KPMG Taseer Hadi & Co.
Chartered Accountants

BUDGET RED-EYE 2014-15

KEY MEASURES

The Finance Minister at the outset listed the government's achievements in improving the economy specifically the increase in GDP growth to 4.1%, maintaining inflation at single digit at 8.7%, a 16.4% increase in tax collection compared to last year, reduction in fiscal deficit to 5.8% of GDP, discernible increase in FOREX reserves, increase in workers remittance, increase in private sector credit and most importantly stabilizing of the Rupee.

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Going forward the government has set the following targets, policy actions and incentives for the next year with a view to continue on the path to economic recovery:

- Targeting of fiscal deficit at 4.9%
- Single digit inflation.
- Envisaged development programs in the Water and Power include Rs 10 billion for Diamir Basha Dam.
- A continuing focus on power generation to build upon last year's gains.
- Substantive work on the Pak-China Economic Corridor and on major segments of the Motorway from Lahore to Karachi. An amount of Rs 113 billion has been allocated for infrastructure. It is envisaged that this spending on infrastructure will also provide significant employment opportunities.
- Railways will get Rs 77 billion for various development schemes and employees remuneration.
- A focus on exports which include setting up of EXIM Bank of Pakistan with an initial capital of Rs. 10 billion, reduction in mark up of Export Refinance Facility to 7.4%, reduction in mark up on Long Term Financing for project loans to 9%, restructuring of Export Development Fund and establishment of Pakistan Land Port Authority.
- Incentives for textile sector include beneficial duty drawback rates where exports increase by 10%, implementing an Expeditious Refund System with the objective to resolve exporters refund claims within 3 months, duty free import of machinery extended to 2016 and training of 100,000 Pakistanis in the garments and made-up sector. The facility of loans at reduced rates will also be available to the textile sector.

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- Incentive package for the agricultural sector include the introduction of Credit Guarantee Scheme for Small and Marginalized Farmers, Crop Insurance Premium Scheme, Livestock Insurance Scheme, establishment of Warehouse Clearing House and increase in agricultural loans to Rs 500 billion.

- Special incentives for Makran division, Gilgit Baltistan, district Swat and FATA include exemption from duties and taxes on imported machinery not manufactured in Pakistan, concessional Long Term Financing Facility and 50% air freight subsidy for transport of fruits and flowers.

- Initiatives in the housing sector include Low-Cost Housing Guarantee Scheme, setting up of a Mortgage Refinance Company with an initial government capital of Rs 1.2 billion, restructuring of HBFC and PM's Low Cost Housing Scheme.

- The government to continue with its announced plan for privatization.

The following key targets were announced for the 3 year Medium term Economic Framework:

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- GDP growth to be increased to 7.1% by 2016-17
- Inflation to be maintained at single digit.
- Investment to be increased to 20%.
- Fiscal deficit to be brought down to 4%.
- Tax to GDP ratio to be increased to 13%.
- FOREX reserves to be increased to USD 22 billion by 2016-17.

All in all the targets set are challenging, and will largely depend on improvement in tax collection and strong fiscal discipline.

Initiatives in generation of cheap electricity will have direct bearing on economic growth; circular debt once again reaching menacing proportions.

INCOME TAX

- The bill proposes to introduce definition of filer meaning a person whose name appears in the active taxpayers list issued by FBR or a holder of a taxpayer's card. Non filer means a person who is not a filer. Withholding tax rates for these two categories are being modified as follows:

Category	Filer	Non Filer
Bank profit less than Rs. 500,000	10%	10%
Bank profit exceeding Rs. 500,000	10%	15%
Dividend	10%	15%
Cash withdrawal	0.3%	0.5%
International first/business class travel	3%	6%
Sale of immovable property from seller	0.5%	1%
Purchase of immovable property by buyer if purchase is for more than Rs. 3 million	1%	2%

- Withholding taxes on registration of newly purchased vehicles and annual registration have been revised for filers and non filers depending upon engine capacity of the vehicle. Rates are similar for both up to 1000 cc however; these progressively double-up for 2000cc and above vehicles. For detailed rates kindly refer to our Budget Brief 2014.

- Other withholding tax rates without distinguishing between filer and non filer are to be modified as follows:

Category	Corporate	Non Corporate
Supply of goods	4%	4.5%
Rendering of services	8%	10%
Execution of contracts	7%	7.5%
Directors' fee	20%	N/A
Imports	5.5%	6%
Dividend paid by Mutual fund to a company	25%	N/A
Dividend by Stock Fund if capital gains exceed its dividend income	12.5%	12.5%
Commission	12%	12%
Advertising Agent commission	7.5%	7.5%
Export indenting commission	1%	1%
Petroleum dealers commission	12%	12%
Mobile phone subscribers	14%	NA
Functions and gatherings	5%	5%
Domestic electricity consumption where bill is in excess of Rs. 100,000	7.5%	7.5%

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- In case of a Stock Fund if dividend receipts are more than its capital gains, the rate of deduction on dividend distribution will be 10%.

- Exemption of income tax on bonus shares is proposed to be withdrawn and withholding tax at 5% is being proposed, which will also be the final tax liability.

- Sports persons to be taxed at 10%, deductible at source.

- Incentives have been provided for the capital market. If holding period of securities is under 12 months the final tax liability on capital gains will be 12.5% for fiscal year 2015. Had this change not been proposed the rate for security held for less than 6 months would have increased to 17.5% and that for holding period more than 6 month but less than 12 months would have been 9.5%. If a security is held for more than 12 months but less than 24 months, tax at 10% is proposed to be collected on capital gains as against 0% currently. Securities held for more than 2 years will continue to be exempt from tax.

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- It is proposed that capital gains on debt securities including government and corporate bonds will be taxed on rates similar to equity securities discussed above.

- It is proposed that receipts of not for profit organization will now enjoy a 100% tax credit as opposed to an exemption currently available if they meet the following three conditions:

  - Filing of tax return,
  - Compliance with withholding tax obligations; and
  - Filing of withholding tax statements.

- An interesting tax mechanism is being proposed, over and above minimum tax provisions. Commencing from tax year 2014, in case of companies, if tax computed on taxable income is below 17% of accounting profit (as reduced by exempt income, PTR income and income subject to 100% tax credit) the balance will be payable as 'adjustable alternative corporate tax' which can be carried forward for upto 10 tax years for adjustment against corporate tax computed on taxable income. This method of taxation will not apply to banking companies, insurance companies, and companies engaged in exploration and production of petroleum.

- Initial depreciation allowance on buildings is proposed to be reduced to 10% from existing 25%.

- It is now proposed that in the case of banks expenses will be apportioned against dividend income and capital gains before determining profit on banking operations. Rate of tax on net capital gains is proposed to be enhanced to 12.5% from existing 10%.

- Fee recovered by PTA on sale of spectrum licenses to be treated as income of the federal government and thus not taxable.

- Profits and gains from setting up food processing units in Baluchistan, Malakand division, Gilgit Blatistan and FATA between 1July 2014 to 30 June 2017 are to be exempt from tax for 5 years from date of commercial production.

- Profits and gains of coal mining project in Sind engaged in supplying power generation projects will be exempt from tax.

- The tax rate for an industrial undertaking set up between 1 July 2014 and 30 June 2017 is proposed to be reduced to 20% if 50% of the cost of the project including working capital is through owner equity or foreign direct investment.

- Income support levy imposed on net movable assets last year is proposed to be abolished w.e.f 01 July 2013.

SALES TAX

- Sales tax at 5% to be charged on retailers where monthly electricity bill is not less than Rs 20,000 and at 7.5% where the bill is in excess of Rs 20,000. This tax will be in addition to taxes already

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being recovered with the electricity bills. The retailers who are part of a domestic or international chain or situated in air-conditioned shopping plazas or have a debit/credit card machine are proposed to be excluded from this regime.

- Tax on supply of natural gas to CNG stations rationalized at 17%.

- It is proposed to restrict input tax to goods and services actually utilized in the manufacture or sale of taxable activity.

- SRO culture is to be done away with and relevant SROs are being accordingly incorporated n the Act as necessary. For significant details refer our Budget Brief 2014.

- Sales tax on tractors is proposed to be reduced from 16% to 10%. Exemptions have also been proposed for greenhouse farming equipment and items.

- Scheme of capacity tax on aerated waters proposed to be reverted to normal tax regime.

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FEDERAL EXCISE DUTY

- Rate of FED proposed to be enhanced on locally produced cigarettes.

- FED on cement has been modified from Rs 400 per metric ton to 5% on retail price.

- FED on international air travel is proposed to be increased from Rs 3,840 to Rs 5,000 per ticket for economy and Rs 6,840 to Rs 10,000 in the case of business class travel. Chartered flights will be charged FED at 16%.

- Telecom services being subjected to provincial sales tax will be excluded from FED. In case of Islamabad and Baluchistan the current FED rate of 19.5% will stand reduced to 18.5%.

- Imported motor vehicles with engine capacity in excess of 1800cc falls under the ambit of FED at 10%. No FED on locally produced vehicles will apply.

CUSTOM DUTY

- SROs being done away with and relevant SROs are being incorporated in the Act by way of the Fifth Schedule. Primarily it is proposed to increase the 0% rate to 1% as applicable to imports. However; the 0% rate to remain in application for important items such as petroleum, fertilizer and food.

- Exemption from duty on import of machinery for setting up fruit processing and preservation industrial units in Baluchistan, Gilgit Baltistan and Malakand division.

- Maximum general tariff of 30% reduced to 25%.

- Regulatory duty to be levied on luxury goods.

- Duty on UPS has been reduced from 20% to 15%.

- Duty on hybrid electric vehicles rationalized; up to 1800cc: 50% exemption; above 1800cc: 25%.

- 5% duty levied on import of generators above 100kva.

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This document contains significant highlights of the budget 2014-15.

Amendments in taxation laws are generally applicable from 01 July 2014, unless otherwise stated.

This document contains comments, which represent our interpretation of the legislation, and we recommend that while considering their application to any particular case, reference be made to the specific wordings of the relevant statutes.

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