of mistake apparent from the record with the Income Tax Ordinance, 2001. Through this substitution now Commissioner, Commissioner (Appeals) and Appellate Tribunal may rectify any

mistake even if highlighted by the taxpayer. Previously no such provision is available under the law which caused hardship to the taxpayers, who will now be able to get relief through this substitution.

Presently, there is no time limit for rectification of mistakes by the tax authorities, whereas, now bill seeks to propose that rectification can be made within 5 years from the date of the order sought to be rectified.

## Certain transaction not admissible

### Section 73

The Bill seeks certain insertions in the explanation to the section 73 as a result of which now input tax will be admissible to a registered person only in case if he made payment through his business bank account which is duly declared with the Commissioner through Form STR-1 or inserted in the registration data base by filing change of particulars application. Payment made through undeclared business bank account will be treated violation of section 73 resulting into inadmissibility of input tax credit to a registered person.

## Editorial changes

The Bill seeks following editorial changes in the Act:

- Computerized Risk-based Evaluation of Sales Tax [CREST] is defined through insertion of Section 2(5AC).
- Definition of Provincial Sales Tax under Section 2(22A) is proposed to be simplified to omit the references of repealed Provincial legislations.
- New insertion under Section 3 is proposed empowering the Board to levy and collect sales tax on the basis of production capacity or fixed, synchronizing the charging provision with Federal Excise Act, 2005.
- Disallowing of input tax adjustment in cases where discrepancies indicated by CREST or input tax or purchases is not verifiable in the supply chain through insertion of section 8(1)(caa).
- Records relating to gate passes and transport receipt are also included in the list of prescribed records to be maintained by a registered person under section 22 of the Act.
- Explanation to the section 25 of the Act has been inserted to clarify that powers defined under section 25, 38, 38A, 38B and 45A for the Board, Commissioner or officer of Inland Revenue are independent with respect to powers defined under section 72B of the Act. This insertion is made to clarify the selection of audit under the above mentioned sections by Commissioner or officer of Inland Revenue which is a contentious issue and pending under litigation at different appellants forums.
- Insertion of new section 40C to allow the Board to monitor or tacking of manufacturing activities, sales, clearances, stocks or any other related activity through electronic or other means as may be prescribed through notification by the Board.

## Third Schedule- New insertions of items

This schedule contains a list of taxable supplies which shall be subject to tax at the rate of seventeen percent (17%) of retail price, which along with the amount of sales tax shall legibly, prominently and indelibly printed or embossed by the manufacturer on each article, packed, container cover or label.



Following new entries are proposed to be incorporated in the schedule:

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.
30.	Arms and ammunition	Respective headings.
31.	Paints, distempers, enamels, pigments, colours, 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.

## Sales Tax Special Procedure (Withholding) Rules, 2007

*SRO 505(I)/2013 dated 12 June 2013*

Previously under sub-rule (3) of Rule 2 of Sales Tax Special Procedure Withholding Rules, 2007, only federal and provincial departments, autonomous bodies, and public sector organization having Free Tax Number (FTN) were required to withhold full amount of sales tax at the applicable rate in respect of taxable supplies made to them by unregistered persons.

Now SRO 505(I)/2013 dated 12 June 2013 has amended sub-rule (3) of rule 2 of Sales Tax Special Procedure Withholding Rules, 2007, as a result of which the companies as defined in the Income Tax Ordinance, 2001, registered for sales tax, federal excise duty or income tax and persons registered as

exporters will also be required to withhold full amount of sales tax at the applicable rate in respect of taxable supplies made to them by unregistered persons.

## Sales Tax Special Procedure Rules, 2007

*SRO 509(I)/2013 dated 12 June 2013 and SRO 510(I)/2013 dated 12 June 2013*

Every person supplying electricity or natural gas shall collect extra tax at the rate of five percent (5%) of the total billed amount excluding amount of Federal taxes, in addition to the tax payable under sub-section (1) of section 3 of the Sales Tax Act, 1990, on the supplies of electric power and natural gas to person having industrial or commercial connections and whose bill in any month exceeds fifteen thousand rupees, but the consumer either has not provided his sales tax registration number to the supplier or his name is not shown as active on the Active taxpayers list (ATL) maintained by FBR.

Sales Tax Special Procedure Rules, 2007 has also been amended by inserting new chapter to lay down the procedure to be followed by the supplier in respect of foregoing extra tax.

It is a major revenue generating measure with a view to compel persons engaged in taxable activity to get them registered under the Sales Tax Act, 1990.

## Revision in Rates of Sales Tax

The Finance Bill or the notifications issued has amended the sales tax rates on following goods from the effective date stated there-against:

S. No.	Description of goods / services	Tariff heading	Existing Rate %	Revised Rate %	Effective Date	Reference
<b>A.</b>	<b>Increase in Rate</b>					
1	All products on which standard rate applies	Various	16	17	13 June 2013	Section 3(1)
2	The goods produced or manufactured in areas where the Sales Tax Act is not applicable and are included in Prime Minister's Fiscal Relief to rehabilitate the economic life in Khyber Pakhtoonkhwa, FATA and PATA, if supplied to a person in any area where the Sales Tax Act was applicable.	N/A	8	17	13 June 2013	SRO 500(I)/2013
3	Supplies of goods, other than Cement, Sugar, Beverages and Cigarettes, by the registered persons located in districts of	N/A	8	17	13 June 2013	SRO 500(I)/2013

S. No.	Description of goods / services	Tariff heading	Existing Rate %	Revised Rate %	Effective Date	Reference
	Hangu, Bannu, Tank, Kohat, Chitral, Charsadda, Peshawar, Dera Ismail Khan, Batagram, Lakki Marwat, Sawabi, Nowshera and Mardan					
5	Finished articles of leather and artificial leather	Chapter 41 and headings 64.06	2	17	13 June 2013	SRO.504(I)/2013
6	Finished articles of textile and textile made ups	Chapter 50, 51, 52, 53, 54 (excluding 5401.200), 55, 56 (excluding 56.08 & 56.09, 57 (excluding made ups), 58, 59 (excluding 59.05, 59.10) & 60.	2	17	13 June 2013	SRO.504(I)/2013
7	Carpets in finished condition	Chapter 57	2	17	13 June 2013	SRO.504(I)/2013
8	Finished sports goods	Chapter 95	2	17	13 June 2013	SRO.504(I)/2013
9	Finished surgical goods	Chapter 90	2	17	13 June 2013	SRO.504(I)/2013
10	Master Batches of other coloring matter and other preparations	3206.4900	2	17	13 June 2013	SRO.504(I)/2013
11	Shoe Adhesives	3506.9110	2	17	13 June 2013	SRO.504(I)/2013
12	Cotton Seed Oil	N/A	0	17	13 June 2013	SRO.502(I)/2013
13	Import or local purchase of raw material, sub components, sub assemblies and assemblies for the manufacture of various goods as specified under SRO 863(I)/2007	Various	0	17	13 June 2013	SRO.500(I)/2013

S. No.	Description of goods / services	Tariff heading	Existing Rate %	Revised Rate %	Effective Date	Reference
<b>B</b>	<b>Withdrawal of exemption</b>					
1	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 1901.9090	Exempt	17	13 June 2013	Sixth Schedule
2	Supplies against international tenders		Exempt	17	13 June 2013	Sixth Schedule
3	Goods imported by a member of Pakistan Film Producer Association for exclusive use in production and/or display of films interalia including camera, photography equipment, projectors, digital audio processors, etc.	Various as specified in SRO 172(I)/2006	Exempt	17	13 June 2013	SRO 500(I)/2013
<b>C</b>	<b>Exemption allowed</b>					
1	Import and supplies of following goods  <ul style="list-style-type: none"> <li>• Uncooked poultry meat</li> <li>• Milk and cream</li> <li>• Flavored Milk</li> <li>• Yogurt</li> <li>• Whey</li> <li>• Butter</li> </ul>	02.07  04.01 and 04.02  0402.9900 and 22.02  0403.1000  04.04  0405.1000	0	Exempt	13 June 2013	SRO 501(1)/2013 dated 12 June 2013 and SRO 502(1)/2013 dated 12 June 2013

S. No.	Description of goods / services	Tariff heading	Existing Rate %	Revised Rate %	Effective Date	Reference
	• Desi Ghee	0405.9000				
	• Cheese	0406.1010				
	• Processed cheese not grated or powdered	0406.3000				
	• Cotton seed	1207.2000				
	• Frozen, prepared or preserved sausages and similar products of poultry meat or meat offal	1601.0000				
	• 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				
	• Preparations for infant use, put up for retail sale	1901.1000				
	• Fat filled milk	1901.9090				
	• Soyabean meal	2304.0000				
	• Oil cake and other solid residues, whether or not ground or in the form of pellets	2306.1000				
	• Colors in sets	3213.1000				
	• Writing, drawing and	3215.9010 and				

S. No.	Description of goods / services	Tariff heading	Existing Rate %	Revised Rate %	Effective Date	Reference
	marking inks	3215.9090				
	• Erasers	4016.9210 and 4016.9290				
	• Exercise books	4820.2000				
	• Directly reduced iron	72.03				
	• Pencil sharpeners	8214.1000				
	• Energy savers lamps	8539.3910				
	• Sewing machines of the household type	8452.1010 and 8452.1090				
	• Purpose built taxis, whether in CBU or CKD condition	9703.3226 and 8703.3227				
	• Bicycles	87.12				
	• Wheelchairs	8713.1000 and 8713.9000				
	• Vessels for breaking up	89.08				
	• Other drawing, marking out or mathematical calculating instruments (geometry box)	9017.2000				
	• Pens and ball pens	96.08				
	• Pencils including color pencils	96.09				
	• Compost non-chemical fertilizer produced and supplied regularly	Not Applicable				
	• Construction materials to Gawadar Export Processing Zone's investors and	Not Applicable				

S. No.	Description of goods / services	Tariff heading	Existing Rate %	Revised Rate %	Effective Date	Reference
	to Export Processing Zone Gawadar for development of Zone's Infrastructure					

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# Federal Excise

## Significant Amendments



### Revision of FED rates on excisable goods

The Finance Bill has amended the FED rates on excisable goods listed below from the effective date stated there-against:

S. No.	Description of goods	Tariff heading	Existing rate	Revised Rate	Effective date	Reference of Table-I of First Schedule
1.	Aerated Water	2201.1020	6% of retail price	9% of retail price	01 July 2013	Sr. No.4
2.	Aerated waters, containing added sugar or other sweetening matter or flavoured	2202.1010	6% of retail price	9% of retail price	01 July 2013	Sr. No.5
3	Locally produced cigarettes if their on pack retail price exceeds Rs.2,286 per thousand cigarettes	24.02	65% of the retail price	Rs.2,325 per thousand cigarettes	13 June 2013	Sr. No. 9
4	Locally produced cigarettes if their on pack retail price does not exceed Rs.2,286 per thousand cigarettes.	24.02	Rs 7.02 per ten cigarettes plus 70% per incremental rupee or part thereof.	Rs.880 per thousand cigarettes	13 June 2013	Sr. No. 10
5	Locally produced cigarettes if their retail price does not exceed Rs.13.36 per ten cigarettes.	24.02	Rs 7.02 per ten cigarettes.	Two-tier FED made applicable, as such this slab is proposed to be deleted.	Not applicable	Sr. No. 11 [omitted]
6	Oilseeds	Respective headings	Not applicable	40 paise per Kg	13 June 2013	Sr. No. 54
7	Motor cars, SUVs and other motor vehicles of cylinder	87.03	Not applicable	10% ad val.	13 June 2013	Sr. No. 55

S. No.	Description of goods	Tariff heading	Existing rate	Revised Rate	Effective date	Reference of Table-I of First Schedule
	capacity of 1800 cc or above, principally designed for the transport of persons (other than those of headings 87.2) including station wagons and racing cars of cylinder capacity of 1800 cc or above					
8	Hydraulic cement imported or purchased locally by petroleum or energy sector companies or projects	2523.9000	Exempt under Third Schedule	Rs.400 per metric ton	13 June 2013	Sr. No. 13
9	Lubricating oil if supplied to Pakistan Navy	Respective heading	Exempt under Third Schedule	No change	Not applicable	Not applicable
10	Transformer oil if used in the manufacturer of transformers supplied against international tenders	Respective heading	Exempt under Third Schedule	No change	Not applicable	Not applicable

## Revision of FED rates and description of excisable services

The Finance Bill has amended the description and FED rates on excisable services listed below from the effective date stated there-against:

S. No.	Existing description of service	Proposed description of service	Proposed tariff heading assigned	Existing Rate	Revised Rate	Effective date	Reference of Table-II of First Schedule
1	Services provided or rendered in respect of insurance to a policy holder by an insurer, including a re-insurer in case where direct insurance service has	Services provided or rendered by banking companies, insurance companies, cooperative		16 % of the gross			S. No 7

S. No.	Existing description of service	Proposed description of service	Proposed tariff heading assigned	Existing Rate	Revised Rate	Effective date	Reference of Table-II of First Schedule
	been provided: <ul style="list-style-type: none"> <li>• Goods insurance</li> <li>• Fire insurance</li> <li>• Theft insurance</li> <li>• Marine insurance</li> <li>• Other insurance</li> </ul>	financing societies, modarabas, musharikas, leasing companies, foreign exchange dealers, non-banking financial institutions, Asset Management Companies and other persons dealing in any such services	98.13	premium paid.	16% of the charges	13 June 2013	
2	Services provided by banking companies or non-banking financial companies			16% of the charges			S. No 8
	Services provided by Asset Management Companies with effect from 1st of July 2007			Exempt under Table-II of Third Schedule			S. No 8

## Federal Government empowered to charge further duty at 2%

### Section 3(3)(3A)

The Bill proposes to insert a new sub-section in Section 3 of the Federal Excise Act, empowering the Federal Government to impose 'Further Duty' at 2% of the value of the excisable goods and services in addition to the applicable rate of FED, in case where such commodity or service is supplied to a person who has not obtained registration number.

Further tax at 2% stands reinforced under sales tax law effective 13 June 2013, however Further Duty under the proposed insertion is not yet notified.

## The Commissioner (Appeals) empowered to grant stay against recovery

### Section 33(1)(1A)

The Bill proposes to insert a new sub-section in Section 33 of FE Act, wherein the Commissioner (Appeals) is vested with power to grant stay against recovery of tax in cases on undue hardship for a period not exceeding 30 days in aggregate, after affording opportunity of being heard to the concerned tax authorities.

## Power to initiate audit, examination of records or access of records assigned to the Commissioner

### *Section 35(3)*

The Bill proposes to insert an Explanation with Section 35 of FE Act, to provide that powers of the Board, Commissioner or officer of Inland Revenue under the provisions of Section 35, 45 and 46 of FE Act are subservient to the powers vested to the Board under Section 42B of FE Act. This explanation seems to nullify the effect of recent decisions of the superior courts that the Commissioner may not initiate audit at his own motive unless the Board has selected the case for audit through computer ballot, whether random or parametric.

## Editorial changes / Streamlining measures

### Statutory records include inward / outward gate passes

#### *Section 17(1)(da)*

The Bill proposes to add gate passes, inward or outward, and transport receipt of excisable goods in the list of statutory records under Section 17 of FE Act. This would require the registered persons to maintain and produce delivery notes in support of tax invoices.

### Cash reward for tax officers / officials and informers on detection of cases of evasion

#### *Section 42C*

The proposed insertion provides incentive of cash reward for tax authorities and informers on detection and realization of tax revenue involved in cases of concealment or evasion of excise duty. In this regard, the Board is proposed to prescribe procedures through notification.

### The Chief Commissioner empowered to post officer at premises of the registered person

#### *Section 45(2)*

Section 45(2) of FE Act empowers the Board to post an officer of Inland Revenue at the premises of registered person or class of registered persons to monitor production, removal or sale of goods and the stock position or the maintenance of records. Whereas, the Commissioner can also do so when he has reasons to believe that the registered person is involved in evasion of duty and having any material evidence. The Bill proposes to empower Chief Commissioner alongside the Board to exercise such powers without having any material evidence of evasion.

### Monitoring or tracking of operations of registered persons by electronic means

#### *Section 45A*

The Bill proposes to insert Section 45A empowering the Board to specify any registered person or class of registered persons or any goods or class of goods through notification whose production, sales, clearances, stocks or operations may be subject to monitoring / tracking through electronic or other means. It is also proposed that Board may prescribe the requirement of affixing tax stamp, banderole, stickers, labels, etc. for allowing removal or sale of excisable goods by the registered person.

## Rescinding Notifications

Rescinded SRO	Subject matter
160(1)/2010 161(1)/2010 162(1)/2010 163(1)/2010	The amnesty schemes for waiver of default surcharge and penalties and exemption of FED in non-tariff areas / specified districts or cities of the Province of Khyber Pakhtunkhwa [KPK] stand rescinded. These were time-bound exemptions, as such withdrawn considering that income tax exemption has also already expired.
200(1)/2011	FED exemption was allowed on goods produced or manufactured in the non-tariff areas of 13 districts of KPK, FATA and PATA under the program of the 'Prime Minister's Fiscal Relief to Rehabilitate the Economic Life' stands withdrawn.

## Notifications relating to cooking oils & vegetable ghee industry

New SRO	Subject matter	Implications	Effective date
503(1)/2013	Clause (iv) of SRO.993(I)/2006, dated 21 September 2006 stands omitted. SRO.993 allows composite repayment-cum-drawback of sales tax and FED at specified rates on export of cooking oil, vegetable ghee and margarine.	Clause (iv) inserted vide SRO.342(I)/2012 related with 100% repayment of sales tax and FED claim by unit in affected areas with relation to exports to Afghanistan. This incentive may not be further required, as such the said Clause stands omitted.	13 June 2013
507(1)/2013	Fixed FED at Re.1 per kilogram introduced for locally produced oils as purchased by a manufacturer of vegetable ghee and cooking oil, which shall be in lieu of FED payable at 16% on production of vegetable ghee and cooking oil. The liability to pay fixed FED is assigned to the manufacturer of vegetable ghee and cooking oils, payable with monthly sales tax return.  This FED shall be payable on existing stocks of locally produced oils purchased prior to 12 June 2013 alongwith the return of	Presently, the importer & manufacturers of edible oils, cooking oils and vegetable ghee are required to upfront discharge FED liability at Re.1 per kilogram plus FED at 16% at import stage under SRO.24(I)/2006.  Generally, palm oil or palm oilien are blended with locally produced soft oils by the cooking oil and ghee manufacturers, the FED imposed vide new SRO seems to align the taxation on locally produced oils with tax regime applicable on imports of the same goods.  The scope of fixed FED regime has been extended on locally produced edible oils, as such input FED paid on purchases of such local edible oils may not be available for adjustment or refund.	13 June 2013



New SRO	Subject matter	Implications	Effective date									
	June-2013.											
508(1)/2013	Fixed FED at the rate of forty paisa per kilogram introduced on import of oilseeds, which shall be in lieu of FED payable on manufacturing of vegetable ghee or cooking oils.	<p>Sales tax at reduced rates are applicable on specified oil seeds:</p> <table border="1"> <thead> <tr> <th>Oil seeds</th> <th>Rates</th> <th>SRO.</th> </tr> </thead> <tbody> <tr> <td>Imported rapeseed, sunflower seed and canola seed</td> <td>14%</td> <td>69(1)/2006</td> </tr> <tr> <td>Import of soyabean seed by solvent extraction units</td> <td>6%</td> <td>313(1)/2006</td> </tr> </tbody> </table> <p>The Bill also proposes to levy FED on oilseeds at 40 paisas per kilogram under Sr. No.54 of Table-I to First Schedule to FE Act.</p>	Oil seeds	Rates	SRO.	Imported rapeseed, sunflower seed and canola seed	14%	69(1)/2006	Import of soyabean seed by solvent extraction units	6%	313(1)/2006	13 June 2013
Oil seeds	Rates	SRO.										
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# Customs

## Significant Amendments



### Revision in duty rates w.e.f. 13 June 2013

Description	Existing rate	Proposed
Office or school supplies	25%	20%
Water treatment & purifying machinery	25%	15%
Medium Density Fiber (MDF) Board	20%	15%
Areca nuts (betel nuts)	5%	10%
Betel leaves	Rs 200/kg	Rs 300/kg

Import of Hybrid Electric Vehicle (HEVs) exempted from custom duty and other taxes w.e.f. 13 June 2013 based on engine capacity

*SRO 499(1)/2013 amending SRO 607(1)/2012*

Engine Capacity	Extent of Exemption
Upto 1200CC	100%
From 1201CC to 1800CC	50%
From 1801CC to 2500CC	25%

Certain amendments have been made in parent notification SRO 575(1)/2006, dated 05 June 2006, which provides duty exemption on import of capital goods w.e.f. 13 June 2013

*SRO 498(1)/2013 amending SRO 575(1)/2006*

Description	Existing duty	Revised duty
solar submersible pumps	20 %	0%
energy saving tub-light	20 %	0%
import of agriculture machinery	0% (available to all)	0% (restricted to agriculture sector)

Following goods made dutiable under normal tariff regime w.e.f. effective 13 June 2013

*SRO 497(1)/2013 amending SRO 567(1)/2006*

Description	Existing duty	Revised duty
Uncoated Kraft paper and paper board in rolls or sheets	5%	20%
Virgin craft liner	0%	20%
Virgin white top craft	0%	20%
Semi – chemical fluting paper	0%	20%
Flat rolled products of stainless steel, of a width of 600 mm or more	0%	5%
Silicon electrical steel sheet	0%	5%
LCD panels in CBU form	20%	30%
Plasma display panels in CBU form	20%	30%

## Significant Legislative Amendments

### Goods Declaration

#### *Section 2(la)*

The Bill proposes to insert section 121 in the definition of Goods Declaration so as to provide coverage of transshipment of goods for filing Goods Declaration under WeBoc System.

### Establishment of directorate general of input output co-efficient organization.

#### *Section 3DDD*

The Bill proposes to establish directorate general of input output Co-efficient organization consisting of Director General and other directors as the Board may appoint.

### Provision of security and accommodation at customs ports, etc.

#### *Section 14A*

The Bill proposes a substitution in the section where an agency or person including port authority, container freight station, etc. is to provide facility for examination of goods detention and storage of goods and to entertain the delay and detention certificate issued by customs officer not below the rank of Assistant Collector. Thus, such agencies are to refund demurrage charges so received on account of delay as there is no fault of importers and exporters. Currently, the importers and exporters are facing hardship on this account.

### Provisional determination of liability

#### *Section 81*

The Bill proposes to restrict the provisional assessment against bank guarantee or pay order. Currently, post dated cheque was also acceptable for provisional assessment.

## Power of adjudication

### *Section 179*

The Bill proposes insertion of a proviso to fix the jurisdiction and powers of officers for adjudication of customs in terms of FOB value meant for export. In such case, the monetary power of the officers for adjudication shall be the twice of their respective limit in other cases.

## Reference to High Court

### *Section 196*

The Bill proposes to also authorize Director of customs valuation to file special customs reference application before the High Court. Currently, it is restricted to the Collector or director intelligence and investigation from the customs department side.

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