

## **SALIENT FEATURES**

### **INCOME TAX BUDGETARY MEASURES 2013-14**

#### **Objectives:**

1. To provide relief to approximately 10000 salaried individuals. The rates of tax for salaried individuals are proposed to be revised. The existing six slabs of salaried individuals are proposed to be increased to twelve which shall bring progressivity in taxation.
2. The rates of tax for business individuals are proposed to be revised to support the middle income earners. The existing five slabs for business individuals and AOPs are proposed to be increased to seven slabs which will bring progressivity in the rates of tax.
3. To remove the discrimination against the non corporate sector the facility of carry forward of unadjusted minimum tax is to be extended to Individuals and AOPs which was restricted to the corporate sector.
4. Current reduction in minimum tax is restricted to the distributors of cigarettes in corporate sector. Being discriminatory to small taxpayers of this sector working in the status of AOPs and Individuals, reduced rate of minimum tax is to be extended to the individuals and AOPs.
5. Currently Corporate Income Tax Holiday for a period of 5 years is available to projects in Special Economic Zones. To promote industrialization and investment in the country, the period of holiday is to be extended to 10 years.
6. Currently the goods transport vehicles are subject to withholding tax at the time of payment of provincial motor vehicle tax and this tax is the final tax on their income. The goods transport vehicles are

also subject to withholding tax @ 2% on providing transport services which is the minimum tax. To facilitate the transport sector the withholding tax on payment of provincial vehicle tax is proposed to be made adjustable.

7. To encourage Hybrid vehicles for conservation of fuel withholding tax on import of Hybrid cars with engine capacity upto 1200CC has been exempted to provide incentive and relief. Similarly withholding tax upto 1800CC has been reduced by 50% and 25% for vehicle upto 2500CC.
8. To facilitate the manufacturing sector, facility of exemption certificate on import of raw material is being reintroduced subject to the payment of tax liability determined for any of the preceding two years.
9. To provide relief to the corporate sector, the rate of tax for non banking companies is being reduced from 35% to 34%.
10. To support the corporate sector, tax on dividend received by banks from Money Market Funds and Income Funds to be @ 25% for Tax Year 2014 onwards.
11. The existing three slabs for property income to be increased to six which will bring progressivity in the rates of tax.
12. To promote documentation of economy an adjustable withholding tax is being introduced which shall be collected by the Hotels/Clubs/Marriage Halls/Restaurants etc. from persons arranging functions.
13. To encourage filing of returns and broadening of tax base adjustable WHT to be levied on renewal and license fee of cable operators and other electronic media which shall be collected by Pakistan Electronic Media Regulatory Authority.

14. The transactions of margin financing, trading financing and lending are out of the scope of withholding tax under section 233AA of the Income Tax Ordinance. Now these transactions shall be subject to withholding tax @ 10% of the profit/markup/interest earned. The tax and shall be collected by NCCPL from the margin financiers, trading financiers and lenders.
15. 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%.
16. The rate of Withholding Tax on cash withdrawals from banks was reduced from 0.3% to 0.2% through Finance Act 2011. The maximum limit of daily withdrawal was enhanced to Rs. 50,000 to Rs. 25,000 through Finance Act 2012. The rate of withholding tax to be restored to 0.3%.
17. To ensure proper taxation of 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.
18. Contribution of the wholesale and retail sector towards the tax revenue is not commensurate with share of this sector in the GDP. To ensure documentation of the economy and to bring the traders into the tax net all manufacturers were made liable to collect adjustable withholding tax from distributors, dealers and wholesalers through the Finance Act 2012. To remove hardship this withholding tax is being restricted to the Electronics, Sugar, Cement, Fertilizers, Iron & Steel Products, Motorcycles, Pesticides, Cigarettes, Glass, Textile, Beverages, Paints & Foam sectors and the rate is being reduced to 0.1%. The scope of withholding tax is

also being extended to retailers. Withholding tax @ 0.5 % by the distributors, manufacturers or commercial importers from the retailers is proposed.

19. The rates of tax on registration of motor vehicles currently applicable were introduced in 2008. In order to account for the inflation, rates of tax on registration of motor vehicles to be enhanced.
20. Withholding tax for 10 years to be collected in lump sum at the rates specified in the first schedule where the provincial motor vehicle tax is paid in lump sum.
21. Separate rates of withholding tax to be introduced for corporate and non corporate sectors with the objective to encourage corporatization and to enhance revenue and to ensure effective enforcement of fiscal codes.
22. To encourage filing of returns and broadening of tax base. Dealers/Arhatis acting as commission agents for different commodities in the 'mandis'/markets is being introduced. Withholding tax shall be collected by the market committees. The tax rate shall be as follows:-

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.

1. 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.
24. The current rate of tax on sale by auction was introduced in 2008 and has remained unchanged. In order to rationalize the rate of

collection of adjustable advance Tax at the time of sale of any property or goods by auction it is proposed to be enhanced from 5% to 10% to encourage filing of returns for claiming adjustment.

25. 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.
26. Rate of deduction of withholding tax, which is final tax on payment of prize on prize bond to be enhanced from 10% to 15%.
27. To rationalize the taxation of the companies, the rate of initial depreciation to be reduced from 50% to 25% for Plant and Machinery.
28. The exemption limit of withholding tax for investment in National Saving Centers to be withdrawn
29. Following exemptions provided in the 2<sup>nd</sup> 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;
  - (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.

## **SALIENT FEATURES**

### **SALES TAX & FEDERAL EXCISE** **BUDGETARY MEASURES 2013-14**

#### **BRIEF POINTS ON MAJOR FISCAL MEASURES**

##### **RELIEF MEASURES**

1. 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.
2. Amendment is made in Sales Tax Act, 1990 to harmonize provision relating to rectification of mistake with Income Tax Ordinance, 2001.  
Enforced through Finance Bill, 2013, effective from the 01.07.2013.

##### **REVENUE MEASURES**

3. Enhancement in standard rate of sales tax from 16% to 17%.  
Enforced through Finance Bill, 2013, effective from the 13.06.2013.
4. 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.
5. 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.

6. Charging sales tax @ 5% in addition to the standard of 16% 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.
7. 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.
8. The three tier structure of chargeability of FED on cigarettes is being replaced by a two tier specific rate structure.  
Enforced through Finance Bill, 2013, effective from the 13.06.2013.
9. Federal Excise Duty @ 40 paisa 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.
10. 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.
11. 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.
12. 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.

**STREAMLINING MEASURES**

13. 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.
14. 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.
15. 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.
16. 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.
17. 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.
18. 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.
19. Explanation added to sections 25, 38, 38A, 38B and 45A of Sales Tax Act, 1990 and sections 35, 45 and 46 of Federal Excise Act, 2005 to

specify that the power under these sections are independent of the powers under section 72B and 42B respectively.

Enforced through Finance Bill, 2013, effective from the 01.07.2013.

20. Modification in sales tax rules to streamline the place of registration of registered persons.

Enforced through SRO 506 (I)/2013 dated 12-06-2013.

21. 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.

22. 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.

## **SALIENT FEATURES**

### **CUSTOMS BUDGETARY MEASURES 2013-14**

#### **Objectives:**

- Relief to general public.
- Encouraging growth and investment.
- Reducing cost of doing business.
- Improving regulation and enforcement.

#### **RELIEF MEASURES:**

- (a) Further reduction in duty & taxes on Hybrid Electric Vehicles (HEVs) ranging from 25% to 100%, according to their engine capacity.
- (b) Duty free import of “bio re-absorbable vascular scaffold” (heart stents) to decrease their cost for heart patients.
- (c) Exemption of duty and sales tax on energy saving tubes presently @ 20% duty to encourage use of energy efficient electrical equipment.
- (d) Streamlining and deregulation of the procedure for exempt import of renewable energy resources compatible equipment to promote their use and incentivize investment in this field.
- (e) Reduction of customs duty on office or school supplies from 25% to 20% to lower their price and reduce classification disputes.
- (f) Duty & sales tax free import of solar submersible pumps presently @ 20% duty to encourage use of energy efficient electrical equipment.
- (g) Reduction of duty on water treatment & purifying machinery and equipment from 20% to 15% to make them accessible to general public.

- (h) Streamlining the procedure for re-import of machinery & equipment sent abroad for repair etc by industrial importers.
- (i) Reduction of customs duty on Medium Density Fiber (MDF) Board.

**Streamlining of Tariff Structure to Incentivize Growth and Investment:**

- (a) Creation of separate PCT codes of newly indigenized vehicles to incentivize local auto industry.
- (b) Creation of new PCT code for classification of satellite phone and water dispenser to reduce classification disputes and improve import statistics.
- (c) Editorial corrections of description and classification in the Tariff.
- (d) Regulatory control on exempt/concessionary import of agricultural machinery, tourism sector, packaging industry and pharmaceutical sector is being strengthened to ensure that the benefit is availed by bonafide importers only. Editorial changes for simplification of concessionary SROs is also being made to remove duplications, spelling errors or redundant entries.

**Revenue Measure:**

Increase in duty on betel nuts from 15% to 20% and betel leaves from Rs.200/kg to Rs. 300/kg to discourage their use on account of adverse health effects.

**Legislative Changes:**

- (a) Amendment in section 2 (1a) of the Customs Act, 1969 will provide legal cover for filing of transshipment goods declaration in Computerized Clearance System.
- (b) Introduction of new section 3DDD in the Customs Act, 1969 to provide legal cover to the Directorate General of Input Output Co-efficient Organization (IOCO).

- (c) Amendment in section 14-A of the Customs Act, 1969 whereby terminal operators/custodian of goods will be bound to entertain the delay and detention certificates issued by customs authorities for waiver of demurrage charges. This measure will mitigate the financial hardship faced on this count by genuine importers.
- (d) Amendment in section 14-A of the Customs Act, 1969 will require the custodian of goods/terminal operator to provide adequate security and residential accommodation to the customs staff.
- (e) Sub-section (4) of section 32 empowers the appropriate officer to determine payable amount. Presently this section does not cover the liability found on account of Post Clearance Audit. Inclusion of sub-section-3A in sub-section 4 will fulfill this legal requirement.
- (f) Amendment in section 81 of the Customs Act, 1969, to delete Post Dated Cheque as an acceptable security against provisional assessment.
- (g) Section 80-A appearing in sub-section 2 of Section 83 is being proposed to be omitted. The reference of section 80-A under section 83 is meaningless since section 80-A is already omitted.
- (h) Amendment in section 179 of the Customs Act, 1969 will fix the adjudication powers in case of exported goods in relation to their FOB value as against duty and taxes in case of imported goods.
- (i) Amendment in section 196 will authorize Director of Customs Valuation to file appeals before the High Court in such cases where he is aggrieved by the orders of the Tribunal.
- (j) Amendment in section 202 B of the Customs Act, 1969 to correct the nomenclature of Customs Service of Pakistan.