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Budget 2013-14
Highlights & Comments

Foreword

This memorandum contains an economic review, highlights of fiscal proposals and explanatory description of the significant changes in the Income Tax, Sales Tax, Federal Excise and Customs Duty laws proposed through Finance Bill, 2013 or through notifications under relevant statutes. Certain other relevant information on the Public Sector Companies (Corporate Governance) Rules, 2013 and Corporate Social Responsibility Voluntary Guidelines, 2013, have also been included.

Amendments proposed in the Finance Bill, 2013 will take effect from July 01, 2013, unless otherwise stated, once it is approved by the parliament.

The memorandum is aimed at providing general guidance with the objective of keeping our clients and staff abreast of the changes in the aforementioned laws. The users are therefore advised to seek professional advice before exercising and applying any legal provision and acting thereupon. The Firm accepts no responsibility for any action taken (or not taken) as a result of the information contained in this document.

The memorandum can also be accessed on our website www.deloitte.com/pk

Karachi
June 13, 2013

Contents

Budget at a Glance

	Rupees in billion 2013-14	%	Rupees in billion 2012-13 Revised	%
Sources of Funds				
Net Revenue Receipts (a)	**1,918**	**48.1**	1,616	46.5
Net Capital Receipts	**493**	**12.4**	106	3.0
External Receipts (net)	**576**	**14.5**	243	7.0
Estimated Provincial surplus	**23**	**0.6**	(62)	(1.8)
Bank Borrowing	**975**	**24.5**	1,575	45.3
Total Sources of Funds	**3,985**	**100.0**	3,478	100.0
Application of Funds				
General Public Services (b)	**2,329**	**58.4**	1,970	56.6
Development Expenditure	**789**	**19.8**	571	16.4
Defense Affairs and Services	**627**	**15.7**	570	16.4
Subsidies	**240**	**6.0**	367	10.6
Total Application of Funds	**3,985**	**100.0**	3,478	100.0
(a) Net Revenue Receipts				
Direct and Indirect Taxes	**2,598**	**135.4**	2,125	131.5
Non-Tax Revenue	**822**	**42.9**	712	44.0
Gross Revenue Receipts	**3,420**	**178.3**	2,837	175.5
Less: Provincial Share in Taxes	**1,502**	**78.3**	1,221	75.5
	1,918	**100.0**	1,616	100.0
(b) General Public Services				
Foreign Loans Repayments	**367**	**15.8**	187	9.5
Interest Payments	**1,154**	**49.5**	1029	52.2
Pension	**171**	**7.3**	168	8.5
Grants and Transfers	**337**	**14.5**	335	17.0
Running of Civil Government	**275**	**11.8**	251	12.8
Provision for Pay and Pension Reforms	**25**	**1.1**	-	-
	2,329	**100.0**	1970	100.0

Economic Review and Budget 2013-14

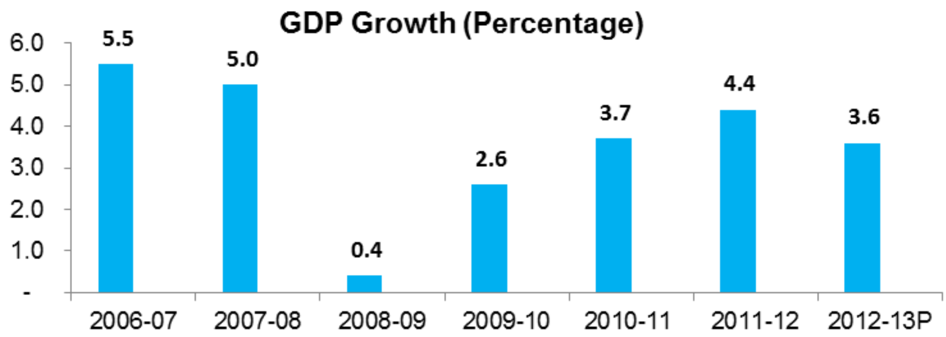
Budget for the FY14 is the first budget of the newly elected government of PML (N), with aggregate outlay of Rs. 3.98 trillion 24.4 percent higher than budget estimates of corresponding year. A huge amount of Rs. 1.2 trillion has been allocated for Public Sector Development Program (PSDP). Additionally, it has also been announced that the issue of circular debt of nearly Rs. 500 billion will also be resolved. To meet these ambitious plans, tax revenues are projected to increase by 22.3 percent to Rs. 2.6 trillion, while gross federal receipts are envisaged at Rs. 3.4 trillion- 20.6 percent higher than the FY 2012-13 projected gross revenue receipts.

In the wake of current energy crisis, sluggish world economic outlook, low tax to GDP ratio, deteriorating law and order situation achieving tax growth rate of 22.3 percent appears to be highly ambitious target.

Economic Review of FY 2013

FY2013 was the year of completion of five years tenure of previous government led by PPP. During the past five years, Pakistan's economy faced myriad challenges on external and internal front including large scale power shortages, steep increase in energy prices, persistent inflationary pressures, internal security hazards, unprecedented floods, global financial melt-down resulting in stagnant growth in the economy and continuing depreciation of Pak Rupee against US Dollar. Also, while the tax collections remained low at around 9.2 percent of the GDP, and out of the total revenue, a large portion was transferred to the provinces under the last NFC award, the government expenditure ballooned owing to hefty salary increases of government employees and massive losses incurred by public sector enterprises resulting unsustainably large fiscal deficits that were financed mainly through domestic debt. .

Due to above factors, coupled with the fact that this was an election year, with heightened uncertainty and extremely slow economic decision making, the GDP growth during the year was restricted to 3.6 percent, compared to the target of 4.3 percent. During the past five years, the average GDP growth declined to only 2.9 percent, which is one of the slowest growth in the country's history. Out of different factors that retarded the economic growth, the most profound was the power shortages. During FY12 and FY13 the impact of power shortages on the GDP growth is estimated to be 2 percent per annum, which means an aggregate loss of around Rs. 900 billion to the economy in two years.



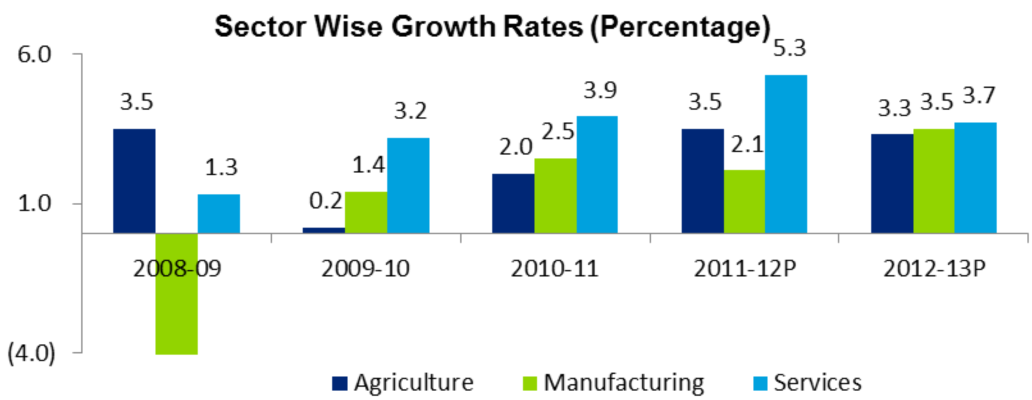
The average growth rate of population was 2.0 percent in 2013 against GDP growth rate of 3.6 percent in the same period which is insufficient to support rapidly increasing population.

The growth in the agriculture sector is estimated at 3.3 percent on the back of 3.7 percent growth in the livestock sector (highest contribution in the agricultural sector) and 3.2 percent growth in major crops, which account for 5.4 percent of GDP.

The industrial sector grew by 3.5 percent compared to 2.7 percent in the previous year, showing some improvement during FY12. In particular, mining and construction sector reflected a healthy growth of 7.6 percent and 5.2 percent, respectively, in comparison to growth rate of 4.6 percent and 3.2 percent in the last year.

Manufacturing sector, which comprises of 13.2 percent of the GDP, has shown some recovery by achieving growth rate of 3.5 percent against 2.1 percent last year mainly on account of tremendous growth of 8.2 percent for small scale manufacturing.

The growth in services sector remained to 3.7 percent in FY13 in comparison with 5.3 percent in FY12. Within services sector growth of transport, storage & communication, general government services and other private services remained restricted to 3.4 percent, 5.6 percent and 4.0 percent against corresponding year's growth rates of 8.9 percent, 11.1 percent and 6.3 percent, respectively.

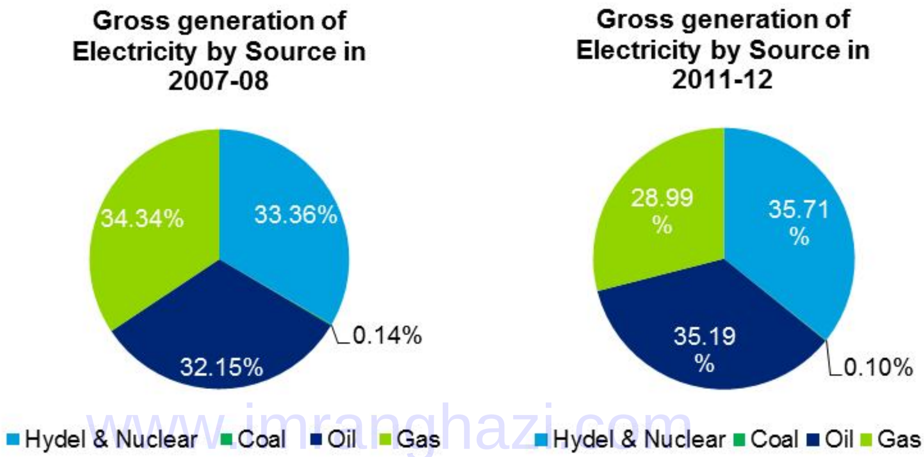


Energy Crisis

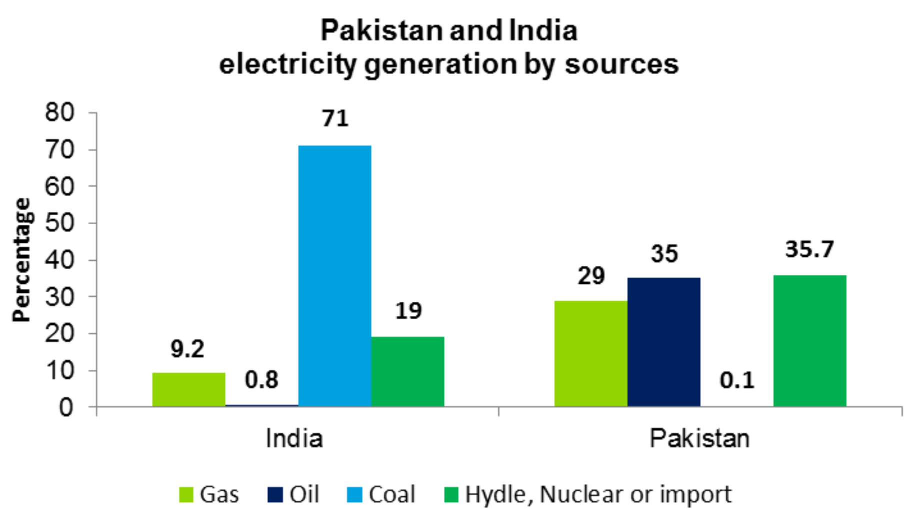
Power shortage is the main constraint for economic growth, as load-shedding has intensified and has become unpredictable. Losses arising from power shortage held down GDP growth by 2 percentage points in FY2012 and FY 2013. The key factors that have caused this crisis include bad energy mix, with heavy reliance on very expensive imported furnace oil, huge gap between cost and recovery of power, large line losses, inefficient generation plants and unresolved circular debt.

Cost recovery has not yet been achieved despite substantial increases in tariffs over the past 2 years, and measures to bring down costs have not been effective. Pricing of gas has remained extremely low resulting in excessive misuse of this precious resource that is fast depleting.

The total share of costly furnace oil in electricity generation has increased from 32.2 percent in the year 2007-08 to 35.2 percent in the year 2012-13 which is not only the prime reason of circular debt and power crisis but also constitutes significant part of country's import bill.



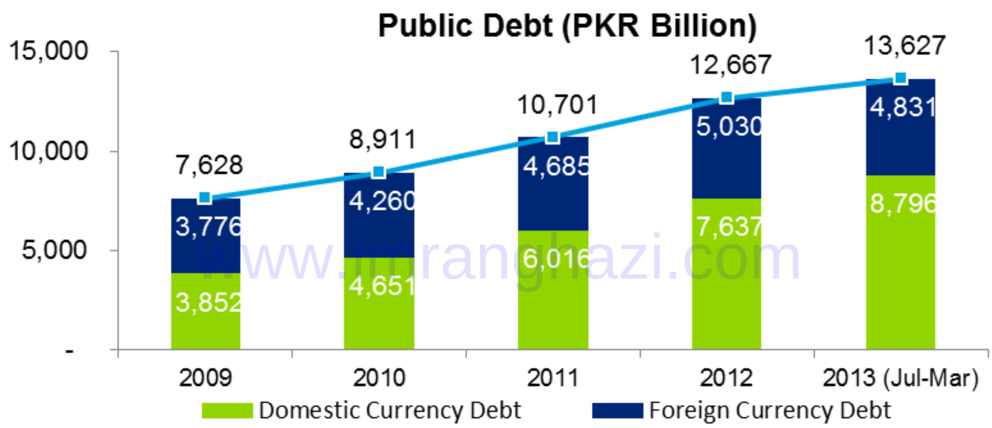
In comparison with India Pakistan has a significant share of electricity generation from furnace oil standing at 35.2 percent of its total electricity production in contrast to India which is heavily relying on much cheaper fuel i.e. coal for its electricity need. As a result of use of costly fuel (furnace oil) for electricity production power sector subsidies paid by the federal government reached at Rs 350 billion till May 2013, much more than the revised budget allocation of Rs 291 billion.



Mounting Debt

Pakistan's public debt reached Rs.13,627 billion by end-March 2013. The total domestic debt increased by Rs.1,159 billion or 15 percent during first nine months of the current fiscal year. The servicing of the public debt reached Rs.936 billion which is nearly 44 percent of total revenues during first nine months of the outgoing fiscal year.

The servicing of External Debt and Liabilities (EDL) was recorded at US Dollar 5.3 billion during first nine months of current fiscal year. Out of total external debt servicing, an amount of US Dollar 3.9 billion was repaid whereas decrease of US Dollar 1.5 billion in EDL is recorded on account of appreciation of the US Dollar against other major currencies. An analysis of the total debt in the last five years is as follows:



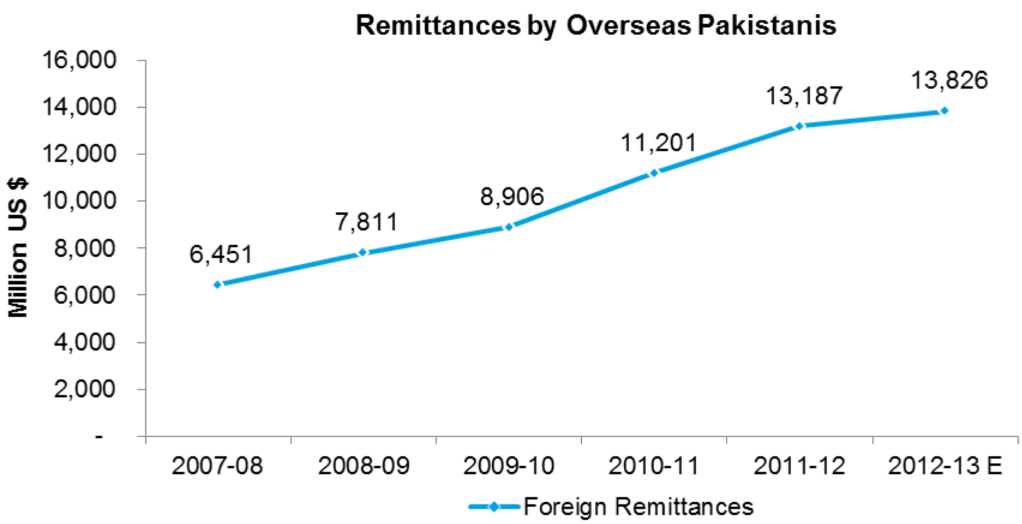
External Account

A slight improvement in trade sector has been witnessed as the trade deficit contracted by 2.5 percent during July-April FY13. Trade deficit has been reduced to US Dollar 12.5 billion during July-April, FY13 as compared to US Dollar 12.9 billion in the comparable period of FY12.

This improvement was due to 0.15 percent rise in export and 0.9 percent decline in import. During the first ten months of current FY13, exports stood at US Dollar 20.5 billion almost the same in the comparable period of FY12, while imports amounted to US Dollar 33.0 billion against US Dollar 33.3 billion during the same period of FY12. The decrease in import is mainly contributed by 1.7 percent decline in import of petroleum products which comprises of 37.4 percent of total imports for 10 MFY13

Workers' Remittances

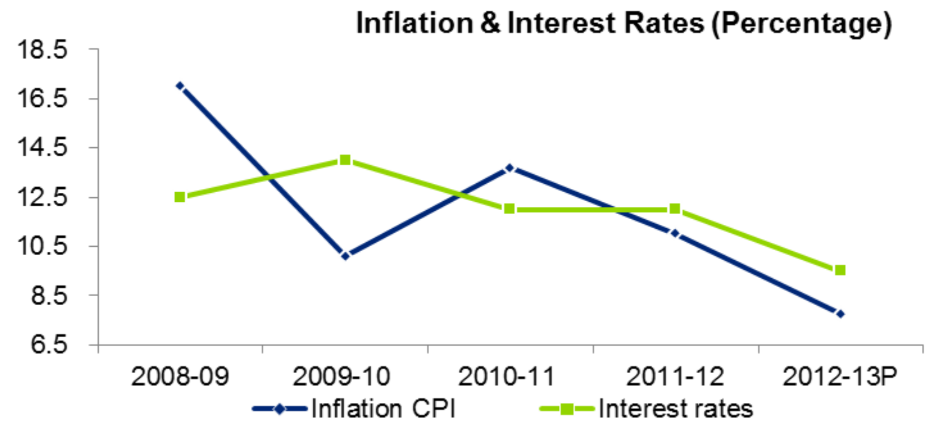
Perhaps the consistently positive feature of the economy is a healthy increase in workers' remittances since past few years, which are estimated at US Dollar 11.57 billion during first 10 months of FY13, reflecting nearly 6.37 percent increase compared to the corresponding period. It is estimated that worker's remittances will reach US Dollar 13.8 billion by the end of FY13.



Inflation and Interest Rate

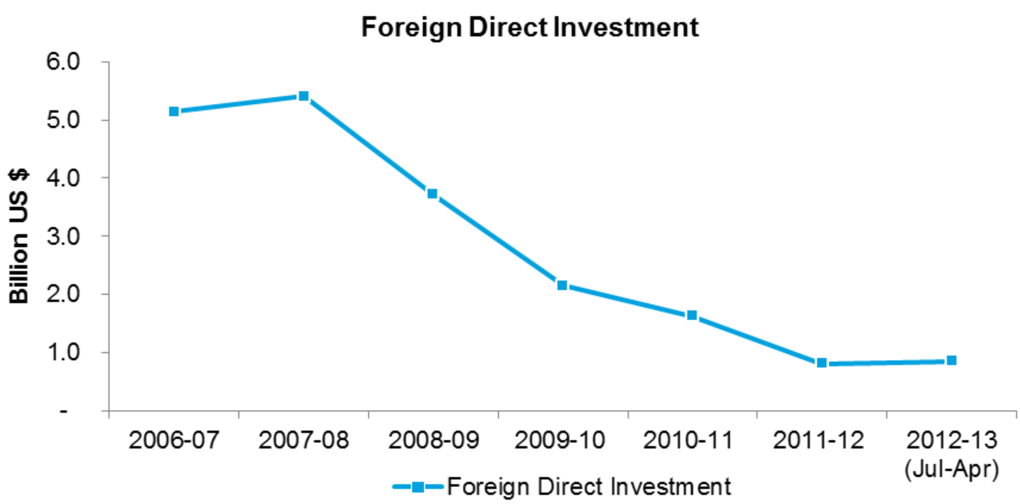
On a positive note, inflation fell significantly and the annualized inflation rate measured in terms of Consumer Price Index (CPI) for (July-May) 2012-13 averaged at 7.5 percent as against 10.9 percent recorded in the same period of 2011-12.

SBP has adopted relatively an expansionary policy stance for the past two years as the policy rate has been reduced by cumulative 400 basis points from 13.5 percent in August 2011 to 9.5 percent in December 2012. Despite the continued deceleration in consumer price inflation, the central bank has indicated that it is reluctant to further ease monetary policy given the risks to the balance of payments position.



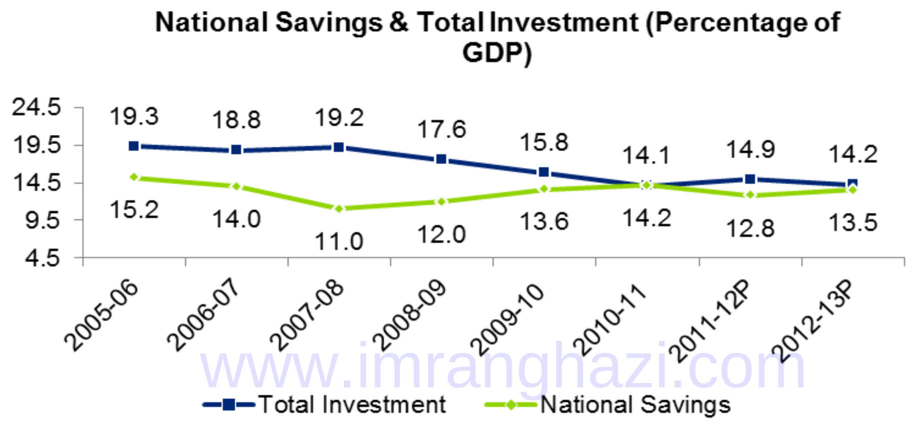
Foreign Direct Investment

During last 10 months ofFY13, foreign direct investment (FDI) increased by 29.7 percent in contrast to a decline of 36.7 percent during the same period last year. During 10 MFY13 inflows of FDI remained at US Dollar 1,893.6 million against US Dollar 1,723.3 million showing an increase of 9.9 percent.



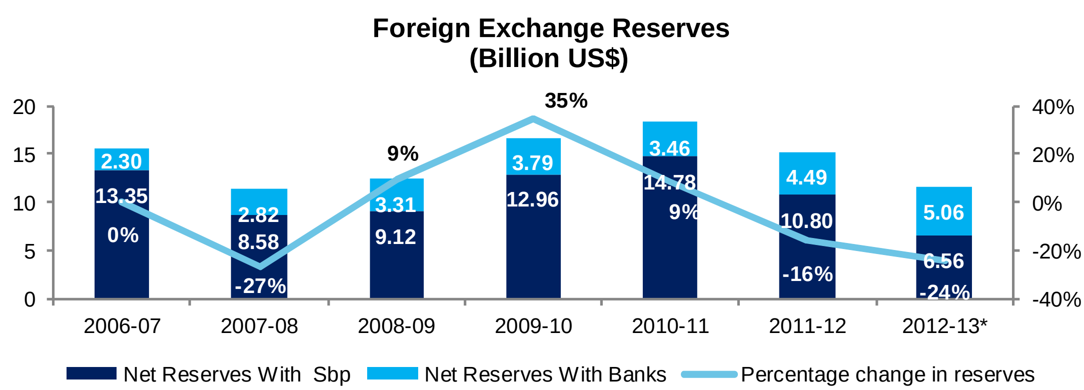
National Savings and Total Investment

Investment has been hard hit by internal and external factors during the last few years and is considered a key concern to the economy. Total investment has decreased from 18.79 percent of GDP in 2006-07 to 14.22 percent of GDP in 2012-13. Despite hefty decrease in policy rate by SBP from 12 percent to 9.5 percent in the current financial year, total investment decreased to 14.2 percent of GDP compared to 14.9 percent in the previous year. However, during first 10 months of FY2013 national savings increased from 12.8 percent of GDP to 13.5 percent of GDP.



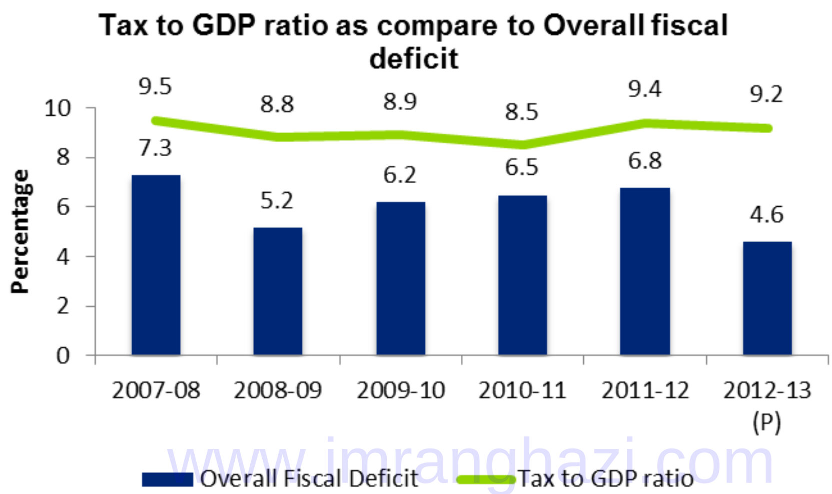
Foreign Exchange Reserves

Pakistan's foreign exchange reserves depleted by US Dollar 3.1 billion from end-June 2012 level and reached US Dollar 12.3 billion as on 31 March 2013. This fall in gross reserve position was mainly due to the repayments made to the IMF during this period.



Fiscal Deficit and Tax to GDP Ratio

On the fiscal front gap between revenue and expenditure further widened to 8.8 percent of GDP in comparison to 6.8 percent in the last year. Tax to GDP ratio also remained subdued to a level of 9.2 percent as against 9.4 in the previous year. The six year trend of fiscal deficit and tax to GDP ratio is as follows:



Budget and Economic Outlook for FY 2012-13

The budget has been presented by the Finance Minister within a few days of formation of the new government, and as such, it is the first policy statement and plan on the economic vision of the new government. Much of the work seems to have been done by government functionaries during the caretaker government, with oversight of new economic team of PML (N) in the post election period. With a history of slow economic growth in past five years on account of multiple interconnected crises in energy, security, acute shortfall of revenues and declining investment, ambitious revenue targets have been fixed to provide for large investments required for addressing the energy crisis and a substantially enhanced public sector development program (PSDP). The revenue measures are largely focused on enhancing tax rates and taxing the sectors already in the tax net, albeit some steps to broaden the tax base are also included. It will be interesting to see whether steps, such as proposed change in law for obtaining tax payers' information from banks will be sustained.

Following are some of the key targets in the budget, and the three year mid-term plan announced with the budget, which appear extremely challenging and ambitious: .

- Fiscal deficit to be reduced to 6.3 percent by 2013-14 compared to 8.8 percent in the outgoing year.
- Rs. 2.6 trillion to be collected as taxes.

- Tax to GDP ratio to be raised to 15 percent by FY 2015.
- Investment to GDP ratio to be increased to 20 percent by FY 2016
- Forex reserves to be increased to US dollar 20 billion by FY 2016
- Inflation to be contained in single digit

Key challenges for reviving and sustaining economic growth

With depleted foreign exchange reserves held by the central bank of just USD 6.5 billion that are bound to further decline owing to large payments to be made in the coming year against IMF and other loans and a huge deficit of nearly US $ 15 billion in the balance of trade, Pakistan is in serious external account crisis. This is likely to create tremendous pressure on Rupee, which may start depreciating steeply, unless appropriate funding arrangements are made urgently. The only logical option available to the government is to approach IMF for substantial balance of payments support over the medium term. The Finance Minister has not indicated any plans to approach IMF, which may be essential for addressing short term balance of payment crisis. Additionally, the government has proposed to settle the circular debt of around Rs. 500 billion in the next 60 days. Perhaps, some undisclosed cushion is kept in the current year's revised estimates, as the fiscal deficit of outgoing year is shown at 8.8 percent compared to earlier estimation of 7.5 percent. Nevertheless, huge investments of trillions of rupees and billions of dollars will be required to settle the circular debt, improve energy mix through fuel efficient power plants, reduce inefficiencies and leakages in the generation and transmission of electricity, and streamline / restructure the major public sector entities such as PIA, Pakistan Steel and Railways. The budget documents do not provide any details of plans and resources for meeting such enormous funding requirements. Perhaps, such plans are still work in progress at this stage.

While there are some good and difficult steps underlying ambitious revenue projections, on the whole the budget seems to have been prepared in haste, as several details to support budget objectives are missing. Most of the budget proposals seem to be overly optimistic and continuation of policies that were pursued by previous PML (N) government in late 90s, with little innovation and out of box thinking, which is direly needed to resolve structural problems of the economy, revive investment, resolve power crisis, address security issues and reinvigorate economic growth.

Highlights of Important Fiscal Proposals

Income Tax

- Dividends received by companies shall be taxable under Final Tax Regime.
- Business losses shall no longer be adjustable against Salary income.
- A non-profit organization and an entity or a body of persons established or constituted by or under any law for the time being in force shall now be treated as a Company.
- Minimum tax shall be increased to 1% from 0.5%.
- Association of persons and individuals, like companies, shall also be allowed to carry forward minimum tax paid upto 5 subsequent tax years.
- The amount of agricultural income tax paid under the provincial law shall be taken as the basis for computing the agricultural income of a tax payer for the purpose of explaining the nature and source of income and wealth.

- Minimum tax of Rs. 25 per square foot of the construction site sold or booked for sale shall be levied on person deriving income from construction and sale of residential, commercial or other buildings.
- Minimum tax of Rs. 50 per square yard of the lay out plan sold or booked for sale shall be levied on person deriving income from development and sale of residential, commercial or other plots.
- For filing of return of income by persons holding commercial or industrial connection of electricity threshold of annual billing shall be reduced from Rs. 1 million to Rs. 0.5 million.
- Following persons shall be required to furnish a return of income and wealth statement as well:
    - A person registered with
        - any Chamber of Commerce and Industry; or
        - any trade or business association; or
        - any market committee; or
        - any professional body including:
            - Pakistan Engineering Council,
            - Pakistan Medical and Dental Council,
            - Pakistan Bar Council or any Provincial Bar Council,
            - Institute of Chartered Accountants of Pakistan and
            - Institute of Cost and Management Accountants of Pakistan.

- Prior approval from the Commissioner in writing is mandatory for revision of return.
- Filing of wealth statement and wealth reconciliation statement shall be made compulsory for every individual including members of AOP, irrespective of level of income and whether the same is taxable under Normal Tax Regime or Final Tax Regime.
- Employers shall not be required to file annual withholding tax statement in respect of salary payments.
- Time specified for filing of the return of income against the provisional assessment order issued by the Commissioner shall be reduced from 60 days to 45 days.
- Any person who is an officer of Inland Revenue Service and a law graduate having at least fifteen years of service in Basic Pay Scale / Grade 17 and above can be appointed as judicial member of the Appellate Tribunal.
- Employers shall not be authorized to adjust tax credits under sections 61, 62, 63 and 64 and advance tax paid under the Ordinance while affecting tax withholding on payment of salary.
- Any person registered under the Sales Tax Act, 1990 shall be required to withhold tax (wherever applicable) at the time of payment to resident and non-resident persons on account of supply of goods, rendering of services and execution of contracts.
- Charitable institutions, private educational institutions, boutiques, beauty parlours, hospitals, clinics or maternity homes, individuals or association of persons paying gross rent of Rs.1,500,000 and above in a year shall withhold tax under section 155 of the Ordinance on payment of rent.
- Certificates of tax collection or deduction of tax shall not be considered as sufficient evidence of collection or deduction of tax.
- Banking companies shall appoint a senior officer at its head office to coordinate with FBR for providing information as and when required by FBR in respect of the bank's account holders.
- Commissioner shall be authorized to call for record or documents for audit and to conduct audits under section 177, which shall be independent from the powers assigned to the FBR under section 214C.
- The existing six slabs for salaried individuals have now been increased to twelve slabs.
- The existing five slabs for non-salaried individuals and AOPs have been increased to seven slabs.
- Refund arising out of an order would be treated as becoming due on the date a refund order is passed by the Commissioner and not on the date an order is deemed to have been passed under section 170, i.e. on the day of the filing of the return of income, for the purpose of computing compensation on delayed refund.

- Every person deriving income from business chargeable to tax shall display his National Tax Number at a conspicuous place at every place of his business.
- The reduced rate of minimum tax as restricted to the distributors of cigarettes in corporate sector shall be extended to the individuals and AOPs.
- Tax collected from the owner of goods transport vehicle plying for hire shall be adjustable tax.
- Withholding Tax on the import of Hybrid cars with engine capacity upto 1200cc shall be exempt; for vehicles upto 1800cc and upto 2500cc it shall be reduced by 50% and 25% respectively.
- Facility of exemption certificate on import of raw material shall be reintroduced, subject to the payment of tax liability determined for any of the preceding two tax years, whichever is higher.
- The Board shall keep the parameters for selection of case under audit through computer ballot as confidential.
- Cash reward to officers and officials of Inland Revenue for their meritorious conduct and to the informer providing credible information leading to the detection of concealment or evasions of income after realization of part or whole of the taxes so concealed or evaded.

- Rate of tax for non-banking companies shall be reduced from 35% to 34% for the tax year 2014.
- For Tax Year 2014 and onwards, tax rate for dividend income received by banks from Money Market Funds and Income Funds shall be 25% instead of 35% specified earlier.
- Existing three slabs for property income shall be increased to six slabs with maximum tax rate of 17.5%.
- An adjustable withholding tax shall be collected by the Hotels/Clubs/Marriage Halls/Restaurants, etc. and persons providing food from persons arranging functions or events.
- An adjustable WHT shall be collected by Pakistan Media Regulatory Authority on issue of and renewal license of cable operators and other electronic media.
- Transaction of margin financing, trading financing and lending are currently outside the scope of withholding tax under section 233AA of the Ordinance. These transactions shall now be subject to 10% withholding tax to be collected by NCCPL.
- The rate of withholding tax on cash withdrawals shall be increased from 0.2% to 0.3%.
- Where provincial motor vehicle tax is paid in lump sum, advance tax for 10 years shall also be collected in lump sum as per the slab rates.

- Separate rates of withholding tax shall be applicable for corporate and non-corporate sectors in respect of supply of goods, provision of services and execution of contracts.
- Dealers / Arhatis acting as commission agents for different commodities in the mandis / markets shall be subject to withholding tax at variable rates by the market committees.
- Adjustable withholding tax at the rate of Rs.1 million for films and Rs.100 thousand per episode for TV plays shall now be collected on foreign-produced films, TV serials and plays by the authority responsible for censoring and certification.
- Rate of collection of adjustable advance tax at the time of sale of any property or goods by auction has been enhanced from 5% to 10%.
- Where the fee paid to an educational institution in a tax year is more than Rs.200,000, adjustable 5% advance tax shall be collected by the educational institution at the time of the receipt of fee.
- Rate of deduction of withholding tax on payment of prize on a prize bond or cross word puzzle shall be enhanced from 10% to 15%.
- For plant and machinery, the rate of initial depreciation shall be reduced from 50% to 25%.
- For investment in Defence Saving Certificates etc, exemption limit of Rs.150,000 available to individuals for non-withholding of tax has been withdrawn.

- Following exemptions in the 2nd Schedule shall be withdrawn:
  - Exemption for dividend in specie;
  - Free/concessional passage provided by transporters including airlines to its employees by virtue of their employment;
  - Taxation at reduced rate of 2.5% on flying allowance and submarine allowance;
  - 75% reduction in the tax payable by a full time teacher or a researcher;
  - Any income of any university or other educational institution established solely for educational purposes and not for purposes of profit.

Income Support Levy Act, 2013

- Income Support Levy of 0.5% shall be levied on persons having net moveable wealth (excluding immoveable property) exceeding Rs.1 million at the end of tax year.
- It shall be applicable from tax year 2013 and payable alongwith the wealth statement.
- Individuals filing return of income for the tax year 2013 shall be liable to pay this levy.

Sales Tax and Federal Excise Duty

- Standard sales tax rate has been increased from 16% to 17%.
- Unregistered persons shall be charged 2% further tax in addition to 17%.
- List of items chargeable to sales tax at retail price is expanded by introducing 15 new items.
- Exemption on supplies against international tender shall be withdrawn.
- Sales tax exemption on milk preparations obtained by replacing one or more constituent of milk by another substance shall be withdrawn.
- Unregistered industrial consumers of electricity and gas having monthly bill in excess of Rs.15,000 would be charged 5% additional sales tax.
- Finished consumer goods of 5 major sectors are excluded from the list of items chargeable to sales tax at 2%.
- Companies/exporters shall be required to deduct sales tax on purchases made from the unregistered persons.
- Input tax objected by CREST or unverifiable in supply chain, shall be disallowed.
- Sales tax is levied on receipt of advance payment against supplies.
- FED on aerated beverages shall be increased from 6% to 9%.
- Tax slab of FED on cigarettes is regrouped in two tier specific rate structure in place of existing three tier structure.
- FED of 40 paisa/kg on imported seeds and Rs.1/kg on locally produced oil is now chargeable.
- FED is chargeable at 10% ad valorem on motor vehicle having engine capacity of 1800cc or more.
- Exemption of FED on hydraulic cement shall be withdrawn.
- Services provided or rendered by Asset Management Companies shall now be chargeable to FED.
- Board is empowered to levy further duty at the rate of 2% on excisable goods and services supplied or rendered to unregistered persons.
- Commissioner (Appeals) is allowed to grant stay against recovery of demand for 30 days in hardship cases.
- Scope of rectification shall be revamped allowing authority to the Commissioner, Commissioner (Appeals) and the Appellate Tribunal to rectify their orders.
- Gate passes and transport receipts are now made part of the records for the purposes of Sales Tax Act, 1990 and Federal Excise Act, 2005.
- Modification in sales tax rules has been made to streamline determination of place of registration of registered persons.
- Amendments are made in sales tax and federal excise law to allow monitoring or tracking of manufacturing activities, sales, clearances, etc. by electronic or other means.
- Amendments are made in sales tax and federal excise law to allow provision for reward to Inland Revenue authorities in detection of cases involving concealment or evasion of duty and taxes.

Customs

- Reduction in duty and taxes on Hybrid Electric Vehicles shall be allowed at 25% to 100% according to their engine capacity.
- Duty and sales tax on energy saving tubes shall be exempted to encourage use of energy efficient electrical equipment.
- Customs duty on office or school supplies shall be reduced from 25% to 20% to lower their price and to reduce classification disputes.
- Import duty on water treatment & purifying machinery and equipment shall be reduced from 20% to 15% to make them accessible to general public.
- Customs duty on Medium Density Fiber Board shall be reduced.
- Duty on betel leaves shall be increased from Rs.200/kg to Rs.300/kg.
- Import of renewable energy resources compatible equipment shall be exempt.
- Reduction of duty on water treatment & purifying machinery and equipment from 20% to 15% to make them accessible to general public.

- Terminal operators/custodian of goods shall be bound to entertain the delay and detention certificates issued by customs authorities for waiver of demurrage charges.
- The custodian of goods/terminal operator shall provide adequate security and residential accommodation to the customs staff.
- Post Dated Cheque shall no more be treated as an acceptable security against provisional assessment. Now pay order and bank guarantees shall be furnished as acceptable security.
- Director of Customs Valuation shall be authorized to file appeals before the High Court in such cases where he is aggrieved by the orders of the Tribunal.
- Duty free import of “bio re-absorbable vascular scaffold” (heart stents) to decrease their cost for heart patients.

Significant amendments proposed in

Income Tax Ordinance, 2001

1. General provisions relating to taxes imposed under section 5, 6 and 7

Section 8

The existing section 5 excludes dividend received by a company from the ambit of final tax regime. Finance Bill proposes to delete the proviso to section 8 by virtue of which tax imposed on dividend received by a Company shall also be considered as final tax.

There was a dispute amongst the tax payers and taxation officers as to whether expenses incurred for deriving dividend income, including the common expenses, are deductible from dividend income or not. Different treatments were being followed by both the tax payers and the taxation officers, depending on the circumstances. The fact that section 150 provides that at the time of payment of dividend tax shall be withheld on the gross amount paid, also contributed to this dispute.

As a consequence to the proposed amendment this dispute is likely to be resolved but the question remains whether common expenses are to be allocated to dividend income or not.

2. Set off of losses

Section 56

The existing provision provides that where a person sustains a loss for any tax year under following heads of income, the person shall be entitled to have the amount of the loss set off against the person's income, if any, chargeable to tax under any other head of income for the year:

a) Salary;
b) Income from Property;
c) Income from Business;
d) Capital Gains; and
e) Income from Other Sources.

By virtue of the proposed amendment, an individual shall not be able to set off its loss under any other head of income against the income derived under the head "Salary".

It may be noted that the loss arising from "Income from Business", not adjusted against "Salary" shall still be available to be carried forward and set off against business income derived in subsequent six tax years.

3. Person

Section 80

Bill seeks to expand the scope of the definition of “Company”. Following are now proposed to be treated as “Company”:

- A non-profit organization.
- An entity or body of persons established or constituted by or under any law for the time being in force.

Apparently this proposal seeks to bring the entities established through an Act passed by Parliament under the definition of Company as such entities were not covered under the existing definition of Company. Whereas a non-profit organization is either formed under Trust Act, 1882 or Societies Registration Act, 1860 which are already covered under the definition of Company. The amendment apparently proposes to cover such foreign non-profit organizations that are not considered as corporate bodies under the law of a country outside Pakistan.

As a consequence of the proposed amendment, the above stated entities, being treated as company, shall now be required to file return of income, as provided under section 114 of the Ordinance.

4. Unexplained income or assets

Section 111

This section provides for the taxability of unexplained tax credits, investments, un-accounted for assets, and expenditures. A proviso is proposed to be inserted in sub-section (1) which provides that the amount of agricultural income tax paid under the relevant provincial law shall be taken as the basis for computing the agricultural income of a tax payer for the purpose of explaining the nature and source of the amount credited or the investment made, money or valuable article owned or funds from which the expenditure was made.

This amendment is likely to help FBR in blocking the malpractices of owners of agricultural land declaring inflated agricultural income as exempt under federal income tax return without paying agriculture tax under provincial tax laws, thereby whitening the black money.

5. Minimum tax on the income of certain persons

Section 113

Since introduction of section 113 through Finance Act, 2002, and even under section 80D of the Repealed Income Tax Ordinance, 1979, the rate of minimum tax has been 0.5% up to tax year 2010, when it was enhanced to 1%, later reduced to 0.5% through Finance Act, 2012.

Bill now proposes to enhance the rate of minimum tax to 1%.

This shows that policy makers are short of ideas as how to enlarge the tax base and in order to generate revenue are taking recourse to short term measures of adhoc increase in tax rates, without considering amongst other problems, the already high cost of doing business and liquidity crunch that the businesses are facing.

Another amendment is proposed to allow resident individuals and Association of Persons to carry forward the amount of minimum tax that exceeds the actual tax payable computed by applying the relevant tax rates, for adjustment against the tax liability arrived at by applying the applicable tax rates, of the subsequent tax year. Minimum tax shall be available to be carried forward and adjusted against the tax liability for five tax years immediately succeeding the tax year for which the amount was paid.

It is to be seen to what extent the proposed amendment would benefit individuals and Association of Persons as the treatment given by the Taxation Officers vis-a-vis claim of carry forward and adjustment of minimum tax against the subsequent tax years and the recent decisions of the adjudicating authorities have also made this provision almost redundant. Tax authorities are of the view that minimum tax is not available to be carried forward for adjustment against subsequent year's tax liability where the tax payer has derived Nil income. This is based on the interpretation that a tax payer shall only be allowed to carry forward the minimum tax to subsequent tax year where it has derived some income, even if it is Re.1, under normal tax regime. Thus, based on this interpretation, a tax payer declaring profit of Re.1 shall be allowed to carry forward the minimum tax and another tax payer declaring a loss of Re.1 shall not be able to do so.

6. Minimum tax on builders

Section 113A

Considering the long standing demand and the high level of income in the real estate business, the legislature proposes to tax this untapped source of revenue. Although there is no specific exemption available in the law with respect to real estate business; however, due to lack of will and non-implementation of the laws, the highly profitable sector has been able to successfully evade the tax on the gains.

The existing section **113A – Tax on income of certain persons** is proposed to be substituted by a new section providing for minimum tax on builders.

The substituted section seeks to provide that a person deriving income from the business of construction and sale of residential, commercial or other buildings, shall be liable to pay minimum tax at the rate of Rs.25 per square foot, as per the construction or site plan approved by the relevant regulatory authority, to be computed on the basis of total number of square feet sold or booked for sale during the year.

7. Minimum tax on land developers

Section 113B

Existing section **113B – Taxation of income of certain retailers** is proposed to be substituted by a new section providing for minimum tax on land developers.

The substituted section seeks to provide that a person deriving income from the business of development and sale of residential, commercial or other plots, shall be liable to pay minimum tax at the rate of Rs.50 per square yard, as per the lay out or site plan approved by the relevant regulatory authority, to be computed on the basis of total number of square feet sold or booked for sale during the year.

It may be noted that similar amendments were proposed in the Finance Bill, 2008 but the same were not made part of the Finance Act, 2008 that was finally approved by the Parliament.

8. Return of Income

Section 114

This section provides a list of persons that are required to furnish a return of income for a tax year. Bill proposes to add more persons in that list by virtue of which following persons shall be required to furnish a return of income and wealth statement as well.

Any person registered with:

- any Chamber of Commerce and Industry; or
- any trade or business association; or
- any market committee; or
- any professional body including:
    - Pakistan Engineering Council,
    - Pakistan Medical and Dental Council,
    - Pakistan Bar Council or any Provincial Bar Council,
    - Institute of Chartered Accountants of Pakistan and
    - Institute of Cost and Management Accountants of Pakistan.

Through Finance Act, 2012 an amendment was made by virtue of which the holder of commercial or industrial connection of electricity are required to furnish a return of Income, where the amount of annual bill exceeds Rs.1 million. Finance Bill now proposes to reduce the threshold of annual electricity bill to Rs.0.5 million with the expectation that this would help in broadening the tax base.

The objective could have been achieved by simply collecting information of the holders of commercial and industrial connections from WAPDA and other electricity supplying entities.

Sub-section (6) provides that any person who, having furnished a return, discovers any omission or wrong statement therein, may file revised return subject to the following conditions, namely:-

(a) it is accompanied by the revised accounts or revised audited accounts, as the case may be;

(b) the reasons for revision of return, in writing, duly signed, by the taxpayers are filed with the return;

(c) taxable income declared is not less than and loss declared is not more than income or loss, as the case may be, determined by an order issued under sections 121, 122, 122A, 122C, 129, 132, 133 or 221.

Now the Bill seeks to require prior approval from the Commissioner in writing for revision of return. It is to be noted that where any of the above conditions are not fulfilled then the return furnished shall be treated as an invalid return as if it had not been furnished.

Although the amendment proposed would ensure that returns are revised only for genuine reasons but considering the trust deficit between the tax payer and the taxation officer, such discretionary powers would add to the great armory of the Commissioner which may become a cause of more friction. It would have been better if such powers were given only for specific situations or nature of revision rather than giving a blanket authority.

9. Persons not required to furnish return of income

Section 115

The sub-section (1) provides that where the employer has furnished the annual statement of tax withholding from salary for the tax year, as required under section 165, then the employee is not required to file his / her return of income for the said tax year.

Proviso to sub-section (1) further requires the e-filing of return of income where salary income for the tax year is Rs.500,000 or more. Manual return is to be filed where the salary income for the year is less than Rs.500,000.

Now the Finance Bill proposes to delete sub-section (1) and the proviso thereunder, whereby every individual deriving income from salary exceeding the exemption threshold shall be required to furnish return of income, irrespective of the level of salary received during the year. However, an amendment has also been proposed in section 118 making it mandatory for individuals deriving salary income of Rs.500,000 or more to electronically file return.

10. Wealth statement

Section 116

Section requires the filing of wealth statements and wealth reconciliation statement by:

- a resident individual whose last declared or assessed income or the declared income for the year is Rs.1 million.
- every member of an Association of Persons whose share from income of such Association of Persons, before tax, for the year is Rs.1 million or more.

Further, sub-section (3) authorizes an individual to file a revised wealth statement if he discovers any omission or wrong statement.

The Bill seeks to remove the threshold of Rs.1 million, whereby now every resident individual including a member of an Association of Persons shall be required to furnish wealth statement and wealth reconciliation statement. Moreover, for filing of revised wealth statement, the Bill makes it mandatory to file revised wealth reconciliation statement along with reasons for revision.

Sub-section (4) provides that every person (other than a company) filing statement under sub section (4) of section 115, falling under final tax regime, and who has paid tax amounting to Rs.35,000 or more for the tax year, is required to file a wealth statement along with reconciliation of wealth statement.

Finance Bill seeks to remove the threshold of Rs.35,000 and to delete the reference of Association of Persons, by virtue of which, now only individuals filing statement under section 115(4) are required to file a wealth statement along with wealth reconciliation statement.

11. Method of furnishing returns and other documents

Section 118

By virtue of the proposed amendment, the requirement to furnish employer's certificate has been deleted. This amendment is not likely to have any bearing as in practice, an employer's certificate is not considered by the tax authorities as a substitute to return of income, although Rule 35 of the Income Tax Rules, 2002 does provide for submission of employer's certificate in lieu of return of income.

The requirement to file returns electronically, where the salary income for the year is Rs.500,000 or more, is proposed to be introduced under this section as the same is currently provided under the proviso to sub-section (1) of section 115.

The existing law provides for the method and the timing of filing of return of income and other statements as follows:

Annual Statement of deduction of income tax from salary, filed by the employer of an individual.	On or before the 31st day of August next following the end of the tax year to which the statement relates.
Return of income through e-portal in the case of a salaried person.	On or before the 31st day of August next following the end of the tax year to which the return relates.
Statement required under sub-section (4) of section 115.	On or before the 31st day of August next following the end of the tax year to which the statement relates.
Return of income through manual means in the case of a salaried person deriving salary income of less than Rs. 500,000.	On or before the 30th day of September next following the end of the tax year to which the return relates.
In the case of a return of income for any person (other than a company).	On or before the 30th day of September next following the end of the tax year to which the return relates

Now the clause (a) is proposed to be substituted. Consequently after substitution of clause (a), the method and timing of filing of different statements and returns is proposed to be as under:

Return of income through e-portal in the case of a salaried person.	On or before the 31st day of August next following the end of the tax year to which the return relates.
Statement required under sub-section (4) of section 115 in the case of salaried individual.	On or before the 31st day of August next following the end of the tax year to which the statement relates.
Return of income through manual means in the case of a salaried person deriving salary income of less than Rs. 500,000.	On or before the 30th day of September next following the end of the tax year to which the return relates.
In the case of a return of income for any person (other than a company).	On or before the 30th day of September next following the end of the tax year to which the return relates

12. Investment Tax on income

Section 120A

This section was inserted in the Ordinance through Finance Act, 2008 empowering the FBR to make a scheme of payment of investment tax in respect of undisclosed income, representing any amount or investment made in moveable or immoveable assets.

Accordingly, in order to encourage and promote investment, a scheme of investment tax was introduced, allowing any past and present investments made in the business, industry, moveable or immoveable assets to be declared in accordance with the scheme during the period from July 01, 2008 to December 31, 2008 by paying 2% of fair market value of the asset declared.

The Bill now seeks to withdraw section 120A, thus FBR shall not be able to introduce any such amnesty schemes, unless the law is amended to empower FBR.

13. Provisional assessment

Section 122C

Section 122C empowers the Commissioner to issue a provisional assessment order if any person fails to file return of income under sub-sections (3) and (4) of section 114 and the said order is treated as a final assessment after passage of 60 days from the date of service of the provisional assessment order, if the specified documents are not filed by the taxpayer within the said period of 60 days.

The Bill seeks to reduce the expiry period of the provisional assessment order from 60 days to 45 days.

This particular amendment is likely to create hardship for the tax payer to furnish the required documents, especially in case where there are genuine reasons for the delay in furnishing the documents, as the existing provision does not provide any mechanism for the Commissioner to grant extension in time.

14. Appointment of the Appellate Tribunal

Section 130

Section 130 provides the procedure and criteria for the appointment of member of Appellate Tribunal Inland Revenue.

Currently, only persons who have exercised the powers of a District Judge and are qualified to be Judges of High Court or persons who are or have been advocates of the High Court and are qualified to be Judges of the High Court be appointed as a judicial member of the Appellate Tribunal Inland Revenue.

Bill proposes that any person who is an officer of Inland Revenue Service and a law graduate having at least fifteen years of service in Basic Pay Scale / Grade 17 and above can also be appointed as judicial member of the Appellate Tribunal.

15. Salary

Section 149

Section 149 requires the employer to withhold tax from the payment of salary to the employees, and allows the employer to adjust the tax withheld from employees under other heads including the tax credits admissible under sections 61 to 64 of the Ordinance, after obtaining documentary evidence, against the amount of withholding tax to be deducted from salary.

The proposed amendment seeks to substitute the word “employer” with the word “person responsible for”, by virtue of which, every person responsible for paying salary to an employee and not just an employer would be required to deduct tax from the payment of salary.

Moreover, the Bill proposes that only excess deduction or deficiency arising out of previous deduction or failure to make deduction should be adjusted against the amount of withholding tax in respect of salary. Thus, the tax credits available under section 61 to 64 shall not be allowed to be adjusted against the amount of withholding tax to be deducted by the employer.

This amendment would create hardship for salaried individual, as in the absence of adjustments, the employees eligible to claim such tax credits are likely to be in a tax refund position at the time of filing of return of income. Ironically, considering the present state of affairs at FBR, nobody is sure as to when they would be able to receive the refund arising as a result of claiming such tax credits.

However, the amendment shall curb the practice, whereby employees were making bogus claims for tax credits and advance tax payments, and the employers were not strictly following the law especially with regard to the inspection of documentary proof in respect of the claims.

16. Payments to non-residents

Section 152

Currently, the words “ prescribed persons” have been used, however, in subsection (2A) of section 152; unlike section 153 of the Ordinance, there was no explanation as to who is required to deduct tax under section 152 of the Ordinance.

Bill now seeks to insert sub-section (8), whereby prescribed persons for the purpose of sub - section (2A) would mean the following persons as defined under sub-section (7) of section 153:

(a) the Federal Government;
(b) a company;
(c) an association of persons constituted by, or under law;
(d) a non-profit organization;

(e) a foreign contractor or consultant;
(f) a consortium or joint venture;
(g) an exporter or an export house for the purpose of sub-section (2);
(h) an association of persons, having turnover of fifty million rupees or above in tax year 2007 or in any subsequent tax year; or
(i) an individual, having turnover of fifty million rupees or above in the tax year 2009 or in any subsequent year;
(j) a person registered under the Sales Tax Act, 1990; (proposed sub-clause).

17. Payments for goods, services and contracts

Section 153

The Bill proposes to insert a new sub-clause (j) in sub-section (7) of section 153, by virtue of which, a person registered under the Sales Tax Act, 1990 would also fall under the definition of prescribed persons, who are required to withhold tax at the time of making payment for supply of good, rendering of services and execution of contract.

18. Income from property

Section 155

It is proposed that charitable institutions, private educational institutions, boutiques, beauty parlours, hospitals, clinics or maternity homes, individuals or association of persons paying gross rent of Rs.1,500,000 and above in a year shall also be included in the list of prescribed persons responsible for withholding tax under section 155 of the Ordinance on payment of rent.

The legislature intends to increase tax collection in respect of rental income from immoveable property.

All the aforesaid persons would be required to file monthly withholding tax statements under section 165 of the Ordinance and issue certificate of collection or deduction of tax under section 164 of the Ordinance. Moreover, all such persons (including individuals not carrying on any business) would be required to have either National Tax Number or National Identity Card.

The amount of tax collected by the aforementioned persons would be adjustable against the tax liability of the landlord in the same way as tax deducted by other withholding agents.

19. Certificate of collection or deduction of tax

Section 164

Certificate of collection or deduction of tax is proposed not be treated as a sufficient evidence of collection or deduction of tax.

In practice, tax payers despite furnishing tax payment challan, are unable to claim tax credit, merely because they could not obtain the certificate from the withholding agent who had collected or deducted tax. Moreover, even in instances, where the certificate is submitted, the tax authorities are reluctant to accept the claim in the absence of tax payment challans. Therefore, the requirement of a certificate of tax deduction had practically become redundant. It should also be noted that the proof of collection or deduction of tax is now readily available from the FBR's online data base.

20. Statements

Section 165

An "Explanation" is proposed to be added to sub-section (1) whereby the requirement of providing prescribed information on monthly statement of tax withholding under this section would override the provisions of the Protection of Economic Reforms Act, 1992, the Banking Companies Ordinance, 1962, the Foreign Exchange Regulation Act, 1947 and the regulations made under the State Bank of Pakistan Act, 1956.

Apparently, this amendment has been introduced to require banks to make the prescribed disclosure of information in respect of tax deducted by them under section 151 of the Ordinance, as some of them are not currently doing so under the pretext of the aforesaid laws which allows banks to maintain secrecy in respect of their account holders or to claim immunity from the provisions of the Ordinance.

It is further proposed that the requirement for filing the annual statement of withholding tax in respect of Salary by the employers be done away with.

21. Furnishing of information by banks

Section 165A

A new section is proposed to be inserted in the Ordinance, whereby notwithstanding anything contained in any law for the time being in force including but not limited to the Banking Companies Ordinance, 1962, the Protection of Economic Reforms Act, 1992, the Foreign Exchange Regulation Act, 1947 and the regulations made under the State Bank of Pakistan Act, 1956 in this regard, every banking company shall make arrangements to provide the FBR in the prescribed form and manner:

(a) online access to its central database containing details of its account holders and all transactions made in their accounts;

(b) list containing particulars of deposits aggregating rupees Rs.1,000,000 or more made during the preceding calendar month;

(c) list of payments made by any person against bills raised in respect of a credit card issued to that person, aggregating to Rs.1,000,000 or more during the preceding calendar month;

(d) consolidated list of loans written off exceeding Rs.1,000,000 during a calendar year; and

(e) copy of each Currency Transactions Report and Suspicious Transactions Report generated and submitted by it to the Financial Monitoring Unit under the Anti-Money Laundering Act, 2010.

It is further proposed that each banking company shall nominate a senior officer at its head office for coordinating with the FBR for the provision of any information and documents which they may require, in addition to those mentioned above.

The Bill proposes that banks and their officers shall not be liable to any civil, criminal or disciplinary proceedings against them for furnishing any information required under this Ordinance, and that all such information received shall be used only for tax purposes and kept confidential apart from the requirements under section 216 relating to disclosure of information by public servants.

This amendment would bring number of wealthy individuals and other persons into the tax net and increase tax collection therefrom.

However, a big uproar is expected from the general public and especially banks who would protest that this amendment would be a violation of privacy of account holders and that the tax authorities would misuse the law and harass them unnecessarily.

22. Additional payment for delayed refunds

Section 171

An “Explanation” is proposed to be inserted in sub-section (2) of this section by virtue of which, refund arising out of an order passed in response to a refund application under section 170 of the Ordinance would be treated as becoming due on the date a refund order is passed by the Commissioner (and not on the date an order is deemed to have been passed, i.e. the day of the filing of the return of income), for the purpose of computing compensation on delayed refund.

This amendment is likely to increase the hardship currently being faced by the tax payers who have paid or suffered excessive tax. There are already thousands of cases of taxpayers who are unable to obtain genuine tax refunds which are due for number of years.

However, it is understood that the proposed amendment shall not have any bearing on the refund arising as a result of an amendment order passed by the Commissioner.

23. Representatives

Section 172

Currently, any person who has a business connection with a non-resident person is treated as a representative of that non-resident person.

An explanation is proposed to be inserted, whereby the expression “business connection” shall include transfer of an asset or business in Pakistan by a non-resident person.

24. Audit

Section 177

An explanation is proposed to be added after sub-section (10) of the section providing that the Commissioners of Inland Revenue would have powers to call for the record or documents including books of accounts of a taxpayer for audit and to conduct audit under this section, and that such powers are independent of the powers of the FBR under section 214C of the Ordinance. Amendment to give this effect has also been proposed under section 214C.

This amendment seems to have been introduced in view of the decisions of Courts, wherein it was held that the Commissioners do not have any power to select cases for audit, after the amendment made in the Ordinance through the Finance Act, 2010. A conflicting judgment was, however, given recently by the Court.

Since this amendment is proposed to be made through an "Explanation", the legislature intends to apply the change retrospectively. As such, the Commissioner would be able to select the cases for audit under section 177 of the Ordinance in respect of any tax year, subject to other provisions of the Ordinance.

25. Taxpayer's registration

Section 181

It is proposed that the Board may allow the use of Computerized National Identity Card issued by the National Database and Registration Authority for registration purposes, in place of National Tax Number.

26. Displaying of National Tax Number

Section 181C

A new section is proposed to be inserted in the Ordinance, whereby every person deriving income from business chargeable to tax, who has been issued a National Tax Number, shall display his National Tax Number at a conspicuous place at every place of his business.

This requirement already exists under Rule 83 of the Income Tax Rules, 2002, however, the same has been codified to enforce its compliance.

27. Selection of audit by the Board

Section 214C

A new sub-section (1A) is proposed to be inserted in the section, whereby notwithstanding anything contained in this Ordinance or any other law for the time being in force, the FBR shall keep the parameters for selection of case under audit through computer ballot as confidential.

This amendment is introduced keeping in view the judgment of the Lahore High Court, wherein it was held that the FBR should publicize the parameters for the selection of cases for audit in the print media and upload the same on its website.

An explanation is also proposed to be introduced which provides that the powers of the Commissioner to select a case for audit under section 177 are independent of powers of FBR under this section.

28. Reward to Inland Revenue officers and officials

Section 227A

The Bill propose to insert this new section providing for sanctioning of cash reward to officers and officials of Inland Revenue for their meritorious conduct and to the informer providing credible information leading to the detection of concealment or evasions of income after realization of part or whole of the taxes so concealed or evaded.

It is further proposed that the FBR may by a notification in the official gazette prescribe procedure and specify the apportionment of reward sanctioned for individual performance or to collective welfare of the officers

29. Collection of tax by NCCPL

Section 233AA

Currently, 10% withholding tax is collected by NCCPL from members of stock exchange registered in Pakistan in respect of margin financing in share business.

The Bill propose to expand the scope of the withholding tax under this section requiring collection of 10% advance tax by NCCPL from members of stock exchange registered in Pakistan, margin financiers, trading financiers and lenders in respect of margin financing in share business or providing of any margin financing, trade financing and security lending under the Securities (Leveraged Markets and Pledging) Rules, 2011 in share business.

30. Tax on motor vehicles

Section 234

Currently, tax collected from owner of goods transport vehicle is treated as final tax in respect of the income arising from plying or hiring out of such vehicle, whilst tax deduction under this section in all other cases are adjustable.

The Bill proposes amendment in the section, by virtue of which, all tax deducted under this section is adjustable tax. Moreover, a new tax slab is proposed to be introduced for cases where motor vehicle tax is collected in lump sum.

31. Advance tax on functions and gatherings

Section 236D

The Bill proposes to insert a new section in the Ordinance requiring the prescribed persons to collect 10% advance tax on the total amount of the bill from a person arranging or holding a function in a marriage hall, marquee, hotel, restaurant, commercial lawn, club, a community place or any other place used for such purpose. Where food, service or other facility is provided by any other person, prescribed persons shall also collect advance tax on the payment for such food, service or facility at the same rate

"Prescribed person" has been defined to include owner, a lease-holder, an operator or manager of a marriage hall, marquee, hotel, restaurants, club, a community place or other place used for such purpose. Advance tax so collected shall be adjustable. Aim behind the introduction of this advance tax is to promote documentation of economy and encourage filing of returns of income for claiming this adjustable tax.

32. Advance tax on foreign-produced films, TV plays and serials

Section 236E

A new section is proposed to be inserted, requiring the person responsible for censoring or certifying foreign-produced film, a TV drama serial or a play for screening and viewing to collect advance tax at prescribed rates at the time of certifying or censoring.

The advance tax so collected shall be adjustable.

33. Advance tax on cable operators and other electronic media

Section 236F

The Bill proposes to insert a new section in the Ordinance, requiring Pakistan Electronic Media Regulatory Authority to collect advance tax at prescribed rates from cable television operators at the time of issuance or renewal of license for distribution of services.

The advance tax so collected shall be adjustable.

34. Advance tax on sales to distributors, dealers and wholesalers

Section 236G

A new section is proposed to be inserted, requiring manufacturers or commercial importers of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector to collect 0.1% advance tax from distributors, dealers and wholesalers of such products at the time of making sale.

Advance tax so collected is adjustable against the tax liability of the tax year in which the tax is collected.

A somewhat similar amendment was made vide insertion of section 153A in the Ordinance through the Finance Act, 2012, whereby manufacturers were required to collect 0.5% advance tax on the gross amount of sales to distributors, dealers and wholesalers.

Due to anomalies in the practical application of the law and associated difficulties faced by manufacturers in their business conduct, section 153A was kept in abeyance vide SRO 1487(I)/2012 upto June 30, 2013. The proposed reduction in advance tax rate and limitation of scope is aimed to remove the hardship faced in compliance with the provisions of section 153A. Amendment still requires clarification and guidelines for its effective application.

35. Advance tax on sales to retailers

Section 236H

A new section is proposed to be inserted in the Ordinance, requiring manufacturers, distributors, dealers, wholesalers or commercial importers of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector to collect 0.5% advance tax from retailers of such products at the time of making sale.

Advance tax so collected is adjustable against the tax liability of the tax year in which the tax is collected.

This amendment seeks to ensure registration of the retail sector dealing in specified products and to bring them within the tax net.

36. Collection of advance tax by educational institutions

Section 236I

A new section is proposed to be inserted in the Ordinance, requiring the persons preparing fee voucher or challan to collect 5% advance tax on the amount of fee paid to educational institutions. No advance tax is, however, proposed to be collected where the fee paid by a person does not exceed Rs. 200,000 in a tax year.

Advance tax so collected shall be adjustable against the tax liability of person paying the fee.

37. Advance tax on dealers, commission agents, arhatis, etc.

Section 236J

The proposed new section requires market committees, including any committee or body formed under any provincial or local law made for the purpose of establishing, regulating or organizing agricultural, livestock and other commodity markets, to collect advance tax from dealers, commission agents and arhatis at the time of issuance or renewal of their license.

Advance tax so collected shall be adjustable. This amendment is an initiative to regularize the unorganized commodity market trading and to bring them in tax net.

The First Schedule
Rates of Tax

Part I
Division I (Clause I) & (Clause 1A)

The Bill proposes to revise the rates of taxation for non-salaried individuals, association of persons (AOP) and salaried individuals.

For comparison purposes, the existing and proposed tax rates for non-salaried individuals, AOPs and salaried individuals are provided as under:

Business Individuals and AOP

I. Existing tax rates for individuals drawing income other than salary and for AOPs are as follows:

S. No.	Income Slabs	Rate of tax
1.	Where the taxable income does not exceed 400,000	Nil
2.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 750,000	10% of amount exceeding Rs. 400,000
3.	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs. 1,500,000	Rs. 35,000 plus 15% of the amount exceeding Rs.750,000
4.	Where the taxable income exceeds Rs. 1,500,000 but does not exceed Rs. 2,500,000	Rs. 147,500 plus 20% of the amount exceeding Rs.1,500,000
5.	Where the taxable income exceeds Rs. 2,500,000 but does not exceed Rs. 4,000,000	Rs. 347,500 plus 25% of the amount exceeding Rs.2,500,000

II. Revised tax rates for individuals drawing income other than salary and for AOPs are proposed to be as follows:

S. No.	Income Slabs	Rate of Tax
1.	Where the taxable income does not exceed Rs.400,000	Nil
2.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 750,000	10% of the amount exceeding Rs. 400,000
3.	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs. 1,500,000	Rs. 35,000 plus 15% of the amount exceeding Rs.750,000

4.	Where the taxable income exceeds Rs. 1,500,000 but does not exceed Rs. 2,500,000	Rs. 147,500 plus 20% of the amount exceeding Rs.1,500,000
5.	Where taxable income exceeds Rs. 2,500,000 but does not exceed Rs. 4,000,000	Rs. 347,500 plus 25% of the amount exceeding Rs.2,500,000
6.	Where the taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 6,000,000	Rs. 722,500 plus 30% of the amount exceeding Rs. 4,000,000
7.	Where the taxable income exceeds Rs. 6,000,000	Rs. 1,322,500 plus 35% of the amount exceeding Rs. 6,000,000

Salaried Individuals

I. The existing rates of tax for salaried individuals for the tax year 2013 are as follows:

S. No.	Income Slabs	Rate of Tax
1.	Where the taxable income does not exceed Rs.400,000	Nil
2.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 750,000	5% of the amount exceeding Rs. 400,000
3.	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs. 1,500,000	Rs. 17,500 plus 10% of the amount exceeding Rs.750,000
4.	Where the taxable income exceeds Rs. 1,500,000 but does not exceed Rs. 2,000,000	Rs. 95,000 plus 15% of the amount exceeding Rs.1,500,000
5.	Where the taxable income exceeds Rs. 2,000,000 but does not exceed 2,500,000	Rs. 175,000 + 17.5% of amount exceeding Rs. 2,000,000
6.	Where the taxable income exceeds Rs. 2,500,000	Rs. 420,000 + 20% of amount exceeding Rs. 2,500,000

II. The rates of tax for salaried individuals are proposed to be substituted as follows:

S. No.	Income Slabs	Rate of Tax
1.	Where the taxable income does not exceed Rs.400,000	Nil
2.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 500,000	5% of the amount exceeding Rs.400,000
3.	Where the taxable income exceeds Rs. 500,000 but does not exceed Rs. 800,000	Rs. 5,000 plus 7.5% of the amount exceeding Rs.500,000

S. No.	Income Slabs	Rate of Tax
4.	Where the taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,300,000	Rs. 27,500 plus 10% of the amount exceeding Rs.800,000
5.	Where the taxable income exceeds Rs. 1,300,000 but does not exceed Rs. 1,800,000	Rs. 77,500 plus 12.5% of the amount exceeding Rs.1,300,000
6.	Where the taxable income exceeds Rs. 1,800,000 but does not exceed Rs. 2,200,000	Rs. 140,000 plus 15% of the amount exceeding Rs. 1,800,000
7.	Where the taxable income exceeds Rs. 2,200,000 but does not exceed Rs. 2,600,000	Rs. 200,000 plus 17.5% of the amount exceeding Rs. 2,200,000
8.	Where the taxable income exceeds Rs. 2,600,000 but does not exceed Rs. 3,000,000	Rs. 270,000 plus 20% of the amount exceeding Rs. 2,600,000
9.	Where the taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 3,500,000	Rs. 350,000 plus 22.5% of the amount exceeding Rs. 3,000,000
10.	Where the taxable income exceeds Rs. 3,500,000 but does not exceed Rs. 4,000,000	Rs. 462,500 plus 25% of the amount exceeding Rs. 3,500,000
11.	Where the taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 7,000,000	Rs. 587,500 plus 27.5% of the amount exceeding Rs. 4,000,000
12.	Where the taxable income exceeds Rs 7,000,000	Rs. 1,412,500 plus 30% of the amount exceeding Rs. 7,000,000

The bill seeks to withdraw the marginal tax relief provisions by omitting the first proviso to Clause IA of Division I to the First Schedule.

Comparison of tax rates

I. Salaried Individuals

Taxable Income	Tax Liability		Tax Savings / (Losses)
	As Per Current Tax Rates	As Per Proposed Tax Rates	
----------------Rupees--------------			
400,000	-	-	-
500,000	5,000	5,000	-
600,000	10,000	12,500	(2,500)
700,000	15,000	20,000	(5,000)
750,000	17,500	23,750	(6,250)
800,000	22,500	27,500	(5,000)
1,300,000	72,500	77,500	(5,000)
1,500,000	92,500	102,500	(10,000)
1,800,000	140,000	140,000	-
2,200,000	210,000	200,000	10,000
2,500,000	262,500	252,500	10,000
2,600,000	440,000	270,000	170,000
3,000,000	520,000	350,000	170,000
3,500,000	620,000	462,500	157,500
4,000,000	720,000	587,500	132,500
5,000,000	920,000	862,500	57,500
6,000,000	1,120,000	1,137,500	(17,500)
7,000,000	1,320,000	1,412,500	(92,500)
7,500,000	1,420,000	1,562,500	(142,500)

II. Non-Salaried Individuals and Association of Persons

Taxable Income	Tax Liability		Tax Savings / (Losses)
	As Per Current Tax Rates	As Per Proposed Tax Rates	
-----------------Rupees----------------			
400,000	-	-	-
750,000	35,000	35,000	-
1,500,000	147,500	147,500	-
2,500,000	347,500	347,500	-
4,000,000	722,500	722,500	-
6,000,000	1,222,500	1,322,500	(100,000)
6,500,000	1,347,500	1,497,500	(150,000)

Part I
Division II (Rates of Tax for Companies)

The Bill seeks to provide relief to the corporate sector by reducing the rate of tax in respect of tax year 2014 for non-banking companies from 35% to 34%.

Part II
Division VI (Income from Property)

The Bill seeks to enhance the slabs from three to six for property income. For comparison purposes, the existing and proposed rates for individuals and associations of persons under Section 15 of the income tax Ordinance are provided in the below tables;

Individual and AOP

The existing and proposed rates of tax for income from property for individual and AOP are as follows;

S. No.	Income Slabs	Rate of tax	
		Current	**Proposed**
1.	Where the gross amount of rent does not exceed Rs.150,000	Nil	
2.	Where the gross amount of rent exceeds Rs.150,000 but does not exceed Rs.400,000	5% of the gross amount exceeding Rs.150,000	
3.	Where the gross amount of rent exceeds Rs.400,000 but does not exceed Rs.1,000,000	Rs.12,500 plus 7.5% of the gross amount exceeding Rs.400,000	
4.	Where the gross amount of rent exceeds Rs.1,000,000	Rs.57,500 plus 10% of the gross amount exceeding Rs.1,000,000	
5.	Where the gross amount of rent exceeds Rs. 1,000,000 but does not exceed Rs. 2,000,000	Rs. 57,500 plus 10% of the gross amount exceeding Rs. 1,000,000	
6.	Where the gross amount of rent exceeds Rs. 2,000,000 but does not exceed Rs. 3,000,000		Rs. 157,500 plus 12.5% of the gross amount of rent exceeding Rs. 2,000,000
7.	Where the gross amount of rent exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000		Rs. 282,500 plus 15% of the gross amount of rent exceeding Rs. 3,000,000
8.	Where the gross amount of rent exceeds Rs. 4,000,000		Rs. 432,500 plus 17.5% of the gross amount of rent exceeding Rs. 4,000,000

Company

The existing and proposed rates of tax for income from property for companies is as follows;

S. No.	Income Slabs	Rate of tax	
		Current	Proposed
1.	Where the gross amount of rent does not exceed Rs.400,000	5% of the gross amount of rent	
2.	Where the gross amount of rent exceeds Rs.400,000 but does not exceed Rs.1,000,000	Rs.20,000 plus 7.5% of the gross amount of rent exceeding Rs.400,000.	
3.	Where the gross amount of rent exceeds Rs. 1,000,000 but does not exceed Rs. 2,000,000	Rs.65,000 plus 10% of the gross amount of rent exceeding Rs.1,000,000.	
4.	Where the gross amount of rent exceeds Rs. 2,000,000 but does not exceed Rs. 3,000,000		Rs. 165,000 plus 12.5% of the gross amount of rent exceeding Rs. 2,000,000
5.	Where the gross amount of rent exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000		Rs. 290,000 plus 15% of the gross amount of rent exceeding Rs. 3,000,000
6.	Where the gross amount of rent exceeds Rs. 4,000,000		Rs. 440,000 plus 17.5% of the gross amount of rent exceeding Rs. 4,000,000

Part III
Division III
(Rates of Advance Tax)

The Bill proposes to enhance the rate of withholding tax on commercial import of goods by non-corporate taxpayers. However, the previous rate of 5% has been maintained in case of industrial undertakings and companies. The proposed rates are as under;

S. No.	Nature of the taxpayer	Rate of tax
1.	Industrial undertakings	5% of the value of goods
2.	Companies	5% of the value of goods
3.	All other taxpayers	5.5% of the value of goods.

Part III
Division III (Payment for Goods or Services)

The Bill seeks to provide revised withholding tax rates on payment of supply of goods, services rendered and contracts to non-corporate taxpayers. This amendment has been introduced with a two-fold objective of enhancing the revenue collection and encouraging corporatization. Rates are provided in the table below;

S. No.	Nature of activity	Existing rates	Proposed rates	
			Corporate Taxpayers	Non-Corporate Taxpayers
1.	Supply of goods	3.5%	3.5%	4%
2.	Services	6%	6%	7%
3.	Contracts	6%	6%	6.5%

(Prizes and Winnings)

Withholding tax rate is proposed to be increased from 10% to 15%. This withholding rate is on the higher side and will discourage the investors.

Part IV
Division II A (Section 233A)

Requirement under clause (d) of subsection (1) of section 233A for collection of advance tax by stock exchange registered in Pakistan on transactions relating to financing of carryover trades in share business was omitted through Finance Act, 2012. However, the related amendment in Division IIA was not made. The bill proposes to omit S. No. (iv) of the table to harmonize the provisions of Division IIA with section 233A. It should be noted here that clause (c) of subsection (2) of section 233A was also omitted through Finance Act, 2012, however, the corresponding S. No. (iii) of the table under Division IIA has still not been omitted.

Division II B (Rates of Collection of Tax by NCCPL)

The Bill proposes to enhance the scope of withholding tax by inclusion of transactions relating to margin financing, trading financing and lending under the purview of section 233AA. Consequent to this proposed amendment the Bill seeks to introduce Division IIB which provides the rate of withholding tax on profit or markup or interest earned by the member, margin financer or securities lender. The proposed rate of withholding tax under the aforesaid Division shall be 10% which shall be collected by NCCPL from margin financers, trading financiers and lenders.

Division III (Tax on Motor Vehicles)

The Bill seeks to introduce motor vehicle tax rate on private vehicle where the same is paid in lump sum for ten (10) years. The proposed rates of advance tax collection in lump sum are provided as under:

S. No.	Engine Capacity	Rate of Tax (Rupees)
1.	Up to 1000cc	7,500
2.	1001cc to 1199cc	12,500
3.	1200cc to 1299cc	17,500
4.	1300cc to 1599cc	30,000
5.	1600cc to 1999cc	40,000
6.	2000cc and above	80,000

Division VI (Tax on Cash Withdrawal from a Bank)

The rate of withholding tax on cash withdrawal from banks was reduced from 0.3% to 0.2% through Finance Act, 2011. The Bill seeks to restore the rate of withholding tax from 0.2% to 0.3% on cash withdrawal from a bank exceeding Rs. 50,000 in a day. The proposed increase in the tax rate shall help in discouraging cash transactions and to improve documentation of transactions.

Division VII (Purchase of Motor Cars and Jeeps)

The existing rates of tax on registration of motor vehicles were introduced through Finance Act, 2007. In order to rationalize the rates of tax with the inflation rate, the rates of advance tax for the registration of vehicles are proposed to be enhanced. Current and proposed rates of tax are provided as under:

Engine Capacity	Amount of Tax	
	Current	Proposed
	Rupees	Rupees
Up to 850cc	7,500	10,000
851cc to 1000cc	10,500	20,000
1001cc to 1300cc	16,875	30,000
1301cc to 1600cc	25,000	50,000
1601cc to 1800cc	22,500	75,000
1801cc to 2000cc	16,875	100,000
Above 2000cc	50,000	150,000

Division VIII (Advance Tax at the Time of Sale by Auction)

The Bill seeks to enhance the rate of advance tax on sale of goods by auction from 5% to 10%. This measure shall also encourage filing of tax return for the purpose of claiming adjustment.

Part IV
Division XI (Advance Tax on Functions and Gatherings)

Consequent to the proposed introduction of section 236D, a new Division XI is proposed to be added. The rate of tax to be collected by hotels, clubs, marriage halls, marquee, restaurants, commercial lawns, community place from persons arranging functions and gatherings at such places shall be 10% of the amount of Bill in respect of such services.

Where food, service or other facility by any other person is provided, such person shall also collect advance tax on the payment for such food, service or facility at the same rate.

The tax so collected shall be adjustable against the tax payable by the person. The aim behind the introduction of the aforesaid tax is to promote documentation of economy and encourages filing of returns for claiming this adjustable tax.

Part IV
Division XII (Advance Tax on Foreign –Produced Films and TV Plays)

The Bill seeks to prescribe the rates of advance tax to be collected on foreign produced films, TV drama or play. This tax shall be collected by the authority responsible for censoring or certification of such foreign produced films and TV drama or plays. The proposed rates of tax to be collected are provided as under:

Nature of Content	**Rate of Tax (Rupees)**
Foreign-produced film	1,000,000
Foreign-produced TV drama serial	100,000 per episode
Foreign TV play (single episode)	100,000

Part IV
Division XIII (Advance Tax on Cable Operators and other Electronic Media)

The Bill seeks to prescribe the rates of advance tax to be collected from cable operators, distribution service providers, satellite TV stations. This adjustable tax shall be collected by Pakistan Electronic Media Regulatory Authority (PEMRA) at the time of issuance and renewal of license for distribution services. The proposed rates of advance tax to be collected are as under:

Cable Television Operator

License Category as provided in PEMRA Rules 2009	Tax on License Fee (Rupees)	Tax on Renewal (Rupees)
H	7,500	10,000
H-1	10,000	15,000
H-II	25,000	30,000
R	5,000	30,000
B	5,000	40,000
B-1	30,000	50,000
B-2	40,000	60,000
B-3	50,000	75,000
B-4	75,000	100,000
B-5	87,500	150,000
B-6	175,000	200,000
B-7	262,500	300,000
B-8	437,500	500,000
B-9	700,000	800,000
B-10	875,500	900,000

Other Distribution Services

Type of Channel as provided in PEMRA Rules 2009	Tax on Issuance of license (Rupees)	Tax on Renewal (Rupees)
IPTV	100,000	1,000,000
FM Radio	100,000	100,000
MMDS	200,000	100,000
Mobile TV	100,000	50,000

Satellite TV station

Type of Channel as provided in PEMRA Rules 2009	Tax on Issuance of license (Rupees)	Tax on Renewal (Rupees)
News or Current	1,000,000	2,000,000
Sports	1,000,000	1,000,000
Regional Language	700,000	700,000
Health or Agro	300,000	300,000
Education	300,000	300,000
Entertainment	1,000,000	1,000,000
Specialized subject station	500,000	200,000

Landing Rights per channel

Type of Channel as provided in PEMRA Rules 2009	Tax on Issuance of license (Rupees)	Tax on Renewal (Rupees)
News/Current Affairs	1,000,000	5,000,000
Sports	500,000	2,500,000
Educational	200,000	1,000,000
Entertainment	200,000	2,000,000
Children	350,000	1,500,000

Division XIV (Advance Tax on Sale to Distributors, Dealers and Wholesalers)

The Bill seeks to introduce the rate of advance tax at 0.1% of the gross amount of sales made by manufacturers and commercial importers to distributors, dealers and wholesalers. The collection of this adjustable advance tax is applicable in respect of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector.

Division XV (Advance Tax on Sale to Retailers)

The Bill seeks to prescribe the rate of advance tax at 0.5% of the gross amount of sales made by manufacturer, distributor, dealer and wholesaler and commercial importer to retailers. The collection of this adjustable advance tax is applicable in respect of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector.

Division XVI (Collection of Advance Tax by Educational Institutions)

The Bill seeks to prescribe the rate of advance tax at 5% to be collected by educational institutions at the time of receipt of fee. This adjustable tax shall be applicable where the annual fee exceeds Rs.200,000, irrespective of the number of children for whom fee is being paid.

Division XVII (Advance Tax on Dealers, Commission Agents and Arhatis, etc.)

The Bill seeks to prescribe the amount of tax to be collected by every market committee from dealers, commission agents and arhatis for different commodities. This revenue measure has been taken to enhance the tax base and encourage the filing of tax returns. The amount of advance tax to be collected is provided in the below table:

S. No.	Group/Class	Amount of tax (per annum) (Rupees)
1	Group or Class A	10,000
2	Group or Class B	7,500
3	Group or Class C	5,000
4	Any other category	5,000

The Second Schedule
Exemptions and Tax Concessions

Part I
Exemption from Total Income

The Bill proposes to withdraw certain exemptions owing to discrimination and misuse resulting in loss to government exchequer. Further, the Bill has also proposed an incentive to corporate taxpayers falling under Special Economic Zone. The proposed changes are as under;

Clause (53A) [Omitted]

Free or concessional passage provided by transporters including airlines to its employees (including the members of their household and dependents).

Clause (92) [Omitted]

Any income of any university or other educational institution established solely for educational purposes and not for purposes of profit.

Clause (103 B) [Omitted]

Any dividend in specie derived in the form of shares in a company, as defined in the Companies Ordinance, 1984.

Clause (126E)

Currently, corporate income tax holiday for a period of 5 year is available to projects in Special Economic Zones. To promote industrialization and investment in the country, the Bill proposes to extend the period of holiday from 5 to 10 years.

Part II
Reduction in tax rates

Clause (28)

The Bill proposes to insert a new clause by aiming to encourage the import of hybrid vehicles for facilitating conservation of fuel. Accordingly, the clause introduces reduction in withholding tax rates on import of hybrid cars with different engine capacities. The rate of tax under section 148 on import of hybrid cars shall be reduced as under;

Engine Capacity	**Rate of Reduction**
Up to 1200 cc	100 %
1201 to 1800 cc	50 %
1801 to 2500 cc	25 %

Part III
Reduction in Tax Liability

The Bill seeks to withdraw the following clauses for the purpose of broadening the tax base.

Clause (1) [Omitted]

Withdrawal of reduced rate of 2.5% on flying allowance and submarine allowance.

Clause (2) [Omitted]

The tax payable by a full time teacher or a researcher, employed in a non-profit education or research institution duly recognized by Higher Education Commission, a Board of Education or a University recognized by the Higher Education Commission, including government training and research institutions, shall be reduced by an amount equal to 75% of tax payable on his income from salary.

This omission will strongly hit the already suppressed teaching and research faculty who are mostly providing very noble service at meager salaries. It is hard to understand the logic behind this decision as the Government would be able to generate very nominal revenue, if any, after removing this exemption.

Clause (7) (Company engaged in the distribution of cigarettes manufactured in Pakistan)

Currently, the benefit of reduced rate of minimum tax is available to distributors of cigarettes in corporate sector. Being discriminatory to small taxpayers of this sector working in the status of AOPs and individuals, the Bill proposes to extend its scope to the individuals and AOPs.

Part IV
Exemption from Specific Provisions

Clause (56A)

The Bills seeks to insert a new clause by proposing an adjustable withholding tax at import stage on foreign-produced films, TV serials and plays etc.

Clause (59) (IV) (a) (Withholding Taxes on Profit on Debt)

The Bill proposes to withdraw the exemption from withholding of income tax at source on the profit earned on Defence Saving Certificates, Special Saving Certificates, Saving Accounts or Post Office Saving Accounts, or Term Finance Certificates (TFCs) where such deposits does not exceed Rs.150,000.

Clause (72A) (Income from Hajj Operations)

The Bill proposes to insert a new clause where the provisions of clause (1) of Section 21, 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.

Clause (72B)

The Bill proposes non-applicability of the provision of section 148 in respect of tax collection on the import of raw material by industrial undertakings, provided that the tax liability for the current tax year is determined on the basis of tax liability for any of the preceding two tax years, whichever is higher, has been paid and a certificate to the effect has been issued by the Commissioner and the higher liability is being paid during the current tax year.

The Third Schedule
Depreciation - Initial Allowance - Expenditure

Part II
Initial Allowance and First Year Allowance

Clause (1)

Through Finance Act, 2012 the initial allowance on acquisition of new buildings was reduced to 25% from 50%.

The Bill now also proposes to reduce the initial allowance on acquisition of new plant and machinery from 50% to 25%.

Whilst the Government wishes to encourage the investment in infrastructure and promote the business; however, such proposals are not in line with the stated policy.

The Seventh Schedule

Rule 6
Tax on Dividend Received From Money Market Fund and Income Fund

Through an amendment introduced in Rule 6 of the Seventh Schedule vide Finance Act, 2012 tax rates on dividends accruing to banks on investments in Money Market Fund and Income Fund was fixed at 25% for tax year 2013 and 35% for tax year 2014 and onwards to discourage tax planning by using the funds as a vehicle to earn income from dividend taxable at a lower rate.

The Bill now seeks to withdraw 35% rate of tax for tax year 2014 and onwards, and resultantly tax rate of 25% for the tax year 2013 will remain applicable for the tax year 2014 and onward.

Income Support Levy Act, 2013

In addition to the income tax imposed under the Income Tax Ordinance, 2001, the Bill propose to introduce a new levy on the **net moveable wealth** of the persons through introduction of Income Support Levy Act, 2013 (hereafter referred as "the Act").

The Act is proposed with the objective to generate financial resources for providing support for economically distressed families of the country.

Under this Act, levy shall be imposed on persons having net moveable wealth exceeding **Rs. 1 million** at the end of the tax year. The rate of levy shall be **0.5%** of the net moveable wealth exceeding Rs. 1 million as declared in wealth statement by the person.

It is important to note that the Act excludes any immovable property (such as land, building, agricultural property etc.) and its related liabilities from its scope.

For the purposes of the Act, the **net moveable wealth** shall be the aggregate value of the moveable assets of the person as reduced by aggregate value of all the liabilities owed by that person declared in the wealth statement for the relevant tax year provided that the liability claimed relates wholly and exclusively to his moveable asset.

However where the gross wealth of the person declared comprises of both, moveable and immovable assets and the liability declared is not exclusively relatable to particular nature of assets, net moveable wealth shall be calculated by the following formula:-

(A / B) x C

Where -

A is the gross value of moveable assets;
B is the gross value of both moveable and immoveable assets; and
C is the gross value of liabilities owed;

It is worth considering that though the Income Support Levy bears the same nature as the Wealth Tax previously promulgated in Pakistan through Wealth Tax Act, 1963 (subsequently abolished by Finance Act 2003), however, the scope of application is narrowed to apply to individuals only. Moreover, the focus has been shifted exclusively to moveable assets.

However keeping in view the fact that the threshold for application is kept to Rs. 1 million only, the proposed Act is likely to affect large number of individuals.

The Income Support Levy is effective retrospectively from tax year 2013 and required to be paid along with wealth statement. Thus, individual filing return of income for tax year 2013 shall be liable to pay this levy, although the Act is silent with respect to the mode and manner of payments of this levy. The Act also empowers the Officer of Inland Revenue to determine the levy payable and issue an order to this effect. Further, Federal Board of Revenue is empowered to make procedural rules for the Act by notification in the official Gazette.

Sales Tax Act 1990

Definition-Section 2
CREST
Clause 5AC

The Bill proposes to define the term 'CREST' to mean the computerized program for analyzing and cross-matching of sales tax returns, also referred to as Computerized Risk-based Evaluation of Sales Tax. Such term is defined for the purpose of proposed disallowance of input tax against CREST objections under section 8.

Provincial Sales Tax
Clause 22A

Definition of term 'Provincial Sales Tax' is proposed to be substituted by the Bill. New definition seeks to redefine the term to mean tax levied under provincial laws or laws relating to Islamabad Capital Territory, which are declared by the Federal Government through notification in the official Gazette, to be provincial sales tax for the purpose of input tax.

Present definition provides the references of provincial Sales Tax Ordinances, however, after repealing of said Ordinances and promulgation of provincial Sales Tax Acts by the provincial governments of Sindh and Punjab, the above amendment was needed. Some tax officers were creating disputes regarding allowability of sales tax paid under provincial Sales Tax Acts as an input tax since the present definition does not include the reference of such Acts. This amendment is of a clarificatory nature and is likely to resolve the disputes in previous proceedings as well.

Supply chain
Clause 33A

The Bill proposes to introduce new term "supply chain" to mean the series of transactions between buyers and sellers from the stage of first purchase or import to the stage of final supply. Such term is defined for the purpose of proposed disallowance of input tax against CREST objections under section 8 which is not verifiable in the supply chain.

Time of supply
Clause 44

The Bill seeks to levy sales tax on receipt of advance payments against supply. Presently, the sales tax is levied when actual supply/delivery of goods is made to the customers, however, the Bill proposes to levy sales tax at the time of actual delivery of goods or the time when the payment is received by the supplier in respect of that supply, whichever is earlier. Such amendment was also made some years back, however, later it was withdrawn.

Consequent to above amendment, the Bill also proposes to clarify that where any part payment is received:

(i) for the supply in a tax period, it shall be accounted for in the return for that tax period; and
(ii) in respect of exempt supply, it shall be accounted for in the return for the tax period during which the exemption is withdrawn from such supply.

Scope of tax
Section 3

The Bill proposes to enhance sales tax rate from 16% to 17% which is effective from June 13, 2013. Through Finance Act, 2011, the rate was reduced from 17% to 16%, however, it is proposed to be restored again to 17%. This is a major revenue measure to enhance the tax collections by the Government, however, it will likely to affect the poor class of the country in the form of increasing price of goods.

The Bill also proposes to levy further sales tax of 2% of the value of taxable supplies made to an unregistered person. Hence, the sales tax would be charged at the rate of 19% on the supplies made to the person who has not obtained the registration number. The Federal Government, however, would have powers to exempt the specified goods from chargeability of such further tax through a notification in the official Gazette. Further tax had also been levied earlier, however, it was withdrawn through Finance Act, 2004. The proposed further tax would also burden the general public since the major supply chain is unregistered and such further tax would be shifted to general public.

The Board is empowered by insertion of sub section (1B) to levy and collect tax, in lieu of levying and collecting tax on taxable supplies:

(a) on the production capacity of plants, machinery, undertaking, establishments or installations producing or manufacturing such goods; or

(b) on fixed basis from any person who is in a position to collect such tax due to the nature of the business.

Tax credit not allowed
Section 8

The Bill seeks to disallow input tax paid on purchases in respect of which a discrepancy is indicated by CREST or input tax of which is not verifiable in the supply chain. Tax authorities issued notices recently for disallowance of input tax due to mismatching of sales tax between the buyer and suppliers returns identified by CREST system. The Bill seeks to provide legal cover to the actions of the tax authorities regarding disallowance of input tax against the objections raised by the CREST. It is observed that objections raised by CREST are usually incorrect / illegitimate, therefore, disallowance of input tax on the basis of such faulty system may result in unnecessary litigations between taxpayers and the department.

De-registration, blacklisting and suspension of registration
Section 21

Presently, the Act allows the input tax against invoices issued by blacklisted suppliers where the buyer has fulfilled its responsibilities under section 73 making payment through banking channel, etc. The Bill proposes to withdraw this relief from the buyer and the invoices of blacklisted suppliers would not be entertained for allowability of input tax.

Further, where a registered person is engaged in issuing fake or flying invoices, claiming fraudulent input tax or refunds, does not physically exist or conduct actual business, or is committing any other fraudulent activity, the Bill, in such cases, proposes to empower the Board, Commissioner or any officer authorized by the Board in this behalf, to block the refunds or input tax adjustments of such person after recording reasons in writing, and direct the concerned Commissioner having jurisdiction for further investigation and appropriate legal action.

Records
Section 22

Through amendment in this section, the inward or outward gate passes and the transport receipts are proposed to be made part of sales tax records to be maintained by the registered person under section 22 of the Act. Hence, now the tax authorities may also call such documents during audit.

Access to record, document, etc.
Section 25

The Bill proposes to insert 'explanation' under this section to clarify that powers of the Board, Commissioner or officer of Inland Revenue to carryout audit, etc. under section 25, 38, 38A, 38B and 45A are independent of the powers of the Board under section 72B to select audit cases through computer balloting. Hence, consequent to such explanation, the Commissioner, despite of the cases selected by the Board through ballot, may select the cases for audit independent of Board's selection. After introduction of section 72B, the view was taken that section 25 is a machinery provision and Commissioner may conduct audit under this section only after selection of case by Board under section 72B. Lahore High Court also confirmed this view, however, the judgment of Islamabad High Court is contrary to this decision. This amendment may result in selection of cases by the Commissioner which were previously closed by the Department in the light of Lahore High Court judgment.

Posting of Inland Revenue Officer
Section 40B

Presently, the Board has powers to post Officer of Inland Revenue to the premises of the registered person or class of such persons to monitor production, sale of taxable goods and the stock position. The Bill proposes to assign such powers to the Chief Commissioner as well which is effective from June 13, 2013.

Monitoring or tracking by electronic or other means
Section 40C

New section is proposed to be added whereby the Board may, by notification in the official Gazette, specify any registered person or class of registered persons or any good or class of goods in respect of which monitoring or tracking of production, sales, clearances, stocks or any other related activity may be implemented through electronic or other means as may be prescribed.

Further, from such date as may be prescribed by the Board, no taxable goods shall be removed or sold by the manufacturer or any other person without affixing tax stamp, banderole, stickers, labels, etc. in any such form, style and manner as may be prescribed by the Board in this behalf.

Appeals
Section 45B

The Bill proposes to assign specific powers to the Commissioner (Appeals) to grant stay against the recovery of tax for a period not exceeding thirty days in aggregate. Presently, stay on demand may be granted by the Commissioner (Appeals) for unlimited period till appeal is decided through exercising their inherent powers to grant such stay. However, the proposed amendment is not beneficial for taxpayers since it would restrict the powers of Commissioner (Appeals) to grant stay for thirty days at maximum. Similar amendment was also introduced in the Income Tax Ordinance, 2001 last year, hence the purpose of such amendment is also to bring harmonization in tax laws.

Rectification of mistake
Section 57

Presently, under this section, only the officer of Inland Revenue may correct the clerical or arithmetical errors in the assessment/adjudication order. The Bill proposes to enlarge the scope of this section and to harmonize it with section 221 of the Income Tax Ordinance, 2001. The salient features of substituted section are as under:

(1) Now the Commissioner, the Commissioner (Appeals) or the Appellate Tribunal may rectify any mistake apparent from the record on his or its own motion or any mistake brought to his or its notice by a taxpayer or the Commissioner as the case may be, of the Commissioner (Appeals) and to Appellate Tribunal.

(2) No rectification order which has the effect of increasing an assessment, reducing a refund or otherwise applying adversely to the taxpayer shall be made unless the taxpayer has been given a reasonable opportunity of being heard.

(3) Where a mistake apparent on the record is brought to the notice of the Commissioner or Commissioner (Appeals), as the case may be, and no order has been made before the expiration of the financial year next following the date on which the mistake was brought to their notice, the mistake shall be treated as rectified and all the provisions of this Act shall have effect accordingly.

(4) No rectification order under sub-section (1) shall be made after five years from the date of the order sought to be rectified

Reward to Inland Revenue officers and officials
Section 72C

The Bill seeks to introduce new section to sanction cash reward to the officers and officials of Inland Revenue for their meritorious conduct in cases involving concealment or evasion of sales tax and other taxes and to the informer providing credible information leading to such detection. Such reward would be granted only after realization of part or whole of the taxes involved in such cases. The Board has been empowered to prescribe the procedure in this behalf and specify the apportionment of reward sanctioned under this section for individual performance or to collective welfare of the officers and officials of Inland Revenue.

Certain transactions not admissible
Section 73

Section 73 deals with the inadmissibility of input tax or refund if transactions are not processed through declared business bank accounts. The proposed amendment seeks to add in the explanation clause of above section that the business bank account would be declared to the Commissioner through Form STR-1 or change of particulars in registration database. By virtue of this amendment, if the bank accounts are not already declared to the Commissioner through Form STR-1 at the time of registration, these would now be required to be declared through amendment in registration database.

Third Schedule

This Schedule deals with the supplies of goods chargeable to sales tax on the retail price. Following new entries have been added in the Schedule.

Serial No.	Description
22	Finished or made-up articles of textile and leather, including garments, footwear, and bed ware, sold in retail packing
23	Household electrical goods, including air conditioners, refrigerators, deep freezers, televisions, recorders and players, electric bulbs, tube-lights, fans, electric irons, washing machines and telephone sets
24	Household gas appliances, including cooking range, ovens, geysers and gas heaters
25	Foam or spring mattresses, and other foam products for household use
26	Auto parts and accessories sold in retail packing
27	Lubricating oils, brake fluid, transmission fluid, and other vehicular fluids and maintenance products in retail packing
28	Tyres and tubes
29	Storage batteries
30	Arms and ammunition
31	Paints, distempers, enamels, pigments, colors, varnishes, gums, resins, dyes, glazes, thinners, blacks, cellulose lacquers and polishes sold in retail packing
32	Fertilizers
33	Cement sold in retail packing
34	Tiles sold in retail packing
35	Biscuits, confectionary, chocolates, toffees and candies
36	Other goods and products sold in retail packing

Above amendments in the Third Schedule shall be effective from June 13, 2013.

Sixth Schedule- Exempted goods

Table-I (Imports or supplies)

Serial No.

25 Exemption has been withdrawn on supply of milk preparations obtained by replacing one or more of the constituents of milk by another substance, whether or not packed for retail sale.

Table-II (Local supplies only)

Serial No.

12 Last year, supply of international tenders was shifted from zero rated supplies to exempt supplies. In the current budget, such exemption has also proposed to be withdrawn on supplies against international tenders.

Above amendments in the Sixth Schedule shall be effective from June 13, 2013.

Notifications rescinded

SRO 500(I)/2013 [Rescinded notifications]

Through this notification, effective from June 13, 2013 the Federal Government has rescinded various SROs as stated hereunder:

1. SRO 646(I)/2005 providing zero percent rate on supply of hydrogen, nitrogen and helium to M/s Pakistan PTA Limited by M/s BOC Pakistan Ltd. Zero rating has been withdrawn on such supplies.

2. SRO 172(I)/2006 providing exemption on certain goods imported by a member of Pakistan Film Producers Association for exclusive use in the production and/or display of film. Said exemption has now been withdrawn.

3. SRO 863(I)/2007 providing zero percent rate on raw materials, sub-components, components, sub-assemblies and assemblies imported or purchased locally for the manufacture of certain stationary and dairy products. Zero rating has been withdrawn on such items.

4. SRO 160(I)/2010 & SRO 161(I)/2010: These SROs provide exemption of the amount of default surcharge and penalties payable by a registered persons located in various districts of KPK, Bajur Agencies, etc. subject to the condition that the outstanding principal amount of sales tax or federal excise duty involved is paid by or before June 30, 2010, except for cement, sugar, beverages and cigarette sectors. Since, due to elapse of time limit mentioned therein, said SROs had become redundant and they have been rescinded accordingly.

5. SRO 162(I)/2010& SRO 163(I)/2010: These SROs provide exemption of federal excise duty leviable on goods produced or services rendered in the areas specified in said SROs during

the period 1st January 2010 to 30th June 2010. Since, due to elapse of time period mentioned therein, said SROS had become redundant, they have been rescinded accordingly.

6. SRO 164(I)/2010: This SRO provides exemption of sales tax on supply of electricity by Peshawar Electric Supply Company or other duly registered Electric Supply Company to manufacturing units (having industrial connections) whether registered or not, located in various districts of KPK mentioned in SRO, except for cement, sugar, beverages and cigarette sectors. Such exemption has been withdrawn.

7. SRO 117(I)/2011. Through this SRO Federal Government reduced the rate of sales tax to fifty percent of normal rate if the goods were produced or manufactured in areas where Sales Tax Act was not applicable but were included in the Prime Minister's Fiscal Relief to Rehabilitate the Economic Life in KPK, FATA and PATA and the same were supplied to a person in any area where the Sales Tax Act was applicable, except for cement, sugar, beverages and cigarettes sectors. Such reduction in rate has been withdrawn.

8. SRO 180(I)/2011. Through this SRO Federal Government reduced the rate of sales tax to fifty percent of normal rate on the supplies of goods other than cement, sugar, beverages and cigarettes, by the registered persons located in various districts mentioned in said SRO. Said relaxation has been withdrawn.

9. SRO 200(I)/2011 & SRO201(I)/2011 have also been withdrawn through SRO 500(I)/2013.

SRO 501(I)/2013 [Exemptions]

Through this SRO, the Federal Government has exempted the sales tax on import and supplies of following goods from June 13, 2013, which were previously zero rated under SRO 549(I)/2008:

S. No.	Description
1.	Uncooked poultry meat (PCT Heading 02.07).
2.	Milk and cream (PCT headings 04.01 and 04.02).
3.	Flavored Milk (PCT Headings 0402.9900 and 22.02).
4.	Yogurt (PCT Heading 0403.1000).
5.	Whey (PCT Heading 04.04).
6.	Butter (PCT Heading 0405.1000).
7.	Desi ghee (PCT Heading 0405.9000).
8.	Cheese (PCT Heading 0406.1010).
9.	Processed cheese not grated or powdered (PCT Heading 0406.3000).
10.	Cotton seed (PCT heading 1207.2000).
11.	Frozen, prepared or preserved sausages and similar products of poultry meat or meat offal (PCT Heading 1601.0000).
12.	Meat and similar products of prepared frozen or preserved meat or meat offal of all

S. No.	Description
	types including poultry meat and fish (PCT Headings 1602.3200, 1602.3900, 1602.5000, 1604.1100, 1604.1200, 1604.1300, 1604.1400, 1604.1500, 1604.1600, 1604.1900, 1604.2010, 1604.2020, 1604.2090, 1604.3000).
13.	Preparations for infant use, put up for retail sale (PCT Heading 1901.1000).
14.	Fat filled milk (PCT Heading 1901.9090).
15.	Soya bean meal (PCT Heading 2304.0000).
16.	Oil cake and other solid residues, whether or not ground or in the form of pellets (PCT heading 2306.1000)
17.	Colours in sets (Poster colours) (PCT Heading 3213.1000).
18.	Writing, drawing and marking inks (PCT Headings 3215.9010 and 3215.9090).
19.	Erasers (PCT Headings 4016.9210 and 4016.9290).
20.	Exercise books (PCT Heading 4820.2000).
21.	Directly reduced iron (PCT heading 72.03).
22.	Pencil sharpeners (PCT Heading 8214.1000).
23.	Energy saver lamps (PCT heading 8539.3910).
24.	Sewing machines of the household type (PCT Headings 8452.1010 and 8452.1090).
25.	Purpose built taxis, whether in CBU or CKD condition (PCT Headings 8703.3226 and 8703.3227) which are built on girder chassis and having following features, namely:- (a) Attack resistance central division along with payment tray; (b) Wheelchair compartment with folding ramp; and (c) Taximeter and two-way radio system.
26.	Bicycles (PCT Heading 87.12).
27.	Wheelchairs (PCT headings 8713.1000 and 8713.9000).
28.	Vessels for breaking up (PCT heading 89.08)
29.	Other drawing, marking out or mathematical calculating instruments (geometry box) (PCT Heading 9017.2000).
30.	Pens and ball pens (PCT Heading 96.08).
31.	Pencils including colour pencils (PCT Heading 96.09).
32.	Compost (non-chemical fertilizer) produced and supplied locally
33.	Construction materials to Gawadar Export Processing Zone's investors and to Export Processing Zone Gawadar for development of Zone's infrastructure.

Above SRO is effective from June 13, 2013.

SRO 502(I)/2013 [Amendment in SRO 549(I)/2008]

Through this SRO, various items have been deleted from zero rating list provided under SRO 549(I)/2008 and exemption on such items have been allowed through SRO 501(I)/2013 as mentioned above.

Further, zero rating on Cotton Seed Oil has been withdrawn from June 13, 2013. Previously, vide SRO 602(I)/2012 dated 1st June 2012, cotton seed oil was included in list of zero rated goods if supplied to registered manufacturers of vegetable ghee and cooking oil.

SRO 503(I)/2013 [Amendment in SRO 993(I)/2006]

Under SRO 993(I)/2006 composite repayment-cum-drawback was allowed up to 100% of the federal excise duty paid at import stage, on same quantity of edible oil exported to Afghanistan, by units located in violent affected areas like FATA, PATA, District Kohat, Charsada, Peshawar, D.I.Khan, Batagram, Lakimarwat, Swabi, Mardan, etc. as specified in Sales tax General Order 01/2010. Through SRO 503(I)/2013, clause (iv) of S. No. 1 of the aforesaid SRO has been omitted, as a result of which the composite repayment-cum-drawback is now being restricted upto 90% of the federal excise duty paid at import stage.

SRO 504(1)/2013 [Amendment in SRO 1125(I)/2011]

SRO 1125(I)/2011 allows reduced rate of 2% to 5% for goods relating to five major sectors viz. textile, leather, carpet, sports and surgical goods. Through SRO 504(1)/2013, finished articles/products of such sectors have been excluded from this notification, hence, chargeable to sales tax at normal rate. Such items, if sold in retail packing, would be chargeable to sales tax on retail price under Third Schedule. Further, reduced rate of sales tax has also been withdrawn on shoe adhesives deleting this item from above SRO.

SRO 505(I)/2013 [Amendment in Sales Tax Special Procedure (Withholding) Rules, 2007]

Under Sales Tax Special Procedure (Withholding) Rules, 2007, the federal and provincial government departments, autonomous bodies and public sector organizations having Free Tax Number were required to withhold whole amount of sales tax at the applicable rate of 16% on purchases made from unregistered persons. Through SRO 504(1)/2013, the scope of withholding tax has been expanded and now the following withholding agents are also required to deduct sales tax on purchases made from unregistered persons:

- companies defined in Income Tax Ordinance, 2001, which are registered for the purpose of sales tax , federal excise duty, or income tax,
- exporters.

SRO 506(I)/2013 [Amendment in jurisdiction criteria]

Through this SRO, Federal Government has made following amendments in Sales Tax Rules, 2006:

1. Jurisdiction criteria of the taxpayers has been changed as under:
   - in case of a corporate or non-corporate person, having a single manufacturing unit or business premises, the Regional Tax Office or Large Taxpayers Unit, as the case may be, in whose jurisdiction the manufacturing unit or business premises is actually located. Previously in case of corporate person, the jurisdiction fell with the

Commissioner of area where the registered office was located and in case of non-corporate entities, where the business is actually carried on,

- in case of a corporate or non-corporate person, having multiple manufacturing units or business premises, the Board may decide the place of registration of such persons. Previously in the case of single manufacturing unit and whose business premises and manufacturing unit are located in different areas the jurisdiction area fell where the manufacturing unit is located.

2. Furthermore, as a consequence of withdrawal of exemption in respect of supplies against international tender, the rules thereto has also been omitted.

SRO 509(I)/2013 & SRO 510(I)/2013 [Extra tax at the rate of 5%]

Through SRO 509(I)/2013, the Federal Government has levied extra tax at the rate of 5% in addition to the normal tax rate of the total billed amount, excluding the amount of federal taxes, on supplies of electric power and natural gas to persons having industrial or commercial connections, and whose bill in any month exceeds Rs.15,000, but these persons have either not obtained sales tax registration number or are not on the Active Taxpayers List maintained by FBR.

Special procedures have been introduced as Chapter IVA in the Sales Tax Special Procedure Rules, 2007 through SRO 510(I)/2013 dated 12th June 2013 for collection and payment of extra tax mentioned above, salient features of which are as follows:

- The amount of extra tax shall be shown separately in the bill or invoice for electric power or natural gas issued by the supplier.
- The amount of extra tax shall not be adjustable by the supplier or the consumer in their returns, and shall be paid in full by the supplier to the Treasury.
- Where a person claims that he has a sales tax registration number, the supplier shall require him to produce the sales tax registration certificate, and shall verify from the Active Taxpayers List maintained by FBR that the person is actually registered and is appearing active thereon.
- A person having multiple places of business shall ensure that all such places are properly declared and entered on his registration certificate and Active Taxpayers List.
- Supplier after ensuring, that the person is registered for sales tax purposes and is also active on the Active Taxpayers List, shall incorporate the sales tax registration number in his billing system so that it is printed on future bills. Thereafter, the supplier shall stop charging and collecting the extra tax from such person.
- The supplier shall again start charging and collecting extra tax from the consumer from the month in which he is de-registered from sales tax or he does not remain active on the Active Taxpayers List.

Federal Excise Act, 2005

Duties specified in the First Schedule to be levied

Section 3

The Bill proposes to insert new sub section 3A to empower the Federal Government to levy further duty at the rate of two percent, through notification, on excisable goods and services supplied to the person who is liable to be registered but has not obtained registration number.

Although, this is a new concept in the excise regime but previously the like provision existed in Sales Tax Act, 1990, which had been withdrawn through Finance Act 2004. Through Finance Bill 2013, such further sales tax is again proposed to be inserted in the Sales Tax Act, 1990.

Records

Section 17

Through amendment in this section, the inward or outward gate passes and the transport receipts are proposed to be made part of sales tax records to be maintained by the registered person under section 17 of the Act. Hence, now the tax authorities may also call such documents during audit, which are required to be maintained and kept by the registered person up to the period of six years.

Appeals to Commissioner (Appeals)

Section 33

Though the proposed insertion of subsection 1A in section 33, the Commissioner (Appeals) would be allowed to grant stay of recovery of duty (the word 'duty' has been inadvertently typed as 'tax' in the Bill) for a maximum period up to thirty days, if in the opinion of the Commissioner (Appeals) such recovery would cause undue hardship to the taxpayer.

In view of the ruling of superior courts, the Commissioner (Appeals) has inherent power to pass stay order as he thinks fit and just. However, due to proposed amendment, the powers of the Commissioner (Appeals) to grant stay would now be confined to maximum period of thirty days.

Power of Board or Commissioner to pass certain orders

Section 35

The Bill proposes to insert 'explanation' for the purpose of sections 35, 45 and 46 to clarify that:

- Powers of the Board, Commissioner or Officer of Inland Revenue under above sections are independent of powers of the Board under section 42B to select cases for audit through computer balloting.

- Provision of section 42B does not restrict the powers of the Board, Commissioner or Officer of Inland Revenue to conduct audit under these sections.

Hence, consequent to such explanation, the Commissioner may select the cases for audit independent of Board's selection. After introduction of section 42B, the view was taken that section 46 is a machinery provision and Commissioner may conduct audit under this section only after selection of case by Board under section 42B. Lahore High Court also confirmed this view, however, the judgment of Islamabad High Court is contrary to this decision. This amendment may lead to selection of cases by the Commissioner which were previously closed by the Department in the light of Lahore High Court judgment.

Rewards to Inland Revenue Officers and Officials

Section 42C

The Bill seeks to introduce new section to sanction cash reward to the officers and officials of Inland Revenue for their meritorious conduct in cases involving concealment or evasion of sales tax and other taxes and to the informer providing credible information leading to such detection. Such reward would be granted only after realization of part or whole of the taxes involved in such cases. The Board has been empowered to prescribe the procedure in this behalf and specify the apportionment of reward sanctioned under this section for individual performance or to collective welfare of the officers and officials of Inland Revenue.

Access to records and posting of excise staff

Section 45

Presently, the Board has powers to post Officer of Inland Revenue to the premises of the registered person or class of such persons to monitor production, removal or sale of goods and the stock position or the maintenance of records. The Bill proposes to assign such powers to the Chief Commissioner as well.

Monitoring or tracking by electronic or other means

Section 45A

Bill seek to propose a new section through which the Board may, by notification in the official Gazette, specify conditions, restrictions and procedures in respect of monitoring or tracking of production, sales, clearances, stocks or any other related activity of any registered person or class of registered persons or any goods or class of goods to be implemented through electronic or other means.

Further, from such date as may be prescribed by the Board, no excisable goods shall be removed or sold by the manufacturer or any other person without affixing tax stamp, banderole, stickers, labels, etc. in any such form, style and manner as may be prescribed by the Board in this behalf.

First Schedule

Table I (Excisable Goods)
Serial No.

4, 5 & 6 FED on aerated waters is proposed to be increased from six percent to nine percent of retail price.

9, 10 & 11 FED on cigarettes is proposed to be restructured and enhanced. Revised structure of duty on cigarettes is as under:

9.	Locally produced cigarettes if their on-pack printed retail price exceeds rupees two thousand two hundred and eighty six per thousand cigarettes.	Rupees two thousand three hundred and twenty five per thousand cigarettes
10.	Locally produced cigarettes if their on-pack printed retail price does not exceeds rupees two thousand two hundred and eighty six per thousand cigarettes	Rupees eight hundred and eighty per thousand cigarettes

Above changes in duty structure of cigarettes has been made effective from June 13, 2013.

54 Oilseeds

FED on oilseeds has been proposed at the rate of forty paisa per kg.

55 Motor Cars, SUVs, Station Wagons, Racing Cars and other vehicle of cylinder capacity of 1800 cc or above

Motor cars and SUVs and other motor vehicles of cylinder capacity of 1800cc or above, principally designed for the transport of persons (other than those of heading 87.02) including station wagons and racing cars of 1800*cc* or above has been proposed to be chargeable to FED at the rate of ten percent *ad. val*.

FED on goods specified as above against serial No. 54 & 55 has been made effective from June 13, 2013.

Table-II (Excisable Services)
Serial No.

7. This entry is proposed to be omitted since insurance services have now been included in amended entry no. 8.

8. This entry is proposed to be amended to streamline the clauses and include in this clause, the services provided or rendered by the banking companies, insurance companies, cooperative financing societies, modarabas, musharikas, leasing companies, foreign exchange dealers, non-banking finance institutions, Asset Management Companies and other persons dealing in any such services.

All banking services are chargeable to FED, however, in terms of Rule 40A (4) of the Federal Excise Rules, 2007, mark-up or interest income is out of the scope of FED.

Previously, FED on asset management companies was a matter of dispute and many orders were passed against such AMCs. This matter was resolved and a blanket exemption was granted through the Finance Act 2012 with retrospective effect. However, through proposed amendment, services provided by AMCs have been subjected to FED at sixteen percent.

In terms of Third Schedule, marine insurance for export, life insurance, health insurance, crop insurance and livestock insurance is not chargeable to Duty.

Services provided by cooperative financing societies, modarabas, musharikas and foreign exchange dealers have been proposed to be charged to FED through this Finance Bill. However, in terms of Rule 40A(2) of the Federal Excise Rules, 2007, musharikas and modarabas financing is excluded from the purview of chargeability of FED.

Above changes in serial 7 & 8 of Table-II of the first schedule is effective from June 13, 2013.

Third Schedule (Conditional exemptions)

Exemption from FED is proposed to be withdrawn on the following goods and services with effect from June 13, 2013.

Table I (Goods)
Serial No.

5. Hydraulic cement imported or purchased locally by petroleum or energy sector companies or projects subject to the same conditions and procedures as are applicable for the purposes of exemption of customs duty.

7. Lubricating oil if supplied to Pakistan Navy for consumption in its vessels.

8. Transformer oil if used in the manufacture of transformers supplied against international tenders to a project financed out of funds provided by the international loan or aid giving agencies.

Table II (Services)
Serial No.

8. Services provided by Asset Management Companies.

Federal Excise Notifications

SRO 507(I)/2013

Through this notification, FBR has fixed the amount of federal excise duty at the rate of Re.1/- per kilogram of locally produced oil purchased by a manufacturer of vegetable ghee and cooking oil, which shall be paid by the producer or manufacturer of vegetable ghee and cooking oil along with his monthly return for the period in which the locally produced oil would be purchased.

Prior to this notification, federal excise duty was levied at the rate of 16% on the value of vegetable ghee and cooking oil produced or manufactured from locally produced oil.

Unconsumed stock of locally produced oil purchased before the date of said notification and lying in premises of producer or manufacturer of vegetable ghee and cooking oil shall also be charged at the rate of Re. 1/- per kilogram of locally produced oil and shall be paid along with the return filed for the month of June 2013 .

SRO 508(I)/2013

Through SRO 508(I)/2013, import of oilseeds is chargeable to forty paisa per kilogram in lieu of FED payable at production or manufacturing stage of vegetable ghee and cooking oil.

Accordingly, the manufacturer of vegetable ghee and cooking oil shall issue tax fraction invoice to its customers as already has been prescribed vide FBR's letter C.No.1(3)CEB /04 dated April 20, 2006 issued to Pakistan Vanaspati Manufacturer Association (PVMA).

The both of above notifications are effective from June 13, 2013.

Custom Act, 1969

1- Definition of Goods Declaration

Section 2 (la)

This section defines the term Goods Declaration. Now the document filed under Section 121 is also proposed to be declared as goods declaration and could be filed as transshipment goods declaration in Computerized Clearance System.

2- Directorate General of Input Output Co-efficient Organization

Section 3DDD

Through this section the Bill proposes to establish the Directorate General of Input Output Co-efficient Organization.

3- Provision of Security and Accommodation at Customs-Ports, etc.

Section 14A

The Bill proposes to substitute section 14A to include security and residential accommodation in the list of facilities to be provided to the customs staff by the agency or person managing any port.

The agency and person managing or owing ports is required to entertain delay and detention certificate and refund demurrage charges received by it in case the delay is not due to fault of importer or exporter.

4- Provisional determination of liability

Section 81

The aforesaid law provides for provisional determination of duty, taxes and other charges on goods where an officer is unable to check the correctness of the goods for the reason that goods require test or further inquiry. It is proposed to amend this section to exclude post-dated cheque as a mean to secure government dues in provisional assessment and such dues would be secured against pay order or bank guarantee.

5- Clearance for home consumption

Section 83

The proposed amendment is of a corrective nature to exclude the reference of deleted section 80A from above section.

5- Powers of adjudication

Section 179

This section describes the jurisdiction and adjudication powers of Officers of Customs in case of confiscation of goods, recovery of duty or imposition of penalty.

A proviso is proposed to be inserted in sub section 1 whereby in the case of export, the jurisdiction of the officers of the customs has been defined along with their monitory limit.

6- Reference to High Court
Section 196

It is proposed to empower an officer of Customs not below the rank to Additional Commissioner to challenge the Tribunal order served on Director of Valuation before the High Court.

Significant changes in Customs Duty Rates

Description	Rate	
	Old rate	**Revised rate**
Betel leaves	Rs.200/kg	Rs.300/kg
Office or school supplies	25%	20%
Fibre board of wood or other ligneous materials,	20%	15%
For filtering or purifying water	25%	15%
Cellular mobile phone	Rs.500/set	Rs.250/set
Components for the assembly / manufacture of vehicles, in any kit form, excluding those of heading 8711.9030	70%	65%
Motorcycles including mopeds and cycles fitted with an auxiliary motor with or without side cars; side cars – Other	70%	65%

Exemptions:

- Exemption has been allowed through SRO 498(I)/2013 for energy saving tube lights and any other item approved by Alternate Energy Development Board (AEBD) and concurred to by the FBR.
- Through SRO 499(I)/2013 the Federal Government has exempted customs duty, sales tax and advance income tax on import of Hybrid Electric Vehicles (HEVs) falling under PCT Code 87.03 as under;

Engine Capacity	**Extent of exemption from duty & taxes**
Upto 1200 CC	100%
From 1201 CC to 1800 CC	50%
From 1801 CC to 2500 CC	25%

This notification shall take effect from the 13th day of June, 2013

Declaration under the Provisional Collection of Taxes Act, 1931

The below mentioned provision of Finance Bill 2013 is declared to be effective from June 13, 2013 in terms of section 3of the Provisional Collection of Taxes Act, 1931.

Declared Provisions

The Custom Act, 1969

- The amendment made in the First Schedule to the Custom Act, 1969.

The Sales Tax Act, 1990

- Increase in standard rate of sales tax from 16 percent to 17 percent [section 3].
- Imposition of further tax at the rate of two percent on taxable supply made to person who has not obtained registration number [section 3(1A)].
- Charging of sales tax on the basis of production capacity or on fixed bases [section 3(1B)].
- Disallowance of Input tax adjustment on the basis of CREST report or where input tax is not verifiable in supply chain [section 8(1)(caa)].
- Powers to the Chief Commissioner to post Officer of Inland Revenue to the premises of registered person or class of such persons [section 40B].
- Imposition of sales tax on retail price on certain items through amendments in Third Schedule to the Act.
- Withdrawing sales tax exemption on milk preparations obtained by replacing one or more constituent of milk by another substance [Sixth Schedule].
- Withdrawing exemption on supplies against international tender [Sixth Schedule].

The Federal Excise Act, 2005

- Powers to the Chief Commissioner to post Officer of Inland Revenue to the premises of registered person or class of such persons [section 45].
- The revised structure of FED on cigarettes.
- FED at the rate of 40 paisa per kg on import of Oil seeds.
- FED at the rate of 10% *ad. val.* on motor vehicles of cylinder capacity of 1800cc or above.
- The scope of FED is expanded on all kinds of financial services [PCT 98.13].
- Exemption of FED on hydraulic cement withdrawn.
- Exemption of FED on services of Asset Management Companies withdrawn.

Corporate Social Responsibility Voluntary Guidelines, 2013

The Securities and Exchange Commission of Pakistan (SECP) has issued Corporate Social Responsibility (CSR) Voluntary Guidelines, 2013, in order to promote responsible business conduct that supports community growth, eliminates unfavourable practices impacting the public sphere and ensures corporate accountability, for all companies.

These Guidelines are voluntary in nature and the SECP encourages companies to move beyond the recommended minimum benchmark-criteria, set forth.

CSR Policy

Companies are encouraged by the SECP to have in place a defined CSR policy, duly approved by the Board of Directors of the respective companies, and subsequently ensure that the said policy is successfully implemented.

As per the guidelines, a company's CSR policy is expected to clearly determine the priority areas wherein the CSR projects are currently being managed and are planned to be initiated. These areas may cover:

a) Community investment (skill development, livelihood, health, education, infrastructure, social enterprise development, safe drinking water, poverty alleviation, youth development and environment conservation).
b) Governance (human rights, transparency, anti-corruption, business practices, stakeholder relations, responsible marketing).
c) Product responsibility.
d) Work life balance.
e) Safety (risk management, disaster management).
f) Climate Change.

CSR Reporting

Companies are expected to report concise and material information regarding their CSR policy and activities within their CSR Report.

CSR reporting is expected to mention the company's performance and achievements around CSR, during the year, based on a set of KPI's, along with stating goals which the company has set for the following year. These may be in the form of either qualitative or quantitative disclosures.

External Assurance

Companies may also obtain an assurance by an independent third party, over their CSR report. The objective of the independent assurance is, amongst others, to assess whether the CSR report provides a reasonable and balanced presentation of the company's CSR activities, that the Policy is implemented in a systematic manner, and is characterized by defined procedures and to assesses the extent to which the report preparer has applied any Reporting Framework.

The report should result in an opinion or set of conclusions that is publicly available in written form, and a statement from the assurance provider on their relationship to the report preparer.

Public Sector Companies (Corporate Governance Rules, 2013

On March 8, 2013, the Securities and Exchange Commission of Pakistan (SECP), with the approval of Federal Government, issued the Public Sector Companies (Corporate Governance) Rules, 2013 (here-in-after referred to as 'PSC Rules'). The PSC Rules are applicable after ninety days of the issuance to all public sector companies which are directly or indirectly controlled, beneficially owned and in which government holds not less than 50% of voting securities.

In the case of listed Public Sector Companies, where there is any inconsistency with the Code of Corporate Governance, the provisions of these rules shall prevail.

The Salient Features of the PSC Rules are as follows:

- The appointment of the board members, CEO, CFO, Company Secretary and Chief Internal Auditor shall be subject to fit and proper criteria. This will include a person's qualification, integrity, experience, business expertise etc.

- The position of the chairman of the Board (the chairman to be elected among the independent members of the Board) and the CEO shall be separate to achieve an appropriate balance of power, increasing accountability and improving the Board's capacity for decision-making independent of management. The role and responsibilities of the chairman and the CEO have been clearly distinguished.

- The CEO shall be appointed on the recommendation of the Board for which the Board shall recommend at least three individuals to the Government.

- The Board shall have 40% of its total members as independent directors within two years of the notification of the Rules, and majority of independent directors within the next two years.

- The performance evaluation of the Board members including the chairman and CEO shall be undertaken for which the Board shall establish a process, based on specified criteria, and the chairman of the Board shall take ownership of such evaluation.

- An internal audit function shall be established in all public sector companies.

- The Board shall setup five committees, namely; audit, risk management, human resource, procurement and nomination committees. These committees shall be chaired by non-executive directors and the majority of their members shall be independent.

- Every public sector company shall publish and circulate, along with its annual report, a statement of the status of its compliance with the PSC Rules, which should be certified by the external auditors (where such compliance can be objectively verified).

The Rules are expected to improve the governance of PSCs including strengthening the internal control mechanism, augmenting the disclosure and transparency, and undertaking periodic performance evaluation of the board members. The Rules are also expected to minimize the political interference in the management of PSC affairs.

Certain key differences in the PSC Rules and Code of Corporate Governance for listed companies

Areas of Difference	PSC Rules	COCG for Listed Companies
Composition of the Board	The Board shall have **forty per cent** of its total members as independent directors within the first two years of this notification, which shall be raised to a majority of independent directors in the next two years, and the majority shall be maintained subsequently.	The board of directors of each listed company shall have at least **one and preferably one third** of the total members of the board as independent directors.
Maximum number of directorships	No person shall be elected or nominated as a director of more than **five** Public Sector Companies and listed companies except subsidiaries.	No person shall be elected or nominated as a director of more than **seven** listed companies simultaneously.
Nomination / Appointment of directors	The appointing authorities, including the Government and other shareholders, **shall apply the fit and proper criteria** given in the Annexure (to the PSC Rules) in making nominations of the persons for election as Board members under the provisions of the Ordinance.	**No fit and proper criteria** have been defined in the COCG for listed companies.
Chairman of the Board	The Board shall elect its chairman from amongst the **independent** directors.	The Board shall elect its chairman from amongst the **non-executive** directors.
Roles of Chairman and Chief Executive	**Broad description about the role** of the Chairman and the CEO has been included	**No such role described** – instead, the Board is given the responsibility to define such roles
Formation of Board Committees	**Five committees:** audit, risk management, human resources, procurement and nomination.	**Two committees:** audit and human resource and remuneration

Areas of Difference	PSC Rules	COCG for Listed Companies
Directors training program	The directors are **encouraged** to have certification under an appropriate training or education program.	The directors are **required** to have certification under an appropriate training or education program.
Financial reporting requirements	• **No requirement to publish or circulate** quarterly financial statements, however, a public sector company is required to provide the unaudited quarterly financial statement to the Board for approval within **one month** of the close of quarter • Quarterly financial statements are **not subject to auditor review** • Every Public Sector Company shall also prepare **monthly accounts**, for circulation amongst the Board members	• Quarterly unaudited financial statements of listed companies shall be **published** and **circulated** along with directors' review on the affairs of the listed company (first and third quarter financial statements to be published within one month of the close of the quarter and second quarter financial statements to be published within two months of the close of quarter • Second quarter financial statements are **subject to limited scope review by the statutory auditors** • No such requirement
External Auditors	**No requirement** for public sector companies to appoint audit firms having **Quality Control Review** rating.	Listed companies shall appoint **as external auditors a firm of auditors which has been given a satisfactory rating under the Quality Control Review program** of the Institute of Chartered Accountants of Pakistan.
Management letter from auditors	To be submitted in **30 days**	To be submitted in **45 days**

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