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Finance Supplementary (Amendment) Bill, 2018

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FINANCE SUPPLEMENTARY (AMENDMENT) BILL, 2018

Finance Minister – Mr. Asad Umar presented 'Finance Supplementary (Amendment) Bill 2018' in the National Assembly today.

This memorandum gives a brief overview of significant amendments proposed by the Finance Supplementary (Amendment) Bill, 2018.

Amendments proposed will be effective from the next date of assent given by the President except for certain amendments in the Income Tax Ordinance, 2001 which will be effective from July 1, 2018.

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

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OVERVIEW

The new Government led by Imran Khan presented a Supplementary Budget for the Financial Year July 1, 2018 to June 30, 2019 [2018-2019]. This is an expected revision of the budget presented by the transitionary Government led by Shahid Khaqan Abbasi that came into existence on disqualification of Nawaz Sharif. It is generally opined that estimates for revenue and expenditure laid down by the transitionary government were not achievable. This has been emphatically stated by the Finance Minister - Asad Umar in his speech of the National Assembly.

In our opinion, the Finance Minister has appropriately stated that economically Pakistan had not been moving in the right direction. Persistent shortfall / deficit in fiscal and current accounts has touched an alarming level, that requires immediate structural corrections. As also observed by the Finance Minister, present position is not a result of any particular tax year's budget. This situation is the result of policies, practices and steps undertaken in the last 30 to 40 years. As per the Finance Minister, the steps undertaken in this supplementary budget are indicators of sustainable corrections in fiscal and current accounts. Imposition of Regulatory Duties (RD) on certain luxury items with corresponding abolition of RD on items used in export industry indicates government's approach to support domestic, export-oriented manufacturing industry. This is an appreciable step.

On the personal taxation side, there had been substantial reduction in tax incidence for salaried and non-salaried individuals with a maximum rate of 15% for all individuals. In the supplementary bill, reduction in maximum rate to 15% w.e.f. July 1, 2018 has been revised upward to 25% and 29% respectively. This restatement has been made both for salaried and non-salaried individuals. There is a view and rationale that reduction in tax incidence for salaried individuals be continued.

On the expenditure side, some realistic estimations and reallocations have been made.

There was a need for readjustment in the budget estimates made by transitionary government and supplementary budget has laid down some indications & basis for these structural corrections. It is advised that this new government should take concrete steps in the first budget to be announced in May – June 2019 in this respect. The ultimate corrections can only be made if there are steps for industrialisation, documentation and consolidation of economy businesses of the country.

INCOME TAX

CHANGE IN TAX RATES FOR INDIVIDUALS

Through the Finance Act, 2018, uniform tax rates for all individuals (whether salaried or otherwise) were prescribed with maximum rate of tax applicable @ 15% of income in excess of Rs. 4.8 million. Through the Supplementary Bill, separate tax rates have been proposed for salaried and non-salaried individuals. No change has been proposed in the tax rates for taxable income up to Rs 2.4 million in both the cases. However, the tax rates are proposed to be increased gradually up to 25% for salaried individuals and 29% for non-salaried individuals as against the maximum tax rate of 15% previously promulgated. The changes in tax rates are proposed to be applicable w.e.f. July 1, 2018. This will require upward readjustment for withholding made in accordance with the Finance Act, 2018 for the period after July 1, 2018.

The proposed tax rates for both salaried and non-salaried individuals are provided in Annexure along with detailed analyses of existing versus proposed tax rates and consequential impact on taxpayers.

SCHEME FOR CLOSURE OF TAX AUDIT

Section 214D was introduced through Finance Act, 2015 whereby a person was automatically subjected to tax audit if that person fails to either:

(i) file tax return by the due date for filing of the tax return; or

(ii) pay tax along with the tax return.

The automatic selection was however not applicable if the person files the return within 90 days from the due date, and also pays higher amount of tax, as prescribed therein.

After introduction of section 214D, cases were selected for tax audit over a period of time, which not only created hardship for taxpayers but also resulted in capacity issues for FBR to conduct and conclude tax audits. It is reported that millions of tax audits are pending disposal.

Finance Act 2018 addressed the above issue for future and abolished section 214D from the statute. However, in order to create a deterrence against late filing of return, a new section 182A was introduced whereby a person filing tax return for tax year 2018 and onwards shall not be considered as ‘active taxpayer’ if that person files the return after the due date for filing tax return. That person was also disentitled from carrying forward losses in the return late filed. The un-adjusted loss shall however be available for adjustment in next year subject to time limitation prescribed and provided that the return for next year was filed within time.

The Finance Supplementary (Amendment) Bill, 2018 has addressed the cases already selected for tax audit under the repealed section 214D of the Ordinance. A scheme is now proposed for closure of the pending tax audits whereby the same shall be deemed to have been concluded if:

(i) notice under section 122 has not yet been issued; and

(ii) The taxpayer has revised the tax return voluntarily by December 31, 2018, along with payment of tax which is at least 25% higher than the tax paid with return and where no tax is payable, 2% of the turnover and where no turnover is declared, penalty of Rs. 20,000 has voluntarily been paid.

It is provided that the aforesaid condition of payment of 25% higher tax or 2% of the turnover (if no tax is payable), as the case may be, shall not apply if the taxable income of the taxpayer comprises only salary income or income subject to final taxation.

It is clarified that only audits initiated as a result of automatic selection under the omitted section 214D shall stand abated under the scheme. In other words, audits initiated or to be initiated on the basis of definite information or otherwise as per provisions of section 177 or 214C may be independently conducted.

RESTRICTION ON NON-FILERS FOR PURCHASE OF IMMOVABLE PROPERTY AND NEW MOTOR VEHICLES

Section 227C was introduced through Finance Act, 2018 whereby restriction was placed on non-filers to purchase immovable property or new motor vehicles.

Through Finance Supplementary (Amendment) Bill, 2018, section 227C is proposed to be abolished. The Finance Minister in his speech has explained the rationale of this measure that such restriction had created difficulties for non-resident Pakistanis, as they were not required to file tax return for their foreign-source income but were restricted from buying property or motor vehicle.

Introduction of section 227C was a fundamental step to curb parking of untaxed money in acquisition of immovable property and new motor vehicles, to broaden the tax base and increase number of tax filers. The practical problem as highlighted by Finance Minister could have been addressed by appropriately amending the law, instead of altogether abolishing section 227C.

NON FILERS - ADVANCE TAX ON TRANSACTIONS THROUGH BANKING INSTRUMENTS

The rate of tax collectible under section 236P of the Ordinance on banking transactions by non-filers is proposed to be increased from 0.4% to 0.6 %.

This is the rate which was applicable prior to the amendment by the Finance Act, 2018. However it could never be practically applied and a reduced rate of 0.4% was notified from time to time. The increased rate will be applicable once the Supplementary Bill is enacted as an Act of the Parliament.

EXEMPTION WITHDRAWN FOR PROVINCIAL GOVERNORS AND FEDERAL MINISTERS

It is proposed that the following perquisites of the Provincial Governors shall be taxable:

- Free of rent premises for accommodation
- Conveyance
- Entertainment allowance

It is also proposed that the exemption available to the perquisites and allowances of the Ministers of the Federal Government be withdrawn. These inter alia include free conveyance, entertainment & house-rent allowances and rent-free government accommodation.

SUPREME COURT OF PAKISTAN – DIAMER BHASHA & MOHMAND DAM FUND

The Government has established "***Supreme Court of Pakistan - Diamer Bhasha & Mohmand Dam Fund***" (hereinafter referred to as Fund) on the directions of Supreme Court of Pakistan.

The Supplementary Finance Bill has proposed following amendments to facilitate objectives of establishing the Fund:

(i) Donations made to the Fund are eligible for straight deduction in the hands of donors;

(ii) Income derived by the Fund is proposed to be exempt from tax including minimum tax under section 113. The Fund is also excluded from the application of certain withholding provisions such as minimum tax (section 113), withholding tax on profit on debt, cash withdrawals and transaction with Banks etc.;

(iii) Immunity has been provided to contributions to the Fund from application of section 111 of the Ordinance, which deals with taxation of unexplained income or assets; and

(iv) The provisions of section 236P of the Ordinance i.e. tax withholding on banking transactions is proposed to be made inapplicable on the transfers to the Fund.

SALES TAX

SIXTH SCHEDULE - EXEMPTIONS

a) Import or supply of certain additional items for Angioplasty products, Angiography products, Cardiac Electrophysiology products, Cardiac Surgery Products, Equipment and Peripheral interventions equipment have been proposed to be exempted from levy of sales tax through insertion in serial No 112 of Table I to the Sixth Schedule to the ST Act, 1990.

b) Local supply only of LED or SMD lights and bulbs meant for conservation of energy (HS Code 8530.5010, 8539.5020, 9405.1030 and 9405.4020) have been proposed to be exempted from levy of sales tax.

c) Parts and components for manufacturing of LED bulbs are proposed to be exempted from levy of sales tax subject to specified conditions through amendment in item 15A of Annexure to Table III to the Sixth Schedule to the ST Act, 1990.

EIGHTH SCHEDULE – REDUCED RATE

a) Existing unconditional reduced rate of tax on supply of RLNG is now proposed to be amended whereby both LNG/RLNG would be subject to the said reduced rate of 12% if supplied to gas transmission and distribution companies.

b) It is proposed to increase the sales tax on Potassium Chorate (KCLO3) by Rs 25 (17% along with rupees 65 per Kilogram) on Import and supply thereof. Provided that rate of Rs 65 per kilogram shall not apply on imports made by and supplies made to organizations under the control of Ministry of Defence Production.

FEDERAL EXCISE DUTY

INCREASE IN RATES OF FEDERAL EXCISE DUTY

Rates of Federal Excise Duty, earlier applicable [under First Schedule to the Act] on the following goods are proposed to be further enhanced through the Finance Supplementary (Amendment) Bill 2018, in the manner tabulated below:

Description	Rates earlier applicable/enacted through Finance Act, 2018	Rates proposed through Finance Supplementary Bill 2018
Locally produced Cigarettes		
For on-pack printed retail price exceeding Rs 4,500 per 1,000 cigarettes.	Rs 3,970 per 1,000 cigarettes	Rs 4,500 per 1,000 cigarettes
For on-pack printed retail price between Rs 2,925 and Rs 4,500 per 1,000 cigarettes.	Rs 1,776 per 1,000 cigarettes	Rs 1,840 per 1,000 cigarettes
For on-pack printed retail price up to Rs 2,925 per 1,000 cigarettes.	Rs 854 per 1,000 cigarettes	Rs 1,250 per 1,000 cigarettes
Imported Motor cars, SUVs and other motor vehicles		
Imported Motor cars, SUVs and other motor vehicles of cylinder capacity of 1,800cc or above, principally designed for the transport of persons (other than those headings 87.02), including station wagons and racing cars of cylinder capacity of 1,800cc or above.	10% ad. val.	20% ad. val.

UN-MANUFACTURED TOBACCO

In order to curb the illicit manufacture/ sale of un-manufactured tobacco, the following amendments are proposed through the Finance Supplementary (Amendment) Bill 2018:

- The expression, 'un-manufactured tobacco' is proposed to be defined to mean tobacco useable for manufacture of cigarettes as manufactured by Green leaf Threshing Units after processing and conversion of tobacco green leaf;
- The rate of federal excise duty leviable on un-manufactured tobacco is also proposed to be enhanced from Rs 10 per kg to Rs 300 per kg;
- Powers presently available with the tax authorities vis-a-vis imposition of penalties, as well as seizure & confiscation of cigarettes, that are unlawfully produced or on which duty has been evaded, is now proposed to be extended to 'un-manufactured tobacco'; and
- Presently, goods manufactured/produced in-house by a registered person and used for manufacture of excisable goods enjoy conditional exemption from levy of duty. Such exemption was also applicable on 'un-manufactured tobacco' purchased & used after necessary treatment in the manufacture of cigarettes and other excisable tobacco products. Such exemption in the case of 'un-manufactured tobacco' is now proposed to be done away with.

CUSTOMS ACT

1) Zero rating of customs duty allowed on import of parts and components for manufacturing LED lights is proposed to be extended to similar parts and components if imported for manufacturing of LED bulbs.

2) The relief of reduced custom duty of 5%, provided for Multimode Optical Fibre, is proposed to be extended to Single Optical Fibre.

3) Standard rate of customs duty in respect of certain items is proposed to be reduced as follows:

Serial Number	Description	PCT Code	Reduced Customs duty % (Proposed)
1	Tallow	1502.1000	5
2	Other	2835.3900	5
3	Acetone	2914.1100	11
4	Ethyl acetate	2915.3100	16
5	n-Butyl acetate	2915.3300	16
6	sec-Butyl acetate	2915.3930	16
7	Oxalic acid	2917.1110	5
8	Citric acid	2918.1400	5
9	Other	3203.0090	11
10	Other	3204.1590	11
11	Dyes, Sulphur	3204.1910	11
12	Dyes, synthetic	3204.1990	11
13	Other	3206.2090	11
14	Ultramarine and preparations based thereon	3206.4100	11
15	Lithopone	3206.4210	11
16	Pigments and preparations based on cadmium compounds	3206.4920	11
17	Greases	3403.1910	16
18	Other	3403.1990	16
19	Other	3403.9990	16
20	Activated carbon	3802.1000	5
21	With a basis of amylaceous substances	3809.1000	11
22	Of a kind used in the paper or like industries	3809.9200	11
23	Compound plasticizers for rubber or plastics	3812.2000	11

Serial Number	Description	PCT Code	Reduced Customs duty % (Proposed)
24	Non refractory mortars and concretes	3824.5000	16
25	Reinforced only with metal	4010.1100	11
26	Reinforced only with textile materials	4010.1200	11
27	Containing 85 or more by weight of cotton	5207.1000	8
28	Other	5207.9000	8
29	Of aluminium alloys	7606.1200	5
30	Aluminium lids for cans of carbonated soft drinks	8309.9010	5
31	Of plastics, not covered with textile material	9606.2100	16
32	Button blanks	9606.3020	16
33	Fitted with chain scoops of base metal	9607.1100	16
34	Other	9607.1900	16

4) Notifications / SROs for further amendments in the rates of customs duty and regulatory duty are expected to be issued after the passage of Supplementary Bill.

ANNEXURE - IMPACT OF REVISION IN TAX RATES

A. TAX RATES FOR SALARIED INDIVIDUALS

S. No.	Taxable income	Rate
1.	Where the taxable income does not exceed Rs. 400,000	0%
2.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 800,000	Rs. 1,000
3.	Where the taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	Rs. 2,000
4.	Where the taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,500,000	5% of the amount exceeding Rs. 1,200,000
5.	Where the taxable income exceeds Rs.2,500,000 but does not exceed Rs. 4,000,000	65,000 + 15% of the amount exceeding Rs. 2,500,000
6.	Where the taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 8,000,000	290,000 + 20% of the amount exceeding Rs. 4,000,000
7.	Where the taxable income exceeds Rs. 8,000,000	1,090,000 + 25% of the amount exceeding Rs. 8,000,000

Provided that where the taxable income exceeds Rs. 800,000, the minimum tax payable shall be Rs. 2,000.

B. TAX RATES FOR INDIVIDUALS (OTHER THAN SALARIED)

S. No.	Taxable income	Rate of tax
1.	Where the taxable income does not exceed Rs. 400,000	0%
2.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 800,000	Rs. 1,000
3.	Where the taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	Rs. 2,000
4.	Where the taxable income exceeds Rs.1,200,000 but does not exceed Rs. 2,400,000	5% of the amount exceeding Rs. 1,200,000
5.	Where the taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,000,000	60,000 + 15% of the amount exceeding Rs. 2,400,000
6.	Where the taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000	150,000 + 20% of the amount exceeding Rs. 3,000,000
7.	Where the taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 5,000,000	350,000 + 25% of the amount exceeding Rs. 4,000,000
8.	Where the taxable income exceeds Rs. 5,000,000	600,000 + 29% of the amount exceeding Rs. 5,000,000

Provided that where the taxable income exceeds Rs. 800,000 the minimum tax payable shall be Rs. 2,000.

COMPARISON - SALARIED INDIVIDUALS

(All figures are in PKR)

Annual taxable income	Prior to Finance Act 2018	Existing tax	Proposed Tax	Comparison with rates prior to Finance Act, 2018 (Saving)	Comparison with Finance Act, 2018 (Additional Impact)
400,000	-	-	-	-	-
800,000	19,500	1,000	1,000	18,500	-
1,200,000	59,500	2,000	2,000	57,500	-
1,600,000	107,000	20,000	20,000	87,000	-
2,000,000	172,000	40,000	40,000	132,000	-
2,400,000	242,000	60,000	60,000	182,000	-
2,800,000	319,500	100,000	110,000	209,500	10,000
3,200,000	404,500	140,000	170,000	234,500	30,000
3,600,000	497,000	180,000	230,000	267,000	50,000
4,000,000	597,000	220,000	290,000	307,000	70,000
4,400,000	707,000	260,000	370,000	337,000	110,000
4,800,000	817,000	300,000	450,000	367,000	150,000
5,200,000	927,000	360,000	530,000	397,000	170,000
5,600,000	1,037,000	420,000	610,000	427,000	190,000
6,000,000	1,147,000	480,000	690,000	457,000	210,000
6,400,000	1,257,000	540,000	770,000	487,000	230,000
7,000,000	1,422,000	630,000	890,000	532,000	260,000
8,000,000	1,722,000	780,000	1,090,000	632,000	310,000
>8,000,000	Rs 1,422,000 + 30% of the amount exceeding Rs 7,000,000	Rs 300,000 + 15% of the amount exceeding Rs 4,800,000	Rs 1,090,000 + 25% of the amount exceeding Rs 8,000,000		

COMPARISON - INDIVIDUALS (OTHER THAN SALARIED)

(All figures are in PKR)

Annual taxable income	Prior to Finance Act, 2018	Existing Tax	Proposed Tax	Comparison with rates prior to Finance Act, 2018	Comparison with Finance Act, 2018
				(Saving)	(Additional Impact)
400,000	-	-	-	-	-
800,000	39,500	1,000	1,000	38,500	-
1,200,000	99,500	2,000	2,000	97,500	-
1,600,000	164,500	20,000	20,000	144,500	-
2,000,000	244,500	40,000	40,000	204,500	-
2,400,000	324,500	60,000	60,000	264,500	-
2,800,000	419,500	100,000	120,000	299,500	20,000
3,200,000	519,500	140,000	190,000	329,500	50,000
3,600,000	619,500	180,000	270,000	349,500	90,000
4,000,000	719,500	220,000	350,000	369,500	130,000
4,400,000	839,500	260,000	450,000	389,500	190,000
4,800,000	959,500	300,000	550,000	409,500	250,000
5,200,000	1,079,500	360,000	658,000	421,500	298,000
5,600,000	1,199,500	420,000	774,000	425,500	354,000
6,000,000	1,319,500	480,000	890,000	429,500	410,000
6,400,000	1,459,500	540,000	1,006,000	453,500	466,000
7,000,000	1,669,500	630,000	1,180,000	489,500	550,000
8,000,000	2,019,500	780,000	1,470,000	549,500	690,000
>8,000,000	Rs 1,319,500 + 35% of the amount exceeding Rs 6,000,000	Rs 300,000 + 15% of the amount exceeding Rs 4,800,000	Rs 600,000 + 29% of the amount exceeding Rs 5,000,000		