The Budget Brief 2016 contains a review of economic scenario and highlights of Finance Bill 2016 as they relate to direct and indirect taxes and certain other laws.

The provisions of the Finance Bill 2016 are generally applicable from 01 July 2016, 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.

This publication will be updated, after enactment of the Bill, to provide comments on enacted provisions, including changes in the proposals contained in the Bill. The update will be posted on our website www.kpmg.com.pk subsequent to the enactment of Finance Act 2016.

3 June 2016

Contents

Budget at a Glance

	Budget Estimate 2015-16	%	Revised Estimate 2015-16	%	Budget Estimate 2016-17	%
	-----------------(Rupees in billion) ---------------					
Revenue						
Tax Revenue	3,418	74.8	3,420	76.2	3,956	77.8
Non Tax Revenue	895	19.6	913	20.3	959	18.9
	4,313	94.4	4,333	96.5	4,915	96.7
Public Accounts Receipts – Net	254	5.6	156	3.5	171	3.3
	4,567	100.0	4,489	100.0	5,086	100.0
Less: Provincial Share	1,849	40.5	1,852	41.3	2,136	42.0
Net Revenue	2,718	59.5	2,637	58.7	2,950	58.0
Expenditure						
Development	969	21.1	879	19.1	1,051	20.7
Current	3,615	78.9	3,714	80.9	4,031	79.3
	4,584	100.0	4,593	100.0	5,082	100.0
Deficit	1,866	40.5	1,956	41.3	2,132	42.0
Funded by						
Capital Receipts	485	26.0	546	27.9	470	22.1
Domestic Debt - Banks	283	15.2	199	10.2	453	21.2
External Debt	751	40.2	860	44.0	820	38.5
Privatization Proceeds	50	2.7	14	0.7	50	2.3
Surplus from Provinces	297	15.9	337	17.2	339	15.9
	1,866	100.0	1,956	100.0	2,132	100.0

Economic Analysis

Macroeconomic Indicators

	Budget 15-16	Revised 15-16	Budget 16-17	Forecast 17-18	Forecast 18-19
Real GDP Growth (%)	5.5	4.7	5.7	6.2	7.0
Inflation (%)	6.0	3.5	6.0	6.0	6.0
	(as percentage of GDP)				
Total Revenue	15.1	15.9	16.0	15.9	16.1
Tax Revenue	12.0	12.6	12.9	13.4	13.9
FBR Tax Revenue	10.1	10.5	10.8	11.5	12.1
Non Tax Revenue	3.1	3.3	3.1	2.5	2.2
Total Expenditure	19.4	20.2	19.8	19.4	19.6
Current	14.9	15.9	14.9	14.6	14.6
Development	4.5	4.3	4.7	4.8	5.0
Fiscal Balance	-4.3	-4.3	-3.8	-3.5	-3.5
Revenue Balance	0.1	0.0	0.9	1.3	1.6
Total Public Debt	62.0	64.8	61,4	57.8	54.3
GDP at market prices (Rs. In billions)	30,672	29,598	33,509	37,944	43,215

Source: Budget Brief 2016-17

GDP Growth

	15-16 (P)	14-15	13-14	12-13	11-12	10-11	09-10	08-09	07-08	06-07
Nominal GDP US$ billion	284	271	244	231	224	214	177.0	168	170	143.0
Nominal GDP Rs. billion	29,598	27,493	25,168	22,385	20,047	18,276	14,867	13,200	10,638	8,673
Real GDP Growth %	4,71	4.04	4.05	3.7	3.8	3.6	2.6	0.4	5.0	5.5
Sectoral GDP Growth %										
Agriculture	-0.19	2.53	2.5	2.7	3.6	2.0	0.2	3.5	1.8	3.4
Industry	6.8	4.81	4.53	0.7	2.6	4.5	3.4	-5.2	8.5	7.7
Services	5.71	4.31	4.46	5.1	4.4	3.9	3.2	1.3	4.9	5.6
Sectoral Share in GDP %										
Agriculture	19.8	20.8	21.1	21.4	21.6	21.7	22	22.5	21.9	22.5
Industry	21.0	20.6	20.5	20.3	21.0	21.2	21.0	20.9	22.1	20.6
Services	59.2	58.6	58.4	58.2	57.4	57.1	56.9	56.6	56	56.1

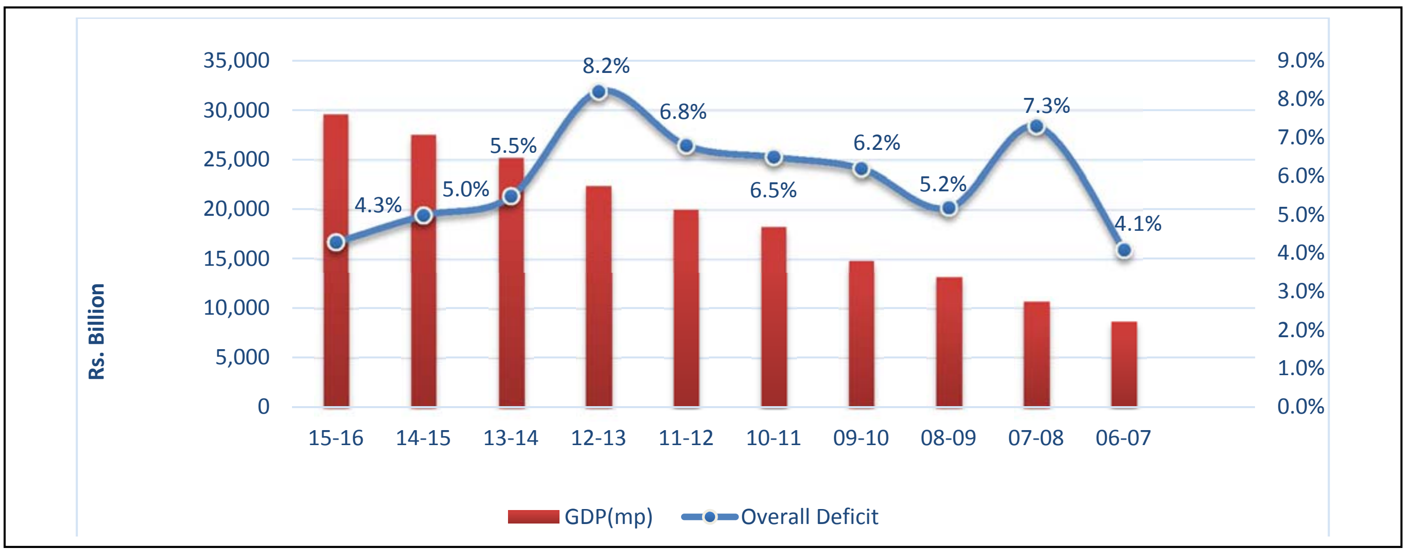
Source: Pakistan Economic Survey 2015-16

Public Debt

	15-16 (Mar)	14-15 (P)	13-14 (P)	12-13	11-12	10-11	09-10	08-09	07-08
Public Debt (Rs. billion)	19,168	17,381	15,991	14,318	12,695	10,767	9,006	7,731	6,126
Domestic	13,399	12,199	10,920	9,522	7,638	6,017	4,654	3,860	3,275
Foreign currency	5,769	5,182	5,071	4,797	5,057	4,750	4,352	3,871	2,852
Public Debt (% of GDP)	**64.8**	**63.2**	**63.5**	**64.0**	**63.3**	**58.9**	**60.6**	**57.8**	**56.8**
Domestic	45.3	44.4	43.4	42.5	38.1	32.9	31.3	29.2	30.7
Foreign currency	19.5	18.8	20.1	21.4	25.2	26.0	29.3	28.6	26.1

Source: Pakistan Economic Survey 2015-16

Overall Deficit



Source: Pakistan Economic Survey 2015-16

Social Indicators

	15-16	14-15	13-14	12-13	11-12	10-11	09-10	08-09	07-08	06-07
Population (millions)	195.4	191.71	188.02	184.35	178.9	175.3	171.7	168.2	164.7	158.2
Unemployment rate (%)	5.9*	5.9	6.0	6.2	6.0	6.0	5.5	5.2	5.2	6.2
GNP per capita – US$	1,560.7	1,516.8	1,383.5	1,333.3	1,320.5	1,274.1	1,072.4	1,026.1	1,053.2	979.9
Total investment - % of GDP	15.2	15.1	15	15	15	14.1	15.8	17.5	19.2	18.8
National Savings - % of GDP	14.6	14.5	13.7	13.9	13	14.2	13.6	12.0	11.0	14.0

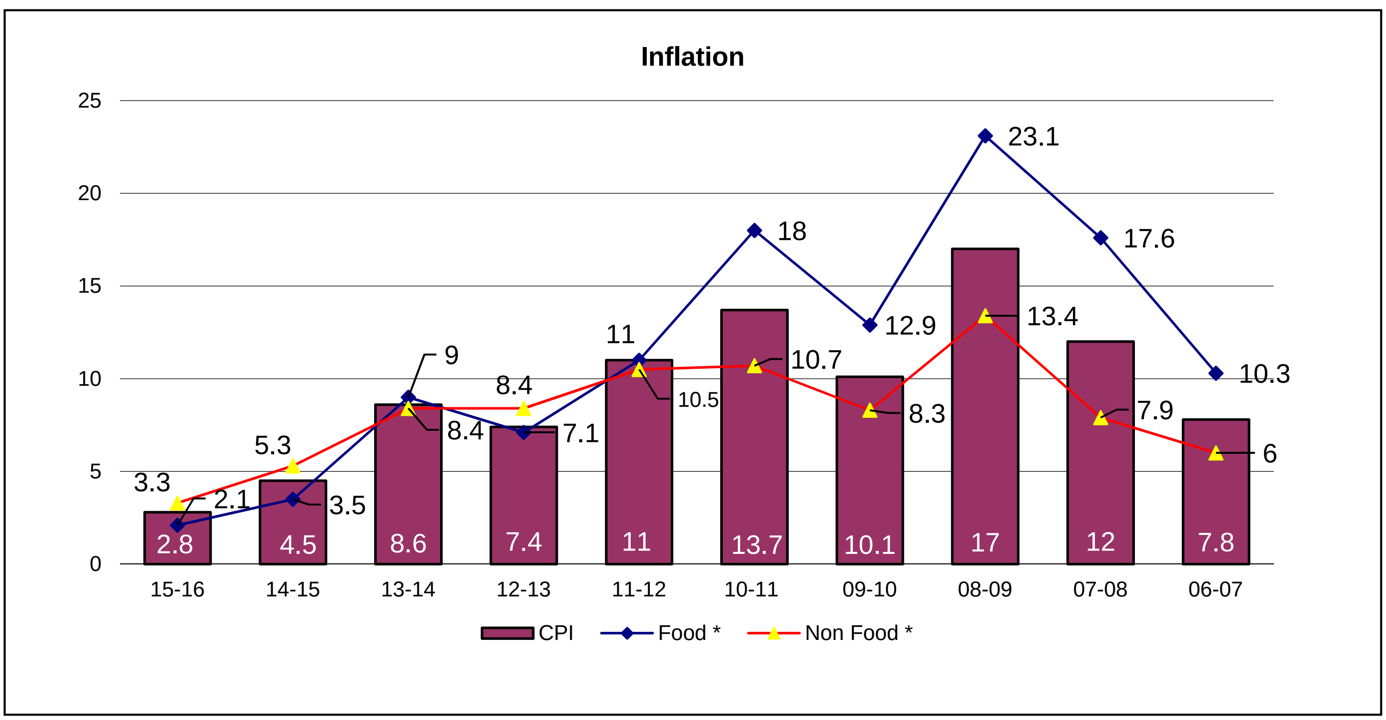
** 2015-16 unemployment figures not provided, therefore taken as same as for 2014-15.*
Source: Pakistan Economic Survey 2015-16

Exchange Reserves

	15-16	14-15	13-14	12-13	11-12	10-11	09-10	08-09	07-08	06-07
Exchange reserves (US$ billion)	21.4	18.7	14.1	11.0	16.5	17.1	12.2	11.5	16.4	12.8
Imports Cover (months)	7.9	4.9	3.7	2.9	4.4	5.0	4.2	3.9	4.9	5.0
Rupee to USD parity	104.09	101.29	102.85	96.72	89.2	85.5	83.8	78.5	62.5	60.6

Source: Pakistan Economic Survey 2015-16

Inflation



Source: Pakistan Economic Survey 2015-16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Perceptions are perceptions

The government during the past three years has done remarkably well in turning around perceptions about the state of the economy. Fundamentally, the successful completion of periodic reviews, including the most recent 11th review for the final tranche of the US$ 6.2 billion Extended Fund Facility, by International Monetary Funds (IMF) have been instrumental in nurturing the narrative that Pakistan's economy is on the right path. This coupled with the fact that Standard & Poors rating for Pakistan stands at B- with positive outlook, Moody has decided on a B3 with stable outlook and Finch affirms a B with stable outlook, have all contributed significantly in alleviating Pakistan's credit worthiness amongst foreign institutional investors. According to Asian Development Bank (ADB), "*Pakistan's economy continued to pick up in Fiscal Year 2015 as economic reform progressed and security improved. Inflation markedly declined, and the current deficit narrowed with favorable prices for oil and other commodities. Despite global headwinds, the outlook is for continued moderate growth as structural and macroeconomic reform deepens*".

"Economic growth is showing signs of sustained recovery aided by falling commodity and fuel prices, increased energy availability and improved security conditions. Preliminary data for the first half of FY2016 shows industrial growth accelerating on the back of higher activity in large-scale manufacturing and construction, the latter being driven primarily by initiation of China Pakistan Economic Corridor (CPEC) infrastructure and energy projects", The World Bank.

Even Washington Post in its most recent write up, admittedly in an unfortunate context, admits that, "*Over the past two years, Pakistan has appeared to be rebounding from a miserable decade".*

And that, more or less, is the story circulating domestically in the upper echelons of the society regarding the state of the Pakistan economy. The pursuit of the Keynesian model of borrowing and building visible infrastructure has strengthened the view that the current government, all else being constant, is comparatively accomplishing a lot more; admittedly perhaps the comparison with the previous five year regime is in a manner of speaking a lopsided contest. Even the State Bank of Pakistan (SBP) believes, with its signature caution, that, "*While these developments are indeed positive and set the stage for a sustained and high GDP growth in the medium term, the long standing growth hampering issues (continued energy shortages, water scarcity, low tax-to-GDP ratio, sluggish investment rate) needs to be resolved on a priority basis".*

If Pakistan had been conducting some sort of a business outlook survey, the likelihood is that the current survey would have eschewed the most positivity compared with the last decade. To quote a common man, "*Seventy percent of the common man is not concerned with what the economists say, they can see that things have improved significantly. Lots of projects are being pursued which has improved the infrastructure considerably, load shedding is down, business is flourishing, people are getting jobs and institutions are doing much better, even Railways and Pakistan International Airline (PIA) are on time. And CPEC will take care of all other problems*". The reference to seventy percent is obviously out of the hat, motivated perhaps by a political bias, and admittedly this is a rather simplistic way of looking at the economy, however, ignoring the natural tendency of the economists to pursue analysis till paralysis, perceptions matter.

Irrespective of the debate on the perceived and substantive benefits of a stock exchange, the Pakistan Stock Exchange Index has broken all records in the current year and stands at all-time high. If the stock exchange is indeed a barometer for the economy, Pakistan's economy is booming. This ever rising index has also contributed immensely in projecting Pakistan's image as an emerging market, conducive for foreign investment.

In the previous year's Economic Scenario, we had asserted that all systems were go for Pakistan's economy and all that was needed was to, borrowing a metaphor from golf, whack the ball and watch it go whizzing down the fairway. We had however pointed out certain challenges, significantly the low capital investment rate, less than desirable share of manufacturing in GDP, falling exports and dangerous level of trade deficit, all of which are perceptibly linked. While the perception continues to improve, the government perhaps now needs to focus on investment in manufacturing and hydel power project to generate cheap electricity for sustainable economic growth, beyond a complete reliance on the China Pakistan Economic Corridor (CPEC). Unless domestic entrepreneurs and investors step up, it is unlikely that Pakistan will be able to stand on its own two feet.

Even in the case of Foreign investment, while, based on provisional figures of SBP till April 2016, Direct Investment increased to US$ 1.016 billion compared with US$ 0.963 billion in the comparable period last year, the net foreign investment declined to US$ 0.635 billion compared with US$ 1.8 billion last year. The primary reason for this was that portfolio investment fell from an inflow of US$ 1.772 billion to an outflow of US$ 0.400 billion. The fall in portfolio investment is alarming on two counts; firstly it might be indicative of uncertain risks perceived by foreign investors and secondly that domestic capital is focused on secondary markets rather than on primary investments. The latter concern is further aggravated by the significant increase, and still rising, property prices in the key metropolitans of Pakistan. It would appear, that as in the case of Quantitative Easing by the Federal reserve of United States of America, the easing of monetary policy by SBP has largely motivated investors to seek easy returns. While the SBP, most recently, has slashed the policy rate down to 5.75%, a 40 year low, the advances to deposit ratio of banks are also at record low levels. In addition during the period till March 2016, M2 grew to RS 11.7 trillion from RS 11.0 trillion at June 2015. Institutional investment it would appear is focused on government lending and the stock market rather than project financing.

Even in the case of Foreign Direct Investment (FDI), the lion's share of US$ 0.550 billion has come from China, most likely under the CPEC umbrella; albeit even that appears to be on the lower side considering the commitments of US$ 46 billion. Power, construction and oil & gas exploration were the sectors of choice for FDI, equaling more than the net FDI investment during this period. Considering the increasing positivity about Pakistan's economy, this low level of FDI is perhaps a consequence of the country's ranking in a host of indices floating around the internet and easily accessible for anyone contemplating investing in Pakistan.

The Fraser Institute continues to rank Pakistan 124th, albeit out of 155, countries, in its 2013 Economic Freedom of World Index published in 2015. The Heritage Foundation ranks Pakistan 121st out of 178 countries in 2015, which while is an improvement by 5 slots compared with 2014, but cannot be termed satisfactory by any yardstick. The worst scores for Pakistan are in the Rule of Law category which includes property rights and freedom from corruption, followed by financial freedom in Open Markets category, all of which should worry a foreign investor.

While Pakistan's ranking in the Global Competitiveness Index 2015-16 of the World Economic Forum was probably stagnant at 126th out of 140 countries, considering the total number of countries included in the rankings, the country fell to 138th out of 189 in the World Bank Doing Business report in 2015. This would not be encouraging to a foreign investor, especially the low scoring in education, labor efficiency, and infrastructure and institutions categories. Pakistan continues to be ranked horribly in the Corruption Perception Index of Transparency International, 30th most corrupt out of 168 countries.

Business Monitor International (BMI) ranks Pakistan 98th out of 178 in its Economic risk Index, 123rd out of 187 in its Political Risk Index and 143rd out of 169 in Operation Risk Index. Most surprisingly, Pakistan was ranked 140th out of 199 countries by Freedom House in its Freedom of Press Index; this is quite contrary to the hype about free press in Pakistan. Perhaps not a surprise, but Pakistan's ranking of 111th out of 113 countries in Global Democracy Ratings of 2014 might be another concern for investors from capitalist nations.

The picture that a foreign investor might draw of Pakistan in the light of all the above rankings can hardly be motivating for investment. Coupled with the fact that foreign Banks by and large have exited from the country, with foreign oil companies now in tow, attracting FDI outside of CPEC is a huge challenge, to put it lightly. Accordingly it would be productive if the government focused on policies with have a direct linkage of improving these ratings and engaged foreign banks to reconsider operations in Pakistan. Retaining foreign investment is equally important. Another area that the Government needs to focus its attention to spur growth substantively is the judicial process relating to property, Dewani, cases, as also stressed in our last commentary.

Moving to the Macro Economy, the GDP according to the Economic Survey of Pakistan 2015-16 grew by 4.7% on the back of 6.8% growth in Industry; the best performance in more than eight years. Serendipitously, had agricultural growth not been plagued by weather, and grown as per target, the GDP overall growth may even have surpassed 6% on an overall basis. Definitely, improvement in provision of energy to industry, pursuant to Government's efforts, played a major role in this outstanding performance; Electricity Generation & Distribution grew by 12.18%. Additionally, the Keynesian strategy of borrowing and spending on infrastructure paid dividends in the form of 13.1% growth in construction, almost double of last year. Irrespective of the positives, share of manufacturing in GDP continues to be at significantly low levels, in fact small scale manufacturing actually declined from last year, which definitely needs Government's attention on a priority basis.

Inflation, much to the relief of the nation fell to 2.8% on a year on year basis till April 2016, compared with 4.5% for 2015; the lowest in over 10 years. While the primary reason for the decrease in inflation is attributable to fall in international commodity prices, particularly oil, an observation by SBP of Pakistan in its annual economic outlook for 2015 presented to the parliament is an eye opener, "*In fact, the data on prices indicate only 14 items out of 89 in the CPI registered deflation*. *Furthermore, items like house rent and education have consistently registered inflation…"* That is the problem with average inflation. It is always advisable that the government should separately monitor the poor man's basket for inflation and take steps to reduce his woes.

During this period the Rupee remained relatively stable with the USD to Rupee exchange rate hovering around RS 104.7 currently as compared to RS 101.75 at beginning of July 2015. While the exporters fret that the rupee is overvalued which consequently is adversely impacting exports, devaluation has its downside, inflation being the most obvious. The reason for a stable rupee has much to do with inflow of foreign currency and increasing foreign reserves.

Another related, or directly linked, achievement of the Government is the current Liquid Foreign Exchange Reserves which on 13th May 2016 stood at a record US$ 21.3 billion compared with US$ 18.70 billion at the end of fiscal year 2015. At the end of fiscal year 2013, when the current Government came to power, the reserves stood at the precarious level of US$ 11.02 billion. Healthy foreign exchange reserves are one of the key indicators considered by rating agencies and foreign creditors for determining credit worthiness of a country.

Please note, that all economic data, except for GDP which is extracted from the Economic Survey of Pakistan 2015-16 and tax collection data which was downloaded from Federal Board of Revenue (FBR) website, included herein has been collected from the official website of SBP, and is current upto April 2016, unless otherwise stated.

The unwanted, unavoidable, consequence of increasing foreign reserves is the increase in external debt. According to SBP, Public External Debt, including foreign exchange liabilities, increased to US$ 58.7 billion dollars at the end of March 2016, from US$ 54.7 billion at 30th June 2015. Public debt, inclusive of debt contracted by Public Sector Enterprises, stood at US$ 61.726 on 31st March 2016, against which official liquid reserves stood at US$ 16.16 billion. Most worryingly, total external debt and liabilities of Pakistan, including the private sector, stood at US$ 69.56 billion at 31st March 2016.

According to the SBP, Pakistan's total debt and liabilities at the end of 3rd quarter of Financial Year 2016, stood at RS 21.619 trillion of which total public debt inclusive of liabilities and Public Sector Enterprises was RS 19.550 trillion. At 30th June 2015, comparable total public debt was RS 17.76 trillion. Assuming a ballpark average cost of 5% on public debt, the cost component in debt servicing alone comes to around RS 1 trillion; roughly one third of the tax collection target allocated to FBR. Including principal, Pakistan is possibly facing a debt trap which obviously puts immense pressure on the fiscal account.

If FBR meets its collection target of RS 3.1 trillion by the end of the year, it will be a laudable achievement, especially considering that total of tax collection at the end of financial year 2013 stood at RS 1.946 trillion; an increase of more than RS 1 trillion in 3 years. This definitely improves Pakistan's tax to GDP ratio, bringing it nearer to acceptable levels. The concern however is the percentage of indirect, or regressive, taxation in overall collection. According to FBR Quarterly Review for July to March 2016, total collection stood at RS 2.1 trillion out of which around RS 1.5 trillion, 72%, can be categorized as indirect taxes. Including provincial sales tax, which is in any case prohibitive for domestic entrepreneurship, the ratio worsens significantly. Eventually, the government will have to devise tax policies for increasing the proportion of income taxes in overall tax collection. On the other hand, curiously, collection of sales tax and custom duties on POL products increased when compared with the same period last year, notwithstanding the fall in international oil prices.

While the government has again done a remarkable job of curtailing its expenditure, increasing taxes thereby limiting the fiscal deficit to 4.3%; still, a fiscal deficit of 4.5% of GDP, in absolute terms, translates to over Rs 1.633 trillion, which was 65% of net revenue receipts of the Federal Government. This level of financing will, consequently, continue to put pressure on the fiscal account vis-à-vis debt servicing costs, leaving even less for expenditure on government operations; currently the absolute amount of development expenditure is less than the amount of increase in annual public debt. The budget for 2016-17 envisages Federal net revenue receipts of Rs 2.779 trillion against which debt servicing costs are estimated at Rs 1.803 trillion, leasing a balance of Rs 976 billion; the defense budget for 2016-17 has been kept at Rs 860 billion.

Undoubtedly the biggest threat to the economy, after ever increasing debt, is falling exports. During the period ended April 2016 exports fell to US$ 18.19 billion compared with US$ 20.1 billion. While the decline manifested itself across all groups, the decline in the Textile Group, which is still 50% of all exports, and perhaps includes the largest component of value added items, is most worrisome. Pakistan even lost its market for Basmati rice and a decline in sports goods, excluding footballs, and leather was glaringly evident. The government on a priority basis needs to consider ways and means of improving export performance.

On the import side, there was a saving of US$ 4 billion in the petroleum group, on the back of international decline in oil prices. However on an overall basis, imports till April 2016 fell to US$ 32.65 billion from US$ 34.26 billion during the same period last year, a decrease of US$ 1.61 billion only. While the increase in imports in the machinery group is encouraging, the increase in textile group, especially raw cotton imports of almost US$ 1billion, is not. During this period, Pakistanis imported US$ 510 million worth of mobile phones while imports of telecom apparatus was coincidentally an equivalent amount; as a nation we spent a billion dollar just to talk more. We also imported a billion dollars' worth of cars. Courtesy, this and other largess, the net deficit on balance of trade at the end of April 2016, stood at US$ 14.46 billion compared with US$ 14.15 billion for the same period last year.

The net deficit on trade in services was US$ 1.7 billion compared with US$ 2.1 billion during the same period last year. The primary reason for deficit in services is transport and travel, and to put things in perspective, payments to outside airlines for passenger transport and travel during this period amounted to US$ 1.8 billion, more than the net deficit. Perhaps the Government may reconsider its plan to privatize PIA and focus on restructuring it to save precious foreign currency.

On an overall basis, the deficit on goods, services and primary income up till 30th April 2016 was US$ 20.05 billion compared with US$ 19.93 billion over the same period last year. This was inspite of a US$ 4 billion savings on petroleum group imports, mentioned earlier. Had it not been for workers remittance of US$ 16.03 billion during this period, balancing the current account would have been a nightmare.

Unfortunately, the situation regarding workers remittance is getting worrisome. Already the year on year growth fell to 5.25% this year from 18.12% last year. Around US$ 10.33 billion were remitted by Pakistanis working in Saudi Arabia, UAE and other GCC countries, all of which economies have been adversely impacted by collapsing oil prices and by war in the region. Slowing down of construction activities in these countries is likely to significantly impact workers remittance.

Pakistan cannot be dependent upon uncontrollable receipts to manage its economy. As a strategy the Government needs to consider steps to address the trade deficit, perhaps even to the extent of extreme steps of curbing imports.

CONCLUSION

The government to date has made considerable efforts to revive the economy form the point where it was when they came into power. This has not been an easy path and the achievements thus far have been given the deserved recognition, internationally and domestically.

Going forward, CPEC is unquestionably the knight in shining armor and again the government had risen to the occasion. Considering the quantum of investment under CPEC, it would not be illogical to expect a substantial increase in FDI from China in the coming year. From Pakistan's perspective, CPEC will not only generate economic activity during the development phase, but once the route is completed it provides an opportunity to access world markets more easily. The economic corridor not only facilitates China, it also opens up a route upstream to China for the world. Perhaps this is another aspect of the CPEC opportunity for the Government to capitalize upon and attract foreign investment.

Investments in power generation, mostly coal, upwards of US$ 30 billion under CPEC will surely bring an end to backbreaking load shedding that the domestic industry has been subjected too over the last decade. Invariably, this would further improve industry's share in GDP in the medium term.

However, notwithstanding all the positivity associated with CPEC, the Government must realize that weakening of export base and lack of investment in domestic manufacturing are visible future threats which will continue to plague the economy in the absence of concrete steps, in the short, medium and long term. High levels of trade deficits are unsustainable for any developing economy like Pakistan.

Perceptions matter, but at the end of the day perceptions are still perceptions.

Highlights

Income Tax

- The one time Super tax for rehabilitation of displaced persons is being extended to Tax Year 2016 and will be payable at the time of filing of return for the said year. The tax was imposed initially for Tax Year 2015 at 4% of income in case of banking companies and at 3% in case of any other person; the latter being required to pay only if income exceeded Rs. 500 million. The definition of 'income' for the purposes of super tax is also proposed to be amended to exclude adjustment for brought forward business losses and depreciation.

- Fixed tax rates are being introduced for Developers of plots and Builders of residential, commercial and other buildings for projects initiated and approved after 01 July 2016. Tax will be payable on the basis of size and location of the property according to specified rates. FBR has been authorized to make rules in this regard and to designate authorities for computation and granting approval for tax payment plan.

- Graduated tax rates are being introduced for Income from Property earned by Individuals and Associations. Gross rental income will now be taxed at rates ranging from 5% to 20% depending upon its quantum, with no tax payable where annual rental income is less than Rs. 200,000. Companies will continue to pay tax at corporate tax rate applicable after specified deductions against rental income.

- The scope of inadmissible expenditure is proposed to be extended to all expenses where tax is not withheld by the payer if so required by law. However, the expense will not be disallowed where related withholding tax has been recovered by the tax authorities. Further, disallowance in case of purchases of raw materials and finished goods is proposed to be capped to 20% of such expense.

- Tax admissible expense on account of sales promotion, advertisement, and publicity by pharmaceutical manufacturers is proposed to be restricted to 5% of turnover.

- A clarificatory amendment is proposed for tax depreciation to be considered as had been computed and given during exemption period.

- The benefit of group relief is proposed to be restricted to the percentage of holding of the parent company in the subsidiary company. Presently, the subsidiary may surrender all its assessed losses to the parent company holding at least 75% shares in case of unlisted company and 55% in case of listed company. Losses to be surrendered in future will now be proportional to the holding of the parent company.

- The exemption from inter-corporate dividend for companies exercising group relief is also proposed to be withdrawn. Accordingly, 100% owned group entitled for group taxation, shall continue to have exemption of inter corporate dividend.

- Tax credit is proposed to be allowed on health insurance premium at average tax rate up to Rs. 100,000 or 5% of income whichever is lower.

- Tax credit for additional contribution allowed to individuals aged 41 years and above to an approved pension plan is proposed to be restricted upto 30 June 2019, subject to the condition of total admissible contribution not exceeding 30% of taxable income of the preceding year.

- An allowance against income is proposed for children's education fee to parents earning up to Rs. 1 million in a year. The deduction will however be restricted to the lower of 5% of the fee or 25% of income or Rs. 60,000 per child. It is to be noted that this deduction can only be claimed in the tax return, as employers have not been authorized to take into account such deduction while calculating tax to be withheld from salaries of parents in their capacity as employees.

- Tax credit for employment generation is proposed to be extended to industries set up by 30 June 2019, set to expire on 30 June 2018.

- Tax credit for 90% of sales to buyers registered under the Sales Tax Act, 1990 is proposed to be increased to 3% of tax liability from 2.5% presently applicable.

- Tax credit for balancing, modernization and replacement of plant and machinery is proposed to be extended to investments up to 30 June 2019, presently ending on 30 June 2016.

- Tax credit for enlistment on the stock exchange is proposed to apply for two years. The credit is presently 20% of the tax payable in the year of enlistment.

- The limit of 100% equity for claiming 100% tax credit in case of newly established industrial undertakings including corporate dairy farms is proposed to be rationalized with the tax credit made proportional with the amount of new equity and the later reduced to at least 70% of the total capital of the undertaking. The time limit for admissibility of credit is also to be increased to 30 June 2019.

- Detailed record keeping is being prescribed for transactions with associates; with the Commissioner empowered to call for records and the taxpayer bound to provide the same within time not exceeding 45 days after notice from the Commissioner.

- Individuals and Associations to be subject to minimum tax at 1% of turnover in case the turnover exceeds Rs. 10 million in Tax Year 2017. Further, exemption from minimum tax in case of gross loss is proposed to be withdrawn.

- Minimum tax under section 113 of the Ordinance to apply in addition to super tax.

- Prior approval of the Commissioner will no more be required for revision of return in case the taxable income as per revised return is more than the original return or the loss declared is less than the original return.

- The condition for the provisional assessment to be no more considered final, enhanced to include submissions of documents and records for tax audit besides filing of tax return and audited accounts within 45 days of the service of the provisional assessment order.

- Alternate corporate tax paid in the preceding year to be considered while computing latest assessed tax to turnover ratio for payment of quarterly advance tax and for estimating tax liability for the year.

- Payments to non-residents for foreign produced commercials or advertisement on any television channel are proposed to be subjected to 20% withholding tax which is also to be considered final for the recipient.

- Tax deducted from payments to electronic and print media for advertisement services is proposed to be considered final tax. Tax will be deductible at 1.5% for filer and 12% in case of non-filer company and 15% in case of non-filer non-corporate entity.

- Excess tax deducted in case of non-filer to be adjustable in all cases with respect to income taxable under final tax regime.

- Time limit for filing of tax refund application is proposed to be enhanced from 2 to 3 years of the later of filing of return and payment of tax.

- Penalty of Rs. 2,500 per day prescribed for non-provision of information by banks and financial institutions to FBR with respect to non-resident persons as required to be provided under a tax treaty.

- Advance income tax to be collected by leasing companies and banks from non-filer lessees at 3% of the value of the vehicle.

- Advance tax to be collected on payment of insurance premium by non-filers at 4% for general insurance and at 1% for life insurance, the later to apply where premium exceeds Rs. 200,000 per annum.

- Advance tax at 5% is proposed to be collected on the value of minerals extracted by a non-filer.

- Advance tax at 3% of turnover is proposed to be collected by provincial revenue authorities from non-filers of income tax returns on filing of sales tax returns by such persons.

- Tax rate on gain on immovable property is proposed to be increased to 10% in all cases where property is held for less than 5 years. No tax to apply for holdings exceeding 5 years. Withholding tax rates for buyers and sellers are also proposed to be enhanced for filers and non-filers.

- Withholding tax rate for dividend and prize bond winnings to be increased to 20% for non-filers.

- Separate withholding rates given for filer and non-filer agents earning commission income from advertising and life insurance.

- Tax Exemption for 23 years effective 01 July 2016 is proposed on profits and gains from businesses set up in the Gwadar Free Zone Area.

- Tax exemption for 23 years effective 06 February 2007 is proposed for specified Chinese companies working on the Gwadar Port.

- Tax exemption for 20 years effective 01 July 16 is proposed for contractors and sub-contractors of specified Chinese companies working at the Gwadar Port.

- Exemption on income from export of software and IT enabled services is proposed to be extended to 30 June 2019, subject to remittance of 80% of the export proceeds through banking channel.

- Tax rate on income from services rendered and construction contracts executed outside Pakistan is proposed to be increased from 1% to 50% of the withholding rates applicable to resident persons for such services or contracts executed locally.

- The benefit of taxation under normal tax regime granted to specified service sectors for Tax Year 2016 is proposed to be extended to Tax Year 2017 subject to furnishing of irrevocable undertaking by Nov 2016 to the Commissioner for furnishing of accounts for audit.

Sales Tax

- Incentive given to the ‘cottage industry’ by enhancing the limit of annual turnover from Rs. 5.0 million to Rs. 10 million.

- Enhanced the power of the Board to specify different dates for furnishing of different parts or annexures of the sales tax return in addition to the furnishing of the sales tax return.

- Restrict the definition of ‘input tax’ for the purposes of the Act by excluding provincial sales tax levied on services.

- The time for payment of sales tax liability is proposed to be prescribed through rules instead of the requirement of payment of sales tax at the time of filing the return.

- Restrict the adjustment of input tax in the hands of the buyer where the supplier has not declared such supply in his return or has not paid the amount of output tax as indicated in his return.

- A new sub-section (4A) inserted under section 11 of the Act, through which the officer of Inland Revenue is being empowered to show cause a person who makes default in either withholding of sales tax or making payment of sales tax withheld.

- Include international financial institutions and foreign government-owned financial institutions for purposes of exemption by the Federal Government subject to the approval of the Economic Coordination Committee.

- Requirement for filing of separate return in respect of each portion of tax period showing the application of different tax rates is proposed to be eliminated through omission of section 26(2) of the Act.

- It is proposed to constitute a Director General of Input Output Co-efficient Organization through insertion of section 30DDD in the Act.

- Penalty for contravention of any of the provision of the rules is proposed to be applied at the rate of Rs. 5,000 or 3% of the amount of tax, whichever is higher; through amendment in section 33(19) of the Act.

- In case of sale or transfer of ownership of a taxable activity or part thereof by a registered person to another registered person as an ongoing concern, the taxable goods or part thereof is proposed to be transferred to the new owner by issuance of raising of a zero rated invoice.

- Restriction on disclosure of information required under any provision of the Act or any information received or supplied in pursuance of bilateral or multilateral agreements with government of foreign countries through a public service, is being proposed.

- The Bill proposes to bring “Mineral/bottled water” under the retail tax regime.

- In order to avoid misuse of zero rating on supplies of colors in sets, writing, drawing and marking inks, erasers, exercise books, pencils, sharpeners, geometry boxes, pens, ball pens and porous tipped pens and milk along with fat filled milk it is proposed to withdraw zero rating of these supplies.

- Exemption from sales tax is proposed to be introduced for the following:

  a) Imports by or supplies of materials and equipment to China Overseas Ports Holding Company Limited and its operating companies, their contractors and sub-contractors for construction and operation of the Gwadar Port and development of the Free Zone for the Gwadar Port and ship bunker, oils bought and sold to the ship calling on/visiting the Gwadar Port having concession agreement with the Gwadar Port Authority for period of 40 years and for supplies made by the businesses to be established in the Gwadar Free Zone for a period of 23 years, subject to fulfillment of certain conditions and procedures.

  b) Laptops, notebooks and personal computers;

  c) Pesticides and various active ingredients.

  d) Dump trucks.

- In order to give incentive to farmers, 17% rate of sales tax on retail price is being replaced with reduced sales tax of 5% on supplies of Urea, whether or not in aqueous solution.

- Certain ingredients of poultry feed and cattle feed have been proposed to be substituted and rate of sales tax is proposed to be enhanced from 5% to 10%.

- Reduced rate of sales tax of 7% on supplies of pesticides and their active ingredients is proposed to be withdrawn and brought under exemption through insertion of these supplies under the Sixth Schedule to the Act.

- Sales tax enhanced by Rs. 500 on medium priced and smart cellular mobile phones to Rs. 1,000 and Rs. 1,500 respectively.

Sale Tax on Services (Islamabad)

- The Bill proposes to empower the Federal Government to impose conditions and restrictions by issuing notification with respect to any taxable services on which tax shall be charged and paid in such manner and at such rates as may be specified.

- The Bill proposes to introduce exemption from sales tax through the procedure laid down under the Sales Tax Act 1990.

- The Bill propose to allow zero rating to diplomats, diplomatic missions, privileged persons, and organizations.

- The bill proposes to allow exemption to projects under grant-in-aid for which specific consent has been obtained from the Board and under agreements signed by the Federal Government before 30 June 1996 provided relevant agreements contained the exemption clause.

- The Bill proposes to exclude from Islamabad sales tax Regulatory and licensing services rendered or provided by an organization established by or under the Federal statute.

Federal Excise

- The Bill proposes to enhance the power of the Board to specify different dates for furnishing of different parts or annexures of the FED return in addition to the furnishing of a FED return.

- The time for payment of FED is proposed to be prescribed through rules instead the requirement of payment of FED at the time of filing the return.

- The Bill proposes to restrict the adjustment of input tax in the hands of the buyer where the supplier has not declared such supply in his return or has not paid the amount of due tax as indicated in his return

- Requirement for filing of separate return in respect of each portion of tax period showing the application of different tax rates is proposed to be eliminated through omission of section 26(2) of the Act.

- The Bill proposes to include international financial institutions and foreign government-owned financial institutions for purposes of exemption by the Federal Government subject to the approval of the Economic Coordination Committee.

- The Bill proposes to include within penalty provisions any contravention of the provisions of the rules under provisions of the FE Act.

- FED is proposed to be enhanced from 10.5% to 11.5% on aerated waters, concentrates for aerated beverages and aerated waters containing sugar or other sweetening matters.

- FED is proposed to be enhanced on locally manufactured cigarettes in two steps.

- FED on cement is proposed to be enhanced from 5% of the retail price to Rs. 1 per kilogram of cement.

- FED on white crystalline sugar is proposed to be abolished and replaced with sales tax.

- In order to avoid double taxation, the Bill proposes to exclude certain services from levy of FED where provinces have levied their respective provincial sales tax.

- The Bill proposes to withdraw exemption of FED on white cement.

- The Bill proposes to exempt imports by or supplies of materials and equipment to the China Overseas Ports Holding Company Limited and its operating companies, their contractors and sub-contractors for construction and operation of the Gwadar Port and development of the Free Zone for the Gwadar Port and ship bunkers, oils bought and sold to ship calling on/visiting the Gwadar Port having concession agreement with the Gwadar Port Authority for period of 40 years and for supplies made by the businesses to be established in the Gwadar Free Zone for a period of 23 years, subject to fulfillment of certain conditions and procedures.

Customs

- The Bill proposes to include international financial institutions and foreign government-owned financial institutions for purposes of exemption by the Federal Government subject to the approval of the Economic Coordination Committee.

- Information gathered by Customs during clearance of goods is proposed to be shared to the extent of agreed data under a MoU, bilateral, regional, multilateral agreements and conventions; public disclosure of valuation data through a medium can be disclosed without disclosing name and address of importer or exporter or their suppliers.

- Amendments are proposed to be made in the First and Fifth Schedule to the Customs Act, 1969.

Income tax

Significant amendments

Super tax for rehabilitation of TDPs extended to tax years 2016

Section 4B

The Finance Act 2015 imposed one time levy of super tax for rehabilitation for temporarily displaced persons on banking companies at the rate of 4% of income and other taxpayers having income equal to or exceeding Rs. 500 million at the rate of 3% of income.

The Finance Bill now proposes the following amendments:

- The levy of super tax has been extended to tax year 2016, and
- For the purpose of determination of "income" for this levy, the adjustment of depreciation and business losses shall no longer be available.

For this purpose, the term income (other than depreciation and business losses) shall constitute the following:

(i) Profit on debt, dividend, capital gain, brokerage and commission;

(ii) Taxable income of a person for a tax year under all heads of income determined under section 9;

(iii) Imputable income defined in section 2(28A); and

(iv) Income computed under:

a. Fourth Schedule - Insurance business;

b. Fifth Schedule - Production of oil and natural gas and extraction and exploration of other mineral deposits;

c. Seventh Schedule – Banking business; and

d. Eighth Schedule - Capital gain on listed securities.

Tax on builders - change of taxation regime from minimum tax to final tax

Section 7C, 8 and 113A

The Finance Act 2013 introduced minimum tax on income from the business of construction, sale of residential, commercial or other buildings, however, the rates of minimum tax were not prescribed.

The Finance Act 2015 deferred the application of minimum tax till 30 June 2018.

The Finance Bill now proposes to change the taxation regime for builders from minimum tax to final tax at following rates:

Areas	Commercial	Residential Sq Ft		
		Upto 750	751 to 1500	1501 & more
	Rate Rs / Sq. Ft			
A	210	20	40	70
B	210	15	35	55
C	210	10	25	35

Further, FBR has been empowered to prescribe:

- The mode and manner for payment and collection of tax,
- Authorities granting approval for the computation and payment of tax, and
- Responsibilities of authorities approving, suspending and cancelling NOC to sell and the matters connected thereto.

The provisions of this section shall apply to business or projects undertaken for construction and sale of residential, commercial or other buildings initiated and approved after 01 July 2016.

Corresponding amendments have been proposed in section 8 to provide that tax imposed shall be final tax and shall not be reduced by any tax credit.

Tax on developers - change of taxation regime from minimum tax to final tax

Sections 7D, 8 and 113B

The Finance Act 2013 introduced minimum tax on income from the business of development and sale of residential, commercial or other plots. The Finance Act 2015 prescribed the rate of minimum tax of 2% of the value of land notified by the authority for the purpose of stamp duty.

The Finance Bill now proposes to change the taxation regime for developers from minimum tax to final tax at the rates summarized are as follows:

Areas	Commercial	Residential Sq Yds		
		Up to 120	121 to 200	201 & more
	Rate Rs / Sq Yd			
A	210	20	40	70
B	210	15	35	55
C	210	10	25	35

FBR has been empowered to prescribe:

- The mode and manner for payment and collection of tax,
- Authorities granting approval for the computation and payment of tax, and
- Responsibilities of authorities approving, suspending and cancelling NOC to sell and the matters connected thereto.

The provisions of this section shall apply to business or projects undertaken for development and sale of residential, commercial or other plots initiated and approved after 01 July 2016.

Corresponding amendments have been proposed in section 8 to provide that tax imposed shall be final tax and shall not be reduced by any tax credit.

Individuals and AOPs deriving income from property made liable to tax as a separate block of income

Section 15, 15A, Division VIA of Part I and Division V of Part III of the First Schedule

Currently, income from property of an individual and an AOP is subjected to tax in the following manner:

- Deductions admissible under section 15A are allowed against rental income.
- Net income from property is charged to tax at the rates applicable to the individuals and AOPs under the First Schedule.
- Individuals or AOPs are entitled to the basic threshold of exemption of Rs. 400,000 meaning thereby that an individual or AOP shall not pay any tax on income upto Rs. 400,000.
- Income from property is subjected to withholding tax at the prescribed rates which are different than the charging rates.

The Finance Bill proposes to change the taxation regime from above to a separate block of income in respect of income from property derived by an individual or an AOP. The salient features of the proposed scheme are as follows:

- Income from property shall be subjected to withholding tax and the charge of tax at the same rates.

- An individual or AOP deriving only income from property not exceeding Rs. 200,000 in a tax year shall be exempt from tax.
- Deductions admissible under section 15A shall no longer be allowed to individuals and AOPs.

The revised rates applicable to income from property are as follows:

<table>
<tr><th>S. No.</th><th>Amount (Rs.)</th><th>Existing Rate / Tax</th><th>Proposed Rate / Tax</th></tr>
<tr><td>1</td><td>Up-to 200,000</td><td rowspan="2">-</td><td>-</td></tr>
<tr><td>2</td><td>200,000 to 400,000</td><td rowspan="3">5%</td></tr>
<tr><td>3</td><td>400,000 to 500,000</td><td>7% of</td></tr>
<tr><td>4</td><td>500,000 to 600,000</td><td rowspan="2">7,000+ 10%</td></tr>
<tr><td>5</td><td>600,000 to 750,000</td><td rowspan="2">20,000 +10%</td></tr>
<tr><td>6</td><td>750,000 to 1,000,000</td><td rowspan="2">32,000+ 15%</td></tr>
<tr><td>7</td><td>1,000,000 to 1,500,000</td><td rowspan="2">60,000 +15%</td></tr>
<tr><td>8</td><td>1,500,000 to 2,000,000</td><td rowspan="2">144,500+ 20%</td></tr>
<tr><td>5</td><td>2,000,001 to 2,500,000</td><td rowspan="4">210,000 + 20%</td></tr>
<tr><td>6</td><td>2,500,001 to 4,000,000</td><td>344,500+ 25%</td></tr>
<tr><td>7</td><td>4,000,001 to 6,000,000</td><td>719,500+ 30%</td></tr>
<tr><td>8</td><td>6,000,001 and above</td><td>Rs 1,319,500+35%</td></tr>
</table>

Impact on tax liability due to proposed change is compared below. To compare the effect of change, repair allowance [20%] and collection charges [6%] have been taken in income from property under existing law.

Gross Rents	Taxable rental income	Tax liability		Increase/ (Decrease)
		Existing	Proposed	
A	B	On B	On A	
200,000	148,000	0	0	0
400,000	296,000	0	10,000	10,000
500,000	370,000	0	15,000	15,000
600,000	444,000	3,080	20,000	16,920
750,000	555,000	12,500	35,000	22,500
1,000,000	740,000	31,000	60,000	29,000
1,500,000	1,110,000	86,000	135,000	49,000
2,000,000	1,480,000	141,500	210,000	68,500
2,500,000	1,850,000	214,500	310,000	95,500
4,000,000	2,960,000	459,500	610,000	150,500
6,000,000	4,440,000	851,500	1,010,000	158,500

Inadmissibility of all deductions due to non-withholding of tax

Section 21(c)

Section 21(c) provides that no deduction shall be allowed against income from business in respect of any salary, rent, brokerage or commission, profit on debt, payment to non-resident, payment for services or fee paid by a person without deduction or collection of tax at source, unless such tax has been paid.

The Finance Bill proposes to extend this inadmissibility to all expenditure (instead of currently specified expenses).

It has further been provided that recovery / payment of tax under section 161 or 162 shall be treated as payment of tax and the relevant expense shall no more be considered as inadmissible.

It has also been provided that disallowance under this clause shall not exceed 20% of purchases of raw materials and finished goods.

Deductibility of advertisement and sales promotion expenses of pharmaceutical manufacturers restricted

Section 21(o)

The Drugs Act, 1976 prescribes that advertisement and sales promotion expenses (ASP) in case of pharmaceutical manufacturer should not exceed 5% of its turnover of drugs. In past, based on this provision, the tax authorities curtailed admissibility of ASP to 5% of turnover in the case of number of pharmaceutical companies. However, the Courts held that a bonafide expenditure cannot be disallowed based on the restriction provided under a different statute. Accordingly, the entire claim of ASP, subject to the fulfillment of the conditions prescribed under the income tax law, are allowed to the pharmaceutical companies.

The Finance Bill now proposes to insert clause (o) in section 21 to restrict admissibility of ASP incurred by pharmaceutical manufacturers to the extent of 5% of turnover.

It is noted that under the Drugs Act, the restriction relates to turnover of the drugs, i.e. registered under the Act, whereas, proposed restriction apparently does not differentiate drugs and non-drug products of a pharmaceutical manufacturer.

Depreciation deemed to be allowed during exempt period

Section 22

The Third Schedule of the repealed Income Tax Ordinance, 1979 contained a clause to provide that depreciation shall be deemed to have been allowed during tax exempt period. On conclusion of such exemption period, written down value (WDV) was to be determined as if the depreciation was deemed to have been allowed. However, the Income Tax Ordinance, 2001 does not contain any such provision. This resulted in different interpretations as if the depreciation on assets used during an exempt period was to be deemed and adjusted for the purpose of determination of WDV post exempt period or otherwise.

The Finance Bill now proposes to insert an explanation for removal of doubt in section 22(5) containing almost similar concept as was provided in the Third Schedule of the repealed Ordinance. According to this explanation, where any building, furniture, plant and machinery used for the purpose of business during a tax exempt period, depreciation thereon shall be treated to have been allowed. Consequently, after expiry of the exemption period, WDV of such assets shall be determined after reducing total depreciation deduction including initial allowance.

This explanation shall have retrospective effect as if it has always been there. Its implications can arise in respect of open tax years.

Holding period extended for zero tax on capital gains on immovable property

Section 37(1A) and Division VIII of Part I of First Schedule

Currently, if an immovable property is disposed of after holding for a period more than two years, the tax at zero percent is applicable on resultant capital gain.

The Finance Bill now seeks to provide that capital gains derived on immovable property held up to five years shall be chargeable to tax at 10%, and beyond five years at 0%.

Future commodity contracts made liable to capital gain tax at 5%

Section 37A, Division VII of Part I of First Schedule, and Eighth Schedule

For the purpose of determination of capital gain, the term “securities” is defined to mean share of a public company, voucher of PTC, modaraba certificate, an instrument of redeemable capital, debt securities and derivative products.

The Finance Bill proposes to insert an explanation to clarify that derivative products shall include future commodity contracts entered into by the members of Pakistan Mercantile Exchange, whether or not settled by physical delivery.

The future commodity contracts are now to be treated as derivatives and proposed to be subject to withholding tax by National Clearing Company of Pakistan Limited under the Eighth Schedule to the Ordinance.

This explanation shall have retrospective effect as if it has always been there.

Enhanced rates of tax on capital gains on listed securities for non-filers

Section 37A, Division VII of Part I of First Schedule, and Eighth Schedule

The Finance Bill proposes to introduce higher tax rates for non-filers in respect of capital gains on listed securities.

Regressive tax rates introduced for gain on debt securities derived by companies

Section 37A, Division VII of Part I of First Schedule, and Eighth Schedule

Currently gain derived by a company from debt securities is taxable at applicable corporate tax rate.

The Finance Bill proposes to provide regressive tax rates depending on holding period of debt securities. Consequently, gain on debt securities held for more than four years will be taxed at 0%.

Tax concessions/ exemptions to foreign institutions

Section 53(2)

The Finance Bill proposed to empower the Federal Government to allow exemption, reduction in tax rates, reduction in tax liabilities and exemptions from operation of provisions of the Ordinance to international financial institutions or foreign government owned financial institutions operating under an agreement, MOU or any other arrangements with the Government of Pakistan.

Restriction on benefit of loss surrendered by a group company

Section 59B

Currently, a group company, being a subsidiary or a holding company, may surrender its assessed loss, excluding capital and brought forward losses in favour of another group company.

The Finance Bill proposes to limit the benefit of losses to be surrendered to the extent of percentage of shares held by holding company in its subsidiary company.

Tax credit for investment in health insurance

Section 62A

The Finance Bill proposes to provide for tax credit to a resident person, other than a company, deriving income from salary or business in respect of health insurance premium paid or contribution made to an insurance company. The tax credit shall be computed by applying the average tax rate on lower of:

- total contribution or premium paid,
- 5% of taxable income and
- Rs. 100,000

Tax credit for contribution to an Approved Pension Fund

Section 63

Currently, tax credit for contribution to an approved pension fund is allowed against salary income or income from business earned by an eligible person. The tax credit is computed by applying the average tax rate on lower of:

- Total contribution or premium,

- 20% of taxable income and additional 2% per year for each of year of age to a person joining the pension fund at the age of forty one years, upto tax year 2016, subject to the upper limit of 50% of taxable income of preceding tax year.

The Finance Bill proposes to extend the facility of additional 2% per year for each year of age to a person exceeding 40 years, upto tax year 2019 subject to upper limit of 30% of taxable income of preceding tax year.

Deductible allowance on profit on debt

Section 64A

The Finance bill proposes to enhance the limit for deductible allowance on profit on debt from Rs. 1 million to Rs. 2 million. Consequently, an individual's deductible allowance for a tax year shall be fifty person of taxable income or Rs. 2 million, whichever is less.

Deductible allowance for education expenses

Section 64AB

The Finance Bill proposes to allow deductible allowance to individuals having taxable income less than Rs. 1 million in respect of tuition fee paid by them. The allowance shall be allowed at lower of:

- 5% of the total tuition fee paid,
- 25% of person's taxable income, and
- Rs. 60,000 per child.

The unadjusted allowance cannot be carried forward to subsequent tax years.

This tax credit is proposed to be allowed to either of the parents on furnishing of NTN and the name of the educational institution.

However, the employer is not entitled to take into account this allowance for the purpose of deduction of tax from salary.

Tax credit for employment generation by manufacturers

Section 64B

Section 64B allows tax credit of 1% of the tax payable of a manufacturing unit set up between 01 July 2015 and 30 June 2018 on every 50 employees registered with EOBI and Employee Social Security Institution.

The Finance Bill proposes to extend the period to set-up the manufacturing unit up to 30 June 2019 and also to enhance the rate of this tax credit from 1% to 2% of tax payable for every fifty employees.

Tax credit to a person registered under sales tax

Section 65A

The Finance Bill proposes to increase the rate of tax credit from 2.5% to 3% of tax payable for a tax year in case of every manufacturer registered under Sales Tax Act, 1990 if 90% of its sales are to registered persons under the Sales Tax Act, 1990.

Tax credit for investment

Section 65B

A company investing in purchasing in plant and machinery for the purpose of extension, expansion and BMR is entitled to tax credit at the rate of 10% of the amount invested, provided the plant and machinery is purchased and installed till 30 June 2016.

The Finance Bill proposes to extend the date of purchase and installation till 30 June 2019.

Tax credit for enlistment

Section 65C

Currently, a company opting for enlistment on a stock exchange is entitled to tax credit of 20% of tax payable for the year in which it is enlisted.

The Finance Bill seeks to extend the tax credit from one year to two years i.e. the year of enlistment and the following tax year.

Tax credit for newly established industrial undertaking

Section 65D

A company establishing and operating new industrial undertaking including corporate dairy farming is entitled to tax credit equal to 100% of tax payable for a period of five years provided the industrial undertaking is set up between 01 July 2011 and 30 June 2016 with 100% equity raised through issuance of new shares for cash consideration.

The Finance Bill seeks to relax the condition of 100% equity to 70% and also extend the period to set up the industrial undertaking from 30 June 2016 to 30 June 2019. In view of the relaxation of the share of equity, it is also proposed that the tax credit will be allowed in proportion of the equity raised through issuance of shares against cash.

It is also proposed that in case of discontinuation of business before five years, the tax credit so allowed shall be retrieved by the Commissioner by re-computing the tax payable for the relevant tax year.

Tax credit for industrial undertaking established before July 2011

Section 65E

A company set up before 30 June 2011 investing in the purchase and installation of plant and machinery for the purpose of expansion of existing undertaking or undertaking a new project including corporate dairy farming is entitled to tax credit equal to 100% of tax payable for a period of five years provided such investment is made with 100% equity raised through issuance of new shares for cash consideration.

The Finance Bill seeks to relax the condition of 100% equity to 70% and also extend the period for such investment from 30 June 2016 to 30 June 2019. In view of the relaxation of the share of equity, it is also proposed that the tax credit will be allowed in proportion of the equity raised through issuance of shares against cash.

It is also proposed that in case of discontinuation of business before five years, the tax credit so allowed shall be retrieved by the Commissioner by re-computing the tax payable for the relevant tax year.

Apportionment of deductions and allowances

Section 67

Currently, expenditure is required to be apportioned between the different heads of income and income taxable under difference regimes i.e. normal and final tax regimes and expenditure incurred for the purpose of income chargeable to tax and for some other purpose. The Board is empowered to make rules for the purpose of apportioning the expenditure.

Certain other deductions and allowances are also deducted to arrive at the taxable income. The Finance Bill seeks to provide that besides expenditure, the deductions and allowances will also be apportioned in the similar manner applicable for allocation of expenditure.

Fair market value

Section 68

This section defines the parameters for the purpose of determination of fair market value of any property or rent, assets, service, benefit or perquisite as value ordinarily fetched on sale or supply in the open market. It is further provided that value of property, or rent, assets, service, benefit or perquisite shall be determined without regard to any restriction on transfer etc.

The Finance Bill seeks to insert that value fixed or notified by any provincial authority for the purpose of stamp duty or for any other purpose shall also be disregarded for the purpose of determination of fair market value.

Transaction between associates

Section 108

The Commissioner is empowered to distribute, apportion or allocate income, deductions or tax credits between the persons who are associates to reflect the income that the persons would have realized in an arm's length transaction.

The Finance Bill seeks to provide that every taxpayer entering into a transaction with its associates shall:

- maintain a master file and local file containing documents and information as may be prescribed;
- keep and maintain prescribed country-by-country report, where applicable;
- keep and maintain any other information and document in respect of transaction with its associate as may be prescribed; and
- keep the files, documents, information and reports specified above for the period as may be prescribed.

On requiring by the Commissioner, the above documents are required to be furnished within 30 days or such time as may be extended by the Commissioner upto 45 days or beyond in exceptional circumstances.

It is expected that FBR will prescribe the extent of and manner in which the documents will be maintained and the information to be furnished.

It appears that the proposed change is aimed to incorporate the action plans for documentation of Base Erosion of Profit Shifting approved by the OECD.

Scope of minimum tax extended

Section 113

Currently, an individual and AOP having turnover of Rs. 50 million or above is liable to minimum tax at the rate of 1% of turnover. The Finance Bill proposes to reduce this threshold to Rs. 10 million. Accordingly, an individual or AOP having turnover of Rs. 10 million or more for tax year 2017 or in any subsequent tax year shall be liable to minimum tax at the rate of 1% of turnover.

The Finance Bill also seeks to omit the proviso that minimum tax shall not apply in case of a company which has declared gross loss before setting off of depreciation and other inadmissible expenses. The effect of this proposal is that a company shall be liable to minimum tax irrespective of declaring gross loss before setting off of depreciation etc.

Further, an explanation has been proposed to be inserted to provide that tax payable or paid under final tax regime and super tax under section 4B shall not be considered as tax payable or paid for the purpose of minimum tax.

Revision of return

Section 114(6)

Currently, a taxpayer is required to obtain approval from the Commissioner before revision if return is revised after sixty days of filing of return.

The Finance Bill proposes to allow revision of return considered as deemed assessment order under section 120 without approval of the Commissioner where the taxable income is more than or the loss is less than the loss declared in the original return.

Provisional assessment

Section 122C

The Commissioner is empowered to make provisional assessment based on his best judgment if the taxpayer does not file return of income despite calling of the same by the Commissioner. Such a provisional assessment is considered as final if the taxpayer does not file return and other required documents within forty five days from the service of the provisional order.

The Finance Bill seeks to provide that provisional assessment shall not be treated as final assessment if:

- In case of individuals and AOPs, the return of income alongwith wealth statement and wealth reconciliation are filed within 45 days. Further, such individual and AOP shall present its accounts and documents for tax audit of that tax year.

- In case of companies, return of income tax alongwith audited accounts or final accounts, as the case may be, for the relevant tax year are filed by the company electronically during the said period of forty-five days. Further, such company shall present its accounts and documents for conducting audit of its income tax affairs for that tax year.

Alternative Corporate Tax to be considered for advance tax

Section 147

The Finance bill proposes to insert an explanation for the purpose of removal of doubt that Alternative Corporate Tax (ACT) under section 113C is to be considered for the purpose of calculation of advance tax.

This explanation shall have retrospective effect as it has always been there. Its implications may arise in such cases where advance tax discharged was lesser than the required limit, and where the ACT was applicable, in tax years 2014 and onward.

Restriction on disclosure of information obtained from financial institutions and banks

Sections 165B

Section 165B obligates the financial institutions and banks to provide information to the Board in prescribed form and manner. Sub-section (2) provides the utilization of information obtained subject to the restrictions on disclosures by a public servant provided in section 216.

The Finance Bill seeks to relax the condition of restriction provided in section 216. However, it may be viewed that irrespective of change proposed, section 216 will remain operative for the purpose of section 165B.

Time extended to file refund application

Section 170

Currently, the taxpayer claiming the refund is required to file refund application within 2 years of the later of date of filing of return or the assessment order, as the case may be.

The Finance Bill seeks to extend the aforesaid time limit for filing of refund application from two years to three years.

Penalty for non-furnishing of information by the financial institutions and banks

Section 182

The Finance Bill proposes to provide penalty of Rs. 2,500 for each day of default subject to a minimum of Rs. 10,000 for non-furnishing of information by financial institutions and banks under section 165B.

Withholding tax provisions

Sections 150, 152A, 153, 155, 231A, 231B, 233, 233A, 236, 236A, 236C, 236P, 236U, 236V, 236W

The Finance Bill proposes following changes in various withholding tax provisions:

(i) Enhanced withholding tax rates have been prescribed for non-filers on dividends (section 150).

(ii) New withholding tax has been proposed at the rate of 20% of gross amount of payment to non-resident person for foreign produced commercials for advertisement on television channels or any other media. Further, the tax so withheld shall be considered as final tax (section 152A).

(iii) Withholding tax on payment to resident person engaged in electronic and print on account of advertising services has been proposed to be increased from 1% to 1.5% for filers and such withholding tax shall be final tax with effect from 01 July 2016 (section 153).

(iv) Withholding tax on supply of fast moving consumer goods by a distributor is to be reduced from 4% to 3% in the case of company, and from 4.5% to 3.5% in other cases (section 153).

(v) Withholding tax rates on payment of rent of immovable property to an individual or association of persons are aligned with proposed taxation of such rental income (section 155).

(vi) It has been proposed to clarify that for the purpose of withholding tax on cash withdrawals from bank, the limit of Rs. 50,000 shall be aggregate withdrawals from all the bank accounts in a single day (section 231A).

(vii) Every leasing company or a scheduled bank or an investment bank or a development finance institution or a modaraba have been proposed to collect advance tax at the time of leasing of a motor vehicle to a non-filer at the rate of three per cent of the value of the motor vehicle (section 231B).

(viii) Withholding tax rate on brokerage and commission to life insurance agents where commission received is less than Rs. 500,000 per annum, to be changed from 12% to 8% in case of filer, and from 15% to 16% in case of non-filer. (section 233)

(ix) Rate of collection of tax by stock exchange on purchase and sale of shares to be increased from 0.01% to 0.02% (section 233A).

(x) Rate of collection of tax from telephone and internet users is to be increased from 10% to 12% (section 236).

(xi) Tax collected on the lease of the right to collect tolls at the rate of 10% of the gross sale price of such lease shall be final tax (section 236A).

(xii) No advance tax shall be collected on sale or transfer or immovable property held for a period exceeding five years. Further, withholding tax rates are being enhanced (section 236C).

(xiii) Collection of tax on purchase or transfer of immovable property is to be made at enhanced rates for filer and non-filer (section 236K).

(xiv) It has been proposed to clarify that for the purpose of withholding tax on specified banking transaction by non-filers, the limit of Rs. 50,000 shall be aggregate withdrawals from all the bank accounts in a single day (section 236P).

(xv) Adjustable withholding tax has been proposed to be collected by insurance company or their agents from non-filers at the rate of 4% on general insurance premium and at the rate of 1% on life insurance premium, if exceeding Rs. 200,000 per annum (section 236U).

(xvi) Adjustable withholding tax has been proposed to be collected by provincial authority collecting royalty per metric ton from the lease-holder of mines or any person extracting minerals from the leased holder of the mines or any person extracting minerals, at the rate of 5% of the value of minerals extracted, produced, dispatched and carried away from the licensed or leased areas of the mines. For the purpose of this section, value of minerals shall be prescribed by FBR (section 236V).

(xvii) Provincial revenue authorities have been proposed to collect adjustable advance tax at the rate of 3% of the turnover from non-filer who is a registered with provincial sales tax authority alongwith sales tax return filed with such authority. The provincial sales tax return shall not be accepted unless the aforesaid is deposited (section 236W).

Adjustability of withholding tax in case of non-filers

Section 169

The Finance Bill seeks to provide that excess withholding tax deducted or collected as final tax from non-filers can be claimed as refundable in their return of income.

Second Schedule - Exemptions

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

Exemptions to entities working at Gwadar - Clauses (126A) to (126AD)

- Income derived by following companies from Gwadar port operations starting from 6 February 2007 for a period of 23 years [Clause (126A)]:
  - China Overseas Port Holding Company Limited (already existed);
  - China Overseas Port Holding Company Pakistan (Private) Limited;
  - Gwadar International Terminal Limited;
  - Gwadar Marine Services Limited; and
  - Gwadar Free Zone Company Limited.
- Profit and gains derived by a taxpayer from business set up in Gwadar Free Zone for a period of 23 years from 1 July 2016 - Clause (126AA);
- Profit on debt derived under a financing agreement with China Overseas Port Holding Company Limited by any foreign lender or local bank having more than 75 per cent shareholding of the Government or State Bank of Pakistan - Clause (126AB)
- Income derived by contractors and sub-contractors of the following companies from Gwadar Port

operations for a period of 20 years with effect from 1 July 2016 [Clause (126AC)]:

- China Overseas Port Holding Company Limited;
- China Overseas Port Holding Company Pakistan (Private) Limited;
- Gwadar International Terminal Limited;
- Gwadar Marine Services Limited; and
- Gwadar Free Zone Company Limited.

- Dividend received by China Overseas Port Holding Company Limited and China Overseas Port Holding Company Pakistan (Private) Limited - Clause (126AD)

Exemptions Withdrawn

Micro Finance Banks - Clause (66)(xviii)

Exemption to income of Micro Finance Banks had already expired on 30 June 2012, hence deleted.

Inter-corporate dividend for Group Relief - Clause (103A)

Exemption to inter-corporate dividend to group companies entitled to group relief under section 59B is proposed to be withdrawn. Exemption to 100% owned group shall continue, subject to fulfilment of specified conditions.

Exemptions Modified

Sports Boards - Clause (98)

Exemption to sports boards has been restricted to sports boards or organisations established by Government only.

IT related services - Clause (133)

Exemption to income from export of computer software or IT services or IT enabled services expiring on 30 June 2016 proposed to extend to 30 June 2019 subject to the condition that 80 per cent of export proceeds is brought into Pakistan in foreign exchange through normal banking channels.

Part II

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

Services rendered and construction contracts executed outside Pakistan - Clause (3)

Currently income from services rendered and construction contracts executed outside Pakistan is taxable @ 1 per cent of the gross receipts.

The Finance Bill proposes to enhance the tax rate equal to 50 per cent of tax rates applicable to resident person in respect of services rendered and execution of contacts respectively.

Pakistan Cricket Board - Clause (3B)

Income derived by Pakistan Cricket Board from sources outside Pakistan is proposed to be taxed at 4 per cent of gross receipts.

Pakistan Cricket Board may opt to pay tax at 4 per cent of gross receipts from tax year 2010 and onwards subject to the following conditions:

- withdrawal of appeals, references and petitions; and
- payment of outstanding tax liabilities upto tax year 2015 by 30 June 2016.

Part IV

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

New exemptions

Exemption from minimum tax under section 113

The Finance Bill proposes to exempt following entities from application of section 113 regarding minimum tax under clause (11A):

i) China Overseas Port Holding Company Limited, China Overseas Port Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited; and Gwadar Free Zone Company Limited for 23 years from 6 February 2007. [sub-clause (xxvi)]

ii) Companies qualifying for exemption under clause (126M) of Part-I of Second Schedule in respect of profits and gains derived from a transmission line project. [sub-clause (xxvii)]

Exemption from withholding tax on dividend – Clause (38AA)

The Finance Bill proposes to exempt withholding tax on dividend under section 150 to China Overseas Port Holding Company Limited, China Overseas Port Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited for 23 years.

As per notes to clauses exemption from withholding tax on profit on debt under section 151 and commission and brokerages under section 233 to such entities has been mentioned. However, no such exemption proposed in the Finance Bill.

Modifications

Extension in concession to Hajj Group Operators - Clause (72A)

The Finance Bill seeks to extend concession, from applicability of clause (l) of section 21 (expenditure for a transaction under single account head which in aggregate exceed Rs. 50,000), section 113 (minimum tax), section 152 (payment to non-resident) as available to Hajj Group Operators upon payment of specified amount per hajji, for tax year 2016.

Audit of industrial undertaking obtaining exemption certificate on imports - Clause (72B)

The Finance Bill seeks to empower the tax authorities for selection and to conduct audit of the industrial undertaking who obtained withholding tax exemption certificate under section 148 on imports.

Furthermore, exemption on imports shall be applicable to the extent of 110 per cent of quantity of raw material imported and consumed during the previous tax year. This condition has already been specified in SRO 717(I) of 2014.

If taxpayer fails to present accounts or documents, the certificate issued shall be cancelled and tax not collected shall be recovered.

Investments in industrial undertakings - Clause (86)

Provisions of section 111 (Unexplained income or assets) are not applicable in case investment in industrial undertakings is made on or after 1 January 2014 and commercial production commences on or before 30 June 2017. This date is now proposed to be extended from 2017 to 2019.

Minimum tax on specified service sector - Clause (94)

Consequent to the amendments made vide Finance Act, 2009 a dispute arose as to whether tax deducted from payment on account of services was to be treated as minimum tax or adjustable in case of companies. The FTO held that minimum tax applies to companies.

Through amendments vide the Finance Act 2015, the tax deducted from payment on account of services to companies has been treated as minimum tax.

In order to address the grievances of certain corporate service providers, Clause (94) was introduced by the Income Tax (Second Amendment) Ordinance, 2015 and ratified by Income Tax (Second Amendment) Act, 2016 to provide exemption from applicability of minimum tax on specified service sectors from 1 July 2015 till 30 June 2016. However, minimum tax at 2 per cent applies on such specified service sectors if they file undertaking to the Commissioner for audit of income tax affairs for tax year 2016 or 2017, as the case may be. Upon filing such undertaking, the Commissioner was empowered to issue exemption certificate from withholding tax under section 153 by paying 2 per cent tax on turnover.

The Finance Bill seeks to extend the benefit of reduced rate of 2% upto 30 June 2017. Further, for tax year 2017, a company is required to file the undertaking by November 2016.

Further, “IT services and IT enabled services” as defined in clause (133) is also proposed to be included as specified service sector to obtain benefit of Clause (94).

Exemptions withdrawn

Withholding tax on Inter-corporate dividend and profit on debt for Group Relief - Clauses (11B) and (11C)

Exemption from withholding tax on inter-corporate dividend and profit on debt to group companies, entitled to group relief under section 59B is proposed to be withdrawn. 100% owned group entitled for group taxation under section 59AA shall continue to have this exemption.

Minimum tax on trading houses - Clause (57)

Exemption from minimum tax under section 113 for trading houses is proposed to be withdrawn.

Further, reduced rate of minimum tax under section 113 for trading houses at 0.5 per cent is proposed to be applicable upto tax year 2019.

Withholding tax on TFC - Clause (59)(i)

Exemption from withholding tax on profit or interest paid on Term Finance Certificate is proposed to be withdrawn.

Filing of wealth statement - Clause (82)

A person whose taxable income is less than one million rupees was not required to file wealth statement for tax year 2014. Since the said exemption was not extended to tax year 2015 it became superfluous, therefore, proposed to be withdrawn.

Fourth Schedule - Taxation regime of Insurance entities

Insurance Companies Rule (6B)

Rule 6B of Fourth Schedule provides for reduced rate of tax on capital gain, whereas the courts have held that dividend is also taxable at reduced rate provided for the purpose of section 5 of the Ordinance.

The Finance Bill now seeks to substitute Rule (6B) to provide that tax on capital gains and dividend are to be taxed at corporate rate of tax.

Sixth Schedule - Retirement funds

Enhancement of limit of employer annual contribution to provident fund Rule (3)

The Finance Bill seeks to enhance non-taxable limit of employer annual contribution to provident fund, for the purpose of salary income, from Rs. 100,000 to Rs. 150,000.

Seventh Schedule - Taxation regime of Banking companies

Super tax on banking companies [Rule (7C) and section 4B]

The Bill proposes to extend levy of super tax under section 4B for rehabilitation of temporarily displaced persons at the rate of 4% on banking companies to tax year 2016.

Eighth Schedule – Rules for Capital gains

Tax collection on mutual fund and commodity contract by NCCPL – Rule 1, Sub-rules (IA) and (IB)

Capital gains on units of open ended mutual funds are currently subject to withholding tax under Division VII Part I to the First Schedule which is now proposed to be omitted.

The Finance Bill now proposes to insert sub-rules (IA) and (IB) to empower NCCPL to compute and determine tax from capital gains in case of units of open ended mutual funds and future commodity contracts on Pakistan Mercantile Exchange.

Information provided to NCCPL – Rule 1, Sub-rules (3A)

The Finance Bill proposes to bind the Asset Management companies, Pakistan Mercantile Exchange or any other person to furnish information required by NCCPL.

A proviso has been proposed to be inserted in sub-rule (3) which provided that if such information was not provided then NCCPL shall forward the case to the Commissioner for enforcement. It appears that such proviso should be included in sub-rule (3A).

Tax Rate Card

1. Capital gains on disposal of securities

Div VII, Part I, First Schedule

The proposed changes in tax rates on capital gain on securities is tabulated below:

i. For listed securities – Applicable for companies Individual and AOPs

Holding months	Existing	Proposed for 2017	
		Filers	Non Filers
12	15%	15%	18%
12 to 24	12.5%	12.5%	16%
24 to 48	7.5%	7.5%	11%
More than 48	0%	0%	0%

ii. For future commodity contract by members of PMEX – For Companies Individuals and AOPs

Tax is proposed at 5% of gain on future commodity contract.

iii. Debt securities- For companies

Holding months	Existing	Proposed	
		Filers	Non Filers
12	32%	15%	18%
12 to 24	32%	12.5%	16%
24 to 48	32%	7.5%	11%
More than 48	32%	0%	0%

iv. Stock and other Funds – For companies

Holding months	Existing		Proposed	
	Stock *	Other	Filers	Non Filers
12	10%	25%	15%	18%
12 to 24	10%	25%	12.5%	16%
24 to 48	10%	25%	7.5%	11%
Above 48	0%	0%	0%	0%

* For stock fund if dividend receipts were less than Capital gains, the rate of tax deduction was 12.5%

v. Stock and other Funds- For Individual and AOPs

Holding months	Existing*	Proposed	
		Filers	Non Filers
12	10%	15%	18%
12 to 24	10%	12.5%	16%
24 to 48	10%	7.5%	11%
More than 48	0%	0%	0%

* For stock fund if dividend receipts were less than capital gains, the rate of tax deduction was 12.5%

2. Capital Gain on disposal of immovable property- Division VIII- Section 37(1A)

The Finance Bill proposes to amend the rates of tax as follows:

Holding period- Years	Existing	Proposed
Upto 1	10%	10%
1 to 2	5%	10%
2 to 5	0%	10%
More than 5	0%	0%

3. Tax on Builders- Division VIIIA- Section 7C

The bill proposes to change the taxation regime of Builders from minimum tax to final tax. Accordingly section 113A providing minimum tax on builders is proposed to be deleted and in place section 7C is proposed to provide for final tax.

The rates for final tax are proposed as follows:

Areas	Commercial	Residential Sq Ft		
		Upto 750	751 to 1500	1501 & more
	Rate Rs per Sq Ft			
A	210	20	40	70
B	210	15	35	55
C	210	10	25	35

Where:

A. Karachi, Lahore and Islamabad

B. Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad and Quetta

C. Urban Areas not specified in A and B

4. Tax on Developers- Division VIIIA- Section 7D

The bill proposes to change the taxation regime of Developers from minimum tax to final tax. Accordingly section 113B providing minimum tax on builders is proposed to be deleted and in place section 7D to be inserted to provide for final tax.

Proposed rates are as follows:

Areas	Commercial	Residential Sq Yds		
		Up to 120	121 to 200	201 & more
	Rate Rs per Sq Yd			
A	210	20	40	70
B	210	15	35	55
C	210	10	25	35

Where:

A. Karachi, Lahore and Islamabad

B. Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala ,Sahiwal, Peshawar, Mardan, Abbottabad and Quetta

Urban Areas not specified in A and B.

Changes in Withholding Tax Rates – First Schedule

The changes in withholding tax rates as per Parts III and IV of the First Schedule are tabulated below:

Dividend – Section 150

[Clause (c), Division I, Part III]

Category	Existing Rate %	Proposed Rate %
Purchaser of Power project	7.5	Unchanged
Filer	12.5	Unchanged
Non Filer	17.5	20

The rate of tax required to be deducted by a Collective Investment Scheme, REIT Scheme or a mutual fund is proposed to be substituted as follows:

Category	Stock Fund		Money Market / Income / any other fund & REIT Scheme	
	Filer	Non-Filer	Filer	Non-Filer
	%	%	%	%
Company	10	10	25	25
Individual / AOP	10	10	10	15

Payment for Foreign produced commercials – Section 152A

The Finance Bill proposes to insert a new section 152A requiring every person responsible for making payment directly or through an agent or intermediary to a non-resident person, in respect of foreign produced commercials for advertisement on any television channel or any other media, to deduct tax at 20 percent of the gross amount. The tax deductible shall be final on income of non-resident person arising out of such payment.

Payments for goods, services and contracts – Section 153

[Division III, Part III]

a. Distributors of fast moving consumer goods-153(1)(a)

Existing		Proposed	
Company Filer / Non Filer	Other Filer / Non Filer	Company	Others
4 / 6	4.5 / 6.5	3	3.5

b. Payment for electronic & print media for advertising services

Existing	Proposed
1	1.5

Income from Property – Section 155

[Division V, Part III]

Rate of withholding tax from rent to Individuals & AOP

<table>
<tr><th rowspan="2">S No.</th><th rowspan="2">Gross Rent</th><th colspan="2">WHT Rate</th></tr>
<tr><th>Existing</th><th>Proposed</th></tr>
<tr><td>1</td><td>Where gross amount of rent is upto Rs.150,000</td><td>Nil</td><td rowspan="2">Nil</td></tr>
<tr><td>2</td><td>Where gross amount of rent is Rs.150,001 to Rs.200,000</td><td rowspan="3">10% of amount exceeding Rs. 150,000</td></tr>
<tr><td>3</td><td>Where gross amount of rent is Rs. 200,001 to Rs. 600,000</td><td>5% of the amount exceeding Rs. 200,000</td></tr>
<tr><td>3</td><td>Where gross amount of rent exceeds Rs. 600,000 upto Rs. 1,000,000</td><td>Rs.20,000+ 10% of the amount exceeding Rs. 600,000</td></tr>
<tr><td>4</td><td>Where gross amount of rent exceeds Rs. 1,000,000 upto Rs. 2,000,000</td><td rowspan="2">Rs.85,000 + 15% of the amount exceeding Rs. 1,000,000</td><td>Rs.60,000+ 15% of the amount exceeding Rs. 1,000,000</td></tr>
<tr><td>5</td><td>Where gross amount of rent exceeds Rs. 2,000,000</td><td>Rs.210,000 + 20% of the amount exceeding Rs. 2,000,000</td></tr>
</table>

Prizes and Winnings – Section 156

[Division VI, Part III]

Existing	Proposed	
	Filer	Non Filer
15	15	20

Tax collection on cash withdrawal from a bank (Section 231A) and on banking transactions otherwise than through cash (Section 236P)

Every banking company is liable to collect tax at the time of cash withdrawal if the cash withdrawal in single day exceeds Rs. 50,000. The Finance Bill proposes to insert an ‘Explanation’ which seeks to clarify that the said Rs. 50,000 shall be aggregate cash withdrawals from all the bank accounts in a single day.

Similarly, every banking company is liable to collect tax at the time of banking transactions otherwise than through cash in case of ‘non-filer’ if such transactions in a single day exceeds Rs. 50,000. The Finance Bill also proposes to insert an identical ‘Explanation’ as in the case of cash withdrawals as explained above.

Advance Tax on Private Motor Vehicle – Section 231B

Every motor vehicle registering authority is liable to collect advance tax at the time of registration of motor vehicle at the specified rates. The Finance Bill proposes to insert a proviso whereby tax collection is not required under this section if the date of first registration of the vehicle is more than five years.

The Finance Bill also seeks to insert new sub-section (1A) requiring every leasing company / scheduled bank / investment bank / Development Financial Institution / modaraba to collect advance tax at the rate of 3 percent of the value of motor vehicle from a ‘non-filer’ at the time of leasing.

Brokerage and Commission – Section 233

[Division II, Part IV]

Category (New)	Existing	Proposed	
		Filer	Non-Filer
Life Insurance agents where commission is less than Rs.500,000 per annum	0	8	16

Collection of tax by a Stock Exchange Registered in Pakistan – Section 233A

[Division IIA, Part IV]

S No.	Collection of Tax by Stock Exchange		
	Nature	Rate of Tax Collection %	
		Existing	Proposed
1	Purchase of shares	0.01	0.02
2	Sale of shares	0.01	0.02

Electricity consumption – Section 235

[Division IV, Part IV]

Category	Rate of tax collection %	
	Existing	Proposed
Commercial consumers of electricity with monthly bill exceeding Rs. 20,000	10	12

Sale or Transfer of Immovable Property – Section 236C

[Division X, Part IV]

Existing		Proposed	
Filer	Non-Filer	Filer	Non-Filer
0.5	1	1	2

Further, the Finance Bill proposes to insert a new sub-section (3) in section 236C whereby tax collection is not required under this section if the immovable property is held for a period exceeding 5 years.

Purchase or Transfer of Immovable Property – Section 236K

[Division XVIII, Part IV]

Advance tax on purchase of immovable property of more than Rs.3 million			
Existing		Proposed	
Filer	Non-Filer	Filer	Non-Filer
%	%	%	%
1	2	2	4

Electricity Domestic Consumption – Section 235

[Division XIX, Part IV]

The Finance Bill seeks to correct the anomaly in the collection of tax from domestic electricity consumers whereby no tax collection is proposed if monthly bill is less than Rs. 75,000.

Collection of Tax by PMEX – Section 236T

[Division XXII, Part IV]

The Finance Bill seeks to withdraw the collection of tax by Pakistan Mercantile Exchange Limited on purchase / sales of future commodity contracts under section 236T. The said section was inserted through Finance Act, 2015. This appears in view of scheme of taxation introduced for these contracts under section 37A read with eight schedule and Division VII.

Advance Tax on Insurance Premium – Section 236U

[Division XXV, Part IV]

The Finance Bill proposes to insert a new section 236U for collection of tax on insurance premium by "non-filer" as per the following Table:

S No.	Collection of tax on insurance premium from non-filers	
	Type of Premium	Rate
1	General Insurance	4%
2	Life Insurance exceeding Rs. 200,000 per annum	1%
3	Others	0%

Advance Tax on extraction of minerals – Section 236V

[Division XXVI, Part IV]

The Finance Bill proposes to insert a new section 236V for collection of tax on extraction of minerals as per the following Table:

Collection of tax on extraction of minerals	
Filer	Non-Filer
0%	5%

Collection of Tax by Provincial Revenue Authorities

[Section 236W]

The Finance Bill proposes to insert new section 236W whereby provincial revenue authorities shall be made responsible for collection of tax at 3% of the turnover from a provincial sales tax registered person who is non-filer for income tax purposes. The tax collected by provincial authorities shall be adjustable.

Sales Tax

Significant Amendments

Exemption threshold for cottage industry enhanced

Section 2(5AB)

Manufacturers whose annual turnover from taxable supplies made in any tax period during the last twelve months ending any tax period does not exceed five (5) million rupees or whose annual utility bills during the last twelve months ending any tax period does not exceed eight hundred thousand rupees were given the status of cottage industry for availing the exemption from the levy of sales tax through finance Act 2007.

The Bill now proposes to enhance the exemption threshold limit of turnover from Rs. five (5) million to Rs. ten (10) million per annum providing incentive to the units functioning within the cottage industry.

Filing of annexures of sales tax return in different dates

Section 2(9)

The term 'due date' is defined in Sales Tax Act with reference to filing of sales tax return under Section 26 of Sales Tax Act, which is 15th day of the month following the end of tax period or such other date as the Board may, by notification in the official Gazette, specify.

Now, the Bill proposes to prescribe multiple due dates for furnishing of different parts or annexures of the sales tax return. This insertion is being proposed to align the definition with the new scheme of e-filing of sales tax returns, where the sellers and buyers will be required to file their respective returns or annexures of sales and purchases in different due dates.

Provincial sales tax on services not claimable as input tax

Section 2(14)(d)

Clause (d) of Section 2(14) is proposed to be omitted, which represents input tax on account of Provincial sales tax levied on services rendered or provided to the person read with SRO. 212(I)/2014, dated 26 March 2012.

The proposed amendment is certainly a very harsh revenue measure, as it will enhance the cost of doing business significantly and will affect the trade and industry quite severely.

This is also expected to have bearing on the Provincial Budgets to be announced. The disallowance of input tax on services consumed entirely for taxable activity would distort the VAT principles.

Eventually, SRO. 212(I)/2014, dated 26 March 2012 is also expected to be withdrawn, which may also give rise to another legal issue, whether input tax on sales tax paid or payable with FBR as applicable under Islamabad Capital Territory (Tax on Services) Ordinance, 2001 (ICT Ordinance), would be admissible for input tax credit. In case, SRO. 212(I)/2014, dated 26 March 2012, which presently covers sales tax under ICT Ordinance, stands rescinded, then the definition of 'input tax' after omission being proposed, may not also cater to the input tax under ICT Ordinance.

Time and manner of sales tax payment

Section 6(2)

Consequent to proposed amendment in the definition of term 'due date', the provisions of Section 6(2) is also being aligned to cater payment of sales tax on local supplies of taxable goods by prescribing different dates in accordance with the multiple filing dates of annexures of sales tax returns, as expected to be notified under Chapter-I of Sales Tax Rules, 2006.

Admissibility of input tax linked with supplier's declaration / payment of sales tax

Section 7(2)(i) & Section 8(1)(l)

Input tax claim is considered valid for local supplies in case the registered person holds a tax invoice in his name bearing the registration number. Now, the Bill proposes to insert a Proviso to Section 7(2)(i) to bind the registered person to ensure the supplier must have declared the sales in his sales tax return or the supplier has already deposited sales tax due.

It seems that the proposed amendment is an attempt to reverse the legal verdict of superior courts / appellate authorities in number of decisions, where it was categorically held that the registered buyers cannot be deprived of their legitimate right to claim input tax when they have complied with the mandatory provisions of Sections 7, 8, 8B and 73 of Sales Tax Act.

Section 8(1)(l) already restricted input tax on goods and services on the basis of non-declarations by the registered supplier in the sales tax return. The Bill proposes to align the above provision of Section 8 to restrict input tax in cases where the supplier has not paid the related sales tax in the return.

On a practical note, it would be a cumbersome and difficult exercise for a registered buyer to reconcile each and every purchase invoice with the suppliers' declarations in their returns or to track the invoice-wise payments of sales tax.

Assessment of withholding sales tax, if not deducted

Section 11(4A)

Withholding sales tax regime is applicable under Sales Tax Special Procedure (Withholding) Rules, 2007, whereby the prescribed withholding agents are required to withhold and pay sales tax at varied rates on purchases of taxable goods.

The field formations of FBR have been raising demands of sales tax in cases where compliance with withholding sales tax regime is not made by the withholding agents. These demands were largely challenged by the registered persons either on the premise that recovery of sales tax at standard rate of 17% should not be justified when the concerned supplier deposit the entire amount of sales tax through its monthly return or section 11 does not empower inland revenue officers to initiate any such proceedings against the withholding agents.

To provide legal backing to the cases being made out, a new sub-section is proposed to be inserted to empower the Inland Revenue Officer to inter-alia issue a show cause notice to the withholding agent on his failure to withhold sales tax or to deposit the withheld amount of sales tax in prescribed manner.

Filing of separate sales tax return

Section 26(2)

The Bill proposes to omit sub-section (2) of Section 26, which provides that separate date-wise sales tax returns are required to be filed whenever any change in sales tax rate occurs during the tax period.

In past, the registered persons were required to file separate returns in consequence of change in sales tax rate till the time FBR did not launch its e-filing portal for returns. Considering that e-filing of return is compulsory for every registered person, which caters to the issue of change in sales tax rate, as such Section 26(2) is being omitted due to its redundancy.

Directorate of Inland-IOCO established

Section 30DDD

FBR plans to establish a new Directorate i.e. Directorate General of Input Output Co-efficient

Organization (IOCO) under Inland Revenue Wing. Such Directorates already exist under the Customs Wing of FBR, who are engaged in determination / fixation of duty drawback rates of various imported goods within the industrial segments involved in exports of goods.

It is expected that the functions that may be assigned to the proposed establishment would ultimately help to improve the quality of sales tax audits.

Zero-rated invoice required in transfer of business

Section 49(2)

The provisions of Section 49 deals with the sales and transfer of business in mergers and acquisitions. Such transfer of business may take place either between two registered persons or between a registered and an unregistered person. Sales tax is not applicable in case the transfer of assets / business takes place between two registered persons.

In above situation, the Bill proposes to require the registered transferor of business to issue a zero-rated invoice to the transferee in the event of such acquisition. However, the transferee will be obligated to account for sales tax in his books, which shall be payable at the time of ultimate disposal of taxable goods.

The proposed change is procedural in nature, but seems a welcome change to cap the interpretational issues.

Disclosure of information by a public servant

Section 56B

The provision of Section 58B bars the public servant to disclose any confidential information in specified matters. The Bill seeks to substitute Section 56B mainly to give an overriding effect over the provisions of the Freedom of Information Ordinance, 2002, apart from other changes of clarificatory nature.

Retail price regime for mineral / bottled waters

Entry No.37 of Third Schedule

The Bill seeks to introduce retail price sales tax regime for mineral / bottled water under Third Schedule to Sales Tax Act. Thus, the importer and/or manufacturer of mineral water will charge and collect sales tax at 17% on market retail price basis.

Zero rating facility proposed to be withdrawn

Fifth Schedule

S. No.	Description of Goods	PCT Heading
12(i)	Colours in sets	3213.1000
12(ii)	Writing, drawing and marking inks	3215.9010 and 3215.9090
12(iii)	Erasers	4016.9210 and 4016.9290
12(iv)	Exercise Books	4820.2000
12(v)	Pencil Sharpeners	8214.1000
12(vi)	Geometry boxes	9017.2000
12(vii)	Pens, Ball pens, markers and porous tipped pens	96.08
12(viii)	Pencils including colour Pencils	96.09
12(ix)	Milk	04.01
12(xviii)	Fat Filled Milk	1901.9090

Except milk and fat filled milk, the above stationery articles shall remain exempt under sixth schedule to Sales Tax Act.

Sales tax exemptions proposed to be introduced

Sixth Schedule – Table-I

S. No.	Description of goods	PCT heading
100A	Materials and equipment for construction and operation of Gwadar Port and development of Free Zone for Gwadar Port as imported by or supplied to China Overseas Ports Holding Company Limited (COPHCL) and its operating companies namely (i) China Overseas Ports Holding Company Pakistan (Private) Limited (ii) Gwadar International Terminal Limited, (iii) Gwadar Marin Services Limited and (iv) Gwadar Free Zone Company Limited, their contractors and sub-contractors; and Ship Bunker Oils bought and sold to the ships calling on/visiting Gwadar Port, having Concession Agreement with the Gwadar Port Authority, for a period of forty year, subject to various conditions	Respective Headings
100B	Supplies made by the businesses to be established in the Gwadar Free Zone for a period of twenty-three years within the Gwadar Free Zone, subject to the condition that the sales and supplies outside the Gwadar Free Zone and into the territory of Pakistan shall be subjected to sales tax	Respective Headings
130	Premixes for growth stunting	Headings, and subject to conditions

S. No.	Description of goods	PCT heading
		imposed for importation under the Customs Act, 1969;
131	Laptop computers, notebooks whether or not incorporating multimedia kit	8471.3010
132	Personal computers	8471.3020
133	Pesticides and their active ingredients registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971 (For item-wise details, please refer the Bill).	Respective headings

Sixth Schedule- Table-III

S. No.	Description of goods	PCT heading
4	Dump Trucks for Thar Coal Field	Respective headings

Sales tax exemption proposed to be withdrawn

Sixth Schedule- Table-I

S. No.	Description of goods	PCT Heading
111	White Crystalline Sugar	1701.9910 and 1701.9920

Goods proposed to be subjected to reduce rate of sales tax - Eight Schedule

Eight Schedule- Table-I

S. No.	Description of goods	Rate of sales tax
15	Meat and Bone Meal (PCT Heading 2301.1000)	10%
15	Of Zinc (PCT Heading 2833.2940)	10%
15	Betaine (PCT Heading 2923.9010)	10%
32	White Crystalline Sugar (PCT Heading 1701.9910 and 1701.9920)	8%
33	Urea, whether or not in aqueous solution (PCT Heading 3102.1000)	5%

Eight Schedule- Table-II

S. No.	Description of goods	Rate of sales tax
1	Silos	10%

Reduced rate of sales tax proposed to be withdrawn

Eight Schedule- Table-I

S. No.	Description of goods	PCT heading
15	Fish Meal	2301.2010
15	Zinc Sulphate	2833.2600
15	Betafin	2923.9000
31	Pesticides and their active ingredients registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971 (For item-wise details, please refer the Bill).	Respective Headings

Reduce rate proposed to be enhanced

Eight Schedule- Table-I

S. No.	Description of goods	Rate	
		Existing	Proposed
15	Ingredients of poultry feed, cattle feed except soya bean meal and oil-cake of cotton seed (Respective Headings).	5%	10%

Rate proposed to be enhanced

Ninth Schedule

S. No.	Description of goods	Rate	
		Existing	Proposed
2.B	Medium Priced Cellular Mobile Phones or Satellite Phones.	Rs. 500	Rs. 1000
2.C	Smart Cellular Mobile Phones or Satellite Phones.	Rs. 1000	Rs. 1500

Sales Tax on Services (Islamabad)

Significant Amendments

Linkage of charging and exemption provisions of Sales Tax Act

Section 3(2A)

For collection and payment of sales tax on taxable services under the Islamabad Capital Territory (Tax on Services) Ordinance, 2001, all the provisions of Sales Tax Act, allied Rules and notifications apply mutatis mutandis.

The Finance Bill seeks to develop linkage of the afore-mentioned statutes for charge of sales tax, zero-rating and exemptions by proposed insertion of Section 3(2A) under ICT Ordinance.

Sales tax not applicable on services by Federal regulatory and licensing authorities

Section 3(2B)

The Bill seeks to provide immunity from levy of sales tax on services rendered or provided by regulatory and licensing body established by or under a Federal statute.


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Federal Excise

Significant Amendments

FED on specified services abolished

Table-II to First Schedule

The Bill proposes to insert a Note that FED shall not apply on the following services, provided in the Provinces, where Provincial sales tax has been levied:

- Advertisement on closed circuit T.V;
- Advertisements on cable T.V. network;
- Advertisement in newspapers and periodicals (excluding classified advertisements), and on hoarding boards, pole signs and sign boards;
- Shipping agents;
- Services provided or rendered by banking companies, insurance companies, cooperative financing societies, modarabas, musharikas, leasing companies, foreign exchange dealers, non-banking financial institutions, asset management companies and other persons dealing in any such services;
- Franchise services; and
- Services provided or rendered by stockbrokers

Filing of annexures of return in different dates

Section 2(8a)

The term 'due date' is defined in Federal Excise Act with reference to filing of return under Section 4 of Federal Excise Act, which is 15th day of the month following the end of tax period or such other date as the Board may, by notification in the official Gazette, specify.

Now, the Bill proposes to prescribe multiple due dates for furnishing of different parts or annexures of the return. This insertion is being proposed to align the definition with the new scheme of e-filing of returns, where the sellers and buyers will be required to file their respective returns or annexures of sales and purchases on different due dates.

Filing of separate sales tax return

Section 4(3)

The Bill proposes to omit sub-section (3) of Section 4, which provides that separate date-wise returns are required to be filed whenever any change in FED occurs during the tax period.

In past, the registered persons were required to file separate returns on change in FED rate till the time FBR did not launch its e-filing portal for returns. As the e-filing of return is compulsory for every registered person, Section 4(3) is being omitted due to its redundancy.

Adjustment of duties of excise

Section 6(2A)

Presently, input FED can be adjusted against output FED provided the taxpayer holds valid proof for payment of the price of goods purchased by him.

The Bill proposes to insert a sub-section to allow adjustment of FED only if the supplier of input goods and services has declared such supply in his return and has paid the amount of duty due as indicated in his return.

The proposed insertion in Section 6 interalia covers the input tax on services, which should not be a subject matter of section 6. The input tax on services may have nexus with section 7, but not with Section 6, which entirely deals with adjustment of input FED against output FED in relation to excisable goods only.

Exemptions

Section 16

The Federal Government pursuant to the approval of the Economic Coordination Committee of Cabinet, whenever circumstances exist to take immediate action for specified purposes or implementation of bilateral or multilateral agreements exempt any goods from duty leviable through notification.

In order to expand the scope of this section it is proposed to include any international financial institution or foreign government owned financial institution operating under a memorandum of understanding, an agreement or any other arrangement with the Government of Pakistan.

Offences and Penalties

Section 19

The Bill proposes a penalty at the rate of Rs. 5,000 or 3% of duty involved, whichever is higher, in case of non-compliance of the Federal Excise Act or allied rules, for which no specific penalty is provided.

Disclosure of information by a public servant

Section 47B

The provision of Section 47B bars the public servant to disclose any confidential information in specified matters. The Bill seeks to substitute Section 47B mainly to give an overriding effect over the provisions of the Freedom of Information Ordinance, 2002, apart from other changes of clarificatory nature.

Rates of FED enhanced

Table-I of the First Schedule

Entry No.	Description of goods	Existing FED Rate	Proposed FED Rate
4,5 and 6	Aerated waters	10.5% of retail price	11.5% of retail price
9a	For the period from 01-07-2016 to 30-11-2016, locally produced cigarettes if their on-pack printed retail price exceeds Rs.4,000 (existing Rs.3,600) per 1,000 cigarettes	Rs. 3,155 per 1,000 cigarettes (as notified vide SRO 1181(1)/2015 dated 30 November 2015	Rs. 3,436 * per 1,000 cigarettes
9b	For the period from 01-12-2016 onwards, locally produced cigarettes if their on-pack printed retail price exceeds Rs.4,000 per 1,000 cigarettes	-	Rs. 3,705 per 1,000 cigarettes
10a	For the period from 01-07-2016 to 30-11-2016, locally Produced cigarettes if their on-pack printed retail price does not exceed Rs.4,000 (existing Rs.3,600) per 1,000 cigarettes	Rs. 1,420 per 1,000 cigarettes (as notified vide SRO 1181(1)/2015 dated 30 November 2015	Rs. 1,534 * per 1,000 cigarettes
10b	For the period from 01-12-2016 onwards, locally produced cigarettes if their on-pack printed retail	-	Rs. 1,649 per 1,000 cigarettes

Entry No.	Description of goods	Existing FED Rate	Proposed FED Rate
	price does not exceeds Rs.4,000 per 1,000 cigarettes		
13	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers	5% of the retail price	1 Rs per Kg

*Note: The proposed rates on locally produced cigarettes as per entries 9a and 10a have been notified to become applicable w.e.f. 4 June 2016 vide SRO 473(1)/2016 dated 3 June 2016.

Introduction of FED Exemption

Table-I of the Third Schedule

Entry No.	Description of goods
19	Materials and equipment for construction and operation of Gwadar Port and development of Free Zone for Gwadar Port as imported by or supplied to China Overseas Ports Holding Company Limited (COPHCL) and its operating companies namely (i) China Overseas Ports Holding Company Pakistan (Private) Limited, (ii) Gwadar International Terminals Limited, (iii) Gwadar Marine Services Limited and (iv) Gwadar Free Zone Company Limited, their contractors and sub-contractors; and Ship Bunker Oils bought and sold to the ships calling on/visiting Gwadar Port, having Concession Agreement with the Gwadar Port Authority, for a period of forty years, subject to the conditions and procedure as specified under S. No. 100A of Table-1 of Sixth Schedule to the Sales Tax Act, 1990.
20	Supplies made by the businesses to be established in the Gwadar Free Zone for a period of twenty-three years within the Gwadar Free Zone, subject to the condition that the sales and supplies outside the Gwadar Free Zone and into the territory of Pakistan shall be subjected to Federal Excise Duty.

FED replaced by Sales Tax

Entry No. 53 of Table-I of the First Schedule and Entry No. 3 of the Second Schedule

The Bill seeks to omit entries relating to White Crystalline Sugar from First and Second Schedules.

Through proposed amendments in Sales Tax Act, sales tax @ 8% will be attracted on White Crystalline Sugar.

Withdrawal of FED Exemption

Table-I of the Third Schedule

Entry No.	Description of goods
18	White Cement

Customs

Significant Amendments

Changes in Customs Duty slab rates

First Schedule

- A new customs duty slab of 3% is proposed to be introduced by merging two slabs of customs duty having rates of 2% and 5%
- Generally, 10% and 15% slabs rate of customs duty are proposed to be substituted with 11% and 16% slabs rate respectively

Reduction in Customs Duty

Fifth Schedule

Description	Existing	Proposed
Agricultural Machinery		
(F) Dairy, Livestock and Poultry, machinery	5%	2%
Active Pharmaceutical Ingredients		
Moxifloxacin	5%	3%
Alfacalcidole	5%	3%
Acid Hypophosphorous		
Dextro-Methorph Hbr	5%	3%
Sodium Benzoate	5%	3%
Sodium Valproate	5%	3%
Diphenhydramine	5%	3%
Alprazolam	5%	3%
Fluconazole	5%	3%
Famotidine	5%	3%
Lactulose	5%	3%
Hydrcortisone Acetate Micronised	5%	3%
Clotrimazole	5%	3%
Ferrous Sulphate	5%	3%
Artemether	5%	3%
Lumefantrine	5%	3%

Duty concessions under Automotive Development Policy 2016-21

Fifth Schedule

S. No.	Description	PCT Code	Customs Duty
1	Agricultural Tractors, having an engine capacity exceeding 35 HP but not exceeding 100 HP	8701.9020	15%
2	Agricultural Tractors (other than mentioned at S. No. 1 above)	8701.9090	10%
3	Fully dedicated LNG buses (CBU)	8702.9030	1%
4	Fully dedicated LPG buses (CBU)	8702.9040	1%
5	Fully dedicated CNG buses (CBU)	8702.9050	1%
6	Hybrid Electric Vehicle (HEV) (CBU)	8702.9060	1%
7	Hybrid Electric Vehicle (HEV) (CBU)	8704.2214 8704.2294 8704.2340 8704.3240	1%
8	Trailers	87.16	15%

Introduction of zero rating Customs Duty

Fifth Schedule

- Fish and shrimp feed
- Fish for breeding in commercial fish farms
- Import of machinery and equipment for textile sector, not locally manufactured.
- Water quality testing kits

Exemption of customs duty on disposal of old and used ambulances by Edhi Foundation

First Schedule (9912)

It is proposed that the ambulances already imported or to be imported by Edhi Foundation may be disposed of after expiry of seven years from the date of importation without payment duty and taxes leviable at the time of import with the prior approval of FBR.

General power to exempt from customs duties

Section 19

The Federal Government pursuant to the approval of the Economic Coordination Committee of Cabinet, whenever circumstances exist to take immediate action for specified purposes or implementation of bilateral or multilateral agreements exempt any goods from customs duty imported into or exported from Pakistan through notification.

In order to expand the scope of this section it is proposed to include any international financial institution or foreign government owned financial institution operating under a memorandum of understanding, an agreement or any other arrangement with the Government of Pakistan.

Confidentiality of information

Section 155H

Under this section, all trade information gathered by Customs during clearance of goods shall be confidential and shall not be used except for specified purposes.

The Bill proposes to include confidential information in relation to sharing of data contents under a memorandum of understanding, bilateral, regional, multilateral agreements or conventions as well as public disclosure of valuation data without disclosing name and address of the importer or exporter or their suppliers.

Fiscal Responsibility and Debt Limitation Act, 2005 [The Act]

Background

Fiscal Responsibility and Debt Limitation Act, 2005 was enacted to provide for elimination of revenue deficit and reduction of public debt to a prudent level by effective public debt management and by the stated target dates. The stated targets could admittedly not be met.

Accordingly, the proposed Finance Bill provides for revised targets.

The scope of deficit under the Act has been enlarged from revenue deficit to total fiscal deficit. Further definition of public debt has been amended.

Proposed amendments

The bill proposes to introduce certain changes to the Act as follows:

A. Federal Fiscal deficit [FFD]

- The bill proposes to enlarge the scope of the Act from revenue deficit to FFD.
- The bill seeks to provide for reduction of FFD in a phased manner in contrast to elimination of revenue deficit.
- A definition of Federal Fiscal Deficit [FFD] is proposed as the "*difference between total net revenue receipts and total expenditure of the Federal Government*." This is wider in scope from revenue deficit which is the difference between total current expenditure and total revenue of the Government.
- Total expenditure is proposed to be enlarged to include net lending of the Federal Government along with recurrent expenditure, development expenditure.
- Total net revenue of Federal Government is proposed to be defined as total revenue [already defined] minus transfer of provincial share.
- Target for reduction of FFD excluding foreign grants is phased out as follows:

  i. Limiting FFD to 4 % of GDP during three years beginning from 2017-18;

  ii. Thereafter FFD to be kept at 3.5% of GDP.

B. Total Public Debt and Debt to GDP ratio

Total Public Debt is proposed to be amended to mean "*The debt of the Government serviced out of consolidated fund and debts owed to International Monetary Fund*". As against current general definition as *'sum of total outstanding borrowings of the Government'*.

The target to public debt has been raised to have debt to GDP ratio of 50% by 2032-33.

i) The current target date [i.e. 2103] to achieve 60% debt to GDP ratio is proposed to be extended to 2016-17;

ii) For five years from 2018-19 onwards reduction of total public debt by 0.5% of GDP to be achieved each year; and

iii) For ensuing ten years starting from 2023-24 a reduction of 0.75% of GDP to be achieved each year.