Budget Flash 2014

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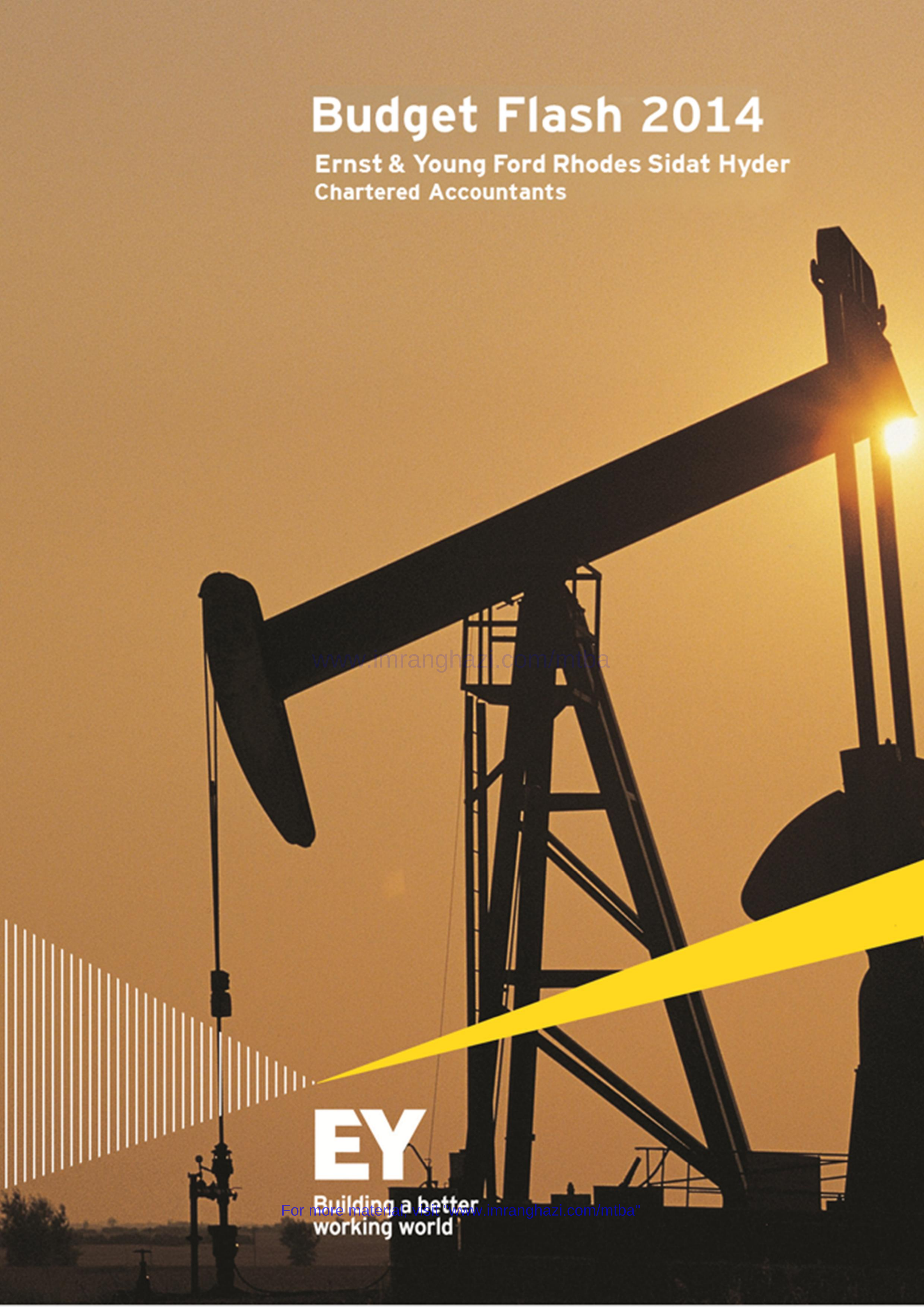

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The Federal Finance Minister Mr. Ishaq Dar announced the Federal Budget for the year 2014-15 with the total outlay of Rs.3.945 trillion and a public sector development program allocated at Rs.525 billion.

Some of the salient relief measures announced during the budget speech were welfare schemes for farmers, homeless and unemployed persons. A 10% relief was also announced for government employees.

Several measures for simplification of tax regimes were announced with the focus on removal of SRO based concessions that would be completed under a phased plan.

Some of the significant amendments that are proposed under direct and indirect taxes are as follows-

Income Tax

- The concept of filers and non-filers has been introduced in the income tax provisions like Sales tax. Active taxpayers are proposed to be recognized as filers. Under the proposed scheme, the rates under various withholding provisions for non-filers would be much higher than those for filers. However, implementation of this concept practically at the level of withholding agents would be an uphill task and would burden them with significant extra work to achieve compliance.

- Tax incentive proposed for a company setting up an industrial undertaking where 50% of the cost of the project is met through injection of foreign direct equity. The corporate tax rate is proposed to be reduced to 20% for a period of five years beginning from the month of commencement of commercial operation.

- A new section 113C "Alternative Corporate Tax" has been inserted which requires a company to pay at least 17% tax on the accounting income worked out under this section.

  Accounting income under this section means the accounting profit before tax as disclosed in the financial statements excluding share from the associates recognized under equity method of accounting subject to deduction of the following categories of income:

  - Exempt income
  - Income subject to final or reduce rate of tax under sections 37A, 148(7), 150, 153(3), 154(4), 156 and 233(3); and
  - Income subject to tax credit under section 65D and 65E.

  Appropriate expenses shall be apportioned to the income which is to be excluded from the accounting income as discussed above.

  The excess of alternate tax paid over corporate tax payable (including tax payable on account of minimum tax and final taxes payable under any provision of the Ordinance but excluding tax under section 8, 161 and 162 and any default surcharge or penalty) for a tax year shall be carried forward for ten subsequent tax years and adjusted against the tax payable under Division II of Part I of the First Schedule.

- Gain on securities held upto two years would now be taxable from the tax year 2015. Presently gain on securities held upto one year is taxable. The rate of tax for gain on securities held for one year is proposed to be enhanced from 8% to 12.5% and for securities held upto two years is proposed at 10%.

- The definition of securities is proposed to be extended to include debt securities issued by both the Federal Government, other Government agencies and the corporate sector. The gain on sale/redemption of debt securities (other than gain realized by a company) would be taxable at the aforesaid tax rates and shall not be taxable if they are held for more than two years.

- Other income now includes income arising to a shareholder of a company from the issuance of bonus shares. A new section 236M is also being inserted whereby every person issuing bonus shares to a shareholder of the company is required to collect tax at the rate of 5% on the value of bonus shares determined on the basis of day-end price on the first day of closure of books. The tax so collected shall be a final tax on the income of the shareholder arising from issuance of bonus shares.

- Dividend income and capital gains now taxable on net income basis in the hands of a banking company. Presently, the tax is levied on gross income from dividend and capital gains without apportionment of expenses.
- Dividend distributed by a stock fund being a collective investment scheme or mutual funds that make a minimum investment of more than 70% in corporate equity shares will be taxable at the rate of 10%. However, if dividend receipts of the fund exceed the capital gains, the dividend distributed by the fund would be taxable at the rate of 12.5%.
- Dividend received by a company from money market fund, income fund or any other fund other than stock fund shall be liable to tax at the rate of 25%.
- Payments for directorship fee or fee for attending board meetings liable to deduction of tax at the rate of 20% of the gross amount payable. The tax withheld is adjustable against the final tax liability.
- Withholding tax rates on profit on debt paid to non-filers enhanced to 15%. For non-filer, other than a company, the final tax liability would be determined at the rate of 10% and the remaining would be adjustable/refundable in case he files a return.
- Section 88A in respect of taxability of share of profit of a company from an association of persons is being omitted. Simultaneously, section 92 is being amended whereby share of a company or companies in the profits of an association of persons (where at least one member of the association of persons is a company) shall be excluded from the total income of the association of persons and the company or companies shall be taxed separately in respect of such shares at the rate applicable to companies.
- Mandatory requirement for filing the return of income for persons who are members of trade bodies and professional organizations restricted to resident persons only.
- Rate of withholding tax on supplies, services and execution of contracts enhanced for both corporate and non-corporate persons.

- The rate of tax withholding on advertising and other agents is proposed to be enhanced to 7.5% and 12% respectively. The existing rates are 5% and 10% respectively.
- Registration as a taxpayer would be mandatory for a person who intends to apply for a commercial or industrial electricity or gas connection.
- Separate rates for collection of tax at the time of purchase, import or registration of motor vehicle are proposed for filers and non-filers.
- Collection of tax from steel-melters, steel re-rollers and composite steel units proposed at the rate of Re.1 per unit of electricity consumed for the production. The tax withheld would be a final tax which is not adjustable.
- Separate rates for collection of tax at the time of purchase or transfer of immovable property are proposed for filers and non-filer based on the value of immovable property.
- Separate rates for collection of tax at the time of purchase of air ticket for first/business/club class are proposed for filers and non-filers at 3% and 6% respectively. This tax is adjustable against the final tax liabilities.
- Telecommunication services which are taxable under the respective Provincial sales tax laws are no more subject to FED.

Sales Tax

- The Bill has proposed that certain goods be charged to sales tax at the specified rate (i.e. 5%) subject to conditions through the newly inserted Eighth Schedule to the Sales Tax Act, 1990. Presently, such goods are exempt from the levy of sales tax through SRO 501(I)/2013, SRO 551(I)/2008 and SRO 727(I)/2011.

- Exemptions available to import of plant & machinery not manufactured locally is proposed to be withdrawn. Only registered manufacturers may import such plant & machinery at a reduced rate of 5%.

- Exemption on import of plant & machinery and capital goods available to various sectors through SRO 575(I)/2006 is also proposed to be withdrawn. Henceforth, specified sectors may import such plant & machinery at a reduced rate of 5%. Exemptions for service sector are no longer available.

- Amendments and insertions are proposed in the Fifth Schedule (i.e. Zero-rating) and the Sixth Schedule (i.e. Exemptions) – Table I, Table II and Table-III and the respective Notifications / SROs in this regard are likely to be rescinded.

- Mobile phones as subject to sales tax through SRO 460(I)/2013 dated 30 May 2013, which was suspended by the Islamabad High Court, would now be subject to sales tax as per the newly inserted Ninth Schedule to the Sales Tax Act, 1990.

- Sales tax at the rate of 17% was chargeable on the value of supply to CNG stations by the Gas Distribution Companies as introduced through Amending Ordinance on 23 March 2014. It is now proposed that this amendment be made part of the Sales Tax Act, 1990.

- Exemption from supplies of retailers whose annual turnover during the last 12 tax periods is less than Rs.5 million is proposed to be withdrawn. Moreover, sales tax in addition to the standard rate would be charged to retailers based on their monthly electricity bill. Special Procedures for payment of tax by retailers are presumably proposed to be amended accordingly.

- Input tax adjustment is restricted to goods that are directly consumed in production of making taxable supplies. It appears that input tax paid on acquiring of taxable services is no longer available.

- The bill has proposed that section 50B would provide legal support to online notices issued through email by CREST.

- The definition of 'retail price' is proposed to be amended wherein the Board is empowered to specify zones or areas for the purpose of determination of the highest retail price for any brand or variety of goods.

Federal Excise Duty

- The rate of duty on locally produced cigarettes is enhanced subject to conditions.

- The Bill proposes duty at the rate of 5% of the retail price on different types of cement. Presently duty is being charged at a fixed rate of Rs.400 per metric ton.

- Duty on locally manufactured motor vehicles is proposed to be abolished. Presently this duty is applicable on both imported and locally manufactured motor vehicles having cylinder capacity of 1800cc or above.

- Duty on air travel is enhanced from Rs.3,840 to Rs.5,000 for economy and economy plus class and from Rs.6,840 to Rs.10,000 for clubs, business and first class.

- Duty at the rate of 16% is imposed on chartered flights services.

- Duty on telecommunication services reduced from 19.5% to 18.5%.

- Telecommunication services which are taxable under the respective Provincial sales tax laws are no longer subject to FED.

- The definition of 'retail price' is proposed to be amended wherein the Board is empowered to specify zones or areas for the purposes of determination of the highest retail price for any brand or variety of goods.

Disclaimer

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