



**Hasnain Ali & Co**

*Chartered Accountants*



**Budget Highlights**

**2013**



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## TAX MEMORANDUM

### FINANCE BILL 2013

This memorandum summarises the important changes proposed in the Finance Bill 2013 relating to Income Tax, Sales Tax, Federal Excise Duty, Customs Duty and Other Laws. For considering the precise impact of a particular change, reference should be made to the specific wordings in the relevant statute.

All changes through the Finance Bill 2013 are effective July 1, 2013, except for amendments in the First Schedule to the Customs Act, 1969 and certain amendments in the Sales Tax Act, 1990 and Federal Excise Act, 2005 which are effective from June 13, 2013.

The proposals introduced in the Bill have to be approved by the National Assembly before they become effective. They should, therefore, not generally be acted upon without obtaining appropriate advice.

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## SIGNIFICANT AMENDMENTS

### *Income Tax*

- Facility for carry forward of unadjusted minimum tax is proposed to be extended to Individuals and AOPs which was earlier restricted to the corporate sector.
- Corporate Income Tax Holiday for a period of 5 years available to projects in Special Economic Zones is proposed to be extended to 10 years.
- Facility of exemption certificate on import of raw material by the manufacturing sector is being reintroduced subject to the payment of tax liability determined for any of the preceding two years.
- The rate of tax for non-banking companies is being reduced from 35% to 34%.
- Tax on dividend received by banks from Money Market Funds and Income Funds to be taxed @ 25% for Tax Year 2014 onwards.
- The existing three slabs for property income are increased to six which will bring progressivity in the rate of tax
- Adjustable withholding tax is proposed to be introduced which shall be collected by the Hotels/Clubs/Marriage Halls/Restaurants etc. from persons arranging functions.
- Minimum Tax @ 0.5% of turnover is payable by companies, certain individuals and AOPs in case of declared losses or if the tax payable on the declared income is less than the Minimum Tax. The rate reduced from 1% to 0.5% through Finance Act 2012 to be restored to 1%.
- The rate of withholding tax on cash withdrawals from banks has been restored to 0.3%.
- Business income/profits of the builders and developers, payment of minimum tax at a rate of Rs.25 per sq. ft. of the constructed area sold and Rs. 50 per square yard of the area sold of the developed land respectively is being introduced.
- Withholding tax @ 0.5 % by the distributors, manufacturers or commercial importers from the retailers is proposed.
- Separate rates of withholding tax are proposed to be introduced for corporate and non-corporate sectors.

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- An adjustable withholding tax on foreign-produced films, TV serials and plays etc. to be collected by the authority responsible for their censoring / certification at the rate of Rs. 1 Million for films and Rs. 100,000 per episode for TV plays.
- The rate of collection of adjustable advance Tax at the time of sale of any property or goods by auction is proposed to be enhanced from 5% to 10% to encourage filing of returns for claiming adjustment.
- An adjustable advance tax @ 5% of fee of all educational institutions where annual fee is above Rs. 200,000 to be collected by educational institutions at the time of receipt of fee from the person paying the fee.
- Rate of deduction of withholding tax, which is final tax on payment of prize on prize bond to be enhanced from 10% to 15%.
- To rationalize the taxation of the companies, the rate of initial depreciation to be reduced from 50% to 25% for Plant & Machinery.
- The exemption limit of withholding tax for investment in National Saving Centers to be withdrawn.
- Following exemptions provided in the 2nd schedule to the Income Tax Ordinance 2001 are also to be withdrawn for being discriminatory, prone to misuse and causing loss of revenue:
  - (i) Exemption to dividend in specie i.e. Bonus Shares will be taxed as dividend;
  - (ii) Free/concessional passage provided by transporters including airlines to its employees by virtue of their Employment;
  - (iii) Taxation at reduced rate of 2.5% on flying allowance and submarine allowance;
  - (iv) 75% reduction in the tax payable by a full time teacher or a researcher being misused by high income earners and administrators;
  - (v) Any income of any university or other educational institution established solely for educational purposes and not for purposes of profit.

### ***Income Support Levy***

The government plans to introduce a new tax through Income Support Levy Act, 2013. Under the proposed Act, all individual persons would be liable to pay this levy @ 0.5% tax on the value of net moveable assets (exceeding Rs. 1.0 million) after deducting the related liability, as per the wealth statement. The proceeds / receipts from this levy which will be used to fund the National Support Fund, previously known as the Benazir Income Support Programme.

A person who is liable to pay the Levy under this Act shall pay the Levy along with wealth statement. The levy is effective from the tax year 2013 and therefore will attract a lot of debate and criticism from all relevant stakeholders.

### ***Sales Tax and Federal Excise***

- Amendment is made in Sales Tax Act, 1990 and Federal Excise Act, 2005 to allow Commissioner (Appeals) to grant stay of 30 days in hardship cases. Enforced through amendment in Finance Bill, 2013, effective from the 01.07.2013.
- Amendment is made in Sales Tax Act, 1990 to harmonize provision relating to rectification of mistake with Income Tax Ordinance, 2001.
- Enhancement in standard rate of sales tax from 16% to 17%. Enforced through Finance Bill, 2013, effective from the 13.06.2013.
- Charging further tax @ 2% on taxable supplies to a person who has not obtained registration number. Enforced through Finance Bill, 2013, effective from the 13.06.2013.
- Withdrawing sales tax exemption on milk preparations obtained by replacing one or more constituent of milk by another substance and supplies against international tender. Enforced through Finance Bill, 2013, effective from the 13.06.2013.
- Charging sales tax @ 5% in addition to the standard of 17% on non- registered commercial and industrial consumers of electricity and gas having monthly bill in excess of Rs. 15,000. Enforced through Finance Bill, 2013, effective from the 13.06.2013 and S.R.O. 509(I)/2013 and S.R.O. 510(I)/2013, both dated 12.06.2013.
- The rate of federal excise duty on aerated beverages is being increased from 6% to 9% and introduction of capacity based taxation on aerated beverages to stop evasion and malpractices in the sector Enforced through Finance Bill, 2013, effective from the 01.07.2013.
- Federal Excise Duty @ 40 paise per kg on imported seeds, Rs. 1/ per kg on locally produced oil and 10% ad.val. on motor vehicles of cylinder capacity of 1800cc or above is being charged. Enforced through Finance Bill, 2013, effective from the 13.06.2013 and S.R.O. 507(I)/2013 and S.R.O. 508(I)/2013, both dated 12.06.2013.
- The scope of chargeability of Federal Excise Duty on financial services is being expanded by making all kinds of financial services falling under PCT 98.13 chargeable to Federal Excise Duty @ 16%. Enforced through Finance Bill, 2013, effective from the 13.06.2013.

- Exemption of Federal Excise Duty on hydraulic cement and services provided or rendered by Asset Management Companies is being withdrawn. Enforced through Finance Bill, 2013, effective from the 13.06.2013.
- Disallowing input tax adjustment in cases where discrepancies indicated by CREST or input tax of purchases is not verifiable in the supply chain. Enforced through Finance Bill, 2013, effective from the 13.06.2013.
- Expansion in list of items which are chargeable to sales tax on retail price. Enforced through Finance Bill, 2013, effective from the 13.06.2013.
- Withdrawing the concessions available to thirteen districts of Khyber Pakhtunkhwa, FATA and PATA on the pattern of Income Tax exemptions already withdrawn Enforced through S.R.O. 500(I)/2013 and S.R.O. 503(I)/2013, both dated 12.06.2013.
- Substituting zero-rating with exemption on the items of non-export oriented sectors Enforced through S.R.O. 501(I)/2013 and S.R.O. 502(I)/2013, both dated 12.06.2013.
- Exclusion of finished consumer goods from the list of items chargeable to sales tax @ 2%. Enforced through SRO 504 (I)/2013 dated 12-06-2013.
- Expansion of scope of withholding regime for withholding of whole of amount of tax by withholding agents on purchases made from unregistered persons. Enforced through SRO 505 (I)/2013 dated 12-06-2013.
- Record relating to gate passes and transport receipts are prescribed as the documents to be maintained under Sales Tax Act, 1990 and Federal Excise Act, 2005. Enforced through Finance Bill, 2013, effective from the 01.07.2013.
- Modification in sales tax rules to streamline the place of registration of registered persons. Enforced through SRO 506 (I)/2013 dated 12-06-2013.
- Amendment is made in Sales Tax Act, 1990 and Federal Excise Act, 2005 to allow monitoring or tracking of manufacturing activities, sales, clearances, etc. by electronic or other means. Enforced through Finance Bill, 2013, effective from the 01.07.2013.
- Amendment is made in Sales Tax Act, 1990 and Federal Excise Act, 2005 to allow provision for reward to Inland Revenue officers/officials in detection of cases involving concealment or evasion of duty and taxes. Enforced through Finance Bill, 2013, effective from the 01.07.2013.

## INCOME TAX

### TAXES IMPOSED UNDER SECTION 5,6 & 7

[Section 8]

The tax imposed on dividend received by a company is proposed to be made final tax @10%.

### SET OFF OF LOSSES

[Section 56]

It is proposed that the loss sustained during a tax year shall not be adjustable against “Income from salary under section 12.”

### DEFINITION OF COMPANY

[Section 80 (2)(b)]

The definition of the company has been widened and two new clauses have been added :-

(va) a non-profit organization

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

### UNEXPLAINED INCOME OR ASSETS

[Section 111]

A new proviso has been added which restricts the amount credited , investments made, money or valuable article or expenditure incurred from agriculture income to the extent of agriculture income tax paid under the relevant provincial law by the taxpayer.

### MINIMUM TAX

[Section 113]

Minimum tax is proposed to be raised from 0.5% to 1%. It is proposed that in addition to corporate taxpayers, henceforth non-salaried individuals and AOPs will also be entitled to adjust minimum tax paid for the year against the tax liability (other than minimum tax) for the subsequent five tax years.

### MINIMUM TAX ON BUILDERS

[Section 113A]

- A person deriving income from the business of construction and sale of residential, commercial or building shall pay minimum tax at the rate of Rs. 25/- per square foot.
- Construction of site plant should be approved by competent authority.

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- The minimum tax shall be computed on the basis of total number of square feet sold or booked during the year.

#### MINIMUM TAX ON LAND DEVELOPERS

[Section 113A]

- A person deriving income from the business of development and sale of residential, commercial or building shall pay minimum tax at the rate of Rs. 50/- per square foot.
- Construction of site plant should be approved by competent authority.
- The minimum tax shall be computed on the basis of total number of square feet sold or booked during the year.

#### RETURN OF INCOME

[Section 113A]

- The threshold for consumers of commercial or individual electricity have been lowered to Rs. 500,000/- per annum for filing of returns.
- A new clause has been whereby members of professional bodies, market committee, trade or business association are required to file annual return of income.
- A person whose income under the head "Income from business" falls within the range of Rs. 300,000 – 400,000 is also required to file return to income.
- A new condition has been added whereby return of income can only be revised with the prior approval of commissioner.
- The mandatory time limit of 30 days for filing return of income after the service of notice by commissioner is being abolished.

#### PERSON NOT REQUIRED TO FURNISH A RETURN OF INCOME

[Section 115]

All individual deriving "Income from salary" exceeding Rs. 500,000/- per annum will be required to furnish a return of income.

#### WEALTH STATEMENT

[Section 116]

- Compulsory filing of wealth statement by resident individual and member of association of persons along with return of income.
- Revised wealth statement needs to be accompanied with revised wealth reconciliation along with reasons for filing revised wealth statement.

- Association of persons and companies filing statement under final tax regime will compulsory file wealth statement along with reconciliation. Mandatory threshold of tax of Rs. 35,000/- paid during the tax year has been abolished.

#### **METHOD OF FURNISHING RETURN & OTHER DOCUMENTS**

[Section 118]

- Electronic filing of return of income mandatory for the tax payer whose salary income is Rs. 500,000/- or more for the tax year along with wealth statement.

#### **PROVISIONAL ASSESSMENT**

[Section 122C]

- The basic limit for finalization of provisional assessment has been curtailed to 45 days.

#### **APPOINTMENT OF APPELLATE TRIBUNAL**

[Section 130]

An officer of inland revenue services having served at least 15 year of service in BS-17 and above and a law graduate can be appointed member of Appellate Tribunal.

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#### **SALARY**

[Section 149]

Presently, the salaried individuals are allowed to get tax deducted / tax credit on account of charitable donations, investment in shares, contribution to approved pension fund and profit on debt adjusted from tax deductible on salary income. However, the Finance Bill 2013 proposes to remove this facility of adjustment. Now, all such deductions / tax credits would be claimed by the salaried persons at the time of filing of their return of income.

#### **PAYMENT TO NON-RESIDENT**

[Section 152]

Prescribed persons have been defined as per sub section (2) of section 153 of the Income Tax Ordinance, 2001.

#### **PAYMENT FOR GOODS, SERVICES & CONTRACTS**

[Section 153]

A new sub clause has been added whereby, a person registered under the Sales Tax Act, 1990 has been made, a withholding agent.

**PAYMENT TO DISTRIBUTOR & TRADERS**

[Section 153-A]

This section is proposed to be abolished under the Finance Bill 2013.

**INCOME FROM PROPERTY**

[Section 155]

The withholding agents under the above section have been amended and now includes:

- Charitable institutions
- Private educational institutions
- Bookshops
- Beauty parlours
- Hospitals
- Clinics
- Maternity home
- Individual or AOP paying gross rent of Rs. 1,500,000/- or above in a year.

**STATEMENTS**

[Section 165]

Seeks to amend section 165 to explain the scope of submission of withholding statements by banks.

**FURNISHING OF INFORMATION BY BANKS**

[Section 165A]

Every banking company shall make arrangement to provide the Board with following information:

- online access to its central database containing details of its account holders and all transactions made in their accounts;
- a list containing particulars of deposits aggregating Rs. 1,000,000/- or more made during the preceding calendar month;
- a list of payments made by any person against bills raised in respect of a credit card issued to that person, aggregating to Rs. 100,000/- or more during the preceding calendar month;
- a consolidated list of loans written off exceeding Rs. 1,000,000/- during a calendar year; and
- a 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 (VII of 2010).

**TAX COLLECTED DEDUCTED AS A FINAL TAX**

[Section 169]

Tax deducted from dividend received by a company shall be treated as final tax.

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**ADDITIONAL PAYMENT FOR DELATED REFUNDS**

[Section 171]

A clarification has been inserted whereby refund become due from the date, which refund order is made.

**REPRESENTATIVE**

[Section 172]

A clarification has been inserted whereby business connection has been defined and includes transfer of an assets or business in pakistan by a non resident.

**AUDIT / SELECTION FOR AUDIT BY THE BOARD**

[Section 177 & 214C]

A new explanation has been added which expressly provides powers to the Commissioner to call for information, records or documents including books of accounts of a taxpayer for audit and to conduct audit of tax payers which is in addition to the powers of the FBR to carry out the audit under section 214C.

This has been a much debated topic in recent months, which has been challenged at the High Court level.

Further, through amendment in section 214C the FBR has now been empowered to keep the parameters of audit confidential.

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**TAX PAYER REGISTRATION**

[Section 181]

Seeks to amend section 181 regarding use of CNIC issued by NADRA as National Tax Number(NTN).

**DISPLAYING TO NATIONAL TAX NUMBER**

[Section 181C]

Display of NTN at business premises has been made mandatory.

**PENALTIES & OFFENCES**

[Section 181C]

- Late filing of return of income u/s 114 has been raised to maximum of 50% of tax payable and minimum of Rs. 20,000/-.
- Where a person fail to furnish a statement under section 115, 165, or 165A within due date. A penalty of Rs.2,500/- for each day of default subject to maximum penalty of Rs. 50,000/-
- Where a person fail to furnish a wealth statement or wealth reconciliation statement. A panely to Rs. 100 for each day of default will be levied.
- Penalty for non display NTN certificate shall be Rs. 5,000/-

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### REWARD TO INLAND REVENUE OFFICERS & OFFICIALS

[Section 227A]

Cash reward shall be sanctioned to the officers and officials of Inland Revenue for their meritorious conduct in cases involving concealment or evasion of income tax.

### COLLECTION OF TAX BY NCCPL

[Section 233AA]

- The scope of withholding tax has been further broadened by including margin financing, trade financing and lending under Securities (Leveraged Markets and Pledging) Rules, 2011.
- The rate of deduction under section 233AA shall be 10% of profit or mark-up or interest earned by the margin financier or securities lender.

### TAX ON MOTOR VEHICLES

[Section 234]

- Facility for paying motor vehicle tax on installment basis has been abolished.
- The tax withheld from goods, transport vehicle shall be treated as adjustable.
- Where the motor vehicle tax is collected in lump sum,-

Upto 1000cc	Rs. 7,500
1001cc to 1199cc	Rs. 12,500
1200cc to 1299cc	Rs. 17,500
1300cc to 1599cc	Rs. 30,000
1600cc to 1999cc	Rs. 40,000
2000cc to and above	Rs. 80,000

### ADVANCE TAX ON FUNCTIONS AND GATHERING

[Section 236 D]

- Every prescribed person shall collect 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.
- The advance tax collected under sub-section (1) shall be adjustable.
- "function" includes any wedding related event, a seminar, a workshop, a session, an exhibition, a concert, a show, a party or any other gathering held for such purpose; and
- "prescribed person" includes the owner, a lease-holder, an operator or a manager of a marriage hall, marquee, hotel, restaurant, commercial lawn, club, a community place or any other place used for such purpose.
- The rate of tax to be collected shall be 10%.

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**ADVANCE TAX ON FOREIGN- PRODUCED FILMS, TV PLAYS & SERIALS**

[Section 236 E]

- Any person responsible for censoring or certifying a foreign-produced film, a TV drama serial or a play, for screening and viewing, shall, at the time of censoring or certifying, collect advance tax.
- The advance tax collected under sub-section (1) shall be adjustable.
- Rate of collection of tax under section 236E shall be as follows: -

Foreign-produced film	Rs. 1,000,000/-
Foreign-produced TV drama serial	Rs.100,000/-per episode
Foreign-produced TV play (single episode)	Rs. 100,000

**ADVANCE TAX ON CALBE OPERATORS AND OTHER ELECTRONIC MEDIA**

[Section 236 F]

- Pakistan Electronic Media Regulatory Authority, at the time of issuance of license for distribution services or renewal of the license to a licensee, shall collect advance tax.
- The tax collected under sub-section (1) shall be adjustable.
- The rate of tax to be collected under section 236F in the case of other Distribution Services shall be as follows:-

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

**Satellite TV station**

News or Current	Rs.1,000,000	Rs.2,000,000
Sports	Rs.1,000,000	Rs.1,000,000
Regional Language	Rs.700,000	Rs.700,000
Health or Agro	Rs.300,000	Rs.300,000
Education	Rs.300,000	Rs.300,000
Entertainment	Rs.1,000,000	Rs.1,000,000
Specialized subject station	Rs.500,000	Rs.200,000

**Landing Rights per channel**

News/Current Affairs	Rs.1,000,000	Rs.5,000,000
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Sports	Rs.500,000	Rs.2,500,000
Educational	Rs.200,000	Rs.1,000,000
Entertainment	Rs.200,000	Rs.2,000,000
Children	Rs.350,000	Rs.1,500,000;

#### ADVANCE TAX ON SALES TO DISTRIBUTOR, DEALER AND WHOLESALER

[Section 236 G]

- Every manufacturer or commercial importer of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector, at the time of sale to distributors, dealers and wholesalers, shall collect advance tax.
- Credit for the tax collected under sub-section (1) shall be allowed in computing the tax due by the distributor, dealer or wholesaler on the taxable income for the tax year in which the tax was collected.
- The rate of collection of tax shall be 0.1% of the gross amount of sales.

#### ADVANCE TAX ON SALES TO RETAILERS

[Section 236 H]

- Every manufacturer, distributor, dealer, wholesaler or commercial importer of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector, at the time of sale to retailers, shall collect advance tax.
- Credit for the tax collected under sub-section (1) shall be allowed in computing the tax due by the retailer on the taxable income for the tax year in which the tax was collected.
- The rate of collection of tax shall be 0.5% of the gross amount of sales.

#### COLLECTION OF ADVANCE TAX BY EDUCATIONAL INSTITUTIONS

[Section 236 I]

- There shall be collected advance tax on the amount of fee paid to an educational institution.
- Advance tax under this section shall not be collected from a person where annual fee does not exceed two hundred thousand rupees.
- Tax collected under this section shall be adjustable against the tax liability of either of the parents or guardian making payment of the fee.
- The rate of collection of tax shall be 5% of the amount of fee.

#### ADVANCE TAX ON DEALERS, COMMISSION AGENTS & ARHATIS etc.

[Section 236 J]

- Every market committee shall collect advance tax from dealers, commission agents or arhatis, etc.
- The advance tax collected under sub-section (1) shall be adjustable.
- The rate of collection of tax shall be as follows:-

Group	Amount of tax (per annum)
Group or Class A:	Rs. 10,000
Group or Class B:	Rs. 7,500
Group or Class C:	Rs. 5,000
Any other category:	Rs. 5,000.

#### TAX RATES FOR SALARIED INDIVIDUALS.

[Clause (1A) of Division I of Part I of the First Schedule]

The bill also proposes to substitute the tax applicable to income under the head 'Salary'.

The proposed tax rates, effective tax year 2014, are as under:

Sr.No. (1)	Taxable income. (2)	Rate of tax. (3)
1.	Where the taxable income does not exceed Rs.400,000	0%
2.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 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 + 7.5% of the amount exceeding Rs.500,000
4.	Where the taxable income exceeds Rs.800,000 but does not exceed Rs.1,300,000	Rs.27,500 + 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 + 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 + 15% of the amount exceeding Rs.1,800,000

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| 7.  | Where the taxable income exceeds Rs.2,200,000 but does not exceed Rs.2,600,000 | Rs.200,000 + 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 + 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 + 22.5% of the amount exceeding Rs. 3,000,000  |
| 10. | Where the taxable income exceeds Rs.35,00,000 but does not exceed Rs.4,000,000 | Rs. 462,500 + 25% of the amount exceeding Rs.3,500,000    |
| 11. | Where the taxable income exceeds Rs.40,00,000 but does not exceed Rs.7,000,000 | Rs.587,500 + 27.5% of the amount exceeding Rs.4,000,000   |
| 12. | Where the taxable income exceeds Rs.7,000,000                                  | Rs.1,412,500 + 30% of the amount exceeding Rs.7,000,000"; |

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#### TAX RATES FOR NON-SALARIED INDIVIDUALS & AOP.

[Clause (1) of Division I of Part I of the First Schedule]

The proposed tax rates, effective tax year 2014, are as under:

No. (1)	Taxable income (2)	Rate of tax (3)
1.	Where the taxable income does not exceed Rs.400,000	0%
2.	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.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 + 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 + 20% of the amount exceeding Rs.1,500,000

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

### CORPORATE TAX RATE

[Division II of Part I of the First Schedule]

The Bill proposes to reduce the rate of tax on the taxable income of a company, other than a banking company, to 34 per cent from the existing rate of 35 per cent. The reduced rate is only applicable for the tax year 2014.

### ADVANCE TAX RATES- INCOME FROM PROPERTY

[Division VI Part I First Schedule]

The rate of tax to be paid under section 15, in the case of individual and association of persons, shall be-

No. (1)	Taxable income (2)	Rate of tax (3)
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 per cent 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 per cent of the gross amount exceeding Rs.400,000.
4	Where the gross amount of rent exceeds Rs.1,000,000 but does not exceeds Rs.2,000,000 .	Rs.57,500 plus 10 per cent of the gross amount exceeding Rs.1,000,000.

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- (5) Where the gross amount of rent exceeds Rs.157, 500 plus 12.5 per cent of the gross amount of rent exceeding Rs.2, BU000,000. but does not exceed Rs.3,000,000.
- (6) Where the gross amount of rent exceeds Rs.282, 500 plus 15 per cent of the gross amount of rent exceeding Rs.3, 000,000. but does not exceed Rs.4,000,000.
- (7) Where the gross amount of rent exceeds Rs.432, 500 plus 17.5 per cent of the gross amount of rent exceeding Rs. 4, 000,000. but does not exceed Rs.4,000,000.

➤ **The above rates would also be applicable for withholding tax**

The rate of tax to be paid under section 15, in the case of company, shall be-

No.	Gross amount of rent	Rate of tax
1	Where the gross amount of rent does not exceed Rs.400,000.	5 percent 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 per cent 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 exceeds Rs. 2,000,000	Rs.65,000 plus 10 per cent 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 per cent 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 per cent 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 per cent of the gross amount of rent exceeding Rs.4,000,000.”;

➤ **The above rates would also be applicable for withholding tax**

**RATES OF ADVANCE TAX-IMPORTS**

[Section 148, Part II of the First schedule]

The rate of advance tax to be collected by Collector of Customs shall be:

- 5% of the value of goods in the case of industrial undertakings;
- 5% in all other cases of companies; and
- 5.5% in case of all taxpayers other than those covered at (a) and (b) above.

**RATES OF ADVANCE TAX-SALES OF GOODS**

[Section 153, Division III Part III of the First schedule]

The rate of tax to be deducted from a payment in case of sales of goods shall be:

- 3.5% of the gross amount payable in the case of companies; and
- 4% of the gross amount payable in the case of other taxpayers.

In the case of rendering of or providing of services:

- 6% of the gross amount payable in the case of companies; and
- 7% of the gross amount payable in the case of other taxpayers.

In case of execution of contract:

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- 6% of the gross amount payable in the case of companies; and
- 6.5% of the gross amount payable in the case of other

**RATES OF ADVANCE TAX-PRIZE AND WININGS**

[Division VI Part III of the First Schedule]

The rate of tax to be deducted under section 156 on a prize on prize bond or cross-word puzzle shall be 15% of the gross amount paid.

**RATES OF ADVANCE TAX-CASH WITHDRAWAL FROM BANK**

[Division VI Part IV of the First Schedule]

The Rate of tax to be deducted under section 231A shall be 0.3% of the cash amount withdrawn

**RATES OF ADVANCE TAX-PURCHASE OF MOTOR CAR AND JEEPS**

[Division VII Part IV of the First Schedule]

The rate of payment of tax under section 231B shall be as follows:–

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Engine capacity	Amount of tax
upto 850cc	Rs.10,000
851cc to 1000cc	Rs.20,000
1001cc to 1300cc	Rs.30,000
1301cc to 1600cc	Rs.50,000
1601cc to 1800cc	Rs.75,000
1801cc to 2000cc	Rs.100,000
Above 2000cc	Rs.150,000

### RATES OF ADVANCE TAX-AUCTION

[Division VIII Part IV of the First Schedule]

The rate of collection of tax under section 236A shall be 10% of the gross sale price of any property or goods sold by auction.

### EXEMPTION WITHDRAWN

[Part I of the Second Schedule]

The following exemption have been withdrawn:

#### Clause 1[(53A)]

The following perquisites received by an employee by virtue of his employment, namely:-

- Free or concessional passage provided by transporters including airlines to its employees (including the members of their household and dependents);
- Free or subsidized food provided by hotels and restaurants to its employees during duty hours;
- Free or subsidized education provided by an educational institution to the children of its employees;
- Free or subsidized medical treatment provided by a hospital or a clinic to its employees; and
- Any other perquisite or benefit for which the employer does not have to bear any marginal cost, as notified by the Central Board of Revenue.]

#### Clause (92)

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

#### Clause (98A)

Any company derived by international Cricket Council Development (International) Limited (IDI), International Cricket Council (ICC),\* employees, officials, agents and representatives of IDI and ICC, Official from ICC members, players, coaches, medical doctors and officials of members countries IDI partners and media representatives, other than persons who are resident of Pakistan, from ICC champions Trophy, 2008 hosted in Pakistan.

**Clause 3[(103B)]**

Any dividend in specie derived in the form of shares in a company, as defined in the Companies Ordinance, 1984 (XLVII of 1984):

Provided that when such shares are disposed off by the recipient, the amount representing the dividend in specie shall be taxed in accordance with provisions of section 5 of this Ordinance and the amount, representing the difference between the consideration received and the amount hereinabove, shall be treated in accordance with provisions of section 37 or section 37A, as the case may be.

**REDUCTION IN TAX RATES**

[Part II of the Second Schedule]

The rate of tax under section 148 on import of hybrid cars shall be reduced as below:-

<b>Engine capacity</b>	<b>Rate of reduction</b>
Up to 1200 cc	100%
1201 to 1800 cc	50%
1801 to 2500 cc	25 %

**REDUCTION IN TAX LIABILITY**

[Part III of the Second Schedule]

- Flying allowance received by pilots, flight engineers, navigator of Pakistan armed forces etc. proposed to be abolished.
- Reduction of 75% of tax payable on income from salary to a full time teacher or a researcher is proposed to be abolished.
- In clause (7) any tax payer including company engaged in the business of distribution of cigarettes manufactured in Pakistan shall be eligible for reduction in tax payable up 80%.

**PART IV – EXEMPTION FROM SPECIFIC PROVISIONS****PROFIT ON DEBT**

[Clause (59)(iv)(a) of Part IV of the Second Schedule]

In the case of any resident individual, no tax is required to be deducted under section 151 from income or profits paid on Defence Saving Certificates, Special Savings Certificates, Savings Accounts or Post Office Savings Accounts, or Term Finance Certificates (TFCs), where such deposit does not exceed Rs 150,000.

The Bill proposes to withdraw the above exemptions effective July 1, 2013.

**INCOME FROM HAJJ OPERATIONS**

[Clause (72A) of Part IV of the Second Schedule]

The following provisions are proposed to be not applicable 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 in respect of income from Hajj operations:-

(a) Section 21(I)

Any expenditure for a transaction paid or payable under a single account head which, in aggregate, exceeds Rs 50,000 made other than by a crossed cheque drawn on a bank or by crossed bank draft or crossed pay order or any other crossed banking instrument showing transfer of amount from the business bank account of the taxpayer.

(b) Section 113

Minimum tax payable at the rate of 0.5 per cent (proposed by Finance Bill 2013 to be enhanced to 1 per cent) of the turnover from all sources of the tax year where either no tax is payable or the tax paid or payable is less than the rate of minimum tax.

(c) Section 152

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Requirement for every person to withhold tax from any payment made to a non-resident person other than certain exceptions laid down in the said section.

**IMPORTS BY AN INDUSTRIAL UNDERTAKING**

[Clause (72B) of Part IV of the Second Schedule]

Under section 148, the Collector of Customs is required to collect advance tax from every importer of goods on the value of goods at the applicable rate, which is ordinarily treated as a final tax on the income of the importer arising from the imports except inter alia in the case of import of raw material, plant, machinery, equipment and parts by an industrial undertaking for its own use.

The Bill proposes to insert a new clause in Part IV of the Second Schedule whereby the provisions of section 148 will not apply to an industrial undertaking, if the tax liability for the current tax year, on the basis of determined tax liability for any of the preceding two tax years, whichever is higher, has been paid and a certificate to this effect is issued by the concerned Commissioner.

**THIRD SCHEDULE****Part II – Initial Allowance**

Currently ‘eligible depreciable assets’ are entitled to initial allowance at the rate of 50 per cent for plant and machinery and 25 per cent for buildings.

The Bill now proposes to reduce the rate of initial allowance to 25 per cent in the case of plant and machinery.

**PROPOSED CHANGES IN SALES TAX ACT, 1990****CERTAIN TERMS DEFINED**

[Section 2]

The Finance Bill proposes to define / substitute the definitions of certain terms like CREST, Provincial Sales Tax and Supply Chain which were alien to the Sales Tax Act, 1990 prior to the introduction of this Finance Bill.

**SALES TAX ON ADVANCES**

[Section 2]

The Finance Bill proposes to amend Section 2(44) of the Sales Tax Act, 1990 and to reintroduce the discarded concept of payment of sales tax earlier of the time of supply of goods or the receipt of any payment by the supplier in respect of that supply.

**RATE OF SALES TAX ENHANCED**

[Section 3]

The Bill seeks to enhance the rate of sales tax from 16% to 17% by substituting the word “sixteen” in Section 3 with the word “seventeen”. This proposal has largely been criticized by the public having inflationary consequences.

**FURTHER TAX INTRODUCED**

[Section 3(1A)]

The Finance Bill proposes to introduce further tax @ 2% in addition to the proposed standard rate of sales tax leviable under different sub-section of Section 3 in respect of supplies to unregistered persons. Earlier Further Tax introduced through Finance Act, 1998 was withdrawn through Finance Act, 2004.

**COLLECTION OF SALES TAX ON PRODUCTION CAPACITY**

[Section 3(1B)]

The Finance Bill seeks to empower the Federal Board of Revenue to collect sales tax on the basis of production capacity of plants, machinery etc. in respect of goods so notified by the Board..

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**DISCREPANCIES INDICATED BY CREST**

[Section 8]

The discrepancies indicated by CREST have been made one of the reasons of inadmissibility of tax credit as envisaged in Section 8 of the Sales Tax Act, 1990. In other words no input tax credit shall be allowed to a registered person in case the purchase transaction is the subject of discrepancy by CREST or the input tax is unverifiable in the supply chain.

**DE-REGISTRATION, BLACKLISTING & SUSPENSION OF REGISTRATION**

[Section 21]

The Finance Bill proposes to withdraw the defence available to the buyer, who had claimed input tax adjustment on the Sales Tax Invoices of the suppliers, suspended / blacklisted after making supplies, through the that payment to such suppliers was made through banking channels under Section 73 of the Sales Tax Act, 1990. We understand that this is a harsh measure and department may misuse the same by raising demands in the cases of bonafide purchasers of goods.

**GATE PASSES / TRANSPORT RECEIPTS MADE THE PART OF SALES TAX RECORDS**

[Section 22]

The Finance Bill proposes to make the gate passes, inward or outward, and the transport receipts the part of the sales tax record as envisaged in Section 22 of the Sales Tax Act, 1990 in order to establish the genuineness of the transactions in the alleged cases of fake / flying Sales Tax Invoices. Earlier these were not the part of the sales tax record and the department had no statutory power to compel their production in the cases of fake / flying invoices.

**MONITORING OR TRACKING BY ELECTRONIC OR OTHER MEANS**

[Section 40C]

The Finance Bill seeks to introduce the concept of monitoring or tracking of production, sales, clearances of stocks or any other related activity to be implemented through electronic or other means as may be prescribed. This is a supervisory measure to ensure the proper tax payment in doubtful cases without involving human interference.

**COMMISSIONER (APPEALS) EMPOWERED TO GRANT STAY**

[Section 45(B)(1A)]

The Finance Bill seeks to empower the Commissioner of Inland Revenue (Appeals) to grant stay in cases in which they are of the view that recovery of tax would cause undue hardship to the taxpayers. This power to grant stay is on the total discretion of the Commissioner (Appeals) and shall have a limited beneficial scope.

**RECTIFICATION OF MISTAKE**

[Section 57]

The Finance Bill proposes to substitute the provisions of Section 57 of the Sales Tax Act, 1990 and an attempt to bring the provisions of Section 57 proposed to be substituted with similar provisions in other enactments like Federal Excise Act, 2005 as far as the rectification of mistakes apparent from record is concerned.

**REWARD SCHEMES INTRODUCED FOR OFFICIALS OF INLAND REVENUE SERVICE**

[Section 72C]

The Finance Bill proposes to introduce the scheme for rewards to the officials of the Inland Revenue Service and the informers on the basis of their meritorious conduct / providing credible information in cases in which taxes are ultimately realized.

**THIRD SCHEDULE**

The Finance Bill proposes to extend the list of items / goods specified in the Third Schedule to the Sales Tax Act, 1990 and which are subject to sales tax on the basis of their retail price at the manufacturing stage. The extension of the list of Third Schedule items is in contradiction of the commitments made by the earlier governments that this list would be abolished in due course of time and indicates the desire of the present government to collect more and more taxes at the manufacturing stage without going into the difficult exercise of getting the wholesaler / retailer registered for completion of the Value Added Tax chain in the country.

**EXEMPTION ON MILK PREPARATIONS WITHDRAWN**

[Sixth Schedule]

The Finance Bill proposes to withdraw exemption available to Milk Preparations either sold in retail packing or otherwise. We understand that withdrawal of this exemption would have an inflationary impact.

**EXEMPTION TO SUPPLIES AGAINST INTERNATIONAL TENDERS WITHDRAWN**

[Sixth Schedule]

The Finance Bill proposes to withdraw the exemption on supplies against international tenders.

**AMENDMENTS THROUGH SROS**

SRO 500(I)/2013

Through this notification, Federal Government has rescinded a number of notifications in terms of which exemption, zero-rating of sales tax and concessionary rate of sales tax to different sectors, areas etc. was available has been withdrawn providing a level playing field under the standard tax regime.

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## SRO 501(I)/2013

The Federal Government through this notification has granted exemption of sales tax on goods specified in the Table to the notification. Earlier benefit of zero-rating of sales tax was available to the manufacturers of these goods enabling them to claim the refund of sales tax paid by them on raw materials used in the manufacture of such goods. The withdrawal of the facility of zero-rating and bringing them in the exemption regime would enhance the cost of production of these sectors.

## SRO 502(I)/2013

Through this notification the Federal Government has withdrawn the zero-rating of sales tax on certain goods notified under SRO 549(I)/2008. These goods have now been brought under the exemption regime vide SRO

## 501(I)/2013.

## SRO 503(I)/2013

This notification has withdrawn the facility of composite repayment cum drawback of sales tax and federal excise duty on export of vegetable ghee by omitting Serial No. 1 of Table to SRO 993(I)/2006.

## SRO 504(I)/2013

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The Federal Government through this notification has excluded the finished goods of the five export sectors like leather, textile, carpets, surgical and sports goods from the ambit of lower rate of sales tax of 2% by substituting certain serial of the Table to the parent notification i.e. SRO 1125(I)/2011. After this amendment, the lower rate of sales tax would not be available to the finished goods of all the five export sectors.

## SRO 505(I)/2013

The Federal Government has extended the scope of withholding of sales tax in respect of supplies obtained from unregistered persons. Now all the withholding agents specified under the Withholding Rules are required to withhold sales tax on supplies obtained by them from unregistered persons in accordance with the Withholding of Sales Tax Rules, 2007.

## SRO 509(I)/2013

The Federal Government has imposed 5% extra sales tax in addition to standard rate of 17% on the supply of electric power and natural gas against industrial and commercial connections whose bills exceeds fifteen thousand rupee in a month and who have not obtained the Sales Tax Registration or are not on the Active Taxpayer List of the Federal Board of Revenue. Special procedure for collection of this extra tax on electricity and gas supply is notified vide SRO 510(I)/2013 by adding a new chapter namely Chapter IVA to the Special Procedure Rules, 2007.

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## FEDERAL EXCISE DUTY

### FURTHER DUTY

[Section 3]

The Bill proposes to levy a 'Further Duty' at the rate of two per cent of the value in addition to the normal rate, when excisable goods and services are supplied to a person who has not obtained a registration number. Federal Government will be empowered to issue a notification in the official gazette to specify the excisable goods and services whereupon such further duty will be charged, levied and collected.

### RECORDS

[Section 17]

Every person registered for FED Act is required to maintain and retain records of excisable goods purchased, manufactured and cleared by him or by his agent for the specified period. Such records will now include, inward and outward gate passes and transport receipts.

### APPEALS TO COMMISSIONER (APPEALS)

[Section 33]

The Bill proposes to expressly empower the Commissioner (Appeals) to stay the recovery of tax for a period not exceeding 30 days in aggregate, where in a particular case, he is of the opinion that the recovery of tax levied shall cause undue hardship to the taxpayer.

It is important to note that under section 37(1), the Commissioner (Appeals), in any particular case, is already empowered to dispense with the deposit of duty demanded or penalty imposed, subject to such conditions as he may deem fit to impose so as to safeguard the interest of revenue. The order for such dispensation, however, ceases to have effect on the expiration of a period of 6 months from the date of the dispensation order or decision of appeal, whichever is earlier.

### POWERS OF FBR OR COMMISSIONER TO PASS CERTAIN ORDERS

[Section 35]

An Explanation has been inserted to clarify that the powers of FBR, Commissioner or Officer of Inland Revenue vested under sections 35, 45 and 46 are independent of the powers of the FBR under section 42B. It has further being clarified that nothing contained in section 42B restricts the powers of FBR, Commissioner or officer of Inland Revenue under the aforesaid sections or to conduct audit.

### REWARD TO INLAND REVENUE OFFICERS AND OFFICIALS

[Section 42C]

It is proposed to reward officers and officials of Inland Revenue for their meritorious conduct in cases involving concealment or evasion of excise duty and other taxes. Moreover, the informer providing credible information leading to such detection would also be rewarded after realization of part or whole of the taxes involved in such cases.

It is proposed that FBR may by notification prescribe the procedure to specify the apportionment of reward for individual performance or to collective welfare of the officers and officials of Inland Revenue.

### MONITORING OR TRACKING BY ELECTRONIC OR OTHER MEANS

[Section 45A]

It is proposed that FBR may by notification prescribe the procedure to specify any registered person or class of registered persons or any goods 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.

Moreover, excisable goods shall not 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 FBR.

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### FIRST SCHEDULE

#### REVISION IN DUTY (TABLE I – EXCISABLE GOODS)

#### AERATED BEVERAGES

The rate of duty is proposed to be enhanced from 6% to 9% of retail price for following goods with effect from July 1, 2013:

S.No.	Description of goods	Heading number
4.	Aerated waters	2201.1020
5.	Aerated waters, containing added sugar or other sweetening matter of flavoured	2202.1010
6.	Aerated waters if manufactured wholly from juices or pulp of vegetables, food grains or fruits and which do not contain any other ingredient, indigenous or imported, other than sugar, colouring materials, preservatives or additives in quantities prescribed under the West Pakistan Pure Food Rules, 1965	Respective Headings

Further, the 'salient features' of Finance Bill provide that capacity based taxation is also being introduced in respect of the above goods.

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### LOCALLY PRODUCED CIGARETTES

Description and duty on the locally produced cigarettes (PCT heading 24.02) has been revised as under, with effect from June 13, 2013:

S.No.	Description of goods	Revised rate of duty
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 exceed rupees two thousand two hundred and eighty six per thousand cigarettes	Rupees eight hundred and eighty per thousand cigarettes

### OIL SEEDS, VEGETABLE GHEE AND COOKING OIL [S.R.O. 507(I)/2013 and 508(I)/2013 dated June 12, 2013]

It is proposed to charge duty on oil seeds as under, with effect from June 13, 2013:

S.No.	Description of goods	PCT Heading	Rate of duty
54.	Oilseeds	Respective headings	Forty paisa per kg

Under SRO 508(I)/2013, duty of forty paisa per kg collected at import stage will be treated as duty collected in lieu of duty payable at production or manufacturing stage of vegetable ghee or cooking oil.

### MOTOR VEHICLES

It is proposed to charge duty on motor vehicles as under, with effect from June 13, 2013:

S.No.	Description of goods	PCT Heading	Rate of duty
55.	Motor cars, SUVs and other motor vehicles of cylinder capacity of 1800 cc or above, principally designed for the transport of persons (other than those of headings 87.02), including station wagons and racing cars of cylinder capacity of 1800 cc or above.	87.03	Ten per cent ad.val.

### TABLE II – EXCISABLE SERVICES

There are certain services which are concurrently taxable by Federal and Provincial legislations. Duplication of incidence are handled by administrative instructions / orders, however, litigation and dispute crop up due to said status. No clarificatory amendment / mechanism for the same has however, been proposed in the bill.

**FINANCIAL SERVICES**

Description and duty on all types of financial services has been clubbed and extended as under with effect from June 13, 2013:

S.No.	Description of goods	PCT Heading	Rate of duty
8.	Services provided or rendered by banking companies, insurance companies, cooperative financing societies, modarabas, musharikas, leasing companies, foreign exchange dealers, non- banking financial institutions, Assets Management Companies and other persons dealing in any such services.	98.13	Sixteen per cent of the charges.

The duty on above services is governed by Rule 40A of the Federal Excise Rules, 2005 and SRO 474(I)/2009 dated June 13, 2009. Effectively, only those financial services would be taxable which are not exempted in the said Rule and notification.

**THIRD SCHEDULE****TABLE I – GOODS**

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The duty in respect of the following goods is proposed to be withdrawn, effective June 13, 2013:

S.No.	Description of goods	PCT Heading
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 custom duty,	2523.9000
7.	Lubricating oil if supplied to Pakistan Navy for consumption in its vessels	Respective heading
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.	Respective heading

**TABLE II – SERVICES****ASSET MANAGEMENT SERVICES**

The above exemption is now proposed to be withdrawn effective June 13, 2013.

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**Hasnain Ali & Co -*Chartered Accountants***

Room # 103, 1<sup>st</sup> Floor, Regency Plaza,  
Near Mini Market, Gulberg –II,  
Lahore.

Ph: +92-42-35755212/35755213

Cell: 0322-4185440

Email: [hasnain@hac.com.pk](mailto:hasnain@hac.com.pk)

Website: [www.hac.com.pk](http://www.hac.com.pk)

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