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KPMG Taseer Hadi & Co.
Chartered Accountants

Budget Brief 2014

An Economic and Tax Commentary

The Budget Brief 2014 contains a review of economic scenario and highlights of Finance Bill 2014 as they relate to direct and indirect taxes and certain other laws.

The provisions of the Finance Bill 2014 are generally applicable from 01 July 2014, unless otherwise specified.

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

4 June 2014

Contents

This brief is being issued as part of our client service programme exclusively for the information of clients and staff of KPMG Taseer Hadi & Co. and other KPMG member firms.

Budget at a Glance

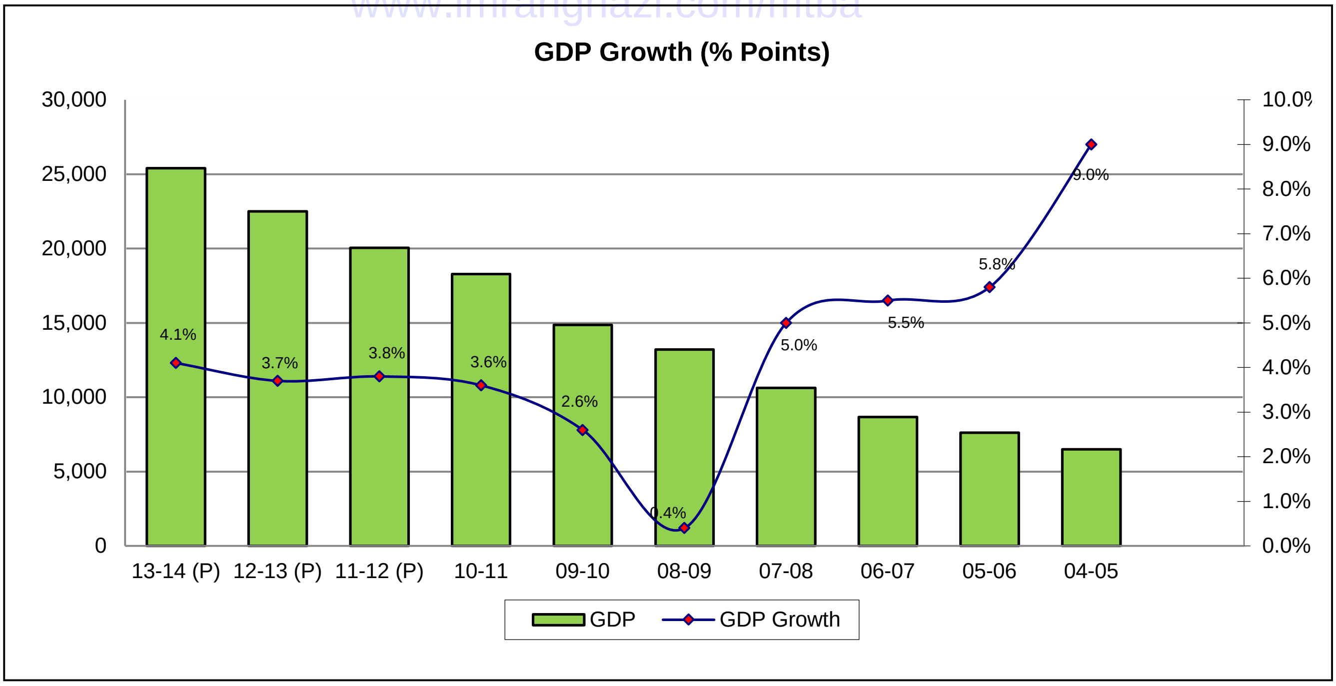
	Budget Estimate 2013-14	%	Revised Estimate 2013-14	%	Budget Estimate 2014-15	%
	------------------(Rupees in billion) ----------------					
Revenue						
Tax Revenue	2,671	72.8	2,514	66.7	3,129	74.2
Non Tax Revenue	749	20.4	1,083	28.7	816	19.4
	3,420	93.3	3,597	95.5	3,945	93.6
Public Accounts Receipts - Net	247	6.7	170	4.5	271	6.4
	3,667	100.0	3,767	100.0	4,216.0	100.0
Less: Provincial Share	1,502	41.0	1,413	37.5	1,720	40.8
Net Revenue	2,165	59.0	2,354	62.5	2,496	59.2
Expenditure						
Development	789	21.5	859	22.8	839	19.9
Current	3,437	93.7	3,404	90.4	3,527	83.7
	4,226	115.2	4,263	113.2	4,366	103.6
Deficit	2,061	56.2	1,909	50.7	1,870	44.4
Funded by						
Capital Receipts	487	23.6	636	33.3	484	25.9
Domestic Debt - Banks	975	47.3	376	19.7	227	12.1
External Debt	576	27.9	714	37.4	870	46.5
Surplus from Provinces	23	1.1	183	9.6	289	15.5
	2,061	100.0	1,909	100.0	1,870	100.0

Economic Analysis

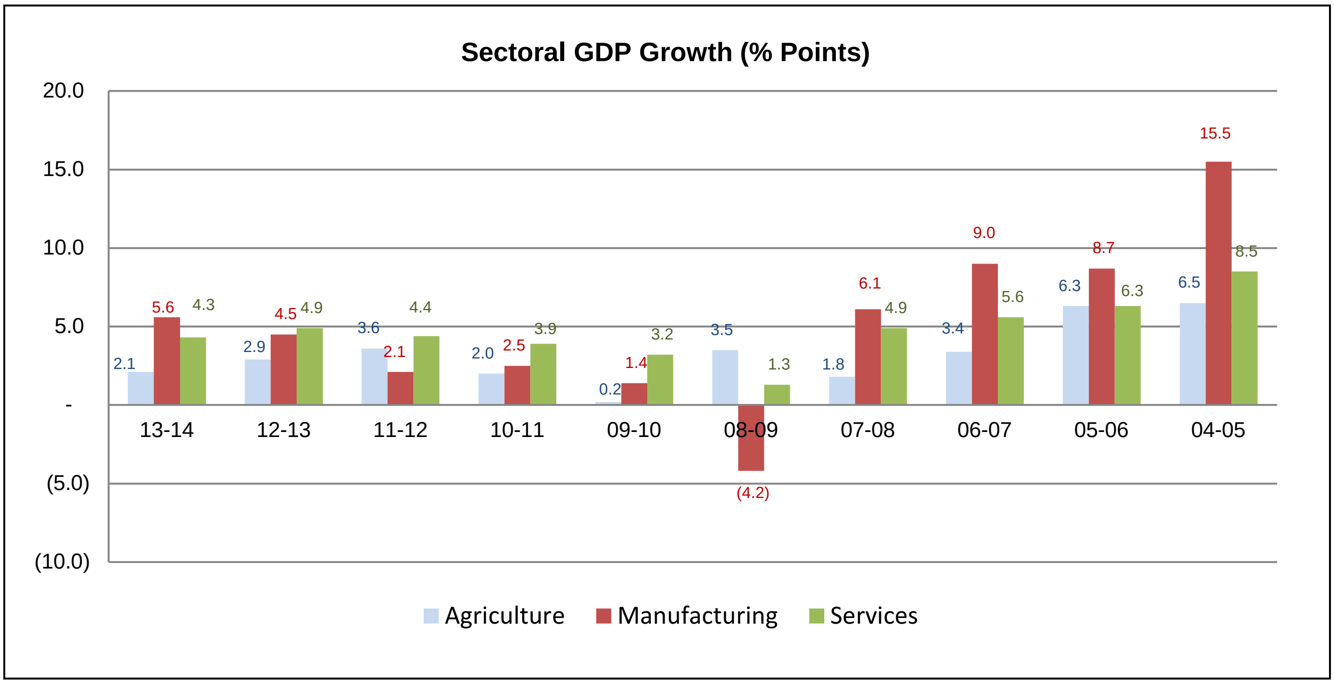
GDP Growth

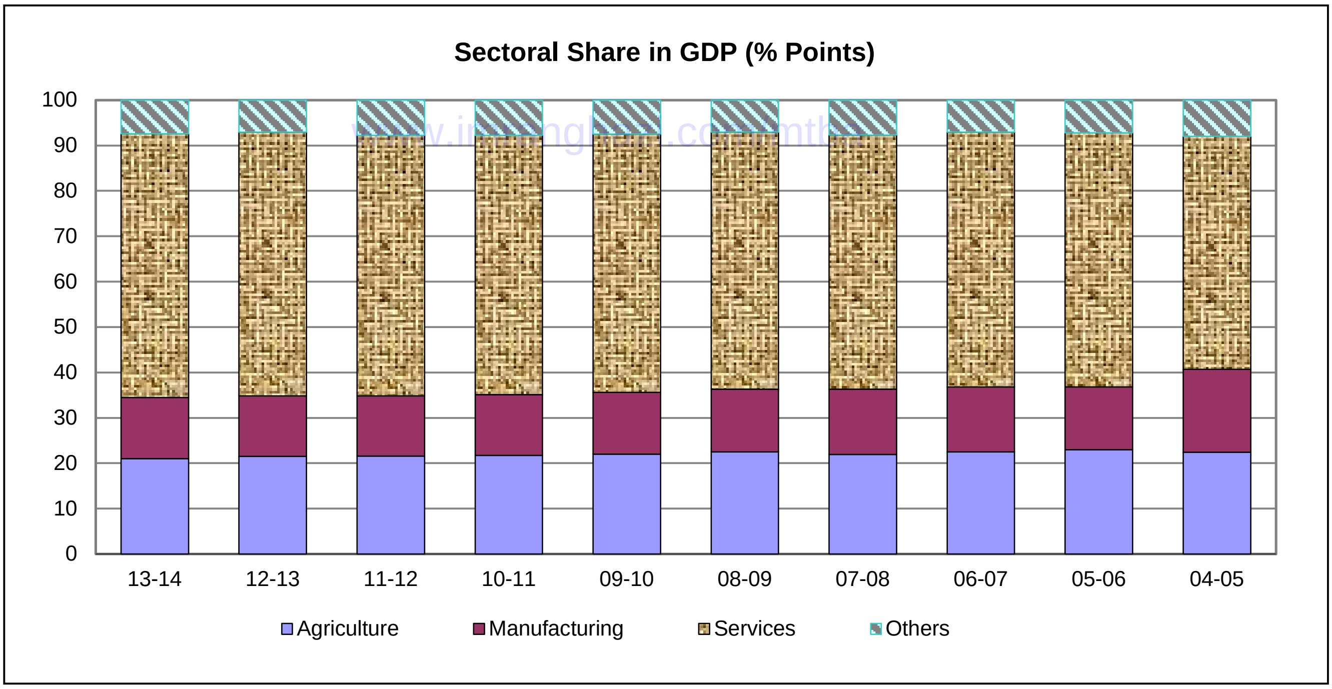
	13-14 (P)	12-13 (P)	11-12 (P)	10-11	09-10	08-09	07-08	06-07	05-06	04-05
Nominal GDP US$ billion	257	225	224	214	177.0	168	170	143.0	127.4	109.5
Nominal GDP Rs. million	25,402	22,489	20,047	18,276	14,867	13,200	10,638	8,673	7,623	6,500
Real GDP Growth %	4.1	3.7	3.8	3.6*	2.6*	0.4*	5.0*	5.5*	5.8	9.0
Sectoral GDP Growth %										
Agriculture	2.1	2.9	3.6	2.0*	0.2*	3.5*	1.8*	3.4*	6.3	6.5
Manufacturing	5.6	4.5	2.1	2.5*	1.4*	-4.2*	6.1*	9.0*	8.7	15.5
Services	4.3	4.9	4.4	3.9*	3.2*	1.3*	4.9*	5.6*	6.5	8.5
Sectoral Share in GDP %										
Agriculture	21	21.5	21.6	21.7	22	22.5	21.9	22.5	23	22.4
Manufacturing	13.5	13.3	13.2	13.4	13.6	13.8	14.4	14.3	13.8	18.3
Services	58.1	58.1	57.4	57.1	56.9	56.6	56	56.1	56	51.3

Base year 2005-06



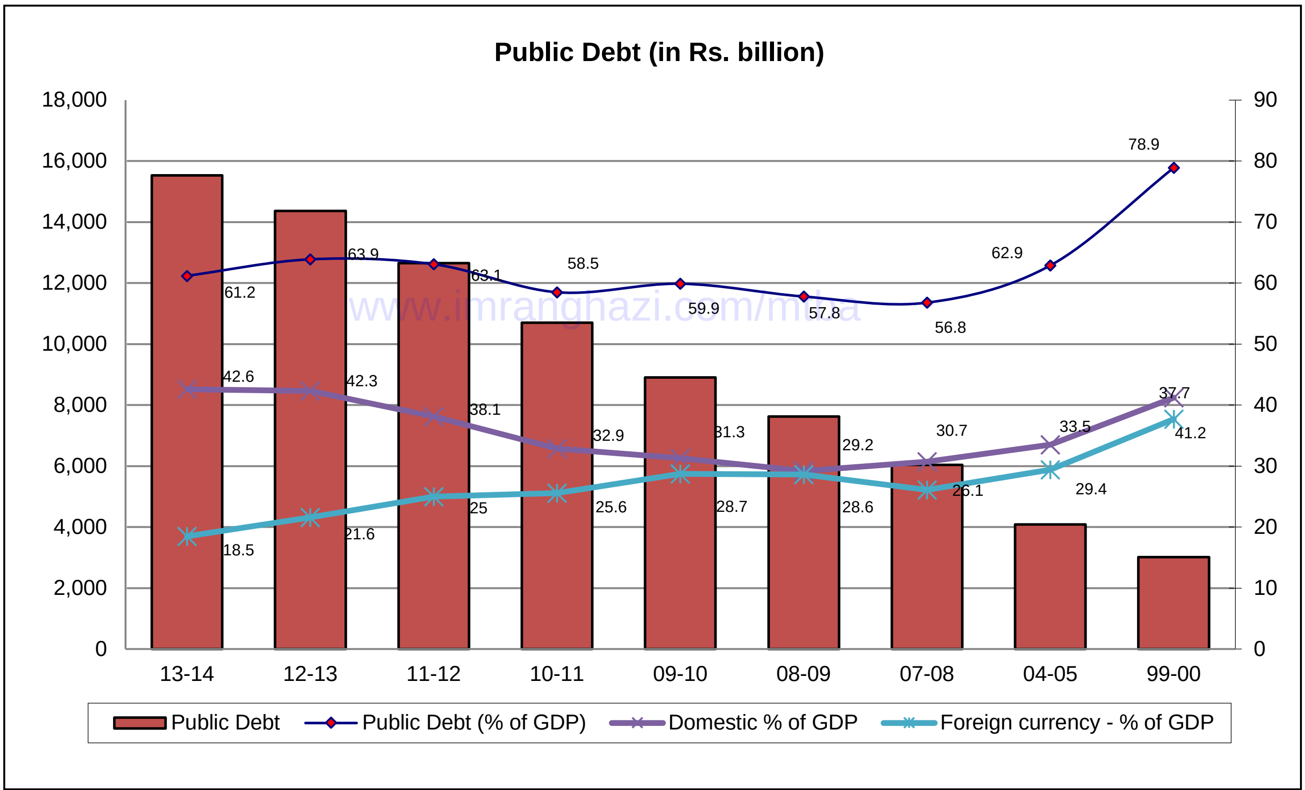
GDP Growth


Sectoral GDP Growth (% Points)
20.0
15.0
10.0
5.0
-
(5.0)
(10.0)
13-14
12-13
11-12
10-11
09-10
08-09
07-08
06-07
05-06
04-05
2.1
5.6
4.3
2.9
4.5
4.9
3.6
2.1
4.4
2.0
2.5
3.9
0.2
1.4
3.2
3.5
(4.2)
1.3
1.8
6.1
4.9
3.4
9.0
5.6
6.3
8.7
6.3
6.5
15.5
8.5
Agriculture
Manufacturing
Services


Sectoral Share in GDP (% Points)
100
90
80
70
60
50
40
30
20
10
0
13-14
12-13
11-12
10-11
09-10
08-09
07-08
06-07
05-06
04-05
Agriculture
Manufacturing
Services
Others

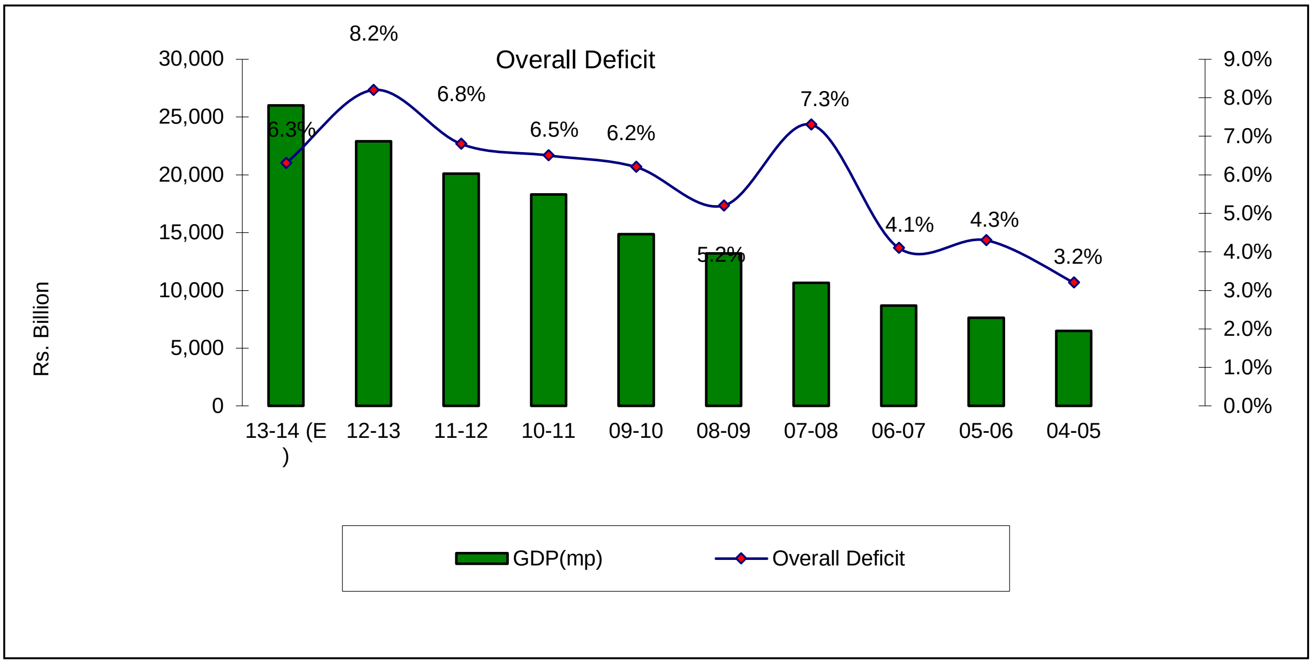
Public Debt

	13-14 (P)	12-13 (P)	11-12 (P)	10-11 (P)	09-10	08-09	07-08	04-05	99-00
Public Debt (Rs. billion)	15,534	**14,366**	**12,653**	10,700	8,911	7,629	6,044	4,091	3,018
Domestic	10,823	9,517	7,637	6,016	4,651	3,852	3,266	2,178	1,576
Foreign currency	4,711	4,849	5,016	4,684	4,260	3,777	2,778	1,913	1,442
Public Debt (% of GDP)	**61.2**	**63.9**	**63.1**	**58.5**	**59.9**	**57.8**	**56.8**	**62.9**	**78.9**
Domestic	42.6	42.3	38.1	32.9	31.3	29.2	30.7	33.5	41.2
Foreign currency	18.5	21.6	25.0	25.6	28.7	28.6	26.1	29.4	37.7



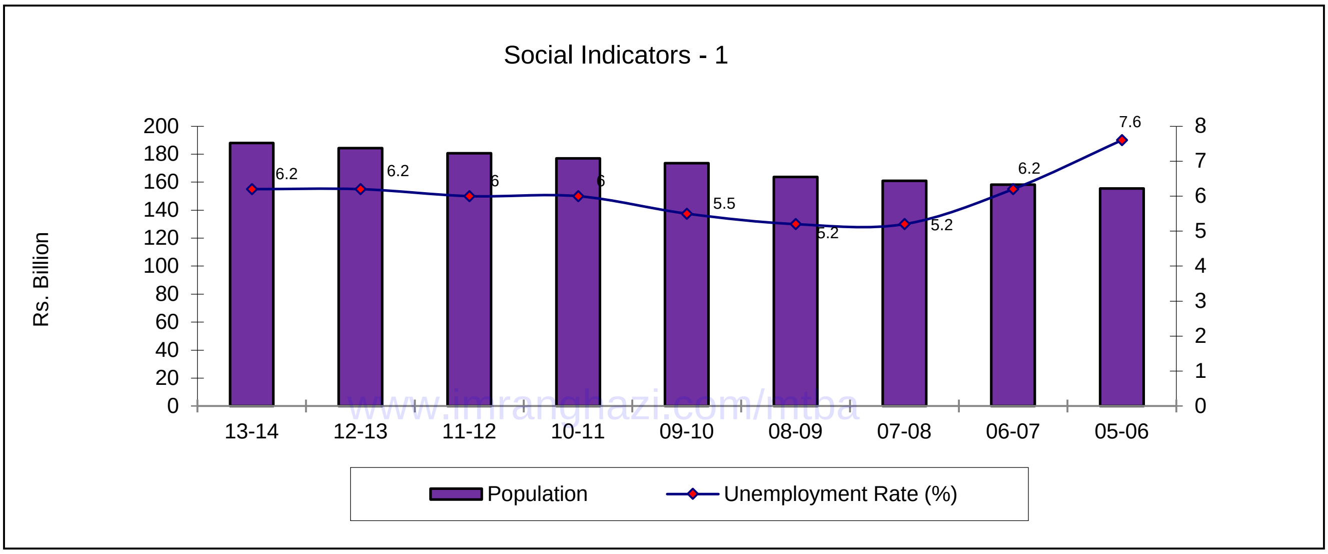
Overall Deficit

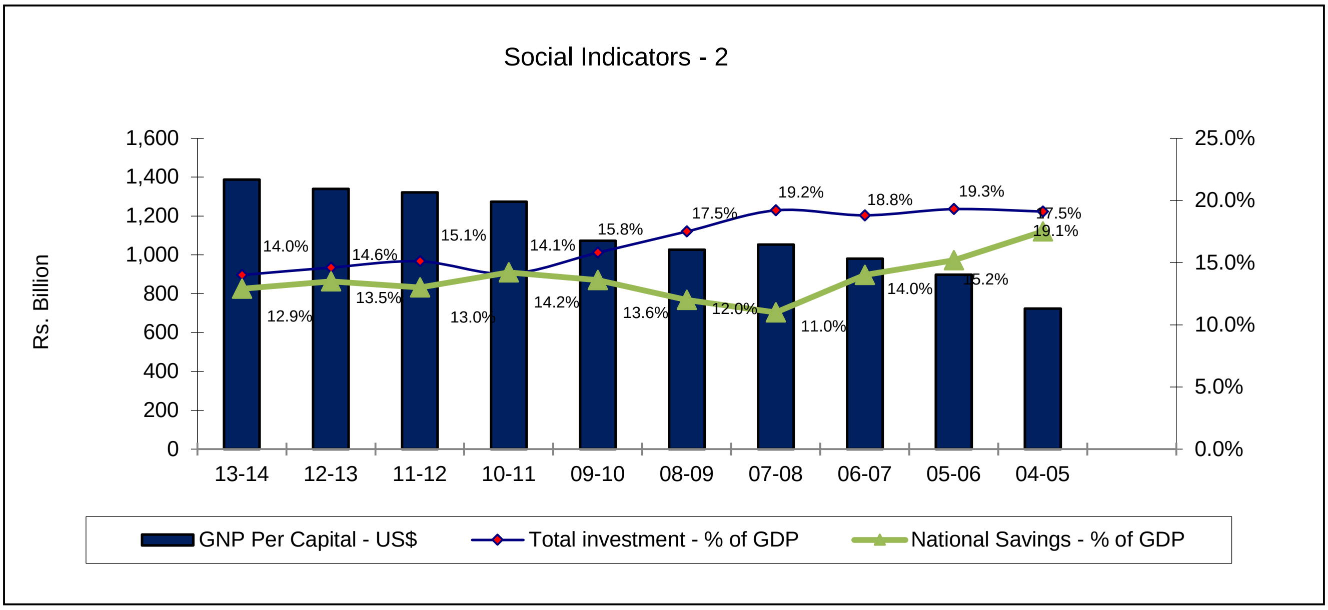
	13-14 (Jul-Apr)	12-13	11-12	10-11	09-10	08-09	07-08	06-07	05-06	04-05
(US $ million)										
Exports	21,038	24,795	24,696	25,356	19,673	19,121	20,427	17,278	16,553	14,482
Imports	34,297	40,226	40,461	35,872	31,209	31,747	35,397	26,989	25,017	18,996
Trade Balance	-13,259	-15,431	-15,765	-10,516	-11,536	-12,627	-14,970	-9,711	-8,464	-4,514
Services – net	-2,171	-1,472	-3,192	-1,940	-1,690	-3,381	-6,457	-4,170	-7,304	-5,841
Current Transfer – net	16,424	18,092	17,544	15,687	12,562	11,163	11,476	10,585	10,548	8,659
(Workers' remittances)	12,895	13,922	13,186	11,201	8,906	7,811	6,451	5,494	4,600	4,168
Income Account Balance – net	-3,156	-3,685	-3,245	-3,017	-3,281	-4,407	-3,923	-3,582	-2,667	-2,386
Current Account	-2,162	-2,469	-4,658	214	-3,946	-9,252	-13,874	-6,878	-5,015	-1,534
Overall deficit (% of GDP)	6.3	8.2	6.8	6.5	6.2	5.2	7.3	4.1	4.0	3.2



Social Indicators

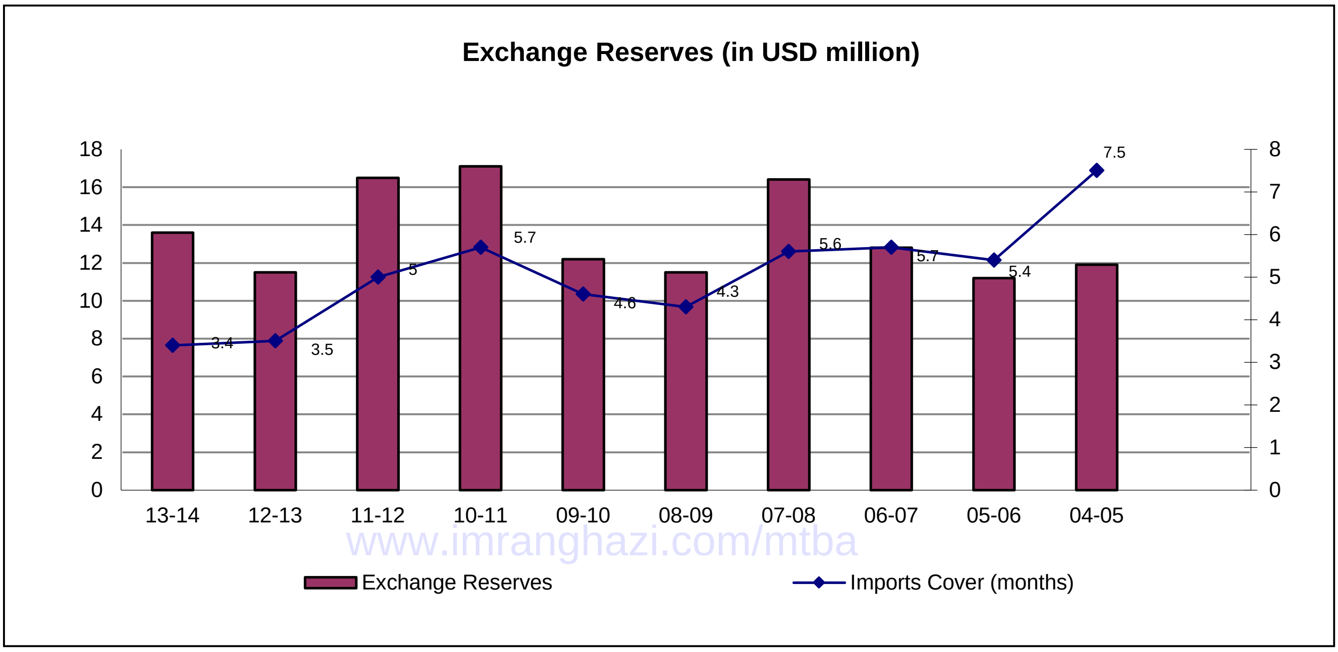
	13-14	12-13	11-12	10-11	09-10	08-09	07-08	06-07	05-06	04-05
Population (millions)	188	184.4	180.7	177.1	173.5	163.8	161.0	158.2	155.4	152.5
Unemployment rate (%)	6.2	6.2	6.0	6.0	5.5	5.2	5.2	6.2	7.6	7.7
GNP per capita – US$	1,386.2	1,339.5	1,320.5	1,274.1	1,072.4	1,026.1	1,053.2	979.9	897.4	724.1
Total investment - % of GDP	14	14.6	15.1	14.1	15.8	17.5	19.2	18.8	19.3	19.1
National Savings - % of GDP	12.9	13.5	13	14.2	13.6	12.0	11.0	14.0	15.2	17.5





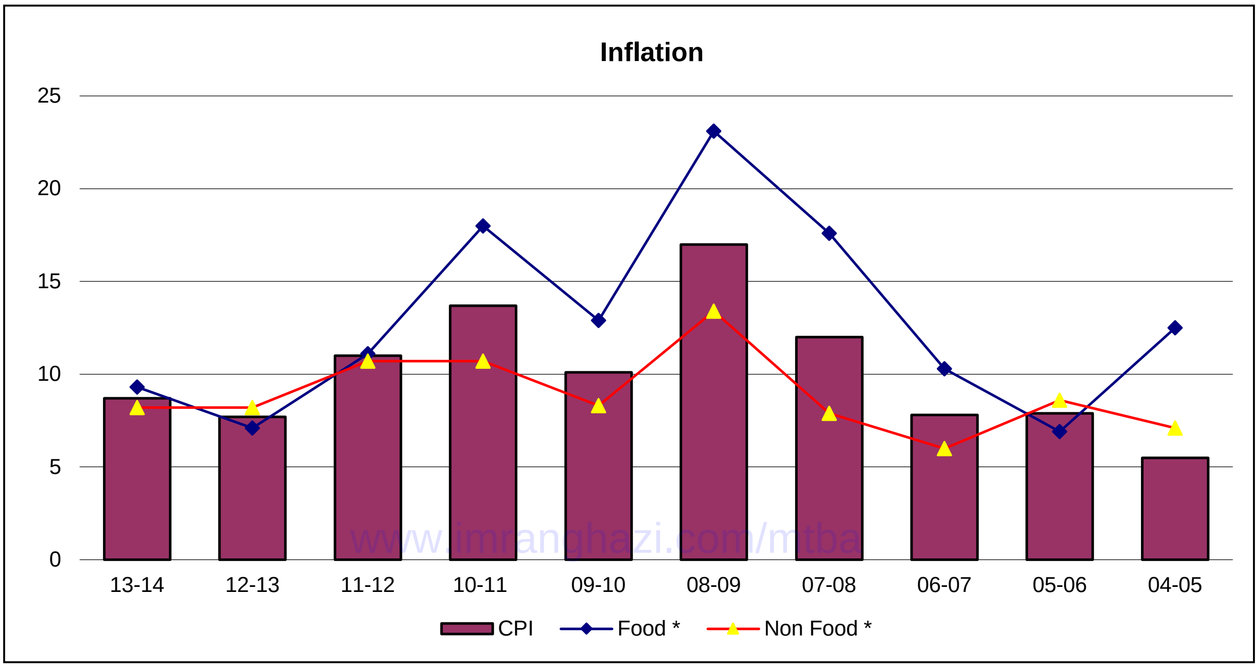
Exchange Reserves

	13-14	12-13	11-12	10-11	09-10	08-09	07-08	06-07	05-06	04-05
Exchange reserves (US$ billion)	13.6	11.5	16.5	17.1	12.2	11.5	16.4	12.8	11.2	11.9
Imports Cover (months)	3.4	3.5	5	5.7	4.6	4.3	5.6	5.7	5.4	7.5
Rupee to USD parity	98.77	99.66	89.2	85.5	83.8	78.5	62.5	60.6	59.9	59.4



Inflation

	13-14 (Jul-Apr)	12-13	11-12	10-11	09-10	08-09	07-08	06-07	05-06	04-05
CPI	8.7	7.7	11.0	13.7	10.1	17.0	12.0	7.8	7.9	5.5
Food *	9.3	7.1	11.1	18.0	12.9	23.1	17.6	10.3	6.9	12.5
Non Food *	8.2	8.2	10.7	10.7	8.3	13.4	7.9	6.0	8.6	7.1



Economic Scenario

A lot more to do

Admittedly it is rather unusual to commence an economic write up with a scope limitation, albeit this should not be associated with an accountant's natural aversion to risk.

While all attempts have been made to double check the underlying data, instances were noted where the same indicator differed between different data streams downloaded from the same source. In certain cases balances remained irreconcilable with related transaction details. Accordingly there is a risk that certain ratios and data referred to or quoted hereunder might not be one hundred percent accurate. Nonetheless, it can be asserted that the broad conclusions derived therefrom remain substantively accurate.

On the other hand, as also pointed out last year, if the existence of a significant undocumented economy is not a myth, then consequently the analysis and conclusions herein remain proportionately inconclusive and debatable.

The primary source of economic data remains the State Bank of Pakistan (SBP) and the Figures have been corroborated with the Economic Survey 2013-14.

As always, the objective of this brief on the economy is to provide our clients with an independent perspective of the state of affairs, and to highlight recommendations emanating therefrom in the best interest of the nation. Positive debate remains the hallmark of informed decision making.

Moving on, at the outset, the Government's determination to fix the economy was clearly visible from the beginning and subsequent actions confirm the seriousness of this initiative. Significant milestones were achieved during this ten month period generally spurred by the commitments made to the International Monetary Fund (IMF).

According to estimates GDP shows a growth of 4.1 percent for FY14, a considerable improvement over previous year's growth rate of 3.7 percent. Considering the positive sentiments across private sector, it is highly probable that by next year the growth rate might surpass the 5 percent level last achieved in 2008. Nominal GDP stands at Rs 25.4 trillion, around 13 percent increase over last year's GDP of Rs 22.48 trillion.

Positive sentiments are confirmed by the marked rise in the KSE 100 index which is hovering around 29,000 compared with 21,000 in June last year, an extraordinary increase of 38 percent. Market capitalization currently stands at around USD 69 billion.

The primary constraint to growth remains the energy crisis. The government is making all efforts to increase the generation capacity of the country, while at the same time focusing on cheaper alternatives; however mega projects inherently have a long term development phase which could create hurdles for the economic agenda. Further the recent press release revising the upfront coal tariff offering an ROE of around 30 percent appears to be anomalous.

The more worrying part is the declining trend in agriculture growth which stood at 2.1 percent compared to 2.9 percent in 2012-13 and 3.6 percent in 2011-12. Being an agricultural economy with majority of exports linked with the cotton crop, this decline has serious continuing repercussions for growth. It would be appropriate for the government to shift focus towards agriculture. The current budget envisages various incentives in this regard which include a Credit Guarantee Scheme, Crop Loan Insurance Scheme, Livestock Insurance Scheme, reduction in sales tax on tractors , setting up of a Warehouse Clearing House and increase in Agricultural loans. Hopefully these steps will generate the desired results.

The government, contrary to all expectations, was able to reverse the rupee's earlier collapse and stabilize it at FY13 parity with the US dollar at around Rs 98 to USD 1; definitely a remarkable achievement. While there are views that this has a negative impact on the country's exports, contrarily the government believes that the current exchange rate mirrors the true value of the rupee. Irrespective, beyond exports, a strong rupee can encourage imports resulting in a further deterioration in the trade deficit, which the economy can ill afford. The stated commitment to maintain the rupee at current levels will indeed be challenging with a continuously burgeoning trade deficit.

Broadly speaking, regional trade is beneficial for consumers particularly, and the economy in general, albeit if such an initiative is likely to worsen the trade deficit, perhaps carefully revisiting sector wise pros and cons might even be a prescient strategy.

Proposed budgetary measures in this regard include the setting up of EXIM bank of Pakistan, reduction of 2 percent in export refinance scheme, provision of long term loans to exporters at a reduced rate of 9 percent and setting up of Pakistan Land Port Authority. In addition the government proposes to increase the 0 percent duty slab on imports to 1 percent coupled with additional taxes on certain imports.

Textile sector which is the backbone of country's exports has also been incentivized with a promise to pay duty drawbacks in time. There are also proposals to allow duty free imports of machinery till 2016 and special trainings scheme for 100,000 Pakistanis in the garments sector.

While these steps are encouraging, a proactive approach towards reducing imports should be a continuing strategy.

The foreign exchange reserve position has improved markedly with SBP reserves currently standing at USD 8.3 billion compared with USD 6 billion at FY13. Arguably the gift of USD 1.5 billion, which remains in suspense, has been a catalyst in this build up; the eventual outcome of this gift can shift sentiments either way. Another positive factor was the government's laudable effort in issuance of USD 2 billion Euro Bonds. While certain quarters contest the efficacy of borrowing in foreign currency to pay rupee debts, in substance this appears to be a short gap adjustment, the compulsion to issue the bonds has a direct link with balancing the current account.

Population growth was another indicator which continued to rise, according to SBP there are 4 million more Pakistanis. While obviously the government can hardly control population growth, contrary to conventional wisdom, a growing population might not be a bad thing. Workers remittance continued to be the 'Knight in shining armor' for the economy and currently stand at USD 12.89 billion. Remittances are expected to surpass last year's amount of USD 13.92 billion. As this variable is uncontrollable, any scenario where remittances take an unexpected fall could complicate the government's efforts to manage the current account. On the other hand, since this remains a sector where Pakistan has an edge, it would be advisable to focus development and aid activities towards training and exporting skilled and unskilled labor.

Inspite of all efforts to curtail inflation, the average CPI inflation for July-April 2014, according to SBP, is 8.7, 100 basis points more than last year. Compared with the deposit rates, this does penalize depositors, which perhaps is the reason for a fall in the savings rate. Inflation remains the key objective of the monetary policy, however curbing it will continue to be a challenge. The perception that actual inflation for the common man is much higher than the claims further complicates the situation and has a direct bearing on investment sentiments.

According to the SBP, M2 increased by 7.32 percent for the period 1 July 2014 to 9 May 2014 as compared to 10.32 for a comparable period last year.

Public debt continued to rise during the period and is potentially the biggest risk to the economy. According to SBP domestic public debt stood at Rs 10.948 trillion in May 2014 compared to Rs 10.820 trillion for the comparable date. As opposed to that, external debt and liabilities stood at USD 61.8 billion in May 2014 compared with USD 60.8 for the comparable period. As mentioned last year, ever rising external debt is a cause of concern for the country. The biggest enigma is, considering that the nation's trade always results in a deficit, how will Pakistan ever pay this debt? External debt cannot be repaid by printing rupees.

Not in any way undermining the government's effort to manage the situation, and in any case this was the exact argument forwarded by the government itself, Pakistan is simply borrowing more to pay its previous debt obligations. Is this not synonymous with a classic debt trap?

The much larger concern is, how much more can the nation borrow from foreigners? Realistically an entity cannot borrow more than its capital, which begets the question, what is Pakistan's capital base. Perhaps one can estimate the national wealth based on the fundamental laws of capitalism from Thomas Piketty's much acclaimed and now controversial book "Capital in the twenty-first Century", except that the information required for such a determination is not readily available.

Considering that the total value of listed companies in Pakistan currently stands at USD 69 billion, the situation does not appear very heartening; and this is not the end of the story. According to SBP, the direct investment position of Pakistan stands at negative USD 73 billion, in addition to the external debt, the nation seems to be at the verge of a fiscal cliff. Verily the government continues to borrow.

Foreign debt can only be repaid out of foreign currency generated through trade. As of April 2014, Pakistan's net trade deficit for the period in goods, services and income stood at USD 18.5 billion compared with USD 20.6 billion for FY 13. This balance of payment situation is what might have compelled the government to dispose of the 3G licenses on a fast track, notwithstanding that this was accomplished in a transparent and efficient manner. And this is also one of the key reasons for pushing ahead with privatization and offering high ROE on FDI in the coal power sector.

The endless debate on the benefits of the private sector vis-à-vis the public sector aside, the need to balance the current account must not cloud the decision making. Irrespective, once the "Zambeel" is empty of SOEs for sale, what will Pakistan sell?

There is an urgent need to go "Back on the street" and focus on export oriented or import substitution projects and investments. In the interim, imports will need to be monitored and managed, which perhaps is the global outlook after the double financial crises.

On the taxation front, according to the economic survey, tax collection for the period July-March 2014 stood at Rs 1.74 trillion, a 16 percent increase over last year. Accounting for inflationary impact, tax collections, in-spite of FBR's aggressive posture, perhaps missed the mark and were 9.5 percent of GDP, nonetheless a considerable improvement compared with 8.7 percent last year.

In a nutshell, the government has made considerable inroads on the path to recovery which has alleviated perceptions about the country in terms of doing business. However a unilateral reliance on FDI and uncontrolled trade is not likely to produce the requisite results. FDI is necessary for importing technology and knowhow and perhaps for short gap cash flow management, what should however be kept in mind that it has a cost. If domestic investment is shying away, foreign investors will look for a much higher return and a much shorter payback.

The government needs to focus on facilitating domestic investment and freezing bank accounts to collect taxes and delaying foreign payments to manage reserves is not going to help.

Reverting to our last year's suggestions, we continue to believe that without proactive efforts to reduce the humongous annual trade deficit, the road to recovery will remain rocky. Much higher taxation on luxury consumables is a step in the right direction.

Targeted subsidies for the deserving of society should be a priority to allay the growing feeling of discrimination. A lot more has to be done on this front and will require "Out of the box" thinking on every necessity of life. The suggestion that private sector be incentivized for setting up projects which create employment in the manufacturing sector needs to be pursued. Low cost housing schemes and health insurance schemes are commendable initiatives for providing relief to the masses.

As touched upon earlier and suggested last year, aid activity needs to be entirely focused on employment creation. The market will take care of health and education of the community if the head of the household is honestly employed.

The government is making commendable efforts towards power generation. However, hydel generation is arguably the only path to cheap electricity for the future, at least at this point in time. To this end there needs to be a focus on hydel projects even if these have to be developed in the public sector. Perhaps a larger portion of development funds can be utilized towards this objective.

As was the practice in yester-years, central bank might also use its arsenal of regulations to direct investments towards priority sectors, directly or indirectly. The government has in the current budget introduced reduced lending rates for export oriented, especially textile, in this regard.

Finally, the government seems to have a twin pronged approach to State Owned Enterprises, of restructuring and privatization. Privatization remains a double edged sword, in the short term this strategy eliminates budgetary pressures, however in the long term assets once sold to foreigners are gone forever. Any decision to privatize should therefore begin with brainstorming the fundamental question, as an example, is there a need for Pakistan to have a national airline or not; all else is secondary.

The following key targets were announced for the 3 year Medium term Economic Framework:

- GDP growth to be increased to 7.1 percent by 2016-17
- Inflation to be maintained at single digit.
- Investment to be increased to 20 percent.
- Fiscal deficit to be brought down to 4 percent.
- Tax to GDP ratio to be increased to 13 percent.
- FOREX reserves to be increased to USD 22 billion by 2016-17.

Beyond all of the above, if there is one step which can change Pakistan, it is investment in quality education. Somehow or the other every successive government has acknowledged this fact but failed to take concrete steps in the right direction; let's hope and pray this time it is different.

We appreciate the government for its achievements till now, but there is still a lot more to do.

Highlights

Income Tax

- The Finance Minister in his budget speech made a statement and the salient features issued alongwith budget documents also contained information that rate of tax for companies of tax year 2014 shall be reduced to 33 percent. However, the Finance Bill does not contain an amendment to this effect which appears an omission.

- Bonus shares received by a shareholder to be treated as income and a tax rate of 5 percent to be applied on value of bonus shares determined on the basis of day-end price on the first day of closure of books. Tax is to be collected at source by the company declaring bonus shares which shall also be considered as final discharge of tax liability on such income.

- 'Stock fund' defined to mean a collective investment scheme or a REIT where more than 75 percent of the investment out of investible funds are invested in equity shares of companies.

- Capital gain on debt securities including corporate and government bonds proposed to be taxed in line with listed equity investments.

- Withholding tax by NCCPL made applicable in case of Foreign Financial Institutions.

- Spectrum license fee received by Pakistan Telecommunication Authority to be treated as income of the Federal government and thus not liable to taxation.

- Share of income of a company in an 'association of persons' [AOP] to be excluded from the income of AOP for the purpose of computing its total income. Such share of income of the company is proposed to be taxed at applicable corporate tax rate.

- Tax exemption for non-profit organizations replaced with a hundred per cent tax credit admissible on filing of return, compliance with withholding tax obligations and filing of withholding statements.

- Alternative corporate tax introduced with effect from Tax Year 2014; as minimum tax payable at 17 percent of accounting profits (subject to certain adjustments). In case corporate tax liability falls short of such alternative corporate tax, the tax so paid, in so far it exceeds corporate tax liability, will be adjustable against such liability for the next ten years. The proposed mechanism of taxation will not apply to banking companies, insurance companies, and companies engaged in exploration and production of petroleum.

- Separate withholding tax rates introduced for 'filers' and 'non-filers'; a filer being a person whose name appears on the active taxpayers' list of FBR or who holds a taxpayer's card.

- Tax collected at 4.5 percent on import of ships is to be considered final discharge of tax liability on income from ship-breaking.

- Withholding tax at 20 percent introduced on directors' fee or fee for attending board meetings, such tax will be adjustable against final tax liability of the director(s).

- Sports persons are proposed to be taxed at 10 percent under the minimum tax regime in line with the other non-corporate tax payers.
- Withholding tax rates enhanced on supply of goods, rendering of services, execution of contracts, commission, and imports. Further, non-filers are to pay more tax cost as compared to filers.
- National tax number made mandatory for obtaining industrial or commercial connection of electricity or natural gas.
- Provision for advance tax collection on private motor vehicles rationalized.
- Tax on steel melters, steel re-rollers, and composite steel units registered for purposes of Chapter XI of Sales Tax Special Procedure Rules, 2007 proposed at the rate of one rupee per electricity unit consumed.
- Advance tax on purchase or transfer of immoveable property is proposed to be collected from the purchaser or transferee at one percent in case of filers and at two percent in case of non-filers, if value of property is more than Rs. 3 million.
- Advance tax on purchase of international air tickets is proposed on first class and business class travel at varying rates for filers and non-filers.
- Tax rate on dividend is proposed to be enhanced to 25 percent in case dividend is paid by a mutual fund or by an income fund to a company.
- Tax rate on dividend from a stock fund is to be increased to 12.5 percent in case the fund's dividend receipts are less than its capital gains.

- Tax rate on capital gains on sale of listed securities is proposed to be reduced at varying rates corresponding to holding period of security. Incentives have been provided for the capital market. If holding period of securities is under 12 months the final tax liability on capital gains will be 12.5 percent for fiscal year 2015. Had this change not been proposed the rate for security held for less than 6 months would have increased to 17.5 percent and that for holding period more than 6 month but less than 12 months would have been 9.5 percent. If a security is held for more than 12 months but less than 24 months, tax at 10 percent is proposed to be collected on capital gains as against 0 percent currently. Securities held for more than 2 years will continue to be exempt from tax.
- Adjustable withholding tax at 7.5 percent introduced in case of domestic electricity bill exceeding Rs. 100,000 per month.
- Income of Collective Investment Scheme or REIT would qualify for exemption on 90 percent distribution of its accounting income to unit holders in form of cash dividend only.
- Tax exemption for 5 years proposed for fruit processing units set up in Baluchistan, Gilgit Baltistan, Malakand division, and FATA.
- Profits and gains derived by coal mining projects in Sindh, supplying coal exclusively to power generation projects are to be tax exempt. Further, dividend income of these projects is to be taxed at 7.5 percent.

- Rate of tax reduced to 20 percent for a period of 5 years for companies setting up industrial undertakings between 01 July 2014 to 30 June 2017; subject to 50 percent cost of the project including working capital financed by owner's equity as direct foreign investment.

- Flying allowance received by airline pilots exceeding their basic salary to be taxed at 7.5 percent.

- Option given to taxpayers under final tax regime to opt for normal tax liability proposed to be modified with reference to filing of return, accounts and specified documents and conditions.

- The rate of initial allowance on buildings is proposed to be reduced from 25 percent to 10 percent.

- Apportionment of expenses proposed for computing net income from dividends and from capital gains in case of banking companies. Further, it is also proposed that the rate of tax on net capital gains be enhanced to 12.5 percent.

Income Support Levy

- The Income Support Levy Act, 2013 is proposed to be repealed.

Sales Tax

- Exemptions are proposed to be introduced for goods meant for agriculture sector including high efficiency irrigation equipment, sprinklers, green house farming equipment, plant & machinery for setting up fruit processing and preservation units in Gilgit-Baltistan, Balochistan & Malakand, etc.

- Exemptions in respect of import of raw cotton and ginned cotton, plant and machinery for exploration companies, etc., are proposed to be withdrawn subjected to sales tax at 5 percent.

- Two-tier system of taxation proposed for retailers by withdrawing Rs. 5 million exemption threshold. Firstly, for large retailers having outlets as part of national or multinational chains or located at air-conditioned malls and secondly linking with electricity bills of the retailers, proposing sales tax at 5 percent and 7.5 on prescribed thresholds of monthly electricity bill.

- Amount collected by seller as further tax @ 1 percent to be deposited separately without adjustment of input tax.

- Zero-rating and exemptions currently available under various SROs are proposed to be regulated through Fifth and Sixth Schedules to curb SRO culture.

- Restrictions on undue claim of input tax proposed to be enforced under Sections 7 and 8 of the Act, which entail that the manufacturers would be entitled to claim input tax on consumption basis. Further, inadmissible items specified under SRO.490(I)/2004 merged in Section 8 of the Act.

- Budgetary measures announced reveal that sales tax rates are being revised on rapeseed, sunflower and canola seed from 14 percent to 17 percent, import of finished articles of leather and textile from 5 percent to 17 percent, local supply of tractors from 16 percent to 10 percent and steel melters and re-roller from Rs. 4 per unit to Rs. 7 per unit of electricity.

- Sales Tax on supply of natural gas to CNG stations proposed to be rationalized at 17 percent.

- Scheme of capacity tax on aerated waters proposed to be reverted to normal tax regime.

- Fixed sales tax on mobile / smart phones ranging Rs.150 to Rs.500 per set / registration, as regulated through SRO.460(I)/2013 is proposed to be continued under Ninth Schedule.

Federal Excise

- Rate of FED proposed to be enhanced on locally produced cigarettes.
- FED on cement has been modified from Rs 400 per metric ton to 5 percent on retail price.
- FED on international air travel is proposed to be increased from Rs 3,840 to Rs 5,000 per ticket for economy and from Rs 6,840 to Rs 10,000 in the case of business class travel. Services by chartered flights will be charged FED at 16 percent.
- Telecom services being subjected to provincial sales tax will be excluded from FED. FBR has still not extended this benefit for other excisable services where FED is applicable in sales tax mode.
- In case of Islamabad and Baluchistan, the current FED rate of 19.5 percent will stand reduced to 18.5 percent.
- FED on locally manufactured cars exceeding cylinder capacity of 1800 cc stands abolished, yet imported motor vehicles of 1800cc would continue to attract FED at 10 percent.
- Board is empowered to specify through a general order any zone or area for determination of highest retails for any brand or variety of goods.

Customs

- Exemption from Custom Duty on imported plant and machinery for setting up fruit processing and preservation industrial units in Gilgit-Baltistan, Balochistan and Malakand Division proposed.
- Exemption from Custom Duty on plant and machinery for setting up industries in FATA proposed.
- Maximum General Tariff of 30 percent reduced to 25 percent.
- Minimum General Tariff of 0 percent increased to 1 percent.
- Essential concessions retained by incorporating them in newly added Fifth Schedule to the Customs Act,
- Word ‘taxes’ proposed to be inserted in sub-sections of section 32 so as to collect taxes in addition to customs duties which are not paid or short paid by reason of collusion, inadvertence or erroneously refunded.
- Words ‘taxes and other charges’ proposed to be inserted in sections 80 & 81 so as to collect taxes and other charges in addition to customs duties in the case of re-assessment or provisional assessment.

Income Tax
Significant Amendments

Taxation of bonus shares

S. 2(29), 39(1), 236M, clause (99) of Part I of the Second Schedule

Any income derived by a Collective Investment Scheme or REIT Scheme qualify for exemption on distribution of 90 percent of accounting income for the year reduced by capital gain etc. A dispute arose whereby the distribution of profits through bonus shares was challenged by the tax authorities for the purpose of determining 90 percent threshold in order to qualify for exemption of income. The appeals against the assessments raised denying exemption are pending at different appellate forms.

In the above stated background, The Finance Bill proposes to amend the provisions pertaining to taxation of bonus shares in the following manner:

- Bonus shares received by a shareholder to be treated as income

  The term “income” defined in section 2(29) includes any amount chargeable to tax under this Ordinance and subject to collection or deduction of tax under sections 148, 150, 152(1), 153, 154, 156, 156A, 233, 233A and 234(5) and any amount treated as income under any provisions of the Ordinance or loss of income. However, the amount representing face value of any bonus shares or the amount of bonus declared, issued or paid by a company to shareholders, with a view to increase its paid up share capital, was excluded from the ambit of “income”.

  Consequent to the amendments proposed as the Bill, the bonus shares or the amount of bonus declared by a company will be treated as income of the shareholder and would be chargeable to tax under the head “income from other sources”.

- Withholding tax on bonus shares

  The Finance Bill proposes that every person issuing bonus shares to the shareholders of the company shall collect tax at the rate of 5 percent of the value of bonus shares determined on the basis of day-end price of the first day of the closure of books. The company issuing the bonus shares shall be required to make arrangements for collection of such tax. In case of default the said company shall be liable to pay the tax not so deducted without prejudice to any other liability under the Ordinance.

  The tax so collected shall be treated as final tax on the income of the shareholder of the company arising from the bonus shares or bonus.

- Taxation of Collective Investments Scheme

  Income of Collective Investments Scheme or REIT scheme is exempt from tax, if ninety percent of its accounting profits for the year, as reduced by capital gains, is distributed amongst the unit or certificate holders or shareholders etc. The Finance Bill proposes that for the purpose of determining distribution of ninety percent threshold, income distributed through bonus shares, units or certificates as the case may be, shall be excluded from the accounting income.

Taxation on Dividend from Stock Fund and Collective Investment Scheme

S. 2(61A) and S.5

The Finance Bill proposes to insert the definition of Stock Fund which means a collective investment scheme or a mutual fund where the investible funds are invested by way of equity shares in companies to the extent of more than 75 percent of the investment.

Further the tax rate on the dividend received by a person from a stock fund is proposed to be taxed at the rate of 12.5 percent for tax year 2015 and onwards, if dividend receipts are less than capital gains.

In case of a company where the dividend received from a collective investment scheme or a mutual fund, other than a stock fund would be subject to tax at the rate of 25 percent for tax year 2015 and onwards.

Capital gain on disposal of securities

1st proviso to S. 37A(1), S. 37(4) and Division VII of Part I of the First Schedule

Capital gain on disposal of securities, other than gain exempt under this Ordinance, is governed under the provisions of section 37A. First Schedule provided varying tax rates applicable for tax year 2011 to 2015 depending upon the holding period. Further, capital gain arising on securities held for more than one year is not chargeable to tax under this section.

The Finance Bill proposes the following amendments:

- The holding period of twelve months has been enhanced to twenty four months for the purpose of taxation at zero percent. The tax rates where holding period is less than twenty four months are proposed to be revised as follows for tax year 2015:

- Where the holding period is less than 12 months	12.5%
- Where holding period is between 12-24 months	10%
- Where holding period is 24 months or more	0%

- Further, the provisions of section 37A have been extended to “debt securities” which has been defined to mean:

  (a) Corporate debt securities such as Term Finance Certificate, Sukuk Certificates (Shariah Compliant Bonds), Registered Bonds, Commercial Papers, Participation Term Certificates and all kinds of debt instruments issued by any Pakistani or foreign company or corporation registered in Pakistan; and

  (b) Government Debt Securities such as Treasury Bills, Federal Investment Bonds, Pakistan Investment Bonds, Foreign Currency Bonds, Government papers, Municipal Bonds, Infrastructure Bonds and all kinds of debt instruments issued by Federal Government, Provincial Government, Local Authorities and any other statutory bodies.

Withholding tax by NCCPL to apply to Foreign Institutional Investors

Section 100B and the Eighth Schedule

By virtue of an exclusion under section 100B, NCCPL is not liable to withhold tax from capital gain in the case of foreign institutional investors. The Finance Bill now proposes to withdraw this exclusion. NCCPL will now be liable to withhold tax from capital gain under Eighth Schedule in case of foreign institutional investors also.

Further, a company in respect of debt securities would not be subject to withholding tax by NCCPL under Eighth Schedule.

Income from sale of spectrum licenses

S. 49

Income of Federal, Provincial and Local Governments is exempt from tax under this section. It is further provided that exemption under this section shall not apply in case of a corporation, company, a regulatory authority or a development authority etc. established by or under the Federal or provincial law.

Pakistan Telecommunication Authority recently sold spectrum licenses to the mobile network operators. In order to provide exemption to this income, a proviso is proposed to be inserted whereby such income of PTA on behalf of the Federal Government after 1 March 2014 shall be treated as income of the Federal Government and thus would not chargeable tax.

Taxation of companies as a member of an AOP

S. 88A and 92

Under the existing provisions, share of profits of a company from an AOP (joint venture) of which it is a member is taxed at the rates applicable to an AOP. However, such profits are then included in the profits of the company, and a tax credit equal to the average rate of tax on the share from AOP is allowed to avoid double taxation.

The Finance Bill now proposes to omit section 88A and insert a proviso to section 92. Consequently, the share of income of a company, being a member of an AOP, shall be excluded from the income of AOP for the purpose of computing total income of AOP. However, the company would include share of income from AOP in its other income and chargeable to tax at the applicable corporate tax rate.

Non-profit organizations, trusts or welfare institutions etc. entitled to tax credits as against tax exemption

S. 100C, clause (58), (58A), (59) and (60) and Part I of the Second Schedule

Certain clauses of Part I of the Second Schedule provided exemption from tax for the income of following persons subject to specified conditions:

Clause (58)(1)	Income of a trust, welfare institution or non-profit organization from donations, voluntary contributions, subscriptions, house property, investment in securities of Federal Government

Clause (58)(2)	A trust administered under a scheme approved by the Federal Government.
Clause (58)(3)	A trust or welfare institution or NPO approved by the Chief Commissioner.
Clause (58A)	Income of a University or educational institution run by an NPO
Clause (59)	Income from investment in securities of Federal Government, profit on debt from scheduled banks, grant received from Federal, Provincial or District governments, foreign grants and house property held under a trust for religious or charitable purposes
Clause (60)	Income of a religious or charitable institution from voluntary contributions

The Finance Bill proposes to withdraw the exemptions specified above and instead allow tax credit equal to 100 percent of the tax payable including minimum tax and final taxes payable under any provisions of the Ordinance. However, these tax credits shall be allowed subject to the following conditions:

(a) That the return of total income has been filed

(b) Tax required to be deducted or collected has been deducted and collected and paid

(c) Withholding tax statements for immediately preceding tax years have been filed.

The tax authorities have been alleging that the exemption provisions contained in the Second Schedule were being misused under the garb of NPOs or welfare institutions etc. The proposed provisions will not enhance any tax liability for the above stated persons but will help documentation and compliance to the withholding tax and other provisions of the Ordinance.

Minimum tax

S.113

The existing provisions require payment of minimum tax at the rate of 1 percent of a person's turnover from all sources if the actual tax payable or paid by such person is less than said 1 percent. However, clauses (7), (8), (9), (10), (12), (13), (14) and (15) of Part III of Second Schedule reduced minimum tax rates applicable to different class of taxpayers. The Finance Bill now proposes to delete the aforesaid and consolidate the minimum tax rates in Division IX of Part I the First Schedule to the Ordinance in the following manner:

Person(s)	Minimum Tax as percentage of the person's turnover for the year
(a) Oil marketing companies, Oil refineries, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds rupees one billion.)	0.5%
(b) Pakistan International Airlines Corporation	

Person(s)	Minimum Tax as percentage of the person's turnover for the year
(c) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production.	
(a) Distributors of pharmaceutical products, fertilizers and cigarettes (b) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990 (c) Rice mills and dealers (d) Flour mills	0.2%
Motorcycle dealers registered under the Sales Tax Act, 1990	0.25%
In all other cases	1%

However, transposition of the above provisions has resulted in following changes:

(a) Distributors of the fast moving consumer goods have been excluded from a reduced rate of minimum tax of 0.2 percent and are now subject to minimum tax at 1 percent.

(b) The reduced rate of 0.2 percent is applicable to the distributors of cigarettes manufactured in Pakistan. By deletion of words "manufactured in Pakistan", it appears the 0.2 percent rate of minimum tax shall apply to distributors of cigarettes including the imported cigarettes.

Besides above there appears an error in the Finance Bill when it provides deletion of words "equal to one percent of the person's turnover for the year" in section 113(1).

Alternative Corporate Tax

S. 113C

The Finance Bill proposes to insert a new scheme of taxation providing for tax payable by a company at a higher of corporate tax or Alternative Corporate Tax (ACT). The salient features of this scheme are summarized below:

(a) The provisions of this section shall apply notwithstanding anything contained in the Ordinance for tax year 2014 and onwards;

(b) "Alternative Corporate Tax" has been defined to mean tax at the rate of 17 percent of a sum equal to accounting income excluding the following:

(i) Exempt income

(ii) Income subject to tax under sections 37A (capital gain on specified securities), 148(7) (income from imports), 150 (dividend), 153(3) (supply of goods and execution of contracts), 154(4) (exports and indenting commission), 156 (prizes and winnings) and 233(3) (brokerage and commission).

(iii) Income subject to tax credit under section 65D for newly established industrial undertakings and 65E for existing industrial undertakings.

(c) “Accounting Income” means the accounting profit before tax as disclosed in the financial statements or as adjusted by the apportionment of expenses between the amount to be excluded from the accounting income and the amount to be treated as taxable income.

(d) “Corporate Tax” means total tax payable by a company including tax payable on account of minimum tax and final tax under the provisions of the Ordinance but not including dividend income, royalty and technical fee in the hands of non-resident person and income from shipping and air transport in the hands of a non-resident person and any amount charged or paid on account of default surcharge or penalty and tax payable under this section.

Apparently, the exclusion of tax and default surcharge etc. under section 161 and 162 appears to be misplaced.

(e) The accounting income as explained in the foregoing paragraph shall be treated as taxable income for the purpose of this section.

(f) Excess ACT paid over the corporate tax payable for the year shall be carried forward and adjusted against tax payable for immediately succeeding ten years. The aforesaid carry forward shall not disentitle the taxpayer carry forward and adjustment of minimum tax under section 113.

(g) Any adjustment to the corporate tax or ACT as a result of an order under the Ordinance shall be reduced or enhanced accordingly.

(h) The provisions of this section shall not apply to the insurance companies, oil and gas or minerals exploration and production companies and banking companies.

(i) Tax credit in respect of extension, expansion, balancing, modernization and replacement of the plant and machinery admissible under section 65B shall be allowed against ACT.

(j) The Commissioner is empowered to compute accounting income as per historical accounting pattern and make necessary adjustments after providing an opportunity of being heard.

The background of insertion of this scheme is to discourage the continuous declaration of losses or very low income using as a means of tax avoidance by corporate taxpayers.

Filing of return of income

S. 114

The Finance Act 2013 made filing of return of income obligatory for person registered with Chamber of Commerce and Industry or any trade or business association or 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 and Institute of Cost and Management Accountants of Pakistan. By virtue of this amendment, the members of the above organizations, whether resident or non-resident, became liable to file tax returns in Pakistan.

ICAP and other organizations made representations for exclusion of non-resident members from the return filing requirements.

Accordingly, the Finance Bill proposes to withdraw the return filing requirements from the non-resident members of the above stated organizations.

Members of the Appellate Tribunal Inland Revenue

S. 130

The Finance Bill proposes a person having not less than ten years practicing professional experience as cost and management accountant to be appointed as Accountant member of the Appellate Tribunal Inland Revenue.

Compulsory registration

S. 181AA

The Finance Bill proposes to introduce compulsory registration as taxpayer before applying for commercial and industrial connection of electricity or natural gas.

Second Schedule

Part I

The Finance Bill proposes to insert, withdraw and modify certain exemptions in Part I of the Second Schedule as listed below:

New Exemptions

- Any income of Sindh Province Pension Fund established under the Sindh Province Pension Fund Ordinance, 2002. [Clause (57)(3)(xii)]
- Any income derived by Greenstar Social Marketing Pakistan (Guarantee) Limited. [Clause (66)(xxxii)]
- Any income derived by a public sector university. [Clause (126)].
- Profits and gains derived from food processing or preservation units setup in Balochistan Province, Malakand Division, Gilgit-Baltistan and FATA between 01 July 2014 to 30 June 2017 for a period of 5 years. [Clause (126H)]
- Profit and gains derived from coal mining projects in Sindh, supplying coal exclusively to power generation projects. [Clause (132B)]

Exemptions Withdrawn

- Income representing compensatory allowance payable to a citizen of Pakistan locally recruited in Pakistani Mission abroad. [Clause (35)]

- Any income derived by Hamdard Laboratories (Waqf) Pakistan. [Clause (66)(v)]

- Interest on foreign currency bearer certificates. [Clause (81A)]

- Income derived by non-resident persons from Federal Government securities and redeemable capital. [Clause (88A)]

- Income of university / educational institutions established in affected areas of KPK, FATA and PATA. [Clause (92A)]

- Profit and gains of technical institutions recognized by Board of Technical Education or a University etc. setup up to 30 June 2008 for a period of five years. [Clause (93A)]

- Profits and gains derived by an industrial undertaking setup by 31 December 2002 for a period of 10 years. [Clause (126)]

- Amount received on encashment of Special US Dollar Bonds issued under the Special US Dollar Bond Rules, 1998. [Clause (135)]

Exemptions Modified

- Income chargeable under the head 'salary' received by Pakistani Seafarer working on a foreign vessel is exempt subject to remittance of such income to Pakistan not later than 2 months of the relevant income year through normal banking channel. In this clause, reference to 'income year' is proposed to be replaced by 'tax year'. [Clause (4)]

- Income derived by collective Investment Scheme or a REIT Scheme is exempt subject to distribution of not less than 90 percent of its accounting income.

  A proviso is proposed to be inserted to the effect that for the purpose of determining distribution of at least 90 percent of accounting income, income distributed through bonus shares, units or certificates, as the case may be, shall not be taken into account. [Clause (99)]

- Currently clause (126A) provides exemption for income derived by the following entities for a period of 20 years:

  (a) Gwadar Free Zone Company Limited;

  (b) PSA Gwadar International Terminal Limited;

  (c) Gwadar Marine Services Limited; and

  (d) PSA Gwadar PTE Limited.

  The substituted clause (126A) proposes to provide exemption for income derived by "China Overseas Ports Holding Company Limited" from Gwadar port operations for a period of 20 years with effect from 06 February 2007 instead of the aforesaid 4 entities. [Clause (126A)].

Part II

The Finance Bill proposes to insert, withdraw and modify certain clauses in Part II of the Second Schedule for reduction in tax rates as listed below:

New clause for reduced rate

- Clause (18A) is proposed to provide reduced corporate rate of 20 percent for industrial undertaking set-up between 01 July 2014 to 30 June 2017 for a period of 5 years provided that 50 percent of the cost of the project including working capital is through owner equity foreign direct investment. [Clause (18A)]

Clauses for reduced rates withdrawn

- Reduced rate of 1 percent under section 153 on sale value of rice to be sold by Rice Exporters Association of Pakistan to Utility Stores Corporation. [Clauses (13HH) and (13HHH)]

- The same rate of income tax in respect of income of amalgamated companies for its different businesses as applicable to such businesses in the relevant tax year for the tax year in which amalgamation takes place and two tax years next following. [Clause (19)]

- Reduced rates of minimum tax and withholding tax under section 153 for steel melters and steel re-rolling units. [Clause (24B)]

- Reduced rate of 0.1 percent for collection of withholding tax under section 153A from distributors, dealers and wholesalers of cigarette manufacturers. [Clause (29)]

- Reduced rate of 5 percent (instead of 10 percent) for tax year 2012 on income upto Rs. 750,000 for persons filing returns for last five years under Prime Minister's Incentive Package. [Clause (30)]

Clauses for reduced rates modified

- Clauses (3) and (3A) provided reduced tax rate of 1 percent of gross receipts in respect of income from services rendered outside Pakistan provided such receipts are brought into Pakistan in foreign exchange through banking channel. Through the Finance Act, 2003, this reduced rate was also made applicable to income from 'construction contracts' but it was moved to a separate clause (3A) through the Finance Act, 2007. It is now proposed to reinsert the said exemption in clause (3) and omit separate clause (3A). [Clauses (3) and (3A)]

- Reduced rates in the following cases have been omitted from the Second Schedule and moved to substituted Part II of First Schedule to the Ordinance:

  (a) Reduced rate of 1 percent under section 148 on import value of re-meltable steel and directly reduced iron imported by an industrial undertaking for its own use. [Clause (9B)]

  (b) Reduced rate of 1 percent under section 148 in the case of manufacturers and 3 percent in the case of commercial importers covered under notification SRO 1125(I)/2011 dated 31 December 2011 (issued in respect of sales tax for specified export oriented sectors). [Clause (9C)]

(c) Reduced rate of 1 percent under section 148 in respect of Potassic fertilizers. [Clause (13E)]

(d) Reduced rate of 1 percent under section 148 in respect of import of urea fertilizers. [Clause (23)]

(e) Reduced rate of 2 percent under section 148 in respect of import of pulses. [Clause (24)]

- Reduced rate in the following cases have been omitted from the Second Schedule and moved to substituted Division I of Part III of First Schedule to the Ordinance:

(a) 7.5 percent in case of dividend declared or distributed by purchaser of a power project privatized by WAPDA. [Clause (17)]

(b) Reduced rate of 7.5 percent in case of dividend declared or distribution on shares of a company set-up for power generation. [Clause (20)]

- Reduced withholding tax rate of 5 percent on commission paid to advertising agent has been omitted from Second Schedule and moved to substituted Division II of Part IV of First Schedule where the reduced rate of 7.5 percent has been provided instead of reduced rate of 5 percent. [Clause (26)].

Part III

The Finance Bill seeks to insert, withdraw and modify certain clauses in Part III of the Second Schedule for reduction in tax liability as listed below:

New clause for reduction in tax liability

- Total allowances received by pilots of any Pakistani airline to be taxed at a reduced rate of 7.5 percent. This concession is available to so much of the allowances as exceed the amount of basic pay. [Clause (1AA)]

Clauses for reduction in tax liability withdrawn

- Clause (11) provided for computation of surcharge under section 4A on proportionate basis. It has been omitted due to redundancy. [Clause (11)]

Clauses for reduction in tax liability modified

- Clause (1) provides for taxation of flying allowance and submarine allowance at the rate of 2.5 percent as a separate block of income. The bill now seeks to withdraw this concession for pilots. [Clause (1)]

- Reduction in tax liability by 50 percent of a taxpayer aged 60 years or more earning taxable income upto Rs. 1 million has been omitted from Second Schedule and moved to newly inserted clause 1B of Division I of Part I of the First Schedule. [Clause (1A)]

- Reduction in minimum tax liability in the following cases have been omitted from Second Schedule and moved to newly inserted Division IX in Part I of First Schedule to the Ordinance except for reduction in the case of corporatized entities of WAPDA (DISCOs) and NTDC and consumer goods including fast moving consumer goods:

(a) Corporatized entities of WAPDA (DISCOs) and NTDC. [Clause (5)]

(b) Distributors of cigarettes. [Clause (7)]

(c) Distributors of pharmaceutical products, fertilizers, consumer goods including fast moving consumer goods. [Clause (8)]

(d) Oil marketing companies, oil refineries, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited. [Clause (9)]

(e) Flour mills. [Clause (10)]

(f) Pakistan International Airlines Corporation. [Clause (12)]

(g) Petroleum agents and distributors and rice mills and dealers. [Clause (13)]

(h) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production. [Clause (14)]

(i) Motorcycle dealers. [Clause (15)].

Part IV

The Finance Bill seeks to insert, withdraw and modify certain clauses in Part IV of the Second Schedule providing for exemption from specific provisions as listed below:

New clauses for exemptions from specific provisions

- Exemption from application of withholding tax under section 153 on purchase of scrap by steel melters, steel re-rollers and composite steel units has been provided. This exemption is subject to collection of tax but the Bill has not specified the section under which tax is to be collected. [Clause (9A)]

- Exemption from application of withholding tax under section 153 to ship breakers as recipients of payments in respect of ships imported after 01 July 2014. [Clause (9AA)]

- Option to certain taxpayers presently paying taxes under FTR of the Ordinance to opt for NTR provided that return of total income is filed alongwith the accounts and the documents as may be prescribed and minimum tax liability under NTR shall be as follows:

  (a) In the case of commercial importers, 5.5 percent of the imports if the importer is a company and 6 percent otherwise. [Clause (56B)]

  (b) In the case of sale of goods, 3.5 percent of the gross amount of sales if the person is a company and 4 percent otherwise. [Clause (56C)]

  (c) In respect of contracts, 6 percent of contract receipts if the person is a company and 6.5 percent otherwise. [Clause (56D)]

  (d) In the case of exporter or export house rendering or providing services of stitching, dyeing, printing, embroidery, washing, sizing and weaving, 0.5 percent of the gross amount of services received. [Clause (56E)]

(e) In the case of petrol pump operators, 10 percent of the commission or discount received. [Clause (56F)]

(f) In the case of commission agents, 10 percent of the commission. [Clause (56G)]

Clauses for exemption from specific provisions withdrawn

- Exemption from the application of section 111 regarding unexplained income or assets, penalties and prosecution in respect of any amount invested in the purchase of Special US Dollar Bonds. [Clause (10)]

- Exemption from the application of penal provisions under sections 182 and 205, withholding tax provisions under sections 148, 154 and 235 in respect of affected areas of KPK, FATA and PATA. [Clause (10A)]

- The Finance Act, 2012 introduced clauses (41A), (41AA) and (41AAA) to enable commercial importers, exporters and suppliers to opt for normal tax regime (NTR), instead of final tax regime (FTR), subject to the condition that the tax liability under NTR does not fall below a certain percentage of tax already deducted or collected i.e. 60 percent of tax collected on imports, 50 percent tax deducted on exports or indenting commission, as the case may be, and 70 percent of tax deducted on sale of goods. The bill now seeks to withdraw the aforesaid options and introduce alternate provisions for commercial importers, suppliers, contractors, petrol pump operators and commission agents through newly inserted clauses (56B) to (56G).[Clauses (41A), (41AA) and (41AAA)]

- Exemption from withholding tax under section 152 available in respect of payments to foreign news agency, syndicate services and non-resident contributors who have no permanent establishment in Pakistan. [Clause (41B)]

- The bill seeks to omit clause (80) regarding deferment of section 153A as it has become redundant due to omission of section 153A. [Clause (80)]

- The bill also seeks to omit clauses (84), (85), (87) and (88) regarding Prime Minister's incentive package. [Clauses (84), (85), (87) and (88)]

Clauses for exemption from specific provisions modified

- Exemption from minimum tax under section 113 extended to profit and gains derived by coal mining projects in Sindh, supplying coal exclusively to power generation projects. [Clause (11A)(v)]

- Clause 57 provides exemption from application of section 113 (minimum tax) and section 153 (withholding tax on supplies) to companies operating Trading Houses subject to specified conditions. The bill now seeks to insert an explanation that exemption under this clause in respect of section 153 shall only be available as a recipient and not as a withholding agent.

  Further, the exemption under this clause is subject to the condition that the trading house is registered "with the Sales Tax Department". The bill seeks to replace the words "with the Sales Tax Department" with "under the Sales Tax Act, 1990" to clarify the requirement of registration under the Federal Sales Tax Law. [Clause (57)].

Tax Rate Card

The Finance bill proposes to amend the rates of taxes in the Part I of the First Schedule as follows:

i) In the case of salary taxes the Finance bill proposes that in case of disabled persons [holding CNIC as such] the tax liability is proposed to be reduced by 50 percent in case the taxable income does not exceed Rs one million.

ii) Certain amendments are proposed in rate of taxes on dividend as follows:

- Rate of tax reduce from 10 to 7.5 percent in case of dividend received from a company supplying coal exclusively to power generation projects;
- Rate of tax enhanced from 10 to 12.5 percent in case of dividend received from a stock fund (for tax year 2015 and onwards),if dividend receipts are less than capital gains;
- Rate of tax enhanced from 10 to 25 percent in case of dividend received from a collective investment scheme or a mutual fund (for tax year 2015 and onwards)

iii) The rates of taxes on capital gain on disposal of listed securities applicable for the tax year 2015 are proposed to be amended as follows:

- In case of holding period less than six months the rate of tax reduced from 17.5 to 12.5 percent;
- In case of holding period of six months or more the rate of tax enhanced from 9.5 to 12.5 percent;

- In case of holding period of twelve months or more but less than twenty four months the rate of tax enhanced from 0 to 10 percent; and
- In case of banking companies, if the holding period is more than twelve months or more the rate of tax enhanced from 10 to 12.5 percent;

iv) Alteration in the rates of minimum tax under section 113 of the Ordinance proposed as follows:

- In case of Distributors of foreign manufactured Cigarettes the rate is proposed to be reduced from 1 percent to 0.2 percent;
- In case of Consumer goods including FMCGs the rate is proposed to be enhanced from 0.2 percent to 1 percent.

Considering the changes proposed above the applicable rates are tabulated below:

1. Salary individuals -

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

Taxable income (Rs.)	Applicable Rate
Upto 400,000	0
400,001 to 750,000	5% of the amount exceeding Rs.400,000
750,001 to 1,400,000	Rs. 17,500 + 10% of the amount exceeding Rs.750,000
1400,001 to 1,500,000	Rs. 82,500 + 12.5% of the amount exceeding Rs.1,400,000
1,500,001 to 1,800,000	Rs. 95,000 + 15% of the amount exceeding Rs.1,500,000
1,800,001 to 2,500,000	Rs. 140,000 + 17.5% of the amount exceeding Rs.1,800,000
2,500,001 to 3,000,000	Rs. 262,500 + 20% of the amount exceeding Rs.2,500,000
3,000,001 to 3,500,000	Rs. 362,500 + 22.5% of the amount exceeding Rs.3,000,000
3,500,001 to 4,000,000	Rs. 475,000 + 25% of the amount exceeding Rs.3,500,000
4,000,001 to 7,000,000	Rs. 600,000 + 27.5% of the amount exceeding Rs.4,000,000
Exceeding 7,000,000	Rs. 1,425,000 + 30% of the amount exceeding Rs.7,000,000

However, Finance bill proposes that in case of disabled persons [holding CNIC as such] the tax liability is proposed to be reduced by 50 percent in case the taxable income does not exceed Rs one million.

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

Clause 1, Div I, Part I, First Schedule

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

3. Companies

Div II, Part I, First Schedule

	%
Small company	25
Modaraba	25
Banking company	35
All other companies (for tax year 2014) *	34

* Salient features of the Finance Bills as available on the FBR website specifies that the corporate rate of tax for tax year 2015 has been reduced to 33 percent. However no such amendment is proposed in the Division II of Part I of First Schedule.

4. Tax rate on Dividend Income

Div III, Part I, First Schedule

	%
Dividend received from a company *	10
Dividend received from purchaser of power project privatized by WAPDA	7.5
Dividend received from a company set up for power generation	7.5
Dividend received from a company supplying coal exclusively to power generation projects **	7.5
Dividend received from a stock fund (for tax year 2015 and onwards),if dividend receipts are less than capital gains *	12.5
Dividend received from a collective investment scheme or a mutual fund (for tax year 2015 and onwards) *	25
Dividend received by banking company	10
Dividend received by a banking company from its asset management company	20
Dividend received by a banking company from a money market funds and income funds (for tax year 2014 and onwards) *	25

* Separate rates for withholding at source specified in the Division I of the Part III of the First Schedule. Please see the withholding tax rate card below.

** Need to be aligned with the clause 78 of the Part IV of the Second Schedule.

5. Capital Gains on securities

Div VII, Part I, First Schedule

Holding period	Tax year 2015 %	Tax year 2014 %
Less than six months	12.5	10
Six months or more but less than twelve months	12.5	8
Twelve months or more but less than twenty four months	10	0
Twenty four months or more	0	0

5.2 Rates applicable to insurance companies.

Holding period	Tax year 2015 %	Tax year 2014 %
Less than six months	17.5	15
Six months or more but less than twelve months	9	9

5.3 Rates applicable to banking companies.

Holding period	Rate %
Less than twelve months	35
More than twelve months	12.5

6. Tax rate on Capital Gain on Immovable Property

Div VIII, Part I, First Schedule

Holding period	Rate %
Upto one year	10
More than one year but not more than two years	5
More than two years *	0

* The specific exemption for gain on holding period of more than two years has been deleted from the section 371A, however entry has been made in the first schedule to that effect.

7. Minimum Tax

Div IX, Part I, First Schedule

S No.	Persons	Existing %	Proposed %
1	Oil marketing companies, Oil refineries, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited For the cases where annual turnover exceeds rupees one billion	0.5	No change
2	Pakistan International Airlines Corporation	0.5	No change

S No.	Persons	Existing %	Proposed %
3	Poultry industry including Poultry breeding, Broiler production, Egg production and Poultry feed production	0.5	No change
4	Distributors of pharmaceutical products	0.2	No change
5	Distributors of fertilizers	0.2	No change
6	Distributors of locally manufactured Cigarettes	0.2	No change
7	Distributors of foreign manufactured Cigarettes	1	0.2
8	Petroleum agents and distributors registered under the Sales Tax Act, 1990	0.2	No change
9	Rice mills and dealers	0.2	No change
10	Flour mills	0.2	No change
11	Motorcycle dealers registered under the Sales Tax Act, 1990.	0.25	No change
12	Consumer goods including FMCGs	0.2	1
13	In all other cases.	1	No change

8. Shipping and Air transport income of Non Residents

Div V Part I First Schedule

	Applicable %
Shipping income	8
Air transport income	3

Withholding Tax

Withholding tax provision

The Finance Bill proposes following amendments pertaining to withholding tax provisions contained in the Ordinance.

1. Distinction between filer and non-filer.

The Finance Bill proposes to define the term filer to mean a person whose name appears in the active taxpayers list of the FBR or a holder of a taxpayer's card. Contrary to this non-filer is a person who is not a filer.

The Finance Bill further proposes the following withholding tax rates for the filer and non-filer.

Category	Section	Existing rates	Proposed rates	
			Filer	Non Filer
Dividend	150	10%	10%	15%
Profit on debt less than Rs. 500,000	151	10%	10%	10%
Profit on debt exceeding Rs. 500,000	151	10%	10%	15%
Cash withdrawal	231A	0.3%	0.3%	0.5%
Registration of new locally manufactured motor vehicle, transfer of registration or ownership of a private motor vehicle and sale of motor vehicle and jeep.	231B			
- Upto 850cc		10,000	10,000	10,000
- 851cc to 1000cc		20,000	20,000	25,000
- 1001cc to 1300cc		30,000	30,000	40,000
- 1301cc to 1600cc		50,000	50,000	100,000
- 1601cc to 1800cc		75,000	75,000	150,000
- 1801cc to 2000cc		100,000	100,000	200,000
- 2001cc to 2500cc		150,000	150,000	300,000
- 2501cc to 3000cc		150,000	200,000	400,000
- Above 3000cc		150,000	250,000	450,000
Collection of advance tax from other private motor cars alongwith motor vehicle tax with engine capacity.	234			
- Upto 1000cc		750	1,000	1,000
- 1001cc to 1199cc		1,250	1,800	3,600
- 1200cc to 1299cc		1,750	2,000	4,000
- 1300cc to 1499cc		3,000	3,000	6,000
- 1500cc to 1599cc		3,000	4,500	9,000
		4,000	6,000	12,000

Category	Section	Existing rates	Proposed rates	
			Filer	Non Filer
- 1600cc to 1999cc		8,000	12,000	24,000
- 2000cc and above				
Collection of advance tax where motor vehicle tax is collected in lump sum		7,500	10,000	10,000
- Upto 1000cc		12,500	18,000	36,000
- 1001cc to 1199cc		17,500	20,000	40,000
- 1200cc to 1299cc		30,000	30,000	60,000
- 1300cc to 1499cc		30,000	45,000	90,000
- 1500cc to 1599cc		40,000	60,000	120,000
- 1600cc to 1999cc		80,000	120,000	240,000
- 2000cc and above				
Sale of immovable property from seller	236C	0.5%	0.5%	1%
Purchase of immovable property by buyer if purchase is for more than Rs. 3 million	236K	-	1%	2%
International first / business class travel	236L	-	3%	6%

2. Revision in Withholding tax rates

The Finance Bill proposes to revise the following withholding tax rates without any distinction between filer and non-filer.

Category	Section	Existing rates		Proposed rates	
		Corporate	Non Corporate	Corporate	Non Corporate
Imports	148	5%	5.5%	5.5%	6%
Directors' fee	149	-	Salary slab rates	-	20%
Dividend paid by money market fund or any other fund	150	10%	10%	25%	10%-
Dividend paid by Stock Fund if capital gains exceed its dividend income	150	10%	10%	12.5%	12.5%
Supply of goods	153 (1)(a)	3.5%	4%	4%	4.5%
Rendering of services	153 (1)(b)	6	7	8%	10%
Execution of contracts	153 (1)(c)	6	6.5	7%	7.5%
Execution of contracts by sports person	153 (1)(c)	-	6.5%	-	10%
Petroleum products	156A	10%	10%	12%	12%

Category	Section	Existing rates		Proposed rates	
		Corporate	Non Corporate	Corporate	Non Corporate
Commission	233	10%	10%	12%	12%
Advertising Agent commission	233	5%	5%	7.5%	7.5%
Domestic electricity bill exceeding Rs 100,000	235A	-	-	7.5%	7.5%
On electricity bill of steel melters, steel re-rollers, composite steel units.	235B	-	-	Re. 1 per unit of electricity consumed	Re. 1 per unit of electricity consumed
Prepaid card for telephones	236	15%	15%	14%	14%
Sale of units through any electronic medium or whatever form	236	15%	15%	14%	14%
Functions and gatherings	236D	10%	10%	5%	5%
Bonus shares	236M	-	-	5%	5%

3 Withholding tax rates table – existing and proposed

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

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
148	**Collection of tax at Imports**						
(a)	Value of goods inclusive of customs duty and sales tax imported by; - Industrial undertaking	5	5.5	Adjustable / Minimum in case of edible oil & packing materials	Adjustable / Minimum in case of edible oil & packing materials	Adjustable / Minimum in case of edible oil & packing materials	Adjustable / Minimum in case of edible oil & packing materials
	- Industrial undertaking importing remeltable steel (PCT Heading 72.04) & directly reduced iron for own use.	1	No Change	Adjustable	Adjustable	Adjustable	Adjustable
	- Person importing potassic fertilizers in pursuance of Economic Committee of the Cabinet decision No. ECC – 155/12/2004 dated 9 December 2004.	1	No Change	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions
	- Person importing urea	1	No Change	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
	- Person importing pulses	2	No Change	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions
	- Other companies	5	5.5	-	Final / adjustable subject to conditions	-	Final / adjustable subject to conditions
	- Other taxpayers	5.5	6	Final / adjustable subject to conditions	-	Final / adjustable subject to conditions	-
(b)	Import by persons covered under SRO. 1125(I)2011 dated 31 December 2011 - Manufacturer	1	No Change	Adjustable	Adjustable	Adjustable	Adjustable
	- Commercial importers	3	No Change	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions
(c)	Import of ships by ship breakers	5 / 5.5	4.5	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions
(d)	Import of hybrid cars with engine capacity; - Upto 1200 cc - 1201 to 1800 cc - 1801 to 2500 cc	0 2.5 / 2.75 3.75 / 4.125	0 2.75 / 3 4.125 / 4.5	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions
149	**Salary**	Progressive rates	Progressive rates	Adjustable	N/A	Adjustable	N/A
	Director fee	Progressive rates	20	Adjustable	N/A	Adjustable	N/A
150 (a)	**Dividend** Dividend distributed by purchaser of a power project privatized by WAPDA and company set up for power generation.	7.5	No change	Final	Final	Final	Final
(b)	Dividend payment by other companies Filer **/** non-filer	10	10 / 15	Final	Final	Final	Final
(c)	Remittance of after tax profit by a branch other than branch of a E&P companies (subject to treaty provisions, if applicable) (Filer **/** non-filer)	10	10 / 15	Final	Final	Final	Final
(d)	Dividend payment by Collective Investment Scheme or mutual fund - Stock fund - Money market fund, income fund or any other fund (Ind & AOP/ company)	10 10	10 / 12.5 (subject to condition) 10 / 25	Final Final	Final Final	Final Final	Final Final
151	**Profit on debt**						
(a)	Yield on an account, deposit or a certificate under the National Savings Scheme or Post office saving account (Filer **/** non-filer)	10	10 / 15 (subject to condition)	Final	Adjustable	Final	Adjustable

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
(b)	Profit on a debt, being an account or deposit maintained with a banking company or a financial institution (Filer / non-filer)	10	10 / 15 (subject to condition0	Final	Adjustable	Final	Adjustable
(c)	Profit on any security by Federal Government issued, a Provincial Government or a local Government other than profit on National Saving Scheme or Post Office Saving account to any person (Filer / non-filer)	10	10 / 15 (subject to condition)	Final	Adjustable	Final	Adjustable
(d)	Profit on any bond, certificate, debenture, security or instrument of any kind (excluding loan agreement between a borrower and a banking company or a development finance institution) issued by a banking company, a financial institution, company as defined in the Companies Ordinance, 1984 and a body corporate formed by or under any law for the time being in force, to any person other than a financial institution (Filer / non-filer)	10	10 / 15 (subject to condition)	Final	Adjustable	Final	Adjustable
152	**Payments to non-residents**						
(a)	Royalty and technical fee	15	No change	Final	Final	Final	Final
(b)	Execution of a contract or sub-contract under the construction, assembly or installation project in Pakistan including a contract for the supply of supervisory activities in relation to such projects or any other contract for construction or services rendered relating thereto	6	No change	Final subject to option	Final subject to option	Final subject to option	Final subject to option
(c)	Contract for advertisement services rendered by TV Satellite channel	6	No change	Final subject to option	Final subject to option	Final	Final
(d)	Insurance premium or re-insurance premium	5	No change	Final	Final	Final	Final
(e)	Advertisement services relaying from outside Pakistan	10	No change	Final	Final	Final	Final
(e)	Profit on debt to non-resident person not having a PE in Pakistan	10	No change	Adjustable / Final in specified situations	Adjustable / Final in specified situations	Adjustable / Final in specified situations	Adjustable / Final in specified situations
(f)	Other payments (other than Hajj Group Operator)	20	No change	Adjustable	Adjustable	Adjustable	Adjustable
152(2A)	**Payments to PE of a non-resident**						
(a)	Sale of goods	3.5	No change	Adjustable	Adjustable	Adjustable	Adjustable
(b)	Transport services	2	No change	Adjustable	Adjustable	Adjustable	Adjustable
(c)	Other services	6	No change	Adjustable	Adjustable	Adjustable	Adjustable
(d)	Execution of a contract	6	No change	Adjustable	Adjustable	Adjustable	Adjustable

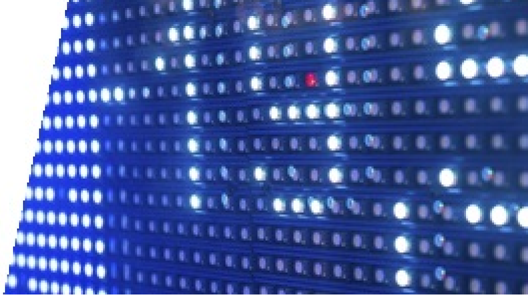
Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
153	**Goods, services and execution of a contract**						
(a)	Sales of rice, cotton seed or edible oils	1.5	No change	Final / adjustable subject to conditions	Final (Adjustable for manufacturer / listed company subject to conditions)	Final / adjustable subject to conditions	Final (Adjustable for manufacturer / listed company) / subject to conditions
(d)	Sale of any other goods in the case of; - Company	3.5	4	-	Final / (Adjustable for manufacturer / listed company)/ subject to conditions	-	Final / (Adjustable for manufacturer / listed company)/ subject to conditions
	- Other tax payers	4	4.5	Final / adjustable subject to conditions	-	Final / adjustable subject to conditions	-
(e)	Passenger transport services	2	No change	Minimum	Adjustable	Minimum	Adjustable
(f)	Other services in the case of; - Company	6	8	-	Adjustable	-	Adjustable
	- Other tax payers	7	10	Minimum	-	Minimum	-
(g)	Execution of a contract in the case of; - Company	6	7	-	Final / Adjustable for listed company	-	Final / Adjustable for listed company / subject to option
	- Sports person	6.5	10	Final	-	Final / Adjustable subject to option	-
	- Other tax payer	6.5	7.5	Final	-	Final / Adjustable subject to option	-
(h)	Deduction by exporter or an export house on rendering of certain services	0.5	1	Final	Final	Final / Adjustable subject to option	Final / Adjustable subject to option
154	**Exports**						
(a)	Export proceeds, proceeds from sales of goods to an exporter under an inland back-to-back letter of credit or any other arrangement, export of goods by an industrial undertaking located in an Export Processing Zone, Collection by a collector of customs at the time of clearing of goods exported	1	No change	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final	Final
(b)	Indenting commission	5	No change	Final / adjustable subject to filing of option & conditions	Final / adjustable subject to filing of	Final	Final

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
					option & conditions		
155	**Income from Property**						
	Annual rent of immovable property including rent of furniture and fixtures and amounts for services relating to such property	Progressive rates	Progressive rates	Adjustable	Adjustable	Adjustable	Adjustable
156	**Prizes and winnings**						
(a)	Amount of prize bond winning	15	No change	Final	Final	Final	Final
(b)	Prize on cross-word puzzle	15	No change	Final	Final	Final	Final
(c)	Amount of raffle/lottery winning, prize on winning a quiz, prize offered by a company for promotion of sales	20	No change	Final	Final	Final	Final
156A	**Petroleum products**						
	Commission and discount to petrol pump operators	10	12	Final	Final	Final / Adjustable subject to option	Final / Adjustable subject to option
156B	**Withdrawal of balance under pension fund**						
	Withdrawal of amount before the retirement age or it is in excess of 50% of the accumulated balance at or after the retirement age	Slab rates	Slab rates	Adjustable	N/A	Adjustable	N/A
231A	**Cash withdrawal**						
	Cash withdrawal exceeding Rs 50,000 (Filer **/** non-filer)	0.3 of the amount withdrawn	0.3 / 0.5 of the amount withdrawn	Adjustable	Adjustable	Adjustable	Adjustable
231AA	**Transactions in banks**						
	Withdrawal made through any mode of banking transactions including Demand Draft, Payment Order, Online Transfer, Telegraphic Transfer, CDR, STDR, RTC exceeding Rs 25,000 in a day	0.3 of the transaction	No change	Adjustable	Adjustable	Adjustable	Adjustable
231B	**Advance tax on private motor vehicle**	Varying slabs	Varying slabs for filers and non - filers	Adjustable	Adjustable	Adjustable	Adjustable
	- On registration of new locally manufactured motor vehicle						
	- On transfer of registration or ownership of a private motor vehicle.						
	- On sale of motor vehicle and sale of jeep						
233	**Brokerage & Commission**						
(a)	Payment of brokerage and commission	10	12	Final	Final	Final / Adjustable subject to option	Final / / Adjustable subject to option

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
(b)	Commission to advertisement agent	5	7.5	Final	Final	Final / Adjustable subject to option	Final / Adjustable subject to option
233A	**Collection of tax by stock exchange**						
(a)	On purchase of shares, in lieu of commission of the Member	0.01 of purchase value	No change	Adjustable	Adjustable	Adjustable	Adjustable
(b)	On Sale of shares, in lieu of commission of the Member	0.01 of sale value	No change	Adjustable	Adjustable	Adjustable	Adjustable
233AA	**Collection of tax by NCCPL** On margin financing, trading financiers and lenders	10	No change	Adjustable	Adjustable	Adjustable	Adjustable
234	**Tax on motor vehicle**						
	Registered laden weight/ Seating capacity/ Engine capacity	Varying rates	Varying rates for filer and non-filer	Adjustable	Adjustable	Adjustable	Adjustable
234A	**CNG stations** -On amount of gas bill	4	No change	Final	Final	Final	Final
235	**Electricity bill of industrial / commercial consumers**						
(a)	On electricity bill upto Rs 20,000	Slab rates	No change	Minimum	Adjustable	Minimum	Adjustable
(b)	On electricity bill exceeding Rs 20,000 (Industrial consumer / commercial consumer)	5 /10	No change	Minimum /Adjustable if the bill amount exceeds Rs 30,000	Adjustable	Minimum /Adjustable if the bill amount exceeds Rs 30,000	Adjustable
235A	**Domestic electricity consumption** On electricity bill exceeding Rs 100,000	-	7.5	-	-	Adjustable	Adjustable
235B	**Tax on steel melters, re-rollers etc.** On electricity bill of steel melters, steel re-rollers, composite steel units.	-	Re. 1 per unit of electricity consumed	-	-	Non-adjustable	Non-adjustable
236	**Telephone bill**						
(a)	Telephone bill exceeding Rs 1,000	10	No change	Adjustable	Adjustable	Adjustable	Adjustable
(b)	Prepaid card for telephones	15	14	Adjustable	Adjustable	Adjustable	Adjustable
(c)	Sale of units through any electronic medium or whatever form	15	14	Adjustable	Adjustable	Adjustable	Adjustable
236A	**Sale by auction / tender**						
	Sale price of the property	10	10	Adjustable	Adjustable	Adjustable	Adjustable
236B	**Purchase of air ticket -** On gross amount of purchase of domestic air ticket	5	No change	Adjustable	Adjustable	Adjustable	Adjustable

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
236C	**Sale or transfer of immovable property –** On gross amount of consideration (Filer **/** non-filer)	0.5	0.5 / 1	Adjustable	Adjustable	Adjustable	Adjustable
236D	**Advance tax on functions and gatherings –** On total amount of bill of arranging or holding a function including payment of food, service or facility.	10	5	Adjustable	Adjustable	Adjustable	Adjustable
236E	**Advance tax on foreign produced, TV play and serials.**	Varying amount	Varying amount	Adjustable	Adjustable	Adjustable	Adjustable
236F	**Advance tax on cable operators and other electronic media.** On issuance or renewal of license for distribution services.	Varying amount	Varying amount	Adjustable	Adjustable	Adjustable	Adjustable
236G	**Advance tax on sales of specified goods to distributors, dealers and wholesalers**	0.1	No change	Adjustable	Adjustable	Adjustable	Adjustable
236H	**Advance tax on sales of specified goods to retailers**	0.5	No change	Adjustable	Adjustable	Adjustable	Adjustable
236I	**Collection of advance tax by educational institutions** On amount of fee exceeding Rs 200,000	5	No change	Adjustable	Adjustable	Adjustable	Adjustable
236J	**Advance tax on issuance or renewal of license to dealers, commission agents and arhatis etc.**	Varying amount	Varying amount	Adjustable	Adjustable	Adjustable	Adjustable
236K	**Advance tax on purchase of immovable property** On purchaser or transferee for registering or attesting transfer of any immovable property exceeding value Rs. 3 million (Filer **/** non-filer)	-	1 / *2 (*subject to the date notified by the Board)	-	-	Adjustable	Adjustable
236L	**Advance tax on purchase of international air ticket -** On sale of international air ticket for first / business / club class. (Filer **/** non-filer)	-	**3 / 6**	-	-	Adjustable	Adjustable
236M	**Bonus shares** On issuance of bonus shares (day end price on the first day of closure of books).	-	**5**	-	-	Final	Final
37A	**Capital gain on redemption of securities**						
	a) Holding period less than six months	17.5	12.5	Adjustable	Adjustable	Adjustable	Adjustable
	b) Holing period less than twelve months	9.5	12.5	Adjustable	Adjustable	Adjustable	Adjustable
	c) Holding period more than twelve month but less than twenty four months	0	10	-	-	Adjustable	Adjustable

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
	d) Holding period exceeding twenty four months	0	0	-	-	-	-
37(1A)	**Capital gain on immovable property**						
	a) Holding period less than one year	10	10	Adjustable	Adjustable	Adjustable	Adjustable
	b) Holding period is more than one year but not more than two years	5	5	Adjustable	Adjustable	Adjustable	Adjustable
	c) Holding period is more than two years.	0	0	-	-	-	-



Income Support Levy
Significant Amendments

- Finance Act 2013 imposed Income Support Levy on persons whose net movable wealth exceeds Rs. 1 million as per wealth statement, in order to provide financial resources for running income support fund for economically distressed persons or families of the Society
- The levy at the rate of 0.5 percent is payable for every tax year commencing from the Tax Year 2013 onwards
- This matter was subject to dispute from the tax payer and constitutional petitions were filed in the High Courts which resulted in stay orders of the Income Support Levy Act 2013.
- In view of the above court orders the Finance Bill proposes to repeal the Income Support Levy Act 2013.

Sales Tax
Significant Amendments

Sales tax exemptions introduced primarily for Agriculture sector – Sixth Schedule

S.No. of Sixth Schedule	Description of Goods	PCT Heading
24	Crude Palm Oil	1511.1000
109	Goods imported temporarily for subsequent exportation, including passenger service item, provision and stores of Pakistani Airlines.	Respective headings
113	High Efficiency Irrigation Equipment i.e. submersible pumps of prescribed specifications and specified sprinklers, air release valves, pressure gauges, water meters, back flow preventers, and automatic controllers, etc.	Various as specified
114	Green House Farming and Other Green House Equipment i.e. tunnel farming equipment & pre-fabricated green-houses.	8430.3100, 8430.3900 & 9406.0010
115.	Plant, machinery and equipment imported for setting up fruit processing and preservation units in Gilgit-Baltistan, Baluchistan and Malakand	Respective headings
116.	Plant, machinery and equipment imported for setting up industries in FATA subject to the specified conditions.	Respective headings

Sales tax exemptions withdrawn as applicable under Sixth Schedule, SRO.575(I)/2006, SRO.551(I)/2008 & SRO.501(I)/2013

S. No.	Description of Goods
1.	Retailers whose annual turnover in last twelve months does not exceed Rupees five million.
2.	Oilseeds meant for sowing.
3.	Remeltable Scrap (PCT heading 72.04)
4.	Import of raw cotton and Ginned Cotton
5.	Soyabean meal (PCT Heading 304.0000).
6.	Oil cake and other solid residues, whether or not ground or in the form of pellets (PCT heading 2306.1000).
7.	Directly reduced iron (PCT heading 72.03).
8.	Purpose built taxis, whether in CBU or CKD condition (PCT Headings 8703.3226 and 8703.3227)
9.	Machinery and equipment for development of grain handling and storage facilities.

S. No.	Description of Goods
10.	Cool chain machinery and equipment.
11.	Various items imported by Call Centers, BPO facilities duly approved by Telecom Authority.
12.	Machinery, equipment, materials for mineral exploration phase.
13.	Complete plants for relocated industries.
14.	Machinery, equipment for oil refining
15.	Proprietary Formwork System for building/structures exceeding 100 ft & allied components
16.	Machinery, equipment and other items required for hotels
17.	Machinery, equipment and other capital goods for service sectors
18.	Machinery, equipment and capital goods imported for establishing wholesale /retail chain stores
19.	Air handling units
20.	Imports of fin tubes, dish heads, draught fans, various valves, wires/coils by the manufacturers
21.	Heat ventilation air conditioner
22.	Machinery and equipment relating to broadcasting
23.	Machinery and equipment imported by surgical industry
24.	Machinery and equipment imported by cutlery industry

Transposition of specific SROs on zero-rating & exemption under Fifth & Sixth Schedules

The Finance Minister in the Budget speech declared the policy of the Government to gradually phase out SRO culture. This would mean that any amendment in the Sales Tax laws would preferably take place after approval of the Parliament.

In accordance with above-stated policy, the goods on which sales tax zero-rating is currently available under SRO.549(I)/2008, dated 11 June 2008 and SRO.670(I)/2013, dated 18 July 21013, are proposed to be included in Fifth Schedule to the Act w.e.f. 01 July 2014, which inter-alia include petroleum crude oil, stationery articles, dairy products, preparation for infant use for retail sale, bicycles, parts and components used in exempt capital goods subject to specified conditions, exportation of exempt goods, etc.

Further, various exemptions currently covered under SRO.575(I)/2006, dated 5 June 2006, SRO.551(I)/2008, dated 11 June 2008 and SRO.501(I)/2013 dated 12 June 2013 and are proposed to be regulated through Sixth Schedule w.e.f. 01 July 2014, which inter-alia include:

SRO.575(I)/2006, dated 5 June 2006 [Import and supplies]

Plant, machinery, equipment & apparatus for various industrial segments, which inter-alia include desalination plants, gas processing plants, hospitals, Thar Coal Field, power generation projects, power transmission, technical training institutes, engineering works at Karachi Shipyard, granite and gem stone extraction and processing industry, Effluent treatment plants, etc.

SRO.551(I)/2008, dated 11 June 2008 [Import and supply]

Raw materials for manufacture of leather goods, machinery for EPZ, ships of gross tonnage of less than 15 LTD, all floating crafts, substances registered as drugs with specified exclusions, raw material for active ingredients of pharmaceutical industry, import of edible offal of bovine animals, iodized salt, parts of energy saver lamps, goods used for renewable source of energy, white crystalline sugar, medical equipment & accessories, etc.

SRO.551(I)/2008, dated 11 June 2008 [Local supply only]

Reclaimed lead, waste paper, sprinkler equipment, drip equipment, spray pumps and nozzles, raw cotton and ginned cotton.

SRO.501(I)/2013, dated 12 June 2013 [Import and supplies]

Specified stationery articles, dairy products, preparation for infant use for retail sale, bicycles, uncooked poultry meat, frozen/preserved meat, cotton seed, energy saver lamps, sewing machines, wheel chairs, non-chemical fertilizers, construction materials for Gwadar Export Processing Zone, vessels for breaking up, etc.

Reduced sales tax rate of 5 percent introduced on goods listed in Eighth Schedule – Section 3(2)(aa)

New Schedule i.e. Eighth Schedule is proposed to be enacted, which lists down certain goods, which shall be subject to sales tax at reduced rate of 5 percent, subject to conditions and limitations as also prescribed. Accordingly, the Bill seeks to gain authority by insertion of new clause (aa) to Section 3(2) of the Act.

The goods subject to reduced rate at 5 percent under proposed Eighth Schedule are generally exempt from sales tax under SRO.551(I)/2008, dated 11 June 2008, SRO.727(I)/2011, dated 01 August 2011 and SRO.501(I)/2013, dated 12 June 2013.

S. No. of Eight Schedule	Description of Goods
	Table 1
1.	Soyabean meal (PCT Heading 304.0000).
2.	Oil cake & other solid residues, whether or not ground or in pellets (PCT heading 2306.1000).
3.	Directly reduced iron (PCT heading 72.03)
4.	Imported oilseeds meant for sowing subject to certification
5.	Import of raw cotton and ginned cotton
6.	Plant & machinery not manufactured locally, having no compatible local substitutes subject to specified conditions.
	Table 2
1.	Machinery and equipment for development of grain handling and storage facilities.
2.	Cool chain machinery and equipment.

S. No. of Eight Schedule	Description of Goods
3.	Various items imported by Call Centers, Business Processing Outsourcing facilities duly approved by Telecommunication Authority.
4.	Machinery, equipment, materials for mineral exploration phase.
5.	Complete plants for relocated industries.
6.	Machinery, equipment for oil refining etc.
7.	Proprietary Formwork System for building/structures of a height of 100 ft and above and its various items/ components

Revision in sales tax rates

Though amendment notifications have not yet been issued to this effect, however the budgetary measures announced inter-alia propose the following revisions in sales tax rates:

S. No.	Description of goods / services	Existing Rate %	Revised Rate %	Reference
1.	Rapeseed, sunflower seed and canola seed	14	17	SRO.69(I)/2006 dated 28 January 2006
2.	Import of finished articles of leather and textile	5	17	SRO.1125(I)/2011 dated 31 December 2011
3.	Local supply of tractors	16	10	SRO.79(I)/2012 dated 2 February 2012
4.	Steel melters and re-rollers	Rs. 4 per unit of electricity consumed	Rs. 7 per unit of electricity consumed	Sales Tax Special Procedure Rules, 2007

Sales tax on cellular / smart phones under Ninth Schedule – Section 3(3B)

The Bills seeks to add new sub-section under Section 3 of the Act to provide legal backing to the newly inserted Ninth Schedule. Fixed sales tax rates ranging from Rs.150 to Rs.500 per set / registration, as currently applicable on mobile / cellular phones under SRO.460(I)/2013, dated 30 May 2014, are proposed to be embedded under Ninth Schedule to the Act, subject to similar conditions.

Sales tax on supply of natural gas to CNG stations – Section 3(8)

Section 3(8) was enacted vide Finance Act, 2013, whereby the Gas Transmission and Distribution Company [GTDC] was subjected to charge and pay sales tax on supply of natural gas to CNG stations at 9 percent in addition to standard sales tax at 17 percent. This provision is proposed to be substituted to require the GTDC to charge sales tax at 17 percent on its bills to CNG stations, on the value of supply to CNG Consumers as notified by the Board from time to time.

New tax regime for retailers – Section 3(9)

The Bill proposes to introduce two tier system for taxation of retailers by insertion of sub-section (9) to Section 3 of the Act, with simultaneous withdrawal of exemption threshold of Rs.5 million as provided under Table-II of the Sixth Schedule to the Act.

Under first tier, the large retailers having outlets operating as part of national or multi-national chains, or located in air-conditioned malls, having facilities of debit / credit cards, or who consume electricity exceeding Rs.50,000 per month would be subject to sales tax at 17 percent under normal sales tax regime. Accordingly, amendments in Chapter-II [Special Procedure for Retailers] of Sales Tax Special Procedure Rules, 2007 will be effected in due course.

Whereas the small retailers to be categorized under second-tier would be subject to sales tax at reduced rates, to be charged and paid through monthly electricity bills as follows:

- If monthly electricity bill does not exceed Rs.20,000 5%
- If monthly electricity bill exceeds Rs.20,000 7.5%

Sales tax collectible on electricity bills would be in addition to sales tax applicable under Sections 3(1), 3(1A) and 3(5) of the Act.

Excess tax recoverable without prejudice to orders of superior courts – Section 3B

In certain situations, the courts direct the taxpayers to deposit the disputed tax money which was charged and collected from the customers with Nazir of the High Court, till the time the appeal is decided. To cater this situation, Section 3B(2) is proposed to be substituted to clarify that sales tax collected as 'excess tax' shall be deemed to be an arrear of tax or charge payable to Federal Government and any claim for refund of such excess tax shall neither be admissible to the registered person, nor payable to any court of law or to any person under direction of the court. The Bill also seeks to give overriding effect to this provision without prejudice to any other law or judgment of the court including Supreme Court and High Court.

The legal sanctity of the proposed substitution however appears debatable, considering that the jurisdiction of superior courts, being the ultimate interpretational authority, should override the tax statues.

Further tax at 1 percent not to be included in output tax – Section 7(1)

The Bill seeks to insert the words "*excluding the amount of further tax under sub-section (1A) of section 3"* in Section 7(1) of the Act, which implies that the registered person will not be entitled to deduct input tax from the further tax as charged and collected from unregistered persons during the tax period. As such, any collection of further tax in a reporting month, will be payable with the return even if excess input tax arises in any tax period.

Conditions on admissibility of input tax – Section 7(2)(iiia)

Section 7(2) prescribes certain conditions for admissibility of input tax e.g. possession of valid sales tax invoice, goods declaration for imports, etc. The Bill seeks to insert a new clause (iiia) under Section 7(2) to restrict undue input tax claims by prescribing additional conditions as required to be fulfilled by the registered claimant of input tax on acquisition of goods and services in order to validate his claim, as reproduced below:

(a) "*Imported or purchased for the purpose of sale or re-sale by the registered person on payment of tax;*

(b) used directly as raw material, ingredient, part, component or packing material by the registered person in the manufacture or production of taxable goods;

(c) electricity, natural gas and other fuel consumed directly by the registered person in his declared business premises for the manufacture, production or supply of taxable goods; or

(d) plant, machinery and equipment used by the registered person in his declared business premises for the manufacture, production or supply of taxable goods."

Inadmissible input tax under SRO.490(I)/2004 merged in Section 8 of the Act

In an attempt to eliminate the SRO culture, the negative list of goods on which input tax is not admissible as maintained under SRO.490(I)/2004 is proposed to be covered through Section 8 of the Act. As such new clauses from (f) to (i) are proposed to be inserted in Section 8(1) of the Act, as reproduced below:

(f) "*goods and services not related to the taxable supplies made by the registered person;*

(g) goods and services acquired for personal or non-business consumption;

(h) goods used in, or permanently attached to, immoveable property, such as building and construction materials, paint, electrical and sanitary fittings, pipes, wires and cables, but excluding such goods acquired for sale or re-sale or for direct use in the production or manufacture of taxable goods and

(i) vehicles falling in Chapter 87 of the First Schedule to the Customs Act< 1969 (IV of 1969), parts of such vehicles, electrical and gas appliances, furniture, furnishings, office equipment (excluding electronic cash registers), but excluding such goods acquired for sale or re-sale."

Normal tax regime reverted for aerated waters

Capacity based tax regime was introduced under FED and Sales Tax on Production Capacity (Aerated Waters) Rules, 2013, which were challenged before the superior courts. The Hon'ble Lahore High Court held such regime beyond the scope of charging provisions of sales tax law. As such, the budgetary measures reflect that the afore-said Rules are being rescinded to bring the taxation of aerated waters under normal sales tax regime. However, the notification to this effect is yet awaited.

Board to specify highest retail price under special zones – Section 2(27)

Section 2(27) provides definition of term 'retail price', which inter-alia require that if more than one retail price for the same brand or variety of any article are fixed by the manufacturer, then the highest of such price shall be retail price for sales tax. The Bill seeks to insert a proviso to Section 2(27) of the Act to empower the Board to specify zones or areas, through a general order, for the purpose of determination of highest retail price for any brand or variety of goods.

Board and its officers empowered to monitor without obtaining warrants

Board and its officers have been proposed to be empowered to monitor production, sale of taxable goods and stock position without obtaining warrants from Magistrate under section 40 of the Act.

Automated scrutiny and communication of discrepancies to registered persons – Section 50B

The Bill proposes to enact a new provision relating to electronic scrutiny and intimation to registered persons under computerized system. This system will facilitate automated scrutiny, analysis and cross matching of returns and other available data of registered person and then sending intimations electronically to such registered persons about the issue detected. The intimation so transmitted shall either be in the form of instruction or advance notice allowing the registered person to clarify his position or rectify the mistake before any legal proceeding. The Board may also prescribe procedures for efficient operation of the proposed computerized system.

Federal Excise

Significant Amendments

FED on telecom services not applicable if Provincial Sales Tax payable - Table-II to First Schedule

The Finance Bill proposes that FED shall not apply on telecommunication services rendered or provided in a Province where any Provincial Sales Tax [PST] is applicable and collectible by the Provincial tax regulator. Currently, PST is applicable on telecom services in three Provinces i.e. Sindh, Punjab and Khyber Pukhtunkhwa [KPK], whereas FED applies in Islamabad Capital Territory and Province of Baluchistan.

By virtue of 18th Constitutional amendment, the right to levy sales tax on services was vested to the Provinces except the transportation & travel services, yet FBR did not withdraw FED on services listed in Table-II to First Schedule of the Act. These services inter-alia include advertisements, shipping agents, stockbrokers, franchise, port operators, terminal operators, telecom, banking, insurance and other financial services. The tax authorities in absence of any notification for withdrawal of FED, viewed that FED would apply in addition to PST, and as such made out several cases against banks / financial institutions, in particular.

The above proposed insertion may provide leverage to the tax authorities to stretch the interpretation that:

- FED is applicable instead of PST on afore-stated excisable services except telecom services which are now being specifically excluded.
- Since telecom services are proposed to be excluded from purview of FED effective 01 July 2014, as such FED would apply on telecom services instead of PST as rendered or provided in respect of the prior periods uptill 30 June 2014.

Thus, the proposed insertion may lead to disputes, until FED is withdrawn generally for all excisable services that are subject to Provincial sales tax.

Reduction in FED rate by 1 percent on telecom services – Sr.No.6 of Table-II to First Schedule

The Bill seeks to reduce the rate of FED on telecom services from 19.5 percent to 18.5 percent of the charges effective 01 July 2014. This may not have substantial revenue impact on FBR considering that FED does not apply on telecom services in three Provinces i.e. Punjab, Sindh and KPK.

FED abolished on locally manufactured motor cars – Sr. No.55 to Table-I of First Schedule

FED applicable at the rate of 10 percent is proposed to be withdrawn w.e.f. 01 July 2014 on locally manufactured motor vehicles of cylinder capacity exceeding 1800cc. It was imposed on motor cars, sports utility vehicles (SUVs) and other motor cars exceeding 1800cc through Finance Act, 2013. Now, FED will apply only on imported cars of similar specifications under Sr.No.55 to Table-I of First Schedule to the Act.

Board to specify highest retail price under declared zones – Section 12(4)

Section 12(4) deals with determination of value in relation with goods, where FED is applicable on retail price basis, which inter-alia require that if more than one retail price for the same brand or variety of any goods are fixed by the manufacturer, then the highest of such price shall be retail price for excise duty. The Bill seeks to insert a new proviso to empower the Board to specify zones or areas, through a general Order, for the purpose of determination of highest retail price for any brand or variety of goods. This insertion is proposed under Section 13(4) instead of Section 12(4) of the Act, which could be a typographical error.

Revised FED rates on excisable goods and services – Table-I to First Schedule

The Finance Bill seeks to enhance/introduce FED rates on excisable goods and services as follows w.e.f. 01 July 2014:

Sr. No. under First Schedule	Description of goods / services	Tariff heading	Existing FED rate	Revised/New FED rates
Sr.No.9 of Table-I	Locally produced cigarettes if their on pack printed retail price exceeds Rs.2,706 (existing Rs. 2,286) per thousand cigarettes	24.02	Rs.2,325 per thousand cigarettes	Rs.2,632 per thousand cigarettes
Sr.No.10 of Table-I	Locally produced cigarettes if their on pack printed retail price does not exceed Rs.2,706 (existing Rs. 2,286)per thousand cigarettes.	24.02	Rs.880 per thousand cigarettes	Rs.1,085 per thousand cigarettes
Sr. No.13 of Table-I	Portland cement, aluminous cement, slag cement , super sulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers.	25.23	Rs.400 per metric ton	5% of the retail price
Sr.No.3(b) (i) & (ii) of Table-II	Services provided rendered in respect of travel by air of the passengers embarking on international journey from Pakistan: (i) Economy and economy plus (ii) Club, business and first class	9803.1100	 Rs.3,840 Rs.6,840	 Rs. 5,000 Rs.10,000
Sr.No.15 of Table-II	Chartered flights	98.03	Nil	16% of the charges

Customs

Significant Amendments

Reduction in Duty Rates

Description	PCT Code	Existing rate	Proposed rate
Plant, machinery and equipment imported for setting up fruit processing and preservation industrial units in Gilgit-Baltistan, Balochistan and Malakand Division	Respective headings	Ranging from 0-30%	0%
Plant, machinery and equipment imported for setting up industries in FATA	Respective headings	Ranging from 0-30%	0%
Uninterrupted Power Supply (UPS) unit	8504.4010	20%	15%
Petroleum coke non-calcined	2713.1100	5%	1%

Tariff Rationalization Measures

Description	PCT Code	Existing rate	Proposed rate
Maximum General Tariff	Respective headings	30%	25%
Minimum General Tariff	Respective headings	0%	1%
Networking equipment	Respective headings	5%	10%
Generators above 1100 KVA	8502.1390	0%	5%
General rate of duty on dyes	Respective headings	0-10%	15%
CDs/DVDs	Respective headings	5-20%	10%
Flavoring powders	2106.9030	10%	20%
Liquid paraffin and White oil	2710.1995 and 2710.1996	0-5%	10%
Dryers	8421.1900	5%	10%
Starches	Respective headings	15-20%	15%
Coloring matters	3206.4990	5%	10%
Satellite mobile phones whether or not functional on cellular networks	8517.1230	25%	10%

Significant Legislative Amendments

Fifth Schedule to levy customs duties on import of goods

Section 18(1A)

The Bill proposes to introduce Fifth Schedule where customs duties on certain imported goods shall be levied at specified rates subject to prescribed conditions, if any.

Salient Features of Fifth Schedule

- Most of the machineries, equipment and capital goods of the sectors like agriculture, ago-based industries, marble, granite and gem stones, call centres, etc. under SRO 575(I)/2006 dated 5 June 2006 have been shifted to the Part I of the Fifth Schedule. However, rates of Customs Duty on some of the sectors are proposed to be enhanced.

- Rates of Customs Duty in Table A (Active pharmaceutical ingredients) and Table B (excepients / chemicals) of Part II of the Fifth Schedule are proposed to be 5 percent.

- Rates of Customs Duty in Table C (Drugs) and Table D (Packing Materials / Raw Materials for Packing) of the Part II of the Fifth Schedule are proposed ranging from 0 percent to 10 percent.

- Rates of Customs Duty in Table E (Diagnostic Kits / Equipment) of Part II of the Fifth Schedule are proposed ranging from 0 percent to 5 percent.

- Rates of Customs Duty on import of Raw Materials, inputs for Poultry and Textile Sector and other goods at Part III of the Fifth Schedule are proposed ranging from 0 percent to 10 percent.

- Rates of Customs Duty on import of miscellaneous items being socially sensitive items at Part IV of the Fifth Schedule are proposed to be 0 percent.

Rational applicability of valuation of data on imported goods

Section 25 (5)(d)

Presently when there are two or more transaction values of identical goods that meet all the requirements of identical goods, similar goods, etc. the customs value of the imported goods shall be the lowest of such transaction value. The Bill proposes to omit clause (d) in order to ensure rational applicability of valuation data. Resultantly, reference to clause (d) in sub-section (6) of section 25 is also proposed to be omitted.

Collection of taxes in addition to duties not paid or short paid

Section 32 (2), (3) and (3A)

Presently, the tax authorities can only collect duties which is not paid or short paid as there is no word ‘taxes’ in the section 32(2), (3) and (3A). In order to collect taxes in addition to customs duties not paid or short paid by reason of collusion, inadvertence or erroneously refunded, the Bill proposes to insert the word ‘taxes’ in sub-section (2), (3) and (3A) of section 32.

Reassessment / Provisional assessment of goods where ‘taxes and other charges’ in addition to duty included

Section 80(3) & section 81(1)

Presently, the goods are subject to re-assessment or provisional assessment of duty only. The Bill proposes to include words ‘taxes and other charges’ in addition to customs duty for re-assessment or provisional assessment of goods.

Power of Special Judge confined to try an offence except narcotics

Section 185B(a)

The Bill proposes to confine the power of Special Judge to try an offence punishable under the Customs Act except offences relating to narcotics and narcotics substances which are now proposed to be dealt by the Special Courts established under the Control of Narcotics Act, 1997.

Qualifying period of services for appointment as Technical Member reduced from 5 years to 3 years

Section 194(3)

In order to make in line with the section 130 of the Income Tax Ordinance, 2001, it is proposed to substitute five years experience with three years experience on account of the appointment of Senior Collector as Technical Member of the Appellate Tribunal.

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