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***Tax Memorandum 2012***

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**TAX MEMORANDUM  
FINANCE BILL 2012**

This memorandum summarises the important changes proposed in the Finance Bill 2012 relating to Income Tax, Sales Tax, Federal Excise Duty, Customs Duty and Other Laws. For considering the precise impact of a particular change, reference should be made to the specific wordings in the relevant statute.

All changes through the Finance Bill 2012 are effective July 1, 2012, except for amendments in the First Schedule to the Customs Act, 1969, Fifth and Sixth Schedules to the Sales Tax Act, 1990 and certain amendments (identified in the memorandum) in the First Schedule to the Federal Excise Act, 2005 which are effective from June 2, 2012. Effective date of amendments through various notifications are also identified in the memorandum.

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

The memorandum can also be accessed on our website [www.pwc.com/pk](http://www.pwc.com/pk)

June 2, 2012

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*Tax Memorandum 2012*

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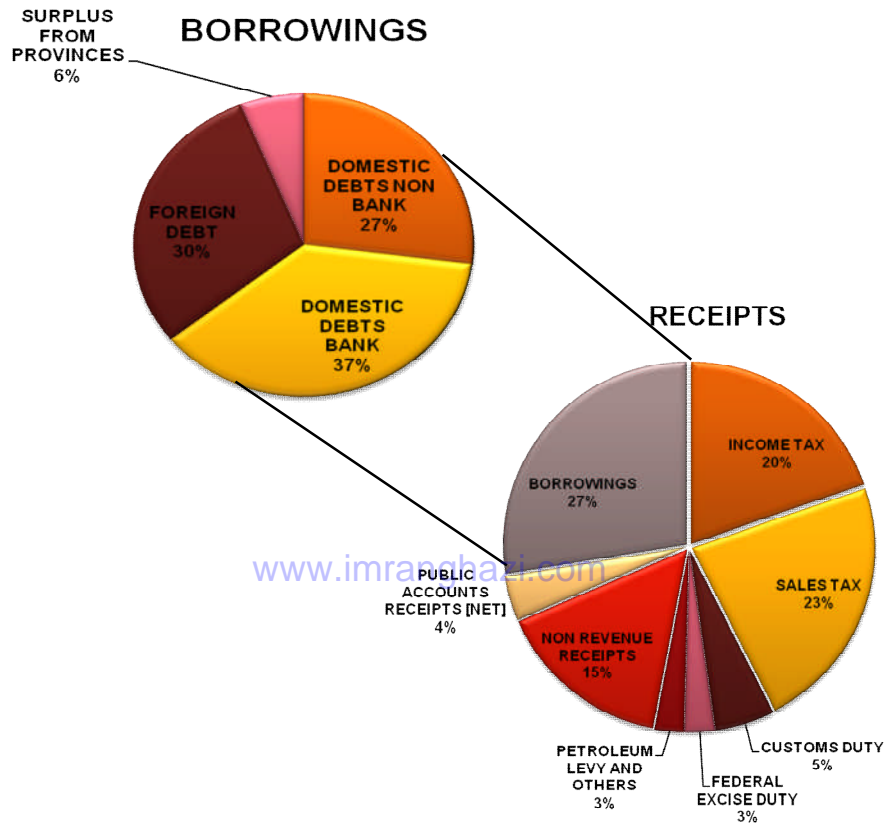
## BUDGET AT A GLANCE

### BUDGET FINANCIALS

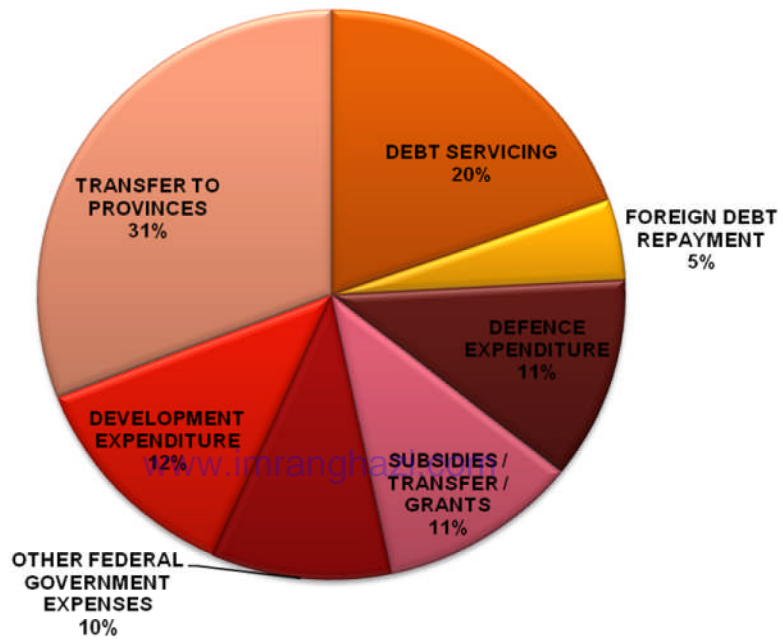
The following table sets out the Key Budget Financials

	<u>2012-2013</u>		<u>2011-2012</u>	
	<u>Rs in Billion</u>	<u>%</u>	<u>Rs in Billion</u>	<u>%</u>
Revenue Receipt	3,234		2,731	
Public account receipt (net)	<u>188</u>		<u>164</u>	
Total receipts	3,422	100%	2,895	100%
<b>Less:</b> Transfer to Provinces	<u>(1,459)</u>	<u>43%</u>	<u>(1,203)</u>	<u>42%</u>
Net revenue receipts	1,963	57%	1,692	58%
Expenditure				
- Current expenditure on revenue account	<u>2,612</u>		<u>2,315</u>	
- Current expenditure on capital account	<u>63</u>		<u>69</u>	
	2,675	78%	2,384	82%
- Development expenditure	<u>591</u>	<u>17%</u>	<u>451</u>	<u>16%</u>
	<u>3,266</u>	<u>95%</u>	<u>2,835</u>	<u>98%</u>
Deficit	<u>(1,303)</u>	<u>38%</u>	<u>(1,143)</u>	<u>39%</u>
- Domestic debts non-bank	353		300	
- Domestic debts banks	484		304	
- Foreign debt	387		414	
- Surplus from provinces	<u>79</u>		<u>125</u>	
	<u><b>1,303</b></u>		<u><b>1,143</b></u>	

**WHERE THE RUPEE COMES FROM**



**WHERE THE RUPEE GOES TO**



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**INCOME TAX**
**TAXABLE INCOME, TOTAL INCOME & EXEMPTIONS UNDER SECOND SCHEDULE**  
*[Sections 9, 10 and 53(1A)]*

Certain amendments have been proposed in these sections to clarify that (i) taxable income covers income under all heads of income, other than exempt income; and (ii) total income includes both taxable income and exempt income.

**VALUATION OF PERQUISITES – LOAN GIVEN BY EMPLOYER**  
*[Section 13(7) and 13(14)]*

The difference between the interest, if any, payable by an employee on a loan from employer and interest computable on such loan at “benchmark rate” is considered as “perquisite” taxable in the hands of the said employee. The applicable “benchmark rate” is subject to maximum limit of the related rate notified by the Federal Government. However, the aforesaid difference is not subject to tax in the hands of the employee where such employee has waived interest on his account with his employer.

It is proposed that loans upto Rs 500,000 obtained by an employee from his employer will not be considered for the purposes of aforesaid “perquisite”.

Furthermore, the maximum limit of “benchmark rate” is now proposed to be restricted to 10 per cent.

**CAPITAL GAINS**
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**CAPITAL GAINS ON DISPOSAL OF IMMOVABLE PROPERTY**  
*[Section 37 and Division VIII of Part I of the First Schedule]*

Presently, capital gains on disposal of immovable property are not chargeable to tax as immovable property is excluded from the definition of “capital assets”. The exclusion of immovable property from “capital asset” is proposed to be omitted.

It is also proposed that any gain on disposal of immovable property held for a period upto two years will be taxed at the following rates:

- Gain on disposal of immovable property held for a period upto 1 year at the rate of 10 per cent; and
- Gain on disposal of immovable property held for a period upto 2 years at the rate of 5 per cent.

It appears that gain on disposal of immovable property held for a period over two years shall not be subject to tax, however, necessary provision to this effect needs to be incorporated in the Ordinance.

The aforesaid taxation of capital gains on immovable property is based on the presumption that after the 18<sup>th</sup> amendment to the Constitution, the Federal Legislative List has been amended to this effect whereby the Federal Government has the right to tax capital gains on disposal of immovable property. This is a matter of Constitutional interpretation.

**CAPITAL GAINS ON DISPOSAL OF LISTED SECURITIES**

*[Sections 2(35AA), 37, 37A, 100B, Division VIII of Part I of First Schedule and Eighth Schedule]*

A separate scheme for taxation of capital gains on disposal of listed securities was introduced through insertion of section 100B and a new Eighth Schedule through Presidential Ordinance dated April 24, 2012.

This Ordinance has now been incorporated in the Finance Bill.

The Schedule is governed by the provisions of section 100B of the Ordinance whereby capital gains on disposal of listed securities, and tax thereon is to be computed, determined, collected and deposited in the manner laid down in the Schedule.

The salient features of the scheme as contained in Schedule and ancillary provisions are as under: [www.imranghazi.com](http://www.imranghazi.com)

- (i) National Clearing Company of Pakistan Limited ('NCCPL'), licensed as "Clearing House" by the Securities and Exchange Commission of Pakistan, has been entrusted with the responsibility to compute and collect the capital gains tax on disposal of securities on the basis of information as to shareholdings to be collected from Central Depository Company;
- (ii) Following persons have been excluded from the ambit of this proposed scheme of taxation:
  - a) mutual fund;
  - b) banking company, non-banking finance company and insurance company subject to tax under the Fourth Schedule to the Ordinance;
  - c) modaraba;
  - d) foreign institutional investor being a person registered with NCCPL as a foreign institutional investor; and
  - e) any other person or class of persons notified by the FBR;



- (iii) By way of a special provision it has been prescribed that enquiries shall not be made for the nature and source of the amount invested in companies listed at stock exchanges till June 30, 2014 subject to following conditions:
- amounts remain invested for 120 days;
  - tax on capital gains has been duly discharged in the manner prescribed; and
  - a statement of investments is filed with the return of total income/ wealth statement; and
- (iv) A person can opt out for payment of tax under Eighth Schedule by obtaining prior approval of Commissioner Inland Revenue and filing of an irrevocable option with NCCPL to this effect. In such an event, the person shall be subject to scheme of taxation provided for in section 37A of the Ordinance.

Further, tax rates earlier prescribed on capital gains derived from disposal of securities have been proposed to be revised/ reduced as follows:

<i>Tax Year</i>	<i>Persons other than insurance companies</i>		<i>Insurance companies</i>	
	<i>Holding period is six months or less</i>	<i>Holding period is more than six months</i>	<i>Holding period is six months or less</i>	<i>Holding period is more than six months</i>
2012	10.00%	8.00%	10.00%	8.00%
2013	10.00%	8.00%	12.50%	8.50%
2014	10.00%	8.00%	15.00%	9.00%
2015	17.50%	9.50%	17.50%	9.00%
2016	*	10.00%	*	*

\* Not yet specified

The above rates have been prescribed in the respective Schedules.

#### **ADDITIONAL PAYMENT FOR DELAYED REFUNDS**

[Sections 39 and 171]

It is now proposed that additional payment on delayed refund under any tax law is chargeable to tax under the head "Income from other sources".

Further, the rate of additional payment on delayed refunds is proposed to be fixed at 15 per cent per annum instead of existing KIBOR per annum.

**TAX CREDIT FOR INVESTMENT IN SHARES AND INSURANCE**

[Section 62]

Presently, a taxpayer, other than a company, is entitled to tax credit on investment in new shares offered to public by a public company listed on a stock exchange in Pakistan or shares acquired from Privatisation Commission of Pakistan.

Furthermore, a resident person, other than a company, deriving income under the head 'salary' or 'income from business' is entitled to tax credit on any life insurance premium paid to an insurance company registered with the Securities and Exchange Commission of Pakistan under the Insurance Ordinance, 2000.

The tax credit can now be claimed on the lower of:

- Total cost of either acquiring such shares or insurance premium paid; or
- 20 per cent of taxpayer's taxable income as against existing 15 per cent; or
- Rs 1,000,000 as against existing Rs 500,000.

Tax credit availed on above stated shares will be clawed back, if such shares are disposed off within 24 months of acquisition thereof. The 'salient features' released by Federal Board of Revenue (FBR), however, specify retention period of 12 months. Presently, this retention period is 36 months.

**TAX CREDIT FOR INVESTMENT** [www.imranghazi.com](http://www.imranghazi.com)

[Section 65B]

It is now proposed to extend the scope of tax credit against minimum tax and tax under Final Tax Regime (FTR) payable under any provision of the Ordinance. Previously, such credit was deemed to be available against the tax payable under the normal regime only.

Further, sub-sections (4) to (6) have been proposed whereby:

- Credit at 20 per cent of the investment shall be allowed against the tax payable including minimum tax and tax under FTR, to a company setup in Pakistan before July 1, 2011, making investment during July 1, 2011 and June 30, 2016 for balancing, modernization and replacement of plant and machinery, in the year in which the plant and machinery, in the purchase of which the investment is made, is installed therein; and

- Excess tax credit allowed under sub-section:
  - o (1) of section 65B shall be carried forward and deducted from the tax payable for two tax years; and
  - o (4) of section 65B shall be carried forward and deducted from the tax payable for five tax years.

Under the existing provisions, the credit at the rate of 10 per cent is also available with the same conditions. In case, the above explained amendments are read with those proposed in section 65E, it appears that credit at the rate of 20 per cent is applicable to equity based investments only.

#### **TAX CREDIT FOR NEWLY ESTABLISHED INDUSTRIAL UNDERTAKINGS**

*[Section 65D]*

It is now proposed to extend the scope of tax credit against minimum tax and tax under FTR under any provision of the Ordinance. Previously, such credit was deemed to be available against the tax payable under the normal regime only.

It is also proposed to enhance the scope of industrial undertaking eligible for tax credit to include corporate dairy farming.

Further, to avail tax credit the industrial undertaking is required to be an equity based project which has been defined to mean a project setup with 100 per cent equity raised through issuance of new shares for cash consideration. However, the short term loans and finances obtained from banking companies or non-banking financial institutions for working capital requirements shall not disqualify the taxpayer from the claim of tax credit.

For the purposes of claim of tax credits under sections 65B, 65D and 65E, an industrial undertaking shall be treated to have been setup on the date on which the industrial undertaking is ready to go into production, whether trial production or commercial production.

#### **TAX CREDIT FOR INDUSTRIAL UNDERTAKINGS ESTABLISHED BEFORE JULY 1, 2011**

*[Section 65E]*

Under the existing provision, tax credit is also available for expansion project or a new

project in an existing company. Through the Bill, following clarificatory amendments have been proposed in this section:

- tax credit at the rate of 100 per cent of 'tax payable' in respect of expansion or new project will be available if the company maintains separate books of accounts for expansion or the new project. In case, separate accounts are not maintained, tax credit shall be equal to the same proportion of 'tax payable' as is the proportion between new equity and the total equity including new equity;
- tax credit shall also be available against minimum tax and tax under FTR under any provision of the Ordinance; and
- tax credit shall also be available to corporate entities engaged in dairy farming.

The manner of apportionment as above needs re-examination.

Further, to avail tax credit the industrial undertaking is required to be an equity based project which has been defined to mean a project setup with 100 per cent equity raised through issuance of new shares for cash consideration and does not include loans from shareholders and/or directors. However, the short term loans and finances obtained from banking companies or non-banking financial institutions for working capital requirements shall not disqualify the taxpayer from claim of tax credit.

The other conditions earlier applicable e.g. purchase and installation of machinery between the period July 1, 2011 and June 30, 2016 and allowability of credit in year of commencement of commercial production or setting up of industrial undertaking remain intact.

#### ***COST AND CONSIDERATION RECEIVED OF ASSETS***

*[Sections 76 and 77]*

FBR has been empowered to prescribe rules for the determination of cost and consideration received for any asset.

#### ***GEOGRAPHICAL SOURCE OF INCOME***

*[Section 101]*

Scope of Pakistan source dividend income is proposed to be extended to include remittances of after tax profit by a branch of a foreign company operating in Pakistan. Previously, the definition of dividend given in section 2(19) had been amended through Finance Act, 2008 to include such remittances.

**MINIMUM TAX ON THE INCOME OF CERTAIN PERSONS**

[Section 113]

Under the existing provisions of section 113, minimum tax becomes payable in the event 'tax payable or paid' is less than the prescribed threshold of 'one' per cent of turnover. There was a controversy as to whether or not 'tax payable or paid' included the final taxes while determining the applicability of section 113.

An explanation is proposed to be inserted in section 113(1) to the effect that "tax payable or paid" does not include tax under FTR.

Accordingly, consequent to proposed amendment, while determining the applicability of section 113, tax under FTR would not be considered as part of 'tax payable or paid' for the year.

Please also refer to page 18 for discussion regarding the applicable rate of minimum tax.

**RETURN OF INCOME**

[Section 114]

It has been proposed to include the additional requirement that a revised return of income shall not declare taxable income/loss which is less/more than income/loss, as the case may be, determined by an order issued under section 121, 122, 122A, 122C, 129, 132, 133 or 221 and return so furnished shall be treated as an invalid return.

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**ASSESSMENTS**

[Section 120]

The period of limitation within which Commissioner can issue notice for incomplete return of income filed by the taxpayer has been proposed to be extended by 180 days. Previously, no such notice could be issued after the end of the financial year in which the said return of income was filed by the taxpayer.

**BEST JUDGEMENT ASSESSMENT**

[Section 121]

The power of the Commissioner to make an assessment of the taxable income of certain persons based on any available information and material and to the best of his judgement, is now proposed to be extended to such cases where a person has already furnished a return of income or revised return of income. Filing of the said returns of income by the taxpayer shall be of no legal effect with respect to best judgement assessment if the information required is not furnished.

**AMENDMENT OF ASSESSMENTS AND PROVISIONAL ASSESSMENT***[Sections 122 and 122C]*

The power of the Commissioner to amend assessment of taxable income under section 122(1) is proposed to be extended to amend provisional assessment made by him under section 122C.

The revisional power of the Commissioner under section 122(5A) is proposed to be extended to allow him to make or cause to make such enquiries as he may deem necessary.

The scope of first proviso requiring filing of tax return and wealth statement within 60 days of provisional assessment under section 122C(2) has been restricted to individuals and association of persons.

Further, provisional assessment shall also not be applicable if a return of income along with audited financial statements is filed by a company within 60 days.

**PROCEDURE IN APPEAL***[Section 128]*

The Commissioner (Appeals) has been empowered to grant stay against recovery of tax for a period of thirty days in aggregate after affording an opportunity of being heard to the Commissioner against whose order, appeal has been made.

[www.imranghazi.com](http://www.imranghazi.com)**DECISION IN APPEAL***[Section 129]*

The period in which the Commissioner (Appeals) was required to dispose the taxpayer's appeal is proposed to be withdrawn. Presently, the Commissioner (Appeals) is required to dispose the appeal within four months of end of the month in which appeal has been filed, excluding the period for which adjournment is sought by the taxpayer.

**OPTION TO COMMERCIAL IMPORTERS, TRADERS AND EXPORTERS FOR ASSESSMENT UNDER NORMAL TAX REGIME***[Sections 148(7), 153(1)(a), 154(4) and 169**Clauses (41A), (41AA) and (41AAA) of Part IV of the Second Schedule]*

Under the present regime commercial imports, export of goods, indenting commission, sale of goods to an exporter or to an indirect exporter and trading of goods are subject to FTR. Under that system taxes collected or deducted at source are treated as a final tax liability in respect of such amounts.

The rates of tax under the FTR are as under:

- Import - 5 per cent of import value;
- Sale - 3.5 per cent of sale value;
- Exports - 1 per cent of the value of export proceeds realized; and 5 per cent on indenting commission.

Under the present regime, such persons are not allowed to be taxed on net income basis. Under the proposed regime, such persons have been provided an option under Part IV of the Second Schedule to be taxed on net income basis. However, that option will be subject to a condition that minimum tax liability in respect of such income shall not be less than;

- 60 per cent of tax collected at the import stage;
- 70 per cent of tax deducted at source on such sales;
- 50 per cent of the tax collected at the time of realization of export proceeds and indenting commission.

Right of carry forward of losses and other related provision will remain applicable if such option is availed.

It appears that such option will be made on yearly basis. Furthermore, the said option shall be for all transactions which are covered under FTR.

**PAYMENTS TO NON-RESIDENTS** [imranghazi.com](http://www.imranghazi.com)  
[Sections 152 and 153]

The proposed amendment seeks to consolidate the withholding tax provisions applicable on payments to a non-resident media person relaying advertisement from outside Pakistan. The withholding tax shall remain final discharge of tax on the income of the non-resident media person. This was previously covered under section 153A which is now being replaced.

Further, it has been proposed that deduction of tax from payment of insurance premium or re-insurance premium to a non-resident shall not apply in case of written approval of the Commissioner to the effect that such amount is taxable to a permanent establishment of the non-resident in Pakistan.

Payments to a permanent establishment of a non-resident on account of sale of goods, rendering of or providing of services or execution of a contract are intended to be covered by section 152 by deleting the corresponding references to the "permanent establishment

of a non-resident person” in section 153. The provision to implement this change has not been specifically incorporated in section 152.

It appears that the same rates of withholding are to be applied as are applicable to resident persons under section 153 (except reduced rates prescribed for sale of rice, cotton seed or edible oils). For this purpose, these rates are now separately prescribed in Division II of Part III of the First Schedule with erroneous reference to section (2A) of section 152. This erroneous reference needs to be corrected.

**EXEMPTION FROM WITHHOLDING TAX EXTENDED TO ELECTRONIC MEDIA**

*[Section 153(1)(b) and clause (16A) of Part IV of the Second Schedule]*

Presently, payments to “news print media services” are not liable to withholding tax. It is proposed that the exemption from withholding tax on payment for services be given to the “electronic and print media”.

**PAYMENTS TO TRADERS AND DISTRIBUTORS**

*[Section 153A and Part IIA of the First Schedule]*

This amendment seeks to require the manufacturers to collect tax at 1 per cent of the gross amount of sales to distributors, dealers and wholesalers. The terms distributors, dealers and wholesalers have not been defined in the Ordinance. Accordingly, unless so defined, the definition in the compatible laws or general commercial meanings shall apply.

Such tax is to be collected from all such persons irrespective of amount of sale and status of the distributor, dealer and wholesaler as to National Tax Number. This collection of tax at the time of sale shall be adjustable by the distributors, dealers and wholesalers against their tax liability.

**RECOVERY OF SHORT OR NON-DEDUCTION OF FINAL TAX**

*[Section 169]*

It is proposed to allow recovery of non-deduction or short-deduction of tax falling under the FTR from the person from whom such tax was to be deducted.

**TAXPAYER CARD**

*[Section 181B]*

It is proposed that FBR may make a scheme for introduction of a ‘Taxpayer Honour Card’ for individual taxpayers who fulfill a minimum criterion to be prescribed.



**OFFENCES AND PENALTIES***[Section 182]*

Presently, no penalties are payable unless an order imposing such penalty is passed by the tax authority. The proposed amendment seeks to allow the taxpayer to voluntarily pay the amount of penalty due under this section for admitted default.

**DEFAULT SURCHARGE***[Section 205]*

The proposed amendment seeks to levy default surcharge at 18 per cent per annum. Presently default surcharge is payable at KIBOR plus 3 per cent per quarter.

It has also been proposed that no default surcharge shall be payable for the period the demand remained unpaid, if the taxpayer makes the payment within the date given in the notice of demand raised consequent to the appellate order passed by the Commissioner (Appeals) and does not file a further appeal to the Appellate Tribunal.

This facility subject to the conditions stated above, shall also be available in respect of an order passed to recover the amount of tax not deducted or short deducted from the payments liable to withholding tax by the taxpayer.

**CASH WITHDRAWAL FROM A BANK***[Section 231A]*

The proposed amendment seeks to enhance the aggregate cash withdrawals limit to Rs 50,000 from Rs 25,000 in a day from a bank account. The rate of withholding remains at 0.2 per cent of cash withdrawn.

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**FIRST SCHEDULE**
**TAX RATES FOR ASSOCIATION OF PERSONS AND NON-SALARIED INDIVIDUALS**  
*[Clauses (1) and (1B) of Division I of Part I of First Schedule]*

Currently Association of Persons (AOPs) are taxable at a flat rate of 25 per cent of taxable income, whereas, six different slabs are there regarding taxation of individuals on income from sources other than 'salary' and that chargeable to tax under 'FTR' and 'fixed tax regime'. These slabs provide tax rates ranging from 7.5 per cent of taxable income (on income exceeding Rs 350,000 per annum) to 25 per cent of taxable income (on income exceeding Rs 1,500,000 per annum).

The Bill proposes to substitute the existing with the following:

<b>S.No.</b>	<b>Taxable Income</b>	<b>Rate of tax</b>
1.	Where taxable income does not exceed Rs 400,000	0%
2.	Where the taxable income exceeds Rs 400,000 but does not exceed Rs 750,000	10% of the amount exceeding Rs 400,000
3.	Where the taxable income exceeds Rs 750,000 but does not exceed Rs 1,500,000	Rs 35,000 + 15% of the amount exceeding Rs 750,000
4.	Where the taxable income exceeds Rs 1,500,000 but does not exceed Rs 2,500,000	Rs 147,500 + 20% of the amount exceeding Rs 1,500,000
5.	Where the taxable income exceeds Rs 2,500,000	Rs 347,500 + 25% of the amount exceeding Rs 2,500,000

The aforesaid rates, henceforth, would be applicable to both individuals [taxable income other than salary, FTR and fixed tax regime] and AOPs. Consequently, the Bill also proposes to delete the single rate of 25 per cent on taxable income currently applicable to AOPs. The significant changes, apart from variation in rates, are:

- Basic exemption is proposed to be increased from Rs 350,000 per annum to Rs 400,000 per annum; and

- Henceforth, the tax liability would be determined on progressive basis as against the currently applicable basis whereby tax is levied at a flat rate.

The impact of proposed changes vis-a-vis variation in effective incidence of tax, could be demonstrated as under:

S. No.	Taxable Income (per annum)	Existing Tax Liability		Proposed Tax Liability Individuals and AOP	Benefit		Benefit in Percentage Terms	
		Individuals	AOP		Individuals	AOP	Individuals	AOP
-----Rupees-----								
1	350,000	-	87,500	-	-	87,500	-	100%
2	400,000	30,000	100,000	-	30,000	100,000	100%	100%
3	600,000	60,000	150,000	20,000	40,000	130,000	67%	87%
4	800,000	120,000	200,000	42,500	77,500	157,500	65%	79%
5	1,000,000	150,000	250,000	72,500	77,500	177,500	52%	71%
6	1,200,000	240,000	300,000	102,500	137,500	197,500	57%	66%
7	1,400,000	280,000	350,000	132,500	147,500	217,500	53%	62%
8	1,600,000	400,000	400,000	167,500	232,500	232,500	58%	58%
9	1,800,000	450,000	450,000	207,500	242,500	242,500	54%	54%
10	2,000,000	500,000	500,000	247,500	252,500	252,500	51%	51%
11	2,200,000	550,000	550,000	287,500	262,500	262,500	48%	48%
12	2,400,000	600,000	600,000	327,500	272,500	272,500	45%	45%
13	2,600,000	650,000	650,000	372,500	277,500	277,500	43%	43%

#### **TAX RATES FOR SALARIED INDIVIDUALS**

[Clause (1A) of Division I of Part I of the First Schedule]

The Bill also proposes to substitute the tax applicable to income under the head 'salary'. The proposed tax rates, effective tax year 2013, are as under:

S.No.	Taxable Income	Rate of tax
1.	Where the taxable income does not exceed Rs 400,000	0%
2.	Where the taxable income exceeds Rs 400,000 but does not exceed Rs 750,000	5% of the amount exceeding Rs 400,000
3.	Where the taxable income exceeds Rs 750,000 but does not exceed Rs 1,500,000	Rs 17,500 + 10% of the amount exceeding Rs 750,000

4.	Where the taxable income exceeds Rs 1,500,000 but does not exceed Rs 2,500,000	Rs 92,500 + 15% of the amount exceeding Rs 1,500,000
5.	Where the taxable income exceeds Rs 2,500,000	Rs 242,500 + 20% of the amount exceeding Rs 2,500,000

The significant changes, apart from variation in rates, are:

- The basic exemption is proposed to be increased from Rs 350,000 per annum to Rs 400,000 per annum;
- There would only be five slabs as against seventeen slabs currently provided for;
- The tax liability would be determined on progressive basis as against on the basis of flat rate under the currently applicable provisions;
- The highest rate of 20 per cent would apply on income exceeding Rs 2,500,000 per annum, whereas, this rate currently applies to income exceeding Rs 4,550,000 per annum.

Although the provisions of 'marginal relief' would continue to apply on individuals deriving income from salary, however, because of the progressive slab rates, the same should not have any significant impact. [www.imranghazi.com](http://www.imranghazi.com)

The change in effective incidence of tax liability under the proposed amendments, when compared with existing provisions (without marginal relief), could be demonstrated as under:

<b>S. No.</b>	<b>Taxable Income</b>	<b>Existing Tax Liability</b>	<b>Proposed Tax Liability</b>	<b>Benefit</b>	<b>Benefit in Percentage Terms</b>
	----- Rupees -----				
1	400,000	6,000	Nil	6,000	100%
2	600,000	27,000	10,000	17,000	63%
3	800,000	60,000	22,500	37,500	63%
4	1,000,000	90,000	42,500	47,500	53%
5	1,200,000	120,000	62,500	57,500	48%
6	1,400,000	154,000	82,500	71,500	46%
7	1,600,000	200,000	107,500	92,500	46%
8	1,800,000	252,000	137,500	114,500	45%

9	2,000,000	300,000	167,500	132,500	44%
10	2,200,000	330,000	197,500	132,500	40%
11	2,400,000	384,000	227,500	156,500	41%
12	2,600,000	416,000	262,500	153,500	37%
13	2,800,000	448,000	302,500	145,500	32%
14	3,000,000	525,000	342,500	182,500	35%
15	3,200,000	560,000	382,500	177,500	32%
16	3,400,000	595,000	422,500	172,500	29%
17	3,600,000	666,000	462,500	203,500	31%
18	3,800,000	703,000	502,500	200,500	29%
19	4,000,000	740,000	542,500	197,500	27%
20	4,200,000	777,000	582,500	194,500	25%
21	4,400,000	814,000	622,500	191,500	24%
22	4,600,000	920,000	662,500	257,500	28%

### **TAX ON RETAILERS AND MINIMUM TAX IN OTHER CASES**

*[Division IA of Part I of the First Schedule]*

Under the currently applicable provisions of law, retailers, operating as individual and AOPs, are taxable under the FTR whereunder the tax liability is determined at the rate of 1 per cent of turnover. The Bill proposes to reduce the tax liability to 0.5 per cent of turnover.

These provisions, when inserted in the statute, provided a tax rate of 0.5 per cent, however, this was enhanced to 1 per cent through Finance Act, 2010 when 'minimum tax' applicable to certain companies, individuals and AOPs was also revised upwards from 0.5 per cent to 1 per cent of turnover.

The Finance Minister in the budget speech announced reduction of aforesaid 'minimum tax' from 1 per cent to 0.5 per cent apparently for all cases. The 'salient features' released by FBR also confirmed the proposal of reduction of 'minimum tax' from 1 per cent to 0.5 per cent. There seems to be a policy decision of reducing rate from 1 per cent to 0.5 per cent. Although the Bill provides for reduction of tax rate for retailers, as discussed above, however, no amendment has been proposed in the provisions applicable to 'minimum tax' under section 113 of the Ordinance. There seems to be an omission which is likely to be addressed in the due course.

**TAX ON MOTOR VEHICLES***[Divisions III and VII of Part IV of First Schedule]*

Currently the provisions of law prescribe withholding tax regarding goods transport vehicles, passenger transport vehicles and private vehicles. Such tax is collected by authority responsible for collecting motor vehicle tax in the same manner and at the same time as is applicable to such motor vehicle tax rate. The Bill proposes to modify the rates as followed:

<b>Types of vehicle</b>	<b>Old rate</b>	<b>New rate</b>
Goods transport vehicle	Re 1 per kilogram of laden weight	Rs 5 per kilogram of laden weight
Passenger transport vehicle with seating capacity of 20 persons or more	Rs 100 per seat per annum	Rs 500 per seat per annum

No change has been proposed in any other category or basis of taxation.

The Bill also proposes to increase advance tax for Rs 16,875 to Rs 25,000 collectable by motor vehicle registration authority of Excise and Taxation Department at the time of registration of new locally manufactured motor vehicle. This continues to remain advance tax adjustable against any other tax liability.

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**SECOND SCHEDULE**
**PART I – EXEMPTIONS FROM TOTAL INCOME**
**MONTHLY INSTALLMENT FROM INCOME PAYMENT PLAN**

*[Clause (23B) of Part I of Second Schedule]*

A new clause is proposed to be inserted in Part I of the Second Schedule exempting the monthly installments to be received from an income payment plan, provided the investment, in respect whereof installments are received, (i) is made for a minimum period of ten years; and (ii) have been made out of accumulated balance maintained with either of the following:

- (a) individual pension accounts with a pension fund manager; or
- (b) an approved annuity plan or another individual pension account of eligible person; or
- (c) the survivors pension account maintained with any other pension fund manager as specified in the Voluntary Pension System Rules 2005

**WITHDRAWAL FROM APPROVED PENSION FUND**

*[Clause (23C) of Part I of Second Schedule]*

Through insertion of clause 23C, any withdrawal of accumulated balance from an approved pension fund, that represents the transfer of such balance from an approved provident fund to the said approved pension fund, is proposed to be exempt.

**PROFITS AND GAINS OF CERTAIN FUNDS**

*[Clause (101) of Part I of Second Schedule]*

Currently, the exemption to profits and gains of Venture Capital Company, Registered Venture Capital Fund and Private Equity and Venture Capital Fund is available till June 30, 2014. This exemption is proposed to be extended till June 30, 2024 in the Bill.

**PART II – REDUCTION OF TAX RATES**

*[Clause (9A) of Part II of Second Schedule]*

The provisions of law prescribed a reduced rate of 3 per cent adjustable withholding tax on import of raw material by industrial undertakings for their own use. The Bill proposes to link the applicability of reduced rate with the availability of a certificate from the Commissioner Inland Revenue. It appears that a provision for the availability of an exemption certificate was intended to be introduced. The present proposal, however, does not incorporate the same.

**PART IV – EXEMPTION FROM SPECIFIC PROVISIONS**

*[Clauses (11B) and (11C) of Part IV of Second Schedule]*

Inter-corporate dividend within the group companies, entitled to group taxation under section 59AA or section 59B is currently exempt from levy of tax, however, the recipient undergoes withholding tax leviable on dividend. The Bill proposes to grant exemption from collection of withholding tax on such receipt.

The Bill also proposes to grant exemption from collection of withholding tax of inter-corporate profit on debt within the group companies entitled to group taxation under section 59AA or section 59B.

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**THIRD SCHEDULE*****Part II – Initial Allowance***

Currently all 'eligible depreciable assets' are entitled to 50 per cent initial allowance, computable as a percentage of cost of such asset. Initial allowance is admissible in the year in which the asset is used by the person for the purposes of business for the first time in the tax year in which commercial production is commenced, whichever is later.

The Bill proposes to reduce the rate to 25 per cent in the case of buildings.

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**FIFTH SCHEDULE****TAXATION OF OIL EXPLORATION AND PRODUCTION COMPANIES**

*[Sub-Rule 4A to Rule 4 of Part I of the Fifth Schedule]*

An amendment has been proposed in the Fifth Schedule to the Ordinance that deals with taxation of persons who have entered into a concession agreement for production and exploration of petroleum with the President of Pakistan.

Under these provisions rate of tax has been prescribed under the respective concession agreements, however minimum rate of tax has been prescribed in the Fifth Schedule to the Ordinance or the repealed Ordinance as the case may be. For any concession agreement signed on or after July 1, 2001, the prescribed rate is forty per cent of the profit and gains after treating royalty as an expense. For concession agreements signed before July 1, 2001, such rate is fifty per cent of profits and gains before deduction of royalty as expense with a condition that royalty is adjusted against the tax liability.

In the Bill, an amendment has been proposed whereby a person, required to pay tax at the rate prescribed under any of the concession agreement, has been provided an option to pay tax at the rate of forty per cent of profit and gains, net of royalty, for tax year 2012 and onward.

This option has however been made subject to the condition that such person shall withdraw pending appeals, references and petitions before the appellate forum on this matter and the amount of such tax liability for earlier years is paid by June 30, 2012.

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This option is available only for one time and shall be irrevocable.

Necessary provisions are expected to be introduced in the regulatory laws governing the concession agreements to give effect to the aforesaid right to opt under the proposed regime.

It is expected that conditions prescribed for availing the option are procedural aspects which should not form part of this tax legislation.

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**SEVENTH SCHEDULE**

*[Rule 6 of Seventh Schedule]*

Under the currently applicable provisions of law the tax liability of a banking company is computed as under:

<u>Source of Income</u>	<u>Rate of Tax</u>
- Dividend received from its asset management company	20%
- Dividend and capital gains on sale of shares of listed companies	10%
- All other income including gain from disposal of shares of listed companies within one year of acquisition	35%

The Bill proposes to prescribe higher rate of tax on dividend received from Money Market Funds and Income Funds. The rates, as proposed, are:

- Tax year 2013	25%
- Tax year 2014 and onwards	35%

The amendment aims at eliminating the tax arbitrage that was available to banking companies between income earned on funds used by it as advances and other assets or invested in units of a Money Market Fund or Income Fund. Distribution from such funds is taxable as dividend income in the hands of banking company.

Further, the proposed amendment would also put to rest the dispute raised by tax authorities in the case of certain banking companies where it was being argued that such income was already taxable at corporate rate of tax. The inclusion of these amendments implies that previously this amount attracted 10 per cent tax rate applicable to dividend.

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**SALES TAX****ASSESSMENT AND RECOVERY OF TAX NOT LEVIED OR SHORT LEVIED OR ERRONEOUSLY REFUNDED**

*[Sections 11 and 36]*

At present, the powers to make assessment and recovery of taxes are concurrently covered under sections 11 and 36.

Assessment and recovery proceedings can be initiated where:

- a person fails to file a tax return;
- a person has not paid the tax due or has made short payment or claimed inadmissible input tax credit or refund;
- by reason of collusion or deliberate act, tax is not levied or short levied or has been erroneously refunded; and
- by reason of inadvertence, error or misconstruction, tax is not levied or short levied or has been erroneously refunded.

The aforesaid powers of the assessing officer are now combined in section 11.

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The period for issuance of show cause notice in cases involving inadvertence, error or misconstruction has also been enhanced from three to five years.

The period for issuance of order can now be extended by the Commissioner to ninety days instead of sixty days excluding the period on account of a stay order or Alternate Dispute Resolution proceedings.

**SUPPLIES AGAINST INTERNATIONAL TENDERS****FIFTH AND SIXTH SCHEDULES AND  
SALES TAX RULES, 2006 [Rules 50A, 50B and 50C]  
SRO 595(I)/2012  
[Effective June 2, 2012]**

Supplies against international tenders were subjected to sales tax at zero per cent.

The facility of zero rating on supplies against international tenders is being withdrawn, however, the same are being exempted from sales tax under the Sixth Schedule. As a consequence, the persons engaged in supplies against international tenders will not be allowed to claim adjustment or refund of input tax.

Consequently, Rules 50A, 50B and 50C inserted on February 22, 2012 have been substituted. These rules prescribed the procedures and conditions to claim zero rating under the Fifth Schedule on supply of locally produced taxable goods against international tender contracts awarded by the Federal and Provincial Government departments, local governments, autonomous and semi-autonomous bodies and public sector organisations.

The exemption from levy of sales tax extended vide SRO 551(I)/2008 dated June 11, 2008 on raw materials, sub-components and components, if imported for the manufacturing of goods to be supplied against international tenders, has also been withdrawn.

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**EXEMPTIONS AND ZERO RATING***[Effective June 2, 2012]***SIXTH SCHEDULE****TABLE – I (Imports or supplies)**

World Customs Organisation [WCO] has made 5-yearly changes in HS nomenclature for commodity classification and has issued HS-2012 version. Pakistan Customs Tariff classification structure is being aligned with WCO nomenclature. The following PCT Headings in the Sixth Schedule have been aligned:

<b>S. No.</b>	<b>Description</b>	<b>PCT Heading before substitution</b>	<b>PCT Heading after substitution</b>
1.	Live Animals and live poultry	0101.1000 0102.1020 0102.1030 0102.1040 0102.1090 0102.9010 0102.9020 0102.9030 0102.9040 0102.9090	0101.2100, 0101.3100 0102.2110 0102.2120 0102.2130 0102.2190 0102.3900 0102.2910 0102.2920 0102.2930 0102.2990, 0102.9000
11.	Eggs including eggs for hatching	0407.0010 0407.0090	0407.1100, 0407.1900 0407.2100, 0407.2900
15.	Edible Fruits excluding imported fruits (except fruits imported from Afghanistan) whether fresh, frozen or otherwise preserved but excluding those bottled or canned	0808.2000	0808.3000, 0808.4000
16.	Red chillies excluding those sold in retail packing bearing brand names and trademarks	0904.2010 0904.2020	0904.2110 0904.2210
31.	Holy Quran, complete or in parts, with or without translation; Quranic Verses recorded on any analogue or digital media; other Holy books	8523.4010 8523.4030 8523.4090	8523.4910 8523.4920 8523.4190

**SIXTH SCHEDULE**  
**TABLE – II (Local Supplies only)**

Local supply of cotton seed oil has now been subject to zero rating. Exemption has been withdrawn.

**SRO 595(I)/2012**  
**Amendment in SRO 551(I)/ 2008 dated June 11, 2008**

Waste paper chargeable to tax at the rate of 22 per cent has now been exempted from sales tax on supplies.

**SRO 595(I)/2012 AND SRO 602(I)/2012**

Zero rating has been withdrawn and exemption from whole of sales tax extended to the following:

<u>Description of goods</u>	<u>Conditions and Restrictions</u>
Remeltable Scrap (PCT heading 72.04)	Import and supplies
Sprinkler equipment	Supplies
Drip equipment	Supplies
Spray pumps and nozzles	Supplies

**SALES TAX RULES, 2006** [www.imranghazi.com](http://www.imranghazi.com)

**TRANSFER OF JURISDICTION**  
 [Rule 5]

The FBR is now empowered to transfer the registration of any registered person or any business of a registered person to an area of jurisdiction where the place of business or registered office or manufacturing units is located. However, the change of jurisdiction of any business of a registered person is against the basic principle of single registration of a taxpayer.

**CHANGE IN PARTICULARS OF REGISTRATION***[Rule 7(4)]*

Procedure for transfer of business is now prescribed as follows:

	<b>Transfer of Business</b>		<b>Authorised Office</b>	<b>Verification By</b>
	<b>From</b>	<b>To</b>		
(i)	Individual	Spouse or Children	Local Registration Office (LRO)	Regional Tax Office (RTO)
(ii)	Individual	AOP	LRO	RTO
(iii)	AOP	Corporate entity	LRO	RTO/Large Taxpayers Unit

The same registration number would continue in aforesaid cases.

In case of transfer on any other account, a new Sales Tax Registration Number shall be issued to the entity.

The cases of transfer of business from an Individual to a corporate entity are not covered.

**BLACKLISTING AND SUSPENSION OF REGISTRATION***[Rule 12]*

The procedure for blacklisting and suspension of registration by the Commissioner has been removed. The Commissioner or FBR has been empowered to suspend or blacklist a registered person in terms of the procedure to be prescribed by the FBR.

However, in terms of section 21(2) of the Sales Tax Act, 1990, the FBR is not empowered to suspend or blacklist a registered person.

**DISQUALIFICATION OF AUTHORISED REPRESENTATIVE***[Rules 58 and 62]*

A complaint can now also be filed by an officer of the FBR for disqualification of an "Authorised Representative" for representing a registered person.



**SALES TAX SPECIAL PROCEDURE RULES, 2007****WITHDRAWAL OF IMMUNITY FROM AUDIT IN CASE OF COMMERCIAL IMPORTERS****SRO 592(I)/2012***[Rule 58E(2)]*

Commercial Importers subject to Special Procedures of Sales Tax [Rules 58A to 58E] were immune from audit by department in all cases, except in certain circumstances. Now such immunity has been withdrawn in all cases.

**STEEL MELTING, STEEL RE-ROLLING AND SHIP BREAKING UNITS****SRO 592(I)/2012, SRO 596(I)/2012 AND SRO 597(I)/2012***[Rules 58F to 58MB]*

Special Procedure Rules for steel melting, steel re-rolling and ship breaking units including Pakistan Steel Mills, Heavy Mechanical Complex and Peoples Steel Mills have been substantially modified.

**REDUCTION OF SALES TAX RATE ON BLACK TEA****SRO 608(1)/2012***[Effective June 2, 2012]*

The Sales Tax rate has been reduced from 16 per cent to 5 per cent on import and supplies of black tea.

[www.imranghazi.com](http://www.imranghazi.com)**NOTIFICATIONS RESCINDED****SRO 594(I)/2012***[Effective June 2, 2012]*

<b>SRO Numbers</b>	<b>Description</b>
555(I)/1996 dated July 1, 1996	Officers authorized to adjudicate the cases involving assessment of sales tax, charging of additional tax, imposition of penalty and recovery of amount erroneously refunded
849(I)/1997 dated September 25, 1997	Exemption on supplies of imported Industrial raw materials, components and sub-components and goods other than consumer goods and consumer durables, excluding the mild steel products and their raw materials specified in SRO 511(I)/97 (already rescinded on June 4, 2006) and SRO 512(I)/97 dated July 5, 1997, if imported directly by the manufacturers who are liable to pay turnover

	tax or are engaged in manufacture of the goods other than taxable goods, for use within the factory of such manufacturers for which the aforesaid goods have been imported
103(I)/2005 dated February 3, 2005	Fixation of value of Potassic Fertilizers both Sulphate of Potash (SOP) and Muriate of Potash (MOP), for the purposes of assessment of sales tax chargeable at import stage as well as against the local supply of these fertilisers at Rs 4,610 per metric ton
15(I)/2006 dated January 6, 2006	Fixation of value of taxable supply of locally produced nitrogenous fertiliser, Calcium Ammonium Nitrate (CAN) at Rs 3,765 per metric ton irrespective of the value at which the supply is made
644(I)/2007 dated June 27, 2007	Sales tax charged, levied and payable at the rate of twenty two per cent of the value of goods, imported or supplied mentioned in Table – 1 and nineteen and a half per cent of the value of the goods mentioned in Table – II

#### **EXPORT ORIENTED SECTORS**

##### **SRO 593(I)/2012**

*[Effective June 2, 2012]*

##### **Amendment in SRO 1125(I)/2011 dated December 31, 2011**

The facility of zero rating or levy of sales tax at reduced rate of 5 per cent as the case may be, in respect of mono filament has now been restricted to mono filament of more than 67 decitex for registered persons doing business in textile, carpets, leather, sports and surgical goods.

#### **OTHER AMENDING NOTIFICATIONS**

*[Effective June 2, 2012]*

##### **SRO 590(I)/2012**

##### **Amendment in SRO 1020(I)/2006 dated October 2, 2006**

Commercial importers of computer hardware and parts have been brought at par with other commercial importers through withdrawal of respective entry in SRO 1020(I)/2006. They are now required to pay minimum sales tax at three per cent of the value of goods in addition to sixteen per cent.

**SRO 591(I)/2012**  
**Amendment in SRO 811(I)/2009 dated September 19, 2009**

Zero rating of import and supply of polyethylene and polypropylene falling under PCT heading numbers 3901.1000, 3901.2000 and 3902.1000 for manufacture of mono filament yarn and net cloth to green house farming is withdrawn. However, the goods are allowed exemption subject to the condition that the manufacturer is duly registered and has in-house manufacturing facility.

**SRO 604(I)/2012**  
**Amendment in SRO 313(I)/2006 dated March 31, 2006**

The rate of sales tax is being reduced from 7 to 6 per cent on import of soyabean seed by solvent extraction industries subject to the condition that no refund of input tax shall be admissible.

**SRO 605(I)/2012**  
**Amendment in SRO 69(I)/2006 dated January 28, 2006**

The rate of sales tax is being reduced from 15 to 14 per cent on import of rapeseed, sunflower seed and canola seeds, by solvent extraction industry.

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**FEDERAL EXCISE DUTY**
**A. FIRST SCHEDULE****A1. REVISION IN DUTY  
(TABLE I – Excisable Goods)****LOCALLY PRODUCED CIGARETTES**

Description and Duty on the locally produced cigarettes (heading 24.02) has been revised as under, with effect from June 2, 2012:

<b>S.No.</b>	<b>Description of goods</b>	<b>Revised rate of duty</b>
9	Locally produced cigarettes if their retail price exceeds Rs 22.80 (previously Rs 21) per ten cigarettes	65 per cent of the retail price ( <i>no change</i> )
10	Locally produced cigarettes if their retail price exceeds Rs 13.36 (previously Rs 11.50) but does not exceed twenty two rupees and eighty six paises (previously twenty-one rupees) per ten cigarettes	Rs 7.02 (previously Rs 6.04) per ten cigarettes plus seventy per cent per incremental rupee or part thereof
11	Locally produced cigarettes if their retail price does not exceed Rs 13.36 (previously Rs 11.50) per ten cigarettes	Rs 7.02 (previously Rs 6.04) per ten cigarettes

For the purpose of levy, collection and payment of above duty, cigarette manufacturers are not allowed to reduce price from the level adopted on the day of announcement of the latest Budget. Further manufacturers and importers are restricted from fixing the price of a new cigarette brand variant, of the same existing brand family, at a price below the lowest actual price of the existing variant in the same brand family on June 1, 2012.

Further, price of any new brand, introduced in the market, shall not be less than 95 per cent of the price at which the highest number of excise duty paid cigarettes were sold in the previous fiscal year.

**A2. CEMENT**

The duty rate on cement has been reduced from Rs 500 to Rs 400 per Metric Ton.

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*Tax Memorandum 2012*

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**A2. REVISION IN DUTY**  
**[TABLE II – Excisable Services**  
**AND SRO 600(I)/2012 AND SRO 603(1)/2012]**

**FACILITIES FOR TRAVEL**

In order to simplify the collection procedure, duty on travel facilities has been revised as under:

<u>Description of Services</u>	<u>Rate of Duty</u>
(a) Services provided or rendered in respect of travel by air of the passenger within the territorial jurisdiction of Pakistan	16 per cent of the charges plus Rs 60 (previously 16 per cent of the charges Rs 60 as per SRO 47 dated January 20, 2012) per ticket
(b) Services provided or rendered in respect of travel by air of the passengers embarking on international journey from (previously to or from) Pakistan	
(i) Economy and Economy Plus (Previously Passengers embarking to or from SAARC region, UAE [Middle East], Saudi Arabia, Africa, Afghanistan)	Rs 3,840 (previously Rs 3,340 for Economy and Economy Plus classes and Rs 4,340 for Club, Business and First classes as per SRO 47 dated January 20, 2012, now rescinded)
(ii) Club, business and first class (Previously Passengers embarking to or from Europe, Far East, China, USA, Canada, Australia, South America, others)	Rs 6,840 (previously Rs 4,340 for Economy and Economy Plus classes and Rs 5,840 for Club, Business and First classes as per SRO 47 dated January 20, 2012, now rescinded)

In order to make the above changes workable, SRO 777 dated August 1, 2006 has been rescinded vide SRO 603 dated June 1, 2012. Further, through SRO 600(I)/2012 dated June 1, 2012; corresponding amendments have been made in sub-rule 1, 6 and 5 of Rule 41A of the Federal Excise Rules, 2005 and sub-rule 7 of Rule 41A has also been substituted to eliminate the application of FED on embarking for Pakistan from anywhere in the world.

**A3. WITHDRAWAL OF DUTY**  
**[TABLE I – Goods**  
**AND SRO 598(I)/2012]**

Duty in respect of the following goods is proposed to be withdrawn, effective June 2, 2012, in order to phase out the FED regime:

<b>S. No.</b>	<b>Description of goods</b>	<b>Heading / sub-heading No.</b>	<b>Present Rate of duty</b>
22	Lubricating oil in packs not exceeding 10 litres [SRO 671 dated June 29, 2009 now rescinded]	2710.1951	10 per cent of the retail price
23	Lubricating oil in packs exceeding 10 litres	2710.1952	10 per cent of the retail price
24	Lubricating oil in bulk (vessels, bouzers, lorries etc.)	2710.1953	Rs 7.15 per litre
25	Lubricating oil manufactured from reclaimed oils or sludge or sediment, subject to the condition if sold in retail packing or under brand names the words manufactured from reclaimed oil or sludge or sediment should be clearly printed on the pack	Respective headings	Rs 2 per litre
27	Base lube oil	2710.1993	Rs 7.15 per litre
42	Perfumes and toilet waters (Consequently, the relevant Entry from SRO 649 dated July 1, 2005 has also been omitted vide SRO 598 dated June 1, 2012)	3303.0000	10 per cent of the retail price if packed in retail packing and 10 per cent <i>ad valorem</i> if in bulk
43	Beauty or make-up preparations and preparations for the care of the skin (other than medicaments), including sunscreen or sun tan preparations; manicure or pedicure preparations (Consequently, the relevant Entry from SRO 649 dated July 1, 2005 has also been omitted vide SRO 598 dated June 1, 2012)	33.04	10 per cent of the retail price if packed in retail packing and 10 per cent <i>ad valorem</i> if in bulk

44	Preparation for use on the hair excluding herbal hair oil and kali mehndi (Consequently, the relevant Entry from SRO 649 dated July 1, 2005 has also been omitted vide SRO 598 dated June 1, 2012)	33.05	10 per cent of the retail price if packed in retail packing and 10 per cent <i>ad valorem</i> if in bulk
45	Pre-shave, shaving or after-shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetics or toilet preparations, not elsewhere specified or included; prepared room deodorisers, whether or not perfumed or having disinfectant properties (excluding agarbatti and other odoriferous preparations which operate by burning) (Consequently, the relevant Entry from SRO 649 dated July 1, 2005 has also been omitted vide SRO 598 dated June 1, 2012)	33.07	10 per cent of the retail price if packed in retail packing and 10 per cent <i>ad valorem</i> if in bulk
50	Filter rods for cigarettes	5502.0090	Twenty per cent <i>ad valorem</i>

**B. THIRD SCHEDULE** [www.imranghazi.com](http://www.imranghazi.com)  
(TABLE II – Services)

Following services have been proposed to be exempt from duty:

<u>S.No.</u>	<u>Description of goods</u>	<u>Heading / sub-heading No.</u>
7.	Live stock insurance	9813.1600
8.	Services provided by Asset Management Companies with effect from July 1, 2007	Respective headings

**NOTIFICATIONS RESCINDED  
SRO 603(1)/2012**

<u>SRO Numbers</u>	<u>Description</u>
807(I)/2005 dated August 12, 2005	Rebate on FED on export of Lubricating oil
671(I)/2006 dated June 29, 2006	Fixation of the minimum price of lubricating oil in packs (PCT headings 2710.1951 and 2710.1952) for the purpose of assessment of FED at import stage. Please refer to A3 (Withdrawal of Duty) above
777(I)/2006 dated August 1, 2006	Rates of FED chargeable on the tickets issued for the services of travel by air on international journey. Please refer to A2 (Revision in Duty) above
949(I)/2006 dated September 6, 2006	Exemption from FED on import and supply of solvent oil (PCT Heading 2710.1150) for manufacture of shoe adhesives and solvent based contact adhesives
1229(I)/2007 dated December 18, 2007	Exemption from special excise duty on tractor parts supplied by registered vendors to the manufacturers of agricultural tractors under heading no. 8701.9019, subject to certain conditions
47(I)/2012 dated January 20, 2012	Rates of excise duty chargeable on the certain services – Facilities for travel. Please refer A2 (Revision in Duty) above

**SRO 599(I)/2012  
Amendment in SRO 474(I)/2009 dated June 13, 2009**

Exemption on viscose staple fibre (Respective headings) has been omitted.



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## **CUSTOMS DUTY**

### **DEFINITION**

*[Section 2(s)]*

The definition of the term “smuggle” has been enlarged to also include enroute pilferage of transit goods. Previously, only the goods brought into or taken out of Pakistan in breach of any prohibition or restriction for the time being in force or evading payment of customs duty or taxes leviable thereon was considered as ‘smuggle’.

### **FORMATION OF NEW DIRECTORATES**

*[Sections 3AA, 3BB, 3BBB and 3CC]*

Following new Directorates are proposed to be formed:

<b>S. No.</b>	<b>Name of Directorate</b>	<b>Functions of the Directorate</b>
(i)	Directorate General of Transit Trade	Exclusive clearance and monitoring of the transit cargo
(ii)	Directorate General of Reform and Automation	} Manage automation and reforms of Pakistan Customs and to regulate self-clearance
(iii)	Directorate General of Risk Management	
(iv)	Directorate General of Intellectual Property Rights Enforcement	Enforcement of intellectual property rights at the borders and ports of the country

Each directorate will have a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the FBR may, by notification in the official Gazette, appoint.

### **PAKISTAN CUSTOMS TARIFF**

*[Section 18E]*

The FBR has been empowered to make changes in Pakistan Customs Tariff (PCT) for the purposes of clarity in statistical suffix of the PCT Code.

### **OFFENCES AND PENALTIES**

*[Section 156]*

Presently, penalty upto twice the value of goods can be imposed on the person who contravenes any rules or conditions relating to transport of good from one port of

Pakistan to another through any foreign territory or transit of good across Pakistan to a foreign territory. Now such person, including custodian and inland carrier can also be liable to imprisonment for a term not exceeding five years, if convicted by a Special Judge.

### **POWER OF ADJUDICATION**

*[Section 179]*

The threshold in terms of amounts for an officer of the customs, to exercise his powers of adjudication, including recovery of duty and other taxes not levied, short levied or erroneously refunded, has been revised as under:

(i)	Collector	Without limit
(ii)	Additional Collector	Not exceeding Rs 3 million
(iii)	Deputy Collector	Not exceeding Rs 1 million
(iv)	Assistant Collector	Not exceeding Rs 500,000
(v)	Superintendent	Not exceeding Rs 50,000
(vi)	Principal Appraiser	Not exceeding Rs 50,000

The FBR has been empowered to transfer, by an order, any case from an Officer of Customs to other. Previously, such powers were restricted to transfer of a case from one Collector to other.

### **APPEALS TO COLLECTOR (APPEALS)**

*[Section 193]*

An officer of customs can now also prefer an appeal to Collector (Appeals) against the order of Officer of Customs below the rank of Additional Collector. Further, the aggrieved person can also file an appeal before the Collector (Appeals) against rejection of refund under section 33 of the Act.

### **APPEALS TO THE APPELLATE TRIBUNAL**

*[Section 194 – A]*

A decision or order passed by an Additional Collector, previously appealable before the Collector Appeals, is now appealable before the Appellate Tribunal. Further, the order or decision of Collector is appealable before the Appellate Tribunal.

**PROCEDURE FOR SALE OF GOODS***[Section 201]*

Any goods, other than confiscated, to be sold under any provision of the Act can now be sold through electronic means, as prescribed by the FBR under the rules.

**REWARD TO CUSTOMS OFFICERS AND OFFICIALS***[Section 202B]*

A new section has been introduced for cash reward to customs officials and informers providing credible information in cases involving evasion of customs duty and other taxes. The FBR has been empowered to prescribe the procedure in this behalf through notification.

**MAINTENANCE OF RECORD***[Section 211]*

Licensed transport operators and tracking companies, carrying out business directly or indirectly relating to international trade are now also required to maintain and keep records and correspondence concerning import, export and transit trade transactions.

**EXTENSION OF TIME LIMIT***[Section 224]*

The Federal Government, the FBR or the appropriate officer of customs, in the manner and circumstances prescribed, are now also empowered to condone the delay, in addition to the existing powers to extend the time limit laid down in the Act and the Rules made thereunder.

**SCHEDULE**

World Customs Organisation (WCO) has made amendments in the HS Nomenclature effective from January 1, 2012. Accordingly, Pakistan Customs Tariff has also amended its coding system to align it with that of WCO.

Maximum general tariff slab has been reduced from 35 per cent to 30 per cent.

**RULES****DUTY AND REMISSION FOR EXPORTS [DTRE]****SCOPE OF DTRE***[Rule 297]*

A person engaged in the manufacture and export of goods is now required to make minimum value addition of 15 per cent. Previously the value addition prevalent as per relevant industry was acceptable for availing DTRE facility.

**UTILISATION OF INPUT GOODS***[Rule 305]*

The period for utilisation of input goods for manufacture and export of output goods has been reduced from twenty four months to twelve months, from the date of approval of DTRE application.

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**NOTIFICATIONS**

[Effective June 2, 2012]

**REGULATORY DUTY ON EXPORT OF GOODS MADE FROM MATERIAL IMPORTED UNDER DTRE FACILITY**

[SRO 578(I)/2012 AND SRO 594(I)/2009]

Through SRO 594(I)/2009, a regulatory duty at the rate of 25 per cent was imposed on export of certain goods prescribed therein. However, such duty was not applicable, by way of exception, on export of those goods made from material imported under the facility of DTRE as provided under sub-chapter 7 of Chapter XII of the Customs Rules, 2001 or the scheme of manufacturing bonds as licensed under Chapter XV of the said Rules.

Through SRO 578(I)/2012, an amendment is made in SRO 594(I)/2009 and the aforesaid exception is now withdrawn.

**REGULATORY DUTY ON IMPORTS**

[SRO 577(I)/2012 AND SRO 482(I)/2009]

Through SRO 482(I)/2009, regulatory duty on 397 items was levied on import of certain goods which was reduced to 60 items through SRO 479(I)/2011. Through SRO 577(I)/2011, following new entry has been subjected to regulatory duty relating to Chapter 24 [Tobacco]:

<b>S. No. in SRO 482</b>	<b>PCT Code</b>	<b>Description</b>	<b>Rate of Regulatory Duty</b>
6A	2403.1900	Other	15% ad valorem

Furthermore, as a result of revision of HS codes in the First Schedule to the Act, following changes in the PCT codes appearing in SRO 472(I)/2009 have been made, without any change in the rate of duty:

<b>S. No. in SRO 482</b>	<b>Old PCT Code</b>	<b>Old Description</b>	<b>New PCT Code</b>	<b>New Description</b>	<b>Rate of Regulatory Duty</b>
1.	0802.9010	Betel Nuts	0802.8000	Areca nuts (Betel nuts)	10%
6.	2403.1000	Smoking tobacco, whether or not containing tobacco substitutes in any proportion	2403.1100	Water pipe tobacco specified in Subheading Note 1 of Chapter 24 of the First Schedule to the Customs Act, 1969	15%

**CORRESPONDING CHANGES OF THE PCT CODES IN THE CONCESSIONARY NOTIFICATIONS ISSUED AS A RESULT OF FREE / PREFERENTIAL TRADE AGREEMENTS**

As a result of revision of HS codes in the First Schedule to the Act, corresponding changes in the PCT Codes, appearing in following notifications, have been made without any changes in the concession in the duty allowed under the relevant Free / Preferential Trade Agreements:

<b>Amending SRO</b>	<b>Original SRO</b>	<b>Description of Free / Preferential Trade Agreement</b>	<b>Countries covered</b>
583(I)/2012	1261(I)/2007	Pakistan - Malaysia Free Trade Agreement	Malaysia
584(I)/2012	1296(I)/2005	Pakistan - China Free Trade Agreement	China
585(I)/2012	558(I)/2004	(i) ECO Protocol relating to Preferential Tariffs among members of ECO; and (ii) SAARC Rules of Origin	Iran and Turkey SAARC member countries

586(I)/2012	570(I)/2005	Pakistan - Srilanka Free Trade Agreement	Srilanka
587(I)/2012	894(I)/2006	Pakistan - Iran Preferential Trade Agreement	Iran
588(I)/2012	1274(I)/2006	Agreement on 'South Asian Free Trade Area (SAFTA)'	SAARC member countries (including Afghanistan)

***CORRESPONDING CHANGES OF THE PCT CODES IN THE NOTIFICATIONS ISSUED FOR DUTY DRAW BACKS***

As a result of revision of HS codes in the First Schedule to the Act, corresponding changes in the PCT Codes, appearing in following notifications, have been made without any changes in the percentage of duty drawback:

<u><i>Amending SRO</i></u>	<u><i>Original SRO</i></u>	<u><i>Industry</i></u>
579(I)/2012	209(I)/2009	Textile
580(I)/2012	210(I)/2009	Leather and Sports
581(I)/2012	212(I)/2009	Others

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**ADDITIONAL CUSTOMS DUTY ON IMPORT OF MOTOR VEHICLE COMPONENTS**  
 [SRO 576(I)/2012]

Following changes in description have been made in SRO 693(I)/2006, whereunder additional customs duty was imposed on components / sub-components of motor cars and vehicles:

<b>PCT Heading</b>	<b>Old Description</b>	<b>New Description</b>
8708.7010	Road wheels (complete), rims (excluding casted), 5[disc,]caps, ornaments and weights for motor cars of heading 87.03 and vehicles of sub-headings 8703.2113, 8703.2193, 8703.2115, 8703.3223, 8704.2190 and 8704.3190	Road wheels (excluding casted), rims, Discs, caps, ornaments and weights for motor cars of heading 87.03 and vehicles of sub-headings 8703.2113, 8703.2193, 8703.3223, 8704.2190, 8704.3190 and 8703.2115
8708.7020	Road wheels (complete), rims (excluding casted), 5[disc,]caps, ornaments and weights for vehicles of sub-headings 8701.9020, 8702.1090, 8702.9090, 8704.2219, 8704.2299 and 8704.2390 (6x2 vehicles only)	Road wheels (excluding casted), rims, Discs, caps, ornaments and weights for vehicles of sub-headings 8701.9020, 8702.1090, 8702.9090, 8704.2219, 8704.2299 and 8704.2390 (6x2 vehicles only)



**CHANGES IN THE CONCESSIONARY RATES OF DUTY***[SRO 573(I)/2012 AND SRO 565(I)/2006]*

SRO 565(I)/2006 has been amended through which the following changes have been made:

**GOODS SUBJECT TO CONCESSIONARY DUTY**

- (i) Import of following raw materials would now be subject to concessionary duty of 0 per cent:

<i>Description</i>	<i>PCT Heading</i>
<b><u>Raw material (Previously subject to 5% duty)</u></b>	
Potato starch	1108.1300
Acid dyes whether or not premetal lised,and preparations based thereon;mordant dyes and preparations based thereon (acid dyes / dyestuff) , non-textile grade	3204.1200
Pigments and preparations based thereon (pigments), non-textile grade	3204.1700
Stamping foil	3212.1000
Inks for ball points pens, fine liners and fibre tips	3215.9010
Edenol	3824.9099
Hardners	3824.9099
Acrylic polymer (fast drying)	3906.9090
Alkyd resins (fast drying)	3907.5000
Amino-resins (fast drying)	3909.3000
Cellulose nitrate	3912.2010
Carboxyl-methyl cellulose and its salts (carboxy methyl cellulose)	3912.3100
Porous fibre rods for making marker nibs	3916.9000
Heat transfer film	4908.9000
Electro galvanized wire	7217.2000
Spring wire	7217.9000
Brass alloy wire	7408.2100
Wood sandwich blocks with lead encased	9609.9000
<b><u>Parts and sub-components (Previously subject to 10% duty)</u></b>	
Carbon for lead	2803.0090
Steel balls not exceeding 1mm diameter (steel balls)	7326.9020
Sharpener blades	8214.1000
Synthetic fiber reservoirs of the kind used in writing instruments (ink reservoirs)	9608.6000
Nibs made of special metal for use in manufacture of writing instruments (fountain pen nibs)	9608.9100
Nibs points( for fiber tip pens and markers)	9608.9100
Tips for fineliners	9608.9100
Raw cores used for making black lead	9609.2010
Color lead	9609.9000

- (ii) Import of HRC (prime quality) of a thickness exceeding 10 mm (PCT Heading 7208.3690) used in the manufacturing of welded steel pipes would now be subject to concessionary duty of 5 per cent.

**REMOVAL OF CONCESSIONARY DUTY**

Concessionary duty on import of following components and sub-components has been removed:

<b>S. No of SRO 565</b>	<b>Description of goods to be manufactured</b>	<b>Description of raw material etc.</b>	<b>PCT Heading</b>	<b>Rate of concessionary duty (removed)</b>	
6	(i) Car Air-conditioners	Filter Drier	8421.3910	10%	
		Motor	8501.1000	10%	
		Resistor	8533.2100	10%	
		Thermister	8533.3100	10%	
		Relay	8536.4100	10%	
83	(ii) Microwave Oven	Main mounted circuit board	8516.9000	10%	
		Cover top	8516.9000	10%	
		Door assembly	8516.9000	10%	
		Display with mounted circuit board	8516.9000	10%	
		High voltage block assembly	8516.9000	10%	
		Accessories	8516.9000	10%	
		Main chassis and frame with motor	8516.9000	10%	
		Magnetron	8540.7100	10%	
		Mechanical Timer	9106.9000	10%	
		(iii) Car Cassette/Compact Disc Player	Remote control	8529.9010	10%
			(iv) Hi Fi System	Remote control	8529.9010
(v) Stereo Cassette/Stereo Car Cassette Player	Braket	8522.9000	10%		

		Rear cover assy	8522.9000	10%
		Remote control	8522.9000	10%
		Main frame or chassis with top cover	8522.9000	10%
		Nobs and buttons	8522.9000	10%
		Front panel assy with mounted circuit board	8522.9000	10%
		Mechanism assy with motor and head	8522.9000	10%
(vi)	Radio Cassette Player	Remote control	8529.9010	10%
(vii)	Pocket Size Cassette Player	Accessories	8522.9000	10%
		Braket	8522.9000	10%
		Rear cover assy	8522.9000	10%
		Main frame or chassis with top cover	8522.9000	10%
		Nobs and buttons	8522.9000	10%
		Front panel assy with mounted circuit board	8522.9000	10%
		Mechanism assy with motor and head	8522.9000	10%
(viii)	DVD / VCD Player	MPEG card	8522.9000	10%
		Metal case	8522.9000	10%
		Loader	8522.9000	10%
		Panel with PCB & Card	8522.9000	10%
		Power board	8522.9000	10%
		Remote control	8522.9000	10%
(ix)	Plasma Display Panel (PDP) / Liquid Crystal Display (LCD) Panel / Light Emitting Diode (LED) Panel	Screw sets	7318.1400	5%
84	Mobile phones, payphones, WLL phones, CDMA phones, GSM phones	Sealed lead acid batteries	8507.2010	5%

		Sealed lead acid batteries	8507.2010	0%
85	Viscose staple fiber	Wood Pulp	4702.0000	0%
98	Fans	Non Grain Oriented Electrical Steel Sheet	7225.1900	0%
133	Fortified Rosin	Maleic Anhydride	2917.1400	5%

#### **OTHER MISCELLANEOUS CHANGES**

The general conditions of SRO 565 (I) / 2006 have been amended to remove anomalies and are now simplified. Further, certain corresponding changes in the PCT codes have been made as a result of revision of HS Codes in the First Schedule to the Act.

#### **CONCESSIONARY REGIME OF CUSTOMS DUTY**

[SRO 574(I)/2012 AND SRO 567(I)/2006]

Following changes have been made in SRO 567(I)/2006:

- (i) Concessionary rate of duty of 10 per cent will now also be applicable on import of shredded tyre scrap [PCT 4004.0020] if imported by cement manufacturers.
- (ii) Concessionary rate of duty of 0 per cent on import of Aircraft engines, aero planes and other aircrafts is now only available to commercial airlines registered in Pakistan. Previously it was available to all commercial airlines.
- (iii) Concessionary duty of 30 per cent is now available on import of ambulances having certain specific features:
- (iv) Import of following goods by printing industry will now be subject to concessionary rate of custom duty:

<i>Description</i>	<i>PCT Heading</i>	<i>Concessionary rate of Custom Duty</i>
Black Ink	3215.1190	10%
Colour Ink	3215.1990	10%
CTP Plates	3701.3020	5%
Fully sensitized cheque paper weighing 40 g/m <sup>2</sup> or more but not more than 150 g/m <sup>2</sup>	4802.5700	10%
Red bleed through ribbons for dot matrix printers	9612.1010	10%
Anti-forgery security printing ink	3215.1990	10%

(v) Concessionary rate of duty of 5 per cent will now also be applicable on the following (87) active pharmaceutical ingredients (respective headings), if imported for in-house use in the manufacture of specified pharmaceutical substances:

- |                                  |                                     |
|----------------------------------|-------------------------------------|
| - Acid Hypophosphosous           | - Levocetirizine Dihydrochloride    |
| - Acid Pipmidc Trydae            | - Bromocriptine Ms(G) Msa/Ds 01     |
| - Acid Citric Anhydrous          | - Pindolol Base/Ds Pur              |
| - Propylparaben (Aseptofom-P)    | - Clopamide Base/Ds 01              |
| - Methylparaben Aseptofom-M)     | - Pindolol Base                     |
| - Carbinoxamine Maleate          | - Nimesulide                        |
| - Euflavine Bp (Acriflavine)     | - Enalapril Maleate Usp 23          |
| - Vancomycin Hcl                 | - Cetirizin Dihydrocholoride Ep     |
| - Dextro-Methorph Hbr            | - Famotidine                        |
| - Acyclovir Usp                  | - Fluoxetine Hcl                    |
| - Sodium Benzoate                | - Doxycycline Hydrochloride Bp      |
| - Sodium Sulfate                 | - Captopril                         |
| - Cupric Chloride                | - Simvastatin Ep                    |
| - Enoxacin Sesquihfrtae          | - Cefaclor Monohydrate              |
| - Mama Copolymer                 | - Lactulose                         |
| - Sodium Valproate               | - Albendazole - Human Grade         |
| - Sodium Cyclamate               | - Clobetasol Propionate             |
| - Magnesium Hydroxide Paste      | - Betamethasone Base                |
| - Diphenhydramine                | - Betamethasone 17-Valerate         |
| - Alprazolam                     | - Bacitracin Zinc Bp (69 Mcg/Mg)    |
| - Bacitracin Usp Powder Microniz | - Hydrocortisone Acetate Micronised |
| - Chloromycetin Palmitate        | - Hydrocortisone Usp Micro          |
| - Chlorpheniramine Maleate       | - Clotrimazole                      |
| - Esmomeprazole Magnesium Ec     | - Clindamycin Phosphate             |
| - Fluconazole                    | - Cetirizine Dihydrochloride        |
| - Glipizide                      | - Fluconazole                       |
| - Neomycin Sulphate              | - Minocycline Hydrochloride         |
| - Polymyxin B Sulphate USP Micro | - Neomycin Sulph Bp 700 U/Mg Mic    |
| - Lorazepam                      | - Nystatin (Mycostatin Micropul)    |

- Nystatin Usp Powder
- Ferric Pyrophosphate Nf
- Alprazolam
- Pyritinol Base Fine Powder
- Pyritinol Di-Hcl Mono Hydrate
- Bisacodyl
- Sodium Picosulphate
- Carbamazepine
- Co-Dergocrine Ms (Gram) A 01
- Clemastine Hydrogen Fumarate
- Calcium Lactobionate Oral
- Clamipramine Hcl Ep
- Imipramine Hydrochlor/Ds 01
- Oxcarbazepine Fine/Ds 05
- Calcium Lactobionate Special Grade
- Temazepam Usp 28/Ep 4th Ed
- Triprolidine Hcl B.P (94%)
- Ciprofloxacin Hcl 95%
- Ferrous Sulphate
- Polymyxin B Sulph Bp 8000 U/Mg
- Procyclidine Hcl
- Mupirocin
- Artemether
- Lumefantrine
- Desmoder H/Hexamethylen Di-Iso
- Erythrocin J
- Furosemide (Imp)
- Glimepiride Granules 0.606% (W/W (1 Mg)
- Ketoprofen

Concessionary rate of duty of 5 per cent will also be applicable of the following packing material if imported for in-house use in the manufacture of specified pharmaceutical substances.

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<i><b>PCT Heading</b></i>	<i><b>Description</b></i>
4822.9000	Paper core for surgical tape [Pharmaceutical Grade]

**OTHER CHANGES IN CUSTOMS DUTY:**

<i><b>PCT Code</b></i>	<i><b>Description</b></i>	<i><b>Old Rate</b></i>	<i><b>New Rate</b></i>
4816.2000	Self copy paper	20%	15%
4811.4100	Self adhesive paper	25%	10%
3706.1000	Cinematographic film - width of 35mm or more	Rs 5 per meter plus 5% ad. val	Rs 5 per meter
3706.9000	Cinematographic film - others	Rs 5 per meter plus 5% ad. val	Rs 5 per meter

*Tax Memorandum 2012*

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**OTHER LAWS**
**CAPITAL VALUE TAX****SHARES OF A PUBLIC COMPANY LISTED ON A REGISTERED STOCK EXCHANGE**

[Sections 7(1), 7(2) AND 7(4)]

The provisions earlier introduced through Presidential Ordinance dated April 24, 2012 have now been incorporated in the Finance Bill. The Capital Value Tax (CVT) is proposed at the rate of 0.01 per cent on the purchase value of shares of a public company listed on a registered stock exchange in Pakistan.

The registered stock exchange in Pakistan has been required to collect the CVT by making the necessary amendment in sub-section (4) of section 7, however, this sub-section has already been omitted vide Finance Act, 2011. A new sub-section, therefore, has to be inserted to give effect for the same.

**CVT ON IMMOVABLE PROPERTY**

[Sections 7(1) and 7(2)]

The CVT on the purchase of immovable property, falling in Islamabad Capital Territory and such other areas the FBR may specify, is proposed to be at the following rates:

<i>Description of asset</i>	<i>Rate of CVT</i>
(a) Residential immovable property, (other than flats), situated in the area, measuring at least 500 square yards or one kanal (which ever is less) and more –	
(i) Where the value of immovable property is recorded	2% of the recorded value
(ii) Where the value of immovable property is not recorded	Rs 100 per square yard of the landed area
	} Whichever is higher

- |   |   |   |
|---|---|---|
| (iii) Where the value of immovable property is a constructed property | Rs 10 per square feet of the constructed area in addition to the value worked out above |   |
| (b) Residential flats of any size situated in the area –              |   |   |
| i) Where the value of immovable property is recorded                  | 2% of the recorded value  | } |
| ii) Where the value of the immovable property is not recorded.        | Rs 100 per square feet of the covered areas of the immovable property                   |   |
| } Whichever is higher   |   |   |
| (c) Commercial immovable property of any size situated in the areas – |   |   |
| i) Where the value of immovable property is recorded                  | 2% of the recorded value of the landed area   | } |
| ii) Where the value of the immovable property is not recorded         | Rs 100 per square feet of the landed area   |   |
| } Whichever is higher   |   |   |
| iii) Where the immovable property is a constructed property           | Rs 10 per square feet of the constructed area in addition to the value worked out above |   |

**CERTAIN GOVERNMENTAL AUTHORITIES TO DEPOSIT PENALTIES RECOVERED AND SURPLUS OF RECEIPTS OVER EXPENDITURE TO THE FEDERAL CONSOLIDATED FUND**

Statutes relating to certain governmental authorities are proposed to be amended whereby:

- i) authorities will be required to remit to the 'Federal Consolidated Fund' any surplus of receipts over their actual expenditure in a year after payment of tax.



Any deficit from the actual expenditure shall be made up by the Federal Government

- ii) all penalties and fines recovered will be credited to the 'Federal Consolidated Fund'.

To affect this, insertions are proposed to be made in the following statutes:

- Pakistan Telecommunication (Re-organisation) Act, 1996;
- Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997;
- Securities and Exchange Commission of Pakistan Act, 1997;
- Pakistan Nuclear Regulatory Authority Ordinance, 2001;
- Pakistan Electronic Media Regulatory Ordinance, 2002; and
- Oil and Gas Regulatory Ordinance, 2002.

#### **GAS INFRASTRUCTURE DEVELOPMENT CESS ACT, 2011**

Schedule II to the Gas infrastructure Development Cess Act, 2011 is proposed to be amended as follows:

<u>Sector</u>	<u>Existing</u> ----- Cess - Rs / MMBTU -----	<u>Proposed</u>
1 Fertilizer - Feed Stock (except for the fertilizer plants having fixed price contracts)	197	300
2 Compressed Natural Gas (CNG)		
(a) Region-I - KPK, Baluchistan and Potohar Region (Rawalpindi, Islamabad and Gujar Khan)	141	300
(b) Region-II - Sindh and Punjab (Excluding Potohar Region)	79	200
3 Industrial (including Captive Power)*	13	100
4 WADPA / KESC / GENCOs**	27	100
5 Independent Power Plants (IPPs)	70	100

\* words in parenthesis are proposed to be included

\*\* word 'GENCOs' is proposed to be included

***NATURAL GAS (DEVELOPMENT SURCHARGE) ORDINANCE, 1967***

Section 3(1) of the Natural Gas (Development Surcharge) Ordinance, 1967 is proposed to be amended to include a provision for 'collection' of development surcharge. Such development surcharge is required to be paid by the specified gas companies based on the differential margin of fixed sales price and prescribed price.

Provision of Section 3(3) for power to grant 'one-time' exemption on charge of interest on late payment of development surcharge is proposed to be extended up to 'two-time'. However, a further proviso is proposed to be inserted requiring that any exemption granted shall always be supported by reasons justifying such exemption issued with the approval of the Secretary and Minister for Petroleum and Natural Resources Division.

***PETROLEUM PRODUCTS (PETROLEUM LEVY) ORDINANCE, 1961***

Fifth Schedule to the Petroleum Products (Petroleum Levy) Ordinance, 1961 is proposed to be substituted. The rates of levy as applicable are proposed to be made the maximum rates of levy.

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