TAX MEMORANDUM 2014

Standing up to the challenge

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Finance Bill 2014

This Memorandum summarizes an overview of economy for the year 2013-2014 and the important changes proposed through the Finance Bill 2014. It contains comments on the budget and on the Finance Bill 2014, including highlights, of the changes brought through the Income Tax Ordinance, 2001, the Sales Tax Act, 1990, the Federal Excise Act, 2005 and the Customs Act, 1969, It also contains comments on withdrawal of Income Support Levy Act, 2013. The amendments proposed through the Income Tax Ordinance, 2001 and through other laws are intended to be effective once the parliament has accorded it's assent and thereafter, would be effective from July 01, 2014 i.e. tax year 2015 unless otherwise indicated. Whereas certain provisions relating to custom duty, excise duty and sales tax have been made applicable from the dates of notifications.

This Memorandum is intended to provide general guidance to the readers on the important changes brought through the Bill and should not be considered as a substitute for specific advice relating to a particular enactment. For considering the precise effect of a proposed change, reference should be made to the appropriate wordings in the relevant statute and the notifications issued where relevant.

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June 04, 2014

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Budget at a Glance

	2014-15		2013-14	
	Rs. in billions	%	Rs. in billions	%
RECEIPTS				
Revenue				
Tax	**3,129**	**79**	2,598	76
Non Tax	**816**	**21**	822	24
Gross revenue receipts	**3,945**	**100**	3,420	100
Less: Provincial share	**1,720**	**44**	1,502	44
Net revenue receipts	**2,225**	**56**	**1,918**	**53**
Other				
Net capital receipts	**686**	**17**	507	14
External receipts	**508**	**13**	159	5
Estimated provincial surplus	**289**	**7**	23	1
Bank borrowings	**228**	**6**	975	27
Total other receipts	**1,711**	**43**	**1,674**	**47**
TOTAL RECEIPTS	**3,935**	**100**	**3,592**	**100**
EXPENDITURE				
Current				
General public services	**2,114**	**54**	2,006	56
Defence	**700**	**18**	627	17
Others	**316**	**8**	197	5
Total current expenditure	**3,130**	**80**	**2,829**	**79**
Development				
Federal government	**525**	**13**	540	15
Provincial governments	**118**	**3**	50	1
Other development expenditure	**162**	**4**	172	5
Total development expenditure	**805**	**20**	**762**	**21**
TOTAL EXPENDITURE	**3,935**	**100**	**3,592**	**100**

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Overview of the Economy 2013-2014

Economic Outlook for Fiscal Year 2014-15

The government has presented its second Federal Budget of PKR 3.9 trillion with an anticipated 4.9% fiscal deficit. The following key targets were announced for the 3 year Medium term Economic Framework:

- GDP growth to be increased to 7.1% by 2016-17
- Inflation to be maintained at single digit.
- Investment to be increased to 20%.
- Fiscal deficit to be brought down to 4%.
- Tax to GDP ratio to be increased to 13%.
- FOREX reserves to be increased to USD 22 billion by 2016-17.

The country's economy is faced with a lot of complicated challenges including, but not limited to, the energy crisis, confrontation among state institutions, lower tax to GDP ratio, persistent inflationary pressures, increased fiscal deficit, mounting public debts, high interest payments and underperforming public sector enterprises.

Energy is of prime priority since the provision of energy will run the production wheel at its due pace and thereby accelerate the economic activities in the country, which will result in both increased tax collection and more money for public spending. In this regard, the present government took positive steps in the power sector and we hope that this momentum carries forward into the forthcoming fiscal year 2014/15. Important consideration for the government is to develop energy from alternative sources thereby reducing the cost of production and supporting the industrial growth in order to achieve the midterm economic framework.

The financial plan for 2014/15 reveals the fact that present government intends to implement its divestment strategy for HBL, UBL, PPL, OGDCL and other stated owned entities in order to make them more dynamic and profitable; and create a skilled labor force that meets the current trends of emerging markets. Some of the state owned enterprises as part of the privatization mandate of the government including but not limited to Pakistan International Airlines ,Pakistan Railways and Pakistan Steel Mills are being considered for restructuring ,in order to ease the burden of Government support and whatever saving is available can be chanalized in expanding the PSDP .

It is worth mentioning that government intends to give much need incentives to textile sector which includes beneficial duty drawback rates where exports increase by 10%, implementing an Expeditious Refund System with the objective to resolve exporters refund claims within 3 months, duty free import of machinery extended to 2016 and training of 100,000 Pakistanis in the garments and made-up sector. The facility of loans at reduced rates will also be available to the textile sector. Such initiatives will enable the textiles sector to fully materialize the benefit of GSP Plus status in the forthcoming fiscal year 2014/15.

Keeping in view the fact that Pakistan is agro based economy, It seems quite encouraging that government introduce need driven incentives for agriculture sector in under reviewed budget which include provision of credit guarantee, reimbursement of crop loan insurance, livestock insurance scheme, sales tax reduction on tractors and establishment of commodity warehouse.

According to SBP report, the ratio of external debt servicing to foreign earning has been persistently increasing since FY 2011, therefore, it is right decision of government in right direction to establish EX-IM Bank with initial paid up capital PKR 10 billion to enhance export credit and reduce cost of borrowing for

Overview of the Economy 2013-2014

exporting sector. In our opinion this initiative will bring considerable improvement in the foreign exchange reserves of the country.

The budget introduces additional sources for revenue generation to an extent of PKR 246.255 billion by enhancing advance tax rates for non-compliant tax payer, imposing 5 % sales tax on 32-40 items including plant and machinery, regulatory duties on luxury goods, 1-2% adjustable advance tax on immovable property, 7.5% advance tax on domestic electricity consumers (monthly bill above PKR 100,000).

Pakistan's tax to GDP ratio varies from 8.5% to 9.5% in last 8 years which seems quite low as compared to other countries in the South Asia region. According to economic experts it should be at least 15% in order to achieve stable economic growth in the country. This requires not only broadening of the overall tax base, additional measures need to be brought in place for preventing the existing evasion of both direct and indirect taxes which is causing a substantial loss of revenue for the government.

For detection and prevention of massive evasion of taxes, the existing integrated Tax Intelligence and Information Systems need to be further strengthened to enable cross verification /matching of financial transactions at a broader spectrum, in addition to bringing a larger chunk of the economy within the formal documented sector for a more comprehensive glance of the government on the economic activity.

The government allocated PKR 1,175 billion for Public Sector Development Program (PSDP) in current budget. The PSDP budget allocated to provinces is PKR 650 billion whereas allocation for federal is PKR 525 billion. PSDP allocation does not identify the impact of expenditures on development sector reforms. Similarly our analysis identify that there has been nominal allocation to public facility program like National Health Services and Higher Education Commission.

Overview of Economic Performance of Pakistan in 2013-14

The economy of Pakistan has achieved some milestone in the current fiscal year after a period of sack growth during last few years which was primarily owed to the energy crises and the impact of security challenges both internal and external. This shift in economic growth in fiscal year 2013-14 is supplemented through recovery of industrial sector with moderate growth in service and agriculture sectors while external sector performance witnessed a mixed trend. Based on the figures which exclude the statistics of last quarter of current fiscal year, overall the economy has achieved initial gains in restoring macroeconomic stability to some extent owing to issuance of euro bonds and "gift from Saudi Arabia", but there are certain targets which are not achieved in the outgoing fiscal year including lower tax to GDP ratio and lower exports.

GDP Growth

Despite of felling short of its target growth of 4.4%, the government managed to achieve the overall GDP growth of 4.1 % in its first fiscal year which indeed is the highest level of GDP since 2008. Where the said economic turnaround is based on stabilizing foreign exchange reserves, appreciation of exchange rate, industrial growth on account of improved energy supply, increase in remittances, launching of Euro Bond and auction of 3G/4G licenses; impediments to the achievement of set target of GDP mainly attributes to inflation, manifold borrowings, cost of tax exemptions and below par growth of agriculture and service sector.

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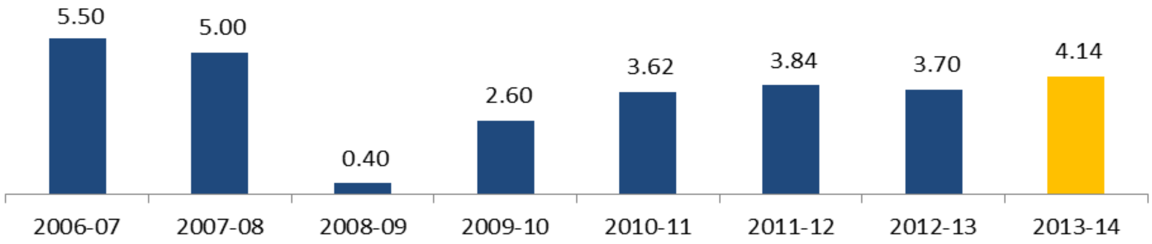
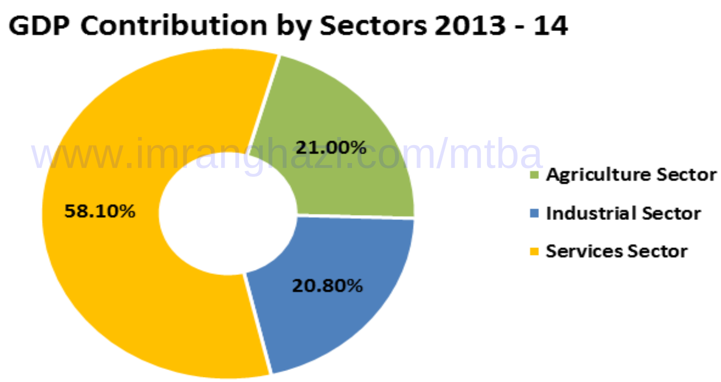
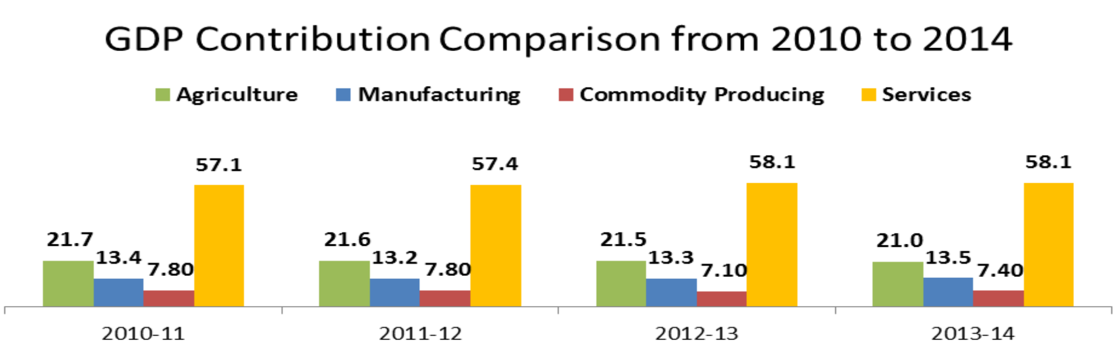


Performance of Contributories of GDP

Broadly, the contributors to the Pakistan's GDP include agriculture, industrial and services sectors. Among these contributors, agriculture and service sectors performed below their potential during the last financial year while industrial sector has shown remarkable growth at 5.8 percent as compared to 1.4 percent in last year. The contribution of various components of GDP in the fiscal year 2013-14 has been recorded as under:



A snapshot of sectors contributing towards the GDP for the financial year 2013-14 identifies the service sector to be the leader with 58.1% contribution towards the GDP, followed by agriculture and industrial sector with contributions of 21% and 20.9% respectively which is in line with the performance of these sectors in the past six years trend shown below:



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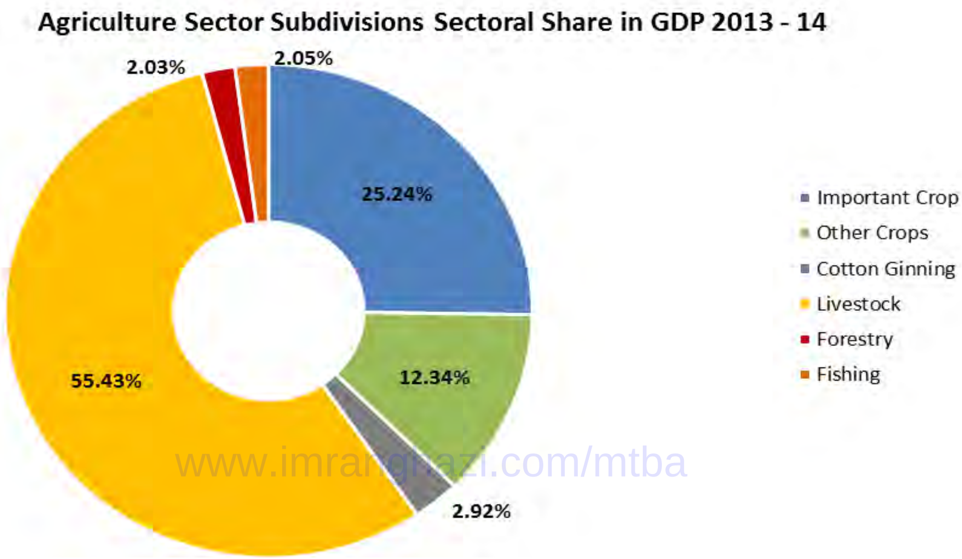
Agriculture Sector

Agriculture has been the back bone of the country's economy by virtue of its contribution towards the GDP, provision of employment, acting as a supplier of raw material to the industry and industrial products, and also being a main foreign exchange earner. This sector during the financial year contributed 21 % towards the GDP and 43.7 % of employment. The overall growth of the agriculture sector was 2.1 % during the financial year in comparison to 2.9 % in last year.



The agriculture sector is broadly subdivided into crops, livestock, fisheries and forestry. The crops are further subdivided into three categories, namely important crops, other crops, and cotton ginning. Important crops comprising wheat, maize, rice, sugarcane and cotton accounted for 25.6 % of total agriculture value. During 2013-14 growth of important crops increased to 3.7 % compared to 1.2 % in the last year, while other crop and cotton ginning showed a negative growth of 3.5% and 1.3% respectively due to extreme weather conditions and heavy rains in crop areas resulting in lower production of gram, potatoes, masoor and other pulses.

Share of livestock in agriculture value addition is 55.9 % and its share in GDP is 11.8%. The growth in the livestock sector also slowed down to 2.9% as compared to 3.5% last year. This sector has a lot of potential and is of importance due to its nature and provision of livelihood for small farmers. The forestry sector grew by 1.5 % in 2013-14 as compared to 1.0 % in 2012-13 and the fishery sector registered a positive growth of 0.4% in 2012-13 from 0.7% last year.

The importance of the agriculture sector was felt during 2013-14, as credit disbursement target of PKR 380 billion was fixed as compared to PKR 315 billion last year. However, the disbursement on a year-to-year basis was 67.3 % (PKR 255.7 billion).

The government recognized the importance of this sector during the budget speech identified some concert steps in order to ease the pressure on small farmers and increase the yield of significant crops contributing towards the GDP in general. The steps taken include:

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a) establishment of credit guarantee scheme for small and marginalized farmers using SBP to provide PKR 30 billion to micro finance banks for onwards disbursements;

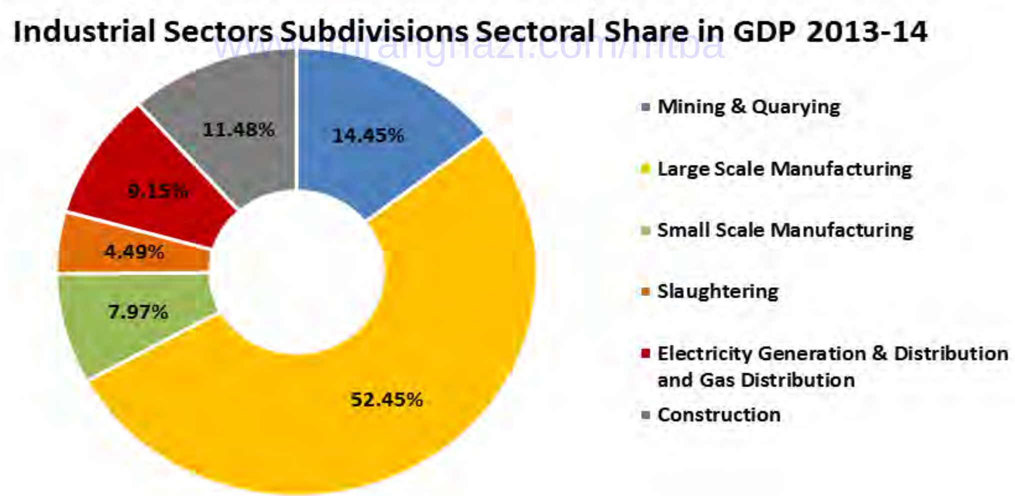
b) provision of reimbursement crop and livestock insurance coverage to be launched;

c) income tax exemption for setting up processing plants for locally grown fruits in Balouchistan, Malakad division, Gilgit-Baltistan and FATA; and

d) machinery for setting up of processing plants is exempted from custom duty and sales tax

Industrial Sector

Industrial sector, considered as a main driver of the economic growth, contributed a 20.8 % share in the GDP, and a major source of tax revenue for the government and also contributes significantly in the provision of job opportunities to the labor force. In the past, this sector has been hit by internal and external factors including scheduled and unscheduled load-shedding, unstable law and order situation resulting in overall loss of working hours therefore the contribution to the GDP was not in line with the potential of this sector. However, in the last fiscal year this sector has started revival and has recorded remarkable growth at 5.8% (highest level achieved since 2008-09) as compared to 1.4% in last year. Industrial sector further comprises four sub-sectors including manufacturing, mining and quarrying, electricity distribution and generation and construction sector. The breakup of subsectors and their contribution to the GDP is as follows:



Mining and quarrying sector is unexplored with a lot of potential for earning foreign exchange. This sector experienced a growth rate of 4.4% in comparison to 3.8% last year which is mainly attributed to the output of sulphur, chromites, bauxite, dolomite, coal, lime stone, crude oil and rock salt. Impediments hampering the further growth of this sector include primitive mining techniques, resulting in damage of deposits, lack of modern management skills, inadequate capital, and lack of appropriate technical know-how. Most of these reserves are present in remote areas, with challenged law and order situation, absence of necessary infrastructure and lack of available technical capacity, for example in areas like Baluchistan and FATA. Government has realized the potential of this sector and is in the process of promoting dialogue with foreign experts for value addition and reduction of loss.

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The Large Scale Manufacturing (LSM) posted a positive growth of 5.3 % in comparison to 4.1 % in the comparable period last year. The growth was witnessed in Jute, Sugar, Beverages, Fertilizers, Electrical Goods; Paper & Board, Rubber products, Pharmaceuticals, Coke and Petroleum Products, Iron and Steel products, Tobacco, Non-metallic mineral products, Leather products and Textile. This growth was contributed by the impact of rise in electricity generation as 1,752 MW electricity added in the system through clearing the circular debt of PKR 480 billion in initial months of fiscal year 2013-14. Further, improvement in gas supply, especially to fertilizer and leather industry in the past few months increased the output of the industry. It is worth mentioning here that in March 2014 large scale manufacturing growth fell by 2.7% in comparison to the previous year, this is primarily contributed due to appreciation of the rupee against dollar.

Automobiles industry continued to struggle due to import based competitions. However, slightly positive growth was witnessed in the case of buses, cars, jeeps and light commercial vehicles with 11%, 1%, 34% and 28% change respectively while Tractors and Two/Three wheelers have shown negative growth of (34%) and (5%) respectively. One important contribution for the slow growth in case of cars was the implementation of amnesty scheme and import of second hand vehicles.

The construction sector has registered a growth of 11.31% against the negative growth of 1.68% of last year. This is also highest growth level achieved since 2008-09. The increase in growth is due to rapid execution of work on various projects, increased investment in small scale construction and rapid implementation of performance based development schemes and other projects of federal and provincial governments.

Power generation & distribution registered a growth of 3.7% in comparison to a negative growth of (16.3%) last year. The output of electricity WAPDA component recorded a positive growth of 10.46% as compared to negative growth of (17.99%) last year, whereas KESC has negative growth of (11.90%) as compared to positive growth of 24.48% last year.

During the budget speech some positive indicators to boost this sector include;

a) establishment of EX-IM Bank of Pakistan with an initial capital of PKR 10 billion;
b) reduced rates of export finance from 9.4% to 7.5%;
c) reduction in mark-up rate from 11.4% to 9% for long term financing facility;
d) revival of export development fund; and
e) performance based incentives for textile industry by providing conditional refunds linked to increased exports.

In addition to above, low cost housing schemes are being considered with provision of loan to an extent of PKR 20 billion. This incentive on the economic fronts would support other construction industry

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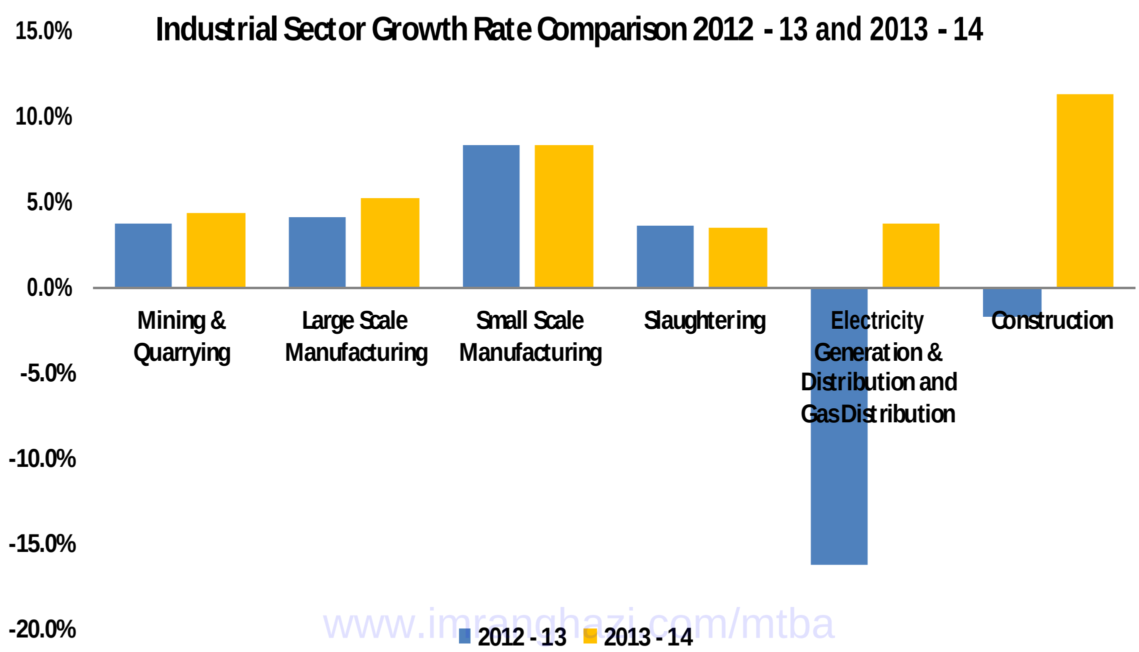

Services Sector

The services sector has emerged as the largest contributor towards GDP and a main driver of economic growth. The share of the services sector has increased from 56.6 percent of GDP in 2008-09 to 58.1 percent in 2013-14. Services sector contains six subsectors including: transport, storage and communication; wholesale and retail trade; finance and insurance; housing services (ownership of dwellings); general government services (public administration and defense); and other private services (social services). The services sector has witnessed a growth of 4.3% as compared to 4.9% last year. Despite of increasing growth trend in wholesale & retail trade, transport, storage and communications; and general government and other services, the main contributors of declining growth rate in services sector was finance and insurance. The contributions of subsectors within the overall services sector has been illustrated below:

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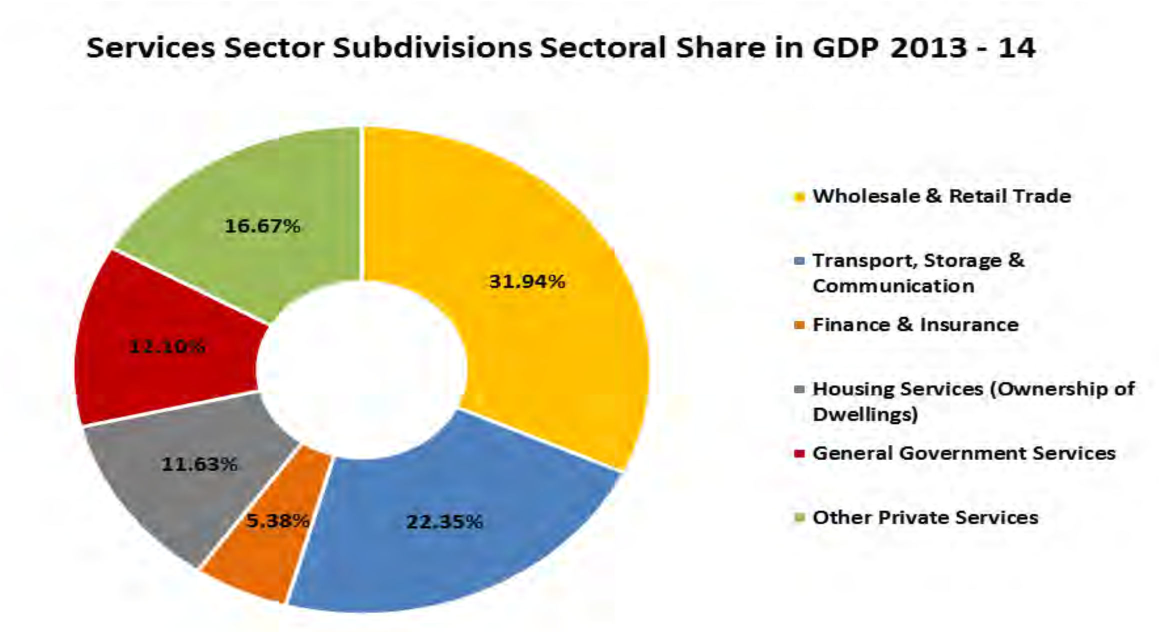

The wholesale & retail trade subsector is the largest contributor with an overall share estimated at 31.94%. This subsector reflected a marginal increase in performance over the previous year, with the growth rate identified as 5.2% in comparison to 3.4% last year. Improving energy situation and achieving of GSP plus status are contributing in the uplift of this subsector.

Transport, storage & communication also experienced a slight growth rate from 2.9% last year to 3.0% in the current fiscal year. The value added in this subsector is based primarily on the profits and losses of Pakistan Railways, Pakistan International Airlines and other airlines, Pakistan posts and courier services and motors vehicles of different kinds on the road. Air transport recorded the growth of 6.07 % and pipeline transport registered growth at 8.49%, road transport grew at 3.69% and storage witnessed growth at 5.17%.

The finance and insurance sector comprises of State Bank of Pakistan, development financial institutions, scheduled banks, insurance companies, modarabas, leasing companies, currency exchange companies and stock exchanges, all engaged in financial services. This sector registered a growth of 5.17% as compared to 8.98% last year. The main reasons of lower growth include negative growth (43.61%) of non-scheduled banks and negative growth (19.71%) in financial leasing. In our view, this is the time for consolidation of non-scheduled banks and financial leasing companies in order to stay afloat.

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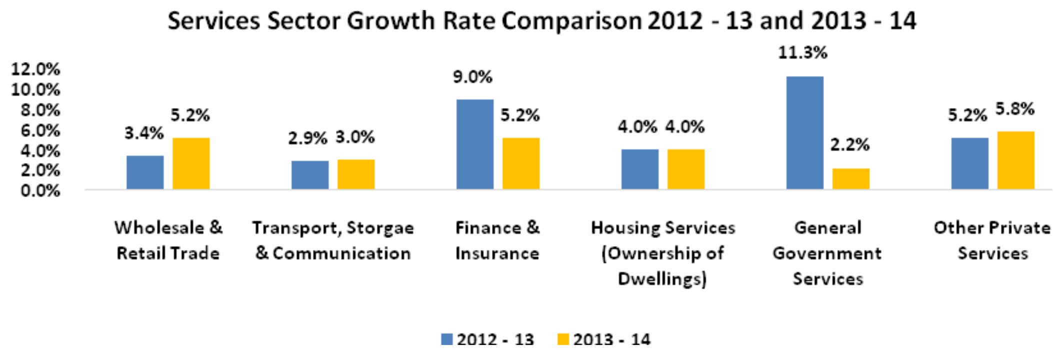
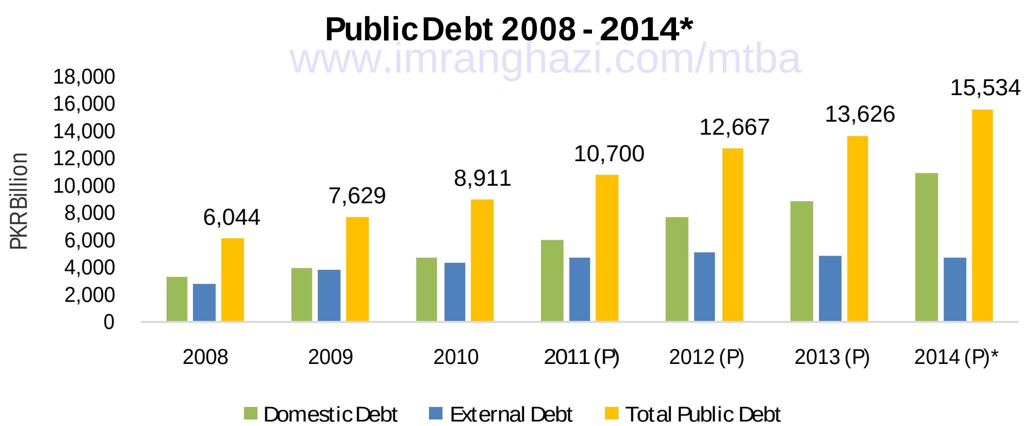


Other Economic Indicators

Public Debt



The continuous increase in public debt has profound detrimental ramifications on the goal of achieving sustainable economic growth of the country. Over the last six years, total public debt increased from PKR 6.044 trillion in 2008 to PKR 15.534 trillion in 2014. Such an increase explicitly reflects the inability of government for making desired capital investments, and their continued reliance on borrowings to finance the budget deficit. Significant portion of the government sources are used for debt settlement. The corresponding impact of increase in debt is realized in the form of curtailment in long term development projects, as debt servicing consumes a significant portion of GDP which would otherwise be available for undertaking PSDP initiatives. The interest payments of PKR 1,155 billion were made on account of debt servicing during the under reviewed fiscal year. These payments amount to 47% of the total tax revenue of the country in one fiscal year. According to the economic experts, the ratio of interest to total tax

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revenue should remain in the range of 25% to 30% to achieve sustainable economic growth of the country.

The government in the initial period could the comply with its fiscal responsibility and Debt Limitation Act, as it relied on SBP borrowing due to fact that commercial banks were expecting increased interest rates, therefore, were not keen on buying government securities. In the third quarter of financial year 2014 the government borrowed more due to increase in policy rates through the sale of T-Bills and PIBs and used the proceeds to retire SBP borrowing.

On an aggregate basis the borrowing of the government in comparison to the last year declined substantially from PKR 856 billion to PKR 436.9 billion. This reduction was primarily facilitated by Saudi grant to an extent of US$ 1.5 billion thus complying to IMF limits of borrowings from the central bank.

Our above analysis in the chart of public debt reveals the fact that the reliance of government on local borrowings has substantially increased over the last four years, because of difficulties faced by the government to raise funds from external sources at lower interest rates and such financing constraints are explicitly evident from the issuance of following two new Eurobonds of US$ 2 billion in 2013-14:

- 5 years Euro bond of US$ 1 billion at coupon rate of 7.25% which is 558 base points above from 5 year US Treasury benchmark rate.
- 10 years Euro bond of US$ 1 billion at coupon rate 8.25% which is 556 base points above from 10 year US Treasury benchmark rate.

Apart from the inclusion of above mentioned Eurobonds in the external debt portfolio, three Eurobonds of Pakistan are outstanding. They include 2016 bond (US$500 million) at coupon rate of 5.81%, 2017 bond (US$750 million) at coupon rate of 6.18% and 2036 bond (US$300 million) at coupon rate of 9.25%.

The above analysis of Eurobonds reveals that foreign investors charged high interest rate on Pak Eurobonds of US$ 2 billion because of composite risk factors which include trust deficit, political uncertainty and dilemma of transparency, confrontation among state institutions, deteriorating law and order situation.

Investment and Savings

The continuous increase in the magnitude of investment is absolutely imperative for the economic growth of a country. The investment performance of country is used to be measured by investment to GDP ratio which signifies the improvement in productive capacity of the economy through injunction of fresh liquidity, induction of human capital of desired professional competence, use of new techniques and technological advancements.

Broadly speaking, the overall investment to GDP ratio has decreased to 13.99% in 2013–14 from 14.57% in 2012–13. The fixed and private investments to GDP ratios have shown a decline to 12.39% and 8.94% respectively whereas public investment reflects positive growth of 17.12%. The national savings decreased from 13.5% last year to 12.9% in 2013-14.

The cumulative impact of deteriorating investments and saving trends over the last few years may imminently hamper production capacity and growth prospects of forthcoming fiscal year.

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Foreign Direct Investment (FDI)

The FDI during July-April 2013-14 stood at US$ 2,979 million, as compared to US$ 1,277 million in corresponding period last year. The increase of 133.3% has been contributed primarily by the oil and gas exploration sector, financial business, power, communication and chemicals.

Under the supervision and guidance of Prime Minister' Office the Board of Investment (BOI) adds comfort for the foreign investors to come in and invest in promising sectors duly identified by the BOI within the newly approved Investment Policy directed towards attracting more FDI into Pakistan.

Inflation

The average inflation during July-April 2013-14 stood at 8.7% with an increase of 7.7% in the corresponding period in last year. The inflation rate increased due to internal and external factors including increase in prices of food items, upward revision in energy tariffs, fluctuating exchange rates and imposition of enhanced sales tax on consumer based commodities.

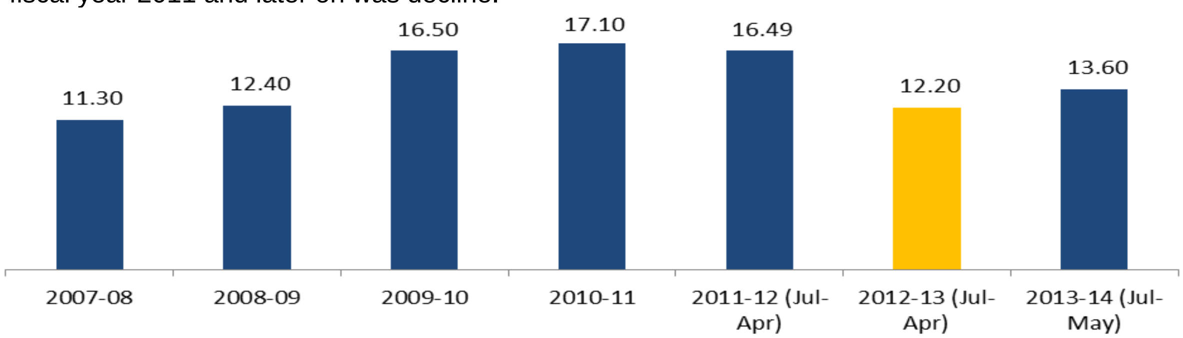
Economic survey-2013-14 reveals the fact that present government has taken various remedial measures to control prevailing high inflation rate which include formulation of appropriate monetary policy and empowerment of "National Price Monitoring Committee" to ensure effective oversight over demand and supply of essential commodities. According to SBP sources, the tentative projected inflation rate in forthcoming fiscal year will vary in the range of 7.5% to 8.5 %.

Foreign Exchange Reserves

Pakistan's foreign exchange reserves currently stand at approximately US$ 13.6 billion, as estimated on 21st May 2014. The country's foreign exchange reserves declined by US$ 2.8 billion during the period Jul-Nov 2013 due to heavy repayments to the IMF and oil payments.

The pressure started to ease after December 2013 as payments to IMF subsided, receipt of second tranche of US$ 544 million as part of EFF, US$1.1 billion generated from the auction of 3G/4G licenses, issuance of sovereign bonds of US$ 2 billion and US$ 1.5 billion grant from Saudi Arabia.

The future repayments are indeed a great challenge for present government forthcoming fiscal year 2014-15 because ratio of external debt servicing to foreign exchange earnings has been persistently increasing till fiscal year 2011 and later on was decline.



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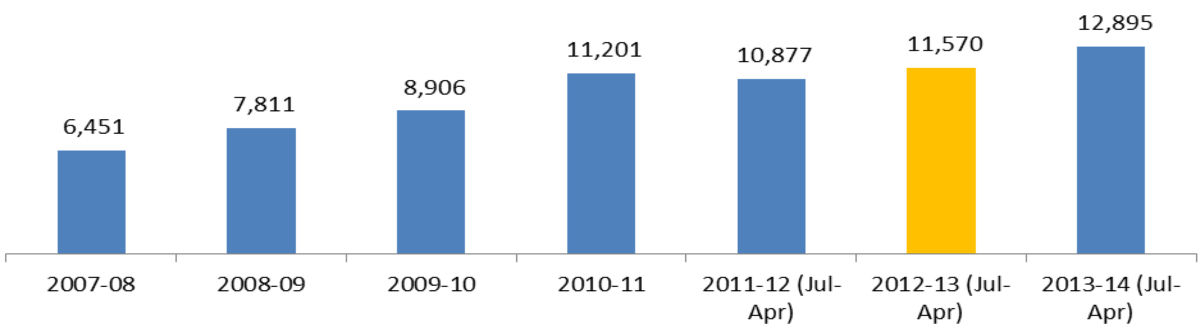
Workers' Remittance

Remittances from overseas Pakistanis have remained a critical source of foreign exchange earnings in Pakistan – averaging approximately US$ 1.2 billion per month. Workers' remittance during the period from July-April 2013-14 was recorded at US$ 12.895 billion as against US$ 11.570 billion in the corresponding period last year. It is pertinent to mention here that remittance from overseas Pakistanis with a growth rate of approximately 12.9 % over the last seven years has remained the main source for resuscitating foreign exchange reserves of Pakistan over the past decade.



Exports

Exports marginally increased to US$ 20.997 billion till April of 2013 from US$ 20.143 billion in comparable period last year i.e. a 4.24% increase. The textile exports posted a positive growth of 6.5% and were recorded at US$ 11.437 billion against the exports volume of US$ 10.739 billion during July-April 2011-2012. The main commodity contributing in growth of textile exports was cotton cloth; the exports of which increased from US$ 2.224 billion in the last year to US$ 2.346 billion during this financial year, showing a surge of 5.5%. Similarly, the exports of raw cotton increased from US$ 138.3 billion to US$ 196.1 billion, showing a growth of 41.8%.

Non-availability of required power has been the major constraint of the textile sector to materialize the benefits of GSP plus status; therefore` resolution for next financial year should be to overcome the energy crisis and thereafter maximize export revenues and generate desired foreign exchange for the economic prosperity of the country.

Pakistan's exports over the last five years have been as under:

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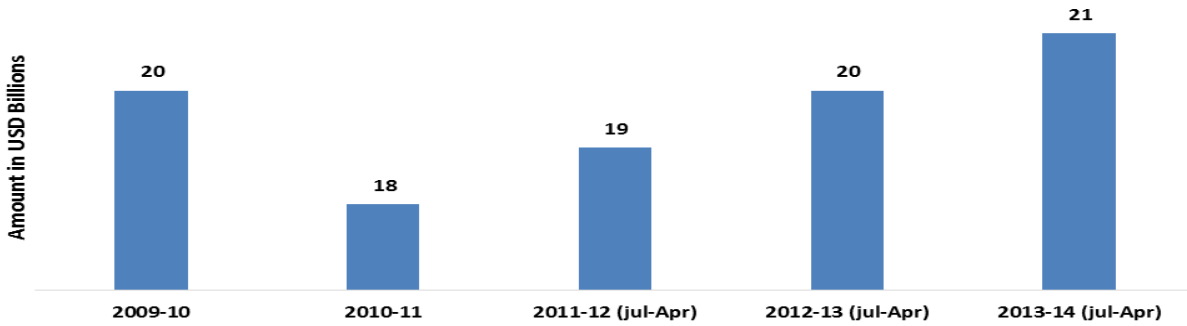
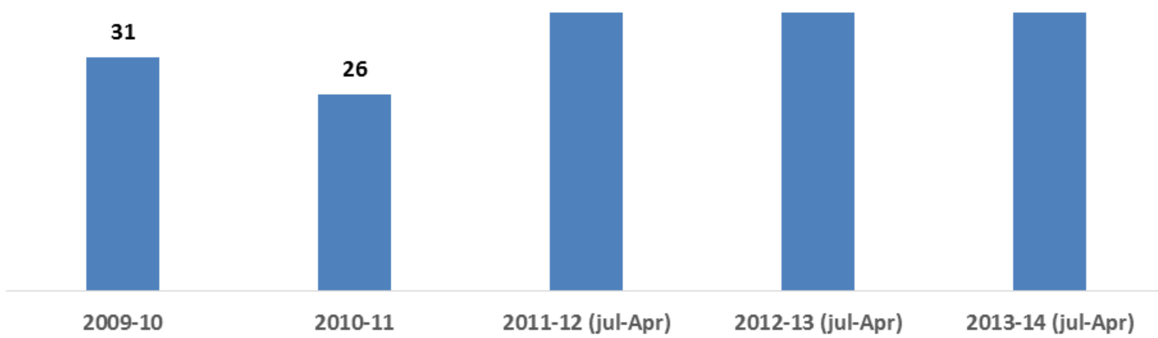


Imports

Imports in Pakistan increased to US$ 37.104 billion in July-April of 2013-14 compared to US$ 36.665 billion in the comparable period of July-April of 2012-13 i.e. an increase of 1.02%. Major imports were of machinery group followed by raw agriculture & chemicals and textile group. Pakistan being an agriculture based economy can substantially reduce its import bill on account of food items especially edible oils. The import bill on account of furnace oil will gradually come down with the establishment of more coal based power producing plants based on indigenous and imported coal.

Pakistan's Imports over the last five years have been as under:



Current Account

According to the latest data released by the State Bank of Pakistan in May 2014, the Current Account Deficit stood at US$ 2.162 billion during July-April 2013-14 as compared to US$ 2.072 billion in the same period last year i.e. an addition of 4%. The increase in deficit requires solid remedial measures which include increase the exports of value added products, materialize the benefit of GSP plus status at maximum extent, strengthen local agriculture market and generate electricity from hydro and alternative renewal energy sources such as solar, coal and wind.

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Finance Bill 2013 - Highlights

Income Tax Ordinance 2001

Incentives & Relief

- The Bill proposes to exempt profits and gains of coal mining projects in Sindh supplying coal exclusively to power generation projects and also to tax their dividend income at a reduced rate of 7.5% instead of standard rate.

- A five-year tax holiday is proposed for taxpayers setting up fruit processing or preservation units in Balochistan (Province), Malakand Division, Gilgit-Baltistan and FATA set up between July 1, 2014 and June 30, 2017.

- A reduced corporate tax rate of 20% is proposed for five-years for a new industrial undertaking to be set up between July 1, 2014 and June 30, 2017 provided that 50% of cost of the project including working capital is funded through foreign direct investment.

- 50% tax rebate is proposed for disabled salaried persons provided that their income does not exceed Rs.1 million.

- Income support levy imposed through the Finance Act, 2013 is proposed to be repealed.

- Corporate members of joint ventures are proposed to be excluded from being taxed as an Association of Persons and instead such members are proposed to be taxed separately as a company in respect of their share of income in the joint venture.

Tax Rates

- Tax rate for companies, other than banking companies, is proposed to be reduced to 33% for tax year 2015 as stated in speech by the Finance Minister which was not supported by an amendment in Division II of Part I to the First Schedule.

- Tax rate on dividend proposed on:

  - shares of a company supplying coal exclusively to power generation projects @ 7.5%

  - From a Stock fund if dividend receipts are less than capital gains @ 12.5%

  - Inter-corporate dividend on collective investments scheme or a mutual funds other than a stock fund @ 25%

  - General rate remain 10%, however for non-filers it enhanced to 15%.

Finance Bill 2013 - Highlights

Burden of Tax

- The concept of Alternate Corporate Tax (ACT) regime has been proposed under which income tax @ 17% of accounting income for companies other than insurance & banking. The ACT paid over and above corporate tax can be carried forward up to maximum of 10 succeeding tax years.

- Bonus shares issued by a company are proposed to be included in the definition of income (dividend) and is proposed to be taxed @ 5% as a final tax on such income.

- The holding period for exemption from tax on capital gains on listed securities is proposed to be increased from 12 months to 24 months period. The rates of capital gains are proposed to be rationalized to range from 10% (held for 12 months - 24 months) to 12.5% (held for less than 12 months in the previous tax year).

- Rate of initial depreciation on building is proposed to be reduced to 10% from 25%.

- Scope of Capital gain tax is proposed to be enlarged to include Debt Securities as well.

- The concept of apportionment of expenses against dividend and capital gains is proposed to be extended to the banking companies.

- Mutual Funds are currently allowed exemption from tax subject to the distribution of 90% of their accounting profits. For the purpose of claiming said exemption, the bill proposes to exclude Bonus Shares issued from such distribution.

- Steel melters, Steel re-rollers, composite steel units registered for the purpose of Sales Tax Special Procedures Rules, 2007 are proposed to pay non-adjustable tax @ Rs.1 per unit of electricity consumed for production of steel billets, ingots, and MS products excluding stainless steel with electricity bill.

Excessive withholding tax rate & requirements

- The turnover of foreign news agencies are proposed to be subject to withholding of tax under section 152(2).

- Currently travel agents are withholding agents for the purpose of collection of advance tax on sale of domestic air tickets. It is proposed that instead of the travel agents, the respective airlines be made withholding agent on the sale of such tickets.

- The consumer of domestic electricity are proposed to be charged 7.5% adjustable tax on their value of monthly bills amounting Rs.100,000 or more.

- Contract with sports persons are proposed to be subject to withholding of tax @ 10% of the contract value as final tax thereon.

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Finance Bill 2013 - Highlights

- The general rates of withholding tax on sale of goods, rendering / providing of services and execution of contract are proposed to be increased as under:

  - Good supplies — 3.5% to 4% on corporate sector; 4% to 4.5% on non-corporate sector
  - Services — 6% to 8% on corporate sector; 7% to 10% on non-corporate sector
  - Contract — 6% to 7% on corporate sector; 6.5% to 7.5% on non-corporate sector

- The withholding tax rate are proposed to be increased to following nature of receipts:

Transaction	Existing (%)	Proposed (%)
Sale of Petroleum products	10	12
Payments by Exporter on account of stitching, dying etc	0.5	1
Brokerage & Commission (Advertising Agent)	5	7.5
Brokerage & Commission (Others)	10	12
Functions and Gatherings	10	5

- The person responsible for making payment to the Board Members for attending the board meeting is proposed to withhold 20% of the gross amount payable. The tax so withheld is proposed to be adjustable tax.

- General Withholding tax rates on imports are proposed to be increased by 0.5% in each category namely industrial undertakings, Companies and Other importers.

- Large Trade Houses are proposed to be designated as withholding tax agents.

Measures to discourage non-compliance

- The Bill seeks to distinguish the status of 'filers' and 'non-filers' of tax return. The Bill proposes higher tax rates for non-compliant tax payers:

Transaction	Proposed Rate	
	Filer	Non-Filer
Dividend	10%	15%
Profit on Debt (non-corporate)	10%	15%
Cash withdrawal	0.3%	0.5%

- Also in respect of annual motor vehicle tax.

- NTN is proposed as a compulsory condition for obtaining commercial / industrial electricity and gas connections.

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Finance Bill 2013 - Highlights

Other Matters

- The requirement to file return of income by a person by virtue of being registered with Chamber of Commerce and Industry, or any trade or business association, any market committee, or various other professional bodies is proposed to be restricted to resident persons only.

- Non-profit Organizations, Welfare Institutions, Trusts etc are proposed to be allowed 100% tax credit subject to the condition of compliance with filing and withholding tax requirements. Previously such organizations were allowed exemption from tax on their certain income.

- The Bill seeks to withdraw tax exemption from various universities. It is proposed that only public sector universities would be eligible for tax exemption

THE SALES TAX ACT, 1990

- Rationalization of sales tax on steel sector, ship breakers and steel melters operating in the sugar mills

- Registration of retailers on two tier system basis whereby:

  (i) retailers part of national and international chains, located in air-conditioned malls having debit and credit machines;

  (ii) chargeability of the sales tax @ 5% in case of monthly electricity bill upto Rs. 20,000 and @ 7.5% of the monthly electricity bill exceeding Rs. 20,000

- Input tax adjustment is proposed to be restricted only to the extent of goods and services actually used in manufacturing/sales of the taxable activity

- Electronic scrutiny and intimations system is to be introduced to conduct all checks and analysis objectively and issue electronic intimations to the taxpayers

- Further tax charged @ 1% on supplies made to unregistered persons is specifically excluded from the purview of output tax

- Exemption available to Re-meltable scrap is proposed to be deleted

- Transposition of SRO 727(I)/2011 to Eighth Schedule Table 1with 5% rate of sales tax

- Transposition of SRO 575(I)/2006 to schedules with certain changes prescribing reduced sales tax rate of 5% and withdrawal of concession on certain items

- Transposition of SRO 549(I)/2008, dated 11.06.2008 to Fifth Schedule to the Act prescribing zero-rating on certain goods, including petroleum crude oil, certain raw materials for export oriented sectors

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Finance Bill 2013 - Highlights

- Transposition of SRO 551(I)/2008, dated 11.06.2008 to Schedules with certain changes prescribing reduced sales tax rate of 5% and withdrawal of concession on certain items

- Reduced rate of sales tax @ 14% to rapeseed, sunflower seed and canola seed is proposed to be withdrawn and be subjected to standard rate.

- Transposition of SRO 501(I)/2013, dated 12.06.2013 to Schedules with proposal to charge sales tax at reduced rate of 5% on soyabean meal, oil cake and directly reduced iron

- Transposition of zero-rating facility for dairy and stationery industry and input materials of these industries as given under SRO 670(I)/2013, dated 18.07.2013 proposed to be incorporated in the Fifth Schedule.

- Sales tax at the standard rate of 17% on the import of finished articles of leather and textile.**(SRO 1125(I)/2011)**

- Exemption granted to high efficiency irrigation equipment and greenhouse farming equipment to promote agriculture.

- Reduction in rate of sales tax on local supply of tractors from 16% to 10% to promote farm mechanization.
- Enforced through amendment in the notification, effective from 01.07.2014.

- Exemption from sales tax to import and supply of "Cochlear Implants System" (Hearing Aids) to facilitate the handicapped.

- To reduce input cost for industries, customs duty on PET coke as an alternate fuel to coal to be reduced from 5% to 1%

- Exemption on import of plant, machinery and equipment for Gilgit-Baltistan, Balochistan Province and Malakand Division and FATA is proposed to promote industrialization, job creation and economic uplift of the less developed regions.

- Specific rates of sales tax on mobile phones is being introduced to protect the revenue and strengthen the legal support for charging of sales tax
- Uniform treatment of crude palm oil with of other edible oils.

- Provision for specifying zones for the purpose of charging sales tax and Federal Excise Duty on the basis of prices in respective zones.

THE CUSTOMS ACT, 1969

Relief Measures

- Plant, machinery and equipment imported for setting up fruit processing and preservation industrial units in Gilgit-Baltistan, Balochistan and Malakand Division exempted from whole of customs duty.

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Finance Bill 2013 - Highlights

- Plant, machinery and equipment imported for setting up industries in FATA, exempted from whole of customs duty.
- Customs duty on UPS (PCT code 8504.4010) reduced from 20% to 15%
- Customs duty on petroleum coke not-calcined (PCT code 2713.1100) decreased from 5% to lowest slab of 1% to reduce input costs for manufacturing concerns.

Review of Concessionary Regime (SROs)

- Exemptions and concessions allowed under various SROs reviewed to minimize exemptions.
- Concessions considered non-essential, and minimally utilized are proposed to be withdrawn.
- Essential concessions retained on enhanced concessionary rates by incorporating a newly added Fifth Schedule to the Customs Act
- Socially sensitive items to be maintained at 0% through inclusion in Schedule i.e.oil, tomatoes, onions, pulses, beans, fertilizers etc

Tariff Rationalization Measures

- General Tariff slabs reduced from 7 to 6 in PCT
- Maximum general tariff rate of 30% reduced to 25%.

- Exemption of duty and taxes on Hybrid Electric Vehicles (HEVs) rationalized: HEVs upto 1800 cc granted 50% exemption of duty and taxes and above 1800 cc granted 25% exemption of duty and taxes.
- Substitution of 0% duty slab with 1% customs duty in Tariff.
- Socially sensitive items continued at 0% in new Fifth Schedule to the Customs Act.
- Customs duty on networking equipment increased from 5% to 10%.
- Fixed amounts of duty and taxes on used vehicles revised upward by 10% approximately.
- Customs duty on flat-rolled products of alloy steel (PCT codes 72.25 and 72.26) increased from 0 and 5% to 10% to bring them at par with flat-rolled products of non-alloy steel.
- Customs duty @ 5 % levied on import of generators above 1100 KVA
- A uniform rate of 15% customs duty levied on dyes except basic dyes and indigo blue dyes used in textile sector.
- A uniform rate of 10% customs duty on all kinds of CDs/DVDs of PCT codes 8523.4000 levied.
- Customs duty on flavouring powders (PCT code 2106.9030) enhanced from 10% to 20% to avoid mis-classification
- A uniform rate of 10% levied on Liquid paraffin and White oil being same in nature.
- Customs duty on dryers increased from 5% to 10%.

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Finance Bill 2013 - Highlights

- A uniform rate of 15% levied on starches to rationalize duty structure and avoid classification disputes.
- Customs duty on coloring matters enhanced from 5% to 10% to reduce the chance of mis-classification.
- Customs duty on Satellite mobile phones whether or not functional on cellular networks (PCT code 8517.1230) reduced from 25% to 10%.

Revenue Measures

- Regulatory duty levied on luxury goods.

Legislative Changes:

Following changes made in the Customs Act, 1969:

- Rationalisation of definition of single definition of “customs-station”.
- Fifth Schedule to the Customs Act, 1969 added to levy specified conditional rates of customs duty on goods and class of goods.
- Removal of provisions providing consideration of lowest value for custom purpose where more than one value is computed based on specified criteria for computation of transaction value of identical and similar goods.
- In addition to customs duty, now non-levied and short levied taxes can also be recovered under section 32 of the Customs Act, 1969.
- The reassessment of goods can be made for taxes and other charges also in addition to customs duty.
- Cases involving narcotics and narcotic substances are to be tried in Special Courts created under the Control of Narcotics Substances Act, 1997.
- Time limit of experience of a senior Collector for appointment as technical member of the Customs Appellate Tribunal is proposed to be reduced to three from 5 years.

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Summary of changes in the Income Tax Ordinance, 2001

Section	
2(23A) & 2(35C)	**Filer & non-filer**

The Bill proposes to distinguish between filer and non-filer by insertion of the definitions to this effect "Filer" means taxpayer whose name appears in the active taxpayers list or is holder of taxpayer's card. "Non-filer" means a person who is not a filer.

To encourage the compliance of filing of returns by taxpayers, the Bill proposes to prescribe higher withholding tax rates for non-filers by enhancing the withholding tax rates with regards to dividend income, profit on debt, cash withdrawal, registration of motor vehicles, payment of annual/lump sum token of motor vehicles, purchase/sale of immovable property and purchase of first/business/club class international air tickets.

Non-filers are clearly at dis-advantage over the filers. The intention of the Government appears to expand tax net with such distinction more particularly non-filers would be encouraged to become filers in due course.

The proposed changes would create hardships for the withholding tax agents as they would be penalized for any defaults, if any, made in applying prescribed withholding tax rates as it would be difficult for such withholding tax agents to establish at the time of payment whether or a not any person is a filer or non-filer. The identification of filer or non-filer in real time will not be easy from the perspective of withholding tax agent.

2(29), 39(1) & 236 M **Income from other sources**

The Bill proposes to enlarge the scope to bring within its ambit bonus shares issued by a company by amending definition of income whereby bonus shares are now not excluded from the definition of income. Consequential amendment is also proposed in section 39(1) under the head 'income from other sources' to specifically include income arising to a shareholder from issuance of bonus shares.

At the time of promulgation of the Income Tax Ordinance, 2001 bonus shares were treated as dividend income. However, in the subsequent year, bonus shares were excluded from the definition of income by specific insertion made through the Finance Act, 2003.

The tax rate of 5% is prescribed on bonus shares on the value determined on the first day of closure of books. This tax is final discharge of tax liability in the hand of the recipient shareholder of the company.

The law stipulates responsibility for collection of this tax on the company which shall be responsible to pay tax not so collected from the shareholder besides any other liability it may suffer under the tax laws.

Summary of changes in the Income Tax Ordinance, 2001

2(61A) **Stock Fund**

The Bill proposes to define stock fund to mean a collective investment scheme or a mutual fund where the investible funds are invested by way of equity shares in companies, to the extent of more than seventy per cent of the investment.

4A **Surcharge**

The proposed amendment seeks to delete surcharge from the statue book having become redundant.

37(1A) & Division VIII Part I of First Schedule **Capital gain on immovable property**

The proposed amendments seek to remove the wordings "held for the period of two years" in section 37(1A) and consequential amendments have also been proposed in Division VIII prescribing 'zero rate' in respect of sale of property where the holding period is more than two years.

No other change has been proposed in respect of gain on immovable property. The Bill seeks to clarify withholding tax rate as follows:

	Holding period	Rate of tax
a)	Where holding period of immovable property is upto one year	10%
b)	Where holding period of immovable property is more than one year but not more than 2 years	5%
c)	Where holding period of immovable property is more than 2 years	0%

37A & Division VII Part I of First Schedule **Capital gain on sale of securities**

The proposed amendments seek to omit first proviso to section 37A of the Income Tax Ordinance, 2001 and substitute the table whereby concession of holding period of six months has been withdrawn. The new rates are proposed as follows:

	Period	Tax Year	Rate of tax
	(2)	(3)	(4)
	Where holding period of a security is less than six months.	2011 2012 2013 2014	10% 10% 10% 10%
	Where holding period of a security is more than six months but less than twelve months.	2011 2012 2013 2014	7.5% 8% 8% 8%

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Summary of changes in the Income Tax Ordinance, 2001

TAX YEAR 2015		
	Where holding period of a security is less than twelve months.	12.5%
	Where holding period of a security is twelve months or more but less than twenty-four months.	10%
	Where holding period of a security is twenty-four months or more	0%

The proposed table has also increased the holding period of securities to more than two years for avail zero tax rate. The rate of capital gain was to increase from 10% to 17.5% effective July 1, 2014 but being proposed at 12.5% now to keep capital markets stabilized.

37(4) **Definition of debts securities**

The proposed amendment seeks to include debts securities within the definition of securities to include:

a) Corporate debts securities such as TFCs, Sukuk, PTCs and all kinds of debt instruments issued by any Pakistani or foreign company or corporation registered in Pakistan; and

b) Government debt securities such as T-bills, FIBs, PIBs etc and all kinds of debt instruments issued by the Federal Government, Provincial Government, local authorities and other statutory bodies.

49(4) **Income from sale of 3G and 4G not taxable**

Pakistan Telecommunication Authority (PTA) is a taxable entity under the provisions of the Income Tax Ordinance, 2001. The income generated from recent sale of PTA from auctions of 3G and 4G licenses was thus liable to tax. A proviso is proposed to be inserted to declare that the income from auction of licenses of 3G and 4G was the income of the Federal Government hence shall not be taxed in the hands of PTA.

88A & 92(1) **Share of profit of company to be added to taxable income**
Principles of taxation of Association of Persons

Share of profit earned by a company as a member of an AOP enjoyed exemption in terms of section 92(1) whereas in the case of individuals, being members of the AOP, such income was added in their total income for rate purposes under section 88. The anomaly was removed by the Finance Act, 2003 through insertion of section 88A. Consequentially, companies were required to include in their income share of profit earned being member of an AOP and allowed to claim tax credit equal to its proportionate share in the tax paid by the AOP on its income.

The Bill proposes to omit section 88A and insert a proviso in section 92(1) whereby the share of a company as a member of AOP shall be excluded for purposes of computing total income of the AOP. Thus company shall be taxed separately at the rate applicable to companies on their share.

Summary of changes in the Income Tax Ordinance, 2001

The proposed amendments will potentially create issues specifically in the situation where the income of the AOP falls under the final tax regime. As companies on the one hand, would not be entitled to claim credit of the tax withheld in the name of the AOP, while on the other hand, expected to pay tax on the share at the rate applicable to companies. It would also create an issue for non-corporate members of the AOP who will not be allowed to claim refund of the tax withheld since the income is to be taxed under the final tax regime implying at a higher rate than that prescribed in the Ordinance. Such anomaly will give rise to litigation challenging the amendments, if approved.

100B(2) **Special provision relating to capital gain tax**

The Bill proposes to substitute clause (d) of section 100B (2) to bring within the ambit of collection of tax by National Clearing Company of Pakistan Limited (NCCPL) foreign institutional investors. As such foreign institutional investors are presently excluded from the scope of NCCPL. With the substitution, companies now shall be excluded from withholding of tax under the Eight Schedule by NCCPL in respect of debt securities only.

100C, Clause (58), (58A), (59), 60 & of Part I of Second Schedule **Tax credit for certain persons**

Income of NPOs, trusts, welfare institutions, universities/educational institutions, religious and charitable institutions were exempted from tax by virtue of clauses (58), (58A), (59) & (60) of part I of Second Schedule of the Ordinance. The Bill proposes to withdraw the exemption by omitting the above referred clauses. However, it is proposed to allow tax credit equal to 100% of the tax payable including minimum tax and final taxes payable under the Ordinance to these institutions, subject to the fulfillment of the following conditions:

- income tax return has been filed;
- tax required to be deducted / collected has been deducted / collected and paid; and
- withholding tax statements for the immediately preceding tax year have been filed.

The proposed insertion may create hardship as the authorities may not grant exemption certificates to such institutions on the pretext that the income is not exempt and they are only entitled to tax credit after it's income has been has been assessed. The authorities may also refuse to allow tax credit in case of short/non deduction of tax on any payment attracting withholding tax provisions.

The clause exempt were omitted as follows:

- trust or welfare institution or non-profit organization – Clause (58)
- university or other educational institution – Clause (58A)

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Summary of changes in the Income Tax Ordinance, 2001

- investments in securities of the Federal Government, profit on debt from scheduled banks, grant received from Federal Government or Provincial Government or District Governments, foreign grants and house property – Clause (59)
- religious or charitable institution – Clause (60)

113
Division-IX Part I Of First Schedule

Minimum tax on the income of certain persons

The Bill proposes to amend the provisions to provide the rate of minimum tax in Division IX of Part I of the First Schedule to the Ordinance. The rate of taxes are as follows:

S.No	Person(s)	Minimum Tax as percentage of the person's turnover for the year	Corresponding Clauses omitted from Second Schedule
(1)	**(2)**	**(3)**	**(4)**
1.	(a) Oil marketing companies, Oil refineries, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds rupees one billion b) Pakistan International Airlines Corporation; (c) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production.	0.5%	Clause (9) Part III Clause (12) Part III Clause (14) Part III
2.	(a) Distributors of pharmaceutical products, fertilizers and cigarettes; (b) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990;	0.2%	Clause (8) Part III Clause (13) Part III

Summary of changes in the Income Tax Ordinance, 2001

	(c) Rice mills and dealers; and (d) Flour mills.		Clause (10) Part III
3.	Motorcycle dealers registered under the Sales Tax Act, 1990.	0.25%	Clause (15) Part III
4.	In all other cases.	1%	-

113C Alternative Corporate Tax

It was seen by the policy framers that certain companies were making huge profits and were also declaring substantial dividends; however, they were not paying any tax as a result of various tax concessions and incentives and because of managing their affairs in such a way as to avoid payment of income tax. The concept originated by USA and was introduced in the Indian jurisdiction by the Finance Act, 1987 w.e.f 01/04/1988, subsequent amendments in the Indian Income-tax Act, 1961 were made in line with the developments.

The Bill proposes to introduce the concept in Pakistan by insertion of the non-obstante section to bring within the ambit all companies except Insurance, Banking and Companies engaged in exploration & production of petroleum products effective tax year 2014.

The liability under the section shall be higher of the Corporate Tax or Alternative Corporate Tax.

For the purposes of this section:

- ‘Corporate Tax’ means total tax payable by the company, including tax payable on account of minimum tax and final taxes payable, under any of the provisions of the Ordinance but not including those mentioned in sections 8, 161 and 162 and any amount charged or paid on account of default surcharge or penalty and the tax payable under this section.

- ‘Alternative Corporate Tax’ means the tax at the rate of 17% of ‘accounting income’ determined by excluding the following and apportionment of expenses:

  ✓ Exempt income
  ✓ Income subject to tax under section 37A
  ✓ Income subject to final tax under sections 148(7), 150, 153(3), 154(4), 156 and 233(3)
  ✓ Income subject to tax credit under section 65D and 65E

- ‘Accounting Income’ means the accounting profit before tax for the tax year, as disclosed in the financial statements or as adjusted after

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Summary of changes in the Income Tax Ordinance, 2001

apportionment of expenses or any adjustments made by the Commissioner to compute accounting income as per historical accounting pattern, excluding share from the associate recognized under equity method of accounting.

Tax credit under section 65B shall be allowed against ‘Alternative Corporate Tax’.

The excess of ‘Alternative Corporate Tax’ paid over the ‘Corporate Tax’ payable for the tax year shall be carried forward and adjusted against the tax payable under Division II of Part I of the First Schedule, for following year. If the excess tax is not wholly adjusted, the amount not adjusted shall be carried forward for adjustment upto ten immediately succeeding tax years from the year it was first computed.

The mechanism for adjustment of excess of ‘Alternative Corporate Tax’ over ‘Corporate Tax’, shall not prejudice or affect the entitlement of the taxpayer regarding carrying forward and adjustment of minimum tax referred to in section 113 of the Income Tax Ordinance 2001.

If ‘Corporate Tax’ or ‘Alternative Corporate Tax’ is enhanced or reduced as a result of any amendment, or as a result of any order under this Ordinance, the excess amount to be carried forward shall be reduced or enhanced accordingly.

130 **Appointment of the Appellate Tribunal**

The provisions of Section 130(4) are being amended to include Cost & Management Accountant with 10 years standing in practice as eligible for appointment as an Accountant Member to the Appellate Tribunal Inland Revenue.

148(8A), Division I Part II of First Schedule **Import of ship by ship breakers**

A new sub-section is proposed to be added whereby the income of ship breakers from the import of ship will fall under final tax regime. The rate of withholding is 4.5%. The Bill is silent on the basis of taxation as regards ships purchased locally which are sold to ship breakers in Pakistan. In principle taxation method on both the segments should equate with each other.

149(3) **Directors fee for attending board meetings**

A new sub-section is proposed to be inserted whereby the directors fee by whatever name called for attending board meetings by the directors is proposed to be taxed @ 20% of the gross amount. However, the tax so deducted shall be an advance tax adjustable against the final tax liability of the recipient director.

Summary of changes in the Income Tax Ordinance, 2001

150 — **Dividend income**

Division III of Part I of First Schedule

The Bill proposes withholding tax rates on dividend income in respect of:

		Taxpayer status		
		Individual	**Company**	**AOP**
a)	Supply of coal exclusively to power generation project alongwith dividend declared or distributed by WAPDA or shares of a company set up for power generation.	7.5%	7.5%	7.5%
b)	Dividend received by person from stock fund from tax year 2015 onwards (if dividend receipts are less than capital gains then Rate of tax will be 12.5%	10%	10%	10%
c)	Dividend received by person from collective investment scheme or mutual fund other than stock from tax year 2015 onwards	10%	25%	10%
d)	All other dividend i) Filers	10%	10%	10%
	ii) Non-Filers	15%	15%	15%

Consequential changes have also been made in the Second Schedule to omit the relevant clauses.

There is no change in respect of dividend received in respect of other companies which will continue to be taxed @ 10% and that the basis of taxation shall remain under final tax regime.

The rate differential between filers and non-filers will create complications for the payer company as it will be difficult for it to ascertain as to which shareholders are non-filers. However, the intention behind the proposed change is to enlarge the tax net by converting non-filer into filers.

151(1A), 151(3) & Division 1A Part III of First Schedule — **Profit on debt**

A proviso to sub-section (3) is proposed to be inserted whereby the rate of withholding tax for non-filer is proposed to be increased from 10% to 15%. The non-filers who have suffered withholding tax in excess of 10% will be considered as an advance tax.

As a consequence withholding tax upto 10% will fall under final tax regime and the remaining would not. The non-filer will be required to file a return of income in order to reduce incidence of tax on business or would bear higher cost of 5% by way of foregoing the excess withholding tax of 5%.

It is not mentioned as to how the advance tax of 5% will be claimed retrospectively by the non-filers once they become filers. This provision is not applicable on profit upto Rs. 500,000.

Summary of changes in the Income Tax Ordinance, 2001

153(1)(c) & Division III Part III of First Schedule

Sportsmen income to fall under contracts

The proposed change seeks to include the contract of sportsmen into the ambit of contracts which are taxed under final tax regime @ 10%. The proposed change removed the ambiguity as to whether such contracts are to be taxed under the head services rendered or as contracts.

181AA

NTN for obtaining utilities connections

A new section is proposed to be inserted into the statute book whereby it is essential for new applicant of commercial electricity or gas connections to apply for National Tax Number (NTN). It is now incumbent upon the utility company not to give the connection sought for unless evidence of NTN is produced as part of application.

This is a good step towards documentation of economy provided that the tax department is able to effectively correlate the utility bills with the income declared by the taxpayers. To-date the tax machinery had not been able to take benefit of ascertaining the income of the taxpayers from the utility bills claimed as expenditure.

203(1) & 59B

Trial by special judge

A new sub-section is proposed to be inserted in the definition to define special judge appointed under section 203 of the Income Tax Ordinance, 2001

A new proviso is also proposed to be inserted whereby at the discretion of the government through notification in the official gazette jurisdiction of income tax affairs may also be assigned to special judge appointed under section 185 of the Customs Act, 1965.

231B & Division VII Part IV First Schedule

Advance tax on private motor vehicles

The proposed substitution of section 231B seeks to enlarge the scope of withholding tax provisions whereby the withholding tax is also proposed on transaction of sale and purchase of used cars which presently is confined to the new vehicles only. The following transactions are subject to withholding taxes under the proposed substituted section:

a) every motor vehicle registering authority of Excise and Taxation Department has the responsibility to collect advance tax at the time of registration of new locally manufactured motor vehicle (presently also exist in the law);

b) every motor vehicle registering authority of Excise and Taxation Department shall collect advance tax at the time of transfer of registration or ownership of a private motor vehicle (a proposed change); and

c) Every manufacturer of a motor car or jeep at the time of its sale to the buyer (a proposed change).

Summary of changes in the Income Tax Ordinance, 2001

It appears that in sub-section (4) there is a typographical error which should have given reference of sub-section (3) instead of sub-section (2) otherwise it would tantamount to double taxation as the manufacturer is collecting tax at the time of sale of motor car and the same vehicle when registered with the Excise and Taxation Department will once again be subject to taxation resulting in collection of double taxation on same vehicle.

The tax paid under this section is advance tax adjustable against the tax liability of the taxpayer. The following entities will continue to enjoy the exemption from this section:

- Federal Government
- Provincial Government
- Local Government
- Foreign Diplomat
- Diplomatic mission in Pakistan

The rate of tax to be collected under Division VII of Part IV of the First Schedule on the purchase of motor vehicles are as follows:

S. No.	Engine Capacity	Tax for filer	Tax for non-filers
(1)	(2)	(3)	(4)
		………Rupees………..	
1.	Upto 850cc	10,000	10,000
2.	851cc to 1000cc	20,000	25,000
3.	1001cc to 1300cc	30,000	40,000
4.	1301cc to 1600cc	50,000	100,000
5.	1601cc to 1800cc	75,000	150,000
6.	1801cc to 2000cc	100,000	200,000
7.	2001cc to 2500cc	150,000	300,000
8.	2501cc to 3000cc	200,000	400,000
9.	Above 3000cc	250,000	450,000

Once again the tax rates of non-filers are kept higher than filers to attract non-filers to get income tax registration/file returns of income.

235A & Division XIX Part IV First Schedule

Advance tax on domestic electricity consumption

A new sub-section is proposed to be inserted whereby it is incumbent upon the utility service providers to collect advance tax from domestic consumer at the time of preparation of monthly electricity consumption bill. This tax is advance tax adjustable against the tax liability of the domestic consumer. The rate of tax is as follows:

(i) 7.5% if the amount of monthly bill is Rs.100,000 or more; and

(ii) 0% the amount of monthly bill is less than Rs.100,000.

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Summary of changes in the Income Tax Ordinance, 2001

The intention behind the proposed insertion is to raise tax collection as well as to bring into tax net those persons who are paying heavy electricity bills but not paying taxes proportionate to their income. The tax department will be able to identify non or under filers from the statements filed by the utility companies.

No mechanism has been provided to issue exemption certificate for cases whose income falls under FTR and not under net income tax regime.

235B & Clause 24B Part II of Second Schedule

Tax on steel melter, rollers etc

The proposed insertion seeks to collect tax from steel melters, steel re-rollers and composite steel units which are registered under the Sales Tax Special Procedures Rules, 2007.

The rate of tax will be Rs 1 per unit of electricity consumed in respect of steel billets, ingots and mild steel but shall not apply to stainless steel. The responsibility of collecting this tax is on the utility company at the time of preparing electricity consumption bill.

The tax so collected shall be final discharge of tax liability of the steel melters and re-rollers as sub-section (3) stipulates that tax collected under this section shall be deemed to be tax collected under sub-section (1) of section 153.

Consequently, the Clause (24B) of Part II of the Second Schedule stands withdrawn.

236B

Advance tax on purchase of air tickets

The proposed amendment seeks to make airlines as withholding agent instead of travel agents perhaps to carry out effective monitoring of withholding taxes considering that the airlines can be better monitored than the travel agents.

The rate of tax remained unchanged which is 5% of the gross amount of air ticket.

The Board has kept enabling power with itself to stipulate later the mode, manner and time to collection of such tax.

236K & Division XVIII Part IV of First Schedule

Advance tax on immovable property

A new sub-section is proposed to be inserted whereby the registering authority while making registration or attesting transfer of immovable property shall collect from the purchaser or transferee advance tax adjustable against the tax liability as follows:

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S.No (1)	Period (2)	Rate of Tax (3)
1.	Where value of immovable property is up to Rs. 3 million.	0%
2.	Where the value of immovable property is more than Rs. 3 million	Filer 1% Non-Filer 2%

The above rate of 2% for non-filers is kept in abeyance until notified by the Board in official gazette.

The proposed insertion is in addition to the collection of tax on transfer of immovable property under section 236 from the seller of such property.

However, the following are excluded from the ambit of this section:

- Federal Government
- Provincial Government
- Foreign diplomatic mission in Pakistan
- Authority established under Federal or Provincial law for expatriate Pakistanis

236L & Division XX Part IV of First Schedule

Advance tax on purchase of international air tickets

The proposed insertion makes it obligatory on every airline operating in Pakistan to collect advance tax at the rates stated below on the gross amount of international air tickets issued to business and first class travelers excluding economy class passengers who are exempt from the ambit of this tax.

This tax is adjustable tax against the tax liability of the traveler. The tax under this section shall be collected in a manner the airline tickets are to be collected whether manually or electronically.

Consistent with the government's policy to recover higher amount of taxes from non-filers, the rates in respect of tax to be collected under this section are as follows:

S. No. (1)	Type of Ticket (2)	Rate (3) Filer	Rate (4) Non-Filer
1.	Economy	0%	0%
2.	First/Business/Club class	3%	6%"

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Summary of changes in the Income Tax Ordinance, 2001

FIRST SCHEDULE

Clause Paragraph (1B) Division-I Part I &

Concession to disabled person and over 60 years of age

Where the taxable income, excluding income which falls under final tax regime does not exceed Rupees one million of a disabled person or person exceeding the age of 60 years on the first day of the tax year, the tax liability of such persons shall be reduced by 50%. The proposed measure is to provide relief to disabled persons and senior citizens.

Clause(1A) of Part III of Second Schedule

This concession is being consolidated in this division and Clause (IA) of Part III of Second Schedule is proposed to be omitted.

Section 148 & Part II

Rate of advance tax on imports under section 148

The proposed amendment seeks to consolidate the rates of taxes at one place under section 148. Consequently, various clauses are proposed to be omitted by virtue of this as follows:

S.No	Person(s)	Rate	Corresponding Clauses omitted from Second Schedule
(1)	(2)	(3)	(4)
1.	(i) Industrial undertaking importing re meltable steel (PCT Heading 72.04) and directly reduced iron for its own use;	1% of import value as increased by customs-duty, sales tax and federal excise duty	Clause (9B) Part II
	(ii) Persons importing potassic fertilizers in pursuance of Economic Coordination Committee of the cabinet's decision No. ECC-155/12/2004 dated the 9th December, 2004;		Clause (13E) Part II
	(iii) Persons importing urea; and		Clause (23) Part II
	(iv) Manufacturers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31st December, 2011.		Clause (9C) Part II

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2.	Persons importing pulses	2% of import value as increased by customs-duty, sales tax and Federal excise duty	Clause (24) Part II
3.	Commercial importers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31st December, 2011.	3% of import value as increased by customs-duty, sales tax and federal excise duty	Clause (9C) Part II
4.	Ship breakers on import of ships	4.5%	-
	Industrial undertakings not covered under S. Nos. 1 to 4	5.5%	-
	Companies not covered under S. Nos. 1 to 5	5.5%	-
	Persons not covered under S. Nos. 1 to 6	6%	-

Payments for goods under section 153A

Section 153A
& Part IIA

The Bill proposes to delete this Part being superfluous, as section 153. A has already been deleted from statute book vide the Finance Act 2013.

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Summary of changes in the Income Tax Ordinance, 2001

Payments for rendering of or providing of services under section 153

Section 153 &
Division-III
Part III

The proposed amendment seeks to enhance withholding tax rates in respect of rendering of services as follows:

Caption	Existing %	Proposed %
a) Supply of good		
- Companies	3.5	4
- Other taxpayers	4	4.5
b) Services excluding transport		
- Companies	6	8
- Other taxpayers	7	10
c) Execution of contract		
- Companies	6	7
- Other taxpayers	6.5	7.5
- Sportsperson	-	10

Services to exporters

Division-IV
Part III

The Bill proposes to enhance the withholding tax on services to exporters on rendering of services of stitching, dying, printing, embroidery, washing, sizing and weaving from 0.5% to 1%.

Petroleum products

Section 156 &
Division-VIA
Part III

The Bill seeks to enhance withholding tax from 10% to 12% on the commission/discount to the petrol pump operators on selling of the petroleum products.

Brokerage and commission

Section 233 &
Division-II
Part IV

The Bill seeks to enhance rates on commission as follows:

	Existing	Proposed
Advertising agent	5%	7.5%
Other cases	10%	12%

Tax on motor vehicles under section 234

Division-III &
Part IV

The Bill proposes to substitute Clause (3) and clause (4) withholding tax in case of other private motor car:

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Summary of changes in the Income Tax Ordinance, 2001

Clause (3)

S No.	Engine capacity	for filers	for non-filer
(1)	(2)	(3)	(4)
		……Rupees…….	
1.	upto 1000cc	1,000	1,000
2.	1001cc to 1199cc	1,800	3,600
3.	1200cc to 1299cc	2,000	4,000
4.	1300cc to 1499cc	3,000	6,000
5.	1500cc to 1599cc	4,500	9,000
6.	1500cc to 1999cc	6,000	12,000
7.	2000cc & above	12,000	24,000

Clause (4) However where the motor vehicle tax is collected in lump sum it should be as follows:

S No.	Engine capacity	for filers	for non-filer
(1)	(2)	(3)	(4)
		……Rupees…….	
1.	upto 1000cc	10,000	10,000
2.	1001cc to 1199cc	18,000	36,000
3.	1200cc to 1299cc	20,000	40,000
4.	1300cc to 1499cc	30,000	60,000
5.	1500cc to 1599cc	45,000	90,000
6.	1600cc to 1999cc	60,000	120,000
7.	2000cc and above	120,000	240,000

Advance tax on telephone users

Section 236 & Division-V Part IV

The Bill seeks to reduce advance tax on telephone user from 15% to 14% on of the amount of telephone and pre-paid telephone cards.

Cash withdrawal from banks under section 231A

Division-VI Part IV

The Bill proposes to enhance the rate of advance tax on cash withdrawal from banks for non-filers from 0.3% to 0.5% on cash withdrawals exceeding Rs.50,000. There is no change proposed for filers.

The proposed change would put an extra burden on non-filers and would discourage them to remain non-compliant with the legal stipulation. Resultantly, the cost of doing business will be more as compared to filers.

Advance tax on sale or transfer of immovable property under section 236C

Division-X Part IV

The proposed insertion seeks to enhance advance tax for 0.5% to 1% for non-filers in order to enhance the tax net and increase tax base.

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Summary of changes in the Income Tax Ordinance, 2001

Division-XI Part IV

Advance tax on functions and gatherings under section 236D

The proposed insertion seeks to reduce advance tax from 10% to 5% of the total amount of bill from a person arranging or holding a function where the food, services or any other facility is provided by a marriage hall, marquee, hotel, restaurant, commercial lawn, club, a community place or any other place. The proposed change will provide relief to middle income class.

SECOND SCHEDULE
Part I- Exemption from total income

Clause
(35)

Withdrawal of exemption of compensatory allowance

The Bill seeks to omit Clause (35) which provides exemption of any income representing compensatory allowance payable to a citizen of Pakistan locally recruited in Pakistan Mission abroad as does not exceed 75 percent of his gross salary.

(57)(3)(xiii)

Income of funds and institutions

The Bill seeks to grant exemption to Sindh Province Pension Fund established under the Sindh Province Pension Fund Ordinance, 2002. This concession is in line with the tax exemption already available to Pension and certain other funds for the benefits of the employees duly registered with the Commissioner of Income Tax.

(66)(v)

Income of Hamdard Laboratories (Waqf) Pakistan

The Bill seeks to withdraw the exemption of income of Hamdard Laboratories (Waqf) Pakistan.

(66)(xxx)

Income of Greenstar Social Marketing Pakistan (Guarantee) Limited

The Bill proposes to allow exemption to Greenstar Social Marketing Pakistan (Guarantee) Limited.

Clause

The Bill proposes to omit the following clauses from the Schedule

(81A)
(88A)&
(92A)

- Foreign Currency Bearer Certificate
- Federal Government Securities and redeemable capital
- University or any other educational institution of Khyber Pakhtunkhwa, FATA and PATA having become redundant as for tax exemption the period stipulated has already lapsed.

(93A)

- vocational institute or technical institute or poly-technical institute.

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Summary of changes in the Income Tax Ordinance, 2001

(99) Condition to exemption to income of mutual funds

The Bill proposes to add proviso in clause (99) that the distribution of at least 90% of accounting income, the income distributed through bonus shares, units or certificates as the case may be, shall not be taken into account.
Similar condition exists in Clause (100) in the case of Modaraba to avail tax exemption.

(126) Public sector university

The proposed amendment seeks to substitute the Clause withdrawing tax exemption available to industrial undertaking set-up in Special Industrial Zone which had become redundant and instead proposed to extend tax exemption to 'public sector university'.

(126A) China Overseas Ports Holding Company Limited

The proposed amendment seeks to grant exemption to China Overseas Ports Holding Company Limited from Gawadar Port operations for a period of twenty years retrospectively, with effect from February 6, 2007. The concession is perhaps given from prior years to develop Gawadar Port which is essential for economic growth of the country and provide corridor to Central Asian countries.

(126H) Fruit processing or preservation unit

A new clause is proposed to be included to extend tax exemption to the income from locally grown fruits in Balochistan Province, Malakand Division, Gilgit-Baltistan and FATA to reach the bigger markets, provide employment to less developed areas and to promote investment growth and employment in these areas setting up between July 1, 2014 to June 30, 2017, both days inclusive for five years beginning with the month in which the industrial undertaking is set-up or commercial production is commenced, whichever is later.

(132B) Coal mining project in the Province of Sindh

The Bill proposes to insert new clause to grant tax exemption to the income from a coal mining project in the Province of Sindh, supplying coal exclusively to power generation projects to encourage electricity generation from local coal. This is to promote indigenous source of energy to reduce reliance of expensive imported furnace oil consumption.

(135) Special US Dollar Bond

The Bill proposes to withdraw the exemption of encashment of Special US Dollar Bond issued under the Special US Dollar Bonds Rules, 1998.

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Summary of changes in the Income Tax Ordinance, 2001

Part II - Reduction in tax rates

Clause

(3) **Construction contracts rendered outside Pakistan**

The proposed amendment seeks to enlarge the scope of tax concession by including construction contracts outside Pakistan subject to reduced rate of 1% of the gross receipts provided that income from such contracts are brought into Pakistan in foreign exchange through normal banking channel.

Earlier the construction contracts were inserted by the Finance Act, 2003 and later omitted through the Finance Act, 2007.

The Bill proposes to omit the reduce rate of tax from the Schedule

(3A)
- This Clause had become redundant after proposed amendment in Clause (3) above

(9B)
- Import of remeltable steel (PCT Heading 72.04) and directly reduced Iron imported by an industrial undertaking for its own use. However, rate of tax 1% of import value is proposed to add in S No.1 of Part II of the First Schedule.

(9C)
- Manufacturers and commercial importers covered under Notification No. S.R.O.1125(I)/2011 dated the 31st December, 2011. However, rate of tax 1% for manufacturer & 3% for commercial importer is proposed to add in S. Nos.1 & 3 of Part II of the First Schedule respectively.

(13E)
- Import of potassic fertilizers. However, rate of tax 1% of import value is proposed to add in S No.1 of Part II of the First Schedule.

(13HH)
- Supply of rice to be sold by Rice Exporters Association of Pakistan (REAP) to Utility Store Corporation as per agreement dated April 30, 2008 signed with MINFAL.

(13HHH)
- Supply of rice to be sold by Rice Exporters Association of Pakistan (REAP) to Utility Store Corporation as per agreement dated May 05, 2008 signed with MINFAL.

(18A) **Reduce tax rate for a company setting up an industrial undertaking**

The proposed insertion of this clause seeks to reduce tax to 20% for companies setting up an industrial undertaking between the July 1, 2014 to the June 30, 2017 for a period of five years with the condition that fifty percent of the cost of the project including working capital is through owner equity foreign direct investment.

The intention behind their proposed is to promote foreign direct investment to raise reserve foreign currency reserves for the country.

Summary of changes in the Income Tax Ordinance, 2001

The Bill proposes to omit the reduce rate of tax from the Schedule in respect of:

(19)

- Income of amalgamated company having become redundant

(20)

- The proposed omission of this clause seeks to withdraw the reduce rate of tax @ 7.5% on dividends declared or distributed by power project on shares of a company set up for power generation. This benefit is included in Division III of Part I of the First Schedule.

(23)
- Import of urea fertilizer. However, rate of tax 1% of import value is proposed to add in S No.1 of Part II of the First Schedule.

(24)
- Import of pulses. However, rate of tax 2% of import value is proposed to add in S. No.2 of Part II of the First Schedule.

(24B)
- The Bill proposes to omit this redundant clause which provides minimum tax @ 0.5% in tax year 2011 and withholding tax under section 153(1)(a) @ 1% on purchase of steel scrap and ingots and billets by Steel Melters & Steel Re-rolling mills from the tax year 2008 to 2010.

(26)
- The Bill proposes to omit reduce rate of tax 5% in the case of advertising agents. The commission agents are to be taxed under FTR regime @ 7.5% on commission income under Division II of Part IV of the First Schedule.

(29)
- The Bill proposes to withdraw reduced tax rate 0.1% in case of cigarette manufacturer who are registered under the Sales Tax Act, 1990. The proposed omission the tax rate will be 0.5% under section 153A as specified in Part IIA of the First Schedule.

(30)
- The Bill proposes to withdraw the reduce rate of 5% for taxable income declared in a return for the tax year 2012 filed under clause (87) or (88) of Part I of the Second Schedule. The above clause was inserted by SRO 1065(I)/2013 dated 20.12.2013. Provide encouragement to those taxpayers who can file their return from the tax year 2008 to 2012.

Part III - Reduction in tax liabilities

Clause
(1)(a) **Reduce rate on certain allowances given to flying pilots**

The Bill proposes to withdraw reduce tax rate of 2.5% on certain allowances given to pilots that was liable to tax as a separate block of income.

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Summary of changes in the Income Tax Ordinance, 2001

(1A) **Tax reduction to senior citizens**

The Bill proposes to omit clause and consolidate the relief by proposed insertion of clause (IB) in Division I of Part I of the First Schedule inserted.

(1AA) **Total allowances received by pilots**

The Bill seeks to add a new Clause (1AA) which provides pilots of any Pakistani airlines receive total allowances shall be taxed @ 7.5%. Provided that reduction under this clause shall be available to so much of the allowances as exceeds an amount equal to basic pay.

The Bill proposes to omit the following clauses from the Schedule

(5) Clause being redundant as its validity expire by the tax year 2013 where by Purchase price of electricity shall be excluded from the turnover liable to minimum tax by corporatized entity of WAPDA and NTDC.

(7) Eighty percent reduction of minimum tax engaged in the business of distribution of cigarettes manufactured in Pakistan.

(8) Eighty percent reduction of minimum tax engaged in the business of distributors of pharmaceutical products, fertilizers, consumers goods including fast moving consumers goods. However, rate of minimum tax 0.2% is proposed to S. No.2 of Division IX of Part I of the First Schedule.

(9) Reduced minimum tax rate of 0.5% on oil marketing companies, oil refineries and Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited. However, rate of minimum tax 0.5% is proposed to S.No.1 of Division IX of Part I of the First Schedule.

(10) Eighty percent reduction of minimum tax in the cases of flour mills. However, rate of minimum tax 0.2% is proposed to S. No.2 of Division IX of Part I of the First Schedule.

(11) Surcharge payable on the income tax liability under section 4A was applicable for tax year 2011.

(12) Fifty percent reduction of minimum tax of Pakistan International Airlines Corporation. However, rate of minimum tax 0.5% is proposed to S.No.1 of Division IX of Part I of the First Schedule.

(13) Eighty percent reduction of minimum tax for petroleum agents and distributors who are registered under the Sales Tax Act, 1990 and rice mills and dealers. However, rate of minimum tax 0.2% is proposed to S No.2 of Division IX of Part I of the First Schedule.

(14) Fifty percent reduction of minimum tax for the poultry industry including poultry breeding, broiler production, egg production and poultry feed production. However, rate of minimum tax 0.5% is proposed to S.No.1 of Division IX of Part I of the First Schedule.

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Summary of changes in the Income Tax Ordinance, 2001

(15) Minimum tax reduction on motorcycle dealers. However, rate of minimum tax 0.25% is proposed to S. No.3 of Division IX of Part I of the First Schedule.

Part IV - Exemption from specific provisions

Clause

(9A) **Exemption under section 153(1)(a)**

The Bill seeks to add Clause (9A) which provide exclusive exemption from Clause (a) of sub-section (1) of section 153 to steel melters, steel re-rollers, composite steel units, as a payer in respect of purchase of scrap, provided that tax is collected in accordance with the section.

(9AA) **Exemption under section 153(1)(a)**

The proposed bill seeks to add clause (9AA) which provide exclusive exemption from clause (a) of sub-section (1) of section 153 to ship breakers, as recipient of payment.

(10) **Unexplained income exemption**

The proposed omission of this clause seeks to render the contents of section 111 applicable in respect of any amount invested in the purchase of Special US Dollar Bonds

(10A) **Exemption for the most affected and moderately affected areas**

The Bill proposes to omit the above redundant Clauses from the Second Schedule which provided non-applicability of sections 148, 154, 182, 205 and 235 that the period was expired on June 30, 2011.

(11A)(v) **Minimum tax exemption**

The Bill proposes to insert in sub-clause (v) in clause (11A) which provides non applicability of section 113 to companies engaged in coal mining project in the Province of Sindh.

(38B) **Dividend income of Islamic Development Bank**

The Bill seeks to withdraw of non-applicability of section 150 related to provision related to withholding tax on dividends to Islamic Development Bank.

(38C) **Dividend income of Islamic Development Bank**

The Bill seeks to exempt dividend income of Islamic Development Bank.

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Summary of changes in the Income Tax Ordinance, 2001

(41A) **Option to commercial importer to opt out of FTR**

The Bill seeks to omit the option of normal taxation to commercial importer instead of it being assessed under final tax regime.

(41AA) **Option to exporter to opt out of FTR**

The Bill seeks to omit the option of normal taxation to exporter as opposed to falling under final tax regime.

(41AAA) **Option to supplier to opt out of FTR**

The Bill seeks to omit the option of normal taxation to suppliers as opposed to falling under final tax regime.

(41B) **Payment to foreign news agency, syndicate services and non-resident contributors**

The Bill proposes to omit this clause which related to non-applicability withholding tax provisions contained under section 152(2) with respect to non-residents who have no permanent establishment in Pakistan.

(56B) **Option to commercial importer to opt out of FTR**

The Bill seeks to give option of normal taxation to commercial importer instead of it being assessed under final tax regime to file return of total income alongwith accounts and documents as may be prescribed subject to the condition that the minimum tax liability under normal tax regime shall not less than 5.5% of the imports, if the taxpayer is a company and 6% in any other case. This condition will not provide any reason or incentive to opt out of FTR.

(56C) **Option to supplier to opt out of FTR**

The Bill seeks to give option of normal taxation to suppliers instead of it being assessed under final tax regime to file return of total income alongwith account and documents as may be prescribed subject to the condition that the minimum tax liability under normal tax regime shall not less than 3.5% of the gross amount of sale, if the taxpayer is a company and 4% in any other case. This condition will not provide any reason or incentive to opt out of FTR.

(56D) **Option to contractor to opt out of FTR**

The Bill seeks to give option of normal taxation to contractors instead of it being assessed under final tax regime to file return of total income alongwith account and documents as may be prescribed subject to the condition that the minimum tax liability under normal tax regime shall not less than 6% of contract receipts if taxpayer is a company and 6.5% in any other case. This condition will not provide any reason or incentive to opt out of FTR.

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Summary of changes in the Income Tax Ordinance, 2001

(56E) **Option to service providers to opt out of FTR**

The Bill seeks to give option of normal taxation to service providers instead of it being assessed under final tax regime to file return of total income alongwith accounts and documents as may be prescribed subject to the condition that the minimum tax liability under normal tax regime shall not less than 0.5% of the gross amount of services received.

(56F) **Option to petrol pump operators to opt out of FTR**

The Bill seeks to give option of normal taxation to petrol pump operators instead of it being assessed under final tax regime to file return of total income alongwith account as may documents be prescribed subject to the condition that the minimum tax liability under normal tax regime shall not less than 10% of the commission or discount received

(56G) **Option to brokerage & commission agent to opt out of FTR**

The Bill seeks to give option of normal taxation to brokerage and commission agent instead of it being assessed under final tax regime to file return of total income alongwith accounts and documents as may be prescribed subject to the condition that the minimum tax liability under normal tax regime shall not less than 10% of the commission.

(57) **Exemption of withholding tax to companies operating Trading Houses**

An new explanation of the above clause proposes to be added that exemption from withholding tax provision under section 153 only be available as a recipient and not as withholding agent.

(80) **Payment to traders and distributors**

The proposed amendment seeks to omit above clause which had become redundant as the section 153A was deleted by the Finance Act, 2013.

(84) **Selection for audit under section 177 and 214C**

The proposed amendment seeks to omit above clause which had become redundant as the clause was applicable for the tax year 2013 and not beyond.

(85) **Approval of Commissioner to revise return**

The proposed amendment seeks to omit the above clause which had become redundant the persons availing the benefit in clause (84) was applicable for the tax year 2013 and not beyond.

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Summary of changes in the Income Tax Ordinance, 2001

(87) **Immunity from audit under section 177 and 214C**

The Bill proposes to withdraw the above clause which had become redundant that the above clause encourage to taxpayers who file their return from tax years 2008 to 2012.

(88) **Immunity from audit under section 177/214C and imposition of penalty**

The Bill proposes to withdraw the above clause which had become redundant that the above clause encourage to taxpayers who file their return from tax years 2008 to 2012.

THIRD SCHEDULE

Clause (1) **Reduction in rate of initial tax depreciation**

Part II, The proposed amended section (1) seeks to reduce initial depreciation rate from 25% to 10% on building. However, the rate of 25% in respect of plant and machinery remains unchanged.

SEVENTH SCHEDULE

RULE 6 **Apportionment of expenditure to capital gain and dividend income**

The Bill proposes to tax dividend income on net income basis at the rate of 12.5% instead of present rate of tax @ 10% on gross amount of dividend. Besides enhancement of 2.5% in tax rate the major deviation which would cause injustice is in the proposed change regarding the taxation of dividend on net income basis. The formula proposed to arrive at the net income is by restricting the total amount of expenditure proportionate to the dividend income in relation to total receipts including dividend. On similar basis capital gain tax is also proposed to be tax on net income similar to the proposed basis for dividend income.

It is to be appreciated that the introduction of the Seventh Schedule effective tax year 2009 had put to rest un-called from tax litigation between the banks and the tax department. The proposed amendment, if approved by the Parliament will once again trigger the un-ending tax litigation. Considering the facts and circumstances of the banks, the basis of arriving at net dividend income as well as capital gain is not rational nor tenable for the following reasons:

a) Bank's total expenditure do not contribute in any way in earning capital gains nor dividend income; rather only of treasury department within banks which oversees investments yielding either dividends and capital gains

b) Dividend income and capital gain are earned primarily by virtue of performances of the investee companies entirely on their own or capital market performance is based on market sentiments and other factors not connected with the banks.

Summary of changes in the Income Tax Ordinance, 2001

The expenditure of the bank incurred on branches as well several other department has no nexus with earnings of dividend and capital gains, hence not relevant..

Further it is a settled preparation of law and also decided in number of reported judgments that only common and inseparable expenditure can to be allocated to various heads of income and not the total expenditure of the business entity. The proposed amendment is in contradiction with the contents of section 67 of the Income Tax Ordinance 2001 as well as the decided case laws on the subject reported as:

a) (2012) 106 TAX 317 (Trib)

b) 2006 PTD 2678

c) (2005) 91 TAX 484

d) 91 TAX 484 (Trib)

The proposed amendment should be first thoroughly discussed with the stakeholders between approval thereof is accorded to it by the Parliament.

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Summary of changes in the Sales Tax Act, 1990

Section	
2(27)	**Retail price**
Definitions	The Bill seeks to empower Board to specify zones or areas for the purpose of determination of highest retail price for any brand or variety of goods. It appears that such determination is for the sake of levy of Sales Tax on goods in that specific zone or area. However, it needs to be appreciated that for the manufacturer to specify varying prices for various zones on the product will not be possible as this will require different packing of products for different regions.
3(2)(aa)	**Scope of tax**
Eighth Schedule	The Bill proposes insertion of new clause namely section 3(2)(aa) as well as the Eighth Schedule to the Sales Tax Act, 1990 for charging sales tax on specified goods at specified rate, subject to prescribed conditions, limitations and restrictions. The basic purpose of such Schedule is to summarize various concessionary notifications at one place in the main enactment.
3(3B) ***Ninth Schedule***	**Scope of tax** The Bill also proposes insertion of new sub-section as well as Ninth Schedule to the Sales Tax Act, 1990 for charging sales tax on specified goods subject to procedure and conditions specified in the Schedule. The aforesaid proposed Schedule will also specify person to be responsible for charging, collecting and paying tax.
3(8) **Scope of tax**	***Sales tax on CNG*** The Bill seeks to provide permanency to amendment brought through the Sales Tax (Amendment) Ordinance, 2014 dated March 24. 2014 whereby Gas Transmission and Distribution Company is responsible to charge sales tax from CNG stations @ 17% of the value of supply to CNG consumers as notified by the Board.
Section 3(9) **Scope of tax**	***Sales tax through monthly electricity bills*** The Bill seeks to charge sales tax from retailers through monthly electricity bills in the following manner: - Where monthly bill does not exceed Rs. 25,000 — 5% - Where monthly bill exceeds Rs. 25,000 — 7.5% It is also proposed that the procedure, exclusion, restrictions and limitations will be provided in Chapter II of Sales Tax Special Procedure Rules, 2007 and the tax under this proposed sub-section will be in addition to the tax payable on supply of electricity.
Section 3B	**Collection of excess tax, etc.** The Bill seeks to provide permanency to amendment brought through the Sales Tax (Amendment) Ordinance, 2014 dated March 24. 2014 and to get approval of the

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Summary of changes in the Sales Tax Act, 1990

Assembly; whereby it is specifically provided that the collected excess tax will be considered as an arrear and collected as such and will neither be refunded nor paid to any court or to any person at the direction of the court. It is worthwhile to note that based on the amendment brought through the aforesaid Ordinance; officers of the Board have also made forced recoveries from registered persons without serving even a single notice.

Section 4 **Zero rating**

The Bill proposes to empower Board to specify zero rating in respect of any goods supplied for manufacturing or for further supply of goods which are subject to reduce rate of sales tax. Presently, Board is empowered to provide zero rating only in respect of supply of zero rated goods.

Section 7 **Determination of tax liability**

The Bill seeks to restrict the adjustment of input tax against output tax liability of a registered person in following manner:

- The registered person will not be entitled to adjust amount of further tax under section 3(1A) of the Act; rather such further tax will be deposited in Govt. exchequer entirely. Similar amendment was also earlier brought through the Finance Act, 2003 but later on deleted through the Finance Act, 2004

- Only input tax in respect of such goods and services will be allowed which are:

  - acquired for the purpose of sale or re-sale by the registered person on payment of tax;

  - used directly as raw material, ingredient, part, component or packing material by the registered person in the manufacture or production of taxable goods;

  - electricity, natural gas and other fuel consumed directly by the registered person in his declared business premises for the manufacture, production or supply of taxable goods; or

  - plant, machinery and equipment used by the registered person in his declared business premises for the manufacture, production or supply of taxable goods

Section 8 **Tax credit not allowed**

The Bill proposes to further restrict the reclaim or deduction of input tax paid on following items in addition to those which are already provided in section 8.

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Summary of changes in the Sales Tax Act, 1990

- goods and services not related to the taxable supplies made by the registered person;
- goods and services acquired for personal or non-business consumption;
- goods used in, or permanently attached to, immoveable property, such as building and construction materials, paints, electrical and sanitary fittings, pipes, wires and cables, but excluding such goods acquired for sale or re-sale or for direct use in the production or manufacture of taxable goods; and vehicles falling in Chapter 87 of the First Schedule to the Customs Act, 1969 (IV of 1969), parts of such vehicles, electrical and gas appliances, furniture, furnishings, office equipment (excluding electronic cash registers), but excluding such goods acquired for sale or re-sale.

Section 50B **Electrical scrutiny and intimation**

The Bill proposes to empower Board to implement computerized system and prescribe its procedures and specifications for following purposes:

- automated scrutiny, analysis and cross-matching of returns and other available data relating to registered persons; and
- to electronically send intimations to such registered persons about any issue detected by the system; and
- the intimation shall be in the nature of an advice or advance notice, aimed at allowing the registered person to clarify the issue, rectify any mistake or take other corrective action before any legal or penal action is initiated
- The computerized system shall keep record of the issues detected, intimations sent, responses received and actions taken, and shall present such information to the officer of Inland Revenue and to the Board in the prescribed manner.

Fifth Schedule **Zero rating**

The Bill seeks to provide following further items into Zero rating scheme provided under the Fifth Schedule to the Sales Tax Act, 1990. Presently these items are prescribed for zero rate through two separate notifications namely SRO 549(I)/2008 dated June 11, 2008 and SRO 670(I)/2013 dated July 18, 2013. With the promulgation of Finance Act, 2014 these notifications will be withdrawn.

S.NO	Description
9.	Goods exempted under section 13, if exported by a manufacturer who makes local supplies of both taxable and exempt goods.
10.	Petroleum Crude Oil (PCT heading 2709.0000).
11.	Raw materials, components, sub-components and parts, if imported or purchased locally for use in the manufacturing of such

Summary of changes in the Sales Tax Act, 1990

	plant and machinery as is chargeable to sales tax at the rate of zero percent, subject to the condition that the importer or purchaser of such goods holds a valid sales tax registration showing his registration category as "manufacturer"; and in case of import, all the conditions, restrictions, limitations and procedures as are imposed by Notification under section 19 of the Customs Act, 1969 (IV of 1969), shall apply.
12.	The following goods and the raw materials, packing materials, sub-components, components, sub-assemblies and assemblies imported or purchased locally for the manufacture of the said goods, subject to the conditions, limitations and restrictions as specified in Chapter XIV of the Sales Tax Special Procedure Rules, 2007: i. Colors in sets (PCT heading 3213.1000) ii. Writing, drawing and marking inks (PCT heading3215.9010 and 3215.9090) iii. Erasers (PCT heading 4016.9210 and 4016.9290) iv. Exercise books (PCT heading 4820.2000) v. Pencil sharpeners (PCT heading 8214.1000) vi. Geometry boxes (PCT heading 9017.2000) vii. Pens, ball pens, markers and porous tipped pens (PCT heading 96.08) viii. Pencils including color pencils (PCT heading 96.09) ix. Milk including flavored milk (PCT heading 04.01 and 0402.9900) x. Yogurt (PCT heading 0403.1000) xi. Cheese (PCT heading 0406.1010) xii. Butter (PCT heading 0405.1000) xiii. Cream (PCT heading 04.01 and 04.02) xiv. Desi ghee (PCT heading 0405.9000) xv. Whey (PCT heading 04.04) xvi. Milk and cream, concentrated and added sugar or other sweetening matter (PCT heading 0402.1000) xvii. Preparations for infant use put up for retail sale (PCT heading 1901.1000) xviii. Fat filled milk (PCT heading 1901.9090) xix. Bicycles

Sixth Schedule Table 1

Imports and supplies

The Bill proposes following amendment to the Table I to the Sixth Schedule to the Sales Tax Act, 1990:

- incorporation of provisions, conditions and entries of notification namely SRO 501(I)/2013 dated June 12, 2013 into Table I of this Schedule from entry no. 72 to 100;
- Incorporation of provisions, conditions and entries of notification namely SRO 551(I)/2008 dated June 11, 2008 into Table I of this Schedule from entry no. 101 to 112; except items specified at S.No 19 to 24 of the said notification; and

Summary of changes in the Sales Tax Act, 1990

- Providing exemption to following further items by prescribing insertion of new entries

S.NO.	Description
113	High Efficiency Irrigation Equipment If used for agricultural sector
114	Green House Farming and other Green House Equipment 1) Tunnel farming equipment 2) Green houses (prefabricated).
115	Plant, machinery and equipment imported for setting up fruit processing and preservation units in Gilgit-Baltistan, Balochistan Province and Malakand Division.
116	Plant, machinery and equipment imported for setting up industries in FATA

Sixth Schedule Table 2

Local supplies

The Bill also suggests following amendment to the Table II to the Sixth Schedule to the Sales Tax Act, 1990 for prescribing exemption on local supplies:

- The Bill proposes to prescribe sales tax emption on local supplies made by cottage industry instead of current entry in this Schedule whereby exemption is prescribed for supplies made by:

  - Manufacturer whose turnover from taxable supplies in last 12 months is not more than five million

  - Retailer whose turnover from taxable and non-taxable supplies in last 12 months in not more than five million

- The Bill seeks to bring following entries into Table II of the Sixth Schedule from notification SRO 551(I)/ 2008 dated June 11, 2008:

S.NO.	Description
13	Reclaimed lead, if supplied to recognized manufacturers of lead batteries
14	Waste paper
15	(a) Sprinkler Equipment (b) Drip Equipment (c) Spray Pumps and nozzles
16	Raw cotton and ginned cotton

Sixth Schedule Table 3

The Bill proposes for insertion of Table 3 to the Sixth Schedule to the Sales Tax Act, 1990 which will cover entries prescribed in notification SRO 575(I)/2006 dated June 5, 2006 and which are proposed to continue to exempt from sales tax, such as machinery and equipment for installation, balancing, modernization replacement and expansion as well as other items for :

Summary of changes in the Sales Tax Act, 1990

- desalination plants, coal firing system, gas processing plants and oil and gas field prospecting:
- imported by hospitals and medical or diagnostic institutes:
- mine construction phase or extraction phase:
- Coal mining machinery for Thar Coal project:
- projects for power generation through oil, gas, coal, wind and wave energy including under construction projects:
- projects for power generation through gas, coal, hydel, and oil:
- power generation through nuclear and renewable energy sources like solar, wind, micro-hydel bio-energy, ocean, waste-to-energy and hydrogen cell;
- for power transmission and grid stations including under construction projects
- imported by technical, training institutes, research institutes, schools, colleges and universities;
- for use in buildings, fittings, repairing or refitting of ships, boats or floating structures imported by Karachi Shipyard and Engineering Works Limited.

- for marble, granite and gem stone extraction and processing industries:
- for setting up of hotels, power generation plants, water treatment plants and other infrastructure related projects located in an area of 30 km around the zero point in Gwadar;
- Effluent treatment plants;
- items with dedicated use of renewable source of energy like solar, wind, geothermal;
- Solar Thermal Power Plants with accessories.
- Solar Water Heaters with accessories;
- PV Modules; and
- Solar Cell Manufacturing Equipment. And
- Wind Turbines and wind water pumps

Eighth Schedule Table 1

The Bill seeks to insert Eighth Schedule to the Sales Tax Act, 1990. The Table 1 of the proposed Eighth Schedule will provide exemption on specified goods at specified rate of 5% and subject to prescribed conditions, limitations and restrictions. This Table is intended to summarize at one place various notifications prescribing exemptions and concessions such as:

Summary of changes in the Sales Tax Act, 1990

S.N	Description	Current reference
1	Soybean meal	SRO 501(I)/2013 dated June 12, 2013
2	Oil cake and other solid residue	- do -
3	Directly reduced iron	- do -
4	Import of Oil seed meant for sowing	SRO 551 (I)/2008
5	Import of raw cotton and ginned cotton	- do -
6	Import of plant and machinery not manufactured locally and having no compatible local substitute	SRO 727(I)/2011 date August 1, 2011

Eighth Schedule Table 2

The Bill proposes for insertion of Eighth Schedule Table II to the Sales Tax Act, 1990 to provide for levy of sales tax on import of various specified items at concessional rate of 5% subject to the conditions and restrictions specified in the Table. Currently this purpose is achieved through notification namely SRO 575(I)/ 2006 dated June 5, 2006. With the promulgation of Finance Act, 2014 this notification will be withdrawn.

In comparison to the aforesaid notification; the proposed Table II of Eighth Schedule will bring following changes:

Withdrawal of concession

The proposed Fifth Schedule suggests withdrawal of exemption from sales tax available to following under aforesaid notification:

- Machinery, equipment for hotels, tourism; sporting and other recreation services
- Machinery, equipment and other capital goods for various Service Sectors such as Wholesale, distribution and retail trade including chain stores, transportation, storage, communication, telecommunication and infrastructure projects
- Heat ventilation air conditioner
- Machinery and equipment relating to broadcasting
- Machinery and equipment imported by surgical industry.
- Machinery and equipment imported by cutlery industry:

Reduction in concession – imposition of sales tax @ 5%

- Machinery and equipment for development of grain handling and storage facilities

Summary of changes in the Sales Tax Act, 1990

- Cool chain machinery and equipment
- items imported by Call Centers and Business Processing Outsourcing facilities
- Machinery, equipment, materials, capital goods, specialized vehicles, chemicals and consumables meant for mineral exploration phase
- plants for relocated industries.
- Machinery, equipment and other capital goods meant for initial installation, balancing, modernization, replacement or expansion of oil refining

Proprietary Formwork System for building/structures of a height of 100 ft. and above

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Summary of changes in the Federal Excise Act, 2005

Section

13 (4) **Determination of value for the purposes of duty**

The Bill seeks to empower the Board to specify zones or areas for the purpose of determination of highest retail price for any brand or variety of goods. It appears that such determination is for the sake of levy of the Federal Excise Duty on goods in that specific zone or area. However, it needs to be appreciated that for the manufacturer to specify varying prices for various zones on the product will not be possible as this will require different packing of products for different regions.

It appears that the proposed amendment is to be made in section 12 which is the relevant section for "Determination of value for the purposes of duty" instead of section 13 which deals with "Registration" and therefore requires correction.

FIRST SCHEDULE Table I

The Bill proposes to make following changes to Table I of the First Schedule to the Federal Excises Act, 2005 dealing with excise duties on goods:

Rationalization of duty on cigarettes *Entry No. 9, 10*	**24.02**

The Bill seeks to enhance the duty on locally produced cigarettes in following manner:

S.No	Description	Heading/ sub-heading	Current rate of Duty	Proposed duty
9.	Locally produced cigarettes if their on-pack printed retail price exceeds Rupees two thousand seven hundred and six per thousand cigarettes	24.02	Rs. 2,325 per thousand cigarettes	Rs. 2,632 per thousand cigarettes
10	Locally produced cigarettes if their on-pack printed retail price exceeds Rupees two thousand seven hundred and six per thousand cigarettes	24.02	Rs. 880 per thousand cigarettes	Rs. 1,085 per thousand cigarettes

Summary of changes in the Federal Excise Act, 2005

Duty on Cement *Entry No. 13*	**25.2.**

The Bill seeks to rationalize the duty on cement from Rs. 400 per metric ton to 5% of its retail price.

Duty on Motor vehicle *Entry No. 55*	**87.03**

The Bill proposes to exempt the levy of 10% duty on locally manufactured motor cars, SUVs and other vehicle of 1800cc or above. However, the levy is proposed to remain in field for imported motor vehicles.

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Summary of changes in the Customs Act, 1969

FIRST SCHEDULE
Table II

The Bill proposes to make following changes in Table II of the First Schedule to the Federal Excises Act, 2005 dealing with excise duties on services

International travel by air *Entry No. 3*	**9803.1100**

The Bill seeks to enhance the duty on international travel in following manner:

	Description	Current duty	Proposed duty
(i)	Economy and economy plus	Rs. 3,840	Rs. 5,000
(ii)	Club, business and first class	Rs. 6,840	Rs. 10,000

Telecommunication services *Entry No. 6*	**98.12 and all sub-headings**

The Bill seeks to specific that the Federal Excise duty is not to be levied on services under this head in those provinces where Provincial sales tax is levied and collected through own Board or Authority. The proposed amendment is most appreciate done as levy of duties/ taxes by both Federation and Provinces is causing handicap and increase in final cost to the consumer. Moreover, similar amendment should be brought in respect of other services specifically services provided by banking sector.

The Bill also proposes for reduction in rate of duty on telecommunication services from 19.5% to 18.5%

Chartered flights *Entry No. 15*	**98.03**

The Bill proposes for insertion of new entry in Table II to the First Schedule to the Federal Excises Act, 2005 for the sake of levy of duty on Chartered flights at the rate of 16% of the charges.

Section 2

The Finance Bill, 2014 seeks to make following changes in the definitions provided in the Customs Act, 1969

Section 2(k)
Customs –station

The Bill proposes to replace the existing definition provided in the Act to specifically cover customs-airport, inland river port, land customs-station, in addition to any other place declared so under section 9 of the Act.

Section 2(m)
Land Customs –station

The Bill proposes for deletion of this clause in view of the proposed amendment in Clause K of section 2 to the Act.

Section 18(1A)
Goods dutiable

The Bill suggests the insertion of new subsection as well as the Fifth Schedule to the Customs Act, 1969 for levy of customs duties on import of specified goods subject to prescribed conditions, limitations and restrictions.

Summary of changes in the Customs Act, 1969

Section 25(5) & (6) Value of imported and exported goods.	The Bill also seeks to delete Clause (d) of Section 25(5) of the Customs Act, 1969 which for the valuation of goods for customs duty purposes is providing that when two or more transactions value meet all the specified criteria; the lowest of such value should be considered for computation of customs duty. Similarly such provisions are also proposed to be deleted from sub-section 6.
Section 32 Untrue statement, error, etc.	The Bill proposes to empower customs officer to recover taxes also in addition to custom duties and charges not levied or short levied or erroneously refunded. However, the meaning and interpretation of word '*taxes'* needs to be clarified here. Further, section 32(4) of the Act still provides that customs officer is empowered to determine amount payable by importer under the provisions of Customs Act only.
Section 80 Checking of goods declaration by the Customs	The Bill seeks to empower reassessment of goods declaration by Customs authority for *taxes* also in addition to customs duty. Presently, such reassessment can only be made for customs duty. However, the meaning and interpretation of word '*taxes'* needs to be clarified here.
Section 81 Provisional determination of liability	The Bill proposes for *taxes* and *other charges* to be paid or guaranteed based on the provisional assessment. Currently only customs duty is required to be paid or guaranteed based on such provisional determination.
Section 185-B Special judge to have exclusive jurisdiction	The Bill suggests to remove the offences relating to narcotics and narcotic substances from the jurisdiction of Special Judge and transferred to Special Courts established under the Control of Narcotics Substances Act, 1997
Section 194 Appellate Tribunal	The Bill seeks to reduce the time limit for appointment as technical member in Customs Appellate Tribunal. Presently, an officer having five years' experience as senior Collector can be appointed as Technical member. Now the Bill proposes to reduce the time limit to 3 years'.

FIFTH SCHEDULE TO THE CUSTOMS ACT, 1969

The Bill proposes for insertion of above named new schedule to the Customs Act, 1969 to provide for import of various specified items at concessional rates of duty subject to the conditions and restrictions specified in the Schedule. Currently this purpose is achieved through notification namely SRO 575(I)/ 2006 dated June 5, 2006. With the promulgation of the Finance Act, 2014 this notification will be withdrawn.

In comparison to the aforesaid notification; the proposed Fifth Schedule brought following changes:

Withdrawal of concession

The proposed Fifth Schedule suggests withdrawal of concession in customs duty available to following:

- Machinery, equipment for hotels, tourism; sporting and other recreation services

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Summary of changes in the Customs Act, 1969

- Machinery, equipment and other capital goods for various Service Sectors such as Wholesale, distribution and retail trade including chain stores, transportation, storage, communication, telecommunication and infrastructure projects
- Heat ventilation air conditioner
- Machinery and equipment relating to broadcasting
- Machinery and equipment imported by surgical industry.
- Machinery and equipment imported by cutlery industry:

Reduction in concession – imposition of duty @ 5% instead of 0%

- Machinery and equipment for development of grain handling and storage facilities
- Cool chain machinery and equipment
- Items imported by Call Centers and Business Processing Outsourcing facilities
- Machinery, equipment, materials, capital goods, specialized vehicles, chemicals and consumables meant for mineral exploration phase
- Plants for relocated industries.

- Machinery, equipment and other capital goods meant for initial installation, balancing, modernization, replacement or expansion of oil refining
- Proprietary Formwork System for building/structures of a height of 100 ft. and above

The proposed schedule is bifurcated into four Parts and Tables in following manner:

Part I **Imports of Plant, Machinery, Equipment and Apparatus, including Capital Goods for various industries/sectors**

This Part provides conditions and concessional rates for machineries used in various sectors such as agricultural sector, fish farming and seafood processing, grain handling and storage, coal mining, oil and gas prospecting fields, hospitals and diagnostic institutes, mineral exploration, projects for power generation through oil, gas, hydel, coal, wind and wave energy etc.

Part II **Import of Active Pharmaceutical ingredients, excepients / chemicals, drugs, packing material/ raw materials for packing and diagnostic kits and equipment, components and other goods.**

Part III **Import of raw materials, inputs for poultry and textile sector and other goods**

Part IV **Miscellaneous**

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Income Support Levy Act 2013 and other laws

Income Support Levy Act of 2013

The Finance Bill seeks to repeal the Act introduced last year in view of tax litigation initiated by various taxpayers against the above levy

Pakistan Telecommunication (Re-organization) Act, 1996 (XVII of 1996)

The Federal Government established the Universal Service Fund (USF) for providing access to telecommunication services to people in the un-served, under-served, rural and remote areas.

The constituents of the USF have been listed in clause 4 of section 33A of the Act. The Finance Bill seeks to omit sales proceeds from the auction of the right to use radio spectrum from the constituents of the USF.

The above mentioned amendment shall come into force retrospectively from March 01, 2014.

The Controller General of Accounts (Appointments, Functions and Powers) Ordinance, 2001 (XXIV of 2001)

Section 5 of the Ordinance enumerates the functions of the Controller General. The Finance Bill seeks to require Controller General to obtain approval of the President to authorize payments and withdrawals from the Consolidated Fund and Public Accounts of the Federal and Provincial Governments.

Further, the Finance Bill also proposes in case of urgency, to delegate power to Ministry of Finance or Finance Departments to authorize payments directly from the State Bank of Pakistan and submit required information to Controller General for recording of transactions.

Gas Infrastructure Development Cess Act, 2011 (XXI of 2011)

The Act provides for imposition and collection of infrastructure development cess on natural gas and for matters connected therewith.

Through amendment in section 3, the finance bill seeks to empower Federal Government to levy any rate of cess on any category of gas consumers subject to maximum rates provided in Second Schedule to the Act.

Through amendments in First Schedule to the Act, the finance bill seeks to include Oil and Gas Development Company Limited and any other company engaged in sale of gas to any category of gas consumers as notified in the official gazette in the definition of “Company” for the purposes of this Act.

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Income Support Levy Act 2013 and other laws

Following substitutions have been made in the Second Schedule to the Act.

S. No.	**Sector**	**Maximum rate of Cess (Rs. MMBTU)**	
		Proposed	**Existing**
1	Fertilizer – Feed Stock	300	3
2	Fertilizer – Fuel Stock	300	197
3	Compressed Natural Gas (CNG) - Region 1 - Region 2	300	141 (Region 1) 79 (Region 2)
4	Industrial	300	13
5	Captive Power	300	-
6	WAPDA/KESC/GENCOs	300	27
7	Independent Power Projects (IPPs)	300	70
8	Commercial including Ice Factories	300	-
9	Cement	300	-
10	Liberty Power Plant	-	-
11	Domestic	-	-

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