PAKISTAN BUDGET Chemistry 2013-14

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Index

Note:

The Comments included in this commentary are of general nature and represent our interpretation and do not constitute to be the part of the legislation. We recommend that the reference should be made to the specific wording of the Finance Bill and the statutes literature. It is in the better interest of the reader to take appropriate professional opinion before making a conclusion.

This publication is being issued exclusively for the information of clients only.

The Federal Budget 2013-14 is on hand. After a prolonged time gap and borrowed Finance Ministers, this budget is presented by the experienced and professional Finance Minister, who also bags the unique honor of presenting fifth budget before an elected assembly. Though Mr. Ishaq Dar has to take the ownership of the budget, but factually, he might have not been able to see through the Nitti-gritty of the budget, being presented in less than fortnight of his taking oath. Therefore, much changes and adjustments are likely to come up during the budget debate, and even after the approval of budget, during the period following.

Looking at the legacy inherited by the new political dispensation of the May 2013 elections, not restricted only to higher physical deficit, low tax to GDP ratio, dependence on borrowing for development as well as current expenditure, mounting internal and external debt, depleted foreign exchange reserves, high inflation, energy crises and resultant monster of circular debt, hemorrhage by public sector entities due to low performing public sector, complete failure and collapse of public service and utility institutions like PIA, Pakistan Railways, Electricity and Gas utilities etc. To cut short all the major economic indicators are negative. In the backdrop of all negative indicators, bringing out a positive budget was a Herculean task.

The next question arises is, could the budget be termed as positive or negative. If we look at the budget in its entirety, it looks positive from the base it has to carry forward the economy, and it has already sent positive signals to business and industry. But if one goes through the chemistry and segments of the budget, many negativities and distortions emerge, and many steps ate divergent, rather than supportive to each other. For example, reduction in inflation has been claimed, but increase in GST by apparent 1%, which shall have multiplier effect with the stages of GST charge on a particular product, increase in electricity tariff are likely to counter the efforts to reduce the inflation rate. In particular increase in rate of sales tax, shall result in reduction of net disposable income of the marginalized and low income group population, resulting in vulnerability to food insecurity of already vulnerable poor.

Many new withholding tax venues have been opened by bringing many items, sectors and payees to withholding tax regime. Though these withholding tax initiatives are always disguised in broadening of tax base robe, but they always result in a revenue generation tool. Increase in withholding tax rate on existing goods and services is totally not justified, as it gives further rise to dependence on the presumptive tax regime, which is not an ideal tax measure by all means.

On the broadening of tax base side, a dismal target of 10,000 new taxpayers has been fixed, which is disappointing by all standards. It also falsifies the tall claims of having data of millions of affluent people available with FBR, who were living lavishly but paying no taxes. This establishes that the claims by the top bosses at FBR during last four years to get hand on these identified 3.5 million tax evaders was a mere rhetoric, aimed at having their own positions secured, as well as to promote the notorious tax amnesty initiatives, on the garb of bringing these people to tax net.

The budget has once again followed the suit of “taxing of the taxed”, by increasing the tax rates of salaried and business individuals and the Association of Persons. This is tantamount to squeeze the already tax compliant population of the country. The increase of maximum tax rates from 20 % to 30% in the case of salaried individuals and from 25 to 35% in the case of business individuals, and flat rate applicable on AOPs increased from 25 % to 35 is harsh and discriminatory. This also is tacit admission by the finance and tax managers of the country that they have totally failed in roping in the noncompliant rich and affluent to the tax net.

The tax rate of corporate sector has been promised to be brought down to 30 % from present 35% in the next five years. We have seen such promises in past and even the legislated and built in reductions in such tax rate had been subsequently reversed. One of the merits behind increase in the tax rates of business individuals and Association of Persons and decrease in Corporate Tax Rate has been incentive of increased corporatization, which is supposed to be relatively better organized, documented and complying sector. This has been advocated and propagated by the peoples at the helm of the affairs at the regulatory body responsible for regulation the corporate sector. However, unfortunately, facts and figures of existing corporate sector do not support these assertions. Out of total 63,000 companies registered under the Companies Ordinance, 1984, only 25 percent are filing their tax returns. Non-compliance of other statutory obligations (such as tax withholding agent) remains besides. Out of 650 companies listed at Karachi Stock Exchange only 300 scrips are active, out of which only one-third are declaring profit and paying dividends regularly. This speaks of the ground realities, and not corporatization but regulation, enforcement and compliance is the panacea to these ills.

Regulation, compliance and enforcement, both at FBR and other regulators depends firstly on the political will, and thereafter, capacity and competence of the enforcer or regulator. Unfortunately, all these factors are found missing in our taxation system.

To sum up, the budget 2013 has placed great reliance on kick starting the economy, which seems to be quite difficult as the taxation measures proposed in the budget are, apparently looking in the other direction. The biggest challenge is the energy crises, without which no significant vibration is likely in the economy. However, with these harsh tax measures, the new Government in way has made up a make or break situation for itself. If the Government could control the energy situation, the harsh tax measure may bring fruit in the following years. Failure in controlling energy crises, coupled with the proposed revenue generation measures may further strangulate and slow down the already ailing economy, and lead it to virtual collapse. However, relying on the experience and expertise of the present economic manger, and the team to be chosen by him to implement his strategy, it would not be totally out of context to believe that he would achieve his targets, both in economic and social terms.

We wish and pray success to the Finance Minister and his team in their endeavor to bring the derailed economic situation back on rails (Amin)

Income Tax

- Withholding Tax deducted on dividend received by the Companies is proposed to be subjected to final tax regime.
- It is clarified that Salary income is not available for setting off of losses under any other head of income.
- Non-profit organization and an entity or a body of persons established or constituted by or under any enacted law is proposed to be included in the definition of Company.
- Agricultural income will not be considered as non-taxable source in Income Tax Return if agriculture tax is not paid on the income under the relevant provincial law.
- The rate of minimum turnover tax has been proposed to be re set from 0.5% to 1%.
- AOPs and individuals are allowed to carry forward minimum tax exceeding normal taxation.
- All retailers are now proposed to be subjected to normal taxation irrespective of their turnover.
- Builders will pay minimum tax on the basis of total number of square feet sold or booked for sale during the year at the rate of Rs. 25 per square foot as per the construction or site plan approved by the relevant regulatory authority.
- Land developers will pay minimum tax on the basis of total number of square yards sold or booked for sale during the year at the rate of Rs. 50 per square yard as per the lay out or site plan approved by the relevant regulatory authority.
- The limit of annual electricity bill for commercial and industrial electricity consumers has been proposed to be reduced from Rupees one million to Rupees five hundred thousand for filing of mandatory Income Tax Returns.
- It becomes obligatory for persons registered with any Chamber of Commerce & Industry, trade or business association, market committee or any professional body to file Annual Income Tax Returns.

- For revision of Annual Income Tax Return, it is proposed to first get approval from the commissioner in writing.
- *Annual Statement of Deduction of Income Tax from Salary* filed by employers is no longer to be treated as Income Tax Return for salaried taxpayers. Every salaried taxpayer is required to file Annual Income Tax Return at his own.
- It becomes mandatory for individuals filing income tax return or statement of final taxation to file wealth statement as well as wealth reconciliation statement irrespective of their annual declared or assessed income.
- Legal powers conferred upon the Federal Board of Revenue under section 120A to introduce investment tax schemes regarding undisclosed income have been sought to be withdrawn.
- Withholding tax on salaries to be calculated and deducted by the employer without considering any admissible tax credit.
- Persons registered under the Sales Tax Act, 1990 are proposed to become withholding agents under sections 152 regarding payments to non residents and 153 regarding payment for sale of goods, rendering of services or execution of contracts.
- The bill seeks to omit section 153A introduced by the Finance Act, 2012 whereby manufacturers were required to collect advance tax at the rate of 1% at the time of sale to distributors, dealers and wholesalers. However manufacturers, commercial importers, distributors, dealers and wholesalers of certain goods will collect advance tax under newly introduced sections 236 G and 236H
- Individuals or Associations of Persons (AoPs) paying gross rent of Rs. 1.5 million and above in a year, charitable institutions, private educational institutions, boutiques, beauty parlours, hospitals, clinics, maternity homes are proposed to become withholding agent under section 155 of the Ordinance to deduct tax on account of payment for rent.

Income Tax

- The Federal Board of Revenue is sought to be fully empowered to ask the Banks to furnish certain information relating to their account holders. Hence, banks are not immune to disclose the information to tax authorities.
- It has been clarified that powers of the FBR under section 214C of the Ordinance to select cases for audit of income tax affairs do not restrict the Commissioner to require the taxpayer to furnish records and documents for the purpose of audit of its income tax affairs under section 177 of the Ordinance.
- The FBR may allow the individuals to use Computerized National Identity Card Number as National Tax Number.
- The amount of penalties for non-filing of returns/ statements and non compliance of audit proceedings has been proposed to be increased. The penalty of Rs.5,000 will be imposed for non display of the NTN certificate at business place.
- The Board is proposed to be empowered to keep the parameters confidential on the basis of which the case of the taxpayer is selected for audit of income tax affairs through computer ballot under section 214C of the Ordinance.
- The owners, lease-holders or operators of marriage halls, marquees, hotels, restaurants, commercial lawns, clubs, community places, etc. are proposed to collect adjustable advance tax @ 10% on total amount of bill from persons arranging or holding functions.
- Adjustable advance tax will be collected by the persons censoring or certifying foreign-produced films, TV drama serials or plays.
- Pakistan Electronic Media Regulatory Authority is proposed to collect adjustable advance tax at the time of issuance or renewal of license to cable operators and other electronic media.
- Educational institutions are proposed to collect adjustable advance tax @ 5% of the amount of fee at the time of receipt of fee where annual fee exceeds Rs. 200,000.

- Market committees are proposed to collect adjustable advance tax at the time of issuance or renewal of license to dealers, commission agents or arhatis.
- Existing six slabs of taxation on income of salaried individuals are proposed to be increased to twelve slabs. The proposed amendment seeks to charge tax at higher rate on individuals having higher salaries.
- Existing five slabs of taxation on income of business individuals and Association of Persons (AOPs) are proposed to be increased to seven slabs. The proposed amendment seeks to charge tax at higher rate on income of persons earning higher level of income.
- In case of individuals, AOPs and companies, existing slabstaxation on property income are proposed to be increased upto seven slabs resulting in increase in tax rates on property Income.
- Corporate Income Tax rate applicable to companies other than banks has been proposed to reduce to 34% for tax year 2014.
- The standard rate of advance tax to be collected by the collector of customs at the import stage is proposed to be increased to 5.5% for persons other than industrial undertakings and companies.
- Withholding tax at the rate of 4%, 7% and 6.5% is proposed to be deducted on account of payment to taxpayers other than companies for sale of goods, rendering of services and executions of contracts respectively.
- In case of lump sum payment of motor vehicle tax, new rates of collection of income tax have been proposed to be added.
- The period of Income Tax Holiday available to Special Economic Zones is proposed to be extended to 10 years

Income Tax

- Rate of income tax deducted on cash withdrawals is proposed to be increased from 0.2% to 0.3%.
- Withholding tax @ 10% on income earned by margin financers, trading financers or lenders is proposed to be collected through National Clearing Company Pakistan Limited.
- Rate of initial allowance for plant and machinery is proposed to be reduced from 50% to 25%.
- Import of hybrid cars has been made subject to reduced rate of income tax at the import stage.
- Existing tax credit equal to 75% of tax payable on salary income of full time teacher and researchers has been proposed to be withdrawn.
- Exemption on income of university or other educational institution established solely for educational purposes and not for purposes of profit has been proposed to be withdrawn.

Sales Tax

- Sales tax rate is increased from 16% to 17%. W.E.F. 13th June 2013
- Further sales tax @ 2% is applicable on supplies to unregistered persons.
- Following items are brought in Third Schedule i.e. sales tax on these items will be chargeable on the basis of final retail price. W.E.F. 13th June 2013

1. Finished or made-up articles of textile and leather, including garments, footwear, and bed ware, sold in retail packing.
2. 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.
3. Household gas appliances, including cooking range, ovens, geysers and gas heaters.
4. Foam or spring mattresses, and other foam products for household use.
5. Auto parts and accessories sold in retail packing.
6. Lubricating oils, brake fluid, transmission fluid, and other vehicular fluids and maintenance products in retail packing.
7. Tyres and tubes.
8. Storage batteries.
9. Arms and ammunition.
10. Paints, distempers, enamels, pigments, colours, varnishes, gums, resins, dyes, glazes, thinners, blacks, cellulose lacquers and polishes sold in retail packing.
11. Fertilizers.
12. Cement sold in retail packing.
13. Tiles sold in retail packing.
14. Biscuits, confectionary, chocolates, toffees and candies.
15. Other goods and products sold in retail packing.

Sale price and Sales Tax are required to be printed, labeled, embossed or mentioned on all these items

Sales Tax

- Finished products and articles of textile, leather, carpets, surgical goods and sports are good are brought at normal rate regime i.e. 17% W.E.F. 13th June 2013.
- Zero rating is withdrawn and replaced with exemption in respect of different local supplied items including dairy product, stationary products, cotton seed, soyabean meal, energy saver lamps etc. W.E.F. 13th June 2013. Accordingly local / domestic supplies of these items would not be entitled to claim refund.
- Sales Tax withholding agent is now required to withheld sales tax at applicable rate on purchases from unregistered person. No provision for input tax adjustment is available on such withholding as well.
- Extra sales tax @ 5% in addition to the standard of 17% is applicable on unregistered commercial and industrial consumers of electricity and gas having monthly bill in access of Rs. 15,000. W.E.F. 13th June 2013.
- Partial sales tax exemption on war affected areas including KPK is withdrawn.
- Sales tax exemption on supplies against international tender is withdrawn.
- Sales Tax reduced rate facility is withdrawn from master batches and shoe adhesive.

Federal Excise Duty

- Federal Government is empowered to charge, levy and collect a further duty of 2% of the value on excisable goods / services supplied to unregistered persons.
- Record relating to gate passes and transport receipts are prescribed as the documents to be maintained under the Federal Excise Act, 2005 (the Act).

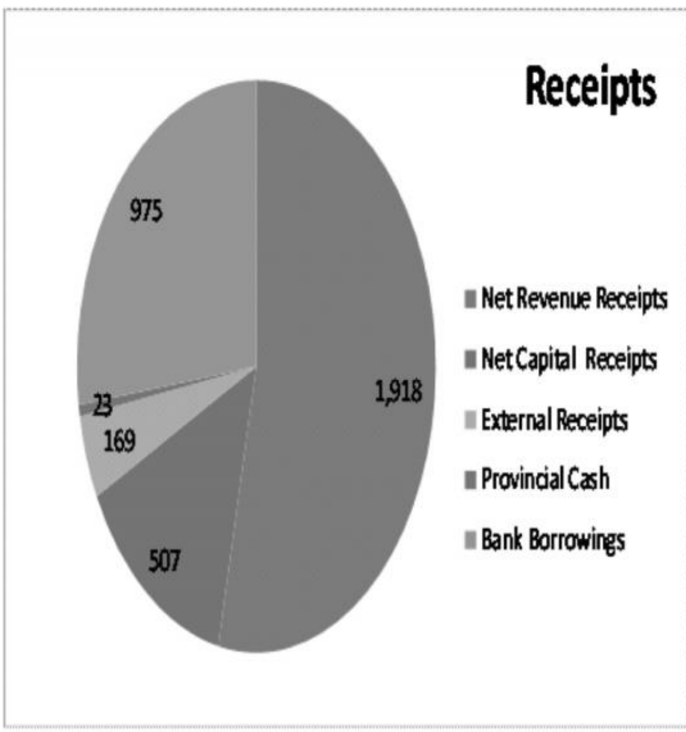
- Amendment is proposed in the Act to allow Commissioner (Appeals) to grant stay of 30 days for recovery of tax levied to avoid undue hardship to the taxpayer.
- Explanation is proposed to be added to sections 35, 45 and 46 of the Act to specify that the powers under these sections are independent of the powers under section 42B of the Act.
- Amendment is proposed to empower Chief Commissioner to post officer of Inland Revenue to the premises of registered person or class of such persons for monitoring purpose.
- Amendment is proposed to allow monitoring or tracking of production, sales, clearances, stocks and any other related activity by electronic or other prescribed means.
- The rate of Federal Excise Duty on aerated beverages is being increased from 6% to 9%.
- The three tier structure of chargeability of Federal Excise Duty on cigarettes is being replaced by a two tier specific rate structure.
- Federal Excise Duty @ 40 paisa per kg on imported oil seeds and 10% ad.val. on motor vehicles of cylinder capacity of 1800cc or above are being proposed to be charged.
- The scope of chargeability of Federal Excise Duty on financial services is being expanded by making all kinds of financial services to be chargeable to Federal Excise Duty @ 16%.
- Following exemptions of Federal Excise Duty are proposed to be withdrawn:
    - On both imported and locally purchased hydraulic cement by petroleum or energy sector companies;
    - Transformer oil if used in the manufacture of transformers supplied against international tenders to a project financed out of funds provided by the international loans or aid giving agencies; and
    - Services provided by Asset Management Companies.

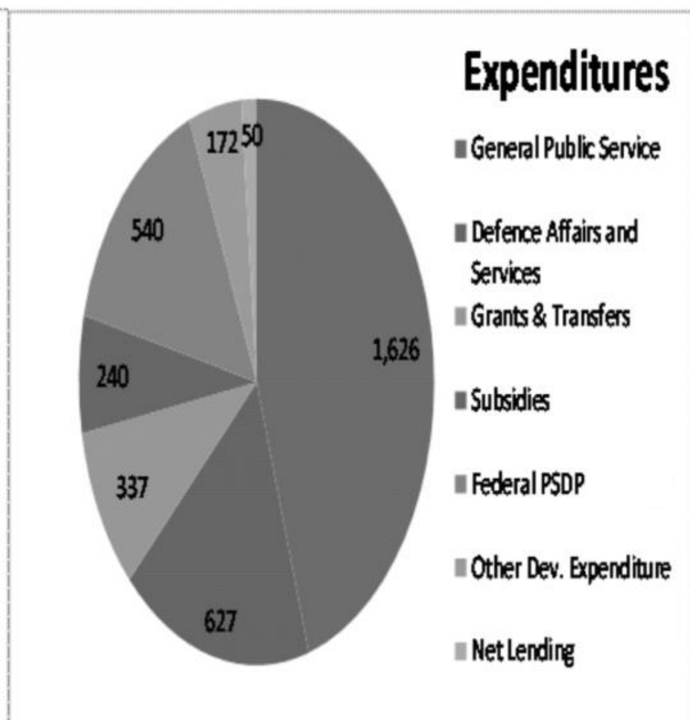
Income Support Levy

- The Finance Bill has proposed Income Support Levy @ 0.5% on net moveable wealth exceeding one million rupees.

Budget at Glance (Rupees in Billions)

Receipts			Expenditures		
Tax Revenue	2,598		**(A) Current**	**2,830**	**78%**
Non Tax Revenue	822		General Public Service	1,626	45%
(a)Gross revenue receipts	**3,420**		Defence affairs and services	627	17 %
(b) Less provincial share	**1,502**		Grants & Transfers	337	9%
1) Net revenue receipts (a-b)	**1,918**	53%	Subsidies	240	7%
2) Net capital receipts	507	14%	**(B) Development**	**762**	**22%**
3) External receipts	169	5%	Federal PSDP	540	15%
4) Provincial cash	23	1%	Other Dev. expenditures	172	5%
5) Bank borrowing	975	27%	Net Lending	50	2%
Total Resources	**3,592**	**100%**	**Total Expenditure**	**3,592**	**100%**





During the current financial year, Pakistan economy has been adversely affected by a number of factors like terrorism effecting internal law & order situation, power shortages, rampant corruption from the powerful sections of the society, in/low efficiencies of the government machinery, uncertainties relating to politics & elections, unfavorable movements in the world commodity prices, tough situation at the front of the Country's external affairs, low foreign direct investment and low level of confidence of the local investor. The state of economy is facing severe macroeconomic challenges resulting into following adverse outcomes:

- The GDP growth rate was targeted at 4.3 percent, but estimates put it at 3.6 percent of GDP.
- It is expected that the fiscal deficit would end up at about 8.8 percent of GDP (about Rs.2. trillion), which is approximately 80 percent higher than the target of 4.6 percent.
- During the first nine months of the current fiscal year 2012-13, Public Debt increased by Rs. 1,602 billion, reaching a total outstanding amount of Rs. 13,626 billion; an increase of 13 percent in nominal terms. Pakistan External Debt and Liabilities (EDL) stock was recorded at US$.60.9 billion as of March 2013 against US$.60.3 billion in June 2012.
- The revenue target was set at Rs2.381 trillion initially and now a massive shortfall of more than Rs. 350 billion is expected for the current year.
- Total investment was targeted at 14.92 percent, but only 14.22percent was achievable.
- The investment-to-GDP ratio was targeted at 13.32 percent, but it stood at 12.6 percent.
- The targeted current account deficit was of US$.2 billion, but it is expected that by the end of the year, the actual deficit will be around US$.2.900 billion.

- Agriculture grew by 3.3 percent compared to 3.5 percent of the previous year.
- Services sector witnessed a growth of 3.7 percent compared to 5.3 percent of the previous year.

However, following certain positive & encouraging developments has also been witnessed during the same period:

- The inflation rate, the Consumer Price Index (CPI) stood at 7.8 percent during (July-April) of the current fiscal year as compared to 10.8 percent in the comparable period of the last year.
- The SBP discount rate has been reduced to 9.5 percent on December, 2012 in order to boost private sector credit & investment.
- During July-April, 2013, Pakistan has received US$.11.600 billion on account of Worker's remittances as compared to US$.10.900 billion in comparable period.
- Despite of all the negativities at the economic arena, exports has been recorded at the same level of US$.20.500 billion in July-April compared with the same period of last year.
- Per capita real income has risen to US $ 1,368 from US $ 1,323.
- Imports during the first ten months (July-April) of the current fiscal year (2012-13) decreased by 1 percent compared with the same period of last year, reaching to US$.33 billion. The current account deficit is US$.1.4 billion as against US$.3.4 billion in same comparable period in 2011-12.
- Large scale manufacturing grew by 2.8 per cent, compared to 1.2 per cent during 2011-12.

The Pakistani economy will have to be brought back on the right direction through a series of policies, including structural reforms, stabilisation measures and painful actions. The main positive point about our economy is that most of the problems are due to management issues and not owing to economic imbalances.

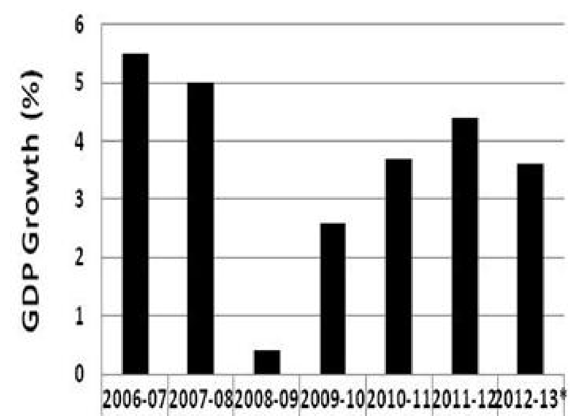
On the regional economic front, World Bank in its latest publication commented that the South Asia is regaining its economic momentum, but the recovery in the world's region with the largest number of poor people could falter in the absence of a stronger investment climate. The combined growth of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka was just 4.7 percent in 2012, substantially below pre-crisis levels. A pick-up to 5.5 percent can be expected in 2013 with ongoing efforts to regain fiscal space and boost private investment. But given the uncertain global environment, it will be important to strengthen the investment climate. A brief comparison of the current basic economic indicators of major South Asian economies is given below:

Description	Pakistan	*India	*Sri Lanka	*Bangladesh
GDP Growth Rates	3.60%	5.70%	6.25%	6.00%
GDP (Nominal, US$ Billions)	238.935	1,972.84	65.266	135.143
GD Per Capita (US$)	1,368.0	1,591.95	3,134.48	891.213
Inflation (Average Consumer Price Change %)	7.8%	10.816%	7.888%	6.542%
Population (million)	184.35	1,239.26	20.822	151.639
Investment (% of GDP)	14.22%	35.145%	31.874%	26.896%
Gross National Savings (% of GDP)	13.5%	30.197%	26.619%	30.192%
Current Account Balance (% GDP)	-0.696%	-4.948%	-5.255%	0.315%

***Economy Watch**

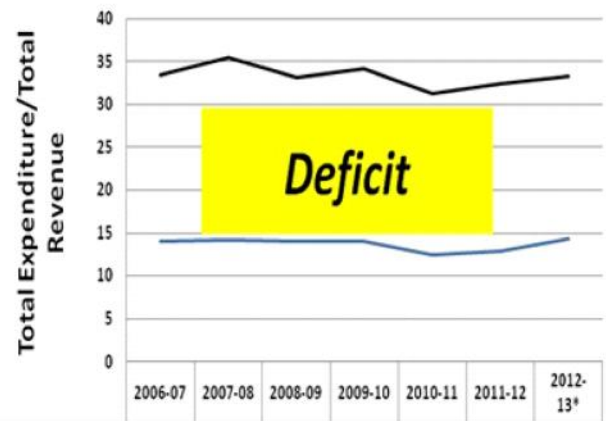
Macroeconomic policies to tackle the adverse effects of the global downturn have left the South Asian countries with weaker fiscal and monetary options to stimulate growth today. With the exception of Afghanistan, economic growth across other South Asian countries- Bangladesh, Bhutan, Maldives, Nepal, and Sri Lanka-has been moderating or stagnating. A significant drop in the region's exports and fixed investment are primarily responsible for South Asia's growth moderation. Private consumption remained stable, helped by resilient remittance flows, and is expected to only pick up slowly due to effects of persistent inflation, fiscal consolidation and slow recovery in disposable income. The overall real effective exchange rate depreciation across South Asia reflects weak economic fundamentals. International reserves fell below critical levels of two months of import coverage in Pakistan and one month in Maldives, reflecting the two countries' difficult external situations.

GDP Growth (%)



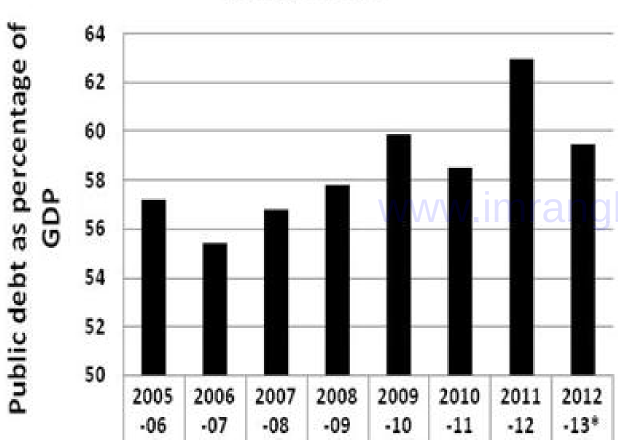
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13*
GDP Growth (%)	5.5	5	0.4	2.6	3.7	4.4	3.6

Fiscal Deficit



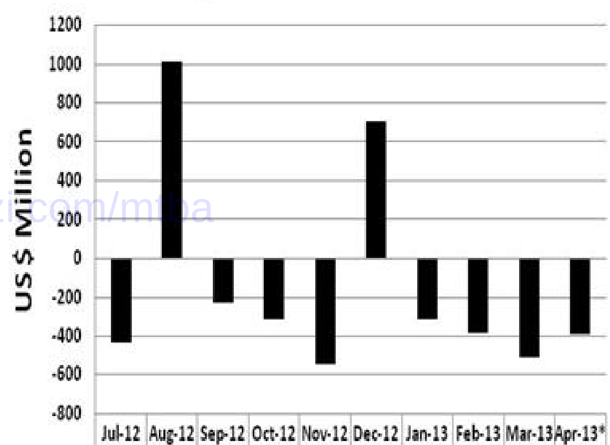
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13*
Total Expenditure	19.5	21.4	19.2	20.2	18.9	19.6	19
Total Revenue	14	14.1	14	14	12.4	12.8	14.3

Public debt



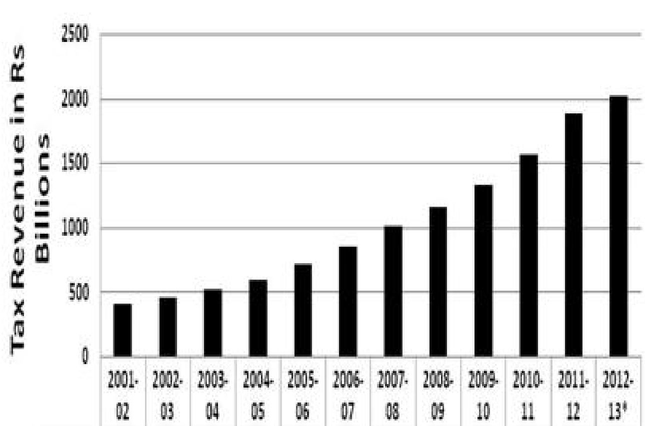
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13*
Public debt	57.2	55.4	56.8	57.8	59.9	58.5	63	59.5

Monthly current account balance



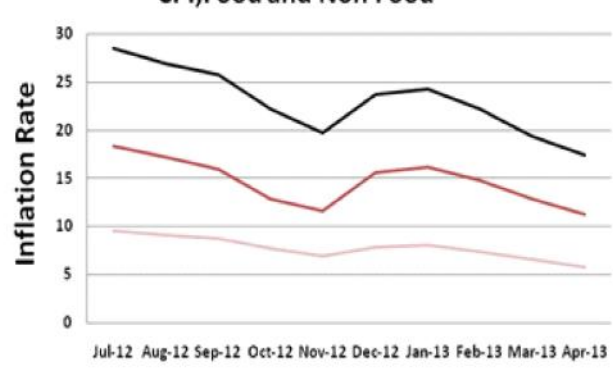
	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13*
US $ Million	-433	1008	-231	-315	-544	702	-315	-387	-513	-390

Federal Tax Revenue



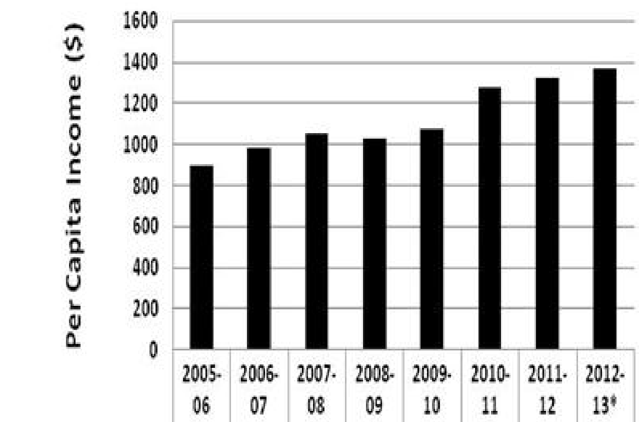
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13*
Revenue	404.1	460.6	520.9	590.4	714	847	1,008	1,161	1,327	1,558	1,883	2,018

CPI,Food and Non Food



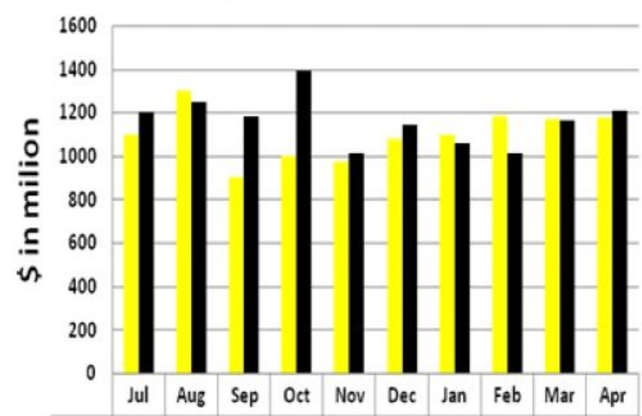
	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13
Non Food	10.2	9.7	9.9	9.3	8.1	8.1	8.1	7.4	6.4	6.1
Food	8.7	8.1	7.1	5.2	4.7	7.7	8.1	7.4	6.3	5.5
CPI	9.6	9.1	8.8	7.7	6.9	7.9	8.1	7.4	6.6	5.8

Per capita income ($)



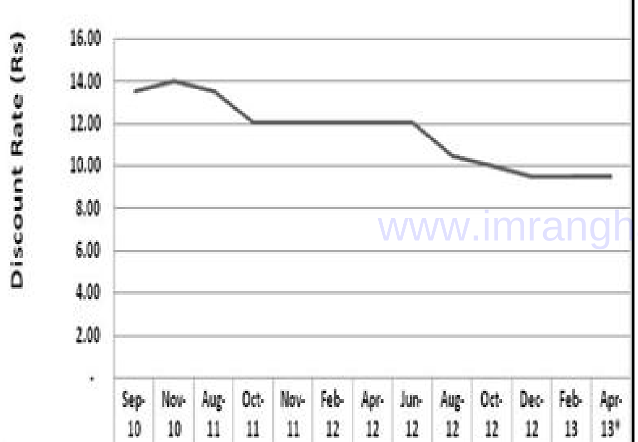
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13*
Per capita income ($)	897	980	1053	1026	1072	1275	1323	1368

Monthly worker's remittances



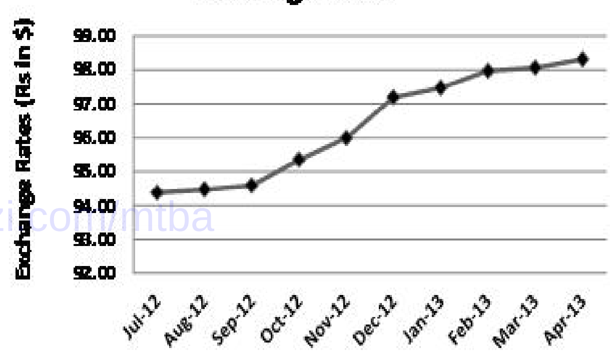
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
FY12	1100	1300	900	1000	970	1080	1100	1180	1170	1175
FY13	1200	1250	1180	1390	1010	1140	1060	1010	1160	1210

Discount Rate



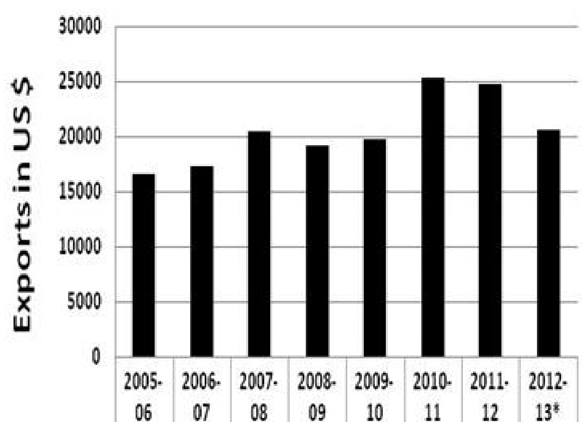
	Sep-10	Nov-10	Aug-11	Oct-11	Nov-11	Feb-12	Apr-12	Jun-12	Aug-12	Oct-12	Dec-12	Feb-13	Apr-13*
Discount Rate	13.5	14.0	13.5	12.0	12.0	12.0	12.0	12.0	10.5	10.0	9.50	9.50	9.50

Exchange Rate



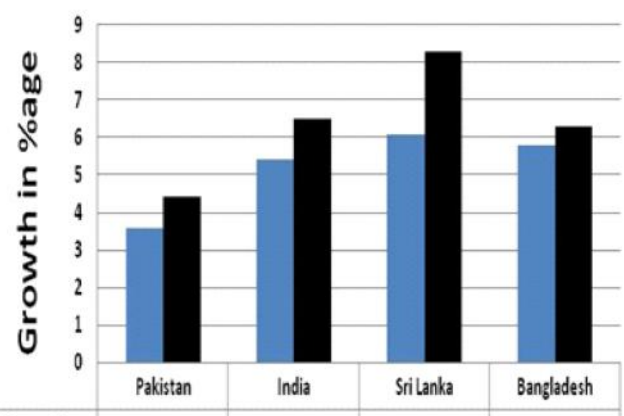
	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13
Currency Rate FY-13	94.38	94.47	94.59	95.35	95.99	97.19	97.47	97.97	98.06	98.31

Exports



	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13*
Exports (Million US $)	16553	17278	20427	19121	19673	25355	24696	20501

Growth Rates in South Asia



	Pakistan	India	Sri Lanka	Bangladesh
Current Year	3.6	5.4	6.1	5.8
Previous Year	4.4	6.5	8.3	6.3

Proposed Significant Changes in Income Tax

SET OFF OF LOSSES	Section 56 (1)

The proposed amendment seeks to amend section 56 to restrict adjustment of losses in other heads of income as specified in Section 11 against income from salary.

GROUP TAXATION	Section 59AA (5)

The proposed amendment seeks to bring more clarity in the provision for group taxation by amending section 59AA. Finance Bill proposes to incorporate "Group designation rules or regulations of Securities & Exchange Commission of Pakistan" as an additional prerequisite for availing group taxation.

GROUP RELIEF	Section 59B (2) (g)

The proposed amendment seeks to bring more clarity in the provision for group relief. It is proposed to incorporate "Group designation rules or regulations of Securities & Exchange Commission of Pakistan" as an additional prerequisite for availing group relief.

DEFINITION OF COMPANY	Section 80 (2) (b)

Finance Bill seeks to amend the definition of company to bring more clarity by specifically naming Non Profit organizations in the definition of company & separately mentioning societies (cooperative & finance) and trusts.

UNEXPLAINED INCOME OR ASSETS	Section 111 (1)

In order to restrict the unauthorized use of agricultural income by tax payers to avoid penal provisions of Section 111, the proposed amendment seeks to limit credit of agricultural income to cases where provincial agricultural income tax has duly been paid. Agricultural income was used by assessees to bridge gap between their income & expenditure without any supporting documents as agricultural income was a provincial levy. In order to limit its use to genuine persons, credit of Agricultural Income shall be given in proportion to the provincial agricultural income tax duly paid.

MINIMUM TAX ON THE INCOME OF CERTAIN PERSONS	Section 113 (1) & (2)

Minimum Tax rate on the income of certain persons was reduced from 1% to 0.5 % in the Finance Act 2012 whereas the proposed amendment seeks to increase rate of turnover tax in section 113 to 1% just after one year is unfortunate and depicts lack of consistency in the policies.

MINIMUM TAX ON BUILDERS	Section 113A & B

The substitution of sections 113A and 113B has withdrawn the facility of final taxation of certain retailers and they shall now be subjected to normal taxation.

Finance Bill proposes to amend section 113A to provide for charging minimum tax on the income of builders which shall be computed at the rate of Rs. 25 per square foot as per the construction or site plan approved by the relevant regulatory authority. As the proposed tax will be charged at the time of sale/booking, it is more likely that the same will be passed on to the purchasers of commercial or residential property.

Finance Bill proposes to amend section 113B to provide for charging minimum tax on the income of builders which shall be computed at the rate of Rs. 50 per square yard as per the lay out or site plan approved by the relevant regulatory authority. As the proposed tax will be charged at the time of sale/booking of plots, it is more likely that the same will be passed on to the purchasers of commercial or residential property.

RETURN OF INCOME	**Section 114(1)(b)(viii)**

The proposed amendment seeks to lower the limit for filing of returns by commercial and industrial electricity consumers who have paid electricity bills of Rs. 500,000 in the tax year. Previously limit was set at Rs. 1 million. The proposed amendment is aimed at increasing the number of tax return filers so that tax net could be expanded.

RETURN OF INCOME	**Section 114(1)(b)(ix)**

A new sub clause to Section 114(1)(b) has been proposed to be inserted which will make the filing of tax returns mandatory for the members of trade associations & professional bodies which include 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. The proposed amendment is aimed at increasing the number of tax return filers by making it mandatory for the above mentioned persons to file tax returns irrespective of their incomes.

RETURN OF INCOME	**Section 114 (1A)**

The proposed amendment seeks to raise the limit for filing of return by individuals whose income from business ranges between Rs. 300,000 to 400,000 but shall not pay any tax thereon. Proposed amendment has been made to align the limit for filing tax return with increase in threshold of taxable income from Rs. 350,000 to Rs. 400,000 by Finance Act 2012.

RETURN OF INCOME	**Section 114 (4)**

The proposed amendment seeks to modify the time limit given by Commissioner Inland Revenue for filing of tax return by empowering him/her to require the person to file the tax return in time frame of less than a month. Previously, one month notice was required as per provisions of section 114(4). Proposed amendment may result in hardship to assessees as in absence of any minimum period, tax officials may misuse the said provision.

RETURN OF INCOME	**Section 114 (6)(b)**

A new sub clause has been proposed to be inserted in Section 114(6) of the Income Tax Ordinance which shall make it mandatory to have a prior approval of Commissioner before revising the tax return. At present the provisions require that the reasons for the revision of tax returns should be stated in writing and prior approval of Commissioner was not required. This proposed amendment may result in undue hurdles and procedural delays in the revision(s) of tax return.

PERSONS NOT REQUIRED TO FURNISH A RETURN OF INCOME	**Section 115 (1)**

The proposed amendment seeks to withdraw the exemption of filing of tax return by the salaried persons whose income entirely comprised of salary income less than Rs. 500,000. Now all the salaried individuals, whose income is taxable, will be required to file their income tax return individually.

PERSONS NOT REQUIRED TO FURNISH A RETURN OF INCOME	**Section 115 (4)**

The proposed amendment aligns section 115(4) with amendments proposed under sections 113A and 113B wherein tax has been imposed on Builders and Developers. Moreover, exemption from filing of tax returns for salaried tax payers whose taxable income was less than Rs. 500,000 has been withdrawn.

WEALTH STATEMENT	**Section 116**

Filing of wealth statement is being proposed to be made mandatory for every tax return filer (individual) including salaried individuals, business individuals, persons having income subject to final taxation without any minimum limit. It is one of the most major changes which finance bill proposes coupled with amendments in section 114. If these amendments are approved by the Parliament, they can help in documentation of the economy. However, the ability of FBR to ensure the compliance and handling of such a quantum of data can be questioned.

METHOD OF FURNISHING RETURNS AND OTHER DOCUMENTS.	**Section 118, 119**

As the filing of tax returns has been proposed to be made mandatory for all salaried tax payers, changes have accordingly been proposed in sections 118 & 119. Salaried individuals having salary of Rs. 500,000 or more shall be required to file their returns electronically as was the requirement earlier whereas salaried individual whose salary income is less than Rs. 500,000 can file returns manually. The tax return filed will also be accompanied by wealth statement along with wealth reconciliation statement.

INVESTMENT TAX ON INCOME	**Section 120 A**

The proposed amendment seeks to take the power of formulating & announcing any scheme of investment tax on income from Federal Board of Revenue. It is proposed that FBR should have no power to introduce any money whitening scheme as was done in past. It should discourage tax evasion in long term.

PROVISIONAL ASSESSMENT	**Section 122 C**

Time duration for filing of revised return in case of provisional assessment is being proposed to be reduced from 60 days to 45 days in case of all tax payers. The proposed amendment will bring undue hardship on assesses as the provisional assessment is not appealable.

APPOINTMENT TO THE APPELLATE TRIBUNAL	**Section 130**

Section 130 is proposed to be modified so that an officer of Inland Revenue Service and a law graduate having at least fifteen years of service in BS-17 and above could also be appointed as a Judicial member of the tribunal.

SALARY | **Section 149**

The proposed amendment seeks to withdraw power of giving credit of tax with held under other heads to employee as well as tax credit admissible under sections 61, 62, 63 and 64 during the tax year as now the filing of tax returns is being mandatory for all the salaried individuals. However, this proposed amendment will result in hardship to employees as obtaining refund after filing of tax return for small deductions like bank withdrawals & mobile bills etc. is not worth the effort.

PAYMENTS TO NON-RESIDENT | **Section 152**

Last year the scope of with holding tax from Payments to Non-residents was widened and payments to non-resident on account of sale of goods, services and contract were also shifted from section 153 to section 152. But the prescribed persons referred in section 152 was not defined. Now the same “prescribed persons” as defined in Section 153(7) shall be withholding agent for section 152 as well.

PAYMENTS FOR GOODS, SERVICES AND CONTRACTS | **Section 153**

The scope of prescribed persons as withholding agent has been widened and now every person registered under Sales Tax Act shall also be liable to with hold tax on its purchases, services and contracts. This amendment will drag all individual and AOP without any threshold to make them liable for withholding tax on such payments. And they can be treated as “assessee in default” in case their suppliers refuse to allow them to withhold tax. This amendment shall have severe effect on local business persons who are registered with Sales Tax Act. Since the provision of clause 45 of part IV of the Second Schedule is intact; the manufacturers cum exporters shall not be liable to withhold tax from such payments

PAYMENTS TO TRADERS AND DISTRIBUTORS / RETAILERS | **Section 153A/236G/236H**

Section 153A was inserted last year whereby the manufacturers were required to collect advance tax at the time of sale made to traders and distributors @ 1% of gross sales. This amendment was never accepted by the business community and remained controversial. Resultantly this section remained suspended during the year and no tax was collected. Now this section has been omitted. But similar section has been inserted as Section 236G and 236H and now manufacturer and commercial importers have been made liable to collect tax but the products have been specified for application of these provisions. By virtue of these sections every manufacturer or commercial importer of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector, at the time of sale to distributors, dealers and wholesalers, shall collect advance tax at the rate of 0.1% of gross sales and to the retailers @ 0.5% of the gross sales to whom such sales have been made. Credit for the tax so collected shall be allowed in computing the tax due by the distributor, dealer or whole-seller or retailer as the case may be against taxable income for the tax year in which the tax was collected.

WITH HOLDING OF TAX ON RENTAL INCOME | **Section 155**

The scope of withholding agents has been widened and now Charitable Institutions, private educational institutions, boutique, a beauty parlour, a hospital, a clinic or maternity home and individual and AOP paying gross annual rent of Rs. 1.5 million shall also be liable to withhold tax from rent paid to the land lord. Further the slabs of charging rates and withholding tax rates have been revised and now maximum rate has been raised from 10% to 17.5% of gross rentals.

CERTIFICATE OF COLLECTION OR DEDUCTION OF TAX	Section 164

Previously any certificate issued by the withholding agent to a tax payer was the conclusive evidence of collection or deduction of tax for the purpose of claiming credit against his tax liability. Now amendment has been proposed and mere certificate shall not be sufficient for claiming credit of withholding tax. The tax payer has to collect the evidence of payment of tax i.e. copies of tax paid challans (CPR) from the withholding agent. This will be an uphill task for a withholding agent. On the one hand he will deduct / collect tax on behalf of FBR and deposit with the bank. Then he has to supply copy of each challan to each tax payer. Since all tax payments are e-filed and are verifiable from the system. Ideally the system should generate such certificate and should be accepted by FBR.

STATEMENTS	Section 165

Every withholding agent has to file monthly statement giving complete particulars of the person from whom tax has been deducted. Certain quarters specially banks were reluctant to give information of their account holders due to certain restriction contained in Protection of Economic Reforms Act, Banking Companies Ordinance, Foreign Exchange Regulation Act or SBP Regulations. Now an explanation has been added which has over-ridden all such conflicting provisions. The FBR shall have access to all information which were previously been kept secret under the garb legal provisions of relevant statutes. Specific section 165A has also been introduced for banks to provide all information which were restricted earlier. The tax payer has to be cautious and careful while transacting through banks as they can be made accountable and ask to explain each transaction routed through banks.

FURNISHING OF INFORMATION BY BANKS	Section 165A

A new section has been introduced in continuation of section 165. Now every banking company shall provide to the Board the following information in prescribed format:

- 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.

Further each banking company shall also make arrangements to nominate a senior officer at the head office to coordinate with the Board for provision of any information and documents in addition to those listed above, as may be required by the Board. The banking companies and their officers shall not be liable to any civil, criminal or disciplinary proceedings against them for furnishing information required under this Ordinance. The Board shall use all information received under this section for tax purposes and will keep it confidential. This amendment shall have deep rooted effect to unearth the huge undeclared deposits with the banks. At the same time it will be tool in the hands of FBR which they can use or misuse. We suggest that one time amnesty should be given before to use this information against the tax payers. The tax payer has to be very careful while transacting through banks and each transaction has to be explained in order to avoid any tax implication.

TAX COLLECTED / DEDUCTED AS FINAL TAX	Section 169

Tax deducted on Dividend income received by company was adjustable but the tax rate applicable was restricted to 10% or 7.5% as the case may be. Now it is proposed that such tax deducted shall be treated as final discharge of tax liability of the company in respect of dividend income.

ADDITIONAL PAYMENT FOR DELAYED REFUNDS	Section 171

Payment of Refund has always been an unpleasant event for the tax department. A number of cases have been brought to courts and FTO for inordinate delay by the department. Compensation could be claimed by the tax payer for such delays if the refund was not paid within three months from the date when the refund becomes due; which was the date of assessment. Now the due date of refund would be; when the refund order is issued. Resultantly the tax payer is left at the mercy of the tax officer and deterrence of compensation on tax department shall now eased out. Though the time limit of 60 days for passing refund order is provided in Section 170; but it is seldom observed by the tax department. Because of such inordinate delay in passing refund order; courts / FTO ordered for compensation from the date of assessment. Now an explanation has been added to section 171 to avoid genuine grievance of the tax payer.

REPRESENTATIVES	Section 172

The proceeding against non-resident can be conducted through his representative in Pakistan. A person who has any business connection with non-resident person can also be treated as “Representative”. An explanation has been added to include “transfer of an asset or business in Pakistan by a non-resident” in the expression “ business connection” for the purpose of this section.

AUDIT / SELECTION FOR AUDIT BY BOARD	Section 177 / 214C

Explanations have been added in section 177(10) and section 214C(3) for the removal of doubt that the powers of the Commissioner under section 177 are independent of the powers of the Board under section 214C and nothing contained in section 214C restricts the powers of the Commissioner to call for the record or documents including books of accounts of a taxpayer for audit and to conduct audit under this section. Again an attempt has been made to undo the decision of Lahore High court where it was held that section 177 is subservient to section 214C. And once the case is selected for audit by the Board u/s 214C; only then the audit can be conducted u/s 177. Now the Commissioner can make independent selection and call for record for audit and it is not necessary that the case is selected by the Board. As stated above this issue was thrashed out by the learned High Court. Mere adding explanations may not be helpful for the department. Sub-section 1A has been inserted in Section 214C to empower the Board to keep the parameters of selection of case for audit, confidential. The higher courts have already raised objection and has advised the Board to make the parameter public. Again an attempt has been made to override the rulings of the High Court.

TAX PAYERS'S REGISTRATION	Section 181

Proviso has been added to allow the Board to use Computerized National Identity Card issued by NADRA in place of National Tax Number (NTN) in case of individual tax payer.

DISPLAYING OF NATIONAL TAX NUMBER (NTN)	Section 181C

Every person deriving income from business chargeable to tax, who has been issued a National Tax Number, shall display his National Tax Number at a conspicuous place at every place of his business. Please note that penalty of Rs 5,000 has been suggested for non-compliance to this law. Therefore such business persons must display NTN certificate in their reception area to avoid any such penalty.

OFFENCES AND PENALTY	Section 182

Irrational upward revision has been proposed in levy of penalties. Penalty is always levied for willful default and had never been major source of revenue by the Government. But it appears that now it has made major source of revenue for the Government and particularly it is being imposed on innocent tax payer. Following is the comparison of existing penalties and proposed penalties:

OFFENCE	EXISTING PENALTY	PROPOSED
1-Fails to file return u/s 114 within due date	0.1% of tax payable for each day of default subject to minimum of Rs 5,000 and maximum of 25% of tax	0.1% of tax payable for each day of default subject to minimum of Rs 20,000 and maximum of 50% of tax payable. Even if no tax is payable; the penalty shall be Rs 20,000/=
2-Fails to furnish a statement u/s 115, 165 or 165A, within due date	0.1% of tax payable for each day of default subject to minimum of Rs 5,000 and maximum of 25% of tax payable	Rs 2,500/= for each day of default subject to minimum of Rs 50,000/=
3-Fails to furnish wealth statement or wealth reconciliation	0.1% of tax payable for each day subject to minimum of Rs 5,000 and maximum of 25% of tax payable	Rs 100 for each day of default
4-Fails to produce record for audit u/s 177	On 1^{st} Notice Rs 5,000	On 1^{st} Notice Rs 25,000
	On 2^{nd} Notice Rs 10,000	On 2^{nd} Notice Rs 50,000
	On 3^{rd} Notice Rs 50,000	On 3^{rd} Notice Rs 100,000
5-Fails to furnish information required u/s 176	On 1^{st} default Rs 5,000	On 1^{st} default Rs 25,000
	On 2^{nd} default 10,000 and each subsequent default	On 2^{nd} default 50,000 and each subsequent default
6-Fails to display NTN certificate at business place	NIL	Rs 5,000/=

REWARD TO INLAND REVENUE OFFICERS AND OFFICIALS	Section 227A

A new section has been proposed whereby the Inland Revenue Officers and Officials shall be rewarded for their meritorious conduct; only on the recovery of taxes involved. In view of huge data of information being grasped by the department; it would be easy for every Officer to be awarded for such meritorious conduct.

DIRECTORATE-GENERAL OF LAW / RESEARCH AND DEVELOPMENT	Section 230B / 230C

These two Directorates have been formed. Their functions, jurisdiction and powers are yet to be notified.

TAX ON CASH WITHDRAWAL FROM A BANK	Section 231 A

The withholding tax rate on Cash withdrawal from Bank has again been raised to 0.3 %. However the threshold of cash withdrawal in a day remains Rs 50,000

COLLECTION OF TAX BY NCCPL	Section 233AA

The scope of withholding tax by NCCPL has been widened to include margin financier, trading financiers and lenders. Now in addition to member of Stock Exchange NCCPL shall collect tax from these persons @ 10% of profit or mark-up or interest earned by the members, margin financier, trading financiers and lenders.

TAX ON MOTOR VEHICLES	Section 234

Income tax paid along with token tax has been allowed to pay in lump sum for 10 years. Such advance tax shall be adjustable against tax liability. The details of tax rate is given in the following pages. A major change has been proposed in section 234(5); whereas the tax so paid for goods transport vehicle which was final discharge of tax liability of transporter on income arising from transport of goods; shall now be adjustable. It means that they shall file normal return and claim this advance tax against their tax liability.

TRANSITIONAL ADVANCE TAX PROVISIONS	Section 236D/ 236E/ 236F/ 236I/236J

The scope of withholding tax has been widened to add further categories under the garb of "Advance tax". The list of with-holding tax agents has been stretched. The brief of such advance taxes is being explained as under:

ADVANCE TAX ON FUNCTIONS AND GATHERINGS (236D):

Every prescribed person shall collect advance tax at the rate of 10% on the total amount of the bill from a person arranging or holding a function in a marriage hall, marquee, hotel, restaurant, commercial lawn, club, a community place or any other place used for such purpose. Where the food, service or any other facility is provided by any other person, the prescribed person shall also collect advance tax on the payment for such food, service or facility at the rate of 10% from the person arranging or holding the function. The advance tax so collected shall be adjustable. In this section, "function" includes any wedding related event, a seminar, a workshop, a session, an exhibition, a concert, a show, a party or any other gathering held for such purpose; and prescribed person" includes the owner, a lease-holder, an operator or a manager of a marriage hall, marquee, hotel, restaurant, commercial lawn, club, a community place or any other place used for such purpose.

ADVANCE TAX ON FOREIGN-PRODUCED FILM, TV PLAYS AND SERIALS (SECTION 236E)
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 at the rates of Rs 1,000,000 or Rs 100,000 per episode respectively. The advance tax so collected shall be adjustable.

ADVANCE TAX ON CABLE OPERATORS AND OTHER ELECTRONIC MEDIA (SECTION 236F)
Pakistan Electronic Media Regulatory Authority, at the time of issuance of license for distribution services or renewal of the license to a licensee, shall collect advance tax at the rates given at the following pages. The tax collected under sub-section (1) shall be adjustable. For the purpose of this section, "cable television operator", “DTH”, “Distribution Service”, “electronic media”, "IPTV", "loop holder", “MMDS”, "mobile TV", shall have the same meanings as defined in Pakistan Electronic Media Regulatory Authority Ordinance, 2002 and Pakistan Electronic Media Regulatory Authority Rules, 2009. **(Page 26)**

COLLECTION OF ADVANCE TAX BY EDUCATIONAL INSTITUTIONS (SECTOION 236I):
There shall be collected as advance tax at the rate of 5% of the amount of fee paid to an educational institution. The person preparing fee voucher or challan shall charge advance tax in the manner the fee is charged. Advance tax under this section shall not be collected from a person where annual fee does not exceed two hundred thousand rupees. The term “fee” includes, tuition fee and all charges received by the educational institution, by whatever name called, excluding the amount which is refundable. Tax collected under this section shall be adjustable against the tax liability of either of the parents or guardian making payment of the fee. **(Page 27)**

ADVANCE TAX ON DEALERS, COMMISSION AGENTS AND ARHATIS (SECTION 236J):
Every market committee shall collect advance tax from dealers, commission agents or arhatis, etc. at the rates given at the following pages at the time of issuance or renewal of licences. The advance tax collected shall be adjustable. In this section “market committee” includes any committee or body formed under any provincial or local law made for the purposes of establishing, regulating or organizing agricultural, livestock and other commodity markets. **(Page 27)**

236G. Advance tax on sales to distributors, dealers and wholesalers.-
236H. Advance tax on sales to retailers.-

We have already explained the above two amendments in earlier paras under section 153A

FIRST SCHEDULE

TAX RATES FOR INDIVIDUAL AND AOP

The following changes are proposed to be made to the First Schedule of the Income Tax Ordinance, 2001.

S.No.	for Non- Salaried Individual and AOP for Tax Year 2014	Rate of Tax
1	Where taxable income does not exceed Rs.400,000	0%
2	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.750,000	10.00% of the amount exceeding Rs. 400,000
3	Where the taxable income exceeds Rs.750,000 but does not exceed Rs.1,500,000	Rs. 35,000 + 15.00% of the amount exceeding Rs.750,000
4	Where the taxable income exceeds Rs.1,500,000 but does not exceed Rs.2,500,000	Rs. 147,500 + 20.00% of the amount exceeding Rs.1,500,000
5	Where the taxable income exceeds Rs.2,500,000 but does not exceed Rs.4,000,000	Rs. 347,500 + 25.00% of the amount exceeding Rs.2,500,000
6	Where the taxable income exceeds Rs.4,000,000 but does not exceed Rs.6,000,000.	Rs. 722,500 + 30.00% of the amount exceeding Rs.4,000,000
7	Where the taxable income exceeds Rs.6,000,000	Rs. 1,322,500 + 35.00% of the amount exceeding Rs.6,000,000

SALARIED INDIVIDUAL TAX RATE FOR TAX YEAR 2014

First Schedule, Part I, Division I

S.No.	Tax Rate Table for Salaried Persons for Tax Year 2014	Rate of Tax
1	Where the taxable income does not exceed Rs.400,000	0%
2	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000,	5.00% of the amount exceeding Rs. 400,000
3	Where the taxable income exceeds Rs.500,000 but does not exceed Rs.800,000,	Rs. 5,000 + 7.50% of the amount exceeding Rs. 500,000
4	Where the taxable income exceeds Rs.800,000 but does not exceed Rs.1,300,000,	Rs. 27,500 + 10.00% of the amount exceeding Rs. 800,000
5	Where the taxable income exceeds Rs.1,300,000 but does not exceed Rs.1,800,000,	Rs. 77,500 + 12.50% of the amount exceeding Rs. 1,300,000
6	Where the taxable income exceeds Rs.1,800,000 but does not exceed Rs.2,200,000,	Rs. 140,000 + 15.00% of the amount exceeding Rs.1,800,000
7	Where the taxable income exceeds Rs.2,200,000 but does not exceed Rs.2,600,000,	Rs. 200,000 + 17.50% of the amount exceeding Rs. 2,200,000
8	Where the taxable income exceeds Rs.2,600,000 but does not exceed Rs.3,000,000,	Rs. 270,000 + 20.00% of the amount exceeding Rs. 2,600,000
9	Where the taxable income exceeds Rs.3,000,000 but does not exceed Rs.3,500,000,	Rs. 350,000 + 22.50% of the amount exceeding Rs. 3,000,000
10	Where the taxable income exceeds Rs.3,500,000 but does not exceed Rs.4,000,000,	Rs. 462,500 + 25.00% of the amount exceeding Rs. 3,500,000
11	Where the taxable income exceeds Rs.4,000,000 but does not exceed Rs.7,000,000,	Rs. 587,500 + 27.50% of the amount exceeding Rs. 4,000,000
12	Where the taxable income exceeds Rs.7,000,000	Rs. 1,412,500 + 30.00% of the amount exceeding Rs. 7,000,000

Tax Rate for Company for Tax Year 2014 **First Schedule, Part I, Division II**

Banking Company	Public Company other than a Banking Company	Private Company other than a Banking Company	Small Company
35%	34%	34%	25%

RATES FOR COMPUTING TAX ON RENT INCOME

The existing slab rates for property income has been enhanced from 4 to 7 and 3 to 6 in the case of Individuals/AOPs and Companies respectively.

Income from Property by the Individual and AOP	**First Schedule, Part I, Division VI(a) for Income from Property u/s 15 and 155 of the ITO, 2001**

S.No.	Gross amount of rent	Rate of Tax
1	Where the gross amount of rent does not exceed Rs. 150,000	**Nil**
2	Where the gross amount of rent exceeds Rs. 150,000 but does not exceed Rs. 400,000	5.00% of the gross amount exceeding Rs. 150,000
3	Where the gross amount of rent exceeds Rs. 400,000 but does not exceed Rs. 1,000,000	Rs. 12,500 + 7.50% of the gross amount exceeding Rs. 400,000
4	Where the gross amount of rent exceeds Rs. 1,000,000 but does not exceed Rs. 2,000,000	Rs. 57,500+10.00% of the gross amount exceeding Rs.1,000,000
5	Where the gross amount of rent exceeds Rs. 2,000,000 but does not exceed Rs. 3,000,000	Rs.157,500+12.50% of the gross amount exceeding Rs.2,000,000
6	Where the gross amount of rent exceeds Rs.3,000,000 but does not exceed Rs. 4,000,000	Rs. 282,500+15.00% of the gross amount exceeding Rs. 3,000,000
7	Where the gross amount of rent exceeds Rs. 4,000,000	Rs. 432,500+17.50% of the gross amount exceeding Rs. 4,000,000

Income from Property by the Company	First Schedule, Part I, Division VI(b) for Income earned u/s 15 of the ITO, 2001

S.No.	Gross amount of rent	Rate of Tax
1	Where the gross amount of rent does not exceed Rs. 400,000	5.00% of the gross amount of rent
2	Where the gross amount of rent exceeds Rs. 400,000 but does not exceed Rs. 1,000,000	Rs. 20,000 + 7.50% of the gross amount exceeding Rs. 400,000
3	Where the gross amount of rent exceeds Rs. 1,000,000 but does not exceed Rs. 2,000,000	Rs. 65,000 + 10.0% of the gross amount exceeding Rs.1,000,000
4	Where the gross amount of rent exceeds Rs. 2,000,000 but does not exceed Rs. 3,000,000	Rs.165,000+12.50% of the gross amount exceeding Rs. 2,000,000
5	Where the gross amount of rent exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000	Rs. 290,000+15.00% of the gross amount exceeding Rs. 3,000,000
6	Where the gross amount of rent exceeds Rs. 4,000,000	Rs. 440,000+17.50% of the gross amount exceeding Rs. 4,000,000

The above rates shall also be applicable for withholding tax on rental payments u/s 155 by the prescribed persons.

RATES FOR ADVANCE TAX ON IMPORTS **First Schedule, Part II**

Industrial Undertaking	Companies	Other than Industrial Undertaking and Company
5.00%	5.00%	5.50%

RATES FOR PAYMENTS FOR GOODS AND SERVICES **First Schedule, Part III, Division, III**

Particulars	Companies	Other than Companies
GOODS	3.50%	4.00%
SERVICES	6.00%	7.00%
CONTRACTS	6.00%	6.50%

TAX ON MOTOTR VEHICLES **First Schedule, Part IV, Division, III**

The bill seeks to align collection of income tax where motor vehicle tax is collected in lump sum by the Province in the following manner.

	Engine Capacity	Amount of Tax
a	Upto 1000 cc	7,500
b	1001cc to 1199cc	12,500
c	1200cc to 1299cc	17,500
d	1300cc to 1599cc	30,000
e	1600cc to 1999cc	40,000
f	2000cc and above	80,000

PURCHASE OF MOTOR CARS AND JEEPS **First Schedule, Part IV, Division, VII**

The rate of income tax under section 231B has been enhanced for all categories of cars/jeeps. The proposed amount of tax is tabulated as under.

	Engine Capacity	Amount of Tax
a	Upto 850cc	10,000
b	851cc to 1000cc	20,000
c	1001cc to 1300cc	30,000
d	13001cc to 1600cc	50,000
e	1601cc to 1800cc	75,000
f	1801cc to 2000cc	100,000
g	Above 2000cc	150,000

ADVANCE TAX ON TRANSACTIONS IN BANK **First Schedule, Part IV, Division, VIA**

Rate of advance tax on cash withdrawal has been proposed to be enhanced from existing rate of 0.2% to 0.3% where such withdrawal exceeds Rs. 50,000.

ADVANCE TAX AT THE TIME OF SALE BY AUCTION **First Schedule, Part IV, Division, VIII**

The bill proposes to increase the rate of collection of tax at the time of sale by auction under section 236A from 5% to 10%.

ADVANCE TAX ON GATHERINGS AND FUNCTIONS **First Schedule, Part IV, Division, XI**

The bill proposes to insert a new section 236D to collect advance tax at the rate of 10% from functions and gatherings by hotels, lawns, clubs etc.

ADVANCE TAX ON FOREIGN-PRODUCED FILMS AND TV PLAYS — **First Schedule, Part IV, Division, XII**

Rate of collection of advance tax under section 236E shall be as follows:

	Particular	Amount of Tax
a	Foreign-produced film	1,000,000
b	Foreign-produced TV drama serial (per episode)	100,000
c	Foreign-produced TV play-single episode	100,000

ADVANCE TAX ON CABLE OPERATORS AND OTHER ELECTRONIC MEDIA — **First Schedule, Part IV, Division, XIII**

The rate of advance tax under section 236F shall be as under.

CABLE TELEVISION OPERATORS

License Category as provided in PEMRA Rules 2009	Tax on License Fee	Tax on Renewal
H	7,500	10,000
H-I	10,000	15,000
H-II	25,000	30,000
R	5,000	30,000
B	5,000	40,000
B-1	30,000	50,000
B-2	40,000	60,000
B-3	50,000	75,000
B-4	75,000	100,000
B-5	87,500	150,000
B-6	175,000	200,000
B-7	262,500	300,000
B-8	437,500	500,000
B-9	700,000	800,000
B-10	875,500	900,000

OTHER DISTRIBUTION SERVICES

Type of channel as provided in PEMRA Rules 2009	Tax on Issuance of License	Tax on Renewal
IPTV	100,000	1,000,000
FM Radio	100,000	100,000
MMDS	200,000	100,000
Mobile TV	100,000	50,000

SATELLITE TV STATION

Type of channel as provided in PEMRA Rules 2009	Tax on Issuance of License	Tax on Renewal
News or Current	1,000,000	2,000,000
Sports	1,000,000	1,000,000
Regional Language	700,000	700,000
Health or Agro	300,000	300,000
Education	300,000	300,000
Entertainment	1,000,000	1,000,000
Specialized subject station	500,000	200,000

LANDING RIGHTS PER CHANNEL

Type of channel as provided in PEMRA Rules 2009	Tax on Issuance of License	Tax on Renewal
News or Current Affairs	1,000,000	5,000,000
Sports	500,000	2,500,000
Educational	200,000	1,000,000
Entertainment	200,000	2,000,000
Children	350,000	1,500,000

ADVANCE TAX ON SALE TO DISTRIBUTORS, DEALERS OR WHOLESALERS **First Schedule, Part IV, Division, XIV**

The Bill seeks to impose collection of advance tax @ 0.1% of gross sales made by certain manufacturers and commercial importers to distributors, dealers and wholesalers under newly inserted section 236G of the Income Tax Ordinance, 2001.

ADVANCE TAX ON SALE TO RETAILERS **First Schedule, Part IV, Division, XV**

The Bill seeks to impose collection of advance tax @ 0.5% of gross sales made by certain manufacturers commercial importers to retailers under newly inserted section 236H of the Income Tax Ordinance, 2001.

ADVANCE TAX BY EDUCATIONAL INSTITUTIONS **First Schedule, Part IV, Division, XVI**

As proposed by the Bill, advance tax @ 5% of the amount of fee paid to an educational institution shall be collected.

ADVANCE TAX BY MARKET COMMITTEE **First Schedule, Part IV, Division, XVII**

The Bill proposes collection of advance tax annually from dealers, commission agents and arhatis by the Market Committee at the time of issuance or renewal of licenses to such persons. Rate of collection of tax under section 236J shall be as under

Group	Amount of Tax
Group or Class A	10,000
Group or Class B	7,500
Group or Class C	5,000
Any other category	5,000

Withdrawn of Exemption from free or concessional transport	**2nd Schedule, Part I, Clause 53A(i)**

The finance Bill propose to withdraw the tax exemption available for free or concessional passage provided by transporters including airlines to its employees (including the members of their household and dependents) as provided in the 2nd schedule to the Income Tax Ordinance, 2001.

University and Educational Institution Income now taxable	**2nd Schedule, Part I, Clause 92**

University or other educational institution established solely for educational purposes and not for purposes of profit were exempt through 2nd Schedule; now exempt facility is proposed to be withdrawal via Finance Bill 2013.

Income from Government recognized board is now taxable	**2nd Schedule, Part I, Clause 98A**

The Bill has proposed to withdraw exemption under 2nd Schedule for any Income derived by International Cricket Council (ICC) and its management, players, coaches, medical doctors and officials of member countries, IDI partners and media representatives.

Dividend in Specie is proposed is now taxable	**2nd Schedule, Part I, Clause 103B**

The Bill has proposed to withdraw exemption from total income provided in 2nd Schedule, part I on dividend in specie derived in the form of shares in a company

Corporate Income Tax Holiday is increased to 10 years	**2nd Schedule, Part I, Clause 126E**

Currently Corporate Income Tax Holiday for a period of 5 years is available to projects in Special Economic Zones to promote industrialization and investment in the country, the period of holiday is propose to be extended to 10 years.

The proposed new clause would be read as follow: "(126E) income derived by a zone enterprise as defined in Special Economic Zones Act ,2012 (XX of 2012) for a period of ten years starting from the date the developer certifies that the zone enterprise has commenced commercial operation and for a period of ten years to a developer of zone starting from the date of signing of the development agreement in the special economic zone as announced by the Federal Government."

Import of Hybrid Vehicles made cheaper	**2nd Schedule, Part II, Clause 28**

The Bills propose to insert new clause in 2nd schedule to encourage Hybrid vehicles for conservation of fuel. Withholding tax on import of Hybrid cars with engine capacity upto 1200CC has been exempted to provide incentive and relief. Similarly withholding tax upto 1800CC has been reduced by 50% and 25% for vehicle upto 2500CC
The rate of tax under section 148 on import of hybrid cars shall be reduced as below:-

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

Reduction in Tax liability for Flying Allowance taken back	**2nd Schedule, Part III, Clause 1**

The Bill has proposed to withdraw reduction in tax liability on flying allowance by pilots, flight engineers, navigators of Pakistan Armed forces, Pakistani Airlines or Civil Aviation Authority, Junior Commissioned Officers or other ranks of Pakistan Armed Forces and submarine allowance by the officers of Pakistan Navy. Previously these were taxed @ 2.5% as a separate block of income.

Reduction in Tax liability for Full time teacher is withdrawn	**2nd Schedule, Part III, Clause 2**

The Bill has also proposed to withdraw reduction in liability of amount equal to 75% of a full time teacher or researcher employed in a non-profit education or research institution duly recognized by Higher Education Commission, a Board of Education or University recognized by the Higher Education Commission.

Scope of Minimum Tax on Cigarettes Distributors is extended	**2nd Schedule, Part III, Clause 7**

The Bill has proposed to extend the reduction in tax liability of 80% of all entities including individuals, AOP private or public companies engaged in the distribution of cigarettes manufactured in Pakistan. Previously the said reduction was only allowed to companies.

Advance tax on foreign produced films, TV plays and serials	**2nd Schedule, Part IV, Clause 56A**

The Bills proposed to insert a new clause which is read as under.
(56A) The provisions of sub-section (7) of section 148 (tax on imports) and clause (a) of sub-section (1) of section 169 (tax collected or deducted as final tax) shall not apply to a person who is liable to withholding tax under section 236E (Advance tax on foreign produced films, TV plays and serials).

By virtue of the above proposed inclusion the tax deducted as under would not be a final tax, instead that would be an adjustable tax against tax liability at the year end.

Category	Amount of tax
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

Profit on Debt is proposed to be taxable	**2nd Schedule, Part IV, Clause 59**

The Bill has proposed to withdraw exemption, granted under paragraph (a) of sub clause (iv) of clause 59, from tax deducted on income or profits received by any resident individual from:

- Defense Saving Certificates;
- Special Savings Certificates;
- Saving Accounts;
- Post Office Savings Accounts; or
- Term Finance Certificates (TFCs)

Previously the deposits upto Rs. 150,000 were exempt.

Tax on Hajj Operators	**2nd Schedule, Part IV, Clause 72A**

The Bill proposed to add the new clauses as under

(72A) the provisions of clause (1) of section 21 (Deductions not allowed), section 113 (Minimum Tax) and section 152 (Payment to non-residents) shall not apply in case of a Hajj Group Operator in respect of Hajj Operations provided that the tax has been collected and deposited as follows:

Tax Year	Rate
2013	3,500/- per Hajji
2014	5,000/- per Hajji

Tax on Imports on Industrial Undertaking	**2nd Schedule, Part IV, Clause 72B**

The Finance Bill propose to include a new clause by virtue of which it propose to exempt the tax on imports of an industrial undertaking, if the tax liability for the current tax year calculated on the basis of higher of the determined tax liability of any of the preceding two tax years has already been paid and a certificate to this effect is issued by the concerned Commissioner.

Initial allowance and First year allowance	**3rd Schedule, Part II, Clause 1**

The Bill has proposed to reduce the rate of initial allowance on plant and machinery from 50% to 25%. This would affect the first year profitability and taxation of the newly established units in

Tax on Income computed of a Banking	**7th Schedule, Rule 6**

The Bill has proposed to give relief to the Banking sector by restricting the rate of tax, on dividend received from Money Market Funds and Income Funds, at the rate of 25% for tax year 2013 and onwards, previously it was due to be taxed @35% from the tax year 2014 and onwards.

Proposed Significant Changes in Sales Tax

CREST	Section 2(5AC)

Definition of CREST i.e. Computerized Risk Based Evaluation of Sales Tax is proposed to be inserted in Sales Tax Act., in order to provide legal cover.

It is important to note FBR recently developed CREST software which has successfully been implemented in February this year. The software electronically cross verifies input / output declaration of sales tax figures and in case of variation or difference confront buyer and seller to justify their position. Large number of cases has been recently framed by the tax authorities on the bases of findings of the CREST. Recently Lahore High Court has granted stay in which one of the observations / grounds was non existence of Legal coverage of CREST within the law.

Provincial Sales Tax	Section 2(22)

Definition of Provincial Sales Tax introduced in 2000 become redundant after passage of 18th amendment and inception of separate sales tax authorities by provincial governments. The same is accordingly proposed to be omitted from the Sales Tax Act.

Supply Chain	Section2(33A)

A new definition of supply chain is proposed to be inserted in Sales Tax Act. According to introduced definition, all stages of transactions between buyer and supplier from the basic raw material to the finish product are covered within the definition of supply chain.

It has been observed that in case of an incidence of input tax fraud, FBR under the umbrella of section 8-A and now with this insertion of definition, can brought entire supply chain within the scope of an inquiry.

Time of supply	Section 2(44)

Definition for time of supply is proposed to be redefined. In accordance to the proposed amendment, time of supply means " at the time of delivery or at the time of receipt of payment whichever is earlier".

In case of part payment, the supply was required to be reported within the same tax period the part payment is received. In case of exempt supply, it shall be accounted for in the return for the tax period during which the exemption is withdrawn.

Scope of Tax	Section 3

Standard rate of sales tax is proposed to be increased from 16% to 17%.

An easy way is proposed to increase rate of tax to generate revenue. Again the burden of sales tax is increased on existing taxpayers by increasing rate of this indirect tax.

Further Tax	Section 3(1)

Further tax @ 2% is proposed on supplies to unregistered persons. The FBR has accordingly proposed to insert sub-section 1 in section 3. The concept of further tax is not new and it was discontinued in the year 2004.

A proviso is also proposed through which powers are delegated to the government to issue notification to provide any exclusion on specific taxable supply from application of further tax.

The purpose of introducing further tax seems to generate additional revenue from unregistered segment. The concept remains unsuccessful in the past. At the moment it seems that government rather to ensure extension of sales tax network has put their reliance on generating more revenue from existing network.

Capacity Tax / Fixed Tax	Section 3(1)b

A new sub section 3(1)(b) is also proposed to be inserted to delegate powers to the Board to levy and collect tax on taxable supplies in lieu of standard rate of tax on the basis of:-

a) Production capacity, machinery, undertaking, establishment or installations producing or manufacturing such goods
b) Fixed basis, as it may deem fit, from any person who is in a position to collect such tax due to the nature of the business

Tax Credit not allowed	Section 8(Caa)

A new sub section was proposed to disallow input tax credit where e-discrepancy indicated by CREST has been verified in supply chain of such purchase.

The element of fraud and abuse of input tax credit is increasing day by day. The policy maker rather plugging ways and means to curb the menace are introducing amendment one after another in each year and yet stands completely failed. The genuine taxpayers at the other end were seriously affected by both unscrupulous element as well as strict sales tax law, where they were put in undue burden for the misdeed of anyone else.

De-Registration, blacklisting and suspension of registration	**Section 21(3)**

It is proposed that input tax would remain inadmissible against purchases from black listed or suspended unit, even the transaction is well supported with crossed cheque or banking instrument and compliance were made in terms of section 73. Accordingly the legal cover given in this respect in section 21 is proposed to be omitted.

Blocking of input tax adjustment / refund	**Section 21(4)**

By insertion of new sub section 21(4), a blanket discretionary powers for blocking of refund and input tax adjustment and further action are proposed to be delegated to the Board, tax Commissioner or any authorized officer, where there is reason to believe that a registered person is engaged in issuing fake or flying invoices, claiming fraudulent input tax or refunds, does not physically exist or conduct actual business or is committing any other fraudulent activity. The Board, Commissioner or such officer may after recording reasons in writing, block the refunds or input tax adjustment of such person and direct the concerned Commissioner having jurisdiction for further investigation and appropriate legal action.

Records	**Section 22**

It is proposed that registered person should maintain and retain gate passes, inward or outward and transport receipt as sales tax record.

Audit	**Section 25**

It is proposed to insert an explanation in respect of audit and inquiry that powers for conducting audits, verification and inquiry given under section 25,38,38-A,38-B and 45-A are independent and not sub ordinate to the section 72-B.

The issue of audit by the field formation without any criteria was remain in dispute in recent past. The single bench of Lahore High Court has categorically declared such powers against the spirit of the law. Later on the issue was taken up with Supreme Court and now it has been reverted back in intra Court Appeal. It seems that in order to avoid such litigation proceedings the hierarchy of the Board has proposed to induce specific explanation under the law.

In our opinion where the government has claimed in the past that in order to bring transparency within the system the audits were conducted on the parametric basis through computer balloting, extending such discretionary powers to the Commissioners is not justified and would be challenged by the trade and tax bars.

Posting of Inland Revenue Officer	**Section 40-B**

It is proposed that available powers of the Board to post tax staff at business premises of taxpayers be delegated to the Chief Commissioners.

The whole section was introduced with the assurance of the government to use such powers sparingly, however firstly these powers were conditionally delegated to Commissioners on the basis of material evidence against any unit and now extensive powers within this section available to the Board are proposed to be transferred to Chief Commissioners

Monitoring or tracking by electronic or other means	**Section 40(C)**

A new section delegating some more extra ordinary powers are proposed to be inserted in Sales Tax law. According to this section the Board may by notification specify any registered persons, class of registered person or any good or class of goods in respect of which monitoring or tracking of production, sales, clearance, stocks or any other related activity may be implemented through electronic or other means.

Furthermore, no taxable goods shall be removed or sold by the manufacturer or any other person without affixing tax stamp, banderole, stickers, labels etc, in ay such form, style manner and date as prescribed by the Board.

Induction of such sort of powers clearly given an idea that sales tax regieme is no more a self assessment scheme and more likely to be converted into an old styled supervision mode.

At the one end the government claimed promoting value added mode culture based on self assessment regime with reduced discretionary powers through reliance of electronic and I.T. means and on the contrary such tried and tested means prevailed in past decade are going to be reintroduced.

Appeals	**Section 45-B**

It is proposed that powers for granting stay by Commissioner Appeal in cases of undue hardship be restricted to 30 days only.

It is surprising to note that where there is undue hardship why the time limit for suspension of demand is restricted till 30 days only. Induction of such amendment clearly reflects the impartial mind set of policy maker who even does not intend to allow relaxation in genuine case of hardship.

Rectification of hardship	Section 57

It is proposed to substitute section 57. Existing section provides rectification of mistake in orders at the part of tax officer only however it does not cover the provisions of review of the assessment order.

The detailed new provision now provides way and means to correct and amend any mistake and order by Commissioner, Commissioner Appeal or Tribunal in its own motion or on receipt of an application.

However no adverse finding against taxpayer in amending order can be given either to increase to tax liability or to decrease refunds. The time limit for rectification provision is restricted upto five years.

Reward to Inland Revenue Officer and	Section 72-C

Reward to Inland Revenue Officer and other officials are proposed for their meritorious conduct and to the informer providing credible information to the Board leading to such detection after realization of part or whole of the taxes involved.

Certain transactions not admissible	Section 73

It is proposed that only such bank accounts of the registered person to be treated as business accounts which are duly incorporated in registration profile of the taxpayer through proper insertion of change in registration particulars application by STR-I Form.

This apparently minor amendment would require taxpayers to incorporate all their business bank accounts within their sales tax registration profile to claim input tax and compliance as per law within the ambit of section 73.

Sales Tax on retail price	3rd Shcedule

The scope of sales tax on number of following items are extended to the extent of retail price, the items include:-

1 Finished or made-up articles of textile and leather, including garments, footwear, and bed ware, sold in retail packing.
2 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.
3 Household gas appliances, including cooking range, ovens, geysers and gas heaters.
4 Foam or spring mattresses, and other foam products for household use.
5 Auto parts and accessories sold in retail packing.
6 Lubricating oils, brake fluid, transmission fluid, and other vehicular fluids and maintenance products in retail packing.

7 Tyres and tubes.
8 Storage batteries.
9 Arms and ammunition.
10 Paints, distempers, enamels, pigments, colours, varnishes, gums, resins, dyes, glazes, thinners, blacks, cellulose lacquers and polishes sold in retail packing.
11 Fertilizers.
12 Cement sold in retail packing.
13 Tiles sold in retail packing.
14 Biscuits, confectionary, chocolates, toffees and candies.
15 Other goods and products sold in retail packing.

By virtue of the proposed amendment, all these items are not only required to be charged sales tax on retail price and the price is required to be printed or embossed on each article, packet, container, cover or label as the case may be.

It is important to note that last item in the serials provides a blanket / open narration which covers all goods and products sold in retail packing.

The amendment is proposed to be given effect from 13th June 2013

It is interesting to note that since all these items are required now to be charged on retail price basis with printing retail price, given immediate effect to this measure does not make sense at all. All the supplies of these items now come to halt since it is not possible for manufacturer to print or embossed retail price on their available stock in hand. The proposed amendment is again one of the poorly conceived amendment and without taking note of its immediate implication on trade.

It seems that since government has failed to brought wholesale, distribution network and retailer within sales tax net, the burden to collect additional amount of sales tax is passed on to the manufacturer, producer or importer of these items.

Exemption	Sixth Schedule

It is proposed that exemption be withdrawn from international tender and milk preparations obtained by replacing one or more of the constitutes of milk by another substance, whether or not packed for retail sale.

Sales Tax Notifications

Withdrawal of different notifications	SRO 500

The FBR has withdrawn some notifications mainly pertain to 50% exemption to KPK, FATA, PATA and other war effected regions.

Exemption of Sales Tax on certain material used in the film industry as provided by SRO No. 172(I)/2006 dated February 24, 2006 has been withdrawn.

Notification No 863(I)/2007 for application of zero rating on purchase of raw material of stationary and dairy product is also withdrawn. It is observed that since finished products of stationary are also exempted local manufacturing industry of stationary product would affect from this withdrawal and may face problem to compete with importers of same items

Zero Rating Facility Replaced With Exemption	SRO 501

FBR has issued notification 501(I)/2013 through which zero rating facility is replaced with exemption in order to curb accrual of sales tax refunds on these items. List of items on which exemption is extended are:-

S.No.	Description
1	Uncooked poultry meat (PCT Heading 02.07).
2	Milk and cream (PCT headings 04.01 and 04.02).
3	Flavored Milk (PCT Headings 0402.9900 and 22.02).
4	Yogurt (PCT Heading 0403.1000).
5	Whey (PCT Heading 04.04).
6	Butter (PCT Heading 0405.1000).
7	Desi ghee (PCT Heading 0405.9000).
8	Cheese (PCT Heading 0406.1010).
9	Processed cheese not grated or powdered (PCT Heading 0406.3000).
10	Cotton seed (PCT heading 1207.2000).
11	Frozen, prepared or preserved sausages and similar products of poultry meat or meat offal (PCT Heading 1601.0000).
12	Meat and similar products of prepared frozen or preserved meat or meat offal of all types including poultry meat and fish (PCT Headings 1602.3200, 1602.3900, 1602.5000, 1604.1100, 1604.1200, 1604.1300, 1604.1400, 1604.1500, 1604.1600, 1604.1900, 1604.2010, 1604.2020, 1604.2090, 1604.3000).
13	Preparations for infant use, put up for retail sale (PCT Heading 1901.1000).
14	Fat filled milk (PCT Heading 1901.9090).
15	Soyabean meal (PCT Heading 2304.0000).
16	Oil cake and other solid residues, whether or not ground or in the form of pellets (PCT heading 2306.1000)
17	Colours in sets (Poster colours) (PCT Heading 3213.1000).
18	Writing, drawing and marking inks (PCT Headings 3215.9010 and 3215.9090).
19	Erasers (PCT Headings 4016.9210 and 4016.9290).
20	Exercise books (PCT Heading 4820.2000).
21	Directly reduced iron (PCT heading 72.03).
22	Pencil sharpeners (PCT Heading 8214.1000).
23	Energy saver lamps (PCT heading 8539.3910).
24	Sewing machines of the household type (PCT Headings 8452.1010 and 8452.1090).
25	Purpose built taxis, whether in CBU or CKD condition (PCT Headings 8703.3226 and 8703.3227) which are built on girder chassis and having following features, namely:-

(a) Attack resistance central division along with payment tray;
(b) Wheelchair compartment with folding ramp; and
(c) Taximeter and two-way radio system.

26 Bicycles (PCT Heading 87.12).
27 Wheelchairs (PCT headings 8713.1000 and 8713.9000).
28 Vessels for breaking up (PCT heading 89.08)
29 Other drawing, marking out or mathematical calculating instruments (geometry box) (PCT Heading 9017.2000).
30 Pens and ball pens (PCT Heading 96.08).
31 Pencils including colour pencils (PCT Heading 96.09).
32 Compost (non-chemical fertilizer) produced and supplied locally
33 Construction materials to Gawadar Export Processing Zone's investors and to Export Processing Zone Gawadar for development of Zone's infrastructure

Notification is effective from 13th June 2013

Withdrawal of zero rating facility	**SRO 502**

Since zero rating facility is replaced with exemption through notification 501 mentioned above, the relevant entries appearing in zero rating notification 549(i)/2008 are accordingly been omitted.

Notification is effective from 13th June 2013

Amendment in reduced rate SRO 1125	**SRO 504**

Facility of reduced rate of sales tax i.e. 2% is withdrawn from finished product of textile, leather, carpets, sports goods and surgical goods. The government is in a view that since facility of reduced rate is granted to export oriented sector, there is no justification for its extension to finished products used locally.

Likewise reduced rate regime is also withdrawn from master batches and shoe adhesive on the grounds that both items has multiple usage other than export sectors.

Sales tax withholding special procedure	**SRO 505**

Scope of sales tax withholding is extended by amendment in special procedure meant for sales tax withholding. All sales tax withholding agents are now required to deduct whole amount of sales tax applicable on purchases from unregistered person.

In past this provisions was introduced vide notification 603(I)/2007 and later on withdrawn being impracticable. The sales tax withhold by withholding agent is not adjustable as input tax since there is no provision in sales tax act to adjust input tax credit on purchases from unregistered person. The notification is applicable from 13th June 2013 and hence expected to start immediate criticism by trade bodies.

Sales Tax rules amendment in jurisdiction of registration and international tender	**SRO 506**

The rule 5 pertaining with place / jurisdiction of sales tax registration is suitablly amended by virtue of notification 506. The amendment now provides that in cases of a corporate or non corporate person having a single manufacturing unit or business, would be registered in Regional Tax office or Large Tax payer unit, as the case may be, in whose jurisdiction the manufacturing unit or business premises is actually located. The registration of units falling in this category stands transferred in accordance with the amended provisions w.e.f. 1st July 2013.

In case of corporate or non corporate persons, having multiple manufacturing units or business premises, the Board may decide the place of registration of such person.

Since exemption is withdrawn from supplies against international tender, relevant rules provided under chapter VII A are also omitted accordingly.

Extra Sales Tax on electricity bill	**SRO 509 & 510**

By virtue of Notifications 509(I)/2013 and 510(I)/2013 extra sales tax @ 5% is proposed to be levied on all unregistered or non active sales tax persons having commercial or industrial connection with billing over Rs. 15000/- per month.

The measure is introduced to increase cost of doing business of unregistered and non complied persons.

Amendments in Federal Excise Act, 2005

Further Duty	**Section 3A**

Concept of Further duty @ 2% on supplies to unregistered person is introduced in Federal Excise Act,2005 in same line with and provisions given in Sales Tax Act, 1990

Records	**Section 17**

In line with the proposed amendment in sales tax, a new subsection (da) has been inserted in order to add gate passes, inward or outward, and transport receipts within the definition of record required to be maintained by registered person

Appeal to commissioner appeal	**Section 33(1A)**

A new subsection 1A has been inserted in section 33 through which time limit for stay if granted by Commissioner Appeals has been restricted to 30 days.

Power of Commissioner to pass certain order	**Section 35**

An **Explanation** is proposed to be added under section 35 of the FED Act, 2005 in respect of audit and inquiry that empowers for conducting audits, verification and inquiry given under section 35,45 and 46 are independent and not sub-ordinate to the section 42-B.

The issue of audit by the field formation without any criteria was remain in dispute in recent past. The single bench of Lahore High Court has categorically declared such powers against the spirit of the law. Later on the issue was taken up with Supreme Court and now it has been reverted back in Intra Court Appeal. It seems that in order to avoid such litigation proceedings, the hierarchy of the Board has proposed to induce specific explanation under the law.

Reward to Inland Revenue Officers and officials	**Section 42C**

A new section is proposed to be inserted pertaining Reward to Inland Revenue Officer and other officials for their meritorious conduct and to the informer providing credible information to the Board leading to such detection after realization of part or whole of the duty involved.

The board has also been given powers to prescribe detail procedure in this regard.

Access to record and posting of excise staff, etc.	**Section 45**

It is proposed that powers to post tax staff at business premises of taxpayers is also be delegated to the Chief Commissioners.

Monitoring or tracking by electronic or other means	Section 45A

New section 45A is inserted for monitoring or tracking of production, sales, clearances, stock or any other related activity as may be prescribed by the Board with further power for affixing tax stamp, banderole, stickers, labels etc in any such form, style and manner as may be prescribed by the Board.

Excisable Goods	First Schedule(Table 1)

1. Rate of Federal Excise Duty on aerated water has been increased to 9% on retail price from existing 6% on retail price

2. FED slab for cigarette has been revised as per following details:-

Locally produced cigarette having retail price exceeding Rs. 2,286 per thousand cigarettes	FED will be charged @ Rs. 2,325 per thousand cigarettes
Locally produced cigarette having retail price not exceeding Rs. 2,286 per thousand cigarette:	FED will be charge @ Rs.880 per thousand cigarette

3. FED slab regarding locally produced cigarette's retail price not exceeding Rs 11.50 per ten cigarette is omitted
4. FED @ Rs. 0.40/KG on Oil Seeds has been imposed by inserting a new entry at serial No 54 in First Schedule.

5 FED @ 10% is imposed on supplies of motor cars, SUVs and other motor vehicle of cylinder capacity of 18800 cc or above, principally designed for the transport of person (other than those of heading 87.02) including station wagons and racing cars of cylinder capacity of 1800 cc or above, by inserting a new serial 55 in first schedule of the FED Act.

Excisable Services	First Schedule(Table 2)

1. Entry related to insurance service has been deleted

2. Scope of 16% FED is extended on banking companies insurances companies cooperatives financing societies modarabas musharikas,leasing companies, foreign exchange dealers, non banking financial institutiuon , assets Management Companies and other persons dealing in any such services by substitution in serial 8, table-II of the First Schedule.

Exemption of FED on Certain Goods Withdrawn	Third Schedule(Table 1)

Entry related to conditional exemption on following items has been withdrawn:-

- Import or purchase of petroleum or energy sector companies.
- Supplies of lubricating to Pakistan navy for consumption in its vessels
- Supplies of transformer oil to international tenders.

Exemption of FED on Certain Services Withdrawn	Third Schedule(Table 2)

Conditional exemption on services of Assets Management Company has been proposed to be withdrawn.

Withdrawal of Partial exemption of FED on K.P.K, FATA and PATA	S.R.O. 500(I)/2013

Notifications pertaining to partial exemption of FED to KPK, FATA, PATA and other war affected regions are withdrawn

Repayment cum duty draw back on export of vegetable ghee, cooking oil and	S.R.O. 503(I)/2013

Entry # 4 related to repayment cum duty drawback of sales tax and federal excise duty to the registered persons on the export of vegetable ghee, cooking oil and margarine to Afghanistan is omitted

Fixed rate of FED on value addition (cooking oil and vegetable ghee)	S.R.O. 507(I)/2013

Federal excise duty on manufacturing and supply of cooking oil and vegetable gee made from locally produced oil is levied on fixed amount @ 1/- Rs per Kg in lieu of the duty on its value addition.

Fixation of minimum duty in lieu of value addition	S.R.O. 508(I)/2013

Fixed amount of FED @ Rs. 0.40 paisa per Kg on oil seeds at the import stage is levied in lieu of duty on Value addition

- With the objective of providing financial assistance and other social protection and safety net measures to economically distressed persons and families, the Finance Bill has proposed Income Support Levy through Income Support Levy Act, 2013.

- This charge will be applicable for every tax year commencing on and from tax year 2013.

- The rate of levy payable under this Act shall be 0.5% of net moveable wealth 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 immoveable) to whom liabilities relate are not determinable, proportionate liability will be allowed as a deduction.

- The levy will be payable along-with Wealth Statement.

- Relevant provisions of Income Tax Ordinance, 2001 will be applicable for the Appeals, Revisions, Rectifications, Recovery and for all other words & impressions used in this Act but not defined.

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