Salient Features- Budget 2012-13

Income Tax

1. To provide relief to low income earners, basic exemption limit is now being raised for salaried and business individuals to Rs.400,000. The existing rate slabs are proposed to be reduced from 17 to 5. These concessionary measures will exempt 64,420 taxpayers besides reducing the effective tax rates and providing relief to the entire salaried and business communities.

2. The normal progressive slab rates are being introduced for the Association of Persons (AOPs). The existing slabs are proposed to be reduced to 5 from 6. Basic exemption upto the income of Rs. 400,000 is also to be provided. This will reduce effective tax rates thereby providing relief to all AOPs in their tax burden.

3. Minimum tax was levied @ 1% on gross turnover through Finance Act 2010. Various sectors of economy agitated the enhanced rate of minimum tax. Therefore, in the case of business community the rate of minimum tax is proposed to be reduced to 0.5% from 1% on gross turnover.

4. Advance tax @ 0.2 % is withheld on cash withdrawal from banks where such withdrawal exceeds Rs. 25,000 in a day. To facilitate the taxpayers it is proposed that the said limit of cash withdrawal is to be enhanced to Rs. 50,000 per day.

5. To recognize and incentivize compliant taxpayers, it is proposed to introduce a Taxpayer Honour Card scheme for all taxpayers who have filed tax returns and paid due taxes for the last 5 fiscal years. The holders of the card will be entitled to various privileges and benefits.

6. Capital Gain Tax (CGT) is being levied on the sale of property if it is disposed off within two years of its acquisition. This will act as a curb for investors who are either speculating or holding real estate for trading purpose.

7. To promote the stagnating capital market in the country, the changes made through the Finance (Amendment) Ordinance, 2012 are being incorporated into the statute through the Finance Bill 2012. This will provide guarantee to the capital market that the Government is committed to its sustainability and growth.

8. To promote investment in securities and insurance sectors, the limit of investment eligible for tax credit is being enhanced from 15% to 20% of the taxable income. The existing limit of investment of Rs. 500,000 in securities or insurance premium is also being increased to Rs. 1,000,000/- . The retention period of securities is also being reduced from three to one year.

9. To provide relief to the employees availing small amounts of loans from their employer, the loan upto Rs. 500,000/- is proposed to be exempt from income tax whereas the benchmark interest rate for loans above this limit shall be fixed at 10% instead of the progressively increasing rate which has reached 13%.

10. To encourage a competitive market for retirement schemes, it is proposed that accumulated balance of provident fund transferred to approved pension fund should be separately marked by the Pension Fund Manager and any withdrawal representing this marked balance should be exempt from tax and be treated as if that is withdrawn from provident fund and hence tax free.

11. Income of retirement/pension funds is exempt from tax if 90% of the profit is distributed as dividend. Any payment from a provident fund is exempt from tax in the hands of recipient. Existing practice of obtaining yearly exemption certificate is cumbersome and time consuming for the entities and refunds for any tax suffered against the exempt income is proposed to be changed and the said funds be granted exemption from deduction of withholding tax.

12. The business community is demanding since long for exemption of withholding tax on profits paid on intra group debt. It is proposed that profit on intra-group debt be exempted from withholding tax. However, the income from profit on debt will remain taxable.

13. To provide relief to the pensioners, amounts received as monthly installment from an income payment plan invested for a period of ten years out of the accumulated balances into a pension fund, annuity or individual pension accounts as specified in the Voluntary Pension System Rules, 2005 is proposed to be exempt from tax.

14. The income of the Workers Profit Participation Fund (WPPF) is exempt under the Companies Profit (Workers Participation) Act 1968. However Income Tax Ordinance does not recognize this exemption. In order to streamline and to remove the lacuna, it is proposed that the exemption to WPPF be granted in the Income Tax Ordinance 2001.

15. Person making a payment of insurance premium or re-insurance premium to a non-resident person is required to deduct tax from the gross amount paid. It is proposed to exempt withholding tax from payment to P.E. of a Non-resident.

16. It has been observed that the banks invest in capital market and in return dividend received by the banks is taxed @ 10%. In order to eliminate the tax arbitrage it is proposed that dividend received by banks from money market funds and income funds are to be taxed progressively over a period of two years. For tax year 2013 @ 25% and for tax year 2014 and onwards @ 35%.

17. The Government is consistently pursuing the policy of phasing out the Presumptive Tax Regime (PTR) in three years. In order to incentivize the taxpayers opting out of PTR a lower rate of tax is being offered to commercial importers, exporters and suppliers if they opt out of the PTR.

18. To ensure documentation of the economy and to bring traders/distributors on tax roll, it is proposed that the manufacturers shall be made withholding agents to collect 1% tax against the sales made to traders & distributors. However, the tax so collected shall be adjustable against their income.

19. The tax rates for passengers as well as goods transport vehicles are proposed to be enhanced as under:-

20 persons or more	from Rs. 100 to Rs. 500 per seat per annum
In case of goods transport and vehicle:	from Rs. 1 to Rs. 5 per Kg laden weight

20. CVT on immovable properties is not being levied in Islamabad Capital Territory. It is proposed to levy and collect CVT on transactions of immovable properties in Islamabad with identical structure adopted by the provinces.

21. It is proposed to bring clarity in the law by revamping the sections and extending the facility of tax credit to investments for extension of the existing manufacturing facility and to corporate dairy farms.

22. The value of vehicles is proposed to be enhanced from Rs 1.5 (m) to Rs 2.5 (m) for the purpose of depreciation allowance.

23. Presently the Directorate General Intelligence and Investigation is performing its functions through an office order. It is proposed to provide legal cover as already done in Sales Tax and Federal Excise Laws through an amendment in the Income Tax Ordinance

24. Previously, stock exchanges were deducting taxes in respect of margin financing (Badla). Currently the same function is being performed by NCCPL. It is proposed to make corresponding change in the Income Tax Ordinance, 2001 whereby NCCPL shall collect and deposit the tax on behalf of the taxpayers.

25. The rate of initial depreciation on new buildings is 50% which results in converting the accounting income to tax loss. The rate initial depreciation is being reduced to 25%.

26. The exemption granted to profit and gains to the Venture Capital Company and Venture Capital Fund till 2014 is proposed to be extended for 10 years i.e. upto 2024.