

HIGHLIGHTS ON  
**FINANCE**  
**ACT**

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## Highlights on the Finance Act, 2013

This document summarizes significant changes brought to fiscal statutes vide the Finance Act, 2013 (the Act) relating to Income Tax, Sales Tax & Federal Excise Duty, Customs and Income Support Levy.

Effective date of applicability of these changes shall be July 1, 2013, unless otherwise mentioned.

Nothing contained in this document shall be construed as our advice in general or on a given case, accordingly, for ascertaining any effect of these changes in general or particular, the wordings in the Act should carefully be examined, taking into consideration the applicable laws and regulations, and precise advice should be sought before taking any decision based on, or acting up on any of the contents hereof.

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## SECTION I INCOME TAX

### 1. INDIVIDUALS AND ASSOCIATION OF PERSONS

#### Deduction of tax at source from salary

[Section 149]

The Finance Bill originally sought to withdraw a great relief available to the salaried class whereby employers whereby are empowered to consider and adjust tax deductible from salary upon obtaining documentary evidence on account of taxes withheld from their employees under other heads and tax credits admissible under section 61, 62, 63 and 64 during the tax year. This proposed amendment would have pushed the salaried class back to the vicious circle of tax refunds.

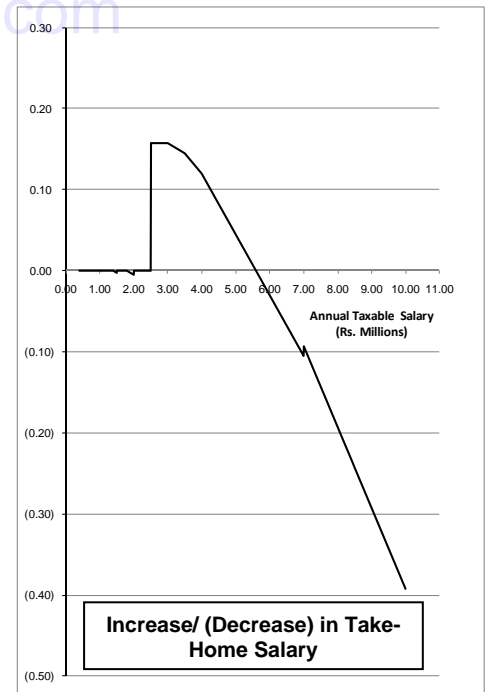
However, the Act has not adopted the above proposal, saving the salaried class from the adverse impacts implicit in the proposal itself, carrying the impracticality for them to be eventually able to get refunds from the FBR had this proposal been adopted on statute.

#### Tax rates for salaried individuals

[First Schedule Part I Div I Clause(1A)]

Cases with an annual income ranging slightly above Rs. 2.5 Million and up to Rs. 5.59 Million depict a relief, whereas all other cases either remain at par with the existing tax burden or suffer from a reduction in disposable income (take-home salary). The variation in tax burden on salaried class is reflected in the chart below:

Taxable Income (Rs.)		Rate of Tax	
From	To		
Up to 400,000			0.00%
400,001	750,000	5.00% of the amount exceeding Rs. 400,000	
750,001	1,400,000	17,500	10% of the amount exceeding Rs. 750,000
1,400,000	1,500,000	82,500	12.5% of the amount exceeding Rs. 1,400,000
1,500,001	1,800,000	95,000	15% of the amount exceeding Rs. 1,500,000
1,800,001	2,500,000	140,000	17.5% of the amount exceeding Rs. 1,800,000
2,500,001	3,000,000	262,500	20% of the amount exceeding Rs. 2,500,000
3,000,001	3,500,000	362,500	22.5% of the amount exceeding Rs. 3,000,000
3,500,001	4,000,000	475,000	25% of the amount exceeding Rs. 3,500,000
4,000,001	7,000,000	600,000	27.5% of the amount exceeding Rs. 4,000,000
Above 7,000,000		1,425,000	30% of the amount exceeding Rs. 7,000,000

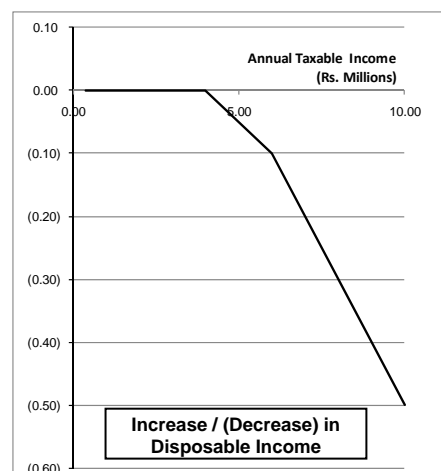


## Tax rates for non-salaried individuals and Association of Persons (AOPs)

### [First Schedule Part I Div I Clause(1)]

Changes to the tax slabs for non-salaried individuals and AOPs together with increased maximum rates (reproduced next) will adversely affect annual income brackets above Rs. 4.0 Million.

Taxable Income (Rs.)		Rate of Tax	
From	To		
Up to 400,000			0.00%
400,001	750,000		10.00% of the amount exceeding Rs. 400,000
750,001	1,500,000	35,000	15% of the amount exceeding Rs. 750,000
1,500,001	2,500,000	147,500	20% of the amount exceeding Rs. 1,500,000
2,500,001	4,000,000	347,500	25% of the amount exceeding Rs. 2,500,000
4,000,001	6,000,000	722,500	30% of the amount exceeding Rs. 4,000,000
Above 6,000,000		1,322,500	35% of the amount exceeding Rs. 6,000,000



## 2. INCOME FROM PROPERTY

### [Section 15 (6) & (7) and First Schedule Part I Div VI]

Income from property was chargeable to tax under rates specified in Division VI of Part I of the First Schedule.

The Act now omits the above provision of law thereby making income from property chargeable to tax under respective normal tax rates of the taxpayers. Consequentially, Division VI of Part I of First Schedule has also been omitted.

## 3. DEDUCTIONS IN COMPUTING INCOME FROM PROPERTY

### [Section 15A]

A new section 15A is being inserted, which allows certain admissible deductions in computing income chargeable to tax under the head 'income from property' as summarized below:

- (1) deductions shall be allowable on account of the following:
  - (a) 1/5<sup>th</sup> **repairs allowance** on rent chargeable to tax for building, computed before any deduction allowed under this section;
  - (b) **Insurance premium** for coverage against risk of damage or destruction to building;
  - (c) **local rate, tax** (not being income tax), **charge**, or **cess** for property or the rent from the property accruing towards any local authority or government;
  - (d) **ground rent** in respect of the property;
  - (e) **profit on any money borrowed**, including by way of mortgage, to acquire, construct, renovate, extend, or reconstruct the property;
  - (f) **share in rent** and **share in appreciation in the value of property** (excluding the return of capital, if any) against borrowed capital from House Building Finance Corporation or a scheduled bank under a scheme of investment in property for acquisition, construction, renovations, extension or reconstruction of property from such borrowed capital;
  - (g) amount of **profit** or **interest** on mortgage or charge, where the property is subject to a mortgage or other capital charge;

- (h) **collection charges or cost**, not exceeding 6% of the gross rent chargeable to tax, for the purpose of collecting the rent due in respect of the property;
  - (i) **expenditure on for legal services** to defend the person's title to the property or any suit connected with the property in a Court; and
  - (j) allowance for **unpaid rent**, where there are reasonable grounds to believe that the unpaid rent is irrecoverable, subject to the conditions that:
    - (i) the tenancy was bona fide
    - (ii) the defaulting tenant has vacated the property or steps have been taken to compel the tenant to vacate the property
    - (iii) the defaulting tenant is not in occupation of any other property of the landlord;
    - (iv) all reasonable steps have been taken to institute legal proceedings for the recovery of the unpaid rent or there exist reasonable grounds to believe that legal proceedings would be useless; and
    - (v) unpaid rent has been included in the income chargeable to tax under the head "Income from Property" for the tax year in which the rent was due and tax has been duly paid on such income.
- (2) In case where any unpaid rent allowed as a deduction under is wholly or partly recovered, the amount recovered shall be chargeable to tax in the tax year in which it is recovered.
- (3) Where a person has been allowed a deduction for any expenditure incurred in deriving rent chargeable to tax under the head "Income from Property" and the person has not paid the liability or a part of the liability to which the deduction relates within 3 years of the end of the tax year in which the deduction was allowed, the unpaid amount of the liability shall be chargeable to tax under the head "Income from Property" in the first tax year following the end of the three years.
- (4) Where an unpaid liability is chargeable to tax as a result of the application of sub-section (3) and the person subsequently pays the liability or a part of the liability, the person shall be allowed a deduction for the amount paid in the tax year in which the payment is made.
- (5) Any expenditure allowed to a person under this section as a deduction shall not be allowed as a deduction in computing the income of the person chargeable to tax under any other head of income.
- (6) The provisions of section 21 shall apply in determining the deductions allowed to a person under this section in the same manner as they apply in determining the deductions allowed in computing the income of a person chargeable to tax under the head "Income from Business".

#### **4. SET-OFF OF LOSSES**

**[Section 56]**

Section 56 of the Ordinance has been amended to the effect that loss suffered by a person in a year from any source of income could not be set off from his income from salary or income from property.

#### **5. GROUP TAXATION**

**[Section 59AA]**

Holding companies and subsidiary companies of 100% owned group have an option to be taxed as one fiscal unit after compliance with the conditions as per section 59AA of the Ordinance. The Act now clarifies that this option shall be available to such group companies that comply with the requirements of group designation rules or regulations as may be specified by the SECP.

#### **6. GROUP RELIEF**

**[Section 59B]**

Subsidiary companies may surrender current year's assessed loss from business income in favor of holding company or its subsidiary or between other subsidiaries of the holding company, subject to

specified conditions. The Act now adds a clarification that companies in the group shall comply with the requirements of group designation rules or regulations as may be specified by the SECP.

**7. SCOPE OF THE TERM ‘COMPANY’** **[Section 80(2)(b)]**

The scope of the term ‘company’ has been extended to include a non-profit organization, an entity and a body of persons established or constituted by or under any law for the time being in force.

**8. UNEXPLAINED INCOME OR ASSETS** **[Section 111]**

Unexplained income or assets are liable to be included in a person’s income chargeable to tax in the tax year to which such amount relates to the extent it is not adequately explained. A restrictive proviso has been adopted by the Act that in case a taxpayer relies upon agricultural income as explanation, such explanation shall be accepted to the extent of agricultural income worked-back on the basis of agricultural income tax paid under the relevant provincial law.

**9. MINIMUM TAX ON THE INCOME OF CERTAIN PERSONS** **[Section 113]**

Once again the rate of minimum tax has been increased from 0.5% to 1%. Moreover, a corrective amendment has also been made to do away with the anomaly regarding including the missing reference to clause (1) of Division I of the First Schedule being applicable for individuals and association of persons.

**10. TAX ON INCOME OF CERTAIN PERSONS** **[Section 113A]**

Minimum tax on retailers has been abolished and a new type of minimum tax has been levied on income of builders arising from construction and sale of residential, commercial or other buildings. Originally it was proposed that builders will be required to pay minimum tax at the rate of Rs. 25 per square foot actually sold or booked for sale during a year. However, the Act now enunciates that the rate for minimum tax may be notified by the Federal Government.

**11. MINIMUM TAX ON LAND DEVELOPERS** **[Section 113B]**

A new type of minimum tax has also been levied on income of land developers arising from development and sale of residential, commercial or other plots. It was originally proposed that the said developers would pay minimum tax at the rate of Rs. 50 per square yard actually sold or booked for sale during a year. However, the Act now enunciates that the rate for this minimum tax may be notified by the Federal Government.

**12. RETURN OF INCOME** **[Section 114]**

**Persons required to file a return of income irrespective of income threshold**

- a. The threshold of Rs. 1 Million has now been decreased to Rs. 500,000 for the amount of annual Bill in case of holders of commercial or industrial connection of electricity for the purpose of filing of return of income irrespective of income level;
- b. Persons registered with certain bodies will also be required to file a return of income irrespective of type and quantum of their income. This would apply to persons registered with:
  - Chamber of Commerce and Industry;
  - trade or business associations;
  - market committees; and

- professional bodies, including Pakistan Engineering Council, Pakistan Medical and Dental Council, Pakistan Bar Council or any Provincial Bar Council, Institute of Chartered Accountants of Pakistan or Institute of Cost and Management Accountants of Pakistan.

### **Filing of return upon notice from Commissioner**

The Commissioner is empowered to require a person who, in his opinion, was required to file a return of income during the current or last five years. However, the Commissioner was required to serve a notice of minimum 30 days in this regard. This minimum 30 days notice period for compliance has now been omitted from the statute.

### **Revised return**

Taxpayers had the option to voluntarily file a revised return of income along with deposit of the amount of tax involved and submission of revised accounts, furnishing the reasons for revision and ensuring that declared income is higher than or the loss declared is lower than an order under section 121, 122, 122A, 122C, 129, 132, 133 or 221. An additional condition has been included that no return of income could be revised by the taxpayer unless the Commission accords a written approval to this effect.

### **Persons not required to furnish a return of income**

**[Section 115]**

Salaried individuals with income up to Rs. 500,000 and no other source of income are presently not required to file a return of income for cases where the employer has filed Annual Statement of Deduction of Income Tax from Salary. With the corresponding omissions regarding Annual Statement of Deduction of Income Tax from Salary by the employers, the Act now abolishes this relaxation.

The Act now also makes it mandatory on persons with incomes falling under final taxation under sections 5, 6, 7, 148, 151 and 152, sub-section (3) of section 153, sections 154, 156 and 156A, sub-section (3) of section 233 or sub-section (3) of section 234A to furnish to the Commissioner a statement showing such particulars relating to the person's income for the tax year in such form and verified in such manner as may be prescribed.

### **Wealth statement**

**[Section 116]**

Presently only such resident individual taxpayers whose' last declared or assessed income or the declared income for the year is Rs. 1 Million or more are required to furnish a wealth statement along with wealth reconciliation statement. The Act now abolishes this relaxation, making it compulsory for all resident individuals filing a return of income, to file wealth statement and wealth reconciliation statement irrespective of any income threshold.

The Act also introduces a requirement to furnish revised wealth reconciliation and disclosure of reasons at time of filing revised wealth statement.

The corrective amendment, clarifying that association of persons are not required to file a wealth statement, has also been made.

Individual taxpayers falling under final tax regime are presently required to file wealth statement only in cases where the amount of tax paid is Rs. 35,000 or more. The Act removes this limit, making it compulsory for all cases of individuals falling under final tax regime.

It has further been clarified that the amendments to this section vide the Act shall be effective from tax year 2013 and onwards.



**13. METHOD OF FURNISHING RETURNS AND OTHER DOCUMENTS** **[Section 118]**

Various procedural changes to the method of submission of returns and documents have been made through the Act; including:

- Omission of the need to submit employer's certificate under section 115 to make it aligned to the changes to section 115;
- Insertion of a new sub-section (2A) to complement the omission of proviso to section 115;
- Omission of annual statement of deduction of income tax from salary, filed by the employer of an individual from sub-section (3) and (3)(a);

**14. INVESTMENT TAX ON INCOME** **[Section 120A]**

Section 120A has been omitted, which empowered FBR to make a scheme for payment of investment tax in respect of undisclosed income, representing any amount or investment made in movable or immovable assets.

**15. PROVISIONAL ASSESSMENT** **[Section 122C]**

Provisional assessment order was treated as the final assessment order after the expiry of 60 days from the date of service of order of provisional assessment. Moreover, it was also provided that the provisional assessment shall not be of any effect where compliance is made by the taxpayer within 60 days. The timeframe under section 122C has now been reduced from 60 days to 45 days.

**16. APPOINTMENT OF THE APPELLATE TRIBUNAL** **[Section 130]**

Certain eligibility criteria for appointment as member of Appellate Tribunal have been amended by the Act.

**17. ADVANCE TAX PAID BY THE TAXPAYER** **[Section 147]**

With the corresponding changes in section 15, the Act now includes persons having income from property in the list of taxpayers required to pay advance tax under section 147.

**18. PAYMENTS TO NON-RESIDENTS** **[Section 152]**

The Act now makes the withholding tax on property income in Pakistan of a non-resident person liable to be deducted at par with the cases of residents and to be made under section 155 read with Division V of Part III of the First Schedule.

Moreover, the Act enables section 152 to adopt the definition of 'prescribed person' from section 153(7) of the Ordinance for the purpose of withholding tax from payments to permanent establishment in Pakistan of a non-resident person.

**19. PAYMENTS FOR GOODS, SERVICES AND CONTRACTS** **[Section 153]**

Persons registered under the Sales Tax Act, 1990 have now been included under the purview of withholding agents.



## 20. PAYMENT TO TRADERS AND DISTRIBUTORS

[Section 153A]

The most controversial amendments ever brought to income tax statutes, though held in abeyance till June 30, 2013 has been done away with – withholding of tax by manufacturers the time of sale to distributors, dealers and wholesalers has finally been omitted.

## 21. INCOME FROM PROPERTY

[Section 155 & First Schedule Part III Div V]

Charitable institutions are covered under the purview of non-profit organizations under section 2(36) of the Ordinance. It appears a measure to add clarity by including charitable institutions in the list of prescribed persons obliged to withhold income tax on payment of rent besides non-profit organizations already mentioned under this section.

The following new classes of payers of rent are now included under the purview of persons obliged to withhold tax:

Class of Payers	Condition
Private educational institutions, boutiques, beauty parlours, hospitals, clinics, maternity homes	None
Individuals or association of persons	Annual rent of Rs. 1.5 Million and above

### The rates of withholding tax

#### a. For Individuals and Association of Persons:

Gross amount of rent (Rs.)		Rate of Tax
From	To	
Up to 150,000		0.00%
150,001	1,000,000	10% of the amount exceeding Rs. 150,000
Above 1,000,000		Rs. 85,000 + 15% of the amount exceeding Rs. 1 Million

#### b. For Companies:

15% of the gross amount of rent.

## 22. STATEMENTS

[Section 165]

An explanation has been added after sub-section (1) section 165, which although seems not relevant to section 165 however appears to cater as an overriding proviso to anything otherwise provided in statutes governing the banking sector in Pakistan as required to enable the enunciations of section 165A. The explanation is reproduced below:

**Explanation.-** For the removal of doubt, it is clarified that this sub-section overrides all conflicting provisions contained in the Protection of Economic Reforms Act, 1992 (XII of 1992), the Banking Companies Ordinance, 1962 (LVII of 1962), the Foreign Exchange Regulation Act, 1947 (VII of 1947) and the regulations made under the State Bank of Pakistan Act, 1956 (XXXIII of 1956), if any, on the subject, in so far as divulgence of information under section 165 is concerned.

The requirement to furnish annual statement in respect employees where income exceeds Rs.300,000 but does not exceed Rs. 350,000 in a tax year has been abolished vide the Act.

### 23. FURNISHING OF INFORMATION BY BANKS

[Section 165A]

A new section 165A has been introduced, making it compulsory for the Banks to submit regular reports to the Federal Board of Revenue. The new section is reproduced below:

- (1) Notwithstanding anything contained in any law for the time being in force including but not limited to the Banking Companies Ordinance, 1962 (LVII of 1962), the Protection of Economic Reforms Act, 1992 (XII of 1992), the Foreign Exchange Regulation Act, 1947 (VII of 1947) and the regulations made under the State Bank of Pakistan Act, 1956 (XXXIII of 1956), if any, on the subject, every banking company shall make arrangements to provide to the Board in the prescribed form and manner,-
  - (a) online access to its central database containing details of its account holders and all transactions made in their accounts;
  - (b) a list containing particulars of deposits aggregating rupees one million or more made during the preceding calendar month;
  - (c) a list of payments made by any person against bills raised in respect of a credit card issued to that person, aggregating to rupees one hundred thousand or more during the preceding calendar month
  - (d) a consolidated list of loans written off exceeding rupees one million during a calendar year; and
  - (e) a copy of each Currency Transactions Report and Suspicious Transactions Report generated and submitted by it to the Financial Monitoring Unit under the Anti-Money Laundering Act, 2010 (VII of 2010).
- (2) Each banking company shall also make arrangements to nominate a senior officer at the head office to coordinate with the Board for provision of any information and documents in addition to those listed in sub-section (1), as may be required by the Board.
- (3) The banking companies and their officers shall not be liable to any civil, criminal or disciplinary proceedings against them for furnishing information required under this Ordinance.
- (4) Subject to section 216, all information received under this section shall be used only for tax purposes and kept confidential.

### 24. CREDIT FOR TAX COLLECTED OR DEDUCTED

[Section 168]

Section 168(3) restricts the credit of tax collected or deducted to such withholding tax which relates to an income which is not covered under final tax regime. However, despite certain type of receipts remain under final tax regime; the Act now omits the withholding tax on these receipts from the list specified in section 168(3). The taxes withheld on imports [Section 148(7)], payments against contracts and insurance & re-insurance premium to non-residents [Section 152 (1B) & (1BB)], certain payments to residents [Section 153(3) sub-clauses (a), (c) & (d)].

### 25. TAX COLLECTED OR DEDUCTED AS A FINAL TAX

[Section 169]

- (a) Tax collected on motor vehicles collected from owner of **goods transport vehicle** used to be final tax on the income of such person from plying, or hiring out, of such vehicle. This collection will now be treated as advance tax by virtue of an amendment brought vide the Act;
- (b) The Act omits specific reference to sub-clauses (a), (c) and (d) of section 153(3) and making a general reference to type of withholding taxes classified as final tax under 153(3). This is apparently aimed to do away with the duplication with no practical impact;
- (c) **Inter-corporate dividends** were covered under normal tax regime of income tax, whereby the recipient companies were entitled to deduct their usual business expenditure and pay tax on usual taxable profits. Now Act brings inter-corporate dividends under the ambit of final tax regime for recipient companies;
- (d) Moreover, corresponding omission has been made in conformity with the concept that **income from property** has been brought to normal taxation framework.

**26. ADDITIONAL PAYMENT FOR DELAYED REFUNDS**

**[Section 171]**

For the purpose of compensation for delayed payments, an explanation has been adopted to section 171 clarifying that refund becomes due from the date of refund order and not from the date the assessment of income treated to have been made by the Commissioner under section 120 upon filing of return.

**27. REPRESENTATIVES**

**[Section 172]**

An explanation has been included regarding business connection from the perspective of non-resident person that it includes transfer of an asset or business in Pakistan by a non-resident.

**28. AUDIT**

**[Section 177]**

A declaration been enacted by way of explanation that powers of the Commissioner under section 177 are independent of the powers of the Board under section 214C and nothing contained in section 214C restricts the powers of the Commissioner to call for the record or documents including books of accounts of a taxpayer for audit and to conduct audit under section 177.

**29. ASSISTANCE TO COMMISSIONER**

**[Section 178]**

Presently officers of Customs, Federal Excise, Sales Tax, Provincial Excise and Taxation, District Coordination Officer, District Officers including District Officer-Revenue, the Police and the Civil Armed Forces is empowered and required to assist the Commissioner in the discharge of the Commissioner's functions under this Ordinance. Officers of Federal Excise and Sales Tax have now been relieved from this assistance.

**30. TAXPAYER'S REGISTRATION**

**[Section 181]**

A proviso has been inserted vide the Act that FBR may allow the use of CNICs issued by NADRA in place of NTN.

**31. DISPLAYING OF NATIONAL TAX NUMBER**

**[Section 181C]**

Presently the requirement to display NTN at every place of business has been covered under rule (83) to the Income Tax Rules, 2002. This requirement has now been brought on the Income Tax Ordinance, 2001 (the Ordinance) by including a new section 181C.

**32. OFFENCES AND PENALTIES**

**[Section 182]**

Certain penalties have been amended as well new penalties have been introduced to statue against identified non-compliances and offences.

**33. UNAUTHORISED DISCLOSURE OF INFORMATION BY A PUBLIC SERVANT** **[Section 198]**

Section 216 prohibits un-authorized disclosure of information by public servants, whereas section 198 enunciates that such an act is punishable on conviction with a fine or imprisonment for a term not exceeding six months, or both. The Act now specifies that the amount of fine so imposed shall not be below Rs. 500,000.

**34. SELECTION FOR AUDIT BY THE BOARD**

**[Section 214C]**

As expected consequent to the recent order passed by the Hon'able High Court, a new subsection has now been included on statute to legally empower FBR to keep the balloting parameters confidential.

An explanation, conceptually replica to the one enacted in section 177 has also been included to this section to avoid any confusion between powers of the Commissioner and FBR.

### **35. OTHER ADMINISTRATIVE CHANGES**

#### **Reward to Inland Revenue officers and officials**

**[Section 227A]**

With a view to incentivize tax officials, indulging them to prefer enforcement of compliances over the traditional behavior leading to leakage of Revenue, a new section has been introduced, which relates to cash reward to be sanctioned for meritorious conduct to the officers and officials of Inland Revenue and to the informer, providing credible information leading to detection of concealment or evasion of income tax and other taxes.

#### **Directorate-General of Law and Directorate-General of Research & Development**

**[Section 230B & 230C]**

Two new Directorate-General have been created with functions to be specified by the FBR under notification in the official Gazette.

### **36. COLLECTION OF TAX BY NCCPL**

**[Section 233AA and First Schedule Part IV Div IIA & Div IIB]**

NCCPL is empowered to collect advance tax from the members of Stock Exchange registered in Pakistan, in respect of margin financing in share business at specified rates. The Act empowers NCCPL to collect advance tax from margin financiers, trading financiers and lenders providing of any margin financing, margin trading or securities lending under Securities (Leveraged Markets and Pledging) Rules, 2011. The Act has also added a proviso to section 233AA clarifying that this section shall not apply to Mutual Funds specified in sub-clause (2) of clause (57) of Part I of the Second Schedule.

Moreover, the existing S. No. (iv) of Division IIA of Part IV of First Schedule to the Ordinance has been omitted and a new Division IIB has been added to this Part , while keeping rate of collection by NCCPL at existing 10%.

### **37. TAX ON MOTOR VEHICLES**

**[Section 234 & First Schedule Part IV Div III]**

Clarification to the missing reference to Division III in Part IV of the First Schedule to the Ordinance has been made. Moreover, it has been enacted that payment of advance tax in lump sum may also be made based on the following rates:

<b>Engine capacity</b>	<b>Amount of Lump Sum Tax</b>
Up to 1000cc	Rs. 7,500
1001cc to 1199cc	Rs. 12,500
1200cc to 1299cc	Rs. 17,500
1300cc to 1599cc	Rs. 30,000
1600cc to 1999cc	Rs. 40,000
2000cc and above	Rs. 80,000

Moreover, the tax collection under section 234 shall now be treated as advance tax, adjustable from the tax liability.

### **38. TELEPHONE USERS**

**[Section 236 & First Schedule Part IV Division V]**

The rate of collection of advance tax from mobile subscribers has been increased from prevailing 10% to revised 15%.

### **39. ADVANCE TAX ON FUNCTIONS AND GATHERINGS**

**[Section 236D & First Schedule Part IV Div XI]**

Expanding the purview of collections, advance tax shall be collected at 10% on the total amount of the Bill from a person arranging or holding almost every type of function in a marriage hall, marquee, hotel, restaurant, commercial lawn, club, a community place or any other place used for such purpose.

However, where the food, service or any other facility is provided by any other person, advance tax at 10% shall be collected on the payment for such food, service or facility from the person arranging or holding the function. The responsibility to collect this advance tax shall rest with the owner, leaseholder, operator or a manager of a marriage hall, marquee, hotel, restaurant, commercial lawn, club, community place or other place used for such purpose.

### **40. ADVANCE TAX ON FOREIGN-PRODUCED FILMS, TV PLAYS AND SERIALS**

**[Section 148, 236E, First Schedule Part II & Part IV Div XII]**

The Act makes licensing authorities certifying any foreign TV drama serial or a play dubbed in Urdu or any other regional language, for screening and viewing on any landing rights channel liable to collect advance tax at the following rates:

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	<b>Rate of Advance Tax</b>
Foreign produced film	12% of value of the film
Foreign-produced TV drama serial	Rs.100,000/-per episode
Foreign-produced TV play (single episode)	Rs. 100,000

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### **41. ADVANCE TAX ON CABLE OPERATORS AND OTHER ELECTRONIC MEDIA**

**[Section 236F & First Schedule Part IV Div XIII]**

It has been made compulsory on Pakistan Electronic Media Regulatory Authority (PEMRA) to collect advance tax at the time of issuance of license for distribution services or renewal of the license granted under PEMRA Ordinance, 2002 (XIII of 2002) and rules made thereunder. The rates for collection of advance tax for various categories range between Rs.7,500 to Rs.875,500 at the time of obtaining license and between Rs.10,000 to Rs.900,000 at the time of renewal thereof.

Rate of 20% advance tax has also been specified to be collected at the time of collection of permission fee or renewal fee by PEMRA in the case of IPTV, FM Radio, MMDS, Mobile TV, Mobile Audio, Satellite TV Channel and Landing Rights.

### **42. ADVANCE TAX ON SALES TO DISTRIBUTORS, DEALERS AND WHOLESALERS**

**[Section 236G & First Schedule Part IV Div XIV]**

Manufacturers and commercial importers of following items are made liable to collect advance tax at the time of sale to distributors, dealers and wholesalers at 0.1% of gross amount of sales. The following items have been included under the purview of this collection of advance tax:

- |                            |               |
|----------------------------|---------------|
| - Electronics;             | - Cigarettes; |
| - Sugar;                   | - Glass;      |
| - Cement;                  | - Textile;    |
| - Iron and steel products; | - Beverages;  |
| - Fertilizer;              | - Paint; or   |
| - Motorcycles;             | - Foam sector |
| - Pesticides;              |               |

Credit of this advance tax shall be allowed in computing the tax due by the distributor, dealer or wholesaler on taxable income for the tax year in which the tax was collected.

#### **43. ADVANCE TAX ON SALES TO RETAILERS [Section 236H & First Schedule Part IV Div XV]**

Manufacturers, distributors, dealers, wholesalers and commercial importers of the above items (i.e. items as per the new section 236G) have now been made responsible to collect advance tax at the time of sale to retailers at 0.5% of gross amount of sales. Credit of this advance tax shall be allowed in computing the tax due by the retailer on taxable income for the tax year in which the tax was collected.

#### **44. COLLECTION OF ADVANCE TAX BY EDUCATIONAL INSTITUTIONS**

**[Section 236I & First Schedule Part IV Div XVI]**

It has further been enacted to collect advance tax at 5% on the amount of fee paid to an educational institution. Fee means tuition fee and all charges, by whatever called, and tax is required to be collected in the same manner the fee is charged. It is has however been clarified that advance tax under this section shall not be collected where annual fee does not exceed two hundred thousand rupees.

It appears that the intention of this collection is limited to cases where students are minor (i.e. below the age 18 years), since it has been indicated that tax collected under this section shall be adjustable against the tax liability of either of the parents or guardian making payment of the fee. Conversely, an ambiguity arises whether or not those students (generally advanced/ professional level students) who bear their fee themselves be able to claim this advance tax in their return of income.

#### **45. ADVANCE TAX ON DEALERS, COMMISSION AGENTS & ARHATIS ETC.**

**[Section 236J & First Schedule Part IV Div XVII]**

Market committees shall now be required to collect advance tax from dealers, commission agents or arhatis, etc. at the following rates at the time of issuance or renewal of licenses:

<b>Group</b>	<b>Amount of tax</b>
Group or Class A	Rs. 10,000
Group or Class B	Rs. 7,500
Group or Class C	Rs. 5,000
Any other category	Rs. 5,000

A definition of 'market committee' has also been introduced that the term includes any committee or body formed under any provincial or local law made for the purposes of establishing, regulating or organizing agricultural, livestock and other commodity markets.

#### **46. RATES OF TAX FOR COMPANIES**

**[First Schedule Part I Div II]**

A proviso has been inserted relating to a relief of 1%, which will reduce the tax rate for companies, other than a banking company, from existing 35% to 34% for tax year 2014.



## 47. RATE OF COLLECTION OR DEDUCTION OF WITHHOLDING TAX

### Imports

**[First Schedule Part II]**

The Act introduces discriminatory rates for imports by taxpayers other than industrial undertakings and companies. Now these taxpayers will be depositing tax under section 148 at 5.5% of value of imported goods as against the prevailing rate of 5%. Moreover, a rate of tax collection at 12% has been imposed on foreign produced film imported for the purposes of screening and viewing.

### Payments for goods or services

**[First Schedule Part III Div III]**

Discriminatory rates for deduction of tax at source for payments against goods or services based on the status of recipient as under have also been enacted as under:

Type of Transaction	Status of Recipient	
	Company	Others
Sales of goods	3.5%	4%
Rendering of services (other transport services)	6%	7%
Contracts	6%	6.5%

### Prizes and winnings

**[First Schedule Part III Div VI]**

The rate for deduction of tax at source on a prize on prize bonds or cross-word puzzles has been increased from existing rate of 10% to a revised rate of 15%.

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### Cash withdrawal from a bank

**[First Schedule Part IV Div VI]**

The rate of advance tax on cash withdrawals exceeding Rs. 50,000 per day has been enhanced from existing 0.2% to a new rate of 0.3%.

### Purchase of motor cars and jeeps

**[First Schedule Part IV Div VII]**

Rates of collection of advance tax under section 231B at the time of registration of a new locally manufactured motor vehicle have been increased as under:

Engine capacity	Amount of tax		Increase (%)
	Existing	Revised	
Up to 850cc	Rs. 7,500	Rs.10,000	33.33%
851cc to 1000cc	Rs.10,500	Rs.20,000	90.48%
1001cc to 1300cc	Rs.16,875	Rs.30,000	77.78%
1301cc to 1600cc	Rs.25,000	Rs.50,000	100.00%
1601cc to 1800cc	Rs. 22,500	Rs.75,000	233.33%
1801cc to 2000cc	Rs. 16,875	Rs.100,000	492.59%
Above 2000cc	Rs.50,000	Rs.150,000	200.00%

### Sale by auction

**[First Schedule Part IV Div VIII]**

The rate of collection of advance tax at the time of sale by public auction was 5% of the gross sale price. This rate has now been enhanced to 10%.



## 48. EXEMPTION FROM TOTAL INCOME

[Second Schedule Part I]

### Exemptions awarded/ extended

#### a. *Income of universities and other educational institutions*

[Clause 58A & 92]

The exemption under clause 92 on income of universities and other educational institutions run by non-profit organizations existing solely for educational purposes and not for purposes of profit was originally proposed to be withdrawn. However, this exemption has been retained on statute vide the new clause 58A.

#### b. *Special Economic Zones*

[Clause 126E]

The time period of eligibility period to avail tax exemption by a zone enterprise has been increased from existing 5 years to 10 years.

### Exemptions withdrawn

#### a. *Perquisites received by virtue of employment*

[Clause 53A(i)]

Free or concessional passage provided by transporters including airlines to its employees (including the members of their household and dependents) is now to be taxed.

#### b. *Dividend in specie*

[Clause 103B]

Any dividend in specie derived in the form of shares in a company, as defined in the Companies Ordinance, 1984 was currently exempt from tax. This exemption stands omitted vide the Act.

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## 49. REDUCTION IN TAX RATES

[Second Schedule Part II]

### Hybrid cars (Hybrid Electric Vehicles)

[Clause 126E]

Certain relaxations from taxes were introduced recently vide SRO 607(I)/2012 on import of hybrid cars, including relaxation of 75% taxes on import. The Act now extends this relaxation on income tax at import stage based on engine capacity as under:

Engine capacity	Rate of reduction
Up to 1200 cc	100%
1201 to 1800 cc	50%
1801 to 2500 cc	25%

## 50. REDUCTION IN TAX LIABILITY

[Second Schedule Part III]

#### a. *Flying allowance and submarine allowance*

[Clause 1]

It was sought vide the Finance Bill to withdraw the concessionary rate of taxation at 2.5% on flying allowance received by pilots, flight engineers, navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority, Junior Commissioned Officers or other ranks of Pakistan Armed Forces and submarine allowance received by the officers of the Pakistan Navy. However, while this proposal has not been enacted as proposed, a limit of amount equal to basic salary has been placed by the Act for the purpose of taxation of this allowance at reduced rate of 2.5%.

**b. Full time teachers or researchers**

**[Clause 2]**

The tax payable by a full time teacher or a researcher, employed in a non profit education or research institution duly recognized by Higher Education Commission, a Board of Education or a University recognized by the Higher Education Commission, including government training and research institution, was reduced by an amount equal to 75% of tax payable on income from salary.

The proposal vide the Finance Bill to withdraw this concession has not been enacted; however, the Act has reduced the existing rate of reduction from 75% to 40%.

**c. Distribution of cigarettes manufactured in Pakistan**

**[Clause 7]**

A company engaged in distribution of cigarettes manufactured in Pakistan was required to pay minimum tax under section 113 and the amount of this minimum tax was being reduced by 80%. The scope of this concession has now been broadened to all type of taxpayers meeting the given criteria.

**51. EXEMPTION FROM SPECIFIC PROVISIONS**

**[Second Schedule Part IV]**

**a. Nature of tax collectible at import stage on TV plays and serials**

**[Clause 56A]**

Tax collectible upon import of TV plays and serials shall be treated as advance tax.

**b. Profit on debt on DSCs, SSCs, etc.**

**[Clause 59(iv)(a)]**

No income tax on profit on debt is presently required to be withheld on DSCs, SSCs, Savings Accounts or Post Office Savings Accounts, or TFCs in case such deposits do not exceed Rs.150,000. This exemption has now been withdrawn by the Act, thereby requiring tax to be deducted from profit on debt on these instruments and accounts irrespective of the quantum of investment.

**c. Income from Hajj operations**

**[Clause 72A]**

Exemption from the purview of clause (l) of section 21, sections 113 and 152 shall be available in case of a non-resident Hajj Group Operator in respect of Hajj operations provided that following tax per Haji has been paid:

Tax Year	Rate of tax per Haji
2013	Rs. 3,500
2014	Rs. 5,000

**d. Exemption from tax at import stage to industrial undertakings**

**[Clause 72B]**

A new clause has been introduced vide the Act, extending relaxation from the provisions of section 148 to such industrial undertakings which opt to pay tax liability for the current tax year on the basis of determined tax liability for preceding two tax years, whichever is the higher.

**52. INITIAL ALLOWANCE**

**[Third Schedule Part II Clause 1]**

The prevailing rate of initial allowance on plant and machinery has now been reduced from 50% to 25%; bringing it at par with the allowance on buildings.

**53. BANKING COMPANIES**

**[Seventh Schedule Rule 6]**

It appears that the Act intended to amend the Third Proviso to Rule 6 instead of the indicated second Proviso. The rate of tax on dividend received from Money Market Funds and Income Funds has been maintained at 25% for tax year 2014 and onwards.

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## **SECTION 2 SALES TAX & FEDERAL EXCISE DUTY**

### **1. SALES TAX ACT, 1990**

#### **Definitions**

##### **Computerized Risk based Evaluation of Sales Tax (CREST)**

**[Section 2(5AC)]**

The Act has adopted the definition of Computerized Risk based Evaluation of Sales Tax (CREST) that is to be utilized for cross matching and analyzing of sales tax returns.

##### **Provincial Sales Tax**

**[Section 2(22A)]**

The Act has introduced the definition of Provincial Sales Tax that is levied under provincial laws or laws relating to Islamabad Capital Territory.

##### **Supply chain**

**[Section 2(33)]**

It has been approved to introduce the definition of supply chain through the Act, implicating the series of transactions between buyers & sellers from the stage of first purchase or import to the stage of final supply.

##### **Time of supply**

**[Section 2(44)]**

The definition of time of supply has been amended to include a changeover wherein time of supply would be earlier of the time when either the goods are made available to the recipient of the supply or the payment is received by the supplier, which previously was at the time only when the goods were delivered or made available to the recipient of the supply.

The Act further requires that receipt of any advance payment in respect of taxable supply shall be accounted for in the return of the tax period in which such payment is received.

##### **Scope of tax**

**[Section 3]**

The rate of sales tax has been increased to 17% from existing 16% with effect from June 13, 2013.

With effect from June 13, 2013, 'further tax' is to be charged at the rate of 1%, instead of 2% as originally proposed through the Finance Bill 2013, of the value in addition to the specified rate in case of taxable supplies made to an unregistered person, unless the same are exempted from chargeability of further tax as specified by the Federal Government in the Official Gazette.

Moreover, the Board has been empowered to levy and collect tax on the following instead of levying and collecting tax on taxable supplies:

- a. production capacity of plants, machinery, undertaking, establishments or installations producing or manufacturing such goods; or
- b. fixed basis, as it may deem fit, from any person who is in a position to collect such tax due to the nature of the business.

The Act has made the Gas Transmission and Distribution Company responsible to charge sales tax from CNG Stations at the rate of 9% for value addition made by the CNG stations. This is in addition to the normal rate of sales tax levied on the value of supply. These provisions were already part of the Sales Tax Special Procedures Rules 2007. An explanation has also been added that input tax shall not be admissible against this tax on value addition.

### **Tax credit not allowed**

**[Section 8]**

Pursuant to the inclusion of the definitions of CREST & supply chain in the Sales Tax Act, 1990, the Act has introduced a new clause, effective from June 13, 2013, by emphasizing the disallowance of tax credit in respect of purchases wherein discrepancies have been indicated in CREST or the input tax is not verifiable in the supply chain.

### **Deregistration, black listing and suspension of registration**

**[Section 21]**

The Act establishes that input tax credit, refund, adjustment or deduction against the supplies shall not be allowed where there is any indication that supplies are made to deregistered, suspended or black listed persons, even if the buyer makes payments through banking channel and comply with other payment procedures.

The Act further empowers the Board, the concerned Commissioner or any officer authorized by the Board that they may, after recording reasons in writing, block the refunds or input tax adjustments of a person believed to be engaged in issuing fake or flying invoices, claiming fraudulent input tax or refunds and direct the concerned Commissioner for investigation and appropriate legal action as deemed appropriate.

### **Records**

**[Section 22 (1ea)]**

For the ready ascertainment of tax liability the Act requires registered person to maintain records of gate passes inward or outward and transport receipts along with other records as already prescribed at business premises or registered office.

### **Posting of Inland Revenue Officer**

**[Section 40B]**

Effective from June 13, 2013, the Act also empowers the Chief Commissioner for posting of the Inland Revenue Officer at the premises of the registered person for the purpose of monitoring production, removal or sale of taxable goods & stock position which previously rested only with the Board.

### **Monitoring or tracking by electronic or other means**

**[Section 40C]**

The Act introduced a new clause empowering the Board to monitor or track records by electronic or other means subject to privacy of any registered person or class of registered persons.

Moreover, the board is also authorized to restrict the movement/ sale of taxable goods from the premises of the registered person unless the same comply with the conditions as prescribed by the Board.

### **Appeals**

**[Section 45B]**

The Commissioner Inland Revenue Appeals is empowered under the Act to allow stay against recovery of tax for a maximum period of 30 days, if deemed appropriate for the tax payer.

### **Rectification of mistake**

**[Section 57]**

The Act authorizes the Officer of Inland Revenue, Commissioner, the Commissioner Appeals, the Appellate Tribunal to rectify any mistake apparent from the records either on own motion or brought to notice by the tax payer within 5 years of the date of the order sought to be rectified.

The above order shall only be passed after the tax payer has been given the reasonable opportunity of being heard in case where the order adversely affects the tax payer.

The mistake shall be deemed to stand rectified where the Officer of Inland Revenue, Commissioner or Commissioner (Appeals) does not pass a rectification order before the expiration of the financial year next following the date on which the mistake was brought to their notice.

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**Reward to Inland Revenue Officers and Officials**

**[Section 72C]**

The Act provides for cash rewards to officials/ officers of Inland Revenue and the informer in respect of their performance for detection of cases of concealment or evasion of sales tax and other taxes only after realization of part or whole amount of taxes involved.

The Board is empowered to prescribe the procedure for distribution of rewards either on individual performance or on collective basis for the concerned officials by notification in the Official Gazette.

**Certain transactions not admissible**

**[Section 73]**

The Act inserted a new clause requiring the registered person to provide details of change in bank account either through the sales tax registration form or the change in particulars in registration data base.

**Sales tax at retail price**

**[Third Schedule]**

Effective from June 13, 2013, the Act includes the following items within the purview of Sales Tax chargeable at retail price under Third Schedule of the Sales Tax Act, 1990:

S No.	Description	Heading/ Sub-Heading No.
22.	Finished or made-up articles of textile and leather, including garments, footwear, and bed ware, sold in retail packing;	Respective headings
23.	Household electrical goods, including air conditioners, refrigerators, deep freezers, televisions, recorders and players, electric bulbs, tube-lights, fans, electric irons, washing machines and telephone sets;	Respective headings
24.	Household gas appliances, including cooking range, ovens, geysers and gas heaters;	Respective headings
25.	Foam or spring mattresses, and other foam products for household use	Respective headings
26.	Auto parts and accessories sold in retail packing	Respective headings
27.	Lubricating oils, brake fluid, transmission fluid, and other vehicular fluids and maintenance products in retail packing	Respective headings
28.	Tyres and tubes	Respective headings
29.	Storage batteries	Respective headings
30.	Arms and ammunition	Respective headings
31.	Paints, distempers, enamels, pigments, colours, varnishes, gums, resins, dyes, glazes, thinners, blacks, cellulose lacquers and polishes sold in retail packing	Respective headings
32.	Fertilizers	Respective headings
33.	Cement sold in retail packing	Respective headings
34.	Tiles sold in retail packing	Respective headings
35.	Biscuits, confectionary, chocolates, toffees and candies	Respective headings
36.	Other goods and products sold in retail packing	Respective headings

## Exemptions

[Sixth Schedule]

### Exemptions withdrawn

The Act withdraws the following exemptions from levy of sales tax with effect from June 13, 2013:

**[Table I – Imports or Supplies]**

S No.	Description	Heading/ Sub-Heading No.
25.	Milk preparations obtained by replacing one or more of the constituents of milk by another substance, whether or not packed for retail sale.	1901.1000, 1901.9020 and 1901.9090

**[Table II – Local Supplies]**

S No.	Description	Heading/ Sub-Heading No.
12.	Supplies against international tender	Respective headings

## 2. SALES TAX SPECIAL PROCEDURES RULES, 2007

Effective June 13, 2013, SRO 510(I)/2013 brings the following changes to the Sales Tax Special Procedure Rules, 2007 –

### Chapter IVA Special Procedure for Collection and Payment of Extra Tax on Supplies of Electric Power and Natural Gas consumed by Unregistered and Inactive Persons

#### Application

[Rule 18A]

The provisions of this Chapter shall apply to the supplies of electric power and natural gas consumed by persons having industrial or commercial connections.

#### Mode and manner of collection

[Rule 18B]

- (1) Every person supplying electric power or natural gas, shall charge and collect extra tax at the rate notified by the Federal Government, from every consumer having an industrial or commercial connection, where the Bill for a month is in excess of rupees fifteen thousand, and the consumer either has not provided his sales tax registration number to the supplier or his name is not shown as active on the Active Taxpayers List (ATL) maintained by the Federal Board of Revenue.
- (2) The amount of extra tax shall be shown separately in the Bill or invoice for electric power or natural gas issued by the supplier.
- (3) The supplier shall collect and pay the amount of extra tax in the manner prescribed in Chapters III and IV, as the case may be.

#### Conditions and limitations

[Rule 18C]

- (1) The amount of extra tax shall not be adjustable by the supplier or the consumer in their returns, and shall be paid in full by the supplier into the Treasury.
- (2) Where a person claims that he has a sales tax registration number, the supplier of electric power or natural gas, as the case may be, shall require him to produce the sales tax registration certificate, and shall verify from the Active Taxpayers List maintained by the Federal Board of Revenue that the person is actually registered and is appearing as active thereon. The supplier shall also confirm that the name, address and other particulars appearing on the registration certificate or Active Taxpayers List, as the case may be, are the same as that of the electric power or natural gas connection.
- (3) A person having multiple places of business shall ensure that all such places of business are properly declared and entered on his registration certificate and Active Taxpayers List.
- (4) After a person produces sales tax registration certificate in his name, and he is verified as



active on the Active Taxpayer List, the supplier shall incorporate the sales tax registration number in his billing system so that it is printed on future bills. Thereafter, the supplier shall stop charging and collecting the extra tax from such person.

- (5) The supplier shall again start charging and collecting extra tax from the consumer from the month in which he is de-registered from sales tax or he does not remain active on the Active Taxpayers List.

### 3. SALES TAX RULES, 2006

Effective July 01, 2013, S.R.O. 506(1)/2013 brings the following changes to the Sales Tax Rules, 2006 –

Rule 5	Application for registration	The SRO simplifies the procedure for selection of jurisdiction at the time of registration of a person as follows: <ol style="list-style-type: none"> <li>a. in case of a corporate or non-corporate person having a single manufacturing unit or business premises, the RTO or LTU, as applicable in whose jurisdiction the manufacturing unit or business premises is located;</li> <li>b. in case of a corporate or non-corporate person having multiple manufacturing units or business premises, the RTO or LTU, as applicable in whose jurisdiction the manufacturing units or business premises is located.</li> </ol>
	Chapter VII A - Supplies against International Tender	Sales Tax exemption previously available for supplies against International Tender has been withdrawn.

### 4. OTHER SALES TAX NOTIFICATIONS (SROs)

#### *Original SROs Promulgated*

SRO	Promulgation	Effective Date																																							
501(I)/2013	Sales Tax exemption on the import and supplies of the following items have been granted by inclusion under Sixth Schedule of the Sales Tax Act, 1990:	June 13, 2013																																							
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">S.#</th> <th style="text-align: center;">Description of goods</th> <th style="text-align: center;">PCT headings</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1.</td> <td>Uncooked poultry meat</td> <td style="text-align: center;">02.07</td> </tr> <tr> <td style="text-align: center;">2.</td> <td>Milk and cream</td> <td style="text-align: center;">04.01 and 04.02</td> </tr> <tr> <td style="text-align: center;">3.</td> <td>Flavored Milk</td> <td style="text-align: center;">0402.9900 and 22.02</td> </tr> <tr> <td style="text-align: center;">4.</td> <td>Yogurt</td> <td style="text-align: center;">0403.1000</td> </tr> <tr> <td style="text-align: center;">5.</td> <td>Whey</td> <td style="text-align: center;">04.04</td> </tr> <tr> <td style="text-align: center;">6.</td> <td>Butter</td> <td style="text-align: center;">0405.1000</td> </tr> <tr> <td style="text-align: center;">7.</td> <td>Desi ghee</td> <td style="text-align: center;">0405.9000</td> </tr> <tr> <td style="text-align: center;">8.</td> <td>Cheese</td> <td style="text-align: center;">0406.1010</td> </tr> <tr> <td style="text-align: center;">9.</td> <td>Processed cheese not grated or powdered</td> <td style="text-align: center;">0406.3000</td> </tr> <tr> <td style="text-align: center;">10.</td> <td>Cotton seed</td> <td style="text-align: center;">1207.2000</td> </tr> <tr> <td style="text-align: center;">11.</td> <td>Frozen, prepared or preserved sausages and similar products of poultry meat or meat offal</td> <td style="text-align: center;">1601.0000</td> </tr> <tr> <td style="text-align: center;">12.</td> <td>Meat and similar products of prepared frozen or preserved meat or meat offal of all types including poultry meat and fish 1604.3000).</td> <td style="text-align: center;">1602.3200,1602.3900, 1602.5000,1604.1100, 1604.1200,1604.1300, 1604.1400,1604.1500, 1604.1600,1604.1900, 1604.2010, 604.2020, 1604.2090,</td> </tr> </tbody> </table>	S.#	Description of goods	PCT headings	1.	Uncooked poultry meat	02.07	2.	Milk and cream	04.01 and 04.02	3.	Flavored Milk	0402.9900 and 22.02	4.	Yogurt	0403.1000	5.	Whey	04.04	6.	Butter	0405.1000	7.	Desi ghee	0405.9000	8.	Cheese	0406.1010	9.	Processed cheese not grated or powdered	0406.3000	10.	Cotton seed	1207.2000	11.	Frozen, prepared or preserved sausages and similar products of poultry meat or meat offal	1601.0000	12.	Meat and similar products of prepared frozen or preserved meat or meat offal of all types including poultry meat and fish 1604.3000).	1602.3200,1602.3900, 1602.5000,1604.1100, 1604.1200,1604.1300, 1604.1400,1604.1500, 1604.1600,1604.1900, 1604.2010, 604.2020, 1604.2090,	
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S.#	Description of goods	PCT headings
13.	Preparations for infant use, put up for retail sale	1901.1000
14.	Fat filled milk	1901.9090
15.	Soya bean meal	2304.0000
16.	Oil cake and other solid residues, whether or not ground or in the form of pellets	2306.1000
17.	Colours in sets (Poster colours)	3213.1000
18.	Writing, drawing and marking inks	3215.9010 and 3215.9090
19.	Erasers	4016.9210 and 4016.9290
20.	Exercise books	4820.2000
21.	Directly reduced iron	72.03
22.	Pencil sharpeners	8214.1000
23.	Energy saver lamps	8539.3910
24.	Sewing machines of the household type	8452.1010 and 8452.1090
25.	Purpose built taxis, whether in CBU or CKD condition which are built on girder chassis and having following features, namely:- (a) Attack resistance central division along with payment tray; (b) Wheelchair compartment with folding ramp; and (c) Taximeter and two-way radio system.	8703.3226 and 8703.3227
26.	Bicycles	87.12
27.	Wheelchairs	8713.1000 and 8713.9000
28.	Vessels for breaking up	89.08
29.	Other drawing, marking out or mathematical calculating instruments (geometry box)	9017.2000
30.	Pens and ball pens	96.08
31.	Pencils including colour pencils	96.09
32.	Compost (non-chemical fertilizer) produced and supplied locally	
33.	Construction materials to Gawadar Export Processing Zone's investors and to Export Processing Zone Gawadar for development of Zone's infrastructure.	

509(I)/2013

Sales Tax is chargeable at the rate of 5% on supplies of electric power & natural gas to persons having industrial or commercial connections wherein Bill exceeds Rs.15,000 and neither have sales tax registration number nor are appearing on the active tax payers list.

June 13, 2013

**SROs Amended**

Amending SRO	Amended SRO	Amendment	Effective Date														
502(I)/2013	549(I)/2008	<p>Following items were previously chargeable to Sales Tax @ 0% have now been excluded from the list, signifying that these are now chargeable to tax at the standard rate of tax:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">S.#</th> <th style="text-align: center;">Description</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2.</td> <td>i. cotton seeds (PCT Heading 1207.2000); and ii. Oil Cake and other solid residues, whether or not ground or in the form of pellets (PCT Heading 2306.1000)</td> </tr> <tr> <td style="text-align: center;">5.</td> <td>Compost (non-chemical fertilizer)</td> </tr> <tr> <td style="text-align: center;">8.</td> <td>Every Saver lamps PCT Heading 8539.3910</td> </tr> <tr> <td style="text-align: center;">9.</td> <td>Construction materials to Gawadar Export Processing Zone's Investors and to Export Processing Zone Gawadar for development of zone's infrastructure</td> </tr> <tr> <td style="text-align: center;">10.</td> <td>Wheel Chair</td> </tr> <tr> <td style="text-align: center;">11.</td> <td>Cotton seed oil</td> </tr> </tbody> </table>	S.#	Description	2.	i. cotton seeds (PCT Heading 1207.2000); and ii. Oil Cake and other solid residues, whether or not ground or in the form of pellets (PCT Heading 2306.1000)	5.	Compost (non-chemical fertilizer)	8.	Every Saver lamps PCT Heading 8539.3910	9.	Construction materials to Gawadar Export Processing Zone's Investors and to Export Processing Zone Gawadar for development of zone's infrastructure	10.	Wheel Chair	11.	Cotton seed oil	June 13, 2013
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503(I)/2013	993(I)/2006	<p>The Act omits the specified item related to allowing composite repayment cum duty drawback of sales tax and federal excise duty to a registered person on the export from Pakistan of vegetable ghee, cooking oil and margarine at specified rates.</p>	June 13, 2013														
504(I)/2013	1125(I)/2011	<p>The Act now amends the description of certain specific items as below that are chargeable to sales tax at the rate of 2% if supplied within the five sectors (i.e. textile including jute sector, carpet sector, leather sector, sport &amp; surgical goods sector):</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">S.#</th> <th style="text-align: center;">Description</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1.</td> <td>Leathers and articles thereof, excluding finished articles of leather and artificial leather; (PCT Heading chapter 41 &amp; heading 64.06);</td> </tr> <tr> <td style="text-align: center;">2.</td> <td>Textile &amp; articles thereof, excluding:                             <ol style="list-style-type: none"> <li>a. finished articles of textiles &amp; textile made ups;</li> <li>b. mono-filament of more than 67 decitex;</li> <li>c. sun shading</li> <li>d. fishing net of nylon or other material</li> <li>e. rope of polyethylene or nylon; and</li> <li>f. tyre cord fabric</li> </ol> </td> </tr> <tr> <td style="text-align: center;">3.</td> <td>Carpet, excluding those in finished condition</td> </tr> <tr> <td style="text-align: center;">6.</td> <td>Sports goods excluding those in finished condition;</td> </tr> <tr> <td style="text-align: center;">7.</td> <td>Surgical goods excluding those in finished condition;</td> </tr> <tr> <td style="text-align: center;">56.</td> <td>Other coloring matter</td> </tr> </tbody> </table>	S.#	Description	1.	Leathers and articles thereof, excluding finished articles of leather and artificial leather; (PCT Heading chapter 41 & heading 64.06);	2.	Textile & articles thereof, excluding: <ol style="list-style-type: none"> <li>a. finished articles of textiles &amp; textile made ups;</li> <li>b. mono-filament of more than 67 decitex;</li> <li>c. sun shading</li> <li>d. fishing net of nylon or other material</li> <li>e. rope of polyethylene or nylon; and</li> <li>f. tyre cord fabric</li> </ol>	3.	Carpet, excluding those in finished condition	6.	Sports goods excluding those in finished condition;	7.	Surgical goods excluding those in finished condition;	56.	Other coloring matter	
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**SROs Rescinded**

Rescinding SRO	Rescinded SRO	Effect	Effective Date
500(I)/2013	646(I)/2005	Withdrawal of chargeability of sales tax at the rate of zero percent on the supply of items by M/s. BOC Pakistan Ltd, to M/s. PTA Limited, Port Qasim falling under various headings of the Customs Act, 1969.	June 13, 2013
	172(I)/2006	Withdrawal of sales tax exemption available to members of Pakistan Film Producers association (PFPA) on import of specified items falling under various heading of the Customs Act, 1969.	June 13, 2013
	863(I)/2007	Withdrawal of chargeability of sales tax at the rate of zero percent on raw materials, sub components, components, sub-assemblies & assemblies imported or purchased locally for the manufacture of goods falling under various headings of the Customs Act, 1969, subject to fulfillment of certain conditions.	June 13, 2013
	160(I)/2010	Withdrawal of exemption available for the whole amount of default surcharge and penalties payable by a registered person located in specified districts of KPK subject to the condition that the outstanding principal amount of sales tax or federal excise duty is paid by or before 30 <sup>th</sup> June 2010.	June 13, 2013
	161(I)/2010	Withdrawal of exemption available for the whole amount of additional duty and penalties payable by a registered person located in FATA subject to the condition that the outstanding principal amount of the central excise duty is paid by or before 30 <sup>th</sup> June 2010.	June 13, 2013
	162(I)/2010	Withdrawal of the exemption available for the central excise duty on goods produced or services rendered in specified FATA locations for the period of January 01, 2010 – June 30, 2010.	June 13, 2013
	163(I)/2010	Withdrawal of the exemption available for the federal excise duty on goods produced or services rendered in specified areas of KPK for the period of January 01, 2010 – June 30, 2010.	June 13, 2013
	164(I)/2010	Withdrawal of the sales tax exemption available on supply of electricity by Peshawar Electric Supply Company or any other registered electric supply to manufacturing units having industrial connection whether registered or not located in the specified districts of KPK but not applicable to cement, sugar, beverages and cigarette sectors.	June 13, 2013
	117(I)/2011	Withdrawal of sales tax chargeable at concessional rate (50% of normal rate) on goods produced or manufactured in such areas where Sales Tax Act 1990 is not applicable and supplied made to a person in	June 13, 2013

	specified areas of KPK where Sales Tax Act 1990 is applicable.	
180(I)/2011	Withdrawal of sales tax chargeable at concessional rate (50% of normal rate) on goods supplied other than sugar, cement, beverages and cigarettes by the registered persons located in specified areas of KPK.	June 13, 2013

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## 5. FEDERAL EXCISE ACT, 2005

### **Duties Specified in the First Schedule to be levied** **[Section 3(3A)]**

The Act levies further duty at the rate of 2% on the excisable goods and services, if supplied to an unregistered person.

### **Records** **[Section 17(1da)]**

For the ready ascertainment of liability of duty, the Act requires registered person to maintain records of gate passes inward or outward and transport receipts along with other records as already prescribed at business premises or registered office.

### **Appeals to Commissioner Appeals** **[Section 33]**

The Act empowers the Commissioner Inland Revenue Appeals to allow stay against recovery of duty, for a maximum period of 30 days, if it causes undue hardship to the taxpayer.

### **Reward to Inland Revenue Officers and Officials** **[Section 42C]**

The Act provides for cash rewards to officials/ officers of Inland Revenue and the informer in respect of their performance for detection of cases of concealment or evasion of excise duty and other taxes only after realization of part or whole amount of taxes involved.

The Board has further been entrusted with powers to prescribe the procedure for distribution of rewards either on individual performance or on collective basis for the concerned officials by notification in the Official Gazette.

### **Access to records and posting of excise staff, etc.** **[Section 45]**

Effective from June 13, 2013, the Act also empowers the Chief Commissioner for posting of the Inland Revenue Officer at the premises of the registered person for the purpose of monitoring production, removal or sale of taxable goods & stock position which previously rested only with the Board.

### **Monitoring or tracking by electronic or other means** **[Section 45A]**

The Act introduces a new clause empowering the Board to monitor or track records by electronic or other means.

Moreover, the Board is further authorized to restrict the movement/ sale of excisable goods without affixing tax stamp etc in such form as may be prescribed by Board.

### Changes to the description of goods and/ or rate of duty

Following changes to the rates of the Federal Excise Duty have been made through the Act.

[Table I to First Schedule]

Sr.	Description of goods	Rate of FED (% of Retail Price)	
		Existing	Revised
4.	Aerated water	6%	9%
5.	Aerated water, containing added sugar or other sweetening matter or flavored	6%	9%
6.	Aerated water, if manufactured wholly from juices or pulp vegetable, food grains or fruits and which do not contain any other ingredient, indigenous or imported, other than sugar, coloring materials, preservatives or additives in quantities prescribed under the West Pakistan Pure Food Rules, 1965	6%	9%

[Table I to First Schedule]

Following changes have been made through the Act, effective June 13, 2013.

Sr.	Existing		Revised	
	Description of goods	Rate of FED	Description of goods	Rate of FED
9.	Locally produced cigarettes if their retail price exceeds twenty two rupees and eighty six paisa per ten cigarettes.	Sixty-Five per cent of the retail price.	Locally produced cigarettes if their on-pack printed retail price exceeds rupees two thousand two hundred & eighty six per thousand cigarettes.	Rupees Two thousand three hundred and twenty five per thousand cigarette
10.	Locally produced cigarettes if their retail price exceeds thirteen rupees and thirty six paisa per ten cigarettes but does not exceed twenty two rupees and eighty six paisa per ten cigarettes.	Seven rupees and two paisas per ten cigarettes plus 70% per incremental rupee or part thereof.	Locally produced cigarettes if their on-pack printed retail price does not exceeds rupees two thousand two hundred & eighty six per thousand cigarettes.	Rupees eight hundred and eighty per thousand cigarette

### Abolishment of Duty

Effective from June 13, 2013, the enactment abolishes the whole amount of Federal Excise Duty leviable on certain goods by omitting the following entry from the First Schedule:

[Table I to First Schedule]

Sr.	Description	Heading/ Sub-Heading No.	Rate of FED
11.	Locally produced cigarettes if their retail price does not exceed thirteen rupees and thirty six paisa per ten cigarettes	24.02	Seven rupees and two paisas per ten cigarettes

### Excisable goods

Following new entries have been inserted through the Act and are effective from June 13, 2013:

[Table I to First Schedule]

Sr.	Description of Goods	Rate of FED
54.	Oil seeds	40 paisa per kg
55.	Motor cars, SUVs and other motor vehicles of cylinder capacity of 1800 cc or above, principally and designed for the transport of persons (other than those of headings 87.02), including station wagons and racing cars of cylinder capacity of 1800 cc or above.	10 % ad. Val.

The Act abolishes the whole amount of Federal Excise Duty leviable on certain services by omitting the following entries from the First Schedule:

**[Table II to First Schedule]**

Sr.	Description	Heading/ Sub-Heading No.	Rate of FED
7.	Effective June 13, 2013, services provided or rendered in respect of insurance to a policy holder by an insurer including a re-insurer in case where direct insurance services have been provided:	9813.1000	
	(i) Goods insurance	9813.1100	16% of gross premium paid
	(ii) Fire insurance	9813.1200	
	(iii) Theft insurance	9813.1300	
	(iv) Marine insurance	9813.1400	
	(v) Other insurance	9813.1500	

### Changes to the Description of Services and/ or Rate of Duty

Description of services has been revised through the Act as under:

**[Table II to First Schedule]**

Existing		Revised	
Sr.	Description of Services	Description of Services	Rate of FED
8.	Services provided by banking companies or non banking financial companies.	Services provided or rendered by banking companies, insurance companies, cooperative financing societies, modarbas, mushrika, leasing companies, foreign exchange dealers, non-banking financial institutions, asset management companies and other persons dealing in any such services	16% of the charges

### Abolishment of conditional exemptions

The following conditional exemptions have been abolished by the Act effective from June 13, 2013:

**[Table I to Third Schedule]**

Sr.	Description of Goods	Heading/ Sub-Heading No.
5.	Hydraulic cement imported or purchased locally by petroleum or energy sector companies or projects subject to the same conditions and procedures as are applicable for the purposes of exemption of custom duty	2523.9000
7.	Lubricating oil if supplied to Pakistan Navy for consumption in its vessels	Respective headings
8.	Transformer oil if used in the manufacture of transformers supplied against international tenders to a project financed out of funds provided by the international loan or aid giving agencies	Respective headings

**Table II to Third Schedule]**

Sr.	Description	Heading/ Sub-Heading No.
8.	Effective from June 13, 2013, services provided by asset management companies with effect from July 01, 2007	Respective Headings



## 6. FEDERAL EXCISE SROs

### *Original SROs Promulgated*

<b>SRO</b>	<b>Promulgation</b>	<b>Effective Date</b>
507(l)/2013	<p>Levy of fixed amount of federal excise duty at the rate of Re.1/- per kilogram of locally produced oil purchased by a manufacturer of vegetable ghee and cooking oil, in lieu of the federal excise duty payable @ 16% on vegetable ghee and cooking oil produced or manufactured from locally produced oil, which shall be paid by the producer or manufacturer of vegetable ghee and cooking oil along with his monthly return for the period in which the locally produced oil is purchased.</p> <p>Duty payable at the aforementioned rate on the stocks of locally produced oil purchased before the 12th June, 2013 and lying in premises of vegetable ghee and cooking oil producer or manufacturer on the said date, shall be paid along with the return filed for June, 2013.</p>	June 13, 2013
508(l)/2013	<p>Levy of fixed amount of Federal Excise Duty of 40 paisa per kilogram on oilseeds, at the import stage, in lieu of FED payable at production or manufacturing stage of vegetable ghee or cooking oil.</p>	June 13, 2013

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## SECTION 3 CUSTOMS

### 1. CUSTOMS ACT, 1969

#### Goods declaration

[Section 2 (1a)]

Section 121 has been included under the definition of goods declaration for Transshipment of goods without payment of duty manifested at the time of importation as for transshipment to some other customs-station or foreign destination.

#### Directorate General of Input Output Co-efficient Organization

[Section 3DDD]

A new section 3DDD has been introduced to establish new Directorates General for Input Output Co-efficient Organization.

#### Provision of security and accommodation at Customs-ports, etc

[Section 14A]

Section 14A of the Customs Act, 1969 has been amended so as to bind the persons including port authorities managing or owning customs ports, land customs station or a container freight station to provide adequate security, residential accommodation to Customs staff and to entertain the delay and detention certificates issued by authorized Customs Officers and to refund demurrage charges where the delay is not due to the fault of the importer or exporter.

#### False statement, error, etc

[Section 32 (4)]

The appropriate officers of Customs have now been empowered vide the Act to consider the representation made by importer who have not been levied or has been short-levied or has been erroneously refunded the amount of customs duty and shall determine any amount payable by him under the Customs Act.

#### Provisional determination of liability

[Section 81 (4)]

The facility of post-dated cheque for payment of additional amount on the basis of provisional assessment has been withdrawn.

#### Power of adjudication

[Section 179 (1)]

A new proviso under clause (vi) has been introduced, which clarifies on the jurisdiction and powers of the officers of Customs to determine the FOB value and to double their respective monetary limits.

#### Reference to High Court

[Section 196 (1)]

Director of Valuation along with other authorized officers have now been empowered to prefer an appeal to the High Court stating any question of law arising out of an order passed by the Appellate Tribunal.

#### First Schedule – Effective from June 13, 2013

The following amendments in the schedule have been made:

PCT Code	Description	Revised Rate	Existing Rate
0802.8000	Areca nuts	10%	5%
1404.9020	Betel leaves	Rs.300/Kg	Rs. 200/Kg
3926.1000	Office or school supplies	20%	25%
8421.2100	For filtering or purifying water	15%	20%
8539.3920	Energy saving tube	0%	20%

## 2. CUSTOMS NOTIFICATIONS – Effective from June 13, 2013

### [SRO 496(I)/2013]

Exclusion of the following vehicles from the exemptions of customs duty available on import of components by OEMs of the automotive sector which was earlier granted in-case of assembly or manufacture under a firm contract through SRO 656(I)/2006.

Item description	Heading/sub-heading
Auto Rickshaw	8703.2115
3-Wheeler cargo Loader	8704.3150
Vehicles	87.11

Following additional facilities have also been categorized in the already prescribed list of required minimum in-house assembling/ manufacturing facilities for assemblers/ manufacturers of vehicles:

- a) Cars and light commercial vehicles (LCVs)
- b) Heavy commercial vehicles (HCVs)
- c) Tractors
- d) Motorcycle/ Motorcycle rickshaw
- e) Stroke auto rickshaw

### [SRO 497(I)/2013]

The exemptions available to the following items vide SRO 567(I)/2006 have been withdrawn.

S No.	HS Code	Description	Revised Rate	Existing Rate
24	4804.1900	Uncoated Kraft paper and paper board in rolls or sheets	20%	5%
	4804.1900	Virgin craft liner	20%	0%
	4804.1900	Virgin white top craft	20%	0%
	4805.1100	Semi – chemical fluting paper	20%	0%
28	7219.9090	Flat rolled products of stainless steel, of a width of 600 mm or more	5%	0%
29	7226.1900	Silicon electrical steel sheet	5%	0%
48	8528.7211	LCD Panels in CBU form	30%	20%
	8528.7212	Plasma display panels in CBU form	30%	20%

### [SRO 499(I)/2013]

This SRO substitutes SRO 607(I)/2012 and further extends the exemption from customs duty, sales tax and withholding tax on import of Hybrid Electric Vehicles (HEVs) falling under PCT Code 87.03, specified in accordance with the engine capacity to the extent as specified:

S. No.	Engine Capacity	Extent of Exemption
1	Up to 1200 CC	100%
2	From 1201 CC to 1800 CC	50%
3	From 1801 CC to 2500 CC	25%

## **SECTION 4 INCOME SUPPORT LEVY ACT 2013**

A new legislation to provide for charge and collection of Income Support Levy for running an income support fund for the economically distressed persons and their families has been promulgated vide the Act.

### **1. SIGNIFICANT DEFINITIONS**

**[Section 2]**

The Income Support Levy Act, 2013 (Levy Act), lays down the following significant definitions:

- i. Net Moveable Wealth means the amount by which the aggregate value of the moveable assets belonging to a person as declared in the wealth statement for the relevant tax year is in excess of the aggregate value of all the liabilities owed by that person on the closing date of the tax year. However, the intention of the new enactment is to consider only such liabilities which were incurred to acquire moveable assets.

The method of calculating the liability to be allowed while determining the net movable wealth has been specified to be made by way of apportioning total liability in the ratio of gross value of movable assets to gross value of both movable and immovable assets.

- ii. Person means an individual.

### **2. CHARGE OF LEVY**

**[Section 3]**

The enactment introduces the levy from the tax year 2013 in respect of net movable assets held by a person on the last date of the tax year at the specified rates.

### **3. TIME AND MANNER OF PAYMENT OF LEVY**

**[Section 4]**

A person liable to pay the levy shall pay the same along with wealth statement.

### **4. ASSESSMENT OF LEVY**

**[Section 5]**

An officer of Inland Revenue shall be empowered to determine the levy payable and to serve upon the person a notice of demand specifying the sum payable and the time within which it shall be paid. It is implied that such a notice would be served in case of any default to pay the levy in a manner compliant to the pronouncements of the Levy Act.

### **5. DEFAULT SURCHARGE**

**[Section 6]**

A surcharge at the rate of 16% shall be imposed in case of a failure to pay or pay an amount less than levy as per the Levy Act.

### **6. RECOVERY OF LEVY, APPEALS, REVISIONS AND RECTIFICATIONS**

**[Section 7 & 8]**

Reliance upon the provisions of the Income Tax Ordinance, 2001 has been placed to administer and enforce collection of levy as well as to handle the process of appeals, revisions and rectifications in the matter of levy.

### **7. RATE OF LEVY**

**[Section 9]**

The rate of levy shall be 0.5% on net movable wealth in excess of Rs. 1 Million.

### **8. POWER TO MAKE RULES**

**[Section 10]**

The FBR shall be empowered to make rules under the Levy Act by notification in the official Gazette.

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