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A Brief on Finance Supplementary Bill 2018

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The Finance Minister today presented **Finance Supplementary (Amendment) Bill 2018** in the National Assembly for amendment of certain provisions of the Federal tax laws.

We are pleased to summarize our comments containing our interpretation of the proposed legislation in this brief.

The proposed amendments shall take effect from the next date of assent given by the President. However, certain amendments in the Income Tax Ordinance, 2001 shall be effective from 01 July 2018.

We recommend that while considering their application to any particular case, reference be made to specific wordings of the relevant statutes.

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An Overview

The Finance Minister today announced Supplementary Budget, and perhaps the one word which aptly describes the new measures is, cautious. Faced with a double jeopardy of bringing down the fiscal deficit, to possibly soften International Monetary Fund, and/or other financiers, while at the same time taking care not to rile up political sentiments, admittedly, there was little maneuverability available to take a more aggressive approach.

It has been proposed not to impose additional petroleum levy during the current year as envisaged in the original budget, and curtail development expenditure. In essence both these budget line items are controllable, in so far as much that the government might simply have not issued the notification to enhance petroleum levy and not released the development budget.

The most interesting, and rather curious, revenue measure is generation of an additional Rs. 92 billion through usage of modern technologies. Since no details were provided in the speech, exactly what technology can accomplish this feat remains uncertain. Albeit, satellite imaging, Google Maps in normal parlance, is an effective tool to monitor crops production, stockpiling and perhaps smuggling, all of which can go a long way in collecting the right taxes. Automation at ports and portals can greatly enhance capacity to ensure that all indirect taxes are efficiently and completely collected. Global reconciliations by industry done independently and professionally may not only increase taxes but this can go a long way in documenting the economy.

As regards the other tax measures, rationalization of tax rates for individuals, increase in levies relating to luxury cars and phones, increase in taxes on tobacco, these by and large were writings on the wall. On the other hand, while we believe that removal of restriction on non-filers to buy automobiles and land is a positive step, since it was unnecessarily causing hardship for a large segment of the populace not required to file tax returns, we remain skeptical about increasing withholding taxes on banking transaction of non-filers. Withholding taxes are regressive in nature and continued reliance thereon highlights inefficiency in collecting direct taxes on income. Accordingly, such policies need to be revisited, perhaps coupled with changes in the Income Tax laws geared to address exemptions and anomalies benefitting the affluent, and to focus the attention of the tax collector towards ensuring compliance rather than meeting budgets.

Notwithstanding the above, it might be pertinent to point out that reduction in development budget will negatively impact GDP growth while increase in gas prices can have an inflationary impact especially on the poor's staple food. And at this point the Government's strategy for tackling the circular debt genie is unclear. The finance team has many more hurdles to tackle going forward.

Whilst it is evident that the fiscal deficit was the primary objective in the first go, we have always maintained that the domestic economy, by and large, is manageable. The Government needs to focus on the dollar economy, the trade deficit, which as in the past decade or so can potentially continue to seriously hamper GDP growth, job creation and industrialization.

As the Government gets firmly in the driving seat, we expect policy decisions designed to curb imports, with a probable inflationary impact.

Income Tax

Closure of Audit - Scheme Introduced

Sections 214E and 214D

Prior to Finance Act 2018, mechanism for automatic selection for audit of income tax affairs was provided in cases where:

(i) Return of total income has not been filed within the due date including the date extended by FBR or Commissioner;

(ii) The tax payable on the basis of return of total income has not been paid

This provision was however not applicable in cases where:

(i) 25 percent higher tax than the tax paid in the immediately preceeding tax year has been paid.

(ii) 2 percent tax on turnover has been paid by a person who in the preceding tax year has either not filed the return or had declared income below taxable limit.

Realizing the hardship posed for new taxpayers desirous of coming within the fold of tax net who file their income tax returns after the due date and to provide relief to new tax payer coming into the tax net duly supplemented by efforts geared towards broadening of the tax base, section 214D was deleted.

As a confidence building measure for the new taxpayers and to address the issue of proceedings initiated under section 214D prior to Finance Act 2018, the Bill proposes to insert a new section 214E to provide as follows:

Notwithstanding with the omission of section 214D, audit of income tax affairs of a tax payer shall be deemed to have been concluded incases where,

(i) The taxpayer has been selected for audit under section 214D.

(ii) Notice for the amendment of assessment has not been issued.

(iii) Tax payer has revised return of total income voluntarily, by 31 December 2018 along with the payment of;

- 25% higher tax than the tax paid with return on basis of taxable income or
- 2% of the turnover where no tax is payable, or
- Penalty of 0.1% of tax payable for each day subject to a maximum of 50% of tax payable or if no tax payable than, minimum penalty of Rs. 20,000.

Provided that the above condition shall not apply to taxpayers having only salaried income or income subject to Final tax regime.

Under the proposed section explanatory note has been inserted with an intent to clarify that closure of audit has no baring on the audit proceedings initiated or to be initiated;

- on the basis of definite information, or
- Selection of audit by the Commissioner or FBR.

Restriction on purchase of certain assets by non-filers withdrawn

Section 227C

The Finance Act 2018 imposed restriction on non-filers for registration of immovable property worth Rs. 5 million or more and registration of vehicle.

The Bill proposes to withdraw this section.

Tax rates for Individuals revised

First Schedule Division 1 of Part 1

Until the Finance Act 2018, the law prescribed separate rates for taxation for Individuals and Associations of Persons [AOP] as follows:

- Other than salaried Individuals and the AOPs [Clause 1].

- Salaried Individuals [Clause 1A].

The Finance Act 2018 however introduced changes in these applicable rate of taxes for Individuals and AOPs. All individuals [salaried individuals and others] were brought under clause 1 and a separate clause 2 was introduced for AOPs.

The Bill proposes to introduce changes to the applicable rates of taxes for Individuals. Separate rates have been introduced for other than salaried individuals and salaried Individuals under clauses 1 and 1A respectively. The separate clause 2 for AOPs as enacted by Finance Act 2018 remains applicable.

Comparative analysis is given below separately.

Non-salaried individual

S. No.	Taxable Income (Rs.)	Existing Rate	Proposed Rate
1	Upto 400,000	0	0
2	400,000 to 800,000	Rs. 1,000	Rs. 1,000
3	800,000 to 1,200,000	Rs. 2,000	Rs. 2,000
4	1,200,000 to 2,400,000	5% of exceeding amount	5% of exceeding amount
5	2,400,000 to 3,000,000	Rs 60,000 + 10%	Rs. 60,000 + 15%
6	3,000,000 to 4,000,000	Rs 60,000 + 10%	Rs. 150,000 + 20%
7	4,000,000 to 4,800,000	Rs. 60,000 + 10%	Rs. 350,000 + 25%
8	4,800,000 to 5,000,000	Rs 300,000 + 15%	Rs. 350,000 + 25%
9	Above 5,000,000	Rs 300,000 + 15%	Rs. 600,000 + 29%

Salaried individuals:

S. No.	Taxable Income (Rs.)	Existing Rate	Proposed Rate
1	Upto 400,000	0	0
2	400,000 to 800,000	Rs. 1,000	Rs. 1,000
3	800,000 to 1,200,000	Rs. 2,000	Rs. 2,000
4	1,200,000 to 2,400,000	5% of exceeding amount	5% of exceeding amount
5	2,400,000 to 2,500,000	Rs. 60,000 + 10%	5% of exceeding amount
6	2,500,000 to 4,000,000	Rs. 60,000 + 10%	Rs. 65,000 + 15%
7	4,000,000 to 4,800,000	Rs. 60,000 + 10%	Rs. 290,000 + 20%
8	4,800,000 to 8,000,000	Rs. 300,000 + 15%	Rs. 290,000 + 20%
9	Above 8,000,000	Rs. 300,000 + 15%	Rs. 1,090,000 + 25%

The Finance Act 2018 brought significant reductions in the tax rates for all individuals. The Bill proposes to bring upward revision in the higher slabs.

A comparison of the rates as per proposed Bill with that as per Finance Act 2018 and those applicable as at 30 June 2018, is given below.

Non Salaried Individual

Income	Tax liability as per			Rs Saving from	
	30-Jun-18	Act 2018	Bill	Act 2018	Bill
500,000	7,000	1,000	1,000	6,000	6,000
1,000,000	69,500	2,000	2,000	67,500	67,500
1,500,000	144,500	15,000	15,000	129,500	129,500
2,000,000	244,500	40,000	40,000	204,500	204,500
2,500,000	344,500	70,000	75,000	274,500	269,500
3,000,000	469,500	120,000	150,000	349,500	319,500
5,000,000	1,019,500	330,000	600,000	689,500	419,500

Income	Tax liability as per			Rs Saving from	
	30-Jun-18	Act 2018	Bill	Act 2018	Bill
7,000,000	1,669,500	630,000	1,180,000	1,039,500	489,500
10,000,000	2,719,500	1,080,000	2,050,000	1,639,500	669,500

Salaried Individual

Income	Tax liability as per			Rs Saving from	
	30-Jun-18	Act 2018	Bill	Act 2018	Bill
500,000	2,000	1000	1,000	1,000	1,000
1,000,000	39,500	2,000	2,000	37,500	37,500
1,500,000	92,000	15,000	15,000	77,000	77,000
2,000,000	172,000	40,000	40,000	132,000	132,000
2,500,000	259,500	70,000	65,000	189,500	194,500
3,000,000	359,500	120,000	140,000	239,500	219,500
5,000,000	872,000	330,000	490,000	542,000	382,000
7,000,000	1,422,000	630,000	890,000	792,000	532,000
10,000,000	2,322,000	1,080,000	1,590,000	1,242,000	732,000

Withholding tax rate on banking transaction enhanced for non-filers

Section 236P- Division XXI, Part IV- First Schedule

The Bill proposes to enhance the applicable withholding tax rates on banking transaction otherwise than through cash from 0.4% to 0.6% for non-filers.

Second Schedule

Part I – Exemptions:

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

New Exemptions:

Donation to Supreme Court of Pakistan Diamer Bhasha & Mohmand Dams Fund - Clause 61

Taxpayers to be allowed direct deduction from taxable income on amount paid as Donation to Supreme Court of Pakistan Diamer Bhasha & Mohmand Dams Fund.

Exemption to Supreme Court of Pakistan Diamer Bhasha & Mohmand Dams Fund- Clause 66.

Any income derived by Supreme Court of Pakistan Diamer Bhasha & Mohmand Dams Fund shall be exempt.

Exemptions Withdrawan

Exemption to Provincial Governors and Federal Ministers withdrawn- Clause 51, 52 and 53

The Bill proposes to withdraw exemptions available to Provincial Governors with respect to;

- Rent free government accommodation
- Free conveyance and entertainment allowance

The Bill also proposes to withdraw exemptions available to Federal Ministers with respect to

- Rent free government accommodation
- House rent allowance
- Free conveyance and entertainment allowance

Part IV – Exemptions from application of specific provisions

Unexplained income or assets- Clause 107

The Bill proposes to provide exclusion to persons giving donations to Supreme Court of Pakistan

Diamer Bhasha & Mohmand Dams Fund from any inquiry regarding source of such donation.

Exemption from withholding taxes and minimum tax on turnover- Clause 108

- Supreme Court of Pakistan Diamer Bhasha & Mohmand Dams Fund proposed to be exempted from application of minimum taxation on turnover.

- Provisions of withholding of taxes on profit on debt, cash withdrawals from bank and tax on transaction in banks shall not apply to Supreme Court of Pakistan Diamer Bhasha & Mohmand Dams Fund

Exemption to non filers - Clause 109

Non filer making donations to Supreme Court of Pakistan Diamer Bhasha & Mohmand Dams Fund proposed to be exempted from collection of advance taxes on transfer of funds through non-cash banking transaction.

Sales Tax

Exemptions under Table-1 of Sixth Schedule

The Bill proposes certain exemption on both import ir local supply of certain medical and surgical goods, in addition to the exemptions already covered under the following headings:

- Angioplasty products
- Angiography product
- Cardiac electro-physiology products
- Cardiac surgery products
- Other medical equipments
- Peripheral Interventions Equipment:

Exemptions under Table-2 of Sixth Schedule

The Bill proposes to exempt only the local supply of following goods:

S. No.	Description	PCT Heading
24.	LED or SMD lights and bulbs meant for conservation of energy.	8539.5010 8539.5020 9405.1030 and 9405.4020

Exemptions under Table-3 of Sixth Schedule

The Bill also proposes to extend scope of exemption on import of parts/components for manufacturing of LED bulbs.

Proposed Rate Changes under Table-1 of Eighth Schedule

The reduced rate of 12% is proposed to apply for RLNG in addition to LNG. The existing clause shall read as follows.

S. No.	Description	PCT Heading	Rate of Sales Tax	Condition
51.	LNG/RLNG	2711.1100 and 2710.2100	12%	If supplied to gas transmission and distribution companies

Further, the rate applicable on Potassium Chlorate ($KClO_3$) is proposed to be enhanced as follows:

S. No.	Description	Existing Rate	Proposed Rate
56.	Potassium Chlorate ($KClO_3$	17% alongwith rupees 40 per kilogram	17% alongwith rupees 65 per kilogram

The above rate change is also proposed to be aligned in column (5) of the above Clause.

Federal Excise Duty

Definition

Section 2(24A)

The Bill proposes to introduce a definition of "un-manufactured tobacco" which means that tobacco useable for manufacture of cigarettes as manufactured by Green Leaf Threshing Units after processing and conversion of tobacco green leaf.

Offences and Penalties / Seizures

Section 19(10), 26(1) & 27

The Bill seeks to introduce the provision of penalty and seizures whereby the person engaged in manufacture or production of un-manufactured tobacco in the manner contrary to provision of Federal Excise Act, 2005 [FE Act] or to evade duty, the goods shall be liable to outright confiscation and thereafter shall be destroyed in such manner as may be approved by the Commissioner and shall not be entitled for any such compensation.

In case of un-manufactured tobacco seized on account of evasion of duty, the owner shall be given an option to pay penalties and fines for release of such un-manufactured tobacco in lieu of confiscation provided that if such release is not claimed or availed no reduction or abatement in respect of amounts of duty, penalties and fine shall be admissible in case such un-manufactured tobacco are auctioned.

Further, in case confiscated un-manufactured tobacco are unfit for human consumption, the Commissioner may allow destruction of such un-manufactured tobacco in such manner as he may deem appropriate.

FED rates enhanced

Table-I of the First Schedule

S. No.	Description of goods	Existing FED Rate	Proposed FED Rate
7	Unmanufactured tobacco	Rs. 10 per kilogram	Rs. 300 per kilogram
9	Locally produced cigarettes if their on-pack printed retail price exceeds four thousand five hundred rupees per thousand cigarettes.	Rs. 3,970 per 1000 cigarettes	Rs. 4,500 per 1000 cigarettes
10	Locally produced cigarettes if their on-pack printed retail price exceeds two thousand nine hundred and twenty-five rupees per thousand cigarettes but does not exceed four thousand five hundred rupees per thousand cigarettes.	Rs. 1,776 per 1000 cigarettes	Rs. 1,840 per 1000 cigarettes
10a	Locally produced cigarettes if their on-pack` printed retail price does not exceed two	Rs. 854 per 1000 cigarettes	Rs. 1,250 per 1000 cigarettes

S. No.	Description of goods	Existing FED Rate	Proposed FED Rate
	thousand nine hundred and twenty-five rupees per thousand cigarettes.		
55	Imported motors cars, SUVs and other motor vehicles of cylinder capacity of 1800cc or above, principally designed for the transport of persons (other than those of headings 87.02), including station wagons and racing cars of cylinder capacity of 1800cc or above.	10%	20%

Exemption proposed to be withdrawn

Serial No. 16 of Table-I of the Third Schedule

Presently, exemption is available on any goods which inter-alia includes unmanufactured tobacco which are manufactured in-house by a registered person and used for the manufacture and production of goods on which duty of excise is paid by such person.

Now, the Bill proposes to withdraw the exemption on such un-manufactured tobacco.

Customs Duty

Fifth Schedule

Part I (Sr. No. 23)

The Bill proposes to include LED Bulbs alongwith LED Lights so as to make the parts and components for manufacturing of both LED Lights and LED Bulbs zero rated.

Part III (Sr. No. 96)

It is proposed to replace PCT Code 7606.9220 with PCT Code 7606.9290 under the description of Coils of aluminium alloys as the PCT Code 7606.9220 is no more under the Customs Tariff 2018-2019.

Part III (Sr. No. 108)

Bill proposes to include Single mode Optical Fiber alongwith Multimode Optical Fiber for the purpose of reduced Customs duty of 5%. Existing Customs duty on Single mode Optical Fiber is 20% under PCT Code 9001.1000.

Part VII Table 'C'

Proposed new insertion reducing Customs duty on miscellaneous industrial raw materials or industrial inputs.

Sr. No.	Description	PCT Code	Existing Customs duty %	Proposed Customs duty %
1	Tallow	1502.1000	11	5
2	Other	2835.3900	11	5
3	Acetone	2914.1100	16	11
4	Ethyl acetate	2915.3100	20	16
5	n-Butyl acetate	2915.3300	20	16
6	sec-Butyl acetate	2915.3930	20	16
7	Oxalic acid	2917.1110	11	5
8	Citric acid	2918.1400	11	5
9	Other	3203.0090	16	11
10	Other	3204.1590	16	11
11	Dyes, sulphur	3204.1910	16	11
12	Dyes, synthetic	3204.1990	16	11
13	Other	3206.2090	16	11
14	Ultramarine and preparations based thereon	3206.4100	16	11
15	Lithopone	3206.4210	16	11
16	Pigments and preparations based on cadmium compounds	3206.4920	16	11
17	Greases	3403.1910	20	16
18	Other	3403.1990	20	16
19	Other	3403.9990	20	16
20	Activated carbon	3802.1000	11	5
21	With a basis of amylaceous substances	3809.1000	16	11
22	Of a kind used in the paper or like industries	3809.9200	16	11
23	Compound plasticizers for rubber or plastics	3812.2000	16	11
24	Non refractory mortars and concretes	3824.5000	20	16
25	Reinforced only with metal	4010.1100	16	11
26	Reinforced only with textile materials	4010.1200	16	11
27	Containing 85% or more by weight of cotton	5207.1000	11	8
28	Other	5207.9000	11	8

Sr. No.	Description	PCT Code	Existing Customs duty %	Proposed Customs duty %
29	Of aluminium alloys	7606.1200	11	5
30	Aluminium lids for cans of carbonated soft drinks	8309.9010	11	5
31	Of plastics, not covered with textile material	9606.2100	20	16
32	Button blanks	9606.3020	20	16
33	Fitted with chain scoops of base metal	9607.1100	20	16
34	Other	9607.1900	20	16

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