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2016

Tax Memorandum

Comments on changes in Fiscal Laws

Grant Thornton Anjum Rahman

Chartered Accountants

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The Finance Bill 2016

This Memorandum summarizes an overview of economy for the year 2015-2016 and the important changes proposed through the Finance Bill 2016. It contains comments on the budget and on the Finance Bill 2016, including highlights of the changes brought through the Income Tax Ordinance, 2001, the Sales Tax Act, 1990, the Federal Excise Act, 2005, the Customs Act, 1969, the Islamabad Capital Territory (Tax on Services) Ordinance, 2001 and Fiscal Responsibility and Debt Limitation Act, 2005. The amendments proposed through the Income Tax Ordinance, 2001 and through other laws are intended to be effective once the parliament has accorded its assent and thereafter, would be effective from July 01, 2016 i.e. tax year 2017 unless otherwise indicated.

This Memorandum is intended to provide general guidance to the readers on the important changes brought through the Bill and should not be considered as a substitute for specific advice relating to a particular enactment. For considering the precise effect of a proposed change, reference should be made to the appropriate wordings in the relevant statutes and the notifications issued where relevant.

The Memorandum has been prepared exclusively for the use of our clients and staff, based on information available with us till the time of giving it for printing. Printing of this Memorandum, in any manner, is strictly prohibited without seeking a written permission from the firm.

Grant Thornton Anjum Rahman
Chartered Accountants

June 04, 2016

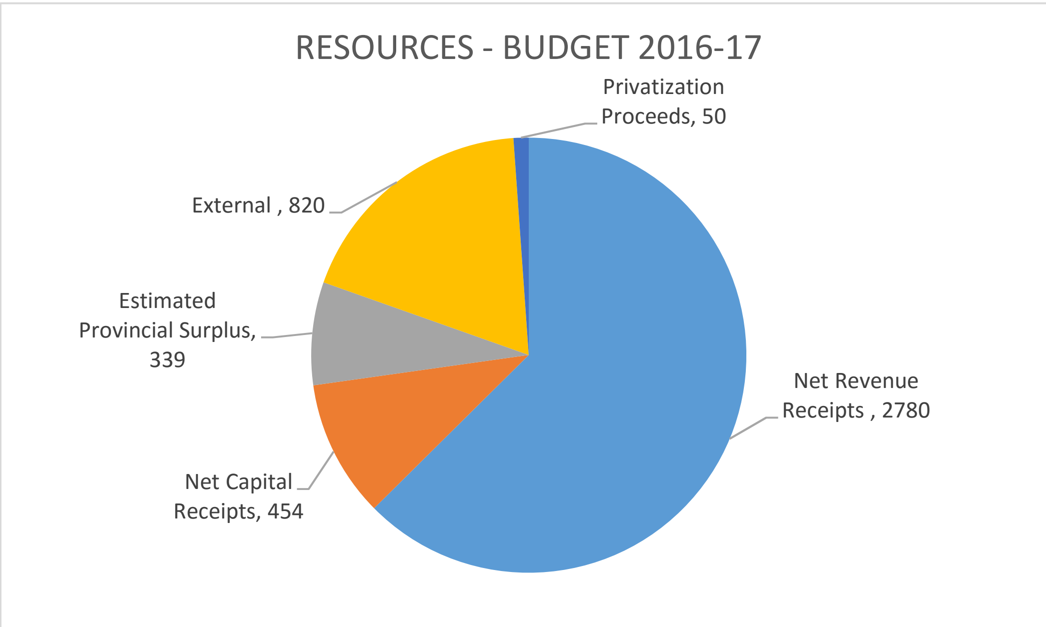
Budget at a Glance

	Rupees in billion			
	2016-17	**%**	**2015-16**	**%**
Sources (A+B+C)	**4,442**	**100**	**4,280**	**100**
A - Internal	**3,572**	**80.41**	**3,406**	**79.58**
-Net Revenue Receipts	2,780	62.58	2,481	57.97
-Net Capital Receipts	454	10.22	589	13.76
-Estimated Provincial Surplus	339	7.63	337	7.87
B - External	**820**	**18.46**	**860**	**20.09**
C - Privatization Proceeds	**50**	**1.13**	**13**	**0.30**
Expenditures (A+B)	**4,895**	**100**	**4479**	**100**
A - Revenue Expenditure	**3,844**	**78.53**	**3560**	**79.48**
B - Development Expenditure	**1,051**	**21.47**	**879**	**19.62**
-Federal PSDP	800	16.34	661	14.76
-Other Development Expenditure	157	3.21	128	2.86
-Dev Loans & Grants to Provinces	94	1.92	90	2.01
Bank Borrowings	**453**	**9.25**	**199**	**4.44**

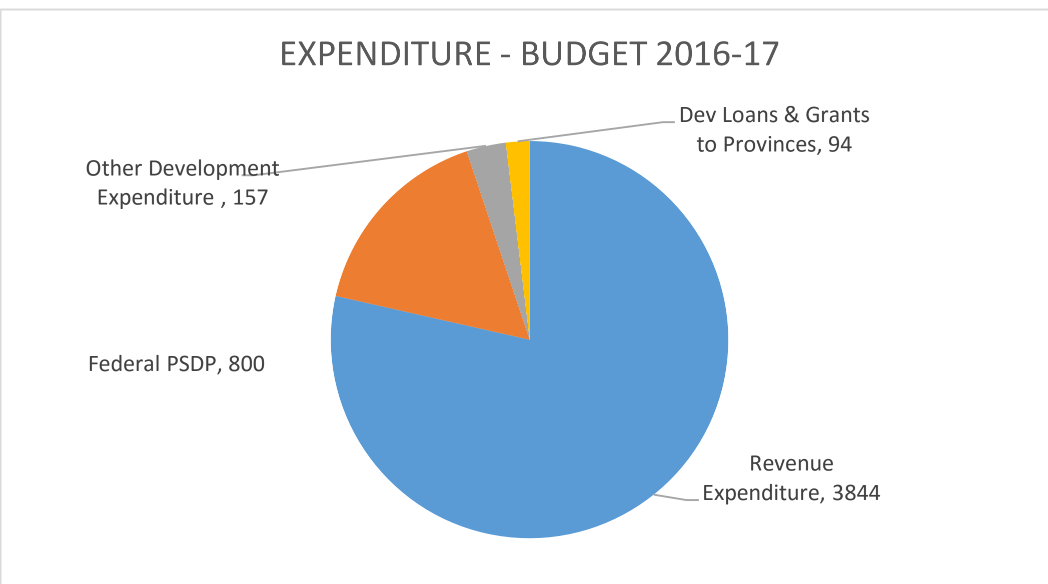
Budget at a Glance

(Rs. in Billions)

Pictorial View



Source: Federal Budget 2016-17, Ministry of Finance.

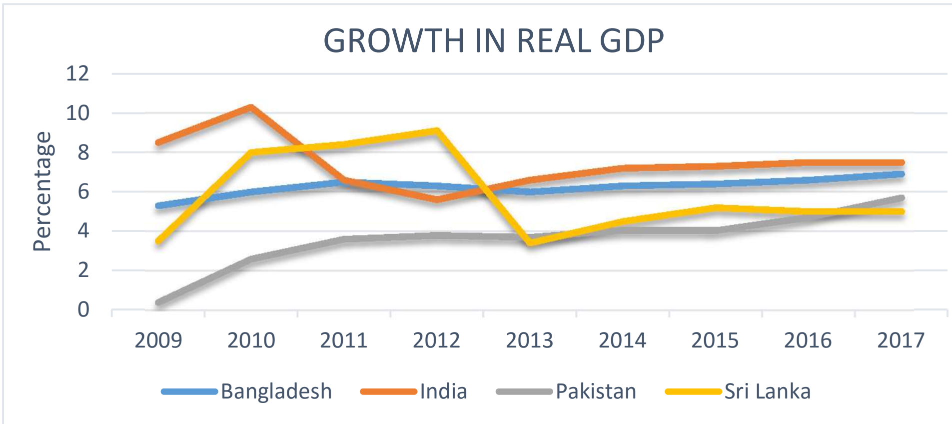


Source: Federal Budget 2016-17, Ministry of Finance.

OVERVIEW OF THE ECONOMY 2015 - 2016

GDP Growth Rate

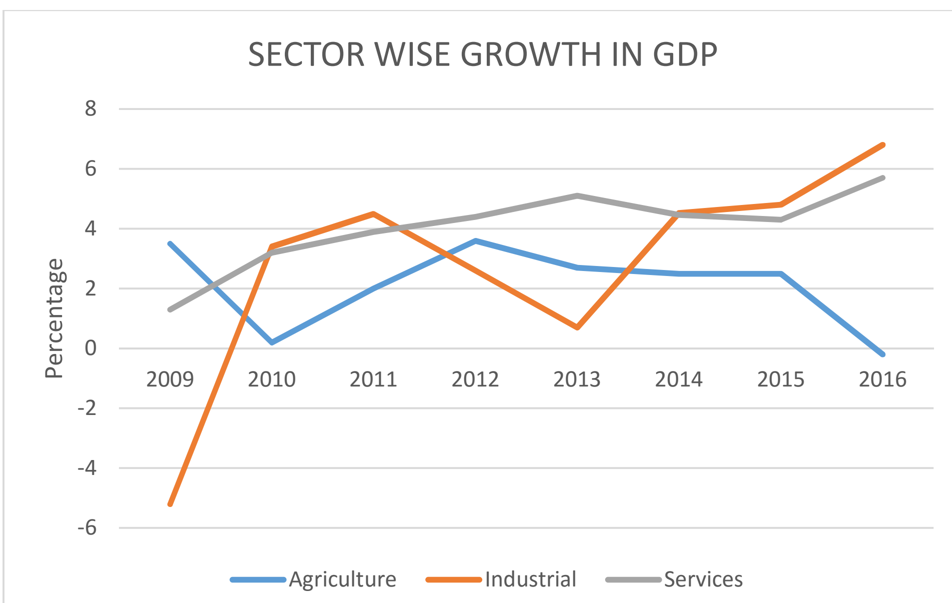
Economy of Pakistan recorded a growth rate of 4.7% in 2015-16, against 4.20 % in last year, but remained short of its target which was fixed at 5.5% however, an ambitious target of 5.7% has been fixed for the upcoming year i.e. 2016-17. The shortfall was majorly attributed to negative growth in agriculture sector which shrank at 0.19%. Rest of the sectors recorded unremarkable/ bumpy progress including in the Industrial sector at 6.80% and Service sector at 5.71.



Source: Economic Survey, 2015-16

The success indicators included highest ever foreign exchange reserves of USD 21.4 billion, lessor inflation rate i.e. CPI at 4.53%, focused approach on infrastructural development and continually ticking up FDI.

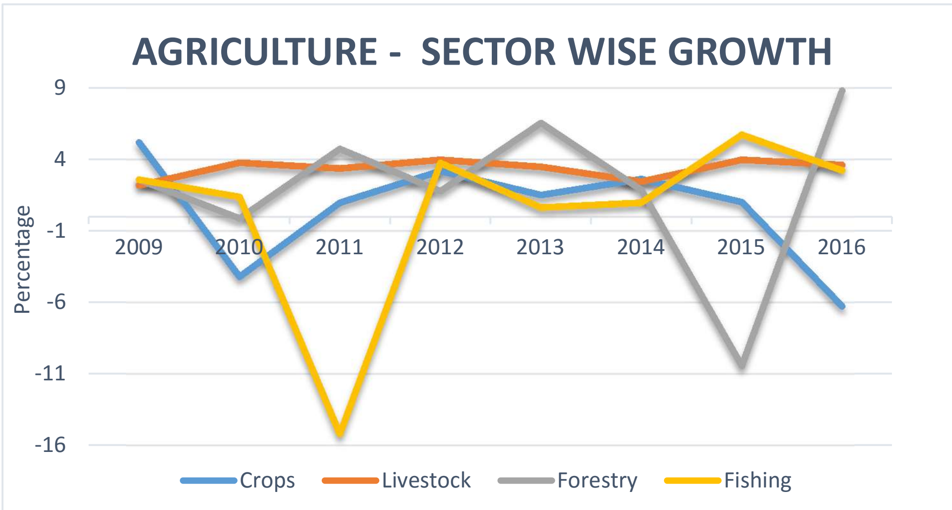
The success is tarnished by negative growth of 0.19 in agriculture sector, increase in public debt to PKR 19.17 trillion, decline in exports by 9.5% and the ever present difference in supply and demand of energy for domestic and industrial consumption.



Source: Economic Survey, 2015-16

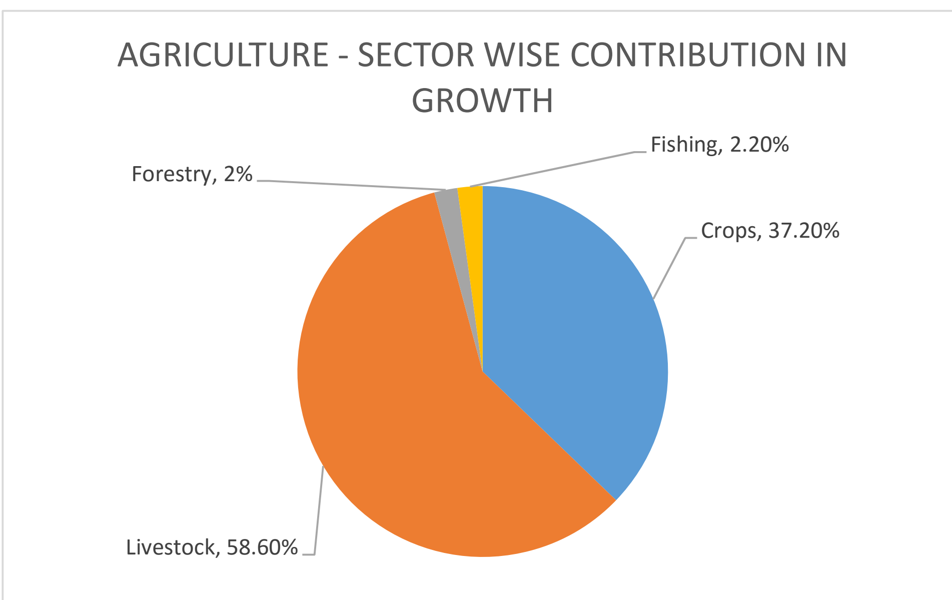
Agricultural sector

The agriculture had a 0.19 % negative growth as a whole against the target of 3.9 % primarily caused by floods effecting in reduction of the kharif crop in Punjab. The reduction in the sector is offset by marginal increase in wheat production from 25 million tons last year to 25.48 million tons this year. The subsequent crops of wheat and sugarcane were also adversely affected due to prolonged winter season and unusual rains. Cotton output, usually considered the backbone of the national economy, led the free fall in the agriculture sector as it posted a negative growth of 27%. The cotton output stood at 10.1 million bales against the target of 13.96 million bales.



Source: Economic Survey, 2015-16

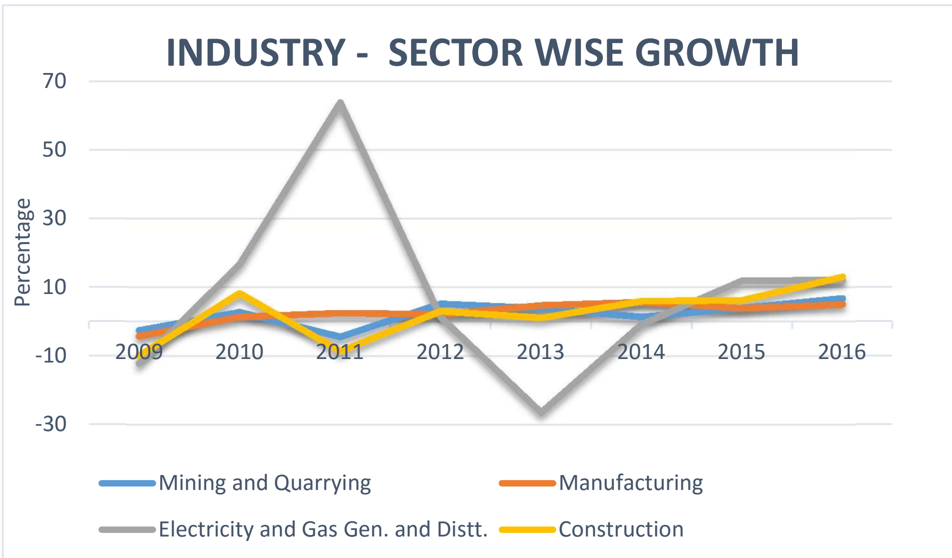
Agriculture sector being a vital component of economy and largest employer of labor force requires special attention and support to avoid further down fall. Certain revenue measures mostly consisting subsidies have been announced but infrastructural support through allocating resources from Public Sector



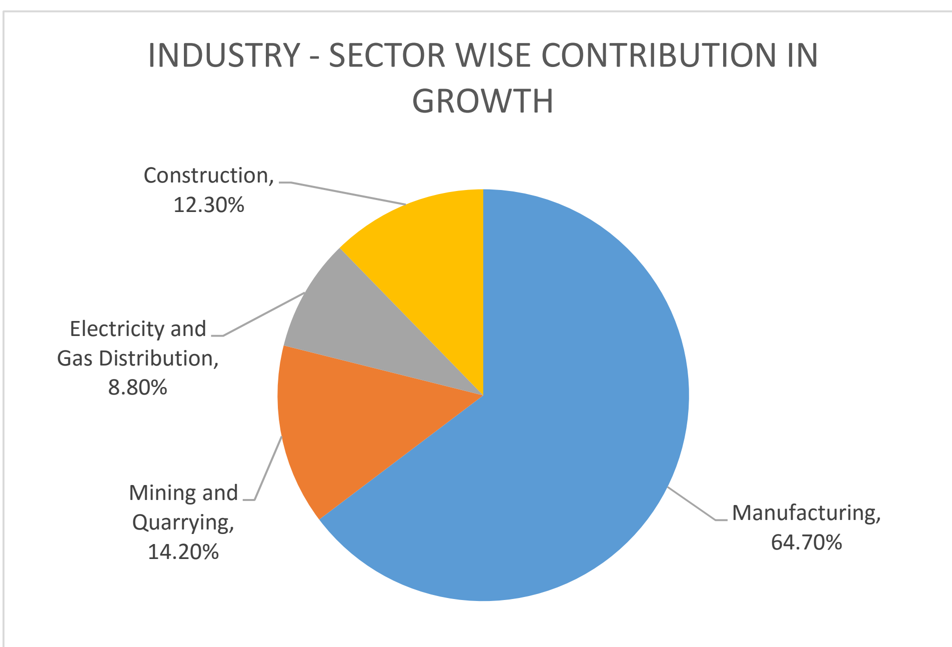
Development Program (PSDP) is required. Transparency may also be insured in implementation of subsidy schemes already announced. Continued failures may result in rural decline, unemployment and burden the trade deficit further.

Industrial sector

The industrial sector achieved 6.8% growth as compared to the target of 6.4%. The growth was majorly supported by construction and electricity sectors both of which recorded more than 12% growth. Construction industry has witnessed growth due to increased infrastructural projects around the country. The most important sector in industrial domain the large scale manufacturing (LSM) registered growth of 4.6 % missing the target set of 6%.



Source: Economic Survey, 2015-16

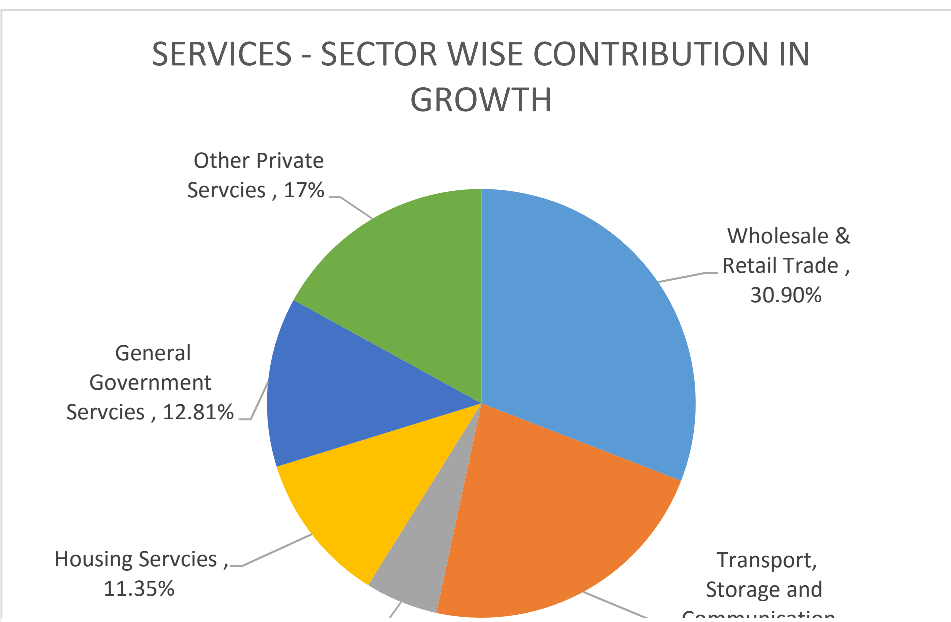


Service sector

The services sector achieved its growth target of 5.7% and outperforming the commodity sector in its place. The growth remained broad based where all components contributed positively. Major growth came from finance and Insurance as banking sector was impressive.

Source: Economic Survey, 2015-16

Services appears to be the only sector having all the positive indicators. The Government should focus on export of services in the every updating technological environment wherein physically crossing the borders in not necessary. Extension of exemption to IT industry is a good measure and further exploration is required to attract new avenues in export of services.



Source: Economic Survey, 2015-16

Besides all the above the Government's performance was unremarkable especially the agricultural sector which is in free fall The measures accounted by the Government for closing fiscal year have failed to produce any results and it resulted in missing the GDP goal. The newly proposed measures in support of agriculture are mostly subsidies which cannot be guaranteed to have reached the desired beneficiaries and no tool is available to measure their resultant output, in exact terms.

Instead the focus should be in technological development of the sector including introduction of new crop breads, improved methods of harvesting and irrigation to increase per acre production. The requisite infrastructural development should also be focused to improve overall efficiency and make the sector attractive for new investors.

It also transpires the Government has also failed to reap any remarkable benefit from reduced oil prices to accordingly reduce the trade deficit. Our current account is likely to face further pressure from reduction in workers remittances, primarily associated with slump in gulf economies resulting from reduced oil prices.

The tax collection target appears to have been ambitiously fixed by focusing on better tax collection. Tax is primarily the after result of economic achievements and therefore the focus apparently should be on higher tax collection from higher economic activity rather than better tax collection because when target is the driver application and compliance with law are naturally relegated to back benches and target collections become primary with whatever means available including freezing of bank accounts regardless of the effects that such measures have on investments and investor confidence. Thus the tax administration becomes a negative contributory to attracting FDI.

The Government has announced its commitment to uplift the economy and attain its targets however, there appear some missing links which doubt the achievement. The expected date to end electricity load shedding has been extended to December 2018, but the power generation projects already in pipeline are not expected to meet their ambitiously fixed deadlines while transmission infrastructure is already deteriorating.

FINANCE BILL 2016 Highlights

Income Tax Ordinance, 2001
Incentives & Relief

- The bill proposes to extend the period of tax exemption from June 30, 2017 to June 30, 2019 on investment in Green Field Industrial Undertakings.

- The bill proposes to enhance the rate of tax credit in the industrial undertaking from 1% to 2% and also extends the period up to June 30, 2019.

- The bill proposes to increase the tax credit to 3% from 2.5% for manufacturer registered under sales tax making over 90% sales to registered sales tax persons.

- Tax credit @ 20% for enlistment in stock exchange is available for one year. The bill proposes to extend the credit to 2 years.

- The bill proposes to extend the period of tax credit on BMR from June 30, 2016 to June 30, 2019 for purchase and installation of plant and machinery.

- Presently 100 % tax credit on tax payable is allowed for 5 years from commercial productions on 100% fresh equity. The bill proposes to reduce in proportion fresh equity 70% for the purposes of tax credit and extends the date of commercial production to June 30, 2019.

- The bill proposes to extend the exemption to export of IT Services expiring in June 30, 2016 to June 30, 2019 on the condition of remitting 80% proceeds to Pakistan through the banking channel.

- The bill proposes to reduce the withholding tax rate from 12% to 8% on the commission paid up to Rs. 500,000 to life insurance agents.

- The bill proposes to enhance the limit of deductible allowance for profit on debt paid on house building loan from Rs. 1 million to Rs. 2 million.

- The bill proposes to give tax relief equal to 5% of school fee up to Rs. 60,000 per child per annum for individual having taxable income less than Rs. 1 million.

- The bill proposes to increase the limit of annual contribution in provident fund by the employer from Rs. 100,000 to Rs.150,000.

- The bill proposes to give tax credit @ 5% of tax payable or Rs. 100,000 whichever is less on payment of premium of health insurance.

- The bill proposes to provide tax exemptions under Gwadar Port Concession Agreement to concessions holder and its operating companies, businesses to be established in the free zone, contractors and sub-contractors of the concession holder.

- The bill proposes to tax the property income in case of individuals and AOP’s as a separate block of income separate from income from other sources.

FINANCE BILL 2016 Highlights

Burden of Tax

- The bill proposes to tax dividend income and capital gain in case of insurance business at the corporate tax rate of 31%.
- The bill proposes that Alternate Corporate Tax will considered for the purposes of payment of advance tax.
- The bill proposes to extend the holding period for taxation of capital gain on sale of immovable property from 2 years to 5 years. The rate of tax is 10%.
- The bill proposes to extend the levy of super tax for another tax year from 2015 to 2016.
- The bill proposes to place obligations on provisional sales tax authorities to collect advance tax @ 3% of turnover from non-filers service providers along with their sales tax returns.
- The bill proposes to levy minimum tax on companies despite having gross loss.
- The bill proposes to impose final tax on builders and land developers on the basis of per unit area.
- The bill proposes to reduce minimum tax turnover threshold for charging minimum tax @ 1% from Rs. 50 million to 10 million in the case of individuals and AOPs.
- The bill proposes to increase the adjustable withholding tax on commercial electricity bill exceeding Rs. 20,000 per month at the rate 12% of the amount of bill.
- The bill proposes to increase the withholding tax rates under various sections of the Ordinance for non-filers of the income tax returns.
- The bill proposes to collect tax by the department of provincial government responsible for issue licenses for extractions of minerals @ 5% of the value of minerals from the non-filers.

Other Matters

- The bill proposes to restrict the access of the government authorities, regularity authorities and courts to the information available through tax treaty, multilateral convention.
- The bill seeks to relax the requirement of written approval of Commissioner where taxable income is more and the loss declared is less as declared under section 120.
- The bill proposes condition of offering income tax return for audit where returns are filed consequent upon passing the provisional assessment.
- The bill proposes to provide withholding tax @ 20% on the gross amount paid to a non-resident persons for foreign produced commercial and advertisement on any television channel or other media.

FINANCE BILL 2016 Highlights

Sales Tax Act, 1990 and Federal Excise Act, 2005

- Turnover threshold for cottage industry raised from Rs. 5 million to Rs.10 million.
- Board empowered to specify different dates for furnishing different parts or annexures of the Sales Tax return &Federal Excise return.
- Provincial input tax on services no more adjustable against output tax liability.
- Zero-rating for five export oriented sectors on items specified in notification. Retail sales of locally manufactured finished goods of these sectors are to be subjected to sales tax @ 5%.
- Sales tax exemption granted for pesticides to revitalize agricultural sector.
- Exemption of sales tax on vitamins, premixes, minerals and micronutrients to combat growth stunting
- Exemption of sales tax on import of laptops and personal computers to promote information and communication technology
- Exclusion of second hand and worn clothing from the levy of further tax.
- Withdrawal of FED on services subject to provincial sales tax such as advertisement on CCTV / Cable TV, shipping agents, banking companies, insurance companies, cooperative financing societies, modarabas, musharikas, franchise services, stevedores, stock brokers, forex dealers etc.
- Sales tax exemption extended to dump trucks for Thar Coal Field.
- Special exemption from sales tax and federal excise duty for development of Gwadar Port and Gwadar Free Zone.
- Exemption from sales tax and federal excise duty for a period of 23 years for sale and supplies within the Gwadar Free Zone by businesses established in Gwadar Free Zone.
- Import of Silos for the development of grain handling subject to 10% sales tax.
- Withdrawal of zero rating on stationery items and their inputs.
- Abolition of zero-rated status of under the heading milk and fat-filled milk.
- Excise duty on cement to be charged at fixed rate of Rs. 1 per Kg. instead of 5% of the retail price.
- Sugar to be charged to sales tax at reduced rate of 8% instead of FED @ 8%.
- Sales tax on urea to be charged at reduced rate of 5%.
- Increase in the rate of sales tax on import of mobile phones.
- Enhancement of Federal Excise Duty on Aerated Waters from 10.5% to 11.5%.
- Enhancement of the rates of the Federal Excise Duty on cigarettes increased on a bi-annual basis.
- Optional regime introduced for tier -1 retailers to pay sales tax @ 2% of annual turnover without any claiming input tax adjustment.
- Mineral/bottled water to be subjected to sales tax on retail price.

FINANCE BILL 2016 Highlights

- Sales tax increased from 5% to 10% on certain poultry ingredients.
- Marble cutting and polishing industry to be subject to additional sales tax @ Rs. 1.25 per KWH of electricity consumed.
- Upward revision of sales tax on steel sector, ship breakers, steel melters and re-rollers.
- Withdrawal of exemption on the specific plant, machinery and equipment items used in production of Bio-Diesel.

Customs Act, 1969

- Tariff slabs reduced from existing 5 to 4 by re-arranging duty structure.
- Custom duties enhanced on 10% and 15% slabs to 11% and 16% slabs respectively.
- Concessions of duty for plant and machinery relating to dairy, livestock & poultry sectors reduced from 5% to 2%.
- Concessions of custom duty extended on machinery for fish farming, fish feed pellet (floating type) machines from 5% to 2%, fish / shrimp feed 10% and 20% to 0%.
- Zero rate duty on import of premixes to prevent growth stunting from 5%– 20%.
- Expansion in scope of exemption on renewable energy technologies.
- Expansion in scope of exemption for machinery for charitable non-profit making institutions operating hospitals.
- Custom duty relief extended on cold chain machinery.
- Extension in relief on import of solar panels till June 30, 2017.
- Exemption from duty and taxes on disposal of old & used ambulances imported by Edhi Foundation.
- Exemption from customs duty on kits for the purposes of water quality testing.
- Reduction of duty on components or machinery local manufacturing of LED Lights from 20% to 5%.
- Reduction in duty on raw material of PVC resin from 5% to 3%.
- Reduction in duty on white spirits, stamping foil, CFC free gases, aluminum sheet in coil, thermostats of deep freezers.
- Rationalization of duty on betel nuts, betel leaves, almonds and frozen fish.
- Increase in duty on cement clinker, semi printed/printed security paper, live chicken stock and eggs of chicken and birds.
- Removal of regulatory duty from bead wire for tires manufacturers, carbon steel strips used by razor blade manufacturers.
- Levy of regulatory duty on powdered milk and whey powder.

Summary of changes in the INCOME TAX ORDINANCE, 2001

Section	
4B	**Super Tax for rehabilitation of temporarily displaced persons**

The bill proposes to extend the scope of this tax to tax year 2016. It is also proposes to exclude adjustment of brought forward business and depreciation losses from the definition of income provided in the section for the purposes of calculation of super tax liability. This is a harsh amendment which needs to be re-visited.

7C
Division VIIIA
Part I, First Schedule
113A

Tax on builders

A new section is proposed to be inserted to govern the chargeability of income tax on persons engaged in the business of construction and sale of residential, commercial and other buildings as a separate block. Consequential amendment for omission of section 113A minimum tax on builders is also proposed.

The board is being empowered to prescribe:

(a) the mode and manner for payment and collection of tax;

(b) the authority granting approval for computation and tax payment plan and;

(c) responsibilities of the authorities approving, suspending and cancelling no objection certificates to sell including matters connected and ancillary thereto.

The tax shall be imposed with reference to the relevant rate of tax to the area of the residential, commercial or other building being constructed.

The proposed insertion is applicable to business or projects initiated and approved after July 1, 2016.

Taxes levied falls under the final tax regime. Such basis of taxation practically do not tax the income of the person on whom they are levied as these are taken as a cost of doing business and are passed-on to be borne by the ultimate buyers.

The rates prescribed in Part I of the First Schedule are as under:

(A) Karachi, Lahore and Islamabad		(B) Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta		(C) Urban Areas not specified in A and B	
For commercial buildings					
Rs. 210/square foot		Rs. 210/square foot		Rs. 210/square foot	
For residential buildings					
Area in square foot	Rate per square foot	Area in square foot	Rate per square foot	Area in square foot	Rate per square foot
Up to 750	Rs. 20	Up to 750	Rs. 15	Up to 750	Rs. 10
751 to 1500	Rs. 40	751 to 1500	Rs. 35	751 to 1500	Rs. 25
1501 & more	Rs. 70	1501 & more	Rs. 55	1501 & more	Rs. 35

7D
Division VIIIB
Part I, First Schedule
113B

Tax on developers

A new section is proposed to be inserted to govern the chargeability of income tax on persons engaged in the business of development and sale of residential, commercial and other plots as final tax. Consequential amendment for omission of section 113B minimum tax on land developers is also proposed.

The board is being empowered to prescribe:

(a) the mode and manner for payment and collection of tax;

(b) the authority granting approval for computation and payment plan; and

(c) Responsibilities of the authorities approving, suspending and cancelling no objection certificate to sell including matters connected and ancillary thereto.

The proposed insertion is applicable to business or projects initiated and approved after July 1, 2016.

Taxes levied falls under the final tax regime. Such basis of taxation practically do not tax the income of the person on whom they are levied as these are taken as cost of doing business and are passed-on to be borne by the ultimate buyers.

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<table>
<tr><td colspan="2">(A) Karachi, Lahore and Islamabad</td><td colspan="2">(B) Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta</td><td colspan="2">(C) Urban Areas not specified in A and B</td></tr>
<tr><td colspan="6">For commercial buildings</td></tr>
<tr><td colspan="2">Rs. 210/square foot</td><td colspan="2">Rs. 210/square foot</td><td colspan="2">Rs. 210/square foot</td></tr>
<tr><td colspan="6">For residential buildings</td></tr>
<tr><td>Area in square foot</td><td>Rate per square foot</td><td>Area in square foot</td><td>Rate per square foot</td><td>Area in square foot</td><td>Rate per square foot</td></tr>
<tr><td>Up to 120</td><td>Rs. 20</td><td>Up to 120</td><td>Rs. 15</td><td>Up to 120</td><td>Rs. 10</td></tr>
<tr><td>121 to 200</td><td>Rs. 40</td><td>121 to 200</td><td>Rs. 35</td><td>121 to 200</td><td>Rs. 25</td></tr>
<tr><td>201 & more</td><td>Rs. 70</td><td>201 & more</td><td>Rs. 55</td><td>201 & more</td><td>Rs. 35</td></tr>
</table>

15 & 15A Division V Part III and VIA Part I, First schedule

Income from Property

The bill, in case of individuals and association of persons is reverting back to the concept of taxation that existed till tax year 2013, proposes to tax the income on gross rental basis without allowing any deduction in respect of the property provided in section 15A. The application of section 15A is proposed to be restricted to a company by substituting the word “person” with “company”. Consequentially substitution of Division V Part III of the First Schedule and insertion of Division VIA Part I of the First Schedule prescribing rates of tax withholding and taxation of the income is proposed as follows:

The rate of tax in the case of individuals and association of persons, shall be as follows:

S. No.	Gross amount of rent	Rate of tax
1.	Where the gross amount of rent does not exceed Rs. 200,000	Nil
2.	Where the gross amount of rent exceeds Rs. 200,000 but does not exceed Rs. 600,000	5 percent of the gross amount exceeding Rs. 200,000
3.	Where the gross amount of rent exceeds Rs. 600,000 but does not exceed Rs. 1,000,000	Rs. 20,000 plus 10 percent of the gross amount exceeding Rs. 600,000
4.	Where the gross amount of rent exceeds Rs. 1,000,000 but does not exceed Rs. 2,000,000	Rs. 60,000 plus 15 percent of the gross rent exceeding Rs. 1,000,000
5.	Where the gross amount of rent exceeds Rs. 2,000,000	Rs. 210,000 plus 20 percent of the gross amount exceeding Rs. 2,000,000

21(c) & (o) **Deductions not allowed**

The bill proposes to reword clause (c) and to restrict the disallowance up to a maximum of twenty percent of purchases of raw materials and finished goods. It further provides that recovery of any amount of tax under sections 161 or 162 would be considered as tax paid in which case the expenditure would not then be disallowed. The tax authorities were disallowing any expenditure on which tax had not been withheld at source and paid though the same may have been recovered in separate proceedings under sections 161 or 162. The courts also had supported the departmental interpretation holding that both the provisions were independent thus it was not a case of double jeopardy.

The bill proposes insertion of a new clause (o) so as to disallow expenditure on sale promotion advertisement and publicity incurred by pharmaceutical manufacturers exceeding five percent of their turnover.

22 **Depreciation**

An explanation is proposed to be added to clarify that depreciation shall be deemed to have been allowed during the exemption period in respect of any business income is granted exemption from tax.

37, DIV.VIII of, Part I, First Schedule **Holding period of claiming tax exemption on immovable property extended**

The proposed amendment in Division VIII of Part I, First Schedule seeks to enhance the rate of tax and also the holding period. Presently on holding period of one year’s rate of tax is 10% and up-to two years rate of tax is 5% whereas, on holding period of more than two years rate of tax is 0%. The bill seeks to increase the holding period for five years and provide the rate of tax as follows:

S. No.	Holding Period of immovable property	Rate of Tax
1.	up to five years	10%
2.	more than five years	0%

37A , Division VII Part I First Schedule Rule (1B) of the Eighth Schedule

Capital gain on disposal of securities

The bill envisages a change in the taxation scheme for future commodity contracts from transactional taxation to taxation of capital gain arising on such contracts. Consequentially section 236T and Division XXII of Part IV of the First Schedule are proposed to be omitted.

236T and Division XXII of the Part IV of the First Schedule

An explanation clarifying that derivative products include future commodity contracts entered into by members of the Pakistan Mercantile Exchange whether or not settled by physical delivery is proposed to be inserted in section 37A. Consequential substitution is proposed in Division VII of Part I of the First Schedule prescribing rate of tax as under:

Holding Period of Security	Tax Year 2015	Tax Year 2016	Tax Year 2017	
			Filer	Non-filer
less than twelve months.	12.5%	15%	15%	18%
twelve months or more but less than twenty-four months.	10%	12.5%	12.5%	16%
twenty-four months or more but less than four years	0%	7.5%	7.5%	11%
Where the security was acquired before 1st July, 2012	0%	0%	0%	0%
Future commodity contracts entered into by the members of Pakistan Mercantile Exchange	0%	0%	5%	5%

In case Future commodity contracts entered into by the members of Pakistan Mercantile Exchange there is no difference in the tax rate for filers and non-filers. This may be intentional or an error.

Amendment is also proposed in the Eighth Schedule to authorize NCCPL to collect such a tax.

53 Exemptions and tax concessions in the Second Schedule

The bill proposes to extend the authority of the Federal Government pursuant to the approval of Economic Coordination Committee of Cabinet, to grant exemption from any tax imposed under the Ordinance including a reduction in the rate of tax imposed or a reduction in tax liability or an exemption from the operation of any provision of this Ordinance to any international financial institution or foreign Government owned financial institution operating under an agreement, memorandum of understanding or any other arrangement with the Government of Pakistan.

It appears that the extension in scope is being incorporated specifically to facilitate agreements entered into by the Government of Pakistan for CPEC which have been proposed various tax exemption in the Second Schedule.

59B Group Relief

Currently a subsidiary of a holding company can surrender its assessed losses in favor of the holding company. The bill by way of an insertion proposes to restrict the loss to be surrendered in the same proportion as the percentage of share capital held by the holding company of its subsidiary.

62A Tax Credit for investment in health insurance

The bill proposes insertion of a new section providing tax credit to a resident person deriving income assessable under the head salary or business. The credit to be allowed shall be computed with reference to lessor of:

(a) the total contribution or premium paid by the person referred to in sub-section (1) in the year;

(b) five per cent of the person's taxable income for the year; and

(c) one hundred thousand rupees.

63(2) Tax Credit on contribution to Pension Fund

A new provision is proposed to be inserted whereby an individual person driving income under the head salary or income from business shall be entitled to tax credit for a tax year in respect of any contribution or premium paid in respect of approved pension funds under Voluntary Pension System Rules 2005.

The proposed insertion provides additional contribution of two percent per annum for each year of year age exceeding 40 years up to June 30, 2019 subject to the condition that the total contribution shall not exceed thirty per cent of the total taxable income of the preceding tax year.

64A Deductible allowance for profit on debt

Currently the deductible allowance to an individual for the purpose of house construction or acquisition is lower of fifty percent of the taxable income or rupees one million. The bill proposes to increase the limit to rupees two million.

64AB Deductible allowance for education expenses

The bill proposes to insert for providing relief to individuals earning taxable income less than rupees one million. The relief is restricted to lower of five percent of the tuition fee, twenty five percent of the person's taxable income and rupees sixty thousand per child. The allowance will be allowed either of the parents incurring the expenditure on furnishing of NTN or name of the institution. Surprisingly, the allowance shall not be taken into consideration by the employer while calculating the tax reduction in compliance of section 149 of the Ordinance. Such restriction practically does not provide any relief as the employee while filing the return would be claiming a refund and blocks this cash flow.

The allowance if not be able to be deducted in the current tax year is permitted to be carried forward to subsequent tax year.

64B Tax credit for employment generation by manufacturers

Currently tax credit is available at the rate of one percent for every fifty employees registered with the EOBI or ESSI of the Provincial Government subject to a maximum of ten percent of the tax payable up to June 30, 2018.

The bill proposes to extend the period of tax credit June 30, 2019 and the rate of credit raised to two percent.

65A Tax credit to a person registered under the Sales Tax Act, 1990

Manufacturer registered under the Sales Tax Act, 1990 whose ninety percent of the sales are to persons registered under the Sales Tax Act, 1990 is entitled to tax credit of two and a half percent of tax payable for a tax year. The Bill proposes to increase the rate of tax credit to three percent.

65B Tax credit for investment

Tax credit at the rate of ten percent of tax payable is allowed to the company investing in the purchase of plant and machinery for extension, expansion, balancing modernization and replacement of the plant and machinery till June, 30, 2016. The bill proposes to extend the period to June 30, 2019.

65C Tax credit for enlistment

Tax credit equal to twenty percent of the tax payable is allowed in the year of enlistment. The bill proposes to extend the credit to the following tax year.

65D & 65E **Tax credit for newly established industrial undertakings or established before July 1, 2011**

Currently tax credit was available to industrial undertaking set-up till June 30, 2016 provided it is set-up by hundred percent equity raised through issuance of shares against cash consideration. The bill proposes to extend the period to June 30, 2019 and relaxing the condition of setting up of the undertaking against issuance of hundred percent equity to seventy percent of cash consideration. It also proposes to limit the tax credit in the ratio of equity raised through issuance of fresh shares. In case the business is discontinued within five years of the credit initially allowed, the Commissioner is empowered to disallow the credit and re-compute the tax payable for the relevant tax year.

68 **Fair market value**

The bill proposes to empower the Commissioner to ignore the value fixed or valued notified by any provincial authorities for the purposes of stamp duty or any other purpose while determining the fair market value. The proposed amendment will lead to increased litigation as the authorities would dispute the value declared by the taxpayers. Also the amendment does not provide any basis on which the Commissioner can disregard the value of any Provincial Government.

Section 107(1), (1B) & 165B & 198 **Bar on disclosure of information to Government Authorities, Regulatory Authorities & Courts**

The bill seeks to substitute sub-section (1) to enlarge it's scope by inserting the words 'tax treaty and multilateral convention' into its ambit also to and harmonizing language of law in line with international terms and phraseology.

Under the provisions of sub-section (1B) any information received or supplied to the taxation authority under the tax information exchange agreement, a multilateral convention, a similar arrangement or mechanism is to be kept confidential, however, this confidentiality could be divulged under the provision of sub-section (3) of section 216 of the Ordinance. The proposed amendment seeks to omit this sub-section from its ambit.

Under the provisions of section 216 of the Ordinance taxation authorities being a public servant are under obligation to maintain the confidentiality of the information submitted before it or acquired by them in the process of discharge of their responsibilities. However, the law contained in sub-section (3) of section 216 of the Ordinance provides that such disclosure can be made in certain circumstances enumerated as follows:

(a) to executionary machinery responsible to implement tax laws;

(b) persons responsible for processing of data and preparing print-out relating to return of income and calculation of income tax;

(c) where the disclosure is occasioned by the lawful employment under the Ordinance of any process for the service of any notice or the recovery of any demand;

(d) to the Auditor General of Pakistan for the purpose of enabling him to discharge his functions under the Constitution;

(e) to any officer appointed by the Auditor General of Pakistan or the Commissioner to audit income tax receipts or refunds;

(f) to any officer of the Federal Government or a Provincial Government authorized by such Government in this behalf as may be necessary for the purpose of enabling that Government to levy or realize any tax imposed by it;

(g) to any authority exercising powers under the Federal Excise Act, 2005, the Sales Tax Act, 1990, the Wealth Tax Act, 1963 or the Customs Act, 1969, as may be necessary for the purpose of enabling its duty to exercise such powers;

(h) occasioned by the lawful exercise by a public servant of powers under the Stamp Act, 1899 to impound an insufficiently stamped document;

(i) to the State Bank of Pakistan to enable it to compile financial statistics of international investment and balance of payment;

(j) as may be required by any order made under sub-section (2) of section 19 of the Foreign Exchange Regulation Act, 1947 or for the purposes of any prosecution for an offence under section 23 of that Act;

(k) to the Securities and Exchange Commission or the Monopolies Control Authority for the purposes of the Securities and Exchange Ordinance, 1969 the Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance, 1970 (VI of 1970), the Companies Ordinance, 1984 or the Securities and Exchange Commission of Pakistan Act, 1997, as the case may be;

(l) relevant to any inquiry into a charge of misconduct in connection with income tax proceedings against a legal practitioner or an accountant;

(m) to a Civil Court in any suit or proceeding to which the Federal Government or any income tax authority is a party which relates to any matter arising out of any proceedings under this Ordinance;

(n) for the purposes of a prosecution for any offence under the Pakistan Penal Code, 1860 in respect of any such statement, returns, accounts, documents, evidence, affidavit or deposition, or for the purposes of a prosecution for any offence under this Ordinance;

(o) relevant to any inquiry into the conduct of an official of the Income Tax department to any person or officer appointed to hold such inquiry, or to a Public Service Commission, established under the Federal Public Service Commission Ordinance, 1977 when exercising its functions in relation to any matter arising out of such inquiry;

(p) as may be required by any officer or department of the Federal Government or of a Provincial Government for the purpose of investigation into the conduct and affairs of any public servant, or to a

Court in connection with any prosecution of the public servant arising out of any such investigation;

(q) to an authorized officer of the government of any country outside Pakistan with which the Government has entered into an agreement under section 107 for the avoidance of double taxation and the prevention of fiscal evasion as may be required to be disclosed in pursuance of that agreement; or

(r) to the Federal Tax Ombudsman appointed under the Establishment of the Office of Federal Tax Ombudsman Ordinance, 2000.

The implications of the proposed amendment are far reaching under the current prevalent environment in the country related to disclosure of off-shore entities. If the taxation authorities acquire such information from overseas countries they shall not be under legal obligation to divulge such information to various other governmental department and courts mentioned above.

There does not appear to be a justification to bring about this proposed amendment as dissemination of information to various governmental organization or courts is in line with the justice system applicable to delinquent person or persons under various other laws of the country or courts. On the contrary any information acquired should be provided to the other governmental organizations for the purposes of initiating punitive actions.

108(3),(4) & (5) Transactions between associates

The proposed amendment seeks to insert sub-sections (3), (4) and (5) pertaining to the transactions between the associates. It is now incumbent upon every taxpayer who has entered into transactions with its associates to maintain records as follows:-

(a) maintain a master file and a local file containing documents and information as may be prescribed;

(b) keep and maintain prescribed country-by-country report, where applicable;

(c) keep and maintain any other information and document in respect of transaction with its associates as may be prescribed; and

(d) keep the files, documents, information and reports specified in clauses (a) to (c) for the period as may be prescribed.

Additionally the taxpayer is also obligated to provide to the Commissioner, if so required, within thirty days the documents and information referred to above.

Upon written request of the taxpayer the maximum period of forty five days is prescribed under sub-section (5) whereby the Commissioner can grant extension to time from the stipulated time given in the notice regarding submission of information and documents. However, under exceptional circumstances the Commissioner is also empowered to grant extension for longer period of time which is discretionary but not stipulated in the law.

The purpose behind the proposed amendment is to create documentation to ensure that transactions between the associates are above-board and there does not exist an element of transfer pricing or diversion of profit or any loss of revenue, capital or otherwise, arising as a result of transactions between the associates.

113 Minimum tax threshold reduced

For the purpose of levy of minimum tax on an individual or association of persons the existing turnover threshold of Rupees fifty million is proposed to be reduced to Rupees ten million only. The proposed amendment shall be applicable for the tax year 2017 and onwards. Also the first proviso to sub-section (1) is proposed to be omitted which provides that the minimum tax shall not be leviable on a company in case it has suffered a gross loss before depreciation and other in-admissible expenses under the Ordinance.

The proposed reduction of the turnover threshold appears to be harsh for small and medium size entities that are more or less are operating under informal sector. Placing additional responsibilities for such entities will be burdensome for them and create unnecessary hardship. Also applicability of minimum tax in gross loss situation for a company will be unfair and unjust as such entities will be made to pay minimum tax despite the fact that being unable to make gross profit. The tax laws should recognize the factual realities of businesses rather than attempt to recover taxes irrespective of the ability to pay taxes.

114(6) Revision of the return

Under the present legislation, for the purposes of revision of return of income, prior approval of the Commissioner is required in writing. However, upon the request of the taxpayer, if the Commissioner did not make an order of approval in writing for the revision of return before the expiration of sixty days, the approval sought is deemed to have been granted. The proposed amendment also stipulates that the approval of the Commissioner will be deemed to have been given if the taxpayer while revising the return of income enhances its taxable income or reduces the loss, as the case may be from the return filed which is deemed assessment order under section 120.

In principle there should not be any conditions or limitations to revise the return of income once filed. The taxpayer should have a right to make correction voluntarily once an error or omission is discovered. The requirement of Commissioner's approval was inserted in the statue books through the Finance Act, 2013. It is experienced that in certain cases the Commissioners unnecessarily withhold approval for revision of returns.

122C Provisional assessment

Under the existing law any person whether an individual, association of persons or a company fails to file return of income under section 114 of the Ordinance, the Commissioner is empowered to make a provisional assessment on such a person on best judgment basis. Such a provisional assessment does not remain valid, if a taxpayer within forty five days of service of the provisional assessment order, files the return of income together with relevant documents. The proposed amendment seeks to insert another condition for all categories of taxpayers whether individuals; AOPs or company that concerned taxpayer shall also present the accounts for the audit of income tax affairs of that tax year.

The proposed amendment seeks to eliminate the possibilities on the part of the taxpayers to contest or resist the audit of his tax affairs, in case the Commissioner selects the return for detail audit under section 177 of the Ordinance.

147(4), (4AA) & (6A) **Advance tax liability to include Alternate Corporate Tax**

For the purpose of calculating advance tax liability, the existing provisions stipulate that taxpayer turnover for the quarter is to be worked out on the basis of tax assessed to the taxpayers turnover for the latest tax year. The proposed insertion by way of an explanation seeks to explain that tax assessed for the latest tax year also include Alternate Corporate Tax (ACT) under section 113C of the Ordinance. Consequential amendments have also been proposed in sub-sections (4AA) and (6A).

The way this amendment has been brought about by way of an explanation, it will trigger litigation between taxpayers and the tax machinery for the reason that tax machinery will make an attempt to apply this charge retrospectively under the garb that explanation inserted means that the law was in place and for the removal of doubt only explanations are brought into the statute book ignoring the fact that its nature being substantive has to be applied prospectively. This is contrary to the factual situation that alternate tax is not the final tax liability of the taxpayer as the tax paid under ACT is adjustable in the future tax years subject to certain conditions. Accordingly advance tax worked out under ACT will also be on a higher side causing undue hardship to the taxpayers. This appears to be a revenue measure to enhance current year collection without realizing the hard ship on the taxpayers and the fact that ACT could also become refundable in the future years. This could possibly create multiple complications for the tax payers.

152A **Withholding tax on payments for foreign produced commercials**

The proposed insertion seeks to bring in the ambit of Pakistan taxes payments made for foreign produced commercials at the rate of 20% of the gross amounts paid. The responsibility lies on the person making payment to non-resident either directly or through an agent or intermediary persons in respect of foreign produced commercials for an advertisement on any channel or media. The tax so deducted will be final discharge of tax liability arising on such payments.

In case commercials are produced outside territorial jurisdiction of Pakistan, the non-resident recipient persons of payment may question the applicability of Pakistan tax laws in the country of their residence. This insertion has been proposed without considering the provisions of double tax treaties which have overriding effects over the Pakistani tax law. The non-deduction of tax on foreign commercials will expose the resident payers to in-admissibility of expenditure in their hands, if they do not comply with this provision, In case of compliance to avoid any disallowances in their hands or avoid tax litigations it would result in a higher cost of doing business.

153(3)(e) Tax deduction on payments to print and news media to be the final tax

The new sub-clause (e) is proposed to be inserted whereby from July 1, 2016 persons making payment to electronic and print media shall deduct tax at the rate of 1.5% of the gross amount paid instead of 1%. Such tax shall be final discharge of tax liability in the hand of the recipient taxpayers. This is the major concession to the electronic and print media to discharge their tax liability at such a low tax rate.

153(5)(e) Cotton ginners self-payment option withdrawn

The proposed amendment seeks to withdraw option of self-payment of tax equal to the amount of withholding tax from the applicability of withholding tax on supplies which were earlier available to them on the condition of depositing into the government treasury an amount equal to the amount of tax deductible on the payments made to them.

169(4) Final discharge of tax liability

The new sub-section (4) is proposed to be inserted whereby it is stipulated that in case a person has suffered tax as non-filer at a higher rate as compared to the rate applicable to the filer, the final tax liability of such a tax payer remains at the rate applicable to the filer. Upon filing the tax return, such a taxpayer will be entitled for the refund of such excess tax deducted at source.

170(2)(c) Period for filing tax refund application

The proposed amendment seeks to increase the period of filing of refund application from two years to three years. This is a positive change to provide more time for filing the refund application. Nonetheless there are plethora of cases of the superior courts wherein it was held that refund cannot be denied to taxpayers merely on technical grounds.

182(1) Penalty on non-filing of statement under section 165B

The proposed amendment seeks to levy penalty on financial institutions including banks for non-furnishing of the statement containing information as called for by the tax authorities under section 165B of the Ordinance. The Penalty for each day of default is prescribed at Rs. 2,500 per day subject to a minimum penalty of Rupees ten thousand. The proposed insertion intends to ensure tax compliance in the country.

231A& 236P Monitory threshold of withholding for filer and non-filer on cash withdrawals

The proposed insertion by way of an explanation in both the sections seeks to clarify that the monetary threshold of Rupees 50,000 for the purpose of application of tax rates under section 231A at the rate of 0.3% on filers and 0.6% for non-filers and under 236P at the rate of 0.3% on non-filers shall be applicable on all the bank accounts of the person in a single day. This explanation is harsh in nature as one withholding tax agent would not have knowledge that the person has accounts in more than one bank accounts, it is practically not possible for one bank to possess knowledge of accounts in other banks and what transactions if any, his client is undertaking in these accounts. The tax authorities may raise un-called for defaults which will create hardships for the withholding tax agents.

The legislation should consider whether the proposal is practical and also implementable.

231B(1) & (1A) **Advance tax on private motor vehicles**

The proposed insertion of the proviso to sub-section (1) states that the limit of five years for collection of tax from the date of first registration as provided in sub-section (6) shall not apply to the following category of motor vehicles:

(a) the date of issuance of broad arrow number in case a vehicle is acquired from the Armed Forces of Pakistan;

(b) the date of registration by the Ministry of Foreign Affairs in case the vehicle is acquired from a foreign diplomat or a diplomatic mission in Pakistan; and

(c) the last day of the year of manufacture in case of acquisition of an unregistered vehicle from the Federal or a Provincial Government.

However, only exception remains now is in respect of all other cases registered with the Excise and Taxation Department of each Province. This is not a level playing field for such category of vehicle owners.

The bills also seeks to insert sub-section (1A) to provide the withholding tax on non-filer on the leasing of motor vehicle from the leasing company or a scheduled bank or an investment bank or a development finance institution or a modaraba at the rate of three per cent of gross value of the motor vehicle.

236A(3) **Advance tax on lease of the right to collect toll as final tax**

The proposed insertion of sub-section (3) seeks to provide the overriding effect of sub-section (2) on the tax collected on a lease of the right to collect toll to be the final tax. The rate of withholding tax in sub-section (1) is 10%.

236E **Advance tax on foreign produced TV plays and serials**

The proposed amendment seeks to broaden the scope of foreign TV plays for the purposes of withholding tax by substituting the words “dubbed in Urdu or any other regional language’ with the words ‘ in any language other than English and also removing the words ‘ landing rights’ from the ambit of the section to widen the scope of this section. “

236U Div.XXV, Part IV, First Schedule

Advance tax on insurance premium

The new section is proposed to be inserted whereby it is obligatory on the insurance company to recover tax from non-filers at the time of collection of insurance premium as follows:

S.No.	Type of Premium	Rate
1.	General insurance premium	4%
2.	Life insurance premium i) If exceeding Rs. 0.2 million per annum	1%
.	ii) Others	0%

236V Div.XXVI, Part IV, First Schedule

Advance tax on extraction of minerals

The new section proposed to be inserted to bring in tax ambit the value of mineral extracted, produced, dispatched and carried away from the licensed or the leased area of the mines. The Provincial Authority which collects royalty per metric ton from the lease holder of the mines or any person extracting mineral has been entrusted with the responsibility to collect this tax. However, this levy is only on the non-filers at the rate of five percent of the value of minerals.

236W

Advance tax from Provincial Sales Tax registered person

The new section proposed to be inserted whereby the Provincial Authority has been entrusted with the responsibility to collect advance tax from the non-filers who are registered with the Provincial Sales Tax Authorities. The rate of tax is three per cent of the amount of turnover. The advance tax is to be collected along with the sales tax return filed with the Provincial Sales Tax Authorities. It is further stipulated that the Provincial Authority shall not accept return of sales tax return unless tax is collected and deposited. The tax collected is an advance tax and adjustable against the final tax liability of such a person.

Summary of changes in the
INCOME TAX ORDINANCE, 2001

First Schedule

150 & Part III Division I

Tax on dividend

The bill proposes to increase the rate of tax on dividend for non-filers from the current 17.5% to 20%.

Moreover, the bill also seeks to levy tax on dividend required to be deducted by a collective investment scheme or a mutual fund (being derived by non-filer) according to the following rates:

Person	Stock Fund	Money market fund, income fund or REIT scheme or any other fund	
		Filer	Non-filer
Individual	10%	10%	15%
Company	10%	25%	25%
AOP	10%	10%	15%

156 & Part III Division VI

Prizes and winnings

The bill proposes to introduce the concept of non-filer in the case of prize on prize bond or cross-word puzzle. For filers, the tax rate is kept unchanged i.e. at the rate of 15%of the gross amount paid; whereas for non-filers, the tax rate is proposed to be 20% of the gross amount paid.

233 & Part IV Division II

Brokerage and commission

The bill seeks to add the commission received by life insurance agents to the taxed, among other types of commission , at the following rates:

Category	Filer	Non-filer
Advertising agents	10%	15%
Life Insurance agents where commission received is less than Rs. 0.5 million per annum	8%	16%
All other cases	12%	15%

233A & Part IV Division IIA

Collection of tax by a stock exchange

The bill seeks to enhance the collection of tax by the stock exchange at the following rates:

Category	Rate
In case of purchase of shares as per clause (a) of sub-section (1) of section 233A	0.02% of purchase value
In case of sale of shares as per clause (b) of sub-section (1) of section 233A	0.02% of sale value

236C & Part IV Division X

Sale or transfer of immoveable property

The bill proposes to enhance the incidence of taxation on sale or transfer of immoveable property from 0.5% to 1% of the gross amount of the consideration in the case of filers and from 1% to 2% of the gross amount of the consideration in the case of non-filers.

236K & Part IV Division XVIII

Purchase of immoveable property

The bill proposes to enhance the incidence of taxation on purchase of immoveable property (in case of the value of the property being more than Rs. 3 million) from 1% to 2% of the gross amount of the consideration in the case of filers and from 2% to 4% of the gross amount of the consideration in the case of non-filers.

235A & Part IV Division XIX

Domestic electricity consumption

The Finance Act, 2015 specified that advance tax at the rate of 0% shall be collected if the monthly electricity bill is less than Rs. 100,000. The bill seeks to reduce the threshold amount from Rs. 100,000 to Rs. 75,000.

236P & Part IV Division XXI

Advance tax on banking transactions otherwise than through cash

The Finance Act, 2015 specified the rate of tax under section 236P at the rate of 0.6% of the transaction for non-filers; the proviso to the section stated that the rate shall be 0.3% for the period from July 11, 2015 to September 30, 2015. The bill seeks to extend the facility of the reduced rate for the period as deemed appropriate by the Board from time to time.

Summary of changes in the INCOME TAX ORDINANCE, 2001

SECOND SCHEDULE

Part I- Exemption from total income

Clause (66)(xviii)	The sub-clause (xviii) of Clause (66) had become redundant which provided exemption to Micro Finance Banks for a period of five years starting from July 1, 2007, hence is proposed to be omitted from the Second Schedule.
(98)	**Tax exemption valid for Board or other organizations established by the Government in Pakistan** The bill seeks to amend Clause (98) to provide tax exemption only to government organizations established for the purpose of sports and games. The tax exemption of all other sports and game organizations shall not the valid once the bill is approved by the Parliament.
(103A)	The bill seeks to amend the Clause to exclude from its ambit the companies entitled for group relief under section 59B from exemption of inter-corporate dividend. After the proposed change, only those companies can avail this benefit which opt for group taxation.
(126A)	**China Overseas Ports Holding Co. Ltd.& its four operating companies** The bill seeks to exempt income from tax derived by China Overseas Ports Holding Company Limited, China Overseas Ports Holding Company Pakistan (Private) Limited, Gawadar International Terminal Limited, Gawadar Marine Services Limited and Gawadar Free Zone Company Limited from Gawadar Port operations for a period of twenty-three years, with effect from February 6, 2007.
(126AA)	**Profit and gains from businesses set-up in the Gawadar Free Zone Area** Profit and gains derived by a taxpayer from businesses set up in the Gawadar Free Zone Area for a period of twenty three years with effect from July 1, 2016.
(126AB)	**Profit on debt under Financing Agreement with the China Overseas Ports Holding Company Limited** The bill seeks to provide tax exemption under a financing agreement with the China Overseas Ports Holding Company Limited in respect of profit on debt derived by: (a) any foreign lender; or (b) any local bank having more than 75 percent shareholding of the Government or the State Bank of Pakistan.
(126AC)	**Income of contractors and sub-contractors of China Overseas Ports Holding Co. Limited and its four operating companies** The bill seeks to exempt income derived by contractors and sub-contractors of China Overseas Ports Holding Company Limited, China Overseas Ports Holding

Company Pakistan (Private) Limited, Gawadar International Terminal Limited, Gawadar Marine Services Limited and Gawadar Free Zone Company Limited from Gawadar Port operations for a period of twenty years with effect from July 01, 2016.

(126AD) **Dividend income of China Overseas Ports Holding Company Limited**

The bill seeks to exempt dividend income derived by China Overseas Ports Holding Company Limited from its subsidiary companies as follows:

(a) China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited.

(b) China Overseas Ports Holding Company Pakistan (Private) Limited being dividend received from Gwadar International Terminal Limited Gwadar Marine Services Limited and Gwadar Free Zone Company Limited.

(133) **Income from exports of computer software or IT services or IT enabled services**

The bill proposes to extend tax exemption to income from export of computer software or IT services or IT enabled services upto June 30, 2019 which was expiring on June 2016. Further a proviso is proposed to be inserted to impose condition for remitting eighty percent of the foreign exchange in Pakistan through banking channels.

Part-II
Reduction in tax rate

Clause

(3) **Services rendered and contracts executed outside Pakistan**

The bill seeks to substitute Clause (3) to provide for revised tax rates for the services rendered and contracts executed outside Pakistan provided that the receipts from services and income from contracts are brought into Pakistan in foreign exchange through normal banking channels. These rates are linked with the rates as stipulated for withholding under section 153 of the Ordinance in Clause (2) and (3) of Division III of Part III of the First Schedule and are applied at the rate of 50% thereof. The position of the rates is stipulated below:

Existing tax rate	Proposed tax rate for companies		Proposed tax rate for others	
	Filer	Non-filer	Filer	Non-Filer
Transport services				
1%	1%	1%	1%	1%

Other Services				
1%	4%	6%	5%	7.5%
Advertising Services				
1%	0.75%	6%	0.75%	7.5%
Sports persons				
1%	-	-	5%	5%
Contracts				
1%	3.5%	5%	3.75%	5%

(3B) **Pakistan Cricket Board**

The bills seeks to insert new Clause to introduce reduced rate of tax 4% to the following income of Pakistan Cricket Board from sources outside Pakistan:

(a) media rights,
(b) gate money,
(c) sponsorship fee,
(d) in-stadium rights,
(e) out-stadium rights, and
(f) payments made by International Cricket Council, Asian Cricket Council or any other Cricket Board.

The associated conditions to claim tax exemption are:

- that Pakistan Cricket Board may opt to pay tax at the rate of four per cent of the gross receipts from tax year 2010 and onwards;

- this option shall be available subject to withdrawal of appeals, references and petitions on the issue of tax rate pending before any appellate forum or tax authority; and

- that the outstanding tax liability payable under this Clause up to tax year 2015 is paid by June 30, 2016.

Part-IV Exemption from specific provisions

Clause

(11A)(xxvi) **Minimum tax**

The bill proposes that the provisions of section 113 regarding minimum tax shall not apply to China Overseas Ports Holding Co. Ltd. and its four operating companies for a period of twenty three years, with effect from the February 06, 2007:

(a) China Overseas Ports Holding Company Limited,
(b) China Overseas Ports Holding Company Pakistan (Private) Limited,
(c) Gwadar International Terminal Limited,
(d) Gwadar Marine Services Limited and
(e) Gwadar Free Zone Company Limited

(11A)(xxvii)& (126M) **Transmission line project**

The bill proposes that the provisions of section 113 regarding minimum tax shall not apply to transmission line project companies.

(11B) & (11C) The proposes amendment seeks to withdraw exemption from withholding tax on inter-corporate dividend and profit on debt in the case tax payer claiming of group relief companies under Section 59B.

(38AA) **Withholding tax on dividend paid to China Overseas Ports Holding Co. Ltd. and its four operating companies**

The withholding tax provisions under section 150 shall not apply for a period of twenty-three years to:

(a) China Overseas Ports Holding Company Limited,
(b) China Overseas Ports Holding Company Pakistan (Private)Limited,
(c) Gwadar International Terminal Limited,
(d) Gwadar Marine Services Limited and
(e) Gwadar Free Zone Company Limited

(57) **Companies operating as Large Trading Houses**

The bill seeks to provide concession any reduce tax rate of minimum tax @ 0.5% up to the tax year 2019 and enhance the same to one percent thereafter.

(59)(i) The bill seeks to withdraw the tax exemption of withholding tax on profit or interest under section 151 on a Term Finance Certificate which was issued on after July 01, 1999.

(72A) The bill proposes to extend the period to tax year 2016 which expired till tax year 2015 from applicability of the following provisions the Hajj Operators who pay Rupees five thousand per Hajji:

(a) Under section 21 – provision related to deductions not allowed or inadmissible deduction

(b) Under section 113 – provision related to minimum tax on the income of certain persons

(c) Under section 152 – provision related to payment to non-residents

(72B) **Non-applicability of withholding tax on imports by industrial undertakings**

Under the provision of this Clause, the Commissioner is empowered to issue tax exemption certificate at import stage in respect of raw materials to be consumed in the process of manufacturing. In order to avail the existing facility by the tax payer, the bill proposes to add three provisos whereby the Commissioner to:

(a) ensure that the quantity of raw materials to be imported which is sought to be exempted from tax under section 148 shall not exceed 110 percent of the quantity of raw materials imported and consumed during the previous tax year;

(b) the Commissioner to conduct audit of taxpayer's accounts during the financial year in which the certificate is issued in respect of consumption, production and sales of the latest tax year for which return has been filed and the tax payer shall be treated to have been selected for audit under section 214C; and

(c) if the taxpayer fails to present accounts or documents to the Commissioner or the officer authorized by the Commissioner, the Commissioner shall, cancel the certificate issued and shall proceed to recover the tax not collected under section 148 for the period prior to such cancellation and all the provisions of the Ordinance shall apply accordingly.

The above stipulations are being introduced to ensure that the concession given is not misused.

(82) The bill seeks to omit the redundant Clause from the statue book as limit of Rupees one million for filing of wealth statement was valid upto the tax year 2014.

(86)(a)(iii) **Extension of exemption to Greenfield Industries from section 111**

The proposed changes in Clause (86) extends to green field industries from the provisions of the section 111 provided that the commercial production commences on or before the June 30, 2019.

(94) **Certain service provider companies**

The bill proposes to extend exemption to the tax year 2017 from tax year 2016 allowed to certain companies which are tax filers and are engaged in services provided. It also seeks to include IT services and IT enable services and add new proviso to lay down condition of presenting irrevocable undertaking by November 2016 for submitting accounts to avail the concession of Clause (94). The clause was inserted by the Income Tax (Second Amendment) Ordinance, 2015 dated October 31, 2015.

FOURTH SCHEDULE

Rule 6B **Tax liability on dividend income and capital gain increase**

The bill proposes to substitute Rule 6B and seeks to include the dividend income and change the tax rate on the capital gain on disposal of shares of listed companies, vouchers of Pakistan Telecommunication Corporation, Modaraba certificates, instruments of redeemable capital and derivative products. Presently, the Rule provides taxation of capital gain on the basis of holding period at different rates. However, rates prescribed are up to tax year 2015 and not beyond. The proposed substitution seeks to tax capital gain at the corporate rate of 31% as per Division II of Part I of the First Schedule. By Including the dividend income as well in the rule, the dividend income is also subject to tax at the corporate rate. The inclusion of dividend income seems to nullify the impact of full bench judgment of the Appellate Tribunal Inland Revenue in the case of Messrs. Security General Insurance Company Limited, Lahore.

The proposed measure is very harsh for the insurance sector despite the fact that the sector has been assigned the status of special industry under section 99 of the Ordinance and computation of profit and gain is governed by the Rules in the Fourth Schedule exclusively framed for insurance business.

As a result of the proposed measures, banking companies and insurance companies' dividend income and capital gains are taxed at such a high rate of 31% as compared to 7.5% and 12.5% for dividend income and 7.5% to 15% for capital gain on the basis of holding period.

The proposed taxation measure is against the basic concept of an insurance business which has a very key role in the economic development. Insurance companies invest amount of premium in the various securities and through the return against such investments, claims made are settled. Contrary to these special features, a discriminatory approach is also reflected.

Summary of changes in the
INCOME TAX ORDINANCE, 2001

SIXTH SCHEDULE

PART-I

Rule 3 — **Employer contribution threshold to provident fund increase**

The bill proposes to raise the amount of contributions made by the employer from the current Rs. 100,000 to Rs. 150,000. It is a positive step as the current threshold was inserted through the Finance Act, 2008. Considering the inflationary impact of last eight years, this enhancement was long overdue.

SEVENTH SCHEDULE

Rule 7C — **Super tax liability extended for tax year 2016**

The bill proposes to extend the application of the provisions of section 4B related to super tax for tax year 2016. In the Finance Act 2015, such levy was said to be a one-time levy This has been made a revenue measures at the cost of the tax payers.

EIGHTH SCHEDULE

Sub rules (1A)and (1B) — **Capital gain on units of open end mutual fund**

The bill proposes to include in the ambit of capital gains the capital gains derived from the disposal of units of open ended mutual funds.

The bill also proposes to tax the capital gains/(losses) arising to persons through trading of commodity contracts on the Pakistan Mercantile Exchange computed and determined in accordance with the provisions of the Schedule.

Sub rule (2) — **NCCPL to develop automatic system**

The bill proposes to entrust the NCCPL to develop an automated system in respect of capital gains/(losses) arising from the application of sub-rules (1A) and (1B).

Sub rule (3) **Power of the commissioner to obtain information from NCCPL**

The bill proposes to empower the Commissioner to obtain the details from the NCCPL and exercise the powers available with him to enforce furnishing of the information as required form the Central Depository Company of Pakistan.

Sub rule (3A) **Furnishing of information to NCCPL**

The bill proposes to add the Asset Management Companies, Pakistan Mercantile Exchange and any other person for the purpose of furnishing information required by the NCCPL.

Summary of changes in the SALES TAX ACT, 1990

Section 2(5AB) **Cottage Industry**

The bill seeks to raise the threshold limit for categorization of manufacturers as cottage industry. The existing turnover limit for categorization as Cottage Industry under the Sales Tax Act, 1990 is not to exceed Rs. 5 million from taxable supplies in last twelve months. The bill suggests the enhancement of this turnover limit to Rs. 10 million. However, no change is suggested in the other condition for such categorization i.e. the amount of utility bills in last 12 months not exceeding Rs. Eight Hundred Thousand. It is suggested that along with the enhancement of turnover threshold; the other condition of maximum amount of utility bill should also be enhanced to reap the real benefit of this proposed amendment.

Supplies made by Cottage Industry is exempt from tax vide Entry No. 3 in Table 2 to the Sixth Schedule to the Sales Tax Act, 1990. Further, the concept of Cottage Industry and exemption from tax to its supplies was brought into the Act through the Finance Act, 2007

Section 2(9) **Due date**

This sub-section prescribes due date for furnishing returns under the Sales Tax Act, 1990, which currently prescribes 15th day of the month following the end of the tax period. The bill seeks to empower the Board to specify different dates for furnishing different parts or annexures of the return.

The proposed amendment seeks to address the situation of non-deposit of sales tax by suppliers; through the mechanism of separating annexures of return from the return. Though such provision exists currently under the provisions of section 8(1)(ca); but raises the mis-match or non-paid tax queries later on, causing numerous litigation at various stages. Further, provisions of section 8(1)(ca) is already held by the Lahore High court as illegal. Now the proposed amendment will disallow the claim of input at the outset i.e. at the time of filing of return based on matching annexures of return filed by buyer and seller of goods.

Section 2(14) **Input tax**

The bill suggests the withdrawal of facility of claiming adjustment of Provincial Sales Tax suffered on services acquired by the registered person. The suggestion is partly attributable to enhance the revenue collection for the Federation which was reduced due to claim of input tax adjustment on provincial services and partly on account of inability to implement MOU signed between Federation and Provinces for mechanism of cross adjustment of input tax. However, the proposed adjustment is harsh and will increase the cost of doing business.

Summary of changes in the SALES TAX ACT, 1990

Section 6 (2) **Time and manner of payment**

The existing section 6(2) prescribes that the payment of tax to be made at the time of filing the return. The bill suggests change in such requirement to prescribe different dates in this respect. It is likely that the government may prescribe for payment of tax in last month of the fiscal year in same month on estimated basis instead of 15th of next falling month. Moreover, due to the provisions suggesting for separation in filing of annexures with the filing of return; the tax may be specified later on to be deposited with annexures instead with the return.

Section 7(2)(i) **Entitlement to claim input tax adjustment**

The bill proposes to add another condition for claim of input tax adjustment by registered person. It is suggested that the claim of input tax be linked to the declaration of supply by supplier in his tax return and payment of amount of tax as indicated in his return.

The proposed amendment seeks to address the situation of non-deposit of sales tax by suppliers; through the mechanism of disallowing the claim of input at the outset i.e. at the time of filing of return based on match in annexures of return filed by buyer and seller of goods.

Though such provision of disallowing input tax credit on non-deposit of tax by the supplier already under provisions of section 8(1)(ca); but raises the mis-match or non-paid tax queries later on, causing numerous litigation at various stages. Further, provisions of section 8(1)(ca) is already held by Lahore High court as illegal in decision cited at D.G. Khan Cement v. Fed of Pakistan (2013) 108 TAX 226 (H.C. Lah)

Section 8 **Tax credit not allowed**

The bill seeks to specify additional provision for disallowing claim of tax credit whereby a registered person will not be able to reclaim input tax if he has not paid amount of tax due as indicated in his return.

Section 11(4A) **Assessment of tax and recovery of tax**

The bill proposes to insert new sub-section (4A) to section 11 whereby the Inland Revenue Officer is empowered to determine the amount of default where a person fails to withhold tax or fails to deposit the withheld tax.

This amendment is proposed to cater the situation and overcome the decisions whereby it is held that even in case of default in withholding of tax there is no provision in the Sales Tax Act, 1990 similar to provisions in income tax law whether by defaulted amount can be recovered or assessed against the person required to withhold and deposit the tax.

However, even in the presence of the proposed amendment the amount of default may not be recovered because of the doctrine of revenue neutrality as specifically applicable in case of VAT mode of taxes; as the government will ultimately have its due share of taxes when ultimately subject goods are sold to the consumer by registered person.

Section 13(2)(a) Exemptions

The bill suggests to empower the Federal Government to exempt taxable supplies to international financial institutions or foreign government owned financial institutions through notification in the official Gazette

Section 26(2) Return

The bill proposes to remove the provisions addressing the change in rate of tax during a tax period. Such provisions presently prescribes for filing separate return in respect of each portion of tax period based on applicable tax rate.

Section 30DDD Directorate General of Input Output Co-efficient Organization

The bill proposes for creation of separate Directorate to be called the Directorate General of Input Output Co-efficient Organization which shall consist of the Director General, Directors, the Additional Directors, the Deputy Directors, the Assistant Directors and other officers as appointed by the Board. Such provisions already exists in the Customs Act, 1969 since 2013.

Section 33 Offences and Penalties

The bill seeks to specify that where no penalty is prescribed for contravention of rules made under the Act; the person shall pay penalty higher of five thousand rupees or three per cent of amount of tax involved. Presently, such penalty is only prescribed for contravention of the Act.

Section 49 (2) Sale of taxable activity or transfer of ownership

Section 49(2) provides that on sale or transfer of ownership of taxable activity or its part to another registered person as ongoing concern; the buyer is responsible for payment of the sales tax.

The bill seeks to replace the existing section 49(2) of the Act. The suggested replacement is in substance similar to the existing provision except that it provides the mechanism for transfer of taxable goods to new owner though zero rated invoice.

Summary of changes in the SALES TAX ACT, 1990

Section 56B **Disclosure of information by public servant**

The bill suggests to replace the existing section 56B of the Sales Tax Act, 1990 relating to disclosure of information by public servants either acquired or provided under the provisions of the Act or in pursuance of agreements with the foreign government.

The major change suggested in the proposed replacement of section is to provide the overriding effect to this provision over the provisions of the Freedom of Information Ordinance, 2002. However, it may raise another legal controversy that whether or not through Money bill any amendment can be made in revenue laws to indirectly restrict the scope of another non-revenue statue, specifically where such other law is directly link to the basic right granted under Article 19A of the Constitution and whether or not such restriction is reasonable.

Changes in Schedules

Third Schedule **Sales Tax on Retail Price**

Serial No. 37 **Insertion of new entry in Third Schedule**

The bill seeks to include the mineral and bottled water in the Third Schedule whereby tax shall be charged at the rate seventeen percent on the retail prices. Previously such sales tax was charged on ex-factory price of goods dispatched.

Fifth Schedule **Zero Rated Goods**

Serial No. 12 **Withdrawal of zero rating**

Zero rating available for goods and raw materials, packing materials, sub-components, components, sub-assemblies and assemblies imported or locally purchased for the manufacture of the following goods is proposed to be withdrawn:

• Colors in sets (PCT heading 3213.1000)
• Writing, drawing and marking inks (PCT heading 3215.9010 and 3215.9090)
• Erasers (PCT heading 4016.9210 and 4016.9290)
• Pencil sharpeners (PCT heading 8214.1000)
• Geometry boxes (PCT heading 9017.2000)
• Pens, ball pens, markers and porous tipped pens (PCT heading 96.08)
• Pencils including color pencils (PCT heading 96.09)
• Fat filled milk (PCT heading 1901.9090)

Summary of changes in the SALES TAX ACT, 1990

Sixth Schedule	**Table 1 - Imports and supplies**
Serial. No 100A	**Exemption for import and supply in Gwadar Port and Free Zone**

The bill seeks to provide exemption for a period of forty years from the sales tax on the import made by or supply to the following persons for the materials and equipment for construction and operation of Gwadar Port and development of Free Zone:

- China Overseas Ports Holding Company Limited (COPHCL)
- Operating companies of COPHCL; namely
  - China Overseas Ports Holding Company Pakistan (Private) Limited
  - Gwadar International Terminal Limited
  - Gwadar Marin Services Limited
  - Gwadar Free Zone Company Limited
- Contractors and Sub-Contractors of above.

Further, the oil bunkering of ships coming to or going from the Gwadar Port are also proposed to be covered in this provision.

Conditions and Procedure

For availing the sales tax exemption, the following conditions and procedures are required to be followed:

a) for Imports

- the exemption is applicable only for COPHCL, its operating companies, their contractors and sub-contractors who hold the Concession Agreement;

- certification by the Ministry of Ports and Shipping that the materials and equipment have been imported for meeting the bonafide requirements for the construction and operation of Gwadar Port and development of Free Zone for Gwadar Port;

- The authorized officer of the Ministry of Ports and Shipping shall furnish all relevant information online to Pakistan Customs against user ID and password obtained under section 155D of the Customs Act, 1969. Further, the bill has proposed that the periodic insertion and updation of the requisite information received from customs stations in the Customs Computerized System should be made in case the customs stations are either not maintaining the computerized system or the computerized system are not operational. This condition is not applicable for the bunkering supplies to ships on the Gwadar Port.

- The goods so imported shall not be sold or disposed of without prior approval of the FBR. Further, the sales tax leviable at the import stage is proposed to be charged at the time of sale or disposal; except the bunkering supplies to ships on the Gwadar Port.

b) for local supplies

- the exemption is applicable only for COPHCL, its operating companies, their contractors and sub-contractors who hold the Concession Agreement;

- the purchase of materials and equipment should be from the sales tax registered persons only;

- invoice for the exempt supply in accordance with the requirements of section 23 of the Sales Tax Act, 1990 shall be issued by the registered person to the prescribed operating companies in the Gwadar Port;

- the monthly statement summarizing all the particulars of the supplies made to the operating companies duly approved by the authorized person of the registered person shall be prepared in triplicate which should be duly verified by the Authorized person of the operating companies receiving the goods for the quantities received. After verification, the copy should be submitted to the Collector of Sales Tax having jurisdiction by 20th of the next month following the month of the supply.

- The registered person shall maintain the aforesaid record for presentation to the sales tax department, if required.

Serial. No 100B The bill proposes the exemption of sales tax on the supplies made by the entities to be established in the Gwadar Free Zone within the Gwadar Free Zone for a period of twenty-three years. However, the supply outside the Gwadar Free Zone and into the territory of Pakistan shall be subjected to sales tax.

Serial. No 111 **Withdrawal of exemption**

The bill proposes withdrawal of exemption on White Crystalline Sugar. It is also proposed to charge the sales tax at eight percent on the import and supply of white crystalline sugar under Eight Schedule to the Sales Tax Act, 1990.

Summary of changes in the SALES TAX ACT, 1990

Serial. No 130, 131, 132 and 133

Insertion of Exempt Goods

The bill also proposes to provide exemption to the following goods

S.NO.	Description	Tariff Heading
130	Premixes for growth stunting	Respective Headings, subject to conditions imposed for importation under the Customs Act, 1969;
131	Laptop computers, notebooks whether or not incorporating multimedia kit	8471.3010
132	Personal Computers	8471.3020
133	Pesticides and their active ingredients registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971(II OF 1971), stabilizers, emulsifiers and solvents	38.03

The pesticides and their active ingredients is currently taxable at the rate of 7% under the Eight Schedule subject to input tax non-admissibility.

Sixth Schedule

Table 3- Conditional exemption to plant and machinery

Serial. No 4

The bill proposes to exempt the mining companies or their authorized operators from the charge of sales tax on the import of dump trucks for mining activities in Thar Coal Field.

Eighth Schedule

Table 1-

Serial. No 15

Change in Sales Tax Rate

The bill proposes for charge of sales tax @10% instead of current tax rate of 5% on the ingredients of poultry feeds and cattle feed except soyabean meal and oil cake of cottonseed.

The bill also proposes to substitute certain goods covered under the column 3 of the serial.no 15 in following manner:

Existing Goods	Proposed Goods
Flours, meals and pellets of fish or of crustaceans, molluscs or other aquatic invertebrates other than shrimp meals (2301.2090)	Meat and Bone Meal (2301.1000)
Shrimp meals (2301.2010)	Flours, meals and pellets of fish etc…… (2301.2090)
Zinc Sulfates (2833.2600)	Sulfates of Zinc 2833.2940
Betafin (2923.9000)	Betaine (2923.9010)

Serial. No 31 **Removal from Eighth Schedule**

The bill proposes to omit the entry relating to Pesticides and their active ingredients registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971 (II of 1971). This entry is proposed to be covered under the Sixth Schedule

Serial. No 32 and 33 **New insertions in Eighth Schedule**

The bill proposes to insert the items “White Crystalline Sugar” and “Urea, whether or not in aqueous solution” chargeable to sales tax at the rate of 8% and 5% respectively.

Eighth Schedule **Table 2**

Serial. No 1 The bill seeks to expand the description of the machinery and equipment for development of grain handling and storage facilities by including Silos in it chargeable to sales tax at 10%

Ninth Schedule The bill proposes to increase the sales tax rates on the import or local supply of mobile phones and at the time of registration of IMEI numbers by CMOs as follows:

Particulars	Change in Rate
Medium Prices Cellular Mobile Phones or Satellite Phones	Rs.1000 from Rs. 500
Smart Cellular Mobile Phones or Satellite Phones	Rs.1500 from Rs. 1000

Summary of changes in the FEDERAL EXCISE TAX ACT, 2005

Section 2(8a) **Due date**

This definition clause in the FED Act, 2005 prescribes due date for furnishing returns. It presently contains only two provisions, i.e. either, the 15th of next falling month or such other date as specified by the Federal government.

The bill proposes to empower prescription of different dates for furnishing different parts or annexures to the return.

Section 4(2) **Filing of return and payment of duty**

The current section 4(2) prescribes that the payment of duty to be made at the time of filing the return. The bill suggests change in such requirement to enable prescription of different dates in this respect. It is likelihood that the government may prescribe for payment of tax in last month of the fiscal year in same month on estimated basis instead of 15th of next following month.

Section 6(2A) **Adjustment of duties of excise**

The bill proposes to add condition for claim of input tax adjustment by the registered person. It is suggested that the claim of input tax be linked to the declaration of supply by supplier of input goods in his tax return and payment of amount of tax as indicated in his return.

Similar to the proposed amendments in Sales Tax Act, 1990 these three amendments i.e. amendment in section 2(28a), section 4(2) and section 6(2A) are proposed in the FED Act, 2005 to address the situation of the non-deposit of excise duty by supplier of goods by restricting the claim of such non paid tax as input at the outset i.e. at the time of filing of return.

Section 16(2) **Exemptions**

Similar to the Sales Tax Act, 1990 the bill suggests amendment to FED Act, 2005 to empower the Federal Government to exempt duty on supply of goods or services to international financial institutions or foreign government owned financial institutions through notification in official Gazette.

Summary of changes in the FEDERAL EXCISE TAX ACT, 2005

Section 19(13) **Offences, penalties, fines and allied matters**

Similar to the Sales Tax Act, 1990 the bill suggests insertion of new provision in the FED Act, 2005 to prescribe penalty on contravention of Act or Rules made thereunder for which no specific penalty is prescribed. The suggested penalty amount for this purpose is higher of Rs. 5,000 or three per cent of amount of duty involved.

Section 47B **Disclosure of information by public servant**

The bill seeks to replace the existing section 47B of the FED Act, 2005 relating to disclosure of information by public servants either acquired or provided under the provisions of the Act or in pursuance of agreements with the foreign government.

The major change suggested in the proposed replacement of section is to provide the overriding effect to this provision over the provisions of the Freedom of Information Ordinance, 2002.

However, it may raise another legal controversy that whether or not through the Money Bill any amendment can be made in revenue laws to indirectly restrict the scope of another non-revenue statue; specifically where such other law is directly link to the basic right granted under Article 19A of the Constitution and whether or not such restriction is reasonable

FIRST SCHEDULE **Table I – EXCISABLE GOODS**

The bill proposes to make following changes to Table I of the First Schedule to the Federal Excise Act, 2005 dealing with excise duties on goods:

Serial No. 4,5 and 6 **Aerated water**

The bill seeks to enhance the duty on aerated water and its various categories to 11.5% from 10.5% of the retail price

Summary of changes in the
FEDERAL EXCISE TAX ACT, 2005

Serial No. 9 and 10 **Cigarettes**

The bill seeks to substitute serial number 9 and 10 related to duty on locally produced cigarettes by proposing different excise rates for the period from 01-07-16 to 30-11-2016 and the period thereafter through serial number 9a, 9b, 10a and 10b in the following manner:

<table>
<tr><th>S.No</th><th>Proposed description of goods</th><th>Current description of goods</th><th>Proposed rate</th><th>Current rate</th></tr>
<tr><td>9a</td><td>For the period from 01-07-2016 to 30-11-2016, locally produced cigarettes if their on-pack printed retail price exceeds four thousand rupees per thousand cigarettes.</td><td rowspan="2">Locally produced cigarettes if their on-pack printed retail price exceeds rupees three thousand three hundred and fifty per thousand cigarettes</td><td>Rupees three thousand four hundred and thirty six per thousand cigarettes</td><td rowspan="2">Rupees three thousand and thirty per thousand cigarettes</td></tr>
<tr><td>9b</td><td>For the periods from 01-12-2016 onwards, locally produced cigarettes if their on-pack printed retail price exceeds four thousand four hundred rupees per thousand cigarettes.</td><td>Rupees three thousand seven hundred and five per thousand cigarettes</td></tr>
<tr><td>10a</td><td>For the period from 01-07-2016 to 30-11-2016, locally produced cigarettes if their on pack printed retail price does not exceed four thousand rupees per thousand cigarettes</td><td rowspan="2">Locally produced cigarettes if their on pack printed retail price does not exceed</td><td>Rupees one thousand five hundred and thirty-four per thousand cigarettes</td><td rowspan="2">Rupees one thousand, three hundred</td></tr>
<tr><td>10b</td><td>Locally produced cigarettes if their</td><td>Rupees one</td></tr>
</table>

	on pack printed retail price does not exceed four thousand four hundred rupees per thousand cigarettes	rupees three thousand three hundred and fifty per thousand cigarettes	thousand six hundred and forty nine per thousand cigarettes	and twenty per thousand cigarettes

S.No.13 **Cement**

The bill seeks to change the rate of duty for various classes of cements from five percent of the retail price to one rupee per kg.

S.No.53 **White Crystalline Sugar**

By including white crystalline sugar in the Eight Schedule, the bill has shifted its taxability under the sales tax.

FIRST SCHEDULE **Table II - Excisable services**

S.No. 1,2,2A,5,8,11 and 13

The bill proposes insertion of Note after Table II to withdraw the levy of duty on certain specified services including advertisement, shipping agents, banking companies, insurance companies, non-banking financial institutions, franchise and stock brokers where the provincial sales tax has been levied on these services.

The proposed amendment will reduce uncalled for litigation and hardship faced by these service providers relating to the tax effect of the provincial sales tax and the FED on the same transaction and also in line with the promise made by the Federal Government. However, it is suggested that such withdrawal should specifically be prescribed as retrospective i.e. from the date of imposing sales tax on such services by respective provinces. Interestingly, the decision of High court of Sindh also come out on the very same Budget day whereby it is held that after the 18th Amendment to the Constitution of Pakistan and promulgation of laws by provinces for levy of sales tax on services; the levy and collection of Federal excise duty by Federation on all services is unconstitutional; subject to the implementation guidelines specified by the Court in its judgment.

Summary of changes in the FEDERAL EXCISE TAX ACT, 2005

SECOND SCHEDULE S.No.3

Omission of item from the payment/adjustment of duty under sales tax mode

The bill seeks to omit the entitlement of duty adjustment on white crystalline sugar under sales tax mode as the white crystalline sugar is now proposed to be covered under the sales tax domain.

THIRD SCHEDULE Conditional exemption

Table I – Goods

S.No.18

White Cement

The bill proposes to withdraw the exemption on white cement

S.No.19

Insertion of Exemption of duty For Gwadar Port and Free Zone

The bill seeks to provide exemption for a period of forty years from the duty on the import made by or supply to the following persons for the materials and equipment for construction and operation of Gwadar Port and development of Free Zone:

- China Overseas Ports Holding Company Limited (COPHCL)
- Operating companies of COPHCL; namely
    - China Overseas Ports Holding Company Pakistan (Private) Limited
    - Gwadar International Terminal Limited
    - Gwadar Marin Services Limited
    - Gwadar Free Zone Company Limited
- Contractors and Sub-Contractors of above.

Further, the oil bunkering of ships coming to or going from the Gwadar Port are also proposed to be covered here.

Conditions

- Concession Agreement with the Gwadar Port Authority; and
- The conditions as specified under S. No 100A of Table-1 of the Sixth Schedule to the Sales Tax Act, 1990 (discussed in sales tax section) are proposed to be applied for the claim of this exemption.

Summary of changes in the FEDERAL EXCISE TAX ACT, 2005

S.No.20

The bill proposes to provide exemption of duty on the supplies made by the businesses established in the Gwadar Free Zone within the Gwadar Free Zone for a period of twenty-three years.

Limitation

The supply outside the Gwadar Free Zone and into the territory of Pakistan shall be subjected to duty.

SRO 473(I)/2016

Changes through notification

Through this notification the board directed the levy and collection of FED on cigarettes from June 4, 2016 onwards in following manner

S.N	Description	PCT heading	Rate of duty
1.	Locally produced cigarettes if their on-pack printed retail price exceeds Rs. 4000 per thousand cigarettes	24.02	Rs. 3,436 per thousand Cigarettes
2.	Locally produced cigarettes if their on-pack printed retail price does not exceeds Rs. 4000 per thousand cigarettes	24.02	Rs. 1,534 per thousand Cigarettes

Islamabad Capital Territory (Tax on Services) Ordinance, 2001

Islamabad Capital Territory (Tax on Services) Ordinance, 2001.

Following changes are proposed in above stated law through the Finance Bill, 2016

Section 2A	The bill proposes to insert the new sub-section (2A) to section 3, whereby certain provisions of the Sales Tax Act, 1990 mainly concerning the powers of the Federal Government relating to the levy, collection and payment of sales tax, zero rating to diplomats etc and grant of exemptions are suggested to be applied with necessary changes to the tax levied on services rendered/provided under this Islamabad Capital Territory (Tax on Services) Ordinance, 2001.
Section 2B	The bill proposes the insertion of new subsection 2B to section 3 of the Ordinance to exclude, the regulatory and licensing services rendered or provided by an organization established by or under a federal law, from the scope of Islamabad Capital Territory (Tax on Services) Ordinance, 2001.

Summary of changes in the CUSTOMS ACT, 1969

Section 19(1) **General power to exempt from customs duties**

The bill suggests to empower the Federal Government to provide exemption from Customs duty on imports and exports of international financial institutions or foreign government owned financial institutions which are operating under memorandum of understanding, agreement or other arrangement with the Federal Government of Pakistan

Section 155H **Confidential Information**

The bill seeks to prescribe that the trade related information gathered by the Custom authorities can be used for:

- sharing date under MOU, bilateral, regional, multilateral agreements or conventions
- public disclosure of valuation data without disclosing name and address of importer, or exporter or their supplier.

FIFTH SCHEDULE TO THE CUSTOMS ACT, 1969

Part I **Imports of Plant, Machinery, Equipment and Apparatus, including Capital Goods for various industries/sectors**

The bill proposes the following amendments in the custom duties on certain imports to be levied at specified rate.

Reduction in Custom Duty from 5% to 2%

The Bill proposes to reduce the rate of duty on import of following items from 5% to 2%.

Description	PCT Code
Milk chillers	8418.6910 8418.6990
Tubular heat exchanger	8419.5000
Milk processing plant, milk spray drying plant, Milk UHT plant	8419.8100 8419.3900
Grain storage silos for poultry.	Respective headings
Insulated sand witch panels	Respective headings
Dairy, livestock and poultry sheds.	9406.0020
Milk filters.	8421.2900

Summary of changes in the CUSTOMS ACT, 1969

Reduction in Custom Duty from 5% to 3%

The bill proposes to reduce the rate of duty on import of following items from 5% to 3%.

Description	PCT Code
Pyrometers and accessories for solar data collection.	9030.8900
Remote control for solar charge controller.	8543.7010

Introduction of new tariff headings at the rate of 2%

The bill proposes to insert new Tariff headings in respect of import of incubators, brooders, import of machinery and equipment of fish/shrimp farming and sea food processing and machinery for animal feed stuff and imposition of duty at the rate of 2%.

Description of goods	PCT Code
Incubators and brooders	8436.2100 8436.2900
Machinery for animal feed stuff	8436.1000
Water aerators	8414.8090
Feed pellet (Floating Type) machine	8438.8020

Introduction of new tariff headings at the rate of 0%

The bill also proposes to insert certain new tariff headings on imports for use with solar energy, parts of solar water heaters, wind turbines and items for promotion of renewable energy technology. The bill also suggest levy of customs duty @ 0% of these goods.

Description of goods	PCT Code
Photovoltaic generators consisting of panels of photocells	8501.3110
Bulb holder	8536.6100
Water purification plants operating on solar energy.	8421.2100
Insulated tank	7309.0000 7310.0000
Vacuum tubes (Glass)	7020.0090
Mounting stand	Respective headings
Copper and Aluminum tubes	Respective headings
Wind Turbines	8412.8090 8412.8090 Respective headings 8507.2090

SMD/LED/LVD street lights, having in built/integral PV module with or without solar batteries.	9405.4090
Tubular Day lighting Device	9405.5010
Wind turbines including alternators and mast	8502.3100
LED Bulb/Tube lights	8543.7090
Water pumps operating on solar energy along with solar pump controllers	8413.7010 8413.7090 8504.4090
Energy saver lamps of varying voltages	8539.3110 8539.3210
Energy Saving Tube Lights.	8539.3120 8539.3220
Sun Tracking Control System	8543. 7090

Introduction of new tariff headings at the rate of 5%

The bill also proposes to insert following new tariff headings to be subjected to custom duty at the rate of 5%

Description of goods	**PCT Code**
Aluminum Housing/ Shell for LED (LED Light Fixture)	9405-1090
Metal Clad Printed Circuit Boards (MCPCB) for LED	8534- 0000
Constant Current Power Supply for LED Lights(1-300W)	8504-4090
Lenses for LED lights	9001-9000

Part II **Import of Active Pharmaceutical ingredients, excipients / chemicals, drugs, packing material/ raw materials for packing and diagnostic kits and equipment, components and other goods.**

The bill proposes to reduce the rate of duty from 5% to 3% on certain pharmaceutical ingredients. The custom duty on import of pre-printed polypropylene tubes with tamper proof closures (with or without dessicant) indicating particulars of registered drug and manufacturer (Tariff heading 3917.3910) is proposed to be reduced from 5% to 3%.

Summary of changes in the CUSTOMS ACT, 1969

Part III **Import of raw materials, inputs for poultry and textile sector and other goods**

The bill also proposes to insert certain new tariff headings in respect of imports of following items at specified rate and condition:

Description of goods	PCT Code	Proposed Duty	Special Condition
Sodium Iron (Na Fe EDTA), and other premixes of Vitamins, Minerals and Micro-nutrients (food grade)	2106.9070 2829.9000 2936.9000	0%	Nil
Chrysotile Asbestos	2524.9000	15%	If imported by the manufacturers of Powder Coatings subject to annual quota determination by the Input Output Coefficient Organization (IOCO)
Uncoated paper and paperboard	4805.9290	15%	If imported by the Liquid food packaging industry for dairy and juices registered under the Sales Tax Act, 1990, and subject to annual quota determination by the IOCO
Carbon Steel Strips of thickness 0.09 to 0.1 mm and width 22.2 to 22.4 mm	7226.9200	11%	If imported by safety blades manufacturers registered under the Sales Tax Act, 1990, as per quota determined by IOCO
Bicycle Chain Parts	7315.1990	15%	If imported by Bicycle chain manufacturers registered under the Sales Tax Act, 1990 as per quota determined by IOCO.
Lead Acid Batteries for Telephone Exchanges	8507.2010	11%	If imported by Telecom companies registered with Pakistan Telecommunication Authority

Defence stores, excluding those of the National Logistic Cell	93.00 & Respective headings	15%	If imported by the Federal Government for the use of Defence Services whether the goods have been imported against foreign exchange allocation or otherwise
Paper for printing of Holy Quran	Respective heading	0%	If imported by Federal or a Provincial Government institution for printing of Holy Quran.

Part IV **Imports of Machinery and Equipment for Textile Sector**

The bill proposes to replace the existing Part IV (Miscellaneous) by new table and entries relating to imports of Machinery and Equipment for Textile Sectorto be subject to Customs duty @ 0%. The associated conditions is that such machinery and equipment are not manufacture locally and textile units is registered with Ministry of Textile Industry.

Summary of changes in the CUSTOMS ACT, 1969

Part V **Imports of Automotive Vehicles (CBUs)**

The bill proposes to replace the Part V (Imports of Aviation Related Goods i.e., Aircrafts and Parts etc. by Airline Companies / Industry) by Imports of Automotive Vehicles (CBUs) and certain tariff headings have been inserted at the specified rate under below table:

Description of goods	PCT Code	Proposed Duty
Agricultural Tractors, having an engine capacity exceeding 35 HP but not exceeding 100 HP	8701.9020	15%
Agricultural Tractors (other than mentioned at S. No. 1 above)	8701.9090	10%
Fully dedicated LNG buses (CBU)	8702.9030	15
Fully dedicated LPG buses (CBU)	8702.9040	1%
Fully dedicated CNG buses (CBU)	8702.9050	1%
Hybrid Electric Vehicle (HEV) (CBU)	8702.9060 8704.2214 8704.2294 8704.2340 8704.3240	1%
Trailers	87.16	15%

Summary of changes in the CUSTOMS ACT, 1969

Part VII	**Miscellaneous**
Table A	The bill proposes to insert certain tariff headings in Table A of Part VII to be subject to Customs duty @ 0% which covers:

- food items such as potatoes, tomatoes, onions, garlic, cauliflowers etc.
- petroleum products such as Aviation spirit, J.P.1 and J.P.4, Light diesel oil etc.
- natural gas, LPG and other gases
- fertilizers and
- water quality testing kits, Holy Quran and Digital Quran .

Part VII	**Miscellaneous**
Table B	The bill proposes to insert new Table B to Part VII; to be subject to Customs duty @ 5% which covers following main items

- Coal
- Furnace Oil
- Yarn and Film grades
- Newsprint in rolls or sheets
- Semi-finished products of iron etc
- High Speed steel and other related products

Fiscal Responsibility and Debt Limitation Act, 2005

The Finance bill proposes substitution for the long title and the preamble, the following shall be namely:

“An Act to provide for reduction of Federal Fiscal Deficit and Ratio of Public Debt to gross domestic product to a prudent level by effective public debt management WHEREAS it is expedient to provide for reduction of Federal fiscal deficit and ratio of public debt to gross domestic product to a prudent level by effective debt management and for matters connected therewith and incidental thereto.

In section 2 containing the definitions, with some substitution, addition and omission. Following are few significant changes:

1. Clause “b” containing definition of “Constitution” has been omitted and is included in clause “a”,

2. Clause (k), the definition of “Revenue deficit” proposed to be substituted by “Federal fiscal deficit”, and means:

   “Federal fiscal deficit" means the difference between total net revenue receipts and total expenditure of the Federal Government.

3. Clause “l” containing definition of “Social and poverty related expenditure has been omitted.

4. Clause (M), the definition of “Total expenditure” proposed to be substituted and means:

   "Total expenditure" means a sum of total recurrent expenditure, development expenditure and net lending of the Federal Government;”

5. Clause “N” containing definition of “Total Current Expenditure” has been omitted.

6. Clause “O” containing definition of “Total public debt” has been extended and debt owed to International Monetary Fund has been included as debt.

7. New Clause proposed to be added, namely:–
   “(q) “Total net revenue of Federal Government” means a sum of tax revenues, non-tax revenues and surcharges of the Government minus transfer of provincial share.”

Sub-section (2) of section 3 following are proposed to be substituted:
“(2) The Federal Government shall take all appropriate measures to reduce the Federal fiscal deficit excluding foreign grants and ratio of total public debt to gross domestic product and maintain it within prudent limits thereof.”;

In sub section (3) of section 3 following changes are made:

Limits of Federal fiscal deficit are now introduced which is limited to 4% of gross domestic product during the three years beginning from 2017-2018 and maintaining it at maximum of 3.5% of the gross domestic product thereafter.

Within a period of two financial years starting from financial year 2016-17 limit of the total public debt would be reduced to 60% of the gross domestic product.

Total public debt percentage would be reduced by 0.5% per anum for a period of five years starting from 2018-19 and thereafter 0.75% per anum from 2023-2024 upto financial year 2032-33 thereby reducing it to 50% of the estimated gross domestic product and maintaining it to 50% afterwards.

In sub section (c) of section 4 following changes are made:

“Provided that where the National Assembly is not in session, the statements may be laid in the next session even if it occurs after the end of the period specified in sub-section (2).”;

There has been change in the Debt policy coordination office which will no longer require consultation of the Federal Government to prepare a debt reduction path for achieving the principle of sound fiscal and debt management. And, the said debt reduction path no longer is laid before national assembly by Federal government.

Further, the Finance Bill also proposed in case of urgency, to delegate power to Ministry of Finance or Finance Departments to authorize payments directly from the State Bank of Pakistan and submit required information to Controller General for recording of transactions.

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