FEDERAL BUDGET 2016-2017

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WITH COMPLIMENTS

To our Clients and Associates

We are pleased to summarize the important changes proposed in Finance Bill 2016, relating to Income Tax, Sales Tax, Federal Excise Duty, Customs Duty and Other Laws. For considering the precise impact of a particular change, reference should be made to the specific wordings in the relevant statute.

All changes through the Finance Bill 2016 are effective July 1, 2016, except for the amendments specified hereinafter in this memorandum. Effective dates of amendments through various notifications are also identified in the memorandum.

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

The proposals introduced in the Bill have to be approved by the National Assembly before they become effective. They should, therefore, not generally be acted upon without obtaining appropriate advice.

The memorandum can also be accessed on our website www.rafqat.com

If you require any information or have queries with regard to the proposed amendments in the Finance Bill 2016, please feel free to contact us.

Rafqat Hussain & Co.
Chartered Accountants

June 04, 2016
Lahore

BUDGET AT A GLANCE

	Budget Estimate 2015-16	Revised Estimate 2015-16	Budget Estimate 2016-17
	Rupees in millions		
Receipts -Summary			
Tax Revenue Receipts			
FBR Taxes			
Direct Taxes	1,347,872	1,324,000	1,558,000
Indirect Taxes	1,755,834	1,779,700	2,063,000
Sub-total	3,103,706	3,103,700	3,621,000
Other taxes	314,515	316,095	335,123
	3,418,221	3,419,795	3,956,123
Add: Non-Tax Revenue Receipts	894,524	912,821	959,452
Total revenue Receipts	4,312,745	4,332,616	4,915,575
Add: Capital Receipts	485,068	546,993	469,668
Total internal receipts	4,797,813	4,879,609	5,385,243
Add: External Receipts	751,511	859,689	819,610
Total internal & External receipts	5,549,324	5,739,298	6,204,853
Add: Public accounts receipt	254,269	156,004	170,879
Gross Federal Resources	5,803,593	5,895,302	6,375,732
Less Provincial share in federal taxes	(1,849,394)	(1,851,946)	(2,135,881)
Net Federal Resources	3,954,199	4,043,356	4,239,851
Add: Surplus from Provinces	297,173	336,806	339,022
Add: Privatization Proceeds	50,000	13,600	50,000
Add: Credit from Banking Sector	282,941	198,832	452,915
Total Resources	**4,584,313**	**4,592,594**	**5,081,788**
Expenditure -Summary			
Current Expenditure	3,615,274	3,713,917	4,030,895
Development Expenditure	969,039	878,677	1,050,893
	4,584,313	**4,592,594**	**5,081,788**

BUDGET HIGHLIGHTS

Income Tax

S.No	Proposal	Relevant Section/ Clause/ Schedule
01	Super tax as applicable for tax year 2015 has been extended to tax year 2016 as well. For the computation of levy of super tax, depreciation and business losses shall not be taken into account.	Section 4B
02	Fixed tax Regime for Builders and Developers has been introduced for business or projects, initiated and approved after July 1, 2016.	Section 7C, 7D, 8, 113A, 113B & Part 1 of 1st Schedule
03	It is now proposed that in the case of individuals and Association of Persons (AOP), tax shall be payable on the basis of 'gross rent' instead of 'net income' on new proposed slab rates. The 'income from property' so taxed shall not be clubbed with any other head of income.	Section 15
04	It is proposed that provisions relating to disallowance of expenditures due to non-deduction of tax at source which are currently restricted to salary, rent, brokerage or commission, profit on debt, payments to non-residents and for services be extended to 'all expenditure' from which a person is required to deduct or collect withholding tax under the Ordinance. Also proposed a limit for disallowance.	Section 21
05	Expenditure incurred by pharmaceutical manufacturers on sales promotion, publicity and advertisement over and above 5% of turnover shall not be treated as admissible business expenditure.	Section 21
06	Where the business income is exempt, depreciation in respect of certain assets used for business purpose shall be treated to have been allowed during the period of exemption.	Section 22
07	The time limit for tax on sale of immovable property has been extended from 2 to 5 years, with flat rate of tax of 10%, irrespective of holding period.	Section 37
08	Tax credit for investment in BMR Projects, etc. has been extended to June 30, 2019.	Section 65B
09	Status of foreign trust has been clarified, without giving manner of disclosure thereof in the wealth statement.	Section 80
10	Provincial Sales Tax authorities will collect 3% of the turnover from a provincial sales tax registered person, being a non-filer.	Section 236W
11	The right to surrender losses within a group shall be restricted to the percentage holding in the entity.	Section 59B
12	Threshold for chargeability of minimum tax under section 113 in respect of individuals and AOP proposed to be reduced from fifty million rupees to ten million rupees. Further, exemption from section 113 available to companies incurring gross loss proposed to be withdrawn.	Section 113
13	Rate of deduction of advance tax on dividends in respect of non-filers is proposed to be increased.	Section 150 and 236S
14	Exemption for inter corporate dividends in a group structure (other than 100% owned group) is proposed to be abolished.	clause 103A, Part I, 2nd Schedule

15	Foreign produced commercials by non-residents are proposed for full and final deduction at the rate of twenty percent of gross amount.	Section 152A
16	Rate of withholding tax under section 153(1)(b) of the Ordinance on payments to electronic and print media for advertising services increased and the tax deductible proposed to be final discharge of tax liability.	Section 153
17	withholding tax on payment for supplies made by distributors of fast moving consumer goods proposed to be reduced from 4% to 3% if supplier is a company and 4.5% to 3.5% in case of other than company.	Section 153 read with Div III Part III 1st Schedule
18	Exemption from withholding tax under section 153(1) available to cotton ginners is proposed to be withdrawn.	Section 153(5)(e)
19	Daily threshold of Rs. 50,000 is proposed to include transaction from all bank account in a day.	Section 231A & 236P
20	Rate of collection of advance tax by stock exchange on sale and purchase of shares proposed to be increased from 0.01% to 0.02%.	Section 233A
21	Tax credit for health insurance premium proposed to be allowed to the person other than company having salary or business income.	Section 62A
22	Tax credit available to manufacturing companies from employment generation has proposed to be increased from one percent to two percent of tax payable for every fifty employees registered with EOBI and ESSI of Provincial Governments upto 30th June 2019	Section 64B
23	Fair market value of any property or rent, asset, services, benefit or perquisites shall proposed to be determined without regard to the value fixed or notified by any provincial authority for the purpose of stamp duty or for any other purpose.	Section 68
24	Time period for filing refund application has proposed to be increased from two to three years.	Section 170
25	Exemption in respect of income from exports of computer software or IT services or IT enabled services has proposed to be extended till 30th June 2019.	Clause 133 Part I of Second Schedule
26	Minimum tax under section 113 for companies operating trading houses shall be 0.5% upto tax year 2019 and 1% thereafter.	clause 57 Part IV Second Schedule
27	Exemption from withholding tax on profit of term finance certificates held by companies proposed to be withdrawn.	Clause 59 Part IV Second Schedule
28	For the purpose of claiming exemption under section 148 by the industrial undertaking certain stringent conditions has proposed to be inserted.	Clause 72B Part IV Second Schedule
29	Tax credits for investments under sections 65D and 65E shall also be available to entities with equity of 70% and above.	sections 65D & 65E
30	Specific documents and information are required to be maintained in respect of transactions with associates.	Section 108
31	Withholding tax at 3% of value of motor vehicle is required to be collected from non-filer lessees by leasing company and certain financial institutions.	Section 231B
32	Rationalised minimum tax regime for specified service sectors extended to June 30, 2017 whilst also including IT services and IT enabled services.	clause 94 of Part IV of 2nd schedule)
33	Entire income of insurance business proposed to be taxed at the applicable corporate tax rate.	Respective section
34	Scope of Eighth Schedule enhanced to include collection of tax on gain on redemption of mutual fund units and future commodity contracts of PMEX.	Section 37A
35	Services rendered / contracts executed outside Pakistan to be taxed at higher rates.	2nd Schedule

Sales Tax

S.No	Proposal	Relevant Section/ Clause/ Schedule
01	Five export oriented sectors (textile, leather, carpet, surgical and sports goods), will now be subject to zero rated regime with an objective of 'no tax no refund' for such sectors. Local sale of finished products, however, will be subject to sales tax at the rate of 5%.	SRO 1125
02	The threshold for turnover for qualifying as cottage industry, which is exempt from tax, is proposed to be enhanced at Rs 10 million from Rs 5 million.	Section 2 (5AB)
03	Concept of specifying different dates for furnishing of different parts or annexures of the monthly sales tax return and payment of tax accordingly proposed.	Section 2(9) & Section 6(2)
04	Definition of input tax proposed to be amended to exclude the sales tax paid under respective provincial laws.	Section 2(14)
05	Input tax will not be allowed if the supplier has not declared supply in his return or has not paid amount of tax due in indicated in his return.	Section 7(2)(i) & Section 8(1)(l)
06	It is proposed to enact provisions in the Federal sales tax law to enable recovery proceedings for sales tax not/short withheld or failure to deposit such tax by withholding agents.	Section 11(4A)
07	Separate return in respect of each portion of tax period is no more required on change in the rate of tax during a tax period.	Section 26(2)
08	In case of sale or transfer of ownership of taxable activity, it is proposed that in the case of such sale or transfer, a 'zero-rated invoice' shall be issued by the transferor to the transferee.	Section 49(2)
09	In line with the provisions of Income Tax Ordinance, provisions of confidentiality of information acquired under sales tax act, 1990 is proposed.	Section 56B
10	Sales tax on Mineral/bottled water proposed to be charged on retail price.	Third Schedule
11	Zero rating of Milk and stationary proposed to be withdrawn.	Fifth schedule
12	Exemption for import/supplies of material and equipment for Gawadar Port and development of Free Zone proposed with certain conditions.	Sixth Schedule]
13	Premixes for growth stunting, Laptop computers, note books whether or not incorporating multimedia kit and Personal computers are proposed to be exempted.	Sixth Schedule
14	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 earlier were subject to lower rate are now proposed to be exempted.	Sixth Schedule
15	Import of dump trucks for Thar Coal field is proposed to be conditionally exempted	Sixth Schedule
16	Increase of sales tax rate on ingredients of poultry and cattle feed is proposed from 5% to 10% and certain items now proposed to be included and with certain items exclusion.	Eighth Schedule
17	Import of grain holding silos are proposed to subjected to sales tax @ 10%.	Eighth Schedule
18	Supply of Urea, whether or not in aqueous solution (PCT heading 3102.1000) is now proposed to be taxed @ 5%, previously this was included in Fertilizers under Third Schedule.	Eighth Schedule

Federal Excise

S.No	Proposal	Relevant Section/ Clause/ Schedule
01	Withdrawal of the FED on services which are now subject to provincial sales tax has been proposed in the Finance Bill 2016.	First Schedule
02	Concept of specifying different dates for furnishing of different parts or annexures of the return is proposed.	Section 4
03	Requirement for separate return in case of change in rate of tax during a tax period is proposed to be withdrawn.	Section 4
04	Adjustment on input duty (goods or services) is proposed to be made conditional to the declaration in the supplier's return and payment of duty. This condition will be effective upon notification by the FBR	Section 6(2)
05	In line with the amendments proposed in Income Tax Ordinance, 2001, disclosure of Information received or supplied is proposed to be confidential notwithstanding the status of the Freedom of information Ordinance, 2002.	Section 47B
06	The rate of duty is proposed to be enhanced from 10% to 11% of retail price effective from July 1, 2016 on aerated water/beverage.	First Schedule
07	Description of and duty on the locally produced cigarettes (PCT heading 24.02) is proposed to be modified/enhanced.	First Schedule
08	The basis of levy of excise duty on various types of cement, it is proposed to be changed from "5% of retail price" to "Re 1 per kg", with effect from July 1, 2016.	First Schedule
09	The ad valorem duty on white crystalline sugar is proposed to be withdrawn and replaced by the sales tax regime at a reduced rate of 8%	First Schedule

Islamabad Capital Territory (Tax on Services) Ordinance, 2001

- The Bill proposes to exclude from Islamabad sales tax Regulatory and licensing services rendered or provided by an organization established by or under the Federal statute.

- The Bill proposes certain provision of Sales Tax Act 1990 to apply mutatis mutandis under the law.

SIGNIFICANT AMENDMENTS

Income Tax

SUPER TAX – Section 4B

Through Finance Act, 2015, Super tax was imposed on banking companies and other taxpayers having income of Rs. 500 million or above at the rate of 4% and 3% respectively for tax year 2015 only. The said levy is proposed to be extended to tax year 2016 as well.

Further it is proposed that for the purpose of determination of “income” for this levy, the adjustment of depreciation and business losses shall no longer be available.

TAX ON BUILDERS AND DEVELOPERS – Section 7C & 7D

Through Finance Bill 2016 a unique non-income based Fixed Tax Regime proposed for ‘Builders’ and ‘Developers’. Under this regime, tax liability for the builders and developers shall be determined on the basis of area, instead of the value of property or actual transaction value.

Builders and developers eligible for these provisions shall be the persons engaged in construction and sale of residential, commercial or other buildings and plots under the projects initiated and approved by the relevant land and building authorities after July 1, 2016.

Notwithstanding being a Fixed Tax Regime, this proposal is likely to incentivize recording of the actual value of the developed property, as the declaration of the real value will not result in any income based tax incidence for the seller which is fixed on area basis.

As a consequence of the introduction of the above, the minimum tax regime under sections 113A and 113B for builders and land developers is proposed to be withdrawn. The said regime for builders was not made effective till June 30, 2018. Further, the Federal Government did not issue any notification to make minimum tax regime effective for land developers.

RENTAL INCOME – Section 15

Property income for all cases is currently subject to tax on net-income basis. It is now proposed that in the case of individuals and Association of Persons (AOP), tax shall be payable on the basis of ‘gross rent’ instead of ‘net income’. A scheduler rate has been prescribed for the same. The ‘income from property’ so taxed shall not be clubbed with any other head of income.

Property income in the hands of individuals and AOPs of an amount less than Rs 200,000 in a tax year shall not be taxable, subject to the condition that such person does not derive income from any other head.

Following tax rates have been prescribed for chargeability and withholding on annual gross rentals derived by individuals and AOPs exceeding Rs. 200,000:

Gross amount of Rent	Rate of tax
Upto Rs. 200,000	NIL
Above Rs 200,000 and up to Rs 600,000	5% of the gross amount of rent exceeding Rs 200,000
Above Rs 600,000 and up to Rs 1,000,000	Rs 20,000 plus 10 % of the gross amount exceeding Rs 600,000
Above Rs 1,000,000 and up to Rs 2,000,000	Rs 60,000 plus 15 % of the gross amount exceeding Rs 1,000,000
Above Rs 2,000,000	Rs 210,000 plus 20% of the gross amount exceeding Rs 2,000,000

TAX ON SALE OF IMMOVABLE PROPERTY – Section 37

Presently the gain on sales of property is subject to tax as under;

- Where holding period of Immovable property is up to one year. 10%
- Where holding period of Immovable property is more than one year but not more than two years.] 5%
- Where holding period of immovable property is more than two years. 0%

It is now proposed that the time limit is to be extended from two years to five years. Further, flat rate of 10% is proposed to be levied on gain on sale of immovable property if holding period is up to 5 years.

The validity of this amendment needs to be examined as the time period of two years was introduced to cater for the cases of gains arising on sale of property being an adventure in the nature of trade as otherwise the gain on sale of immovable property is arguably not taxable by the Federal Government under the Constitution. The extension of period to five years is not in line with this concept.

Post 18th amendment to the Constitution, the matter of taxability of gain on immovable property by Federal or Provincial Government, is already sub-judice in courts.

ADVANCE TAX ON SALE OR TRANSFER OF IMMOVABLE PROPERTY– Section 236C, 236K & First schedule

Rate of tax to be collected by the Registering or Attesting authority is proposed to be increased as under:

Transaction	From	Present Rate of Tax	Proposed Rate of Tax
Sale or transfer of immovable property	Filer	0.5% of the gross of consideration received	1% of the gross of consideration received
	Non-filer	1% of the gross of consideration received	2% of the gross of consideration received
Purchase or transfer of immovable property having value of more than Rs. 3 million	Filer	1% of declared consideration	2% of declared consideration
	Non-filer	2% of declared consideration	4% of declared consideration

In case of sale / transfer of immovable property, withholding tax shall only be applicable for transfer made within five years of acquisition. Section 236C

STATUS OF FOREIGN TRUST – Section 80

A trust is deemed to be a company under Income Tax Ordinance, 2001. The status of foreign trust is similar to a trust formed under the trust law applicable in Pakistan. This aspect has been clarified by way of explanation in the Finance Bill.

This amendment has far reaching effect for offshore trusts settled / authored by Pakistani citizens. Accordingly, as per the strict interpretation of law, in the case of trust, the beneficiary is not required to disclose his interests in the wealth statement prior to receipt of benefit from the trust, which is considered as dividend and taxed on receipt basis.

However necessary provisions have not been introduced to prescribe the manner of disclosure of the interest (as settlor or beneficiary or trustee) in a foreign or local trust by a person subject to Pakistan tax.

MINIMUMTAXREGIME OF CORPORATE SERVICE SECTOR –Section 153 & Clause 94 of Part IV of 2nd Schedule

Prior to Finance Act, 2015 tax deductible on receipts of service sector companies was adjustable, which later was substituted to Minimum Tax Regime under section 153 of the Ordinance vide Finance Act, 2015, wherein tax withholding at applicable rate was made Minimum Tax (8%). The said regime was however rationalized for twelve service sectors for the period July 1, 2015 till June 30, 2016, under Clause (94) of Part IV of Second Schedule to the Ordinance.

The said rationalized scheme is proposed to be extended from June 30, 2016 to June 30, 2017, provided taxpayer files an irrevocable undertaking by November, 2016 to present its accounts to the Commissioner for audit of its tax affairs.

In addition to twelve sectors, providers of IT services and IT enabled services, as defined in Clause (133) of Part I of Second Schedule, are also proposed to avail rationalized Minimum Tax Regime, subject to fulfilment of prescribed conditions.

WITHHOLDING OF TAX ON EXPENDITURE AND DISALLOWANCE FOR NON-COMPLIANCE–Section 21

Provisions relating to disallowance of expenditures due to non-deduction of tax at source which are currently restricted to salary, rent, brokerage or commission, profit on debt, payments to nonresidents and for services proposed to be extended to ‘all expenditure’ from which a person is required to deduct or collect withholding tax under the Ordinance.

It has been further clarified that taxes collected from the withholding agents and recipients (under sections 161 and 162) shall be considered as taxes paid for the admissibility of such expenditure.

It is proposed that disallowance for non-deduction of tax on payments for raw material and finished goods purchases shall not be made for a sum exceeding 20% of the value of payments for such purchases.

CAP ON ADVERTISEMENT EXPENDITURE FOR PHARMA SECTOR–Section 21

It is proposed that any expenditure incurred by pharmaceutical manufacturers on sales promotion, publicity and advertisement, over and above 5% of turnover shall not be treated as admissible business expenditure.

This scheme already present in the Drugs Act, 1976. The disallowances made on the basis of Drugs Act, 1976 were considered as ultra vires by the higher appellate authorities. Now, this provision has been introduced as part of taxation law.

ADVANCE TAX FROM PROVINCIAL SALES TAX REGISTERED PERSON–Section 236W

Provincial Sales Tax authorities, on behalf of the Federal Government are now required to collect income tax from non-filer 3% of the turnover in addition to Provincial sales tax from a provincial sales tax registered person.

The sum so collected shall be adjustable under the general concept of law for non-filers with regard to refund / adjustment of such taxes on filing of returns.

FEDERAL GOVERNMENT’S POWER TO GRANT EXEMPTIONS UNDER THE SECOND SCHEDULE -

Federal Government has been empowered to grant exemption from tax in a manner specified in the relevant provision of law. It is now proposed that a general power shall be available for exemption or reduction of tax to the following cases:-

(i) Any International Financial Institution, such as IFC; and

(ii) Foreign government owned financial institution operating under an Agreement, Memorandum of Understanding or any other arrangement with the Government of Pakistan.

RESTRICTION OF THE RIGHT TO SURRENDER LOSSES IN GROUPS - Section 59B

Under the present scheme, the right of surrender of losses is not related to the percentage holding of shares by that entity in the group if entity is part of the group on the basis of holding as prescribed in the law.

Against the concept of group taxation under the internationally acceptable norms, it is proposed that surrender of losses will be related and restricted to the percentage holding of the group in the entity surrendering the losses.

INTER CORPORATE DIVIDENDS IN GROUP –Clause 103A, 2nd Schedule

The exemption for inter corporate dividends in a group structure is proposed to be withdrawn.

This proposal will effectively dilute the adequately introduced concept of group taxation. The purpose of this exemption was to avoid double taxation within a holding company structure.

TAX CREDIT FOR INVESTMENT- Section 65B

A company investing in purchasing in plant and machinery for the purpose of extension, expansion and BMR is entitled to tax credit at the rate of 10% of the amount invested, provided the plant and machinery is purchased and installed till 30 June 2016.

The Finance Bill proposes to extend the date of purchase and installation till 30 June 2019.

TAX CREDIT FOR ENLISTMENT -Section 65C

Currently, a company opting for enlistment on a stock exchange is entitled to tax credit of 20% of tax payable for the year in which it is enlisted.

The Finance Bill seeks to extend the tax credit from one year to two years i.e. the year of enlistment and the following tax year.

TAX CREDIT FOR EQUITY BASED INVESTMENTS -Sections 65D & 65E

Tax credits for investments are presently available to companies making 100% equity based investments for industrial undertaking and corporate dairy farm set up by June 30, 2016.

It is proposed that such credits shall also be available to entities with equity of 70% and above. Where, the equity is less than 100%, the tax credits shall be available in proportion to the equity investment.

The eligibility date of setting up an industrial undertaking for tax credit is also extended upto June 30, 2019.

FAIR MARKET VALUE –Section 68

The value fixed or notified by any Provincial authority for the stamp duty or any other purpose shall not be taken into consideration for determining the fair market value of an asset for the purpose of the Ordinance. It appears that this amendment is proposed to account for the cases where the value of a property or asset or rent or service was being restricted to the value prescribed by Provincial authorities for stamp duty or any other purpose.

ADVERTISEMENT SERVICES OF ELECTRONIC AND PRINT MEDIA–Section 153

Payments to Electronic and Print media for advertisement services shall be subject to withholding tax at the rate of 1.5% of the value of services. Previously such payments were subject to withholding at the rate of 1%.

It is also proposed that effect from July 1, 2016, tax withheld at source shall be treated as final tax in respect of such receipts

AGREEMENTS FOR AVOIDANCE OF DOUBLE TAXATION AND PREVENTION OF FISCAL EVASIONS

It is proposed to enable the Federal Government to enter into a tax treaty or tax information and exchange agreement or multilateral convention or inter government agreement or similar agreement or mechanism for the avoidance of taxation or exchange of information for prevention of fiscal evasion.

This extension of eligibility has been made to enable the Federal Government to enter into arrangements with organizations, such as OECD, etc. in the matters of exchange of information relating to double taxation and prevention of fiscal evasion in addition to arrangements and agreements with other Governments.

It is also proposed that the information obtained through the aforesaid agreements or treaties shall remain confidential. Previously, such confidentiality was not applicable in case the information was required for certain specified purposes.

TRANSACTIONS WITH ASSOCIATES – Section 108

Specific documents and information are now proposed to be maintained in respect of transactions with associates and such information shall be furnished to the Commissioner within thirty days extended by the Commissioner upto 45 days or beyond in exceptional circumstances if so required during the course of any proceedings under the Ordinance.

The proposed amendment is applicable both to resident and non-resident associates of the taxpayers. Furthermore, it is important that the information to be prescribed is in line with the internationally acceptable norms (such as those prescribed by OECD) especially in the case of non-resident associates

MINIMUMTAX ON TURNOVER – Section 113

Currently, an individual and AOP having turnover of Rs. 50 million or above is liable to minimum tax at the rate of 1% of turnover. The Finance Bill proposes to reduce this threshold to Rs. 10 million. Accordingly, an individual or AOP having turnover of Rs. 10 million or more for tax year 2017 or in any subsequent tax year shall be liable to minimum tax at the rate of 1% of turnover.

It is proposed to omit the proviso that minimum tax shall not apply in case of a company which has declared gross loss before setting off of depreciation and other inadmissible expenses. The effect of this proposal is that a company shall be liable to minimum tax irrespective of declaring gross loss before setting off of depreciation etc.

Further, an explanation has been proposed to be inserted to provide that tax payable or paid under final tax regime and super tax under section 4B shall not be considered as tax payable or paid for the purpose of minimum tax..

ADVANCE TAX ON CASH WITHDRAWAL & CERTAIN BANKING TRANSACTIONS –Section 231A & 236P

At present, deduction of tax at source on cash withdrawal and certain banking transactions by non-filers is applicable only if the cash withdrawal or sum of such transactions in a day exceeds Rs 50,000. An explanation has been proposed whereby it is clarified that Rs 50,000 shall be the aggregate withdrawal from all bank accounts in a single day.

No amendment proposed in section 236P of the Ordinance so the withholding applicable on banking transactions of non-filers will be retained with statutory withholding rate of 0.6%.

PROVISIONAL ASSESSMENT –Section 122C

Under the present scheme of law, a provisional assessment abates upon filing of return and wealth statement / accounts within 45 days of such assessment.

It is proposed to prescribe another condition for such abatement of provisional assessment where under a taxpayer shall have to present accounts and other documents for the 'Audit' of income tax affairs for that tax year.

ADVANCE TAX –Section 147

The Finance bill proposes to insert an explanation for the purpose of removal of doubt that Alternative Corporate Tax (ACT) under section 113C is to be considered for the purpose of calculation of advance tax.

This explanation shall have retrospective effect as it has always been there. Its implications may arise in such cases where advance tax discharged was lesser than the required limit, and where the ACT was applicable, in tax years 2014 and onward.

PAYMENTS FOR FOREIGN PRODUCED COMMERCIALS –Section 152A

A new withholding tax is proposed to be introduced for payments made directly or through an agent or intermediary to a non-resident person for foreign produced commercials for advertisement on any television channel or any other media at the rate of 20% of the gross amount. Such withholding tax shall be treated as final tax on the income of the nonresident person.

Taxability of the source may not be available in the case where there is a tax treaty with the country of residence of the recipient.

ADVANCE TAX ON LEASED MOTOR VEHICLES–Section 231B

A new withholding tax provision has been introduced for lessees, being non-filers. Under this provision, there shall be a withholding equal to 3% of the value of motor vehicle at the time of leasing of motor vehicles to such non-filers by leasing company and certain financial institutions.

This appears to be a mechanism to collect tax equal to 3% of the value of motor vehicle acquired on lease by a non-filer.

ADVANCE TAX ON INSURANCE PREMIUM

A new provision has been inserted whereby every insurance company shall collect advance tax from non-filer policy holders in the following manner:

Type of Premium	Rate of Tax
General insurance premium	4%
Life insurance premium if exceeding Rs 0.2 million per annum	1%
Others	0%

ADVANCE TAX ON EXTRACTION OF MINERALS

Lease holders of mines or any person, being a non-filer, extracting minerals shall be subject to collection of advance tax at the rate of 5% of the value of minerals.

The responsibility to collect such tax lies with the Provincial authority collecting royalty from the lease-holder or person extracting minerals. This section is not applicable on lease / concession issued by the Federal Government.

DEPRECIATION RELATING TO EXEMPT PERIOD –Section 22

At present tax depreciation was not treated to have been allowed during the exempt period.

An explanation has been inserted in the law to the effect that it was always intended by the legislature that such value shall be determined after the expiration of the exempt period on the basis as if tax depreciation (including initial allowance) was deemed to have been allowed.

TAX CREDIT FOR INVESTMENT IN HEALTH INSURANCE

Tax credit shall be allowed in respect of contribution paid by a non-corporate resident taxpayer for health insurance to any insurance company approved by SECP. The tax credit is, however, only available to persons deriving income from salary or income from business.

TAX CREDIT FOR EMPLOYMENT GENERATION BYMANUFACTURERS

The tax credit eligibility period for new employment generation manufacturing projects has been extended to June 30, 2019.

TAX CREDIT FOR SALE TO REGISTERED PERSONS

Tax credit for 90% sale to sales tax registered persons is proposed to be enhanced from 2.5% to 3% of tax payable.

CAPITAL GAINS TAX ON DISPOSAL OF SECURITIES

Gain on sale of securities was subjected to tax by Finance Act, 2010 in case such securities were held for less than 12 months. Through the Finance Act, 2015, the gain arising on disposal of securities with holding period up to 48 months was taxed and as such, zero rate of tax was made applicable only where the holding period of securities exceeded 48 months.

It has now been proposed to provide exemption only on disposal of securities acquired on or before July 1, 2012. This means that the exemption presently available on holding period of securities held for more than 4 years is to be withdrawn from tax year 2017.

Through Finance Bill, 2016, separate rates of tax on capital gains from disposal of securities have also been proposed to include separate rates for Filers and Non-Filers. The proposed rates will also apply on debt securities held by a company.

Currently, gain on debt securities in the hands of a company is taxable at the corporate rate.

ADVANCE TAX ON DIVIDEND [NON-FILERS]

The rate of withholding tax on dividends from companies other than power generation companies or companies supplying coal exclusively to power generation project in case of a non-filer recipient has been proposed to be increased from 17.5% to 20%.

MUTUAL FUNDS

a) Tax on Dividends from Mutual Funds through Finance Bill, 2016, the rate of tax on dividends from Mutual Funds have now been proposed to include separate rates for Filers and Non-Filers.

b) **Taxation of Capital Gain on Disposal of Mutual Fund Units under the Eighth Schedule**

The Eighth Schedule was introduced through Finance Act, 2012 to cater for special regime for taxation of capital gains arising on sale of shares of listed companies. Under that Schedule, NCCPL was effectively made the taxing agent for computing and collecting the tax on such gains. However gain on disposal of units of open ended mutual funds was kept outside the ambit of Eighth Schedule.

In the Finance Bill 2016, the gain on redemption of units of open ended mutual funds shall also be subject to the mechanism as laid down in the Eighth Schedule. However, for that purpose, section 100B which governs Eighth Schedule has not been appropriately amended. This appears to be an omission. Under the proposed mechanism, tax on capital gains on redemption of units of mutual funds (open ended) will be computed and collected by NCCPL.

PAKISTAN MERCANTILE EXCHANGE

An explanatory proviso has been proposed to be included in Section 37A (3) for the purpose of taxing capital gain on future commodity contracts being a derivative product. It is proposed to clarify that derivative products include future commodity contracts entered into by the members of Pakistan Mercantile Exchange whether or not settled by physical delivery. This means that capital gain on settlement of future commodity contracts is proposed to be brought into NCCPL's mechanism as laid down in the Eighth Schedule with effect from July 1, 2016.

No separate tax rates are proposed for Filers and Non-Filers deriving capital gain from settlement of commodity contracts; and a single rate of 5% is proposed to be applied by NCCPL for computation and collection of capital gain. It is also proposed that Pakistan Mercantile Exchange will provide information to NCCPL for the purpose of computation and collection of tax under the Eighth Schedule.

PAYMENTS FOR GOODS AND SERVICES

The rate of withholding tax on payments for purchase of goods from the distributors of FMCG is proposed as under:

- For Company 3%
- For other than Company 3.5%

This rate will not apply on distributor of cigarettes and pharmaceutical products subject to tax withholding at 1% under clause (24A) of Part II of Second Schedule.

PRIZES ANDWINNINGS [NON-FILERS]

The rate of withholding tax on a prize on prize bond or crossword puzzle, is proposed to be enhanced from 15% to 20% for non-filer.

BROKERAGE AND COMMISSION

Rate for non-filer increased as under;

- Advertisement agents [Non-filers] 10 to 15 percent
- Other than advertisement agents [Non-filers] 12 to 15 percent

Moreover, rate of tax to be collected from brokerage and commission paid to life insurance agents has been proposed to be introduced at the rate of 8% (16%for non-filers). This rate would be applicable only if the annual commission received by life insurance agents is less than Rs. 500,000.

COLLECTION OF TAX BY A STOCK EXCHANGE REGISTERED IN PAKISTAN

Rate of advance tax collection by stock exchange on sale and purchase of shares is proposed to be increased from 0.01% to 0.02% of transaction value.

COLLECTION OF TAX ON COMMERCIAL ELECTRICITY CONSUMPTION

Rate of tax collection for commercial consumers on electricity bill exceeding Rs. 20,000 is proposed to be increased from 10% to 12%.

MICRO FINANCE BANK

Exemption allowed to Micro-Finance banks till June 2012, being redundant, is proposed to be withdrawn.

SPORTS BOARD / ORGANISATION

Exemption allowed to a Board or other organization established in Pakistan for the purposes of controlling, regulating or encouraging major games and sports recognized by the Government is proposed to be restricted only where such Board or organization is established by the Government. As a result, the position prior to Finance Act, 2003 is proposed to be restored.

INCENTIVES FOR GWADAR FREE ZONE

Exemption from tax available to China Overseas Ports Holding Company Limited [COPH], from Gawadar Port operations for a period of 23 years (w.e.f. February 6, 2007), is proposed to be extended to different group companies alongwith certain other exemptions.

EXPORT OF COMPUTER SOFTWARE / IT SERVICES

Exemption allowed to income from export of computer software or IT services or IT enabled services is proposed to be extended from June 30, 2016 to June 30, 2019, provided that eighty per cent of the export proceeds is brought into Pakistan in foreign exchange through normal banking channels.

SERVICES RENDERED AND CONSTRUCTION CONTRACTS EXECUTED OUTSIDE PAKISTAN

Presently, gross receipts from services rendered and construction contracts executed outside Pakistan are taxed at the rate of 1%, provided the receipt from services, and income from construction contract are brought into Pakistan through normal banking channel. The tax rate of 1% is now proposed to be increased and linked with 50% of the withholding rate applicable on services and contracts under section 153 of the Ordinance.

NEW TAX REGIME FOR PAKISTAN CRICKET BOARD - PCB

PCB's income derived from sources outside Pakistan including media rights, gate money, sponsorship fee, in-stadium rights, out-stadium rights, payments made by International Cricket Council, Asian Cricket Council or any other Cricket Board is proposed to be taxed at 4% of the gross receipts from such sources.

PCB may also opt to pay tax on above basis for tax years 2010 to 2015, subject to the condition of;

(a) withdrawing all the appeals / petitions pending before appellate forums on the issue of applicable tax rate; and
(b) payment of tax on above basis by June 30, 2016.

TERM FINANCE CERTIFICATES

Exemption from withholding tax on profit on debt paid to a company in respect of a Term Finance Certificate issued on or after July 1, 1999 is proposed to be withdrawn.

TRANSMISSION LINE PROJECTS

Profits and gains derived by companies from a transmission line project which are exempt from tax under clause (126M) of Part I of Second Schedule to the Ordinance are proposed to be exempted from Minimum Tax provisions of section 113 as well.

TRADING HOUSES

Exemption from Minimum Tax under section 113 allowed to companies operating Trading Houses for a period of 10 years is proposed to be withdrawn and replaced by reduced (minimum tax) rate of 0.5% upto tax year 2019 and 1% thereafter.

HAJJ GROUP OPERATORS

Following exemptions / concessions available to Hajj Group Operators operating Hajj Operations are proposed to continue for tax year 2016, provided they discharge their tax liability @ Rs. 5,000 per Haji:

- exempt from Minimum Tax under section 113;
- exempt from application of section 152; and
- compliance of payment through banking channel for payments exceeding Rs. 10,000.

EXEMPTION FROM TAX COLLECTION ON IMPORT OF RAWMATERIALS

Presently, taxpayers are allowed to apply for exemption from tax collection on import of raw materials, provided tax liability of current tax year, determined on the basis of tax liability of higher of the two preceding tax years, is paid.

That facility was however, subject to compliance of FBR SRO No. 717(I)/2014 which inter alia included a restriction that exempted quantity of raw material should not exceed 110 per cent of the quantity imported / consumed in the last tax year. The said restriction, through the SRO, was challenged by taxpayers before the Hon'able Lahore High Court, Lahore which declared the same extra-jurisdictional on part of FBR to provide for a condition which is not part of law.

It is now proposed to include the above restriction (of 110% of quantity) as part of a statute under clause (72B) of Part IV of Second Schedule to the Ordinance. It has now also been proposed that Commissioner will be entitled to audit the taxpayer availing the exemption, in respect of the consumption, production and sales of the latest tax year (for which return is filed), whilst deeming the selection for such audit under section 214C of the Ordinance. In case the taxpayer fails to produce requisite documents during the audit, recovery of unpaid tax under section 148 to be made from the taxpayer.

INVESTMENT IN INDUSTRIAL UNDERTAKING - IMMUNITY FROM SECTION 111

Presently, immunity is provided to investments made by a company to setup an industrial undertaking, from provisions of section 111 (unexplained sources of income / receipts), subject to certain conditions which inter alia include commencement of commercial production by such undertaking on or before June 30, 2017. It is proposed to extend said date to June 30, 2019.

FOURTH SCHEDULE – INSURANCE COMPANIES

In the case of insurance companies, there is a concept of 'one basket income' taxation. This means that all sources / heads of income of an insurance company are taxed at the applicable corporate tax rate. However, there is a specific provision whereby capital gains on disposal of shares and dividends of listed companies, vouchers of PTC and instruments of redeemable capital, modaraba certificates and derivative products were subject to tax at the reduced rates applicable otherwise on such heads of income.

This special dispensation is proposed to be removed. It is now proposed that entire income of insurance business shall be subject to tax at the applicable corporate tax rate.

In the past, there was litigation on the subject (including the decision of Supreme Court of Pakistan). The application of specific rate was introduced on the premise that the provisions relating to the Fourth Schedule are governed by the First Schedule for tax purposes. Accordingly, notwithstanding the specific concept of 'one basket income', validity of the aforesaid amendment needs to be examined with reference to the question whether or not the head of income (such as section 5 for all dividend income) can override the taxability under a specific Schedule or vice versa.

SALES TAX

FIVE EXPORT ORIENTED SECTORS –SRO 1125

Five export oriented sectors (textile, leather, carpet, surgical and sports goods), proposed to be subject to zero rated regime with an objective of 'no tax no refund' for such sectors.

The exports are zero rated in general, therefore, the proposed regime, which was also earlier introduced in 2004, effectively provides zero rating for inputs used in the manufacturing of export sector goods. Tax incidence on such input results in refunds to the exporters.

In the past, a detailed notification was issued prescribing the manner and the items on which such zero rating was applicable. Same regime as introduced earlier was withdrawn inter alia on account of abuse of zero rating regime in respect of goods having multiple use. A notification is awaiting to spell out the terms and condition including sales to un-registered persons.

Local sale of finished products, however, will be subject to sales tax at the rate of 5%.

INPUT TAX AGAINST SERVICES OF PROVINCIAL LAWS -Section 2(14)

The definition of Input tax has been proposed to be amended to exclude the Sales tax paid under respective Provincial laws. This will lead to fundamental departure in the sales tax regime which is governed under the VAT principles.

In economic sense, this would imply dual indirect taxation in the country as indirect taxes paid to Provinces shall not reduce the incidence of sales tax paid to Federation.

INPUT TAX CLAIM WHEN NOT DECLARED BY THE SUPPLIER -Section 7 & 8

It is proposed that input tax adjustment will not be available, if the supplier has not declared such supply in his return or has not paid tax due as per his return.

This amendment effectively means that an eligible input tax shall become inadmissible for the buyer only for the reason that the supplier of goods has not declared such supply in his return of sales tax or has not paid the tax due. The effective date for this amendment will be notified by FBR.

RECOVERY OF WITHHOLDING SALES TAX - Sections 11(4A)

It is proposed to enact provisions in the Federal sales tax law to enable recovery proceedings for sales tax not/short withheld or failure to deposit such tax by withholding agents.

This amendment aims to counter the effect of decisions of the Appellate authorities whereby such actions were unapproved in the past.

TIME AND MANNER OF SALES TAX PAYMENT -Section 6(2)

Consequent to proposed amendment in the definition of term 'due date', the provisions of Section 6(2) is also being aligned to cater payment of sales tax on local supplies of taxable goods by prescribing different dates in accordance with the multiple filing dates of annexures of sales tax returns, as expected to be notified under Chapter-I of Sales Tax Rules, 2006.

RETURN OF SALES TAX AND FEDERAL EXCISE -Section 2(9) & 26(2)

Concept of specifying different dates for furnishing of different parts or annexures of the return is proposed. Requirement for separate return in case of change in rate of tax during a tax period is proposed to be withdrawn.

SALE OF TAXABLE ACTIVITY OR TRANSFER OF OWNERSHIP -Section 49

Presently sale of taxable activity or part thereof or transfer of ownership of such activity as an ongoing concern to another registered person is a non-taxable event.

It is proposed that in the case of such sale or transfer, a 'zero-rated invoice' shall be issued by the transferor to the transferee to document this non-taxable transaction.

COTTAGE INDUSTRY -Section 2(5AB)

Manufacturers whose annual turnover from taxable supplies made in any tax period during the last twelve months ending any tax period does not exceed five (5) million rupees or whose annual utility bills during the last twelve months ending any tax period does not exceed eight hundred thousand rupees were given the status of cottage industry for availing the exemption from the levy of sales tax through finance Act 2007.

The Bill now proposes to enhance the exemption threshold limit of turnover from Rs. five (5) million to Rs. ten (10) million per annum providing incentive to the units functioning within the cottage industry.

SALES TAX EXEMPTION FOR INTERNATIONAL FINANCIAL INSTITUTIONS, ETC.

In line with the amendments proposed in Income Tax Ordinance, 2001, Federal Government is also proposed to be empowered to allow exemptions on sales tax in relation to the international financial institutions and foreign government owned financial institutions.

DISCLOSURE OF INFORMATION OF SALES TAX AND FEDERAL EXCISE -Section 56B

In line with the amendments proposed in Income Tax Ordinance, 2001, disclosure of information received or supplied in pursuance of bilateral or multilateral agreements with foreign governments is proposed to be confidential notwithstanding the status of the Freedom of Information Ordinance, 2002.

SUPPLY OF MINERAL / BOTTLED WATER

Supply of mineral/bottled water by manufacturer is proposed to be taxed at retail price, under the Third Schedule.

FIFTH SCHEDULE – ZERO RATING

Conditional zero rating on import and supply of following items is proposed to be withdrawn, however, these will continue to fall under Sixth Schedule.

Description	PCT Heading
• Colors in sets	3213.1000
• Writing, drawing and marking inks	3215.9010 & 3215.9090
• Erasers	4016.9210 & 4016.9290
• Exercise books	4820.2000
• Pencil sharpeners	8214.1000
• Geometry boxes	9017.2000
• Pens and ball pens	96.08
• Pencils including color pencils	96.09
• Milk	04.01
• Fat filled milk	1901.9090

Zero rating on import and supply of "Markers and porous tipped pens" (PCT Heading 96.08) has been withdrawn.

EIGHTH SCHEDULE

a) Increase of sales tax rate on ingredients of poultry and cattle feed is proposed from 5% to 10% and following PCT headings are now proposed to be included in this respect:
- 2301.1000 (Meat and Bone Meal)
- 2833.2940 (Zinc Sulphate)
- 2923.9010 (Betaine)

Following items are proposed to be removed from Eighth Schedule:
- 2301.2010 (Shrimp meal)
- 2833.2600 (Zinc Sulphate)
- 2923.9000 (Betafin)

b) Reduction in rate allowable to specific items used in production of biodiesel as certified by Alternate Energy Development Board is proposed to be withdrawn. However, reduction in rate to related plant, machinery and equipment shall continue.

c) Import of grain holding silos are proposed to subjected to sales tax @ 10%.

NINTH SCHEDULE

Sales tax rates under the Ninth Schedule on import or local supply and/or registration of IMEI by Cellular Mobile Operators on medium priced cellular phones and smart cellular phones are proposed to be increased as follows:
- Medium priced cellular phones from Rs 500 to Rs 1,000
- Smart cellular phones from Rs 1,000 to Rs 1,500.

REVAMPING OF SALES TAX REGIME FOR CERTAIN ITEMS

a) Certain pesticides and their active ingredients registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971 previously covered under Eighth Schedule are now proposed to be exempted under Sixth Schedule.

b) Supply of Urea, whether or not in aqueous solution (PCT heading 3102.1000) is now proposed to be taxed @ 5%, previously this was included in Fertilizers under Third Schedule.

Islamabad Capital Territory (Tax on Services) Ordinance, 2001 [ICTO]

The provisions of Federal Sales Tax Act relating to the following powers of Federal Government are proposed to apply to ICTO:

- Specifying a higher or lower rate of tax, subject to such conditions and restrictions.
- Levy and collect such amount of tax as it may deem fit on any services or class of services in lieu of sales tax.
- Allow exemptions under section 13 of the Federal Sales Tax Act.
- Notify any person or class of person as withholding agent for the purpose of deduction and deposit of sales tax.
- Zero rating facility available under Federal Sales Tax Act to diplomats shall apply to ICTO.
- Exemptions available under Federal Sales Tax Act to grants in aid shall apply to ICTO.
- Tax levied under ICTO shall not apply to regulatory and licensing services rendered or provided by an organization established under a Federal statute.

FEDERAL EXCISE DUTY

SERVICES SUBJECT TO PROVINCIAL SALES TAX

The much awaited withdrawal of the FED on services which are now subject to provincial sales tax has been proposed in the Finance Bill 2016. In the Finance Bill 2016, following services will not be subject to FED:

- Advertisements;
- Shipping agents;
- Franchise services;
- Stock brokers; and
- Services provided or rendered by banking companies, insurance companies, cooperative financing societies, modarabas, musharikas, leasing companies, foreign exchange dealers, nonbanking financial institutions, asset management companies and other persons dealing in any such services.

In the absence of this amendment, there was a question of duplication of incidence of indirect tax on such services both by Federation and Provinces. There had been litigation on this subject and the Sindh High Court has recently resolved the controversy in favour of taxpayers deciding that services (other than shipping agents) taxed by Provincial Government cannot be subject to FED. The aforesaid issue was aggravated by the amendment made in the Finance Act, 2015 where the exclusion was made only for telecommunication services.

The withdrawal has been made for specific services identified above. It is, however, suggested that there should have been a general provision that FED shall not be payable on any service which has been validly taxed by the Provincial Government.

RETURN OF SALES TAX AND FEDERAL EXCISE

Concept of specifying different dates for furnishing of different parts or annexures of the return is proposed. Requirement for separate return in case of change in rate of tax during a tax period is proposed to be withdrawn.

ADJUSTMENT OF EXCISE DUTY

Adjustment on input duty (goods or services) is proposed to be made conditional to the declaration in the supplier's return and payment of duty. This condition will be effective upon notification by the FBR.

EXEMPTION OF DUTY FOR INTERNATIONAL FINANCIAL INSTITUTIONS, ETC.

Federal Government is proposed to be empowered to allow exemptions on excisable goods or services in relation to the international financial institutions and foreign government owned financial institutions.

DISCLOSURE OF INFORMATION OF SALES TAX AND FEDERAL EXCISE

In line with the amendments proposed in Income Tax Ordinance, 2001, disclosure of Information received or supplied in pursuance of bilateral or multilateral agreements with foreign governments is proposed to be confidential notwithstanding the status of the Freedom of information Ordinance, 2002.

AERATEDWATERS / BEVERAGES

The rate of duty is proposed to be enhanced from 10.5% to 11.5% of retail price effective from July 1, 2016.

LOCALLY PRODUCED CIGARETTES

Description of and duty on the locally produced cigarettes (PCT heading 24.02) is proposed to bemodified/enhanced. Revised rates are applicable from June 4, 2016, as tabulated under:

Description of goods	Rate From June 4 to November 30, 2016	Rate from December 1, 2016 & onwards
Locally produced cigarettes if their on pack printed retail price exceeds Rs 4,000* per 1,000 cigarettes.	Rs 3,436 per 1,000 cigarettes	Rs 3,705 per 1,000 cigarettes
Locally producedcigarettes if their onpack printed retail price does not exceeds Rs 4,000* per 1,000 cigarettes.	Rs 1,534 per 1,000 cigarettes	Rs 1,649 per 1,000 cigarettes

CEMENT

The basis of levy of excise duty on various types of cement, classified under PCT heading 25.23, is proposed to be changed from "5% of retail price" to "Re 1 per kg", with effect from July 1, 2016.

This change will effectively double the amount of duty presently payable on cement bag which contains 50 kg of cement.

Exemption from duty is proposed to be withdrawn on 'White Cement' (PCT heading 25.23)".

EXEMPTIONS

Certain exemptions are proposed in relation to Gawadar Port and development of Gawadar Free Zone. These exemption are identical to serial 100A and 100B proposed to be introduced in Table 1 of the Sixth Schedule of the Sales Tax Act, 1990.

WHITE CRYSTALLINE SUGAR

The ad valorem duty on white crystalline sugar is proposed to be withdrawn and replaced by the sales tax regime at a reduced rate of 8%.

This is aimed at collection of sales tax on value addition by post manufacturing distribution chain and the related effect thereto.

CUSTOMS DUTY

LOCAL SUBSTITUTE OF IMPORTS BY POWER UNITS

Import of new plant, machinery, equipment and apparatus, including capital goods for new power units of 25MV and above are subject to concessional rates of customs duty, subject to the condition that such goods are not locally manufactured. The said condition has been done away with for those power projects which are on IPP mode meant for supply of electricity to national grid.

TARIFF SLAB RATIONALIZATION

Goods presently subject to duty at the rate of 5% and 2%are proposed to be assessed at 3%in order to reduce number of tariff slabs from 5 to 4.

REDUCTION IN CUSTOMS DUTY

(i) By virtue of amendment in First Schedule and Fifth Schedule, reduction in customs duty has been proposed for the following items:

Items	Old Rate	Proposed Rate
Raw material of PVC Resin	5	3
White Spirits	10	3
Stamping Foil	20	16
Fatty Alcohol Ethoxylate	15	5
CFC Free Gases	15	11
Aluminum Sheet in Coil	20	11
Thermostats of Deepfreezes	20	3
Bicycle chain parts	20	15
Uncoated paper and paperboard	20	15
Blister paper	20	10
Plastic film medical grade	20	10
Polyester resin	20	15
Chrysotile asbestos	20	15

(ii) Reduction in customs duty in respect of following sectors has been proposed under the Fifth Schedule:

Sector	Concession
Fish Farming	Reduction in customs duty on import of water aerators from 15% to 2% and feed pellet (floating type) machinery from 5% to 2%. Reduction in customs duty on import of fish and shrimp feed from 10% /20% to 0%.
Cool Chain Industry	Reduction in customs duty on import of Cool Chain Machinery from 5% to 3% subject to certain conditions. Reduction in customs duty on import of capital goods to 3% subject to certain conditions.
Dairy, Livestock and Poultry Sector	Customs duty on various machinery used in dairy, livestock and poultry reduced from 5% to 2%.
LED Manufacturers	Concession of customs duty on import of parts and components used for local manufacturing of LED lights from 20% to 5%.

Automotive Sector	Various concessions have been proposed for implementation of automotive development policy 2016-2021.
Textile sector	Part IV to the Fifth Schedule has been added to exempt customs duty on import of machinery and equipment for textile sector.

(iii) Import of solar panels are subject to concessionary duty till June 30, 2016. That date has now been extended to June 30, 2017.

INCREASE IN CUSTOMS DUTY

As part of review / rationalization of customs duty, following major changes have been made:

(i) General rates of customs duty of 10% and 15% is proposed to be increased to 11% and 16% respectively;

(ii) Rate of customs duty on following item under the First and Fifth Schedule is proposed to be increased:

Items	Old Rate	New Rate
Betel nuts	10	20
Betel Leaves	Rs. 300/Kg	Rs. 600/Kg
Almonds	10	20
Frozen fish	10	20
Medium Density Fiber board	15	20
Cement Clinker	2	11
Semi Printed/Printed Security Paper	5	16
Live Chicken stock and Eggs of chicken	5	11
Birds eggs(not in shell)	5	16
Polyester not exceeding 2.22 decitex	6	7

EXEMPTION FROM CUSTOMS DUTY

(i) Exemption from customs duty is proposed on following items.
- Water Quality Testing Kits
- Linear Akyl Benzene
- Import of Premixes to prevent growth stunting
- Old and used Ambulances imported by Edhi Foundation
- Sodium iron

(ii) Scope of the exemption from customs duty allowed to Renewable Energy Technologies and Charitable Non-profit making institutions Operating hospitals is proposed to be enhanced to certain additional items.

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LEVY OF REGULATORY DUTY

Regulatory duty is proposed on following items at the rate of 25%:
- Powdered Milk
- Whey Powder

WITHDRAWAL OF REGULATORY DUTY

Regulatory duty on following item is proposed to be withdrawn:
- Bead wire for tyres Manufacturers

- Carbon steel strips used by Razor blade manufacturers