BUDGET BRIEFING 2017

Building a better working world

EY Ford Rhodes
Chartered Accountants

BUDGET BRIEFING 2017

This Memorandum is correct to the best of our knowledge and belief at the time of going to the press. It is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. The Firm and Ernst & Young do not accept any responsibility for any loss arising from any action taken or not taken by anyone using this publication.

This Memorandum may be accessed on our website
http://www.ey.com/pk

This Memorandum has been prepared as a general guide for the benefit of our clients and is available to other interested persons upon request. This should not be published in any manner without the Firm's consent. This is not an exhaustive treatise as it sets out interpretation of only the significant amendments proposed by the Finance Bill, 2017 (the Bill) in the Income Tax Ordinance, 2001 (the Ordinance), the Sales Tax Act, 1990 (the ST Act), the Customs Act, 1969 (the Customs Act) and the Federal Excise Act, 2005 (the FE Act) in a concise form sufficient enough to amplify the important aspects of the changes proposed to be made. The Board means the Federal Board of Revenue, Government of Pakistan.

Changes of consequential, administrative, procedural or editorial in nature have either been excluded from these comments or otherwise dealt with briefly.
The amendments proposed by the Bill after having been enacted as the Finance Act, 2017, shall, with or without modification, become effective from the tax year 2018, unless otherwise indicated.

It is suggested that the text of the Bill and the relevant laws and notifications, where applicable, be referred to in considering the interpretation of any provision. Since these are only general comments, no decision on any issue be taken without further consideration and specific professional advice should be sought before any action is taken.

Contents	Page

KARACHI: 26 May 2017

Income Tax

- Advance tax collection from non-filers @ 3% on account of lease of motor vehicles extended to Islamic mode of financing as well
- Depreciable assets under co-ownership, leased under Musharika or Diminishing Musharika from an Islamic financial institution to be treated as owned asset of the lessor for tax depreciation purposes
- Start up exempted from tax for 3 years. Concept of "Startup" includes any business of an individual, AOP or a company incorporated or registered in Pakistan after 30 June 2012 and engaged in providing technology driven products would be exempt from tax for three years subject to certain conditions. Exemption also provided from minimum tax under section 113 and withholding of tax under section 153 as a recipient
- Profit and gains from exploration and production of petroleum/ natural gas from Sui Gas field to be governed by the Fifth Schedule
- Withholding tax to apply also to payments on account of rendering or providing of services even where payment is remitted by the agent after retaining its fee/ service charges
- Definitions of 'financial institution' and 'reportable person' for the purpose of Common Reporting Standard as given in Rule 78B to be considered
- An officer of Inland Revenue service in BS-20 or above no more eligible to become a Judicial Member of the Appellate Tribunal
- Tax collected at the time of import of fertilizer by manufacturer of fertilizer to be treated as a final tax
- Tax on dividend received by a resident person from non-resident company at par with dividend received from resident company
- Additional conditions imposed for claiming tax credit by charitable organizations. A concept of taxation of surplus funds has been introduced
- GB Council empowered to issue certificate for recovery of tax from a taxpayer residing in Pakistan
- The threshold of taxable income for payment of quarterly advance tax by individuals has been increased to Rs.1,000,000 from Rs.500,000
- The option to income for payment revise any withholding statement due to omission or wrong statement allowed within 60 days of filing of the original statement
- Tax collected on sale or transfer of immovable property to be treated as minimum tax if disposal is made within 12 months of acquisition
- For the purposes of clarity the term "recording" inserted to clarify the responsibility of advance tax collection by local authority, housing authority, housing society, cooperative society, co-operative society and registrar of properties
- 'Batteries' included in the list of items on which every manufacturer, distributor, dealer, wholesaler or commercial importer is required to collect advance tax on sale of such items to distributors, dealers, retailers and whole sellers
- All notifications and orders issued and notified, in exercise of the powers conferred upon the Federal Government, shall be deemed to have been validly issued and notified notwithstanding any judgment of a Court.
- In contrast to the policy of increased focus on documentation, the Bill proposes to withdraw the tax credit offered to manufacturers making at least 90% sales to sales tax registered persons.
- In order to incentivize enlistment, the tax credit previously available at the rate of 20% for 2 years, is proposed to be extended for a further 2 years at the rate of 10%.
- Chief Commissioner now empowered to grant extension of time for filing return of income or other documents.
- It is clarified that advance tax on electricity consumption bill is to be collected on an amount inclusive of sales tax and other incidental charges.
- The Bill excludes durable goods from the scope of Fast Moving Consumer Goods.

- Interest free or concessional loans provided to employees upto Rs.1,000,000 are not to be taxed.

- The limit on claim of sales promotion, advertisement and publicity expenses incurred by manufacturers of pharmaceutical products is proposed to be enhanced from 5% to 10% of turnover.

- The FBR now empowered to grant exemptions and tax concessions subject to approval from the concerned Minister Incharge of the Federal Government.

- The deductible allowance in respect of education expense is now admissible to individuals deriving taxable income upto Rs.1.5 million as against the existing limit on taxable income of Rs.1 million.

- Cost and Management Accountants are empowered to call for information and other relevant documents under section 176 in connection with audit.

- Default surcharge in case of taxpayers following calendar year rationalized.

Sales tax

- Tax on Tier-1 Retailers is proposed to be re-introduced, similarly Teir-1 Retailers have been provided option to pay tax under the turnover regime at the rate of 2%.

- Sales tax on import of goods for non-tariff areas is made applicable.

- Further tax at the rate of 2% is proposed to be charged on supplies which are subject to sales tax at the rate of 0%.

- Notifications issued by the Federal Government are sought to be ratified.

- Automatic stay on payment of 25% of the tax due in the cases where appeal is pending before the Commissioner Inland Revenue (Appeals) has been proposed.

- It is sought to grant power to the Federal Board of Revenue with the approval of the Minister Incharge of the Federal Government to exercise powers conferred under various section of the ST Act.

- Electronic service of order, decision and notices etc. has been legally recognized.

- Notifications and orders issued and notified in exercise of the powers conferred upon the Federal Government before 01st day of July 2017 are sought to be validated.

- Extra amount of sales tax at the rate of two percent is proposed to be withdrawn on supply of lubricating oil.

- No sales tax withholding is applicable on supplies made by a registered person to another registered person except provision of advertisement services.

- Fertilizers are currently subject to tax on retail price at the standard rate of 17%. The Bill proposes to tax fertilizers at the reduced fixed amounts of tax.

- Supply of natural gas to urea manufacturer is proposed to be taxed at the rate of 10%. Similarly import of phosphoric acid by fertilizers manufacturer is proposed to be tax at the rate of 5%.

- The following exemption inter-alia are proposed:

- Vehicles imported by China Overseas Ports Holding Company Limited and its operating companies for 23 years for construction, development and operations of Gwadar Port and Free Zone Area.

- Goods received as gift or donation from a foreign government or organization by the Federal or Provincial Governments.

- Sunflower and canola hybrid seeds meant for sowing.

- Combined Harvesters up to five years old.

- Single cylinder agriculture diesel engines and CKD kits thereof.

Federal Excise Duty

- Scope of penalty enhanced with respect to manufacturing of illegitimate cigarettes by including violations in respect of affixing tax stamps, banderoles, stickers, labels or barcodes on the pack of cigarettes.

- Grant of Automatic stay proposed against recovery of duty till the decision of appeal by the Commissioner (Appeals), subject to payment of 25% of the duty due.

- Legal coverage provided to the taxpayer and tax authorities on electronic submissions/service notices, documents/records, or response etc.

- Enhancement of Rate of Federal Excise Duty on cigarettes is proposed in three tier instead of existing two tier structure.

- Increase in Federal Excise Duty is proposed on Cement and ancillary products.

- Federal Excise Duty on Telecommunication services is proposed to be reduced to 17% from 18.5%.

- Clarification on exemption to Chinese companies from FED on import or supply of plant and machinery for construction and operation of Gwadar Port

Customs

- Pakistan Customs HS Codes are to be harmonized with World Customs Organization (WCO) HS Version 2017.

- Exemption and substantial reduction proposed in customs duty and regulatory duty for poultry items, ostriches, aluminum waste, raw skin hides, stamping foils, sheets for veneering, pre-fabricated modular clean rooms panels and non-woven fabric imported by pharma industry.

- Increase of duty on import of synthetic filament yarn and aluminum beverages cans. And reduction of duty on uncoated polyester and aluminum wire and raw material for the manufacturing of baby diapers for the protection of local industry

- Extension of date from 30 June 2017 to 30 June 2018 for non-application of condition of "local manufacturing" on import of solar panels and related components.

- Reduction in duty to 3% on import of coal by IPPs.

- Levy and increase of Regulatory duty on 565 items ranging from 5% to 15%.

- Levy of regulatory duty on import of telecom equipment at the rate of 9%, while granting exemption from customs duty.

- Introducing new Collectorate to oversee and observe the trade flows under the CPEC.

- Requiring officers of Inland Revenue, National Highway and Pakistan Motorway Police to assist the officers of customs in discharging their official duties.

- FBR is proposed to be authorized for granting exemption of customs duties subject to prior approval of concerned Minister-in-charge.

- Customs value shall be the higher of value declared by importer/exporter or value determined by customs authority under Section 25 of the Act.

- Obligating persons to provide information for the purpose of End Use verification of goods to control precursor goods for any prohibited use.

- Declarations submitted by Coastal guards to be considered as Goods Declaration.

- Power for extension in time limit for customs warehousing has been additionally vested to Chief Collector of Customs.

INCOME TAX

THE FIRST SCHEDULE

THE SECOND SCHEDULE

PART I

PART IV

1. **Super tax for rehabilitation of temporarily displaced persons**
Section 4B

The Finance Act, 2015 introduced a onetime super tax on all persons on all types of income whether taxable under the normal law or under the Final Tax Regime in tax year 2015. It was levied at 4% on banking companies and at 3% on all other persons having taxable income of Rs.500 million or more. This tax was extended to tax year 2016 by the Finance Act, 2016.

The Finance Bill, 2017 proposes to extend the application of Section 4B to tax year 2017.

The extension of super tax is not a surprise as the business quarters were anticipating it. However, most of the trade and professional bodies had proposed to the government not to extend this levy any further. It seems that the failure of FBR in broadening the tax base has left no choice but to continue taking adhoc measures like the super tax to boost tax collection.

2. **Tax on undistributed profits**
Section 5A

The Finance Act, 2015 introduced taxation of undistributed reserves at the rate of 10%. Under this section tax was imposed on a public company that derived profit for a tax year but did not distribute cash dividend within six months of the end of tax year or distributed dividend to such an extent that its reserves remained in excess of 100% of its paid-up capital.

However, the tax was not levied if the company distributed profit equal to 40% of its after tax profit or 50% of its paid-up capital, whichever is less.

This taxation of undistributed reserves was criticized severely by taxpayers and was termed detrimental to capital formation since it taxed the already taxed profits of the taxpayer and also did not allow distribution through bonus shares resulting in compulsory cash flow for the public company and resultant hardship to companies who were cash strapped.

The Bill now seeks to revamp the taxation by revising the existing section.

It is now proposed that tax at the rate of 10% shall be imposed on every public company that derives profit for a tax year but does not distribute at least 40% of its after tax profits within six months of the end of the tax year through cash or bonus shares. This tax would not apply to –

(a) Scheduled bank

(b) Modaraba

(c) IPPs that qualify for exemption under Clause 132 of Part I of Second Schedule to the Ordinance

(d) Company in which not less than 50% shares are held by the Government.

It appears that the Federal Government has not acceded to the request of the trade and professional bodies to abolish this tax, but accepted their demand of issue of bonus shares to shareholders as a valid distribution for the purpose of this section. Needless to say that bonus shares have already been subject to levy of tax.

The proposed section further provides that for the tax year 2017, bonus shares or cash dividends may be distributed before the due date for filing of return of income of the public company depending on their tax year.

3. **Minimum Tax**
Section 113

The rate of minimum tax has been the subject matter of debate now for several years in the government quarters. The rate has intermittently changed over the years from 0.5% to 1% and vise-versa but it has never been increased beyond 1%.

It seems that the constant pressure on the Revenue to achieve a higher tax collection target, it is proposed to increase the rate of minimum tax from 1% to 1.25%. The Finance Minister in his budget speech has tried to justify this increase by saying that it was necessary to facilitate and encourage the organized and compliant sector to make correct declaration of the taxable income and tax liability.

There is no further change in this section. The minimum tax will continue to be recoverable against the normal tax liability within five tax years immediately succeeding the tax year in which it is paid.

4. **Taxation of banking companies**
Rule 1(g) of the Seventh Schedule

An explanation has been added to Rule 1(g) to clarify that nothing in this Rule shall be construed to allow a notional loss or charge to tax any notional gain on any transaction under any regulation or instruction unless the event that determine the gain or loss have occurred and the gain or loss can be determined with reasonable accuracy.

At present Rule 1(g) only excludes adjustments made under International Accounting Standards 39 and 40, however, the explanation proposed to be inserted extends the restriction to any regulation or instruction.

In our view, this provision will discourage financial institution to indulge in long term financial transaction such as derivative contracts as such long term contracts result in intermediate losses which are then reversed over the life of the contract. However, disallowance of unrealized loss would result in cash flow consequences for the banks thus increasing the funding cost of the transaction and thereby making them uncompetitive with the international financial market. In the backdrop of CPEC transaction and need for long term financing for infrastructure projects there is a need to provide conducive tax policy to enable such transactions to take place.

5. **Payment to non-resident**
Section 152

Presently a non-resident person involved in the execution of a contract or sub-contract under a construction, assembly or installation project in Pakistan including supervisory activities in relation to such project or any other contract for construction or services related there to is subject to final taxation.

However, Clause (41) of Part IV of Second Schedule to the Ordinance requires that the non-resident should opt for presumptive tax regime by filing a declaration of option within three months of commencement of the tax year which will remain in force for three years.

The Bill now proposes to insert a proviso in Sub-Section (1B) of Section 152 requiring the non-resident person to opt for the final tax regime.

Since the requirement for opting for final tax regime has been proposed to be inserted in the main section, Clause (41) of Part IV of the Second Schedule of the Ordinance is proposed to be omitted.

It needs to be highlighted that the present requirement to file an option within three months of commencement of tax year and validity of such option for three tax years is no more there in the proposed proviso. Effectively, a non-resident person may opt for the final tax regime without any time compulsion and is not bound to be taxed as such for the following two tax years as in the past.

In order to facilitate such non-resident persons who opt to be taxed on profit basis, Sub-section (4A) has been re-enacted to authorize the Commissioner to issue exemption certificate to non-resident person for non-deduction of tax after making such inquiry as he deems fit.

6. **Exemption from collection of tax on cash withdrawal by branchless banking agents**
Section 231A, Clause (101) of Part IV of the Second Schedule

Presently tax at the rate of 0.3% and 0.6% is deducted upon aggregate cash withdrawal exceeding Rs.50,000 per day from filers and non-filers respectively. To promote digital payments to achieve universal financial inclusion in Pakistan, the Bill seeks to exempt collection of tax from branchless banking agents account on cash withdrawal made for the purpose of making payments to their customers.

7. **Exemption to profit and gains derived by startups in IT sector**
Clause 62A of Section 2, Clause 144 of Part II and Clauses 11A and 43E of Part IV of the Second Schedule

In recent times an increasing trend is being realized by Pakistani domestic customers to digitize or automate their complete operations. This realization has also led to stimulate local IT service provider's interest to work and offer services within Pakistan.

To strengthen and promote the IT industry of Pakistan, both locally and globally, currently an exemption is available from tax on income from exports of computer software or IT services or IT enabled services up to 30 June 2019. However, no incentive was available for persons involved in IT services or IT enabled services locally.

In order to promote innovation and entrepreneurship in Information Technology for provision of services and products locally, the Bill proposes to allow exemption from tax to such business. Accordingly, a concept of start-up has been introduced to extend tax exemption to such startups.

"Startup" means a business of resident individual, AOP or a company incorporated or registered in Pakistan after 30 June 2012 and is engaged in or intends to offer technological driven products or services to any sector of the economy subject to the following conditions –

- It is registered with and duly certified by the Pakistan Software Export Board (PSEB)

- It has turnover of less than Rs.100 million in each of the last five tax years

Any business which fulfills the criteria listed above, its profits and gains would be exempt from tax in the year in which it is certified by the PSEB and for the following two tax years.

It is also proposed to exempt such startup from payment of minimum tax under section 113 and from withholding of tax on local sales and services under section 153 of the Ordinance as a recipient.

8. Lease of depreciable assets under Musharika or Diminishing Musharika financing arrangement
Section 22(15)

As per Section 22(15) of the Ordinance "Depreciable Asset" means any tangible movable property, immovable property (other than unimproved land), or structural improvement to immovable property, owned by a person, which

- has a normal useful life exceeding one year;
- is likely to lose value as a result of normal wear and tear, or obsolescence; and
- is used wholly or partly by the person in deriving income from business chargeable to tax

However, assets given under diminishing Musharika are not owned by the lessee i.e. person obtaining asset under the Islamic mode of financing. These were thus not eligible for depreciation.

The Bill proposes to address the unfavorable tax treatment on account of availing Islamic banking financing which potentially had far reaching negative consequences. In order to provide tax neutrality treatment to customers of Islamic financial Institutions availing Islamic financial services under Musharika and Diminishing Musharika financing, a new proviso is proposed to be inserted in Section 22(15) of the Ordinance whereby a depreciable asset which is co-owned by an Islamic Financial Institution and the lessee under Musharika or Diminishing Musharika financing arrangement, would be treated as owned by the lessee. Accordingly, tax depreciation would be allowed to the lessee on assets financed under Musharika or Diminishing Musharika arrangements.

9. Tax on Dividend
Section 5, First Schedule

The rate of tax on dividend is proposed to be enhanced to 15% from 12.5% for filers. Similarly the rate of tax on dividend distributed by a mutual fund is proposed to be enhanced to 12.5% from 10%.

The withholding tax rates have also been proposed to be enhanced accordingly.

10. Computation of capital gains on listed securities
Section 37A,First and Eight Schedule

The rate of capital gains taxable under section 37A has been unified to 15% irrespective of the holding period for all securities bought on or after July 01, 2013.

Securities acquired prior to July 01, 2013 shall be exempt from tax. Capital gain on future commodities continue to be taxed at 5%.

Under this schedule, capital gain on disposal of listed securities which are liable to tax under Section 37A of the Ordinance is required to be computed and tax thereon is required to be collected by National Clearing Company of Pakistan (NCCPL).

The Bill seeks to relax the compliance date for NCCPL whereby the quarterly statement of capital gains and tax computed is now proposed to be provided to the Board within 45 days, instead of 30 days.

Similarly, the annual fund transfer date of payments collected by NCCPL and deposited in separate bank account with National Bank of Pakistan is now proposed to be extended to 15 August after the end of the financial year, instead of 31st July.

11. Penalties
Section 182

It has time and again been emphasized to the legislature and tax collector that the main purpose of levying penalty is to educate the taxpayers and instill a sense of compliance rather than to create huge tax demands to achieve revenue targets. Not only has it been highlighted that some of the penalties for non-compliance like for late filing of tax returns and statements are very excessive and exorbitant but it has also been pointed out that in some cases the law stands as a naked sword for unmindful taxpayers as there is no statute of limitation provided in the law with regard to imposition of penalties resulting in severe hardship to taxpayers.

However, it seems that the government has yielded a deaf ear to all such proposal which in our view would also help in broadening the tax base as the severity of penalties has also a big role in keeping away persons from the tax net.

The amendments in Section 182 in fact are inclined towards increasing the number of penalties and introducing penalties for non-compliance of some of the newly introduced compliances. The new penalties are as follows –

Offences	Penalties	Section of the Ordinance to which the offence relates
Any reporting financial institution or reporting entity who fails to furnish information or country-by-country report to the Board as required under Section 107, 108 or 165B within the due date.	Such reporting financial institution or reporting entity shall pay a penalty of two thousand rupees for each day of default subject to a minimum penalty of twenty five thousand rupees.	107, 108 and 165
Any person who fails to keep and maintain document and information required under section 108 or Income Tax Rules, 2002	1% of the value of transaction, the record of which is required to be maintained under section 108 and Income Tax Rules, 2002	108

12. Collection of tax by a Stock Exchange registered in Pakistan
Section 233A

Since 2004, Stock Exchanges in Pakistan were required to collect tax on the purchase and sale value of the shares traded by their members. The tax so collected is presently being treated as an advance tax adjustable against the final tax liability of the members of the Stock Exchange or their customer as the case may be.

The Bill now seeks to treat the tax collected by the Stock Exchange as a full and final tax liability of the person from whom the tax has been collected.

13. Advance tax on tobacco
Section 236X

The Bill proposes to introduce this section to levy advance tax on tobacco. It is proposed that the Pakistan Tobacco Board at the time of collecting cess on tobacco shall collect advance tax at the rate of 5% of the purchase value of tobacco from every person purchasing tobacco including manufacturers of cigarettes. The tax so collected shall be treated as an advance tax adjustable against the ultimate tax liability of the purchaser.

14. Advance tax paid by the taxpayer
Section 147

Currently, every taxpayer, excluding those covered under Final Tax Regime, is required to estimate the total tax liability due for the year and deposit quarterly advance tax based on such calculation. However, the quarterly advance tax reporting is not applicable on such individual taxpayer having latest assessed taxable income of less than Rs.500,000.

The Bill proposes to increase the threshold of non-reporting of quarterly advance tax by individuals to Rs.1,000,000.

15. Principles of taxation of companies
Section 94(3)

Presently, the dividend received by a resident person from a non-resident company is chargeable to tax as "income form business" or "income from other sources" unless exempt from tax.

The Bill proposes to omit the Sub-section through which such dividend is taxed as part of income from business or income from other sources. Accordingly, the taxation of dividend received from a non-resident company shall become at par with dividend received from a resident company.

16. Withholding of tax from payments for rendering or providing of services
Section 153, Sub-section (1), Clause (b)

Section 153(1)(b) of the Ordinance obliges a withholding agent to deduct tax from the payment made on account of rendering or providing of services at the rates prescribed in the First Schedule. A controversy arose whether tax is to be withheld where a person collects gross amount of fee or other payment on behalf of another person and remits the same after retaining its charges/ collection fee. As a matter of fact, in the case of Pakistan Television Corporation (PTV), the tax authorities treated it to be in default for not withholding tax at the time when it receives license fee from Electricity Distribution & Supply Companies (DISCOs) which collect such fee from PTV's consumers along with their monthly bills and retain their service charges. PTV was thus disallowed the claim of service charges retained by DISCOs, in terms of section 21(c) of the Ordinance. It was however argued by PTV that section 153(1)(b) only requires withholding of tax at the time of 'payment' of a sum and does not apply to a situation where a person retains its portion of fee from a sum collected on behalf of another person. It was also contented that under section 153 tax is to be 'deducted' and it does not require the tax to be 'collected'. This matter is put to rest by the Hon'ble Supreme Court of Pakistan in its judgment in Civil Petitions No.3551 to 3555 of 2015 through order dated 24 April 2017. While referring to the provisions of section 158 of the Ordinance, which refers to 'payment is actually made' and section 233(2) of the Ordinance, which requires 'tax to be collected' when an agent retains its commission and remits the amount collected by it to the principal, the Court held that since section 153 speaks of 'deduction of tax' and does not require 'collection of tax', the PTV could not be held liable to withhold tax from the service charges the DISCOs retain from the license fee they collect from consumers and remit to PTV.

This judgment has far reaching consequences and is likely to impact revenue collection by way of withholding of tax in transactions that operate in the manner PTV and DISCOs were indulged in. In order to protect the interest of Revenue, the Bill proposes to insert an Explanation in Clause (c) of Sub-section (1) of section 153 whereby if a person receives the payment through an agent or a third person (who retains service charges/ fee, by whatever name called, from the payment remitted to the recipient), the agent or the third person, as the case may be, shall be treated to have been paid the service charges/ fee by the recipient who shall collect tax along with the payment it received.

17. Furnishing of information by financial institutions including banks
Section 165B read with Chapter XIIA of the Income Tax Rules, 2002

Section 165B, which was inserted in the Ordinance via the Finance Act, 2015, obliges every financial institution to make arrangements to provide information regarding non-resident persons to the FBR (in the prescribed form and manner) for the purpose of automatic exchange of information under bilateral agreement or multilateral convention. The term 'financial institution' has been provided in section 2(24) of the Ordinance and refers to the definition as available under the Companies Ordinance, 1984. Recently, via SRO 166(I)/2017 dated 15 March 2017, Chapter XIIA has been inserted in the Income Tax Rules, 2002 whereby Rules 78A to 78J have been prescribed. These Rules contains mode and manner in which the information is to be furnished under section 165B ibid. The definition given in Rule 78B of a "financial institution" appears to be more elaborative and per se, creates an anomaly when compared with the definition provided in the Ordinance.

In order to address this situation, the Bill proposes to insert Sub-section (3) in section 165B which provides that for the purposes of section 165B, the terms "financial institution' and "reportable person" shall have the meaning as contained in Chapter XIIA of the Income Tax Rules, 2002.

18. Tax collected at the time of import
Section 148, Sub-section (7)

Under the provisions of Sub-section (7) of section 148 of the Ordinance, the tax required to be collected under section 148 is treated as a final tax on the income of the importer arising from the imports. However, the provisions of Sub-section (7) are not applicable to the following –

(a) raw material, plant, machinery, equipment and parts by an industrial undertaking for its own use;

(b) fertilizer by manufacturer of fertilizer;

(c) motor vehicles in CBU condition by manufacturer of motor vehicles;

(d) large import houses, who fulfill certain specified conditions; and

(e) a foreign produced film imported for the purposes of screening and viewing.

The Bill now proposes to omit Clause (b) above whereby the tax collected under section 148 on import of fertilizer from a person who is engaged in manufacture of fertilizer would now be treated as a final tax on income arising from import and sale of such fertilizer.

19. Advance tax on private motor vehicles
Section 231B, Clause (102), Part V of the Second Schedule

The Government, since the preceding three years, has consistently adopted the policy of creating a distinction between compliant and non-compliant taxpayers by prescribing higher rates of withholding of taxes in case of non-filers.

Through the Finance Act, 2016, a new Sub-section (1A) was introduced in section 231B providing for withholding of tax from non-filers on lease of motor vehicle from leasing company, scheduled bank, investment bank, development finance institution, or a modaraba.

The Bill seeks to bring clarity and increase the ambit of collection of advance tax from non-filers @ 3% of the value of motor vehicle at the time of lease / ijara of a vehicle by every leasing company, scheduled bank, non- banking financial institution, investment bank, modaraba and development finance institution, whether shariah compliant or under conventional mode of financing.

However, in order to provide incentive to facilitate the lease of motor vehicles under Prime Minister's Youth Scheme in a bid to combat soaring unemployment in the country and to mitigate their hardship, the Bill proposes to exempt collection of advance tax under section 231B in such cases.

20. Taxation of Exploration & Production companies
Section 100, Sub-section (2) read with the Fifth Schedule

The provisions of section 100 provides for taxation of Petroleum Exploration & Production companies to be dealt with by the Rules contained in the Fifth Schedule to the Ordinance. However, Sub-section (2) of section 100 states that the profits and gains attributable to the production of petroleum including natural gas discovered before 24 September 1954 shall not be dealt with by the Fifth Schedule ibid. This relates to the profits and gains from exploration and production of petroleum gas from the Sui Gas field located in Baluchistan, which is the largest natural gas field in Pakistan. Pakistan Petroleum Limited (PPL) is the operator and was working under a mining lease agreement called 'Sui Mining Lease' with the Federal Government. This mining lease expired in 2015 but the PPL was allowed to continue to work as it was under discussions with the Federal Government and the Government of Baluchistan for grant of Development & Production Lease (D&PL) in respect of Sui Gas field.

Since the taxation of profit and gains from Sui Gas field was outside the scope of the Fifth Schedule, and was being dealt with by the normal provisions of law, it was PPL's demand that enabling provisions may be introduced in section 100 ibid. While the matter of grant of D&PL has been finalized in favour of PPL, in order to remove the anomaly as regards taxation of such profit and gains, the Bill proposes to insert a proviso to Sub-section (2) which provides that effective from the tax year 2017, the provisions of Sub-section (2) shall not apply to profit and gains derived from Sui Gas field.

Accordingly, it is proposed that the profit and gains derived from the Sui Gas field shall also be taxed under the provisions of the Fifth Schedule to the Ordinance effective from the tax year 2017.

21. Tax credit for not for profit organizations
Section 100C

The Finance Act, 2014 had omitted the Clauses (58), (58A), (59) and (60), Part I of the Second Schedule to the Ordinance relating to charitable organizations including Welfare Trusts, Non-Profit Organizations, Trusts administered for the benefit and welfare of ex-servicemen and serving personnel including civilian employees of armed forces, ex-employees and service personnel of the Federal and Provincial Governments. Alternatively, Section 100C was inserted whereby such exemptions were allowed subject to fulfilment of certain conditions. Though the text of Section 100C was poorly drafted, however, the conditions specified to claim tax credit equal to 100% of tax payable resulted in such organizations becoming tax compliant and attain 'filer status'.

The Bill proposes to add another condition for claiming tax credit i.e. the administrative and management expenses does not exceed 15% of total receipts. The Bill also proposes to tax 'surplus funds' of such organizations @10%. The term 'surplus funds' has been defined as funds or monies–

- not spent on charitable and welfare activities during the tax year;
- received during the tax year as donations, voluntary contributions, subscriptions, and other incomes;
- 25% or more of total receipts of the NPO received during the tax year;
- are not part of restricted funds.

The term restricted funds mean any fund received but could not be spent and treated as revenue during the year due to any obligations placed by the donor.

The proposal to tax surplus funds is harsh and unjustified for such compliant NPOs/NGOs when the activities of such organizations are being monitored by Pakistan Center for Philanthropy and Tax Commissioner having jurisdiction over such NPOs/NGOs. There cannot be any taxation as long as such funds are being utilized for charitable activity and

Trustees (and/or owners) of such organizations are not drawing any benefit from such surplus funds.

22. Recovery of tax from persons assessed in Azad Jammu & Kashmir and Gilgit Baltistan
Section 146

On 29 August 2009, the GB Order 2009 was promulgated by the Government of Pakistan. By this order, the GB Legislative Assembly has been created, which is an elected body, and this area has gained de-facto province status in the same manner as Azad Jammu & Kashmir.

The Bill proposes to insert the words "Gilgit-Baltistan" after the words 'Azad Jammu & Kashmir' in Section 146 to enable the tax administration (GB Council) to issue a certificate for recovery of tax that remain outstanding in GB from the taxpayer residing in Pakistan in the same manner as is done in case of AJ&K.

23. Statements
Section 165

Currently the Ordinance does not empower the taxpayer / withholding agent to revise monthly withholding tax statement even if an omission or wrong statement is identified. The FBR web-portal also does not cater to the option for revision of monthly withholding tax statement.

The Bill proposes to insert a Sub-section whereby any withholding agent who after filing of such statement discovers any omission or wrong statement shall be able to file revised statement within 60 days of filing of the original statement.

24. Advance tax on sale/ purchase or transfer of immovable property
Section 236C; Section 236 K and Section 236W

The Bill seeks to add a proviso after the existing Sub-section (2) to Section 236C, to treat the tax collected as minimum tax if the immovable property is acquired and disposed of within the same tax year. It may however be noted that the proposed proviso refers to acquisition and disposal within the same tax year therefore any immovable property acquired in one tax year and disposed of in another year (within a period of 12 months) shall not be covered within the proposed proviso and such tax collected shall remain advance tax rather than being treated as minimum tax.

Moreover, to remove any anomaly and to provide wider coverage on the collection of advance tax on sale or transfer of immovable property, the word 'recording' is proposed to be inserted after the word 'registering' in Section 236C, Section 236K and Section 236W of the Ordinance.

The explanation proposed to be inserted also provides clarity regarding the responsibility of such advance tax collection on registering, recording or attesting any immovable property by local authority, housing authority, housing society, co-operative society and registrar of properties.

25. Advance tax on sales to distributors, dealers & wholesalers and retailers
Section 236G & 236H

Currently every manufacturer, distributor, dealer, wholesaler or commercial importer of the following items is required to collect advance tax on sale of such items to distributors, dealers, retailers and whole sellers at varying rates ranging from 0.1% to 1.4% on the gross amount of sales –

(a) electronic;
(b) sugar;
(c) cement;
(d) iron and steel products;
(e) fertilizer;
(f) motorcycles;
(g) pesticides;
(h) cigarettes;
(i) glass;
(j) textile;
(k) beverages;
(l) paint; or
(m) foam.

The Bill proposes to add 'batteries' to the list of specified items.

26. Validation
Section 241

The Bill proposes to insert a new section whereby all notifications and orders issued and notified, in exercise of the powers conferred upon the Federal Government, before first day of July 2017 shall be deemed to have been validly issued and notified in exercise of the powers, not withstanding, anything contained in any judgment of a High Court or the Supreme Court.

The proposed insertion is made to address the consequences arising from the judgment of Honorable

Supreme Court of Pakistan on Article 90 of the Constitution of Islamic Republic of Pakistan subsequent to the 18th Constitutional amendment in April 2010, which regulates the authority of the Federal Government.

27. Appointment of the Appellate Tribunal
Section 130

The Appellate Tribunal is said to be the final fact finding authority under the tax appellate system of the country. Any decision given by the Appellate Tribunal deciding a matter of fact is not challengeable before the High Courts and the Supreme Court of Pakistan. Since inception, the composition of a division bench of the Appellate Tribunal includes a Judicial Member and an Accountant Member. The idea of having a judicial member as well as an Accountant Member was there because a tax case involves both legal interpretation and application of the provisions of the tax laws vis-à-vis examination of the accounting treatment of the disputed transaction.

Before the Finance Act, 2007, a person could be appointed as an Accountant Member if he has been an officer of the Income Tax Department having a rank of Chief Commissioner (BPS 21). The Finance Act, 2007 expanded this criteria to qualify a Commissioner or a Commissioner (Appeals) having atleast 5 years' experience as a Commissioner, to become an Accountant Member. Thereafter, the Finance Act, 2010 curtailed the qualifying experience of a Commissioner from 5 years to 3 years. These changes have resulted in affecting the performance of the Appellate Tribunal with the result that the landmark judgments that were rendered by the Appellate Tribunal on various issues are seen quite seldom.
On the other hand, the criteria of becoming a Judicial Member was that the person:

a) has exercised the powers of a District Judge and is qualified to be judge of a High Court; or

b) is or has been an advocate of a High Court and is qualified to be a judge of the High Court.

From the above, it can be seen that only such person was qualified to become a Judicial Member who is qualified to be judge of a High Court. However, the Finance Act, 2013 disturbed the above criteria of appointment of a Judicial Member as it enabled a person who is an officer of Inland Revenue Service in BS-20 or above, and a law graduate.

The above amendment was not given a warm welcome by the law fraternity as well as by the tax professionals at large. This has also effected the composition of the Division Benches, for, a person capable of becoming a Judge of a High Court cannot be equated with an Officer of Inland Revenue Service be him a law graduate and an Officer Inland Revenue in BS-20 or above.

The Bill now proposes to restore the criteria prevalent before the amendment made through the Finance Act, 2013 as discussed above.

As a result of the proposed amendment, the criteria of appointment of a Judicial Member to also include a person who is an Officer of Inland Revenue Service in BS-20 or higher, and a law graduate, is now proposed to be omitted.

28. District Taxation Officer and Assistant Director Audit
Sections 2(38A), 207, and 208

The Bill intends to introduce two new income tax authorities viz; District Taxation Officer and Assistant Director Audit. Appropriate amendments have been proposed in the sections dealing with income tax authorities and appointment thereof.

Similarly, the definition of "Officer of Inland Revenue" is proposed to be amended to include the aforesaid authorities.

However, it remains to be seen what powers and or parameters are assigned to the said authorities.

29. Tax on builders and developers
Sections 7C, 7D, and 8

It would be recalled that the Finance Act 2016 introduced a scheme of Final Taxation for land builders and developers in relation to projects initiated and approved after 01 July 2016. For this purpose, Part IV was introduced in Chapter II of the Rules, wherein the mode and manner of payment of tax liability, by such taxpayers, was also prescribed.

The Bill now proposes that Normal Tax Regime be reintroduced for such taxpayers. Accordingly section 8 has been amended to exclude sections 7C, and 7D from the scheme of final taxation. Correspondingly, it is also proposed that sections 7C, and 7D would apply only on projects initiated and approved during tax year 2017. Thus, for such projects the tax liability would continue to be determined in accordance with Divisions VIIIA and VIIIB of Part I of First Schedule to the Ordinance, based on their location and area.

Accordingly, projects initiated and approved from tax year 2018 onwards would be taxed as per the normal tax regime.

30. Tax credit for investment in health insurance
Section 62A

The maximum limit for calculation of tax credit for investment in health insurance is proposed to be enhanced from Rs.100,000 to Rs.150,000.

31. Withdrawal of tax credit to a person registered under the Sales Tax Act
Section 65A

Section 65A offers a tax credit of 3% of tax payable for a tax year to every manufacturer who makes at least 90% of the sales to persons registered under the Sales Tax Act. The Bill now proposes to withdraw this tax credit.

At a time when the Government aims to actively follow a policy of increased focus on documentation of economy, such a proposal to withdraw an incentive for doing business with registered persons appears to be in complete contrast with the stated policy.

Therefore, we recommend that the legislature revisits its proposal to withdraw the tax incentive.

32. Enhancement in tax credit for enlistment
Section 65C

Section 65C offers a tax credit equal to 20% of tax payable to every company who enlists on the registered stock exchange in Pakistan. The tax credit is allowed for the tax year in which the said company is enlisted and the following tax year.

The Bill now proposes to extend the period of tax credit to 3 tax years following the year of enlistment. However, the tax credit is proposed to be 10% in the last 2 years.

33. Prosecution for non-compliance with certain statutory obligations
Section 191

Section 191 deals with the prosecution for non-compliance with certain statutory obligations. The said section prescribes a fine or imprisonment for a term not exceeding 1 year (or both) for a first offense and a fine not exceeding Rs.50,000 or imprisonment for a term not exceeding 2 years (or both) for a second offense.

The Bill proposes that section 191 would also apply in case of a failure to file a return on a notice from the Commissioner under section 114(4) or in case advance tax under Chapter XII has not been collected by required persons.

34. Withdrawal of concept of provisional assessment
Sections 122C, 114, 116, 121, 122, 127, and 137

Finance Act 2010 introduced section 122C which empowered the Commissioner to make a provisional assessment where a taxpayer failed to furnish a return of income in response to a notice by the Commissioner. Furthermore, pursuant to the amendments enacted by the Finance Act 2011, a taxpayer could not file an appeal with the Commissioner Appeals, against such a provisional assessment.

In order to alleviate the hardship being faced by various taxpayers who are unable to file a return of income within 45 days on account of genuine reasons and have no remedy against such order, the concept of provisional assessment is proposed to be withdrawn. Correspondingly, an amendment is also proposed in section 121 whereby in case a taxpayer fails to furnish a return of income in response to a notice by the Commissioner, the Commissioner may make an assessment on the basis of best judgement.

Consequential amendments are also proposed in certain sections to remove the reference to section 122C.

35. List of persons not required to furnish a return of income
Section 115

As a general rule, if a person owns immovable property, he is required to file a return of income pursuant to section 114. However, section 115 provided an exception to this general principle whereby widow, orphan under the age of 25 years, disabled person, or in case of ownership of immovable property- a non-resident person, were permitted not to file a return of income solely for the reason that such taxpayers owned immovable property with a land area of 250 sq. yards or more, or owned any flat located in areas falling within the municipal limit existing immediately before the commencement of local Government laws in the province; or areas in a cantonment; or the Islamabad capital territory.

The Bill now proposes to further extend the list of circumstances where such persons are permitted not to file a return of income, to include such person who :

- owns imovable property with a land area of 500 sq. yards or more, located in a rating area;
- owns a flat having covered area of 2,000 sq. feet or more, located in a rating area;
- owns a motor vehicle having engine capacity above 1,000CC.

36. Timing of revision of Wealth Statement
Section 116

Currently, a taxpayer can amend his wealth statement for a tax year to which it relates, at any time before an assessment is made under subsection (1) or subsection (4) of section 122.

The Bill now proposes that the wealth statement can only be revised prior to the receipt of a notice for amendment of assessment under section 122.

37. Extension of time for furnishing of return and other documents
Section 119

Currently only the Commissioner can grant an extension of time for furnishing of return and other documents. The Bill now proposes that where the Commissioner has not granted the extension, the Chief Commissioner may, on application made by the taxpayer, grant extension or further extension for a period not exceeding 15 days, unless there are exceptional circumstances justifying a longer extension of time.

38. Advance ruling
Section 206A

Per section 206A, a non-resident can seek an advance ruling from the FBR regarding the application of the Ordinance to a transaction proposed or entered into by the taxpayer. Such a ruling is binding on the tax authorities. However, currently only non-residents not having a Permanent Establishment are allowed to obtain an advance ruling.

The Bill now proposes to omit the proviso which restricts non-residents having a Permanent Establishment from obtaining an advance ruling. In our view, this is a positive initiative from the legislators and should be extended to resident persons as well.

39. Disclosure of information by a public servant
Section 216

The Bill proposes to allow the sharing of information regarding salaries in statements furnished under section 165 with the Employees Old Age Benefit Institution.

40. Tax on CNG stations
Section 234A

Currently, persons preparing gas consumption bill, are required to charge advance tax on the amount of gas bill of a CNG station and such tax is a final tax on the income of a CNG station arising from the consumption of such gas.

The Bill now proposes to amend this section by inserting an explanation which clarifies that the advance tax is to be collected on an amount inclusive of sales tax and all incidental charges. Further, the Bill seeks to provide that the tax collected from CNG station in respect of their electricity bill is also not adjustable.

Furthermore, currently as per subsection (4), the taxpayer is not entitled to claim any adjustment of withholding tax collected or deducted under any other head. The Bill now proposes to omit this subsection.

41. Advance tax on commercial & domestic electricity consumption
Sections 235 and 235A

Currently, persons preparing the electricity consumption bill, are required to charge advance tax on the amount of electricity bill of commercial and domestic electricity users.

The Bill now proposes to insert an explanation which clarifies that the advance tax is to be collected on an amount inclusive of sales tax and all incidental charges.

Furthermore, in relation to non-corporate commercial and industrial consumers of electricity, the tax collected for bills not exceeding Rs.30,000 per month is deemed as a minimum tax. With a view to synchronize the taxability provisions over the period of a tax year, the Bill proposes to harmonize the per month amount of Rs.30,000 into an annual figure of Rs.360,000.

42. Definitions - Fast moving consumer goods
Section 2(22A)

It would be recalled that the concept of "Fast moving consumer goods" (FMCG) was introduced through the Finance Act, 2015 viz-a-viz deduction of tax on payments pursuant to section 153. Per section 2(22A), the expression FMCG means consumer goods which are supplied in retail marketing as per daily demand of a consumer.

The Bill seeks to restrict the scope of definition of FMCG by excluding durable goods from the ambit of the definition of FMCG. The expression durable goods has not been defined and therefore would again leave margin of judgement for both the taxpayers and tax authorities. Therefore, it is recommended that the definition of durable goods should also be provided in order to avoid interpretation issues.

43. Interest on loan given by employer to employee
Section 13, Sub-section (7)

The benefit arising to an employee on account of an interest-free or concessional loan provided by the employer is treated as a taxable prerequisite in the hands of the employee. Where no mark-up is charged or the mark-up charged on the loan is less than the benchmark rate, the differential amount is deemed as a taxable benefit to the employee and taxed accordingly.

It would be noted that through an earlier amendment introduced in this Sub-section through Finance Act, 2012, an exception was provided whereby notional taxation of mark-up under the aforesaid provision would not apply in cases where the loan does not exceed Rs.500,000.

The Bill now seeks to enhance the above loan limit of Rs.500,000 to Rs.1,000,000.

44. Limit on claim of sales promotion, advertisement and publicity expenses by pharmaceutical manufactures
Clause (o) of Section 21

Through the Finance Act, 2016, Clause (o) to Section 21 was inserted whereby restriction was imposed on a pharmaceutical manufacturer in respect of the claim of sales promotion, advertisement and publicity expenditure upto a maximum of 5 percent of turnover.

The Bill now seeks to enhance the capping of 5 percent to 10 percent of the turnover.

45. Exemption and tax concessions – Second Schedule
Section 53, Sub-section 2 and 4

Presently, the Federal Government, pursuant to the approval of the Economic Coordination Committee of the Cabinet, is empowered to amend the Second Schedule to the Ordinance in order to provide or withdraw exemptions and tax concessions or to provide conditions in respect thereof. All such amendments made during the financial year are required to be placed before the National Assembly for ratification. However, in case such notification issued by the Federal Government is not ratified by the Parliament, it stands rescinded at the end of the financial year in which it was issued. Keeping in view the long drawn process of getting the exemptions legislated, the said powers of the federal Government and the procedure thereof was criticized by different quarters. In order to address the concern, the Bill proposes to empower the FBR to grant exemptions and concessions subject to the approval of the Minister Incharge of the Federal Government. Such an amendment, in our view, will streamline the process of exemption and tax concession.

Further, in relation to the time bound validity of the exemption issued by the Federal Government that have not received ratification from the Parliament, the Bill proposes to sanction their validity uptil 30 June 2018.

46 Deductible allowances
Section 64A and 64AB

The deductible allowances are currently provided under Part IX of Chapter III of the Ordinance which presently include Zakat, Workers' Welfare Fund and Workers' Participation Fund under sections 60, 60A and 60B respectively.

Further, the deductible allowance on profit on debt and for education expenses are currently provided separately under Part X of Chapter III dealing with tax credits under section 64A and 64AB respectively.

The Bill now seeks to harmonize the arrangement of sections dealing with deductible allowance and therefore, deductible allowance on profit on debt and for education expense are proposed to be re-numbered as 60C and 60D under Part IX of Chapter III.

Further the allowance for education expenses is available to an individual whose taxable income is less than 1 million. This capping has now been enhanced to 1.5 million.

47. Commissioner authorized to delegate powers to a firm of Chartered Accountants, Cost and Management Accountants for tax audit
Clause (c) of Sub-section 1 of Section 176

Currently, under section 210(1B) of the Ordinance, the Commissioner is empowered to delegate to a firm of chartered accountants and a firm of cost and management accountants appointed by the Board pursuant to Sub-section 8 of section 177, such powers to enable the firm to conduct the audit of persons selected for audit under section 177.

Pursuant to the above delegation, appropriate/ suitable amendment was also made through Finance Act, 2009 in Clause (c) Sub-section 1 of Section 176 for obtaining information, records or computer on which the required information is stored, only to a firm of chartered accountants.

This creates an anomaly although on one hand a firm of cost and management accountants can be appointed by the Board to conduct audit under section 177 of the Ordinance, however, they are not authorized to obtain relevant information required in connection with audit under the existing provisions of section 176.

The Bill now seeks to remove the aforesaid anomaly and it is proposed to include a firm of cost and management accountants as defined under the Cost and Management Accountants Act, 1966, appointed by the Board to conduct audit under section 177, is authorized, subject to prior approval of Commissioner concerned, to obtain information, records or computer on which the required information is stored.

48. Default Surcharge
Section 205(1B)

Under the existing provisions of Sub-section 1B of Section 205, in the event of failure to pay the advance tax under Sub-sections 4A or 6 of Section 147 of the Ordinance, or the tax paid falls short of ninety percent of the tax eventually determined to be chargeable for the relevant tax year, such taxpayer shall be liable to default surcharge at the rate of 12 percent per annum, based on the eventual tax liability or the amount of the shortfall, in such advance tax payment, as the case may be. The default surcharge as aforesaid shall be computed from the first day of April of that tax year until the date of assessment or the thirtieth day of June of the financial year, whichever be the earlier.

The aforesaid computation of default surcharge provides a discriminatory treatment for taxpayers following special year as their accounting year, which is demonstrated as per the following illustration

	Tax Year 2016	Tax Year 2016
Accounting Year	01 January 2015 to 31 December 2015	01 July 2015 to 30 June 2016
Period of default	15 months *(01 April 2015 to 30 June 2016)	12 months *(01 April 2015 to June 2016)

**Method of calculating the period of default is based on earlier of –*

- *01 April in that year to the date of assessment (i.e. the date on which return is filed) OR;*
- *01 April in that year to 30 June of the financial year next following.*

In view of the above discriminatory treatment clarification was also sought for from the Federal Board of Revenue (FBR). The FBR while providing clarification in case of a banking company has directed to work out the period of default in case of taxpayers following special tax year to be from the first day of December in that special tax year to the date on which assessment is made or thirty-first day of December next following, whichever is earlier. However, the assessing officers while levying default surcharge in cases of taxpayers following special tax year continued following the discriminatory treatment based on the existing provisions, which is causing unnecessary litigation.

The Bill now seeks to eliminate the above anomaly in the existing provisions of section 205(1B) and it is now proposed to calculate the default surcharge in case of persons having a special tax year from the 01 day of the fourth quarter of the special tax year till the date on which the assessment is made or the last day of special tax year, whichever is earlier.

49. Directorate General of Broadening of Tax Base
Section 230D

The Bill seeks to introduce a Directorate General of Broadening of Tax Base. The Board shall notify the functions, jurisdictions and powers of such directorate.

50. Directorate General of Transfer Pricing
Section 230E

The Bill seeks to introduce a Directorate General of Transfer Pricing which shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers.

The primary function of the Directorate General is to conduct transfer pricing audit. The Bill also seeks to provide explanation regarding transfer pricing audit to mean the audit for determination of transfer price at arm's length in transactions between associates and which would be independent from other audits of income tax affairs of the taxpayers that are conducted under sections 177, 214C and 214D.

It is further proposed that the Board may by notification in the official Gazette, specify the criteria for selection of taxpayer for a transfer pricing audit and may further specify functions, jurisdiction and powers of Directorate – General of Transfer Pricing. Considering the growing global emphasis, the intricacy of the issues involved in transfer pricing compliances and ensuring transparency between transactions between related parties, it is imperative that the person appointed as Directorate General should be well versed with the transfer pricing rules and regulations and is fully conversant with the global practices that are being employed with regard to determination of transactions between related parties meeting the arm's length principles.

THE FIRST SCHEDULE

51. **Rates of tax for individuals and Association of Persons**

The rates of tax chargeable for the tax year 2018 (corresponding to the income year ending at any time between 01 July 2017 to 30 June 2018) and basic threshold have remained unchanged, and are as under:

Salaried taxpayers

Salaried taxpayers	Rate
Up to Rs.400,000	Nil
Rs.400,001 - 500,000	2% of excess over Rs.400,000
Rs.500,001 - 750,000	Rs.2,000 + 5% of excess over Rs.500,000
Rs.750,001 - 1,400,000	Rs.14,500 + 10% of excess over Rs.750,000
Rs.1,400,001 - 1,500,000	Rs.79,500 + 12.5% of excess over Rs.1,400,000
Rs.1,500,001 - 1,800,000	Rs.92,000 + 15% of excess over Rs.1,500,000
Rs.1,800,001 - 2,500,000	Rs.137,000 + 17.5% of excess over Rs.1,800,000
Rs.2,500,001 - 3,000,000	Rs.259,500 + 20% of excess over Rs.2,500,000
Rs.3,000,001 - 3,500,000	Rs.359,500 + 22.5% of excess over Rs.3,000,000
Rs.3,500,001 - 4,000,000	Rs.472,000 + 25% of excess over Rs.3,500,000
Rs.4,000,001 - 7,000,000	Rs.597,000 + 27.5% of excess over Rs.4,000,000
Over Rs.7,000,000	Rs.1,422,000 + 30% of excess over Rs.7,000,000

Non-salaried taxpayers

Non-Salaried taxpayers	Rate
Up to Rs.400,000	Nil
Rs.400,001 - 500,000	7% of excess over Rs.400,000
Rs.500,001- 750,000	Rs.7,000 + 10% of excess over Rs.500,000
Rs.750,001- 1,500,000	Rs.32,000 + 15% of excess over Rs.750,000
Rs.1,500,001 - 2,500,000	Rs.144,500 + 20% of excess over Rs.1,500,000
Rs.2,500,001 - 4,000,000	Rs.344,500 + 25% of excess over Rs.2,500,000
Rs.4,000,001 - 6,000,000	Rs.719,500 + 30% of excess over Rs.4,000,000
Over Rs.6,000,000	Rs.1,319,500 + 35% of excess over Rs.6,000,000

52. **Rates of tax for companies**

Rates of tax for companies, for the tax year 2018 are as under:

Companies	Rate
Public and Private	30%
Cooperative and Finance Society	30%
Banking	35%
Small	25%

53. **Rate of Super tax for rehabilitation of temporarily displaced persons**

Rates of super tax for rehabilitation of temporarily displaced persons under Section 4B (which is proposed to be extended for the tax year 2017) remains unchanged, are as under:

Taxpayer	Rate
Banking Company	4%
Person, other than a banking company, having income of Rs.500 million or more	3%

54. **Rate of withholding and charge of tax on dividend income**

Rate of withholding and charge of tax on dividend received by all taxpayers for the tax year 2018 remains unchanged except for others (filer), are as under:

Dividend from	Rate		
	Filer		Non-Filer
	Existing	Proposed	
Companies owning power project privatized by WAPDA, companies set-up for power generation and companies supplying coal, exclusively to power generation projects	7.5%	7.5%	7.5%
Others	12.5%	15%	20%
Mutual Fund (Stock Fund)	10%	12.5%	12.5%
Stock fund, if dividend receipts are less than capital gains	12.5%	12.5%	12.5%
Money Market Fund, Income Fund or REIT scheme or any other fund* • Company • Other taxpayers	 25% 10%	 25% 12.5%	 25% 15%

*Provided further that if a Development REIT Scheme with the object of development and construction of residential buildings is set up by 30th day of June, 2018, rate of tax on dividend received by a person from such Development REIT Scheme shall be reduced by fifty percent for three years from 30th day of June, 2018.

55. **Rate of tax on profit on debt**

The Bill propose to provide the slab rate for tax on profit on debt for the tax year 2018 by withdrawing the scheme of progressive rate of taxation applicable in the tax year 2017. Accordingly, the schedule of existing rate of tax on profit on debt is replaced. The proposed rates of tax are as under:

Profit on debt	Rate
Where profit on debt does not exceed Rs.5,000,000	10%
Where profit on debt exceeds Rs.5,000,001 but does not exceed Rs.25,000,000	12.5%
Where profit on debt exceeds Rs.25.000,000	15%

56. **Rate of Tax on Return on investments in Sukuks received from a special purpose vehicle.**

Rate of tax on return on investments in Sukuks received from a special purpose vehicle have remained unchanged and are as under:

Sukuks Holder	Amount of return on investment	Rates
Company	Any amount	25%
Individual or AOP	More than one million	12.5%
Individual or AOP	Less than one million	10%

57. **Rates of tax for non-resident taxpayers for certain transactions**

The applicable rate of tax for tax year 2018 on certain income of non-residents remains unchanged, is as under:

Type of payment	Rate (%)	
	Existing	Proposed
Technical services fee	15%	No change
Royalty	15%	No change
Shipping income	8%	No change
Air transport income	3%	No change

58. **Income from property**

The rate of tax on income from property in the case of individual and AOPs have remained unchanged as under:

Gross amount of rent	Rate
Up to Rs.200,000	Nil
Rs.200,001 to 600,000	5% of the amount exceeding Rs.200,000
Rs.600,001- 1,000,000	Rs.20,000 plus 10% of the amount exceeding Rs.600,000
Rs. 1,000,001- 2,000,000	Rs.60,000 plus 15% of the amount exceeding Rs.1,000,000
Over Rs.2,000,000	Rs.210,000 + 20% of the amount exceeding Rs.2,000,000

The above rates also apply for the purpose of withholding of tax from rent of immovable property.

The withholding tax rates in the case of a company for filers remain unchanged at 15% while for non-filers the proposed rate is 17.5%.

59. **Rates of tax on capital gains on securities**

The rate card for levying tax on capital gains arising on sale of securities as referred to in Section 37A is proposed to be replaced as under:

Holding period	Tax Year			
	2017		2018	
	Filer	Non-filer	**Filer**	**Non-Filer**
Less than 12 months	15%	18%	15%	20%
More than 12 months but less than 24 months	12.5 %	16%		
More than 24 months but then security was acquired on or after 01 July 2013	7.5%	11%		
Where the security was acquired before 01 July 2013	0%	0%	0%	0%
Future commodity contracts entered into by the members of Pakistan Mercantile Exchange.	5%	5%	5%	5%

60. **Rate of tax on capital gain on immovable property**

Rates of tax on capital gain on immovable property are unchanged, as under:

Holding period of immovable property		Rate
Immovable property allotted to persons mentioned in Sub-section (4) of section 236C. This applies to dependent of a Shaheed belonging to Pakistan Armed Forces or a person who dies while in the service of the Pakistan Armed Forces or the Federal/ Provincial Government	Any holding period	0%
Immovable property acquired on or after 01 July 2016	Up to 1 year	10%
	Equal to or more than 1 year but less than 2 years	7.5%

Holding period of immovable property		Rate
	Equal to or more than 2 years but less than 3 years	5%
	More than 3 years	0%
Immovable property acquired before 01 July 2016	Up to 3 years	5%
	More than 3 years	0%

61. **Minimum Tax**

The rates of minimum tax as a percentage of the taxpayers' turnover have remained unchanged except for 'In all other cases', the rates are as under:

Taxpayer	Existing	Proposed
a) Oil marketing companies, oil refineries, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (where annual turnover exceeds Rs.1 billion) b) Pakistan International Airlines Corporation c) Poultry industry including breeding, broiler production, egg production, feed production d) Dealers or distributors of fertilizers	0.5%	No change
a) Distributors of pharmaceutical products, fast moving consumer goods and cigarettes b) Petroleum agents and distributors registered under the Sales Tax Act, 1990 c) Rice mills and dealers d) Flour mills	0.2%	No change
Motorcycle dealers registered under the Sales Tax Act 1990	0.25%	No change
In all other cases	1%	1.25%

62. **Advance tax on imports**
There is no change in respect of rate of collection at import stage, the rates are as under.

Taxpayer	Rate % (of import value as increased by customs duty, sales tax and federal excise duty)	
	Filer	Non-filer
Industrial undertaking importing remeltable steel (PCT Heading 72.04) and directly reduced iron for its own use	1%	1.5%
Persons importing plastic fertilizers in pursuance of Economic Coordination Committee of the cabinet's decision No. ECC-155/12/2004 dated 9 December 2004	1%	1.5%
Persons importing urea	1%	1.5%
Manufacturers covered under Notification No. S.R.O. 1125(I)/2011 dated 31 December 2011	1%	1.5%
Proposes to insert Persons importing Gold; and	1%	1.5%
Proposes to insert Persons importing Cotton	1%	1.5%
Persons importing pulses	2%	3%
Commercial importers covered under Notification No. S.R.O. 1125(I)/2011 dated 31 December 2011	3%	4.5%
Ship breakers on import of ships	4.5%	6.5%
Industrial undertakings not covered above	5.5%	8%
Companies not covered above	5.5%	8%
Persons not covered above	6%	9%

63. **Advance tax on profit on debt**

The advance tax rate remains unchanged at 10% for filer and 17.5% for non-filers (10% if the yield or profit paid is below Rs. 500,000.)

64. **Advance Tax on Return on investments in Sukuks received from a special purpose vehicle.**

Rate of withholding tax to be applied on payments made to investors in relation to return on Sukuks have remained unchanged as under:

Sukuks Holder	Rates
Company	15%
Individual or AOP (More than one million)	12.5%
Individual or AOP (Less than one million)	10%
Non-filers	17.5%

65. **Payments to non-residents**

The withholding tax rates on payments to non-residents remains unchanged except for withholding tax rates in case of non-filers on certain payments are as under

Type of payment	Rate (%)	
	Existing	Proposed
Technical services fee	15%	No change
Royalty	15%	No change
Shipping income	8%	No change
Air transport income	3%	No change
Execution of a contract - contract or sub-contract under a construction, assembly or installation project in Pakistan, including a contract for the supply of supervisory activities in relation to such project. • Filer • Non-Filer	 7% 12%	 No change 13%

Type of payment	Rate (%)	
	Existing	Proposed
Insurance premium / re-insurance premium	5%	No change
Others (excluding those specifically mentioned herein)	20%	No change
Advertisement services to a media person relaying from outside Pakistan	10%	No change
Receipt on account of sale of goods by a PE of a non-resident in Pakistan • Company ○ Filer ○ Non-filer • Other Taxpayers ○ Filer ○ Non-filer	 4% 6% 4.5% 6.5%	 No change 7% No change 7.5%
Receipt on account of rendering of services through a PE • Transport services • Other than transport (if company) ○ Filer ○ Non-filer • Others (excluding those mentioned herein) ○ Filer ○ Non-filer	 2% 8% 12% 10% 15%	 No change No change 14% No change 17.5%
Receipt on account of execution of contract through a PE other than a contract for sale of goods or rendering of services • Sports person • Other person ○ Filer ○ Non-filer	 10% 7% 12%	 No change No change 13%

66. **Advance income tax on payment to resident on payments for goods, services and execution of contract**

The rate of withholding tax on account of sale of rice, cotton seed or edible oils and supplies made by the distributor of fast moving consumer goods are as under:

	Rate	
	Existing	Proposed
Sale of rice, cotton seed or edible oils	1.5%	No change in rate – explanation added
Supplies made by distributers of fast moving consumer goods • Company • Other than company	 3% 3.5%	 2% 2.5%

The Bill seeks to include an explanation that "For the removal of doubt, it is clarified that cotton seed and edible oils means cotton seed oil and edible oils".

The Bill seeks to enhance the rate of withholding tax for non-filer when making payments on account of goods and services are proposed to be as under:

	Rate		
	Existing		Proposed
	Filer	Non filer	Non filer
For supply of goods - Company - Other than company	 4% 4.5%	 6% 6.5%	 7% 7.75%
Transport services	2%		No change
Rendering of or providing of services - Company - Other than company	 8% 10%	 12% 15%	 14.5% 17.5%
Electronic and print media advertising services - Company - Other than company	 1.5% 1.5%	 12% 15%	 No change No change
On the execution of contract • Company • Other than company	 7% 7.5%	 10% 10%	 12% 12.5%

67. **Exports**

Rate of collection of advance tax for exports, indenting commission and services to export house remains unchanged as under

Export proceeds Proceeds from sale of goods to an exporter under an inland back-to-back letter of credit or any other arrangement	1% of export proceeds
Export of goods by an industrial undertaking located in an Export Processing Zone	1%
Collection by collector of customs at the time of clearing of goods exported	1%
Indenting commission	5%

68. **Tax on prize and winnings**

The Bill seeks to enhance the rate of withholding tax for non-filer on a prize on prize bond and cross-word puzzle and the rate of tax on prize on winnings as under:

	Rate		
	Filer	Non-filer	
	Existing	Existing	Proposed
Prize on prize bond and cross-word puzzle	15%	20%	25%
Winnings from a raffle, lottery, prize on winning a quiz, prize offered by a company for promotion of sale	20%	20%	No Change

69. **Tax on Petroleum Products**

The Bill seeks to enhance the rate of withholding tax for non-filer as under:

	Rate		
	Filer	Non-filer	
	Existing	Existing	Proposed
Petroleum products	12%	15%	17.5%

70. **Tax on CNG Station**

The withholding tax rate in the case of a Compressed Natural Gas station for filers remain unchanged at 4%, while for non-filers the proposed rate is 6%

71. **Collection of advance income tax on Brokerage and Commission**

The rate for collection of advance tax remains unchanged as under.

	Rate	
	Filers	Non-filers
For advertising agents	10%	15%
Life insurance agent where commission received is less than Rs.500,000 per annum	8%	16%
Persons not covered above	12%	15%

72. **Rates for collection of tax by a Stock Exchange registered in Pakistan**

The rate for collection of advance tax remains unchanged as under.

S.No.	Description	Rate
1.	Purchase of shares as per Clause (a) of Sub-section (1) of Section 233A	0.02% of purchase value
2.	Sale of shares as per Clause (b) of Sub-section (1) of section 233A	0.02% of sale value

73. **Collection of tax by NCCPL**

The rate of collection by NCCPL on profit or markup or interest earned by the member, margin financier or securities lender remains unchanged at 10%.

74. **Collection of tax on motor vehicles**

The rate of collection of tax remains unchanged as under.

Passenger transport vehicle having Capacity	Rs per seat per annum	
	Filer	Non-Filer
Four or more persons but less than ten persons.	50	100
Ten or more persons but less than twenty persons	100	200
Twenty persons or more	300	500

Private motor vehicle Engine Capacity	For filers	For non -filers
Upto 1000cc	Rs.800	Rs.1,200
1001cc to 1199cc	Rs.1,500	Rs.4,000
1200cc to 1299cc	Rs.17,50	Rs.5,000
1300cc to 1499cc	Rs.2,500	Rs.7,500
1500cc to 1599cc	Rs.3,750	Rs.12,000
1600cc to 1999cc	Rs.4,500	Rs,15,000
2000cc to & above	Rs.10,000	Rs.30,000

Motor vehicle having Engine Capacity (collected in lump sum)	For filers	For non -filers
Upto 1000cc	Rs.10,000	Rs.10,000
1001cc to 1199cc	Rs.18,000	Rs.36,000
1200cc to 1299cc	Rs.20,000	Rs.40,000
1300cc to 1499cc	Rs.30,000	Rs.60,000
1500cc to 1599cc	Rs.45,000	Rs.90,000
1600cc to 1999cc	Rs.60,000	Rs,120,000
2000cc to & above	Rs.120,000	Rs.240,000

75. **Collection of tax on electricity consumption**

The Bill seeks to insert the word 'gross' with the amount of electricity bill. The rate for tax has remained unchanged as under.

	Tax Amount
does not exceed Rs.400	Rs.0
exceeds Rs.400 but does not exceed Rs. 600	Rs.80
exceeds Rs.600 but does not exceed Rs. 800	Rs.100
exceeds Rs. 800 but does not exceed Rs.1000	Rs.160
exceeds Rs.1000 but does not exceed Rs.1500	Rs.300
exceeds Rs.1500 but does not exceed Rs.3000	Rs.350
exceeds Rs.3000 but does not exceed Rs.4500	Rs.450
exceeds Rs.4500 but does not exceed Rs.6000	Rs.500
exceeds Rs.6000 but does not exceed Rs. 10000	Rs.650
exceeds Rs.10000 but does not exceed Rs.15000	Rs.1000
exceeds Rs.15000 but does not exceed Rs.20000	Rs.1500
exceeds Rs.20000	i. At the rate of 12% for commercial consumers ii. At the rate of 5% for industrial consumers

76. **Collection of Advance Tax on Telephone Users**

The bill seeks to reduce the rate of withholding tax on subscriber of internet, mobile telephone and pre-paid internet or telephone card. The rate of tax are as under.

	Rate	
	Existing	Proposed
Telephone subscriber where the amount of monthly bill exceeds Rs.1,000	10% of exceeding amount	No change
Subscriber of internet, mobile telephone and pre-paid internet or telephone card.	14% of the amount of bill or sales price	12.5% of the amount of bill or sales price

77. **Collection of tax on cash withdrawal from bank**

The rate of collection of tax on cash withdrawal from bank remains unchanged for filer at 0.3% and 0.6% for non-filers.

78. **Collection of advance tax on transaction in bank**

The rate of collection of tax on transaction in bank remains unchanged for filer at 0.3% and 0.6% for non-filers.

79. **Advance tax on purchase, registration and transfer of Motor Vehicles**

The Bill proposes to reduce the advance tax on few slabs of filer on purchase and registration of Motor Vehicles as per the following rates:

Engine capacity	Amount of tax		
	Filer		Non-filers
	Existing	Proposed	
Up to 850cc	Rs.10,000	Rs.7,500	Rs.10,000
851cc - 1000cc	Rs.20,000	Rs.15,000	Rs.25,000
1001cc - 1300cc	Rs.30,000	Rs.25,000	Rs.40,000
1301cc - 1600cc	Rs.50,000	No change	Rs.100,000
1601cc - 1800cc	Rs.75,000	No change	Rs.150,000
1801cc - 2000cc	Rs.100,000	No change	Rs.200,000
2001cc - 2500cc	Rs.150,000	No change	Rs.300,000

Engine capacity	Amount of tax		
	Filer		Non-filers
	Existing	Proposed	
2501 cc - 3000cc	Rs.200,000	No change	Rs.400,000
Above 3000cc	Rs.250,000	No change	Rs.450,000

Further, the rates of collection of taxes on transfer of motor vehicles have remained unchanged as follows.

Engine capacity	Amount of tax	
	Filers	Non-filers
Up to 850 cc	-	Rs.5,000
851 cc - 1000 cc	Rs.5,000	Rs.15,000
1001 cc - 1300 cc	Rs.7,500	Rs.25,000
1301 cc - 1600 cc	Rs.12,500	Rs.65,000
1601 cc - 1800 cc	Rs.18,750	Rs.100,000
1801 cc - 2000 cc	Rs.25,000	Rs.135,000
2001 cc & 2500cc	Rs.37,500	Rs.200,000
2501 cc & 3000cc	Rs.50,000	Rs.270,000
Above 3000cc	Rs.62,500	Rs.300,000

80. **Advance tax at the time of sale by auction**

The Bill seeks to introduce rate of collection of tax from a non-filer at the rate of 15%. The advance tax on filer remains unchanged at 10%.

81. **Advance tax on purchase of air tickets**

The rate of collection of tax remains unchanged at 5% of the gross amount of air ticket.

82. **Advance tax on sale/transfer of immovable property**

The rate of advance tax to be collected on sale/ transfer of immovable property has remained unchanged as under:

	Rate
Filer	1%
Non-Filer	2%

83. **Collection of advance tax on functions and gatherings.**

The rate of collection of tax remains unchanged at 5%.

84. **Advance tax on cable operator and other electronic media**

The rate of collection of advance tax remains unchanged.

H	Rs.7,500	Rs.10,000
H-1	Rs.10,000	Rs.15,000
H-II	Rs.25,000	Rs.30,000
R	Rs.5,000	Rs12,000
B	Rs.5,000	Rs.4,000
B-1	Rs.30,000	Rs.35,000
B-2	Rs,40,000	Rs.45,000
B-3	Rs.50,000	Rs.75,000
B-4	Rs.75,000	Rs.100,000
B-5	Rs.87,500	Rs.150,000
B-6	Rs.170,000	Rs.200,000
B-7	Rs.262,500	Rs,300,000
B-8	Rs.437,500	Rs.500,000
B-9	Rs.700,000	Rs.800,000
B-10	Rs.875,500	Rs,900,000

85. **Advance tax on sale to distributors, dealers or wholesalers**

Advance tax on sale to distributors, dealers or wholesalers remain unchanged as under.

Category of sale	Rate of tax	
	Filer	Non-filer
Fertilizers	0.7%	1.4%
Other than fertilizers	0.1%	0.2%

86. **Advance tax on sale of retailers**

The Bill seeks to replace the rate of advance tax on retailers previously at the rate of 0.5% with the following table

<table>
<tr><th rowspan="2">Category of sale</th><th colspan="2">Rate of tax</th></tr>
<tr><th>Filer</th><th>Non-filer</th></tr>
<tr><td>Electronics</td><td>1%</td><td rowspan="2">1%</td></tr>
<tr><td>Others</td><td>0.5%</td></tr>
</table>

87. **Collection of advance tax by educational institutions**

The rate of collection of tax remains unchanged at 5%.

88. **Advance tax on dealers, commission agents and arhatis, etc.**

The collection of advance tax on dealers, commission agents and arhatis remains unchanged as under:

Group	Amount of tax (per annum)
Group or Class A	Rs.10,000
Group or Class B	Rs.7,500
Group or Class C	Rs.5,000
Any other category	Rs.5,000

89. **Advance tax on purchase of immovable property**

The rate of advance tax to be collected purchase of immovable property have remained unchanged as under:

<table>
<tr><th rowspan="2">Period</th><th colspan="2">Rate of tax</th></tr>
<tr><th>Filer</th><th>Non-filer</th></tr>
<tr><td>Where value of immoveable proper is up to 4 million</td><td colspan="2">3%</td></tr>
<tr><td>Where value of immoveable property is more than 4 million</td><td>2%</td><td>4%</td></tr>
</table>

90. **Advance tax on domestic electricity consumption**

The rate of advance tax collection remains unchanged at 7.5% if the monthly bill is Rs.75,000 or more.

91. **Advance tax on international air ticket**

The rate of collection of advance tax remains unchanged as under

Type of Ticket	Rate
First/Executive class	Rs. 16,000 per person
Others excluding economy	Rs. 12,000 per person
Economy Class	Rs. 0

92. **Advance tax on bank transactions**

The advance tax to be collected on banking transaction for non-filers have remained unchanged at 0.6%.

However, the bill seeks to add the words "Board with the approval of Minister Incharge of" before the words Federal Government in the second proviso.

93. **Payment to a resident person for right to use machinery and equipment**

The rate of tax remains unchanged at 10%

94. **Collection of advance tax on education related expenses remitted abroad**

The rate of tax remains unchanged at 5%

95. **Advance tax on insurance premium**

The rate of advance tax to be collected from non-filers on insurance premium has been proposed to be amended as under

<table>
<tr><th colspan="2">Type of premium</th><th>Rate</th></tr>
<tr><th>Existing</th><th>Proposed</th><th></th></tr>
<tr><td>General insurance premium</td><td>No change</td><td>4%</td></tr>
<tr><td>Life insurance premium if exceeding Rs.0.2 million per annum</td><td>Life insurance premium if exceeding Rs. 0.3 million in aggregate per annum</td><td>1%</td></tr>
<tr><td>Others</td><td>No change</td><td>0%</td></tr>
</table>

96. **Advance tax on extraction of minerals**

The rate of tax remains unchanged for non-filer at 5% and 0% for filer.

THE SECOND SCHEDULE

PART - I

97. **Income of certain charitable and other institutions**
Clause (66)(xxxi)

The Bill proposes to change the name of welfare society of SIUT from "Society for Welfare of Patients of SIUT" to "Society for the Welfare of SIUT".

98. **Income of certain charitable and other institutions**
Clause (66)(xxxvi)(xxxvii)(xxxviii)(xxxix)

The Bill proposes to insert the following in Clause (66) which provides exemption from tax to any income of the institutions:

- Asian Infrastructure Investment Bank and persons as provided in Article 51 of Chapter IX of the Articles of Agreement signed and ratified by Pakistan and entered into force on 25 December 2015
- Gulab Devi Chest Hospital
- Pakistan Poverty Alleviation Fund
- National Academy of Performing Arts

99. **Correction of spelling**
Clause (126A)(126AA)(126AC)(126D)

The Bill proposes to correct the spelling used in the above referred *Clauses* from "Gawadar" to "Gwadar".

100. **Exemption from tax on profit on debt derived by Japan International Cooperation Agency (JICA)**
Clause (140A)

A new clause is proposed to be inserted to exempt from tax any profit on debt received by JICA from Islamabad-Burhan Transmission Reinforcement Project (Phase-I) undertaken in pursuance to a loan agreement for the said project.

101. **Exemption on income of Political Parties**
Clause (143)

A new clause is proposed to be inserted to exempt from tax any income of a political party registered with the Election Commission of Pakistan under the Political Parties Order, 2002.

PART - IV

102. **Withholding tax on various imports**
Clause (56)

Clause (56) of Part IV of the Second Schedule to the Ordinance provides exemption from collection of tax under section 148 of the Ordinance at import stage. The following companies are proposed to be inserted in Sub-clause (ia):

- Z&M Oils (Private) Limited
- Exceed Petroleum (Private) Limited
- Petrowell (Private) Ltd
- Quality-1 Petroleum (Private) Limited
- Horizon Oil Company (Private) Limited
- Outreach (Private) Limited
- Kepler Petroleum (Private) Ltd

103. **Exclusion from final tax regime on import of foreign produced TV plays and serial**
Clause (56A)

The Finance Act, 2016 deleted, Section 236E which required the licensing authority to collect advance tax at a specified rate on certification of a foreign produced TV drama serial or a play dubbed in Urdu or any other regional language. Under Clause (56A) tax collected at import stage from the importer of foreign produced TV drama serial or a play was not considered as a final tax if the aforesaid collection of advance tax was made. By proposing omission of clause (56A) appropriate change has been proposed since the relevant Section 136E was already omitted.

104. **Hajj group operators**
Clause (72A)

This Clause was inserted by Finance Act, 2013 whereby, the provision of Section 21(1), Section 113 and Section 152 do not apply in case of Hajj Group Operator in respect of Hajj operations. The concession is conditional upon the fact that tax has been paid @ Rs.3,500/- per Haji for the tax year 2013 and Rs.5,000/- per Haji for the tax years 2014 to and 2016 in respect of income from Hajj operation. The Bill proposes to extend the validity of the clause from 2016 to 2017.

105. **Concession of exemption from payment of tax under Section 148**
Clause (72B)

Under this clause an industrial undertaking is not liable for payment of tax under Section 148 of the Ordinance, if the determined tax liability for any of the two preceding years, whichever is higher, has been paid and a certificate to that effect has been issued by the concerned Commissioner subject to fulfillment of certain conditions as specified.

The Bill proposes to enhance the limit of exempt raw material permitted to be imported from 110% to 125% of the raw material imported in the previous tax year.

106. **Exemption from provision of Section 148 of the Ordinance**
Clause (91)

The above clause provides exemption from collection of tax under section 148 of the Ordinance at import stage on import of certain equipment. The Bill proposes to change the following tariff codes:

S.No.	Equipment	Existing PCT Code	Proposed PCT Code
1.	Sub soiler	8432.3090	8432.3900
2.	Tractor mounted trancher	8701.9020	8701.9200
3.	Seed-cum-fertilizer drill (wheat rice barley, etc.)	8432.3010	8432.3100
4.	Cotton or maize planter with fertilizer attachment	3432.3090	8432.3900
5.	Potato Planter	3432.3090	8432.3900
6.	Fertilizer or manure spreader or broadcaster	8432.4000	8432.4100
7.	Rice transplanter	3432.3090	8432.3900
8.	Canola or sunflower drill	8432.3010	8432.3100
9.	Sugarcane planter	3432.3090	8432.3900

107. **Minimum Tax on Service Sector Companies**
Clause (94)

This Clause provides that the rate of tax deductible from payments against service rendered by certain corporate service providers shall be reduced to 2%.

The aforesaid clause was valid upto the tax year 2017. The Bill proposes to extent it to the tax year 2018 and also include services rendered by the following-

- Pakistan Stock Exchange Limited
- Car rental services.
- Corresponding changes to extend the benefit to 2017 are also proposed to be made.

SALES TAX

1. **Sales Tax on Tier-1 Retailers**
Section 2(43A) and 3(9A)

Tax on Tier-1 Retailers, which was earlier introduced through the Sales Tax Special Procedures Rules, 2007 but was withdrawn by the Court order, is now proposed to be reintroduced through insertion of Sub-section (43A) in Section 2 and Sub-section (9A) in Section 3 of the ST Act.

Under the proposed amendments, the term "Tier-1 Retailers" has been defined to mean :

(a) a retailer operating as a unit of a national or international chain of stores;

(b) a retailer operating in an air-conditioned shopping mall, plaza or centre, excluding kiosks;

(c) a retailer whose cumulative electricity bill during the immediately preceding twelve consecutive months exceeds rupees six hundred thousand; and

(d) a wholesaler-cum-retailer, engaged in bulk import and supply of consumer goods on wholesale basis to the retailers as well as on retail basis to the general body of the consumers.

Under the proposed Sub-section (9A) of Section 3, Tier-1 Retailers are required to charge sales tax at the rate of 17% on the value of supplies and are required to file sales tax returns on a monthly basis.

Tier-1 Retailers have option to pay tax under the turnover regime at the rate of 2%, including on exempt supplies, subject to the condition that Tier-1 Retailers shall file an option to the Chief Commissioner Inland Revenue having jurisdiction. Such an option is to be filed by fifteenth day of July and shall be applicable for the whole financial year. Adjustment of input tax shall not be available under this option.

Local retail supplies of finished goods of the five export oriented sectors specified in the SRO 1125(I)/2011, which shall be subject to sales tax at the rates specified in the above notification shall not be included in the above proposed Tier-1 Retailers' taxation scheme.

2. **Sales Tax on Imports for non-tariff areas**
Section 3(1)(b)

The Bill seeks to extend the applicability of sales tax on import of taxable goods even if the same are imported for utilization and consumption in the non-tariff areas. The Courts earlier held that a person carrying on business in the non-tariff areas did not require specific exemption through sub-ordinate legislation and the sales tax payable on imports would not be applicable if the goods were imported for utilization and consumption in the non-tariff areas.

Consequent to the proposed amendment, sales tax on import of taxable goods shall be applicable even if they are for consumption and utilization in the non-tariff areas.

3. **Further tax**
Sections 3(1A) and 4

The Bill seeks to extend the application of Further tax at the rate of two percent on supplies which are subject to sales tax at the rate of zero percent under Section 4 of the ST Act.

There was a controversy on the application of Further tax under Section 3(1A) of the ST Act on items subject to sales tax at the rate of zero percent under Section 4 of the ST Act and a position was taken that the goods subject to sales tax at zero percent were outside the ambit of application of Further tax.

As a result of the proposed amendments in Section 3(1A) and the corresponding amendment in preamble of Section 4 of the ST Act, the supply of zero rated goods shall also be made liable to Further tax at the rate of 2%. However, since Further tax has conceptually been applicable to persons who are required to get registration under the ST Act but failed to do so, hence it is expected that supplies made to diplomats, privileged persons, duty free shops and other similar categories like goods exported would be excluded through notification.

4. **Exemption**
Sections 13(7)

Presently, the Federal Government, pursuant to the approval of the Economic Coordination Committee of the Cabinet, is empowered to exempt any taxable supplies made or import of any taxable goods from whole or any part chargeable under the ST Act through a notification. All such notifications issued during the financial year are required to be placed before the National Assembly for ratification. Notifications issued by the Federal Government which were not ratified by the Parliament, stand rescinded at the end of the financial year in which they were issued.

The Bill seeks to ratify the notifications issued by the Federal Government, if not rescinded earlier, from the Parliament. The Bill proposes all such notifications shall be deemed to have been in force with effect from 01 July 2016 and shall continue to be in force till 30th June 2018. It is further envisaged that all notifications which have been issued on or after 01 July 2016, if not rescinded earlier, shall also continue to be in force till 30 June 2018.

5. District Taxation Officer and Assistant Director Audit
Sections 30

The Bill intends to introduce two new officer cadre in hierarchy of sales tax authorities viz; District Taxation Officer and Assistant Director Audit.

However, it remains to be seen what powers and responsibilities are assigned to the said officers.

6. Penalties on Cigarettes Manufacturers etc.
Section 33

The Table under Section 33 of the ST Act provides general and specific penalties in the specified circumstances. The Bill now seeks to expand the scope of penalties by inserting new Sr. No.23 to the table which provides that any person who manufactures, possesses, transports, distributes, stores or sells cigarette packs without, or with counterfeited, tax stamps, banderoles, stickers, labels or barcodes shall be liable to outright confiscation and also be liable for a penalty of twenty five thousand rupees to one hundred percent of the amount of tax involved, whichever is higher. Certain other penalties are also prescribed which includes imprisonment upto five years or with additional fine which may extend to an amount equal to the loss of tax involved, or with both.

7. Automatic stay against recovery
Section 48(1)(f)

It was repeatedly urged that in deference to the principle of natural justice and equity, it would be reasonable that pending disposal of the appeal by the Appellate Authorities, the disputed tax demand should remain stayed. However, the Bill seeks to provide stay of the disputed demand on payment of 25% of the disputed tax demand.

It is proposed to add a proviso to Section 48 of the ST Act which deals with the recovery of arrears of tax whereby the taxpayer would have an option to avail automatic stay after payment of 25% of the tax due in the cases where the appeal is filed before the Commissioner Inland Revenue (Appeals) under section 45B of the ST Act.

The power of the Commissioner Inland Revenue (Appeals) to grant stay for a period of maximum thirty days remains intact in pursuance of Sub-section (1A) of Section 45B of the ST Act.

It would not be out of place to refer to Rule 71 of the Sales Tax Rules, 2006 which provides that the recovery should not be initiated before expiry of 30 days from the date of order. Hence a taxpayer who intends to avail the proposed automatic stay should consider the date of the order rather than the date of receipt of the order for depositing 25% of the disputed tax demand so as to avoid the risk of recovery of the demand.

8. Transferring Powers from Federal Government to the Federal Board of Revenue

The Bill seeks to grant power to the Federal Board of Revenue with the approval of the Minister in charge of the Federal Government to exercise powers conferred under the following provisions of the ST Act.

Provisions of the ST Act	Description
3(2)(b)	Power of fixation of lower and higher sales tax rates and manner of charging, collection and payment of sales tax on any taxable goods
3(3A)	Power to define responsibility of payment of tax to the recipient of supply
3(5)	Power to levy and collect extra rate of sales tax not exceeding seventeen percent
4(c)	Power to declare any goods as subject to sales tax at zero percent
7(3)	Granting permission to deduct input tax through special order
7(4)	Granting permission to deduct input tax through notification
7A(1)(2)	Levy and collection of tax on specified goods on value addition
8(1)(b)	Restriction on the adjustment of input tax
13(2)(a)	Granting exemption of sales tax on the import and supply of goods
13(6)	Placement of notification issued under section 13 of the ST Act to the National Assembly

Provisions of the ST Act	Description
60	Authorization to import goods or class of goods without payment of the whole or any part of tax
71	Prescribe special procedure for scope and payment of tax, registration and book keeping and invoicing requirements and returns of supplies

9. Service of Orders, Decisions etc.
Section 56

Section 56 of the ST Act deals with the service of orders, decisions, notices or requisition records and any such document to the resident individuals and other than individuals. Any notice, order or decision if not served according to the criteria laid down shall not be treated as served and would not be binding on the person to whom such notice, order or decision is delivered.

The Bill seeks to add electronic delivery of notices, orders, decisions etc. through the e mail or to the e-folder maintained by the resident individuals and other than individuals, for the purpose of e-filing of sales tax-cum-federal excise returns, having public and private Company status by inserting clause (d) in Sub-section (1) and Sub-section (2) of Section 56 of the ST Act.

Sub-section (1) of Section 56 applies only to the resident individuals. Therefore, reference to limited companies, both public and private, in the proposed insertion of clause (d) in Sub-section (1) seems to be an error and needs to be rectified while approving the Bill.

10. Validation
Section 74A

The bill proposes to insert a new section whereby all notifications and orders issued and notified in exercise of the powers conferred upon the Federal Government, before first day of July 2017 shall be deemed to have been validly issued and notified in exercise of the powers, notwithstanding anything contained in any judgment of a High Court or the Supreme Court.

The proposed insertion is based on the recent judgment of Honorable Supreme Court of Pakistan on Article 90 of the Constitution of Islamic Republic of Pakistan subsequent to the 18th Constitutional amendment, which regulates the authority of the Federal Government.

11. Sales tax measures announced in the budget documents

Through the salient features it was indicated that certain measures are taken in the ST Act and Islamabad Capital Territory (Tax on Services) Ordinance, 2001. However, coverage of the same is not provided under the Bill. It appears that since the SROs have not been issued with the Budget, the following measures in sales tax would be covered when the related SROs are issued-

➢ **Extra sales tax**

Extra sales tax at the rate of two percent leviable under Chapter XIII of the Sales Tax Special Procedures Rules, 2007 on lubricating oil is proposed to be withdrawn. Through this proposed amendment in the rules, industrial consumers would be eligible to avail the adjustment of input tax on the purchase of lubricating oil as this would be treated as a taxable supply.

➢ **Sales Tax Withholding**

Under the existing Sales Tax Special Procedure (Withholding) Rules, 2007 enacted vide SRO 660(I)/2007 dated 30 June 2007, every withholding agent is required to withhold sales tax at the rate 20% or 10%, as the case may be, of the amount of sales tax mentioned on the invoice and with respect to provision of advertisement services full amount of sales tax is required to be withheld.

It is proposed that the withholding of sales tax would not be applicable, except on purchase of advertisement services, if the supplier and recipient are both registered persons.

➢ **Export of IT Services and Taxation on Turnover basis**

Under the Islamabad Capital Territory (Tax on Services) Ordinance, 2001, tax is applicable if the services are rendered or provided in the Islamabad Capital Territory (ICT). It would, therefore, be inferred that any service rendered or provided outside ICT is regarded as export and would be out of the ambit of the Islamabad Capital Territory (Tax on Services) Ordinance, 2001. It is now proposed that the export of IT services would be declared exempt. This needs further analysis once SRO is issued.

In addition, it has also been proposed that similar to Provincial sales tax laws, taxation based on turnover and restrictions on adjustment of input tax would be introduced in the Islamabad Capital Territory (Tax on Services) Ordinance, 2001.

➢ Sales tax on steel sector

Rate of sales tax on steel sector is sought to be increased from current rate of Rs.9 unit to Rs.10.5 per electricity unit consumed.

➢ Sales Tax on retail sale of five export oriented sectors

Sales tax on retail sale of five export oriented sectors under SRO.1125(I)/2011 is proposed to be enhanced from 5% to 6%. The rate of sales tax on commercial import of fabrics is also proposed to be enhanced from 0% to 6%.

12. Third Schedule

The Third Schedule lists out the goods that are subject to sales tax at retail price set by manufacturers. The Bill proposes to appropriately refer to the tariff heading of the following entry :

S.No.	Description	Existing Tariff Heading	Proposed Tariff Heading
2	Ice cream	21.05	2105.0000

The Bill also seeks to omit Serial No. 32, which pertains to Fertilizers. The Bill has proposed to tax fertilizer now at the reduced fixed amounts of tax under the Eighth Schedule.

13. Fifth Schedule

The Fifth Schedule lists out the goods that are subject to tax at the rate of zero percent. The Bill has proposed to substitute the description of sub- serial number (xvii) of Serial No. 12 :

S.No.	Existing Description	Proposed Description
12 (xvii)	Preparations for infant use put up for retail sale	Preparations suitable for infants or young children, put up for retail sale

14. Sixth Schedule

The Sixth Schedule deals with exemption of goods from levy of sales tax. The Bill has proposed to include the following goods in Sixth Schedule to the ST Act :

Table 1 (on import and local supply)

S.No.	Description	Tariff Heading
100C	Vehicles imported by China Overseas Ports Holding Company Limited (COPHCL) and its operating companies namely (i) China Overseas Ports Holding Company Pakistan (Private) Limited (ii) Gwadar International Terminal Limited, (iii) Gwadar Marine Services Limited and (iv) Gwadar Free Zone Company Limited, for a period of twenty three years for construction, development and operations of Gwadar Port and Free Zone Area subject to limitations, conditions prescribed under PCT heading 9917(3).	9917(3)
134	Goods received as gift or donation from a foreign government or organization by the Federal or Provincial Governments or any public sector organization subject to recommendations of the Cabinet Division and concurrence by the Federal Board of Revenue.	9908
135	Sunflower and canola hybrid seeds meant for sowing	Respective heading
136	Combined harvesters up to five years old	843.5100
137	Single cylinder agriculture diesel engines (compression-ignition internal combustion piston engines) of 3 to 36 HP, and CKD kits thereof	8408.9000

The Bill proposes to omit the following tariff headings:

S.No.	Description	Omitted Tariff Heading
1	Live animals and live poultry	0102.1010 and 0105.1900
15	Edible fruits excluding imported fruits (except fruits imported from Afghanistan) whether fresh, frozen or otherwise preserved but excluding those bottled or canned	0803.0000
19	Cereals and products of milling industry	1102.3000
26	Fruits juices, whether fresh, frozen or otherwise preserved but excluding those bottled, canned or packaged	2009.8000
31	Holy Quran, complete or in parts, with or without translation; Quranic Verses recorded on any analogue or digital media; other Holy books	8523.5100 and 8523.5200
83	Meat and similar products of prepared, frozen or preserved meat or meat offal of all types including poultry meat and fish.	1604.3000
106	Import of Halal edible offal of bovine animals	0206.2000
133	Pesticides and their active ingredients registered by the Department of Plant and Protection under the Agricultural Pesticides Ordinance, 1971 (II of 1971), stabilizers, emulsifiers and solvents, namely :--	
	Ingredients for pesticides	2903.3040
	Cadusafos Technical Material	2903.6900
	Ingredients for pesticides	2918.9010
	Ingredients for pesticides	2919.0010
	Other Ingredients for pesticides	2919.0090
	Triethanolamine and its salts	2922.1300
	Ingredients for pesticides	2924.2930

The Bill has proposed to substitute certain tariff headings under the Sixth Schedule to the Act. The said tariff headings are as follows.

S.No.	Description	Existing Tariff Heading	Proposed Tariff Heading
1	Live animals and live poultry	0101.3100	0101.3000
15	Edible fruits	0805.2010	0805.2910
		0805.2090	0805.2100, 0805.2200 and 0805.2990
17	Ginger excluding those sold in retail packing bearing brand name and trademarks.	0910.1000	09.10
23	Sugar cane	1212.9990	1212.9300
33	Currency notes, bank notes, shares, stocks and bonds	4907.0000	49.07
38	Monetary gold	7108.2000	7108.1390
81	Cotton seed	1207.2000	1207.1000
91	Energy saver lamps	8539.3910	8539.3110
108	Components or sub-components of energy saver lamps, namely:- (h) Al-Oxide Suspension	3824.9099	3824.8400
110	The following items with dedicated use of renewable source of energy like solar and wind, subject to certification by the Alternative Energy Development Board (AEDB),	8543.7090	8539.5010 and 8539.5020

S.No.	Description	Existing Tariff Heading	Proposed Tariff Heading
	Islamabad:-- (c) SMD, LEDs with or without ballast, with fittings and fixtures		
113	High Efficiency Irrigation Equipment (2) Sprinklers including high and low pressure (center pivotal) system, conventional sprinkler equipment, water reel travelling sprinkler, drip or trickle irrigation equipment, mint irrigation sprinkler system	8424.8100	8424.4100
114	Greenhouse farming and other Greenhouse equipment (2) Greenhouses (prefabricated)	9406.0010	9406.1010 and 9406.9010
130	Premixes for growth stunting	Respective Headings and subject to conditions imposed for importation under the Customs Act, 1969	Sodium Iron (Na Fe EDTA), and other premixes of Vitamins, Minerals and micro-nutrients (food grade) and subject to conditions imposed for importation under the Customs Act, 1969
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, namely:-- Ingredients for pesticides		
	Chemical preparations	3824.9099	3824.9999

The Bill has further proposed amendments in the description of the following serials number:

S.No.	Existing Description	Proposed Description
84	Preparations for infant use, put up for retail sale	Preparations suitable for infants or young children, put up for retail sale
97	Pens and ball pens	Pens, ball pens, markers and porous tipped pens
100A	Materials and equipments	Materials and equipments (plant, machinery, equipment, appliances and accessories)

Table 3

The Bill proposes to substitute Serial No.14 and 15 and entries relating thereto with new Serial No. 14, 14A, 15 and 15A. the related entries are as follows :

S.No.	Description	PCT Heading	Conditions
14	**Following items for use with solar energy:-** Solar Power Systems.	8501.3110 8501.3210	
	(1) Off-grid/On-grid solar power system (with or without provision for USB/charging port) comprising of :		
	(i) PV Module.	8541.4000	
	(ii) Charge controller.	9032.8990	
	(iii) Batteries for specific	8507.2090	

S.No.	Description	PCT Heading	Conditions
	utilization with the system (not exceeding 50 Ah in case of portable system).	8507.3000 8507.6000	
	(iv) Essential connecting wires (with or without switches).	8544.4990	
	(v) Inverters (off-grid/ on-grid / hybrid with provision for direct connection/ input renewable energy source and with Maximum Power Point Tracking (MPPT).	8504.4090	
	(vi) Bulb holder	8536.6100	
	(2) Water purification plants operating on solar energy	8421.2100	
14A	**Following systems and items for dedicated use with renewable source of energy like solar, wind, geothermal etc.** **1.(a) Solar Parabolic Trough Power Plants.** **(b) Parts for Solar Parabolic Power Plants.** (i) Parabolic Trough collectors **modules.** (ii) **Absorbers/** Receivers tubes.	 8502.3900 8503.0010 8503.0090 8406.8100	
	(iii) Steam **turbine** of an output exceeding 40MW. (iv) Steam turbine of an output not exceeding 40MW. (v) Sun tracking control system. (vi) Control panel with other accessories.	8406.8200 8543.7090 8573.1090	
	2. (a) Solar Dish Stirling Engine. (b) Parts for Solar Dish Stirling Engine. (i) Solar concentrating dish. (ii) Sterling engine. (iii) Sun tracking control system. (iv) Control panel with accessories. (v) **Stirling** Engine Generator	8412.8090 8543.7000 8543.7000 8543.7090 8406.8200 8501.6100	
	3. (a) Solar Air Conditioning Plant (b) Parts for Solar Air Conditioning Plant (i) Absorption chillers. (ii) Cooling towers. (iii) Pumps. (iii) Air handling units. (iv) Fan coils units. (v) Charging & testing	 8415.1090 8418.6990 8419.8910 8413.3090 8415.8200 8415.9099 9031.8000	

S.No.	Description	PCT Heading	Conditions
	equipment.		
	4. (a) Solar Desalination System (b) Parts for Solar Desalination System (i) Solar photo voltaic panels. (ii) Solar water pumps. (iii) Deep Cycle Solar Storage batteries. (iv) Charge controllers. (v) nverters (off grid/on grid/ hybrid) with provision for direct connection/input from renewable energy source and with Maximum Power Point Tracking (MPPT)	8421.2100 8541.4000 8413.3090 8507.2090 9032.8990 8504.4090	
	5. Solar Thermal Power Plants with accessories.	8502.3900	
	6. (a) Solar Water Heaters with accessories. (b) Parts for Solar Water Heaters (i) Insulated tank (ii) Vacuum tubes (Glass) (iii) Mounting stand (iv) Copper and Aluminum tubes (c) Accessories: (i) Electronic controller (ii) Assistant/ feeding tank (iii) Circulation Pump (iv) Electric heater/ immersion rod (one piece with one solar water heater) (v) Solenoid valve (one piece with one solar water heater) (vi) Selective coating for absorber plates	8419.1900 7309.0000 7310.0000 7020.0090 Respective headings Respective heading	
	7. (a) PV Modules. (b) Parts for PV Modules (i) Solar cells. (ii) Tempered Glass. (iii)Aluminum frames. (iv) O-Ring. (v) Flux. (vi) Adhesive labels. (vii) Junction box & cover. (viii)Sheet mixture of paper and plastic (ix) Ribbon for PV Modules (made of silver &Lead). (x) Bypass diodes. (xi) EVA (Ethyl Vinyl Acetate) Sheet (Chemical).	8541.4000 8541.4000 7007.2900 7610.9000 4016.9990 3810.1000 3919.9090 8538.9090 3920.9900 Respective headings 8541.1000 3920.9900	

S.No.	Description	PCT Heading	Conditions
	8. Solar Cell Manufacturing Equipment. (i) Crystal (Grower) Puller (if machine). (ii) Diffusion furnace. (iii) Oven. (iv) Wafering machine. (v) Cutting and shaping machines for silicon ingot. (vi) Solar grade polysilicon material. (vii) Phosphene Gas. (viii) Aluminum and silver paste.	8479.8990 8514.3000 8514.3000 8486.1000 8461.9000 3824.9999 2853.9000 Respective headings	
	9. Pyranometers and accessories for solar data collection.	9030.8900	
	10. Solar chargers for charging electronic devices.	8504.4020	
	11. Remote control for solar charge controller	8543.7010	
	12. Wind Turbines. (a) Wind Turbines for grid connected solution above 200 KW (complete system). (b) Wind Turbines upto 200 KW for off-grid solutions comprising of: (i) Turbine with Generator/ Alternator.	8412.8090 8412.8090 Respective Headings	

S.No.	Description	PCT Heading	Conditions
	(ii) Nacelle with rotor with or without tail. (iii) Blades. (iv) Pole/ Tower. (v) Inverter for use with Wind Turbine. (vi) Deep Cycle Cell/ Battery (for use with wind turbine).	8507.2090	
	13. Wind water pump	8413.8100	
	14. Geothermal energy equipment. (i) Geothermal heat pumps. (ii) Geothermal Reversible Chillers. (iii) Air handlers for indoor quality control equipment. (iv) Hydronic heat pumps. (v) Slim Jim heat exchangers. (vi). HDPE fusion tools. (vi) Geothermal energy installation tools and equipment. (vii) Dehumidification equipment. (viii) Thermostats and	8418.6100 8418.6990 8415.8300 8418.6100 8419.5000 8515.8000 8419.8990 8479.6000 9032.1090	

S.No.	Description	PCT Heading	Conditions
	intellizone.		
	15. Any other item approved by the Alternative Energy Development Board (AEDB) and concurred to by the FBR	Respective headings	
15	Following items for promotion of renewable energy technologies or for conservation of energy:- (i) SMD/LED/LVD lights with or without ballast, fittings and fixtures. (ii) SMD/LED/LVD street lights, with or without ballast, PV module, fitting and fixtures (iii) Tubular day lighting device. (iv) Wind turbines including alternators and mast. (v) Solar torches. (vi) Lanterns and relatedinstruments. (vii) LVD induction lamps. (ix) LED bulb/tube lights. (ix) PV module, with or without, the related components including invertors (off	9405.1090 8539.3290 8543.7090 9405.4090 8539.3290 8543.7090 9405.5010 8502.3100 8513.1040 8513.1090 8539.3290 8543.7090 8541.4000 8504.4090 9032.8990 8507.0000	

S.No.	Description	PCT Heading	Conditions
	grid/on grid/ hybrid) with provision for direct connection/input from renewable energy source and with Maximum Power Point Tracking (MPPT), charge controllers and solar batteries. (x) Light emitting diodes (light emitting in different colors). (xi) Water pumps operating on solar energy along with solar pump controllers (xii) Energy saver lamps of varying voltages (xiii) Energy Saving Tube Lights. (xiv) Sun Tracking Control System (xv) Invertors (off-grid/on grid/hybrid) with provision for direct connection/input from renewable energy source and with Maximum Power Point Tracking (MPPT). (xvi) Charge controller/ current controller. Provided that exemption under this	8541.5000 8413.7010 8413.7090 8504.4090 8539.3110 8539.3210 8539.3120 8539.3220 8543.7090 8504.4090 9032.8990	

S.No.	Description	PCT Heading	Conditions
	serial shall be available with effect from 01.07.2016.		
15A	Parts and components for manufacturing LED lights: (i) Aluminum housing/ shell for LED (LED light fixture) (ii) Metal clad printed circuit boards (MCPCB) for LED (iii) Constant current power supply for of LED lights (1-300W) (iv) Lenses for LED lights	 9405.1090 8543.0000 8504.4090 9001.9000	If imported by LED light manufacturers registered under the Sales Tax Act, 1990 subject to annual quota determination by the Input Output Coefficient Organization (IOCO)

15. Eighth Schedule

The Eighth Schedule deals-with items that are liable to sales tax at reduced rates. The Bill proposes to appropriate correct tariff headings of certain goods. The proposed entries are as follows :

S.No.	Description	Existing Tariff Heading	Proposed Tariff Heading
26	Tillage and seed bed preparation equipment: (iv.) Sub soiler	8432.3090	8432.3900
27	Seeding for planting equipment: (iv) Fertilizer or manure spreader or broadcaster (vi) Canola or sunflower drill (vii) Sugarcane planter	 8432.4000 8432.3010 8432.3090	 8432.4100 8432.3100 8432.3900

Under Serial No.34 certain broadcasting and transmission equipment approved by PEMRA are liable to tax at the reduced rate of 5%, this concession will expire on 30th June 2017. The Bill now proposes to extend the date of concession up to 30 June 2018.

The following new Entries are proposed to be inserted in the Eighth Schedule.

S.No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax	Condition
35	DAP	Respective heading	Rs.100 per 50 kg bag	Nil
36	NP (22-20)	Respective heading	Rs.168 per 50 kg bag	If manufactured from gas other than imported LNG
37	NP (18-18)	Respective heading	Rs.165 per 50 kg bag	If manufactured from gas other than imported LNG
38	NPK-I	Respective heading	Rs. 251 per 50 kg bag	If manufactured from gas other than imported LNG
39	NPK-II	Respective heading	Rs. 222 per 50 kg bag	If manufactured from gas other than imported LNG
40	NPK-III	Respective heading	Rs. 341 per 50 kg bag	If manufactured from gas other than imported LNG
41	SSP	Respective heading	Rs. 31 per 50 kg bag	If manufactured from gas other than imported LNG
42	CAN	Respective heading	Rs. 98 per 50 kg bag	If manufactured from gas other than imported LNG

43	Natural gas	Respective heading	10%	If supplied to fertilizer plants for manufacturing of urea
44	Phosphoric acid	2809.2010	5%	If imported by fertilizer company for manufacturing of DAP
45	Following machinery for poultry sector :			Import and supply
	(i) Machinery for preparing feeding stuff	8436.1000	7%	
	(ii) Poultry incubators and brooders	8436.2100 and 8436.2900	7%	
	(iii) Insulated sandwich panels	9406.0090	7%	
	(iv) Poultry sheds	9406.0020	7%	
	(v)Evaporative air cooling system	8479.6000	7%	
	(vi)Evaporative cooling pad	8479.9010	7%	
46	Multimedia projectors	8528.6210	10%	If imported by educational institution
47	Locally produced coal	27.01	Rs. 425 per metric tonne or 17% ad valorem, whichever is higher	Nil

16. Ninth Schedule

Ninth Schedule inter-alia deals with levy of sales tax on import and supply of locally manufactured cellular and satellite phones. The Bill proposes to streamline the rates of sales tax on cellular and satellite phones. The proposed changes in the rate of sales tax are as follows:

S.No.	Description / Specification of Goods	Sales tax on import or local supply		Sales tax chargeable at the time of registration of IMEI number by CMOs	
		Present Rate Rs.	Proposed Rate Rs.	Present Rate Rs.	Proposed Rate Rs.
	A. <u>Low Priced Cellular Mobile Phones or Satellite Phones</u> i. All cameras: 2.0 mega-pixels or less ii. Screen size; 2.6 Inches or less iii.	300	650	300	650
	B. <u>Medium Priced Cellular Mobile Phones or Satellite Phones</u> i.One or two cameras: between 2.1 to 10 mega-pixels ii.Screen size: between 2.6 inches and 5.0	1000	650	1000	650

S.No.	Description / Specification of Goods	Sales tax on import or local supply		Sales tax chargeable at the time of registration of IMEI number by CMOs	
	inches iii. Micro-processor: less than 2 Ghz				

FEDERAL EXCISE DUTY

1. **Transferring Powers from Federal Government to the Federal Board of Revenue**

The Bill seeks to grant power to the Federal Board of Revenue with the approval of the Minister in charge of the Federal Government to exercise powers conferred under the following provisions of the Federal Excise Act, 2005 [FE Act].

Section	Description
2(8a)	Power of fixation of due date of filling of federal excise returns
3(1)(c)	Power to levy and collection of federal excise duty on goods manufactured or produced in non-tariff areas and brought to tariff area for sale or consumption.
3(4)	Power of fixation of lower and higher federal excise rates and manner of charging, collection and payment of federal excise duty on any excisable goods and services
16(2)	Granting exemption of federal excise duty on goods and services
16(5)	Placement of notification issued under section 16 of the FE Act to the National Assembly

2. **Exemptions**
Section 16

Presently, the Federal Government, pursuant to the approval of the Economic Coordination Committee of the Cabinet, is empowered to exempt any excisable goods imported, produced or manufactured in Pakistan and services provided or rendered under the FE Act through a notification. All such notifications issued during the financial year are required to be placed before the National Assembly for ratification. Notifications issued by the Federal Government which were not ratified by the Parliament, stand rescinded at the end of the financial year in which they were issued.

The Bill seeks to ratify the notifications issued by the Federal Government, if not rescinded earlier, from the Parliament. The Bill proposes all such notifications shall be deemed to have been in force with effect from 01 July 2016 and shall continue to be in force till 30 June 2018. It is further envisaged that all notifications which have been issued on or after 01 July 2016, if not rescinded earlier, shall also continue to be in force till 30 June 2018.

3. **Offences and Penalties**
Section 19(10)

The Bill proposes to extend the scope of penalty with respect to manufacture of illegitimate cigarettes by including violations in respect of affixing tax stamps, banderoles, stickers, labels or barcodes on the pack of cigarettes and providing power to the Commissioner to destroy the plant & machinery used for this purpose in addition to other penal actions taken against the persons involved.

Erstwhile, the penalty was imposed on person engaged in production of cigarettes in the manner contrary to law or counterfeited cigarettes only and production of other items like tax stamps, banderoles etc. was not covered under the ambit of penal action in the scope of penalty.

4. **Appointment of Federal Excise Officers and Delegation of Powers**
Section 29

The Bill proposes to introduce new designation of "District Taxation Officer" who will be subordinate to Deputy Commissioner Inland Revenue as may be appointed by the Board.

The Bill further proposes that the Board may appoint "Assistant Director Audit" who will be subordinate to Assistant Commissioner Inland Revenue to perform his duties as assigned.

Moreover, the Bill proposes to redefine the powers and functions of the Chief Commissioner, Inland Revenue and Commissioner Inland Revenue. The Chief Commissioner, Inland Revenue will execute his duties in accordance with the Board's directions; whereas, Commissioner, Inland Revenue will perform his duties and functions as per the directions issued from Chief Commissioner's office and not otherwise.

5. **Deposit, pending appeal, of duty demanded or penalty**
Section 37

The Bill proposes to hold the recovery proceedings till the decision of appeal by the Commissioner Inland Revenue (Appeals), subject to payment of 25% of the duty due.

The concept of seeking automatic stay is already available in terms of the first proviso to the section 37 of the FE Act which allows a person to deposit an amount equal to 15% of the liability at the time of filing of appeal and such stay shall be valid for maximum period of six months or till the decision of appeal whichever is earlier. Current option of automatic stay is available at each level of appellate forum. Whereas the proposed option of getting automatic stay is restricted the first level of appeal only i.e. Commissioner Inland Revenue (Appeals).

Therefore, in the presence of existing provision of seeking automatic stay from the Commissioner Inland Revenue (Appeals) by depositing 15% of the demand. The proposed amount of paying 25% to get the stay seems to be ineffective.

It would not also be out of place to refer to Rule 71 of the Sales Tax Rules, 2006 (mutatis mutandis applies to Rule 60 of the Federal Excise Rules, 2005) which provides that the recovery should not be initiated before expiry of 30 days from the date of order. Hence a taxpayer who intends to avail the proposed automatic stay option should consider the date of the order rather than the date of receipt of the order for depositing 25% of the disputed tax demand so as to avoid the risk of recovery of the demand.

6. Service of notices and other documents

Section 47

The Bill seeks to provide legal coverage to electronic submissions of documents/records or response to the letters/notices issued by the tax authorities. This proposition may authorize the taxpayers and tax officers to make correspondence with each other through emails and online on eFBR portal.

Section 47 deals with the service of orders, decisions, notices or requisition records and any such document to the resident individuals and other than individuals. Any notice, order or decision if not served according to the criteria laid down shall not be treated as served and would not be binding on to the person to whom such notice, order or decision is delivered.

The Bill now seeks to add electronic delivery of notices, orders, decisions etc. through the e mail or to the e-folder maintained by the resident individuals and other than individuals for the purpose of e-filing of sales tax-cum-federal excise returns having public and private Company status by inserting clause (d) in Sub-section (1) and Sub-section (2) of Section 47.

Sub-section (1) of section 47 applies only to the resident individuals. Therefore, reference to limited companies, both public and private, in the proposed insertion of clause (d) in Sub-section (1) seems to be an error and needs to be rectified while approving the Bill.

7. Validation

Section 43A

The Bill proposes to insert a new section 43A whereby all notifications and orders issued and notified, in exercise of the powers conferred upon the Federal Government, before first day of July 2017 shall be deemed to have been validly issued and notified in exercise of the powers, notwithstanding anything contained in any judgment of a High Court or the Supreme Court.

The proposed insertion is based on the recent judgment of Honorable Supreme Court of Pakistan on Article 90 of the Constitution of Islamic Republic of Pakistan subsequent to the 18th Constitutional amendment, which regulates the authority of the Federal Government.

Section 43A already exists in the FE Act which deals with the issuance of duplicate of Inland Revenue documents. This would require renumbering.

8. Rate of duty on cigarettes

First Schedule, Table I

The rate of duty on cigarettes is proposed to be changed and three Tier structure is being introduced by substituting serial No. 9a and 9b with 9; whereas, serial No.10a and 10b is proposed to be substituted by serial No. 10 and third tier is being introduced under Serial No. 10a of Table I of the First Schedule to the FE Act along with the description of goods. The proposed entries enhancing the rate of duty in three tiers are as follows:

Existing Entry			Proposed Entry		
S. No	Description	Rate of duty	S. No.	Description	Rate of duty
1st TIER					
9a	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	Rupees 3,436 per thousand cigarettes	9	Locally produced cigarettes if their on-pack printed retail price exceeds Four thousand five hundred rupees per thousand cigarettes.	Rupees 3,740 per thousand cigarettes
9b	For the period from 01-12-2016 onwards, locally produced cigarettes if their on-pack printed retail price exceeds four thousand four Hundred rupees per thousand cigarettes	Rupees 3,705 per thousand cigarettes			
2nd TIER					
10 a	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	Rupees 1,534 per thousand cigarettes	10	Locally produced cigarettes if their on-pack printed retail price exceeds two thousand nine hundred and twenty-five rupees per thousand cigarettes	Rupees 1,670 per thousand cigarettes

Existing Entry			Proposed Entry		
S. No	Description	Rate of duty	S. No.	Description	Rate of duty
10 b	For the period from 01-12-2016 onwards, locally produced cigarettes if their on-pack printed retail price does not exceed four thousand four hundred rupees per thousand cigarettes	Rupees 1,649 per thousand cigarettes		but does not exceed four thousand five hundred rupees per thousand cigarettes.	
3rd TIER					
10 a	Locally produced cigarettes if their on-pack printed retail price exceeds two thousand nine hundred and twenty-five rupees per thousand cigarettes but does not exceed four thousand five hundred rupees per thousand cigarettes.			Rupees 800 per thousand cigarettes	

It is also proposed to restrict the reduction in retail price from the level adopted on the day of announcement of budget and concurrently, the minimum retail price of any brand of cigarette shall not be lower than 45% of the retail price of Rs.4,500 per thousand cigarettes (i.e. Rs.2,025).

The rates proposed above are effective from 27 May 2017 subject to issue of SRO.

9. Rate of duty on cement and ancillary products

First Schedule, Table I

The rate of duty on cement comprising Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers covered under Tariff Heading 25.23, as mentioned in Serial No. 13 of Table I of the First Schedule to the FE Act, is proposed to be enhanced from Rs.1/KG to Rs.1.25/KG.

10. Rate of duty on telecommunication services
First Schedule, Table II

The rate of duty on telecommunication services is proposed to be reduced to 17% from the existing rate of 18.5% of the charges. The rationale behind such change is to provide some relief to the consumers.

11. Conditional Exemptions
Third Schedule, Table I

The Bill seeks to clarify the exemption provided under Serial No. 19 to the Third Schedule to the specified Chinese Companies from levy of Federal Excise Duty on import or supply of plant, machinery, equipment, appliances and accessories consumed for construction and operation of Gwadar Port and development of free zone for Gwadar Port.

Furthermore, Serial 20A is proposed to be inserted to provide exemption from levy of Federal Excise Duty on import of vehicles used in the operations at Gwadar Port by the specified Chinese Companies.

CUSTOMS

Customs Act, 1969

1. **Definitions**

   - **Goods declaration**
     Section 2(la)

     The term "Goods declaration" means goods declared under section 79, 104,121,131,139 and 144 of Customs Act, 1969 and goods declared electronically. These sections respectively covers goods declaration for home consumption/ warehousing, clearance of bonded goods, trans-shipment of goods without duty, export, declaration by passengers or crew members and goods imported or exported by post.

     The bill now seeks to add reference of section 147 in the definition to cover the declarations submitted by Coastal guards under the ambit of goods declaration.

   - **Controlled delivery**
     Section 2(z)

     The bill seeks to add new definition of "controlled delivery" which means, supervised and coordinated operational activity of suspected consignments of prohibited and restricted goods, including smuggled goods, which pass out of, through or into the territory of Pakistan in order to identify the persons involved in an offence cognizable under the Customs Act, 1969.

2. **Directorate General of Intelligence and Investigation, Federal Board of Revenues**
   Section 3A

   The Bill seeks to replace the words "Federal Board of Revenue" with the word "Customs" in the marginal note of this section. The proposed change strives for modification in the statutory designation to keep it more specific to customs.

3. **Directorate General of China Pakistan Economic Corridor**
   Section 3AAA

   The bill seeks to introduce a separate Collectorate for CPEC activities in Pakistan comprising Director General and other officers as notified by the Board. The objective is to effectively oversee and observe the trade flows under the CPEC.

4. **Assistance to the officers of customs**
   Section 7

   Currently the officers of Federal Excise, Police and the Civil Armed Forces are empowered and required to assist the officers of customs in discharge of their official duties. The bill now seeks to add the services of officers of National Highway and Pakistan Motorway Police in addition to extending the responsibility of all Inland Revenue Officers, instead of existing officials of Federal Excise, to assist customs authorities in discharge of their functions.

5. **Uniform**
   Section 8A

   The Board has issued several office orders for strict compliance of wearing uniforms and initiating legal actions for non-compliance. However, these orders were not being followed strictly. Therefore, the bill seeks to insert a new section, whereby the Board may prescribe rules for wearing of uniforms by the officers and staff of Customs services.

6. **General power to exempt from customs duties**
   Section 19(1), 19(5)

   Under sub section (1) of section 19, the Federal Government, with the approval of the Economic Coordination Committee of Cabinet, is empowered to exempt customs duties in specific circumstances. The Bill now seeks to shift this authority to the Board after obtaining approval of Minister in-charge of the Federal Government.

   The proposed amendment is aimed to expedite the process for granting exemption. Further, the proposed amendment also aims to restore the powers of Board, which were applicable under section 20 in exceptional circumstances and were withdrawn vide Finance Act, 2015.

   It is also proposed that all notification issued upto 1st July 2016 or thereafter shall, if not earlier rescinded, will continue to remain inforce up to 30 June 2018.

7. **Power to determine the customs value**
   Section 25A(2)

   This section empowers the Collector of Customs or the Director of Customs Valuation to determine the customs value, as per methods laid down under section 25.

   The bill seeks to add proviso to sub section (2) of section 25A, to clarify that if the value declared in a goods declaration for import or export is higher than the value determined under section 25, the declared value shall be considered as customs value.

The proposed proviso will give legal coverage to the assessment of customs value determined by the customs officials on the basis of declared value.

8. **Obligation to produce documents and provide information**
Section 26(1A)

This section empowers the officer of customs and the Board to obtain information from any person, which may be required for any purpose including any audit, inquiry or investigation.

The bill now seeks to insert new sub section (1A), empowering the Board or any authorized officer to obtain the information from any person for the purpose of End Use verification of goods. The key objective of this insertion is to control precursor goods for any prohibited use, like in narcotics, or in nuclear and biological weapons.

9. **Period for which goods may remain warehoused**
Section 98(1), 98(3)

This section prescribes that the notified perishable goods and other notified goods can be stored at customs warehouses without payment of duties, taxes and other levies for a period of three months and six months respectively. Further, the power of extending time limit for warehousing was bestowed upon the Collector of Customs and the Federal Government.

The bill now seeks to extend this power to the Chief Collector of Customs, who may extend the period of storage in case of notified perishable goods for one month and for other notified goods, for three months.

Further, the Federal government is authorized to limit the period for which the goods may remain in the warehouse. Another amendment is also proposed to enhance the authority of the Federal Government to not only limit the periods but also to regulate the periods by issuing any instructions, guidelines, standing operating procedure (SOPs) for retention of the goods at customs warehouse.

10. **Cancellation of registration of registered user**
Section 155F

This section confers power to the Collector of Customs for cancellation of registration or confirming the suspension of registration of user of Customs Computerized System in case of certain defaults. Currently, the aggrieved person has no right of appeal but to approach the Board against the order of the Collector.

The bill seeks to add third proviso in section 155F, whereby the aggrieved person may file appeal before the Chief Collector within thirty days of communication of the order. The Chief Collector by passing an order may annul, modify or confirm the order passed by the Collector.

11. **Punishment for offences**
Section 156

In accordance with section 14A of the Act, any agency or person including port authorities, customs airport, land customs station or a container freight stations shall entertain the delay and detention certificate issued by an authorized officer. The authorities will refund the amount of demurrage charged without any fault of importer or exporter. However, normally, the officers were not entertaining the said certificate, causing non refund of demurrage charges.

The bill seeks to insert entry No. 7A in the Table provided in section 156 of the Act imposing penalty of Rs.500,000 where such delay and detention certificate is not entertained by the aforementioned agency, person or port authority.

The bill also seeks to insert sub section (4) in section 156 of the Act, allowing the Board to regulate the imposition of any penalty including its time and manner.

12. **Powers of Board or Collector to pass certain orders**
Section 195

Presently the Board or Collector of Customs are authorized to call and examine the record of any proceeding to check legality of decision or order passed by a subordinate officer and pass an order as they deem appropriate. The bill seeks to extend this power to Collector (Adjudication) as well.

The bill also seeks to empower the Board, Collector of Customs or the Collector of Customs (Adjudication) to assign the case to an officer of equal or higher rank in comparison to the officer who has passed the original order under review.

13. **Appeals to Collector (Appeals) / Appellate Tribunal**
Section 193

Presently, the order issued under section 195 of the Act issued by the Board or the Collector Customs may be challenged before the Appellate Tribunal. Keeping in view the amendment proposed in section 195, any order passed by the officer below the rank of the Additional Collector, is proposed to be challenged in appeal before the Collector Appeals.

14. Appeals to the Appellate Tribunal
Section 194-A(1)(d)

An order passed by the Board or the Collector of Customs under section 195 is appealable before the Appellate Tribunal under the powers vested by this section.

The bill seeks to replace the said clause by virtue of which an order passed under section 195 of the Act by the Board or an officer of Customs not below the rank of Additional Collector is proposed to be appealable before the Appellate Tribunal.

15. Power to enter into mutual legal assistance agreements on customs matters
Section 219A

The bill seeks to empower the Board, whereby it may on its own motion or upon request by any international organization, foreign customs administration or any other foreign competent authority, can enter into Memorandum of Understanding (MoU) relating to mutual legal assistance for customs matters.

Further, in respect of bilateral or multilateral agreements, the Board may undertake activities including coordinated border management, information and data sharing, special operations for controlled delivery, capacity building, technical assistance and any other matter.

For this purpose, the bill seeks to authorize the Board to prescribe rules by issuing notification.

16. Validation
Section 221-A

The bill proposes to insert a new section whereby all notifications and orders issued and notified, in exercise of the powers conferred upon the Federal Government, before first day of July 2017 shall be deemed to have been validly issued and notified in exercise of the powers, notwithstanding anything contained in any judgment of a High Court or the Supreme Court.

The proposed insertion is based on the recent judgment of Honorable Supreme Court of Pakistan on Article 90 of the Constitution of Islamic Republic of Pakistan subsequent to the 18th Constitutional amendment, which regulates the authority of the Federal Government.

17. First Schedule and Fifth Schedule

The bill seeks to substitute the First Schedule and the Fifth Schedule. However, the proposed substitutions have not been released.

The salient features available at the website of FBR reveals the following:

- Exemption and substantial reduction in customs duty and regulatory duty for poultry items, ostriches, aluminum waste, raw skin hides, stamping foils, sheets for veneering, pre-fabricated modular clean rooms panels and non-woven fabric imported by pharma industry.
- Increase of duty on import of synthetic filament yarn and aluminum beverages cans, and reduction of duty on uncoated polyester and aluminum wire and raw material for the manufacture of baby diapers for the protection of local industry
- Extension of date from 30 June 2017 to 30 June 2018 for non-application of condition of "local manufacturing" on import of solar panels and related components.
- Reduction in duty to 3% on import of coal by IPPs.
- Levy and increase of Regulatory duty on 565 items ranging from 5% to 15%.
- Levy of regulatory duty on import of telecom equipment at the rate of 9%, while granting exemption from customs duty.

EY| Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ey.com/pk

KARACHI

Progressive Plaza
Beaumont Road
Karachi - 75530
Tel: 92 21 35650007-11
Fax: 92 21 35681965
Email: ey.khi@pk.ey.com
URL: www.ey.com

LAHORE

96-B/1, Pace Mall Building
4th Floor, M. M. Alam Road
Gulberg II, Lahore-54660
Tel: 92 42 35778402-11
Fax: 92 42 35778412-13
Email: ey.lhr@pk.ey.com
URL: www.ey.com

ISLAMABAD

Eagle Plaza, 75-West
Fazalul-Haq Road
Blue Area, Islamabad-44000
Tel: 92 51 2344160-2
Fax: 92 51 2344163
Email: ey.isb@pk.ey.com
URL: www.ey.com

KABUL

House1013 Street2,
Shirpoor Road
Kabul
Afghanistan
Tel: +93 (0) 752055025
Email: ey.kbl@af.ey.com
URL: www.ey.com