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Federal Budget 2016

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FEDERAL BUDGET 2016

This memorandum gives a brief overview of Pakistan economy and significant amendments proposed by the Finance Bill 2016. All changes proposed through the Finance Bill 2016 are effective July 1, 2016.

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

June 4, 2016

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KEY ECONOMIC INDICATORS

Economic Survey 2015-16

Pakistan's economy continues to maintain its growth momentum for the third year in a row, with real GDP growing at 4.71 percent in financial year 2016 which is the highest in eight years. GDP posted a reasonable growth over last year despite a major setback in agriculture growth on account of massive decline in cotton production. However, the loss to some extent is compensated by remarkable growth in industrial and services sector as both these sectors crossed their target growth, while other key macroeconomic indicators (like inflation, fiscal and current account balance) recorded improvement.

Particularly, the external section has become more stable on account of robust growth in workers' remittances; continued flows from International Financial Institutions; and a sharp decline in global oil prices.
The country's foreign exchange reserves have reached all time high (over US$ 21 billion) in May 2016, which can finance over 5 months of the country's import bill. This improvement in the external sector was critical in maintaining the exchange rate stability during the year.

Based on the above positivities, the economy is now all set to move towards high growth trajectory with single digit inflation at 6 percent. The foreign currency reserves which has reached to highest level is projected to rise even more. The fiscal deficit has also been projected to be brought down. The external sector will continue to remain stable on the back of improvement in trade balance, higher remittances, continuous flows from International Financial Institutions, and stable exchange rate.

	FY 15 – 16	*FY 14 – 15*
GDP growth rate	4.71%	4.04%
Per capita income - US$	1,561	1,517
FDI (July – April) US$ million	1,016	964
Inflation	2.79%	4.53%
Public debt (PKR billion)		
- **Domestic**	13,399	12,199
- **Foreign**	5,769	5,182
	19,168	17,381
Budget deficit - %age of GDP	3.4%	3.8%

Source: Economic Survey of Pakistan 2015-2016

BUDGET AT GLANCE

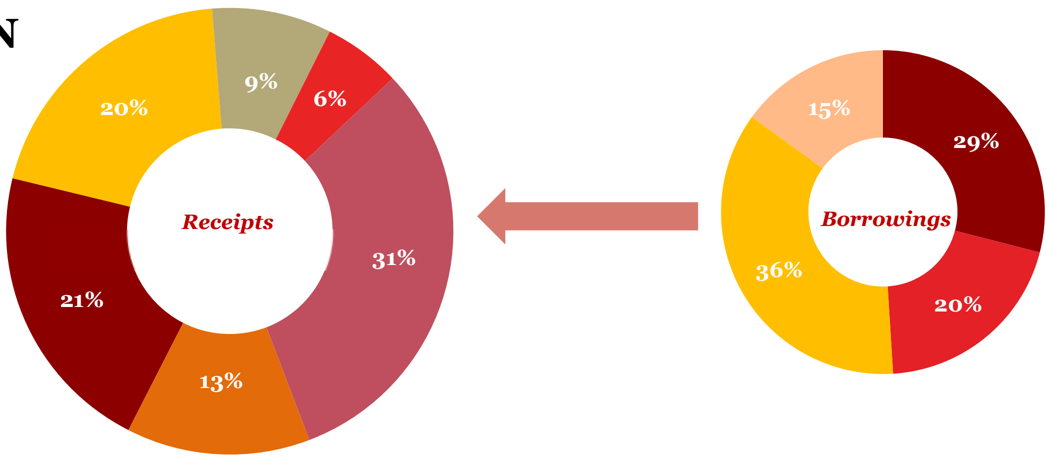
Budget Financials

The following table sets out the Key Budget Financials:

	2016-2017		2015-2016 (Revised)	
	Rs in Billion	**%**	**Rs in Billion**	**%**
Tax revenue	3,956		3,420	
Non-tax revenue	959		913	
Gross revenue receipts	4,915		4,333	
Public account receipt – net	171		156	
Total receipts	5,086	100	4,489	100
Less: Provincial share in Federal taxes	(2,136)	(42)	(1,852)	(40)
Net revenue receipts	2,950	58	2,637	60
Expenditure				
- Current expenditure	4,031	79	3,714	83
- Development expenditure	1,051	21	879	20
	5,082	100	4,593	103
Deficit	**(2,132)**	**(42)**	**(1,956)**	**(43)**
- Domestic debts non-bank	470		547	
- Domestic debts banks	453		199	
- Foreign debt	820		860	
- Privatization proceeds	50		13	
- Surplus from provinces	339		337	
	(2,132)		**(1,956)**	

WHERE FROM THE RUPEE COMES IN AND WHERE IT GOES OUT

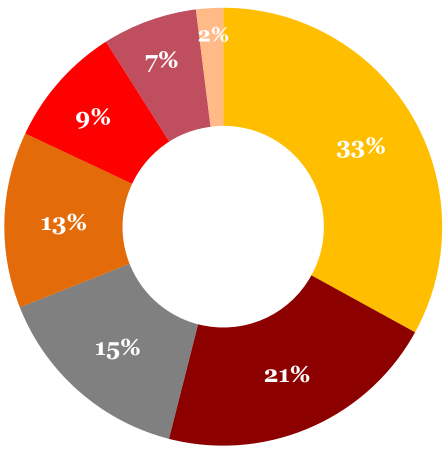
IN



- Income Tax (21%)
- Sales Tax (20%)
- Customs Duty (6%) and FED (3%)
- Petroleum levy, Gas Infrastructure Cess & Others (6%)
- Borrowings (31%)
- Non-tax revenue (13%)

- Domestic debts non-bank (29%)
- Domestic debts banks (20%)
- Foreign debts (36%)
- Surplus from provinces (15%)

OUT



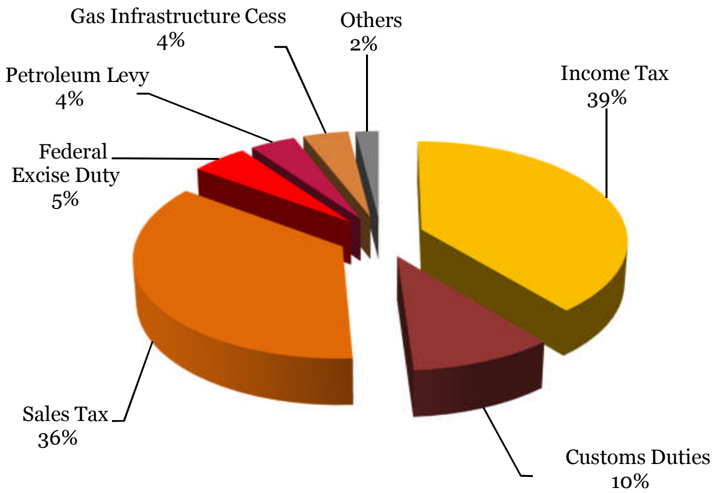
- Provincial share in Federal taxes (33%)
- Debt servicing (21%)
- Development expenditure (15%)
- Defence Affairs and Services (13%)
- Federal Government expenses including pensions (9%)
- Grants and transfers (7%)
- Subsidies (2%)

BREAK-UP OF TAX REVENUE

There is no substantial change in the ratio of direct and indirect taxes.

A substantial and incremental shift is required to decrease disparity in income and reduce the burden of indirect taxes on common man.

	FY 15 – 16 Rs in Billion	FY 14 – 15 (Revised) Rs in Billion
Direct Taxes:		
• Income Tax	1,539	1,308
• Workers' Welfare Fund	17	14
	1,556	1,322
Indirect Taxes:		
• Customs Duty	413	349
• Sales Tax	1,437	1,230
• Federal Excise Duty	213	201
• Petroleum Levy	150	135
• Gas Infrastructure Cess	145	145
• Natural Gas Surcharge	35	32
• Others	7	6
	2,400	2,098
	3,956	3,420



EXECUTIVE SUMMARY ON TAX PROPOSALS

INCOME TAX

1. Super tax as applicable for tax year 2015 has been extended to tax year 2016 also.

2. Fixed tax Regime for Builders and Developers has been introduced for business or projects, initiated and approved after July 1, 2016.

3. The time limit for tax on sale of immovable property has been extended from 2 to 5 years, with flat rate of tax of 10%, irrespective of holding period.

4. Status of foreign trust has been clarified, without giving manner of disclosure thereof in the wealth statement.

5. Provincial Sales Tax authorities will collect 3% of the turnover from a provincial sales tax registered person, being a non-filer.

6. The right to surrender losses within a group shall be restricted to the percentage holding in the entity.

7. Exemption for inter corporate dividends in a group structure (other than 100% owned group) is proposed to be abolished.

8. Tax credit for investment in BMR Projects, etc. has been extended to June 30, 2019.

9. Tax credits for investments under sections 65D and 65E shall also be available to entities with equity of 70% and above.

10. Specific documents and information are required to be maintained in respect of transactions with associates.

11. Withholding tax at 3% of value of motor vehicle is required to be collected from non-filer lessees by leasing company and certain financial institutions.

12. Rationalised minimum tax regime for specified service sectors extended to June 30, 2017 whilst also including IT services and IT enabled services.

13. Entire income of insurance business proposed to be taxed at the applicable corporate tax rate.

14. Scope of Eighth Schedule enhanced to include collection of tax on gain on redemption of mutual fund units and future commodity contracts of PMEX.

15. Services rendered / contracts executed outside Pakistan to be taxed at higher rates.

SALES TAX

1. Five export oriented sectors (textile, leather, carpet, surgical and sports goods) will be subject to zero rated regime.

2. The definition of Input tax has been proposed to be amended to exclude the Sales tax paid under respective Provincial laws.

3. A 'zero-rated invoice' shall be issued by the transferor to the transferee on sale of taxable activity or transfer of ownership of such activity as an ongoing concern to another registered person.

4. The threshold for turnover for qualifying as cottage industry is proposed to be enhanced at Rs 10 million.

FEDERAL EXCISE DUTY

1. FED on certain services which are now subject to provincial sales tax has been proposed to be withdrawn.

2. FED on aerated beverages and locally produced cigarettes have been enhanced. FED on certain types of cement is proposed to be modified. Exemption from duty is proposed to be withdrawn on White Cement.

INCOME TAX

GENERAL

There is no major policy change in the taxation regime. Except for certain incentives for industrialization, most of the proposals relate to tax collection measures instead of documentation and broad based income taxation.

There is a dire need to promote corporatization of businesses. In Pakistan, the gross incidence of tax and compliance burdens on corporate sector still remains higher and rigorous than non-corporate sector. The strategy to promote corporatization is not apparent in the Finance Bill introduced in the National Assembly. On the contrary, there are certain proposals (such as dilution of group taxation and holding company regime) which are not in line with the internationally acceptable and successful corporate taxation norms. This policy needs to be reconsidered.

There is also a need to prescribe measures for documenting assets held by Pakistanis in and outside Pakistan.

The distinction between 'filer' and 'non-filer' has been used as revenue generation measure instead of identifying the new taxpayers. This requires a dedicated policy which brings non-filers in the tax system for income based taxation.

SUPER TAX

Through Finance Act, 2015, Super tax was imposed on (i) banking companies; and (ii) other taxpayers having income of Rs. 500 million or above, at the rate of 4% and 3% respectively for tax year 2015 only. The said levy is proposed to be extended to tax year 2016 also.

Contrary to the scheme of law, the Federal Board of Revenue (FBR) stated in a circular that such levy shall be calculated on the income without taking the effect of brought forward business and depreciation losses. This matter was, therefore, challenged and is currently subjudice in the High Court.

The aforesaid contention of the FBR, which was not in line with the legislative scheme, is now proposed to be introduced in the relevant law.

TAX ON BUILDERS AND DEVELOPERS

The Finance Bill 2016 seeks to introduce a unique non-income based Fixed Tax Regime for 'Builders' and 'Developers'. Under this regime, tax liability for the builders and developers shall be determined on the basis of area, instead of the value of property or actual transaction value.

Builders and developers eligible for these provisions shall be the persons engaged in construction and sale of residential, commercial or other buildings and plots under the projects initiated and approved by the relevant land and building authorities (as may be prescribed) after July 1, 2016.

Notwithstanding being a Fixed Tax Regime, this proposal is likely to incentivize recording of the actual value of the developed property, as the declaration of the real value will not result in any income based tax incidence for the seller which is fixed on area basis.

This regime will be applicable for business or projects, initiated and approved after July 1, 2016.

As a consequence of the introduction of the above, the minimum tax regime under sections 113A and 113B for builders and land developers is proposed to be withdrawn. The said regime for builders was not made effective till June 30, 2018. Further, the Federal Government did not issue any notification to make minimum tax regime effective for land developers.

RENTAL INCOME

Property income for all cases is currently subject to tax on net-income basis. It is now proposed that in the case of individuals and Association of Persons (AOP), tax shall be payable on the basis of 'gross rent' instead of 'net income'. A scheduler rate has been prescribed for the same. The 'income from property' so taxed shall not be clubbed with any other head of income.

Property income in the hands of individuals and AOPs of an amount less than Rs 200,000 in a tax year shall not be taxable, subject to the condition that such person does not derive income from any other head.

Following tax rates have been prescribed for chargeability and withholding on annual gross rentals derived by individuals and AOPs exceeding Rs. 200,000:

Rent slabs	Rate of tax
▪ Above Rs 200,000 and up to Rs 600,000	5% of the gross amount of rent exceeding Rs 200,000
▪ Above Rs 600,000 and up to Rs 1,000,000	Rs 20,000 plus 10 % of the gross amount exceeding Rs 600,000
▪ Above Rs 1,000,000 and up to Rs 2,000,000	Rs 60,000 plus 15 % of the gross amount exceeding Rs 1,000,000
▪ Above Rs 2,000,000	Rs 210,000 plus 20% of the gross amount exceeding Rs 2,000,000

TAX ON SALE OF IMMOVABLE PROPERTY

The seller or transferor of immovable property is subject to withholding tax. This represents tax on income from sale or transfer of that property. Nevertheless, this provision is applicable only if property is sold within two years of acquisition.

It is now proposed that the time limit is to be extended from two years to five years. Further, flat rate of 10% is proposed to be levied on gain on sale of immovable property if holding period is up to 5 years.

The validity of this amendment needs to be examined as the time period of two years was introduced to cater for the cases of gains arising on sale of property being an adventure in the nature of trade as otherwise the gain on sale of immovable property is arguably not taxable by the Federal Government under the Constitution. The extension of period to five years is not in line with this concept.

The matter of taxability of gain on immovable property by Federal or Provincial Government, especially in post 18th amendment to the Constitution is already subjudice in courts.

Rate of tax to be collected by the Registering or Attesting authority is proposed to be increased as under:

Transaction	By	Rate of tax
Sale or transfer of immovable property	Filer	1% of declared consideration
	Non-filer	2% of declared consideration
Purchase or transfer of immovable property having value of more than Rs. 3 million	Filer	2% of declared consideration
	Non-filer	4% of declared consideration

As per the proposed amendment in section 236C, in the case of sale / transfer of immovable property, this provision shall only be applicable for transfer made within five years of acquisition.

STATUS OF FOREIGN TRUST

A trust is deemed to be a company under Income Tax Ordinance, 2001. The status of foreign trust is similar to a trust formed under the trust law applicable in Pakistan. This aspect has been clarified by way of explanation in the Finance Bill.

This amendment has far reaching effect for offshore trusts settled / authored by Pakistani citizens. Accordingly, as per the strict interpretation of law, in the case of trust, the beneficiary is not required to disclose his interests in the wealth statement prior to receipt of benefit from the trust, which is considered as dividend and taxed on receipt basis.

It is suggested that relevant and necessary provisions be introduced to prescribe the manner of disclosure of the interest (as settlor or beneficiary or trustee) in a foreign or local trust by a person subject to Pakistan tax. This will promote documentation of assets held under trust.

MINIMUM TAX REGIME OF CORPORATE SERVICE SECTOR

Service sector companies were subjected to Minimum Tax Regime under section 153 of the Ordinance vide Finance Act, 2015, wherein tax withholding at applicable rate was made Minimum Tax (8%). The said regime was however rationalized for twelve service sectors for the period July 1, 2015 till June 30, 2016, under Clause (94) of Part IV of Second Schedule to the Ordinance.

The said rationalized scheme for 12 sectors is proposed to be extended from June 30, 2016 to June 30, 2017, provided taxpayer files an irrevocable undertaking by November, 2016 to present its accounts to the Commissioner for audit of its tax affairs.

In addition to twelve sectors, providers of IT services and IT enabled services, as defined in Clause (133) of Part I of Second Schedule, are also proposed to avail rationalized Minimum Tax Regime, subject to fulfilment of prescribed conditions.

It is suggested that the aforesaid option be extended to all persons providing services.

DEDUCTION OF TAX ON BUSINESS EXPENDITURE

It is proposed that provisions relating to disallowance of expenditures due to non-deduction of tax at source which are currently restricted to salary, rent, brokerage or commission, profit on debt, payments to non-residents and for services be extended to 'all expenditure' from which a person is required to deduct or collect withholding tax under the Ordinance.

It appears that disallowance for non-deduction of tax on payments for raw material and finished goods purchases shall not be made for a sum exceeding 20% of the value of payments for such purchases. Nevertheless, the text of the proposed amendment extends the aforesaid restriction to 20% on all expenditure which are subject to this provision.

It has been further clarified that taxes collected from the withholding agents and recipients (under sections 161 and 162) shall be considered as taxes paid for the admissibility of such expenditure.

This clarification reiterates the position accepted by the appellate authorities.

ADVERTISEMENT EXPENDITURE FOR PHARMA SECTOR

A restriction has been placed on admissibility of expenditure incurred by pharmaceutical manufacturers on sales promotion, publicity and advertisement.

Any expenditure over and above 5% of turnover shall not be treated as admissible business expenditure.

This provision is the introduction of a scheme already present in the Drugs Act, 1976. The disallowances made on the basis of Drugs Act, 1976 were considered as ultra vires by the higher appellate authorities. Now, this provision has been introduced as part of taxation law.

ADVANCE TAX FROM PROVINCIAL SALES TAX REGISTERED PERSON

Provincial Sales Tax authorities are now required to collect an amount equal to 3% of the turnover from a provincial sales tax registered person, being a non-filer, on behalf of the Federal Government in addition to Provincial sales tax, as the case may be.

The sum so collected shall be adjustable under the general concept of law for non-filers with regard to refund / adjustment of such taxes on filing of returns.

FEDERAL GOVERNMENT'S POWER TO PROVIDE EXEMPTIONS UNDER THE SECOND SCHEDULE

Federal Government has been empowered to grant exemption from tax in a manner specified in the relevant provision of law. It is now proposed that a general power shall be available for exemption or reduction of tax to the following cases:-

(i) Any International Financial Institution, such as IFC; and

(ii) Foreign government owned financial institution operating under an Agreement, Memorandum of Understanding or any other arrangement with the Government of Pakistan.

RESTRICTION OF THE RIGHT TO SURRENDER LOSSES IN GROUPS

A restriction has been proposed in respect of the right to surrender losses within a group.

Under the present scheme, the right of surrender of losses is not related to the percentage holding of shares by that entity in the group if entity is part of the group on the basis of holding as prescribed in the law.

It is now proposed that surrender of losses will be related and restricted to the percentage holding of the group in the entity surrendering the losses.

This amendment is not in line with the concept of group taxation under the internationally acceptable norms. The amount of loss to be surrendered cannot be related to the percentage holding of group in the entity surrendering the losses as there is a clear provision for payment of equivalent cash by the respective entity.

It is suggested that this proposal be withdrawn.

INTER CORPORATE DIVIDENDS IN GROUP

The exemption for inter corporate dividends in a group structure prescribed under section 59B is proposed to be abolished.

This proposal will effectively dilute the adequately introduced concept of group taxation. The purpose of this exemption is to avoid double taxation within a holding company structure. As a result of this proposal, there will be no basis or reason to form the group except where the holdings are 100%. Accordingly, the exemption as provided in Clause (103A) of Part I of the Second Schedule has effectively become meaningless.

Furthermore, a question of vested right to groups formed before the proposed withdrawal of exemption needs to be examined.

TAX CREDIT FOR INVESTMENT IN BMR PROJECTS, ETC

Tax credit for investment in plant and machinery for BMR Projects, etc. which was due to expire on June 30, 2016 has been extended to June 30, 2019.

TAX CREDIT FOR ENLISTMENT

Tax credit for a company opting for enlistment in any stock exchange in Pakistan is now proposed to be allowed at 20% of the tax payable in the year of enlistment and the following year as against the present restriction to the year of enlistment.

TAX CREDIT FOR EQUITY BASED INVESTMENTS

Tax credits for investments are presently available to companies making 100% equity based investments for industrial undertaking and corporate dairy farm set up by June 30, 2016 (sections 65D and 65E).

It is proposed that such credits shall also be available to entities with equity of 70% and above. Where, the equity is less than 100%, the tax credits shall be available in proportion to the equity investment.

The eligibility date of setting up an industrial undertaking for tax credit is also extended upto June 30, 2019.

FAIR MARKET VALUE

The value fixed or notified by any Provincial authority for the stamp duty or any other purpose shall not be taken into consideration for determining the fair market value of an asset for the purpose of the Ordinance. It appears that this amendment is proposed to account for the cases where the value of a property or asset or rent or service was being restricted to the value prescribed by Provincial authorities for stamp duty or any other purpose.

ELECTRONIC AND PRINT MEDIA FOR ADVERTISEMENT SERVICES

Payments to Electronic and Print media for advertisement services shall be subject to withholding tax at the rate of 1.5% of the value of services. Previously such payments were subject to withholding at the rate of 1%.

A fundamental change is proposed to be made with regard to taxability of such income and with effect from July 1, 2016, tax withheld at source shall be treated as final tax in respect of such receipts.

AGREEMENTS FOR AVOIDANCE OF DOUBLE TAXATION AND PREVENTION OF FISCAL EVASIONS

These provisions are proposed to be substituted to enable the Federal Government to enter into a tax treaty or tax information and exchange agreement or multilateral convention or inter government agreement or similar agreement or mechanism for the avoidance of taxation or exchange of information for prevention of fiscal evasion.

This extension of eligibility has been made to enable the Federal Government to enter into arrangements with organizations, such as OECD, etc. in the matters of exchange of information relating to double taxation and prevention of fiscal evasion in addition to arrangements and agreements with other Governments.

Under the present apparatus of international tax arrangements, all the Governments should have mechanisms for collating and exchanging information with other Governments and supranational bodies, etc.

Another important change has been proposed in this section whereby the information obtained through the aforesaid agreements or treaties shall remain confidential. Previously, such confidentiality was not applicable in case the information was required for certain specified purposes as laid down in section 216(3) which inter alia include SECP, SBP, Civil Courts, etc.

The rationale of removing the right of using such information as is presently contained in provision need to be examined as after the proposed amendment there could be restriction of the use of information by the relevant respective authorities in Pakistan.

TRANSACTIONS WITH ASSOCIATES - TRANSFER PRICING

Specific documents and information are now proposed to be maintained in respect of transactions with associates and such information shall be furnished to the Commissioner within thirty days if required during the course of any proceedings under the Ordinance.

This is an important amendment as this section is applicable both to resident and non-resident associates of the taxpayers. Furthermore, it is important that the information to be prescribed is in line with the internationally acceptable norms (such as those prescribed by OECD) especially in the case of non-resident associates.

MINIMUM TAX ON TURNOVER

The threshold for turnover for individuals and AOPs is proposed to be reduced from Rs 50 million to 10 million from tax year 2017 and onwards.

Another amendment is proposed to provide imposition of minimum tax in addition to final taxes and super tax.

At present, minimum tax is not payable by companies having gross loss which represent the excess of expenditure (other than depreciation and other inadmissible expenditure) over turnover. It is now proposed that minimum tax shall also be payable by entities having gross loss.

ADVANCE TAX ON CASH WITHDRAWAL & CERTAIN BANKING TRANSACTIONS

At present, deduction of tax at source on cash withdrawal and certain banking transactions by non-filers is applicable only if the cash withdrawal or sum of such transactions in a day exceeds Rs 50,000. An explanation has been proposed whereby it is clarified that Rs 50,000 shall be the aggregate withdrawal from all bank accounts in a single day.

The proposed amendment is practically non-implementable unless the tax department is in possession of a system whereby there can be determination of cash withdrawal from different banks by same person in a single day. It is considered that the provision be re-examined and the same should be brought in line with practical possibilities available within the existing systems.

There has been no further amendment made in section 236P of the Ordinance and the withholding applicable on banking transactions of non-filers has been retained with statutory withholding rate of 0.6%.

PROVISIONAL ASSESSMENT

Under the present scheme of law, a provisional assessment abates upon filing of return and wealth statement / accounts within 45 days of such assessment.

The Finance Bill seeks to prescribe another condition for such abatement of provisional assessment whereunder a taxpayer shall have to present accounts and other documents for the 'Audit' of income tax affairs for that tax year.

ADVANCE TAX

Alternative Corporate Tax shall also be considered for the purposes of determining advance tax liability under the Ordinance.

PAYMENTS FOR FOREIGN PRODUCED COMMERCIALS

A new withholding tax is proposed to be introduced for payments made directly or through an agent or intermediary to a non-resident person for foreign produced commercials for advertisement on any television channel or any other media at the rate of 20% of the gross amount. Such withholding tax shall be treated as final tax on the income of the non-resident person.

The chargeability of such receipts for a non-resident person under the Ordinance needs to be examined as the amount received by the non-resident may not be Pakistan source income under the present provisions of section 101 of the Ordinance. This status is notwithstanding and in addition to the fact that the taxability of the source may not be available in the case where there is a tax treaty with the country of residence of the recipient.

FURNISHING OF INFORMATION BY BANKS AND FINANCIAL INSTITUTIONS

Prior to the proposed amendment, the confidentiality of the information obtained from a financial institution (including a bank) was not applicable if such information was required by certain specified institutions, such as SECP, SBP, Civil Courts, etc. A restriction is proposed to be placed on dissemination of such information so obtained.

ADVANCE TAX ON LEASED MOTOR VEHICLES

A new withholding tax provision has been introduced for lessees, being non-filers. Under this provision, there shall be a withholding equal to 3% of the value of motor vehicle at the time of leasing of motor vehicles to such non-filers by leasing company and certain financial institutions.

This appears to be a mechanism to collect tax equal to 3% of the value of motor vehicle acquired on lease by a non-filer.

Nevertheless, under the general provisions, such non-filer may claim the refund / adjustment of the same by filing his return of income.

ADVANCE TAX ON INSURANCE PREMIUM

A new provision has been inserted whereby every insurance company shall collect advance tax from non-filer policy holders in the following manner:

Type of Premium	Rate
General insurance premium	4%
Life insurance premium if exceeding Rs 0.2 million per annum	1%
Others	0%

ADVANCE TAX ON EXTRACTION OF MINERALS

Leaseholders of mines or any person, being a non-filer, extracting minerals shall be subject to collection of advance tax at the rate of 5% of the value of minerals. The responsibility to collect such tax lies with the Provincial authority collecting royalty from the lease-holder or person extracting minerals. This section is not applicable on lease / concession issued by the Federal Government.

DEPRECIATION RELATING TO EXEMPT PERIOD

As per the strict application of law, the written down value (at the expiration of the exempt period) of an asset used in a business whose income was exempt from tax was the original cost of such asset. Tax depreciation was not treated to have been allowed during the exempt period. An explanation has been inserted in the law to the effect that it was always intended by the legislature that such value shall be determined after the expiration of the exempt period on the basis as if tax depreciation (including initial allowance) was deemed to have been allowed. The effect of this retrospective amendment need to be examined.

TAX CREDIT FOR INVESTMENT IN HEALTH INSURANCE

Tax credit shall be allowed in respect of contribution paid by a non-corporate resident taxpayer for health insurance to any insurance company approved by SECP. The tax credit is, however, only available to persons deriving income from salary or income from business.

TAX CREDIT FOR EMPLOYMENT GENERATION BY MANUFACTURERS

The tax credit eligibility period for new employment generation manufacturing projects has been extended to June 30, 2019.

TAX CREDIT FOR SALE TO REGISTERED PERSONS

Tax credit for 90% sale to sales tax registered persons is proposed to be enhanced from 2.5% to 3% of tax payable.

CAPITAL GAINS TAX ON DISPOSAL OF SECURITIES

Gain on sale of securities was subjected to tax by Finance Act, 2010 in case such securities were held for less than 12 months. Through the Finance Act, 2015, the gain arising on disposal of securities with holding period up to 48 months was taxed and as such, zero rate of tax was made applicable only where the holding period of securities exceeded 48 months.

It has now been proposed to provide exemption only on disposal of securities acquired on or before July 1, 2012. This means that the exemption presently available on holding period of securities held for more than 4 years is to be withdrawn from tax year 2017.

Through Finance Bill, 2016, separate rates of tax on capital gains from disposal of securities have also been proposed to include separate rates for Filers and Non-Filers. A comparison of tax rates presently applicable for tax year 2016 with the rates proposed for tax year 2017 is as under:

PRESENT RATES FOR TAX YEAR 2016	
Holding period	**Tax rate**
Where holding period of a security is less than twelve months	15%
Where holding period of a security is twelve months or more but less than twenty-four months	12.5%
Where holding period of a security is twenty four months or more but less than four years	7.5%
Where holding period of a security is more than four years	0%

PROPOSED RATES FOR TAX YEAR 2017		
Holding period	**Tax rate**	
	Filer	**Non-Filer**
Where holding period of a security is less than twelve months	15%	18%
Where holding period of a security is twelve months or more but less than twenty-four months	12.5%	16%
Where holding period of a security is twenty-four months or more but the security was acquired on or after 1st July, 2012	7.5%	11%
Where the security was acquired before 1st July, 2012	0%	0%
Future commodity contracts entered in to by the members of Pakistan Mercantile Exchange	5%	5%

The aforesaid rates will also apply on debt securities held by a company. Currently, gain on debt securities in the hands of a company is taxable at the corporate rate.

ADVANCE TAX ON DIVIDEND [NON-FILERS]

The rate of withholding tax on dividends from companies other than power generation companies or companies supplying coal exclusively to power generation project in case of a non-filer recipient has been proposed to be increased from 17.5% to 20%.

MUTUAL FUNDS

a) Tax on Dividends from Mutual Funds

Through Finance Bill, 2016, the rate of tax on dividends from Mutual Funds have now been proposed to include separate rates for Filers and Non-Filers. Tax rates proposed for tax year 2017 are as under:

Tax Year 2017	Stock Fund	Money market Fund, Income Fund or any other fund	
		Filer	Non-Filer
Individual	10%	10%	15%
Company	10%	25%	25%
AOP	10%	10%	15%

b) Taxation of Capital Gain on Disposal of Mutual Fund Units under the Eighth Schedule

The Eighth Schedule was introduced through Finance Act, 2012 to cater for special regime for taxation of capital gains arising on sale of shares of listed companies. Under that Schedule, NCCPL was effectively made the taxing agent for computing and collecting the tax on such gains. Nevertheless, gain on disposal of units of open ended mutual funds was kept outside the ambit of Eighth Schedule.

In the Finance Bill 2016, the gain on redemption of units of open ended mutual funds shall also be subject to the mechanism as laid down in the Eighth Schedule.

However, for that purpose, section 100B which governs Eighth Schedule has not been appropriately amended. This appears to be an omission. Under the proposed mechanism, tax on capital gains on redemption of units of mutual funds (open ended) will be computed and collected by NCCPL.

The Asset Management Company / companies managing the fund shall be responsible for providing necessary information to NCCPL for computing taxable gain and tax thereon on redemption of units.

PAKISTAN MERCANTILE EXCHANGE

Through the Finance Bill 2016, an explanatory proviso has been proposed to be included in Section 37A (3) for the purpose of taxing capital gain on future commodity contracts being a derivative product. It is proposed to clarify that derivative products include future commodity contracts entered into by the members of Pakistan Mercantile Exchange whether or not settled by physical delivery. This means that capital gain on settlement of future commodity contracts is proposed to be brought into NCCPL's mechanism as laid down in the Eighth Schedule with effect from July 1, 2016.

No separate tax rates are proposed for Filers and Non-Filers deriving capital gain from settlement of commodity contracts; and a single rate of 5% is proposed to be applied by NCCPL for computation and collection of capital gain. It is also proposed that Pakistan Mercantile Exchange will provide information to NCCPL for the purpose of computation and collection of tax under the Eighth Schedule.

PAYMENTS FOR GOODS AND SERVICES

The rate of withholding tax on payments for purchase of goods from the distributors of FMCG is proposed as under:

Status of distributor of FMCG supplying the goods	Rate of tax
Company	3%
other than a company	3.5%

This rate will not apply on distributor of cigarettes and pharmaceutical products subject to tax withholding at 1% under clause (24A) of Part II of Second Schedule.

PRIZES AND WINNINGS [NON-FILERS]

The rate of withholding tax on a prize on prize bond or crossword puzzle, is proposed to be enhanced from 15% to 20% for non-filer.

BROKERAGE AND COMMISSION

Description	Increased from
Advertisement agents [Non-filers]	10 to 15 percent
Other than advertisement agents [Non-filers]	12 to 15 percent

Moreover, rate of tax to be collected from brokerage and commission paid to life insurance agents has been proposed to be introduced at the rate of 8% (16% for non-filers). This rate would be applicable only if the annual commission received by life insurance agents is less than Rs. 500,000.

COLLECTION OF TAX BY A STOCK EXCHANGE REGISTERED IN PAKISTAN

Rate of advance tax collection by stock exchange on sale and purchase of shares is proposed to be increased from 0.01% to 0.02% of transaction value.

COLLECTION OF TAX ON COMMERCIAL ELECTRICITY CONSUMPTION

Rate of tax collection for commercial consumers on electricity bill exceeding Rs. 20,000 is proposed to be increased from 10% to 12%.

MICRO FINANCE BANK

Exemption allowed to Micro-Finance banks till June 2012, being redundant, is proposed to be withdrawn.

SPORTS BOARD / ORGANISATION

Exemption allowed to a Board or other organization established in Pakistan for the purposes of controlling, regulating or encouraging major games and sports recognized by the Government is proposed to be restricted only where such Board or organization is established by the Government. As a result, the position prior to Finance Act, 2003 is proposed to be restored.

INCENTIVES FOR GWADAR FREE ZONE

Exemption from tax available to China Overseas Ports Holding Company Limited **[COPH],** from Gawadar Port operations for a period of 23 years (w.e.f. February 6, 2007), is proposed to be extended to its following group companies:

(a) China Overseas Ports Holding Company Pakistan (Private) Limited **– COPHPL,**

(b) Gawadar International Terminal Limited,

(c) Gawadar Marine Services Limited; and

(d) Gawadar Free Zone Company Limited

In addition, following further exemptions are proposed:

(i) Exemption from Minimum Tax under section 113 for a period of 23 years effective July 1, 2007 for all the above entities.

(ii) Exemption from tax on income of contractors and sub-contractors of COPH and its above group entities from Gwadar Ports Operations for a period of 20 years effective July 1, 2016.

(iii) Exemption from tax on dividend income received by COPH as well as by COPHPL from above group entities. Tax withholding on such dividend income has also been exempted for a period of 23 years.

(iv) Exemption from tax on Profits and gains derived by a taxpayer from businesses setup in Gawadar Free Zone Area for a period of 23 years w.e.f. July 1, 2016.

(v) Exemption from tax on Profit on debt earned by a foreign lender or a local bank (owned more than 75% by the Government of Pakistan or State Bank of Pakistan) under a Financing Agreement with COPH.

Apart from above, exemption from withholding tax on profit on debt and commission paid by COPH, although stated in 'Notes to the Clauses', have not been notified in the Finance Bill.

EXPORT OF COMPUTER SOFTWARE / IT SERVICES

Exemption allowed to income from export of computer software or IT services or IT enabled services is proposed to be extended from June 30, 2016 to June 30, 2019, provided that eighty per cent of the export proceeds is brought into Pakistan in foreign exchange through normal banking channels.

SERVICES RENDERED AND CONSTRUCTION CONTRACTS EXECUTED OUTSIDE PAKISTAN

Presently, gross receipts from services rendered and construction contracts executed outside Pakistan are taxed at the rate of 1%, provided the receipt from services, and income from construction contract are brought into Pakistan through normal banking channel. The tax rate of 1% is now proposed to be increased and linked with 50% of the withholding rate applicable on services and contracts under section 153 of the Ordinance. Based on the existing withholding rates prescribed for section 153, the tax rate applicable on services rendered and construction contract executed outside Pakistan shall be as under:

Description	Company		Non-Corporate sector	
	Proposed rate	Existing rate	Proposed rate	Existing rate
Services rendered outside Pakistan	4% (50% of 8%)	1%	5% (50% of 10%)	1%
Construction Contracts executed outside Pakistan	3.5% (50% of 7%)	1%	3.75% (50% of 7.5%)	1%

NEW TAX REGIME FOR PAKISTAN CRICKET BOARD - PCB

PCB's income derived from sources outside Pakistan including media rights, gate money, sponsorship fee, in-stadium rights, out-stadium rights, payments made by International Cricket Council, Asian Cricket Council or any other Cricket Board is proposed to be taxed at 4% of the gross receipts from such sources.

PCB may also opt to pay tax on above basis for tax years 2010 to 2015, subject to the condition of; (a) withdrawing all the appeals / petitions pending before appellate forums on the issue of applicable tax rate; and (b) payment of tax on above basis by June 30, 2016.

TERM FINANCE CERTIFICATES

Exemption from withholding tax on profit on debt paid to a company in respect of a Term Finance Certificate issued on or after July 1, 1999 is proposed to be withdrawn.

TRANSMISSION LINE PROJECTS

Profits and gains derived by companies from a transmission line project which are exempt from tax under clause (126M) of Part I of Second Schedule to the Ordinance are proposed to be exempted from Minimum Tax provisions of section 113 as well.

TRADING HOUSES

Exemption from Minimum Tax under section 113 allowed to companies operating Trading Houses for a period of 10 years is proposed to be withdrawn and replaced by reduced (minimum tax) rate of 0.5% upto tax year 2019 and 1% thereafter.

HAJJ GROUP OPERATORS

Following exemptions / concessions available to Hajj Group Operators operating Hajj Operations are proposed to continue for tax year 2016, provided they discharge their tax liability @ Rs. 5,000 per Haji:

(i) exempt from Minimum Tax under section 113;

(ii) exempt from application of section 152; and

(iii) compliance of payment through banking channel for payments exceeding Rs. 10,000.

EXEMPTION FROM TAX COLLECTION ON IMPORT OF RAW MATERIALS

Presently, taxpayers are allowed to apply for exemption from tax collection on import of raw materials, provided tax liability of current tax year, determined on the basis of tax liability of higher of the two preceding tax years, is paid. That facility was however, subject to compliance of FBR SRO No. 717(I)/2014 which inter alia included a restriction that exempted quantity of raw material should not exceed 110 per cent of the quantity imported / consumed in the last tax year. The said restriction, through the SRO, was challenged by taxpayers before the Hon'able Lahore High Court, which declared the same extra-jurisdictional on part of FBR to provide for a condition which is not part of law.

It is now proposed to include the above restriction (of 110% of quantity) as part of a statute under clause (72B) of Part IV of Second Schedule to the Ordinance. It has now also been proposed that Commissioner will be entitled to audit the taxpayer availing the exemption, in respect of the consumption, production and sales of the latest tax year (for which return is filed), whilst deeming the selection for such audit under section 214C of the Ordinance. In case the taxpayer fails to produce requisite documents during the audit, recovery of unpaid tax under section 148 to be made from the taxpayer.

INVESTMENT IN INDUSTRIAL UNDERTAKING - IMMUNITY FROM SECTION 111

Presently, immunity is provided to investments made by a company to setup an industrial undertaking, from provisions of section 111 (unexplained sources of income / receipts), subject to certain conditions which inter alia include commencement of commercial production by such undertaking on or before June 30, 2017. It is proposed to extend said date to June 30, 2019.

FOURTH SCHEDULE – INSURANCE COMPANIES

In the case of insurance companies, there is a concept of 'one basket income' taxation. This means that all sources / heads of income of an insurance company are taxed at the applicable corporate tax rate. However, there is a specific provision whereby capital gains on disposal of shares and dividends of listed companies, vouchers of PTC and instruments of redeemable capital, modaraba certificates and derivative products were subject to tax at the reduced rates applicable otherwise on such heads of income.

This special dispensation is proposed to be removed. It is now proposed that entire income of insurance business shall be subject to tax at the applicable corporate tax rate.

In the past, there was litigation on the subject (including the decision of Supreme Court of Pakistan). The application of specific rate was introduced on the premise that the provisions relating to the Fourth Schedule are governed by the First Schedule for tax purposes. Accordingly, notwithstanding the specific concept of 'one basket income', validity of the aforesaid amendment needs to be examined with reference to the question whether or not the head of income (such as section 5 for all dividend income) can override the taxability under a specific Schedule or vice versa.

SALES TAX

GENERAL

The Finance Minister has announced (as also mentioned in the 'Salient features') that the five export oriented sectors (textile, leather, carpet, surgical and sports goods), will now be subject to zero rated regime with an objective of 'no tax no refund' for such sectors.

The exports are zero rated in general, therefore, the proposed regime, which was also earlier introduced in 2004, effectively provides zero rating for inputs used in the manufacturing of export sector goods. Tax incidence on such input results in refunds to the exporters.

In the past, a detailed notification was issued prescribing the manner and the items on which such zero rating was applicable.

Same regime as introduced earlier was withdrawn inter alia on account of abuse of zero rating regime in respect of goods having multiple use. It is, therefore, suggested that necessary caveats be placed to avoid similar abuse.

Local sale of finished products, however, will be subject to sales tax at the rate of 5%.

Other than the above, there is no major change in Sales Tax regime. The general rate has been kept at 17% and the scheme of taxation has also remained unchanged. Furthermore, restriction has been placed on admissibility of certain input tax as discussed below.

INPUT TAX

Fundamental departure has been proposed in the sales tax regime which is governed under the VAT principles.

The definition of Input tax has been proposed to be amended to exclude the Sales tax paid under respective Provincial laws.

In economic sense, this would imply dual indirect taxation in the country as indirect taxes paid to Provinces shall not reduce the incidence of sales tax paid to Federation. It is suggested that the VAT principles should be completely adhered to.

In addition to the above, input tax adjustment will not be available, if the supplier has not declared such supply in his return or has not paid tax due as per his return.

This amendment effectively means that an eligible input tax shall become inadmissible for the buyer only for the reason that the supplier of goods has not declared such supply in his return of sales tax or has not paid the tax due. The effective date for this amendment will be notified by FBR.

The validity of the aforesaid amendment needs to be examined with reference to the timing and relationship / control which a buyer could have on the conduct of supplier.

RECOVERY OF WITHHOLDING SALES TAX

It is proposed to enact provisions in the Federal sales tax law to enable recovery proceedings for sales tax not/short withheld or failure to deposit such tax by withholding agents.

This amendment aims to counter the effect of decisions of the Appellate authorities whereby such actions were unapproved in the past.

PAYMENT OF SALES TAX

Due date for payment of tax is to be notified. Previously sales tax was to be paid at the time of filing of return. Such date is expected to be a date prior to the due date of filing of return.

PENALTY

Scope of penalty provisions is proposed to be enhanced to include contravention of any rules made under the sales tax law.

RETURN OF SALES TAX AND FEDERAL EXCISE

Concept of specifying different dates for furnishing of different parts or annexures of the return is proposed.

Requirement for separate return in case of change in rate of tax during a tax period is proposed to be withdrawn.

SALE OF TAXABLE ACTIVITY OR TRANSFER OF OWNERSHIP

Under section 49 of the Act, sale of taxable activity or part thereof or transfer of ownership of such activity as an ongoing concern to another registered person is a non-taxable event.

In order to substantiate and document the aforesaid non-taxable nature of transaction, it is proposed that in the case of such sale or transfer, a 'zero-rated invoice' shall be issued by the transferor to the transferee.

COTTAGE INDUSTRY

The threshold for turnover for qualifying as cottage industry, which is exempt from tax, is proposed to be enhanced at Rs 10 million from Rs 5 million.

SALES TAX EXEMPTION FOR INTERNATIONAL FINANCIAL INSTITUTIONS, ETC.

In line with the amendments proposed in Income Tax Ordinance, 2001, Federal Government is also proposed to be empowered to allow exemptions on sales tax in relation to the international financial institutions and foreign government owned financial institutions.

DISCLOSURE OF INFORMATION OF SALES TAX AND FEDERAL EXCISE

In line with the amendments proposed in Income Tax Ordinance, 2001, disclosure of information received or supplied in pursuance of bilateral or multilateral agreements with foreign governments is proposed to be confidential notwithstanding the status of the Freedom of Information Ordinance, 2002.

SUPPLY OF MINERAL / BOTTLED WATER

Supply of mineral/bottled water by manufacturer is proposed to be taxed at retail price, under the Third Schedule.

FIFTH SCHEDULE – ZERO RATING

Conditional zero rating on import and supply of following items is proposed to be withdrawn, however, these will continue to fall under Sixth Schedule.

Description	PCT Heading
Colors in sets	3213.1000
Writing, drawing and marking inks	3215.9010 & 3215.9090
Erasers	4016.9210 & 4016.9290
Exercise books	4820.2000
Pencil sharpeners	8214.1000
Geometry boxes	9017.2000
Pens and ball pens	96.08
Pencils including color pencils	96.09
Milk	04.01
Fat filled milk	1901.9090

Zero rating on import and supply of "Markers and porous tipped pens" (PCT Heading 96.08) has been withdrawn.

SIXTH SCHEDULE - EXEMPTIONS

a) Conditional exemption from sales tax allowed under SRO No 115(I)/2008 dated February 6, 2008, on import and supply of materials and equipment for construction and operation of Gawadar Port and development of Free Zone is now proposed to be restricted to certain specified entities and their contractors/sub-contractors subject to specified conditions. The aforesaid notification has todate not been rescinded.

   Exemption on supplies made within Gawadar free zone by businesses to be established in said zone is proposed for a period of 23 years.

b) Import or supply of following items are proposed to be exempted

Description	PCT Heading
Premixes for growth stunting	Respective heading and subject to conditions imposed under Customs Act
Laptop computers, notebooks whether or not incorporating multimedia kit	8471.3010
Personal computers	8471.3020

c) Import of dump trucks for Thar Coal field is proposed to be conditionally exempted

EIGHTH SCHEDULE

a) Increase of sales tax rate on ingredients of poultry and cattle feed is proposed from 5% to 10% and following PCT headings are now proposed to be included in this respect:

PCT Heading
2301.1000 (Meat and Bone Meal)
2833.2940 (Zinc Sulphate)
2923.9010 (Betaine)

Following items are proposed to be removed from Eighth Schedule:

PCT Heading
2301.2010 (Shrimp meal)
2833.2600 (Zinc Sulphate)
2923.9000 (Betafin)

b) Reduction in rate allowable to specific items used in production of biodiesel as certified by Alternate Energy Development Board is proposed to be withdrawn. However, reduction in rate to related plant, machinery and equipment shall continue.

c) Import of grain holding silos are proposed to subjected to sales tax @ 10%.

NINTH SCHEDULE

Sales tax rates under the Ninth Schedule on import or local supply and/or registration of IMEI by Cellular Mobile Operators on medium priced cellular phones and smart cellular phones are proposed to be increased as follows:

- Medium priced cellular phones from Rs 500 to Rs 1,000
- Smart cellular phones from Rs 1,000 to Rs 1,500.

REVAMPING OF SALES TAX REGIME FOR CERTAIN ITEMS

a) Certain pesticides and their active ingredients registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971 previously covered under Eighth Schedule are now proposed to be exempted under Sixth Schedule.

b) Supply of Urea, whether or not in aqueous solution (PCT heading 3102.1000) is now proposed to be taxed @ 5%, previously this was included in Fertilizers under Third Schedule.

FEDERAL EXCISE DUTY

GENERAL

Excise Duties are essentially levied to discourage consumption for socially undesirable items. Over the time, the Excise Duties were gradually reduced, phased out, and substituted by VAT regime.

The review of proposals reveal a departure from this economic concept and excise duties are being used as a revenue generation measure regardless of the nature of items and their usage, such as cement.

Except for corrective measures of removing unwarranted duplication of FED on certain services subjected to Provincial Sales Tax, there is no significant policy amendment in FED regime.

SERVICES SUBJECT TO PROVINCIAL SALES TAX

The much awaited withdrawal of the FED on services which are now subject to provincial sales tax has been proposed in the Finance Bill 2016. In the Finance Bill 2016, following services will not be subject to FED:

- Advertisements;
- Shipping agents;
- Franchise services;
- Stock brokers; and
- 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

In the absence of this amendment, there was a question of duplication of incidence of indirect tax on such services both by Federation and Provinces. There had been litigation on this subject and the Sindh High Court has recently resolved the controversy in favour of taxpayers deciding that services (other than shipping agents) taxed by Provincial Government cannot be subject to FED. The aforesaid issue was aggravated by the amendment made in the Finance Act, 2015 where the exclusion was made only for telecommunication services.

The withdrawal has been made for specific services identified above. It is, however, suggested that there should have been a general provision that FED shall not be payable on any service which has been validly taxed by the Provincial Government.

RETURN OF SALES TAX AND FEDERAL EXCISE

Concept of specifying different dates for furnishing of different parts or annexures of the return is proposed.

Requirement for separate return in case of change in rate of tax during a tax period is proposed to be withdrawn.

ADJUSTMENT OF EXCISE DUTY

Adjustment on input duty (goods or services) is proposed to be made conditional to the declaration in the supplier's return and payment of duty. This condition will be effective upon notification by the FBR.

EXEMPTION OF DUTY FOR INTERNATIONAL FINANCIAL INSTITUTIONS, ETC.

Federal Government is proposed to be empowered to allow exemptions on excisable goods or services in relation to the international financial institutions and foreign government owned financial institutions.

DISCLOSURE OF INFORMATION OF SALES TAX AND FEDERAL EXCISE

In line with the amendments proposed in Income Tax Ordinance, 2001, disclosure of Information received or supplied in pursuance of bilateral or multilateral agreements with foreign governments is proposed to be confidential notwithstanding the status of the Freedom of information Ordinance, 2002.

AERATED WATERS / BEVERAGES

The rate of duty is proposed to be enhanced from 10.5% to 11.5% of retail price effective from July 1, 2016.

LOCALLY PRODUCED CIGARETTES

Description of and duty on the locally produced cigarettes (PCT heading 24.02) is proposed to be modified/enhanced. Revised rates are applicable from June 4, 2016, as tabulated under:

Description of goods	*Revised rate*	
	From June 4 to November 30, 2016	*From December 1, 2016 & onwards*
Locally produced cigarettes if their on-pack printed retail price exceeds Rs 4,000* per 1,000 cigarettes.	Rs 3,436 per 1,000 cigarettes	Rs 3,705 per 1,000 cigarettes
Locally produced cigarettes if their on-pack printed retail price does not exceeds Rs 4,000* per 1,000 cigarettes.	Rs 1,534 per 1,000 cigarettes	Rs 1,649 per 1,000 cigarettes

* *This is Rs 4,400 effective from December 1, 2016.*

CEMENT

The basis of levy of excise duty on various types of cement, classified under PCT heading 25.23, is proposed to be changed from "5% of retail price" to "Re 1 per kg", with effect from July 1, 2016.

This change will effectively double the amount of duty presently payable on cement bag which contains 50 kg of cement.

Exemption from duty is proposed to be withdrawn on 'White Cement' (PCT heading 25.23)".

EXEMPTIONS

Certain exemptions are proposed in relation to Gawadar Port and development of Gawadar Free Zone. These exemption are identical to serial 100A and 100B proposed to be introduced in Table 1 of the Sixth Schedule of the Sales Tax Act, 1990.

WHITE CRYSTALLINE SUGAR

The ad valorem duty on white crystalline sugar is proposed to be withdrawn and replaced by the sales tax regime at a reduced rate of 8%.

This is aimed at collection of sales tax on value addition by post manufacturing distribution chain and the related effect thereto.

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001 (ICTO)

The provisions of Federal Sales Tax Act relating to the following powers of Federal Government are proposed to apply to ICTO:

- Specifying a higher or lower rate of tax, subject to such conditions and restrictions.
- Levy and collect such amount of tax as it may deem fit on any services or class of services in lieu of sales tax.
- Allow exemptions under section 13 of the Federal Sales Tax Act.
- Notify any person or class of person as withholding agent for the purpose of deduction and deposit of sales tax.

Zero rating facility available under Federal Sales Tax Act to diplomats shall apply to ICTO.

Exemptions available under Federal Sales Tax Act to grants in aid shall apply to ICTO.

Tax levied under ICTO shall not apply to regulatory and licensing services rendered or provided by an organization established under a Federal statute.

CUSTOMS DUTY

LOCAL SUBSTITUTE OF IMPORTS BY POWER UNITS

Import of new plant, machinery, equipment and apparatus, including capital goods for new power units of 25MV and above are subject to concessional rates of customs duty, subject to the condition that such goods are not locally manufactured. The said condition has been done away with for those power projects which are on IPP mode meant for supply of electricity to national grid.

TARIFF SLAB RATIONALIZATION

Goods presently subject to duty at the rate of 5% and 2% are proposed to be assessed at 3% in order to reduce number of tariff slabs from 5 to 4.

REDUCTION IN CUSTOMS DUTY

(i) By virtue of amendment in First Schedule and Fifth Schedule, reduction in customs duty has been proposed for the following items:

Items	Rate	
	Old	New
Raw material of PVC Resin	5	3
White Spirits	10	3
Stamping Foil	20	16
Fatty Alcohol Ethoxylate	15	5
CFC Free Gases	15	11
Aluminum Sheet in Coil	20	11
Thermostats of Deepfreezes	20	3
Bicycle chain parts	20	15
Uncoated paper and paperboard	20	15
Blister paper	20	10
Plastic film medical grade	20	10
Polyester resin	20	15
Chrysotile asbestos	20	15

(ii) Reduction in customs duty in respect of following sectors has been proposed under the Fifth Schedule:

Sector	Concession
Fish Farming	Reduction in customs duty on import of water aerators from 15% to 2% and feed pellet (floating type) machinery from 5% to 2%. Reduction in customs duty on import of fish and shrimp feed from 10% / 20% to 0%.
Cool Chain Industry	Reduction in customs duty on import of Cool Chain Machinery from 5% to 3% subject to certain conditions. Reduction in customs duty on import of capital goods to 3% subject to certain conditions.
Dairy, Livestock and Poultry Sector	Customs duty on various machinery used in dairy, livestock and poultry reduced from 5% to 2%.
LED Manufacturers	Concession of customs duty on import of parts and components used for local manufacturing of LED lights from 20% to 5%.
Automotive Sector	Various concessions have been proposed for implementation of automotive development policy 2016-2021.
Textile sector	Part IV to the Fifth Schedule has been added to exempt customs duty on import of machinery and equipment for textile sector.

(iii) Import of solar panels are subject to concessionary duty till June 30, 2016. That date has now been extended to June 30, 2017.

INCREASE IN CUSTOMS DUTY

As part of review / rationalization of customs duty, following major changes have been made:

(i) General rates of customs duty of 10% and 15% is proposed to be increased to 11% and 16% respectively;

(ii) Rate of customs duty on following item under the First and Fifth Schedule is proposed to be increased:

Items	Rate	
	Old	New
Betel nuts	10	20
Betel Leaves	Rs. 300/Kg	Rs. 600/Kg
Almonds	10	20
Frozen fish	10	20
Medium Density Fiber board	15	20
Cement Clinker	2	11
Semi Printed/Printed Security Paper	5	16
Live Chicken stock and Eggs of chicken	5	11
Birds eggs(not in shell)	5	16
Polyester not exceeding 2.22 decitex	6	7

EXEMPTION FROM CUSTOMS DUTY

(i) Exemption from customs duty is proposed on following items.

- Water Quality Testing Kits
- Linear Akyl Benzene
- Import of Premixes to prevent growth stunting
- Old and used Ambulances imported by Edhi Foundation
- Sodium iron

(ii) Scope of the exemption from customs duty allowed to Renewable Energy Technologies and Charitable Non-profit making institutions Operating hospitals is proposed to be enhanced to certain additional items.

LEVY OF REGULATORY DUTY

Regulatory duty is proposed on following items at the rate of 25%:

- Powdered Milk
- Whey Powder

WITHDRAWAL OF REGULATORY DUTY

Regulatory duty on following item is proposed to be withdrawn:

- Bead wire for tyres Manufacturers
- Carbon steel strips used by Razor blade manufacturers

FISCAL RESPONSIBILITY AND DEBT LIMITATION ACT, 2005

BACKGROUND

The approval and implementation of Fiscal Responsibility and Debt Limitation Act, 2005 was meant to provide for elimination of revenue deficit and reduction of public debt to a prudent level by effective public debt management. The implementation of the said Act was an effort by the Government to create strong institutional mechanism to restore fiscal discipline and to introduce greater transparency in fiscal operations.

The targets for maintaining fiscal responsibility and debt limitations as prescribed under the law could not be met. Accordingly, it appears that the proposed Finance Bill provides for revised and manageable targets for achieving financial discipline. This Act is effectively an oversight on the functions of the Federal Government with respect to the management of fiscal deficit and resultant public debt.

PROPOSED AMENDMENTS

Through the Finance Bill 2016, it is proposed that the Act shall provide for reduction of Federal fiscal deficit and ratio of public debt to gross domestic product to a prudent level by effective public debt management. The term 'Federal fiscal deficit' is proposed to mean the difference between total net revenue receipts and total expenditure of the Federal Government. Whereas, the term 'total net revenue' is proposed to mean a sum of tax revenues, non-tax revenues and surcharges of the Government minus transfer of provincial share. The total public debt is proposed to define as the debt of the Government serviced out of the Consolidated Fund and debts owed to the International Monetary Fund.

Through the Finance Bill 2016, the targets relating to reduction in fiscal deficit and debt to GDP ratio are proposed to be revised. A brief summary of the old targets and the proposed new targets are tabulated below:

	New Targets	*Old Targets*
Reduction of fiscal/ revenue deficit	4% of GDP during the 3 years (from financial year 2017-18) and maintaining it at a maximum of 3.5% of the GDP thereafter	Reduce to Nil by June 30, 2008 and thereafter maintaining a revenue surplus
Debt to GDP	Public debt shall be reduced to 60% of the estimated GDP, within a period of 2 financial years (from financial year 2016-17); and Public debt shall be reduced by 0.5% every year within a period of 5 financial years (from 2018-19 to 2022-23) and a reduction of 0.75% every year (from 2023-24 to 2032-33) to reduce the total public deficit to 50% of the estimated GDP and thereafter maintaining it to 50% or less of estimated GDP.	Public debt should not exceed 60% of the estimated GDP by June 30, 2013 and thereafter maintaining below 60% of the GDP; and Public debt be reduced by not less than 2.5% of the estimated GDP from financial years 2003 to 2013
Public welfare	Existing targets for public welfare are proposed to be deleted and no targets for public welfare have been proposed	Social and poverty alleviation related expenditures should not be reduced below 4.5% of the estimated GDP and budgetary allocation for education and health will be doubled from existing level in terms of percentage of GDP.