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Budget Special 2014-15

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BUDGET SPEECH 2014-15

Bismillahir-Rehmanir-Rahim

PART-I

Mr. Speaker,

1. As I rise to present the second budget of the democratic government, I want to thank Allah (SWT) for remarkable mercies He has bestowed on us by giving enormous success to the policies and initiatives we announced in our first budget. This success is the outcome of a democratic process that has allowed people to choose their representatives and they, in turn, are working to achieve their aspirations.

2. When we started our journey, we were facing the most daunting task of repairing a broken economy. We embarked on a very comprehensive agenda of economic reforms aimed to reinvigorate the economy, spur growth, maintain price stability, provide jobs to the youth and rebuild the key infrastructure of the country. Prime Minister Mohammed Nawaz Sharif set a rare example of foresight, courage and political sagacity when he did not shy away from taking painful decisions; decisions that were surely unpopular but imperative for restoring economic health of the country. Today, with the blessings of Allah, I say in all humility that we have not only restored the health of the economy but have put it firmly on the path of stability and growth. I by no means, am claiming that we have achieved our highest goals, however, I can gratefully and with humility, inform this House that Pakistan today is much more strong, healthy and prosperous than where it was one year before. But we need not be complacent with achievements so far.We are far from our destination. Therefore, we have to continue to strive and move forward, so that we achieve the status and stature among the nation, which we deserve, given our abilities. This is a national agenda and we hope that in order to achieve this, both side of the Parliament shall guide and favor us with valuable suggestions.

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Review of Economic Performance 2013-14

Mr. Speaker:

3. I would like to place before this august House the following key economic indicators, based largely on latest data, which point to an unmistakable revival of the economy:

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(a) **Economic Growth**, which had averaged around 3% in the five years before our government, has been projected at 4.14% as per the revised estimates. This is the highest growth in the last six years;

(b) **Per Capita Income**, which stood at $1339 last year is projected to increase to $1386, showing a growth of 3.5%;

(c) **Industrial Sector**, which grew by a meager 1.37% during Jul- Feb last year, has registered a growth of 5.84%, aided by increased availability of electricity and better management of available gas supplies. This is also highest in the last six years;

(d) **Inflation**, which had averaged around 12% in the five years before our government, was recorded at 8.6% for Jul-May 2013-14, that too despite the fact that we had takendifficult decisions to raise taxes and rationalize energy prices;

(e) **FBR revenues**, which had registered one of the poorest performances of in the recent past of 3% growth in 2012-13, are up by 16.4%, rising from Rs.1,679 billion to Rs.1,955 billion in the first 11 months of the current year;

(f) **Fiscal deficit**, which was registered at 5.5% during Jul-Apr 2012-13, has been brought down to only 4.0% for the same period this year. Here I would like to remind that in the revised estimates for 2012-13, we were told that the fiscal deficit will be 8.8%. We had taken office only a few days earlier but even then in the three weeks of June 2014, concerted efforts were made to economize on spending. The result was that actual deficit was brought down to 8.2%. This year, the target was to reduce deficit to 6.3%, but we are achieving a deficit of 5.8%, which is an excellent achievement;

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(g) **Credit to Private Sector**, which was registered at Rs.92.5billion during 1st July 2012 to 9thMay 2013has increased to Rs.296.4 billion for the same period this year, showing a growth of 318% and reflecting increased investment activity in the private sector, thanks mainly to reduced borrowings by the government, mainly from SBP, which were completely eliminated from a level of Rs.417 billion last to a negative Rs.11 billion during this year;

(h) **Exports** were recorded at $21billion during Jul-Apr 2013-14 compared to $20.1billion last year, showing an increase of 4.24%;

(i) **Imports** were recorded at $37.1 billion during Jul-Apr 2013-14 compared to $36.7 billion last year and showing a marginal growth of 1.2%. However, imports of machinery have increased by an impressive 11% an indication of investment activity;

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(j) **Remittances,** which were recorded at $11.6 billion during Jul-Apr 2012-13, rose to $12.9 billion for the same period this year, showing an increase of 11.5%, which is remarkable and for which I salute my expatriate Pakistanis for playing such a critical role in country's economy;

(k) **Exchange Rate**, which experienced some instability due to speculative activity and initially declining reserves due to heavy repayments due from previous IMF loan, has been successfully stabilized and significantly appreciated subsequently. The speculators had thought that government would sit idly while they play havoc with the dollar. They had pushed the rate to approximately Rs. 111 on 3rd December, which was totally unacceptable, as it had no economic justification. While dealing sternly with them we have expended serious efforts to stabilize the reserves position and also improved the basic economic indicators. Since 3rd December 2013, the rupee has appreciated by 11%. It has been trading in the range of Rs.98-99 for nearly three months, and this is the single most important indicator of economic stability as it affects a large number of other variables like prices and cost of production. A stable exchange is the lynchpin of a stable economy;

(l) **Foreign Exchange Reserves**, which had declined to a precarious level when in June 2013 SBP they stood at $6 billion, of which $2 billion were due to a swap that was payable in August. More importantly, besides regular debt servicing, a payment of $3.2 billion was due to IMF, bulk of which in the first half of the fiscal year. On 10th February 2014, country's reserves had further declined to $7.58 billion, of which SBP reserves amounted to a meager $2.70 billion and those of commercial banks amounted to $4.88 billion. Many had predicted that Pakistan would soon default. It is from such a precipice that we have pulled the economy back and put it in on sound footing. For reasons I will be alluding to in my speech, foreign exchange reserves of the country have entered safe territory and no longer pose any risk to the economy. Even though reserves at present stand at around $13.5 billion, we will be pushing them to $15.0 billion, much in advance of our target to achieve this level by 31st December.

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(m) **Karachi Stock Exchange Index**, which stood at 19,916 on 11 May 2013, the day the elections were held, has continuously scaled new heights and stood at 29,543 on 29 May 2014, showing an increase of 46%. Also, this increase meant an increase of approximately 39% in market capitalization both in rupees and dollars.

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(n) **Incorporation of New Companies**, which was recorded at 3212 during Jul-Apr last year has increased to 3655 during the same period this year, showing an increase of 13.79%;

4. In addition to above, we have achieved certain results that have eluded the previous government for its five year term:

(a) **Euro Bond:** Every year, since 2007-08, a provision had been made to raise foreign exchange resources through the issuance of Euro Bonds, which were last issued in 2006 and each year either no efforts were made as performance of the economy did not warrant or once a team on the roadshows aborted the attempt for lack of interest and demand for Pakistan bond. And please note that this was an exchangeable bond with equity in OGDCL, a company registered and traded in London Stock Exchange. Allah has been extremely kind in making our efforts remarkably successful in the very first year of our government. After achieving economic stability we immediately embarked on raising resources from the international capital market. We had set a modest target of $500 million. As we completed the roadshows on 7th April 2014 and briefed investors about our policies and results so far achieved, we received an unprecedented response from them. Against our target of $500 million, investors offered $7.0 billion, which meant nearly 14-time oversubscription. Encouraged by this phenomenal response, and keeping in view our pressing needs for building reserves, we decided to accept $2.0 billion of offers. The pricing was internationally competitive and significantly better than the prices at which we are raising resources domestically, even after accounting for possible exchange rate adjustments. More importantly, the foreign resources so raised have allowed us to retire domestic debt that is more expensive, and enabled greater flow of credit toward the private sector, as I have already noted.

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(b) **Resumption of Program Lending:** For a long time, and largely due to failure to implement the previous IMF program the country was denied access to program lending both by World Bank and Asian Development Bank (ADB). These loans, particularly the cheap financing from the World Bank, are given for budgetary support and augment foreign resource availability for the purpose of balance of payments. The high quality of economic management undertaken by the government has inspired the confidence of both these institutions and we have succeeded in securing $1.4 billion from these two institutions in the two key sectors namely energy reforms and competitive and growth support reforms.

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(c) **Auction of Spectrum License:**Anothernotable achievement of our government is the successful auction of radio spectrum license of 3G and 4G. This is again an area where budget provision of Rs.50-79 billion has been consistently made since the budget of 2009-10 without any success. Even though we had raised the budgetary provision to Rs.120 billion we succeeded in realizing our goal. Not only have we achieved our target price, through a built in incentive mechanism that prompted two of the four winners to make upfront payment of 100% price, we still have two more licenses that we will sell during the next fiscal year. All of this we have achieved with total transparency, competition and in full view of the world. Pakistan has lagged behind in introducing new technologies but we have removed this obstacle. Those who have purchased these licenses are extremely bullish in their assessment of Pakistan's growth potential. To understand the potential of what is in store for economic growth from this sector, it may be noted that even though we have more than 130 million cell phone subscribers, we have less than 10% penetration of broadband (data transmission), which will make all smartphone connected to internet and thereby all users to take advantage of global connectivity. A new wave of economic growth is likely to be spurred from the introduction of this technology in the country.

(d) **Revival of the Privatization Program:**The privatization of public sector assets, based on strategic partnership or through divestment in the capital market, was one of the key reforms we had proposed in our Manifesto and duly reflected in the budget strategy announced last year. This is again an area that lied dormant and unattended for last many years, as the previous government, despite making an announcement and short-listing 65 entities for this purpose, could not succeed. We have reinvigorated the program with considerable effort and injected new vigor in its execution, as per the program charted out by the previous government. Before the close of the calendar year, we would be divesting government shares in HBL, UBL, ABL and partially increasing the public listing of PPL and OGDCL. We have also appointed financial advisers for various public sector corporations where we plan to establish strategic partnership with private sector investors. These are those corporations that are burdening the pubic sector resources by their constant bleeding. The proposed strategic partnership will transform them into profitable organizations and remove their burden on the exchequer. Furthermore, besides bringing much needed foreign investment in the country, this process will help lowering the debt burden of the country and make more resources available for investing in the

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poverty reducing programs in accordance with the privatization law. I would like to assure this House that while pursuing this program, our government will not let the interests of workers and employees of public sector corporations compromised. Their welfare and rights will be duly protected.

(e) **Import of LNG:** Yet an important area that eluded others has been the plan for import of LNG in the country. Our present supplies barely meet 50% of our demand. Import of LNG is critical for our industry, power sector and fertilizer production. We had invited private sector to invest in a terminal for receiving 200 MMCFD of LNG to be expanded to 400 MMCFD. We have succeeded in awarding, again through a transparent and competitive process, the work of building the terminal at the Port Qasim. The work on the terminal has started and within one year the flow of gas is likely to begin. We have also rolled out the process of procuring 3.5 million tons of LNG from the international market, which is again done through a competitive process.

5. From what I have stated above, it can be seen that it is a picture of an economy that is not facing any threat of instability. It is in fact poised to take off toward a sustained path of growth. Investments are re-bounding, confidence is building and people are forming expectations of a better tomorrow. It is indeed the results of a consistent and credible policy regime that the government has fashioned and practiced.

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6. You would recall that when presenting the first budget of the Government, I had outlined the vision that is guiding our economic policies. The six elements of the vision were:

(a) promotion of trade and investment and protection of economic sovereignty;

(b) making the private sector primary engine of economic development;

(c) public investment to cater for building a strong infrastructure of roads, highways, railways, ports, water, hydro-power and related infrastructure;

(d) equitable sharing of the burden of development by eliminating the culture of tax exemptions and concessions and recovering cost of public services to ensure their sustainable supplies;

(e) practicing austerity and frugality in public expenditures and containing them within the available resources; and,

(f) protecting the weak and vulnerable segments of population both by insulating them from inflationary pressures as well as giving cash

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grants to mitigate the adverse impact of economic adjustment and reforms.

7. We have scrupulously followed the vision we have set out for the economy. In every aspect of the vision, we have acted as we promised. The brief description of our performance, given above, and what will be highlighted later in this speech, exemplifies the faithfulness and seriousness with which we are working to realize this vision. This is a reflection of a responsible representative government that is answerable to Parliament and the people who have voted it to office. And as we move to the second year of our government, the new budget will continue to reflect the same spirit and commitment as embedded in this vision.

Main Elements of Budget Strategy

Mr. Speaker

8. I would now like to draw your attention to the main elements of the budget strategy we are adopting for the next fiscal year.

(1) **Reduction of fiscal deficit:**We will continue to reduce the fiscal deficit still further from 5.8% of GDP to 4.9% of GDP;

(2) **Raising Tax Revenues:**Although I will give details in the second part of the speech, this reduction in deficit will be achieved through a combination of better tax collection and tight expenditure policy.

(3) **Arresting Inflationary Pressures:**We have successfully warded off the inflationary pressures that were inevitable due to difficultdecisions we took in the first budget. As I noted, inflation has been kept firmly in the single digit territory. We gave more than Rs.20 billion in subsidy to avoid passing on the petroleum price increases. In the last one year, in nearly 8 months either prices were unchanged or decreased. The following developments will further strengthen the inflationary outlook going forward:

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i. Continued reduction in deficit;

ii. Borrowings from SBP were eliminated during this fiscal year and next year these will be further brought down.

iii. The shift toward foreign borrowings we have contracted carry an average cost of less than 5%, which is considerably lower than the domestic cost that is averaged more than 12%. This will save us Rs.26 billion annually in interest payment and will help reduce the cost of debt servicing;

iv. Regular price monitoring is being undertaken with a view to ensure adequate supplies of all commodities and maintain stable prices. Apart from the ECC that regularly reviews price situation, a price monitoring committee comprising all federal and

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provincial ministries and departments headed by Finance Minister also meetsevery two months for more coordinated approach toward maintaining price stability. Provincial Governments have established extensive networks of *Juma* and *Itwar* bazaars all across the country. These bazars provide additional avenues of purchasing essential items at considerably lower prices than those prevailing in the markets. Remedial measures are taken whenever shortage of an essential commodity is noticed. Tariff, taxation and trade policy instruments are used to stabilize supplies and prices by making appropriate adjustments in duties, sales tax and income tax.

(4) **Continued Focus on Energy Crisis:** The 4Es we have given in our Manifesto refer to economy, energy, education and extremism. Thus energy occupies a central position in our program. We had inherited an energy sector that was at brink of total collapse. Load shedding was running at 16 hours in urban and 20 hours in rural areas. A gigantic circular debt of more than Rs.500 billion had stranded a sizable amount of capacity for want of liquidity. Critical projects, such as Neelum-Jehlum and Nandipur, were delayed or nearly abandoned due to sheer negligence. We were not deterred by the enormity of the challenges facing the sector as we realized that without fixing this sector no realistic hope of economic revival couldbe made. We settled the circular debt and freed up and added some 1700 MW in the national grid. These initiatives have paid off as the provisional figures of national accounts show that the valueadded in the power sector increased by 3.72% as against a negative growth of 16.33% last year. But more importantly, we are working on a comprehensive program to add more power, improve energy mix to reduce the need for tariff increase, attract private sector investment and invest in transmission and distribution system to improve the efficiency of the entire power sector. I will be mentioning these initiatives in the context of the development plan;

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(5) **Exports Promotion:** An emerging challenge on the horizon is the growth in exports critically needed to support a stable balance of payments over the medium to long term. Since 2000-01, our exports have grown at the rate of 8% compared to a growth rate of 13% for imports, leading to a large trade gap in the country. During the same period, the export to GDP ratio has declined from 13% to 10% whereas the import to GDP ratio has increased from 15% to 19%. This rising imbalance in the trade account has been significantly corrected by a remarkable growth in remittances, which have grown by nearly 25% during this period, with the result that our current account has been stable in recent years. Not surprisingly, the terms

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of trade for the country during this period have also continuously worsened, eroding competitiveness of our exports. This is not a satisfactory state of affairs. Our trade balance, largely due to lackluster growth in exports, is not consistent with our economic potential. There is no escape from facing the challenge of stemming the declining trend in country's export to GDP ratio by giving a big push to the exports and redirecting our energies for enabling our industry and agriculture to create an exportable surplus in the country. To this end, this budget will be laying the basic foundations for a major thrust on export promotion. I will announce a number of initiatives aimed at giving boost to our potential exports.

(6) **Creating New Jobs:**We need to create jobs to absorb the rising number of young men and women entering the job market. As I said previously, much of this activity has to take place in the private sector, as our primary job is to provide an enabling environment for the private sector to undertake investments. The 3G-4G technologies, successfully introduced by our government, will spur growth not only in rolling out this facility but enabling other users to improve productivity and efficiency in their operations. A detailed study on the impact of 3G-4G technology on employment has estimated some 900,000 jobs will be created in the next four years.Investments are encouraged through other policies, most notably by reducing government borrowings and making more credit available for private investments. On our part, a major increase in development spending is planned during the year. PSDP will be increased from Rs.425 billion during 2013-14 to Rs.525 next year, an increase of nearly 24%. As I will enumerate shortly, these funds will be invested in major projects of infrastructure that will not only create immediate jobs but will go a long way in promoting more investments in the private sector.

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(7) **Raising Investment for Growth:**Investment remains a challenge for the economy. The plans we have in this regard are at an advanced stage of preparation and work on some mega projects is just starting. Even the phenomenal increase in the flow of credit to private sector, which I noted earlier, has not been fully reflected in investment figures projected on the basis of data for 9 months. There would be a significant acceleration in investment in the country in months and years ahead. For the first time in recent history of the country we are investing the fullest available development outlay of Rs.425 billion. This is a remarkable achievement in view of the fact that we have made a fiscal adjustment of 2.4% during the year. Frequently, in the past, whenever such adjustment was made it was essentially made by cutting development spending. We have broken

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this tradition. Those who have constantly criticized the government for slow development spending did not realize that the new government needed time to reset priorities in the development plan to ensure that such projects are undertaken that are consistent with the economic program of the government that enabled it to win the confidence of the people. We have done this and with that the pace of development spending has accelerated.

(8) **Public Debt Management:** The composition of public debt has witnessed major changes in past few years with increased reliance on short-term domestic debt owing to lower external debt inflows, which entails high rollover and refinancing risk. Besides, the effective cost and stock of external public debt increased due to rapid depreciation of Pak Rupee in the recent past. The present government has taken immediate corrective measures to manage its public debt portfolio effectively. Key elements of our debt management policy are:

- A Medium Term Debt Management Strategy (2014-18) has been developed to lengthen the maturity profile and reduce the refinancing risk along with sufficient provision of external inflows to relieve the pressure on domestic resources and to enable private sector to access more credit from the banking system;
- To broaden the investors' base and have a liquid government securities market, trading of Treasury Bills commenced on the stock exchanges. This has provided an additional investment channel to retail investors.
- Pakistan successfully tapped international capital markets after a gap of 7 years, which highlights investors' confidence on country's leading economic indicators, external finances and structural reforms undertaken by the present government.
- The program loans received from multilateral/bilateral development partners during 2013-14 as well as financing raised from international capital market in the form of Euro Bond will not only assist in lengthening of maturity profile of public debt, there are also strong concessional element associated with these loans i.e. low cost and longer tenors. The annual cost saving on these loans, as mentioned earlier, is around Rs.24 billion as compared with the domestic financing.

(9) **Protecting the Poor:** Reaching out to the poor is a major policy objective of our government. The main intervention we have designed for this purpose is the National Income Support Program (NISP) which consists of Prime Minister's Youth Program and

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Benazir Income Support Program. Of this BISP remains the biggest effort to help the poor through cashtransfers. The following achievements have been made in this regard:

i. In 2008, I was the one who made an allocation of Rs.34 billion for BISP. However, when we inherited this program last year, only Rs.40 billion were spent. Given our commitment to the welfare of the poor, we immediately raised the funding to Rs.75 billion, while adding an important component for schemes under the PM's Youth Progam. We are further enhancing this allocation to Rs.118 billion, representing approximately 200% increase since 2012-13;

ii. Until 2012-13, the cash-transfer program was reaching out to 4.1 million families, which will have taken to 4.8 million during the current year. Next year we will be increasing the number of beneficiary families to 5.3 million, showing an increase of 29% since 2012-13;

iii. The monthly stipend under the program was initially set at Rs.1000, which continued for five year, until we enhanced by 20% last year to Rs.1200. This year we announce another increase of 25% by raising the monthly stipend to Rs.1500. Therefore, in the last two years, we have raised the monthly stipend by 50%

iv. Besides the above, an allocation of Rs.21 billion has been provided to fund the special schemes under the Prime Minister's youth program announced previously, most of which are now fully functional and those that will be announced in this budget.

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v. We are proud of this support that we are providing to our vulnerable and young people. We owe it to them; it is their own resources that we are managing in trust and making sure that in their state of vulnerability we are there to help them. I would also like to emphasize that we are not promoting a culture of dependency for the poor. We have adopted a methodology that constantly watches the economic state of recipients and there is a very structured process through which families are graduated from being recipients to become economically independent. This program is therefore a program only to help families under need and encourage them to gain a life that does not finally depend on such assistance.

(10) **Strengthening Social Safety-net Programs:** A large number of social safety-net programs are scattered across different ministries and departments and it is not evident if these programs are fully synergized with each other. To strengthen these programs it has been decided to establish a high-powered Task Force to undertake a

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detailed review of the programs' performance, assess their effectiveness, and to determine that these programs are optimally operated and no overlapping in their scope and work is present. Based on the report of the Task Force a new policy will be formulated that would allow more coordinated delivery of social safety-net services by the government.

(11) **Development & Promotion of ICT Sector:-** The Government is fully cognizant of the importance of Information & Communication Technology and its potential role in trade, foreign direct investment, women empowerment, employment, education, national competitiveness and ultimately the economic growth. We are making adequate provisions in this budget for the development and promotion of the this vital sector, namely:

- **Establishment of Universal e-Telecentres:** In order to improve public access to ICT services such as NADRA facilities, biometric verification devices for issuance of SIMs, e-facilitation in health, agriculture, commerce, governance, learning etc. and to generate local employment and entrepreneurial opportunities, Universal Services Fund (USF) shall fund a mega program for establishment of Universal e-Telecentres. In the first phase, 500 Telecentres will be established in the four provinces and Islamabad. An investment of approximately Rs.12 billion shall be made on this program over the next three years.
- **Improved Connectivity of Remote Areas:** This year USF shall invest another Rs.2.8 billion in its ongoing program whereupon optic fiber cable is being aggressively laid to provide connectivity to outlying areas particularly in Baluchistan, FATA, rural KPK and other parts of country. Additionally, Rs.3.6 billion have been earmarked out of USF to be spent on Rural Telecommunications Program. All these efforts shall result into rapid rollout of next generation ICT services in the remote areas.
- **Prime Minister's ICT Scholarship Program:** This Program aims at providing the highest quality ICT education opportunities at top universities to the students belonging to rural and semi urban areas. This year, Rs.125 million have been allocated out of National ICT R&D Fund to provide 500 scholarships in a transparent manner.

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Medium-term macroeconomic framework

Mr. Speaker

9. As the in past, our budget strategy is embedded in a three year medium term macroeconomic framework, the main features of which are as follows:

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(a) GDP growth to gradually rise to 7.1% by FY 2016-17.

(b) Inflation will be maintained in single digit throughout the medium term.

(c) Investment to GDP ratio will rise to 20% at the end of medium term.

(d) Fiscal deficit to be brought to down to 4% of GDP by 2015-16 and maintained at this level afterward.

(e) Tax to GDP ratio will be increased 13% by the year 2016-17

(f) Pakistan's foreign exchange reserves will be increased to more than $22 billion at the end of 2016-17.

10. Encouraged by the performance in the first year in office, we are confident that these ambitious targets will be achieved with consistent and resolute determination to remain on-course on the path of reforms.

Development plan

Mr. Speaker

11. I would now present some highlights of the development budget, focusing mainly on the sectors that will contribute most to the economic development.

Water

12. One of the greatest assets bestowed on this nation by the Almighty (SWT) is the abundance of water resources. Pakistan has got one of the largest irrigation networks in the world. After initial big investments in the development of water resource we have stopped adding to our water storage capacity while the existing dams have accumulated silt over the years.

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13. The most important sub-sector claiming resources in our development plan is the water sector, where we are investing Rs.42 billion for projects in various parts of the country. A project that will be the future life-line of Pakistan is the Diamir Bhasha Dam, which will store 4.7 MAF of water and generate electricity of 4500 MW. We have provided Rs.10 billion for land acquisition during the year and have kept a provision of Rs.15 billion for completion of the land acquisition process. We are committed to make this dam a reality and construction work will start soon on the site. Water projects in Baluchistan are the second most important focus of water sector investments comprising construction of delay action dams, flood dispersal structures, canals and small storage dams. Major focus is on completing the long delayed projects such as Katchi Canal (DeraBugti and Nasirabad), Naulong Storage Dam (JhalMagsi),Extension of Pat Feeder Canal to DeraBugtiandShadi Kaur Dam (Gawadar). In Sindh, the projects ofRainee Canal(Ghotki and Sukkur), extension of Right Bank Outfall Drain from Sehwan to sea will be undertaken. In Punjab Ghabir Dam (Chakwal), and in AJK, completion of raising of Mangla Dam will be executed. In Khyber

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Pakhtoonkhwa, Palal, Kundal and Sanam Dams (Khyber Pakhtoonkhwa) and in FATA, KurramTangi Dam (North Waziristan), GomalZam Dam (South Waziristan) will be undertaken. Besides, numerous schemes of lining of water-courses will be undertaken in Khyber Pakhtoonkhwa, Sindh and Punjab to reduce water wastage together with flood protection and drainage schemes all over the country. Moreover, new water sector projects are being initiated which include a series of small dams across Baluchistan and Khyber Pakhtoonkhwa including Basool Dam in Ormara and Makhi Frash Link Canal in Thar and Channelization of NullahDeg in Punjab.

Power

Mr. Speaker

14. Another sub-sector that is getting our utmost attention is the power sector. Widespread power shortages have badly damaged our industrial sector and added to the sufferings of the common people. Prime Minister Nawaz Sharif has devoted personal attention to the process of reforms and investments in this sector. We have taken a number of steps to address structural problems of the sector including reduction in system losses, improvement in recoveries, elimination of theft and settlement of inter corporate circular debt. However, our real focus is on developing additional resources of energy so as to permanently overcome the problem of shortages. Therefore, in keeping with last year's practice we have allocated the largest amount of resources to create more economical capacity in the country. During the current year a sum of Rs.205 billion will be invested in this sector. The projects included in the program include Neelum-Jehlum Hydro Power Project (969 MW), Diamir-Bhasha Dam and Hydropower Project (4500 MW), Tarbela Fourth Extension Project (1410 MW),Thar Coal Gasification Project (100 MW), Chashma Civil Nuclear Power project (600 MW), Two Karachi Nuclear Coastal Power Projects (2200 MW) with Chinese assistance, KeyalKhawarHydro Power Project (122 MW), AllaiKhawar Hydro Power Project (122 MW), Combined Cycle Power Projects at Nandipur(425 MW) and Chichoki Malian (525MW), Refurbishment and Up-gradation of Generation Units of Mangla Power Station, Up-gradation of Guddu Power Project (747 MW gas-based), conversion of oil based power projects to coal at Muzaffargarh and Jamshoro (3,120 MW), transmission network to evacuate power from Wind Power Projects in Jhimpir and Gharo, interconnection of Chashma Nuclear III and IV, interconnection of Thar Coal based Engro (1200 MW) and massive allocations to improve the transmission lines, grid-stations and distribution systems. We have expended unusual efforts to make the dream of Dasu Hydropower Project a reality. TheWorld Bank will soon be approving $700million for financing this critical project that will add more than 4500 MW of power after completion. We are designing innovative ways

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to mobilize the requisite finances for constructing this project within the shortest possible time.

15. Addition of a number of hydel projects, coal based plants, wind energy and nuclear projects will correct the energy mix to provide cheap electricity to the people of Pakistan while improvement of the transmission and distribution system will reduce the system losses. The drive against energy theft will further reduce the burden on the common man.

Highways

Mr. Speaker

16. Pakistan has significant importance in regional connectivity. It provides crucial North to South and East to West corridors to three regions and some of the fast-growing economies in the world. But in order to benefit from this natural advantage, Pakistan needs to develop state of the art rail, road and energy infrastructure.

17. Leaders have to see through the future. Prime Minister Nawaz Sharif recognized in 1990 that Pakistan will not progress rapidly unless it develops an extensive network of motorways to link distant parts of the country. Therefore, he launched his vision of a modern communication system, which could not be materialized due to negligence of a number of intervening governments. But we are picking up the pieces from where we left off and we intend to complete most of the North to South Corridor projects during the next four years. Broadening his vision of connectivity the Prime Minister along with his Chinese counterpart has developed the vision of Pak-China Economic Corridor that would link Kashgar and Gawadar through both motorways and railways. It is not difficult to imagine the phenomenal economic development that would be engendered by such an epoch-making project. Various components of the project have been undertaken starting this year.

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18. The premier project that would transform the south-north corridor, linking Sindh to Up-country through a rapid transit mode, is the 959 KM Karachi-Lahore motorway project for which Rs.25 billion have been allocated for land acquisition this year and Rs.30 billion in the next year's development budget. This will enable complete land acquisition for the project. Construction work on 276 KM Lahore to Khanewal Section, 387 KM Multan to SukkurSection, 296 KM Sukkur to Hyderabad Section and 136 KM Hyderabad to KarachiSectionwill start soon and will be undertaken on public-private partnership basis. It is estimated that the project will be completed before the term of the present government expires. On the other hand, work on the remaining portions of 892 KM Gawadar-Ratodero Motorway has been expedited and the works on 200 KM long Gawadar-Turbat-Hoshab Section have been prioritized by meeting all its financial

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requirements. For northern connectivity, work on for construction of 460 KM Raikot-Havelian-Islamabad Section of the corridor will also be starting as well as for widening of the Khunjrab-Raikot Section of the Karakorum Highway.

19. There are many more highway projects included in the development plan. This include184 Km Faisalabad-Khanewal Section and 57 KM Khanewal-Multan Section of M4. In addition, allocations have also been made for a number of crucial bridges and tunnels to open up unconnected areas. These include accelerated completion of Lowari-Tunnel, Lipa Tunnel in Lipa Valley, a bridge on River Chenab near Sultan Bahoo, Baba Farid Bridge near Pakpattan, Syedwala Bridge on River Ravi near Nankana Sahib, and a bridge on Indus River to connect N5 and N55.

20. In order to address the problem of urban congestion, allocations have been made in the current budget for the Peshawar Northern-Bypass, Karachi Northern Bypass, Lyari Expressway, Dualization of Sukkur Bypass, and Lahore Eastern Bypass. Moreover Ratodero, Dadu-Sehwan Road and Rakhi-Gaj-Bewala East-West road are also being constructed to improve connectivity.

21. This is an extensive program in the highways sector comprising 74 projects of motorways, highways, bridges, tunnels, and regional roads and a sum of about Rs.113 billion has been kept in the budget for this purpose. Numerous job opportunities will be created while undertaking the above projects.

Mr. Speaker

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Railways

22. Railways is supposed to provide cheaper, faster and convenient mode of passenger and freight transport. But despite inheriting a large railway network spread across Pakistan, we have mismanaged the railway assets to the extent that nobody would chose to use it as a first option. Railway was headed for near extinction when PML N took over last year. Marginalization of Railways was simply unacceptable to us because the world over, rail transport is regaining its lost glory as more investments are made and faster trains are built for both passenger and goods transport.

23. In the budget for 2014-15, Government has allocated amounts for doubling of track from Khanewal to Lalamusa, covering a major portion of the north-south mainline. Remaining tracks will also be doubled in coming years.

24. Similarly allocations have been made for rehabilitation of track from Karachi to Khanpur and Khanpur to Lodhran. Allocations have also been made to strengthen and rehabilitate 159 weak railway bridges. These measures will improve the speed and reduce travel time.

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25. Modern railways depend heavily on technology that increases efficiency and reduces accidents. However we have not upgraded our system to benefit from technological advancements. In the budget for the current year the Government has allocated significant amounts for mechanization of track maintenance, replacement and improvement of signaling system and provision of a centralized traffic control system.

26. Pakistan Railways was in severe shortage of engines and bogeys when PMLN took its charge. We have given special attention to these shortages and huge investments in locomotives and rolling stock have been made in the current as well as next year's budget. Allocations have been made in the current budget to add more than 500 engines to the system through procurement and repair. This will address the issue of shortage of engines.

27. Similarly around 1500 new wagons/bogeys are also being arranged. Pakistan Railways is taking these steps to improve the travelling experience of its customers. In order to further enhance the convenience of travelling with Pakistan Railways, this budget has allocated special amounts to renovate and upgrade railway stations in various cities.

28. In order to make Pakistan Railways profitable, the Government has planned to offer increased freight services. Allocations have been made in this budget to procure additional wagons for freight operations and a feasibility study is being commissioned to study the possibility of a dedicated freight corridor.

29. All these steps have been taken to revive the existing services of Pakistan Railways. In addition to the revival of the existing system, the Prime Minister of Pakistan has a vision for high tech, modern and viable railways. Therefore, some entirely new and bold steps are being taken to take Pakistan Railways to new heights. Huge investments are being made under the China Pakistan Economic Corridor, which will bring fast, modern and reliable railways to Pakistan.

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30. Similarly urban railway is being introduced initially in Karachi and Lahore. Allocations have been made in the Federal budget to revive the Karachi Circular Railway while the Government of Punjab has planned to introduce a modern metro rail in Lahore. This is a new beginning and InshaAllah the people will feel the difference in service delivery of Pakistan Railways in the coming years.

31. A path-breaking project of Islamabad-Murree-Muzzaffarabad Rail Link is being initiated and a new company with the name of Kashmir Railways is being established to construct and manage this exceptional project in the scenic area of Galyat and Kashmir. This project will open new avenues in tourism and travel pleasure and this would prove to be a special gift of Pakistan Muslim League to the nation.

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32. In this budget, we have allocated Rs.77 billion for 45 development schemes and pay & pensions of railway employees. Private and international investments are expected during the course of the financial year in this sector, as well.

Human Development

Mr. Speaker

33. People are the most precious resources of any nation. Therefore we consider the expenditures on human development as investments as they lay the foundation of future growth at an accelerated pace.

34. Initiatives that will be undertaken for the promotion of this sector are as follows:

(a) A sizeable allocation of Rs.20 billion has been made for 188 projects of the Higher Education Commission, which will support development plans of different universities all over the country. It may be noted that on the current side also a hefty allocation of Rs.43 billion is made for HEC. Thus a combined outlay of Rs.63billion will be made for higher education. The combined allocation represents about 10% increase, which is sizeable considering the tight fiscal conditions prevailing in the country.

(b) Health sector service delivery has been fully devolved to the provincial governments. But the Federal Government is cognizant of its responsibilities to support the provinces in eradication of deadly diseases, regulation of the health sector and coordination to achieve the Millennium Development Goals (MDGs). Therefore the current budget allocates Rs.26.8 billion for the health sector programs. Our major focus will be polio eradication. An emergency plan has been made for this purpose and the Federal Government will work closely with the provincial jurisdictions to eradicate polio from Pakistan.

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(c) Additionally the budget will also fund the Expanded Program of Immunization (EPI), National Maternal Neonatal and Child Health Program, National Program for Family Planning and Primary Healthcare and several national programs for prevention and control of important diseases such as blindness, TB, Hepatitis and AVN Influenza.

(d) Most importantly, funding for the provincial programs for population welfare has been kept at Rs.8.2 billion.

SPECIAL INITIATIVES

Mr. Speaker

35. Having stabilized the economy and announced a significant acceleration of investment program in the public sector let me turn to some special

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initiatives our government is announcing in order to meet the special needs of exports, in general, and textiles, in particular, commerce & industry, agriculture and housing. These sectors are central to economic development and there recent dormant performance has been a cause of concern. Accordingly, we have decided to give impetus to development in these sectors.

Exports Promotion

36. I had earlier highlighted the weaknesses in our exports performance that have emerged over the last decade. We must arrest this low exports growth and declining export to GDP ratio. The following measures are being adopted for promotion of exports:

(a) **Setting up of EXIM Bank of Pakistan (Specialized DFI):**The Government has decided to set up the Export-Import (EXIM) Bank of Pakistan to enhance export credit and reduce cost of borrowing for exporting sectors on long term basis and help reduce their risks through export credit guarantees and insurance facilities. The bank will provide liquidity to exporters. Its authorized capital will be Rs.100 billion while the initial Paidup Capital will be Rs 10 billion. Legal framework for the establishment of the Bank will be developed through an Act of Parliament.

(b) **Exports Refinance Facility (ERF):** The Government, through the State Bank of Pakistan, has arranged to reduce its mark-up rate on exports finance from 9.4% to 7.5%, which will bring it in line with such rate prevailing in the countries competing with Pakistan which will reduce the financial cost of exporters by 2%;

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(c) **Long Term Finance Facility:** The Government, through the State Bank of Pakistan has arranged to reduce its mark-up rate on long term financing facility for 3-10 years duration from around 11.4% to 9% w.e.f 1st July 2014 which will reduce financial cost of exporters by 2.4%;

(d) **Removing Anti-exports bias in Imports:** A tariff rationalization program, being announced in the present budget, will gradually remove the anti-export bias in country's tariff policy and make exports more competitive.

(e) **Revitalizing Export Development Fund (EDF):** The EDF was established through the contributions of the exporters for the promotion of exports. However, over the years projects undertaken with Fund's resources were not entirely helpful to exports. The EDF Board has been reconstituted and its organization is overhauled with a view to make it more responsive and effective for the benefit of exporters.

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(f) **Establishment of Pakistan Land Port Authority:**It has also been decided to establish Pakistan Land Port Authority to transform land ports into efficient facilitators of trade while being responsive to risks such as security issues, smuggling and human trafficking. This measure will help Pakistan to increase its exports through the overland route where numerous opportunities are offered by regional countries and connectivity to northern and western corridors;

Textiles Package

37. Textiles sector is the mainstay of country's exports as it accounts for more than half of country's exports. Its performance has been affected due to poor crops, delays in introduction of quality seeds and regulatory approvals for introduction of Bt cotton, widespread energy shortages, numerous local taxes and levies, high cost of finance and restricted trade regimes adopted by importing countries.

38. A meaningful export promotion policy will not be possible unless we provide the much-needed support for the development of this sector. Accordingly, the following package of support and incentives is provided for the textile sector:

(a) Draw-back for local taxes and levies to be given to exporters of textile products on FOB values of their enhanced exports if increased beyond 10% (over last year's exports) at the following rates:

- o Garments 4%
- o Made ups 2%; and
- o Processed fabric 1%

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(b) Mark up rate for Export Refinance Scheme of State Bank of Pakistan is being reduced from 9.4% to 7.5% from 1st of July 2014.

(c) The Expeditious Refund System is being improved and a fast track channel for manufacturers-cum-exporters is being created. I have already directed FBR to dispose of all their pending Sales Tax refund claims before 30th September 2014. In future, all admissible refund claims of exporters shall be disposed off within 3 months, if not earlier.

(d) The textile sector value chain will be given protection as per the study carried out by National Tariff Commission (NTC). This will provide a predictable tariff regime for the foreseeable future.

(e) Textile industry units in the value added sector would be provided Long Term Financing Facility (LTFF) for up gradation of technology from State Bank of Pakistan at the rate of 9% for 3-10 years duration.

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(f) Textile sector enjoyed duty free import of machinery under textile policy 2009-14. This facility will end on 30th June 2014 (SRO-809). It is proposed that in view of the need to take full advantage of GSP plus facility, this concession would be allowed for another two years.

(g) Use of Bt Cotton will be promoted by expediting regulatory approvals. To enable availability of quality seeds requisite amendments in Seed Act 1976 will be made and Plant Breeders' Right Act will be promulgate.

(h) A new vocation training program will be launched to train 120,000 men and women, over the five year period, for skills required in the textile sector, especially in the value added sector such as garments and made ups. The scheme will have following features;

- Total Cost: Rs 4.4 billion
- Monthly stipend of Rs.8,000 per month
- 3 months training program
- To be run through TEVTA institutes and textile industry

Agriculture

39. Agriculture occupies a central position in country's economy as besides contributing more than 21% to GDP it houses more than 65% of population and employs nearly 45% of our labor force. It has also great export potential but little has been done to this end, except a few token efforts to provide some support for transport of agriculture produce. The key to improving agriculture productivity is access to seeds, water, credit, research and extension serves, markets and better pricing. Many of these responsibilities have been devolved to provinces and we are urging provinces to play their role in this regard. However, the federal government remains actively engaged with provinces in developing policies required for maintaining national food security and undertaking research in basic agriculture activities. With a view to develop a national policy for the long-term sustainability of agriculture on profitable basis it has been decided to establish a National Food Security Council. The council will be responsible for ensuring policy coordination across provinces and relating to productivity improvements, market reforms, value addition and prices that ensure stable incomes for farmers.

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40. Within the areas where Federal Government can help the following package of incentives and support are being announced for the agriculture sector:

(a) **Credit Guarantee Scheme for Small and Marginalized Farmers:** The government is introducing Credit Guarantee Scheme in order *to* encourage banks for financing to unbanked small farmers.

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Government, through the State Bank of Pakistan, will provide guarantee to commercial, specialized and micro finance banks for up to 50% loss sharing. The scheme will cover farmers having up to 5 acres irrigated and 10 acres non-irrigated land holdings. It will benefit 300,000 farmer households/families with a loan size up to Rs.100,000. Total disbursement under this scheme will be Rs.30 billion.

(b) **Reimbursement of Crop Loan Insurance Scheme (CLIS) Premium:**Farming is one of the most vulnerable occupations in the face of natural calamities, climatic changes and plant diseases. In order to cover the risk to various crops the Government has introduced the crop loan insurance scheme for farmers with landholdings of 12.5 acers. From this budget, the scope of CLIS premium reimbursement is being enhanced up to 25 acres. All farmers obtaining loans for production of 5 major crops are eligible to benefit from this scheme. 700,000 farmers households/families will benefit from this scheme. Total budget cost of the scheme is Rs.2.5 billion.

(c) **Livestock Insurance Scheme:** Pakistan is a major livestock and milk producer. But the majority livestock ownership is at subsistence level which increases the risk of loss. In order to mitigate the risk of losses of small livestock farmers, the Government is introducing the Livestock Insurance Scheme for all farmers getting financing for up to 10 cattle. The scheme will cover livestock insurance in case of calamity and disease. The scheme will benefit 100,000 Livestock farmer households/families. An allocation of Rs.300 million has been made in the current budget for the scheme.

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(d) **Reduction in Sales Taxes on Tractors:** The previous government levied sales tax on tractors which w.e.f. 1st January 2014 stands enhanced to 16%. This has adversely affected local buying of tractors. To encourage use of tractors by the growers it is proposed that the sales tax will continue to be charged at the reduced rate of 10%.

(e) **Establishment of Commodity Warehouses/Receipt Financing Mechanism**: In order to develop a mechanism for establishment of quality warehouses, silos, cold storages and cold chains, and linking it to finance through warehouse receipt system, the Government, through the State Bank of Pakistan, is helping to develop a regulatory mechanism for establishment of a warehousing clearing system and introducing special incentives for potential investors. This scheme will cover all existing or new warehouses, silos and cold storage for farmers, aggregators, traders and other value chain

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players. Under the scheme, Rs.1 billion will be invested as GOP-equity for establishment of a PPP-company to regulate and monitor this system. Additionally, State Bank has decided to provide LTF facility for establishment of storage and cold-chain facilities.

(f) **Agriculture Credit**:Credit to agriculture is critical for enhancing famers' productivity. We are conscious of the difficulties faced by the farmers in getting credit through the loan sharks. During the year, our Government has increased credit availability to agriculture sector from a targeted Rs.315 billion to Rs.380 billion. The State Bank has now decided to enhance overall credit to Rs.500 billion for the year 2014-15. With increased credit availability, and various insurance schemes, farmers' problems with respect to access to financial sector will be addressed to a large extent.

(g) **Incentives for Processing Industries of Special Areas**: In some parts of the country, such as in Makran Division,Gilgit- Baltistan, Swat District and FATA regions, agriculture produce suffers great losses for lack of processing and transport facilities. To encourage establishment of processing units at such places, Government is introducing a policy to support processing projects in Makran,GilgitBaltistan, Swat Valley and FATA. These units will enjoy duty and tax-free import of machinery not locally manufactured and will also have access to SBP LTF facility and 5 years tax holiday. Additionally, a concessionary long-term financing facility shall be provided to them through State Bank of Pakistan.

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(h) **Airfreight Subsidy:**Governmenthas also decided to provide 50% airfreight subsidy for horticulture produce from Gilgit-Baltistan.

Housing

41. Housing is a basic need of the human beings and the government owes it to its people to facilitate provision of housing in the country. The following initiatives are being planned to promote housing sector in the country:

(a) **Low Cost Housing Guarantee Scheme:** The government has specially designed a program to provide housing credit to low cost housing units to enable the poor to have their own houses. Banks will provide loans of up to Rs.1 million and financial institutions, under this scheme while the government will guarantee 40% of the portfolio amount. The scheme will cover all areas of Pakistan and 25,000 loans worth Rs.20 billion will be provided through this innovative method of supporting low and middle-income families.

(b) **Mortgage Refinance Company:** A Mortgage Refinance Company is being established with a broad shareholding of the Government of Pakistan, Commercial Bank, Development Finance Institutions,

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Multilaterals and others for this purpose, to generate long-term liquidity for housing finance. Total paid up capital of the company would be Rs.6 billion. The company will provide refinance facilities through purchases of loans from the financial institutions engaged in loan origination and packaging them for sale to long-term investors. Government of Pakistan will invest Rs.1.2 billion in the equity of the company.

(c) **Revival and Restructuring of HBFC**:House Building Finance Company Limited has been the premier for providing housing finance to low and middle-income families. There is an urgent need to rehabilitate this institution to enable it to play its important role in the housing sector. The following actions will be taken for this purpose:

- Immediate formation of Board of Directors;
- Improvements in efficiency and capacity;
- Simplification of procedures;
- Major drive to recover non-performingloans.
- Provision of new resources;

(d) **PM Low Cost Housing Scheme:** Inaddition to above, a provision of Rs.6 billion has been kept in the budget for PM's low income housing scheme.

42. **Prime Minister's Health Insurance Scheme:** At present, only a quarter of population in Pakistan is covered for health care costs, whereas 74% of Pakistanis, mostly poor and from rural areas, have to pay for such expenditures out of their own pockets. Urgent corrective measures warranted to rectify this situation. Accordingly, with the involvement of provincial governments an insurance scheme is being designed that will help the poorest segments of population obtain health insurance for tertiary care and special diseases, ifthe provincial governments provide the coverage for the primary and secondary care. A provision of Rs.1 billion is being kept in the budget for launching of this scheme on pilot basis, which will be rapidly replicated in in increasingly larger number of districts.

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Pakistan Development Fund

Mr. Speaker,

43. In the past, an effort was made to establish the forum of Friends of Democratic Pakistan (FODP), which did not produce any tangible results. With the grace of Allah, we have established a company titled Pakistan Development Fund Limited, for which resources of Rs.157 billion have been arranged. The Company will provide financing to key infrastructure projects and promote Public-Private Partnerships (PPPs) for this purpose.

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Islamic Banking

Mr. Speaker

44. We have revived the efforts to promote Islamic banking and financial system in the country. A Committee has been constituted for this purpose comprising prominent *Ulema,*bankers, economists and government officials, which will finalize its recommendations by 31st December, 2014 suggesting measures to enhance the current share of Islamic banks in the overall banking assets, remove difficulties in expanding the outreach of Islamic banking, enlarge the set of Islamic financial products, design instruments for financing government fiscal operations on *Shariah* principles and identify steps required to ensure wider application of Islamic financial system in the country. A Center of Excellence in Islamic Economics is also being established to further the research work in Islamic Banking and Finance.

Budget Estimates

Mr. Speaker,

45. Now I turn towards the estimates of revenues and expenditures for the next fiscal year.

46. Gross revenue receipts of the federal government for 2014-15 are estimated at Rs.3,945billion compared to the revised figures of Rs.3,597 billion for 2013-14, showing an increase of 10%. We have set an ambitious target for tax collections, as without collecting more taxes we cannot hope to increase development spending that is crucial for economic growth. I shall share more details of this in Part-II of my speech.

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47. The share of provincial governments out of these taxes will be Rs.1,720 billion as compared to Rs.1,413 billion revised estimates for 2013-14, showing an increase of about 22%. Net resources left with the federal government will be Rs.2,225billion compared to the revised estimates of Rs.2184 billion for last year. Federal Government recognizes that the provincial governments have increased responsibilities of social sector service delivery under the new arrangements. Therefore, we have raised the level of provincial transfers over the last year from Rs.1,215 billion to Rs.1,720 billion, which is an increase of 42%, in orderto enable them to improve the social services and law and order for the people of Pakistan.

48. Total expenditure for 2014-15, is budgeted at Rs.3,937 billion compared to the revised estimates of Rs.3,844 billion for 2013-14, showing meager increase of 2% which is much lower than the inflation rate. The budgetary needs of our Armed Forces as per their needs have been duly provided in the budget. Viewed within the overall increase, the government expenditure in real terms is actually contracting instead of expanding. This approach of gradually increasing the revenues and reducing the expenditure will make us self-reliant and sustainable. The current budget is estimated at

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Rs.3,130billion for 2014-15 against a revised estimate of Rs.2,935billion for 2013-14, showing an increase of 6.6%. However, the development budget has been adequately funded in order to meet the investment requirements of a growing economy. Against a revised estimate of Rs.425 billion for PSDP, we have budgeted it at Rs.525 billion showing an increase of nearly 24%. Budget deficit is considered as the main culprit behind economic instability as it leads to both inflation and exposes the country to external vulnerabilities. As I noted earlier, we are making significant progress in reducing deficit, as it was brought down to 5.8% from 8.2% last year. This year we are reducing it to 4.9%. The federal deficit is projected at Rs.1,711 billion for 2014-15 compared to the revised estimate of Rs.1,660 billion for last year. By requiring surplus of Rs.289 billion from the provinces, compared to a revised deficit of Rs.183 billion last year, we have projected an overall fiscal deficit of Rs.1422 billion for 2014-15.

49. Mr. Speaker

50. This shows a gradual trend of reducing fiscal deficit marking responsible behavior of the government towards fiscal and economic stability. We will continue this practice and further reduce the deficit to just 4% in the coming years. This will further stabilize the economy.

PART-II

Mr. Speaker,

51 Allow me to begin Part II of my speech, which relates to taxation proposals.

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52 Our government had inherited perhaps the worst possible tax collection performance during the fiscal year 2013-14. Against a budget target of Rs.2381, we were given the revised collection figure of Rs.2050 billion, which meant a massive reduction of Rs.331 billion from the budget estimate. However, what was most shocking is the final collection of only Rs.1946 billion, another shortfall of Rs.104 billion from the revised target. This amounted to a meager growth of 3% over tax collections during 2011-12, the lowest ever nominal growth.

53 We have started picking pieces from such dismal performance and, as I noted earlier, our tax collections are up by 16.4%. While this is quite respectable under the circumstances of an economy going through a stabilization phase, we need to exert a great deal more efforts in pushing the tax revenues of the country which are commensurate with both our development ambitions and needs of fiscal sustainability.

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Principles of Taxation Proposals

54 At the outset, I would like to lay before the House the basic principles and objectives guiding the taxation proposals included in the Budget 2014-15. These are as follows:

a. The share of direct taxes in overall taxes shall be increased;

b. The incidence of tax measures will be on those outside the tax net and those already in the net will be protected;

c. The non-compliant taxpayers will have to bear a cost of noncompliance, which will raise their cost of doing business;

d. The tax regime will be simplified and inequities created by SRO based concessions and distortionary provisions will be removed through a phased plan.

e. The tax revenues will be increased so as to improve the Tax to GDP ratio.

f. Without compromising the basic character of simplified and distortion-free tax regime, appropriate incentives will be provided for facilitating foreign investment in the country, development of less developed areas, agriculture sector etc.

55 These are very sound principles of taxation that have guided our proposals. Let me turn to specific proposals.

Phased Elimination of SROs

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56 Because of a large and complex regime of concessionary SROs, developed gradually over many years, a convoluted and multi-layered structure of duties and taxes has emerged that continues to bedevil the taxpayers and creates inequities in the system. These SROs not only cause huge loss to national revenue but also, more crucially, distort the level playing field and breed corruption.

57 Over the last many years, a number of SROs were issued at the behest of interest groups having the power and influence to manage changes in the tax structure for their benefits. These exemptions serve as entry barrier for SMEs, give preferential treatment to big stakeholders, and have created factually a licensing regime that grants approvals and sanction quotas.

Mr. Speaker,

58 A high-powered committee approved by the Prime Minister Muhammad Nawaz Sharif diligently reviewed and extensively deliberated on the entire concessionary regime on the basis of principles developed after broad-based consultations. The committee, which included representatives of trade and industry recommended phasing out of the concessions over a period of three years, which the Honorable Prime Minister has approved.

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Mr. Speaker,

59 This is a momentous occasion in the history of the tax reforms in this country because privileges granted to influential classes over the years are being abolished. We are taking a giant step towards evolving a simple, transparent and an equitable tax structure. Now those small and medium entrepreneurs, who do not have the financial resources and capacity to go through the complex and cumbersome procedures for obtaining concessions, shall have access to level playing field. A major source of discretion and malpractices is being done away with.

Mr. Speaker,

60 The thrust of our government is to promote growth and equity in the economy. Our proposed tax measures are another step in this direction. We believe that the engine of growth has to be the private entrepreneurship and all measures are being taken to promote it across the board i.e. from SMEs to the large industrial undertakings. The tax regime would help promote the growth paradigm. We do not want to stymie growth. Accordingly our proposals will not put any additional burden on economic activity. We shall only tax the income and expenditure of the affluent class. Our vision is to make Pakistan self reliant by generating our own resources. Our aim is to increase the tax-to-GDP ratio, reduce budget deficit gradually and thereby divert more resources for development, which would engender growth and bring its benefits to the public.

Mr. Speaker

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61 Our government does not believe in arbitrary and one-sided decisionmaking. In conformity with our philosophy we undertook an extensive and intensive consultative process before formulating our tax proposals. Economic Advisory Council, FPCCI, Chambers of Commerce & Industry, representatives of all major trade bodies, Anjuman-e-Tajiran, chambers of commerce and industry, professional organizations and economists were invited to give their proposals and suggestions for the current budget and their recommendation were duly considered and incorporated so far as possible in the proposed measures.

Relief Measures

Mr. Speaker

62 I will now highlight some of the relief measures to be introduced through Budget 2014-15:

a. **Relief for Capital Market:** A star performer of Pakistani economy during the FY 2013-14 has been the stock market. The rate of capital gains tax was to increase from 10% to 17.5% with effect from 1st July 2014. However, to ensure continued stability in the stock market, it

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is proposed that with effect from 1st July 2014 CGT rates shall be 12.5% for securities held up to 12 months and 10% for securities held for a period which is between 12 to 24 months, whereas the securities held for more than 24 months shall be exempt from CGT.

b. **Investment Incentives for Foreign Direct Investment:** To achieve the vision of an industrialized Pakistan in the foreseeable future we want to attract both domestic and foreign investment into the manufacturing sector. This august House would recall that the Prime Minister had earlier announced a special package for promoting investment in the manufacturing, construction, housing and mining sectors for the domestic investors. In order to attract Foreign Direct Investment in manufacturing, construction and housing sectors, it is proposed that corporate tax rate be reduced to 20% if the investment is in a new industrial undertaking or a construction or housing project to be set up by 30th June 2017 and at least 50% of the total project cost in the form of equity through FDI. This will also generate employment, which is one of our major challenges.

c. **Incentive for Joint Ventures between Companies and AOPs:** The non-resident companies investing in Pakistan had to create a joint venture with a local company and the contract receipts of such joint ventures were taxed as final tax in the hands of the joint venture/AOP and thus the non-resident companies could not enjoy their status of being a nonresident. To facilitate such arrangements for the nonresidents, it is proposed that if one member of the joint venture is a company, it should be taxed separately at the applicable rate while the individuals should be taxed as an AOP separately.

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d. **Incentives for Agriculture:** To promote agricultural sector we are proposing concessions for encouraging tunnel farming by removing customs duty on import of plastic coverings and mulch film, anti-insect net and shade net. Sales tax on high irrigation equipment and equipment for green house farming is also proposed to be exempted.

e. **Reduction in the Corporate Tax Rate:** Business community has been agitating that corporate tax rates are quite high and act as deterrent to the promotion of corporatization. In accordance with the already announced policy it is being proposed to reduce the corporate tax rate by one percent. Therefore, for tax year 2015, the corporate tax rate shall be 33%.

f. **Reduction in the Withholding Tax on Marriages and Functions:** Last year the adjustable advance withholding tax @ 10% was introduced on persons arranging marriage and other functions for the purpose of documenting expenses made by persons out of the

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tax net. At present, the rate of advance income tax on functions and gatherings is 10%. Marriage functions at shadi halls are becoming the norm. Therefore the 10% rate is creating hardship even for the middle class. It is proposed to reduce the rate from 10% to 5%.

g. **Relief for the Disabled Persons:** The Government feels that the disabled persons need empathy and special consideration. It is being proposed to reduce tax liability of such persons having income up to Rs.1 million by 50%.

h. **Reduction of Taxes on Telecommunication Sector:** Telecommunication has become a necessity for all segments of society. Telecom Services are highly taxed as both FED and GST on Services continue to be imposed on them. In order to simplify the tax regime, it has been decided to withdraw FED from those provinces which have imposed GST on Telecom Services. In areas where FED shall continue to be collected, the rate is proposed to be reduced from 19.5% to 18.5%. Furthermore, it has been decided to reduce the rate of Withholding Income Tax on telephone services from 15% to 14%.

i. **Removal of Income Support Levy:** Income Support Levy Act was promulgated through the Finance Act, 2013. The aim was to mobilize additional resources for the economically distressed persons. However, the public at large did not accept this measure as it was considered harsh and was perceived as double taxation. The Government has decided to accept the demand and it is proposed to repeal the Income Support Levy Act, 2013.

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Income Tax

Mr. Speaker,

63 Now I come to our Income tax proposals to enhance revenue and resultantly increase tax-to-GDP ratio.

64 As I said earlier, our thrust is to focus on making the affluent classes contribute proportionately more to the exchequer and at the same time to make the non-compliant citizens to pay more tax than the compliant taxpayers. In the case of income tax the following proposals are presented:

a. **Advance Tax on First and Business Class Airline Tickets:** It is proposed that Airlines may collect advance tax @ 3% on the sale of first class and club/executive class air tickets if the passenger is a compliant taxpayer (i.e. those who filed their Income Tax returns for the preceding tax year), and 6% tax if the passenger is a non-compliant person. The passengers travelling through the economy class shall be exempt from this tax to ensure that working classes and students traveling to foreign destinations are not burdened by this measure.

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b. **Advance Tax on Purchase of Immovable Property:** Real Estate sector is attracting a major chunk of investment in an attempt to make quick profits largely through speculative buying and selling. The investment in this sector, unless it leads to construction, is unproductive and needs to be channelized to more productive sectors. To document and bring into tax net the real estate transactions it is proposed that an adjustable advance tax be collected on purchase of immovable property. The proposed rate of tax is 1% for complaint taxpayers and 2% for non-compliant persons. However, properties with value less than Rs.2 million and schemes introduced by the government for expatriate Pakistanis will be excluded from this provision. Similarly, the rate of adjustable capital gains tax on sale of immovable property is proposed to be enhanced from 0.5% to 1% for the non-compliant persons.

c. **Advance Tax on Electricity Bills over Rs.100,000 per month:** To ensure due contribution from the rich and to discourage consumption, it is proposed to collect adjustable advance tax @ 7.5% on the monthly bill of Rs.100, 000 and above from the domestic electricity consumers.

d. **Higher Advance Tax on Interest Income and Dividends:** For the persons who are non-compliant, it is proposed that 5% additional adjustable advance tax be deducted from them on payment of dividend and interest. However, they can claim adjustment of the additional tax paid if they file return. The additional tax on interest shall not be deducted in case of people earning income on interest up to Rs.500,000 in order to avoid hardship to low and middle-income earners.

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e. **Higher Advance Tax on Cash Withdrawal by Non-filers:** Similarly, the non-compliant shall have to pay additional tax on cash withdrawals at 0.2%, additional tax on booking with manufacturers or registration of vehicles.

f. **Higher Advance Tax on Car Registration by Non-filers:** The non-compliant shall have to pay a higher rate of tax at the time of registration and payment of token tax on motorcars and SUVs.

g. **Removal of Inequities:** There are certain distortions and inequities in the tax system. The tax structure favors choice of one entity over another. In this regard, distortions and inequities in the mutual fund industry and other corporate entities are proposed to be removed.

h. **Taxation of Accounting Income:** In corporate cases, taxable income is usually far less than accounting income. The difference is

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the result of careful tax planning to avail all possible avenues of tax avoidance allowable technically. An alternate corporate tax @ 17% is proposed to be imposed on accounting income. The companies shall be taxed at ACT or corporate tax whichever is higher. Facility of carrying forward ACT up to 10 years and exclusion of exempt income is also proposed.

i. **Removal of Tax Loopholes:** Tax on certain classes of income was being avoided because of loopholes. Taxation of bonus shares by companies and bonus units of mutual funds and modarbas was different than that of dividend. This anomaly is now being corrected.

j. **Tax Rates for Services:** At present rate for deduction of tax on services are 6% and 7% for corporate and non-corporate taxpayers respectively. Considering that persons providing or rendering services usually enjoy high profit margins due to low costs, the existing rates are considered lower. Hence, to rationalize, it is proposed to enhance tax rate on services to 8% in corporate cases and 10% in other cases.

k. **Changes in Final Tax Regime:** Persons under final tax regime (FTR) file only statements without accounts. Actual income earned in such cases is not ascertainable. Moreover, FTR is liable to misuse as persons having other sources of income also file statements only. To enforce returns and accounts, it is proposed that existing rates of tax deduction or collection in certain cases such as commercial importers, resident and non-resident contractors, service providers, exporters, petrol pump operators and commission agents shall be applicable only in case returns are filed by them otherwise they shall be charged higher rate of tax.

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l. **Application of Tax on Foreign Institutional Investors:** Currently, the foreign institutional investors neither file returns nor their tax is collected on capital gains. It is therefore proposed to bring FIIs under the withholding tax regime. This measure will broaden the tax net.

m. **Mandatory Requirement of NTN:** Further measure to broaden the tax net is a proposal to make obtaining of NTN a compulsory condition for seeking commercial/industrial electricity and gas connections.

Sales Tax and Federal Excise

Mr. Speaker,

65 The government has made a conscious policy decision to enhance the contribution of direct taxes, which are progressive taxes, and gradually reducethe burden of indirect taxes, which affect the common man. Therefore,

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you will be pleased to know that no new tax has been imposed in case of sales tax and federal excise duty.

66 In case of sales tax and federal excise duty, since last budget for 2013-14, the government's main objectives are to broaden the tax base and increase the cost of non-compliance for those who remain outside the tax net, to remove distortions and anomalies and to promote automation in order to reduce interaction between tax payer and tax collector. Some of the steps being taken in this regard through this budget are:

a. **Simplified Sales Tax Regime for Retailers Tier-I:** Because of a variety of reasons, most of the retailers are still not in the tax net. Previous governments made many attempts to register the retailers, but did not succeed. After carefully studying the issue, carrying out in-depth analysis and holding consultations with representatives of retailers, we have concluded that most of the retailers are willing to pay their due share of taxes, but only want a simple and easy method of doing so. Consequently, the retailers have been divided into two tiers or categories. The first tier comprises the following:

    1. Those retailers who operate as part of national and international chain stores; or
    2. Operate in air-conditioned shopping plazas; or
    3. Have machines for credit or debit cards; or
    4. Have monthly electricity bills in excess of Rs 50,000.

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    These retailers will be required to pay sales tax in the normal regime and to keep electronic cash register of approvedspecifications in order to record their transactions. Another important challenge of bringing the high-end retail trade is how to incentivize the consumers to demand a GST paid receipt from the retailer. In order to do so we shall not only launch an aggressive outreach program to educate the taxpayers but shall also launch a periodic prize scheme based on the GST paid receipt.

b. **Simplified Sales Tax Regime for Retailers Tier-II:** All remaining retailers will fall in the second tier. For these, we are introducing the simple mechanism of payment of sales tax due through their electricity bills. Thus, retailers having electricity bills of less than Rs.20,000 in a month shall be charged only 5% of the bill as sales tax on retail sales, while those with higher bills shall be charged 7.5% as sales tax on retail sales.

c. **Sales Tax on Domestic Sales of Export Industries:** The government desires to encourage exports. But at the same time, the facility meant for exporters should not extend to domestic sales,

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otherwise it will create distortions in the market. SRO 1125(I)/2011 was issued in order to encourage the five major export-oriented sectors – textiles, leather, carpets, surgical and sports goods. However, under this SRO, even imported finished goods were enjoying concessionary rates of sales tax. Because of this notification, there was a great disparity between the concessionary rates of sales tax on imported finished goods of these five sectors sold in the local market against the standard rate. This was leading to distortion, evasion and malpractices. Accordingly, import of finished goods of these sectors are proposed to be charged to sales tax at standard rate, because they are meant for local consumption by affluent classes and do not contribute to exports.

d. **Rationalization of Sales Tax on Steel Sector:** The steel sector had been paying fixed sales tax at the rate of Rs.7/unit of electricity up to February 2013. But this rate was reduced to Rs.4 per unit of electricity without any rationale, which is much below the normal rates. I am pleased to announce that the steel sector has expressed its resolve to come forward and contribute to the national cause, and all stakeholders have agreed to revive the rate from Rs.4 to Rs.7 per unit of electricity. The Government has also accepted their demand to collect withholding tax of their purchases through their electricity bills @ Rs.1 per unit of electricity.

e. **Increase in Taxes on Tobacco:** Pakistan is a signatory to WHO's Framework Convention on Tobacco Control (FCTC), which demands increase in prices and taxes of tobacco to discourage consumption. In this regard taxes on tobacco are being increased as specified in the Finance Bill.

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Customs

Mr. Speaker Sir

67 I will now present the proposals relating to Customs, which are as follows:

a. **Exporters Facilitation:** At present, six different facilitation schemes are available for export sector. It has been felt that complexity and multiplicity of these schemes creates problems for exporters. Therefore, we have decided to introduce a consolidated Export Facilitation Scheme. The scheme will be implemented after broad-based consultation with exporters.

b. **Reduction in Maximum Rate of Tariff and Tariff Slabs:** High customs tariff rates not only create barriers for trade liberalization, but lead to malpractices at operational level. Our Government has decided to reduce the maximum tariff and number of total slabs. As a first step towards tariff reforms, maximum rate of 30% is being

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abolished, bringing down the number of slabs to 6 and the highest tariff to 25%. However, luxury items consumed by wealthy segment of society are being subjected to regulatory duty equivalent to the above facility.

c. **Minimum Import Duty:** At present, 40% of imports are totally exempt for customs duty. For addressing the structural flaw in tariff and improving assessment and documentation, 0% slab in tariff is being substituted by 1%. However, socially sensitive items like petroleum products, fertilizers, and all food items etc. are being kept at 0% rate, through inclusion thereof in a new schedule to the Customs Act.

Tax Reforms Commission

Mr. Speaker,

68 During our deliberations and consultations in the budget making exercise we have received couple of detailed proposals on reform and rationalization of General Sales Tax and other taxes. I am grateful to FPCCI and other representative bodies of business for their detailed suggestions in this regard. In fact there is a need to carry out an in-depth analysis and review of the entire tax policy and tax administration in the country so that we may organize them along the contemporary needs. Accordingly we have decided to establish a Tax Reforms Commission in the country with the objective of undertaking such an exercise. The Commission would comprise public finance experts, practitioners, businessmen, tax lawyers and retired civil servants. The composition and terms of reference of the commission will be announced shortly.

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PART-III

Relief measures for government employees, pensioners and labor

Mr. Speaker

69. As you know, we are still in the stabilization mode as we are focusing on reducing public expenditures. However, it is imperative that we do the bare minimum that is possible within the limited resources available especially for lower grade employees. Accordingly, the following measures are announced:

(a) A 10% ad-hoc relief will be allowed to all federal government employees with effect from 1st July 2014;

(b) A 10% increase will be allowed to those employees in Grade-1 to 15 drawing fixed medical allowance of Rs.1000 per month;

(c) A 5% increase will be allowed in conveyance allowance to those employees working in Grade-1 to 15;

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(d) The post of superintendent is being upgraded from Grade-16 to Grade-17;

(e) One pre-mature increment will be allowed to employees of Grade-1 to 4.

(f) For welfare of the labor class, and in line with the increase in pay of government employees, the minimum wage rate is also being increased from Rs.10,000 to Rs.11,000.

70. Last year I had raised the minimum pension for government employees from Rs.3000 per month to Rs.5000, representing an increase of 67%. Considering the difficulties faced by low pension employees, I am announcing a further increase of Rs.1000 in minimum pension to make it Rs.6000. This means that the minimum pension has been doubled since 1st July, 2013. A 10% increase in pension will also be allowed to all retired federal government employees.

Concluding Remarks

Mr. Speaker,

71. I have announced a budget of hope and aspirations. We had started this journey under the most challenging circumstances. The achievements we have made within a period of less than one year are remarkable. The economy has been set in a stable direction. It was not too long ago that some false prophets of doom, both international and local, had predicted that Pakistan's economy will default and collapse in the month of June 2014. Allah has enabled us to prove them patently wrong.

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72. All honest and impartial stakeholders are convinced that a serious, clean and purposeful economic environment is finally in place in Pakistan. This is the most fundamental requirement of a growing and prospering economy. Policy-making is nothing more than signaling, since it is the people who do the real hard work. Unambiguous and credible signals have gone all across that Pakistan is fully fit for doing business.

Mr. Speaker,

73. I have laid the budgetary proposals before this august House. In the end, I have only one request to make through your good self to the honorable members of the House that they should rest assured of our determination, honest intentions and our ever-lasting commitment to the national goals & targets. They are well aware that the prosperity of a country can be assured only through the peace and stability. The country which is in the grip of terrorism for the last one decade, now craves for peace and political stability. Civilized nations address their issues through constitutional means. We will open-heartedly welcome any positive remarks, criticism and suggestion aimed at bringing about rectifications & improvements. I say this full

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conviction that instead of gathering in squares, intersections and street, let's sit in this House and solve our problems. This nation has paid a heavy price for long dictatorships. Nothing positive can ever chaos and lack of peace. Now this nation deserves reprieve. Our youth need appropriate education, the educated need employment, laborers need job and ample wages, the farmers need due compensation for their toil, our women have to play their role in the nation-building, our industries and factories demand energy, the dark villages are expecting electrification, and rural areas are to be equipped with the basic facilities, the poor need bread and butter, and above all Pakistan has to regain its lost glory among the community of nations. All this is possible only if democracy and development are allowed to perpetuate, and we continue to march towards our goal hand-in-hand, for the pride of Pakistan and the betterment of its people.

74. Prime Minister Nawaz Sharif, who believes in this destiny of the nation, is expending his energies in transforming Pakistan to its true worth. The worth of our country is stated most succinctly by none other than the founder of the nation, who while addressing a mammoth rally at Lahore on 30th October 1947, had following to say:

> Do not be overwhelmed by the enormity of the task. There is many an example in history of young nations building themselves up by sheer determination and force of character. You are made of sterling material and are second to none. Why should you also not succeed like many other, like your own forefathers. You have only to develop the spirit of a *Mujahid*, You are a nation whose history is replete with people of wonderful grit, character, and heroism. Live up to your traditions and add to it another chapter of glory.

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75. Perhaps, AllamaIqbal had a similar determination of our destiny when he said:

افراد کے ہاتھوں میں ہے اقوام کی تقدیر
ہر فرد ہے ملت کے مقدر کا ستارہ

Mr. Speaker,

76. Let me end my speech by a prayer that may Allah continue to bestow His mercies on Pakistan, protect its economic sovereignty and make it prosperous, powerful and a stable democracy. Ameen.

Pakistan Paindabad.

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FINANCE BILL 2014

A
BILL

to give effect to the financial proposals of the Federal Government for the year beginning on the first day of July, 2014, and to amend and enact certain laws

WHEREAS it is expedient to make provisions to give effect to the financial proposals of the Federal Government for the year beginning on the first day of July, 2014, and to amend certain laws for the purposes hereinafter appearing;

It is hereby enacted as follows:–

1. Short title, extent and commencement.– (1) This Act may be called the Finance Act, 2014.

(2) It extends to the whole of Pakistan.

(3) It shall, unless otherwise provided, come into force on the first day of July, 2014.

2. Amendments of Act IV of 1969.– In the Customs Act, 1969 (IV of 1969), the following further amendments shall be made, namely:-

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(1) in section 2,–

(a) for clause (k), the following shall be substituted, namely:–

"(k) **"customs-station"** means any customs-station, customs-airport, an inland river port, land customs-station or any place declared as such under section 9;"; and

(b) clause (m) shall be omitted;

(2) in section 7, for the word "Central", the word "Federal" shall be substituted;

(3) in section 18, after sub-section (1), the following new sub-section shall be inserted, namely:–

"(1A) Notwithstanding anything contained in sub-section (1), customs duties shall be levied at such rates on import of goods or class of goods as are prescribed in the Fifth Schedule, subject to such conditions, limitations and restrictions as prescribed therein.";

(4) in section 18A, for the words, figures and brackets "Central Excises and Salt Act, 1944 (I of 1944)", the words and figures "the Federal Excise Act, 2005" shall be substituted;

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(5) in section 25,–

(a) in sub-section (5), clause (d) shall be omitted; and

(b) in sub-section (6),–

(i) for the comma, occurring for eighth time, the word "and" shall be substituted; and

(ii) the word, letter and brackets "and (d)" shall be omitted;

(6) in section 32, in sub-sections (2), (3) and (3A), after the word "duty", the comma and word ", taxes" shall be inserted;

(7) in section 80, in sub-section (3), after the word "duty", the comma and the words ", taxes and other charges levied thereon" shall be added;

(8) in section 81, in sub-section (1),–

(a) in the first proviso, after the word "duty", the comma and words ", taxes and other charges" shall be inserted; and

(b) in the second proviso, for the word "tax", the words "taxes and other charges" shall be substituted;

(9) in section 185B, for clause (a), the following shall be substituted, namely:–

"(a) no court other than the Special Judge having jurisdiction shall try an offence punishable under this Act, except the offences relating to narcotics and narcotic substances which shall be tried by the Special Courts established under the Control of Narcotics Substances Act, 1997 (XXV of 1997);";

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(10) in section 194, in sub-section (3),–

(a) for the words "Customs and Excise Group", the words "Pakistan Customs Service" shall be substituted; and

(b) for the word "five", the word "three" shall be substituted;

(11) the amendments set out in the First Schedule to this Act shall be made in the First Schedule to the Customs Act, 1969 (IV of 1969); and

(12) the provisions in the Second Schedule to this Act shall be added as the Fifth Schedule to the Customs Act, 1969 (IV of 1969).

3. Amendments of the Sales Tax Act, 1990.– In the Sales Tax Act, 1990 the following further amendments shall be made, namely:–

(1) in section 2, in clause (27), for the semicolon at the end a colon shall be substituted, and thereafter the following proviso shall be added, namely:–

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"Provided that the Board may through a general order specify zones or areas for the purpose of determination of highest retail price for any brand or variety of goods;";

(2) in section 3,–

(i) in sub-section (2),–

(a) in clause (a), in the proviso, the word "and", at the end, shall be omitted; and

(b) after clause (a), amended as aforesaid, the following new clause (aa) shall be inserted, namely:–

"(aa) goods specified in the Eighth Schedule shall be charged to tax at such rates and subject to such conditions and limitations as specified therein; and";

(ii) after sub-section (3A), the following new sub-section shall be inserted, namely:–

"(3B) Notwithstanding anything contained in sub-sections (1) and (3), sales tax on the import and supply of the goods specified in the Ninth Schedule to this Act shall be charged, collected and paid at the rates, in the manner, at the time, and subject to the procedure and conditions as specified therein or as may be prescribed, and the liability to charge, collect and pay the tax shall be on the persons specified therein.";

(iii) for sub-section (8), the following shall be substituted, namely:–

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"(8) Notwithstanding anything contained in any law or notification made thereunder, in case of supply of natural gas to CNG stations, the Gas Transmission and Distribution Company shall charge sales tax from the CNG stations at the rate of seventeen per cent of the value of supply to the CNG consumers, as notified by the Board from time to time, but excluding the amount of tax, as provided in clause (46) of section 2.";

(iv) after sub-section (8), substituted as aforesaid, the following new sub-section shall be added, namely:–

"(9) Notwithstanding anything contained in sub-section (1), tax shall be charged from retailers through their monthly electricity bills, at the rate of five per cent where the monthly bill amount does not exceed rupees twenty thousand and at the rate of seven and half per cent where the monthly bill amount exceeds the aforesaid amount, subject to the exclusions, procedure, restrictions and limitations as prescribed in Chapter II of the Sales Tax Special Procedure Rules, 2007:

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Provided that the tax under this sub-section shall be in addition to the tax payable on supply of electricity under sub-sections (1), (1A) and (5).";

(3) in section 3B, for sub-section (2), the following shall be substituted and shall be deemed to have been always so substituted, namely:–

"(2) Notwithstanding anything contained in any law or judgment of a court, including the Supreme Court and a High Court, any amount payable to the Federal Government under sub-section (1) shall be deemed to be an arrear of tax or charge payable under this Act and shall be recoverable accordingly and any claim for refund in respect of such amount shall neither be admissible to the registered person nor payable to any court of law or to any person under direction of the court.";

(4) in section 4, in clause (d), for the words "zero-rated goods", the words "goods supplied at reduced rate of sales tax" shall be substituted;

(5) in section 7,–

(i) in sub-section (1),–

(a) for the word "section", occurring for the first time, the words and figure "sections 8 and" shall be substituted;

(b) the words "output tax", occurring for the first time, the commas, words, brackets and figures ", excluding the amount of further tax under sub-section (1A) of section 3," shall be inserted;

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(ii) in sub-section (2), after clause (iii), the following new clause shall be inserted, namely:–

"(iiia) the goods and services against which input tax is claimed are,–

(a) imported or purchased for the purpose of sale or re-sale by the registered person on payment of tax;

(b) used directly as raw material, ingredient, part, component or packing material by the registered person in the manufacture or production of taxable goods;

(c) electricity, natural gas and other fuel consumed directly by the registered person in his declared business premises for the manufacture, production or supply of taxable goods; or

(d) plant, machinery and equipment used by the registered person in his declared business premises for the manufacture, production or supply of taxable goods.";

(6) in section 8, in sub-section (1),–

(i) in clause (d), the word "and", at the end, shall be omitted;

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(ii) after clause (e), for full stop at the end a semicolon shall be substituted and thereafter the following new clauses shall be added, namely:-

“(f) goods and services not related to the taxable supplies made by the registered person;

(g) goods and services acquired for personal or non-business consumption;

(h) goods used in, or permanently attached to, immoveable property, such as building and construction materials, paints, electrical and sanitary fittings, pipes, wires and cables, but excluding such goods acquired for sale or re-sale or for direct use in the production or manufacture of taxable goods; and

(i) vehicles falling in Chapter 87 of the First Schedule to the Customs Act, 1969 (IV of 1969), parts of such vehicles, electrical and gas appliances, furniture, furnishings, office equipment (excluding electronic cash registers), but excluding such goods acquired for sale or re-sale.”;

(7) in section 40B, after the proviso, the following explanation shall be added, namely:–

“Explanation.– For the removal of doubt, it is declared that the powers of the Board, Chief Commissioner and Commissioner under this section are independent of the provisions of section 40.”;

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(8) after section 50A, the following new section shall be inserted, namely:–

“**50B. Electronic scrutiny and intimation.–** (1) The Board may implement a computerized system for the purpose of automated scrutiny, analysis and cross-matching of returns and other available data relating to registered persons and to electronically send intimations to such registered persons about any issue detected by the system.

(2) The intimation sent by the computerized system under sub-section (1) shall be in the nature of an advice or advance notice, aimed at allowing the registered person to clarify the issue, rectify any mistake or take other corrective action before any legal or penal action is initiated.

(3) The computerized system shall keep record of the issues detected, intimations sent, responses received and actions taken, and shall present such information to the officer of Inland Revenue and to the Board in the prescribed manner.

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(4) The Board may prescribe procedures and specifications for the smooth and efficient operation of the computerized system.";

(9) in the Fifth Schedule, in column (1), after Serial No. 8 and entries relating thereto in column (2), the following new serial numbers and entries relating thereto shall be added, namely:–

"9. Goods exempted under section 13, if exported by a manufacturer who makes local supplies of both taxable and exempt goods.

10. Petroleum Crude Oil (PCT heading 2709.0000).

11. Raw materials, components, sub-components and parts, if imported or purchased locally for use in the manufacturing of such plant and machinery as is chargeable to sales tax at the rate of zero percent, subject to the condition that the importer or purchaser of such goods holds a valid sales tax registration showing his registration category as "manufacturer"; and in case of import, all the conditions, restrictions, limitations and procedures as are imposed by Notification under section 19 of the Customs Act, 1969 (IV of 1969), shall apply.

12. The following goods and the raw materials, packing materials, sub-components, components, sub-assemblies and assemblies imported or purchased locally for the manufacture of the said goods, subject to the conditions, limitations and restrictions as specified in Chapter XIV of the Sales Tax Special Procedure Rules, 2007:–

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(i) Colors in sets (PCT heading 3213.1000)

(ii) Writing, drawing and marking inks (PCT heading3215.9010 and 3215.9090)

(iii) Erasers (PCT heading 4016.9210 and 4016.9290)

(iv) Exercise books (PCT heading 4820.2000)

(v) Pencil sharpeners (PCT heading 8214.1000)

(vi) Geometry boxes (PCT heading 9017.2000)

(vii) Pens, ball pens, markers and porous tipped pens (PCT heading 96.08)

(viii) Pencils including color pencils (PCT heading 96.09)

(ix) Milk including flavored milk (PCT heading 04.01 and 0402.9900)

(x) Yogurt (PCT heading 0403.1000)

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(xi)	Cheese (PCT heading 0406.1010)
(xii)	Butter (PCT heading 0405.1000)
(xiii)	Cream (PCT heading 04.01 and 04.02)
(xiv)	Desi ghee (PCT heading 0405.9000)
(xv)	Whey (PCT heading 04.04)
(xvi)	Milk and cream, concentrated and added sugar or other sweetening matter (PCT heading 0402.1000)
(xvii)	Preparations for infant use put up for retail sale (PCT heading 1901.1000)
(xviii)	Fat filled milk (PCT heading 1901.9090)
(xix)	Bicycles (PCT heading 87.12).”;

(10) in the Sixth Schedule,–

(i) in Table-1, in column (1),–

(a) against serial number 24, in column (3), after the figure and comma, “1510.0000,” the figure and comma “1511.1000,” shall be inserted; and

(b) against S. No. 59, in column (2) after the word, “solution” , the comma and words “, cochlear implants system”, and in column (3), after the figure “99.25”, the comma and figure “, 99.37” shall respectively be inserted; and

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(c) after serial number 71 and the entries relating thereto in columns (2) and (3), the following new serial numbers and entries relating thereto shall be added, namely:–

“72	Uncooked poultry meat	02.07
73	Milk and cream	04.01 and 04.02
74	Flavored milk	0402.9900 and 22.02
75	Yogurt	0403.1000
76	Whey	04.04
77	Butter	0405.1000
78	Desi ghee	0405.9000
79	Cheese	0406.1010
80	Processed cheese not grated or powdered	0406.3000
81	Cotton seed	1207.2000
82	Frozen, prepared or preserved sausages and similar products of poultry meat or meat offal	1601.0000
83	Meat and similar products of prepared frozen or	1602.3200,

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	preserved meat or meat offal of all types including poultry meat and fish	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
84	Preparations for infant use, put up for retail sale	1901.1000
85	Fat filled milk	1901.9090
86	Colours in sets (Poster colours)	3213.1000
87	Writing, drawing and marking inks	3215.9010 and 3215.9090
88	Erasers	4016.9210 and 4016.9290
89	Exercise books	4820.2000
90	Pencil sharpeners	8214.1000
91	Energy saver lamps	8539.3910
92	Sewing machines of the household type	8452.1010 and 8452.1090
93	Bicycles	87.12
94	Wheelchairs	8713.1000 and 8713.9000
95	Vessels for breaking up	89.08
96	Other drawing, marking out or mathematical calculating instruments (geometry box)	9017.2000
97	Pens and ball pens	96.08
98	Pencils including colour pencils	96.09
99	Compost (non-chemical fertilizer) produced and supplied locally	Respective headings
100	Construction materials to Gawadar Export Processing Zone's investors and to Export Processing Zone Gawadar for development of Zone's infrastructure.	Respective headings

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101	Raw and pickled hides and skins, wet blue hides and skins, finished leather, and accessories, components and trimmings, if imported by a registered leather goods manufacturer, for the manufacture of goods wholly for export, provided that conditions, procedures and restrictions laid down in rules 264 to 278 of the Customs Rules, 2001 are duly fulfilled and complied with.	Respective headings
102	Machinery, equipment and materials imported either for exclusive use within the limits of Export Processing Zone or for making exports therefrom, and goods imported for warehousing purpose in Export Processing Zone, subject to the conditions that such machinery, equipment, materials and goods are imported by investors of Export Processing Zones, and all the procedures, limitations and restrictions as are applicable on such goods under the Customs Act, 1969 (IV of 1969) and rules made thereunder shall mutatis mutandis, apply.	Respective headings
103	Import and supply thereof, up to the year 2020, of ships of gross tonnage of less than 15 LDT and all floating crafts including tugs, dredgers, survey vessels and other specialized crafts purchased or bare-boat chartered by a Pakistan entity and flying the Pakistan flag, except ships or crafts acquired for demolition purposes or are designed or adapted for use for recreation or pleasure purposes, subject to the condition that such ships or crafts are used only for the purpose for which they were procured, and in case such ships or crafts are used for demolition purposes within a period of five years of their acquisition, sales tax applicable to such ships purchased for demolition purposes shall be chargeable.	Respective headings
104	Substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976) and medicaments as are classifiable under Chapter 30 of the First Schedule to the Customs Act, 1969 (IV of 1969) except the following, even if medicated or medicinal in nature, namely:- (a) filled infusion solution bags imported with or without infusion given sets; (b) scrubs, detergents and washing preparations;	Respective headings

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	(c) soft soap or no-soap soap; (d) adhesive plaster; (e) surgical tapes; (f) liquid paraffin; (g) disinfectants; and (h) cosmetics and toilet preparations.	
105	Raw materials for the basic manufacture of pharmaceutical active ingredients and for manufacture of pharmaceutical products, provided that in case of import, only such raw materials shall be entitled to exemption which are liable to customs duty not exceeding ten per cent advalorem, either under the First Schedule to the Customs Act, 1969 (IV of 1969) or under a notification issued under section 19 thereof.	Respective headings
106	Import of Halal edible offal of bovine animals.	0206.1000, 0206.2000, 0206.8000 and 0206.9000
107	Import and supply of iodized salt bearing brand names and trademarks whether or not sold in retail packing.	
108	Components or sub-components of energy saver lamps, namely:-	
	(a) Electronic Circuit	8539.9040
	(b) Plastic Caps (Upper and Lower)	8539.9040
	(c) Base Caps B22 and E27	8539.9040
	(d) Tungsten Filaments	8539.9040
	(e) Lead-in-wire	8539.9040
	(f) Fluorescent Powder (Tri Band Phospher)	3206.5010
	(g) Adhesive Additive	3824.9099
	(h) Al-Oxide Suspension	3824.9099
	(i) Capping Cement	3214.1050
	(j) Stamp Pad Ink	3215.9010
	(k) Gutter for Suspension	2850.0000
109	Goods imported temporarily with a view to subsequent exportation, as concurred by the Board, including passenger service item, provision and stores of Pakistani Airlines.	Respective headings
110	The following items with dedicated use of renewable source of energy like solar and wind, subject to certification by the Alternative Energy Development Board (AEDB), Islamabad:–	

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	(a) Solar PV panels; (b) LVD induction lamps; (c) SMD, LEDs with or without ballast, with fittings and fixtures; (d) Wind turbines including alternators and mast; (e) Solar torches; (f) Lanterns and related instruments; (g) PV modules along with related components, including invertors, charge controllers and batteries.	8541.5000 8539.3990 9405.1090 8502.3100 8513.1040 8513.1090 8541.4000, 8504.4090, 9032.8990 and 8507.0000
111	White crystalline sugar	1701.9910 and 1701.9920
112	Following cardiology/cardiac surgery, neurovascular, electrophysiology, endosurgery, endoscopy, oncology, urology, gynaecology, disposables and other equipment:- **A. ANGIOPLASTY PRODUCTS** 1. Coronary Artery Stents 2. Drugs Eluting Coronary Artery Stents 3. Coronary Artery Dilatation Catheters (Balloons) 4. PTCA Guide Wire 5. PTCA Guiding Catheters 6. Inflation Devices/Priority Packs **B. ANGIOGRAPHY PRODUCTS** 1. Angiography Catheters 2. Sheaths 3. Guide Wires 4. Contrast Lines 5. Pressure Lines 6. Mannifolds **C. CONTRAST MEDIA FOR ANGIOGRAPHY/ ANGIOPLASTY** 1. Angiography Accessories 2. ASD Closure Devices 3. ASD Delivery Systems 4. VSD Closure Devices 5. VSD Delivery System 6. Guide Wires 7. Sizing Balloons 8. Sizing Plates	Respective headings

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9. PDA Closure Devices
10. PDA Delivery system

D. TEMPORARY PACEMAKERS
(with leads, connectors and accessories)

E. PERMANENT PACEMAKER
(with leads, connectors and accessories)

F. HEART FAILURE DEVICES
(with leads, connectors and accessories)

G. IMPLANTABLE CARDIOVERTES
(with leads, connectors and accessories)

H. CARDIAC ELECTROPHYSIOLOGY PRODUCTS
1. Electrophysiology catheters
2. Electrophysiology cables
3. Electrophysiology connectors

I. LEAR CARDIOLOGY PRODUCTS
1. Radioactive isotopes
2. Cold kits (Cardioloite MAA, DTPA etc)

J. CARDIAC SURGERY PRODUCTS
1. Oxygenators
2. Cannulas
3. Prosthetic Heart Valves
4. Luminal Shunts for heart surgery
5. Artificial limbs and appliances

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K. EQUIPMENT
1. Cardiac Angiography Machine
2. Echocardiography Machines
3. ETT Machines
4. Gamma Camera for Nuclear cardiology studies

L. PERIPHERAL INTERVENTIONS EQUIPMENT
Disposables and other equipment for peripheral interventions including stents (including carotid and wall stents), balloons, sheaths, catheters, guide wires, filter wires coils, needles, valves (including rotating homeostatic valves), connecting cables, inflation devices adaptors.

113	**High Efficiency Irrigation Equipment.** (If used for agriculture sector)	
	1) Submersible pumps (up to 75 lbs and head 150 meters)	8413.7010
	2) Sprinklers including high and low pressure	8424.8100

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	(center pivotal) system, conventional sprinkler equipment, water reel traveling sprinkler, drip or trickle irrigation equipment, mint irrigation sprinkler system.	8424.2010
	3) Air release valves, pressure gauges, water meters, back flow preventers, and automatic controllers.	8481.1000, 8481.3000, 9026.2000, 9032.8990
114	Green House Farming and Other Green House Equipemnt (If used for agriculture sector) 1) Tunnel farming equipment. 2) Green houses (prefabricated).	8430.3100, 8430.3900 9406.0010
115.	Plant, machinery and equipment imported for setting up fruit processing and preservation units in Gilgit-Baltistan, Balochistan Province and Malakand Division subject to the same conditions and procedure as are applicable for import of such plant, machinery and equipment under the Customs Act, 1969 (IV of 1969).	Respective headings
116.	Plant, machinery and equipment imported for setting up industries in FATA subject to the same conditions and procedure as are applicable for import of such plant, machinery and equipment under the Customs Act, 1969 (IV of 1969).	Respective headings.”;

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(ii) in Table-2, in column (1),–

(a) against serial number 3, for the entry in column (2), the following shall be substituted, namely:-

“Supplies made by cottage industry.”;

(b) after the already omitted serial number 12, the following new serial numbers and entries relating thereto shall be added, namely:–

“13	Reclaimed lead, if supplied to recognized manufacturers of lead batteries	Respective headings
14	Waste paper	Respective headings
15	(a) Sprinkler Equipment (b) Drip Equipment (c) Spray Pumps and nozzles	Respective headings

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16	Raw cotton and ginned cotton	Respective headings."; and

(iii) after Table-2, amended as aforesaid, the following new Table shall be added, namely:–

"Table-3

The plant, machinery, equipment and apparatus, including capital goods, specified in column (2) of the Annexure below, falling under the HS Codes specified in column (3) of that Annexure, shall be exempt from the whole of sales tax, subject to the following conditions, besides the conditions specified in column (4) of the Annexure, namely:–

(i) the imported goods as are not listed in the locally manufactured items, notified through a Customs General Order issued by the Board from time to time or, as the case may be, certified as such by the Engineering Development Board. This condition shall, however, not be applicable in respect of S. Nos. 1, 13, and 15 of the Annexure; and for such machinery, equipment and other capital goods imported as plant for setting up of a new industrial units provided the imports are made against valid contract(s) or letter(s) of credit and the total C&F value of such imports for the project is US $50 million or above;

(ii) except for S. No. 9 and 14 of the Annexure, the Chief Executive, or the person next in hierarchy duly authorized by the Chief Executive or Head of the importing company shall certify in the prescribed manner and format as per Annex-A that the imported items are the company's bonafide requirement. He shall furnish all relevant information online to Pakistan Customs Computerized System against a specific user ID and password obtained under section 155D of the Customs Act, 1969. In already computerized Collectorates or Customs stations where the Pakistan Customs Computerized System is not operational, the Project Director or any other person authorized by the Collector in this behalf shall enter the requisite information in the Pakistan Customs Computerized System on daily basis, whereas entry of the data obtained from the customs stations which have not yet been computerized shall be made on weekly basis; and

(iii) in case of partial shipments of machinery and equipment for setting up a plant, the importer shall, at the time of arrival of first partial shipment, furnish complete details of the machinery, equipment and components required for the complete plant, duly supported by the contract, layout plan and drawings:

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Explanation.- For the purpose of Table-3, capital goods mean any plant, machinery, equipment, spares and accessories, classified in Chapters 84, 85 or any other chapter of the Pakistan Customs Tariff, required for–

(a) the manufacture or production of any goods and includes refractory bricks and materials required for setting up a furnace, catalysts, machine tools, packaging machinery and equipment, refrigeration equipment, power generating sets and equipment, instruments for testing, research and development, quality control, pollution control and the like; or

(b) use in mining, agriculture, fisheries, animal husbandry, floriculture, horticulture, livestock, dairy and poultry industry.

ANNEXURE

S. No	Description	PCT heading	Conditions
(1)	**(2)**	**(3)**	**(4)**
1.	Machinery and equipment for initial installation, balancing, modernization, replacement or expansion of desalination plants, coal firing system, gas processing plants and oil and gas field prospecting.	Respective Headings	Nil
2.	Following machinery, equipment, apparatus, and medical, surgical, dental and veterinary furniture, materials, fixtures and fittings imported by hospitals and medical or diagnostic institutes:– **A. Medical Equipment.** 1) Dentist chairs 2) Medical surgical dental or veterinary furniture 3) Operating Table. 4) Operating Lights. 5) Emergency Operating Lights. 6) Hospital Beds with mechanical fittings 7) Gymnasium equipment. 8) Cooling Cabinet. 9) Refrigerated Liquid Bath. 10) Contrast Media Injections (for use in Angiography & MRI etc). 11) Breathing Bags. 12) Automatic blood cell counter. 13). Automatic Cell Separator for preparation of platelets. **B. Cardiology/Cardiac Surgery Equipment**	 9402.1010 9402.9090 9402.9010 9018.9090 9405.4090 9402.9020 9506.9100 8418.5000 3824.9099 3822.0000 9020.0020 9018.9090 9018.9090 9018.3940	Locally manufactured goods of description as specified in column (2) and pre-fabricated buildings can also be imported upon fulfillment of the following conditions, namely:– (a) The project requirement shall be approved by the Board of Investment (BOI). The authorized officer of BOI shall certify the item wise requirement of the project in the prescribed format and manner as per Annex-B and shall furnish all relevant information Online to Pakistan Customs Computerized System against a specific user ID and password obtained under Section 155D of the Customs Act, 1969 (IV of 1969); (b) the exception shall be available on one time basis for setting up of new

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	1) Cannulas. 2) Manifolds. 3) Intravenous cannula i.v. catheter. **C. Disposable Medical Devices** 1) Self-disabling safety sterile syringes. 2) Insulin syringes. 3) Burettes. **E. Other Related Equipments** 1) Fire extinguisher. 2) Fixtures & fittings for hospitals	8481.8090 9018.3940 9018.3110 9018.3110 7017.9000 8424.1000 Respective Headings	projects and expansion of existing ones, and shall not be available on the spare parts. (c) only those importers shall be eligible to avail the aforesaid exception whose cases are recommended and forwarded by BOI to FBR; (d) the goods shall not be sold or otherwise disposed of without prior approval of the FBR and the payment of customs-duties and taxes at statutory rates be leviable at the time of import. Breach of this condition shall be construed as a criminal offence under the Customs Act, 1969 (IV of 1969)
3.	1. Machinery, equipment, materials, capital goods, specialized vehicles (4x4 non-luxury) i.e. single or double cabin pickups, accessories, spares, chemicals and consumables meant for mine construction phase or extraction phase. 2. Construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for mine construction or extraction phase.	Respective Headings Respective Headings	
4.	Coal mining machinery, equipment, spares, including vehicles for site use i.e. single or double cabin pick-ups, imported for Thar Coal Field.	Respective Headings	This concession shall be available to those mining companies or their authorized operators or contractors who hold permits, licenses, leases and who enter into agreements with the Government of Pakistan or a Provincial Government. The goods shall not be sold or otherwise disposed of without prior approval of the Board and the payment of customs duties and taxes leviable at the time of import. These shall, however, be allowed to be transferred to other entitled mining companies

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			with prior approval of the Board.
5.	1. Machinery, equipment and spares meant for initial installation, balancing, modernization, replacement or expansion of projects for power generation through oil, gas, coal, wind and wave energy including under construction projects, which entered into an implementation agreement with the Government of Pakistan. 2. Construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the construction of project.	Respective Headings	(i) This concession shall also be available to primary contractors of the project upon fulfillment of the following conditions, namely:– (a) the contractor shall submit a copy of the contract or agreement under which he intends to import the goods for the project; (b) the Chief Executive or head of the contracting company shall certify in the prescribed manner and format as per Annex-A that the imported goods are the projects bona fide requirement; and (c) the goods shall not be sold or otherwise disposed of without prior approval of the FBR on payment of sales tax leviable at the time of import; (ii) temporarily imported goods shall be cleared against a security in the form of a post-dated cheque for the differential amount between the statutory rate of sales tax and the amount payable under this notification, along with an undertaking to pay the sales tax at the statutory rates in case such goods are not re-exported on conclusion of the project.
6.	1. Machinery, equipment and spares meant for initial installation, balancing, modernization, replacement or expansion of projects for power generation through gas, coal, hydel, and oil including under construction projects. 2. Construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the construction of project.	Respective Headings	–do–
7.	1. Machinery, equipment and spares meant for initial installation, balancing,	Respective Headings	–do–

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	modernization, replacement or expansion of projects for power generation through nuclear and renewable energy sources like solar, wind, micro-hydel bio-energy, ocean, waste-to-energy and hydrogen cell etc. 2. Construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the construction of project. Explanation.- The expression "projects for power generation" means any project for generation of electricity whether small, medium or large and whether for supply to the national grid or to any other user or for in house consumption.		
8.	1. Machinery and equipment meant for power transmission and grid stations including under construction projects. Explanation.- For the purpose of this serial number, "machinery and equipment" shall mean,– (a) machinery and equipment operated by power of any description, such as is used in the generation of power; (b) apparatus, appliances, metering and testing apparatus, mechanical and electrical control, transmission gear and transmission tower, power transmission and distribution cables and conductors, insulators, damper spacer and hardware and parts thereof adapted to be used in conjunction with the machinery and equipment as specified in clause (a) above; and (c) components parts of machinery and equipment, as specified in clause (a) and (b) above, identifiable for use in or with machinery imported for the project and equipment including spares for purposes of the project. 2. Construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the construction of project.	Respective Headings	–do–
9.	Following machinery, equipment and other education and research related items imported by technical, training institutes, research institutes, schools, colleges and		Nil

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	universities:–		
	1) Quartz reactor tubes and holders designed for insertion into diffusion and oxidation furnaces for production of semiconductor wafers.	7017.1010	
	2) Other dryers	8419.3900	
	3) Filtering or purifying machinery and apparatus for water	8421.2100	
	4) Other filtering or purifying machinery and apparatus for liquids	8421.2900	
	5) Personal weighing machines, including baby scales; household scales	8423.1000	
	6) Scales for continuous weighing of goods on conveyors	8423.2000	
	7) Constant weight scales and scales for discharging a predetermined weight of material into a bag or container, including hopper scales	8423.3000	
	8) Other weighing machinery having a maximum weighing capacity not exceeding 30 kg	8423.8100	
	9) Other weighing machinery having a maximum weighing capacity exceeding 30 kg but not exceeding 5,000kg	8423.8200	
	10) Other weighing machinery	8423.8900	
	11) Weighing machine weights of all kinds; parts of weighing machinery of machines of heading 8423.2000 & 8423.3000	8423.9000	
	12) Other weighing machine weights of all kinds; parts of weighing machinery of machines of heading 8423.2000 & 8423.3000	8423.9000	
	13) Networking equipments like routers, LAN bridges, hubs excluding switches and repeaters.	8517.6970	
	14) Other furnaces and ovens	8514.3000	
	15) Electronic balances of a sensitivity of 5 cg or better, with or without weights.	9016.0010	
	16) Other balances of a sensitivity of 5 cg or better, with or without weights.	9016.0090	
	17) Thermostats of a kind used in refrigerators and air-conditioners	9032.1010	
	18) Other thermostats	9032.1090	
	19) Manostats	9032.2000	

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	20) Other instruments and apparatus Hydraulic or pneumatic 21) Other instruments and apparatus 22) Parts and accessories of automatic regulating or controlling instruments and apparatus 23) Spares, accessories, and reagents for scientific equipments.	9032.8100 9032.8990 9032.9000 Respective Headings	
10.	Machinery, equipment, raw materials, components and other capital goods for use in buildings, fittings, repairing or refitting of ships, boats or floating structures imported by Karachi Shipyard and Engineering Works Limited.	Respective Headings	Nil
11.	Following machinery and equipment for marble, granite and gem stone extraction and processing industries: 1) Polishing cream or material 2) Hand sharpening and polishing stones. 3) Fiber glass mesh 5) Chain saw/diamond wire saw in all sizes and dimensions and spares thereof, diamond wire joints all types and dimensions, chain for chain saw and diamond wires for wire saw and spare widia. 6) Gin saw blades. 7) Gang saw blades/diamond saw blades/multiple blades or all types and dimensions. 8) All interchangeable tools 9) Air compressor (27 cft and above) 10) Quarry winches (100 ton capacity and above. 11) Quarry winches and electric motor jacks 30 ton capacity and above. 12) Quarry crane. 13) Fork lifter 14) Excavators 15) Ultrasonic machine tools. 16) Sharpening machine. 17) All diamond saw machines, diamond tools and segments. 18) Grinding machines. 19) Polishing machines of all types and	3405.4000, 3405.9000 6804.3000 7019.5190 8202.4000, 8202.9100 8202.9910 8202.9990 8207.9000 8414.8010 8425.3100 8425.3900 8426.3000 8427.9000 8429.5900 8456.2090 8460.3900 8464.1000 & Respective headings 8464.2010 8464.2090	1. For the projects of Gem Stone & Jewelery Industry, CEO/COO, Pakistan Gem and Jewelery Company shall certify in the prescribed format and manner as per Annex-B that the imported goods are bonafide project requirement. The authorized person of the Company shall furnish all relevant information online to Pakistan Customs Computerized System against a specific user ID and password obtained under section 155D of the Customs Act, 1969. 2. For the projects of Marble & Granite Industry, CEO/COO, Pakistan Stone Development Company shall certify in the prescribed format and manner as per Annex-B that the imported goods are bonafide project requirement. The authorized persons of the Company shall furnish all relevant information online to Pakistan Customs Computerized System against a specific user ID and password obtained under section 155D of the Customs Act, 1969. 3. The goods shall not be sold or otherwise disposed of within a period of five years of their import except with the prior

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	dimensions. 20) Other machine tools for working stones 21) Pneumatic machines and tools. 22) Horizontal and Vertical pneumatic line drilling machine. Pneumatic grinding machines. 23) Machine and tool for stone work; sand blasting machines; tungsten carbide tools; diamond tools & segments (all type & dimensions), hydraulic jacking machines, hydraulic manual press machines, air/hydro pillows, compressed air rubber pipes, hydraulic drilling machines, manual and power drilling machines, steel drill rods and spring (all sizes and dimensions), whole finding system with accessories, manual portable rock drills, cross cutter and bridge cutters. 24) Integral drilling steel for horizontal and vertical drilling, extension thread rods for pneumatic super long drills, tools and accessories for rock drills.	& Respective headings 8464.9000 8467.1100 8467.1900 8464.9000 & Respective headings 8466.9100	approval of the FBR and payment of customs duties and taxes leviable at the time of import.
12.	Machinery, equipment and other project related items including capital goods, for setting up of hotels, power generation plants, water treatment plants and other infrastructure related projects located in an area of 30 km around the zero point in Gwadar.	Respective Headings	1. Ministry of Industries, Production & Special Initiatives, shall certify in the prescribed manner and format as per Annex-B that the imported goods are bonafide project requirement. The authorized officer of the Ministry shall furnish all relevant information online to Pakistan Customs Computerized System against a specific user ID and password obtained under section 155D of the Customs Act, 1969. 2. The goods shall not be sold or otherwise disposed of without prior approval of the FBR and payment of customs duties and taxes leviable at the time of import.
13.	Effluent treatment plants	Respective headings	Nil
14.	Following items with dedicated use of renewable source of energy like solar, wind, geothermal etc:-		Nil

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	1. Solar Home Systems.		
	a). Inverters.	8504.4090	
	c). Charge controllers/current controllers.	9032.8990	
	d). Energy saver lamps of varying voltages (operating on DC).	8539.3910	
	e). Energy saver lamps of varying voltages (operating on AC).	8539.3910	
	f). Light emitting diodes (light emitting indifferent colors).	8541.5000	
	g). Water pumps operating on solar energy.	8413.7090, 8413.7010	
	h). Water purification plants operating on solar energy.	8421.2100	
	i) Batteries NiCd, Li-ion & Lead Acid specific utilization and integrated with solar electrification system.	8507.3000 8507.8000	
	(j) Energy Saving Tube Lights	8539.3920	
	2. Solar Parabolic Trough Power Plants.	8502.3900	
	a). Parabolic Trough collectors modules.	8503.0010	
	b). Absorbers/Receivers tubes.	8503.0090	
	c). Steam turbine of an output exceeding 40MW.	8406.8100	
	d). Steam turbine of an output not exceeding 40MW.	8406.8200	
	e). Sun tracking control system.	8543.7090	
	f). Control panel with other accessories.	8537.1090	
	3. Solar Dish Sterling Engine.	8412.8090	
	a). Solar concentrating dish.	8543.7000	
	b). Sterling engine.	8543.7000	
	c). Sun tracking control system.	8543.7090	
	d).Control panel with accessories.	8406.8200	
	e) Generator	8501.6100	
	4. Solar Air Conditioning System	8415.1090	
	a). Absorption chillers.	8418.6990	
	b). Cooling towers.	8419.8910	
	c). Pumps.	8413.3090	
	d). Air handling units.	8415.8200	
	e). Fan coils units.	8415.9099	
	f). Charging & Testing equipment.	9031.8000	
	5. Solar Desalination System	8421.2100	
	a) Solar photo voltaic panels	8541.4000	
	b) Solar water pumps	8413.3090	

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	c) Storage batteries.	8507.2090	
	d) Charge controllers.	9032.8990	
	e) Inverters.	8504.4090	
	6. Solar Thermal Power Plants with accessories.	8502.3900	
	7. Solar Water Heaters with accessories.	8419.1900	
	a) Vacuum tubes (Glass).	7020.0090	
	b) Selective coating for absorber plates.	Respective heading	
	c) Copper, aluminum and stainless steel sheets.	Respective heading	
	d) Copper and aluminum tubes.	Respective heading	
	8. PV Modules	8541.4000	
	a). Solar cells.	8541.4000	
	b) . Tempered Glass.	7007.2900	
	c) Aluminum frames.	7610.9000	
	d) O-Ring.	4016.9990	
	e) Flux	3810.1000	
	f) Adhesive labels.	3919.9090	
	g) Junction box + Cover	8538.9090	
	h) Sheet mixture of Paper and plastic	3920.9900	
	i) Ribbon for PV Modules (made of silver & Lead)	Respective headings	
	j) Bypass diodes.	8541.1000	
	k) EVA (Ethyl Vinyl Acetate) Sheet (Chemical).	3920.9900	
	9. Solar Cell Manufacturing Equipment.		
	a) Crystal (Grower) Puller (if machine).	8479.8990	
	b). Diffusion furnace.	8514.3000	
	c) Oven.	8514.3000	
	d). Wafering machine	8479.8990	
	e). Cutting and shaping machines for silicon ingot.	8461.9000	
	f). Solar grade polysilicon material.	3824.9099	
	g). Phosphene Gas.	2848.0000	
	h). Aluminum and silver paste.	Respective headings	
	9A Pyranometers and accessories for solar data collection	9030.8900	
	9B. Solar chargers for charging electronic devices	8504.4020	

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	9C. Remote control for solar charge controller.	8543.7010	
	10. Wind Turbines.	8412.8090	
	a). Rotor	8412.9090	
	b). Hub	8412.9090	
	c) Generator	8501.6490	
	d) Deep cycle battery	8507.8000	
	10A. Wind water pump	8413.8190	
	11. Geothermal energy equipments.		
	1). Geothermal Heat Pumps	8418.6100, 8418.6990	
	2). Geothermal Reversible Chillers	8418.6990	
	3). Air handlers for indoor quality control equipments	8415.8300	
	4). Hydronic heat pumps	8418.6100	
	5). Slim Jim heat exchangers	8419.5000	
	6). HDPE fusion tools	8515.8000	
	7). Geothermal energy Installation tools and Equipment	8419.8990	
	8). Dehumidification equipment	8479.6000	
	9). Thermostats and Intelli Zone	9032.1090	
	12. Any other item approved by the Alternative Energy Development Board (AEDB) and concurred to by the FBR.		
15.	Following items for promotion of renewable energy technologies		Nil
	1. LVD induction lamps	8539.3990	
	2. SMD, LEDs with or without ballast with fittings and fixtures.	9405.1090	
	3. Wind turbines including alternators and mast.	8502.3100	
	4. Solar torches	8513.1040	
	5. Lanterns and related instruments	8513.1090	
	6. PV module, with or without, the related components including invertors, charge controllers and batteries	8541.4000, 8504.4090, 9032.8990, 8507.0000	Subject to certification by AEDB that the inverters, charge controllers and batteries being imported are in quantities which commensurate with the PV modules being imported.
16.	Plant, machinery, equipment and specific items used in production of bio-diesel.	Respective headings	The Alternative Energy Development Board (AEDB), Islamabad shall certify in the prescribed manner and format as per Annex-B that the imported goods are bonafide project requirement. The goods

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			shall not be sold or otherwise disposed of within a period of five years of their import except with the prior approval of the FBR and payment of customs duties and taxes leviable at the time of import.

Annex-A

Header Information											
NTN/FTN of Importer			Regulatory Authority no.			Name of Regulatory authority					
(1)			(2)			(3)					
Details of Input goods (to be filled by the chief executive of the importing company)						Goods imported (Collectorate of import)					
HS Code	Description	Specs	Custom Duty rate (applicable)	Sales Tax rate (applicable)	WHT	Quantity	UOM	Quantity imported	Collectorate	CRN/ Mach No.	Date of CRN/ Mach. No.
(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)

CERTIFICATE. It is certified that the description and quantity mentioned above are commensurate with the project requirement and that the same are not manufactured locally. It is further certified that the above items shall not be used for any other purpose.

Signature of Chief Executive, or
the person next in hierarchy duly
authorized by the Chief Executive
Name ______________________
N.I.C. No. ___________________________________

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NOTE:– In case of clearance through Pakistan Customs Computerized System, the above information shall be furnished online against a specific user I.D. and password obtained under section 155D of the Customs Act, 1969.

Explanation.-

Chief Executive means.–

1. owner of the firm, in case of sole proprietorship; or
2. partner of firm having major share, in case of partnership firm; or
3. Chief Executive Officer or the Managing Director in case of limited company or multinational organization; or
4. Principal Officer in case of a foreign company.

Annex-B

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Header Information													
NTN/FTN of Importer			Approval No.										
(1)			(2)										
Details of Input goods (to be filled by the chief executive of the importing company)						Goods imported (Collectorate of import)							
HS Code	Description	Specs	Custom Duty rate (applicable)	Sales Tax rate (applicable)	WHT	Quantity	UOM	Quantity imported	Collectorate	CRN/ Mach No.	Date of CRN/ Mach. No.		
(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)		

CERTIFICATE. Before certifying the above-authorized officer of the Regulatory Authority shall ensure that the goods are genuine and bonafide requirement of the project and that the same are not manufactured locally.

Signature ________________________
Designation ________________________

NOTE:- In case of clearance through Pakistan Customs Computerized System, the above information shall be furnished on line against a specific user I.D. and password obtained under section 155D of the Customs Act, 1969.";

(11) after the Sixth Schedule, the following new Schedule shall be inserted, namely,–

"EIGHTH SCHEDULE

[*See clause (aa) of sub-section (2) of section 3*]

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Table-1

S. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax	Condition
(1)	(2)	(3)	(4)	(5)
1	Soyabean meal	2304.0000	5%	
2	Oil cake and other solid residues, whether or not ground or in the form of pellets	2306.1000	5%	
3	Directly reduced iron	72.03	5%	
4	Oilseeds meant for sowing.	Respective headings	5%	Import thereof subject to the condition that Plant Protection Department of Ministry of Food, Agriculture and Livestock certifies that the imported seeds are fungicide and insecticide treated

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				and are meant for sowing.
5	Raw cotton and ginned cotton	Respective headings	5%	On import
6	Plant and machinery not manufactured locally and having no compatible local substitutes	Respective headings	5%	(i) On import of such plant and machinery by registered manufacturers, post-dated cheque(s) equal to the differential amount of sales tax payable at import stage, shall be submitted to the customs authorities, which shall be returned on furnishing proof of filing of first sales tax return after import of such machinery, showing the import of such machinery; (ii) On import by commercial importers, good-for-payment cheque, bank guarantee, pay order or treasury challan showing deposit, equal to the differential amount of sales tax payable at import stage, shall be submitted to the customs authorities, which shall be returned back, or as the case may be, refunded, after evidence of subsequent supply to registered manufacturers or industrial users is furnished to the customs authorities; (iii) Supply of such imported plant and machinery by commercial importers to unregistered persons or persons other than manufacturers shall be liable to standard rate of tax, and evidence to that effect shall be produced to the customs authorities for release of the abovementioned instruments or refund of the amount paid at import stage; (iv) Subsequent supply of plant and machinery imported or acquired by registered manufacturers to unregistered persons or persons other than manufacturers shall be liable to tax at standard rate;

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				and (v) the validity period of instruments furnished under this provision shall not be less than one hundred and twenty days. Explanation.– For the purpose of this provision, plant and machinery means such plant and machinery as is used in the manufacture or production of goods.

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Table-2

Plant, machinery, equipment and apparatus, including capital goods, specified in column (2) of the Annexure below, falling under the HS Codes specified in column (3) of that Annexure, shall be charged to sales tax at the rate of five percent, subject to the following conditions, besides the conditions specified in column (4) of the Annexure, namely:-

(i). the imported goods as are not listed in the locally manufactured items, notified through a Customs General Order issued by the Board from time to time or, as the case may be, certified as such by

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the Engineering Development Board. This condition shall, however, not be applicable in respect of S. Nos. 1, 5 and 6 of the Annexure; and for such machinery, equipment and other capital goods imported as plant for setting up of a new industrial units provided the imports are made against valid contract(s) or letter(s) of credit and the total C&F value of such imports for the project is US $ 50 million or above;

(ii) the Chief Executive, or the person next in hierarchy duly authorized by the Chief Executive or Head of the importing company shall certify in the prescribed manner and format as per Annex-A that the imported items are the company's bonafide requirement. He shall furnish all relevant information Online to Pakistan Customs Computerized System against a specific user ID and password obtained under section 155D of the Customs Act, 1969. In already computerized Collectorates or Customs stations where the Pakistan Customs Computerized System is not operational, the Project Director or any other person authorized by the Collector in this behalf shall enter the requisite information in the Pakistan Customs Computerized System on daily basis, whereas entry of the data obtained from the customs stations which have not yet been computerized shall be made on weekly basis; and

(iii) in case of partial shipments of machinery and equipment for setting up a plant, the importer shall, at the time of arrival of first partial shipment, furnish complete details of the machinery, equipment and components required for the complete plant, duly supported by the contract, lay out plan and drawings.

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Explanation.-In this Table the expression, capital goods mean any plant, machinery, equipment, spares and accessories, classified in chapters 84, 85 or any other chapter of the Pakistan Customs Tariff, required for-

(a) the manufacture or production of any goods, and includes refractory bricks and materials required for setting up a furnace, catalysts, machine tools, packaging machinery and equipment, refrigeration equipment, power generating sets and equipment, instruments for testing, research and development, quality control, pollution control and the like; or

(b) use in mining, agriculture, fisheries, animal husbandry, floriculture, horticulture, livestock, dairy and poultry industry.

Annexure

S.No	Description	PCT heading	Conditions

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(1)	(2)	(3)	(4)
1	Machinery and equipment for development of grain handling and storage facilities.	Respective Headings	Nil
2	Cool chain machinery and equipment.	Respective Headings	Nil
3.	Following items imported by Call Centers, Business Processing Outsourcing facilities duly approved by Telecommunication Authority.		Nil
	1) UPS, inverters/converters.	8504.4010 8504.4090	
	2) Fax machines	8443.3260	
	3) Photo copiers	8443.3910	
	4) IP Phones	8517.1890	
	5) Telephone sets/head sets.	8517.1100	
	6) Dialers	8517.7000	
	7) Generator.	8502.1200	
	8) Cat 5/Cat 6/Power cables	8544.4990	
	9) PAPX Switch	8517.6290	
	10) Multimedia projectors	8528.6110	
	11) Video conferencing equipment.	8525.8090	
	12) CCTV	8525.8010	
	13) Plasma TV	8528.7212	
	14) PUD's	8525.8090	
	15) Dedicated telephone exchange system for call centers.	8517.6290	
	16. Parts, voice cards.	8517.7000	
	17. Other (digital call recorders)	8519.8990	
	18. VAST terminals	8525.6040	
4	1. Machinery, equipment, materials, capital goods, specialized vehicles (4x4 non luxury) i.e. single or double cabin pickups, accessories, spares, chemicals and consumables meant for mineral exploration phase. 2. Construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the exploration phase.	Respective Headings	1. This concession shall be available to those Mineral Exploration and Extraction Companies or their authorized operators or contractors who hold permits, licenses, leases and who enter into agreements with the Government of Pakistan or a Provincial Government. 2. Temporarily imported goods shall be cleared against a security in the form of a post-dated cheque for the differential amount between the statutory rate of customs duty and sales tax and

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			the amount payable under this notification, along with an undertaking to pay the customs duty and sales tax at the statutory rates in case such goods are not re-exported on conclusion of the project. 3. The goods shall not be sold or otherwise disposed of without prior approval of the FBR and the payment of customs duties and taxes leviable at the time of import. These shall however be allowed to be transferred to other entitled mining companies with prior approval of the Board.
5.	Complete plants for relocated industries.	Respective Headings	Nil
6.	Machinery, equipment and other capital goods meant for initial installation, balancing, modernization, replacement or expansion of oil refining (mineral oil, hydro- cracking and other value added petroleum products), petrochemical and petrochemical downstream products including fibers and heavy chemical industry, cryogenic facility for ethylene storage and handling.	Respective Headings	Nil
7.	Proprietary Formwork System for building/structures of a height of 100 ft and above and its various items/ components consisting of the following, namely:-	7308.4000	(i) If not manufactured locally and imported by the construction companies registered with the Pakistan Engineering Council;
	1) Plastic tube.	3917.2390	(ii) the system is to be procured from a well renowned international manufacturer;
	2) Plastic tie slot filters/plugs, plastic cone.	3926.9099	(iii) a certificate from one of the following International Pre-shipment Inspection Companies/Survey Firms to the extent that all the components/parts are to be used in the Proprietary Formwork System for construction of structures/buildings of more than 100 feet height, is produced, namely:-
	3) Standard steel ply panels, Special sized steel ply panels, wedges, tube	7308.4000	(a) Messrs Lloyds of London; (b) Messrs Quality Tech,

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	clamps (B-Type & G Type), push/pull props, brackets (structure), steel soldiers (structure), drop head, standard, prop tic, buard rail post (structure), coupler brace, cantilever frame, decking beam/Infill beam and doorway angles.		LLC; (c) Messrs ABS; (d) Messrs Bureau Veritas; and (e) Messrs SGS; and (iv) The Pakistan Engineering Council shall certify that the imported Proprietary Formworks System conform to the requirement of the Company's project.
	4) Lifting Unit (Structure)	7308.9090	-do-
	5) Bolts, tie bolts, anchor bolt assembly (fastener), anchor screw (fastener).	7318.1590	-do-
	6) Nuts	7318.1690	-do-
	7) Steel pins, tie wing nut (fastener).	7318.1900	-do-
	8) Steel washers, water plate (fastener).	7318.2290	-do-
	9) Special hammers	8205.2000	-do-
	10) Extraction keys.	8205.5900	-do-
	11) Adjustable base jack (thread rod with nut and steel plate), adjustable fork head (threaded rod with nut and steel channel).	8425.4900	-do-

Annex-A

<table>
<tr><td colspan="12">Header Information</td></tr>
<tr><td colspan="3">NTN/FTN of Importer</td><td colspan="3">Regulatory Authority no.</td><td colspan="6">Name of Regulatory authority</td></tr>
<tr><td colspan="3">(1)</td><td colspan="3">(2)</td><td colspan="6">(3)</td></tr>
<tr><td colspan="6">Details of Input goods (to be filled by the chief executive of the importing company)</td><td colspan="6">Goods imported (Collectorate of import)</td></tr>
<tr><td>HS Code</td><td>Description</td><td>Specs</td><td>Custom Duty rate (applicable)</td><td>Sales Tax rate (applicable)</td><td>WHT</td><td>Quantity</td><td>UOM</td><td>Quantity imported</td><td>Collectorate</td><td>CRN/ Mach No.</td><td>Date of CRN/ Mach. No.</td></tr>
<tr><td>(4)</td><td>(5)</td><td>(6)</td><td>(7)</td><td>(8)</td><td>(9)</td><td>(10)</td><td>(11)</td><td>(12)</td><td>(13)</td><td>(14)</td><td>(15)</td></tr>
</table>

CERTIFICATE. It is certified that the description and quantity mentioned above are commensurate with the project requirement and that the same are not manufactured locally. It is further certified that the above items shall not be used for any other purpose.

Signature of Chief Executive, or
the person next in hierarchy duly
authorized by the Chief Executive
Name ______________________
N.I.C. No. __________________________________

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NOTE:– In case of clearance through Pakistan Customs Computerized System, the above information shall be furnished online against a specific user I.D. and password obtained under section 155D of the Customs Act, 1969.

Explanation.-

Chief Executive means.–

1. owner of the firm, in case of sole proprietorship; or
2. partner of firm having major share, in case of partnership firm; or
3. Chief Executive Officer or the Managing Director in case of limited company or multinational organization; or
4. Principal Officer in case of a foreign company.

Annex-B

Header Information													
NTN/FTN of Importer				Approval No.									
(1)				(2)									
Details of Input goods (to be filled by the chief executive of the importing company)						Goods imported (Collectorate of import)							
HS Code	Description	Specs	Custom Duty rate (applicable)	Sales Tax rate (applicable)	WHT	Quantity	UOM	Quantity imported	Collectorate	CRN/ Mach No.	Date of CRN/ Mach. No.		
(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)		

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CERTIFICATE. Before certifying the above-authorized officer of the Regulatory Authority shall ensure that the goods are genuine and bonafide requirement of the project and that the same are not manufactured locally.

Signature ________________________
Designation ________________________

NOTE:- In case of clearance through Pakistan Customs Computerized System, the above information shall be furnished on line against a specific user I.D. and password obtained under section 155D of the Customs Act, 1969."; and

(11) After the Eighth Schedule, inserted as above, a new Ninth Schedule shall be added, namely,–

"NINTH SCHEDULE

[*See sub-section (3B) of section 3*]

TABLE

(1)	(2)	(3)

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Description / Specification of Goods	Sales tax payable at the time of import	Sales tax payable at the time of registration of a new International Mobile Equipment Identity (IMEI) number
A. **Low Priced Cellular Mobile Phones or Satellite Phones** i. All cameras: 2.0 mega-pixels or less ii. Screen size: 2.6 inches or less iii. Key pad	Rs. 150 per phone	Rs. 250 per registration
B. Medium Priced Cellular Mobile Phones or Satellite Phones i. One or two cameras: between 2.1 to 10 mega-pixels ii. Screen size: between 2.6 inches and 4.2 inches iii. Micro-processor: less than 2 GHZ	Rs. 250 per phone	Rs. 250 per registration
C. Smart Cellular Mobile Phones or Satellite Phones i. One or two cameras: 10 mega-pixels and above ii. Touch Screen: size 4.2 inches and above iii. 4GB or higher Basic Memory iv. Operating system of the type IOS, Android V2.3, Android Gingerbread or higher, Windows 8 or Blackberry RIM v. Micro-processor: 2GHZ or higher, dual core or quad core	Rs. 500 per phone	Rs. 250 per registration

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LIABILITY, PROCEDURE AND CONDITIONS

i. The liability to pay sales tax at the time of import of cellular mobile phones or satellite phones shall be on the importer, and the liability to pay sales tax at the time of registration of a new International Mobile Equipment Identity (IMEI) number for the first time shall be on the Cellular Mobile Operator who registers the IMEI number in his system.

ii. The Cellular Mobile Operators shall, if not already registered, obtain registration under the Sales Tax Act, 1990.

iii. No IMEI shall be registered by a Cellular Mobile Operator without charging and collecting the sales tax as specified in the Table.

iv. The Cellular Mobile Operator shall deposit the sales tax so collected through his monthly tax return in the manner prescribed in section 26 of the Sales Tax Act, 1990, and rules made thereunder.

v. The Cellular Mobile Operator shall maintain proper records of all IMEI numbers registered for a period of six years, and such records

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shall be produced for inspection, audit or verification, as and when required, by an authorized officer of Inland Revenue.

vi. The Pakistan Telecommunication Authority shall provide data regarding IMEI numbers registered with other Cellular Mobile Operators to prevent double taxation on the same IMEI number in case of switching by a subscriber from one operator to another, and to provide data regarding registration of IMEI numbers to the Board on monthly basis.

vii. No adjustment of input tax shall be admissible to the Cellular Mobile Operator or any purchaser of cellular mobile phone against the sales tax charged and paid in terms of this Schedule.".

viii. Notwithstanding anything contained in any other law for the time being in force, the levy, collection and payment of sales tax under Notification No. S.R.O. 460(I)/2013 dated the 30th May, 2013, shall be always deemed to have been lawfully and validly, levied, collected and paid in accordance with sub-section (3B) of section 3 of the Sales Tax Act, 1990.

4. Amendment of Act XVII of 1996.– In the Pakistan Telecommunication (Re-organization) Act, 1996 (XVII of 1996), the following further amendment shall be made and shall be deemed to have been so made on the 1st of March, 2014, namely:–

In the aforesaid Act, in section 33A, in sub-section (4), clause (c) shall be omitted.

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5. Amendment of Ordinance (XXIV of 2001).– In the Controller General of Accounts (Appointments, Functions and Powers) Ordinance, 2001 (XXIV of 2001), in section 5, in clause (b),–

(a) after the word "may" the commas and words ", with the approval of the President," shall be inserted; and

(b) for the semi colon, at the end, a colon shall be substituted and thereafter the following proviso shall be added, namely:–

"Provided that in case of exigency Ministry of Finance or Finance Departments, as the case may be, may authorize payments directly from the State Bank of Pakistan and submit such information to Controller General to enable him to record the transactions;".

6. Amendments of Ordinance XLIX of 2001.– In the Income Tax Ordinance, 2001 (XLIX of 2001), the following further amendments shall be made, namely:–

(1) in section 2,–

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(a) clauses (8), (9), (10) and (11) shall be re-numbered as clauses (9), (10), (11) and (8) respectively;

(b) after clause (23), the following new clause shall be inserted, namely:–

"(23A) "filer" means a taxpayer whose name appears in the active taxpayers' list issued by the Board from time to time or is holder of a taxpayer's card;";

(c) in clause (29),–

(i) for the word "and", occurring for the first time, a comma shall be substituted;

(ii) after the figure "234", the word and figure "and 236M" shall be inserted;

(iii) the words and commas "but does not include, in case of a shareholder of a company, the amount representing the face value of any bonus share or the amount of any bonus declared, issued or paid by the company to the shareholders with a view to increasing its paid up share capital", shall be omitted;

(d) after clause (35B), the following new clause shall be inserted, namely:–

"(35C) "non-filer" means a person who is not a filer;";

(e) after clause (59A), the following new clause shall be inserted, namely:-www.imranghazi.com/mtba

"(59B) "Special Judge" means the Special Judge appointed under section 203;"; and

(f) after clause (61), the following new clause shall be inserted, namely:–

"(61A) "stock fund" means a collective investment scheme or a mutual fund where the investible funds are invested by way of equity shares in companies, to the extent of more than seventy per cent of the investment;";

(2) section 4A shall be omitted;

(3) in section 8,–

(i) in clause (d), for the word "sections", the word "section" shall be substituted;

(ii) in clause (e), for the word "sections", the word "section" shall be substituted.

(4) in section 13, in sub-section (8), the word "the", occurring last, shall be omitted;

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(5) in section 18, in sub-section (3), for the word "lesser", occurring twice, the word "lessor" shall be substituted;

(6) in section 21, in clause (e), after the word "fund", occurring for the second time a comma shall be inserted;

(7) in section 31, in sub-section (1), for the expression "Banking Tribunals Ordinance, 1984" the expression "Financial Institutions (Recovery of Finances) Ordinance, 2001 (XLVI of 2001)" shall be substituted;

(8) in section 37, in sub-section (1A), the words and comma "held for a period upto two years," shall be omitted;

(9) in section 37A, in sub-section (1),-

(a) first proviso shall be omitted;

(b) in the second proviso, the word "further" shall be omitted;

(c) in sub-section (3), after the word "capital" the comma and words ",debt securities" shall be inserted;

(d) after sub-section (3), amended as aforesaid, the following new sub-section shall be inserted, namely:-

"(4) For the purpose of this section, "debt securities" means–

(a) Corporate Debt Securities such as Term Finance Certificates (TFCs), Sukuk Certificates (Sharia Compliant Bonds), Registered Bonds, Commercial Papers, Participation Term Certificates (PTCs) and all kinds of debt instruments issued by any Pakistani or foreign company or corporation registered in Pakistan; and

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(b) Government Debt Securities such as Treasury Bills (T-bills), Federal Investment Bonds (FIBs), Pakistan Investment Bonds (PIBs), Foreign Currency Bonds, Government Papers, Municipal Bonds, Infrastructure Bonds and all kinds of debt instruments issued by Federal Government, Provincial Governments, Local Authorities and other statutory bodies."

(10) in section 39, in sub-section (1),–

(i) in clause (j), the word "and" shall be omitted;

(ii) in clause (l), after the semicolon the word "and" shall be added;

(iii) after clause (l), amended as aforesaid, the following new clause shall be added, namely:-

(iv) income arising to the shareholder of a company, from the issuance of bonus shares.";

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(11) in section 49, after sub-section (4), for the full stop at the end a colon shall be substituted and the following proviso shall be added namely,

“Provided that the income from sale of spectrum licenses by Pakistan Telecommunication Authority on behalf of the Federal Government after the first day of March 2014 shall be treated as income of the Federal Government and not of the Pakistan Telecommunication Authority.”;

(12) in section 56A, for the word “onword”, the word “onward” shall be substituted;

(13) in section 59AA, in sub-section (6), for the words “Central Board of Revenue” the word “Board” shall be substituted;

(14) section 88A shall be omitted;

(15) in section 92, in sub-section (1), for full stop, at the end, a colon shall be substituted and thereafter the following proviso shall be added, namely,-

“Provided that if at least one member of the association of persons is a company, the share of such company or companies shall be excluded for the purpose of computing the total income of the association of persons and the company or the companies shall be taxed separately, at the rate applicable to the companies, according to their share.”;

(16) in section 100B, in sub-section (2), for clause (d), the following clause shall be substituted, namely:-

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“(d) a company, in respect of debt securities only; and”;

(17) after section 100B, the following new section shall be inserted, namely:–

“**100C. Tax credit for certain persons.**– (1) Non-profit organizations, trusts or welfare institutions, as mentioned in sub-section (2) shall be allowed a tax credit equal to one hundred per cent of the tax payable, including minimum tax and final taxes payable under any of the provisions of this Ordinance, subject to the following conditions, namely:–

(a) return has been filed;

(b) tax required to be deducted or collected has been deducted or collected and paid; and

(c) withholding tax statements for the immediately preceding tax year have been filed.

(2) Persons eligible for tax credit under this section include-

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(a) any income of a trust or welfare institution or non-profit organization from donations, voluntary contributions, subscriptions, house property, investments in the securities of the Federal Government and so much of the income chargeable under the head "income from business" as is expended in Pakistan for the purposes of carrying out welfare activities:

Provided that in the case of income under the head "income from business", the exemption in respect of income under the said head shall not exceed an amount which bears to the income, under the said head, the same proportion as the said amount bears to the aggregate of the incomes from the aforesaid sources of income.

(b) a trust administered under a scheme approved by the Federal Government in this behalf and established in Pakistan exclusively for the purposes of carrying out such activities as are for the benefit and welfare of–

(i) ex-servicemen and serving personnel, including civilian employees of the Armed Forces, and their dependents; or

(ii) ex-employees and serving personnel of the Federal Government or a Provincial Government and their dependents, where the said trust is administered by a committee nominated by the Federal Government or, as the case may be, a Provincial Government;

(c) a trust or welfare institution or non-profit organization approved by Chief Commissioner for the purposes of this sub-clause;

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(d) income of a university or other educational institution being run by a non-profit organization existing solely for educational purposes and not for purposes of profit;

(e) any income which is derived from investments in securities of the Federal Government, profit on debt from scheduled banks, grant received from Federal Government or Provincial Government or District Governments, foreign grants and house property held under trust or other legal obligations wholly, or in part only, for religious or charitable purposes and is actually applied or finally set apart for application thereto:

Provided that nothing in this clause shall apply to so much of the income as is not expended within Pakistan:

Provided further that if any sum out of the amount so set apart is expended outside Pakistan, it shall be included in the total income of the tax year in which it is so expended or of the year in which it was set apart, whichever is the greater, and the

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provisions of section 122 shall not apply to any assessment made or to be made in pursuance of this proviso.

Explanation.– Notwithstanding anything contained in the Mussalman Wakf Validating Act, 1913 (VI of 1913), or any other law for the time being in force or in the instrument relating to the trust or the institution, if any amount is set apart, expended or disbursed for the maintenance and support wholly or partially of the family, children or descendents of the author of the trust or the donor or, the maker of the institution or for his own maintenance and support during his life time or payment to himself or his family, children, relations or descendents or for the payment of his or their debts out of the income from house property dedicated, or if any expenditure is made other than for charitable purposes, in each case such expenditure, provision, setting apart, payment or disbursement shall not be deemed, for the purposes of this clause, to be for religious or charitable purposes; or

(f) any income of a religious or charitable institution derived from voluntary contributions applicable solely to religious or charitable purposes of the institution:

Provided that nothing contained in this clause shall apply to the income of a private religious trust which does not ensure for the benefit of the public."

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(18) in section 113,–

(i) in sub-section (1), for the words "equal to one per cent of the person's turnover for the year", the words "the amount of minimum tax computed on the basis of rates as specified in Division IX of Part I of First Schedule" shall be substituted; and

(ii) in sub-section (2), in clause (b), for the words "an amount equal to one per cent of the person's turnover for the year", the words "minimum tax computed on the basis of rates as specified in Division IX of Part I of First Schedule" shall be substituted;

(19) after section 113B, the following new section 113C shall be inserted, namely:–

113C. Alternative Corporate Tax.– (1) Notwithstanding anything contained in this Ordinance, for tax year 2014 and onwards, tax payable by a company shall be higher of the Corporate Tax or Alternative Corporate Tax.

(2) For the purposes of this section.-

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(a) "Accounting Income" means the accounting profit before tax for the tax year, as disclosed in the financial statements or as adjusted under sub-section (7) or sub-section (11) excluding share from the associate recognized under equity method of accounting;

(b) "Alternative Corporate Tax" means the tax at a rate of seventeen per cent of a sum equal to accounting income less the amounts, as specified in sub-section (8), and determined in accordance with provisions of sub-section (7) hereinafter;

(c) "Corporate Tax" means total tax payable by the company, including tax payable on account of minimum tax and final taxes payable, under any of the provisions of this Ordinancebut not including those mentioned in sections 8, 161 and 162 and any amount charged or paid on account of default surcharge or penalty and the tax payable under this section.

(3) The sum equal to accounting income, less any amount to be excluded therefrom under sub-section (8), shall be treated as taxable income for the purpose of this section.

(4) The excess of Alternative Corporate Tax paid over the Corporate Tax payable for the tax year shall be carried forward and adjusted against the tax payable under Division II of Part I of the First Schedule, for following year.

(5) If the excess tax, as mentioned in sub-section (4), is not wholly adjusted, the amount not adjusted shall be carried forward to the following tax year and adjusted as specified in sub-section (4) in that year, and so on, but the said excess cannot be carried forward to more than ten tax years immediately succeeding the tax year for which the excess was first computed.

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Explanation.– For the purpose of this sub-section the mechanism for adjustment of excess of Alternative Minimum Tax over Corporate Tax, specified in this section, shall not prejudice or affect the entitlement of the taxpayer regarding carrying forward and adjustment of minimum tax referred to in section 113 of this Ordinance.

(6) If Corporate Tax or Alternative Corporate Tax is enhanced or reduced as a result of any amendment, or as a result of any order under the Ordinance, the excess amount to be carried forward shall be reduced or enhanced accordingly.

(7) For the purposes of determining the "Accounting Income", expenses shall be apportioned between the amount to be excluded

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from accounting income under sub-section (8) and the amount to be treated as taxable income under sub-section (2).

(8) The following amounts shall be excluded from accounting income for the purposes of computing Alternative Corporate Tax:–

(i) exempt income;

(ii) income subject to tax under section 37A and final tax chargeable under sub-section (7) of section 148, section 150, sub-section (3) of section 153, sub-section (4) of sections 154, 156 and sub-section (3) of section 233; and

(iii) income subject to tax credit under section 65D and 65E.

(9) The provisions of this section shall not apply to taxpayers chargeable to tax in accordance with the provisions contained in the Fourth, Fifth and Seventh Schedules.

(10) Tax credit under section 65B shall be allowed against Alternative Corporate Tax.

(11) The Commissioner may make adjustments and proceed to compute accounting income as per historical accounting pattern after providing an opportunity of being heard.";

(20) in section 114, in sub-section (1), in clause (b), in sub-clause (ix), after the word "is" the words "a resident person" shall be inserted;

(21) in section 122B, for the words "Regional Commissioner", wherever occurring, the words "Chief Commissioner" shall be substituted.

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(22) in section 127,-

(a) for the words "taxation officer", the words" Officer of Inland Revenue" shall be substituted;

(b) in sub-section (2), in clause (b), for the word "again", the word "against" shall be substituted;

(23) in section 130, in sub-section (4),-

(i) in clause (b), the word "or", occurring at the end, shall be omitted;

(ii) in clause (c), for the full stop, at the end, a semicolon and the word "or" shall be substituted and thereafter the following new clause shall be added, namely:–

"(d) a person who has, for a period of not less than ten years, practiced professionally as a cost and management accountant within the meaning of Cost and Management Accountants Act, 1966 (XIV of 1966).";

(24) in section 148,–

(a) in sub-section (7), in clause (d),–

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(i) in sub-clause (viii), for the words " with Sales Tax Department" the expression "under the Sales Tax Act, 1990"shall be substituted;

(ii) in sub-clause (ix), for the words, " for sales tax purposes" the expression "under the Sales Tax Act, 1990" shall be substituted; and

(b) after sub-section (8), the following new sub-section shall be inserted, namely:–

"(8A) The tax collected under this section at the time of import of ships by ship-breakers shall be final tax.";

(25) in section 149, after sub-section (2), the following new sub-sections shall be added, namely:–

"(3) Notwithstanding anything contained in sub-sections (1) and (2), every person responsible for making payment for directorship fee or fee for attending board meeting or such fee by whatever name called, shall at the time of payment, deduct tax at the rate of twenty percent of the gross amount payable .

(4) Tax deductible under sub-section (3) shall be adjustable.";

(26) in section 150, for the expression "Division III of Part I" the expression "Division I of Part III" shall be substituted;

(27) in section 151,

(a) in sub-section (i), after the word "Division" for the figure "I" the figure "IA" shall be substituted; and

(b) in sub-section (3), for the full stop, at the end, a colon shall be substituted and thereafter the following proviso shall be added, namely:-

"Provided that in the case of a non-filer other than a company the final tax shall be equal to the tax deductible in the case of filer and the tax deducted in excess of that shall be advance income tax adjustable against tax liability.";

(28) in section 153, in sub-section (1), in clause (c),-

(i) after the word and comma "contract,", the words "including contract signed by a sportsperson" shall be inserted; and

(ii) for the words "other than" , the words " but not including" shall be substituted;

(29) in section 156, in sub-section (3), after the word "under", occurring for the second time, the word and hyphen "sub-" shall be inserted;

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(30) in section 159, in sub-section (4), for the word "one", the word "on" shall be substituted;

(31) in section 169, in sub-section (1), in clause (b), for the word "of", occurring for the eighth time, the word "or" shall be substituted;

(32) after section 181A , the following new section shall be inserted, namely:–

"**181AA. Compulsory registration in certain cases.–** (1) Notwithstanding anything contained in any law, for the time being in force , any application for commercial or industrial connection of electricity or natural gas, shall not be processed and such connection shall not be provided unless the person applying for electricity or gas connection is registered under section 181.";

(33) in section 203, in sub-section (i), for full stop at the end a colon shall be substituted and thereafter the following proviso shall be added, namely:–

"Provided that the Federal Government may, by, notification in official Gazette, declare that a special judge appointed under section 185 of the Customs Act 1969 (IV of 1969) shall have jurisdiction to try offences under this Ordinance.";

(34) for section 231B, the following shall be substituted, namely:–

"**231B. Advance tax on private motor vehicles.–** (1) Every motor vehicle registering authority of Excise and Taxation Department shall collect advance tax at the time of registration of a new locally manufactured motor vehicle, at the rates specified in Division VII of Part IV of the First Schedule.

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(2) Every motor vehicle registering authority of Excise and Taxation Department shall collect advance tax at the time of transfer of registration or ownership of a private motor vehicle, at the rates specified in Division VII of Part IV of the First Schedule.

(3) Every manufacturer of a motor car or jeep shall collect, at the time of sale of a motor car or jeep, advance tax at the rate specified in Division VII of Part IV of the First Schedule from the person to whom such sale is made.

(4) Sub-section (1) shall not apply if a person produces evidence that tax under sub-section (2) in case of a locally manufactured vehicle or tax under section 148 in the case of imported vehicle was collected from the same person in respect of the same vehicle.

(5) The advance tax collected under this section shall be adjustable:

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Provided that the provisions of this section shall not be applicable in the case of –

(a) the Federal Government;

(b) a Provincial Government;

(c) a Local Government;

(d) a foreign diplomat; or

(e) a diplomatic mission in Pakistan.";

(35) after section 235, the following new sections shall be inserted, namely:–

"**235A. Domestic electricity consumption.–** (1) There shall be collected advance tax at the rates specified in Division XIX of Part IV of the First Schedule on the amount of electricity bill of a domestic consumer.

(2) The person preparing electricity consumption bill shall charge advance tax under sub-section (1) in the manner electricity consumption charges are charged.

(3) Tax collected under this section shall be adjustable against tax liability.

235B. Tax on steel melters, re-rollers etc.– (1) There shall be collected tax from every steel melter, steel re-roller, composite steel units, registered for the purpose of Chapter XI of Sales Tax Special Procedure Rules, 2007 at the rate of one rupee per unit of electricity consumed for the production of steel billets , ingots and mild steel (MS products) excluding stainless steel .

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(2) The person preparing electricity consumption bill shall charge and collect the tax under sub-section (1) in the manner electricity consumption charges are charged and collected.

(3) The tax collected under sub- section (1) shall be deemed to be the tax required to be deducted under sub-section (1) of section 153, on the payment for local purchase of scrap.

(4) Tax collected under sub-section (1) shall be non-adjustable and credit of the same shall not be allowed to any person.";

(36) in section 236B,–

(a) in sub-section (2), for the words "person preparing" the words "airline issuing" shall be substituted;

(b) after sub-section (2), amended as aforesaid, the following new sub-section shall be inserted, namely,-

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"(2A) The mode, manner and time of collection shall be as may be prescribed.";

(37) after section 236J, the following new sections shall be inserted, namely:–

"**236K. Advance tax on purchase or transfer of immovable property.–** (1) Any person responsible for registering or attesting transfer of any immovable property shall at the time of registering or attesting the transfer shall collect from the purchaser or transferee advance tax at the rate specified in Division XVIII of Part IV of the First Schedule.

(2) The advance tax collected under sub-section (1) shall be adjustable.

(3) The advance tax under this section shall not be collected in the case of the Federal Government, a Provincial Government, a Local Government or a foreign diplomatic mission in Pakistan.

(4) Nothing contained in this section shall apply to a scheme introduced by the Federal Government, or Provincial Government or an Authority established under a Federal or Provincial law for expatriate Pakistanis.

236L. Advance tax on purchase of international air ticket.– (1) Every airline, operating in Pakistan, shall collect advance tax at the rates specified in Division XX of Part IV of the First Schedule, on the gross amount of international air tickets issued to passengers booking one-way or return, from Pakistan.

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(2) The airline issuing air ticket shall collect or charge advance tax under sub-section (1) in the manner air ticket charges are collected or charged, either manually or electronically.

(3) The mode, manner and time of collection under sub-section (1) and time of collection shall be as may be prescribed.

(4) The advance tax collected under sub-section (1) shall be adjustable.

236M. Bonus shares.– (1) Every person issuing bonus shares to a shareholder of the company, shall collect tax at the rate of five per cent on the value of the bonus shares determined on the basis of day-end price on the first day of closure of books.

(2) The company issuing bonus shares shall make adequate arrangements for collection of such tax and in case of default, said tax shall be collected from the company, without prejudice to any other liability which it may incur under this Ordinance.

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(3) Tax required to be collected under this section shall be a final tax on the income of the shareholder of the company arising from issuance of bonus shares.";

(38) in section 239, in sub-section (13), for the words and comma, "amended, modified", the words and comma "amend, modify" shall be substituted;

(39) in the FIRST SCHEDULE,-

(I) in Part I,–

(A) in Division I,–

(i) after paragraph (1A), the following new paragraph shall be inserted, namely:–

"(IB) Where the taxable income in a tax year, other than income on which the deduction of tax is final, does not exceed one million rupees of a person–

(i) holding a National Database Registration Authority's Computerized National Identity Card for disabled persons; or

(ii) a taxpayer of the age of not less than sixty years on the first day of that tax year, the tax liability on such income shall be reduced by 50%.";

(ii) paragraph (2) shall be omitted.

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(B) For Division III, the following shall be substituted, namely:–

"Division III
Rate of Dividend Tax

The rate of tax imposed under section 5 on dividend received from a company shall be–

(a) 7.5% in the case of dividends declared or distributed by purchaser of a power project privatized by WAPDA or on shares of a company set up for power generation or on shares of a company, supplying coal exclusively to power generation projects; and

(b) 10%, in all other cases:

Provided that the dividend received by a person from a stock fund shall be taxed at the rate of 12.5% for tax year 2015 and onwards, if dividend receipts are less than capital gains:

Provided further that the dividend received by a company from a collective investment scheme or a mutual

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fund, other than a stock fund, shall be taxed at the rate of 25% for tax year 2015 and onwards.";

(C) in Division-VII, for the Table, the following shall be substituted, namely:–

"TABLE

S.No.	Period.	Tax Year	Rate of tax.
(1)	(2)	(3)	(4)
1.	Where holding period of a security is less than six months.	2011 2012 2013 2014	10% 10% 10% 10%
2.	Where holding period of a security is more than six months but less than twelve months.	2011 2012 2013 2014	7.5% 8% 8% 8%
	TAX YEAR 2015		
3.	Where holding period of a security is less than twelve months.	12.5%	
4.	Where holding period of a security is twelve months or more but less than twenty-four months.	10%	
5.	Where holding period of a security is twenty-four months or more."	0%	

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(D) in Division VIII, in the TABLE, after S.No 2, the following new S.No and corresponding entries relating thereto in columns (2) and (3), shall be added, namely:–

3.	Where holding period of immovable property is more than two years.";	0%

(E) after Division VIII, amended as aforesaid, the following new Division shall be added, namely,–

"Division IX
Minimum tax under section 113

S.No	Person(s)	Minimum Tax as percentage of the person's turnover for the year
(1)	(2)	(3)
1.	(a) Oil marketing companies, Oil refineries, Sui Southern Gas Company Limited and Sui Northern Gas	0.5%

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	Pipelines Limited (for the cases where annual turnover exceeds rupees one billion.); (b) Pakistan International Airlines Corporation; and (c) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production.	
2.	(a) Distributors of pharmaceutical products, fertilizers and cigarettes; (b) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990; (c) Rice mills and dealers; and (d) Flour mills.	0.2%
3.	Motorcycle dealers registered under the Sales Tax Act, 1990.	0.25%
4.	In all other cases.	1%

(II) for Part II, the following shall be substituted, namely:–

"PART-II
RATES OF ADVANCE TAX

[See Division II of Part V of Chapter X]

The rate of advance tax to be collected by the Collector of Customs under section 148 shall be-

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S.No.	Persons	Rate
(1)	(2)	(3)
1.	(i) Industrial undertaking importing remeltablesteel (PCT Heading 72.04) and directly reduced iron for its own use; (ii) Persons importing potassic fertilizers in pursuance of Economic Coordination Committee of the cabinet's decision No. ECC-155/12/2004 dated the 9th December, 2004; (iii) Persons importing urea; and (iv) Manufacturers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31st December, 2011 dated the 31st December, 2011.	1% of import value as increased by customs-duty, sales tax and federal excise duty
2.	Persons importing pulses	2% of import value as increased by customs-duty, sales tax and Federal excise duty
3.	Commercial importers covered under Notification No. S.R.O. 1125(I)/2011 dated the	3% of import value as increased by customs-

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	31st December, 2011.	duty, sales tax and federal excise duty
4.	Ship breakers on import of ships	4.5%
5.	Industrial undertakings not covered under S. Nos. 1 to 4	5.5%
6.	Companies not covered under S. Nos. 1 to 5	5.5%
7.	Persons not covered under S. Nos. 1 to 6	6%

(III) Part IIA shall be omitted;

(IV) in Part III,–

(a) for Division I, the following shall be substituted, namely:–

"Division I
Advance Tax on Dividend

The rate of tax to be deducted under section 150 shall be–

(a) 7.5% in the case of dividends declared or distributed by purchaser of a power project privatized by WAPDA or on shares of a company set up for power generation or on shares of a company, supplying coal exclusively to power generation projects;

(b) 10% for filers other than mentioned in (a) above;

(c) 15% for non-filers other than mentioned in (a) above:

Provided that the rate of tax required to be deducted by a collective investment scheme or a mutual fund shall be–

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	Stock Fund	Money market Fund, Income Fund or any other fund
Individual	10%	10%
Company	10%	25%
AOP	10%	10%

Provided further that in case of a stock fund if dividend receipts of the fund are less than capital gains, the rate of tax deduction shall be 12.5%

Division IA
Profit on Debt

The rate of tax to be deducted under section 151 shall be 10% of the yield or profit for filers and 15% of the yield or profit paid, for non-filers:

Provided that for a non-filer, if the yield or profit paid is rupees five hundred thousand or less, the rate shall be ten per cent";

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(b) in Division III,–

(A) in paragraph (1), in sub-paragraph (b),-

(i) in clause (i), for the figure "3.5", the figure "4" shall be substituted; and

(ii) in clause (ii), for the figure "4", the figure "4.5" shall be substituted;

(B) in paragraph (2), in sub-paragraph (ii),–

(i) in clause (a), for the figure "6", the figure "8" shall be substituted; and

(ii) in clause (b), for the figure "8", the figure "10" shall be substituted;

(C) in paragraph (3),–

(i) in sub-paragraph (i), for the figure "6", the figure "7" shall be substituted;

(ii) in sub-paragraph (ii), for the figure "6.5", the figure "7.5" shall be substituted; and

(iii) after sub-paragraph (ii), amended as aforesaid, the following new sub-paragraph shall be added, namely:–

"(iii) 10% of the gross amount payable in case of sportspersons.";

(c) in Division IV, in paragraph (3), for the figure "0.5", the figure "1" shall be substituted;

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(d) in Division VIA, for the figure "10", the figure "12" shall be substituted;

(V) in Part IV,–

(a) for Division II, the following shall be substituted, namely:–

"Division II
Brokerage and Commission

The rate of collection under sub-section (1) of section 233 shall be.–

(a) 7.5% of the amount of the payment, in case of advertising agents;

(b) 12% of the amount of payment in all other cases.";

(b) in Division III,–

(i) for clause (3), the following shall be substituted, namely:–

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"(3) in case of other private motor cars shall be as following,–

S No.	Engine capacity	for filers	for non-filer
(1)	(2)	(3)	(4)
1.	upto 1000cc	Rs. 1,000	Rs.1,000
2.	1001cc to 1199cc	Rs. 1,800	Rs. 3,600
3.	1200cc to 1299cc	Rs. 2,000	Rs.4,000
4.	1300cc to 1499cc	Rs. 3,000	Rs.6000
5.	1500cc to 1599cc	Rs 4,500	Rs 9,000
6.	1500cc to 1999cc	Rs. 6000	Rs.12,000
7.	2000cc & above	Rs. 12,000	Rs.24,000"

(ii) for clause (4), the following shall be substituted, namely:–

"(4) where the motor vehicle tax is collected in lump sum,–

S No.	Engine capacity	for filer	for non-filer
(1)	(2)	(3)	(4)
1.	upto 1000cc	Rs. 10,000	Rs.10,000
2.	1001cc to 1199cc	Rs. 18,000	Rs. 36,000
3.	1200cc to 1299cc	Rs. 20,000	Rs.40,000
4.	1300cc to 1499cc	Rs. 30,000	Rs.60,000
5.	1500cc to 1599cc	Rs 45,000	Rs 90,000
6.	1600cc to 1999cc	Rs. 60,000	Rs.120,000
7.	2000cc and above	Rs. 120,000	Rs.240,000"

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(c) in Division V, in clause (b) for the figure "15", the figure "14" shall be substituted;

(d) in Division VI, after the word "withdrawn" the words and figures "for filers and 0.5% of the cash amount withdrawn, for non-filers" shall be inserted;

(e) for Division VII, the following shall be substituted, namely:–

"Division VII
Advance tax on purchase of private motor car and jeep

The rate of tax under sub-sections (1), (2) and (3) of section 231B shall be as follows:–

S. No.	Engine Capacity	Tax for filer	Tax for Non-filer
(1)	(2)	(3)	(4)
1.	Upto 850cc	Rs. 10,000	Rs. 10,000

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2.	851cc to 1000cc	Rs. 20,000	Rs. 25,000
3.	1001cc to 1300cc	Rs. 30,000	Rs. 40,000
4.	1301cc to 1600cc	Rs. 50,000	Rs. 100,000
5.	1601cc to 1800cc	Rs. 75,000	Rs. 150,000
6.	1801cc to 2000cc	Rs.100,000	Rs. 200,000
7.	2001cc to 2500cc	Rs.150,000	Rs. 300,000
8.	2501cc to 3000cc	Rs.200,000	Rs. 400,000
9.	Above 3000cc	Rs.250,000	Rs. 450,000"

(f) in Division X, after the word "received" the words and figures "for filers and 1% of the gross amount of the consideration received for non-filers." shall be added;

(g) in Division XI, for the figure"10" the figure "5" shall be substituted;

(h) after Division XVII, the following new Divisions shall be added, namely:-

"Division XVIII

Advance tax on purchase of immovable property

The rate of tax to be collected under section 236K shall be:–

S.No	Period	Rate of Tax
(1)	(2)	(3)
1.	Where value of Immovable property is up to 3 million.	0%
2.	Where the value of Immovable property is more than 3 million	Filer 1% Non-Filer 2%

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Provided that the rate of tax for Non-Filer shall be 1% upto the date appointed by the Board through notification in official gazette.

Division XIX

Advance tax on domestic electricity consumption

The rate of tax to be collected under section 235A shall be–

(i) 7.5% if the amount of monthly bill is Rs.100,000 or more; and

(ii) 0% the amount of monthly bill is less than Rs.100,000.

Division XX

Advance tax on international air ticket

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The rate of the rate of tax to be collected under section 236L shall be:–

S. No.	Type of Ticket	Rate	
(1)	(2)	(3)	(4)
		Filer	Non-Filer
1.	Economy	0%	0%
2.	First/Business/Club class	3%	6%”

(40) in the SECOND SCHEDULE,–

(I) in Part I,

(a) in clause (4), in sub-clause (b) for the words “income year”, the words “tax year” shall be substituted;

(b) clause (35) shall be omitted;

(c) in clause (57), in sub-clause (3), after paragraph (xii), the following new paragraph shall be added, namely,-

“(xiii) Sindh Province Pension Fund established under the Sindh Province Pension Fund Ordinance, 2002.”;

(d) clauses (58), (58A), (59) and (60) shall be omitted;

(e) in clause (66),

(i) sub-clause (v) shall be omitted;

(ii) clause (xxiv), occurring for the second time, clause (xxv), clause (xxvii), clause (xxviii), occurring thrice and clause (xxix) shall be re-numbered as clauses (xxv), (xxvi), (xxvii), (xxviii), (xxix), (xxx) and (xxxi) respectively;

(iii) after sub-clause (xxxi), renumbered as aforesaid, the following new sub-clause shall be added, namely:-

“(xxx) Greenstar Social Marketing Pakistan (Guarantee) Limited.”;

(f) clauses (81A), (88A), (92A) and (93A) shall be omitted;

(g) in clause (99), for the full stop, at the end, a colon shall be substituted and thereafter, the following proviso shall be added, namely:–

“Provided that for the purpose of determining distribution of at least 90% of accounting income, the income distributed through bonus shares, units or certificates as the case may be, shall not be taken into account.”;

(h) for clause (126) the following shall be substituted, namely,-

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"(126) Any income derived by a public sector university"

(i) for clause (126A) the following shall be substituted, namely:-

"(126A) income derived by China Overseas Ports Holding Company Limited from Gwadar Port operations for a period of twenty years, with effect from the sixth day of February, 2007.";

(j) after clause (126G), the following new clause shall be inserted, namely:-

"(126H) Profits and gains derived by a taxpayer, from a fruit processing or preservation unit set up in Balochistan Province, Malakand Division, Gilgit-Baltistan and FATA between the first day of July, 2014 to the thirtieth day of June, 2017, both days inclusive, engaged in processing of locally grown fruits, for a period of five years beginning with the month in which the industrial undertaking is set up or commercial production is commenced, whichever is later.";

(k) after clause (132A), the following new clause shall be inserted, namely:–

"(132B) Profits and gains derived by a taxpayer from a coal mining project in Sindh, supplying coal exclusively to power generation projects.";

(l) clause (135) shall be omitted;

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(II) in Part II,–

(a) in clause (3),-

(i) after the word, "rendered" the words " and construction contracts" shall be inserted;

(ii) for the words, "such receipts" the words " receipts from services and income from contracts" shall be substituted; and

(b) clauses (3A), (9B), (9C), (13E), (13HH), (13HHH) and (17) shall be omitted;,

(c) after clause (18), the following new clause shall be inserted, namely:-

"(18A) The rate of tax as specified in Division II of Part I of the First Schedule shall be reduced to 20% for a company setting up an industrial undertaking between the first day of July, 2014 to the thirtieth day of June, 2017, for a period of five years beginning from the month in which the

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industrial undertaking is set up or commercial production is commenced, whichever is later:

Provided that fifty percent of the cost of the project including working capital is through owner equity foreign direct investment.";

(d) clauses (19), (20), (23), (24), (24B), (26), (29) and (30) shall be omitted;

(III) in Part III,–

(a) in clause (1), in sub-clause (1), in paragraph (a), the word and comma "pilots," shall be omitted;

(b) clause (1A) shall be omitted;

(c) after clause (1A), omitted as aforesaid, the following new clause shall be inserted, namely:-

"(1AA) Total allowances received by pilots of any Pakistani airlines shall be taxed at a rate of 7.5%, provided that the reduction under this clause shall be available to so much of the allowances as exceeds an amount equal to the basic pay."; and

(d) Clause (5), (7), (8), (9), (10), (11), (12), (13), (14) and clause (15) shall be omitted;

(IV) in Part IV,–

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(a) after clause (5), the following new clauses shall be inserted, namely:-

"(9A) Provisions of clause (a) of sub-section (1) of section 153, shall not apply to steel melters , steel re-rollers , composite steel units, as a payer, in respect of purchase of scrap, provided that tax is collected in accordance with section.

(9AA) Provisions of clause (a) of sub-section (1) of section 153, shall not apply to ship breakers as recipient of payment:

Provided that this clause shall only apply for ships imported after the 1st July 2014.";

(b) clauses (10) and (10A) shall be omitted;

(c) in clause (11A), in sub-clause (v), after the figure and brackets, "(132)" the following shall be inserted, namely:–

"and clause (132B)";

(d) clause (38B) shall be omitted;

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(e) in clause (38C), after the word, "section", the figure and comma "150," shall be inserted;

(f) clauses (41A), (41AA), (41AAA) and (41B) shall be omitted;

(g) after clause (56A), the following new clauses shall be inserted, namely:-

"(56B) The provisions of sub-section (7) of section 148, and clause (a) of sub-section (1) of section 169 shall not apply to a person being a commercial importer if the person opts to file return of total income along with accounts and documents as may be prescribed, subject to the condition that minimum tax liability under normal tax regime shall not be less than 5.5%, of the imports, if the person is a company and 6% otherwise.

(56C)The provisions of sub-section (3) of section 153, in respect of sale of goods and clause (a) of sub-section (1) of section 169 shall not apply to a person, if the person opts to file return of total income along with accounts and documents as may be prescribed subject to the condition that minimum tax liability under normal tax regime shall not be less than 3.5% of the gross amount of sales, if the person is a company and 4% otherwise.

(56D) The provisions of sub-section (3) of section 153, in respect of contracts and clause (a) of sub-section (1) of section 169 shall not apply to a person if the person opts to file return of total income along with accounts and documents as may be prescribed subject to the condition that minimum tax liability under normal tax regime shall not be less than 6% of contract receipts, if the person is a company and 6.5% otherwise.

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(56E) The provisions of sub-section (2) of section 153 and clause (a) of sub-section (1) of section 169 shall not apply in respect of a person if the person opts to file return of total income along with accounts and documents as may be prescribed subject to the condition that minimum tax liability under normal tax regime shall not be less than 0.5% of gross amount of services received.

(56F) The provisions of sub-section (2) of section 156A and clause (a) of sub-section (1) of section 169 shall not apply in respect of a person if the person opts to file return of total income along with accounts and documents as may be prescribed, subject to the condition that minimum tax

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liability under normal tax regime shall not be less than 10% of the commission or discount received.

(56G) The provisions of sub-section (3) of section 233 and clause (a) of sub-section (1) of section 169 shall not apply in respect of a person if the person opts to file return of total income along with accounts and documents as may be prescribed, subject to the condition that minimum tax liability under normal tax regime shall not be less than 10% of the commission.";

(h) in clause 57,–

(i) the following new explanation shall be added, namely:-

"*Explanation*.– For the removal of doubt, exemption under this clause, in respect of section 153, shall only be available as a recipient and not as withholding agent.";

(ii) in clause (57), in sub-clause (vi), for the words, "with Sales Tax Department" the words, comma and figure "under the Sales Tax Act, 1990" shall be substituted;

(i) clauses (80), (84), (85), (87) and (88) shall be omitted;

(41) in the THIRD SCHEDULE, in Part II, in clause (1), for the figure "25", occurring for the second time, the figure "10" shall be substituted; and

(42) in the SEVENTH SCHEDULE,–

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(A) in rule 6,-

(i) for the words "income under the head "Dividend" and" the words "net income from "Dividend" and net income from" shall be substituted; and

(ii) for the words "per cent", the words "and twelve and a half, respectively" shall be substituted; and

(B) after rule 6, amended as aforesaid, the following new rules shall be inserted:-

" 6A. For the purpose of rule 6, net income from dividend shall be computed according to the following formula, namely:–

$$(A/C) \times B$$

where–

A is the total amount of expenditure as per this Schedule;

B is the gross amount of dividend received; and

C is the gross amount of receipts including dividend.

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6B. For the purpose of rule 6, net income from capital gains shall be computed according to the following formula, namely:–

(A/C) x B

where–

A is the total amount of expenditure as per this Schedule;

B is the gross amount of capital gains; and

C is the gross amount of receipts including capital gains.”.

7. Amendments of the Federal Excise Act, 2005.– In the Federal Excise Act, 2005, the following further amendments shall be made, namely:–

(1) in section 13, in sub-section (4), in the proviso, for the full stop, at the end, a colon shall be substituted and thereafter, the following new proviso shall be added, namely:–

“Provided further that the Board may through a general order specify zones or areas only for the purpose of determination of highest retail price for any brand or variety of goods.”;

(2) in the First Schedule,–

(a) in Table I, in column (1),–

(i) for S. Nos. 9 and 10 and the corresponding entries relating thereto in columns (2), (3) and (4), the following shall respectively be substituted, namely:–

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“9.	Locally produced cigarettes if their on- pack printed retail price exceeds rupees two thousand seven hundred and six per thousand cigarettes	24.02	Rupees two thousand six hundred and thirty two per thousand cigarettes.
10.	Locally produced cigarettes if their on-pack printed retail price does not exceed rupees two thousand seven hundred and six per thousand cigarettes	24.02	Rupees one thousand and eighty five per thousand cigarettes.”;

(ii) against S. No. 13, in column (4), for the words “four hundred rupees per metric ton” the words “five per cent of the retail price” shall be substituted; and

(iii) against S. No. 55, in column (2), for the word “Motor”, the words “Imported motor” shall be substituted;

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(iv) in the heading "Restrictions" in the sub-heading "Variant at different price points" for figures and hyphen "2012-13" the words "of the current financial year" shall be substituted; and

(b) in Table-II, in column (1),–

(i) against S. No. 3, in column (2), in entry (b),

(a) against sub-entry (i), in column (4), for the words "Three thousand eight hundred and forty" the words "Five thousand" shall be substituted; and

(b) against sub-entry (ii), in column (4), for the words "Six thousand eight hundred and forty" the words "Ten thousand" shall be substituted;

(ii) against S. No. 6,–

(a) in column (2), after the word "services", the comma and words ", excluding such services in the area of a Province where such Province has imposed Provincial sales tax and has started collecting the same through its own Board or Authority, as the case may be" shall be added; and

(b) in column (4), for the word "nineteen", the word "Eighteen" shall be substituted; and

(iii) after S. No. 14, the following new serial number and corresponding entries relating thereto in columns (2), (3) and (4) shall be added, namely:–

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"15.	Chartered flights	98.03	Sixteen per cent of the charges.".

8. Amendment of Act XXI of 2011.– In the Gas infrastructure Development Cess Act, 2011 (XXI of 2011), the following further amendments shall be made namely:–

(1) in section (3) for the full stop, at the end, a colon shall be substituted and thereafter the following proviso shall be added, namely:-

"Provided that the Federal Government may decide to levy any rate of Cess on any category of gas consumers subject to maximum rate provided in the Second Schedule.";

(2) in the First Schedule,–

(a) in entry 4, the word "and", at the end, shall be omitted;

(b) in entry 5, for the full stop, at the end, a semi colon and the word "and" shall be substituted and thereafter the following shall be added, namely:–

"6. Oil and Gas Development Company Limited; and

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7. Any other company engaged in sale of gas to any category of gas consumers as notified in the official gazette.";

(3) for the Second Schedule, the following shall be substituted, namely:-

"THE SECOND SCHEDULE

[See Section 3]

S. No.	Sector	Maximum Rate of Cess (Rs/MMBTU)
(1)	**(2)**	**(3)**
1.	Fertilizer – Feed Stock	300
2.	Fertilizer – Fuel Stock	300
3.	Compressed Natural Gas (CNG)	300
4.	Industrial	300
5.	Captive Power	300
6.	WAPDA / KESC / GENCOs	300
7.	Independent Power Plants (IPPs)	300
8.	Commercial including Ice Factories	300
9.	Cement	300
10.	Liberty Power Plant	-
11.	Domestic	-.".

9. Repeal of Income Support Levy Act of 2013.– The Income Support Levy Act, 2013 is hereby repealed.

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STATEMENT OF OBJECTS AND REASONS

The purpose of this Bill is to make financial provisions for the year beginning on the first day of July, 2014. Various provisions have been explained in the Notes on Clauses.

(MUHAMMAD ISHAQ DAR)
Minister for Finance and Revenue

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NOTES ON CLAUSES

FINANCE BILL, 2014

CUSTOMS ACT, 1969 (IV OF 1969)

Clause 2(1)(a)	Seeks to amend section 2 by merging clauses (k) and (m) to define customs-station declared under section 9.
Clause 2(1)(b)	Seeks to omit clause (m) to section 2 as the same has been merged within clause (k).
Clause 2(2)	Seeks to amend section 7, sub-section (2) to substitute the words "Central" with the word "Federal".
Clause 2(3)	Seeks to insert a new sub-section; namely (1A) in section 18 and (fifth Schedule) to Customs Act 1969 to levy specified rates of customs duty on goods or class of goods.
Clause 2(4)	Seeks to amend section 18A, to substitute the words "Central Excise and Salt Act, 1944" with the words "Federal Excise Act, 2005".
Clause 2(5)(a)	Seeks to amend section 25 by omitting clause (d) of sub-section (5) for rational applicability of valuation data.
Clause 2(5)(b)(i)	Seeks to amend sub-section (6) of section 25 by substituting the word "and" with "comma".
Clause 2(5)(b)(ii)	Seeks to amend sub-section (6) of section 25 for rational applicability of valuation data.
Clause 2(6)	Seeks to amend section 32 by inserting the word "taxes" in sub-section (2), (3) and (3A) to recover non levied or short levied taxes.
Clause 2(7)	Seeks to insert the words "taxes and other charges levied thereon" in sub-section (3) to include taxes and other charges in re-assessment of goods.
Clause 2(8)(a)	Seeks to amend sub-section (1) of section 81 by inserting the words "taxes and other charges" to include taxes and other charges in final determination of liability.
Clause 2(8)(b)	Seeks to amend 81 to substitute "taxes and other charges" for the word "tax" to include taxes and other charges.

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Clause 2(9)	Seek to amend section 185B by substituting clause (a) for trial of narcotics and narcotic substances cases in the Special Courts constituted under the Control of Narcotic Substances Act, 1997.
Clause 2(10)(a)	Seek to amend section 194, sub-section (3) to substitute the words "Pakistan Customs Service" for the words "Customs and Excise Group".
Clause 2(10)(b)	Seek to amend section 194, sub-section (3) by substituting the word "three" for word "five" to bring experience of a senior Collector for appointment as technical member of Appellate Tribunal, at par with section 130 of Income Tax Ordinance, 2001.
Clause 2(11)	Seeks to amend First Schedule (Pakistan Customs Tariff) to the Customs Act, 1969.
Clause 2(12)	Seeks to add Fifth Schedule to the Customs Act, 1969.

SALES TAX ACT, 1990

Clause 3(1)	Seeks to add proviso in clause (27) of section 2
Clause 3(2)(i)(a)	Seeks to omit the word "and" in the proviso, in clause (a) of sub-section (2) of section 3.
Clause 3(2)(i)(b)	Seeks to insert a new clause (aa) after clause (a) of sub-section (2) of section 3.
Clause 3(2)(ii)	Seeks to insert sub-section (3B) after sub-section (3A).
Clause 3(2)(iii)	Seeks to substitute sub-section (8) of section 3.
Clause 3(2)(iv)	Seeks to add a new sub-section (9), after sub-section (8) of section 3.
Clause 3(3)	Seeks to substitute sub-section (2) of section 3B.
Clause 3(4)	Seeks to substitute the words "goods supplied at reduced rate of sales tax" for the words "zero-rated goods" in clause (d) of section 4.
Clause 3(5)(i)(a)	Seeks to substitute the words and figures "sections 8 and" for the word "section" appearing for the first time in sub-section (1) of section 7.
Clause 3(5)(i)(b)	Seeks to insert the commas, words, brackets and figures "excluding the amount of further tax under sub-section (1A) of section 3" after the words "output tax" appearing for the first time in sub-section (1) of section 7.

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Clause 3(5)(ii)	Seeks to insert a new clause "(iiia)" after clause (iii) in sub-section (2) of section 7.
Clause 3(6)(i)	Seeks to omit the word "and" in sub-section (1) of section 8.
Clause 3(6)(ii)	Seeks to add a new clause after clause (e) in sub-section (1) of section 8.
Clause 3(7)	Seeks to add an explanation in section 40B.
Clause 3(8)	Seeks to add a new section 50B after section 50A.
Clause 3(9)	Seeks to add new serial numbers and entries relating thereto after serial No. 8 and entries relating thereto in column (2) in the Fifth Schedule.
Clause 3(10)(i)(a)	Seeks to insert the figures and comma "1511.1000" after the figure and comma "1510.0000" in column (3) against serial number 24 in column (1) in Table-1 in the Sixth Schedule.
Clause 3(10)(i)(b)	Seeks to insert the comma and words ", cochlear implants system" after the word "solution" in column (2) against S. No. 59 and in column (3), after the figure "99.25", the comma and figure ", 99.37".
Clause 3(10)(i)(c)	Seeks to add new serial numbers and entries relating thereto after serial No. 71 and entries relating thereto in columns (2) and (3) in column (1) in Table-1 in the Sixth Schedule.
Clause 3(10)(ii)(a)	Seeks to substitute the words "supplies made by the cottage industry." for the entry in column (2), against serial number 3 in column (1) in Table-2 in the Sixth Schedule.
Clause 3(10)(ii)(b)	Seeks to add new serial numbers and entries relating thereto after the already omitted serial number 12 in column (1) in Table-2 in the Sixth Schedule.
Clause 3(10)(iii)	Seeks to add a new Table-3 after Table-2 in the Sixth Schedule.
Clause 3(11)	Seeks to add a new Ninth Schedule after the Eighth Schedule.

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<u>AMENDMENT OF ACT XVII OF 1996</u>

Clause 4	Seeks to amend section 33A of Pakistan Telecommunication (Re-organization) Act, 1996 to provide for credit of the revenue derived from radio spectrum to the Federal Consolidated Fund.

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AMENDMENT OF ORDINANCE (XXIV OF 2001)

Clause 5	Seeks to amend clause (b) of section 5 of the Controller General of Accounts (Appointment, Functions and Powers) Ordinance, 2001 to bring it in uniformity with Section 5(a).

AMENDMENT OF INCOME TAX ORDINANCE, XLIX OF 2001

Clause 6(1)(a)	Seeks to make a technical correction in section 2.
Clause 6(1)(b)	Seeks to define "filer" in section 2.
Clause 6(1)(c)	Seeks to include bonus shares in the definition of income in section 2.
Clause 6(1)(d)	Seeks to define "non-filer" in section 2.
Clause 6(1)(e)	Seeks to add definition of "Special Judge" in section 2.
Clause 6(1)(f)	Seeks to add definition of "Stock Fund" in section 2.
Clause 6(2)	Seeks to make a technical amendment by deleting section 4A.
Clause 6(3)	Seeks to make a grammatical correction in section 8.
Clause 6(4)	Seeks to make a grammatical correction in section 13.
Clause 6(5)	Seeks to make a grammatical correction in section 18.
Clause 6(6)	Seeks to make a grammatical correction in section 21.
Clause 6(7)	Seeks to make a technical correction in section 31.
Clause 6(8)	Seeks to make a technical amendment in section 37.
Clause 6(9)	Seeks to provide for taxation of debt securities under section 37A.
Clause 6(10)	Seeks to include bonus shares in income from other sources in section 39.
Clause 6(11)	Seeks to amend section 49 for clarification regarding income received by Federal Government from spectrum licences.
Clause 6(12)	Seeks to make a grammatical correction in section 56A.
Clause 6(13)	Seeks to make a technical correction in section 59AA.
Clause 6(14)	Seeks to make a technical amendment by deleting section 88A.
Clause 6(15)	Seeks to specify the manner of taxation of a Joint Venture by adding a proviso to section 92.

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Clause 6(16)	Seeks to amend section 100B to exempt capital gains of companies from taxation under Eighth Schedule.
Clause 6(17)	Seeks to add section 100C to provide tax credit to non-profit entities etc.
Clause 6(18)	Seeks to make a technical amendment to section 113.
Clause 6(19)	Seeks add a new section 113C to introduce Alternative Corporate Tax on companies.
Clause 6(20)	Seeks to amend section 114 to exempt non-resident members of professional bodies from filing return.
Clause 6(21)	Seeks to make a technical correction in section 122B.
Clause 6(22)	Seeks to make a technical correction in section 127.
Clause 6(23)	Seeks to amend section 130 to change eligibility criteria for appointment as member of Appellate Tribunal.
Clause 6(24)	Seeks to amend section 148 to provide for final taxation of ship-breaker.
Clause 6(25)	Seeks to amend section 149 to stipulate rates of taxation of Director's fee.
Clause 6(26)	Seeks to make a technical amendment to section 150.
Clause 6(27)	Seeks to amend section 151 to stipulate deduction of tax on profit on debt from non-filers at higher rate.
Clause 6(28)	Seeks to amend section 153 to stipulate manner of taxation of sportsperson.
Clause 6(29)	Seeks to make a grammatical correction in section 156.
Clause 6(30)	Seeks to make a grammatical correction in section 159.
Clause 6(31)	Seeks to make a grammatical correction in section 169.
Clause 6(32)	Seeks to add section 181AA to make NTN mandatory for electricity and gas connection.
Clause 6(33)	Seeks to provide for appointment of Special Judge.
Clause 6(34)	Seeks to amend section 231B to stipulate withholding tax purchase or transfer of private motor vehicles and reduce and amend the scope of withholding tax on registration.
Clause 6(35)	Seeks to add new sections to introduce withholding tax on domestic electricity consumption and steel melters.
Clause 6(36)	Seeks to make air lines withholding agents instead of travel agents.

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Clause 6(37)	Seeks to add new section 236k to introduce withholding tax on purchase of immovable property, international tickets and bonus shares.
Clause 6(38)	Seeks to make a grammatical correction to section 239.
Clause 6(39)(I)(A)(i)-(ii)	Seeks to reduce the rate of tax payable by a disabled person by 50% on income up to Rs.1 Million and make a technical amendment.
Clause 6(39)(I)(B)	Seeks to amend rate of tax on dividend.
Clause 6(39)(I)(C)	Seeks to amend rate of tax on capital gains.
Clause 6(39)(I)(D)	Seeks to make a technical amendment.
Clause 6(39)(I)(E)	Seeks to make a technical amendment consolidation the rate of tax u/s 113 in one place.
Clause 6(39)(II)	Seeks to stipulate and consolidate the rate of tax collected under section 148.
Clause 6(39)(III)	Seeks to make a technical correction by deleting Division IIA of Part II of First Schedule.
Clause 6(39)(IV)(a)	Seeks to stipulate rate of withholding tax on profit on debt from non-filers above Rs.500,000 and dividend.
Clause 6(39)(IV)(b)	Seeks to revise rates of withholding tax under section 153 on contracts, services, supplies.
Clause 6(39)(IV)(c)	Seeks to revise rates of withholding tax under section 153 on certain services.
Clause 6(39)(IV)(d)	Seeks to revise rates of withholding tax on commission on petroleum products.
Clause 6(39)(V)(a)	Seeks to revise rates of withholding tax on commission.
Clause 6(39)(V)(b)	Seeks to revise rates of withholding tax collected with Motor Vehicle Tax.
Clause 6(39)(V)(c)	Seeks to reduce rate of WHT on mobile phones charges.
Clause 6(39)(V)(d)	Seeks to provide rates of deduction of advance tax on cash withdrawal for non-filers in First Schedule.
Clause 6(39)(V)(e)	Seeks to stipulate and revise rates for withholding tax on purchase, registration and transfer of private motor vehicles.
Clause 6(39)(V)(f)	Seeks to provide rates of deduction of advance tax on sale of immovable property for non-filers in First Schedule.

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Clause 6(39)(V)(g)	Seeks to reduce rate of withholding tax on functions and gatherings.
Clause 6(39)(V)(h)	Seeks to provide rates of withholding tax on purchase of immovable property, domestic electricity consumption and certain international air tickets.
Clause 6(40)(I)(a)	Seeks to make a technical amendment deleting clause (4) of Pt I of 2nd Schedule.
Clause 6(40)(I)(b)	Seeks to make a technical amendment deleting clause (35) of Pt I of 2nd Schedule.
Clause 6(40)(I)(c)	Seeks to grant exemption to Sind Pension Fund.
Clause 6(40)(I)(d)& (e)(i)&(ii)	Seeks to delete and amend certain clauses for technical reasons and to revamp taxation of non-profit Organizations.
Clause 6(40)(I)(e) (iii)	Seeks to grant exemption to Greenstar Social Marketing (Guarantee) Limited.
Clause 6(40)(I)(f)	Seeks to make a technical amendment by omitting clauses (81A), (88A), (92A) and (93A) of Part I of 2nd Schedule.
Clause 6(40)(I)(g)	Seeks to make a consequential amendment to exemption to income of Mutual Funds in Second Schedule.
Clause 6(40)(I)(h)	Seeks to delete clause 126 of Part-I of Second Schedule for technical reasons.
Clause 6(40)(I)(i)	Seeks to grant exemption to China Overseas Ports Holding Company Limited.
Clause 6(40)(I)(j)	Seeks to grant exemption to food processing & preservation units established at Makran Division, Malakand Division, Gilgit Baltistan and FATA.
Clause 6(40)(I)(k)	Seeks to grant exemption to coal mining projects supplying coal to power generation projects.
Clause 6(40)(I)(l)	Seeks to make technical amendment by omitting clauses (135) of Part I of 2nd Schedule.
Clause 6(40)(II)(a)	Seeks to stipulate lower rate for certain contracts if foreign exchange is brought into Pakistan.
Clause 6(40)(II)(b)	Seeks to make technical amendment by omitting clauses (3A), (9B), (9C), (13E), (13HH), (13HHH) and (17) of Part II of 2nd Schedule.

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Clause 6(40)(II)(c)	Seeks to grant concession to industrial undertakings set up through FDI.
Clause 6(40)(II)(d)	Seeks to make technical amendment by omitting clauses (19), (20), (23), (24), (24B), (29) and (30) of Part II of 2nd Schedule.
Clause 6(40)(III)(a)	Seeks to amend taxation of flying allowance.
Clause 6(40)(III)(b)	Seeks to omit clause (1A) for technical reasons.
Clause 6(40)(III)(c)	Seeks to reduce tax on flying allowance.
Clause 6(40)(III)(d)	Seeks to make technical amendment by omitting clauses (5), (7), (8), (9), (10), (11), (12), (13), (14) and (15) of Part III of 2nd Schedule.
Clause 6(40)(IV)(a)	Seeks to grant exemption to steel melters and ship-breakers.
Clause 6(40)(IV)(b)	Seeks to make technical amendment by omitting clauses (10) and (10A) of Part IV of 2nd Schedule.
Clause 6(40)(IV)(c)	Seeks to make a technical amendment in clause (v) of Part-IV of Second Schedule.
Clause 6(40)(IV)(d)	Seeks to make a technical amendment by omitting certain clauses of Part-II of Second Schedule.
Clause 6(40)(IV)(e)	Seeks to make technical amendment to clause (38C) of Part III of 2nd Schedule.
Clause 6(40)(IV)(f)	Seeks to omit clauses (41A), (41AA) and (41AAA) of Part IV of 2nd Schedule withdrawing options to file return under certain circumstances.
Clause 6(40)(IV)(g)	Seeks to add new clauses to Part IV of 2nd Schedule exemption from final tax regime to certain person earning income from imports, supplies, contracts, certain services and commission on petroleum products or otherwise subject to certain conditions including minimum tax.
Clause 6(40)(IV)(h)	Seeks to clarify WHT deduction by large trading houses.
Clause 6(40)(IV)(i)	Seeks to technical amendment by omitting clauses (80), (84), (85), (87) and (88) of Part IV of 2nd Schedule.
Clause 6(41)	Seeks to reduce rate of initial depreciation on buildings.
Clause 6(42)	Seeks to amend Seventh Schedule to stipulate allocation of expenses to different classes of income by banks.

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FEDERAL EXCISE ACT, 2005

Clause 7(1)	Seeks to add a new proviso, after the proviso to sub-section (4) of section 13.
Clause 7(2)(a)(i)	Seeks to substitute S. No. 9 and 10 of Table-I of the First Schedule.
Clause 7(2)(a)(ii)	Seeks to substitute the words "five per cent of the retail price" for the words "four hundred rupees per metric ton" in column (4) in S. No. 13 in Table-I in the First Schedule.
Clause 7(2)(a)(iii)	Seeks to add the words "imported motor" for the word "motor" in column (2) in S. No. 55 in Table-I in the First Schedule.
Clause 7(2)(a)(iv)	Seeks to substitute the figures and hyphen "2012-13" for the words "of the current financial year" in the sub-heading of the heading "Restrictions" in Table-1 of the First Schedule.
Clause 7(2)(b)(i)(a)	Seeks to substitute the words "five thousand" for the words "three thousand eight hundred and forty rupees" in column (4) in S. No. 3(b) in Table-II in the First Schedule.
Clause 7(2)(b)(i)(b)	Seeks to substitute the words "ten thousand" for the words "six thousand eight hundred and forty rupees" in column (4) in S. No. 3(b) in Table-II in the First Schedule.
Clause 7(2)(b)(ii)(a)	Seeks to add the comma and words ", excluding such services in the area of a Province where such Province has imposed Provincial sales tax and has started collecting the same through its own Board or Authority, as the case may be" after the word "services" in column (2) against S. No. 6 in column (1) of Table-II in the First Schedule.
Clause 7(2)(b)(ii)(b)	Seeks to substitute the word "Eighteen" for the word "nineteen" in column (4) against S. No. 6 in column (1) of Table-II in the First Schedule.
Clause 7(2)(b)(iii)	Seeks to add S. No. 15 and entries relating thereto in columns (2), (3) and (4) after S. No. 14 in Table-II in the First Schedule.

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AMENDMENT OF ACT XXI OF 2011

Clause 8(1)	Seeks to amend section 3 of the Gas Infrastructure Development Cess Act, 2011. A new proviso is being inserted to provide flexibility to federal government to reduce the GIDC rate on any category on consumers on socio economic considerations.
Clause 8(2)	Seeks to amend Schedule 1 of the Gas Infrastructure Development Cess Act, 2011. The name of Oil and Gas Development Company is being included to levy GIDC on gas being sold by it to power sector. Any other company which may enter into direct sale to any category of consumers will also be included in this Schedule.
Clause 8(3)	Seeks to amend Schedule 2 of the Gas Infrastructure Development Cess Act, 2011. The GIDC rates are being proposed to be rationalized and to generate additional funding.

INCOME SUPPORT LEVY

Clause 9	Seeks to repeal Income Support Levy Act of 2013.

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SALIENT FEATURES

SALIENT FEATURES
INCOME TAX BUDGETARY MEASURES 2014-15

Incentives for less developed areas, agriculture and investment

1. To help the locally grown fruits in Balochistan Province, Malakand Division, Gilgit-Baltistan and FATA reach the bigger markets and to promote investment, growth and employment in these areas, a five years income tax exemption is proposedfor persons setting up processing plants for locally grown fruits.
2. To encourage electricity generation from local coal, it is proposed to exempt the profits and gains of coal mining projects in Sindh supplying coal exclusively to power generation projects and also to tax their dividends at reduced rate of 7.5%.
3. The rate of capital gains tax was to increase from 10% to 17.5% with effect from 01.07.2014. In order to avoid a sharp increase in rate which might negatively affect markets, the rates have been rationalized, and the CGT rates are proposed to be 12.5% for securities held up to 12 months and 10% for securities held for a period which is between 12 to 24 months.
4. To attract, Foreign Direct Investment, generate employment and attract inflow of foreign exchange in Pakistan, the corporate tax rate is to be reduced to 20% if the investment is in a new industrial undertaking to be set up by 30.06.2017 and at least 50% of the project cost including working capital is through FDI in equity.
5. In order to promote corporatization and in accordance with the commitment made by government, the corporate tax rate is to be reduced by one per centto 33% for tax year 2015.
6. To encourage employment of the disabled persons and to provide relief to them it is proposed to reduce tax liability of such persons on income up to Rs. 1 million by 50%.
7. Income Support Levy Act was promulgated through the Finance Act, 2013. The aim was to provide resources for the economically distressed persons. However, this measure has caused some concerns among public. It is therefore proposed to repeal the Income Support Levy Act, 2013.
8. The non-resident companies investing in Pakistan generally create a joint venture with a local entity and the contract receipts of such joint ventures were taxed as final tax in the hands of the joint venture which constitutes an AOP. To facilitate, the non-residents, it is proposed that if

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one member of the joint venture is a company, it should be taxed separately at the applicable rate while the individuals should be taxed as an AOP separately.

9. For development of Gawadar coast, the concessions earlier granted to PSA Gwadar PTE Limited through agreement dated 06.02.2007 are proposed to be transferred to "China Overseas Ports Holding Company Limited" for the remaining period.
10. At present, the rate of advance income tax on functions and gatherings is 10%. It is creating hardship for the public and even for the middle class due to high rate. It is to be reducedto 5%.
11. On request of Sindh Government, Sindh Pension Fund is exempted from Income tax.
12. In view of hardship caused by steep increase in rates last year, it is proposed that the entire amount of flying allowance exceeding an amount equal to the basic salary be taxed at a concessional rate of 7.5%.
13. To facilitate the steel sector it is proposed that every steel melter, steel re-roller, composite unit of melting, re-rolling and MS cold shall pay tax at the rate of one rupee per unit of electricity consumed with electricity bill and they will be exempted from deduction of tax from their suppliers. They can opt out of this option.
14. Reduction in rate of tax withheld on mobile phone charges is reduced from 15% to 14%.

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<u>Increasing Cost of Doing Business for Non-compliant</u>

1. It is proposed that Airlines may collect advance tax at the rate of3% on the sale of first class and club/executive class air tickets if the passenger is a compliant taxpayer, and 5% tax if the passenger is a non-compliant person.
2. To document and bring into tax net the real estate transactions it is proposed that an adjustable advance tax be collected on purchase of immovable property at the rate of tax is 1% for complaint taxpayers and 2% for non-compliant persons. However, properties with value less than 3 million and schemes introduced by the government for expatriate Pakistanis will be excluded.
3. For domestic electricity consumers, it is proposed to collect adjustable advance tax @ 7.5% on the monthly bill of above Rs.100,000.
4. In order to promote tax culture, discourage non-compliance with tax laws and address the concerns of citizens who pay due taxes regarding them having higher cost of business than tax evaders, certain measures have been introduced to increase the cost of non-compliance with the tax laws. Accordingly, it is proposed that an advance adjustable income tax, in

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addition to the tax collectable from return filers, be collected from persons who do not file income tax returns on certain transactions at rate of 5% for dividend income, 5% for interest income above Rs.500,000, 0.2% for cash withdrawals from banks and 0.5% in case of advance capital gain tax collected from seller of immovable property.

Any person can avoid the payment of this advance tax by prior filing of return or can claim adjustment or refund of the advance tax deducted by filing return after the payment.

5. It is proposed that tax at the same rate be collected by the manufacturers of motor vehicles as is prescribed for registration of new locally manufactured private motor vehicle. If the person registering a motor vehicle for the first time is the same person who purchased the car locally or imported it, and paid tax at that stage, then the Excise and Taxation Departments will not collect the advance tax at the time of registration. In addition, currently the highest rate of tax is for vehicles above 200CC. It is also proposed that two higher slabs may be added for vehicle from 2501 to 3000cc and above 3000cc with higher rates of tax. For non-filers the rates will be double.

Removing Tax distortions and Inequities

1. In order to ensure deduction of tax on capital gains on debt securities, it is proposed that debt securities be included in the definition of securities. However, companies shall be excluded from such deduction.
2. To discourage perpetual declaration of losses or very low income using tax avoidance means by companies, an alternate corporate tax @ 17% is proposed to be imposed on accounting income excluding the exempt income. The companies shall have to pay ACT or corporate tax whichever is higher. In order to facilitate companies that have genuinely low income for some period of time, the ACT paid is proposed to be carried forward up to 10 years.
3. Proportionate allocation of expenses against different sources of income in the case of banks is to be stipulated in law, as is already the case in non-banking businesses.
4. Considering that persons providing or rendering services usually enjoy high profit margins due to low costs, the existing rates deduction of tax on services at 6% and 7% for corporate and non-corporate taxpayers respectively, are to be rationalized and enhance to 8% in corporate cases and 10% in other cases.
5. Due to buildings having a long useful life, the rate of initial depreciation on buildings is proposed to be reduced to 10%.

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6. It is proposed that Non-profit entities be granted a 100% tax credit instead of exemption.
7. To broaden the tax net it is proposed to make obtaining NTN a compulsory condition for obtaining commercial/industrial electricity and gas connections.

Removing Exemptions to special interest groups:

1. Commission agents are taxed under Final Tax regime at the rate of 10% on commission paid. For advertising agents, the rate of tax is 5%. It is proposed that 10% rate, as is applicable to other commission agents, be applied, to advertising agents as well.
2. Income of Foreign News Agencies is not exempt under the Ordinance. However, payments to these agencies are exempt from withholding tax. As agencies are not present in Pakistan, their agents do not file returns and income escapes assessment. It is proposed that, exemption from deduction of withholding tax be withdrawn.
3. There are certain distortions and inequities in the tax system and in such cases tax structure, rather than economic incentives, favours choice of one sector or manner of conducting business over the other. To remove such distortions in mutual fund industry it is proposed that Mutual Fund distribute dividend in cash only and that the rate of tax applicable to the dividend distributed by Mutual Fund be same as is applicable to class of income received by Mutual Fund. However, to encourage Mutual Funds the rate of tax on dividend distributed by Mutual Fund to companies in respect of interest income shall be 25% instead of 33% applicable to companies.
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4. Dispute huge number of bonus shares issued, the amount of tax paid on account of capital gains on bonus shares is very small. In order to discourage tax avoidance in this area, it is proposed that bonus shares be treated as dividend and taxed deducted at the rate of 5% the ex-bonus price of the shares.
5. Currently, foreign institutional investors in stock exchanges are neither voluntarily paying due taxes on capital gains by filing returns nor are they subject to deduction of tax like many other investors. To prevent loss of revenue, it is proposed to bring FIIs under the withholding tax regime.
6. In order to increase documentation of economy and to increase cost of non-documentation, it is proposed that rate of deduction of tax at source be enhanced in the case of commercial importers by 0.5%, resident and non-resident contractors by 1%, suppliers by 0.5%, payments made by exporters/export houses on account of services of stitching, dying, printing, embroidery, sizing, weaving by 0.5%, petrol pump operators by

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2% and commission agents by 2%. However, they will have the option of filing returns and accounts in which case the current rates of tax deduction will be minimum tax rates for them. If chose not to file the return the tax deducted will be final tax.

7. Rates of adjustable advance income tax collected with Motor Vehicle Tax from private cars under section 234 were last revised in 2008. In order to account for inflation the rates are proposed to be revised and brought closer to the tax collected by provincial motor vehicle authorities.

8. It is proposed that advance income tax be collected by Excise and Taxation Departments on transfer of private motor vehicles for a period of 5 years. The rate of tax will be same as that for registration of a new motor vehicle and will be reduced by 10% in each of subsequent years.

SALIENT FEATURES
SALES TAX & FEDERAL EXCISE BUDGETARY MEASURES
(FY 2014-15)

The budgetary measures pertaining to Sales Tax & Federal Excise are primarily aimed at:

1. Rationalization of sales tax on steel sector, ship breakers and steel melters operating in the sugar mills

   Enforced through amendment in the Sales Tax Special Procedure Rules, 2007, effective from 01.07.2014.

2. Registration of retailers on two tier system basis whereby (i) retailers part of national and international chains, located in air-conditioned malls having debit and credit machines; (ii) chargeability of the sales tax @ 5% in case of monthly electricity bill upto Rs. 20,000 and @ 7.5% of the monthly electricity bill exceeding Rs. 20,000

   Enforced through amendment in the Sales Tax Special Procedure Rules, 2007, effective from 01.07.2014.

3. Restricting undue claims of input tax. Input tax adjustment is proposed to be restricted only to the extent of goods and services actually used in manufacturing/sales of the taxable activity

   Enforced through Finance Bill, 2014, effective from 01.07.2014.

4. Electronic scrutiny and intimations system is to be introduced. It will conduct all checks and analysis objectively and will issue electronic intimations to the taxpayers

   Enforced through Finance Bill, 2014, effective from 01.07.2014.

5. Replacement of capacity tax on aerated waters. The capacity regime has led to excessive litigation and the Lahore High Court has passed

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order against the scheme. Therefore, the existing scheme shall be reverted to the normal tax regime.

Enforced through rescission of the Federal Excise Duty and Sales Tax on Production Capacity (Aerated Waters) Rules, 2013, effective from 01.07.2014.

6. The rates of Federal Excise Duty on cigarettes are proposed to be enhanced.

   Enforced through Finance Bill, 2014, effective from 01.07.2014.

7. Federal Excise Duty on the cement sector is being replaced from specific basis (Rs. 400 per MT) to 5% on retail price.

   Enforced through Finance Bill, 2014, effective from 01.07.2014.

8. Federal Excise Duty on international travel is being enhanced.

   Enforced through Finance Bill, 2014, effective from 01.07.2014.

9. Federal Excise Duty on chartered flights is being proposed to be levied at the standard rate on full amount charged

   Enforced through Finance Bill, 2014, effective from 01.07.2014.

10. Further tax charged @ 1% on supplies made to unregistered persons is being specifically excluded from the purview of output tax.

    Enforced through Finance Bill, 2014, effective from 01.07.2014.

11. Transposition of SRO 575(I)/2006 to schedules with certain changes. In accordance with the policy of reviewing SROs, it is proposed to charge following seven sectors i.e. Sr. No. 2, 3, 4, 9, 15, 20 and 30 of SRO at reduced rate of 5% sales tax. The concessions for the socially sensitive sectors shall be retained. However, the concessions against S. No. 8, 16, 17, 24, 25, 32, 33, 37 and 38 shall be withdrawn.

    Enforced through Finance Bill, 2014, and rescission of the notification, effective from 01.07.2014.

12. Transposition of SRO 727(I)/2011 to Schedule with 5% rate of sales tax. This notification grants exemption on import and supply of plant and machinery not manufactured locally subject to certain conditions. It is proposed to charge sales tax at reduced rate of 5% on such plant and machinery, subject to the same conditions, by transferring the notification to the relevant Schedule of the Sales Tax Act, 1990.

    Enforced through Finance Bill, 2014, and rescission of the notification, effective from 01.07.2014.

13. Transposition of SRO 549(I)/2008, dated 11.06.2008 to Fifth Schedule. This notification grants zero-rating on certain goods,

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including petroleum crude oil, certain raw materials for export oriented sectors, etc. Since this zero-rating is considered essential, while the notification is required to be deleted, it is proposed to transfer the items in the notification to the Fifth Schedule of the Sales Tax Act, 1990.

Enforced through Finance Bill, 2014, and rescission of the notification, effective from 01.07.2014.

14. Transposition of SRO 551(I)/2008, dated 11.06.2008 to Schedules with certain changes. This notification grants exemption to a number of goods such as raw material for pharmaceutical industry, iodized salt, medical equipment, components of energy saver lamps, renewable energy items, raw cotton and oil seeds for sowing etc. It is proposed to continue the exemption on certain items i.e. at S. No. 3, 4, 5, 7, 11, 13, 14, 16 and 29 of this SRO by transferring them to the Sixth Schedule of the Sales Tax Act, 1990. Re-meltable scrap (S. No. 31) is proposed to be deleted while oilseed for sowing, and raw and ginned cotton (S. No. 10 and 33) are proposed to be charged to reduced rate of sales tax @ 5% by transferring them to the relevant Schedule of the Sales Tax Act, 1990. However, local supply of raw and ginned cotton shall remain exempt by transferring to the Sixth Schedule.

    Enforced through Finance Bill, 2014, and rescission of the notification, effective from 01.07.2014.

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15. Transposition of SRO 501(I)/2013, dated 12.06.2013 to Schedules with certain changes. This notification grants exemption to certain goods. It is proposed to charge sales tax at reduced rate of 5% on soyabean meal, oil cake and directly reduced iron (S. No. 15, 16 and 21) by transferring them to the relevant Schedule of the Sales Tax Act, 1990. Purpose built taxis (S. No. 25) is proposed to be deleted, being redundant. Exemption on socially sensitive goods, such as wheelchairs and energy saver lamps, is proposed to be retained by transferring them to the Sixth Schedule to the Sales Tax Act, 1990.

    Enforced through Finance Bill, 2014, and rescission of the notification, effective from 01.07.2014.

16. Rescission of SRO 69(I)/2006, dated 28.01.2006. This notification grants reduced rate of sales tax 14% to rapeseed, sunflower seed and canola seed. It is proposed to rescind the said notification, thereby charging standard rate of sales tax (17%) on these seeds.

    Enforced through rescission of the notification, effective from 01.07.2014

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17. Transposition of zero-rating facility for dairy and stationery industry and input materials of these industries. The facility of zero-rating has already been provided under SRO 670(I)/2013, dated 18.07.2013. The facility is retained and the same is proposed to be incorporated in the Fifth Schedule.

    Enforced through Finance Bill, 2014, and rescission of the notification, effective from 01.07.2014.

18. SRO 1125(I)/2011 is being revisited and it is proposed to amend the said SRO to provide for charging of sales tax at the standard rate of 17% on the import of finished articles of leather and textile.

    Enforced through amendment in the notification, effective from 01.07.2014.

19. Withdrawal of FED @ 10% on motor vehicles exceeding 1800cc. FED @ 10% was imposed on motor cars, Sports Utility Vehicles (SUVs) and other motor cars exceeding 1800cc through Finance Act, 2013. Increase in the prices have adversely affected sales resulting in decline in revenue besides hurting the local industry. Therefore, it is proposed to withdraw FED on locally manufactured motor vehicles exceeding 1800cc.

    Enforced through Finance Bill, 2014, effective from 01.07.2014.

20. It is being proposed to grant exemption to high efficiency irrigation equipment and greenhouse farming equipment in order to promote agriculture.www.imranghazi.com/mtba

    Enforced through Finance Bill, 2014, effective from 01.07.2014.

21. Reduction in rate of sales tax on local supply of tractors is being proposed in order to promote farm mechanization.

    Enforced through amendment in the notification, effective from 01.07.2014.

22. Exemption from sales tax to import and supply of "Cochlear Implants System" (Hearing Aids) is being introduced to facilitate the handicapped.

    Enforced through Finance Bill, 2014, effective from 01.07.2014.

23. Reduction in rate of Federal Excise Duty on Telecommunication Services is being proposed in view of increase in the scope of telecommunication services with the advent of 3G and 4G technologies.

    Enforced through Finance Bill, 2014, effective from 01.07.2014.

24. Exemption on import of plant, machinery and equipment for Gilgit-Baltistan, Balochistan Province and Malakand Division and FATA is

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being proposed to promote industrialization, job creation and economic uplift of the less developed regions.

Enforced through Finance Bill, 2014, effective from 01.07.2014.

25. Amendment in clause (d) of section 4 of the Sales Tax Act, 1990 is being proposed to give effect to the current scheme of law and to suitably align it with the existing scheme.

    Enforced through Finance Bill, 2014, effective from 01.07.2014.

26. Specific rates of sales tax on mobile phones is being introduced to protect the revenue and strengthen the legal support for charging of sales tax.

    Enforced through Finance Bill, 2014, effective from 01.07.2014.

27. An explanation is being inserted in section 40B for its independent operation vis-à-vis provisions of section 40 whereunder search warrants are required from the Magistrate.

    Enforced through Finance Bill, 2014, effective from 01.07.2014.

28. Through Amendment Ordinance, 2014, sub-section (8) of section 3 and section 3B of the Sales Tax Act, 1990 were substituted. It is being proposed to get approval of the Parliament to the changes made through the President Ordinance.

    Enforced through Finance Bill, 2014, effective from 01.07.2014.

29. Uniform treatment of crude palm oil is being proposed so that exemption of sales tax and charging Federal Excise Duty is being done as in case of other edible oils.

    Enforced through Finance Bill, 2014, effective from 01.07.2014.

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30. Provision for specifying zones for the purpose of charging sales tax and Federal Excise Duty on the basis of prices in respective zones.

    Enforced through Finance Bill, 2014, effective from 01.07.2014.

31. Exclusion of Federal Excise Duty on Telecommunication Services subject to Provincial Sales Tax is being proposed.

    Enforced through Finance Bill, 2014, effective from 01.07.2014.

SALIENT FEATURES
CUSTOMS BUDGETARY MEASURES 2014-15

Objectives:

- Relief to general Public
- Tariff Rationalization
- Reducing discretionary powers

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- Balancing controls and facilitation

RELIEF MEASURES:

(a) In order to encourage industrialization and promote fruit cultivation, plant, machinery and equipment imported for setting up fruit processing and preservation industrial units in Gilgit-Baltistan, Balochistan and Malakand Division exempted from whole of customs duty.

(b) To generate employment and encourage industrialization, plant, machinery and equipment imported for setting up industries in FATA, exempted from whole of customs duty.

(c) Customs duty on UPS (PCT code 8504.4010) reduced from 20% to 15%to provide relief to general public.

(d) Customs duty on petroleum coke not-calcined (PCT code 2713.1100) decreased from 5% to lowest slab of 1% to reduce input costs for manufacturing concerns.

Review Of Concessionary Regime (SROs):

Exemptions and concessions allowed under various SROs reviewed to minimize exemptions. Concessions considered non-essential, and which were minimally utilized withdrawn. Concessions considered socially sensitive retained. Essential concessions retained on enhanced concessionary rates by incorporating in newly added Fifth Schedule to the Customs Act

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Tariff Rationalization Measures:

(a) Maximum general tariff rate of 30% reduced to 25%.

(b) Exemption of duty and taxes on Hybrid Electric Vehicles (HEVs) rationalized: HEVs upto 1800 cc granted 50% exemption of duty and taxes and above 1800 cc granted 25% exemption of duty and taxes.

(c) Substitution of 0% duty slab with 1% customs duty in Tariff. Socially sensitive items continued at 0% in new Fifth Schedule to the Customs Act.

(d) Customs duty on networking equipments increased from 5% to 10%.

(e) Fixed amounts of duty and taxes on used vehicles revised upward by 10% approximately.

(f) Customs duty on flat-rolled products of alloy steel (PCT codes 72.25 and 72.26) increased from 0 and 5% to 10% to bring them at par with flat-rolled products of non-alloy steel.

(g) Customs duty @ 5 % levied on import of generators above 1100 KVA (PCT code 8502.1390).

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(h) A uniform rate of 15% customs duty levied on dyes except basic dyes (3204.1300) and indigo blue dyes (3204.1510) being used in textile sector.

(i) A uniform rate of 10% customs duty on all kinds of CDs/DVDs of PCT codes 8523.4000 levied.

(j) Customs duty on flavouring powders (PCT code 2106.9030) enhanced from 10% to 20% to avoid misclassification

(k) A uniform rate of 10% levied on Liquid paraffin (PCT code 2710.1995) and White oil (PCT 2710.1996) being same in nature.

(l) Customs duty on dryers (PCT code 8421.1900) increased from 5% to 10%.

(m) A uniform rate of 15% levied on starches (PCT code 11.08) to rationalize duty structure and avoid classification disputes.

(n) Customs duty on coloring matters (PCT code 3206.4990) enhanced from 5% to 10% to reduce the chance of misclassification.

(o) Customs duty on Satellite mobile phones whether or not functional on cellular networks (PCT code 8517.1230) reduced from 25% to 10%.

Revenue Measures:

Regulatory duty levied on luxury goods.

Legislative Changes:

Following changes made in the Customs Act, 1969:

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(a) In section 2, clauses (k) and (m) merged in a single definition of "customs-station".

(b) In section 7, words "Central Excise" substituted with the word "Federal Excise".

(c) In section 18, new subsection 1A is inserted to add the Fifth Schedule to the Customs Act, 1969 to levy specified conditional rates of customs duty on goods and class of goods.

(d) In section 18A the words "Central Excise and Salt Act, 1944" substituted with the words "Federal Excise Act, 2005"

(e) To ensure rational applicability of valuation data in cases of imported goods, clause (d) of sub-section (5) of section 25 omitted. Resultantly, reference to clause (d) in sub-section (6) also omitted.

(f) The word "taxes" inserted in sub-sections (2), (3) and (3A) of section 32 to recover non-levied and short levied taxes.

(g) The words "taxes and other charges levied thereon" inserted in sub-section (3) of section 80 to include taxes and other charges on reassessment of goods.

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(h) For uniformity of the two provisions in subsection (1), the words "taxes and other charges levied thereon" inserted.

(i) Under the Control of Narcotics Substances Act, 1997 cases involving narcotics and narcotic substances are to be tried in Special Courts created under the said Act. Necessary change made in section 185B.

(j) In Sub-sections (3) of section 194 the words "Customs and Excise Group" are proposed to be substituted by "Customs Service of Pakistan" in line with section 202B. Further, the word "five" is proposed to be substituted with the word "three" to bring experience of a senior Collector for appointment as technical member of the Appellate Tribunal, at par with section 130 of Income Tax Ordinance, 2001.

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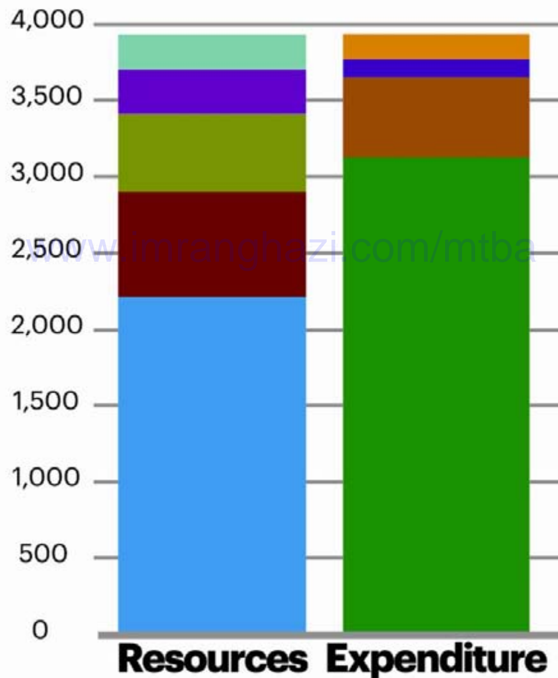
BUDGET AT A GLANCE
[2014-15]

Budget 2014-2015 at a glance

Rs. in Billion



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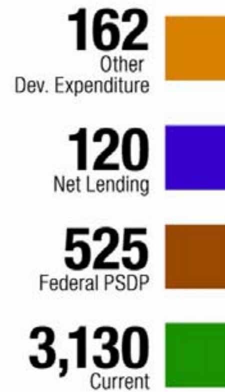

Breakup of Net Revenue Receipts

Tax revenue | **3129**
Non-tax revenue | **816**
Gross revenue receipts | **3946**
Provincial share | **1720**

Breakup of Current Expenditure

Interest payment | **1325**
Pension | **215**
Defence | **700**
Grants & transfer | **371**
Subsidies | **203**
Running of Civil Govt. | **291**
Provision for pay & pension | **25**

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Budget Brief 2014-15

Salient Features of Revenue Measures 2014-15

Revenue measures of Rs. 231 billion announced:

- Income Tax Rs. 149.2 Billion
- Sales Tax Rs. 149.2 Billion
- Customs Duty Rs. 149.2 Billion
- Two-third of new measures relate to Income Tax, i.e., Direct Taxes
- Share of Direct Taxes shall increase from 36% to 37.5%
- Close to half of the revenue measures are based on withdrawal of concessions i.e. over Rs. 100 billion
- New Taxes:
  - on un-covered sectors
  - To reduce distortions
  - Plug loopholes
  - Tax high income and expenditure
  - Increase the cost of doing business for the non-compliant i.e. one who does not file his I.T. return
- No new taxes on common man
- No new taxes on food items
- No increase in rate of Sales Tax

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Proposed Relief Measures

- To encourage industrialization and to promote fruit processing in Gilgit-Baltistan, Baluchistan and Malakand Division, exemption of customs duty and sales tax on import of plant, machinery & equipment
- To encourage industrialization in FATA, plant, machinery and equipment for industries in FATA to be exempt from customs duty and sales tax
- To reduce input cost for industries, customs duty on PET coke as an alternate fuel to coal to be reduced from 5% to 1%
- Exemption from customs duty and sales tax on import and supply of high efficiency irrigation equipment and greenhouse farming equipment for agriculture sector
- Reduce rate of sales tax on local supply of tractors from 16% to 10%

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- Reduced rate of FED on telecommunication services from 19.5% to 18.5% and withdraw FED from provinces where the GST on telecom services has been levied
- Reduced withholding tax on telecom services from 15% to 14%
- Encouraging Foreign Direct Investment by reducing the corporate tax for foreign investment from 33% to 20% for five years
- Rationalization of Capital Gains Tax for sustaining buoyancy in capital markets: from 17.5% to 12.5% for holding period up to 12 months, 10% for holding period of more than 12 months and up to 24 months
- Reduction in corporate tax rate from 34% to 33%
- 50% reduction in tax liability of a disabled person
- Repeal of Income Support Levy Act, 2013
- Taxation of Joint Venture in which one member is a company- Company to be taxed separately from the AOP in its corporate capacity
- Reduction of advance tax on functions/gathering from 10% to 5%
- Exemption from Income Tax to Sindh Pension Fund
- Income tax relief provided to airline pilots

Explanatory notes to budgetary measures for Income Tax proposed in Finance Bill 2014

I. Incentives for Less Developed Areas, Agriculture and Investment:

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- **Five years tax exemption for food processing plants in certain areas:**

Locally grown fruits in Baluchistan Province, Malakand Division, Gilgit Baltistan and FATA are of high quality but due to absence of any fruit processing units, these perishable items get wasted before reaching the market. In order to encourage investment in this sector, it has been proposed that income derived by a taxpayer from plants set up in these areas for processing locally grown fruits be made exempt for a period of five years if the plant is set up by 30.06.2017.

- **Exemption from Income Tax to coal mining projects in Sindh supplying coal exclusively to power generation projects, and reduced rate on dividends distributed by them:**

The government is taking all possible measures to tackle the current energy crisis in the country using indigenous resources. The ECC in its decision in case on 28.05.2014 approved exemption to coal mining projects supplying coal exclusively to power generation projects, and also the tax on dividends to be reduced to 7.5% in case of dividends declared by such a

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company. It has therefore been proposed to exempt the profits and gains of coal mining projects supplying coal exclusively to power generation projects and also to tax their dividends at reduced rate of 7.5%.

- **Rationalization of Capital Gains Tax for sustaining buoyancy in capital markets**

A star performer of Pakistani economy during the FY 2013-14 has been the stock market. The rate for payment of Capital gain Tax shall stand increased from 10% to 17.5% w.e.f. 1st July 2015 in case of securities held for a period less than six months. Stock markets as well as investors were demanding to review such high increase in order to save the capital markets from withdrawal of investments and resultant collapse. In order to ensure continued buoyancy prevailing at present without causing a huge loss of revenue to exchequer, CGT rates have been rationalized. Now for the tax year 2015, rate of CGT has been proposed to be 12.5% for securities held up to 12 months and 10% for securities held for a period which is less than 24 months but more than 12 months.

- **Encouraging Foreign Direct Investment:**

To attract foreign investment, if 50% of the cost of a project including working capital is through own equity foreign direct investment, it is proposed that corporate tax rate be reduced to 20% for the first five years, from the date of setting up or commencement of commercial production, whichever is later. To qualify for this scheme, it has been proposed that the company must invest in a new industrial undertaking to be set up by 30.06.2017

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- **Reduction in corporate tax rate from 34% to 33%:**

In order to encourage documentation and corporatization, the Government had committed last year to bring corporate tax rate down by one per cent. In line with the policy of the Government, it has been proposed to reduce the corporate tax rate from 34% to 33% for Tax Year 2015.

- **50% reduction in tax liability for disabled persons:**

At present, tax liability of person aged 60 years or more is reduced by 50% if the taxable income is up to 01 million. The same relief has been proposed to be extended to persons who hold a Computerized National Identity Card for disabled persons issued by the National Database Registration Authority.

- **Repeal of Income Support Levy 2013:**

Income Support Levy Act was promulgated through the Finance Act, 2013. The aim was to provide resources for the economically distressed persons. However, this was considered harsh and perceived as double

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taxation. It has therefore been proposed to repeal the Income Support Levy Act, 2013.

- **Taxation of Joint Venture in which one member is a company**

The non-resident companies investing in Pakistan generally create a joint venture with a local entity and the resultant joint venture can be treated as a resident Association of Persons. The contract receipts of such joint ventures can be subjected to final tax in the hands of the joint venture. The nonresident companies were therefore effectively not able to retain their status as non-resident. To facilitate the non-residents and attract foreign investment, it is proposed that if one member of the joint venture is a company, it should be taxed separately at the applicable rate while the remaining individual members, if any, should be taxed as an AOP separately.

- **Exemption from income tax to Pak-China Withholding Company:**

"PSA Gwadar PTE Limited" was granted exemption from income tax for a period of twenty years through S.R.O 755(I)/2007 dated 27.07.2007 on the basis of concession agreement dated 06.02.2007. The ECC in its decision in case No. ECC-90/14/2014 dated 28.05.2014 had approved the transfer of tax exemption from "PSA Gwadar PTE Limited" to "China Overseas Ports Holding Company Limited" as per transfer of concession agreement dated 16.05.2013. The concessions earlier granted to PSA Gwadar PTE Limited" through agreement dated 06.02.2007 are proposed to be transferred to "China Overseas Ports Holding Company Limited" for the remaining period.

- **Reduction of advance tax on function/gathering from 10% to 5%**

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In the last Finance Act, Advance Tax on functions and gatherings was levied @10% of the amount of bill. Since most of the marriages and other functions are now held in marriage or banquet halls including the functions arranged by the middle and the lower middle classes, hence this levy hit hard these sections of the society who agitated that the Rate of tax is on the higher side . Accepting the general demand, the rate has been proposed to be reduced to 5%.

- **Reduction in rate of income tax withheld from mobile phone subscribers**

Rate of income tax withheld from mobile phone subscribers is proposed to be reduced by 1% to 14%.

- **Exemption from income tax to Green star Social Marketing Pakistan (Guarantee) Limited:**

Greenstar Social Marketing Pakistan (Guarantee) Limited is a non-profit organization and it is engaged in controlling population explosion in Pakistan by providing contraceptives at subsidized rates. In view of the importance and contribution of the organization in controlling population explosion, it is

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proposed to exempt its income by including its name in the list of exempt organizations given in clause (66), Part I of the Second Schedule.

- **Exemption from Income Tax to Sindh pension:**

On request of the Government of Sindh and in view of its contribution to the pensioners, income of Sindh Pension Fund has been proposed to be exempted from the Income Tax.

- **Reduction in rate of income tax on flying allowance paid to pilots:**

The lower rate of tax of 2.5% applicable to the flying allowance of pilots, taxed as a separate block, was restricted to amount equal to one basic salary through Finance Act 2013. In view of hardship caused, it has been proposed that the entire amount of flying allowance exceeding an amount equal to the basic salary be taxed at a concessional rate of 7.5%. The balance income shall be taxed at normal rates applicable to salary income.

- **Exclusion of non-resident members of professional association from filing of returns:**

As per an amendment brought through the Finance Act, 2013, any person who is a member of a professional body or trade association is also required to file return of income. This requirement has caused hardship to those members of associations who are non-residents and derive no Pakistansource income. Accordingly, an amendment has been proposed to be made in the relevant section to exclude such persons from such mandatory requirement of filing of return.

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II. <u>Removing Tax Distortions and incentives:</u>

The main objective of a Taxation system is to provide financial resources for the state that be used for funding the necessary services to the citizens. A tax system has to be equitable and efficient. The modern economy is becoming increasingly complex with prevalence of multinational companies, cross-border investments, on-line businesses and complex financial instruments.

As the Income Tax laws have to cater to all the complexities of a modern economy, these laws tend to be complex with arcane provisions and unintended consequences. Often this leads to opportunities for tax arbitrage and tax avoidance by exploiting loopholes resulting from making tax law hospitable to a wide range of economic activities.

Exploiting opportunities in tax laws through extensive tax planning might be very lucrative, however, such activities provide little to no social or economic value to the broader economy. Society is much better off if that effort is diverted to engaging in activities that are productive and create economic growth and employment.

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The tax structure should not unintentionally create incentives that make businesses prefer one way of doing business over the other. The businesses should only make decision on the basis of objective economic considerations.

Over the years, incentives have crept in to the Income Tax laws that make certain financial transaction or economic activities much more attractive than other, resulting in explosive growth in some activities at the cost of other. This is not desirable. Effort has been made through budgetary measures proposed this year to level the playing field again by removing such distortions still keeping such activities attractive. Such measures are listed below:

- **Misclassification of income**

Taxpayers can earn income from Government Securities, Capital Gains, bank deposits, leasing etc. either directly or through modarabas and mutual funds. If income is earned through modarabas or mutual funds, its class and character is changed to dividend income and the rate of dividend is applicable to it. For example, if a bank and a public company invest directly in government securities, they will be taxed at 35% & 34% respectively. However, if the same investment is routed through a mutual fund, the bank and public company will be taxed at the rates of 25% and 10% respectively. This is due to the reason that character of income is changed from interest to that of dividend when the investment is through a mutual fund which is taxed at a lower rate. In order to discourage tax avoidance and prevent loss of revenue, it has been proposed that the rate be applicable to the dividend distributed by Mutual Fund and Modarabas as is closer to the rate of tax on nature of income received by Mutual Fund. However, to incentivize these sectors, the rate of interest income distributed to companies shall be 25% instead of 35%.

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- **Expense allocation of banking companies**

Business income of banks consists of mark-up, dividend and capital gains. Tax rate for mark-up is 35%, for dividend it varies from 10% to 25% and for capital gains it is 10%. Banks claim most of their expenses against mark-up income so as to reduce the incidence of taxation, as mark-up income has highest tax rate. For fair taxation, it has been proposed that proportionate allocation of expenses in the case of banks be stipulated in law, as is already the case in non-banking businesses.

Alternative corporate tax

To discourage perpetual declaration of losses or very low income using tax avoidance means by companies, an alternate corporate tax at the rate of 17% is proposed to be imposed on accounting income excluding the exempt income w.e.f Tax Year 2014. The companies shall have to pay ACT or corporate tax whichever is higher. In order to facilitate companies that have

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genuinely low income for some period of time, the ACT paid has been proposed to be carried forward up to 10 years.

- **Rationalization of rates of tax deduction on services**

At present the rates for deduction of tax on services are 6% and 7% for corporate and Non-Corporate taxpayers respectively. Considering that persons providing or rendering services usually enjoy high profit margins due to low costs, and that the share of services sector in revenue is much lower than its share in GDP, the existing rates appear to be on lower side as compared to companies, salaried individuals and persons having business. Hence to rationalize, tax rates on services has been proposed to be increased to 8% in case of corporate taxpayers and 10% in other cases.

Relatedly, in order to streamline the taxation of sportsmen on contract, which had been subject of litigation, it has been proposed to make the existing law in line with the court decisions to tax it as contract and enhance the rate to 10% as in case of other persons rendering services.

- **Taxation of debt securities traded on stock exchange**

Tax is deducted under Eighth Schedule in respect of securities defined in section 37A. However, debt securities are not included in this definition. In order to ensure deduction of tax on capital gains on debt securities, it has been proposed that debt securities be included in the definition of securities. However, companies shall be excluded from the application of section 37A under the Eighth Schedule.

- **Reduction in depreciation allowance on buildings**

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Buildings, generally, have a useful life of more than twenty years which means that the annual allowance should be around 5%. However, buildings have initial depreciation allowance of 25% and normal annual depreciation allowance of 10% due to which tax losses are being declared. The rate of initial depreciation on buildings has been proposed to be reduced to 10%.

- **Change in regime of non-profit organizations**

It has been proposed that a new regime for NPOs be stipulated in law where exemption of NPOs be eliminated and instead 100% tax credit be allowed on filing of Return of income. This will result in better enforcement of withholding tax provisions and document an exempt sector.

- **Compulsory registration in certain cases**

In order to broaden the tax base it has been proposed that commercial or industrial connections may not be provided unless the person applying for the same holds an NTN.

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- **Airlines to be withholding agents for domestic air tickets**

Currently travel agents are withholding agents for the advance income tax collected on purchase of domestic air tickets under section 236C of Income Tax Ordinance 2001. In order to facilitate enforcement and prevent loss of revenue it has been proposed that airlines be made withholding agents.

- **Removing anomalies in exemption from section 148 on import of raw materials**

Exemption from tax on import of raw material by an industrial undertaking was allowed through Finance Act, 2013. Procedure for issuing exemption certificate was provided separately through a circular which was challenged before courts on the ground of being ultra vires. In order to remove the anomalies and streamline the law, clause (72B), Part IV of Second Schedule has been proposed to be substituted by a new clause specifying the conditions and procedure for exemption from section 148 in case of industrial undertakings importing raw material.

III. <u>Increasing cost of doing business for non-compliant</u>

It has been a long time gripe of taxpayers that the lax enforcement of tax law means that the cost of doing business for a person who pays taxes is higher than the cost of doing business for a person who does not pay taxes. In view of legitimateness of this complaint and in view of the benefits to the society from the state having ample revenues to provide services to citizens, several measures have been proposed this year that are aimed at promoting tax culture.

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This has been done by proposing higher rate of taxes for non-filers i.e, persons who have not filed returns for preceding year, as compared to filers. If the non-compliant do not want to comply with tax laws, they have to accept payment of advance adjustable income tax on certain transactions. However, to provide a fair and equitable system, the non-compliant have an option to claim refund or adjustment of such advance tax paid at any time by filing return, or they can avoid payment of this tax by prior filing of return.

- **Adjustable advance tax on first/club class international air tickets**

In order to broaden the tax base, document high expenditures and to encourage filing of return, collection of advance income tax at the rate of 3% on purchase of international air tickets in club/executive/first class has been proposed. In case of non-compliant persons (i.e., those who have not filed their return for the preceding tax year) the rate shall be six percent.

- **Adjustable advance tax on purchase of immovable property**

In order to broaden the tax base, document high expenditures and to encourage filing of return, collection of advance income tax at the rate of 1%

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of consideration paid on purchase of immovable property above Rs. 3 Million has been proposed. In case of non-compliant persons the rate of tax shall be 2%.

- **Adjustable advance tax on high end domestic electricity bills**

In order to broaden the tax base, document high expenditures and to encourage filing of return, collection of advance income tax from high end consumers of electricity at the rate of 7.5% on domestic electricity bills of more than Rs.100,000 has been proposed.

- **Increasing cost of non-compliance with tax laws**

In order to promote tax culture, to discourage non-compliance with tax laws and to address the concerns of citizens paying due taxes and resultantly having higher cost of doing business than tax evaders, several measures have been taken to increase the cost of non-compliance with the tax laws. Accordingly, it has been proposed that an additional advance adjustable income tax be collected from persons who do not file income tax returns on certain transactions. The rate of such advance tax is proposed to be 5% for dividend income, 5% for interest income above Rs.500,000, 0.2% for cash withdrawals from banks, and 0.5% in case of advance capital gain tax collected from seller of immovable property. Any person can avoid payment of this advance tax by prior filing of return or claim adjustment or refund of this tax by filing return after the payment.

- **Adjustable advance tax on purchase/registration of new private vehicles**

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Currently advance income tax is collected at the time of registration of new locally manufactured private motor vehicles by Excise and Taxation Departments. No such tax is collected on registration of imported vehicles. It has been proposed that tax at the same rate be collected by the manufacturers of motor vehicles. If the person registering a motor vehicle for the first time is the same person who purchased the car locally or imported it, and paid tax at that stage, then the Excise and Taxation Departments will not collect the advance tax at the time of registration. Otherwise advance tax at the time of registration will be collected. In addition, currently the highest rate of tax is for vehicles above 2000CC. It has also been proposed that two higher slabs may be added for vehicle from 2501 to 3000cc and above 3000cc with higher rates of tax. In case of non-compliant persons (i.e., those who have not filed their return for the preceding tax year) the rate shall be double that for the complaint taxpayer.

- **Rationalization of rates of advance income tax on motor vehicles under section 234**

Rates of adjustable advance income tax collected with Motor Vehicle Tax from private cars under section 234 were last revised in 2008. In order to

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account for inflation the rates are proposed to be revised and brought closer to the tax collected by provincial motor vehicle authorities. In case of non-compliant persons (i.e., those who have not filed their return for the preceding tax year) the rate shall be double that for the complaint taxpayer.

- **Adjustable advance tax on transfer of private vehicles up to five years**

It has been proposed that advance income tax be collected by Excise and Taxation Departments on transfer of private motor vehicles up to a period of 5 years. The rate of tax will be same as that for registration of a new motor vehicle and will be reduced by 10% in each of the subsequent years.

IV. <u>Removing exemption to special interest groups</u>

Exemptions are often at the behest of interest groups having the power and influence to manage changes in tax structure for their benefits. These exemptions serve as entry barrier for SMEs, give preferential treatment to big stakeholders, and sometimes create a de-facto licensing regime.

Even when exemptions are granted for legitimate reasons to protect or promote certain sectors they are seldom reviewed. Eventually they outlive their useful life and lose any productive utility. Sectors continue to be exempt long after they are well established and do not need the support they received from taxpayers in the form of exemption from payment of tax. This makes these sectors un-competitive, in-efficient and adverse to modernisation.

An extensive study of exemptions was carried out this year and several exemptions no longer required have been proposed to be deleted.

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- **Increase in rates of tax deducted from advertising agencies**

Commission agents are taxed under Final Tax regime at the rate of 10% on commission paid. For advertising agents, the rate of tax is 5%. It has been proposed that 10% rate, as is applicable to other commission agents, be applied, to advertising agents as well.

- **Withholding tax on payment to foreign news agencies**

Income of Foreign News Agencies is not exempt under the Ordinance. However, payments to these agencies are exempt from withholding tax. As agencies are not present in Pakistan, their agents do not file returns and income escapes assessment. It is proposed that, exemption from deduction of withholding tax be withdrawn.

- **Large trading houses to withhold tax from suppliers**

Large Trading Houses have been exempted from withholding tax under section 153 on supply of goods. At present neither their tax is being deducted on sales made to them nor are they deducting tax as withholding agent. Exemption from withholding tax was envisaged as recipient of payment for

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sales made by them but not as a payer. It has been proposed that this may be clarified.

- **Withdrawal of exemption to hamdard laboratories**

Hamdard Laboratories is exempt from income tax as a special case. However, since it is being run on commercial basis, it has been proposed that the exemption may be withdrawn.

- **Revampng the exemption of mutual funds**

Mutual Funds are exempt from income tax if they distribute at least 90% of their income on the basis that these are only pass-through entities and earn income on behalf of investors. However, the Mutual Funds often distribute income through bonus units, and due to certain rules relating to taxation of bonus shares, almost no tax is paid on the income distributed by Mutual Funds. It has therefore been proposed that mutual funds be required to distribute income only in cash (as in case of Modarbas), which will be liable to withholding tax @ 10%.

- **Taxation of bonus shares**

A company has the option to issue dividend or bonus shares to its share holders. In case of issuance of dividend, tax is deducted @ 10% in the hands of share holders but no tax is deducted or payable on issuance of bonus shares. This is due to the reason that bonus shares were excluded from the definition of income. However, tax on capital gain is to be charged at the time of disposal of these shares with cost equal to zero. Taking advantage of complex CGT rules (cost staggering, FIFO etc.), tax is being avoided and almost negligible CGT is being paid. During previous year, a huge amount of bonus shares were issued in lieu of dividends, however, neither tax on dividends nor on capital gains was received. It has therefore been proposed that bonus shares be treated as dividend and tax collected at the rate of 5% of the ex-bonus price of the shares.

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- **Taxation of foreign institutional investors (FIIs)**

Eighth Schedule relating to taxation of securities but is not applicable to foreign institutional investors investing in the stock, and NCCPL is not required to collect tax from them. The non-residents are not exempt from capital gains tax under the bilateral treaties for avoidance of double taxation. There is no provision of capital gains tax in Pak-US Treaty meaning that it is to be taxed as per Pakistan law. In the Pak-UK Treaty, it is to be taxed in the state where it arises which means it is to be taxed in Pakistan. The FIIs neither pay tax voluntarily by filing returns nor is tax deducted from them at source. Hence, it has been proposed that NCCPL may be required to collect tax from FIIs.

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- **Making exemptions transparent**

Transparency is a very important for good policy making. Currently, exemptions, including reduced rates, are scattered in a number of clauses in different schedules and within body of law. An effort has been made to delete all the redundant and time barred clauses. All the different rates prescribed for a certain type of income that were scattered throughout the Ordinance have been consolidated in one place. This will reduce the unwieldiness of the law and make the exemptions more open and transparent making it easy to review different regimes more frequently.

Sales Tax & Federal Excise

- Add Retail Sector to the tax-net
- Review and rationalization of SROs
- Rectification in special regimes
  - Steel
  - Beverages

Proposals for Bringing the Non-compliant Sector into Tax Net

Retailers : Two tier System

First Tier

- Big retailers to be brought into normal regime i.e. those
  - Retail outlets operating as part of national or multinational chains
  - in air-conditioned malls
  - having debit or credit cards
  - consuming electricity exceeding Rs. 50,000 per month

  shall be required to be registered in Sales Tax , have electronic cash register and pay Sales Tax on actual basis.

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Second Tier

All other outlets shall be subject to

- Sales Tax to be charged @ 5% on electricity bills up to Rs. 20,000 and @ 7.5% for bills exceeding Rs. 20,000

Steel Sector: Rate of Sales Tax increase from Rs. 4/unit to Rs. 7/unit of electricity.

Federal Excise Duty - Proposed Revision of Federal Excise Duty

- **Revisiting of rates:**

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Cigarette			
Current Retail Price	**Current FED rate**	**Proposed retail price**	**Proposed FED rate**
Locally produced cigarettes If retail price exceeds Rs. 2286 per thousand cigarettes	Rs 2325 per thousand cigarettes	Locally produced cigarettes if retail price exceeds Rs. 2706 per thousand cigarettes.	Rs. 2632 per thousand cigarettes
Locally produced cigarettes if retail price does not exceed RS 2286 per thousand cigarettes	Rs 880 per thousand cigarettes	Locally produced cigarettes if retail price does not exceed Rs. 2706 per thousand cigarettes.	Rs. 1085 per thousand cigarettes

Sector	**Existing**	**Proposed**
Cement	Rs 400/MT	5% of Retail Price. The maximum possible burden of tax will not be more than 4.5/bag. However it is expected that the cement manufacturers will absorb this increase against concession given on PET-coke
International air travel	Rs 3840 (Economy & Economy Plus) Rs 6840 (Club, Business and First Class)	Rs 5000 (Economy & Economy Plus) Rs 10,000 (Club, Business and First Class)
Chartered flights	Nil	16% of full amount charged

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CUSTOMS

Proposal for Tariff Reforms

- Maximum Rate of 30% is proposed to be reduced to 25%. Luxury goods to be subjected to regulatory duty @ 5%
- General Tariff slabs reduced from 7 to 6 in PCT
- Minimum slab of 0% to be replaced by 1%
- Socially sensitive items to be maintained at 0% through inclusion in Schedule i.e. oil, tomatoes, onions, pulses, beans, fertilizers etc.

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This is 'Tax Expenditure' annexure taken from The Economic Survey of Pakistan 2013-14

Annexure-II

Tax Expenditure

Tax expenditure for fiscal year 2013-14 have been estimated at Rs.477.1 billion. Detailed estimates are highlighted below:

Income Tax

Tax expenditure in respect of direct taxes during 2013-14 have been reflected in Table 1:

Table 1: Tax Expenditure of Direct Taxes during 2013-14		(Rs. billion)
S. No.	**Tax Expenditure on various Exemptions and Concessions**	**Estimated Revenue Loss 2013-14**
1.	Pensions and Gratuity	1.000
2.	Income from Funds, Board of Education, Universities and Computer Training Institutions.	11.100
3.	Donations and Contributions to Charitable	2.500
4.	Independent Power Producers	52.030
5.	Income from Certain Trust, Welfare and Charitable institutions non-profitable organizations.	1.910
6.	Profits on Debt/interest from government securities and certain foreign currency accounts/books profit on debt	4.100
7.	Export of Information Technology	0.994
8.	Capital gains	5.000
9.	Other Sectors and enterprise specific exemptions	18.000
	Total:	**96.634**

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Sales Tax

Major exemptions in sales tax and their tax expenditures during 2013-14 are presented in Table 2.

Table 2: Tax Expenditure of Sales Tax for 2013-14	(Rs. billion)
SRO	**Loss of Sales Tax Due to Exemptions**
I. Export Facilitation Schemes	
SRO 450(I)/2011(DTRE & MB)	14.0
SRO 326(I)/2008(EOU)	1.0
SRO492(I)/2009(Temp.same State)	4.0
Sub-Total	**19.0**
II. General and Sector Specific SROs	
SRO 727(I)/2011 (Plant & Machinery)	14.0
SRO 1125(I)/2011 (concessionary rate of sales tax on raw materials, intermediary inputs and finished goods relating to Textiles, Carpets, Leather, Sports & Surgical sectors).	65.0
SRO 549(I)/2008(zero% on specified goods)	94.0
SRO 575(I)/2006 (Machinery, Equipment, Apparatus and Items of Capital Goods)	30.0
SRO 551(I)/2008 (Exemption from ST on import & supply of certain items)	26.0
SRO 69(I)/2006 (levy of ST @ 14% on rapeseed)	1.0
Sub-Total	**230.0**
Grand Total (I+II)	**249.0**

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Customs

Following is the break-up of estimates of tax expenditure of main exemptions in Customs Duties for fiscal year 2013-14. Table-3 shows the position.

Table-3: Cost of Customs Duty Exemption For FY 2012-13 And Estimated 2013-14			(Rs. million)
S.No.	**SRO No. with Date**	**Description**	**Cost of Exemption (estimated) 2013-14**
1.	558(I)/2004 01.07.2004	Concession of Customs Duty on goods imported from SAARC and ECO countries	290.3
2.	570(I)/2005 06.06.2005	Exemption from Customs Duty on imports from Sri Lanka	732.6

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3.	1296(I)/2005 31.12.2005	Exemption from Customs Duty on import into Pakistan from China	12.1
4.	894(I)/2006 31.08.2006	Exemption from Customs Duty on import into Pakistan from Iran under Pak-Iran PTA.	22.3
5.	1274(I)/2006 29.12.2006	Exemption from Customs Duty on imports into Pakistan from under SAFTA Agreement	796.2
6.	659(I)/2007 30.06.2007	Exemption from Customs Duty on imports into Pakistan from China	21,464.1
7.	1151(I)/2007 26.11.2007	Exemption from customs Duty on goods imported from Mauritius.	3.4
8.	1261(I)/2007 31.12.2007	Exemption from Customs Duty on imports into Pakistan from Malaysia	2,909.1
9.	565(I)/2006 05.06.2006	Conditional exemption of Customs Duty on import of raw materials and components etc. for manufacture of certain goods (Survey based)	10,761.4
10.	567(I)/2006 05.06.2006	General and conditional exemption of Customs Duty (non survey)	32,515.7
11.	678(I)/2004 12.6.2004	Exemption of Customs Duty and Sales Tax to Exploration and Production (E&P) companies on import of machinery equipment & vehicles etc.	6,714.4
12.	575(I)/2006 05.06.2006	Exemption from Customs Duty and Sales Tax on import of specified machinery, equipment, apparatus and items	21,780.3
13.	655(I)/2006 22.06.2006	Exemption from Customs Duty for vendors of Automotive Sector	11,471.1
14.	656(I)/2006 22.06.2006	Exemption from Customs Duty for OEMs of Automotive Sector	17,823.4
15.	809(I)/2009 19.09.2009	Exemption of Machinery & Equipment, if imported by Textile Industrial Units	2,646.7
16.	741(I)/2013 28.08.2013	Exemption from Customs Duty on imports into Pakistan from Indonesia under Pak-Indonesia PTA.	1,508.2
		Total:	**131,451.3**

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Following is the consolidated summary of tax expenditure for the fiscal year 2013-14 given in Table-4.

Table 4: Tax Expenditure of Federal Taxes for 2013-14		(Rs. billion)
S. No.	**Type of Tax**	**2013-14**
1.	Income Tax	96.6
2.	Sales Tax	249.0
3.	Customs Duty	131.5
	Total:	**477.1**

Source: Federal Board of Revenue

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This is 'Chapter 4' of The Economic Survey of Pakistan 2013-14

A sound and prudent fiscal policy is considered to be an important determinant of achieving inclusive growth because it helps in attaining desired economic and social objectives through efficient combination of government expenditures and taxation. This way it ensures fiscal prudence which not only deals with fiscal risks and high public debt but is also indispensable for reducing poverty and improving social outcomes.

There is a wide consensus that a sound fiscal policy not only promotes macroeconomic stability but also directs more public resources to social development. Hence there is a dual impact of fiscal policy on the economy. First it helps to encourage the inclusive growth through public spending and secondly it maintains fiscal sustainability through public revenues.

While recognizing the importance of fiscal discipline for inclusive growth, countries around the world place fiscal restraint at the top of their economic agenda. Recent data reveals that advanced countries (except Japan, where fiscal consolidation plan is expected to start this year) have successfully narrowed down the fiscal deficit through fiscal consolidation plan, however, underlying fiscal vulnerabilities are still high on account of persistently high debt, weak growth prospects due to risks to fiscal forecasts along with medium term policy uncertainty and persistent deflationary concerns. Fiscal deficit in advanced economies is projected to remain at 4.3 percent in 2014 against 6.2 percent recorded in 2012.

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Fiscal vulnerabilities are equally high in emerging and low income countries. As deficit remained significantly high as most countries opted to defer fiscal adjustment in 2014. However, few countries like Jordan, Morocco and Pakistan strengthened their primary fiscal positions, mainly by cutting expenditures. On the other hand China and India recorded moderate improvements in the cyclically adjusted deficit, supported by higher revenue and spending cuts, respectively.

Fiscal deficit in emerging economies is expected to remain at 2.5 percent in 2014 against 2.1 percent in 2012 and in low income economies it is expected to rise by 3.9 percent in 2014 from 2.8 percent in 2012.[*]

Considering the case of Pakistan, fiscal predicament remained one of the major concerns due to failure to develop an effective tax system to raise the revenues up to the level which was required to finance government spending. Its repercussions were felt on fiscal side of the economy as efforts to achieve

[*] Fiscal Monitor (IMF) , April, 2014

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fiscal sustainability were severely hampered due to unplanned expenditures on one hand and continuous shortfall in revenues on the other. Over the past few years, Pakistan's economy witnessed numerous challenges such as unprecedented floods, low tax to GDP ratio, high fiscal deficit, mounting public debt, high interest payments, untargeted subsidies and resource drain through PSEs, which resulted in expenditure overrun.

Additionally, failure to exploit other avenues and delays in key reforms for revenue mobilization and regulate current expenditure to overcome revenue deficit resulted in constant revenue shortfall over expenditure due to which governments in past were compelled to restrict the development spending. Moreover, less than expected external inflows further intensified the situation.

Fiscal deficit widened from 5.2 percent of GDP in 2008-09 to 8.2 percent of GDP in 2012-13 mainly driven by weak tax collections, energy sector subsidies, and increased provincial government spending. Total expenditures rose from 19.2 percent of GDP in 2008-09 to 21.4 percent of GDP in 2012-13, while on the other hand total revenues declined from 14.0 percent of GDP to 13.3 percent of GDP during the same period. On the other hand, FBR tax collection despite increase in absolute term from Rs. 1,161.1 billion in 2008-09 to Rs.1946.4 billion remained at 8.7 percent of GDP. However, with the continuous efforts to address the long standing structural issues, fiscal sector witnessed remarkable improvement during first nine months of current fiscal year, as overall fiscal deficit remained at 3.2 percent of GDP during July-March, 2013-14 against 4.7 percent recorded last year. IMF has described this improvement as "strong" and agreed that government's reform program is on right track and economy is moving into right direction.

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Fiscal Policy Development

Present government is well aware of this fact that sustained fiscal discipline is the cornerstone of long term economic growth as it creates fiscal buffer not only to cover rising public expenditures but also helps in coping with any untoward situation. The government is therefore determined to build up strong fiscal reserves through its reform agenda with particular focus on controlling the expenditure along with raising the revenues. Main aspiration is to boost the inclusive growth and moving towards sustainable fiscal and external positions. At the same time, it also aims to reduce the potential risks to the economy through permanent resolution of long standing structural impediments.

In the past, absence of prudent expenditure management and failure to increase the revenues owing to delays in key structural reforms particularly in energy sector and for tax broadening posed serious risks to macroeconomic outlook of the country. Moreover, loss making Public Sector Enterprises

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(PSEs) in confluence with heightened security concerns, untargeted subsidies and higher interest payments further jumbled the public finances.

All the key fiscal indicators surpassed their budgeted targets set for relevant years, which largely a reflection of structural deficiencies particularly in tax system. Hence, budgetary management during the past few years remained difficult on account of containment of development spending and rising borrowing from the banking system.

Table 4.1: Fiscal Indicators as Percent of GDP

Year	Real GDP Growth	Overall Fiscal Deficit	Expenditure			Revenue		
			Total	Current	Develop-ment*	Total Rev.	Tax	Non-Tax
2005-06	5.8	4.0	17.1	12.6	4.5	13.1	9.8	3.3
2006-07	5.5	4.1	19.5	14.9	4.6	14.0	9.6	4.4
2007-08	5.0	7.3	21.4	17.4	4.0	14.1	9.9	4.2
2008-09	0.4	5.2	19.2	15.5	3.7	14.0	9.1	4.9
2009-10	2.6	6.2	20.2	16.0	4.4	14.0	9.9	4.1
2010-11	3.7	6.5	18.9	15.9	2.8	12.3	9.3	3.0
2011-12	3.8	6.8	19.6	15.6	3.7	12.8	10.2	2.6
2012-13	3.7	8.2	21.4	16.3	5.1	13.3	9.8	3.5
2013-14 B.E.	4.4	6.3	20.4	15.2	5.1	14.0	10.6	3.4

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*: including net lending.

Note: Estimated growth during fiscal year 2013-14 is 4.14 percent

A cursory look at the Table 4.1 shows that fiscal deficit increased from 5.2 percent of GDP in 2008-09 to 8.2* percent of GDP in 2012-13 due to expenditure overrun and less than targeted revenues. During the period under review, total expenditures remained volatile and increased from 19.2 percent of GDP in 2008-09 to 21.4 percent of GDP during fiscal year 2012-13. In total expenditures, current expenditures rose from 15.5 percent of GDP in 2008-09 to 16.3 percent of GDP in 2012-13. On the other hand development expenditures and net lending stood at 5.1 percent of GDP in 2012-13 against 3.7 percent of GDP recorded in 2008-09.

On the revenue side, tax to GDP ratio remained within the narrow band of 9.1 to 10.2 percent of GDP since 2008-09 to 2012-13. Total revenues reduced

* This includes the power sector circular debt settlement of Rs.342 billion or 1.5 percent of GDP in June 2013 while remaining Rs.138 billion were paid off during the first month of current fiscal year, 2013-14.

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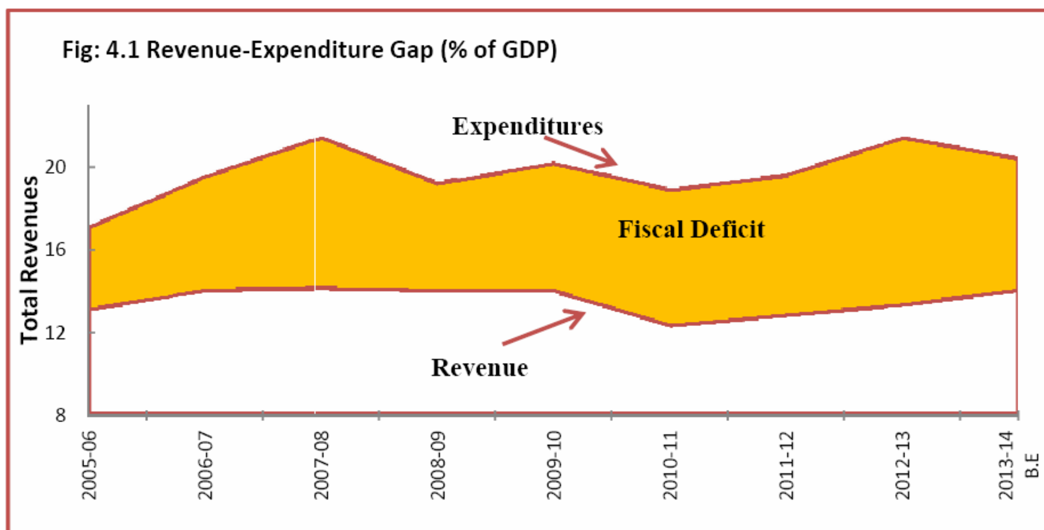
from 14.0 percent of GDP during the fiscal year 2008-09 to 13.3 percent of GDP in 2012-13 mainly due to decline in non tax revenues from 4.9 percent of GDP in 2008-09 to 3.5 percent of GDP in 2012-13. Sluggish performance in total revenues is mainly attributed to less than targeted tax revenues due to failure to implement the tax reforms and a slowdown in economic activity on account of energy crisis.



However, during the current fiscal year, various measurers have been taken to ensure the fiscal sustainability. In this regard, present government is stringently focused on improving the fiscal accounts through fiscal consolidation efforts which includes phasing out of electricity subsidies, restructuring/privatization of bleeding PSEs (Box-1), and raising the tax and non tax revenues during fiscal year 2013-14.

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Box-1: - Public Sector Enterprise (PSE) Reforms

Main focus of PSE Reform Strategy is on improvement in corporate governance, restructuring of PSEs and Strategic Partnership through Privatization. The government has formed a high level Commission for ensuring transparency in appointment of heads of key public sector organizations and bodies.

The Economic Coordination Committee (ECC) of the Cabinet has approved a three-month bailout package of Rs 2.9 billion for Pakistan Steel Mills (PSM) for salaries and the requisite working capital, which has already been released. In addition, the ECC has recently approved payment of Rs.960 million for salaries of PSM employees for the months of December 2013 and January 2014. The BoDs of PSM was reconstituted in October 2013 with the addition of five members from the private sector and the BoDs have recently identified a number of viable options of dealing with PSM's problems. The ECC recently

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approved a restructuring plan for PSM in April, 2014 amounting to Rs. 18.5 billion which envisages achieving 77 percent capacity utilization ofPSM by June, 2015.

A bailout package of Rs. 16 billion was approved by ECC in July 2013 for PIA, out of which Rs. 14.65 billion have been released upto April 2014. This has helped improve flight schedule and undertake smoother Hajj operations due to leasing of 6 additional aircraft. An amount of Rs. 33.5 billion has been allocated as a grant to Pakistan Railways (PR) out of which Rs.27.9 billion has been released up to April 2014. For the development schemes, GoP has allocated Rs. 30.97 billion in Public Sector Development Program (PSDP) for FY14. A comprehensive Railway restructuring plan is under development and will be finalized by September, 2014. The plan includes improvement in business processes and institutional framework, financial stability and service delivery. The Railway board is also being revived. Finance Division is also making efforts to develop a database on GoP Investment Tracing and Performance Monitoring that will help make evidence based decisions for revival of PSEs.

The government is envisaging privatization/ disinvestment of 31 PSEs representing the most viable transactions. The indicative mode of related divestments has been finalized.

In a recent development, Eleven companies in the oil & gas, banking & insurance and power sector have been identified for block sales and primary or secondary public offerings, from the list of 31 Public Sector Enterprises (PSEs) approved by the Cabinet Committee on Privatization (CCOP). Three Financial Advisors have been hired for United Bank Limited (UBL), Pakistan Petroleum Limited (PPL) and Oil and Gas Development Company Limited (OGDCL) in May 2014. Minorty shares in UBL and PPL will be offered to domestic and international investors by end June 2014, subject to investor interest and global market conditions. OGDCL shares will be offered for sale early next fiscal year. Financial advisors for Allied Bank Limited (ABL) and Habib Bank Limited (HBL) will be hired by September 2014 for offering minority shares of' these banks within six months afterwards.

Financial advisor for National Power Construction Co (NPCC) will be hired by end June 2014 to finalize sale offer by end December 2014. In addition, financial advisors for sale of shares of Faislabad Electric Supply Company (FESCO) and Northern Power Generation Company Limited (NPGCL) will be appointed next year.

For Pakistan International Airlines (PIA), a financial advisor will be appointed by end-June 2014 to seek potential options for restructuring and strategic private partnership

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With various steps to control the expenditures and to increase the revenues, fiscal deficit is expected to reduce to even less than 6.0 percent against the target of 6.3 percent of GDP in fiscal year 2013-14, while it will be brought down further to 4.0 percent of GDP over the medium term. Similarly, total revenues are expected to reach at. 14.0 percent of GDP in 2013-14 from the current level of 13.3 percent, of which tax revenues are expected to increase by 10.6 percent and non tax revenues by 3.4 percent of GDP dining the current fiscal year. Revenue targets are expected to achieve on account of government's wide-ranging policy for the fiscal year 2013-14 and onwards to enhance resource mobilization efforts in the country. Whereas, total expenditures are set to remain at 20.4 percent of GDP in 2013-14, of which current expenditures are expected to remain at 15.2 percent. and development expenditures and net lending at 5.1 percent of GDP.

Structure of Tax Revenues

Governments around the world use number of sources in order to finance their spending, which can be categorized as domestic and external. Domestic resources consist of savings, tax and non tax revenues, whereas foreign sources include foreign direct investment, borrowing, and foreign aid etc. Domestic resource mobilization is more effective for a sustainable growth as well as to finance physical infrastructure along with the provision of social services. Nevertheless, the most efficient and effective way to enhance country's domestic resource mobilization effort is to develop its tax system.

Unfortunately, most of the developing countries could not develop such a system mainly due to agrarian nature of their economy and lack of harmony at national level and Pakistan is no exception to it. Raising tax to GDP ratio significantly is critical in order to ensure fiscal sustainability and rebuilding ample resources which in turn can be used for much needed social and investment expenditures while lowering the fiscal deficit.

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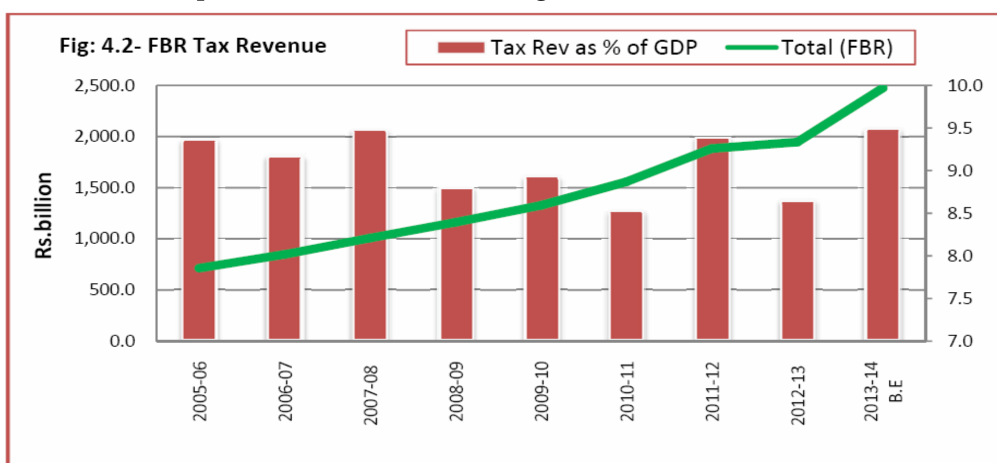

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Unfortunately, Pakistan's tax system has not been stabilized as evident from the historical data (Table: 4.2). Structural weaknesses like narrow tax base, massive tax evasion and administrative weaknesses significantly undermined the overall tax collection as the country has witnessed a low total tax-to GDP ratio. As shown in Fig: 4.2, despite the increase in tax revenues, FBR tax to GDP ratio remained narrow and varied between 8.5 to 9.5 percent during the past 8 years.

Table 4.2: Structure of Federal Tax Revenue							(Rs. in billion)
Year	Total (FBR)	Tax Rev as % of GDP	Direct Taxes	Indirect Taxes			
				Customs	Sales	Excise	Total
2005-06	713.5	9.4	2.25.0	138.4	294.8	55.3	488.5
			[31.5]	{28.3}	{60.3}	{11.3}	[68.5]
2006-07	847.2	9.2	333.7	132.3	309.4	71.8	513.5
			[39.4]	{25.8}	{60.3}	{14.0}	[60.6]
2007-08	1,008.1	9.5	387.9	150.7	377.4	92.1	620.2
			[38.5]	{24.3}	{60.9}	{14.9}	[61.5]
2008-09	1,161.1	8.8	443.5	148.4	451.7	117.5	717.6
			[38.2]	{20.7}	{62.9}	{16.4}	[61.8]
2009-10	1,327.4	8.9	526.0	160.3	516.3	124.8	801.4
			[39.6]	{20.0}	{64.4}	{15.6}	[60.4]
2010-11	1,558.2	8.5	602.5	184.9	633.4	137.4	955.7
			[38.7]	{19.3}	{66.3}	{14.4}	[61.3]
2011-12	1,882.7	9.4	738.4	216.9	804.9	122.5	1,144.3
			[39.2]	{19.0}	{70.3}	{10.7}	[60.8]
2012-13	1,946.4	8.7	743.4	239.5	842.5	121.0	1,203.0
			[38.2]	{19.9}	{70.0}	{10.1}	[61.8]
2013-14B.E	2,475.0	9.5	975.7	279.0	1,053.5	166.8	1,499.3
			[39.4]	{18.6}	{70.3}	{11.1}	[60.6]

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[]as % of total taxes

{} as % of indirect taxes

Source: Federal Board of Revenue

Pakistan's tax structure has witnessed extensive changes over the years as the share of direct tax increased from 31.5 percent in 2005-06 to 38.2 percent in 2012-13 and is expected to increase further to 39.4 percent in 2013-14. On the other hand, share of Sales tax in total tax collection increased from 41.3 percent in 2005-06 to 43.3 percent in 2012-13 and is expected to reduce to 42.6 percent. Custom duty in indirect taxes has reduced from 28.3 percent in 2005-06 to 19.9 percent in 2012-13 and expected to reduce further to 18.6

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percent in 2013-14. While share of Federal excise duty in indirect taxes has declined from 11.3 percent in 2005-06 to 10.1 percent in 2012-13 and expected to increase to 11.1 percent in 2013-14. Sales tax as an important consumption tax accounts for 70.3 percent of indirect tax.

In the above scenario, the government is sternly focused on developing revenue mobilization strategy particularly through formulating an effective tax system in order to create fiscal space. Present government is determined to enhance resource mobilization efforts in the country and increase tax to GDP ratio from the lowest level of 8.7 percent to 15 percent in the next few years. For this purpose, a comprehensive strategy is being devised which comprises of three broad categories such as: a).broadening of tax base, b).removing anomalies in the taxation system and c). improving tax compliance (Box: 4.2).

Box-2: Tax Measures

Broadening the Tax Base

For broadening the tax base, several initiatives have been taken and some are in pipeline. Initially, the objective is to incorporate 300,000 new taxpayers. In this regard, more than 80,000 notices have already been issued, and a total of 100,000 notices will be issued by June 30, 2014. Similarly, a detailed plan for outreach program including provisional assessment, collection procedures, penal actions and prosecution proceedings has been chalked out.

Rationalization of Concessionary Regime and withdrawal of exemptions/SROs

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In order to provide level playing field and equitable tax system in the country FBR has devised a plan for rationalization of concessionary regime and withdrawal of exemptions. The plan has been approved by the government and is being implemented.

Administrative Improvement Initiatives

Initiatives for administrative improvement in all the taxes have been finalized and implementation strategy is developed and launched. Certain policy reforms have already been taken and GST coverage has been expanded. Exemptions have been restricted to food items, health, education and agriculture produce.

To resolve issues relating to sales tax FBR has successfully prepared and implemented Computerized Risk Based Evaluation of Sales Tax (CREST). Another major step has been the development of a fully automated sales tax refund processing system for manufacturers/exporters where refund claims are processed within 48 hours. Sales tax refund cheque issuance has been

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centralized at FBR HQ to guarantee that cheques are issued to taxpayers within seven days of clearance of claims and to reduce refund pendency.

Taxpayers Facilitation

Introduction of an e-filing process accessible to taxpayers for income tax, sales tax and excise at e-FBR portal has been ensured. Automation of systems has helped in minimizing the contact between taxpayer and tax officer and as a consequence the complaints of harassment has been reduced accordingly. Compliance has been made easier through simplicity of procedures and introduction of an e-filing process accessible by taxpayers for income tax, sales tax and excise at e-FBR portal. Automation of systems has helped in minimizing the contact between taxpayer and tax officer and as a consequence the element of harassing has been reduced accordingly.

Strengthening Tax Audit

A risk based audit has been reintroduced to accompany the self-assessment scheme and to overcome weak tax compliance. Substantial progress has been achieved for infrastructure up-gradation and development with the introduction of the Integrated Tax Management System (ITMS) which is available to all the field formations.

Customs Modernization and control

Customs modernization reforms are being introduced, aiming at simplifying, standardizing and automating customs clearance procedures supported with strong post-clearance audit controls. Online connectivity of Customs posts has been developed. Risk management principles have been adopted and a Vehicle and Container Tracking System for monitoring transit trade is being procured. The Afghan Pakistan Transit Trade Agreement (APTTA) 2010 has replaced the 1965 agreement, with better controls and enhanced facilitation.

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An integrated, risk-based automated customs clearance system (WEBOC) has been indigenously developed which minimizes interaction between taxpayers and tax collectors, thereby minimizing the malpractices.

Human Resource Management

Human Resource Management has been improved and major structural initiatives are being taken by FBR in its organizational reform program.

Source: Federal Board of Revenue (FBR)

Review of Public Expenditures

Efficient expenditure management is an important economic tool for poverty reduction strategies and key development goals because it creates adequate fiscal space which is required to reinforce the provision of public services like health, education, and basic infrastructure. However, in this regard, composition of public expenditure plays a decisive role. Generally public

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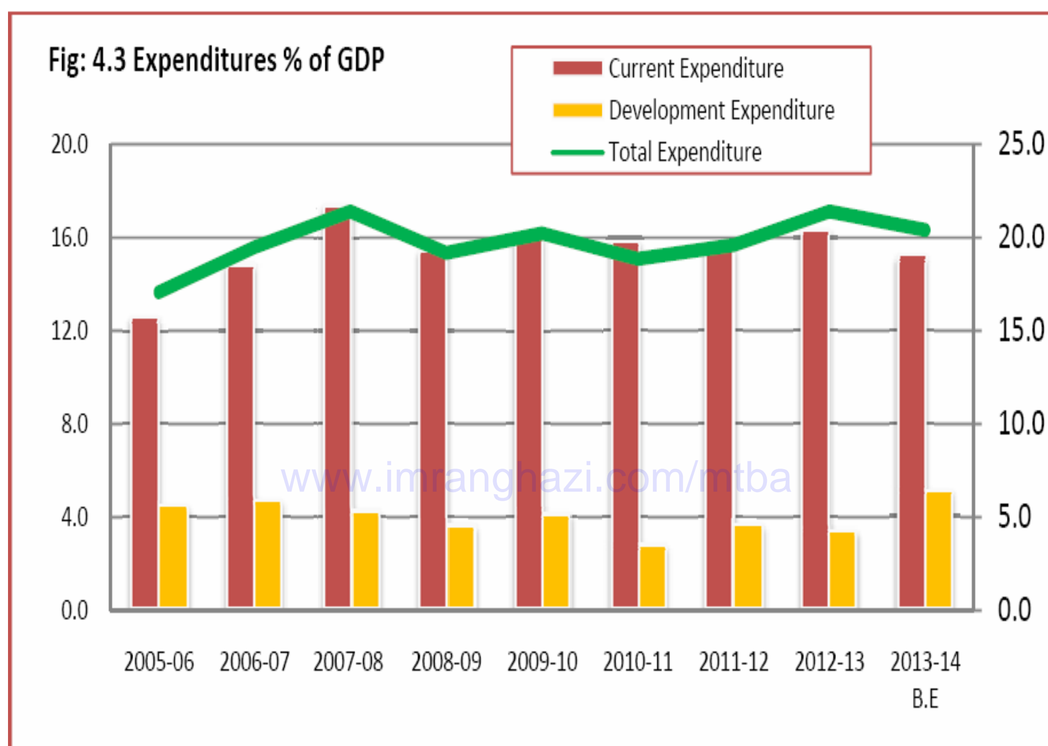
expenditures can be categorized as current and development. In order to improve the economic performance of a courtly, it is critically required to have an efficient mix between the two.

Expenditure management in Pakistan always remained difficult on account of various challenges on external and internal front. High interest payments. untargeted subsidies particularly to loss making PSEs and energy subsides resulted in sharp increase in total expenditures. At the same time, absence of effective resource mobilization strategy and less than expected external inflows caused serious concerns for fiscal sustainability, as fiscal deficit rose by 6.8 percent on average during the past five years.



A brief look at Table 4.3 reveals this fact that total expenditure as percent of GDP is on constant rise, as it rose to 21.4 percent in 2012-13 against 19.6 percent of GDP in 2011-12 and reached to Rs.4,816.3 billion in 2012-13 from Rs.3,936.2 billion in fiscal year 2011-12. As mentioned earlier, higher expenditures are largely the reflection of higher energy subsidies. Moreover, high debt servicing, compensation to pensioners and high public sector development spending further contributed to this rise. However, during current fiscal year 2013-14, it is expected to reduce to 20.4 percent of GDP on account of prudent expenditure management strategy with an aim to contain the fiscal deficit within reasonable limit.

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Table 4.3: Trends in Components of Expenditure (As % of GDP)

Year	Total Expenditure (A)	Current Expenditure (B)	Interest Payments (C)	Defence (D)	Development Expenditure (E)	Non Interest Non-Defence Exp (A-C-D)	Fiscal Deficit	Revenue Deficit/ Surplus (TR-Total CE)	Primary deficit (TR-NI Exp)
2005-06	17.1	12.6	2.9	2.9	4.4	11.2	4.0	0.5	-1.1
2006-07	19.5	14.9	4.0	2.7	4.7	12.8	4.1	-0.8	-1.4
2007-08	21.4	17.4	4.6	2.6	4.2	14.2	7.3	-3.3	-2.7
2008-09	19.2	15.5	4.8	2.5	3.6	11.8	5.2	-1.4	-0.3
2009-10	20.2	16.0	4.3	2.5	4.1	13.4	6.2	-2.1	-1.9
2010-11	18.9	15.9	3.8	2.5	2.8	12.6	6.5	-3.5	-2.7
2011-12	19.6	15.6	4.4	2.5	3.7	12.7	6.8	-2.8	-2.4
2012-13	21.4	16.3	4.4	2.4	3.5	14.6	8.2	-3.0	-3.7
2013-14B	20.4	15.2	4.4	2.4	5.1	13.5	6.3	-1.2	-1.9

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Source: Budget Wing, Finance Division and EA Wing's Calculations.

Current expenditures as percent of GDP increased to 16.3 percent in fiscal year 2012-13 from 15.6 percent of GDP in 2011-12 and reached to Rs.3,660.4 billion from Rs.3,122.5 billion in 2011-12. Thus posted a growth of 17.2 percent. By the end of current fiscal year 2013-14, it will further reduce to 15.2 percent of GDP.

Interest payments increased from Rs.889.0 billion in 2011-12 to Rs.991.0 billion during 2012-13, while as percent of GDP it stood at previous level of 4.4 percent recorded in 2011-12. During fiscal year 2013-14, it is projected to increase to Rs.1,153.5 billion or 4.4 percent of GDP. Persistently high fiscal deficit over the past few years have considerably contributed to this rise in debt servicing.

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Similarly, defence expenditure despite a decline to 2.4 percent of GDP in 2012-13 from 2.5 percent of GDP in 2011-12, increased in absolute term and reached to Rs.540.6 billion in 2012-13 from Rs.507.2 billion in 2011-12. In 2013-14, it is estimated to reach at Rs.627.2 billion or 2.4 percent of GDP.

During fiscal year 2012-13, development expenditures grew by only 6.2 percent and reached to Rs.777.1 against Rs.731.9 billion in 2011-12. While as percent of GDP it reduced to 3.5 percent in 2012-13 against 3.7 percent in 2011-12. On the other hand, together with net lending it has posted a growth of 53.2 percent during fiscal year 2012-13 on account of power sector debt settlement. During July-June, 2013-14, development expenditures are expected to reach at Rs. 1,326.8 billion, of which Federal PSDP is budgeted at Rs.540 billion and provincial PSDP at Rs.615 billion.

The share of current expenditure in total expenditure has declined from 79.3 percent in 2011-12 to 76.0 percent in 2012-13, while it is projected to decline further to 74.8 percent during the current fiscal year 2013-14. Defence expenditures accounted for 11.2 percent in 2012-13 against 12.9 percent share in 2011-12, and it is budgeted to remain at 11.8 percent during 2013-14. While share of interest payments in total expenditure has also declined from 22.6 percent in 2011-12 to 20.6 percent in 2012-13 and it is projected to increase to 21.8 percent in 2013-14.

Fiscal performance

The government is immensely determined to reduce the fiscal deficit to around 4.0 percent over the medium term through broadening the tax base, reducing tax exemptions, reforming tax administration, removal of bottlenecks like, energy shortages, bleedings PSEs and circular debt.

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According to the consolidated revenue and expenditure statement of the government, total revenue grew by 16.6 percent during July-March, 2013-14 and stood at Rs. 2,477.4 billion compared to Rs.2,124.9 billion in the same period of 2012-13. Total collection in tax revenues amounted to Rs.1,786.2 billion against Rs.1,527.8 billion in the same period last year, thus posted a growth of 16.9 percent. Significant growth in tax revenues was mainly on account of considerable rise in federal tax collection by 16.3 percent, of which FBR tax collection grew by 17.9 percent during the period under review. FBR tax collection during July-March, 2013-14 reached to Rs.1,574.8 billion against Rs.1,335.2 billion in the same period last year. During the first nine months of current fiscal year, FBR tax revenue stood at 6.2 percent against 6.0 percent of GDP last year. Improved performance in FBR tax collection is mainly attributed to increase in tax rates.

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Table 4.4: Consolidated Revenue & Expenditure of the Government

	2013-14 B.E	July-March		Growth
		2013-14	2012-13	
A. Total Revenue	3,646.7	2,477.4	2,124.9	16.6
a) Tax Revenue	2,768.1	1,786.2	1,527.8	16.9
Federal	2,598.1	1,650.0	1,418.3	16.3
of which FBR Revenues	2,475.0	1,574.8	1,335.2	17.9
Provincial Tax Revenue	170.0	136.2	109.6	24.3
b) Non-Tax Revenue	878.6	691.2	597.0	15.8
B. Total Expenditure	5,297.2	3,289.0	3,171.1	3.7
a) Current Expenditure	3,963.0	2,904.6	2,642.0	9.9
Federal	2,778.0	2,083.2	1,887.1	10.4
- Interest	1,153.5	909.1	772.2	17.7
- Defense	627.2	451.7	405.8	11.3
Provincial	1,185.0	821.4	754.9	8.8
b) Development Expenditure & net lending	1,334.3	555.8	445.8	24.7
PSDP	1,155.0	393.0	407.4	-3.5
Other Development	171.8	77.0	37.3	106.6
c) Net Lending	7.5	85.9	1.1	-
e) Statistical discrepancy	-	-171.3*	83.3	-
C. Overall Fiscal Deficit	1,650.6	811.7	1,046.2	-22.4
As % of GDP	6.3	3.2	4.7	-
Financing of Fiscal Deficit	1,650.6	811.7	1,046.2	-22.4
i) External Sources	168.7	-50.1	-4.1	-
ii) Domestic	1,481.8	861.7	1,050.3	-18.0
- Bank	975.0	436.9	856.7	-49.0
- Non-Bank	506.8	424.8	193.7	119.4
GDP at Market Prices	26,001	25,402	22,489	13.0

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Source: Budget Wing, Finance Division

*: The high statistical discrepancy is due to the impact of a transfer receipt from a friendly country amounting to Rs 157 billion which has been kept separately in an account "Pakistan Development Fund". Without this, impact of statistical discrepancy would come to Rs 14 billion

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which would imply a deficit of Rs 969 billion i.e. approximately 3.8% of GDP which is significantly less than the last year's deficit of 4.6% of GDP.

During July-March, 2013-14 non tax revenues posted a significant growth of 15.8 percent and amounted to Rs.691.2 billion against Rs.597.0 billion in the same period last year. Of which Rs.205.0 billion were accumulated as SBP profit, followed by Rs.77.8 billion under defence, Rs.67.7 billion from universal support fund (USF), and Rs.62.3 billion from Markup(PSEs & Others). It is pertinent to mention that realization of $674 million during July-March, 2013-14 has also contributed to this significant growth in non tax revenues. While, after receiving third tranche of $375 million under CSF, total inflows to date reached to $1.05 billion. Materialization of CSF funds will not only provide further comfort to fiscal accounts but will also help in improving the external accounts in the remaining months of current fiscal year 2013-14.

On expenditure side, total expenditures amounted to Rs.3,289.0 billion during July-March, 2013-14 against Rs.3,171.1billion in the same period of 2012-13, posted a growth of 3.7 percent. Of which, current expenditures during July-March, 2013-14 reached to Rs.2,904.6 billion as compared to Rs.2,642.0 billion in the same period of 2012-13, registered a growth of 9.9 percent. It is worth to mention that total expenditures registered a decline during the second and third quarter of current fiscal year on account of contained current expenditures.

Interest payment grew by 17.7 percent and reached to Rs.909.1 billion during July-March, 2013-14 from Rs.772.2 billion during the same period of fiscal year 2012-13.

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Similarly, untargeted subsidies which remained a key issue and major drain on country's limited fiscal resources mainly those in the power sector, have absorbed a significant amount of resources over the years. However, during July-March, 2013-14 subsidies remained lower than last year as it reached to Rs.201.8 billion from Rs.270.0 billion in the comparable period of 2012-13. Of which electricity subsidies stood at Rs.192.0 billion against 265.5 billion in the same period of fiscal year 2012-13, hence reduced by 27.7 percent. Overall decline in subsidies during the first nine months of current fiscal year was mainly due to rise in power tariffs for commercial, residential and industrial users, in October, 2013.

Box-3: Prudent Expenditure Management

In order to maintain fiscal discipline, the government has focused on prudent expenditure management through various initiatives such as:

- Secret service expenditures of all Ministries /Divisions/ Attached Departments /Autonomous Bodies ceased except Intelligence Agencies.

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- Discretionary funds for Prime Minister and Ministers discontinued.
- Allocation of PM's House/ PM Office reduced voluntarily by 40 percent. Moreover, 30 percent cut in current budget of Ministries/Divisions except pay and allowances resulted in saving of billion rupees.
- Working of foreign missions reviewed and being right - sized leading to expected savings of Rs 2 billion annually.
- Cabinet Committee on Restructuring has directed all Ministries / Divisions to review for rationalizing their strengths for the purpose of rightsizing.
- Fee/remuneration for government nominated directors in PSEs capped at Rs 600,000/ - per annum. Amount over and above will be deposited into government treasury.
- The government is implementing a plan to phase out electricity subsidies over the life of the program. The federal government has approved at the highest level with support of the provinces, a National Energy Policy entailing periodic increases in the average tariff, aiming at eliminating the tariff differential subsidy for all consumers except the most vulnerable over the next three years.
- Similarly to reduce the size of public expenditure the government is moving forward with the privatization of restructuring of 31 public sector enterprises.

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Furthermore, government has also initiated various energy reforms for which a National Power Policy (2013) is developed which will provide a roadmap to overcome the present energy crisis and fully meet the future needs of power in the country. The goal is to provide affordable energy in the country through efficient generation, transmission and distribution system. Present government is highly determined to achieve the expenditure level which will be consistent with macroeconomic stability. It is therefore, government envisages phasing out of electricity subsidies. Additionally, various steps are being taken to eliminate the circular debt for effective implementation of prudent expenditure management strategy (Box-4).

Box-4: Measures to eliminate the circular debt

- Conversion of oil based plants to coal to reduce cost of generation.
- Installation of plants on hydel sources
- Provision of maximum gas for gas based plants
- Improvement in recovery position and reduction in losses

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- To control theft of power.
- Maximum provision of energy to Industrial Sector to improve revenue and overall economy of the country.
- Payment of tariff differential subsidy by GoP on time
- Moving towards targeted subsidy regime (protecting residential consumers up to 200 units) and moving closer to recovering the cost of service through tariff rationalization
- Reduction in time taken for determination of tariff for a fiscal year

On the other hand, development expenditures and net lending grew by 24.7 percent and reached to Rs.555.8 billion during July-March, 2013-14 against Rs.445.8 billion in the comparable period last year. However, expenditures under PSDP reduced by 3.5 percent during first nine months of current fiscal year. The decline is largely attributed to slow execution of development expenditures. This stance of government is rather more cautious in executing plans. In this regard, government is giving priority to only those sectors of the economy whose revival is crucial for the sustainable economic growth of the economy like irrigation, water, power, infrastructure and education. However, expenditure under PSDP is likely to gain momentum in the remaining months of current fiscal year.

It is worth to mention that over all fiscal deficit reduced to 3.2 percent against 4.7 percent recorded in the same period last year on account of healthy provincial surplus to the tune of Rs.257.9 billion, strong growth in tax and non tax revenues and contained expenditures.

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FBR Tax Collection

During July-April, 2013-14, FBR has collected Rs.1,744.8 billion (provisional) against Rs.1,505.5 billion in the comparable period of fiscal year 2012-13, reflecting a growth of around 15.9 percent. During July-April, 2013-14 FBR tax revenues as percent of GDP rose by 6.9 percent as compared to 6.7 percent of GDP during the same period of 2012-13.

Direct Taxes

The net collection of direct taxes has registered a growth of 18.9 percent during the first 10 months of 2013-14. The net collection has gone up from Rs.553.5 billion to Rs.658.1 billion. Bulk of the tax revenues of direct taxes is realized from income tax. The components of income tax are withholding tax, voluntary payments and collection on demand.

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Table 4.6: FBR Tax Revenues				(Rs. in billion)
Revenue Heads	**2012-13**	**July-March**		**% Change**
		2012-13	**2013-14**	
A. Direct Taxes				
Gross		596.6	708.9	18.8
Refund/Rebate		43.0	50.9	
Net	**743.4**	**553.5**	**658.1**	18.9
B. Indirect Taxes				
Gross		989.5	1,125.2	13.7
Refund/Rebate		37.6	38.5	
Net	**1,203.0**	**951.9**	**1,086.7**	14.2
B.1 Sales Tax				
Gross		697.2	825.5	18.4
Refund/Rebate		27.8	30.5	
Net	**842.5**	**669.4**	**795.0**	18.8
B.2 Federal Excise				
Gross		91.4	104.0	13.8
Refund/Rebate		0.2	0.0	
Net	**121.0**	**91.2**	**104.0**	14.0
B.3 Custom				
Gross		200.9	195.6	-2.6
Refund/Rebate		9.6	8.0	
Net	**239.5**	**191.4**	**187.7**	-1.9
Total Tax Collection				
Gross		1,586.1	1,834.1	15.6
Refund/Rebate		80.6	89.4	
Net	**1,946.4**	**1,505.5**	**1,744.8**	15.9

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Source: Federal Board of Revenue

Indirect Taxes

Sales Tax

Within indirect taxes, net collection of sales tax increased by 18.8 percent. The sales tax gross and net collection during July-April, 2013-14 has been Rs.825.5 billion and Rs.795 billion respectively showing growths of 18.4

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percent and 18.8 percent respectively over the corresponding period of 2012-13. In fact, around 51percent of total sales tax has been contributed by sales tax on import while the rest has been contributed by domestic sector. Within net domestic sales tax collection, the major contribution emanated from POL products, fertilizers, natural gas, cement, electrical energy, beverages, cigarettes, tea, sugar, iron & steel etc. On the other hand, POL products, plastic, edible oil, vehicles, machinery, chemicals, oilseeds etc contributed significantly to the collection of sales tax from imports.

Customs Duty

Custom duty collection has registered a negative growth of 2.6 percent and 1.9 percent in both gross and net terms respectively. The gross and net collection have declined from Rs.200.9 billion and Rs.191.4 billion during July-April, 2012-13 to Rs.195.6 billion and Rs.187.7 billion respectively during 10 months of 2013-14. The major revenue spinners of custom duty have been automobiles, edible oil, petroleum products, machinery, plastic, iron and steel, paper and paperboard etc. The commodities like vehicles, edible oil, POL products and iron & steel have registered negative growth.

Federal Excise Duty

The collection of federal excise duties (FED) during July-April, 2013-14 has recorded 14.0 percent growth. The net collection stood at Rs.104.0 billion during July-April, 2013-14 as against Rs.91.2 billion during the same period last year. The major revenue spinners of FED are cigarettes, cement, beverages, natural gas, international travel etc.

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Provincial Budgets

The main components of the provincial budgets 2013-14 in comparison with revised estimates of last year are presented in Table-4.6. According to which the total outlay of the four provincial budgets for 2013-14 stood at Rs.1,973.7 billion, 20.7 percent higher than the outlay of Rs.1,635.6 billion last year.

Table 4.6: Overview of Provincial Budgets (Rs Billion)

Items	Punjab		Sindh		Khyber Pakhtunkhwa		Balochistan		Total	
	2012-13 RE	2013-14 BE	2012-13 RE	2013-14 BE	2012-13 RE	2013-14 BE	2012-13 RE	2013-14 BE	2012-13 RE	2013-14 BE
A. Tax Revenue	**660.2**	**828.4**	**342.9**	**424.3**	**192.3**	**234.3**	**116.9**	**129.4**	**1,312.3**	**1,616.4**
Provincial Taxes	90.5	126.7	73.3	91.4	8.1	10.3	1.2	1.6	173.1	230.0
GST on Services	1.5	0.0	0.0	0.0	4.3	1.9	1.5	4.5	7.3	6.4

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(transferred by Federal govt)										
Share in Federal Taxes	568.2	701.7	269.6	332.9	179.9	222.1	114.2	123.3	1,131.9	1,380.0
B. Non-Tax Revenue	36.8	30.7	83.6	95.9	32.1	40.1	15.8	19.1	168.3	185.8
C. All Others	19.7	-2.0	47.7	28.4	26.1	24.1	34.0	32.1	127.5	82.6
Total Revenues (A+B+C)	716.7	857.1	474.2	548.6	250.5	298.5	166.7	180.6	1,608.1	1,884.8
a) Current Expenditure	549.8	607.6	342.1	356.0	195.0	211.0	104.8	117.3	1,191.7	1,291.9
b) Develop-ment Expenditure	166.9	290.0	143.3	229.9	88.1	118.0	45.6	43.9	443.9	681.8
Total Exp (a+b)	716.7	897.6	485.4	585.9	283.1	329.0	150.4	161.2	1,635.6	1,973.7

Source: Provincial Finance Wing, Ministry of Finance

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Punjab witnessed the highest growth of 25.2 percent in budgetary outlay, followed by Sindh at 20.7 percent. Khyber Pakhtunkhwa posted a growth of 16.2 percent, while Balochistan witnessed a growth of 7.2 percent. Overall provincial revenue receipt is estimated at Rs. 1,884.8 billion for fiscal year 2013-14, 17.2 percent higher as compared to last year.

Tax revenue, accounting for 85.8 percent of overall revenue receipts, amounted to Rs.1,616.4 billion which is 23.2 percent higher than last year and nontax revenue is estimated at Rs.185.8 billion which is 10.4 percent higher than last year.

The total budget outlay of Rs. 1,973.7 billion is shared in the ratio of 65.5 percent and 34.5 percent between current and development expenditures, respectively. The allocations for development expenditure are 53.6 percent higher than last year and current expenditure is higher by 8.4 percent.

Allocation of Revenues between the Federal Government and Provinces

Process of fiscal decentralization is an important component of improving the public sector performance as it involves delegating fiscal powers and responsibilities to provincial governments. Hence it ensures provincial

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autonomy as provinces can make decisions about expenditure management and increasing revenues, plan projects and manage other public functions.

In Pakistan, at present 7th NFC award is operative which is considered to be a major step towards fiscal decentralization between the federal government and provincial governments.

Table 4.6: Transfers to Provinces (NET) (Rs. Billion)

	2009-10	2010-11	2011-12	2012-13	2013-14 BE
Divisible Pool	574.1	834.7	1,063.1	1,117.5	1,380.0
Straight Transfer	81.2	163.0	145.6	103.5	122.3
Special Grants/ Subventions	82.0	54.1	53.9	61.2	51.4
Project Aid	16.0	21.9	47.8	71.3	77.5
Program Loans	0.0	0.0	4.6	4.2	
Japanese Grant	0.0	0.1	0.1	0.0	0.0
Total Transfer to Province	**753.3**	**1,073.7**	**1,315.0**	**1,441.5**	**1,728.1**
Interest Payment	18.7	18.5	12.9	14.8	13.3
Loan Repayment	24.0	32.4	36.1	32.1	34.8
Transfer to Province(Net)	**710.6**	**1,022.8**	**1,266.0**	**1,394.5**	**1,680.0**

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Source: Various issue of Budget in Brief.

This has not only increased the provincial autonomy through enhancing their share in the Divisible Pool (taxes) from 50 percent to 56 percent in fiscal year 2010-11 and to 57.5 percent from fiscal year 2011-12 onwards but has also allowed widen the range of responsibilities from the federation to the provinces.

One of the important developments under 7th NFC award was that for the first time, multiple criteria (Population, Poverty or backwardness, revenue collection or generation and Inverse population density) were adopted to determine inter-provincial shares, whereas in all the previous awards, population was the only criterion.

During 2013-14, net transfer to provinces are projected to increase to Rs. 1,680.0 billion, an increase of 20.5 percent over the revised transfer of Rs. 1,394.5 billion in 2012-13.

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Table 4.8: Overview of Provincial Fiscal Operations							(Rs. Billion)
Items	2008-09	2009-10	2010-11	2011-12	2012-13	July-March	
						2013-14	2012-13
A. Tax Revenue	571.7	688.3	1,063.9	1,197.1	1,365.7	1,154.0	1,002.7
Provincial Taxes	46.1	54.8	64.6	107.2	150.7	136.2	109.6
Share in Federal Taxes	525.6	633.5	999.3	1,089.9	1,215.0	1,017.8	893.2
B. Non-Tax Revenue	83.8	67.9	62.3	48.0	71.3	34.7	49.0
C. All Others	95.0	120.0	85.1	88.6	107.4	59.4	73.7
Total Revenues (A+B+C)	750.5	876.2	1,211.3	1,333.7	1,544.4	1,248.0	1,125.3
a) Current Expenditure	564.2	646.2	831.2	980.6	1,110.0	831.4	766.3
b) Development Expenditure	201.8	258.4	245.6	375.4	371.5	199.7	219.9
Total Exp (a+b)	766.0	904.6	1,076.8	1,356.0	1,481.6	1,031.1	986.3

Source: Fiscal Operations (various issues), Budget Wing

Table 4.8 illustrates a healthy picture of provincial fiscal operations over the period of five years; particularly post devolution period shows significant growth in provincial tax revenues. It is pertinent to mention that Sindh was the first to collect the sales tax on services in 2011-12, followed by Punjab in 2012-13 and Khyber Pakhtunkhwa in 2013-14. During 2012-13, over all tax revenues increased by 14.1 percent against 12.5 percent in the same period of 2011-12. The increase in tax revenues during 2012-13 is shared by 40.6 percent rise in provincial taxes and 11.5 percent increase in federal transfers. Consolidated provincial position indicates a significant growth in tax revenues and provincial share in federal revenues over the past five years. It is also notable that provincial surplus has also increased considerably from 2011-12 onwards.

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During the first nine months of current fiscal year, provincial taxes stood at Rs.136.2 billion against Rs.109.6 billion in the comparable period of 2012-13 and federal transfers amounted to Rs.1,017.8 billion during July-March, 2013-14 against Rs.893.2 billion in the same period last year. Hence, following a growth of 24.3 percent in provincial tax revenues and 13.9 percent in federal transfers, provincial surplus posted a healthy growth and reached to Rs. 257.9 billion during the same period.

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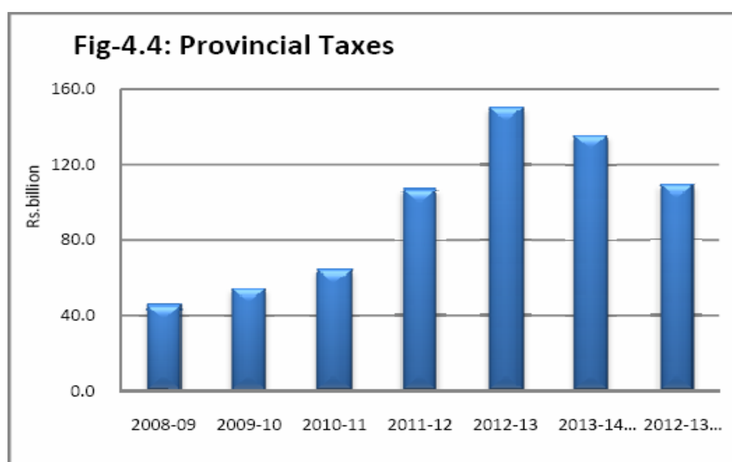

On the other hand, expenditures showed sluggish trend as it grew by 9.3 percent during fiscal year 2012-13 against the growth of 25.9 percent in 2011-12. Whereas, during July-March, 2013-14 total expenditures posted a growth of 4.5 percent and reached to Rs.831.4 billion against Rs.766.3 billion in the same period of fiscal year 2012-13.

Medium Term Budgetary Framework (MTBF)

In order to modernize budgetary management system of the federal government, the Finance Division has started an important reform initiative called Medium-Term Budgetary Framework (MTBF). The reform aims at improving fiscal discipline, creating a mechanism through which government's priorities are linked with budgetary allocations and enhancing focus on achievement of results. While important progress has been made in advancing the reform, the Finance Division is taking additional steps to move to the next stage of the reform.

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In the first stage, focus was directed towards embedding new processed and improving comprehensiveness of the budget. Budget preparation process now includes development of a medium term macroeconomic and fiscal framework, a Budget Strategy Paper-which is tabled in the Cabinet and performance based budgets. Thus in addition to the traditional budget that provides budget information by `inputs'(resources), the budget is now also presented by `output' (services delivered). Each year the Federal government presents `Federal Medium Term Budget Estimates for Service Delivery (also known as MTBF Green Book) in the Parliament together with other budget books.

In the second stage focus is being enhanced towards improving operational efficiency and laying the foundation of a government—wise monitoring system. The Finance Division has recently complied a 'Government Performance Monitoring Report' for the year 2012-13. Through this

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information it will be possible to understand the reasons for variance-budget vs actual, and performance targets achieved as compared to planned. In addition, deliberations are beign made to delegate planning and budgeting processes to Principal Accounting Officers and introduce a system of accountability for results. Furthermore, in order to computerize the MTBF processes, work with PIFRA (Project to Improve Financial Reporting and Auditing-a World Bank funded initiative) is at advanced stage. Around fifty software lincesed have been procured that will be used by different ministries/divisions for compiling Output-Based Budgets. Over the next few months the first pilot site is likely to be operationalized. Through this software it would be possible to prepare and monitor Output-Based Budgets on regular basis.

Way Forward

Over the years Pakistan's fiscal accounts remained under immense pressure due to expenditure overrun surpassed the revenues on account of high interest payments, untargeted subsidies and less than expected revenues. Present government soon after assuming the charge in June, 2013, took immediate steps to improve the fiscal situation through its reform agenda with an aim to resolve long standing structural issues, particularly in energy sector. Consequently, fiscal accounts started to improve as fiscal deficit reduced to 3.2 percent during first nine months of current fiscal year against 4.7 percent of deficit in the comparable period of last year. This has also resulted in a significant decline in government borrowing for budgetary support.

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On revenue side, comprehensive reform strategy with an objective of increasing the tax revenues to 15 percent of GDP over the medium term resulted in significant growth of 15.9 percent during July-April, 2013-14. It is also notable that, in an effort to remove the distortions and increase the tax revenues, government is sternly focused on removing the SRO culture.

Moreover, expenditures have also been contained on account of prudent expenditure management strategy. On the basis of these developments, overall fiscal deficit for fiscal year 2013-14 is expected to remain even less than 6.0 percent of GDP. Over the medium term, with various steps to control the expenditures and to increase the revenues, fiscal deficit will be brought down further to 4.0 percent of GDP.

It is pertinent to mention that IMF has acknowledged all these fiscal developments and explained this improvement as "strong" and agreed that government's reform program is on right track and economy is moving into right direction.

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HIGHLIGHTS OF PAKISTAN ECONOMIC SURVEY 2013-14

Growth and Investment

- The outgoing year witnessed global recovery as the world economy started picking up in the second half of last year and the global outlook indicates some signs of optimism.
- In South Asia economic performance of Pakistan is improving quantitatively and qualitatively as growth is broad based and touched all sectors of the economy and is the highest achievement since 2008-09.
- China and Pakistan have entered into a comprehensive plan of "economic corridor" between the two nations. It will serve as driver for connectivity between South Asia and East Asia.
- Major success of the outgoing fiscal year includes: picking up economic growth, inflation contained at single digit, improvement in tax collection, reduction in fiscal deficit, achieving of GSP plus status by EU, worker remittances touches new height, successful launching of Euro Bond, auction of long pending 3G and 4G licenses; foreign exchange reserves significantly rise, Rupee strengthened and stock market created new history.
- Government has introduced a comprehensive agenda of reforms which is highly focused on inclusive growth to reinvigorate the economy, spur growth, maintain price stability, provide jobs to the youth and rebuild the key infrastructure of the economy.
- The GDP growth accelerates to 4.14 percent in 2013-14 against the growth of 3.70 percent recorded in the same period last year. The growth momentum is broad based, as all sectors namely agriculture, industry and services have supported economic growth.
- The agriculture sector accounts for 21.0 percent of GDP and 43.7 percent of employment, the sector has strong backward and forward linkages. The agriculture sector has four subsectors including: crops, livestock, fisheries and forestry.
- Agriculture sector recorded a growth of 2.1 percent against the growth of 2.9 percent last year. The decline in its growth was due to drop in cotton production and other minor crops due to extreme weather but somehow compensated by the better output of rice, sugarcane, wheat and maize crops.
- Important crops account for 25.24 percent of agricultural value addition. This sub-sector has recorded a growth of 3.74 percent compared to a

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growth of 1.19 percent last year. The important crops includes all major crops like wheat, maize, rice, sugarcane and cotton which registered growth at 4.44 percent, 7.27 percent,22.79 percent, 4.27 percent and (-) 2.00 percent respectively.

- Other crops have share of 11.65 percent to value addition in overall agriculture sector. This sub-sector has witnessed growth at (-) 3.53 percent against the growth of 6.05 percent last year. This decline in growth of minor crops is mainly due to 36.8 percent lower production in gram, 7.8 percent less production of Potatoes, 5.1 percent decline in production of masoor and 5.4 percent decrease in other pulses.
- Pakistan is one of the leading producers and consumers of cotton in the world market. Ginning is the procedure for separating lint from the seed to cotton. Cotton Ginning has witnessed a growth of (-) 1.33 percent against the growth of (-) 2.90 percent in the previous year due to reduction of the production of cotton as compared to last year.
- Livestock contributes 55.91 percent of agriculture value addition. Livestock consist of cattle, buffalos, sheep, goat, camel, horses, asses, mules and poultry and their products. It has registered a growth of 2.88 percent against 3.99 percent last year.
- Growth of the forestry sub-sector is witnessed at 1.52 percent as compared to the growth of 0.99 percent last year.
- Fisheries sub-sector has 2.03 percent contribution in agriculture registered a growth of 0.98 percent compared to the growth of 0.65 percent last year.
- The industrial sector contributes 20.8 percent in GDP; it is also a major source of tax revenues for the government and also contributes significantly in the provision of job opportunities to the labour force.
- Government planned and implemented comprehensive policy measures on fast track to revive the economy. As a result industrial sector started revival and recorded remarkable growth at 5.8 percent as compared to 1.4 percent in last year.
- The manufacturing is the most important sub-sector of the industrial sector containing 64.92 percent share in the overall industrial sector. Growth of manufacturing is registered at 5.55 percent compared to the growth of 4.53 percent last year.
- Manufacturing has three sub-components; namely the Large-Scale Manufacturing (LSM) with the share of 52.45 percent, Small Scale Manufacturing with the share of 7.97 percent and Slaughtering with the share of 4.49 percent.

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- Small scale manufacturing witnessed growth at 8.35 percent against the growth of 8.28 percent last year and slaughtering growth is recorded at 3.51 percent as compared to 3.60 percent last year.
- LSM has registered an improved growth of 5.31 percent as compared to the growth of 4.08 percent last year.
- The share of construction in industrial sector is 11.48 percent and is one of the potential components of industries. The construction sector has registered a growth of 11.31 percent against the growth of (-) 1.68 percent of last year. This is also highest growth level achieved since 2008-09.
- Mining and quarrying sub-sector contains 14.45 percent share of the industrial sector. This sub-sector witnessed a growth of 4.43 percent as compared to 3.84 percent growth of last year.
- Electricity generation & distribution and Gas Distribution is the most essential component of industrial sector. This sub-sector has registered growth at 3.72 percent as compared to negative growth (-16.33) percent in last year.
- The share of the services sector has reached to 58.1 percent in 2013-14. Services sector contains six sub-sectors including: Transport, Storage and Communication; Wholesale and Retail Trade; Finance and Insurance; Housing Services (Ownership of Dwellings); General Government Services (Public Administration and Defense); and Other Private Services (Social Services).

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- The Services sector has witnessed a growth rate of 4.3 percent as compared to 4.9 percent last year. The growth performance in services sector is broad based, all components contributed positively in growth, Finance and Insurance at 5.2 percent, General Government Services at 2.2 percent, Housing Services at 4.0 percent, Other Private Services at 5.8 percent, Transport, Storage and Communication at 3.0 percent and Wholesale and Retail Trade at 5.2 percent.
- Pakistan Bureau of Statistics released quarterly growth rate for the first time during the current fiscal year. Pakistan has shared its methodology for preparation of quarterly economic figures with international financial institutions like IMF. They have expressed complete satisfaction over the mythology.
- Three main drivers of economic growth are consumption, investment and export. Pakistani society like other developing countries is a consumption oriented society, having high marginal propensity to consume.
- The private consumption expenditure in nominal terms reached to 80.49 percent of GDP, whereas public consumption expenditures are 12.00

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percent of GDP. Total consumption expenditures have reached to 92.49 percent of GDP in outgoing fiscal year compared to 92.14 percent of last fiscal year.

- Per capita income in dollar terms recorded a growth of 3.5 percent in 2013-14 as compared to 1.44 percent last year. The per capita income in dollar terms has reached to $ 1,386 in 2013-14.
- Total investment is recorded at 13.99 percent of GDP, Fix investment is registered at 12.39 percent of GDP. Private investment witnessed at 8.94 percent of GDP. Investment has been hard hit by internal and external factors during the last few years.
- Total investment witnessed a growth of 8.5 percent as compared to 8.4 percent last year. Public investment recorded an impressive growth rate at 17.12 percent as compared to (-0.35) percent last year.
- Total investment which was recorded at Rs.3,276 billion in 2012-13 increased to Rs.3,554 billion for 2013-14.
- Public investment has recorded and impressive growth at 17.12 percent at compared to negative growth (-0.35) percent last year. Public investment which was recorded at Rs.748 billion in 2012-13 is reported at Rs.877 billion in 2013-14.
- Public investment as a percent of GDP increased to 3.45 percent against the 3.33 percent last year.
- During July-March, 2013-14 credit to private sector flows increased to Rs.335.8 billion against the expansion of Rs.139.8 billion in the comparable period last year.
- Government has launched a number of initiatives to create enabling environment in the country including steps to improve energy situation, law and order, auction of 3G and 4G licenses, and other investment incentives for the investors.
- National savings are 12.9 percent of GDP in 2013-14 compared to 13.5 percent in 2012-13. Domestic savings is witnessed at 7.5 percent of GDP in 2013-14 as compared to 8.3 percent of GDP in 2012-13. Net foreign resource inflows are financing the saving investment gap.
- Present government has launched comprehensive plan to create investment friendly environment and to attract foreign investors in the country. As is evident, the capital market has reached to new height and emitting positive signals for restoring the investor’s confidence.
- Pakistan’s policy trends have been consistent, with liberalization, de-regulation, privatization, and facilitation being its foremost cornerstones. Board of Investment (BOI) under the Prime Minister’s office has

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approved investment policy to provide more investment friendly environment to investors.

- Total foreign investment has reached to $2979 million during July-April 2014 as compared to $1277 million showing 133.3 percent higher as compared to last year. Out of total foreign investment, the FDI has reached to $750.9 million.
- The major inflow of FDI is from US, Hong Kong, UK, Switzerland and UAE. Oil & gas exploration, financial business, power, communications and Chemicals remained major sectors for foreign investors.
- According to Migration and Remittances report 2014 of the World Bank, Pakistan is ranked on 7th number, in terms of the largest recipient of officially recorded remittances in the world. After India Pakistan is the second largest recipient of remittances in South Asian region.
- Pakistan is also one of the countries among 20 countries of the world where remittances cover more than 20 percent of imports and also remittances are equivalents to more than 30 percent of exports.
- The government is also aiming to explore new markets to export its manpower as well as incentives for the remittances to further enhance its growth. The available data suggest inflow of the remittances for the period of July-April 2013-14 stood at $ 1,289.46 million compared to $ 1,156.98 million during the corresponding period last year, which is 11.45 percent higher over the previous period.

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- The agriculture growth stood at 2.1 percent during July-March, 2013-14 as compared to 2.9 percent during the last year.
- During 2013-14, Cotton production stood at 12,769 thousand bales as compared to 13,031 thousand bales in 2012-13, and registered a decline of 2.0 percent.
- Wheat production increased to 25,286 thousand tons in 2013-14, as compared to 24,211 thousand tons in 2012-13, showing an increase of 4.4 percent.
- Rice production has increased to 6,798 thousand tons in 2013-14, as compared to 5,536 thousand tons in 2012-13, showing an increase of 22.8 percent.
- Sugarcane production has increased to 66.5 million tons in 2013-14, as compared to 63.8 million tons last year, and registered an increase of 4.3 percent.

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- Maize production has increased to 4,527 thousand tons in 2013-14, as compared to 4,220 thousand tons in 2012-13, showing an increase of 7.3 percent.
- Other crops that contributed 11.6 percent value addition in agriculture witnessed a negative growth of 3.5 percent in 2013-14, against positive growth of 6.1 percent during the same period last year.
- Gram production has decreased to 475 thousand tons in 2013-14, as compared to 751 thousand tons in 2012-13, showing a decline of 36.8 percent.
- During July-March, 2013-14, the production of Moong increased by 3.3 percent, while production of other pulses Mash and Masoor (Lentil) decreased by 6.4 and 5.1 percent, respectively. The production of potatoes and chillies witnessed a decline of 7.8 and 1.4 percent, respectively.
- During July-March, 2013-14 about 372.0 thousand tons of improved seeds of various Kharif/Rabi crops were procured.
- During July-March, 2013-14, the banks have disbursed agriculture credits of Rs. 255.7 billion, which is 67.3 percent of the annual target of Rs. 380.0 billion. The disbursement is 10.7 percent higher than Rs. 231.0 billion disbursed during the corresponding period last year. The outstanding portfolio of agriculture loans has increased by Rs. 39.1 billion (16 %) i.e. from Rs. 241.9 billion to Rs. 281.0 billion at end March, 2014 as compared to same period last year.
- During 2013-14, the availability of water for Kharif 2013, remained 13.5 percent more than Kharif 2012 and 2.4 percent less than the normal supplies of 67.1 MAF. The water availability during Rabi season 2013-14, was estimated at 32.5 MAF, which was 1.9 percent higher than last year's Rabi crop but 10.7 percent less than the normal availability of 36.4 MAF.
- Kharif 2013 started with inventory of 220 thousand tonnes of urea, making total availability of urea (including 325 thousand tonnes of imported supplies, 2496 thousand tonnes of domestic production) about 3041 thousand tonnes against the offtake of 2851 thousand tonnes, leaving an inventory of 175 thousand tonnes for Rabi 2013-14.
- Total availability of DAP during Kharif 2013, was 921 thousand tonnes comprising 197 thousand tonnes of inventory, 326 thousand tonnes of imported supplies and 398 thousand tonnes of local production. DAP offtake was 616 thousand tonnes leaving closing balance of 307 thousand tonnes for coming Rabi 2013-14.

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Manufacturing and Mining

- During the first nine month period of 2013-14, Large Scale Manufacturing posted a growth of 4.3 percent as compared to growth of 3.5 percent during the same period last year.

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- During July-March 2013-14 positive growth of LSM includes sectors: Fertilizers 21.64 percent, leather products 12.96 percent, Rubber Products 9.48 percent, Paper & Board 8.03 percent, Food Beverages & Tobacco 7.78 percent, Coke & Petroleum Products 7.48 percent, Chemicals 6.71 percent, Iron and Steel Products 3.38 percent, Electronics 2.91 percent, Textile 1.44 percent and Non metallic mineral Products 0.15 percent. Few sectors recorded negative growth including Engineering products 21.40, Wood products 8.91 percent, Pharmaceuticals 0.49 percent and Automobiles 0.01 percent.
- New initiatives including, capacity enhancement, upward trend in credit utilization, construction activities and use of alternate energy by various industries also helped in supporting LSM sector.
- In Automobiles, the sub items of automobile such as LCVs, Trucks, Buses and Motor Cycle posted a growth of 27.95 percent, 30.94 percent, 11.25 percent and 3.38 percent respectively while Tractors registered a negative growth of 33.57 percent.
- The Mining and Quarrying sector estimated to grow at 4.4 percent in 2013-14 as against 3.8 percent last year. Sulphur, Chromites, Bauxite, Dolomite, Coal, Lime Stone, Crude Oil and Rock Salt posted a positive growth rate of 74.7 percent, 70.8 percent, 53.3 percent, 40.7 percent, 16.0 percent, 14.3 percent, 11.6 percent and 10.7 percent, respectively. However few witnessed negative growth rate during the period under review such as the growth of Barytes declined by 41 percent followed by Magnesite 39.6 percent, Cooper 28.4 percent, Soap Stone 9.2 percent and Phosphate 9.1 percent respectively.

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Fiscal Development

- Present government soon after coming into power in June, 2013, took instant measures to improve the fiscal situation through expenditure management strategy and raising tax and non-tax revenues during fiscal year 2013-14.
- Under prudent expenditure management strategy, various initiatives have been taken including 30 percent cut in current budget of Ministries/Divisions except pay and allowances, phasing out of electricity subsidies and announced restructuring of bleeding PSEs.
- In an effort to enhance resource mobilization efforts in the country and increase tax to GDP ratio from the lowest level of 8.7 percent to 15 percent in the next few years, a comprehensive strategy is being devised which comprises of three broad categories such as: a) broadening of tax base, b) removing anomalies in the taxation system and c) Improving tax compliance.

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- As a result of these efforts, initial gains started to emerge as fiscal deficit reduced to 3.2 percent of GDP during July-March, 2013-14, against 4.7 percent in the comparable period of last year.
- Total expenditure of Rs. 5,297.2 billion was estimated for the full year, comprising of Rs. 3,963. 0 billion of current expenditure (74.8 percent of total) and Rs. 1,334.3 billion of development expenditure and net lending (25.2 percent of total).
- During July-March, 2013-14, total expenditures contained at 3.7 percent against 20.4 percent growth in the same period of 2012-13.
- Total revenue increased by 16.6 percent during July-March, 2013-14, and stood at Rs. 2,477.4 billion compared to Rs. 2,124.9 billion in the same period of 2012-13.
- Tax revenues amounted to Rs. 1,786.2 billion against Rs.1, 527.8 billion in the same period last year, thus posted a growth of 16.9 percent. Significant growth in tax revenues was mainly on account of considerable rise in federal tax collection by 16.3 percent
- While, non tax revenues posted a significant growth of 15.8 percent during July-March, 2013-14, which amounted to Rs. 691.2 billion against Rs.597.0 billion in the same period last year.
- Fiscal accounts witnessed some respite on account of reduced subsidies, which remained lower than last year as it reached to Rs. 201.8 billion during July-March, 2013-14 against Rs. 270.0 billion in the comparable period of 2012-13.

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- Following a growth of 24.3 percent in provincial tax revenues and 13.9 percent in federal transfers, the provincial surpluses posted a higher growth and reached to Rs. 257.9 billion during July-March, 2013-14.
- During July-April, 2013-14, FBR collected an amounted of Rs. 1,744.8 billion as provisional tax against Rs. 1,505.5 billion in the comparable period of 2012-13, reflecting a growth of around 15.9 percent.
- During the first ten months of current fiscal year, among the four federal taxes, highest growth has been witnessed in direct tax at 18.9 percent followed by sales tax at 18.8 percent and federal excise at 14.0 percent.
- During July-April, 2013-14, direct taxes remained a major source of FBR tax revenue collection, contributing 37.7 percent of total FBR revenues. Net collection was estimated at Rs. 658.1 billion against Rs. 553.5 billion in the comparable period of fiscal year 2012-13.
- Indirect taxes increased by 14.2 percent in first ten months of current fiscal year and accounted for 62.2 percent of total FBR collection. Net collection was estimated at Rs. 1,086.7 billion against Rs. 951.9 billion in the same period last year.

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Money and Credit

- Long standing structural issues posed multiple challenges for monetary management in Pakistan, however, current fiscal year witnessed significant improvement on account of contained government borrowings, increase in foreign exchange reserves and improvement in credit to private sector.
- Moreover, entering into 3-year arrangement under the Extended Fund Facility (EFF) with IMF, successful launch of Pakistan Sovereign Bonds worth $ 2.0 billion and auction of 3G/4G license during 2013-14, are major developments, which will further support the financial and external sector.
- During the first half of current fiscal year, SBP reversed its policy stance from accommodative to tight policy to contained inflation to single digit, as the rate was increased by cumulative 100 bps, staggered in two stages of 50 bps each.
- However, SBP adopted a cautious stance by maintaining the policy rate at 10.0 percent in latest monetary policy announced on 16th May, 2014, keeping in view the risks of inflationary pressures.
- Broad Money (M2) witnessed an expansion of 7.3 percent during July-9th May, 2013-14, against the growth of 10.3 percent in the comparable period last year.
- Net Foreign Assets improved and reached to Rs. 236.9 billion during July-9th May, 2013-14 as compared to a net contraction of Rs. 181.4 billion last year.
- Net Domestic Assets during July-9th May, 2013-14, stood at Rs. 411.3 billion against Rs. 970.2 billion during the same period last year, reflecting an increase of 4.8 percent over the last year.
- The government borrowing from the banking system for budgetary support and commodity operations reduced to Rs.199.6 billion during July-9th May, 2013-14, against Rs. 992.9 billion in the comparable period last year. Significant decline in government borrowing from the banking system due to contained borrowing for budgetary support is largely a reflection of improved fiscal accounts.
- Within the banking system, government retired Rs.10.5 billion to SBP against a borrowing of Rs. 416.8 billion in the same period last year.
- On the other hand government has borrowed only Rs. 275.2 billion from Scheduled banks during July- 9th May, 2013-14, against the borrowing of Rs. 659.0 billion last year.

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- During July-9th May, 2013-14, loan for commodity operations witnessed a net retirement of Rs. 65.0 billion against the retirement of Rs. 84.2 billion during the same period last year.
- Credit to private sector flows increased to Rs. 296.4 billion during July-9th May, 2013-14, as compared to the expansion of Rs. 92.5 billion in the comparable period of last year.
- Weighted average lending rate (including zero mark-up) on gross lending has increased from 10.46 percent in March, 2013 to 10.53 percent in March, 2014 while weighted average deposit rate have declined to 5.80 percent in March, 2014 from 6.03 percent in the same period last year.

Capital Markets

- Pakistan equity market, the KSE was one of the best performing stock markets in 2013. During this period the KSE-100 Index gained 49% and closed at 25,260 levels by end of December, 2013.
- The KSE-100 Index improved by 45.2 percent , a gain of 8,998 points since 11th of May, 2013, General Elections and taking control of the PML(N) government till end-April, 2014.
- However, since 1st July-2013, the KSE 100 index increased by 7,907 points from 21,006 to 28,913 level (37.6 percent gain) till end April, 2014. This reflects the restoration of the confidence of the investors.
- Other reasons for outstanding performance of Karachi Stock Exchange includes better economic growth's estimates, improvement in industrial growth, reduction in load shedding, robust growth in remittances, single digit inflation and decline in the fiscal deficit etc.

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- Pakistan Stock Markets has out performed during 2013-14 (July-April) among Global Stock Markets and remained at top of the list in percent gain (37.6 percent) surpassing China, India, Tokyo, Hong Kong, UK and USA markets.
- US S&P has registered an increase of 17.3 percent, while Bombay Sensex was up by 15.6 percent during the period under review. The UK FTSE 100 Index gained 9.1 percent, Hong Kong, Hang Seng market went up by 6.4 percent, Tokyo Nikkei increased by 4.6 percent and China Shanghai Composite was up by just 2. 4 percent during July-April 2013-14.
- The Index of KSE is primarily influenced by some blue chip companies. During the first ten months of the current fiscal year 2013-14, the combined paid-up capital of fifteen big companies was Rs. 91 billion, which constituted 13.17 percent of the total listed capital at KSE.
- During July-April, FY14 a total of 11 debt securities issued through private placement which includes two Privately Placed Term Finance Certificates of Rs. 9.827 billion, 6 Sukuk issues of Rs.19.000 billion,

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Listed Term Finance Certificates of Rs 2.770 billion and Commercial Paper of Rs. 0.150 billion.

- Small and Medium Enterprises (SMEs) plays vital role in the development of a country. SMEs are considered to be an important segment of the economy as they have the potential to create the economic as well as social growth. It is therefore essential to minimize the constraints and to provide a conducive environment for the growth and development of SMEs.
- The Securities and Exchange Commission of Pakistan (SECP) has approved the Regulations for listing of SMEs for the Islamabad Stock Exchange. The Regulations in addition to certain pre-requisite conditions provide a set of procedures for issue, listing and trading of shares of SMEs. Now SMEs can raise funds from the capital market, through listing, for meeting their financial needs for executing new projects and/or expansion of their existing businesses.
- In order to facilitate the general public during IPOs, SECP has introduced the concept of e–IPO, i.e. electronic submission of subscription form.
- The SECP in collaboration with the stock exchanges is in the process of introducing consequential reforms which are essential for taking the exchanges forward in the demutualized setup. The stock exchanges are in the process of bringing in strategic investors to benefit from their extensive expertise and technological knowhow, while at the same time bringing foreign investment, and broadening the investor base.

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Inflation

- The inflation rate measured by the changes in CPI, averaged at 8.7 percent during July-April, 2013-14 against 7.7 percent in the comparable period last year.
- The increase in food inflation during the current year has driven up the overall inflation upward.
- The food inflation on average basis in July-April, 2013-14, is estimated at 9.3 percent and non-food 8.2 percent, as against 7.1 percent and 8.2 percent in the corresponding period last year.
- CPI food items have declining trend in prices of gram pulse, mash pulse, vegetable ghee, cooking oil and mustard oil.
- Core inflation on average basis during July-April, 2013-14, stood at 8.3 percent against 9.9 percent last year.
- WPI during July-April, 2013-14, on annual average basis has recorded an increase of 8.3 percent against 7.9 percent last year.

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- The wholesale prices of food and non-food items, whose prices decreased from previous year are spices, pulses, vegetable ghee, other oil seed, furnace oil, synthetic carpets, radio and television related items.
- SPI recorded an increase of 9.8 percent during July-April, 2013-14 against 7.9 percent last year.
- Inflation has been contained during current fiscal year due to better supply position of major and minor crops, and regular monitoring of prices and supply chain by the National Price Monitoring Committee.
- National Price Monitoring Committee chair by Federal Finance Minister, monitor prices of essential commodities in consultation with provincial governments and concerned Federal Ministries/Divisions and organization.
- The government is finalizing the Food Security Policy, which will ensure production and availability of food items and minimize dependence on the import of essential food items.

Trade and Payments

- Exports during the first ten months (July-April) of the current fiscal year reached to US$ 20,997 million rising from US$ 20,143 million in the same period last year thereby witnessing a growth of 4.24 percent.
- Imports during the first ten months (July-April), showed a growth of 1.2 percent compared with the same period of last year and reached to $37,105 million against $36,665 million same period last year.

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- Trade account balance recorded a marginally higher deficit during Jul-April, FY14, compared to same period last year. Trade account deficit increased by 2.8 percent in Jul-April, FY14.
- Services account deficit remained higher and stood at $2,171 million during July-April, 2013-14, as compared to $931 million during the same period last year. Higher services account deficit was the result of lower receipts under coalition support fund during Jul-April, 2013-14, compared to the same period last year. However, it is expected that receipt of CSF amount of $375 million in May, 2014, will improve the current account deficit.
- Worker's remittances showed a handsome growth of 11.5 percent and reached to $12,894.6 million during July-April, 2013-14, as against $11,569.8 million in the comparable period of last year.
- Current account deficit gradually widened during current financial year (Jul-Apr) to $ 2,162 million (0.9 percent of GDP) from $1,574 million during Jul-Apr, FY13 (0.7 percent of GDP) due to higher deficit in the services account.

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- Capital and financial account improved and turned to surplus by a substantial amount of $4,998 million during July-April, 2013-14, as compared to a deficit of $440 million in the corresponding period last year.
- Foreign investment during Jul-Apr, FY14, increased by 133.3 percent compared to same period last year due to public investment in debt securities comprising special US dollar bonds Euro bonds, FEBC, DBC, T-bills and PIBs.
- Pakistan's foreign exchange reserves improved substantially and remained around $13.6 billion as on 21st May, 2014, an improvement of more than 28 percent.
- Pak Rupee recorded an appreciation of 1.1 percent in Jul-Mar FY14, compared to 3.8 percent depreciation in the same period last year. As a result, the exchange rate by end of June, 2014 is worked out to be Rs.98.77 against Rs.99.66 per US $ at end-June, 2013.

Public Debt

- Public debt stock reached at Rs.15,534 billion at the end of March, 2014, representing an increase of Rs.1,168 billion or 8 percent higher with that of last fiscal year.
- The primary source of increase in public debt during first nine months of current fiscal year was domestic debt that stood at Rs.10,823 billion representing an increase of 14 percent over end June 2013.
- External debt posed at Rs. 4,711 billion by end March, 2014, representing a decrease of Rs.138 billion as compared to end June 2013. This decline in external debt during first nine months of current fiscal year is mainly attributed to net repayments and appreciation of Pak Rupee against US Dollar.

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- Government took following measures to effectively manage its public debt during first nine months of current fiscal year:
  - Developed its first Medium Term Debt Management Strategy (2014-18) to take informed financing decisions based on the evaluation of cost-risk tradeoffs.
  - Trading of government debt instruments was launched to broaden the investor base and have a liquid government securities market.
  - Pakistan successfully tapped international capital markets after a gap of 7 years and raised US$ 2 billion against the initial expectations of US$ 500 million. This transaction represented the largest ever international bond offering for Pakistan.

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- With increased external inflows, the government was able to reduce the pressure on domestic resources while strengthening the foreign exchange reserves vis-à-vis improving exchange rate parity which also contributed towards reduction in public external debt.

- Public debt servicing was Rs.1,155 billion during July-March, 2013-14, against the annual target of Rs.1,561 billion, thereby, consumed nearly 47 percent of total revenues.
- External Debt and Liabilities (EDL) stock was recorded at US$ 61.8 billion as at end March, 2014, out of which public external debt amounted to US$ 47.8 billion. IMF has approved three years Extended Fund Facility Program for Pakistan on September 04, 2013, of SDR 4.4 (US$ 6.64) billion against which US$ 1,657 million was disbursed in the first nine months of current fiscal year. Total disbursements excluding IMF were US$ 2,301 million during first nine months of current fiscal year compared to US$ 1,782 million during the same period last year.
- The servicing on EDL was recorded at US$ 5,388 million during first nine months of current fiscal year. An amount of US$ 4,747 million was paid against principal, out of which, US$ 2,519 million was against IMF loans.

Education

- According to the latest Pakistan Social and Living Standards Measurement Survey 2012-13, the literacy rate (10 years and above) is estimated at 60 percent as compared to 58 percent in 2011-12.
- Literacy remained much higher in urban areas than in rural areas and higher among male.
- Province-wise data suggest that Punjab leads with 62 percent, followed by Sindh with 60 percent, Khyber Pakhtunkhwa with 52 percent and Balochistan 44 percent.
- Government of Pakistan is currently spending 2.0 percent of its GDP on education sector and is fully committed to 2.0 percent of GDP to 4.0 percent of GDP by 2018.
- The federal government is spending huge amount of Rs. 59.28 billion during current year 2013-14, in addition to the provincial allocation of Rs. 59.440 billion to accelerate the pace of education at all levels and to achieve the MDGs targets.
- Gross Enrolment Rates (GER) at the primary level excluding Katchi (prep) for the age group 5-9 years at national level during 2012-13, remained 91 percent.
- Amongst the provinces, Punjab remains stable with Primary level GER at 98 percent; Sindh shows improvement to 81 percent in 2012-13 from

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79 percent in 2011-12 and Khyber Pakhtunkhwa also improved to 91 percent in 2012-13 from 89 percent in 2011-12 while Balochistan witnessed improvement of 70 percent in 2012-13 from 69 percent in 2011-12.

- Net Enrolment Rates (NER) at the national level during 2012-13 remained at 57 percent.
- At national level, the total number of enrolments during 2012-13, stood at 41.1 million as compared to 40.3 million during the same period last year. This shows an increase of 2.0 percent. It is estimated to increase to 42.2 million during 2013-14.
- At national level, the overall number of institutes stood at 240.3 thousands during 2012-13, as compared to 234.5 thousands during the last year. This shows an increase of 2.5 percent. However, the number of institutes is estimated to increase to 243.8 thousands during 2013-14.
- During July-March 2013-14, a total of 6,677 youth received Vocational & Technical training under the President' Fanni Maharat Programme and Prime Minister's Hunermand Pakistan Programme and 2,687 are still under training.
- HEC is also contributing to play its role in running different scholarship programmes to enhance academic qualification at various levels on merit basis in line with specified criteria. During the period 2008-13, a total number of 7,731 scholarships were awarded under different programmes of HEC.

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- The federal government, on the direction of the Prime Minister of Pakistan has launched a scheme to support the students from less developed areas. Under this innovative and special scheme, apart from tuition fee, the federal government have paid other academic, incidental, or mandatory fees charged by educational institutions as one-off or on a per semester basis of Masters, MS/ M. Phil and Ph.D. students of selected/backward areas. Under the programme, Rs.1200 million will be paid as fee for 35,000 students.
- The development portfolio of HEC, includes 129 on-going development projects in the Federal PSDP 2013-14 and Government of Pakistan has included 33 new development projects at an estimated cost of Rs. 26.3 billion, having an allocation of Rs. 2.6 billion for current year 2013-14.

Health & Nutrition

- In the whole country, there are 1,096 hospitals, 5,310 dispensaries, 5,527 basic health units and 687 maternity and child health centre's in Pakistan as compared to 1,092 hospital, 5,176 dispensaries, 5,478 basic

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health units and 628 maternity and child health centre's in the same period of last year.

- The number of doctors has increased to 167,759, dentists 13,716, nurses 86,183 and hospital beds 111,953 in the country during 2013-14 compared to 160,880 doctors, 12,692 dentists, 82,119 nurses and 111,726 hospital beds last year. The population and health facilities ratio worked out 1,099 persons per doctors, 13,441 persons per dentist and 1,647 persons per hospital bed. It was 1,123 persons per doctor, 14,238 per dentist and availability of one bed for 1617 person in 2012-13.
- During July-April, 2013-14, 32 basic health units and 7 rural health centre's have been constructed, while 10 rural health centre's and 37 basic health units have been upgraded.
- During nine months of 2013-14, 5,000 doctors, 500 dentists, 3,150 nurses and 4,500 paramedics have completed their academic courses and 3,600 new beds have been added in the hospitals compared to 4,400 doctors, 430 dentists, 3,300 nurses, 4,500 paramedics and 4,200 beds over last year.
- Moreover, some 6 million children have been immunized and 21 million packets of ORS have been distributed.
- A number of health program are implemented, which include Malaria, TB, AIDs and Food and Nutrition program.
- For the current year a total outlay for health sector is budgeted at Rs.102.3 billion which included Rs.27.8 billion for development and Rs.74.5 billion for current expenditure which is equivalent to 0.40 percent of GDP during 2013-14 as compared to 0.35 percent in 2012-13.

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Population, Labour force and Employment

- Population growth rate has shown improvement and it decreased from 1.97 percent in 2013 to 1.95 percent in 2014.
- Total population is projected at 188.02 million during the year 2014.
- Fertility Rate (TFR) declined to 3.2 children per women in 2014 as compared to 3.3 in 2013.
- Contraceptive Prevalence Rate has improved from 30 percent in 2013 to 35 percent in 2014.
- Life expectancy has also increased from 66.5 (female) and 64.6 (male) in 2013 to 66.9 (female) and 64.9 (male) in 2014.
- Crude Birth Rate has improved from 26.8 per thousand in 2013 to 26.4 per thousand and Crude Death Rate has decreased from 7.0 per thousand in 2013 to 6.9 per thousand in 2014.

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- Infant Mortality Rate decreased to 66.1 per thousand in 2014 from 67.0 per thousand in 2013.
- Urban population has increased to 72.5 million in 2014 from 69.8 million in 2013, while rural population has increased to 115.5 million in 2014 from 114.4 million in 2013.
- Total labour force has increased from 57.2 million in 2010-11 to 59.7 million in 2012-13.
- Total number of people employed during 2012-13 was 56.0 million.
- Unemployment rate has increased to 6.2 percent in 2012-13 as compared to 6.0 percent in 2010-11.
- The share of employment in agriculture sector has decreased to 43.7 percent in 2012-13 as compared to 45.1 percent in 2010-11.
- The employment share by manufacturing sector has increased to 14.1 percent in 2012-13 from 13.7 percent in 2010-11.
- The share of wholesale and retail trade has decreased to 14.4 percent in 2012-13 as compared to 16.2 percent in 2010-11.
- The share of community/social and personal service has increased to 13.3 percent in 2012-13 from 10.8 percent in 2010-11.
- Prime Minister launched youth assistance package which comprises schemes: Interest Free Loan Scheme, Business Loan Scheme, Youth Training Scheme, Youth Skill Development Scheme, Fee Reimbursement Scheme for Students from less developed areas and Provision of Laptops Scheme.

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Transport and Communications

- Pakistan's total road network is around 263,775 Kms which carries over 96 percent of inland freight and 92 percent of passenger traffic.
- Length of NHA road network is around 12,131 kms comprises of 39 national highways, motorways, expressway and strategic roads.
- During current financial year 2013-14, NHA executed 83 development projects costing Rs. 615.2 billion. Government of Pakistan has allocated Rs. 63.04 billion in the Federal PSDP for construction of roads, river bridges, tunnels, flyovers and interchanges.
- Government of Punjab and the Federal government have jointly started twin cities Rawalpindi-Islamabad Metro-Bus service project on 23rd March, 2014 with a total cost of Rs. 44.21 billion. Metro bus project will be completed in next 10 months.
- The entire length of 8.6 Km of Metro Bus corridor in Rawalpindi area shall be of elevated structure where as 14 Km in Islamabad shall be at grant.

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- The network of Pakistan Railway comprises of 7,791 route kilometers, 423 Locomotives, 1,700 passenger coaches and 16,179 freight wagons.
- Government is taking new initiatives to improve the performance of Pakistan Railways by repairing/purchasing of locomotives, enhanced HSD oil reserves up to 12 days to streamline the train operation.
- During financial year 2013-14, 63 Kms of track has been rehabilitated besides doubling of 57 kms track.
- During 2013-14, Pakistan Railway executed 33 development projects costing 241.7 billion. Government of Pakistan has allocated 30.964 billion for the continuation of its ongoing projects.
- Since 2002, the performance of Pakistan International Airlines (PIA) has been on downward trend. Government is taking initiatives/steps to improve the performance of PIA by contracts re-negotiation, route rationalization, re-deploying aircrafts on more profitable domestic and international routes.
- Pakistan National Shipping Corporation (PNSC) provides transportation services for crude oil requirements of the country comprises of nine vessels of various types/size with a total deadweight capacity of 642,207 tonnes.
- During July-March, 2013-14, PNSC companies earned a revenue of Rs.11.37 billion as against Rs. 8.21 billion over the corresponding period of last year showing a growth of 38.5 percent.
- During July-March 2013-14, Port Qasim Authority handled 0.632 million TEUs (Twenty Equal Units) of container traffic which is 17.5 percent higher over the corresponding period of last year.
- At Gawadar Port, 563.2 tons Urea import was handled during July-March 2013-14.
- During July-March 2013-14, the total cargo handled at Gawadar Port stood at 5764.4 thousand tons against 5064.8 thousand tons over the corresponding period of last year showing a growth of 13.8 percent.
- Telecom revenues during Jul-Mar 2013-14, was amounting to Rs.345.5 billion which made this sector very attractive for further investment.
- Teledensity has been improved and facilities have reached to 78 percent of population and cover 92 percent of the total land area of the country which is better in comparison with the regional countries.
- The introduction of 3G/4G spectrum would help in expediting socio-economic progress of the country. Auction of 3G /4G spectrum is the major achievement of the government in Telecom Sector and has earned revenue of $1112.8 million.

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- PTA has issued a license to CM Pak for Long distance International (LDI), Local Loop in all 14 Telecom regions of Pakistan and Trans World Infrastructure Services for Infrastructure development.
- During July-March, 2013-14, Telecom sector earned revenue of Rs.345.5 billion against Rs. 323.0 billion during July- March 2012-13
- Investment in Telecom Sector has been amounted to US $ 530 million during July-March 2013-14 against US $ 251 million during July-March 2012-13 invested in telecom infrastructure development and new technologies.
- Cellular Mobile subscribers reached to 136.5 million at the end of March, 2014.
- During the period July-March 2013-14, an amount of Rs. 161.37 billion has been collected through National saving Schemes and Pakistan post has earned commission amounting to Rs.806.8 million.

Pakistan's Energy Sector

- Government retired the circular debt (Rs 480 billion) immediately after taking oath which added 1752 MW of electricity into the system.
- In order to resolve the issue on permanent basis, the government prepared National Power Policy (2013) which was announced to provide an affordable energy in the country through efficient generation, transmission and distribution system. It is expected that the policy will set Pakistan on a trajectory of rapid economic growth and social development.

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- The main targets of this Policy for year 2017 are:
  i. To fully eliminate load shedding;
  ii. To decrease cost of generation from 12c/unit to 10c/unit;
  iii. To decrease transmission losses from 25 percent to 16 percent
  iv. To improve collection of bills to 95 percent
- Presently, IPPs are around 50% of the country's present installed generation capacity thus efforts are made to attract leading international/local investors and lenders to the Pakistan Power Sector. In this regard, an investment of around US$ 9.4 billion has been attracted during 2013-14.
- 84 MW New Bong Hydropower Project, the first hydro IPP in Pakistan/AJ&K has been commissioned.
- 10.5 MW Gas Based Davis Energen Project at Jhang started producing electricity and is contributing to FESCO's Network.

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- 2 x 660 MW Imported Coal based Power Project at Port Qasim, Karachi has been inaugurated.
- To increase the hydel capacity of electricity generation proposals have been invited for the construction of:
  - 590 MW Mahl Hydro Power Project
  - 132 MW Rajdhani Hydro Power Project, AJ&K,
  - 350 MW Athmuqam Hydro Power Project, AJ&K,
  - 80 MW Neckeherdim-Paur Hydro Power Project, Chitral, KPK,
  - 58 MW Turtonas-Uzghor Hydro Power Project, Chitral, KPK,
- During 2013-14 energy consumption was 40,185 million TOEs compared to 40,026 million TOEs in 2012-13 showing a growth of 0.4 percent. The current fiscal year has witnessed so far, much improvement in economic activity due to better available energy for usage on account of relatively less losses in transformation and distribution as compared to last year
- During July-March 2013-14, local crude extraction remained 23 million barrels while almost 44.9 million barrels were imported.
- Transport and power sectors remained the highest sector in the usage of oil / petroleum products. During July – March 2013-14, share of power in oil consumption is increased by 1.7 percentage points while share of transport and industry decreased by 0.8 and 0.6 percentage point respectively when compared to July – March, 2012-13.
- During July-March, 2013-14, the share of fertilizer industry in gas consumption increased to 19 percent, which was 15 percent in corresponding period last year. This major upturn was due to commitment of the government to provide gas to household, power industry and fertilizer industry on priority basis. Till 2013-14, there was increase in the use of gas (CNG) as input in transport, however due to load management in gas sector, there were prescribed hours/days for supplying CNG that had caused decline in the share of transport in gas consumption.
- During July-March, 2013-14, the total domestic production of coal remained 2,125 million tons, while 1,712 million tons of coal was imported.
- Pakistan's coal generally ranks from lignite to sub-bituminous. Coal consumption is varying since 2000. About 39.1 percent of total coal consumed in the country has been utilized by brick kilns industry and 56.1 percent by cement factories, showing decrease of 3.46 percent and increase of 1.83 percent, respectively. Almost whole cement industry has been switched over from furnace oil to coal based heating, hence utilization of ingenious coal is gaining momentum.
- During July–March 2013-14, the installed capacity of electricity was 23,048 MW with hydro 6,858 MW, thermal 15,440 MW and nuclear 750

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MW. Thus the hydropower capacity accounts for 29.7 percent, thermal 67.0 percent and nuclear 3.3 percent. However, electricity generation is almost 50 percent of installed capacity.

- There was an increase of 11 percent in electricity generation during July-April, 2013-14, compared to same period last year.
- 35 wind power IPPs holding LOIs issued by AEDB are at various stages of project development, while 49.5 MW by FFC Energy Limited and 56.4 MW by ZorluEnerji (Pvt.) Ltd in Jhampir, Distt. Thatta, Sindh have achieved Commercial Operations Date.
- In Solar Energy, 24 LOIs for cumulative capacity of approximately 792.99 MW On-Grid Solar PV power plants have been issued. Solar Village Electrification Program was initiated under PM's directive. 3000 Solar Home Systems have been installed in 49 villages of district Tharparkar, Sindh. Another 51 villages in Sindh and 300 villages in Baluchistan have been approved for electrification using solar energy and will be implemented shortly.
- Framework for power Co-Generation has been approved by ECC for bagasse/biomass based sugar industry projects. 1500-2000 MW of power is expected to be generated in next 2-3 years.

Poverty and Social Safety Nets

- The official poverty line adopted by Planning Commission from Pakistan's Millennium Development Goal Report 2013 in Pakistan is estimated by using consumption based methodology, and the report provisionally shows that poverty has declined from 22.3 percent in 2005-06 to 12.4 percent in 2010-11.
- The decline in poverty can be attributed due to substantial allocations for social safety net programmes like tracking of pro-poor expenditures, BISP, PPAF, better support prices of agriculture/food products etc.
- Poverty reduction is one of the top priorities of present government. The government is fully committed to follow a sustained poverty reduction strategy and allocate a minimum of 4.5 percent of GDP to social and poverty related expenditures. The government prioritized 17 pro-poor sectors through the Medium Term Expenditure Framework (MTEF) in the PRSP-II.
- Expenditure on pro-poor sectors in 2009-10 stood at 13.4 percent of GDP, in 2010-11, 12.1 percent of GDP and in 2011-12, 10.4 percent of GDP. These expenditures were well above the requirement under the MTEF. During 2012-13, total expenditures for these sectors were amounted to Rs 1,911.300 billion, which was 12.0 percent of GDP.

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- During July-December, 2013-14, Rs.588.105 billion expenditures have been made on these pro-poor sectors.
- BISP has been kept continued to eradicate extreme poverty through provision of cash transfers of Rs.1200/month to eligible families.
- BISP has allocation of Rs. 75 billion for 2013-14 and launched a number of programmes including (i) Waseela-e-Haq (Micro-finance), (ii) Waseela-e-Rozgar (Vocational & Technical Training), (iii) Waseela-e-Sehet (Life & Health Insurance), (iv) Waseela-e-Taleem to mitigate the impact of stabilization program as well as inflation.
- During July-March, 2013-14, Rs.48.18 billion has been disbursed to 5.25 million beneficiaries' families through Benazir Smart Card and Mobile Phone Banking across the country as compared to the beneficiaries of 4.8 million families same period last year.
- Pakistan Poverty Alleviation Fund (PPAF) also provide assistance in microcredit, water and infrastructure, drought mitigation, education, health and emergency response interventions. During the period of July-December of 2013-14, Pakistan Poverty Alleviation Fund has managed to disburse an amount of Rs 8.42 billion to its various ongoing projects.
- Under the 18th constitutional Amendment, the subject of Zakat has been devolved to the Provinces/Federal Areas. Up to March, 2013 a total amount of Rs.4.05 billion has been distributed to the provinces and other administrative areas for onward distribution to the needy and deserving people.

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- Pakistan Bait-ul-Mal (PBM) is also making efforts for eradication of poverty by providing assistance to destitute, widows, orphans, invalid, infirm and other needy persons through different initiatives.

Environment

- Government is making efforts for developing of Early Warning System to redress the adverse impacts of climate change.
- Level of suspended particulate matter PM 10 and PM 2.5 shall be brought within limits of Ambient Air Quality Standards.
- Measures are being taken for major cities to install sewerage treatment plants and the treated water will be used for agriculture and horticulture purposes.
- Cleaner Production Techniques will be adopted by industry to minimize pollution generation ensuring that at least 70% industrial waste-water is treated before discharge into water bodies.
- Integrated solid waste management system shall be promoted.
- Cloth bags, paper bags and biodegradable plastic bags will only be allowed.

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Budget 2014-15
Another ritualistic exercise!

by
Huzaima Bukhari & Dr. Ikramul Haq

Majority of the Pakistanis were dejected after hearing the budget speech on the evening of June 3, 2014. Not because there was no relief for the poor. This was not expected by anybody from the pro-rich government. The real cause of disappointment was reiteration of lack of will to tax the rich. On the contrary, the brunt of indirect taxes was further increased on the poor and the salaried class. The government also failed to take any credible measures for revival of the ailing economy.

The major taxation proposals showed that the poor would face more miseries due to regressive taxes, whereas the rich and mighty managed to retained proper personal taxation on their colossal income and wealth—the Income Support Levy 2013 was abolished. The gigantic bureaucratic apparatus—epitome of bad governance—got raises in pay and pension. Not a single step has been taken to curtail enormous perks and benefits of the public office holders, judges, high-ranking civil-military official—these could have been monetized to save billions.

All independent economists are unanimous that the government of Pakistan Muslim League Nawaz (PML-N) in its second budget has failed to meet the economic challenges of the day. Even after one year, no proper strategy has been prepared to initiate long overdue fundamental reforms and solve basic issues like power shortage and infrastructure development on priority basis. Thus, it was nothing but the 67th bureaucrat-controlled budget containing the same old rhetoric about an illusory economic revival and development!

What should budget 2014-15 been like? This question was never discussed in public or even within the Party. Our political parties have yet not learnt that they need to have select committees working on various matters to produce well-thought-for, well-debated and well-researched policies. Since no such exercise was undertaken by PML-N, the budget 2014-15 as usual, was prepared in the same old style—routine and archaic. While preparing this important document, nobody realised that at this juncture of history, Pakistan needs class stability to avoid chaos, civic strife, lawlessness and religious obscurantism. The burgeoning debt servicing, increased military budget, high inflation, unjust tax system, wasteful expenses, industrial slow-down, recession, inefficiency and bad governance pose serious challenges to our survival. But, in the budget no serious effort is made to address these challenges—the budget-makers were more interested in tinkering with figures here and there to balance the books through foreign and domestic resources (some purely imaginary or unrealistic).

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The budget has failed to provide steps to bridge the tax gap of over Rs. 4000 billion. Tax potential of Pakistan is not less than Rs. 8 trillion. The simple calculation is: suppose we have 5 million individuals having annual taxable income of Rs 1.5 million (a very conservative estimate), total income tax collection from them comes to Rs. 1750 billion. If we add income tax from corporate bodies, other non-individual taxpayers and individuals having income between Rs. 400,000 to Rs. 1,000,000, the gross figure comes to Rs. 4500 billion—**the budget 2014-15 fixed direct taxes target only at 1180 billion**. Similarly, due to rampant corruption in sales tax, federal excise and custom duties, the total collection is not more than 30% of actual potential. The real potential of indirect taxes is not less than Rs 3500 billion. Budget did not outline any measures to bridge the prevalent tax gap.

The fundamental tax reform of making FBR an efficient organisation, run by professionals, was again ignored. No step was also taken to introduce an independent and efficient tax appellate system so that tax obligations are judiciously imposed rather than through arbitrariness and highhandedness. FBR, having failed to force millions to file income tax and sales tax returns keeps on creating huge demands against the existing filers. This is the reason why people do not file returns as they say that once you do so then you are under constant threat of being blackmailed by officials and in case you do not oblige, you are subjected to arbitrary orders.

The real issue of non-taxation of super-rich who owe billions to the national exchequer is conspicuous by its absence in the Finance Bill 2014. The real challenge of enforcement of tax laws compelling all persons having income of Rs. 400,000 or more to file tax returns was not addressed by the Finance Minister effectively.

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For the last many years, FBR has miserably failed to tap the real revenue potential, which is not less than Rs. 8 trillion and this has adversely affected the provinces as they mainly depend on what the federal government collects and transfers to them from the divisible pool. Pakistan is thus, caught in a dilemma: federal government is unwilling to grant the provinces their legitimate taxation rights (for example sales tax on goods) while collecting too little to meet their overall financial demands. The size of the cake—divisible pool—is so small that nothing substantial can be done for the welfare of the poor masses, no matter in which part of the country they live.

The goal of generating sufficient resources from the rich for the less privileged remained unattended in the budget. The earmarking of taxes at the local government level to solve woes of the poor has been ignored completely. No provincial government is ready to meet its constitutional obligation envisaged in Article 140A: "**Each Province shall, by law, establish a local government system and devolve political,**

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administrative and financial responsibility and authority to the elected representatives of the local governments."

Track record of the federal government shows remote possibility of collecting tax revenues of even Rs. 5 trillion (target fixed for next fiscal year is just Rs. 2810 billion) in the coming three years to give enough fiscal space both to the federation and the provinces to come out of the present economic mess, thus providing some relief to the poor, trade and industry. Pakistan will remain under debt enslavement and more and more people will be pushed below the poverty line. If we want to come out of this crisis, there is an urgent need to reconsider the prevailing social contract between federation and the provinces. Provincial autonomy without taxation rights and equitable distribution of income and wealth is meaningless.

Pakistan cannot come out of perpetual economic and political crises unless the provinces are given true autonomy, ownership of all resources, generation of own revenues (through harmonised sales tax on goods and services within their respective geographical boundaries as is the case in Canada) and exclusive right to utilise self-generated funds for the welfare of their denizens through self–government as enshrined in Article 140A of the Constitution. Budgets, like the one announced for 2014-15, being ritualistic exercises, can never solve the real challenges faced by this country.

Finance Bill 2014-15
Main maladies remain unaddressed

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by

Huzaima Bukhari & Dr. Ikramul Haq

Budget 2014-15, unveiled by Mr. Ishaq Dar on Tuesday evening, confirms one thing that there is no political will to tax the rich in Pakistan. It portrays a routine and ritualistic annual exercise that offers no meaningful structural changes in the existing system—resultantly neither fiscal deficit is going to recede nor sustainable growth can be achieved. It also confirms that the ruling political party lacks in-depth study, reliable strategy and definitive plans to meet challenges of immediate nature such as power shortage and infrastructure development. Misplaced reliance on projects likes metro buses and rail reflects total reliance on bureaucratic inputs—ignoring the fact that these self-assumed experts are the main cause of the prevalent pathetic situation.

Progressive taxes as usual (and as expected) are missing in the Finance Bill 2014 to correct the imbalance between direct and indirect taxes in Pakistan—in total collection of Federal Board of Revenue (FBR) share of indirect taxes is not less than 75% if presumptive taxes are excluded from income tax. The Income Support Levy 2013, imposed on the rich last year, was withdrawn

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and no new progressive tax was proposed. The rich are not paying direct taxes—total number of individuals showing income tax liability exceeding one million rupees in tax year 2013 was less than 15,000!

As per official admission, total tax exemptions and concessions to various sectors, lobbies and groups and investors during 2013-14 amounted to Rs. 477.1 billion as compared to Rs. 239.5 billion in 2012-13, registering an unprecedented increase of Rs. 237.6 billion. The actual figure is much higher as the items mentioned as tax expenditure in *The Economic Survey 2013-14*, released on June 2, 2014, do not include the value of free privileges and perquisites provided to public office holders, high-raking civil-military officials, judges etc. The huge amount spent on these accounts reduces our tax-to-GDP ratio, whereas our officials keep on blaming the people for non-payment of tax. The reality is that billions are spent for these elites—the value of tax-free perquisites and benefits to them alone is not less than Rs. 300 billion. The value of property they are enjoying at State's expense is in trillions. It can be diverted to income-yielding assets by giving them 'Composite Pay' as is the case in many countries.

As expected, the Executive is not ready to conform to Article 77 read with Article 162 of the Constitution, insisting on retaining power to issue statutory regulatory orders (SROs) for giving exemptions. The exemptions, concessions, waivers and incentives, wherever necessary and justified, should be given by the Parliament and not the Executive. The unconstitutional act of bypassing tax laws passed by Parliament is highly lamentable. It is open defiance of supreme law of the land as explained by the Supreme Court in the case of *Engineer Iqbal Zafar Jhagra and Senator Rukhsana Zuberi v Federation of Pakistan and Others* (2013) 108 TAX 1 (S.C. Pak), which is binding on all organs of State under Article 189:

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> "It is well settled proposition that levy of tax for the purpose of Federation is not permissible except by or under the authority of Act of Majlis-e-Shoora (Parliament). Reference in this behalf may be made to the case of *Cyanamid Pakistan Ltd. V. Collector of Customs (PLD 2005 SC 495),* wherein it has also been held that such legislative powers cannot be delegated to the Executive Authorities. Also see *Government of Pakistan v. Muhammad Ashraf (PLD 1993SC 176) and All Pakistan Textile Mills Associations v. Province of Sindh (2004 YLR 192).*
>
> In the light of the law laid down in the aforesaid judgments, it is clear that the *Majlis-e-Shoora* (Parliament)/Legislature alone and not the Government/Executive is empowered to levy tax. As far as delegation of such powers to the Government/Executive is concerned, the same is for the purpose of implementation of such laws, which is to be done by framing rules, or issuing

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> notifications or guidelines, depending upon case to case, as we have come across some of the cases noted hereinabove. But in no case, authority to levy tax for the Federation is to be delegated to the Government/Executive. Therefore, arguments so raised by learned counsel have no force and the same are repelled hereby". **[Para 20 & 29]**

It is strange that the Parliament/Government has yet not taken cognizance of the judgement of the Supreme Court proceeding to withdraw all provisions relating to delegation of powers contained in the tax codes. Power to issue SROs for granting waivers/exemptions is the root cause of massive tax leakages and corruption. Powerful lobbies frustrate tax laws through the SRO system—it has become a tool for protecting and promoting cartels. FBR skillfully protects—with the support of political masters—the vistas of tax evasion—business houses collecting sales tax from people but with the connivance of tax officials, depositing only a fraction of it in the government treasury. The Finance Bill 2014 has not provided any solution to remedy this situation.

Finance Bill 2014 again confirms that a handful of officers in the Ministry of Finance and FBR faithfully serve their political masters. They are pushing millions below the poverty line by enhancing regressive taxation. The poor are the victims of an extremely oppressive, inequitable, tyrannical and unjust tax system. The government, by taxing the poor and sparing the rich have resurrected the bygone days of East India Company that destroyed the indigenous industry of India to promote products of the Queen's England. In the same manner, our rulers are destroying local industries through cutting electricity and gas, and by blocking genuine refunds worth billions of rupees.

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This budget, like the first one of this government, has sent a clear message that the government is not interested in collecting taxes from the rich. Extraordinary perquisites and benefits to the elites have not been withdrawn; the rich that include absentee landlords have not been made liable to pay 2.5% as minimum alternate tax on their net wealth.

The government is least concerned that debt servicing alone is going to consume 70% of tax revenues—resultantly more money will have to be borrowed making things worse in the coming years. No intention is shown to cut unproductive expenditure that includes billions to meet huge losses of inefficient, corruption-ridden public sector enterprises.

Due to inefficiencies, FBR this year too is facing revenue shortfall of billions of rupees. It was supposed to collect Rs. 2475 billion as per original target fixed. Later, the target was reduced to Rs. 2345 billion and then to Rs. 2270 billion, yet FBR is lagging behind. The real revenue potential of the country is not less than Rs. 8000 billion—**Tax mobilisation strategy**, *Business Recorder,* March 21, 2014. Since the rich and mighty are not paying income

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tax on their colossal incomes and are guilty of illegally remitting money abroad, Pakistan has become indebted to the extent of 65% of GDP.

The sovereignty of a state is measured by the power it enjoys in imposing taxes on its people and spending the same for the benefit of the less privileged and for welfare of citizens. On the contrary, our rulers have been utilising the same for their luxuries. They are destroying local industries and opening markets to foreign goods—look at the free and abundant availability of smuggled goods everywhere. This has paralyzed our local industry. In the budget 2014 not a single measure has been announced to counter this menace.

Instead of imposing tax on the rich, the government has increased the burden indirect tax on many items. This shows an extremely callous attitude. This kind of increase in indirect tax is bound to hurt the poor as unscrupulous businessmen pass on the burden to the end users. The modus operandi of the regime is thus explicit: **do not collect direct tax from the rich and go for easy collection through increase in rate of sales tax.** The traders will be happy as they, after collecting sales tax from buyers would pay only the "desired" amount to the State in connivance with tax officials as full payment would expose their real income. They will earn extra through this "illegal enrichment" and people will become poorer as they would be paying more and in return not getting anything from the government—even on essential services like education and health they have to expend from their hard earned money.

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