

Budget 2017-18 Economic Review & Significant Tax Amendments





PRESIDENT'S MESSAGE



This budget brief gives an overview of the country's economy for the financial year 2017-18 and the important changes which are proposed through the Finance Bill 2017-18 tabled before the Parliament on May 26, 2017. This is the inaugural budget brief of "Tola Associates". We have been presenting our commentary on the budget under the name of Naveed Zafar Ashfaq Jaffery & Co., Chartered Accountants.

The instant commentary contains highlights on the proposed budget and comments on the changes proposed in the bill 2017; through the Income Tax Ordinance, 2001; the Sales Tax Act, 1990 and the Federal Excise Act, 2005.

The amendments proposed through these laws are intended to be effective, once the Bill is passed by the Parliament in its present form or with some amendments and would therefore be effective thereafter, unless otherwise indicated.

This Tax Memorandum is intended to provide general guidance to our clients and other readers on the important changes proposed to be brought through the Bill and should not be construed as an expert advice relating to a particular matter. For assessing the impact of proposed changes, reference should be made to the appropriate wording to the relevant law, notifications issued thereunder and judgment given by the Courts.

This Memorandum has been prepared exclusively for the use of our staff, clients and intended readers based on public information available with us till the time of giving it for printing. This Memorandum should not be published or printed in any manner without seeking a written consent from us.

It should be noted that the instant commentary is our interpretation of the changes proposed in the Finance Bill 2017. Our comments in this commentary should not be construed as definite and should therefore, be used only as a guidance.

Please be informed that this is only a brief overview and the detailed summary shall be issued in this regard after the approval of the federal finance bill and provincial finance bills from their respective assemblies.

Warm Regards
For & on behalf of
Tola Associates

A handwritten signature in blue ink, appearing to read "Ashfaq Tola".

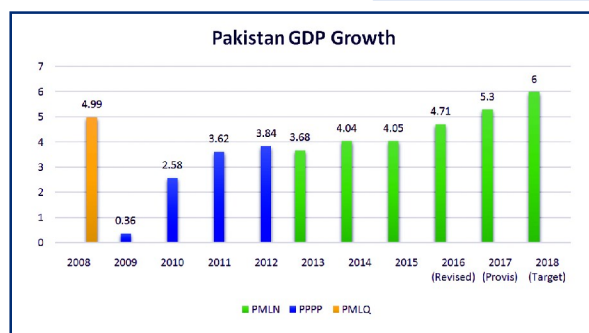
AshfaqTola - FCA
President

Budget 2017-18 - An Economic Over View

During fiscal year 2016-17, Pakistan has achieved a 5.28% economic growth provisionally, the highest in a decade, due to recovery in the agriculture sector and better than expected performance in the services sector. The growth enlists the country in economies that have a size of over \$300 billion.

National Accounts Committee ("NAC") has projected the Gross Domestic Product, the value in money terms of all goods and services produced in one year, to have grown at a rate of 5.28% during the fiscal year 2016-17 ending on June 30. At 5.3%, Pakistan's economic growth has finally attained the pace it had before the crisis hit the country in 2008, and for next fiscal year 2017-18, the government has set the GDP growth target at 6%. The results are better than the forecasts made by international financial institutions. A growth rate of over 5% has resulted in Pakistan's economy to be increased to \$304.4 billion.

Pakistan has been successful in posting sustained GDP growth rates during last five Fiscal years which is depicted in below graph:



The growth rate has been contributed majorly by services sector which has contributed 67% to total GDP Growth. The services sector performed better than the estimates. The services sector accounts for more than half the economy and it grew by almost 6% against a target of 5.7%. Aided by government borrowing; increase in the money supply; increased investment in PSX and increased leverages by commercial banks, the financial services sector and government services beat expectations. Wholesale and retail trade posted

6.8% growth against a target of 5.5% due to increased imports. The imports rose sharply by 20% during FY 2016-17 (\$36.2 billion) as compared to previous year (\$43.5 billion). Transport, storage & communication sub sector saw 3.9% growth. Finance and insurance witnessed 10.8% growth against a target of 7.2%.

Major key growth indicators hit the Government's targeted growth rates (11 out of 20). The agriculture sector performed better due to exceptional growth in forestry and better performance of major important crops. The sector grew at a pace of 3.5%, equivalent to the annual target. The government specially focused on the sector which employs approximately 37% of the labour force.

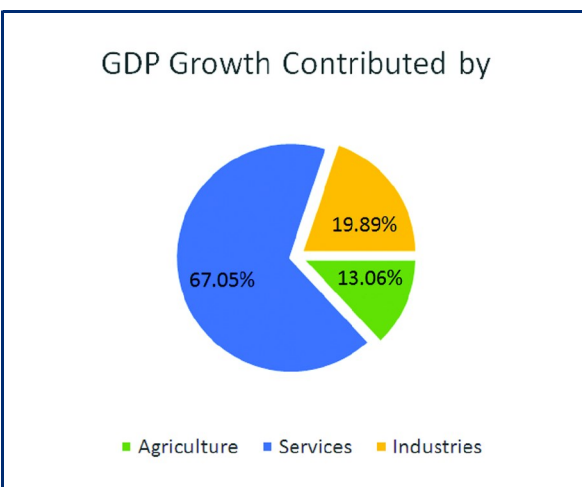
Production of major crops had 4.1% growth. Cotton ginning remained even better than the 2.5% target and showed 5.6% growth. Livestock also recorded 3.4% growth but missed the annual target with a small margin. Forestry sector showed 14.5% growth, which was many times more than the 3% annual target. The targets set by the Government and actual achievement of the same of major sectors are listed hereunder:

Sectors	Target Growth	Growth achieved (on the basis of provisional data)
Agriculture	3.5 %	3.5 %
Cotton ginning	2.5 %	5.6 %
Livestock	3.5 %	3.4 %
Forestry	3 %	14.5 %
Fishing	3 %	1.2 %
Service	5.7 %	6 %
Wholesale and Retail Trade		
Transport, Storage & Communication.	5.7 %	6 %
Finance and Insurance	7.2 %	10.8 %
Industries	7.7 %	5 %

*Source: National Accounts Committee Press briefing

Agriculture sector, Services sector and Industrial sector contributed 13.06%, 67.05% and 19.89% to the GDP growth.

Budget 2017-18 - An Economic Over View



For fiscal Year 2017-18, the federal cabinet has set a target of 6% growth rate with an increase in development budget while seeking special package to attract foreign remittances. This will be for the first time after more than two decades that the country will achieve 6% growth rate without any external aid or war related inflows. Over 7% economic growth rate that Pakistan achieved in last decade was the result of foreign aid flows.

On an individual front, Pakistan's per capita income has grown to \$1,629. In dollar terms the per capita income has grown by 6.4% to \$1,629 – up \$98 per person in the outgoing fiscal year 2016-17. Relatively stable exchange rate of Pakistani rupee against the US dollar, low population growth rate and an increase in economic growth rate are said to be reasons behind 6.4% increase in per capita income.

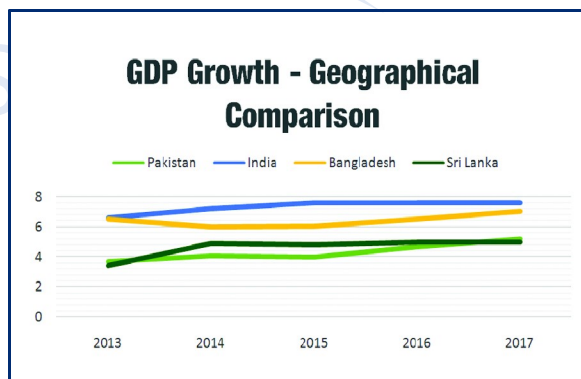
Despite an increase in per capita income, the country continues to be in the league of low middle-income countries. It needs to enhance per capita income to over \$4,000 to be labeled a middle-income country. To arrive at the per capita income figure, the Pakistan Bureau of Statistics estimated 1.9% growth in the country's population that reached 197.3 million this year. It then divided the total national income with the number of people and arrived at per capita income of \$1,629.

With respect to ranking of Pakistan in ease of doing business, the World Bank, has recognised Pakistan among the top 10 economies that have made the biggest improvements in their business regulations. The report deems Pakistan as the only South Asian economy having improved its position from 148 to 144 out of 190 countries. This improvement was made as a result of efforts by the federal and provincial governments. The key reform areas of business climate improvement were simplification of business registration procedures among other reforms.

GDP Growth - Geographical Comparison

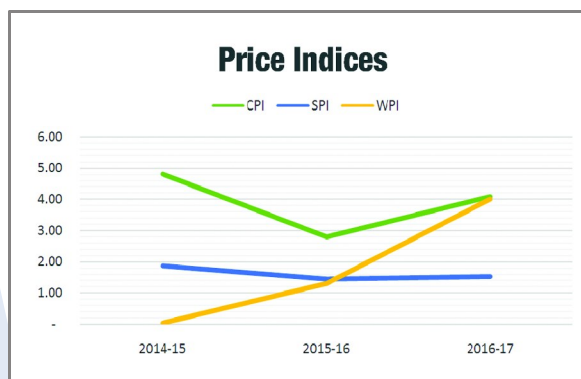
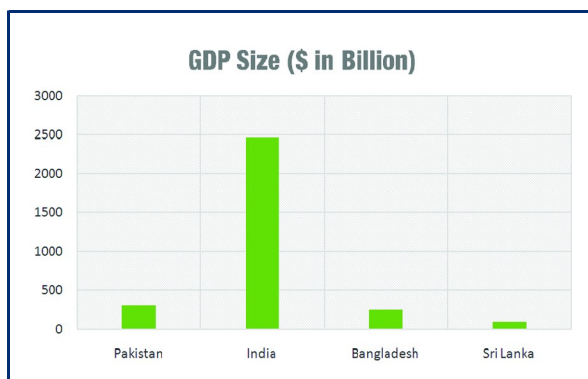
	Pakistan	India	Bangladesh	Sri Lanka
2013	3.7	6.6	6.52	3.4
2014	4.1	7.2	6.01	4.9
2015	4	7.6	6.06	4.8
2016	4.7	7.6	6.55	5
2017	5.2	7.6	7.05	5
GDP Size (\$ in Billion)	304.4	2457.7	246	87.6
Tax To GDP ratio (2013)	11.18	10.99	8.96	10.49

*Source: www.tradingonline.com



A comparison of growth with other countries of region shows Pakistan's growth has been consistent as compared to India and Sri Lanka. The GDP growth of India has been stagnant for last three years, whereas, Pakistan's GDP growth has shown improvements.

Budget 2017-18 - An Economic Over View



Price Indices

	2014-15	2015-16	2016-17
CPI	4.81	2.79	4.09
SPI	1.86	1.44	1.51
WPI	0.03	1.30	4.00

*Source: SBP

The **Consumer Price Index ("CPI")**, a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care which is calculated by taking price changes for each item in the predetermined basket of goods and averaging them, has increased by 4.09% on an average for the period of July 2016 to April 2017 in comparison with similar previous period.

Sensitive Price Indicator ("SPI"), the degree to which the price of a product affects consumers' purchasing behaviors, has also increased by 1.51% on an average for the period of July 2016 to April 2017 in comparison with similar previous period.

Wholesale Price Index ("WPI"), the price of a representative basket of wholesale goods, has also increased by 4% on an average for the period of July 2016 to April 2017 in comparison with similar previous period.

Monetary Aggregates

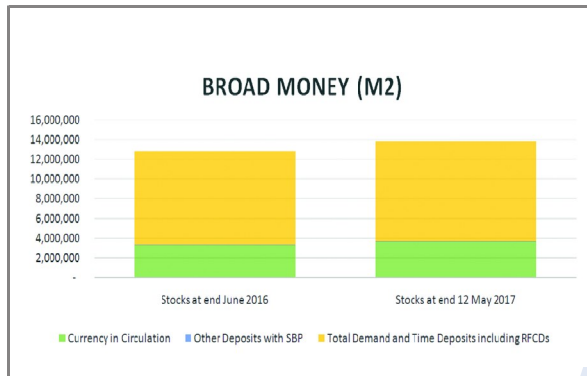
	(Rs. In Million)			
	Stocks at end June 2016	Flows from July 1 to 12 May 2017	Flows from July 1 to 12 May 2016	Stocks at end 12 May 2017
Currency in Circulation	3,333,784	339,745	611,126	3,673,529
Other Deposits with SBP	18,756	3,852	5,615	22,608
Total Demand and Time Deposits including RFCDs	9,472,313	661,095	164,335	10,133,408
Broad Money (M2)	12,824,853	1,004,692	781,076	13,829,545
Growth		7.83%	6.92%	13.20%

*Source: PBS

The stock of currency in circulation was Rs. 3,333 billion at the end of June 2016. During the period of July 2016 to 12th May 2017, there has been an increase in circulation of Rs. 339 billion (Rs. 611 billion for same previous period), making the stock of currency in circulation to be Rs. 3,673 billion.

Other deposits with State Bank of Pakistan ("SBP") were also increased by 3.85 billion from Rs. 18.75 billion to Rs. 22.6 billion. Total demand and time deposits were also rose to Rs. 10,133 billion from 9,472 billion posting an inflow of Rs. 661 billion.

Budget 2017-18 - An Economic Over View

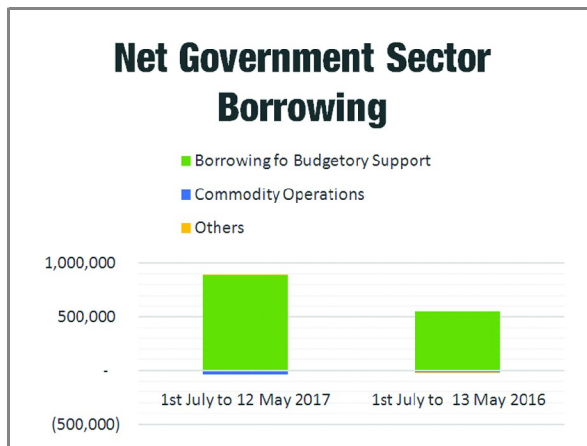


Net Government Sector Borrowing

	(Rs. In Million)	
	1st July to 12 May 2017	1st July to 13 May 2016
Borrowing for Budgetary Support	883,385	550,255
Commodity Operations	(34,283)	(13,263)
Others	2,564	(633)
Net Government Sector Borrowing	851,666	536,359

*Source: PBS

Net Government Borrowing was Rs. 851 billion during July 2016 to 12th May, 2017, which was Rs. 536 billion for the similar previous periods. The Government borrowings were majorly utilized to support budgetary deficit (Rs. 883 billion). The support for budgetary deficit was also contributed from commodity operations (Rs. 34 billion).

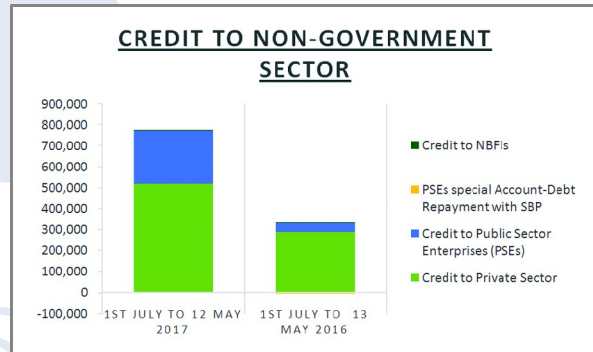


Credit to Non-Government Sector

	(Rs. In Million)	
	1st July to 12 May 2017	1st July to 13 May 2016
Credit to Private Sector	519,227	290,143
Credit to Public Sector Enterprises (PSEs)	252,411	44,722
PSEs special Account-Debt Repayment with SBP	0	(169)
Credit to NBFIs	3,830	663
Credit to Non-Government Sector	775,468	335,359

*Source: PBS

Credit to Non-Government sector was Rs. 775 billion during July 2016 to 12th May, 2017, which was Rs. 335 billion for the similar previous periods. The credit constituted of credit to Private Sector (Rs. 519 billion), Credit to Public Sector Enterprises (Rs. 252 billion) and credit to NBFIs Rs (3.8 billion)



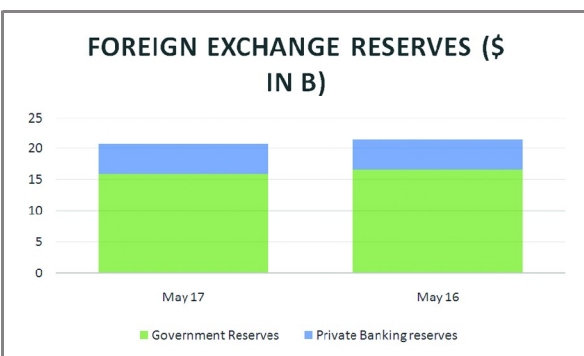
Foreign Exchange Reserves

	(\$ in Billion)	
	May 17	May 16
Foreign Exchange Reserves	20.68	21.38
Government Reserves	15.9	16.5
Private Banking reserves	4.78	4.88
Total	20.68	21.38

*Source: PBS

Foreign Exchange reserves, as on May 2017, decreased by 3.3% to \$20.68 billion from May 2016 figure of \$21.38 billion. The decline was contributed by a 3.6% drop in Government Reserves (from \$ 16.5 billion to \$ 15.9 billion) and 2% drop in Private Banking Reserves (from \$ 4.88 billion to \$ 4.78 billion).

Budget 2017-18 - An Economic Over View



Pakistan Development Update by World Bank

Pakistan Development Update, which is released twice a year, sets out recent developments across the economy and identifies risks and opportunities in the near-term future before focusing on a handful of key development challenges.

This issue of the Pakistan Development Update includes the following highlights:

- Pakistan's growth will continue to benefit from growing consumer and investor confidence in the first half of FY17, following the successful efforts to restore macro-economic stability during the last 4 years. The report highlights that more recently, weakening trade and fiscal balances point toward the need to continue with the reform efforts to consolidate the hard won stability.
- The report discusses a number of challenges that the provincial governments are facing. Using Punjab as an example, it is highlighted that while provincial own-source revenues have significantly increased in recent years, there could have been a further significant gains, if tax policy and administration reforms were implemented.
- A moderate increase in investment (related to China-Pakistan Economic Corridor projects) is expected to supplement growth, driven primarily by public and private consumption. But the country's current

account deficit and fiscal balances deteriorated in the first half of the financial year, which could affect the reform momentum. The report emphasized the importance of collaboration between federal and provincial governments in delivering on the country's reform agenda.

- The report also highlights the importance of the skilling of the youth bulge for better jobs. The Punjab Government's is putting in efforts to significantly increase the scale of technical and vocational training programs in an attempt to boost job prospects for the province's 'youth bulge'. Several next steps in this area are identified in the report including the application of quality standards and the introduction of initiatives to improve matching between jobseekers and prospective employers.

CPEC Impact on Socioeconomic Conditions:

The success of China Pakistan Economic Corridor ("CPEC"), will have three major benefits, i.e. Resolution of Energy Crisis, Development of Infrastructure and Regional Connectivity. Energy Crisis resolution and Infrastructural Development is expected to contribute to incremental growth in GDP of 2% and 1.5%, respectively, i.e. a combined additional growth of 3.5%, which, after accounting for existing growth rate, will expectedly result in GDP growth of 8.5%.

Regional connectivity will improve the ease of doing business which will in turn improve the business competitiveness. This will stimulate inflow of and growth in investment. Major sectors to have positive investment growth are construction, cement, energy, real estate, logistics, transportation, banking and finance, auto and allied services, technical and vocational education, health and pharmaceutical, chemical, security services, airline industry, shipping industry, telecommunication, and engineering.

The above three benefits will also additionally contribute to reduction in Unemployment, which will have a further positive impact on GDP growth.

Budget 2017-18 - Income Tax

1. Amendment in definition of Consumer Goods - S.2(22A)

Durable goods have been proposed to be excluded from definition of Consumer goods vide FB 2017.

2. Continuation of Super Tax (S. 4B)

A super tax was levied, for tax year 2016, vide Finance Act 2015 ("FA-15") for every banking company and every other company whose taxable profits exceeded Rs.500 million. The super tax was charged in the backdrop of Military operation 'Zarb-e-Azb' for rehabilitation of Temporarily Displaced Persons ("TDPs"). The tax was levied at 4% for Banking Companies and at 2% for others. The tax was continued for tax year 2017 also.

Finance Bill 2017 ("FB-17") proposes to further continue the super tax for tax year 2018. The matter is sub-judice.

3. Undistributed Reserves (S. 5A)

It has been proposed that tax at 10% on every public company other than a scheduled bank or a modaraba, 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.

4. Abolition of Fixed Tax Regime for Builders and Developers (S. 7C and 7D)

FA-16 introduced a separate tax slab for builders and Developers at the following rates, which was a full and final discharge of their tax liability:

Proposed Tax Rates for Builders					
(A) For Karachi, Lahore & Islamabad		(B) For Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbotabad, Quetta		(C) For Urban Areas not specified in A&B	
Commercial Buildings	Rs. 210/Sq.ft	Commercial Buildings	Rs. 210/Sq.ft	Commercial Buildings	Rs. 210/Sq.ft
Residential Buildings & Offices		Residential Buildings & Offices		Residential Buildings & Offices	
Area/Sq.ft	Rate/Sq.ft	Area/Sq.ft	Rate/Sq.ft	Area/Sq.ft	Rate/Sq.ft
Up to 750	Rs.20	Up to 750	Rs. 15	Up to 750	Rs. 10
751 to 1500	Rs.40	751 to 1500	Rs. 35	751 to 1500	Rs. 25
1501 & More	Rs.70	1501 & More	Rs. 55	1501 & More	Rs. 35

Proposed Tax Rates for Land Developers					
(A) For Karachi, Lahore & Islamabad		(B) For Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbotabad, Quetta		(C) For Urban Areas not specified in A&B	
Commercial Plots	Rs. 210/Sq.yd	Commercial Plots	Rs. 210/Sq.yd	Commercial Plots	Rs. 210/Sq.yd
Residential Plots		Residential Plots		Residential Plots	
Area/Sq.yd	Rate/Sq.yd	Area/Sq.yd	Rate/Sq.yd	Area/Sq.yd	Rate/Sq.yd
Up to 120	Rs.20	Up to 120	Rs. 15	Up to 120	Rs. 10
121 to 200	Rs.40	121 to 200	Rs. 35	121 to 200	Rs. 25
201 & More	Rs.70	201 & More	Rs. 55	201 & More	Rs. 35

Budget 2017-18 - Income Tax

It has been proposed that, from TY 2018 onwards, builders and Developers may be taxed under normal tax regime instead of fixed tax regime introduced vide FA 2016.

The proposed amendment may not be applied on projects undertaken for development and sale of residential, commercial or other plots initiated and approved.

- a) during tax year 2017 only;
- b) for which payment of prescribed taxes has been made by the developer/builder during tax year 2017; and
- c) the Chief Commissioner has issued online schedule of advance tax installments to be paid by the developer.

We believe that the scheme of FTR should have been continued for another for consistency.

5. **Limit of interest free loans from Employer exceeded - S. 13(7)**

Currently, for interest free loans in form employer to employee in excess of Rs. 500,000, profit at benchmark rate of 10% is included in the salary income of employee. The limit of Rs. 500,000 is proposed to be increased to Rs. 1 million vide FB 2017.

6. **Limit of sales promotion expense expanded - S.21(o)**

Currently, expenses on account of sales promotion or advertisement are allowed as deductible expenses upto 5% of turnover of a pharmaceutical company. This cap has been proposed to be increased upto 10% vide FB 2017.

7. **Depreciation on Jointly owned assets under Musharika - S.22(15)**

FB 17 has proposed an amendment, whereby, an asset jointly owned by a tax payer and an Islamic Financial Institution ("IFI") licensed by the State Bank of Pakistan or Securities and Exchange Commission of Pakistan, as the case may be, pursuant to an arrangement of Musharika financing or Diminishing Musharika Financing or Ijara, shall be treated to be owned by the taxpayer.

This has the effect that the whole asset shall be treated to be owned by the taxpayer for the purpose of claiming depreciation. This amendment has been proposed to neutralize tax advantage commercial banks used to have over IFIs.

The amendment was recommended by subcommittee formed by the Honorable Finance Minister which was headed by President, Tola Associates.

8. **Deductible Allowance for Education Expense - S.64AB renumbered as 60D**

FA 2016 introduced a tax credit for educational expenses incurred by an individual for his children may be allowed provided the person's taxable income does not exceed Rupees one million. The limit of tax credit was actual payment, 25% of taxable income or Rs.60,000 per children, whichever is lower.

The above limit of Rs. 1,000,000/- has been proposed to be increased to Rs. 1,500,000/- vide FB 2017.

Budget 2017-18 - Income Tax

9. Tax Credit on Health Insurance - S. 62A

FA-16 introduced tax credit for premium paid on health Insurance policy. The tax credit was set to be lower of actual payment of premium, 5% of Taxable income or Rs. 100,000. This limit of Rs. 100,000 has been proposed to be increased to Rs. 150,000.

10. Tax Credit for Purchases from Registered Person - 65A

FA 2009 inserted section 65A, wherein, every manufacturer registered under Sales Tax Act, 1990 ("STA"), is entitled to a tax credit of 2.5% of tax payable in a tax year if 90 % or more of his sales are made to persons registered under STA during the said tax year.

FA-16 extended the above tax credit to 3% from 2.5% of tax payable and allowed additional tax credit of 0.5% to the said registered manufacturer if 90% or more of his purchases are made from persons registered under STA during the said tax year.

FB 2017 proposes to omit the above tax credit. This will credit discouragement to buy goods from Sales Tax Registered Persons.

11. Tax Credit for Enlistment - 65C

Section 65C was first inserted vide FA 2010 and a tax credit of 5% tax payable was allowed for companies which enlist in a registered stock exchange in Pakistan during subject tax year. Later, vide FA 2011 and FA 2015, the tax credit was increased to 15% and 20% respectively. The said credit was allowed for only one year, i.e. the year in which the company is enlisted.

FA 16 extended the above credit of 20% for two years instead of only one year. Now, FB 2017 proposes to further extend the benefit for following three tax year in addition to tax year of enlistment. However, the tax credit for the last two years will be allowed only upto 10%.

12. Dividend from Non-Resident Company - S. 94(3)

Section 94(3) of ITO provides that dividend from a non-resident company to a resident person shall be taxable under the head "Income from business" or "Income from other sources". FB 17 proposes to omit subsection (3) of section 94 of ITO. This will have the effect that dividend, whether received from resident or non-resident company, will be taxable under section 5 of ITO, i.e. Tax on Dividends.

13. Profits and Gains of Sui Gas Field - S. 100(2)

FB 17 has proposed to amend section 100(2) of ITO to bring the profit and gains derived from sui gas field within the purview of Fifth Schedule, i.e. Rules for the computation of the profits and gains from the exploration and extraction Mineral Deposits. Currently, as per subsection (2) section 100 of ITO, production of natural gas has been excluded from the purview of Fifth Schedule.

14. Tax Credit for Non-Profit organizations - S. 100C

Currently, to avail tax credit of 100%, a non-profit organization is required to fulfill following conditions, namely:

- a) return has been filed;
- b) tax required to be deducted or collected has been deducted or collected and paid; and
- c) withholding tax statements for the immediately preceding tax year have been filed.

FB 2017 proposes to add another condition, i.e. the administrative and management expenditure does not exceed 15% of the total receipts.

FB 17 also proposes to tax surplus funds at the rate of 10%.

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15. Minimum Tax Rate - S. 113

Section 113 was inserted by FA 2009. It was earlier omitted by FA 2008. As per section 113, Minimum tax @ 1% of turnover (turnover tax) is charged in case of a company and in case of an Individual or AOP (with specified turnover limit of Rs.10 million). FB 2017 proposes to increase turnover tax rate from 1% to 1.25% to encourage proper declaration of Revenues and expenses, so that the taxpayer falls under normal tax liability instead of minimum tax liability.

16. Requirement of return filing by widows, orphans and disabled – S. 115

Currently, Section 114 of ITO requires following persons, among others, to file return of income who:

- i. owns immovable property with a land area of five hundred square yards or more located in a rating area;
- ii. owns a flat having covered area of two thousand square feet or more located in a rating area
- iii. owns a motor vehicle having engine capacity above 1000CC.

FB 2017 proposes to relieve widows, orphans and disabled from requirement of filing return of income, who are solely required to file return of income due to above three reasons.

17. Extension in time for furnishing return of income - S. 119

Section 119 of ITO empowers Commissioner to grant extension in time for filing of return or other documents. FB 2017 proposes to empower Chief Commissioner also to grant such extension if the same is not granted by the Commissioner.

18. Power of Best Judgment Assessment - S. 121

As per section 121 of ITO, the Commissioner is empowered to make a best Judgment Assessment on the basis of available information in certain circumstances. FB 2017 proposes to widen the power of Commissioner of Best Judgment Assessment in the event of failure by the taxpayer to comply with the notices of Commissioner to file return of Income.

19. Provisional Assessment - S. 122C

As per section 121 of ITO, the Commissioner is empowered to make a provisional Assessment on the basis of available information in the event of failure by the taxpayer to comply with the notices of Commissioner to file return of Income.

FB 2017 has proposed to omit the section as the provisions of this section are proposed to be embedded in section 121 of ITO as discussed in previous paragraphs.

Another impact of this omission will be eligibility of taxpayer to file an appeal as currently no appeal may be filed against an order under section 122C.

20. Advance Tax - S. 147

Under section 147, an individual or AOP having latest assessed income of Rs. 500,000 or more and every company AOP is required to pay advance tax on quarterly basis. FB 2017 proposes to enhance this limit of Rs. 500,000 to Rs. 1,000,000/-.

21. Import of Fertilizer - S. 148

Currently, as per section 148 of ITO, income tax deducted at import stage is final tax except following:

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- 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 (with certain conditions); and
- e) a foreign produced film imported for the purposes of screening and viewing

FB 2017 proposes to omit clause b above. This has the effect that tax deducted on import of fertilizer shall be a final tax.

22. Option to revise statement of withholding tax - S. 165

FB 2017 proposes to amend section 165 of ITO and to provide an option to the filers of the withholding tax statements to revise the statement within 60 days of filing of the same in the event of any error or omission.

23. Collection of Tax by Stock Exchange - S.233A

Currently, advance tax is collected by PSX on sale and purchase of share in lieu of Commission by its members at the rates of 0.02% of the values of sales or purchase, as the case may be, which is adjustable. FB 2017 proposes to make this collection of advance tax as a final tax liability.

24. Advance Tax on Electricity consumption by a CNG station - S. 234A and S. 235

Currently, advance tax collected on consumption of electricity by industrial or commercial user is adjustable. FB 2017 that advance tax on electricity consumption by CNG station may be made final tax liability of income of CNG stations in addition to 4% final advance tax liability on gas consumption.

FB 2017 also proposes to increase the rate of advance tax from 4% to 6% for non-filers.

25. Advance Tax on Electricity consumption by a CNG station - S. 234A and S. 235

Currently, advance tax collected on consumption of electricity by a non-corporate industrial or commercial consumer is adjustable over and above the billed amount of Rs. 30,000. FB 2017 proposes to enhance this limit upto billed amount of Rs. 360,000, i.e. tax collected on the billed amount of less than Rs. 360,000 shall be minimum tax liability and no adjustment of such tax collected shall be available.

26. Advance Tax on Sale or Transfer of Immovable property - S. 236C

Currently, advance tax collected at 1% (2% for filers) of the gross value on sale or transfer of immovable property is adjustable. FB 2017 proposes that in the event of purchase and sale of an immovable property in the same tax year, the tax so collected shall be minimum tax.

27. Advance Tax on Tobacco - S. 236X

FB 2017 proposes to insert a new section, whereby, Pakistan Tobacco Board, at the time of collecting cess on tobacco, directly or indirectly, shall collect advance tax at the rate of five percent of the purchase value of tobacco from every person purchasing tobacco including manufacturers of cigarettes. The tax so collected will be adjustable.

28. Tax Rates on dividend - Sch. I, Div. III, Part I

The current chargeability and proposed rates of tax on dividends is tabulated below:

Budget 2017-18 - Income Tax

Recipient of Dividend	TY 2017	Proposed TY 2018
Shareholders of a: <ul style="list-style-type: none"> - Power project privatized by WAPDA - Company setup for power generation - Company supplying coal exclusively to power generation projects 	7.5%	7.5%
Dividend received from a mutual fund <ul style="list-style-type: none"> • received by a company • Received by Individual or AOP 	25% 10% (15% for Non-Filer)	25% 12.5% (15% for Non-Filer)
Dividend received from a stock fund <ul style="list-style-type: none"> • if dividend receipts are less than capital gains • if dividend receipts are equal to or more than capital gains 	12.5% 10% (15% for Non-Filer)	12.5% 10% (15% for Non-Filer)
Dividend from a collective investment scheme, REIT scheme etc. <ul style="list-style-type: none"> • received by a company • Received by Individual or AOP 	25% 10%	25% 10%
Other corporate and non-corporate shareholders: <ul style="list-style-type: none"> • Filer • Non-Filer 	12.5% 20% (7.5% adjustable in case he files return of income)	15% 20% (7.5% adjustable in case he files return of income)

29. Tax Rates on Profit on Debt - Sch. I, Div. IIIA, Part I

The current chargeability and proposed rates of tax on profit on debt is tabulated below

Current	
Profit on Debt	Rate of Tax
Where profit on debt does not exceed Rs.25,000,000	10%
Where profit on debt exceeds Rs.25,000,000 but does not exceed Rs.50,000,000	Rs.2,500,000 + 12.5% of the amount exceeding Rs 25,000,000
Where profit on debt exceeds Rs.50,000,000	Rs. 5,625,000 + 15% of the amount exceeding Rs.50,000,000"

Proposed	
Profit on Debt	Rate of Tax
Where profit on debt does not exceed Rs.5,000,000	10%
Where profit on debt exceeds Rs.5,000,000 but does not exceed Rs.25,000,000	12.5%
Where profit on debt exceeds Rs.25,000,000	15%

30. Advance Tax Rates on income from property - Sch. I, Div. V, Part III

Currently, advance tax is charged at 15% of gross amount of rent in case the owner is a company. FB 2017 proposes to increase this rate to 17.5% in case the company is a non-filer.

31. Advance Tax Rates on Prizes and Winnings - Sch. I, Div. VI, Part III

Currently, advance tax is collected at 15% of gross amount of prizes and winnings in case of filer and 20% in case of non-filer. FB 2017 proposes to increase this rate to 25% in case of non-filer.

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32. Advance Tax Rates on Petroleum Products- Sch. I, Div. VIA, Part III

Currently, advance tax is collected from the amount of commission at 12% for filers and at 15% FOR non-filers. FB 2017 proposes to increase the rate for non-filers to 17.5%.

Category of sale	Rate of Tax	
	Filer	Non-Filer
Electronics	1%	1%
Others	0.5%	

33. Advance Tax Rates on telephone and internet user - Sch. I, Div. V, Part IV

Currently, in case of subscriber of internet, mobile telephone and prepaid internet of telephone or telephone card, advance tax at 14% is collected. This rate is proposed to be reduced to 12.5% vide FB 2017.

37. Advance Tax on Insurance Premium - Sch. I, Div. XXV, Part IV

Currently advance tax is collected from non-filers on insurance premium as under:

Type of Premium	Current rate
General Insurance Premium	4%
Life insurance premium if exceeding Rs. 0.2 million per annum	1%
Others	0%

34. Advance Tax on Motor Vehicles – Sch. I, Div. VII, Part IV

FB 2017 proposes to reduce advance tax amounts from Rs. 10,000; Rs. 20,000 and Rs. 30,000 to Rs. 7,500; Rs. 15,000 and 25,000 for categories upto 850cc; 1000cc and 1300cc, respectively for filers.

FB 2017 proposes to extend the above limit of Rs. 0.2 million to Rs. 0.3 million.

35. Advance Tax on Sale by Auction - Sch. I, Div. VIII, Part IV

FB 2017 proposes to introduce advance tax on sales by auction at 15% for non-filers. Currently this rate is 10% irrespective of status of filer or non-filer.

38. Advance Tax on Payment to Non-Residents - S. 152

The current and proposed rates of advance taxes on payments to Non-Residents are as under:

36. Advance Tax on Sale to Retailers - Sch. I, Div. XV, Part IV

Currently, advance tax on sales to retailers by distributors and/or wholesalers is collected at 0.5% of the gross amount of sales. FB 2017 proposes following rates:

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Description	Current Rate	Proposed Rate
Royalty/ Fee for Technical Services	7% (For Filer) 12% (For Non-Filer)	7% (For Filer) 13% (For Non-Filer)
Insurance Premium or Reinsurance Premium	5%	5%
Other Services	20%	20%
Non Resident/ Media Person	10%	10%
Permanent Establishment of Non-Resident in Pakistan - Sales of Goods	4% (For Company) 6% (For Company, If non-filer) 4.5% (For other case, If filer) 6.5% (For other case, If non-filer)	4% (For Company) 7% (For Company, If non-filer) 4.5% (For other case, If filer) 7.75% (For other case, If non-filer)
Payment to Permanent Establishment - Services	8% (For Company) 12% (For Company, If non-filer) 10% (For other case) 15% (For other case, If non-filer)	8% (For Company) 14% (For Company, If non-filer) 10% (For other case) 17.5% (For other case, If non-filer)
Payment to Permanent Establishment - Execution of Contracts	7% (For Filer) 12% (For non-filer)	7% (For Filer) 13% (For non-filer)

39. Advance Tax on Payments to residents - S. 153

The current and proposed rates of advance taxes on payments are as under:

Description	Current Rate	Proposed Rate
Sale of Rice, Cotton seed or edible oils,	1.5%	1.5%
Supplies made by the distributors of fast moving consumer goods	3% (For Company) 3.5% (Other than Company)	2% (For Company) 2.5% (Other than Company)
In case of sale of goods	4% (For Company, if Filer) 6% (For Company, if non-filer)	4% (For Company, if Filer) 7% (For Company, if non-Filer)
In case of transport services	2%	2%
In case of rendering of or providing of services	8% (For Company, if Filer) 12% (For Company, if Non-Filer)	8% (For Company, if Filer) 14.5% (For Company, if Non-Filer)
In other Case	10% (For Filer) 15% (For Non-Filer)	10% (For Filer) 17.5% (For Non-Filer)
Persons making payments to electronic and print media for advertising	1.5% (For Filer) 12% (For Company, If Non-Filer) 15% (Other Than A Company, If Non-Filer)	1.5% (For Filer) 12% (For Company, If Non-Filer) 15% (Other Than A Company, If Non-Filer)
Payment for execution of contract	10% (For Sportsperson) 7% (For Company, if Filer) 10% (For Company, if Non-Filer)	10% (For Sportsperson) 7% (For Company, if Filer) 12% (For Company, if Non-Filer)
In Other Cases	7.5% (If Filer) 10% (If Non-Filer)	7.5% (If Filer) 12.5% (If Non-Filer)

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40. Exemptions under Second Schedule to ITO

Following exemptions have been proposed in Second Schedule to ITO:

- ◆ Any income derived by a political party registered under the Political Parties Order, 2002 with the Election Commission of Pakistan.
- ◆ Profit and gains derived by a start-up for the tax year in which the startup is certified by the Pakistan Software Export Board and the following two tax years. A definition of 'startup' has been proposed to be introduced vide FB 2017. Following are the major prerequisites of startup:
 - a. Registered in Pakistan after July 01, 2012;
 - b. Engaged or intends to offer technology driven products or services to any sector of the economy;
 - c. Registered with or certified with Pakistan Software Export Board; and
 - d. Turnover must be less than Rs. 100 million in each of last five tax years
- ◆ Quota of raw material has been proposed to be increased from 110% of previous years consumption to 125%, with respect to exemption from Income Tax on Import under section 148.
- ◆ Under the list of services exempted from section 153(b), the "car rental services" and "services rendered by Pakistan Stock Exchange Limited" has been proposed to be added and also, the exemption has been proposed to be extended for Tax Year 2018.
- ◆ Cash Withdrawals from branchless banking (easy paisa, omni etc.) have been proposed to be exempted from section 231A, i.e. deduction of 0.3% (0.6% for non-filers) on cash withdrawals if exceeds Rs. 50,000.

FB 2017 also proposes exemption from section 113 and 153 of ITO. However, the exemption from section 113 will be of no use without exemption from alternate corporate tax.

Budget 2017-18 - SIGNIFICANT AMENDMENTS IN SALES TAX ACT 1990

1. Scope of Sales Tax Act Widened

Proposed Amendment widened the scope of Sales Tax in FATA and PATA. The purpose of this proposed Amendment is to check illicit movement of supplies from tax exempted areas. However, goods imported and used in FATA and PATA will remain exempt from levy of Sales Tax.

2. Powers of Federal Government devolved into FBR

The powers of Federal Government to levy Sales Tax at varied rates as enunciated in the following sections of Sales Tax Act, 1990 ("STA") have been devolved to Board ("FBR") with the approval of Minister Incharge i.e. Finance Minister:

Sections	Description
3 (2b), 3 (3A), 3 (5)	Scope of Tax
4 (c)	Zero Rated
7 (3), 7 (4), 7A (1)	Determination of Tax Liability
8 (1b)	Tax Credit not allowed
13(2a)	Exemption
60	Powers to deliver certain goods without payment of tax
65	Exemption of tax not levied or short levied as a result of general practice
71	Special procedure

In the light of recent apex court judgment a protracted procedure is required to be followed if such notification is issued by the Federal Government. To short circuit the lengthy process this power is proposed to be delegated to FBR but with the approval of Finance Minister. However, validation of all previous notifications issued by Federal Government has been given in the proposed amendments.

Similar amendment has also been proposed for ITO.

3. SRO 608 LAHORE HIGH COURT/2014

Definition of Tier-1 Retailer:

Concept of Tier-1 Retailer has been embedded in the law as follows:

- 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;"

Previously it was part of SRO 608 of 2014; which was declared unconstitutional by Lahore High Court, insertion of this definition may result in loss of previous demands raised by FBR and furthermore it will trigger further litigation for refund of Sales Tax paid by registered persons if they have not recovered Sales Tax from buyers.

A provisio to section 3(9A) has also been added whereby an option has been extended of payment of 2% Sales Tax without any input adjustment. This option was also extended in Special Regime vide SRO 488, which is also sub-judiced.



Budget 2017-18 - SIGNIFICANT AMENDMENTS IN SALES TAX ACT 1990

4. Scope of Further Tax extended to Zero-rated items

An amendment has been proposed whereby scope of further tax at the rate of 2% has been extended to Zero Rating Regime. Consequently, Section 3(6) and Section 4 are also proposed to be amended.

5. Rate of Local Supplies under SRO 1125 increase

Rate of local Sales Tax of 5 export oriented sectors has been increased from 5% to 6%.

6. Tenure of SROs not rescinded extended

Sunset clause was introduced in Finance Act, 2016; whereby all SROs issued after July 01, 2015; stand rescinded maximum by the close of expiration of financial year. Through proposed amendment life of all such un-rescinded SROs (including those issued on or after July 01, 2016) has been enhanced till June 30, 2018.

Almost 77 SROs including 3 SROs issued on or after July 01, 2016 will get an extended life.

This is also applied on ITO and FEA.

7. Addition of Hierarchy

Two additional categories District Taxation Officer and Assistant Director Audit is proposed to strengthen the enforcement of Sales Tax functions.

8. Penalties on Cigarette Sales

Consequent to decision to monitor manufacture and import of cigarette, electronically (trace and track) befitting penalties both of imprisonment and fines have been proposed. In future more sectors will be monitored through trace and track mechanism.

9. Automatic Stay of Recovery Demand

In line with the amendment made in ITO last year, a replicating amendment has been proposed in STA whereby in the event of pending decision of appeal under section 45B; on payment 25% of demand; no recovery shall be made.

10. Electronic Servicing of notice added

An amendment has been proposed to include service through email and/or e-folder of registered person is legitimise in section 56 of STA.

11. Validation of Notifications and orders issued before commitment of Finance Act, 2017

To avert any litigation consequent to paradigm shift of powers to issue notification retrospective application may result in further complication.

12. Changes in 3rd Schedule

Following two basic amendments have been proposed:

1. Substitution of PCT of Ice Cream; and
2. Deletion of Serial 32 i.e. Fertilizer

Budget 2017-18 - SIGNIFICANT AMENDMENTS IN SALES TAX ACT 1990

13. Sixth Schedule

PCTs have been changed consequent to application of new PCT was systemized. Details will be given in our commentary on Finance Act, 2017.

14. Amendment in Eight Schedule

Following items have been added at the given amount or rate:

S. No.	Items	Rate/Amount
1.	DAP	Rs. 100 per 50 kg bag
2.	NP (22-20)	Rs. 168 per 50 kg bag
3.	NP (18-18)	Rs. 165 per 50 kg bag
4.	NPK-I	Rs. 251 per 50 kg bag
5.	NPK-II	Rs. 222 per 50 kg bag
6.	NPK-III	Rs. 341 per 50 kg bag
7.	SSP	Rs. 31 per 50 kg bag
8.	CAN	Rs. 98 per 50 kg bag
9.	Natural gas	10%
10.	Phosphoric acid	5%
	Following machinery for poultry sector	
	(i)Machinery for preparing feeding stuff	7%
	(ii)Poultry incubators and brooders	7%
	(iii)Insulated sandwich panels	7%
	(iv) Poultry sheds	7%
	(v)Evaporative air cooling system	7%
	(vi) Evaporative cooling pad	7%
11.	Multimedia projectors	10%
12.	Locally produced coal	Rs.425 per metric tonne or 17% ad valorem, whichever is higher

15. Amendment in 9th Schedule

Sales Tax on first two categories has been proposed at a uniform rate of Rs. 650 per mobile in the place of Rs. 300 and Rs. 1,000 Sales Tax of low and medium categories respectively. However, for category 3, Sales Tax remain at Rs. 1500/-.

16. Withdrawal of Sales Tax Withholding

The FB 2017 proposes to withdraw sales tax withholding provision on supply of goods between registered persons. However, advertisement services and supplies to Government are not excluded from such withholding provisions.

17. Rate of Sales Tax on Iron and Steel

Sales Tax rate of per unit electricity consumed is proposed to increase from Rs. 9 per unit to Rs. 10.50 per unit. In actual such sales tax charge per unit should be Rs. 14 per unit if compare to normal sales tax regime.

18. Sales Tax on Import and Supply of Hybrid Electrical Vehicle

FB 2017 proposes amendment in Sales Tax Special Procedure Rules, 2007; to cater reduction of sales tax by 50% on Hybrid Electrical Vehicle upto 1800CC and 25% on Hybrid Electrical Vehicle from 1801CC to 2500CC.

Budget 2017-18 - SIGNIFICANT AMENDMENTS IN FEDERAL EXCISE ACT, 2005

1. Increase in rates of excise duty on Cigarette.

Presently, FED is charged on locally produced cigarettes at the rates given in 1st Schedule.

FB-17 proposes to increase the existing rates as under:

Proposed			
S#	Description of Goods	Heading/ subheading Number	Rate of Duty
1	Locally produced cigarettes if their on-pack printed retail price exceeds four thousand five hundred rupees per thousand cigarettes	24.02	3,740 per thousand cigarette
2	Locally produced cigarettes if their on-pack printed retail price exceeds two thousand nine hundred and twenty five rupees but does not exceed four thousand five hundred rupees per thousand cigarettes	24.02	1,670 per thousand cigarette
3	Locally produced cigarettes if their on-pack printed retail price does not exceeds two thousand nine hundred and twenty five rupees per thousand cigarettes	24.02	800 per thousand cigarette

2. Increase in rates of excise duty on Cement.

Presently the rates of excise duty on cement are one rupee per kilogram.

The FB-17 proposes to increase the rates of excise duty on cement to one rupee and twenty five paise per kilogram.

3. Levy of excise duty on Telecommunication services.

Currently excise duty at the rate of eighteen and half percent is chargeable on Telecommunication Services.

The FB-17 proposes to reduce the rates of excise duty on Telecommunication services to seventeen percent.

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