

TAX COMMENTARY

Riaz Ahmad, Saqib, Gohar & Co.

Chartered Accountants



Change of Mindset

TAX ADHERENCE
TAX EVASION

VISION & MISSION

Profession Leader to provide highest quality services to our clients with complete independence and integrity by professionally trained, committed & motivated team.

Environment conducive to creativity, job security, personal growth and development of team members with adherence to ethical practices.

Training Facilities with dedication to groom professionals with the aim to make them leaders in chosen disciplines.

CONTENTS

Page
01 Preamble

Page
03 Highlights

Page
07 Economic Overview

Page
15 Income Tax

Page
51 Sales Tax

Page
65 Other Laws

PREAMBLE

*Then which of the
favors of your Lord
will you deny?*

Al-Quran

Alhamdulillah!

RIAZ AHMAD SAQIB GOHAR & CO. RASG is pleased to present the 'highlights, comparisons and comments' on this year's budget to its clients, friends and associates. While developing this document every endeavor has been made to keep the presentation simple, with the view to help our readers understand the amendments in the various statutes through the Finance Bill, 2016.

This commentary reflects our understanding of the legislation and we recommend that reference should be made to the precise wording of the Bill wherever necessary. We would also recommend that the professional advice should be sought before acting upon any of the amendments.

We, the 'RASG Team' cherish our association, mutual respect, passion to excel, uncompromised endeavor to give the best to our clients as we believe in "Result Assured Services for Growth". We are grateful to the Almighty Allah SWT for the infinite favors of His and indeed we do not deny any of those.

Regards

Gohar Manzoor
Managing partner
June 4, 2016

This Page Left Blank



TAX COMMENTARY

HIGHLIGHTS

Income Tax

Sales Tax

Federal Excise Duty

Custom Duty

This Page Left Blank

BUDGET HIGHLIGHTS: INCOME TAX

- o Enhanced taxability of Non-Filers catered under several provisions (Dividend, Capital Gain, Property, Prize & winning, Insurance, etc.)
- o Announcement of tax concessions for operations and development of Gwadar Port and Gwadar Free Zone in continuation of regional co-operation with Pak-China Economic Corridor
- o Announcement of exemptions of income of Pakistani and Chinese companies operating at Gwadar port
- o Announcement of extension of expiring tenure of exemption in respect of the export of IT service till 2019
- o One percent reduction in corporate tax rate other than banking company is proposed for Tax Year 2017
- o Announcement of final tax (being tax slab based on area) on profits & gains of Builders & Developers
- o Enhanced advanced tax rates on the sale, purchase and transfer of Immoveable property
- o Holding period of Immoveable property enhanced to 5 years to claim exemption
- o Tax on rent of Immoveable property for Individuals & AOP to be on gross basis, with lowest threshold limit of Rs. 200,000/- per annum
- o Minimum tax imposed u/s 113 on companies carrying gross loss
- o Minimum tax u/s 113 imposed on Individual's and AOP's business with turnover of Rs. 10(M)
- o Enhancement in advance tax rates on trading with registered stock exchange in Pakistan
- o Enhancement of tax credit of registered sales tax manufacturers making sales to registered persons under section 65A
- o Compulsory selection for audit u/s 214C proposed for manufacturers intending to avail exemption of withholding tax on raw material imports.
- o Restriction of loss surrendered under group relief to the extent of shares held by the holding company along with withdrawal of exemption on inter-corporate dividend for companies availing group relief u/s 59B

SALES TAX & FEDERAL EXCISE DUTY

- o Zero-rating of five export oriented sectors under SRO 1125(1)/2011 to provide for a no tax, no refund regime
- o Enhancement of turnover of cottage industry from Rs. 5(M) to Rs. 10(M)
- o Withdrawal of zero-rated status of milk and fat milk
- o Inclusion of mineral/bottled water in Third Schedule
- o Withdrawal of stationery items
- o Announcement of exemption on import of Laptops/PC's
- o Exemption from sales tax and federal excise duty to Gwadar Port Authority and its operating companies for the period of 40 years
- o Enhancement of rates of sales tax on import of Mobile Phone
- o Levy of reduced rate of 8% on Sugar in place of FED
- o Enhancement of FED on Cement to fixed rate basis of Rs. 1/Kg
- o Enhancement of FED on Cigarettes
- o Enhancement of FED on Aerated Waters to 11.5%
- o Withdrawal of FED on services on which provinces are already charging sales tax (Advertisement on CCTV / Cable TV, Shipping Agents, Banking Companies, Insurance Companies, Cooperative Financing Societies, Modarbas, Musharikas, Franchise Services, Stevedores, Stock Brokers, Forex Dealers etc.)

CUSTOM DUTY

- o Tariff slabs reduced from existing 5 to 4 by merging 2% slab and 5% slab in new 3% slab
- o Concession of CD for Dairy, Livestock & Poultry Sectors from 5% to 2%.
- o Concessions of (customs duty) CD for Dairy, Livestock & Poultry Sectors from 5% to 2%.
- o 10% and 15% slabs substitute with 11% and 16% slabs respectively.
- o Exemption from CD on import of Premixes to prevent growth stunting (from 5 - 20 to 0%)
- o Concessions of CD for Fish Farming, fish feed pellet (floating type) machines from 5% to 2%, fish / shrimp feed 10% & 20% to 0%.
- o Exemption from CD on import of Premixes to prevent growth stunting (from 5 - 20 to 0%).
- o Expansion in scope of exemption on Renewable Energy Technologies.
- o Expansion in scope of exemption for Charitable non-profit making Institutions Operating Hospitals.
- o Relief on Cool Chain Machinery
- o Extension in relief on import of Solar Panels till June, 2017.
- o Increase in CD on Live Chicken stock and Eggs of chicken from 5% to 11%.
- o Implementation of Automotive Development Policy (ADP) 2016-2021.



TAX COMMENTARY

ECONOMIC OVERVIEW

This Page Left Blank

ECONOMIC OVERVIEW

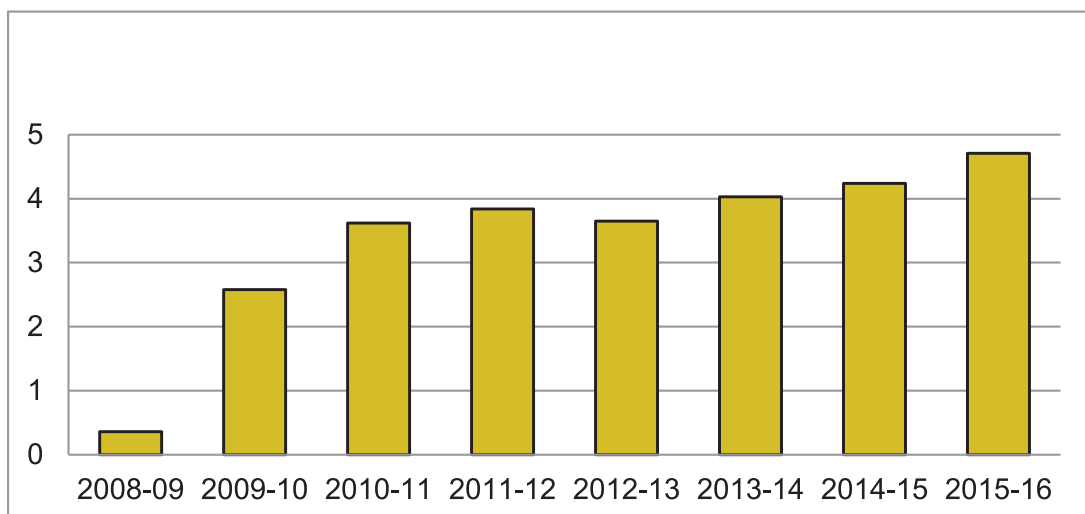
According to the Economic Survey of Pakistan 2015-16 launched by the Ministry of Finance on Thursday, June 2, 2016, the revival of growth that started in 2013-14 has continued to accelerate in 2015-16. Economy of Pakistan accomplished to achieve a GDP growth rate of **4.71%** in comparison with **4.24%** during 2014-15; showing an increase of 11.08%.

This upward trend was crystallized due to factors such as macroeconomic revival and stabilization of policies, infrastructure and power development program and the operation of Zarb-e-Azb which stabilized the political and economic situation in the country. The impact of these factors have been reinforced by the increase in per capita income, increased construction activity, global decline of oil prices, continued inflows from IFIs, increase in the overall consumption and investment and a robust growth in worker's remittances.

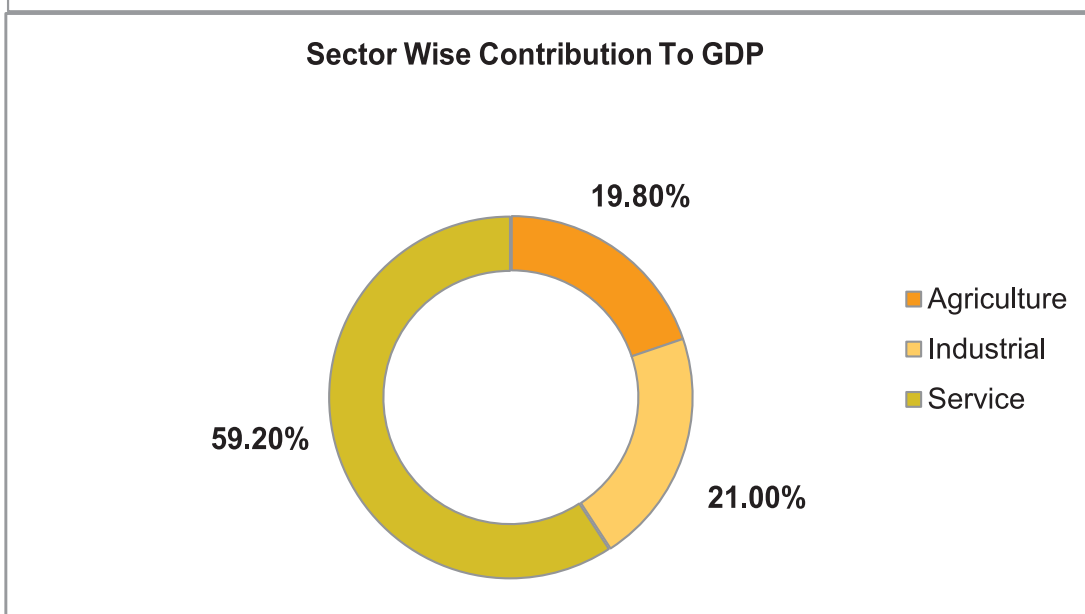
The following charts show GDP rate trend and its contributory sectors:

Historical GDP Growth Rate Trend

Historical GDP Growth Rate Trend



Sector Wise Contribution To GDP

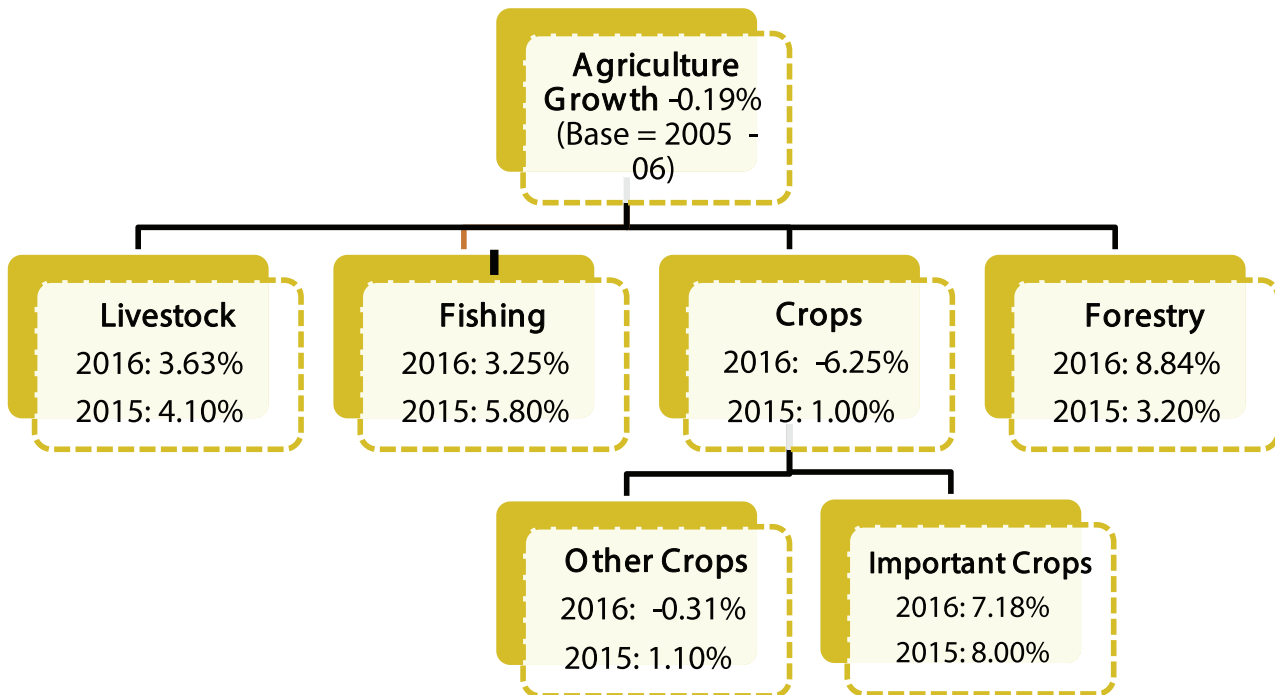


Agriculture

Agriculture is a vital contributor of raw material to industries and it accounts for **19.8%** of GDP and **42.3%** of employment. The government is focusing on improving agricultural productivity by increasing crops yield, systematic application of better inputs and advance technology to enhance profitability of the farming community, improve competitiveness and sustainable agriculture environment. The agriculture sector consists of four sub sectors viz.; crops, livestock, fisheries and forestry.



During fiscal year 2015-16, the overall performance of agriculture sector recorded a decline in the growth rate by **0.19%** compared to the growth @ **2.9%**; main reason being decline in the growth rate in the crops sector.



Manufacturing and Mining

Manufacturing sector, a major employment creator accounts **13.6%** of Gross Domestic Product (GDP) and **15.3%** of total employed labor force. The industry specific data shows that five sub sectors recorded negative growth during the period July-March FY 2015-16 over corresponding period of last year. The growth of this sector is subject to better availability of utility services, enabling environment and support from private sector, Foreign Direct Investment (FDI) and capital market gains.



Large Scale Manufacturing (LSM) contains **10.9%** of GDP and dominates the overall sector, accounting for **80%** of the sector's share. Large Scale Manufacturing during July-March 2015-16 registered a growth of **4.7%** as compared to **2.8%** in the comparable period of last year.

Small Scale Manufacturing accounts for **1.8%** of total GDP and **13.0%** share in Manufacturing.



Mining and Quarrying accounts for **0.9%** of the GDP and a **3.0%** share in the sector. The sector registered growth of **6.8%** during July-March 2015-2016 as compared to **4.0%** in the comparable period of last year.

Significant changes in manufacturing sector (LSM)		
Groups	Growth rate in July - March (% Change)	
	2014-2015	2015-2016
Textile	0.97	0.62
Coke & Petroleum Products	5.47	2.40
Food, Beverages & Tobacco	-0.93	3.66
Chemicals	6.67	10.01
Automobile	17.06	23.43
Iron & Steel Products	35.63	-7.48
Electronics	8.51	-9.98
Engineering Products	-10.74	-17.64
Rubber Products	1.88	11.68
Fertilizers	0.95	15.92
Wood Products	-78.46	-58.03
Non-Metallic Mineral Products	2.71	10.23

Inflation

Core inflation on average basis during July-April FY2016 showed a positive trend; i.e. average core inflation was recorded at **4.1%** compared to **6.9%** percent of FY2015, **8.2%** percent FY2014 and **9.9%** FY2013. **Inflation rate measured through Consumer Price Index (CPI)** averaged at **2.79%** during July-April 2014-15 against **4.8%** in the same period of last year. This is the lowest level of inflation after 2003.

The food inflation based on the current trend - the contribution of food inflation to the overall CPI is estimated at 0.77 percentage points and non-food inflation at 2.07 percentage points as against 1.34 percentage points percent and 3.56 percentage points, respectively, in the comparable period of last year. The percentage of inflation both food and non food items increased at lower pace compared to last year.

Wholesale Price Index (WPI) during July - April, 2015-16, on average basis recorded (negative) **-1.29%** against **0.03%** last year.



Composition of CPI Inflation (July-April)				
Commodity	% Change Inflation		Point Contribution	
	2014-2015	2015-2016	2014-2015	2015-2016
FOOD GROUP				
Food, Beverages & Tobacco	2.69	0.97	.94	0.34
NON-FOOD GROUP				
Clothing & Foot wear	8.43	4.83	0.64	.37
Housing & Fuel	6.57	5.04	1.93	1.48
Health	5.84	3.39	0.13	.07
Transport	-3.09	-7.34	-0.22	-0.53
Communication	0.24	0.35	0.01	0.01
Recreation & culture	3.80	2.18	0.08	0.04
Education	14.61	8.72	0.58	0.34
NON-FOOD NON ENERGY	6.93	4.09	3.7	2.19

Trade and Payments

Pakistan's overall **external account balance** posted a surplus of US\$ 0.9 billion during Jul-Apr, 2015-16 against US\$ 2.1 billion in the corresponding period of last year. This improvement in the external account balance, marking a decrease of more than 57% is attributable to factors such as higher financial inflows and lower international oil prices. However, the Financial Year 2015-16 ends on a high note for investors as the oil prices have started to climb up gradually.

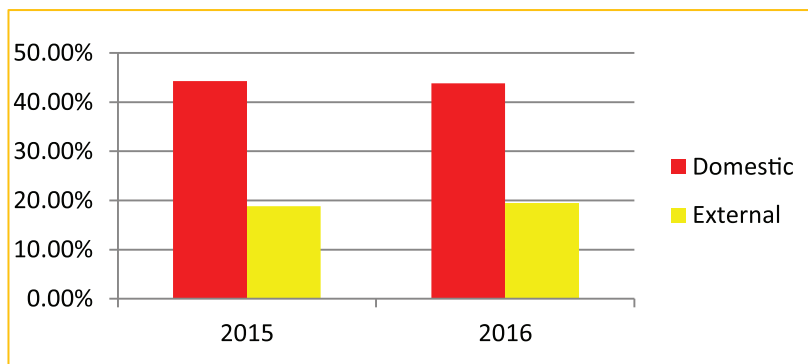


The **Current account deficit** decreased to **US\$ 1.519 billion** during July-April 2015-16 from **US\$ 1.846 billion** in July-April 2014-15

The target for exports for The Financial year 2015-16 was set at US\$ 25.5 billion however the economy of Pakistan failed to reach its target as exports only reached to US\$ 15.9 billion during 2015-16 as compared to US\$ 17.9 billion. The reason for this decline and failure to achieve targeted exports is the generally weak external demand of exports, slowdown in economic growth in China, and the loss of share in the international textile market to competitors such as Bangladesh.

Public Debt

Public debt was recorded at **PKR 19,168 billion** or **64.8 %** of GDP as at end-March 2016 compared with **63.2%** during the same period last year. Public debt recorded an increase of **PKR 1787 billion** during first nine months of current fiscal year as compared with **PKR 940 billion** during the same period last year.



Education, Health and Nutrition

Education

Education plays a pivotal role in the development of the country. High literacy rate ensures sustainable economic development, labor productivity and economic prosperity.

According to the latest Pakistan Social and Living Standards Measurement (PSLM) Survey 2014-15, the literacy rate (10 years and above) is estimated at **60%** as compared to **58%** in 2014. Similar to many developing countries, Pakistan has not made progress adequately in the field of education. However, Pakistan should be her own benchmark.



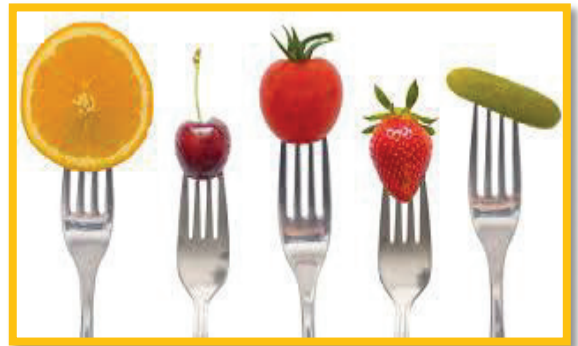
Inflows under **worker's remittances** reached **US\$ 16.034 billion** during July-April 2015-16 as compared to **US\$15.236 billion** in the corresponding period last year.

The total expenditure on education has increased to **2.2%** of GDP (amounting to **PKR598.32 billion** in 2014-15 as compared to **PKR537.60 billion** in 2013-14.) The vision - 2025 planned out by The Government of Pakistan aims at improving the quality of education and increasing the public expenditure to 4.0% of the GDP by 2018. This is still rather low to ensure sustainable development of a developing country such as Pakistan.

Health and Nutrition

The government is trying to improve the health and nutrition status of people through enhanced coverage and access to essential health services. The coverage of health facilities has improved over the years and the present network of health services consists of 1,167 hospitals, 5,695 dispensaries, 5,464 Basic Health Units (BHUs) as compared to last years' 1,142 hospitals, 5,499 dispensaries, and 5,438 Basic Health Units (BHUs).

The total expenditure on health during 2015-16 has increased to 0.45% of the GDP, amounting to **PKR133.9 billion** which includes **PKR 39.94 billion** for development and **PKR 94 billion** for current expenditure as compared to **PKR 14.2 billion** which works out as **0.4%** of GDP for the financial year 2014-15.



Population, Labor Force and Employment

Population growth rate has shown further improvement and has decreased from **1.92** in 2015 to **1.89** in 2016. Total population is projected at **195.4** million in 2015.

According to the Labor Force Survey 2015-16, Pakistan has a **61.04** million labor force which has increased from **60.10** million during 2014-15. Out of which, only **57.4** million people got employment and **3.62** million people are unemployed. The share of employment in the agriculture sector has decreased from **43.48%** in 2013-14 to **42.27%** in 2014-15. The employment share in the manufacturing sector has increased from **14.16%** in 2013-14 to **15.49%** in 2014-15. The share in transport sector has decreased from **5.44%** in 2013-14 to **5.41%** in 2014-15.



Energy

The government is attracting foreign companies to undertake new exploration and production activities. The China-Pakistan Economic Corridor (CPEC) is expected to add 10,400 MW to the grid by the year 2018. The projects include coal, hydro and wind. It will also significantly change the energy mix, replacing expensive oil and resulting in reduction of the average cost of generation.

Oil: To enhance oil and gas reserves, the government pursued its exploration led growth strategy, during July-March FY 2016, OGDCL spud 16 wells in South and East showed which an average daily production potential of 29 MMcf of gas and 1,212 barrels of oil.

Gas: Pakistan has an extensive gas network of over 11,538 km transmission, 1,14,982 km distribution and 31,058 Services gas pipelines to cater the requirement of more than 7.9 million consumers across the country by providing, about 4 billion cubic feet per day natural gas.

Electricity - Total Generation, Hydro, Thermal and Nuclear: An amount of PKR 317.18 billion was allocated for the energy sector development projects in 2015- 2016. During July-March FY 2016, the installed capacity in the PEPCO system remained **23,101 MW** compared to **23,212 MW** last year. In total there was an increase of **2%** in electricity generation.



Renewable Energy Resources: The following progress has been achieved on development of renewable energy based projects during the 2015-16 so far:

Wind: Twenty Seven (27) wind power projects having a cumulative capacity of 1347.4 MW are at different stages of development / operation.

Power Projects: AEDB is pursuing 28 solar PV power projects of cumulative capacity of approximately 956.52 MW On-Grid Solar PV power plants.

Bio-Mass: NEPRA announced an Upfront Tariff of PKR 10.7291 per kWh (Levellized) for bagasse based co-generation projects under the Framework for Power Co-Generation 2013.

Transport and Communication



National Highways Authority has spread over the country a sizable network of highways, expressways and motorways of about **12,131 km** with active project portfolio of **26 projects** costing **Rs. 393.40 billion**. In the current year 2015-16 PSDP, the Government has allocated **Rs. 159.6 billion** for these development projects which would add a sizable portion of roads to the existing network. Further a 2,395 KM long China-Pak Economic corridor connecting Gawadar to Kasghar (China) has been planned by NHA.



The government of Pakistan has allocated 41.0 Billion in PSPD for the Financial year 2015-16 for the development in Pakistan Railways. The network of Pakistan Railways comprises of 7,791 route kilometers, 455 Locomotives, 1,732 passengers coaches and 15,164 freight wagons. The China-Pak Economic corridor has resulted in the upgradation projects of many railway tracks for the smooth and efficient transportation of goods.



The year 2015 marked the first 60 years of The Pakistan International Airlines being in service. The government has registered "Pakistan Airways" as a new company in the aviation industry in order to provide a better variety of choices for consumers. The passenger revenue of PIA saw a decline of around 30% as initiatives are being taken to make PIA a sustainable and profitable entity in the long run.



Pakistan National Shipping Corporation comprises of 09 vessels of various sizes with a total deadweight capacity of 681,806 metric tons. Pakistan having a strategic position for its deep water ports is taking initiatives in order to increase the capacity of cargo handled as Karachi Port Trust, Port Qasim Authority and Pakistan National Shipping Corporation plan on increasing their tanker and fleet size.



The revenues of the telecom industry are estimated at Rs. 333.2 Billion during 2015-16 as compared to Rs. 449.6 Billion in the previous year this declining trend was observed due to the loss of millions of cellular subscribers as a result of Bio-metric verification of sim cards. Further a rise in 3G and 4G LTE subscribers as the number of subscribers rose to 27.87 million at the end of March 2016 as compared to 13.49 million as of June 2015.



TAX COMMENTARY

INCOME TAX

This Page Left Blank

INCOME TAX

Super Tax for Rehabilitation of Temporarily Displaced Persons

Section 4B(1)(2)

Existing

A super tax shall be imposed for rehabilitation of temporarily displaced persons, for tax year 2015.....on income of every person specified in the said Division.

For the purposes of this section, “income” shall be the sum of the following:

- (i) profit on debt, dividend, capital gains, brokerage and commission;
- (ii) taxable income.....included in clause

OUR COMMENTS: The proposed amendment in sub section 1 seeks to extend the applicability of super tax imposed through Finance Act 2015 to the Tax Year 2016 as well; the reason as explained in the Federal Budget speech that the purpose (i.e. rehabilitation of temporary displaced persons) has not been fulfilled yet.

This extension in the period of applicability of super tax comes with an added force that now for the purpose of calculating the thresh hold of income and levy of super tax the effect of depreciation and business losses on the income will be ignored. May be this time the purpose be achieved!

Tax on Builders

Section 7C(1)(2)(3)&(4)

Existing

“New Section shall be added”

“New Section shall be added”

Proposed Amendment

Proposed Amendment

for the word and figure “year 2015” the expression “years 2015 and 2016” shall be substituted; and

after the word “income”, occurring for the first time, the expression “(other than depreciation and business losses)” shall be inserted;

(1) Subject to this Ordinance, a tax shall be imposed on the profits and gains of a person deriving income from the business of construction and sale of residential, commercial or other buildings at the rates specified in Division VIIIA of Part I of the First Schedule.

(2) The tax imposed under sub-section (1) shall be computed by applying the relevant rate of tax to the area of the residential, commercial or other building being constructed for sale.

(3) The Board may prescribe:

(a) the mode and manner for payment and collection of tax under this section;

(b) the authorities granting approval for computation and payment plan of tax; and

(c) responsibilities of the authorities approving, suspending and cancelling no objection certificate to sell and the matters connected and ancillary thereto.

(4) This section shall apply to business or projects undertaken for construction and sale of residential, commercial or other buildings initiated and approved after the 1st July, 2016.”

OUR COMMENTS: This section is proposed to be introduced to impose final tax on the profits of builders (i.e. person involved in the business of construction and sale of residential,

Tax on Builders

Section 7C(1)(2)(3)&(4)

commercial or other buildings); detailed procedures, etc. to be prescribed. The salient features being that such tax will be calculated at a uniform rate for commercial property and for residential building based on the area in square feet throughout the country. The proposed rates have been fixed by classifying the various cities and locations into three categories. Such tax will be imposed on the projects initiated and approved after July 1, 2016.

The proposed amendment, if implemented effectively will help to cater the problem of tax avoidance through under declaration of sale value as the tax levy is based with the area of the building rather its sale value; thus, creating problems for the industry known for tax avoidance, targeting even a small builder involved in construction of area up to 750 sq. feet. The implementation of this tax will be a challenge for the government as it has been in the past through imposition of different taxes on this industry such as the omitted (existed but ineffective before the amendment) minimum tax under section 113A.

Tax on Developers

Section 7D(1)(2)(3)&(4)

Existing

“New Section shall be added”

Proposed Amendment

(1) Subject to this Ordinance, a tax shall be imposed on the profits and gains of a person deriving income from the business of development and sale of residential, commercial or other plots at the rates specified in Division VIII B of Part I of the First Schedule.

(2) The tax imposed under sub-section (1) shall be computed by applying the relevant rate of tax to the area of the residential, commercial or other plots for sale.

(3) The Board may prescribe:

(a) the mode and manner for payment and collection of tax under this section;

(b) the authorities granting approval for computation and payment plan of tax; and

(c) responsibilities of the authorities approving, suspending and cancelling no objection certificate to sell and the matters connected and ancillary thereto.

(4) This section shall apply to projects undertaken for development and sale of residential, commercial or other plots initiated and approved after the 1st July, 2016.”

“New Section shall be added”

OUR COMMENTS: Similar to that of builders tax provisions are being introduced to impose final tax on the profits of land developers (i.e. person involved in the business of development and sale of residential, commercial or other plots)); detailed procedures, etc. to be prescribed, whereby such tax will be calculated based on the area in square feet of such plot of land, being different for different cities / areas, where a residential plot is developed and sold, but at the same rate throughout the country for commercial plots and such tax will be imposed on the development projects initiated and approved after July 1, 2016.

The proper implantation of the proposed amendment, will go a long way in curtailing tax avoidance as the methodology adopted does not give any leverage to the parties for maneuvering the facts as against the past through imposition of different taxes on this industry such as the omitted (existed before the amendment) minimum tax under section 113B.

General provisions relating to taxes imposed under sections 5, 2[5A, 6, 7, 7A and 7B].

Section 8(1) Clause(d)

Existing

Subject to this Ordinance, the tax imposed under Sections 5, 3[5A, 6, 7, 7A and 7B] shall be.....of which the tax is imposed and-

the tax payable by a person under 4[section] 5, 5[5A, 6, 7, 7A or 7B] shall not be reduced by any tax credits allowed under this Ordinance; and

OUR COMMENTS: This is a consequential amendment to give effect to the proposed amendment for taxation of income of builders and developers through section 7C and 7D for bringing it under the ambit of section 8 - final tax having no benefit of deductions, deductible allowances, losses or any tax credit.

Proposed Amendment

for the expression “and 7B” the expression “, 7B, 7C and 7D” shall be substituted; and

for the word “or” a comma shall be substituted and after the figure “7B” the expression “, 7C and 7D” shall be inserted:

Income from property:

Section 15(6)&(7)

Existing

“New Sub-section shall be added”

“New Sub-section shall be added”

Proposed Amendment

Income under this section shall be liable to tax at the rate specified in Division VIA of Part I of the First Schedule.

The provisions of sub-section (1), shall not apply in respect of an individual or association of persons who derive income chargeable to tax under this section not exceeding two hundred thousand rupees in a tax year and does not derive taxable income under any other head.”;

OUR COMMENTS: The proposed amendment now intends to tax income from property earned by individual or Association of Persons (AOP) with different methodology viz.;

- a. There will be no tax if the income from property earned by individual or Association of Persons (AOP) is below Rs. 200,000/-
- b. If the individual or Association of Persons (AOP) has no taxable income under any other head and his/its income under this head is also below Rs. 200,000/- then the provisions relating to chargeability of income to tax under sub section (1) of this section shall not apply.
- c. The applicable tax shall be levied at separate slab rates introduced by adding Division VI A to the Part 1 of First Schedule (refer our comments and tax impact due to change of slab rates in the First Schedule)
- d. Further, by virtue of the proposed amendment in section 15A no deductions while computing income e.g. for the repair and maintenance allowance, collection charges, etc shall be allowed.

Deductions in computing income chargeable under the head “Income from Property”:

Section 15A(1)

Existing

In computing the income of a person chargeable.....following expenditures or allowances, namely:-

Proposed Amendment

for the word “person”, wherever occurring, the word “company” shall be substituted;

OUR COMMENTS:The deductions allowable in computing income chargeable under the head “Income from Property” are being restricted to Companies only. Thus no deductions will be allowed to individuals and AOPs’.

Deductions not Allowed:

Section 21 Clause (c) (m) (n) & (o)

Existing

any salary, rent, brokerage or commission, profit on debt, payment to non-resident, payment for services or fee paid by the person from.....Division IV of Part V of Chapter X;

Proposed Amendment

“(c) any expenditure from which the person is required to deduct or collect tax under Part V of Chapter X or Chapter XII, unless the person has paid or deducted and paid the tax as required by Division IV of Part V of Chapter X:

Provided that disallowance under this clause shall not exceed twenty per cent of purchases of raw materials and finished goods:

Provided further that recovery of any amount of tax under sections 161 or 162 shall be considered as tax paid.

any salary paid or payable exceeding 1[fifteen] thousand rupees.....funds to the employee’s bank account; and

the word “and” at the end shall be omitted;

except as provided in Division III of this Part,.....of a capital nature.

for full stop at the end a semicolon and the word “and” shall be substituted

any expenditure in respect of sales promotion, advertisement and publicity in excess of five per cent of turnover incurred by pharmaceutical manufacturers.”;

“New Clause shall be added”

OUR COMMENTS:The proposed amendment to clause (c) seeks to make effective the withholding tax provisions by extending the scope of deductions not allowed in case tax is not withheld by the person making payments for salary, rent, brokerage or commission, profit on debt, payment to non- resident, payment for services to almost every payment under Income Tax Ordinance, 2001 on which withholding tax provisions are applicable.

However, for tax to be withheld on purchases of raw material and finished goods the amount of dis allowance will not exceed 20 per cent of value of purchase. Further, recovery of any amount of tax under sections 161 or 162 shall be considered as tax paid.

For pharmaceutical manufacturers the proposed amendment seeks to impose restriction on the admissibility of sales promotion, advertisement and publicity expenses to the extent of 50 per cent of the turnover of such manufacturer. It seems that this amendment is proposed keeping in view the fact that advertisement/ sales promotion forms major part of a pharmaceutical manufacturers expenditure

Depreciation:

Existing

“New Explanation shall be added”

Section 22(5) Explanation

Proposed Amendment

“Explanation, - For the removal of doubt, it is clarified that where any building, furniture, plant or machinery is used for the purposes of business during any tax year for which the income from such business is exempt, depreciation admissible under sub-section (1) shall be treated to have been allowed in respect of the said tax year and after expiration of the exemption period, written down value of such assets shall be determined after reducing total depreciation deductions (including any initial allowance under section 23) in accordance with clauses (a) and (b) of this sub-section.”;

OUR COMMENTS: The proposed amendment is intended to clarify that in case for the tax year the income of a person is exempt, the initial allowance or depreciation on building, furniture, plant or machinery will be deemed to have been allowed irrespective of the fact that due to the exemption of income the same could not be claimed and written down value of the asset shall be calculated accordingly.

Capital gain on sale of securities:

Existing

“New Explanation shall be added”

Section 37A(3A) Clause (b) Explanation

Proposed Amendment

“Explanation: For removal of doubt it is clarified that derivative products include future commodity contracts entered into by the members of Pakistan Mercantile Exchange whether or not settled by physical delivery.”;

OUR COMMENTS: It is proposed to clarify that future commodity contracts by members of Pakistan Mercantile Exchange are included in the definition of derivative products liable to be taxed under this section.

Exemptions and tax concessions in the Second Schedule:

Existing

The Federal Government may, from time to time.....notification in the official Gazette, make such amendment in the Second Schedule by -

- (a) adding any clause or condition therein;
- (b) omitting any clause or condition therein;
- (c) making any change in any clause or condition therein,

as the Government may think fit, and all such amendments shall have effect in respect of any tax year beginning on any date before or after the commencement of the financial year in which the notification is issued.

Section 53(2)

Proposed Amendment

for the word "and", occurring for the first time, a comma shall be substituted;
after the word "agreements" the words and comma "or granting an exemption from any tax imposed under this Ordinance including a reduction in the rate of tax imposed under this Ordinance or a reduction in tax liability under this Ordinance or an exemption from the operation of any provision of this Ordinance to any international financial institution or foreign Government owned financial institution operating under an agreement, memorandum of understanding or any other arrangement with the Government of Pakistan" shall be inserted;

OUR COMMENTS: The proposed amendment seeks to extend the scope of additions/amendments to the Second Schedule by adding that the Federal Government with the approval of the Economic Coordination Committee, exempt any tax imposed, reduce any

Exemptions and tax concessions in the Second Schedule:

Section 53(2)

liability, tax rate or exempt any International Financial Institution or Foreign Government own Financial Institution (operating under any agreement or arrangement with the Government of Pakistan) from the implication/application of any provisions of Income Tax Ordinance 2001.

Group Relief:

Section 59B(1)&(1A)

Existing

Subject to sub-section (2), any company, being a.....or more of the share capital of the subsidiary company.

Proposed Amendment

after the word “loss”, occurring for the first time, the expression “as computed in sub-section (1A)” shall be inserted; and

“New Sub-section shall be added”

The loss to be surrendered under sub-section (1) shall be allowed as per following formula, namely:-

$$(A/100) \times B$$

where—

A is the percentage share capital held by the holding

company of its subsidiary company; and

B is the assessed loss of the subsidiary company.”;

“New Sub-section shall be added”

OUR COMMENTS: The proposed amendment seeks to restrict the loss to be surrendered by a company (being a subsidiary of a holding company) to the extent of share capital held by the holding company in the company surrendering loss under this section. Previously such loss was allowed to be surrendered in full (subject to fulfillment of conditions mentioned under the subject section).

Tax Credit for Investment in Health Insurance:

Section 62A

Existing

“New Section shall be added”

Proposed Amendment

(1) A resident person other than a company shall be entitled to a tax credit for a tax year in respect of any health insurance premium or contribution paid to any insurance company registered by the Securities and Exchange Commission of Pakistan under the Insurance Ordinance, 2000 (XXXIX of 2000), provided the resident person is deriving income chargeable to tax under the head “salary” or “income from business”.

(2) The amount of a person’s tax credit allowed under subsection (1) for a tax year shall be computed according to the following formula, namely: —

$$(A/B) \times C$$

where—

A is the amount of tax assessed to the person for the tax year before allowance of tax credit under this section;

B is the person’s taxable income for the tax year; and

C is the lesser of — (a) the total contribution or premium paid by the person referred to in sub-

“New Section shall be added”

Tax Credit for Investment in Health Insurance:

Section 62A

section (1) in the year; (b) five per cent of the person's taxable income for the year; and (c) one hundred thousand rupees.”;

OUR COMMENTS: The proposed amendment seeks to provide above formula for calculating tax credit to a resident person other than a company deriving salary income or income from business on the amount of health insurance premium or contribution paid to an insurance company (registered under the Insurance Ordinance, 2000 (XXXIX of 2000)).

Contribution to an Approved Pension Fund:

Section 63(2) Clause(ii)C Second Proviso & Third Proviso

Existing

twenty per cent of the 2[eligible] person's taxable.....taxable income of the preceding year.

Proposed Amendment

for full stop at the end, a colon shall be substituted and

“New Proviso shall be added”

“Provided also that the additional contribution of two percent per annum for each year of age exceeding forty years shall be allowed upto the 30th June, 2019 subject to the condition that the total contribution allowed to such person shall not exceed thirty percent of the total taxable income of the preceding year.”;

OUR COMMENTS: The proposed amendment seeks to allow additional 2% per annum contribution, subject to maximum of 30% of the total taxable income of the preceding year, by a person to an approved pension fund under the Voluntary Pension System Rules, 2005, exceeding 41 years of age for each year of age exceeding 40 year's in the tax credit calculation up to June 30th, 2019.

Deductible Allowance for Profit on Debt:

Section 64A(2)

Existing

The amount of an individual's deductible allowance.....one million rupees, whichever is lower.

Proposed Amendment

for the word “one” the word “two” shall be substituted;

OUR COMMENTS: Under this amendment, the existing limit of 50 per cent of taxable income or Rs. 1, 000,000 (whichever is lower) on the deductible allowance allowed for the profit on debt paid by an individual on a loan utilized for the construction of new house or the acquisition of new house, is proposed to increase from Rs. 1,000,000 to Rs. 2,000,000.

Deductible Allowance for Education Expenses:

Section 64AB

Existing

“New Section shall be added”

Proposed Amendment

(1) Every individual shall be entitled to a deductible allowance in respect of tuition fee paid by the individual in a tax year provided that the taxable income of the individual is less than one million rupees.

(2) The amount of an individual's deductible allowance allowed under sub-section (1) for a tax year shall not exceed the lesser of —

(a) five per cent of the total tuition fee paid by the

Deductible Allowance for Education Expenses:

Section 64AB

individual referred to in sub-section (1) in the year; (b) twenty-five per cent of the person's taxable income for the year;

And (c) an amount computed by multiplying sixty thousand with number of children of the individual.

(3) Any allowance or part of an allowance under this section for a tax year that is not able to be deducted for the year shall not be carried forward to a subsequent tax year.

(4) Allowance under this section shall be allowed against the tax liability of either of the parents making payment of the fee on furnishing national tax number (NTN) or name of the educational institution.

(5) Allowance under this section shall not be taken into account for computation of tax deduction under section 149.”;

“New Section shall be added”

OUR COMMENTS: This amendment is proposed to introduce deductible allowance on account of the tuition fee paid by an individual (either of the parents) having taxable income of less than Rs. 1,000,000, provided fees have been paid by furnishing NTN or name of educational institution.

This allowance cannot be accounted for while calculating advance tax on Salary income of an individual (claiming the allowance) by his/her employer nor can be carried forward to a subsequent tax year.

This deductible allowance will be limited to lower of 5 percent of total tuition fee paid or 25 percent of the taxable income for the year or (Rs. 60,000 x Number of children of the individual claiming allowance).

Tax Credit for Employment Generation by Manufacturers:

Section 64B(1)&(2)

Existing

Where a taxpayer being a company formed for.....period of ten years.

The tax credit under sub-section (1) for a tax year.....ten percent of the tax payable.

Proposed Amendment

for the figure “2018” the figure “2019” shall be substituted; and

for the word “one” the word “two” shall be substituted;

OUR COMMENTS: This amendment is proposed to increase the tax credit introduced through Finance Act, 2015 for newly incorporated manufacturing companies from one percent of the tax payable for every fifty employees registered with The Employees Old Age Benefits Institution or the Employees Social Security Institution of Provincial Governments during the tax year to two percent. Further, as per existing provision the credit was extended for companies incorporated between July 1, 2015 and June 30, 2018, now the same is being extended up to June 30, 2019.

Tax Credit to a Person Registered under the Sales Tax Act, 1990

Section 65A(1)

Existing

Every manufacturer, registered under the Sales Tax Act, 1990,.....during the said tax year.

Proposed Amendment

for the words “two and a half” the word “three” shall be substituted;

OUR COMMENTS: This amendment is proposed to increase the tax credit from 2.5 % to 3% of the tax payable for a tax year for manufacturers registered under Sales Tax Act, 1990 (‘the Act’) making 90% of their sales to registered persons under the Act.

Tax Credit for Investment:

Section 65B(2)

Existing

The provisions of sub-section (1) shall apply.....July, 2010, and the 30th day of June, 2[2016].

Proposed Amendment

for the figure “2016” the figure “2019” shall be substituted;

OUR COMMENTS: This amendment is proposed to extend the period of tax credit due to expire on June 30, 2016 to June 30, 2019 on the amount invested on the balancing, modernization and replacement of plant and machinery already installed by an industrial undertaking in Pakistan.

Tax Credit for Enlistment:

Section 65C

Existing

Where a taxpayer being a company opts for enlistment.....which the said company is enlisted.]

Proposed Amendment

after the word “enlisted” the expression “and for the following tax year” shall be added;

OUR COMMENTS: This amendment is proposed to extend the tax credit given to a company enlisted on any registered Stock Exchange in Pakistan for the tax year subsequent to enlistment as well.

Tax Credit for Newly Established Industrial Undertakings:

Section 65D(1)(1A)(2)Clause(a)&(d), (4)

Existing

Where a taxpayer being a company formed for establishing.....commercial production, whichever is later.

Proposed Amendment

for the words “hundred per cent” the words “an amount as computed in sub-section (1A)” shall be substituted;

“New Sub-section shall be added”

The amount of a person’s tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely: —

$$(A/100) \times B$$

where—

A is the amount of tax assessed to the person for the tax year before allowance of any tax credit for the tax year; and

B is the equity raised through issuance of new shares for cash consideration.”;

“New Sub-section shall be added”

the company is incorporated and industrial undertaking.....30th day of June, 2016;

for the figure “2016” the figure “2019” shall be substituted; and

the industrial undertaking is set up with hundred per cent equity 8[raised through issuance of new shares for cash consideration:]

for the words “hundred per cent” the words “at least seventy per cent” shall be substituted; and

Tax Credit for Newly Established Industrial Undertakings:

Where any credit is allowed under this section and subsequently it is discovered, on the basis.....shall, so far as may be, apply accordingly.]

OUR COMMENTS: This amendment is proposed to change the percentage of tax credit allowed under this section from 100 percent of tax payable to a formula based credit, but the formula designed seems to lack mathematical logic and will have to be reconsidered by the Government. Further, the tax credit was admissible to an industrial undertaking set up between July 1, 2011 and June 30, 2016, which date is now being proposed to be extended June 30, 2019.

Furthermore, the condition to claim this tax credit requiring the industrial undertaking to be setup, with 100 percent equity raised through cash is being relaxed to at least seventy percent of equity. Further, in case the business is discontinued subsequent to five years from enjoying the tax credit, the credit allowed will be reversed as being wrongly allowed.

Tax Credit for Industrial Undertakings Established before the First Day of July, 2011:

Existing

Where a taxpayer being a company, setup in Pakistan.....the purposes of (i) expansion of the plant and machinery already installed.....date of setting up or commencement of commercial production from the new plant or expansion project, whichever is later.]

Where a taxpayer maintains separate accounts of an expansion.....attributable to such expansion project or new project.

In all other cases, the credit under this section.....and the total equity including new equity.

“New Sub-Section shall be added”

“New Sub-Section shall be added”

The provisions of sub-section (1) shall apply.....30th day of June, 2016.

Where any credit is allowed under this section

Section 65D(1)(1A)(2)Clause(a)&(d), (4)

after the word “that” the words “the business has been discontinued in the subsequent five years after the credit has been allowed or” shall be inserted;

Section 65E(1)(2)(3)(3A)(4)&(6)

Proposed Amendment

for the words “hundred per cent” the words “at least seventy per cent” shall be substituted;

for the words “hundred per cent” the expression “an amount as computed in sub-section (3A)” shall be substituted;

for the words “this section” the words “sub-section (3A)” shall be substituted;

The amount of a person’s tax credit allowed under subsection (1) for a tax year shall be computed according to the following formula, namely: —

$$(A/100) \times B$$

where—

A is the amount of tax assessed to the person for the tax year before allowance of any tax credit for the tax year; and

B is the equity raised through issuance of new shares for cash consideration.”;

for the figure “2016” the figure “2019” shall be substituted; and

Tax Credit for Industrial Undertakings Established before the First Day of July, 2011:

Section 65E(1)(2)(3)(3A)(4)&(6)

and subsequently.....the provisions of this Ordinance shall apply accordingly.]

after the word “that” the words “the business has been discontinued in the subsequent five years after the credit has been allowed or” shall be inserted;

OUR COMMENTS: This amendment is proposed to change the percentage of tax credit allowed under this section to a formula based credit, but the formula designed seems to lack mathematical logic and will have to be reconsidered by the Government. Further, the tax credit is admissible to an industrial undertaking having plant installed on which credit is claimed between July 1, 2011 and June 30, 2016, the date is now proposed to be extended up to June 30, 2019.

Furthermore, the condition to claim this tax credit requiring the investment in plant and machinery with 100 percent new equity raised is being relaxed to at least seventy percent of new equity. The amendment has also proposed to introduce a condition, whereby if the business is discontinued subsequent to five years from enjoying the tax credit, the credit allowed will be reversed as being wrongly allowed.

Apportionment of Deductions:

Section 67(1)&(2)

Existing

Subject to this Ordinance, where an expenditure relates to - (a) the derivation of more than one head of income; or.....(c) the derivation of income chargeable to tax under a head of income and to some other purpose.....relative nature and size of the activities to which the amount relates.

Proposed Amendment

after the word “expenditure”, wherever occurring, the expression “expenditures, deductions and allowances” shall be substituted; and

The 2[Board] may make rules under section 3[237] for the purposes of apportioning deductions.

after the word “deductions” the expression “expenditures and allowances” shall be inserted;

OUR COMMENTS: This amendment is proposed to give a better understanding of this section by replacing the word ‘expenditure’ and ‘deduction’ with ‘expenditures, deductions and allowances’ and ‘expenditure and allowances’ respectively.

Fair Market Value:

Section 68(2)

Existing

The fair market value of any property 1[or rent], asset, service, benefit or perquisite shall be determined without regard to any restriction on transfer or to the fact that it is not otherwise convertible to cash.

Proposed Amendment

after the word “regard” the expression “to the value fixed or notified by any provincial authority for the purpose of stamp duty or for any other purpose or “ shall be inserted;

OUR COMMENTS: This amendment is proposed to exclude the determination of fair market value of any property or asset based on the value fixed by provincial authorities for the purpose of stamp duty, as this practice usually results in determination of value much lower than the actual market value giving tax loss to the country due to the reduction of gain on sale of properties.

Person:

Existing

a trust, an entity or a body of persons established or constituted by or under any law for the time being in force;]

“New Explanation shall be added”

OUR COMMENTS: This amendment is proposed to clarify the a foreign trust is included with in the definition of a company along with a local trust.

Agreements for the Avoidance of Double Taxation and Prevention of Fiscal Evasion:

Existing

The Federal Government may enter into an agreement, bilateral or multilateral with the government or governments of foreign countries or tax jurisdictions for the avoidance of double taxation and the prevention of fiscal evasion and exchange of information including automatic exchange of information with respect to taxes on income imposed under this Ordinance or any other law for the time being in force and under the corresponding laws in force in that country, and may, by notification in the official Gazette, make such provisions as may be necessary for implementing the agreement.]

Notwithstanding the provisions of the Freedom.....subject to sub-section (3) of section 216.]

Where any agreement is made in accordance.....branches, and permanent establishments in Pakistan;

Notwithstanding anything in sub-sections (1) or (2),.....making of the agreement.

OUR COMMENTS: The proposed amendment in sub-section 1 seems a re-wording for better presentation of the sub section. Further, the amendment proposed in sub section 1B seems to have restricted the disclosure of information under the conditions of section 216(3), if such information is obtained or supplied under the provisions of section 107.

Furthermore, sub section 2 is being amended to give effect to any of the agreement signed under section 107, if the same provides for any of the information as defined in this sub section and the amendment in sub section 3 being corrective in nature.

Section 80(2) Clause (vb)

Proposed Amendment

for semicolon a full stop shall be substituted

“Explanation. - For removal of doubt it is clarified that a trust under this clause includes a foreign trust.”;

Section 107(1)(1B)(2)&(3)

Proposed Amendment

The Federal Government may enter into a tax treaty, a tax information exchange agreement, a multilateral convention, an inter-governmental agreement or similar agreement or mechanism for the avoidance of double taxation or for the exchange of information for the prevention of fiscal evasion or avoidance of taxes including automatic exchange of information with respect to taxes on income imposed under this Ordinance or any other law for the time being in force and under the corresponding laws in force in that country and may, by notification in the official Gazette, make such provisions as may be necessary for implementing the said instruments.”;

the expression “subject to sub-section (3) of section 216” shall be omitted;

after the word “for”, occurring at the end, the expression “at least one of the following:” shall be inserted; and

after the word "anything", the word "contained" shall be inserted;

**Transactions between Associates:
Existing**

“New Sub-section shall be added”

“New Sub-section shall be added”

“New Sub-section shall be added”

OUR COMMENTS: The proposed amendment seeks to introduce the concept of record keeping for transaction with associates by a tax payer which the Commissioner may require the tax payers to provide within 30 days or a maximum of 45 days unless exceptional circumstances are present.

Minimum Tax on the Income of Certain Persons:

Existing

loss for the year;

the setting off of a loss of an earlier year

exemption from tax;

the application of credits or rebates; or

For the purpose of this sub-section, the expression “tax payable or paid” does not include tax already paid or payable in respect of deemed income which is assessed as final discharge of the tax liability under section 169

**Section 108(3)(4)&(5)
Proposed Amendment**

Every taxpayer who has entered into a transaction with its associate shall:

(a) maintain a master file and a local file containing documents and information as may be prescribed;

(b) keep and maintain prescribed country-by-country report, where applicable;

(c) keep and maintain any other information and document in respect of transaction with its associate as may be prescribed; and

(d) keep the files, documents, information and reports specified in clauses (a) to (c) for the period as may be prescribed.

A taxpayer who has entered into a transaction with its associate shall furnish, within thirty days the documents and information to be kept and maintained under sub-section (3) if required by the Commissioner in the course of any proceedings under this Ordinance.;

The Commissioner may, by an order in writing, grant the taxpayer an extension of time for furnishing the documents and information under subsection (4), if the taxpayer applies in writing to the Commissioner for an extension of time to furnish the said documents or information: Provided that the Commissioner shall not grant an extension of more than forty-five days, when such information or documents were required to be furnished under sub-section (4), unless there are exceptional circumstances justifying a longer extension of time.”

Section 113(1)

Proposed Amendment

for the word “fifty”, wherever occurring, the word “ten” shall be substituted;

for the figure “2009” the figure “2017” shall be substituted;

for the figure “2007” the figure “2017” shall be substituted;

the proviso shall be omitted;

For the purpose of this sub-section, the expression “tax payable or paid” does not include- (a) tax already paid or payable in respect of deemed income which is assessed as final discharge of the tax liability under section 169 or

Minimum Tax on the Income of Certain Persons:

or under any other provision of this Ordinance.]

Section 113(1)

under any other provision of this Ordinance; and (b) tax payable or paid under section 4B.”;

OUR COMMENTS:The proposed amendment seeks to reduce the limit for individuals and Association of Persons (AOP) for the applicability of minimum tax, where by under the existing provision every individual or AOP with turnover of Rs. 50 million or above is subject to minimum tax; this limit is now being proposed to be reduced to Rs. 10 million for both individuals and AOP. Further, the expression tax payable will also not include tax paid u/s 4B (super tax).

Minimum tax on builders:

Existing

Subject to the Ordinance, where a person derives income.....amount of tax.

(2) The tax paid under this section shall be minimum tax.....sale of such residential, commercial or other building.

2[(3) This section shall not have effect till the 30th June, 2018.]

Section 113A

Proposed Amendment

“Section shall be omitted”

OUR COMMENTS: This section is omitted being ineffective in nature due to the provision relating to delayed applicability and the introduction of tax on builders through the proposed section 7C being final in nature.

Minimum tax on land developers:

Existing

Subject to this Ordinance, where a person derives income from the business of.....such residential, commercial or other plots sold or booked.]

Section 113B

Proposed Amendment

“Section shall be omitted”

OUR COMMENTS: This section is omitted may be due to the introduction of tax on developers through the proposed section 7D being final in nature.

Return of income:

Existing

Provided further that the mode and manner for seeking the revision shall be as prescribed by the Board.]

Section 114(6) Third Proviso

Proposed Amendment

“Provided also that condition specified in clause (ba) shall not apply and the approval required thereunder shall be deemed to have been granted by the Commissioner, if- (a) the Commissioner has not made an order of approval in writing, for revision of return, before the expiration of sixty days from the date when the revision of return was sought; or (b) taxable income declared is more than or the loss declared is less than the income or loss, as the case may be, determined under section 120.”;

OUR COMMENTS:The Bill proposes to relax the requirement of Commissioner approval in applying revision of return as per Section 114, in cases wherein taxpayer seeks for enhancement in declared income or reduction in declared loss.

Provisional assessment

Existing

Provided that the provisions of sub-section (2) shall not apply if return of income alongwith wealth statement, wealth reconciliation statement and other documents required under sub-section (2A) of section 116 are filed by the person 3[being an individual or an association of persons] for the relevant tax year during the said period of 4[forty-five]days5[:]]

Provided further that the provisions of sub - section (2) shall not apply to a company if 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 7[forty-five]days.]

OUR COMMENTS: The bill proposes a further condition for availing relaxation from the provisional assessment made by the Commissioner u/s 122C, subject to submission of accounts and documents for audit of its tax affairs.

Advance tax paid by the taxpayer

Existing

where the taxpayer is 1[an association of persons.....to the following formula, namely

“New Explanation shall be added”

Tax liability under section 113 shall also be taken into account.....liability under this section.

taking into account tax payable under section 113 as provided in sub-section (4AA); and

OUR COMMENTS:The bills seeks to enhance ambit of the payment of Advance tax u/s 147 by including the tax liability u/s 113 & 113C (Alternative Corporate Tax), in determination of the advance tax liability for the quarter

Payment for Foreign produced Commercials

Existing

“New Section shall be added”

Section 122C(2) First Proviso & Second Proviso

Proposed Amendment

“Provided that the provisions of this sub-section shall not apply, if— (a) return of income along with wealth statement, wealth reconciliation statement and other documents required under sub-section (2A) of section 116 are filed by the person being an individual or an association of persons for

the relevant tax year during the said period of forty-five days; and (b) the individual or an association of persons present accounts and documents for conducting audit of income tax affairs for that tax year:

Provided further that the provisions of sub-section (2) shall not apply— (a) to a company, if 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; and (b) if the company presents accounts and documents for conducting audit of its income tax affairs for that tax year.”;

Section 147(4)(4AA)&(6A)Clause(a)

Proposed Amendment

for semicolon a full stop shall be substituted

“Explanation .- For removal of doubt it is clarified that tax assessed includes tax under sections 113 and 113C.”;

for the expression “section 113” the expression “sections 113 and 113C” shall be substituted;

for the expression “section 113” the expression “sections 113 and 113C” shall be substituted;

Section 152A

Proposed Amendment

(1) Every person responsible for making payment directly or through an agent or intermediary to a non-resident person for foreign produced

Payment for Foreign produced Commercials

Section 152A

“New Section shall be added”

commercial for advertisement on any television channel or any other media shall deduct tax at the rate of twenty percent from the gross amount paid.

(2) The tax deductible under sub-section (1), shall be final tax on the income of non-resident person arising out of such payment.”;

OUR COMMENTS: The bill proposes the enhancement in the ambit of income tax with-holding by imposing the with-holding tax requirement on payments made in respect of foreign produced commercial to non-resident or its agent.

Payments for Goods, Services and Contracts

Existing

tax 3[deductible.....clause (b) of sub-section (1) 4[, provided that-;

tax deducted under clause (c) of sub-section (1).....on account of execution of contracts; and.

tax deducted under clause (c) of sub-section.....effect from tax year 2013.]

“New Clause shall be added”

Section 153(3) Clause (b) (c) (d) & (e)

Proposed Amendment

the word “and” at the end shall be omitted;

the word “and” at the end shall be omitted;

for full stop at the end a semicolon and the word “;and” shall be substituted

tax deducted under clause (b) of sub-section (1) by person making payments to electronic and print media for advertising services shall be final tax with effect from the 1st July, 2016.”;

OUR COMMENTS: The bill seeks to rationalize and clarify the provisions of law. Further the tax deduction of 1.5% on advertisement of electronic & print media has been proposed to be made as final tax, as a separate category of service industry.

Payments for Goods, Services and Contracts

Existing

a cotton ginner who deposits in the Government Treasury, an amount.....is provided to the “prescribed person”;

OUR COMMENTS: The bill seeks to apply the income tax with-holding on a cotton ginner (who deposits in the Government Treasury, an amount equal to the amount of tax deductible on the payment being made to him) which was formerly excluded from with-holding tax ambit u/s 153.

Section 153(5) Clause (e)

Proposed Amendment

“Clause shall be omitted”

Tax Collected or Deducted as a Final Tax

Existing

“New Sub-section shall be added”

Section 169(4)

Proposed Amendment

Where the tax collected or deducted is final tax under any provision of the Ordinance and separate rates for filer and non-filer have been prescribed for the said tax, the final tax shall be the tax rate for filer and the excess tax deducted

Tax Collected or Deducted as a Final Tax

Section 169(4)

or collected on account of higher rate of non-filer shall be adjustable.”;

OUR COMMENTS: The bill seeks to clarify that the tax deducted shall be final tax in respect of income of a Non-Filer to the extent of rate applicable to a Filer and tax deducted in excess shall be adjustable.

Furnishing of Information by Financial Institutions including Banks

Section 165B(2)

Existing

Subject to section 216, all information received under this section shall be used only for tax and related purposes and kept confidential.]

Proposed Amendment

for the expression “Subject to section 216, all” the word “All” shall be substituted;

OUR COMMENTS: The bill seeks to affirm that the information submitted by financial institution shall be used for tax purposes only and shall be kept confidential in all respects

Refunds.

Section 170(2) Clause(c)

Existing

made within two years of the later of - (i) the date on.....the refund application relates; or (ii) the date on which the tax was paid.

Proposed Amendment

for the word “two” the word “three” shall be substituted;

OUR COMMENTS: The bill seeks to enhance the time period, from two years to three years for filing of income tax refund applications, as per the conditions specified thereto.

Offences and penalties

Proposed Amendment

Section 182 Table

S.No. Offences

Penalties

Section of the Ordinance to which offence has reference

1A Where any person fails to furnish a Statement as required under section 115, 165, 165A or 165B within the due date.

Such person shall pay a penalty of Rs.2500 for each day of default subject to a minimum penalty of 2[ten] thousand rupees.

165A and 165B

OUR COMMENTS: The bill seeks to persuade financial institutions for providing information failing which they shall be subject to the penal consequences.

Prosecution for Unauthorized Disclosure of Information by a Public Servant

Section 198

Existing

A person who discloses any particulars in contravention of.....for a term not exceeding 1[one year] months, or both

Proposed Amendment

after the word “of” occurring for the first time the expression “subsection 1B of section 107 or” shall be inserted;

OUR COMMENTS: The bill seeks to include a person disclosing particulars against section 107 (1B) under the penal provisions given in this section.

Cash Withdrawal from a Bank

Existing

“New Explanation shall be added”

OUR COMMENTS: The bill seeks to clarify the threshold of per day transaction that for the purpose of applicability of tax deduction on cash withdrawal, transactions from all the bank accounts of a person in a single day will be considered.

Section 231A(1)

Proposed Amendment

For removal of doubt, it is clarified that the said fifty thousand rupees shall be aggregate withdrawals from all the bank accounts in a single day.”;

Advance Tax on Private Motor Vehicles

Existing

Every motor vehicle registering authority of Excise.....Division VII of Part IV of the First Schedule.

“New Proviso shall be added”

“New Sub-section shall be added”

OUR COMMENTS: The bill seeks to relax tax withholding provisions for motor vehicles having being registered for more than five years. Further, introducing the concept of withholding of tax by leasing companies, banks, DFIs and modarba at the time of leasing of vehicle at the rate of three percent.

Section 231B(1)&(1A)

Proposed Amendment

for full stop at the end a colon shall be substituted;

“Provided that no collection of advance tax under this sub-section shall be made after five years from the date of first registration as specified in clauses (a), (b) and (c) of sub-section (6).”;

Every leasing company or a scheduled bank or an investment bank or a development finance institution or a modaraba shall, at the time of leasing of motor vehicle to a non-filer, collect advance tax at the rate of three per cent of the value of the motor vehicle.”;

Advance Tax at the Time of Sale by Auction

Existing

“New Sub-section shall be added”

OUR COMMENTS: The bill seeks to propose advance tax collected on a lease of right to collect tolls, as a final tax.

Section 236A(3)

Proposed Amendment

Notwithstanding the provisions of sub-section (2), tax collected on a lease of the right to collect tolls shall be final tax.”;

Advance Tax on Sale or Transfer of Immovable Property

Existing

“New Sub-section shall be added”

OUR COMMENTS: The bill seeks to provide that no deduction of advance tax shall be made where holding period of Immoveable property is more than five years.

Section 236C(3)

Proposed Amendment

Advance tax under sub-section (1) shall not be collected if the immovable property is held for a period exceeding five years.”;

Advance Tax on Foreign-Produced TV Plays and Serials

Section 236E(1)

Existing

Any licensing authority certifying any foreign TV drama serial.....of Part IV of the First Schedule.

The advance tax collected under sub-section (1) shall be adjustable

OUR COMMENTS: The bill seeks to broaden the ambit of advance tax collection, by removing the restriction of broad casting of dubbed program in Urdu or regional language (other than English Language) and making it applicable on all TV Channels only irrespective of landing rights.

Proposed Amendment

for the expression “dubbed in Urdu or any other regional language” the words “in any language other than English” shall be substituted; and

the words “landing rights” shall be omitted;

Advance Tax Under this Chapter

Section 236O

Existing

The advance tax under this chapter shall not be collected in the case of withdrawals made.....the Commissioner that his income during the tax year is exempt.

OUR COMMENTS: The bill seeks to rationalize and clarify the provision of law.

Proposed Amendment

for the words “in the case of withdrawals made by” the words “or deducted from” shall be substituted;

Advance Tax on Banking Transactions Otherwise than Through Cash

Section 236P(2)Explanation

Existing

“New Explanation shall be added”

OUR COMMENTS: The bill seeks to clarify the threshold of per day transaction, for qualifying under the levy of tax as per Section 236P.

Proposed Amendment

For removal of doubt, it is clarified that the said fifty thousand rupees shall be aggregate withdrawals from all the bank accounts in a single day.”;

Collection of tax by Pakistan Mercantile Exchange Limited (PMEX).

Section 236T

Existing

Pakistan Mercantile Exchange Limited (PMEX) shall collect advance tax (a) at the rates specified in Division XXII of Part IV of First Schedule from its members on purchase of futures commodity contracts; (b) at the rates specified in Division XXII of Part IV of First Schedule from its members on sale of futures commodity contracts; and (2) The tax collected under clauses (a) and (b) of sub-section (1) shall be an adjustable tax.

OUR COMMENTS: The bill seeks to omit the section of taxability of future commodity contracts and through a clarification amendment is being proposed to be included under the ambit of section 37A.

Proposed Amendment

“Section shall be omitted”

Advance Tax on Insurance Premium
Existing

“New Section shall be added”

Section 236U

Proposed Amendment

- (1) Every insurance company shall collect advance tax at the time of collection of insurance premium from non-filers in respect of general insurance premium and life insurance premium, at the rates specified in Division XXV of Part IV of the First Schedule.
- (2) Insurance premium collected through agents of the insurance company shall be treated to have been collected by the insurance company.
- (3) Advance tax collected under this section shall be adjustable.

OUR COMMENTS: The Bill proposes to introduce advance tax on Insurance Premiums from non-filers.

Advance Tax on Extraction of Minerals
Existing

“New Section shall be added”

Section 236V

Proposed Amendment

- (1) There shall be collected advance tax at the rate specified in Division XXVI of Part-IV of the First Schedule on the value of minerals extracted, produced, dispatched and carried away from the licensed or leased areas of the mines.
- (2) Advance tax under sub-section (1) shall be collected by the provincial authority collecting royalty per metric ton from the lease-holder of mines or any person extracting minerals.
- (3) Advance tax collected under this section shall be adjustable.
- (4) The value of the minerals for the purpose of this section shall be as specified by the Board.

OUR COMMENTS: The Bill proposes to introduce advance tax, as adjustable tax, on minerals industry, from its extraction to dispatch from licensed/leased areas

Advance Tax from Provincial Sales Tax Registered Person
Existing

“New Section shall be added”

Section 236W

Proposed Amendment

- (1) Every provincial revenue authority shall collect advance adjustable tax at the rate of three per cent of the turnover from a non-filer who is a provincial sales tax registered person.
- (2) The advance tax under sub-section (1) shall be collected along with the sales tax return filed with the provincial revenue authority.
- (3) The provincial revenue authority shall not accept return for sales tax unless the tax required to be collected under this section has been collected or deposited.”;

“New Section shall be added”

OUR COMMENTS: The bill seeks to strongly address the Non-Filers and persuade them to file their returns failing which they shall be subject to advance tax deduction from Provincial authority alongwith sales tax return filed with the provincial revenue authority and it shall not accept return for the sales tax unless the tax is collected under this section.

FIRST SCHEDULE

Part I-Division VIA

Rate of Tax on Income from Property (under section 15) for Individuals & Association of Persons (AOP)

S. No.	Gross Amount of Rent	Rate of Tax	Tax Payable as Per		Tax Impact (on Maximum Slab)
			Proposed Rate	Existing Rate	
1.	Where the gross amount of rent does not exceed Rs.200,000	NIL	NIL	NIL	NIL
2.	Where the gross amount of rent exceeds Rs.200,000 but does not exceed Rs.600,000.	5% of the gross amount exceeding Rs 200,000	Rs.0 to Rs. 20,000	Rs.0 to Rs. 17,000	Increase of up to Rs. 3,000
3.	Where the gross amount of rent exceeds Rs.600,000 but does not exceed Rs.1,000,000.	Rs 20,000 + 10% of the gross amount exceeding Rs 600,000	Rs. 60,000	Rs. 69,500	Decrease upto Rs. 9,500
4.	Where the gross amount of rent exceeds Rs.1,000,000 but does not exceed Rs.2,000,000.	Rs 60,000 + 15% of the gross amount exceeding Rs 1,000,000	Rs. 210,000	Rs. 244,500	Decrease upto Rs. 34,500
5.	Where the gross amount of rent exceeds Rs.2,000,000.	Rs 210,000 + 20% of the gross amount exceeding Rs 2,000,000	Rs. 210,000 and above at the rate of 20%	Rs. 244,500 and above of various rates up to 35%	Decrease (as per slab)

OUR COMMENTS: The bill seeks to restore the slab as separate tax regime for taxing Income from Property of Individual & Association of Persons under section 15. Our analysis of the proposed changes show that for rental income upto Rs. 600,00 there is an increase of Rs. 3,000 in the amount of tax payable while at higher income slabs above Rs. 600,000/- there is a tax saving i.e. the highest tax slab has been proposed at 20% against existing normal slab rate of 35%.

Division VII

Rate of Tax Payable on Capital Gains on Disposal of Securities U/s 37A

S. No.	Period	Tax Year 2015	Tax Year 2016	Tax Year 2017	
		Existing	Existing	Proposed	
				Filer	Non-Filer
1.	Where holding period of a security is less than twelve months	12.5%	15%	15%	18%

2.	Where holding period of a security is twelve months or more but less than twenty four months	10%	12.5%	12.5%	16%
3.	Where holding period of a security is twenty four months or more but less than four years	0%	7.5%	7.5%	11%
4.	Where the security was acquired before 1st July, 2012	0%	0%	0%	0%
5.	Future commodity contracts entered into by the members of Pakistan Mercantile Exchange	0%	0%	5%	5%
OUR COMMENTS: New withholding tax rates on Capital Gains on disposal of securities have been proposed for categories of Filer & Non-Filer persons, for Tax Year 2017.					

Division VIII

Rate of Tax on Capital Gains on Disposal of Immoveable Properties

S. No.	Period	Rate of Tax	
		Existing	Proposed
1.	Where holding period of Immoveable property is up to five years.	0%	10%
2.	Where holding period of immovable property is more than five years.	0%	0%
OUR COMMENTS: It is proposed to enhance the minimum holding period of immovable property from two years to five years for the purpose of availing Zero tax rate on capital gain on disposal of property..			

Division VIIIA

Rate of Tax on Builders u/s 7C

(A) Karachi, Lahore and Islamabad		(B) Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta		(C) Urban Areas not specified in A and B	
For commercial buildings:					
Rs. 210/ Sq. Ft.		Rs. 210/ Sq. Ft.		Rs. 210/ Sq. Ft.	
For residential buildings:					
Area in Sq. Ft	Rate/Sq. Ft	Area in Sq. Ft.	Rate/Sq. Ft	Area in Sq. Ft.	Rate/Sq. Ft
Up to 750	Rs. 20	Up to 750	Rs. 15	Up to 750	Rs. 10
751 to 1500	Rs. 40	751 to 1500	Rs. 35	751 to 1500	Rs. 25
1501 or more	Rs. 70	1501 or more	Rs. 55	1501 or more	Rs. 35
OUR COMMENTS: It is interesting to note from the above proposed slab rates for commercial buildings that the rates have been kept uniform for all categories i.e. Rs.210/ Sq. Ft.					

Division VIII B
Rate of Tax on Developers u/s 7D

(A) Karachi, Lahore and Islamabad		(B) Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta		(C) Urban Areas not specified in A and B	
For commercial plots:					
Rs. 210/ Sq. Yd.		Rs. 210/ Sq. Yd.		Rs. 210/ Sq. Yd.	
For residential plots:					
Area in Sq.Yd.	Rate/Sq. Yd.	Area in Sq. Yd.	Rate/Sq. Yd.	Area in Sq. Yd.	Rate/Sq. Yd.
Up to 120	Rs. 20	Up to 120	Rs. 15	Up to 120	Rs. 10
121 to 200	Rs. 40	121 to 200	Rs. 35	121 to 200	Rs. 25
201 or more	Rs. 70	201 or more	Rs. 55	201 or more	Rs. 35
OUR COMMENTS: Similarly, the rates have been kept uniform for all categories i.e. Rs.210/ Sq. Ft. for profit/gains from development and sale of commercial plots.					

Part III
Division I
Advance Tax on Dividend

Proposed Amendment:
for the figure "17.5" the figure "20" shall be substituted
OUR COMMENTS: With-holding tax rate on dividend for Non-Filers is proposed to be enhanced from 17.5% to 20%.

Proviso of Division I
Capital Gains Tax – by Mutual Funds, Collective Investment Scheme or REIT

Person	Stock Fund	Money market fund, income fund or REIT scheme or any other fund	
		Filer	Non-Filer
Individual	10%	10%	15%
Company	10%	25%	25%
Association of persons	10%	10%	15%
OUR COMMENTS: The Bill proposes to introduce separate withholding rates for Non-Filer on capital gain for mutual funds, collective investment & REIT schemes.			

Division III
Advance Tax on Sale of Fast Moving Consumer Goods (FMCG) by Distributors

S. No.	Nature of Payment	Proposed Rate
1.	Sale of Goods by Companies	3%
2.	Sale of Goods by persons other than Companies	3.5%
OUR COMMENTS: New withholding rates for distributors of FMCG are being introduced by reduction of 1% against existing rate.		

Clause (2) sub-clause (ii) para (c) sub-para (i)
Payments to Electronic & Print Media for Advertisement Services

Proposed Amendment:

for the figure “1%” the figure “1.5%” shall be substituted

OUR COMMENTS: With-holding tax rate being enhanced from 1% to 1.5% on payments to electronic & print media for advertisement services.

Division V

Advance Tax rate on Income from Property for Individuals & Association of Persons (AOP)

S. No.	Existing		Proposed	
	Gross Amount of Rent	Rate of Tax	Gross Amount of Rent	Rate of Tax
1.	Where the gross amount of rent does not exceed Rs.150,000	NIL	Where the gross amount of rent does not exceed Rs.200,000	NIL
2.			Where the gross amount of rent exceeds Rs.200,000 but does not exceed Rs.600,000.	5% of the gross amount exceeding Rs 200,000
3.	Where the gross amount of rent exceeds Rs. 150,000 but does not exceed Rs.1,000,000.	10% of the gross amount exceeding Rs 1,000,000	Where the gross amount of rent exceeds Rs.600,000 but does not exceed Rs.1,000,000.	Rs 20,000 + 10% of the gross amount exceeding Rs 600,000
4.	Where the gross amount of rent exceeds Rs.1,000,000.	Rs 85,000 + 15% of the gross amount exceeding Rs 1,000,000	Where the gross amount of rent exceeds Rs.1,000,000 but does not exceed Rs.2,000,000.	Rs 60,000 + 15% of the gross amount exceeding Rs 1,000,000
5.			Where the gross amount of rent exceeds Rs.2,000,000.	Rs 210,000 + 20% of the gross amount exceeding Rs 2,000,000

OUR COMMENTS: The bill seeks to update with-holding tax rates on property payments u/s 155, by introducing new slabs.

Division VI

Prize and Winnings

Proposed Amendment:

“for filers and “20%” of the gross amount paid for Non-Filers” shall be inserted

OUR COMMENTS: The bill seeks to introduce enhanced with-holding tax rate of 20% on payments prize winnings on prize bonds and or cross-word puzzle

Part IV

Division II

Brokerage and Commission

S. No.	Nature of Payment	Filer		Non-Filer	
		Existing Rate	Proposed Rate	Existing Rate	Proposed Rate

1.	Advertising Agents	10%	10%	15%	15%
2.	Life Insurance Agents where commission received is less than Rs.0.5 million per annum	12%	8%	15%	16%
3.	Persons not covered in 1 and 2 above	12%	12%	15%	15%

Division IIA

Rates for Collection of Tax by Stock Exchange registered in Pakistan

S. No.	Nature of Payment	Existing Rate	Proposed Rate
1.	Purchase of Shares as per Section 233A(1)(a)	0.1% of purchase value	0.2% of purchase value
2.	Sale of Shares as per Section 233A(1)(b)	0.1% of sales value	0.2% of sales value

Our Comments: The Bill proposes to enhance tax rates on trading of shares by Stock Exchange registered in Pakistan, from 0.1% to 0.2% of traded value.

Division IV

Electricity Consumption

S. No.	Nature of Payment	Existing Rate	Proposed Rate
1.	For Electricity Bill exceeding Rs.20,000 per month in case of Commercial Consumer.	10% of the bill amount	12% of the bill amount

Our Comments: 2% increase in the withholding tax rate on Commercial Consumers electricity bill is proposed where the amount of monthly bill exceeds Rs. 20,000 i.e. from 10% to 12%.

Division X

Advance Tax Rates on Sale or Transfer of Immoveable Property

S. No.	Nature of Payment	Existing Rate		Proposed Rate	
		Filer	Non-Filer	Filer	Non-Filer
1.	Gross amount of the consideration received by a person responsible for registering or attesting transfer of any immovable property u/s 236C	0.5%	1%	1%	2%

Our Comments: The Bill proposes to enhance tax rates on registration of Immoveable Property, on receipt consideration for the purpose.

Division XVIII

Advance Tax Rates on Purchase of Immoveable Property

S. No.	Nature of Payment	Filer		Non-Filer	
		Existing Rate	Proposed Rate	Existing Rate	Proposed Rate
1.	Where value of Immoveable property is up to 3 million.	0%	0%	0%	0%
2.	Where the value of Immoveable property is more than 3 million.	1%	2%	2%	4%

Division XIX

Advance Tax Rates on Domestic Electricity Consumption

Proposed Amendment:

“Rs. 75,000” substituted for the figure “Rs. 100,000”

Our Comments: The bill seeks to make a correction in the Schedule

Division XXI

Advance Tax Rates on Banking Transactions Otherwise Than Through Cash

Proposed Amendment:

Phrase added in the proviso “for the period it deems appropriate” after the word “Division”

Our Comments: The bill seeks to create cushion for limiting tenure, for the purpose of levy of the said advance tax.

Division XXII

Rate of Collection of Tax by Pakistan Mercantile Exchange Limited

Proposed Amendment:

Division Omitted

Our Comments: A procedural amendment

Division XXV

Advance Tax on Insurance Premium

S. No.	Type of Premium	Rate
1.	General insurance premium	4%
2.	Life insurance premium if exceeding Rs 0.2 million per annum	1%
3.	Others	0%

OUR COMMENTS: The Bill proposes to introduce for the first time slab rates on Insurance Premiums.

Division XXVI

Advance Tax on Extraction Of Minerals

S. No.	Nature of Payment	Proposed Rate	
		Filers	Non-Filers
1.	Provincial Government shall collect tax on value of minerals extracted, produced, dispatched and carried away from the licensed or leased areas of the mines u/s 236V	0%	5%

Our Comments: The Bill proposes to introduce tax on minerals industry, from its extraction to dispatch from licensed/leased areas.

SECOND SCHEDULE

Part - I - Exemption from Total Income

Clause	Description	Impact
66	Any income derived by : (viii) Micro Finance Banks for a period of five years (Provided such banks shall not issue dividends..... profit and gainutilized for Micro Finance Operations only.)	Exemption withdrawn
98	Any income derived by any Board or other organization established by Government in Pakistan controlling, regulating or encouraging major games and sports recognised by Government: Provided that the exemption not be applicable ...Pakistan Cricket Board.	Thus the Board / or other organization established privately will not be eligible for exemption.
103A	Any income derived from inter-corporate dividend within the group companies entitled to group taxation under section 59AA or section 59B * [subject to the condition that return of the group has been filed for the tax year.] *omitted	Group companies entitled for Group relief under Section 59B (surrender of assessed loss) excluded from purview of exemption.
126A	Income derived byChina Overseas Ports Holding Company Pakistan (Private) Limited, Gawadar International Terminal Limited, Gawadar Marine Services Limited and Gawadar Free Zone Company Limited from Gawadar Port operations for a period of twenty-three years, with effect from the sixth day of February, 2007.	Exemptions granted
126AA	Profit and gains derived by a taxpayer from businesses set up in the Gawadar Free Zone Area for a period of twenty three years with effect from the first day of July, 2016.	Exemption granted
126AB	Profit on debt derived by : (a) any foreign lender; or (b) any local bank having more than 75 percent shareholding of the Government or the State Bank of Pakistan, under a Financing Agreement with the China Overseas Ports Holding Company Limited.	Specific exemption granted
126AC	Income derived by contractors and subcontractors of China Overseas Ports Holding Company Pakistan (Private) Limited, Gawadar International Terminal Limited, Gawadar Marine Services Limited and Gawadar Free Zone Company Limited exempted under 126A for a period of twenty years, with effect from the first day of July, 2016.”; and	Specific exemption granted

126AD	Dividend Received by		From		Specific exemption granted from tax on dividend income
	(1) China Overseas Ports Holding Company Limited		China Overseas Ports Holding Company Pakistan (Private) Limited, Gawadar International Terminal Limited, Gawadar Marine Services Limited and Gawadar Free Zone Company Limited		
	(2) China Overseas Ports Holding Company Pakistan (Private) Limited		Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited		
133	Income from exports of computer software or IT services or IT enabled services uptoJune, 2019; “Provided that eighty per cent of the export proceeds is brought into Pakistan in foreign exchange remitted from outside Pakistan through normal banking channels.”;			Exemption period extended till June 30, 2019 with condition on remittance of export proceeds into Pakistan.	

Part– II – Reduction in Tax Rates

Clause	Description	Impact
3	<p>(a) The tax in respect of income from services rendered outside Pakistan and construction contracts executed outside Pakistan shall be charged at the rates as specified in sub-clause (b) provided that receipts from services and income from contracts are brought into Pakistan in foreign exchange through normal banking channel.</p> <p>(b) The rates in respect of income from services rendered outside Pakistan and contracts executed outside Pakistan shall be 50% of the rates as specified in clause (2) & (3) respectively of Division III of Part III of the First Schedule.</p>	<p>Reduced rate of one percent of gross receipts withdrawn.</p> <p>Now Chargeable to tax at 50% of tax rate as specified in clause (2) & (3) respectively of Division III of Part III of the First Schedule.</p>
3B	<p>The income of Pakistan Cricket Board 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 shall be taxed at a rate of four per cent of the gross receipts from such sources:</p> <p>Provided that Pakistan Cricket Board may opt for taxability at above rate for tax year 2010 and onwards:</p> <p>Provided further that this option shall be available subject to withdrawal of appeals, references and petitions on the issue of tax rate pending before any appellate forum or tax authority:</p> <p>Provided further that the outstanding tax liability payable under this clause up to tax year 2015 is paid by 30th June, 2016</p>	<p>Basis of chargeability for Pakistan Cricket Board defined</p> <p>Optional for tax year 2010 to 2015 with following conditions:</p> <p>i) subject to withdrawal of pending issue with appellate forum or tax authority.</p> <p>ii) Payment of tax liability at above rates by June 30, 2016</p>

Part- IV – Exemption from Specific Provisions

Clause	Description	Impact
11A	<p>Exemption from minimum tax (Section 113) (xxvi) China Overseas Ports Holding Company Limited, China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited for a period of twenty three years, with effect from the sixth day of February, 2007.</p> <p>(xxvii) companies, qualifying for exemption under clause (126M) of Part-I of this Schedule, in respect of profits and gains derived from a transmission line project.”;</p>	<p>Exemption from minimum tax granted to Companies exempted under 126A of Part I of Second Schedule.</p> <p>Exemption from Minimum tax granted to transmission line project</p>
11B & 11C	Exemption from the provisions of withholding tax on Dividend(U/s150) and profit on debts (U/s151) withdrawn for Group companies entitled for Group relief under Section 59B (surrender of assessed loss)	This is In line with consequential proposed amendments, whereby Group companies entitled for Group relief under Section 59B (surrender of assessed loss) withdrawn
38AA	The provisions of section 150 shall not apply to companies China Overseas Ports Holding Company Limited, China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited for a period of twenty-three years.”;	Minimum tax exemption granted to Companies exempted under 126A of Part I of Second Schedule.
57	<p>The provisions of Section 153 shall not apply to companies operating Trading Houses</p> <p>Provided that the exemptionshall not be available if anyconditions are not fulfilled for a tax year</p> <p>Provided further that minimum tax under section 113 shall be 0.5% up to the tax year 2019 and one percent thereafter</p>	Minimum tax rate of 0.5% restricted up to Tax Year 2019 and 1% thereafter.
59	<p>The provisions of section 151, regarding withholding tax on profit on debt, shall not apply;</p> <p>(i) in respect of profit or interest paid on a Term Finance Certificate held by a company which has been issued on, or after, the first day of July, 1999;</p>	Withdrawn
72A	The provisions of clause (I) of section 21, sections 113 and 152 shall not apply in case of a Hajj Group Operator in respect of Hajj operations provided that the tax has been paid at the rate of Rs. 3,500 per Hajji for the tax year 2013 and Rs. 5,000 per Hajji for the tax year 2014 to 2016 in respect of income from Hajj operations.	Exemption extended to Tax Year 2016.

<p>72B</p>	<p>The provisions of section 148 shall not apply to an industrial undertaking if the tax liability for the current tax year, on the basis of determined tax liability for any of the preceding two tax years, whichever is the higher, has been paid and a certificate to this effect is issued by the concerned Commissioner.]</p> <p>New Provisos</p> <p>“Provided further that the quantity of raw material to be imported which is sought to be exempted from tax under section 148 shall not exceed 110 per cent of the quantity of raw material imported and consumed during the previous tax year:</p> <p>Provided also that the Commissioner shall conduct audit of taxpayer’s accounts during the financial year in which the certificate is issued in respect of consumption, production and sales of the latest tax year for which return has been filed and the taxpayer shall be treated to have been selected for audit under section 214C:</p> <p>Provided also if the taxpayer fails to present accounts or documents to the Commissioner or the officer authorized by the Commissioner, the Commissioner shall, by an order in writing, cancel the certificate issued and shall proceed to recover the tax not collected under section 148 for the period prior to such cancellation and all the provisions of the Ordinance shall apply accordingly.”;</p>	<p>Further conditions imposed on availing exemption of advance tax on imports viz.; (1) Quantity of imports restricted to 110% as compared to last year (2) accounts will be subject to audit by the Commissioner; failing which the exemption certificate will be cancelled and tax will be recovered.</p>
<p>82</p>	<p>The provisions of sub-section (4) of section 116 shall not apply for the tax year 2014 to an individual or a member of an association of persons whose last declared or assessed income, or the declared income for the year is less than one million rupees.</p>	<p>Exemption from filing of wealth statement withdrawn.</p>
<p>86</p>	<p>The Provisions of section 111 shall not apply to (iii) Investment made by a company in an industrial undertaking; If the said investment is made on or after the 1st day of January, 2014, and commercial production commences on or before the 30th day of June, 2019.</p>	<p>Condition of commencement of commercial production extended up to June 30, 2019.</p>
<p>95</p>	<p>the provisions of sections 147-Advance tax paid by the taxpayer, 151-Profit on debt, 152-Payment to non-residents, 231A-Cash withdrawal from a bank, 231AA-Advance tax on transactions in bank, 236A-Advance tax at the time of sale by auction and 236K-Advance tax on purchase or transfer of immovable property shall not apply to “The Second Pakistan International Sukuk Company Limited”, as a payer.”;</p>	<p>Specific exemption granted to The Second Pakistan International Sukuk Company Limited</p>
<p>96</p>	<p>the provisions of sections 147-Advance tax paid by the taxpayer, 151-Profit on debt and 155-Income from Property shall not apply to “The Second Pakistan International Sukuk Company Limited”, as a recipient.</p>	<p>Specific exemption granted to The Second Pakistan International Sukuk Company Limited</p>
<p>97</p>	<p>the provision of section 236C shall not apply to “Pakistan International Sukuk Company Limited.”;</p>	<p>Specific exemption granted to Pakistan International Sukuk Company Limited from the provision of advance tax on sale or transfer of immovable property.</p>

<p>94</p>	<p>The provisions of clause (b) of the proviso to sub-section (3) of section 153 shall not apply for the period beginning on the first day of July, 2015 and ending on the thirtieth day of June, 2017 to a company being filer and engaged in providing or rendering freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT Services and IT enabled services, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services or car rental services:</p> <p>Provided further that for tax year 2017, the company shall furnish irrevocable undertaking by November, 2016, to present its accounts to the Commissioner.”</p>	<p>Exemption from advance tax deductible under section 153 being minimum tax on rendering or provision of services extended to Tax Year 2017.</p> <p>IT Services and IT enabled services granted exemption.</p> <p>Deadline fixed for submission of irrevocable undertaking to present accounts to Commissioner for Tax Year 2017 by November 2016.</p>
------------------	--	---

EIGHT SCHEDULE

Rule for the computation of capital gains on listed securities

Rule	Description	Impact
1A	Capital gains on disposal of units of open ended mutual funds and to which section 100B apply, shall be computed and determined under this Schedule and tax thereon shall be collected and deposited by NCCPL in the prescribed manner.	Capital gains/ tax thereon upon disposals of open ended mutual fund included in the domain of NCCPL
1B	Gain or loss arising to persons through trading of future commodity contracts on Pakistan Mercantile Exchange, subject to tax under section 37A and to which section 100B apply, shall be computed and determined under this Schedule and tax thereon shall be collected and deposited on behalf of taxpayers by NCCPL in the manner prescribed.	Capital gain/ tax thereon upon trading of future commodity contracts included in the domain of NCCPL.
1	For the purpose of sub-rule (1) (1A) and (1B), NCCPL shall develop an automated system	NCCPL authorized to develop an automated system for open end mutual fund and future commodity contracts
3A	The Asset Management Companies, Pakistan Mercantile Exchange and any other person shall furnish information when required by NCCPL for discharging obligations under this Schedule	AMCs and PMEX required to submit information to NCCPL.
3	Provided that if the said information is not furnished, NCCPL shall forward the details to the Commissioner who shall exercise powers under the Ordinance to enforce furnishing of the said information including all penalty provisions.	Commissioner Empowered to enforce compliance

This Page Left Blank



TAX COMMENTARY

SALES TAX

This Page Left Blank

SALES TAX

Salient Features:

The following budgetary measures were explained in Salient Features of Sales Tax and Federal Excise Duty.

Zero-rating of export oriented sectors

Five export-oriented sectors are subject to reduced rates i.e. three percent and five percent under SRO 1125(I)/2011, dated December 31, 2011. In order to facilitate the exporters and provide for a No-Tax, No-Refund Regime, the items as specified in the said SRO and the purchase of energy i.e. electricity, gas, furnace oil and coal by the five export-oriented, are to be subjected to zero rate of sales tax. The retail sales of locally manufactured finished goods of these sectors are to be subjected to sales tax at the rate of five percent.

Exclusion of second hand and worn clothing from further tax levy.

Sales tax on second hand and worn clothing is currently levied at the rate of five percent on the import stage, at the rate of three percent as value addition tax and at the rate of two percent as further tax under section 3(1A), which results in cumulative impact of sales tax at the rate of ten percent. In order to provide relief to the low income segment, using second hand worn clothing, exemption from further tax is being provided.

Introduction of optional regime for Tier 1 Retailers

Tier 1 retailers are obliged to pay sales tax at standard rate after input tax adjustment. It is proposed to provide an option to these retailers to pay sales tax at fixed rate of 2% of their total turnover without any input tax adjustments.

Marble Cutting and Polishing Industry

Marble Industry is mostly unregistered and is not paying sales tax. This sector has electricity as a major input. In order to bring this sector in the ambit of sales tax, it is proposed to charge sales tax at the rate of 1.25 rupees per KWH of electricity consumed. The proposed tax shall be in addition to standard sales tax at the rate of seventeen percent on supply of electricity as well as extra tax at the rate of five percent.

Enhancement of fixed rate basis on steel sector, ship breakers and steel melters

Sales tax on steel sector, including ship-breaking sector, is collected on fixed rate basis. Sales tax from steel melters and re-rollers is collected on the basis of electricity consumption whereas ship-breakers are paying sales tax on the basis of LDT of ships imported for breaking. These rates are proposed to be revised upwards.

Definitions: Cottage Industry

Existing

means a manufacturer whose annual turnover from taxable supplies made in any tax period during the last twelve months ending any tax period does not exceed five million rupees or whose annual utility (electricity, gas and telephone) bills during the last twelve months ending any tax period do not exceed 1[eight] hundred thousand rupees;

OUR COMMENTS: Presently, 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 million rupees or whose annual utility (electricity, gas and telephone) bills during the last twelve months ending any tax period do not exceed eight hundred thousand rupees fall under the definition of 'cottage industry'. Supplies made by 'Cottage Industry' are currently exempted from levy and payment of Sales Tax. However, small manufacturers who make minimal contributions to revenues and having low turnover threshold of five million rupees cause undue hardships due to registration requirements.

To overcome the hardships being faced by small manufacturers and to facilitate them, the turnover threshold of five million rupees for 'Cottage Industry' is being proposed to be enhanced to ten million rupees. As a result of this amendment, small manufacturers having turnover of less than ten million rupees will not be required to get themselves registered under Sales Tax Act.

Definitions: of 'Due Date' Amended

Existing

"due date" in relation to the furnishing of a return under section 26 and section 26AA means the 15th day of the month following the end of the tax period, or such other date as the Board may, by notification in the official Gazette, specify;

"e-intermediary" means a person appointed as e-intermediary under section 52A for filing of electronic returns and such other documents as may be prescribed by the Board from time to time, on behalf of a person registered under section 14;

OUR COMMENTS: Section 26AA prescribing requirements for Retail Tax Return was omitted through Finance Act 2008, however its reference is still appeared in term 'due date'. In order to streamline the term, the Finance Bill 2016 seeks to amend the definition of 'due date' by omitting the reference of Section 26AA.

Presently, a standard Sales Tax Return Form is being used by all persons registered under the Sales Tax Act who are required to furnish Sales Tax Return on 15th day of the month following the end of the tax period. It is now further proposed to amend the definition of 'due date' by virtue of it different dates may be specified for furnishing of different parts or annexures of the return.

Section 2 Clause (5AB)

Proposed Amendment

For the word "five", the word "ten" shall be substituted;

Section 2 Clause 9

Proposed Amendment

The expression "and section 26AA" shall be omitted; and

After the semi-colon at the end, the following shall be substituted, namely:—

"and different dates may be specified for furnishing of different parts or annexures of the return;"; and

Scope of 'Input Tax' narrowed

Existing

in relation to goods or services acquired by the person, tax levied under the Federal Excise Act, 2005 in sales tax mode as a duty of excise on the manufacture or production of the goods, or the rendering or providing of the services;

Provincial sales tax levied on services rendered or provided to the person; and

OUR COMMENTS: Provincial sales tax levied on services rendered or provided to the person is presently included in the definition of 'input tax' and is allowable to be claimed in Sales Tax Return furnished by a registered person. The proposed amendment seeks to omit this provincial sales tax on services from the definition of 'input tax'.

As a result of the proposed amendment, registered persons will now not be entitled to claim provincial sales tax levied on services as 'input tax' in their Sales Tax Returns.

Time And Manner Of Payment

Existing

The tax in respect of taxable supplies made during a tax period shall be paid by the registered person at the time of filing the return in respect of that period under Chapter-V: Provided that the Board may, by a notification in the official Gazette, direct that the tax in respect of all or such classes of supplies (other than zero-rated supplies) of all or such taxable goods, as may be specified in the aforesaid notification, shall be charged, collected and paid in any other way, mode, manner or at time as may be specified therein

OUR COMMENTS: Presently, the tax in respect of taxable supplies made during a tax period is required to be paid by the registered person at the time of filing the return in respect of that period. The proposed amendment seeks to do away with this requirement of payment of tax at the time of filing the return. It is now proposed that tax is required to be paid by a registered person by the date as prescribed in this respect.

Determination of Tax Liability

Existing

In case of a claim for input tax in respect of a taxable supply made, he holds a tax invoice in his name and bearing his registration number in respect of such supply for which a return is furnished;

OUR COMMENTS: In case of a claim for input tax in respect of a taxable supply made, a registered person is presently not entitled to deduct input tax from output tax unless he holds a tax invoice in his name bearing his registration number. It is now being proposed that in addition to existing requirement, entitlement to deduct input tax from output tax will not be available if the supplier has not declared such supply in his return or he has not paid amount of tax due as indicated in his return from the date to be notified by the Board in this respect.

Section 9 Clause 14 (c) & (d)

Proposed Amendment

the word "and" at the end shall be added; and

Shall be omitted

Section 6 Sub-Section (2)

Proposed Amendment

For the words "at the time of filing the return in respect of that tax period under Chapter-V", the words "by the date as prescribed in this respect" shall be substituted;

Section 7 Sub-Section(2) (i)

Proposed Amendment

For the semi-colon at the end, a colon shall be substituted and thereafter the following proviso shall be added, namely:

"Provided that from the date to be notified by the Board in this respect, in addition to above, if the supplier has not declared such supply in his return or he has not paid amount of tax due as indicated in his return;";

Tax Credit Not Allowed

Existing

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

OUR COMMENTS: A registered person is currently not entitled to reclaim or deduct input tax paid on such goods and services which, at the time of filing of return by the buyer, have not been declared by the supplier in his return. It is now being proposed that in addition to existing requirement, entitlement to reclaim or deduct input tax under this Section will not be available if the supplier has not paid the amount of tax due as indicated in his return.

Assessment of Tax and Recovery of Tax Not Levied or Short-Levied or Erroneously Refunded

Existing

“New sub-clause shall be added”

OUR COMMENTS: Through the amendment, a new sub-section (4A) is being proposed to be added in Section 11 which empowers an Officer of Inland Revenue to determine the amount in default after serving a show cause notice to a person who is required to withhold sales tax but fails to withhold the tax or withholds the same but fails to deposit the same in the prescribed manner.

Exemption

Existing

the Federal Government maytaxable supplies made or import or supply of any goods or class of goods, from the whole or any part of the tax chargeable under this Act, subject to the conditions and limitations specified therein.

“New sub-clause shall be added”

OUR COMMENTS: Through Finance Act, 2015, various events and conditions were introduced which empower the Federal Government, pursuant to the approval of the Economic Coordination Committee of Cabinet, to exempt any import or taxable supplies of goods from payment of the whole or any part of the tax chargeable. These events and conditions are as under:

- whenever circumstances exist to take immediate action for the purposes of national security;
- natural disaster;
- national food security in emergency situations;

Section 8 Sub-Section (1)(I)

Proposed Amendment

after the word “return”, occurring at the end, the following shall be added, namely:–

“or he has not paid amount of tax due as indicated in his return.”;

Section 11 Sub-Section (4A)

Proposed Amendment

“(4A) Where any person, required to withhold sales tax under the provisions of this Act or the rules made thereunder, fails to withhold the tax or withholds the same but fails to deposit the same in the prescribed manner, an officer of Inland Revenue shall after a notice to such person to show cause, determine the amount in default.”;

Section 13 Sub-Section(2)(a)

Proposed Amendment

(i) for the word “and”, occurring for the first time, a comma shall be substituted; and

(ii) after the word “agreements”, the words “and matters relating to international financial institutions or foreign government-owned financial institutions” shall be inserted;

Exemption

Section 13 Sub-Section(2)(a)

- protection of national economic interests in situations arising out of abnormal fluctuation in international commodity prices;
- removal of anomalies in taxes;
- development of backward areas; and
- implementation of bilateral and multilateral agreements.

The proposed amendment seeks to further empower the Federal Government under this Sub-section in the matters relating to international financial institution or foreign government-owned financial institutions.

Return

Section 26, Sub-Section (2)

Existing

Proposed Amendment

If there is a change in the rate of tax during a tax period, a separate return in respect of each portion of tax period showing the application of different rates of tax shall be furnished

shall be omitted

OUR COMMENTS: In case there is a change in the rate of tax during a tax period, a registered person is currently required to furnish a separate return in respect of each portion of tax period showing the application of different rates of tax. By omitting this Sub-section, the proposed amendment seeks to do away with this requirement.

Directorate General of Input Output Co-efficient Organization

Section 30DDD

Existing

Proposed Amendment

“New Section shall be added”

The Directorate General of Input Output Coefficient Organization (IOCO)-Inland Revenue shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may, by notification in the official Gazette, appoint.”;

OUR COMMENTS: A new Section is being proposed to be inserted in Sales Tax Act, 1990 aimed at introducing a new Directorate General of Input Output Co-efficient Organization (IOCO) which shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may, appoint.

Offences and Penalties

Section 33

Existing

Proposed Amendment

Any person who contravenes any of the provision of this Act for which no penalty has, specifically, been provided in this section.

Table, in the entry in column (1), against serial number 19, after the word “Act”, the words “or the rules made thereunder” shall be inserted;

OUR COMMENTS: This Sub-section prescribes a penalty of higher of five thousand rupees or three per cent of the amount of tax involved to a person who contravenes any of the provisions of Sales Tax Act for which no penalty has specifically been provided in this Section. Through the amendment, the scope under this clause is being proposed to be widened. In addition to the penalty on contravention of any of the provisions of Sales Tax Act, the proposed amendment seeks to also impose aforesaid penalty on contravention of provisions of the Rules made thereunder.

Sales of Taxable Activity or Transfer of Ownership

Existing

In the case of sale or transfer of ownership of a taxable activity or part thereof to another registered person as an ongoing concern, sales tax chargeable on taxable goods or part thereof shall be accounted for and paid by the registered person to whom such sale is made or ownership is transferred

Section 49 Sub-Section (2)

Proposed Amendment

In the case of sale or transfer of ownership of a taxable activity or part thereof to another registered person as an ongoing concern, the taxable goods or part thereof shall be transferred to the new owner through a zero-rated invoice and the sales tax chargeable thereon shall be accounted for and paid by the registered person to whom such taxable activity or part thereof is transferred;

OUR COMMENTS: The proposed amendment seeks to substitute Sub-section 2 of Section 49. By virtue of this amendment zero rating is proposed to be allowed on sale or transfer of ownership of a taxable activity or part thereof to another registered person as an ongoing concern. Under the proposed amendment, the taxable goods or part thereof under this Sub-section shall now be transferred to the new owner through a zero-rated invoice.

Disclosure of Information by a Public Servant

Existing

(1) Any information acquired under any provision of this Act or in pursuance of a bilateral or multilateral agreement or tax information exchange agreement shall be confidential and no public servant shall disclose any such information, except as provided under section 216 of the Income Tax Ordinance, 2001 (XLIX of 2001).

(2) The provisions of section 216 of the Income Tax Ordinance, 2001 (XLIX of 2001), shall, mutatis mutandis, apply to the provisions of this section.

Section 56B

Proposed Amendment

(1) Any information acquired under any provision of this Act shall be confidential and no public servant shall disclose any such information, except as provided under section 216 of the Income Tax Ordinance, 2001 (XLIX of 2001).

(2) Notwithstanding anything contained in sub-section (1) and the Freedom of Information Ordinance, 2002 (XCVI of 2002), any information received or supplied in pursuance of bilateral or multilateral agreements with government of foreign countries for exchange of information under section 56A shall be confidential.”;

OUR COMMENTS: Public servants are currently required not to disclose any confidential information except as provided under Section 216 of the Income Tax Ordinance, 2001. By substituting this Section, it is being proposed that any information received or supplied in pursuance of bilateral or multilateral agreements with government of foreign countries for exchange of information under Section 56A shall be confidential notwithstanding anything contained in Sub-section (1) and the Freedom of Information Ordinance, 2002.

THE THIRD SCHEDULE

Tax on Retail Price Basis

Mineral / bottled water is currently charged to sales tax at a standard rate of seventeen percent of the value of supply. The Finance Bill 2016 seeks to insert mineral / bottled water in the Third Schedule to the Sales Tax Act, 1990. Consequently, the sales tax will be charged at the rate of seventeen percent of the retail price which along with the amount of sales tax shall be legibly, prominently and indelibly printed or embossed by the manufacturer on each container.

THE FIFTH SCHEDULE

Zero rated supplies

Presently supplies of 'stationery items' is zero rated under the Fifth Schedule as well as exempted from levy of Sales Tax under the Sixth Schedule to the Sales Tax Act, 1990. Further, supplies of 'Milk' and 'Fat filled milk' have been enjoying zero rated facility for many years. Through this amendment, it is being proposed to withdraw the zero-rating facility on 'stationery items', 'milk' and 'fat filled milk' by omitting the following entries against serial number 12 in the Fifth Schedule:

- (i) Colors in sets (PCT heading 3213.1000)
- (ii) Writing, drawing and marking inks (PCT heading 3215.9010)
- (iii) Erasers (PCT heading 4016.9210 and 4016.9290)
- (iv) Exercise books (PCT heading 4820.2000)
- (v) Pencil sharpeners (PCT heading 8214.1000)
- (vi) Geometry boxes (PCT heading 9017.2000)
- (vii) Pens, ball pens, markers and porous tipped pens (PCT heading 96.08)
- (viii) Pencils including color pencils (PCT heading 96.09)
- (ix) Milk (PCT heading 04.01)
- (xviii) Fat filled milk (PCT heading 1901.9090)

THE SIXTH SCHEDULE

Exempted Supplies

Table 1

Exemption from Levy of Sales Tax to Businesses to be Established in Gwadar Free Zone

It is proposed to allow exemption from chargeability of sales tax to business to be established in Gwadar Free Zone by adding them in the Sixth Schedule. This exemption shall be available to sales / supplies made within the Gwadar Free Zone. However, sales / supplies outside the Gwadar Free Zone and into the territory of Pakistan shall be subjected to applicable rates of sales tax.

Exemption from Levy of Sales Tax on Import of Laptops and Personal Computers

Ministry of Information Technology has proposed exemption of sales tax on import of laptops and personal computers with a view to promoting Information and Communication Technology. Accordingly, exemption from levy of sales tax to laptops and personal computers is being proposed to be granted by inserting these items in the Sixth Schedule. This step will promote genuine imports and will render informal and illegal imports as uncompetitive.

Exemption from Levy of Sales Tax on Pesticides

Ministry of National Food Security and Research has proposed exemption from levy of sales tax on pesticides which are presently charged to sales tax at the reduced rate of seven percent. Keeping in view importance of pesticides for the agriculture sector, pesticides and their ingredients are being proposed to be exempted from levy of sales tax by omitting relevant entries from the Eighth Schedule and inserting them in the Sixth Schedule.

Exemption from Levy of Sales Tax on Premixes to Growth Stunting

Ministry of National Health Services has proposed exemption from levy of sales tax on import of vitamins, premixes, minerals and micronutrients (food grade) to combat growth stunting. To grant the exemption, it is now proposed to insert these items in the Sixth Schedule.

To give effect to the above exemptions, following entries are proposed to be inserted in Table 1 to the Sixth Schedule of the Sales Tax Act, 1990:

1. Materials and equipments for construction and operation of Gawadar Port and development of Free Zone for Gawadar 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 Gawadar Port, having Concession Agreement with the Gwadar Port Authority, for a period of forty year, subject to the following conditions and procedure, namely

(A) Conditions and Procedure for Imports

- (i) This exemption shall be admissible only to China Overseas Ports Holding Company Limited (COPHCL) and its operating companies, their contractors and subcontractors which hold the Concession Agreement;
- (ii) Ministry of Ports and Shipping shall certify in the prescribed manner and format as per Annex-I that the imported materials and equipments are bonafide requirement for construction and operation of Gawadar Port and development of Free Zone for Gawadar Port. The authorized officer of that Ministry shall furnish all relevant information online to Pakistan Customs against a specific user ID and password obtained under section 155D of the Customs Act, 1969 (IV of 1969). In already computerized Collectorate or Customs station, where the computerized system is not operational, the Project Director or any other person authorized by the Collector in this behalf shall enter the requisite information in the Customs Computerized System on daily basis, whereas entry of the data obtained from the customs stations which have not yet been computerized shall be made on weekly basis, provided that this condition shall not apply to ship bunker oils; and
- (iii) The goods so imported shall not be sold or disposed of without prior approval of the FBR and payment of sales tax leviable at the time of import, provided that this condition shall not apply to ship bunker oils.

(B) Conditions and Procedure for Local Supply

- (i) This exemption shall be admissible only to China Overseas Ports Holding Company Limited (COPHCL) and its operating companies, their contractors and subcontractors which hold Concession Agreement;

- (ii) For claiming exemption on goods which are otherwise taxable in Pakistan, the operating companies will purchase the materials and equipments for the construction of Gawadar Port and development of Free Zone for Gawadar Port from the sales tax registered persons only;
 - (iii) Invoice of the exempt supply, containing the particulars required under section 23 of the aforesaid Act, shall for each supply be issued by the registered person to the operating company mentioning thereon that the said invoice is being issued under this notification;
 - (iv) A monthly statement summarizing all the particulars of the supplies made in the month against invoices issued to the operating companies shall be prepared in triplicate by the registered persons making the exempt supplies and shall be signed by the authorized person of the registered person. All three copies of the said signed monthly statement shall be got verified by the registered person from the person authorized to receive the supplies in the office of operating company, confirming that supplies mentioned in the monthly statement have been duly received;
 - (v) After verification from the operating company, original copy of the monthly statement will be retained by the registered person, duplicate by the operating company and the triplicate provided by the registered person to the Collector of Sales Tax having jurisdiction, by twentieth day of the month following the month in which exempt supplies to the operating companies were made; and
 - (vi) The registered person making the exempt supplies shall keep the aforesaid record for presentation to the sales tax department as and when required to do so.
2. 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.
 3. Premises for growth stunting.
 4. Laptop computers, notebooks whether or not incorporating multimedia kit.
 5. Personal computers.
 6. Pesticides and their active ingredients registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971 (II of 1971), stabilizers, emulsifiers and solvents, namely:
 - (i) Xylol (xylenes)
 - (ii) Beta Pinene / Agrotin 527 / Terpenic
 - (iii) Derivative
 - (iv) Toluene
 - (v) Mixed xylene isomers
 - (vi) Naphthalene
 - (vii) Solvesso-100, 150, 200
 - (viii) Ingredients for pesticides
 - (ix) Cadusafos Technical Material
 - (x) Methanol (methyl alcohol)
 - (xi) Propylene glycol (propane-1, 2-diol)
 - (xii) Adhesives Polyvinyl Acetate Polyvinyl Alcohol
 - (xiii) Ingredients for pesticides

(xiv)	Other Ingredients for pesticides
(xv)	Solvenon MP / 1-Methoxy 2-Propanol Methyglycol Acetate
(xvi)	Methanal (formaldehyde)
(xvii)	Cyclo-hexanone and methyl- cyclohexanones
(xviii)	Cyclohexanon - Cyclohexanone Mixed petroleum Xylene (1,2 & 1,3 & 1,4 dimethyl benzene and ethyle benzene)
(xix)	Acetic anhydride
(xx)	Ingredients for pesticides (Varying PCT Heading)
(xxi)	Diocetyl orthophthalates
(xxii)	Other Ingredients for pesticides (Varying PCT Heading)
(xxiii)	Endosulfan Technical Material
(xxiv)	Diethylamine and its salts
(xxv)	Triethanolamine and its salts
(xxvi)	Dimethyl Formamide (DMF)
(xxvii)	Alpha cyano, 3-phenoxybenzyl (-) cis, trans 3-(2,2-dicloro vinyl) 2,2 dimethyl cyclopropane carboxylate
(xxviii)	(S) Alpha cyano, 3-phenoxybenzyl (S)-2- (4, chloro phenyl)-3 mehtyl butyrate
(xxix)	Cyano, 3-phenony benzyl 2,2,3,3 tetra methyl cyclopropane carboxalate
(xxx)	Cypermethrin, Alpha Cypermethrin, Beta- Cypermethrin, Zeta-Cypermethrin, Lambda Cylalothrin, Deltamethrin, Fenpropathrin, Esfenvalerate, Bifenthrin Technical Material- Acetamiprid, Imidacloprid Technical Material- Monomehyppo, Chlorothalonil Technical Material- Bromoxynil Technical Material
(xxxii)	Other nitrite compounds- Cyfluthrin, Beta Cyfluthrin Technical Material
(xxxiii)	2-N, N-Dimethyl amino-I sodium thiosulphate, 3-thiosulfourropane
(xxxiv)	2- N,N-dimethymino 1,3 disodium thiosulphate propane
(xxxv)	O,S-dimethyl phosphoramidothioate
(xxxvi)	S-S (2 dimethyl amino (trimethylene) bis (thio carbamate)
(xxxvii)	Diafethiuran technical (itertbutyl) 3-2-6 disopropyl (4-phenoxyphenyl) thiourene
(xxxviii)	O-O diethyl O-(3,5,6 trichloro pyridinyl) Phosphorothioate
(xxxix)	O-(4-bromo, 2-chloro phenyl) o-ethyl spropyl (phosphorothioate)
(xl)	O,O duethyl O-(3,5,6-trichloro 2-pyridyl) Phosphorothioate Other orgonosulpher compounds - Ethion, Methamidophos Technical Material – Dimethylsulfoxid
(xli)	2,3 Dihydro 2-2 dimethyl-7 benzo furanyl methyl-carbamate
(xlii)	Other ingredients for pesticides - Carbosulfan Technical Material
(xliii)	Fipronil
(xliv)	Chlorpyrifos, Triazophos, Diazinon Technical Material
(xlv)	Primethanine
(xlvi)	Atrazine Technical Material
(xlvii)	Isatin (lactam of istic acid)
(xlviii)	1-Vinyl-2-pyrrol-idone
(xlix)	Triazophos Technical Material
(l)	Methyl benzimidazol – 2 – ylcarbamate. -Dicopper chloride trihydroxide
(li)	Abamectin, Emamectin Technical Material
(lii)	Sulphonic acid (Soft)
(liii)	Other surface active agents
(liv)	Cationic
(lv)	Non ionic surface active agents
(lvi)	Other organic surface active agents
(lvii)	Chemical preparations
(lviii)	Solvent C-9

Table 3

Exemption to Dump Trucks for Thar Coal Mining

Exemption to coal mining machinery, equipment, spares, etc. for Thar Coal Field as provided in the Sixth Schedule includes vehicles for site use i.e. single or double cabin pick-ups. Dump trucks, although being vehicles for site use are not covered under the said provision. Exemption from sales tax is, therefore, being granted to dump trucks by inserting it in Table 3 to the Sixth Schedule of the Sales Tax Act, 1990.

THE EIGHTH SCHEDULE

Increase in Sales Tax Rate on Certain Ingredients of Poultry Feed

Presently the poultry feed and its certain ingredients are exempt from levy of sales tax whereas certain other ingredients are subject to sales tax at the rate of five percent ad valorem. Rate of sales tax is being proposed to be enhanced from 5% to 10% on these poultry ingredients.

Rationalization of Exemption Available to Plant, Machinery, Equipment, etc. for Production of Biodiesel

Exemption to plant, machinery, equipment and specific items used in production of biodiesel is presently available under the Sales Tax Act, 1990. To preclude the possibility of misuse, it is being proposed to exclude the 'specific items' from this exemption.

Levy of Sales Tax on Sugar

Sugar is presently chargeable to Federal Excise Duty at a rate of eight percent in sales tax mode under the Federal Excise Act, 2005. Finance Bill, 2016 seeks to replace this Federal Excise Duty with the levy of sales tax at a reduced rate of sales tax of eight percent by adding respective entries in the Eighth Schedule to the Sales Tax Act, 1990.

Levy of Sales Tax on Urea

In order to promote agriculture and alleviate the conditions of farmers, sales tax on urea is proposed to be levied at a reduced rate of five percent by adding respective entries in the Eighth Schedule.

Machinery and Equipment for the Development of Grain Handling and Storage Facilities

Exemption to machinery and equipment for the development of grain handling and storage facilities is currently available under the Sales Tax Act, 1990. The Finance Bill, 2016 seeks to include 'silos' in the said exemption by amending the respective description of goods.

THE NINTH SCHEDULE

The Ninth Schedule to the Sales Tax Act, 1990 was inserted through Finance Act, 2014 wherein specific rates of sales tax on mobile phones were introduced to protect the revenue and strengthening the legal support for charging of sales tax. These rates are now proposed to be revised as under:

Description / Specification of Goods	EXISTING RATES		PROPOSED RATES	
	Sales tax on import (payable by importer at the time of import)	Sales tax chargeable at the time of registration of a new IMEI number	Sales tax on import (payable by importer at the time of import)	Sales tax chargeable at the time of registration of a new IMEI number
A. Low Priced Cellular Mobile Phones or Satellite Phones: i. All cameras: 2.0 mega-pixels or less ii. Screen size: 2.6 inches or less	Rs 300	Rs 300	No Change	No Change

Description / Specification of Goods	EXISTING RATES		PROPOSED RATES	
	Sales tax on import (payable by importer at the time of import)	Sales tax chargeable at the time of registration of a new IMEI number	Sales tax on import (payable by importer at the time of import)	Sales tax chargeable at the time of registration of a new IMEI number
iii. Key pad				
B. Medium Priced Cellular Mobile Phones or Satellite Phones: i. One or two cameras: between 2.1 to 10 mega-pixels ii. Screen size: between 2.6 inches and 5 inches iii. Micro-processor: less than 2 GHZ	Rs 500	Rs 500	Rs 1,000	Rs 1,000
C. Smart Cellular Mobile Phones or Satellite Phones: i. One or two cameras: 10 mega-pixels and above ii. Touch Screen: size 5 inches and above iii. 4GB or higher Basic Memory iv. Operating system of the type IOS, Android V2.3, Android Gingerbread or higher, Windows 8 or Blackberry RIM v. Micro-processor: 2GHZ or higher, dual core or quad core	Rs 1,000	Rs 1,000	Rs 1,500	Rs 1,500



TAX COMMENTARY

OTHER LAWS

Federal Excise Duty

Customs Act, 1969

Islamabad Capital Territory

(Tax on Services) Ordinance, 2001

This Page Left Blank

FEDERAL EXCISE DUTY

To streamline the procedures and to harmonize the provisions of Federal Excise Act, 2005 with that of the Income Tax Ordinance, 2001 and Sales Tax Act, 1990, following amendments are being proposed to be made in the Federal Excise Act, 2005:

Definition: Due Date

Section 2 Clause (8a)

Existing

“due date”, in relation to furnishing a return under section 4, means the 15th day of the month following the end of the month, or such other date as the Federal Government may, by notification in the official Gazette, specify

Proposed Amendment

the expression “and different dates may be specified for furnishing of different parts or annexures of the return;” shall be substituted;

OUR COMMENTS: Presently, persons registered under the Federal Excise Act are required to furnish return on 15th day of the month following the end of the month. It is now proposed to amend the definition of ‘due date’ by virtue of which different dates may be specified for furnishing of different parts or annexures of the return.

Filing of Return and Payment of Duty, Etc.

Section 4(2)&(3)

Existing

Duty due for the dutiable supplies made or services rendered during a month shall be deposited by the registered person in the designated branch of the bank at the time of filing of his return under sub-section (1).

Proposed Amendment

for the words “at the time of filing of his return under sub-section (1)”, the words “by the date as prescribed in this respect” shall be substituted; and

“Sub-section (3) shall be omitted”

OUR COMMENTS: Presently, the duty for the dutiable supplies made or services rendered during a month is required to be deposited by the registered person in the designated branch of the bank at the time of filing of his return. The proposed amendment seeks to do away with this requirement. It is now proposed that duty shall be required to be deposited by a registered person by the date as prescribed in this respect.

In case there is a change in the rate of duty, a registered person is currently required to furnish a separate return in respect of each portion of month showing the application of different rates of duty. By omitting this Sub-section, the Finance Bill 2016 seeks to do away with this requirement.

Adjustment of duties of excise

Section 6 (2) & (2A)

Existing

“New Sub-section shall be added”

Proposed Amendment

From the date to be notified by the Board, adjustment of duty of excise under sub-section (1) shall be admissible only if the supplier of input goods and services has declared such supply in his return and he has paid amount of tax due as indicated in his return.”;

OUR COMMENTS: In case of a claim for duty already paid on input goods, a registered person is presently not entitled to adjust duty of excise unless he holds a valid proof to the effect that he has paid the price of goods purchased by him including the amount of duty and has received the price of goods sold by him including the amount of duty through banking

Adjustment of duties of excise

Section 6 (2) & (2A)

channels. The Finance Bill 2016 seeks to add a new sub-section 2A which describes that adjustment of duty of excise shall be admissible only if the supplier of input goods and services has declared such supply in his return and he has paid amount of tax due as indicated in his return.

Exemptions

Section 16(2)

Existing

The Federal Government may pursuant to the approval to the Economic Coordination Committee of Cabinet, whenever circumstances exist to take immediate action for the purposes of national security, natural disaster, national food security in emergency situations, protection of national economic interests in situations arising out of abnormal fluctuation in international commodity prices, removal of anomalies in duties, development of backward areas and implementation of bilateral and multilateral agreement, by notification in the official Gazette, exempt subject to such conditions as may be specified therein, any goods or class of goods or any services or class of services from the whole or any part of the duty leviable under this Act.

Proposed Amendment

(a) for the word “and”, occurring for the first time, a comma shall be substituted; and (b) after the word “agreements”, the words “and matters relating to international financial institutions or foreign government-owned financial institutions” shall be inserted;

OUR COMMENTS: Through Finance Act, 2015, various events and conditions were introduced empowering the Federal Government, pursuant to the approval of the Economic Coordination Committee of Cabinet, to exempt any import or taxable supplies of goods from payment of the whole or any part of the tax chargeable. These events and conditions are as under:

- whenever circumstances exist to take immediate action for the purposes of national security;
- natural disaster;
- national food security in emergency situations;
- protection of national economic interests in situations arising out of abnormal fluctuation in international commodity prices;
- removal of anomalies in taxes;
- development of backward areas; and
- implementation of bilateral and multilateral agreements.

The proposed amendment seeks to further empower the Federal Government under this Sub-section in the matters relating to international financial institution or foreign government-owned financial institutions.

Offences, Penalties, Fines and Allied Matters

Section 19(13)

Existing

“New sub-section shall be added”

Proposed Amendment

Any person who contravenes any provision of this Act or rules made thereunder for which no penalty has specifically been provided in this section shall be liable to pay a penalty of five thousand rupees or three percent of the amount of duty involved, whichever is higher.”;

OUR COMMENTS: The Finance Bill 2016 seeks to introduce a new Sub-section 13 by virtue of it a penalty of higher of five thousand rupees or three per cent of the amount of duty involved is being proposed to be imposed to a person who contravenes any of the provisions of Federal Excise Act or Rules made thereunder.

Disclosure of Information by a Public Servant

Section 47B

Existing

(1) Any information acquired under any provision of this Act or in pursuance of a bilateral or multilateral agreement or tax information exchange agreement shall be confidential and no public servant shall disclose any such information, except as provided under section 216 of the Income Tax Ordinance, 2001.

(2) The provisions of section 216 of Income Tax Ordinance 2001 shall, mutatis mutandis, apply to this section.

Proposed Amendment

(1) Any information acquired under any provision of this Act shall be confidential and no public servant shall disclose any such information, except as provided under section 216 of the Income Tax Ordinance, 2001 (XLIX of 2001).

(2) Notwithstanding anything contained in sub-section (1) and the Freedom of Information Ordinance, 2002 (XCVI of 2002), any information received or supplied in pursuance of bilateral or multilateral agreements with government of foreign countries for exchange of information under section 47A shall be confidential.”;

OUR COMMENTS: Public servants are currently required not to disclose any confidential information except as provided under Section 216 of the Income Tax Ordinance, 2001. By substituting this Section, it is being proposed that any information received or supplied in pursuance of bilateral or multilateral agreements with government of foreign countries for exchange of information under Section 47A shall be confidential notwithstanding anything contained in Sub-section (1) and the Freedom of Information Ordinance, 2002.

THE FIRST SCHEDULE

The Finance Bill, 2016 seeks to enhance the rate of Federal Excise Duty (FED) on various excisable goods in the following manner:

Table I – Excisable Goods

Item Description	Existing	Proposed
Aerated waters	10.5%	11.5%
Aerated waters containing added sugar or other sweetening matter or flavored	10.5%	11.5%
Aerated waters if manufactured wholly from juices or pulp of vegetables, food grains or fruits and which do not contain any other ingredients, indigenous or imported, other than sugar, coloring materials, preservatives or additives in quantities prescribed under the West Pakistan Pure Food Rules, 1965	10.5%	11.5%
Locally produced cigarettes if their on- pack printed retail price exceeds Rs. 3,350 (proposed Rs. 4,000 / 4,400) per thousand cigarettes		
For the period from 01-07-2016 to 30-11-2016	Rs. 3,030	Rs. 3,436
For the period from 01-12-2016 onwards	Rs. 3,030 per thousand Cigarettes	Rs. 3,705 per thousand Cigarettes
Locally produced cigarettes if their on-pack printed retail price exceeds Rs. 3,350 (proposed Rs.4,000 / 4,400) per thousand cigarettes		
For the period from 01-07-2016 to 30-11-2016	Rs. 1,320	Rs. 1,534
For the period from 01-12-2016 onwards	Rs. 1,320 per thousand Cigarettes	Rs. 1,649 per thousand Cigarettes
Portland cement, aluminous cements, super sulphate cements, whether or not coloured or in the form of clinkers	5% of the retail price	Re 1 per Kilogram
White Crystalline Sugar	8% ad val.	0%

Table II – Excisable Services

Federal Excise Duty at the rate of sixteen / ten percent is presently leviable on following services:

- (i) Advertisements on closed circuit T.V.;
- (ii) Advertisements on cable T.V. network;
- (iii) Advertisements in newspapers and periodicals (excluding classified advertisements), and on hoarding boards, poles signs and sign boards;

- (iv) Shipping agents;
- (v) Services provided or rendered by banking companies, insurance companies, modarabas, musharikas, leasing companies, foreign exchange dealers, non-banking financial institutions, Assets Management Companies and other persons dealing in any such services.
- (vi) Franchise services; and
- (vii) Services provided or rendered by stock brokers.

Provinces and various Chambers of Commerce and Industry have demanded withdrawal of FED on above services as the Provinces are already charging sales tax on these services. Through the proposed amendment, the Finance Bill, 2016 seeks to withdraw FED on above services on which Provinces are collecting sales tax.

THE SECOND SCHEDULE

White crystalline sugar is proposed to be removed from the ambit of goods on which FED is collectible under the sales tax mode with entitlement for adjustment with sales tax and vice versa. It is proposed to levy sales tax on sugar at a reduced rate of eight percent.

THE THIRD SCHEDULE

White Cement

Through Finance Act 2015, white Cement was granted exemption from levy of Excise Duty. The Finance Bill 2016 seeks to abolish this exemption by omitting relevant entries from the Third Schedule.

Exemption from levy of FED to businesses to be established in Gwadar Free Zone

It is proposed to allow exemption from chargeability of Federal Excise Duty to business to be established in Gwadar Free Zone by adding them in the Third Schedule. This exemption shall be available to sales / supplies made within the Gwadar Free Zone. However, sales / supplies outside the Gwadar Free Zone and into the territory of Pakistan shall be subjected to applicable rates of sales tax.

To give effect to the above exemptions, following entries are proposed to be inserted in Table 1 of the Third Schedule to the Federal Excise Act, 2005:

1. Materials and equipment for construction and operation of Gawadar Port and development of Free Zone for Gawadar 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 Gawadar Port, having Concession Agreement with the Gwadar Port Authority, for a period of forty year, subject to the conditions and procedure as specified in the Sales Tax Act, 1990.

2. 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.

CUSTOMS ACT, 1969

(IV OF 1969)

SIGNIFICANT AMENDMENTS

Section 19 General Power to Exempt from Customs Duties Enhanced

Through Finance Act, 2015, various events and conditions were introduced empowering the Federal Government, pursuant to the approval of the Economic Coordination Committee of Cabinet, to exempt any import or taxable supplies of goods from payment of the whole or any part of the tax chargeable. These events and conditions are as under:

- whenever circumstances exist to take immediate action for the purposes of national security;
- natural disaster;
- national food security in emergency situations;
- protection of national economic interests in situations arising out of abnormal fluctuation in international commodity prices;
- removal of anomalies in taxes;
- development of backward areas; and
- implementation of bilateral and multilateral agreements.

The proposed amendment seeks to further empower the Federal Government under this Sub-section in the matters relating to international financial institution or foreign government-owned financial institutions.

Section 155H Sharing of Confidential Information

The bill seeks to add 2 new clauses (d) and (e) after clause (c) whereby all trade confidential information gathered by Customs shall be shared to the extent agreed under a memorandum of understanding, bilateral, regional, multilateral agreements or conventions. Further public disclosure of valuation data through any medium containing description of items, origin, currency, declared and assessed unit value without disclosing name and address of the importer or exporter or their suppliers shall also be permitted.

AMENDMENTS IN THE FIRST SCHEDULE

The First Schedule is being amended by virtue of proposed bill as follows:

S. No	Measure	Existing CD%	Proposed CD%
1	Exemption from CD on Water Quality Testing Kits	20	0
2	Concessions of CD on local manufacturing of LED Lights	20	5
3	Exemption from CD on Linear Akyl Benzene	2	0
4	Reduction in CD on raw material of PVC Resin	5	3
5	Reduction in CD on White Spirits	10	3
6	Reduction in CD on Stamping Foil	20	16
7	Reduction of CD on Fatty Alcohol Ethoxylate	15	5
9	Reduction in CD on CFC Free Gases	15	11

8	Reduction in CD rate for Aluminum Sheet in Coil	20	11
9	Reduction in CD on Thermostats of Deep-Freezers	20	3
S.No	Measure	Existing CD%	Proposed CD%
10	Rationalization of CD on Betel nuts and Betel Leaves	10 Rs.300/kg	20 Rs.600/kg
11	Rationalization of CD on Almonds	10	20
12	Rationalization of CD Frozen fish	10	20
13	Increase of CD on Medium Density Fiber board	15	20
14	Increase of CD on Cement Clinker	2	11
15	Increase in CD on Semi Printed/Printed Security Paper	5	16
16	Increase in CD on Live Chicken stock and Eggs of chicken	5	11
17	Increase in CD on Birds eggs(not in shell)	5	16
18	Removal of RD from Bead Wire for tyres Manufacturers	RD 10	0
19	Removal of RD from Carbon Steel Strips used by Razor blade manufacturers	RD 17.5	0
20	Levy of RD on Powdered Milk	20	20+25RD
21	Levy of RD on Whey Powder	20	20+25RD

SIGNIFICANT AMENDMENTS IN SECOND SCHEDULE

The bill proposes to substitute the Fifth Schedule in the manner specified in the Second Schedule to the Customs Act, 1969. The proposed changes are as follows:

Part-I

Import of Plant, Machinery, Equipment and Apparatus, Including Capital Goods for various industries/sectors

A new proviso is proposed to add after clause (i) as;

Provided that the condition of “local manufacturing” shall not be applicable on import of machinery, equipment and other capital goods imported as plant for setting up of a new power

unit of 25 MW and above duly certified by Ministry of Water and Power in respect of those power projects which are on IPP mode meant for supply of electricity to national grid.

Change in Customs Rate

S. No.	Description	Customs Duty (%)	
		Old	New
1.	Dairy, livestock and poultry, machinery	5	2
2.	Machinery used for dehydration, Green House Farming (Geo-synthetic liners), Horticulture and Floriculture (Hand tools), Grain handling and storage, cool chain, coal firing system, gas processing plants and oil and gas field, fixture and fittings for hospital and power generation and power transmission and grid station and machinery and tools used for stone work and diamond tools. Effluent treatment plants. Remote control for solar charge controller	5	3

Part-II

Import of Active Pharmaceutical Ingredients, Excipients/Chemicals, Drugs, Packing Material/ Raw Materials for Packing and Diagnostic Kits and Equipments, Components and other Goods

The bill seeks to amend this part by introducing a new clause (v) of the part.

Change in Customs Rate

S. No.	Description	Customs Duty (%)	
		Old	New
1.	Moxifloxacin, Alfacalcidole, Acid Hypophosphosous (Dextro - Methorph Hbr, Sodium Benzoate, Sodium Valproate, Alprazolam, Fluconazole, Famotidine, Lactulose, Hydracortisone Acetate Micronised, Clotrimazole, Ferrous Sulphate, Artemether and Lumefantrine). Pre-printed polypropylene tubes with tamper proof closures	5	3

Part-III

Import of Raw Materials, Inputs for Poultry and Textile Sector and Other Goods

- Rates for custom duty of following items have been changed;

S. No	Description	PCT Code	Customs duty (%)	
			Old	New
1	Ethylene	2901.2100	2	3
2	PTA	29.17.3610	4	5
3	Plastic Film (Medical grade) Blister Paper	3920.2040 3921.9090 4802.6990	-	10
4	Chrysotile Asbestors, Uncoated paper and paperboard, Bicycle Chain parts		-	15
5	Carbon Steel strips of thickness 0.09 to 0.1 mm and width 22.2to22.4 mm. Lead Acid Batteries for Telephone Exchange.		-	11

Part-IV

Imports of Machinery and Equipment for Textile Sector

The part IV Miscellaneous has been proposed to substituted whereby Machinery and equipment, not manufactured locally, if imported by Textile industrial units registered with Ministry of Textile Industry shall be charged duty at the rate of 0%.

Part-V
Import of Automotive Vehicles (CBUs)
Under Automotive Development Policy (ADP) 2016-21

The bill seeks for implementation of Automotive Development Policy (ADP) 2016-2021. The following new table has been introduced;

S. No (1)	Description (2)	PCT Code (3)	Customs Duty (4)
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%

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE 2001

(XLII OF 2001)

The bill seeks to add two new subsection (2A) and (2B) in Section 3 after subsection (2). By this proposed amendment the provision of clause (b) of subsection (2) and subsections (6) and (7) of section 3, provision of subsection (2), (3), (6) and (7) of section 13, serial number 2, in column (1), and the entries relating thereto of the Fifth Schedule and serial number 48, in column (1), and entries relating thereto of Table 1 of the Sixth Schedule of the Sales Tax Act, 1990 shall apply, mutandis mutandis, to the services rendered or provided under the Islamabad Capital Territory (Tax on Services) Ordinance 2001.

Further sales tax at the rate of sixteen percent on taxable services provided in Islamabad Capital Territory shall not be applicable to regulatory and licensing services rendered or provided by an organization established by or under a federal statute.

This Page Left Blank



Corporate Office:

5-Nasim C.H.S. Major Nazir Bhatti Road

Off: Shaheed-e-Millat Road, Karachi.

Tel.: (92-21) 34945427,

34946112, 34931736

Fax: (92-21) 34932629

Email: rasgkhi@rasgco.com,

rasg@super.net.pk

Regional Offices:

Lahore

**Building No.35 - D / E, Ali Block,
New Garden Town, Lahore.**

Tel.: (92-42) 35940246 - 7

Fax: (92-42) 35940248

Email: rasglhr@rasgco.com

Islamabad

**Office #3, 1st Floor, 96-W, Khyber Plaza,
Fazl-ul-Haq Road, BlueArea, Islamabad.**

Tel.:+92-051-2804245-6

+92-051-2540503

Email: rasgisld@rasgco.com