Deloitte.

M. Yousuf Adil Saleem & Co.
Chartered Accountants
Member of Deloitte Touché Tohmatsu Limited

Budget 2014-15
Highlights & Comments

Audit.Tax.Consulting.Financial Advisory.

Foreword

This memorandum contains an economic review, highlights of fiscal proposals and explanatory description of the significant changes in the Income Tax, Sales Tax, Federal Excise and Customs Duty laws proposed through the Finance Bill, 2014. It also includes Withholding Tax Guide which summarises the withholding tax provisions for quick reference.

Amendments proposed in the Finance Bill, 2014 will take effect from July 01, 2014, unless otherwise stated, once it is approved by the Parliament.

The memorandum is aimed at providing general guidance with the objective of keeping our clients and staff abreast of the changes in the aforementioned laws. The users are therefore advised to seek professional advice before exercising any judgment, interpretation of any legal provision and acting thereupon. The Firm accepts no responsibility for any action taken (or not taken) as a result of the information contained in this document.

The memorandum can also be accessed on our website www.deloitte.com/pk

Karachi
June 04, 2014

Contents

Budget at a Glance

	Rupees in billion 2014-15	%	Rupees in billion 2013-14 Revised	%
Sources of Funds				
Net Revenue Receipts (a)	**2,225**	**51.7**	2,184	53.8
Net Capital Receipts	**691**	**16.1**	600	14.8
External Receipts (net)	**869**	**20.2**	714	17.6
Estimated Provincial surplus	**289**	**6.7**	183	4.5
Bank Borrowing	**228**	**5.3**	376	9.3
Total Sources of Funds	**4,302**	**100.0**	4,057	100.0
Application of Funds				
General Public Services (b)	**2,560**	**59.5**	2,245	55.3
Development Expenditure	**839**	**19.5**	859	21.2
Defense Affairs and Services	**700**	**16.3**	630	15.5
Subsidies	**203**	**4.7**	323	8.0
Total Application of Funds	**4,302**	**100.0**	4,057	100.0
(a) Net Revenue Receipts				
Direct and Indirect Taxes	**3,129**	**140.6**	2,514	115.1
Non-Tax Revenue	**816**	**36.7**	1,083	49.6
Gross Revenue Receipts	**3,945**	**177.3**	3,597	164.7
Less: Provincial Share in Taxes	**1,720**	**77.3**	1,413	64.7
	2,225	**100.0**	2,184	100.0
(b) General Public Services				
Foreign Loans Repayments	**333**	**13.0**	264	11.8
Interest Payments	**1,325**	**51.8**	1,187	52.9
Pension	**215**	**8.4**	187	8.3
Grants and Transfers	**371**	**14.5**	336	15.0
Running of Civil Government	**291**	**11.4**	271	12.1
Provision for Pay and Pension Reforms	**25**	**1.0**	-	-
	2,560	**100.0**	2,245	100.0
* includes FBR taxes	2,810	126.3	2,275	104.2

Economic Review and Budget 2014-15

Second Budget of PML (N's) Government for FY15 was presented on 3rd June, 2014 by the Finance Minister, Mr. Ishaq Dar with aggregate total outlay of PKR 4.3 trillion which is 8% higher than last year's budget. Net revenue receipts are pitched at PKR 2.2 trillion against last years' target of PKR 1.9 trillion projected to rise by a hefty 16% to contain the fiscal deficit to 4.9% of GDP. Despite significant shortfall in the tax collections during FY 14, which was revised downwards twice, a very ambitious FBR tax collection target of PKR 2,810 billion has been fixed. Aggregate expenditure for development projects to be executed by the Federal Government is budgeted at PKR 839 billion largely comprising of long-term infrastructure projects many of which may have doubtful economic viability.

In the background of mixed results achieved during FY14, with significant improvements in resource picture, especially from external resources, on one hand, and continuing sluggishness in the economy marred by a crippling energy crisis, falling investment and savings on the other, it appears that targets for FY15 are ambitious and extremely challenging that will be hard to attain. While there are several announcements in different sectors that have the potential to improve the economy, the real issue will be how the Government addresses constraints in administrative and governance framework that make implementation of policies extremely difficult.

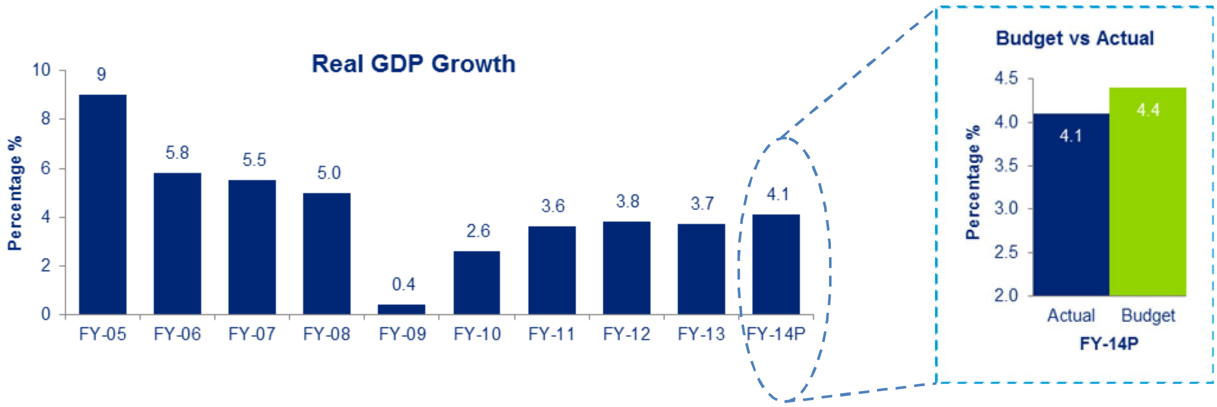
Economic Overview

The key feature of the current fiscal year was the stabilization of the economy to certain extent through obtaining IMF's Extended Fund Facility (EFF), followed by other external foreign currency flows including USD 1.5 billion gift from Saudi Arabia, nearly a billion dollar from auction of 3G / 4G licenses and raising loans from international money market and multilateral institutions, which helped in stabilization of PKR to USD exchange rate and building of foreign exchange reserves. Another important feature during the year was clearance of circular debt of power sector that resulted in some reduction in the power shortages during first nine months of the year contributing positively towards the growth in the industrial sector, which was the main redeeming feature for achieving relatively respectable GDP growth in FY 14. The Government has also initiated the privatization program during the year, and has announced some large energy projects, but the impact of these announcements is yet to be seen.

Baring the above positives, the economic performance in most areas remained lack luster, with overall GDP growth, tax collections, investment and savings falling significantly below the targets.

GDP Growth

Real GDP growth of 4.1% during FY14 has slightly improved compared to earlier three years average growth of around 3.7%. However, the growth is lower than the target of 4.4%, and also the lowest in the region when compared to other neighboring countries in the sub-continent.



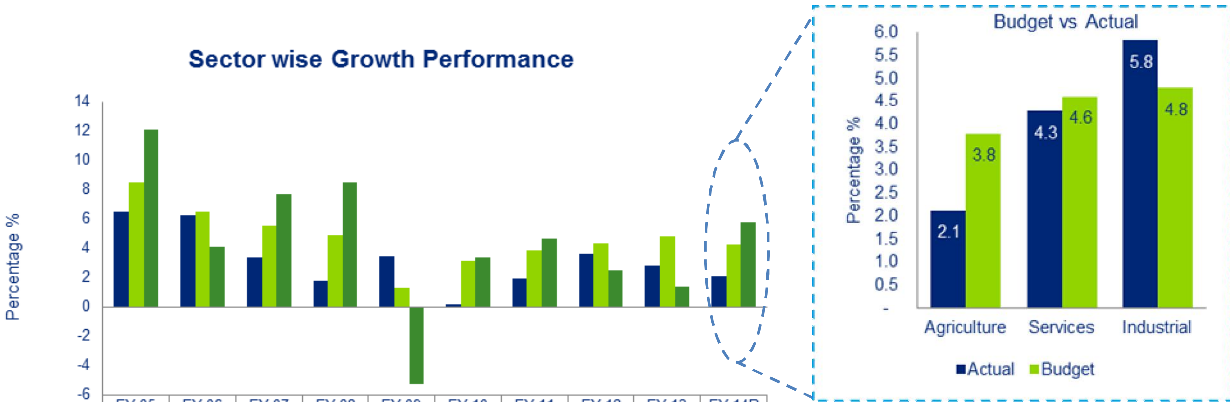
Source: Economic Survey 2013-14, Ministry of Finance.

	FY-09	FY-10	FY-11	FY-12	FY-13	FY-14P
Pakistan	0.4	2.6	3.6	3.8	3.7	4.1
India	8.5	10.3	6.6	4.7	4.4	5.4
Bangladesh	5.9	6.4	6.5	6.1	5.8	6.0
Srilanka	3.5	8.0	8.2	6.3	7.3	7.0

Source: Economic Survey 2013-14, Ministry of Finance

P = Provisional

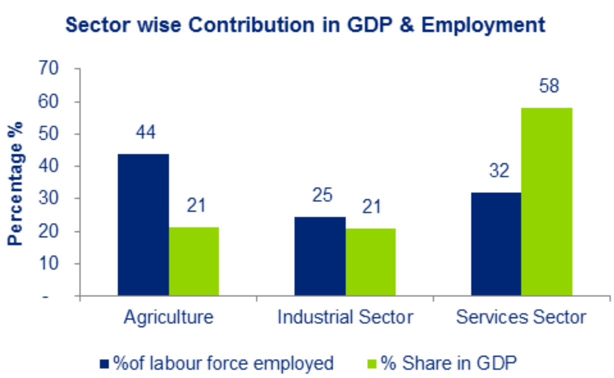
The main contributor to slight improvement in the GDP growth was the industrial sector, while the services and agriculture sector growth decelerated compared to last year as well as the target. As the aggregate contribution of the agriculture and services sectors to the GDP is 79%, with agriculture alone employing more than 44% of the labor force, slower growth of these sectors are likely to impact adversely on the state of employment and poverty in the country.

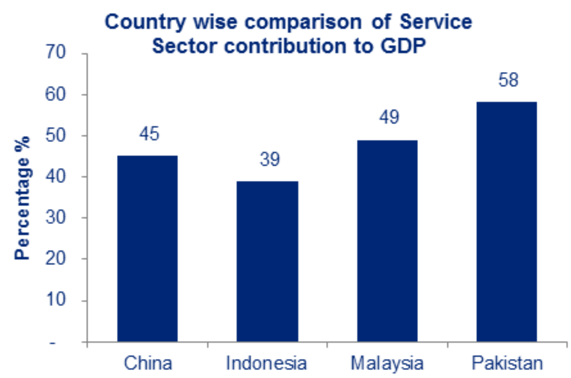


	FY-05	FY-06	FY-07	FY-08	FY-09	FY-10	FY-11	FY-12	FY-13	FY-14P
Agriculture	6.5	6.3	3.4	1.8	3.5	0.2	2.0	3.6	2.9	2.1
Services	8.5	6.5	5.6	4.9	1.3	3.2	3.9	4.4	4.9	4.3
Industrial	12.1	4.1	7.7	8.5	-5.2	3.4	4.7	2.5	1.4	5.8

Source: Economic Survey 2013-14, Ministry of Finance

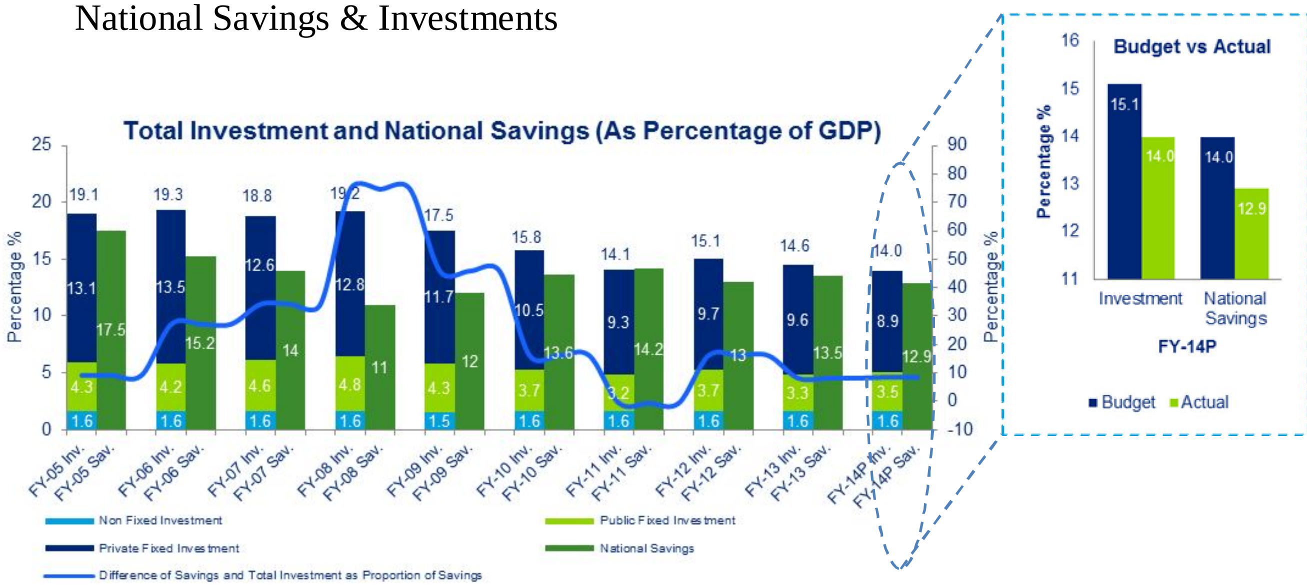
Services sector remains the key contributor to economic growth adding 58% towards the GDP this year. Due to the inherent nature of services sector, despite being the highest contributor to GDP, the sector failed to generate sufficient employment to absorb the increase in work force resulting from increase in population every year. With population of the country touching roughly 200 million, growth in commodity producing sectors is considered essential for generating employment to utilize full potential of our young labor force. Going forward continued heavy reliance of the economy on services sector will further escalate the unemployment.





Source: Economic Survey 2013-14, Ministry of Finance
Source: Economic Survey 2013-14, Ministry of Finance, World Bank

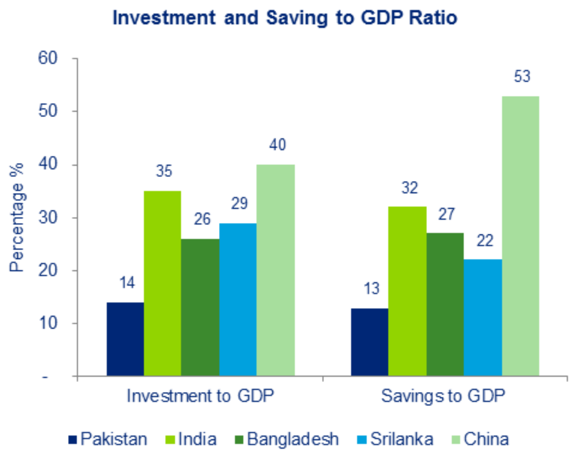
National Savings & Investments

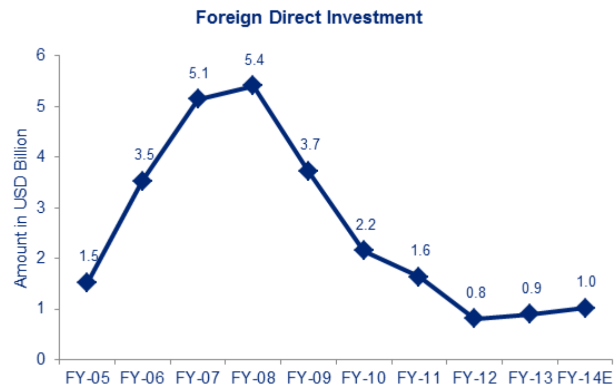


Source: Economic Survey 2013-14, Ministry of Finance
P = Provisional

One of the most serious problems faced by the country is continuing declining trend in investment, which has reduced from 19.3% of GDP in FY06 to just 14.0% of GDP during FY14. This rate of investment is even lower than the rate of investment in FY 13 (which was one of the worst years, being an election year) of 14.6% as well as the budgetary target of 15.1%. This reduction was more pronounced for private fixed investment which went down from 9.6% to 8.9% rather than public fixed investment which is relatively inefficient in nature.

Despite high interest rates, national savings have not grown, and remained even lower than the low rate of investment. Consequently, the gap between investment and savings continues to be financed through debt, further escalating the country's overall indebtedness. Also, our savings and investments remain substantially lower when compared to other countries in the region, as depicted in the following graph:



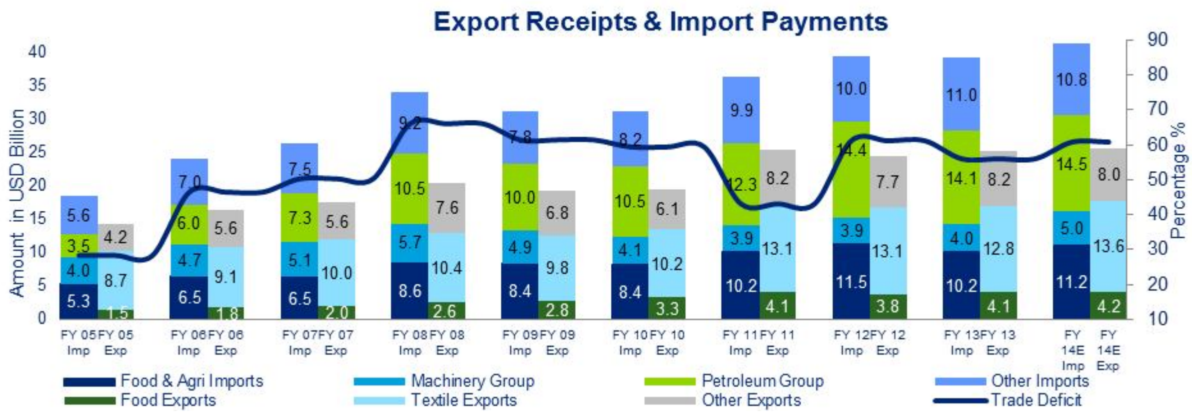


Source: Economic Survey 2013-14, Ministry of Finance, Deloitte Research
E = Annualized based on 10 months of data

Foreign direct investment ("FDI") has also dried up in the past few years and is estimated to be around USD 1 billion mark in FY14. Considering the low rate of national savings, the country desperately needs FDI to support investment in the country.

Trade Deficit

Pakistan's trade deficit has increased to 61% of exports in FY14 from 28% in FY05. The trade gap has increased owing to increase in imports of consumable items highest being petroleum, food and agricultural products.



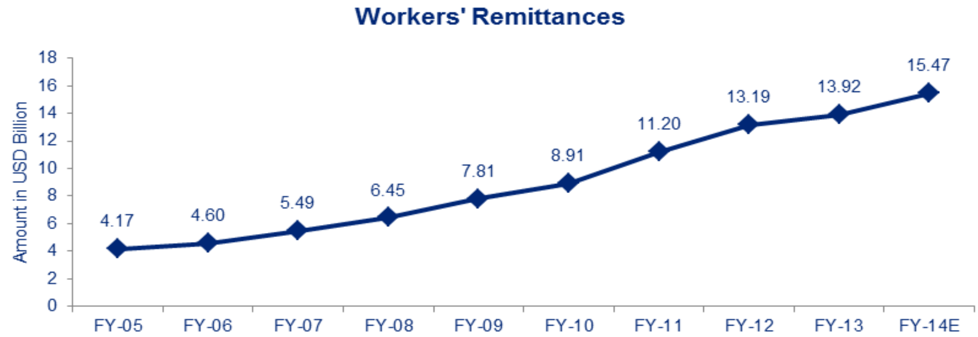
Source: State Bank of Pakistan
E = Annualized based on 10 months of data

Total imports are estimated to be around USD 41 billion in 2014, compared to total exports of USD 26 billion resulting in a monthly deficit of approximately USD 1.3 billion. Current account is heavily burdened by petroleum imports rising from 19% of total imports in 2005 to 35% in 2014.

Another worrying feature is relatively low proportion imports of capital goods, which is only 12% of the total imports compared to very large proportion of consumable goods. This situation can be improved by providing more fiscal incentives to local producers / manufacturers on import of machinery and penalizing the import of consumable goods.

Workers' Remittances

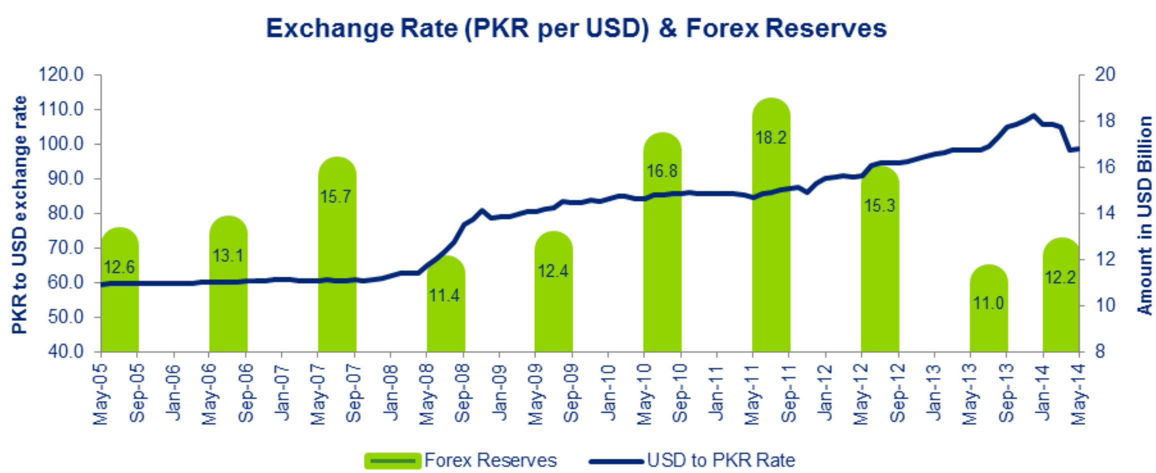
Workers' remittances have continued to rise contributing materially towards foreign exchange inflows of the country, helping to contain the balance of payments deficit and limiting the erosion of foreign exchange reserves, another redeeming feature that sustains the economy.



Source: State Bank of Pakistan
E = Annualized based on 10 months of data

Foreign Exchange

The US Dollar to PKR exchange rate has virtually remained the same as it was at the start of the year, and is showing signs of stabilization. It exhibited extreme volatility during the year, but due to receipt of USD 1.5 billion gift from Saudi Arabia, nearly a billion dollar collection from auction of 3G / 4G licenses and receipt of external loans, position improved in the last quarter of FY-14 resulting in stabilization of the exchange rate. After rising sharply to a level of PKR 108 / USD, it now resides in a stable range of PKR 98-100 / USD.

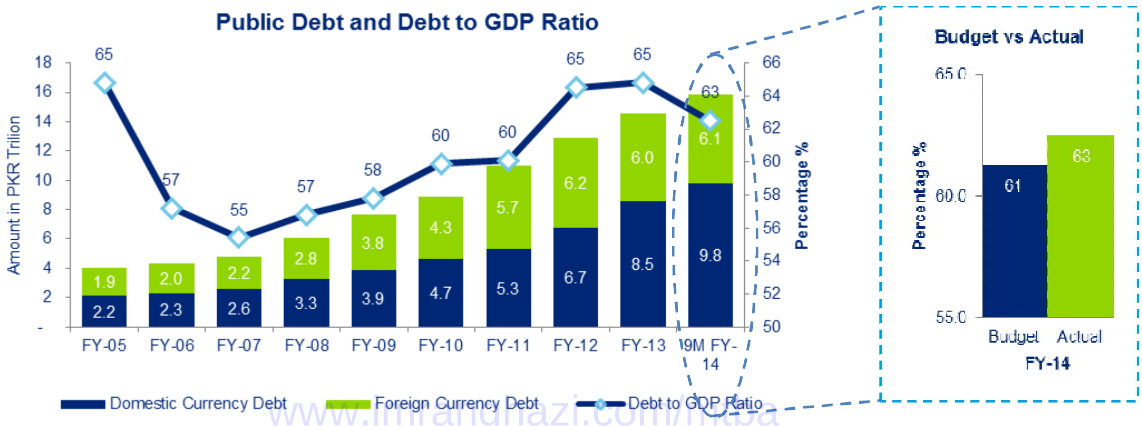


Source: State Bank of Pakistan

Fiscal Policy Implications

Public Debt

The government continues to rely on public debt as a source of deficit financing. Due to this reason, public debt has seen a sharp surge in utilization since 2007. In particular, domestic debt has seen a threefold increase thereby creating an upward pressure on the domestic interest rates, and crowding out the private sector investment.

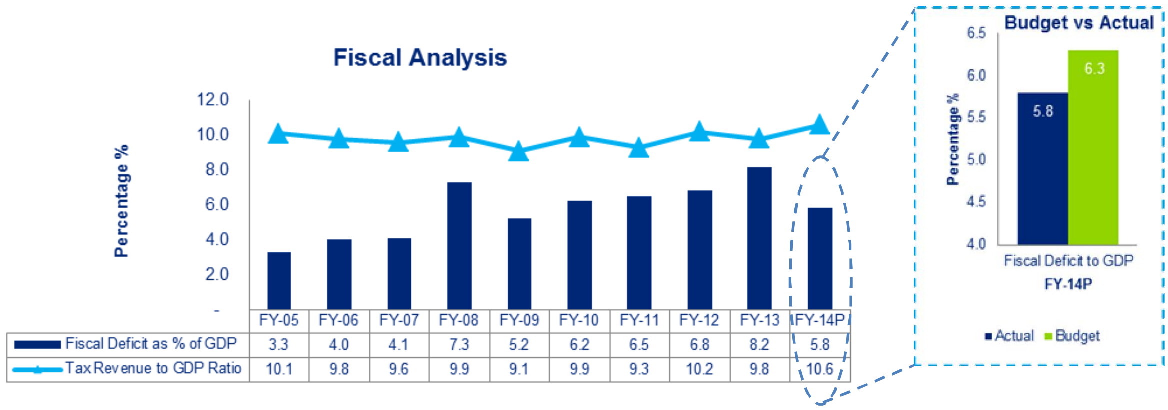


Source: State Bank of Pakistan, Ministry of Finance
Note: FY14 figures as at the end of March, 2014

Slight improvement was noticed during first nine months of this year in debt profile management. However, it is worth mentioning that public debt has increased significantly during the month of April 2014 due to an addition of USD 2 billion raised through Euro Bonds at a hefty interest rate of 7.25% & 8.25%.These rates are significantly higher than other comparable bonds floated internationally, such as Greece raising more than USD 4 billion at interest rate of 4.95%. As a result of issuance of Euro Bonds, public debt to GDP ratio is expected to be higher at close of April, 2014 against reported ratio of 63% as at the end of March, 2014.

Tax Collections

Since last few years tax collection as a percentage of GDP has remained around 10%, which is one of the lowest in the world and one of the prime reason of high fiscal deficit. However, during FY14 government has been successful in improving tax to GDP ratio to 10.6%, which is slightly lower than the budgetary target of 10.9% but is significantly better than previous average. As a result, fiscal deficit has also been contained to 5.8% of GDP which is lower than budgetary target of 6.3%.

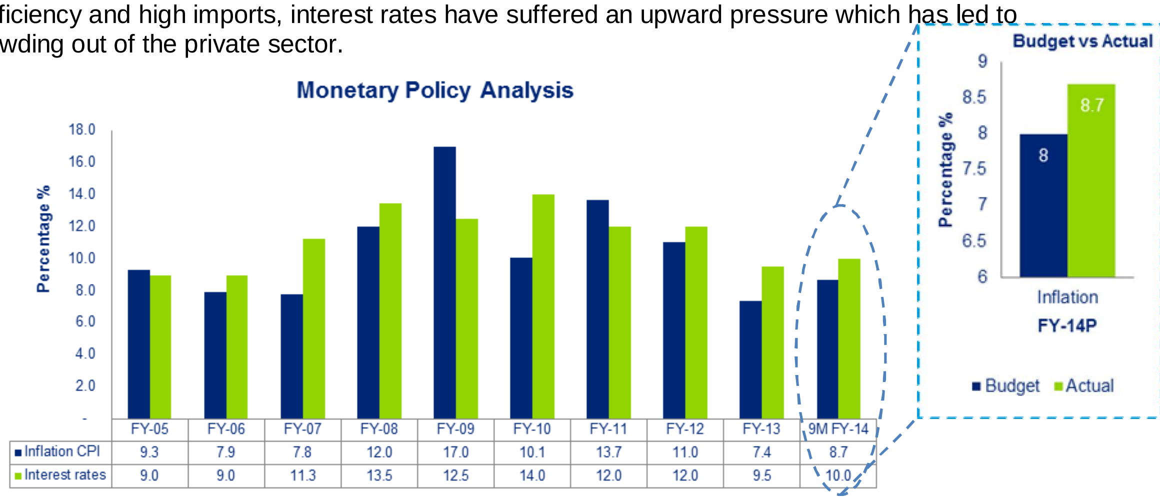


Source: Economic Survey 2013-14, Ministry of Finance
P = Provisional

Structural reforms in taxation are in dire need as approximately 61% of the FBR's tax revenue during FY14 emanated from indirect taxation; hence any steps towards increasing the tax collection without overhauling the tax structure, improving the ratio of direct/indirect taxation and broadening the tax base will create inflationary pressures.

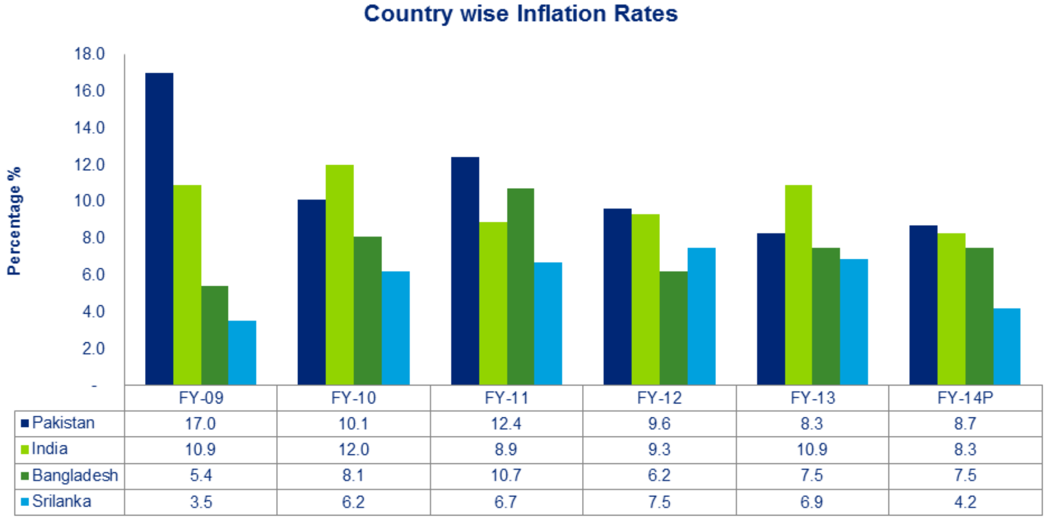
Monetary Policy Implications

Interest rates exhibit a lagged positive relationship with inflation, because of the fact that inflation in Pakistan is not only due to demand pull factors, but is rather also affected by supply factors, including cost of doing business. The concentrated focus in domestic debt has led to accelerated printing of money, higher inflation, and a tightened monetary policy. With continuing deficits, decreased self-sufficiency and high imports, interest rates have suffered an upward pressure which has led to crowding out of the private sector.



Source: Economic Survey 2013-14, Ministry of Finance
P = Provisional

The inflation rate, despite of slow growth, also remained higher than the target. Also, Pakistan has the highest inflation rate and lowest growth rate within the region.

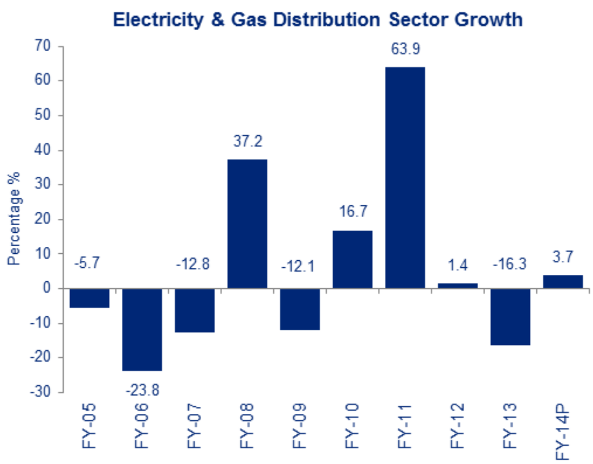


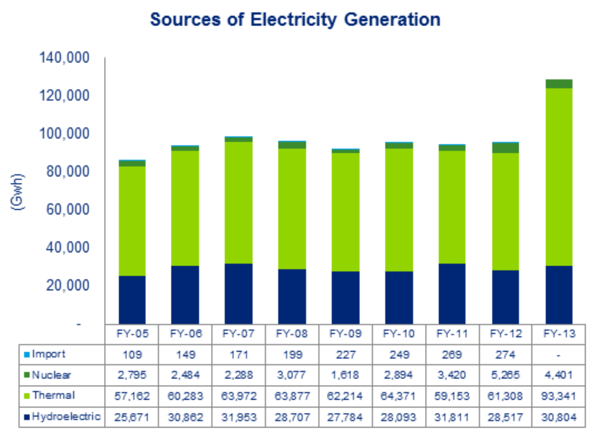
	FY-09	FY-10	FY-11	FY-12	FY-13	FY-14P
Pakistan	17.0	10.1	12.4	9.6	8.3	8.7
India	10.9	12.0	8.9	9.3	10.9	8.3
Bangladesh	5.4	8.1	10.7	6.2	7.5	7.5
Srilanka	3.5	6.2	6.7	7.5	6.9	4.2

Source: Economic Survey 2013-14, Ministry of Finance, World Bank
P = Provisional

Energy Crises

Energy sector, which is the major impediment to Pakistan's growth, remained largely stagnant. The current year's growth of power and gas sectors remained just 3.7%, slightly better than last year's negative growth of 16.3%.





	FY-05	FY-06	FY-07	FY-08	FY-09	FY-10	FY-11	FY-12	FY-13
Import	109	149	171	199	227	249	269	274	-
Nuclear	2,795	2,484	2,288	3,077	1,618	2,894	3,420	5,265	4,401
Thermal	57,162	60,283	63,972	63,877	62,214	64,371	59,153	61,308	93,341
Hydroelectric	25,671	30,862	31,953	28,707	27,784	28,093	31,811	28,517	30,804

Source: Economic Survey 2013-14, Ministry of Finance, NEPRA

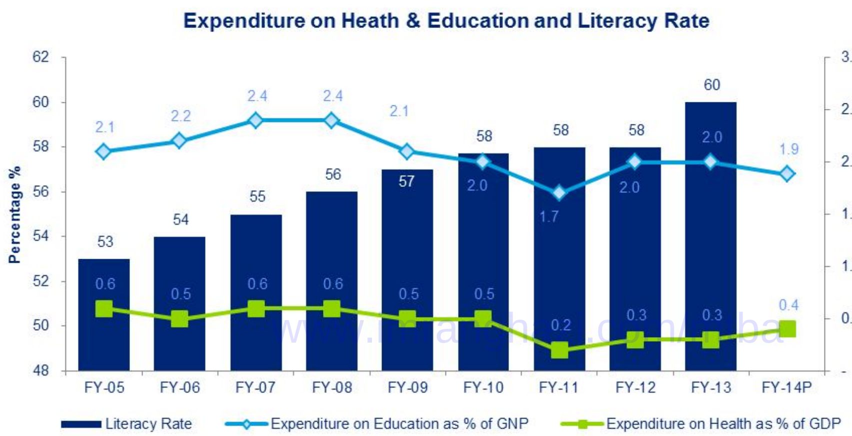
P = Provisional

The country still remains dependent on thermal generation based on imported fuel which is the most expensive and is the core reason for electricity crisis and circular debt. Even though circular debt was paid off by the government in June 2013, the problem seems to have resurfaced, with circular debt accumulating to PKR 300 billion in just 10 months period. So far, the efforts to change energy mix to hydel and coal have remained confined to just announcements and project inaugurations.

Health and Education

As per the CIA World Fact book, Pakistan ranks 164th out of 173 countries in terms of expenditure on education. Although literacy rate has improved to 60%, most of the key indicators in education and health remain dismal given the declining public expenditure by the provincial governments in these sectors, as the provinces which are responsible for these services are increasingly required to have budget surpluses to reduce fiscal deficits.

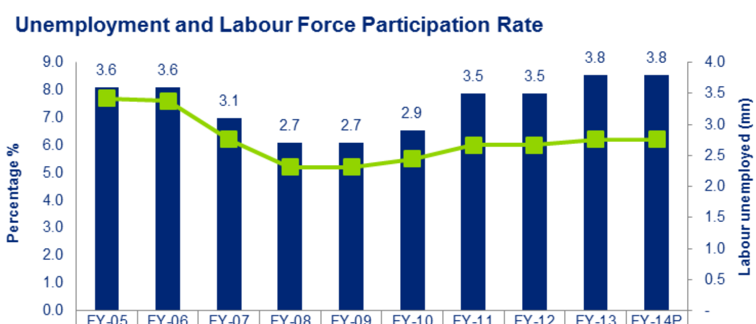
Reducing such investments to control deficits may not be a sustainable strategy in the long run given Pakistan's demographic makeup.



Source: Economic Survey 2013-14, Ministry of Finance

Employment

Unemployed workforce has increased significantly since 2008 and has risen to 3.8 million. The un-employment rate has climbed to 6.2%. Due to low literacy rate, Pakistan lacks skilled labor, and is not able to utilize the full potential of its demographics. Also, the sectorial distribution of Pakistan's economy is biased towards service sector which does not have the capacity to employ large amount of labor force unlike industrial sector. Consequently, the problem of unemployment continues to escalate year after year.



	FY-05	FY-06	FY-07	FY-08	FY-09	FY-10	FY-11	FY-12	FY-13	FY-14P
Unemployed labour force (mn)	3.6	3.6	3.1	2.7	2.7	2.9	3.5	3.5	3.8	3.8
Unemployment rate (%)	7.7	7.6	6.2	5.2	5.2	5.5	6.0	6.0	6.2	6.2

Source: Economic Survey 2013-14, Ministry of Finance

Budget and Economic outlook for FY 2014-15

The budget presented by the finance minister targets relatively higher economic growth of 5.1% to be attained by attracting higher investment and containing the inflation to 8%.

The FY15 budget predicts an aggressive growth in resources to the tune of PKR 4.1 trillion, up by 35% from last year's target of PKR 3 trillion; mainly relying on an ambitious FBR's tax collection target of PKR 2,810 billion based on some measures aimed at broadening the tax base mainly through increase of withholding taxes, which will help in restricting the fiscal deficit to 4.9%. However, aggressive targets as this are less likely to materialize given the downward revisions that have been a regular phenomenon almost every year. Moreover, the fiscal measures proposed to enhance the tax collections are largely based on withholding taxes and other superficial changes, rather than any basic reforms.

Following are the salient features of the FY15 Budget:

- Real GDP is targeted to grow by 1% every year with the target of achieving 5.1% GDP growth rate in FY15. Inflation numbers are expected to stay in single digit in the longer run with a target of 8% in FY15.

- Enhance Tax to GDP ratio to 11.5% by end of FY15.

- Forex reserves are targeted to be increase to USD 22 billion by the end of FY15.

- Investment to GDP ratio to be raised to 15.7% in FY15 against revised target of 14.0% in FY14.

- Savings to GDP ratio to be raised to 14.2% in FY15 against revised target of 12.9% in FY14.

- Federal government has planned to enhance PSDP budget to the tune of PKR 525 billion up from PKR 425 billion last year whereas subsidies for power sector have been planned to be reduced to PKR 229 billion.

- Markup on Export Refinance Scheme is proposed to be reduced to 7.5% from 9.4%.

- A package for textile sector has been announced to provide reliefs most notably including conditional drawback of local taxes and levies to exporters, fast track reimbursement system for refund of taxes for manufacturer-cum exporters, predictable tariff regime for foreseeable future, Long term Financing Facility at 9% for up-gradation of technology and two years extension in the tax free imports of machinery under textile policy.

- In order to attract Foreign Direct Investment (FDI) in manufacturing, construction and housing sectors, it is proposed that corporate tax rate be reduced to 20% if the investment is in a new industrial undertaking or a construction or housing project to be set up by June 30, 2017 and at least 50% of the total project cost in the form of equity through FDI.

- Government targets to invest PKR 42 billion on water and PKR 205 billion on several power projects this year, with another USD 700 million to be received from World Bank as financing towards Dasu Hydro Power Project.

- PKR 113 billion on 74 projects of motorways, highways, bridges, tunnels and regional roads.

Key Challenges for reviving and sustaining the economic growth

With some improvement in GDP growth, stabilization of exchange rate, foreign exchange reserves and some improvement in overall resources, especially external flows from multilateral donors, there are prospects for further improvement, given the right policies, governance and effective monitoring framework. Several challenges including a perennial current account deficit, rising public debt, declining investments and savings, heightened energy crisis and bleeding public enterprises still pose threats to our economic recovery. With a running trade deficit of approximately USD 1.3 billion per month, the Government needs to design policies to reduce consumptive imports and introduce favorable policies to establish local industries to create employment, generate economic activity, and increase self-sustenance in our economy. Reverting to debt on a frequent basis to finance expenditures and deficits may no longer be feasible especially at high interest rates.

Despite several measures proposed in the Budget FY15, the government will need to focus on several intangibles to turnaround an economy such as Pakistan. One such area is the trade relations with neighboring countries. On a similar front, opportunity exists to capitalize on the long standing relations with China to procure fresh investment in both infrastructure as well as industry. With China's current commitment to invest USD 32 billion across several sectors, the government will need to play a key role in provision of the needed support and infrastructure to convert it into reality.

The crippling effects of energy crisis have shaved as much as 2% of our growth potential in the past, and needs to be tamed through constructive and proactive actions. Circular debt still acts as plague to our economy hampering our energy output, which impedes economic growth. However, unlike FY14, no allocation has been made for payment of circular debt FY 15, at the same time power subsidies are proposed to be reduced by 40% to PKR 185 billion. These are apparent inconsistencies in the budget.

With the Iran Pakistan Gas Pipeline Project now in doldrums, the next in line option is the import of LNG. Furthermore, it is of prime importance that priority should be given to development of local indigenous energy resources to bring stability in the external account by slashing petroleum imports up to sustainable levels.

Above all, it will be difficult to achieve all the aggressive targets set in the budget, such as containing the twin deficits, increasing employment, controling inflation, reducing public debt as percentage of GDP and revival investment in FY15, without making some fundamental improvements in the administrative and governance framework of the country.

Highlights of Important Fiscal Changes

Income Tax

- As per salient features of the budget, corporate rate of tax is proposed to be reduced from 34% to 33% from tax year 2015 and onwards for other than banking companies.

- Withholding tax rates on services under section 153 increased to 8% from 6% for companies and to 10% from 7% for other than companies.

- Rate of initial depreciation on Buildings reduced to 10% from 25%.

- Tax rate on brokerage and commission under section 233 for advertising agents shall be increased to 7.5% from 5%, whilst the tax rate is increased for others from 10% to 12%.

- For Tax Year 2015, capital gains tax rate shall be reduced to 12.5% for securities held for a period up to 12 months as against prescribed rate of 17.5% and rate of 10% shall be applicable for securities held for a period between 12 to 24 months. Tax on capital gains for securities held for more than 24 months will remain exempt.

- Withholding tax rates of collection of tax at imports stage have been revised, and a new table has been introduced.

- Withholding tax rates for payments made by exporters/export houses on account of services of stitching, dying, printing, embroidery, sizing, weaving increased to 1% from 0.5%.

- Withholding tax rates for payments to petrol pumps operators under section 156A in respect of commission and discount increased to 12% from 10%.

- Advance tax shall now be collected at the rate of 7.5% from domestic electricity consumers, where monthly electricity bill exceeds Rs. 100,000, which would be adjustable against tax liability.

- Debt Securities shall be included in the definition of 'Securities' as given under section 37A of the Ordinance, and the investors would be liable to pay quarterly advance capital gain tax.

- Concept of Alternative Corporate Tax has been introduced, for tax year 2014 and onwards, whereby tax liability of a company would be computed at higher of 17% of the "accounting income" or total tax payable including minimum tax and final taxes. Implementation of the newly introduced regime would add to the miseries of the corporate tax payers who are already burdened with the levy of minimum tax at the rate of 1% even in the year of loss, despite the fact that they represent a highly documented sector.

- The application for obtaining commercial or industrial connection of electricity and natural gas would not be processed, unless a person is registered and has an NTN.

- Withholding tax exemption on payments to foreign news agencies has been withdrawn.

- Rates of advance income tax collected under section 234 on private motor cars shall be revised.

- Non-profit entities shall now be granted a 100% tax credit instead of exemption after fulfilling certain prescribed conditions.

- Bonus shares shall be treated as dividend and shall be subject to tax collection at the rate of 5% of the ex-bonus price of the shares. The said tax deduction shall be final tax. However, how this provision will be implemented, remains unclear as there is no payment that companies make for bonus shares to the shareholder, from which such amounts can be withheld.

- A five year income tax exemption shall be available for persons setting up processing plants for locally grown fruits in Balochistan Province, Malakand Division, Gilgit-Baltistan and FATA to reach the bigger markets and to promote investment, growth and employment in these areas.

- Profits and gains arising from coal mining projects in Sindh, which exclusively supply coal to power generation projects, shall now be exempt from taxation. In addition, dividends from said projects to be taxed at a reduced rate of 7.5%.

- Corporate tax rate shall be reduced to 20% for a company setting up an industrial undertaking between July 1, 2014 to June 30, 2017, subject to the condition that at least 50% of the project cost including working capital is financed through Foreign Direct Investment in the equity of the company.

- Tax liability shall be reduced by 50% for those persons who hold CNIC as disabled persons, provided taxable income does not exceed Rs. 1 million.

- Income Support Levy Act, 2013 introduced through the Finance Act, 2013 is proposed to be repealed.

- The rate of advance tax collection on functions and gatherings shall be reduced from 10% to 5%.

- Sindh Pension Fund exempted from income tax.

- Subscribers of mobile telephones to be subject to a reduced withholding rate of 14% as against 15%.

- Flying allowance of Pilots exceeding an amount equal to the basic salary shall be taxable at 7.5%.

- Every steel-melter, steel re-roller and steel unit shall be required to pay tax at a rate of one rupee per unit of electricity consumed, for the production of steel billets, ingots and mild steel (excluding stainless steel).

- Concessions previously granted to PSA Gwadar PTE Limited through an agreement dated February 06, 2007, shall now be transferred to China Overseas Ports Holding Company Limited, for the remaining period.

- In case of a joint venture, where one of the members of the joint venture is a company, the income of company shall now be taxed separately at the applicable corporate tax rate, whilst joint venture, shall be taxed as an AOP on the income excluding share of the Company from AOP.

- On purchase of first class, business class and club class air tickets, airlines shall collect advance tax at the rate of 3% in case of filers and 6% in case of non-filers. No tax is to be collect by economy class tickets

- On the purchase of immoveable property, adjustable advance tax shall be collected at the rate of 1% in case of filers and at the rate of 2% in case of non-filers. Properties with value of less than Rs. 3 million, and schemes introduced by the Government for expatriate Pakistanis shall be excluded from such taxation.

- Withholding tax rate for non-filer in respect of Dividend has been increased to 15% from 10%.

- Withholding tax rate in respect of dividend from stock fund to companies shall be 12.5%, where dividend receipts are less than capital gain. With respect to collective investment scheme or mutual fund, the withholding tax rates would be 25%.

- Withholding tax rate for non-filers in respect of profit on debt has been increased to 15% from 10% where amount for profit on debt exceeds Rs.500,000.

- Withholding tax rate on cash withdrawals from banks for non-filers shall be 0.5% and for filers it shall remain at 0.3%.

- On sale of immoveable property, advance capital gain tax shall be collected at the rate of 0.5% in case of filers and 1% for non-filers.

- Director's remuneration and fee etc. has been classified under the head 'income from salary' which is subject to tax withholding at 20%.

- Banks shall apportion expenses against dividend income and capital gains on listed shares. Rate of tax on the capital gains derived by banks increased to 12.5% from 10%.

- Collection of tax at 4.5% has been specified for import of ships by ship-breakers.

- Only resident accountants and other professionals are required to file return of income under section 114 of the Ordinance.

- Income from sale of spectrum licenses by PTA on behalf of Government, would be treated as income of Federal Government and would be exempt from levy of tax.

- Income derived by public sector universities has been exempted from tax.

- For the purpose of determining distribution of at least 90% of accounting income in case of mutual funds, the income distributed through bonus shares, units or certificates as the case may be, shall not be taken into account

- Tax withholding rates for corporate and non-corporate taxpayer shall be as under:

	Corporate tax rate	**Non-corporate tax rate**
Supply of goods	4%	4.5%
Services rendered	8%	10%
Execution of contracts	7%	7.5%
Imports	5.5%	6%

Sales Tax

- Sales tax exemption available to retailers having annual turnover not exceeding Rs.5 million has been withdrawn and two tier system has been introduced. First tier: Large retailers of national or multinational chains will operate under normal sales tax regime. Second tier: Sales tax at the rate of 5% will be collected from retailers with monthly electricity bill if such bill would be upto Rs. 20,000 whereas sales tax at the rate of 7.5% will be collected in case the electricity bill exceeds Rs. 20,000. Notification with regard to first tier is still to be issued.

- Input tax adjustment has been restricted to the extent of goods and services actually used in manufacturing or sale of taxable goods. Proposed amendment is inconsistent with the VAT system and will also lead to interpretation issues with regard to claiming the input tax.

- Electronic scrutiny and intimation system has been proposed to be introduced for better governance of Sales Tax System and to provide legal cover to the notices issued through CREST system.

- Further tax charged at the rate of 1% on supplies made to unregistered persons has been excluded from the purview of output tax. Accordingly, input tax will not be adjustable against further tax.

- Sales tax at reduced rate of 5% has been charged on certain goods subject to the conditions and restriction mentioned in Eighth Schedule. Presently such goods are exempt under various notifications.

- List of items exempted from sales tax has been expanded by introducing new items including high efficiency irrigation equipment and greenhouse farming equipment in order to promote agriculture.

- Certain SROs have been transposed to relevant schedules in order to reduce the number of SROs.

- Rate of sales tax on local supply of tractors has been reduced from 16% to 10%.

- Import and supply of “Cochlear Implants System” has been exempted from sales tax.

- Import of plant, machinery and equipment for Gilgit-Baltistan, Balochistan Province and Malakand Division and FATA has been exempted from sales tax to promote industrialization, job creation and economic uplift of the less developed regions.

- Sales tax on mobile phones under S.R.O. 460(I)/2013 has been shifted to Ninth Schedule to provide the legal support for charging sales tax.

- Collection of 17% sales tax on the consumers’ supply value from CNG stations by Gas Transmission and Distribution Companies is proposed to be included in the law, which was earlier introduced through the Sales Tax (Amendment) Ordinance, 2014.

Federal Excise Duty

- FED on locally produced cigarettes is restructured and modified. Duty increased for lower tier cigarettes

- Duty is now levied on cement at 5% of the retail price in place of Rs. 400 per ton earlier leviable.

- FED on international air travel is increased from Rs. 3,840 to Rs. 5,000 per ticket for economy and from Rs.6,840 to Rs. 10,000 per ticket for business class.

- Chartered flights are chargeable to FED at 16% of the charges.

- Reduction of duty rate at 1% on telecommunication services for Islamabad and Balochistan.

- FED is not chargeable on telecommunication services already subjected to provincial sales tax on services.

- However, FED law is not amended to clarify its chargeability on similar other services already subjected to provincial sales tax on services.

- Imported motor vehicles with engine capacity in excess of 1800cc will be chargeable of FED at 10%. No FED on locally produced vehicles will apply.

Customs

- Maximum general tariff rate of 30% reduced to 25%.

- Substitution of 0% duty slab with 1% customs duty on various items.

- Fifth Schedule is introduced as a substitute of present notifications for allowing concessionary rates on imports of plant, machinery and items of renewable source of energy, renewable energy technologies and production of bio-diesel.

- No duty on plant, machinery and equipment for setting up fruit processing and preservation units in Gilgit-Baltistan, Balochistan and Malakand Division.

- No duty on plant, machinery and equipment for setting up industries in FATA.

- Customs duty on UPS is reduced from 20% to 15%.

- Customs duty has been increased from 5% to 10% on networking equipment.

- Duty on hybrid electric vehicles rationalized – 50% reduction up to 1800cc and 25% reduction on to above 1800cc.

Income Tax Ordinance, 2001

1. Filer (Section 2(23A))

The Finance Bill seeks to define the term "filer" to mean a taxpayer:

- whose name appears in the active taxpayers' list issued by the Board from time to time; or
- is holder of a taxpayer's card.

Similarly, the term "non-filer" has been defined in clause (35C) to mean a person who is not a filer.

The proposed definitions are meant to bring appropriate provisions in the law to penalize the non-filers and at the same time to incentivize and reward the filers. A number of amendments have been proposed in the Bill in this regard.

2. Bonus shares to be treated as income (Sections 2(29) & 39)

Under the existing law, the definition of the term "income", in case of a shareholder of a company excludes the amount representing the face value of any bonus share or the amount of any bonus declared, issued or paid by the company to the shareholders with a view to increasing its paid up share capital.

The Bill proposes to delete the above referred exclusion from the definition of "income", thereby bringing the bonus shares received by a shareholder under the tax net.

It may be noted that under the repealed Income Tax Ordinance, 1979, for a very brief period, bonus shares received by a shareholder of a company were considered as "income" and it was through Finance Ordinance, 2002 that these were specifically excluded from the definition of "income".

The Finance Bill has also proposed an amendment in section 39, treating the income arising to the shareholder of a company from the issuance of bonus shares as taxable under the head "income from other sources".

3. Special Judge (Section 2(59B))

"Special Judge" has been defined to mean the Special Judge, appointed under section 203.

4. Stock Fund (Section 2(61A))

The Bill defines the term "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 70% of the investment.

The term has been defined in the context of an amendment proposed in the First Schedule which provides the rate of tax withholding to be applied by a collective investment scheme or mutual fund on the distribution of dividend in respect of a Stock Fund.

5. Capital gains (Section 37)

The proposed amendment seeks to delete the reference of exemption from capital gains tax in respect of immoveable property held for more than 2 years.

However, this deletion will not have any bearing on the taxation of immoveable property held for more than 2 years as the rate of "0%" is proposed to be prescribed in the First Schedule to the Act in respect of immoveable property held for more than 2 years.

It is not clear whether it is the intent of the legislature or not; however, it appears that as a consequence of deletion of the time period of 2 years, losses arising during a tax year on disposal of immoveable property held for more than 2 years would be allowed as a deduction against capital gains arising on disposal of a capital asset during a tax year in the manner provided under section 38.

6. Capital gains on sale of securities (Section 37A)

A number of amendments are proposed under this section and in the Second Schedule in relation to taxation of capital gains on the disposal of securities.

Securities held for more than a year

The existing section provides that the provisions of this section shall not apply where the securities are held for a period of more than a year.

The Bill seeks to delete the time period of 1 year. It is pertinent to note that in the First Schedule "0%" rate of tax in respect of securities held for more than 2 years has been proposed.

By virtue of the proposed amendment, gain arising on sale of securities held upto 2 years has been made chargeable to tax as against 1 year as per existing provisions of law.

Period	**Rate of tax**
Where holding period of a security is less than 12 months	12.5%
Where holding period of a security is more than 12 months but less than 24 months	10%
Where holding period of a security is 24 months or more	0%

It is also important to note that gain arising on the disposal of securities held for more than 2 years shall not be considered as exempt and instead would be chargeable to tax at "0".

It appears that as a consequence of this amendment, losses arising during a tax year, on the disposal of securities, irrespective of the holding period, would be allowed as a deduction against capital gains arising on disposal of securities during that tax year in the manner allowed under sub-section (5) read with Rule 13D of the Income Tax Rules, 2002.

Securities include "debt securities"
The scope of the term "securities" is also proposed to be enlarged by including "debt securities" in its ambit as such gain on disposal of debt securities shall also be subject to capital gains taxation.

As per amended definition, "securities" is defined to mean share of a public company, voucher of Pakistan Telecommunication Corporation, Modaraba Certificate, an instrument of redeemable capital, **debt securities** and derivative products.

The term, "debt securities" has also been proposed to mean:

a) Corporate Debt Securities such as Term Finance Certificates (TFCs), Sukuk Certificates (Sharia Compliant Bonds), Registered Bonds, Commercial Papers, Participation Term Certificates (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 Treasury Bills (T-bills), Federal Investment Bonds (FIBs), Pakistan Investment Bonds (PIBs), Foreign Currency Bonds, Government Papers, Municipal Bonds, Infrastructure Bonds and all kinds of debt instruments issued by Federal Government, Provincial Governments, Local Authorities and other statutory bodies.

Revised rates of tax for tax year 2015

By virtue of the proposed insertion of "debt securities" in the definition of the term "securities", for tax year 2015, debt securities shall also be chargeable to tax as per provisions of section 37A. Moreover, capital gains arising on the sale of debt securities shall now also be liable to quarterly payment of advance tax, as envisaged under section 147(5B) as under:

Period	Rate of advance tax
Where holding period of a security is less than six months.	2%
Where holding period of a security is more than six months but less than twelve months.	1.5%

It may be noted that the holding period in respect of securities, as proposed in the First Schedule with reference to levy of capital gains tax, is not aligned with the holding period stated under section 147(5B) for the quarterly payment of advance tax. This appears to be an anomaly and is likely to be corrected in the Finance Act., 2014.

Further, every investor shall be required to report gain or loss on disposal of debt securities within 21 days of the end of each quarter in the manner provided under Rule 13H.

7. Income from sale of spectrum licenses (Section 49)

Income of the Federal Government is exempt from tax. Similarly, income derived by a Provincial Government and Local authority is exempt from tax, unless derived from a business carried on outside its jurisdictional area.

The Bill seeks to treat the income derived by Pakistan Telecommunication Authority (PTA) after March 01, 2014 from sale of spectrum licenses as derived by the Federal Government. It is further proposed that such income shall not be treated as income of PTA.

8. Taxation of a Company as member of Association of persons (Sections 88A & 92)

Under the existing taxation framework, an association of persons (AOP) is liable to tax as per prescribed rates and the members of the AOP are exempt from tax in respect of share of profit received from such AOP.

Moreover, current provisions of law provide for a company, being a member of an AOP, to claim tax credit in respect of tax assessed on income received from an AOP rather than allowing full exemption, as is the case with an individual as a member of an AOP.

The Finance Bill seeks to introduce an amendment in section 92 which provides that in a scenario where at least one member of an AOP is a company then:

- share of a company or companies shall be excluded for the purpose of computing the total income of an AOP, and
- the company or companies, as the case may be, shall be taxed separately at the rate applicable to the companies, according to their share.

Effectively, an AOP shall compute its total income after excluding the share of a company, as its member. Share of profit received by members of an AOP, other than a company, shall be taxable as per rates provided under the First Schedule.

A company shall be taxed as per provisions of law.

This amendment is likely to facilitate especially the non-resident corporate entities interested in entering into joint venture with Pakistani partners. Similar concession was earlier granted by FBR through its Circular No.8 of 1986 dated February 9, 1986, whereby the Pakistani and Foreign Companies undertaking a joint venture are taxed on the share income of joint venture separately, with a condition that at least one of the joint venture partner must be a foreign company.

9. Application of Eighth Schedule on debt securities (Section 100B)

Section 100B was introduced through Finance Act, 2012, providing for the capital gains on disposal of listed securities and tax thereon to be computed, determined, collected and deposited in accordance with the rules laid down in the Eighth Schedule.

Certain persons have been excluded from the applicability of the Eighth Schedule. The Bill seeks to omit *"a foreign institutional investor*" from the list of exclusions and insert "*a company, in respect of debt securities only*".

By virtue of the above amendment, capital gains derived by the foreign institutional investors from disposal of securities, other than debt securities, shall be computed and taxed in accordance with the provisions of the Eighth Schedule. Thus, provisions of section 147(5B) requiring quarterly payment and reporting of advance tax shall not be applicable in their case. However, foreign institutional investors shall remain liable to file their return of income on annual basis.

10. Tax credit for certain persons- (Section 100C)

Under the existing law, various exemptions are available to trusts, welfare institutions and non-profit organizations under Clauses (58), (58A), (59) and (60) of Second Schedule to the Ordinance, which are summarized below:

(a) Trust, welfare institution or non-profit organization in respect of income from donations, voluntary contributions, subscriptions, house property, investments in the securities of the Federal Government and so much of the income chargeable under the head "income from business" as is expended in Pakistan for the purposes of carrying out welfare activities.

(b) Trust administered under a scheme approved by the Federal Government and established in Pakistan exclusively for the purposes of carrying out activities for the benefit and welfare of ex-servicemen and serving personnel including civilian employees of the Armed Forces, and their dependents; or ex-employees and serving personnel of the Federal Government or a Provincial Government and their dependents.

(c) Trust, welfare institution or non-profit organization approved by Chief Commissioner for the purposes of this sub-clause.

(d) Income of a university or other educational institution being run by a non-profit organization existing solely for educational purposes instead of earning profit.

(e) Any income which is derived from 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 held under trust or other legal obligations wholly or partly only for religious or charitable purposes and is actually applied or finally set apart for application thereto.

(f) Religious or charitable institution in respect of any income derived from voluntary contributions applicable solely to religious or charitable purposes of the institution for the benefit of the public.

It is proposed that these exemption clauses be deleted from the Schedule, and non-profit organizations, trusts and welfare institutions be allowed tax credit equal to 100% of the tax payable including minimum tax and final taxes subject to the condition that the person claiming tax credit has filed his tax return, deducted / collected withholding tax and deposited the same into the Government treasury and filed withholding statements for preceding tax year.

11. Consolidation of Minimum Tax Rates (Section 113)

Under the existing law, minimum tax is payable by certain persons so as to ensure that their tax liabilities including minimum tax payable (if any) is not less than 1% of their turnover. Moreover, concessionary tax rates are available under Part III of Second Schedule for various tax payers.

These provisions are now proposed to be consolidated by inserting a table of applicable tax rates for various taxpayers whilst abolishing concessionary rates in case of certain taxpayers which are discussed item-wise in the commentary relating to Schedules.

12. Alternative Corporate Tax
(Section 113M)

It is proposed to introduce the concept of 'Alternative Corporate Tax' under the Ordinance whereby tax liability of a company would be higher of Corporate Tax liability or Alternative Corporate Tax liability computed at 17% of Accounting Income.

The term "Corporate Tax" has been defined to mean tax payable by a company including minimum tax and final tax but excluding: tax payable under sections 161 and 162 of the Ordinance; default surcharge and penalty.

The term "Accounting Income" has been defined to mean accounting profit before tax excluding: share of associate recognized under equity method; exempt income; certain income taxable under final tax regime; income / gain on disposal of securities taxable under section 37A and income subject to tax credit under sections 65D and 65E.

For the purpose of determining accounting income, expenses will be apportioned between the amounts to be excluded from the accounting income and the amounts to be included as taxable income.

If Corporate Tax or Alternative Corporate Tax is enhanced or reduced as a result of an amended assessment or other order passed under the Ordinance, the excess amount to be carried forward would also change accordingly.

These provisions are not applicable to income of banks, insurance companies, explorers and producers of petroleum and explorer and extractor of mineral deposits taxable under Fourth, Fifth and Seventh Schedule.
Tax credit under section 65B would be applicable on Alternative Corporate Tax.

Excess Alternative Corporate Tax for a tax year which could not be adjusted shall be carried forward for upto ten subsequent tax years and adjusted against the normal tax liability of the company.

The adjustment of minimum tax paid in a year would continue to be available as usual and would not be affected because of the introduction of this section.

The Commissioner Inland Revenue is empowered to make adjustment and proceed to compute accounting income as per historical accounting pattern after providing an opportunity of being heard.

The Alternative Corporate Tax is a new concept and the manner in which it has been drafted, its application is likely create disputes to between the tax payers and the tax collector. It would be expected from FBR that appropriate illustrations are circulated to the field officers and for the benefit of tax payers to understand the implications of this concept in line with the intention of legislature. This levy is likely to Act to the misery of corporate tax payers who are already burdened with the levy of minimum tax @1% of gross turn over.

13. Filing of Tax Return
(Section 114)

As a result of the amendments made in the Ordinance through the Finance Act, 2013, certain persons, who are registered with any chamber of commerce and industry or any trade or business association or any market committee or any professional body including Pakistan Engineering Council, Pakistan Medical and Dental Council, Pakistan Bar Council or any Provincial Bar Council, Institute of Chartered Accountants of Pakistan or Institute of Cost and Management Accountants of Pakistan, were required to file tax returns.

It is now proposed that the words "a resident person" are inserted in the aforesaid clause so that non-resident persons are excluded from its ambit.
The aforesaid change is made in view of objections raised from various quarters of society that non-resident persons especially

those who do not have any nexus with Pakistan cannot be required to file tax returns.

14. Appeal to Commissioner (Appeals)
(Section 127)

Under the existing law, an appeal can be filed before the Commissioner Appeals by any person who is aggrieved by an order passed by Commissioner Inland Revenue or Taxation Officer.

The words "Taxation Officer" are proposed to be replaced by the words "Officer of Inland Revenue". The background of this change is that "Taxation Officer" is not specified as an income tax authority under section 207 of the Ordinance. The aforesaid change was earlier made through the Finance (Amendment) Ordinance, 2010, which lapsed since it did not receive the approval of the Parliament.

15. Appointment of Appellate Tribunal
(Section 130)

It is proposed that Cost and Management Accountant within the meaning of Cost and Management Accountant Act, 1966 who has practiced professionally for ten years or more can be appointed as accountant member of the Tribunal.

Under the existing law, Officer Inland Revenue service equivalent to the rank of Regional Commissioner, Commissioner Inland Revenue, Commissioner Inland Revenue - Appeals and Chartered Accountant can be appointed for this position subject to certain specified conditions.

16. Tax collection on import of ships by ship-breakers (Section 148)

Amendment seeks collection of tax at 4.5% on import of ships. The tax collected shall be treated as final tax.

Amendment has also been proposed in the Second Schedule which provides that the provisions of clause (a) of sub-section (1) of section 153, shall not apply to ship breakers as recipient of payment. It is further provided that this clause shall only apply for ships imported after the 1st July 2014.

17. Salary – Director's remuneration (Section 149)

Under the existing law, Director's fee is classified as 'salary' where the director is under an employment relationship.

It is proposed that the person responsible for making payment for directorship fee or fee for attending the board meetings shall withhold tax at 20% of the gross amount payable to the directors. Tax deductible shall be adjustable against tax payable by the director.

18. Payments of profit on debt
(Section 151)

Under the present law, tax is deductible at 10% on payment of profit on debt. The said tax is adjustable in case of companies whilst final tax for others.

The amended section proposes for tax deduction at 15% on payment of profit on debt to a non-filer, other than a company.

Where profit paid to a non-filer is Rs.500,000 or less, then the rate of 10% shall apply.

The excess 5% tax deducted in case of non-filer shall be advance income tax adjustable against tax liability.

19. Contract with sportsperson
(Section 153)

Under the existing law, there is an ambiguity whether fee received by a sportsperson may be included under the scope of section 153(1)(b) as contract for services and would be subject to tax under minimum tax regime at 7%, or to be treated as execution of contracts under section 153(1)(c).

It is now proposed that contracts with sportspersons be covered under the scope of section 153(1)(c) – execution of contracts. The payment made to sportspersons in respect of these contracts would be subject to tax deduction at 10% as final tax.

20. Compulsory registration in certain cases (Section 181AA)

In Government's drive to bring maximum people under tax net and documenting the system, section 181AA is proposed to be inserted in the Ordinance whereby application of a person for commercial or industrial connection of electricity or gas must not be processed unless he gets himself registered under section 181 of the Ordinance for the National Tax Number.

This amendment would ensure that all persons intending to acquire new commercial gas/electricity connections get themselves registered for tax purposes and eventually file their tax returns.

21. Appointment of Special Judge (Section 203)

The proposed amendment empowers the Federal Government to declare that a special judge appointed under section 185 of the Customs Act 1969 shall have jurisdiction to try offences under section 203 of the Ordinance.

22. Advance tax on private motor vehicles (Section 231B)

Presently, Excise and Taxation officers are required to collect advance tax under this section at the time of registration of new locally manufactured vehicles.

This section is replaced by a new section whereby in addition to the above, motor vehicle registering authority is also required to collect advance tax at the time of transfer of ownership of a private vehicle. However, no tax would be deducted if the person produces evidence that tax was deducted at the time of transfer of ownership in respect of same vehicle (in case of locally manufactured vehicle), or tax under section 148 was collected at the time of import of same vehicle.

Furthermore, manufacturers of a motor car or jeep are also required to collect advance tax at the time of sale of such vehicle from the person to whom sale is made. The tax deducted would be adjustable against income of owner of motor vehicle.

23. Advance tax collection on domestic electricity consumption (Section 235A)

Presently, tax collection is required on bills only in respect of industrial or commercial electricity consumption.

In a bid to broaden tax net, scope of collection of advance tax on electricity has been proposed to be expanded to include domestic consumers.

The advance tax collected in this respect would be adjustable against their tax liabilities.

24. Tax collection on steel melters, re-rollers (Section 235B)

The Bill has proposed insertion of this new section which requires tax collection from steel-melters, steel re-rollers and composite steel units, at the rate of one rupee per unit of electricity consumed for the purpose of producing steel billets, ingots and mild steel (excluding stainless steel).
The tax collected shall be deemed to be deducted on the payment of local purchases of scrap as required under section 153. An amendment has also been proposed in the Second Schedule providing for exemption from tax withholding under section 153(1)in respect of steel melters, steel re-rollers , composite steel units, as a payer, in respect of purchase of scrap

The tax collected shall not be adjustable against the normal tax liability of any return.

25. Advance tax on purchase of domestic air tickets (Section 236B)

Under the existing law, travel agents have been required to collect advance tax on purchase of domestic air tickets.

Under the proposed amendment, the airline issuing the ticket would be required to collect tax, instead of travel agent.

26. Advance tax on purchase or transfer of immovable property (Section 236K)

When the Finance Act, 2012 was passed, sale of immovable property was brought under the scope of capital gain tax and tax was imposed accordingly. Similarly, section 236C was introduced wherein tax was collected from seller or transferor by person responsible for registering transfer of property.

Now, in its bid to broaden tax net, the Bill has proposed to insert a new section requiring every person responsible for registering or attesting transfer of any immovable property, to collect advance tax at prescribed rates at the time of registering or attesting the transfer from the purchaser or transferee of property.

The said tax shall be adjustable against tax liability of purchaser.

The word "transfer" includes gift, inheritance etc. Intention seems that tax will be levied to all transactions and not only by way of purchase. Tax collection under this section shall not be applicable in the case of:

- Federal Government,
- Provincial Government,
- A Local Government,
- A foreign diplomatic mission in Pakistan, or
- A scheme introduced by the Federal Government, or Provincial Government or an Authority established under a Federal or Provincial law for expatriate Pakistanis.

Immovable property valuing up to Rs.3 million shall not be liable to tax collection. Where the value of immovable property exceeds Rs.3 million then for tax compliant taxpayer, rate of tax collection is 1%, while for non-filer, rate of 2% shall be applicable. Provided the rate for non-filer shall be 1%, up to the date appointed by the Board through official Gazette.

Introduction of this section intends to ensure all persons purchasing immovable property are documented and brought into tax net.

27. Advance tax on purchase of international air tickets (Section 236L)

Previously, tax collection was required only with respect to purchase of air tickets for domestic travel.

Under this proposed section, in its bid to broaden tax net, scope of collection of advance tax has been proposed to be expanded to purchase of international air tickets in Pakistan. The airline issuing the ticket is required to collect the said advance tax, as in the case of tickets for domestic flights.

The advance tax collected in this respect would be adjustable against tax liabilities of travelers.

28. Advance tax on issuance of Bonus shares (Section 236M)

Under the existing law, receipt of bonus shares has been specifically excluded from the scope of income.
In order to bring recipients of bonus shares under tax net, this proposed newly inserted section requires the person issuing bonus shares to collect tax at 5% on the value of the bonus shares determined on the basis of day-end price on the first day of book closure. Thus, it appears that the 5% rate shall be applied on the market value of the bonus shares. However, the reference of stock exchange has not been given in the proposed amendment. It is not clear what value is to be taken in respect of bonus shares issued by an unlisted company.

Further, necessary amendment is also proposed in the definition of “income”. The tax deducted under this section would be a final tax.

It must be noted that the Bill has not prescribed any specific arrangement for collection of the aforesaid tax. Instead, it has required the companies issuing bonus shares to make adequate arrangements for collection of tax.

Where a company fails to collect and deposit the said tax, the tax shall be recovered from the company in addition to any other liability under the Ordinance. This requirement would create severe hardship for any public company especially where large number of shareholders, or sum of dividend, are involved.

The First Schedule
Rates of Tax

Part I
Division I (Clause 1B)

The Bill proposes to insert a new clause whereby relief has been provided to disabled persons by reducing their tax liability by 50% on income up to Rs.1 million. The following conditions are applicable for availing this reduction in tax liability:

i. The taxpayer must be a holder of Computerized National Identity Card for disabled persons; or

ii. The taxpayer's age must be 60 years or above on the first day of that tax year.

A similar exemption which was previously available to all taxpayers aged 60 years or more in accordance with clause (1A) of Part III of Second Schedule to the Ordinance has now been moved to the First Schedule.

Division II (Rates of Tax for Companies)

The Bill seeks to promote the corporatization in Pakistan by reducing the corporate tax rate from 34% to 33%. The said proviso is mentioned in the salient features of Income Tax Budgetary Measure but is not reflected in the Finance Bill, 2014. It is expected that appropriate amendment will be brought through Finance Act, 2014 to affect the reduction in tax rate for companies, other than banking companies.

Division III (Rate of Dividend Tax)

A general rate of tax at 10% is currently applicable on dividends received from companies under section 5 of the Ordinance; whereas for dividend distributed by companies owning power projects is taxable at 7.5%.

Reduced rate is now proposed for certain coal supplier companies. Further, the Bill also seeks to stipulate rates of tax on dividend received from a stock fund and dividend received by a company from a collective investment scheme or a mutual fund. These steps are taken to incentivize the power generation projects and to remove distortions and inequalities existent in the mutual fund industry. The table below provides the proposed dividend tax rates:

Dividend Income	**Tax Rate**
Dividends declared/distributed by or on: (i) Purchaser of a power projects privatized by WAPDA *(Previously this reduced tax rate was available under clause 17 of Part II of the Ordinance which is now proposed to be omitted)* (ii) Shares of a company set up for power generation *(Relocated from clause 20 of Part II of Second Schedule)* (iii) Shares of a company supplying coal exclusively to power generation projects	7.5%
Dividend received by a person on stock fund for tax year 2015 and onwards *(where dividend receipts are less then capital gains)*	12.5%
Dividend received by a company from collective investment scheme or mutual fund other than a stock fund	25%
All other cases	10%

Division VII (Capital Gain Tax on Securities)

The Bill seeks to rationalize the rate of capital gain tax on securities for the tax year 2015 in order to avoid the sharp increase in the tax rate which might affect the stock market. The comparison of the existing and newly proposed capital gain tax rates is provided in the table below:

Existing		Proposed	
Period	**Tax Rate for Tax Year 2015**	**Period**	**Tax Rate for Tax Year 2015**
Where holding period of security is less than six months	17.5%	Where holding period of security is less than twelve months	12.5%
Where holding period of security is more than six months but less than twelve months	9.5%	Where holding period of security is twelve months or more but less than twenty-four months	10%
Where holding period of a security is twelve months or more	0%	Where holding period of a security is twenty-four months or more	0%

Division VIII (Capital Gain Tax on Disposal of Immovable Property)

The Bill proposes to prescribe the tax rate in respect of gain on disposal of immoveable property held for more than two years at zero percent. This amendment is made in order to remove the ambiguity regarding the rate of tax on the gain on disposal of immoveable property held for more than two years.

Division IX (Minimum Tax under Section 113)

The Bill seeks to consolidate the minimum tax rates applicable to certain persons which were previously provided under Part III of Second Schedule. The table below provides the minimum tax rates as applicable on each category:

S. No.	Person(s)	Minimum Tax as percentage of the person's turnover for the year
1	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); Pakistan International Airlines Corporation; and Poultry industry including poultry breeding, broiler production, egg production and poultry feed production.	0.5%
2	Distributors of pharmaceutical products, fertilizers and cigarettes; Petroleum agents and distributors who are registered under the Sales Tax Act, 1990; Rice mills and dealers; and Flour mills.	0.2%
3	Motorcycle dealers registered under the Sales Tax Act, 1990	0.25%
4	In all other cases	1%

Part II
Rates of Advance Tax

The Bill seeks to consolidate and stipulate the rates of advance tax under section 148 of the Ordinance. The substituted rates of advance tax are as under:

S. No.	Persons	Rate
1.	i. Industrial undertaking importing re-meltable steel (PCT Heading 72.04) and directly reduced iron for its own use; *(relocated from clause (9B) of Part II of the Second Schedule)* 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; *(relocated from clause (13E) of Part II of the Second Schedule)* iii. Persons importing urea; and *(relocated from clause (23) of Part II of the Second Schedule)* iv. Manufacturers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31st December, 2011. *(relocated from clause (9C) of Part II of the Second Schedule)* *(Manufactures of textile (including jute), carpets, leather, sports and surgical goods)*	1% of import value as increased by customs - duty, sales tax and federal excise duty
2.	Persons importing pulses *(relocated from clause (24) of Part II of Second Schedule)*	2% of import value as increased by customs - duty, sales tax and federal excise duty
3	Commercial importers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31st December, 2011 *(relocated from clause (9C) of Part II of the Second Schedule)* *(Commercial importer doing business in textile (including jute), carpets, leather, sports and surgical goods)*	3% of import value as increased by customs - duty, sales tax and federal excise duty
4	Ship breakers on import of ships	4.5%
5	Industrial undertakings not covered under S. Nos. 1 to 4	5.5%
6	Companies not covered under S. Nos. 1 to 5	5.5%
7	Persons not covered under S. Nos. 1 to 6	6%

Part II A
Collection of Tax from Distributors, Dealers and Wholesalers [Omitted]

The Bill seeks to make a technical correction by omitting Part IIA as the related Section 153A – Payment to Traders and Distributors was omitted vide Finance Act, 2013.

Part III
Division I (Advance Tax on Dividend)

The Bill seeks to introduce a new clause prescribing the withholding tax rates deductible under section 150 of the Ordinance on dividend declared or distributed by power generation projects, stock fund, collective investment scheme or mutual fund and other cases. The table below provides the specific rates of withholding tax on dividend for each category of taxpayers:

	Power Generation Projects			Stock Fund	Collective Investment Scheme or Mutual Fund	Other Cases	
	Purchaser of Power Projects privatized by WAPDA	Power Generation Company	Coal Supplier to Power Generation Projects	If dividend receipts are less than capital gain		Filers	Non-Filers
	------------- Rates of Withholding Tax on Dividend -------------						
Individual	7.5%	7.5%	7.5%	12.5%	10%	10%	15%
Company	7.5%	7.5%	7.5%	12.5%	25%	10%	15%
AOP	7.5%	7.5%	7.5%	12.5%	10%	10%	15%

Division IA (Profit on Debt)

The Bill seeks to propose separate withholding tax rates on profit on debt under section 151 of the Ordinance for filers and non-filers as opposed to a single tax rate of 10% for all persons.

Category		Rate of Tax for filers and non-filers
Filer		10%
Non-Filer	On yield or profit of Rs.500,000/- or less	10%
	On yield or profit more than Rs.500,000/-	15%

Division III (Payments for Goods or Services)

The Bill proposes to rationalize and enhance the withholding tax rates for payment on account of goods and services. Further, the Bill also proposes to stipulate the rate of withholding tax on account of payment to sportsperson. The table below provides a comparison of existing and proposed withholding tax rates under section 153 of the Ordinance.

Category		Existing Tax Rates	Proposed Tax Rates
Sale of Goods	Companies	3.5%	4%
	Other Tax Payers	4%	4.5%
Services	Companies	6%	8%
	Other Tax Payers	7%	10%
Contracts	Companies	6%	7%
	Other Tax Payers	6.5%	7.5%
	Sportsperson	------	10%

Division IV (Exports)

The Bill seeks to enhance the rate of withholding tax on payments made by exporters/export houses on account of services of stitching, dying, printing, embroidery, washing, sizing and weaving from exiting 0.5% to 1%.

Division VIA (Petroleum Products)

The Bill seeks to enhance the rate of withholding tax on payment of commission or discount allowed by the person selling petroleum products to a petrol pump operator from exiting 10% to 12%.

Part IV
Division VIA (Brokerage and Commission)

The Bill seeks to enhance the rate of withholding tax on brokerage and commission on payments to advertising and commission agents.

A comparison of the existing and proposed rates is provided in the table below:

Category	Existing Tax Rates	Proposed Tax Rates
Advertising Agents	5%	7.5%
Other Cases	10%	12%

There seems a contradiction in the Finance Bill, 2014 and the Salient Features of Income Tax Budgetary Measures. The Salient Features mentions to increase the withholding tax rate on advertising agent to 10% as evident from budget speech but in the Finance Bill it is mentioned as 7.5%.

Division III (Tax on Motor Vehicles)

The Bill seeks to increase the advance tax collected with Motor Vehicle Tax on private vehicles to account for inflationary effect as these rates were last revised vide Finance Act, 2008. As a measure to broaden the tax base, the Bill also proposes separate tax rates for filers and non-filers as provided in the table below:

S. No.	Engine Capacity	For Filers	For Non-Filer
1.	Up to 1000cc	Rs.1,000	Rs.1,000
2.	1001cc to 1199cc	Rs.1,800	Rs.3,600
3.	1200cc to 1299cc	Rs.2,000	Rs.4,000
4.	1300cc to 1499cc	Rs.3,000	Rs.6000
5.	1500cc to 1599cc	Rs.4,500	Rs.9,000
6.	1600cc to 1999cc	Rs.6000	Rs.12,000
7.	2000cc & above	Rs.12,000	Rs.24,000

Where motor vehicle tax is collected in lump sum:

S. No.	Engine Capacity	For Filer	For Non-Filer
1.	Up to 1000cc	Rs.10,000	Rs.10,000
2.	1001cc to 1199cc	Rs.18,000	Rs.36,000
3.	1200cc to 1299cc	Rs.20,000	Rs.40,000
4.	1300cc to 1499cc	Rs.30,000	Rs.60,000
5.	1500cc to 1599cc	Rs.45,000	Rs.90,000
6.	1600cc to 1999cc	Rs.60,000	Rs.120,000
7.	2000cc and above	Rs.120,000	Rs.240,000

Division V (Telephone Users)

The Bill seeks to reduce the rate of advance tax to be collected from “subscriber of mobile telephone and pre-paid telephone card or sale of units through any electronic medium or whatever form” from 15% to 14%.

Division VI (Cash Withdrawal from a Bank)

As a measure to broaden the tax base, the Bill proposes to stipulate separate advance tax rates for filers and non- filers. The rate of tax on cash withdrawal from bank by filers is proposed to be maintained at the existing level of 0.3% while for non-filers 0.5% has been proposed.

Division VII (Purchase of Motor Cars and Jeeps)

The Bill proposes to prescribe the rates of advance tax to be collected at the time of registration of locally manufactured vehicle. The tax rates for filers are proposed to be maintained at existing levels with addition of two slabs in relation to engine capacity while separate tax rates for non-filers are also prescribed by the Finance Bill as presented in the table below:

S. No.	Engine Capacity	Existing Tax Amount	Proposed Tax Amount	
			Filer	Non-Filer
1.	Up to 850cc	Rs.10,000	Rs.10,000	Rs.10,000
2.	851cc to 1000cc	Rs.20,000	Rs.20,000	Rs.25,000
3.	1001cc to 1300cc	Rs.30,000	Rs.30,000	Rs.40,000
4.	1301cc to 1600cc	Rs.50,000	Rs.50,000	Rs.100,000
5.	1601cc to 1800cc	Rs.75,000	Rs.75,000	Rs.150,000
6.	1801cc to 2000cc	Rs.100,000	Rs.100,000	Rs.200,000
7.	2001cc to 2500cc	Rs.150,000	Rs.150,000	Rs.300,000
8.	2501cc to 3000cc	-	Rs.200,000	Rs.400,000
9.	Above 3000cc	-	Rs.250,000	Rs.450,000

Division X (Advance Tax on Sale or Transfer of Immoveable Property)

As a measure to broaden the tax net, the Bill proposes to stipulate separate advance tax rates for filers and non- filers. The rate of advance tax on sale or transfer of immoveable property by filers is proposed to be maintained at the existing level of 0.5% while for non-filers 1% has been proposed.

Division XI (Advance Tax on Functions and Gatherings)

In order to provide relief to general public, the Bill proposes to reduce the rate of advance tax on functions and gatherings from existing 10% to 5%.

Division XVIII (Advance Tax on Purchase of Immoveable Property)

The Bill seeks to introduce an adjustable advance tax on the sale of immoveable property in order to bring the real estate transactions under the tax net. The rates of tax for filers and non-filers shall be as under:

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

The aforesaid advance tax shall not be collected from Federal Government, Provincial Government, a Local Government or a foreign diplomatic mission in Pakistan or any scheme introduced by the government for expatriates.

Division XIX (Advance Tax on Domestic Electricity Consumption)

The Bill proposes to introduce advance tax on electricity consumption at the rate of 7.5% on domestic consumers having electricity bill of Rs.100,000/- or more.

Division XX (Advance Tax on International Air Ticket)

As a measure to increase the cost of doing business for a non-compliant, the Bill proposes to prescribe rates of advance tax on purchase of International air tickets as provided in the below table:

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

The Second Schedule

Exemptions and Tax Concessions

Part I
Exemption from Total Income

The Bill proposes to withdraw certain exemptions owing to discrimination and misuse resulting in loss to government exchequer. Further, the Bill has also proposed incentives to corporate taxpayers for foreign investment, generate employment and attract inflow of foreign exchange in Pakistan .The proposed changes are as under;

Clause (35) [Omitted]

Any income representing compensatory allowance payable to a citizen of Pakistan locally recruited in Pakistan Mission abroad as does not exceed 75% of his gross salary. Accordingly, aforementioned allowance will be taxable in the hands of a citizen of Pakistan locally recruited in Pakistan Mission abroad.

Clause (57 (3)) [Addition]

A new clause is proposed to be added to provide tax exemption on any income derived by Sindh Pension Fund established under the Sindh Province Pension Fund Ordinance, 2002.

Clause (58, 58A, 59 and 60) [Relocated]

These clauses relate to various tax exemptions to non-profit organizations, trusts or welfare institutions which are now repositioned in the newly inserted section100C of the Ordinance.

Clause (66 (XXX)) [Addition]

A new clause is proposed to be added to provide tax exemption on any income derived by Green Star Social Marketing Pakistan (Guarantee) Limited.

Clause (99) [Addition]

A new proviso is proposed to be added in clause (99) which provides exemption to any income derived by a Collective Investment Scheme or REIT Scheme, if not less 90% of its accounting income of that year is distributed amongst the unit holders.

The proposed clause provides that for the purpose of determining 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.

Clause (126) [Substituted]

It is proposed to substitute the existing clause (126) with the following:

“Any income derived by a public sector university”.

Income of the Public Sector Universities were taxable by virtue of withdrawal of clause (92) of Second Schedule to the Ordinance vide

Finance Act, 2013. In the aforesaid Act, exemption from taxes was granted only to those universities operating under the umbrella of Non-Profit Organizations duly approved by the Commissioner Inland Revenue. This was discrimination to public sector universities and through this substituted clause, this anomaly has been removed.

Clause (126A) [Substituted]

This Clause seeks to grant exemption to China Overseas Ports Holding Company Limited from Gwadar operations for a period of twenty years , with effect from the sixth day of February, 2007".

Clause (126H) [Addition]

A new clause is proposed to be added to provide tax exemption to Profits and Gains derived by a taxpayer from a food processing & preservation units established at Balochistan Province, Malakand Division, Gilgit Baltistan and FATA between the first day of July, 2014 to the thirtieth day of June, 2017, both days inclusive for five years. This insertion will help the locally grown fruits in above mentioned provinces and FATA reach the bigger markets and to promote investment, growth and employment in these areas.

Clause (132B) [Addition]

A new clause is proposed to be added to provide tax exemption to Profits and Gains derived by a taxpayer from a coal mining project in Sindh, supplying coal exclusively to power generation projects. This new clause is inserted to encourage electricity generation from local coal.

Part II
Reduction in tax rates

Clause (18A) [Addition]

This clause seeks to provide concessional tax rate @ 20% to industrial undertakings setup through foreign direct investment between the first day of July, 2014 to thirtieth day of June, 2017, for a period of five years beginning from the month in which the industrial undertaking is setup or commercial production is commenced, whichever is later; provided that fifty percent of the cost of the project including working capital is through owner equity foreign direct investment. The purpose of this proposed clause is to attract foreign direct investment, generate employment and attract inflow of foreign exchange in Pakistan.

Clause (19) [Omitted]

In respect of tax year commencing on or after the first day of July, 2002, the rate of income tax in respect of income of amalgamated company for its different businesses shall be the same as applicable to such businesses in the relevant tax year for the tax year in which amalgamation takes place and two tax years next following.

Clause (24B) [Omitted]

The Bill proposes to omit this clause wherein mechanism of various taxation measures were provided to Steel Melters who have opted under the Sales Tax Special Procedures Rules, 2007. A new section 235B of the Ordinance has been proposed wherein advance tax has to be collected at the rate of Re.1 per unit of electricity which is non-adjustable against the tax liability of the taxpayer. It is also proposed that provisions of section 153(1) (a) of the Ordinance shall not be applicable on Steel Melters in accordance with newly proposed clause (9A) of Part IV of the Second Schedule to the Ordinance.

Clause (29) [Omitted]

The rate of tax under section 153A as specified in Part IIA of the First Schedule shall be reduced to 0.1% in case of cigarette manufacturers who are registered under the Sales Tax Act, 1990. The section 153 A has been omitted vide Finance Act, 2013. Earlier it was inserted vide Finance Act, 2008. After omission of aforesaid section, this clause becomes redundant.

Part III
Reduction in Tax Liability

Clause (1) and Clause (1AA) [Insertion]

The word "pilot" is omitted in clause (1) and new clause (1AA) is inserted whereby all allowances received by pilots of Pakistani Airlines are proposed to be taxed at the rate of 7.5%. This reduction shall be available to so much of the allowances as exceeds an amount equal to the basic pay.

Clause (IA) [Omitted]

Where the taxable income other than income on which the deduction of tax is final, in a tax year, of a taxpayer aged 60 years or more on the first day of that tax year does not exceed one million rupees, his tax liability on such income shall be reduced by 50%.

The above clause is repositioned from Second Schedule to First Schedule.

Clauses (8, 9, 10, 12, 13, 14 and 15) [Omitted]

The Bill seeks to reallocate the following clauses under a newly added Division IX under First Schedule:

i) Clause (8) Distributors of pharmaceutical products, fertilizers, consumers goods including fast moving consumers goods

ii) Clause (9) Oil marketing companies, oil refineries and Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited

iii) Clause (10) Flour mills

iv) Clause (12) M/s Pakistan International Airlines Corporation

v) Clause (13) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990 and rice mills and dealers

vi) Clause (14) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production

vii) Clause (15) Motorcycle dealers registered under the Sales Tax Act, 1990

Part IV
Exemption from Specific Provisions

Clause (9A) [Addition]

Provisions of clause (a) of sub-section (1) of section 153, shall not apply 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 section.

Clause (9AA) [Addition]

Provisions of clause (a) of sub-section (1) of section 153, shall not apply to ship breakers as recipient of payment. Provided that this clause shall only apply for ships imported after the 1st July 2014.

Clause (11A) [Addition]

The proposed addition seeks to grant exemption to the coal mining projects supplying coal exclusively to power generation projects in Sindh.

Clause (41A) [Replaced].

This Clause is proposed to be replaced by newly inserted Clause (56B). In the aforesaid proposed omitted clause, restriction has been placed in case importer opts out of presumptive tax regime in terms of sub-section (7) of section 148 and clause (a) of sub-section (1) of section 169 subject to the condition that minimum tax liability under normal tax regime shall not be less than 60% of tax already collected under sub-section (7) of section148.

Under the proposed clause a commercial importer may opt out of final tax regime where such person who opts to file return of total income along with accounts and documents as may be prescribed, subject to condition that minimum tax liability under normal tax regime shall not be less than 5.5% of the imports, if the person is a company and 6% otherwise.

Clause (41AA) [Omitted].

An exporter can opts out of final tax regime subject to the condition that minimum tax liability under normal tax regime shall not be less than 50% of tax already deducted under sub-section (4) of section 154.

Clause (41AAA) [Omitted].

This Clause is proposed to be replaced by newly inserted Clause (56C). In the aforesaid omitted clause, restriction has been placed in case a person opts out of presumptive tax regime in terms of clause (a) of sub-section (1) of section 153 and clause (b) of sub-section (1) of section 169 of the Ordinance subject to condition that minimum tax liability under normal tax regime shall not be less than 70% of tax already deducted under clause (a) of sub-section (1) of section 153.

In the proposed clause, a person in respect of an amount on account of supply of goods, if the person opts to file return of total income along with accounts and documents as may be prescribed subject to the condition that minimum tax liability under normal tax regime shall not be less than 3.5% of the gross amount of sales, if the person is a company and 4% otherwise.

Clause (41B) [Omitted]

The provisions of sub-section (2) of section 152 shall not apply in respect of payments to foreign news agencies, syndicate services and non-resident contributors, who have no permanent establishment in Pakistan.

As these foreign news agencies are not present in Pakistan, their agents do not file returns and income escapes assessment. As a result of this, it is proposed that, exemption from deduction of withholding tax be withdrawn.

Clause (56D) [Addition]

This clause proposes to add exemption from final tax regime to certain persons earning through contracts or otherwise subject to certain conditions including minimum tax.

The provisions of sub-section (3) of section 153, in respect of contracts and clause (a) of sub-section (1) of section 169 shall not apply to a person if the person opts to file return of total income along with accounts and documents as may be prescribed subject to the condition that minimum tax liability under normal tax regime shall not be less than 6% of contract receipts, if the person is a company and 6.5% otherwise.

Clause (56E) [Addition]

The said clause seeks to add exemption from final tax regime to persons who earn income by providing certain services or otherwise subject to certain condition including minimum tax.

The provisions of sub-section (2) of section 153 and clause (a) of sub-section (1) of section 169, providing for tax withheld on the amount of commission or discount to a petrol pump operator, to be treated as final tax, shall not apply in respect of a person if the person opts to file return of total income along with accounts and documents as may be prescribed subject to the condition that minimum tax liability under normal tax regime shall not be less than 0.5% of gross amount of services received.

Clause (56F) [Addition]

The provisions of sub-section (2) of section 156A and clause (a) of sub-section (1) of section 169, providing for tax withheld to be treated as final tax, shall not apply in respect of a person if the person opts to file return of total income along with accounts and documents as may be prescribed, subject to the condition that minimum tax liability under normal tax regime shall not be less than 10% of the commission or discount received.

Clause (56G) [Addition]

The provisions of sub-section (3) of section 233 and clause (a) of sub-section (1) of section 169, providing for tax collection on commission and brokerage to be treated as final tax, shall not apply in respect of a person if the person opts to file return of total income along with accounts and documents as may be prescribed, subject to the condition that minimum tax liability under normal tax regime shall not be less than 10% of the commission.

Clause (57) [Explanation added]

An explanation is proposed to be added in the aforesaid Clause to clarify tax deduction by large trading houses.

"Explanation.- For the removal of doubt, exemption under this clause, in respect of section 153, shall only be available as a recipient and not as withholding agent.";

The Third Schedule

Depreciation - Initial Allowance - Expenditure

Part II
Initial Allowance and First Year Allowance

Clause (1)

The Finance Bill has proposed reduction in the percentage of initial allowance on acquisition of new buildings from existing 25% to 10%.

Whilst the Government wishes to encourage the investment in infrastructure and promote the business; however, such proposals are not in line with the stated policy.

The Seventh Schedule

1. Taxation of Dividend and Capital Gains on net basis (Rule 6, 6A and 6B – 7th Schedule)

Under the Seventh Schedule the capital gain on sale of listed shares held for more than a year and dividend income derived by the bank are chargeable to tax at 10%. The Bill proposes to tax the dividend income and capital gains derived by banking company on net income basis, i.e. after deduction of apportioned expense, computed as per following formula:

(A/C) x B

Where –

A is the total amount of expenditure as per 7th Schedule

B is the gross amount of dividend / capital gain; and

C is the gross amount of receipts including dividend / capital gain.

The apportioned expenditure calculated as per above method shall be deducted from dividend received or capital gains derived for calculating the net income.

It is pertinent to mention here that presently, since all income and gains of bank are considered as business income as per Rule 1 of 7th Schedule, therefore, no apportionment of expenses is to be made for computing taxable income in the case of banks.

2. Increase in rate of Taxation of Capital Gains (Rule 6 and 6B – 7th Schedule)

Presently, capital gains are charged to tax at the rate of 10% in respect of listed securities held for more than a year. It is now proposed that the net income from capital gain on sale of shares, held for more than a year, and net income from dividend are to be taxed at 12.5% and 10% respectively.

Tax Collection and Withholding Guide

Tax Deduction / Collection Guide

Various taxes are deductible / collectible by withholding agents and other prescribed persons or payable by taxpayer by way of advance tax under the provisions of the Income Tax Ordinance, 2001.These tax deductions, collections and payments are either adjustable, final tax, minimum tax or against the normal tax liability of the person paying tax or whose tax has been collected or deducted.

In this guide, we have prepared a section-wise summary of these legal requirements, specifying tax rates, persons responsible for deductions / collections / payments of taxes, and as to whether or not these are minimum tax, final tax or adjustable against normal tax liability.

It is clarified that withholding tax provisions are not applicable on payments to banking companies as defined in the Banking Companies Ordinance, 1962 and body corporates which transact banking business in Pakistan.

Withholding Section and Reference		**Description**	**Rate**	**Final Tax, Minimum Tax or Adjustable**	**Collecting / Withholding Agent**
148	Import of goods (other than hybrid cars)	Industrial undertaking importing remeltable steel (PCT Heading 72.04) and directly reduced iron for its own use; 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; Persons importing urea; and Manufacturers covered under Notification No. SRO. 1125(I)/2011 dated 31st December , 2011	1%	Adjustable only in case of Industrial Undertakings Final Tax for all other cases	Collector of Customs
		On import of pulse	2%		
		Commercial importers covered under Notification No. SRO 1125(I)/2011 dated 31st December, 2011	3%		
		Ship breakers on import of ships	4.5%		
		Industrial undertakings (other than above cases)	5.5%		
		By companies (other than above two cases).	5.5%		
		By other persons (other than above cases)	6%		

Withholding Section and Reference		Description	Rate	Final Tax, Minimum Tax or Adjustable	Collecting / Withholding Agent
	Import of hybrid cars (reduced rate is applicable)	**Engine capacity** — **Rate (Companies)**	**Rate (other)**		
		up to 1200 cc — 0%	0%		
		1201 cc to 1800 cc — 2.50%	2.75%		
		1801 cc to 2500 cc — 3.75%	4.125%		
150	Dividend	Dividends declared or distributed by purchaser of power project privatized by WAPDA or on shares if a company set up for power generation or on shares of a company supplying coal exclusively to power generation projects.	7.5%	Final Tax	Payer
		Filers (other than above cases)	10%		
		Non-filers (other than above cases)	15%		
		Stock fund (if dividend receipt are less than capital gains)	12.5%		
		Received by Company from Collective investment scheme or a mutual fund other than stock fund	25%		
151	Profit on debt	Yield on an account, deposit or a certificate under National Saving Scheme or Post Office Savings Account.	15% for non-filer, if amount exceeds Rs.5 lakh and 10% in all other cases	Adjustable only for companies Final Tax in all others cases	Payer
		Profit on any security issued by Federal, Provincial or Local Government. (other than above)			Government
		Profit on account or deposit maintained with banking company or financial institution.			Banking company or financial institution (being payer of profit)
		Profit on any bond, certificate, debenture, security or instrument of any kind (other than a loan agreement between a borrower and a banking company or a development finance institution) paid to any person other than financial institution.			• Company formed and registered under C.O. 1984 • Company formed under any other law • Banking company

Withholding Section and Reference		Description		Rate	Final Tax, Minimum Tax or Adjustable	Collecting / Withholding Agent
						• Financial institution • Finance society)
152	Payment to non-residents (other than those subject to tax deduction under sections 149, 150, 156 and 233)	Royalty or fee for technical services.		15%	Final Tax	Payer
		Contract for construction, assembly or installation project; construction contract and related services; advertisement services by TV satellite channels.		6%		
		Insurance premium or reinsurance premium.		5%		
	Payment to permanent establishment in Pakistan of non-residents	Advertisement services by a media person relaying from abroad.		10%	Adjustable	• Federal Government • Company • AOP constituted under any law • NPO • Foreign contractor/consultant • Consortium/JV • Exporter of export house • AOP where turnover ≥ Rs.50 million • Individual where turnover ≥ Rs.50 million • Person registered under Sales Tax Act 1990
		Other payments.		20%		
		Sale of goods.		3.5%		
		Transport services.		2%		
		Other services.		6%		
		Execution of contract.		6%		
153	Sale of goods	Rice, cotton seed or edible oils		1.5%	Adjustable only for companies Final Tax in all other cases	
		Sale of other goods.	Companies	4%		
			Individuals & AOPs	4.5%		
	Rendering of or providing of services	Transport services.		2%	Minimum Tax	
		Other services.	Companies	8%	Adjustable	
			Individuals & AOPs	10%	Minimum Tax	
	Execution of contracts	Companies		7%	(Final Tax for other) Adjustable for companies registered on stock exchange in Pakistan)	

Withholding Section and Reference		Description	Rate	Final Tax, Minimum Tax or Adjustable	Collecting / Withholding Agent
		Individuals & AOP’s	7.5%	Final Tax	
		Sportspersons	10%	Final Tax	
		Rendering or providing of services of stitching, dying, printing, embroidery, washing, sizing and weaving.	1%	Final Tax	Exporter or export house
154	Export	On realization of foreign exchange proceeds on account of export of goods.	1%	FTR	Authorized dealer in foreign exchange
		On realization of foreign exchange proceeds on account of the commission due to an indenting commission agent.	5%		
		On realization of the proceeds against sale of goods to an exporter under letter of credit or other arrangements prescribed by FBR.	1%		Banking Company
		On export of goods by an industrial undertaking located in the areas declared by the Federal Government to be a Zone as defined under EPZA Ordinance, 1980.	1%		Export Processing Zone Authority (EPZA)
		On payment for a firm contract to indirect exporter as defined under Duty and Tax Remission for Exports Rules, 2001.	1%		Direct exporter and export house registered under the said Rules
		On clearance of goods exported	1%		Collector of Customs
155	Advance tax on property rent	**Individual and AOPs** **Rent** — **Tax** upto Rs.150,000 — Nil. Rs.150,001 to Rs.1,000,000 — 10% of rent exceeding Rs.150,000. Rs.1,000,001 and above — Rs. 85,000 plus 15% of rent exceeding Rs.1,000,000		Adjustable	• Federal Government • Provincial Government • Local Government • Company • NPO & charitable institution • Diplomatic mission • Private educational institution, a
		Companies	15%		

Withholding Section and Reference		Description	Rate	Final Tax, Minimum Tax or Adjustable	Collecting / Withholding Agent
					boutique, beauty parlour, a hospital, a clinic or a maternity home • Individual or AOP paying rent ≥ Rs.1.5 million Any other person notified by the FBR
156	Prize and winning	Prize bond or cross-word puzzle.	15%	Final Tax	Payer
		Raffle, lottery, prize on winning a quiz, prize offered by companies for promotion of sale.	20%		
156A	Petroleum products	Commission or discount allowed to petrol pump operator on sale of petroleum products.	12%	Final Tax	Person selling petroleum product
156B	Withdrawal from pension fund	Withdrawal before the retirement age or in excess of fifty percent of accumulated balance.	Average tax rate for salary for last three tax years	Adjustable	Pension fund manager (being payer)
231A	Advance tax on cash withdrawals from bank	Withdrawal in excess of Rs. 50,000 in a day.	0.3% for filers 0.5% for non-filers	Adjustable	Banking company
231A A	Advance tax on bank transactions	Sale or cancellation against cash of any instrument including Demand Draft, Pay Order, CDR, STDR, SDR, RTC, or any other instrument of bearer nature	0.3%	Adjustable	Banking company, non-banking financial institution, exchange company or any authorized dealer of foreign exchange
231B	Advance tax on registration of a new	**Engine capacity** **Filer** **Non-filer**	Adjustable	Motor vehicle	

Withholding Section and Reference		Description	Rate	Final Tax, Minimum Tax or Adjustable	Collecting / Withholding Agent
	locally manufactured motor vehicles or on the transfer of registration or ownership	------ Rs ------ 850cc or below 10,000 10,000 851cc-1000cc 20,000 25,000 1001cc-1300cc 30,000 40,000 1301cc-1600cc 50,000 100,000 1601cc-1800cc 75,000 150,000 1801cc-2000cc 100,000 200,000 2001cc-2500 cc 150,000 300,000 2501cc-3000cc 200,000 400,000 Above 3000cc 250,000 450,000		registering authority of Excise and Taxation Department	
233	Brokerage and commission	Other cases	12%	Final Tax	• Federal Government • Provincial Government • Local Government • Company AOP constituted under any law
		Advertising agent	7.5%		
233A	Advance tax collected by Stock Exchange	Sale or purchase of shares in lieu of tax on the commission earned by stock exchange members.	0.01%of the sale/ purchase value	Adjustable	Registered Stock Exchange in Pakistan
233AA	Advance tax collected by NCCPL	Profit, markup or interest earned by the member, margin financiers and lenders of securities.	10%	Adjustable	NCCPL
234	Advance tax on motor vehicle (collected in installment)	Goods transport vehicles.	Rs.2 per Kg of the laden weight	Adjustable	Person collecting motor vehicle tax
		Goods transport vehicles with laden weight of 8120 Kg or more.	Rs.1,200 per annum	Adjustable	

Withholding Section and Reference		Description	Rate	Final Tax, Minimum Tax or Adjustable	Collecting / Withholding Agent
		(advance tax shall be collected after a period of ten years from the date of first registration of vehicle in Pakistan)			
		Passenger transport vehicles plying for hire **Seating capacity (persons)** — **Tax (Rs.) (per annum)** 4 to 9 — 25 per seat 10 to 19 — 60 per seat 20 or more. — 250 per seat			
	Advance tax on motor vehicle (collected in installments)	**Engine capacity** — **filers** — **Non-filer** ------ Rs. ------ upto 1000 cc — 1,000 — 1,000 1001 cc – 1199 cc — 1,800 — 3,600 1200 cc – 1299 cc — 2,000 — 4,000 1300 cc – 1499 cc — 3,000 — 6,000 1500 cc – 1599 cc — 4,500 — 9,000 1600cc -- 1999 cc — 6,000 — 12,000 2000cc & above — 12,000 — 24,000		Adjustable	Person collecting motor vehicle tax
		Engine capacity — **Filer** — **Non-Filer** ------ Rs. ------ upto 1000 cc — 10,000 — 10,000 1001 cc – 1199 cc — 18,000 — 36,000 1200 cc – 1299 cc — 20,000 — 40,000 1300 cc – 1499 cc — 30,000 — 60,000 1500 cc – 1599 cc — 45,000 — 90,000 1600 cc – 1999 cc — 60,000 — 120,000 2000 cc and above — 120,000 — 240,000			
234A	Advance tax on amount of gas bill of CNG station	4% of gas consumption charges		Final Tax	Person preparing gas consumption bill

Withholding Section and Reference		Description	Rate	Final Tax, Minimum Tax or Adjustable	Collecting / Withholding Agent
235	Advance tax on the amount of electricity bill of commercial or industrial consumers	**Amount of electricity bill**	**Tax (Rs.)**		
		Upto Rs. 400	Nil		
		Rs. 401 to Rs. 600	80		
		Rs. 601 to Rs. 800	100		
		Rs. 801 to Rs. 1000	160		
		Rs. 1,001 to Rs. 1500	300		
		Rs. 1,501 to Rs. 3,000	350		
		Rs. 3,001 to Rs. 4,500	450		
		Rs. 4,501 to Rs. 6,000	500		
		Rs. 6,001 to Rs. 10,000	650		
		Rs. 10,001 to Rs. 15,000	1,000		
		Rs. 15,001 to Rs. 20,000	1,500		
		Rs. 20,001 and above – commercial consumers	10%		
		Rs. 20,001 and above – industrial consumers	5%		
235A	Advance Tax Domestic electricity consumption	7.5% of the monthly bill where if exceeds Rs.100,000		Adjustable	Person preparing electricity bill
235B	Advance tax on steel melters, steel rollers etc.	One rupee per unit of electricity consumed for production of steel billets, ingots and mild steel (MS products) excluding stainless steel.		Final Tax	Person preparing electricity bill
236	Advance tax on telephone user	Telephone subscriber other than mobile phone subscriber (where the amount of monthly bill exceeds Rs.1000).	10% of excess amount	10% of excess amount	Adjustable
		Subscriber of mobile telephone and pre-paid telephone card or sale of units through electronic or other medium.	14% of amount of bill or sales price	14% of amount of bill or sales price	
236A	Advance tax on sale by auction	Sale by public auction or auction by tender of property or goods.	10% of gross sale price	Adjustable	Seller
236B	Advance tax on purchase of air tickets	Domestic air tickets.	5% of gross amount of air ticket	Adjustable	Airline issuing air ticket
236C	Advance tax on sale or transfer of immovable properties	On registering or attesting the transfer of immoveable property.	0.5% of amount of consideration received for filer and 1% for no-filer.	Adjustable	Person responsible for registering or attesting the transfer of immovable property
236D	Advance tax on function and gathering	Arranging or holding a function in a marriage hall, marquee, hotel, restaurants, commercial lawn, club, a community place or any other place used for such purpose.	5%	Adjustable	Owner, lease holder, operator or manger of • a marriage hall • marquee

<table>
<tr><th colspan="2">Withholding Section and Reference</th><th>Description</th><th>Rate</th><th>Final Tax, Minimum Tax or Adjustable</th><th>Collecting / Withholding Agent</th></tr>
<tr><td></td><td></td><td>Providing food, services or other facility.</td><td></td><td></td><td>• hotel
• restaurant
• commercial lawn
• club
• a community place
• any other place used for above purpose</td></tr>
<tr><td rowspan="2">236E</td><td rowspan="2">Advance tax on foreign-produced TV play and serial</td><td>TV drama serial (per episode)</td><td>Rs. 100,000</td><td rowspan="2">Adjustable</td><td rowspan="2">Licensing Authority giving certification</td></tr>
<tr><td>TV play (single episode)</td><td>Rs. 100,000</td></tr>
<tr><td rowspan="2">236F</td><td rowspan="2">Advance tax on cable operator and other electronic media</td><td colspan="2">
<table>
<tr><th>License Category</th><th>Tax on license (Rs.)</th><th>Tax on renewal (Rs.)</th></tr>
<tr><td>H</td><td>7,500</td><td>10,000</td></tr>
<tr><td>H-1</td><td>10,000</td><td>15,000</td></tr>
<tr><td>H-II</td><td>25,000</td><td>30,000</td></tr>
<tr><td>R</td><td>5,000</td><td>30,000</td></tr>
<tr><td>B</td><td>5,000</td><td>40,000</td></tr>
<tr><td>B-1</td><td>30,000</td><td>50,000</td></tr>
<tr><td>B-2</td><td>40,000</td><td>60,000</td></tr>
<tr><td>B-3</td><td>50,000</td><td>75,000</td></tr>
<tr><td>B-4</td><td>75,000</td><td>100,000</td></tr>
<tr><td>B-5</td><td>87,500</td><td>150,000</td></tr>
<tr><td>B-6</td><td>175,000</td><td>200,000</td></tr>
<tr><td>B-7</td><td>262,500</td><td>300,000</td></tr>
<tr><td>B-8</td><td>437,500</td><td>500,000</td></tr>
<tr><td>B-9</td><td>700,000</td><td>800,000</td></tr>
<tr><td>B-10</td><td>875,500</td><td>900,000</td></tr>
</table>
</td><td rowspan="2">Adjustable</td><td rowspan="2">PEMRA</td></tr>
<tr><td colspan="2">20% of the permission fee or renewal fee from IPTV, FM Radio, MMDS, Mobile TV, Mobile Audio, Satellite TV Channels and Landing Rights</td></tr>
<tr><td>236G</td><td>Advance tax on sale to distributors, dealers or wholesalers</td><td>Sale of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint, or foam sector to distributers, dealers and wholesalers by manufacturers or commercial importers.</td><td>0.1% of gross amount of sales.</td><td>Adjustable</td><td>Manufacturer or commercial importer</td></tr>
<tr><td>236H</td><td>Advance tax on sale to retailers</td><td>Sale of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint, or foam sector to retailers by manufacturers, distributers,</td><td>0.5% of gross amount of sales</td><td>Adjustable</td><td>Manufacturer, dealer, wholesaler or commercial importer</td></tr>
</table>

Withholding Section and Reference		Description	Rate	Final Tax, Minimum Tax or Adjustable	Collecting / Withholding Agent
		dealers and wholesalers or commercial importers.			
236I	Advance tax collected by educational institution	Fee paid to educational institutions	5% of gross amount of fee	Adjustable	Person preparing fee voucher or challan
236J	Advance tax on dealer, commission agent, arhati, etc.	**Group/Class** A B C Others	**Tax per annum (Rs.)** 10,000 7,500 5,000 5,000	Adjustable	Market committee
236K	Advance tax on purchase or transfer of immovable properties	On registering or attesting the transfer of immoveable property	1% in case of filers and 2% in case of non-filers, provided that property value exceeded Rs.3 million	Adjustable	Person responsible for registering or attesting the transfer of immovable property
236L	Advance tax on purchase of air tickets	International air tickets booking one-way or return from Pakistan	In case of First/business/club class 3% for filers and 6% for non-filers No tax on economic class	Adjustable	Airline issuing air ticket
236M	Bonus share	Issuing bonus shares to a shareholder of the Company	5% on the value of bonus shares	Final Tax	Person issuing bonus shares

Repeal of Income Support Levy Act, 2013

Through the Finance Act 2013 a new levy on the **net moveable wealth** of the persons was introduced through promulgation of Income Support Levy Act, 2013 (hereafter referred as "the Act").

The Act had been promulgated with the objective to generate financial resources for providing support for economically distressed families of the country.

The Act provided for levying 0.5% of the net moveable wealth exceeding Rs.1 million as declared in wealth statement by the person.

The Income Support Levy was made effective retroactively from tax year 2013 and was required to be paid along with wealth statement. Thus, individual filing return of income for tax year 2013 was also be liable to pay this levy.

This levy was challenged by a number of tax payers in the court on the plea that it is discriminatory since it is being collected only from individual tax payers. Sindh High Court suspended the application of this Act. Later, the Supreme Court of Pakistan annulled the suspension order of the Sindh High Court.

The Bill seeks to repeal the Income Support Levy Act, 2013. As a consequence, the applicability of the Act in respect of Tax years 2014 and 2015 need to be seen as this may create litigation.

It appears that the Government has not been able to achieve the desired objectives and targets that were initially anticipated. Moreover, it drew the ire of the rich and wealthy individuals and it seems that the Government had to finally budge in against the popular demand of the people who matter

Sales Tax Act, 1990

1. Definition (Section 2)
Retail price (Clause 27)

Definition of retail price with reference to the Third Schedule items seeks to adopt the highest price for charging sales tax where more than one price is fixed for the same brand or variety for sale to general body of consumers. The Bill proposes to add the proviso whereby the Board is empowered to specify zones or areas for the purpose of determination of highest retail price for any brand or variety of goods.

2. Scope of tax (Section 3)
Sub-section (2), clause aa

The Bill has proposed to introduce the Eighth Schedule in the Act. The new Schedule specifies the goods on which sales tax is to be charged at the rate of 5% subject to such conditions and limitations as specified in the said Schedule.

Sub-section (3B)

The Bill proposes to introduce Ninth Schedule. The proposed Schedule specifies the sales tax chargeable on the import and registration of a new International Mobile Equipment Identity (IME) number and lays down the procedure for collection/payment of such sales tax.

Sub-section (8)

Through Sales Tax (Amendment) Ordinance, 2014 issued on March 23, 2014, the method of collecting sales tax on supply of CNG has been changed. The gas transmission and distribution companies are responsible to collect sales tax from CNG stations at the rate of 17% of the value of supply fixed for the CNG consumers. Accordingly, the subsequent supply of CNG is not chargeable to sales tax. The Bill has proposed to ratify the amendment made through above Ordinance.

Sub-section (9)

The Bill has proposed to add new sub section (9) in section 3 under which sales tax would be charged from retailers through their monthly electricity bills as per following slab subject to the exclusions and conditions laid down in Chapter II of the Sales Tax Special Procedure Rules, 2007:

	Sales tax rate
Where the monthly bill does not exceed Rs.20,000	5%
Where the monthly bill exceeds Rs.20,000	7.5%

Above tax under this sub-section is in addition to the tax payable under the law on supply of electricity under sub-sections (1), (1A) and (5).

Large retailers of national or multinational chains will operate under normal sales tax regime

3. Collection of excess tax, etc.
(Section 3B)

The Sales Tax (Amendment) Ordinance, 2014 has substituted sub section (2) under which the Federal Government has been given powers to collect sales tax which has been excess collected by the person and the incidence of which has been passed to the consumer, despite of anything contained in any law or judgment of the court, including the Supreme Court and the High Court. This sub section was substituted to nullify the Supreme Court direction given to FBR through its decision dated December 10, 2013 to deposit the previously collected 9% sales tax with the court, which was held by the Court as unconstitutional. The Bill has proposed to ratify the amendment made through above Ordinance.

4. Zero rating (Section 4)

Under clause (d) of section 4, the FBR through a general order may specify the goods which are chargeable to sales tax at the rate of zero percent when these goods are supplied to the registered person engaged in the manufacture and supply of zero-rated goods. The Bill has proposed to allow zero rating on the goods which are supplied to the registered manufacturer of reduced rate goods. This amendment is purported to align the current schemes with the law.

5. Determination of tax liability (Section 7)

Sub-section (1)

The Bill has propose to make an amendment in sub section (1) consequent to which the input tax may not be adjusted against the further tax under section (1A) of section 3 and the taxpayer would be required to deposit the amount of further tax with return.

Sub section (2)

The Bill has proposed to restrict the claim of input tax unless the goods and services against which the input tax is claimed are:

(a) imported or purchased for the purpose of sale or re-sale by the registered person on payment of tax;

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

(c) 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

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

Due to above proposed amendment, the registered person would not be able to claim the input tax on goods and services which are not directly used in the manufacturing of taxable goods but otherwise these are used for the purpose of taxable supplies. Hence, sales tax on such goods and services would become cost of the registered person.

6. Tax credit not allowed
(Section 8)

The Bill has proposed to add following items in sub section (1) on which the input tax is inadmissible:

- 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.

SRO 490(I)/2004 also provides the list of goods on which the input tax is inadmissible if acquired otherwise as stock in trade. Some items given in this SRO are not included in the above list of inadmissible items. The inconsistency between the section and SRO may lead to dispute regarding allowability of input tax.

7. Posting of Inland Revenue Officer
(Section 40B)

The Bill has proposed to add an explanation in section 40B for its independent operation visà-vis provisions of section 40 where under search warrants are required from a Magistrate.

8. Electronic scrutiny and intimation
(Section 50B)

The Bill has proposed to implement a computerized system for the purpose of 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.

The intimation sent by the computerized system 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.

Presently, CREST system is used by FBR to perform the above referred scrutiny and analysis. The purpose of above section seams to provide legal protection to the operations of the CREST system.

Fifth Schedule

Zero Rated Goods

This Schedule provides the list of goods subject to zero-rated sales tax.

Transposition of SRO 549(I)/2008

All zero rated goods listed in SRO 549(I)/2008 dated June 11, 2008 along with conditions and restrictions provided therein are proposed to be transposed to Fifth Schedule. List of goods is enumerated below:

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

Transposition of SRO 670(I)/2013

The Bill proposes to consolidate in Fifth Schedule all zero goods listed in SRO 670(I)/2013 dated July 18, 2013; however, conditions, limitations and restrictions thereon have been provided in Chapter XIV of the Sales Tax Special Procedure Rules, 2007. List of goods is enumerated below.

S. No.	Description
1.	Colors in sets (PCT heading 3213.1000)
2.	Writing, drawing and marking inks (PCT heading 3215.9010 and 3215.9090)
3.	Erasers (PCT heading 4016.9210 and 4016.9290)
4.	Exercise books (PCT heading 4820.2000)
5.	Pencil sharpeners (PCT heading 8214.1000)
6.	Geometry boxes (PCT heading 9017.2000)
7.	Pens, ball pens, markers and porous tipped pens (PCT heading 96.08)
8.	Pencils including color pencils (PCT heading 96.09)
9.	Milk including flavored milk (PCT heading 04.01 and 0402.9900)
10.	Yogurt (PCT heading 0403.1000)
11.	Cheese (PCT heading 0406.1010)
12.	Butter (PCT heading 0405.1000)
13.	Cream (PCT heading 04.01 and 04.02)
14.	Desi ghee (PCT heading 0405.9000)
15.	Whey (PCT heading 04.04)
16.	Milk and cream, concentrated and added sugar or other sweetening matter (PCT heading 0402.1000)
17.	Preparations for infant use put up for retail sale (PCT heading 1901.1000)
18.	Fat filled milk (PCT heading 1901.9090)
19.	Bicycles (PCT heading 87.12)

Sixth Schedule

Exempted goods

This Schedule provides the list of goods exempted from sales tax.

Table-I (Imports or supplies) Serial No

24. The Finance Bill proposes to exempt the sales tax on imports and supplies of crude palm oil by inserting PCT Heading 1511.1000 in Sixth Schedule to make the tax treatment harmonize with other edible oils which are subject to FED.

59. The Finance Bill seeks to exempt the sales tax on import and supplies of cochlear implants system (PCT Heading 99.37)

Transposition from SRO 501(I)/2013

The Bill proposes to transpose the following exempted goods to Sixth Schedule from SRO 501(I)/2013 dated June 12, 2013:

S. No.	Description
1.	Uncooked poultry meat (PCT Heading 02.07).
2.	Milk and cream (PCT headings 04.01 and 04.02).
3.	Flavored Milk (PCT Headings 0402.9900 and 22.02).
4.	Yogurt (PCT Heading 0403.1000).
5.	Whey (PCT Heading 04.04).
6.	Butter (PCT Heading 0405.1000).
7.	Desi ghee (PCT Heading 0405.9000).
8.	Cheese (PCT Heading 0406.1010).
9.	Processed cheese not grated or powdered (PCT Heading 0406.3000).
10.	Cotton seed (PCT heading 1207.2000).
11.	Frozen, prepared or preserved sausages and similar products of poultry meat or meat offal (PCT Heading 1601.0000).
12.	Meat and similar products of prepared frozen or preserved meat or meat offal of all types including poultry meat and fish (PCT Headings 1602.3200, 1602.3900, 1602.5000, 1604.1100, 1604.1200, 1604.1300, 1604.1400, 1604.1500, 1604.1600, 1604.1900, 1604.2010, 1604.2020, 1604.2090, 1604.3000).
13.	Preparations for infant use put up for retail sale (PCT Heading 1901.1000).
14.	Fat filled milk (PCT Heading 1901.9090).
15.	Colours in sets (Poster colours) (PCT Heading 3213.1000).
16.	Writing, drawing and marking inks (PCT Headings 3215.9010 and 3215.9090).
17.	Erasers (PCT Headings 4016.9210 and 4016.9290).
18.	Exercise books (PCT Heading 4820.2000).
19.	Pencil sharpeners (PCT Heading 8214.1000).
20.	Energy saver lamps (PCT heading 8539.3910).
21.	Sewing machines of the household type (PCT Headings 8452.1010 and 8452.1090).
22.	Bicycles (PCT Heading 87.12).
23.	Wheelchairs (PCT headings 8713.1000 and 8713.9000).
24.	Vessels for breaking up (PCT heading 89.08)

S. No.	Description
25.	Other drawing, marking out or mathematical calculating instruments (geometry box) (PCT Heading 9017.2000).
26.	Pens and ball pens (PCT Heading 96.08).
27.	Pencils including colour pencils (PCT Heading 96.09).
28.	Compost (non-chemical fertilizer) produced and supplied locally (Respective Heading)
29.	Construction materials to Gawadar Export Processing Zone's investors and to Export Processing Zone Gawadar for development of Zone's infrastructure. (Respective Heading)

Transposition from SRO 551(I)/2008

The Bill proposes to transpose the following exempted goods to Sixth Schedule Part-I from SRO 551(I)/2008 dated June 11, 2008 along with conditions and restrictions thereon:

S. No.	Description	Heading or Sub-heading Numbers
1.	Raw and pickled hides and skins, wet blue hides and skins, finished leather, and accessories, components and trimmings, if imported by a registered leather goods manufacturer, for the manufacture of goods wholly for export, provided that conditions, procedures and restrictions laid down in rules 264 to 278 of the Customs Rules, 2001 are duly fulfilled and complied with.	Respective Heading
2.	Machinery, equipment and materials imported either for exclusive use within the limits of Export Processing Zone or for making exports therefrom, and goods imported for warehousing purpose in Export Processing Zone, subject to the conditions that such machinery, equipment, materials and goods are imported by investors of Export Processing Zones, and all the procedures, limitations and restrictions `as are applicable on such goods under the Customs Act, 1969 (IV of 1969) and rules made thereunder shall mutatis mutandis, apply.	Respective Heading
3.	Import and supply thereof, up to the year 2020, of ships of gross tonnage of less than 15 LDT and all floating crafts including tugs, dredgers, survey vessels and other specialized crafts purchased or bare-boat chartered by a Pakistan entity and flying the Pakistan flag, except ships or crafts acquired for demolition purposes or are designed or	Respective Heading

S. No.	Description	Heading or Sub-heading Numbers
	adapted for use for recreation or pleasure purposes, subject to the condition that such ships or crafts are used only for the purpose for which they were procured, and in case such ships or crafts are used for demolition purposes within a period of five years of their acquisition, sales tax applicable to such ships purchased for demolition purposes shall be chargeable.	
4.	Substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976) and medicaments as are classifiable under Chapter 30 of the First Schedule to the Customs Act, 1969 (IV of 1969) except the following, even if medicated or medicinal in nature, namely:- (a) filled infusion solution bags imported with or without infusion given sets; (b) scrubs, detergents and washing preparations; (c) soft soap or no-soap soap; (d) adhesive plaster; (e) surgical tapes; (f) liquid paraffin; (g) disinfectants; and (h) cosmetics and toilet preparations.	Respective Heading
5.	Raw materials for the basic manufacture of pharmaceutical active ingredients and for manufacture of pharmaceutical products, provided that in case of import, only such raw materials shall be entitled to exemption which are liable to customs duty not exceeding ten per cent advalorem, either under the First Schedule to the Customs Act, 1969 (IV of 1969) or under a notification issued under section 19 thereof.	Respective Heading
6.	Import of Halal edible offal of bovine animals.	0206.1000, 0206.2000, 0206.8000 and 0206.9000
7.	Import and supply of iodized salt bearing brand names and trademarks whether or not sold in retail packing.	
8.	Components or sub-components of energy saver lamps, namely:- (a) Electronic Circuit (b) Plastic Caps (Upper and Lower) (c) Base Caps B22 and E27 (d) Tungsten Filaments	8539.9040 8539.9040 8539.9040 8539.9040 8539.9040 3206.5010 3824.9099 3824.9099 3214.1050 3215.9010

S. No.	Description	Heading or Sub-heading Numbers
	(e) Lead-in-wire (f) Fluorescent Powder (Tri Band Phospher) (g) Adhesive Additive (h) Al-Oxide Suspension (i) Capping Cement (j) Stamp Pad Ink (k) Gutter for Suspension	2850.0000
9.	The following items with dedicated use of renewable source of energy like solar and wind, subject to certification by the Alternative Energy Development Board (AEDB), Islamabad:- (a) Solar PV panels; (b) LVD induction lamps; (c) SMD, LEDs with or without ballast, with fittings and fixtures; (d) Wind turbines including alternators and mast; (e) Solar torches; (f) Lanterns and related instruments; (g) PV modules along with related components, including invertors, charge controllers and batteries.	8541.5000 8539.3990 9405.1090 8502.3100 8513.1040 8513.1090 8541.4000, 8504.4090, 9032.8990 and 8507.0000

S. No.	Description	Heading or Sub-heading Numbers
10.	White crystalline sugar	1701.9910 and 1701.9920
11.	Following cardiology/cardiac surgery, neurovascular, electrophysiology, endosurgery, endoscopy, oncology, urology, gynaecology, disposables and other equipment:- **A. ANGIOPLASTY PRODUCTS** 1. Coronary Artery Stents 2. Drugs Eluting Coronary Artery Stents 3. Coronary Artery Dilatation Catheters (Balloons) 4. PTCA Guide Wire 5. PTCA Guiding Catheters 6. Inflation Devices/Priority Packs **B. ANGIOGRAPHY PRODUCTS** 1. Angiography Catheters 2. Sheaths 3. Guide Wires 4. Contrast Lines 5. Pressure Lines 6. Mannifolds	Respective headings

S. No.	Description	Heading or Sub-heading Numbers
	C. CONTRAST MEDIA FOR ANGIOGRAPHY/ ANGIOPLASTY	
	1. Angiography Accessories	
	2. ASD Closure Devices	
	3. ASD Delivery Systems	
	4. VSD Closure Devices	
	5. VSD Delivery System	
	6. Guide Wires	
	7. Sizing Balloons	
	8. Sizing Plates	
	9. PDA Closure Devices	
	10. PDA Delivery system	
	D. TEMPORARY PACEMAKERS (with leads, connectors and accessories)	
	E. PERMANENT PACEMAKER (with leads, connectors and accessories)	
	F. HEART FAILURE DEVICES (with leads, connectors and accessories)	
	G. IMPLANTABLE CARDIOVERTES (with leads, connectors and accessories)	
	H. CARDIAC ELECTROPHYSIOLOGY PRODUCTS	

S. No.	Description	Heading or Sub-heading Numbers
	1. Electrophysiology catheters	
	2. Electrophysiology cables	
	3. Electrophysiology connectors	
	I. LEAR CARDIOLOGY PRODUCTS	
	1. Radioactive isotopes	
	2. Cold kits (Cardioloite MAA, DTPA etc)	
	J. CARDIAC SURGERY PRODUCTS	
	1. Oxygenators	
	2. Cannulas	
	3. Prosthetic Heart Valves	
	4. Luminal Shunts for heart surgery	
	5. Artificial limbs and appliances	
	K. EQUIPMENT	
	1. Cardiac Angiography Machine	
	2. Echocardiography Machines	
	3. ETT Machines	
	4. 4. Gamma Camera for Nuclear cardiology studies	
	L. PERIPHERAL INTERVENTIONS EQUIPMENT	

S. No.	Description	Heading or Sub-heading Numbers
	Disposables and other equipment for peripheral interventions including stents (including carotid and wall stents), balloons, sheaths, catheters, guide wires, filter wires coils, needles, valves (including rotating homeostatic valves), connecting cables, inflation devices adaptors.	

The Finance Bill has also proposes to grant exemption from sales tax on import and supplies of following goods:

S. No.	Description	Heading or Sub-heading Numbers
1.	Goods imported temporarily with a view to subsequent exportation, as concurred by the Board, including passenger service item, provision and stores of Pakistani Airlines.	Respective headings
2.	**High Efficiency Irrigation Equipment.** (If used for agriculture sector) Submersible pumps (up to 75 lbs and head 150 meters) Sprinklers including high and low pressure (center pivotal) system, conventional sprinkler equipment, water reel traveling sprinkler, drip or trickle irrigation equipment, mint irrigation sprinkler system. Air release valves, pressure gauges, water meters, back flow preventers, and automatic controllers.	8413.7010 8424.8100 8424.2010 8481.1000, 8481.3000, 9026.2000, 9032.8990
3	Green House Farming and Other Green House Equipment. (If used for agriculture sector) Tunnel farming equipment. Green houses (prefabricated).	8430.3100, 8430.3900 9406.0010
4	Plant, machinery and equipment imported for setting up fruit processing and preservation units in Gilgit-Baltistan, Balochistan Province and Malakand Division subject to the same conditions and procedure as are applicable for import of such plant,	Respective headings

S. No.	Description	Heading or Sub-heading Numbers
	machinery and equipment under the Customs Act, 1969 (IV of 1969).	
5	Plant, machinery and equipment imported for setting up industries in FATA subject to the same conditions and procedure as are applicable for import of such plant, machinery and equipment under the Customs Act, 1969 (IV of 1969).	Respective headings

Table-II (Local supplies only)
Serial No

4. As a result of changing the mechanism for collection of sales tax from retailers, the Finance Bill seeks to withdraw exemption available to the retailers having annual turnover not exceeding Rs.5 million by substituting the serial number 3 of Table-2 of the Sixth Schedule.

Transposition from SRO 551(I)/2008

The Bill proposes to transpose following goods to Sixth Schedule Part-II from SRO 551(I)/2008 dated June 11, 2008:

S. No.	Description	Heading or Sub-heading Numbers
1.	Reclaimed lead, if supplied to recognized manufacturers of lead batteries	Respective headings
2.	Waste paper	Respective headings
3	(a) Sprinkler Equipment (b) Drip Equipment (c) Spray Pumps and nozzles	Respective headings
4	Raw cotton and ginned cotton	Respective headings

Table-III (Exemption from sales tax)

The Finance Bill seeks to exempt the certain plant, machinery, equipment and apparatus including capital goods from the whole of sales tax by inserting Table-III enlisting the exempted goods and conditions applicable thereon.

List of goods enumerated in Table-III include following major goods:

- Machinery and equipment for initial installation, balancing, modernization, replacement or expansion of desalination plants, coal firing system, gas processing plants and oil and gas field prospecting.
- Medical equipment, Cardiology/Cardiac Surgery Equipment, Disposable Medical Devices and Other related equipment imported by hospitals and medical or diagnostic institutes.
- Construction machinery, equipment and specialized vehicles imported on temporary basis as required for mine construction or extraction phase.
- Coal mining machinery, equipment, spares imported for Thar Coal Field.
- Machinery, equipment and spares meant for initial installation, balancing, modernization, replacement of

expansion of projects for power generation.

- Machinery, equipment and other education and research related items imported by technical, training and research institutes, schools, colleges and universities.

- Machinery and equipment for marble, granite and gem stone extraction and processing industries.

- Certain items with dedicated use of renewable source of energy like solar, wind, geothermal etc.

- Plant, machinery, equipment and specific items used in production of bio-diesel.

Eighth Schedule
(Sales tax at reduced rate of 5%)

Withdrawal of exemption from sales tax provided under SRO 501(I)/2013

The Finance Bill proposes to charge sales tax at the rate of five percent to below listed goods which were earlier exempt from sales tax under SRO 501(I)/2013 dated June 12, 2013:

S. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax
(1)	(2)	(3)	(4)
1.	Soyabean meal	2304.0000	5%
2.	Oil cake and other solid residues, whether or not ground or in the form of pellets	2306.1000	5%
3.	Directly reduced iron	72.03	5%

Withdrawal of exemption from sales tax provided under SRO 551(I)/2008

The Finance Bill proposes to withdraw exemption of sales tax as provided under SRO 551(I)/2008 dated June 11, 2008 on following goods and proposes to charge sales tax at reduced rate of 5% subject to condition specified thereon:

S. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax	Condition
(1)	(2)	(3)	(4)	(5)
1.	Oilseeds meant for sowing.	Respective headings	5%	Import thereof subject to the condition that Plant Protection Department of Ministry of Food, Agriculture and Livestock certifies that the imported seeds are fungicide and insecticide treated and are meant for sowing.
2.	Raw cotton and ginned cotton Respective headings	Respective headings	5%	On import

Withdrawal of exemption from sales tax provided under SRO 727(I)/2011

Currently under SRO 727(I)/2011 dated August 01, 2011, import of plant and machinery not manufactured locally and having no compatible local substitutes are exempt from sales tax subject to certain conditions explained therein. The Bill proposes to charge sales tax at reduced rate of 5% by inserting said SRO 727 to Eighth Schedule.

Withdrawal of exemption from sales tax provided under SRO 575(I)/2006

The Finance Bill seeks to charge sales tax at reduced of 5% on goods enumerated at serial No. 2, 3, 4, 9, 15, 20 and 30 of SRO 575(I)/2006 dated June 5, 2006 which were earlier exempt from sales tax subject to certain conditions mentioned therein.

Ninth Schedule

Sales Tax on mobile telephones

Presently, the collection and payment of sales tax on mobile phones is governed under S.R.O. 460(I)/2013 dated the 30th May, 2013, The Finance Bill proposes to add Ninth Schedule specifying the rates of sales tax on mobile phones, method of collection, providing legal protection to the sales tax collected under said SRO, etc.

Rate of sales tax

(1)	(2)	(3)
Description / Specification of Goods	**Sales tax payable at the time of import**	**Sales tax payable at the time of registration of a new International Mobile Equipment Identity (IMEI) number**
A. Low Priced Cellular Mobile Phones or Satellite Phones I. All cameras: 2.0 mega-pixels or less II. Screen size: 2.6 inches or less III. Key pad	Rs. 150 per phone	Rs. 250 per registration
B. Medium Priced Cellular Mobile Phones or Satellite Phones I. One or two cameras: between 2.1 to 10 mega-pixels II. Screen size: between 2.6 inches and 4.2 inches III. Micro-processor: less than 2 GHZ	Rs. 250 per phone	Rs. 250 per registration
C. Smart Cellular Mobile Phones or Satellite Phones I. One or two cameras: 10 mega-pixels and above II. Touch Screen: size 4.2 inches and above III. 4GB or higher Basic Memory IV. Operating system of the type IOS, Android V2.3, Android Gingerbread or higher, Windows 8 or Blackberry RIM V. Micro-processor: 2GHZ or higher, dual core or quad core	Rs. 500 per phone	Rs. 250 per registration

Liability, Procedure and Conditions

I. The liability to pay sales tax at the time of import of cellular mobile phones or satellite phones shall be on the importer, and the liability to pay sales tax at the time of registration of a new International Mobile Equipment Identity (IMEI) number for the first time shall be on the Cellular Mobile Operator who registers the IMEI number in his system.

II. The Cellular Mobile Operators shall, if not already registered, obtain registration under the Sales Tax Act, 1990.

III. No IMEI shall be registered by a Cellular Mobile Operator without charging and collecting the sales tax as specified in the Table.

IV. The Cellular Mobile Operator shall deposit the sales tax so collected through his monthly tax return in the manner prescribed in section 26 of the Sales Tax Act, 1990, and rules made thereunder.

V. The Cellular Mobile Operator shall maintain proper records of all IMEI numbers registered for a period of six years, and such records shall be produced for inspection, audit or verification, as and when required, by an authorized officer of Inland Revenue.

VI. The Pakistan Telecommunication Authority shall provide data regarding IMEI numbers registered with other Cellular Mobile Operators to prevent double taxation on the same IMEI number in case of switching by a subscriber from one operator to another, and to provide data regarding registration of IMEI numbers to the Board on monthly basis.

VII. No adjustment of input tax shall be admissible to the Cellular Mobile Operator or any purchaser of cellular mobile phone against the sales tax charged and paid in terms of this Schedule.”.

VIII. Notwithstanding anything contained in any other law for the time being in force, the levy, collection and payment of sales tax under Notification No. S.R.O. 460(I)/2013 dated the 30th May, 2013, shall be always deemed to have been lawfully and validly, levied, collected and paid in accordance with sub-section (3B) of section 3 of the Sales Tax Act, 1990.

Federal Excise Act, 2005

1. Determination of value for the purpose of Duty
(Section 12)

The Bill has proposed to insert new proviso after the first proviso of sub section (4) of Section 12 (apparently incorrectly referred as section 13 in the Bill) to empower the Board to specify the zones or areas only for the purpose of determination of highest retail price of any brand or variety of goods.

It is only the discretion of manufacturer to fix any retail price for its product and where there is more than one retail price for same variety or brand, the Board is only authorized to specify the zones or areas for which duty should be charged on highest of retail prices fixed for such zone accordingly.

2. FED on motor cars, SUVs and other motor vehicles

The Bill has proposed to bring amendment in the description of serial 55 in Table 1 of the First Schedule whereby ‘imported motor vehicle’ is substituted for the word ‘motor vehicle’. FED at 10% ad val is proposed to remain on such imported motor vehicle. By inserting the words imported before motor cars / vehicles, the Federal Government has intended to withdraw FED on locally manufactured motor cars / vehicle of above specification which was imposed through the Finance Act, 2013 from June 13, 2013.

First Schedule

Table I (Excisable Goods)

Serial No — FED on cigarettes is restructured and modified. Revised structure of duty on cigarettes is as under

SR No	Description	Proposed rate of duty
9	Locally produced cigarettes if their on-pack printed retail price exceeds rupees two thousand seven hundred and six per thousand cigarettes	Rs.2632 per thousand cigarettes
10.	Locally produced cigarettes if their on-pack printed retail price does not exceed rupees two thousand seven hundred and six per thousand cigarettes[1]	Rs.1085 per thousand cigarettes
13	Portland cement, aluminous cements, slag cement, super sulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers	5% of retail price

[1] Restrictions are also proposed to be placed on cigarettes manufacturer with regard to introducing or selling a new cigarette brand or variant of the same existing brand family at a price lower than the lowest actual price of the existing variant of the same brand family. For the purposes of this restriction, current minimum price variant of existing brand means the lowest price of brand variant on the day of announcement of Budget of current financial year

Table-II (Excisable Services)

Serial No3 Facilities for travel

FED on travel by air of passenger embarking on international journey from Pakistan is increased as under:

(i).	Economy and economy plus	Rs.5,000 per ticket
(ii)	Club, business and first class	Rs.10,000 per ticket

Serial No 6 Telecommunication services

FED on telecommunication services is proposed to be reduced from 19.5% to 18.5%.

Further, the description 'Telecommunication services' is proposed to amend by excluding such services in the area of a Province where such Province has imposed Provincial sales tax and has started collecting the same through its own Board or Authority, as the case may be.

Serial No 15 Chartered flights

This new serial number is introduced in Table II of the First Schedule through which FED at the rate of 16% of the charges of chartered flights is proposed to be imposed.

Customs Act, 1969

1. Definition of Goods Declaration
(Section 2 (k) (m))

Definition of the term 'custom-station' has been consolidated and broaden to mean any customs-station, customs-airport, an inland river port, land customs-station or any place declared as such under section 9 of the Customs Act to be custom-station. In view of new definition introduced for custom-station, separate definition of 'land customs-station has been omitted.

2. Introduction of the Fifth Schedule to the Customs Act (Section 18(1A))

Fifth Schedule has been introduced for retaining concessionary rates previously given in customs notifications SRO 505(I)/2006 & SRO 567(I)/2006 both dated June 05, 2006 on imports of plant, machinery, equipment and apparatus (duty rate ranging 0% to 15%), import of active pharmaceutical ingredients, excepients / chemicals, drugs, packing material/raw materials for packing and diagnostic kits and equipments, components and other goods (duty rate ranging 0% to 10%), import of raw materials, inputs for poultry and textile sector and other goods (duty rate ranging 0% to 10%) and Miscellaneous items with 0% duty rate.

Following are the important items with 0% customs duty rate:

- Items with dedicated use of renewable source of energy like solar, wind, geothermal etc.
- Items for promotion of renewable energy technologies.
- Plant, machinery, equipment and specific items used in production of bio-diesel.
- Plant, machinery and equipment imported for setting up fruit processing and preservation units in Gilgit-Baltistan, Balochistan and Malakand Division.
- Plant, machinery and equipment imported for setting up industries in FATA.

Customs duties shall be levied subject to such conditions, limitations and restrictions as prescribed in the Fifth Schedule.

3. Adoption of lower value of identical goods
(Section 25 (5) (d))

The Bill has proposed to omit clause (d) of section 25 (5) therefore power to adopt lower transaction value of identical goods has been withdrawn.

4. Untrue statement, error, etc
(Section 32)

Section 32 specifies time frame applicable in different situations for recovery of duty or charge as has not been levied or short levied or refunded owing to frauds or errors. There is an editorial amendment proposed to be made inserting the word of taxes along with duty and charge so as to recoup any taxes which is also not recovered or refunded in the context of above section.

5. Checking of goods declaration by the Customs
(Section 80)

Section 80 (3) of the Act provides power for reassessment of duty in case of furnishing wrong declaration or incorrect document or any information concerning assessment of goods to be assessed. Amendment has now been proposed whereby such reassessment will not only be confined for the levy of customs duty rather it would also be for taxes and other charges levied thereon.

6. Provisional determination of liability
(Section 81)

Section prescribes circumstance for provisional determination of duty and taxes. Editorial correction has been made in the first and second proviso to the section to include the words taxes and other charges besides duty as the same are not mentioned in the proviso.

7. Special Judge, etc to have exclusive jurisdiction
(Section 185-B)

The Customs Act inter-alia provides that no court other than the Special Judge having jurisdiction shall try an offence punishable under the Act. Amendment has been proposed whereby now offences relating to narcotics and narcotic substances shall be tried by the Special Courts established under the Control of Narcotics Substances Act, 1997 (XXV of 1997).

8. Appellate Tribunal
(Section 194)

Based on the amendments proposed, an officer of Pakistan Customs Service equivalent in rank to that of a Member of the Federal Board of Revenue or Chief Collector of Customs or Director General or a senior Collector with three years' experience will be eligible for becoming technical member of the Appellate Tribunal.

9. Significant changes in customs duty rates – an overview

- Maximum general tariff rate of 30% reduced to 25%.
- Substitution of 0% duty slab with 1% customs duty in Tariff. Newly introduced Fifth Schedule has however retained 0% duty rate for socially sensitive items.
- Customs Duty on UPS imported under PCT code of 8504.4010 is reduced as a relief from 20% to 15%.
- Duty and taxes exemption on import of Hybrid Electric Vehicles (HEVs) have been rationalized. HEVs upto 1800 cc are now granted 50% exemption of duty and taxes and above 1800 cc granted 25% exemption of duty and taxes.
- Customs duty has been raised from 5% on import of networking and communication devices to 10%. While reduction in customs duty to 10% for Satellite mobile phones.
- Fixed amounts of duty and taxes on used vehicles revised upward by 10% approximately. While vehicles older than three years are still barred from import.
- Standard rate of 10% as customs duty on import of all kinds of CDs/DVDs.
- Duty on import of flat-rolled products of alloy steel increased to 10%.
- Duty levied at 5% on import of generator with output of 1100 KVA.
- Petroleum coke not-calcined now chargeable at duty rate of 1%.
- Standard rate of 15% on all dyes except for basic and indigo blue dyes used by textile sector, while 10% customs duty will be chargeable on liquid paraffin and white oil.
- Standard 15% on import of starches and increase of customs duty from 5% to 10% on coloring matters.
- Regulatory duties have been levied on import of luxury items.

Karachi
Cavish Court, A-35, Block 7 & 8
KCHSU, Sharea Faisal
Karachi -75350
Pakistan
Phones : + 92 (021) 34546494-97
Fax : + 92 (021) 34541314
Email : aashah@deloitte.com

Islamabad
House # 932, Street - 91
Sector I-8/4
Islamabad
Pakistan
Phones : 92 (051) 4861571 & 4866058-9
Fax : + 92 (051) 8350602
Email: iftikharchaudhry@deloitte.com

Lahore
134-A, Abubakar Block
New Garden Town
Lahore
Pakistan
Phones : + 92 (042) 35913595-7, 35864020
Fax : + 92 (042) 35864021
Email: tjaved@deloitte.com

Multan
Abdali Tower
77, Abdali Road,
Multan
Pakistan
Phones : 92 (061) 4783979 & 4785211-13
Fax : 92 (061) 4785214
Email: mbaqirislam@deloitte.com

Kabul
B-7, 5th Floor,
Faiz Noor Business Centre
Shahr-e-Naw, Haji Yaqoob Square,
Shahabuddin Watt, Kabul, Afghanistan
Phone : + 93 (0) 785 145 088
Email: shali@deloitte.com

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's more than 200,000 professionals are committed to becoming the standard of excellence.

M. Yousuf Adil Saleem & Co. Chartered Accountants (Deloitte Pakistan) is a Member of Deloitte Touche Tohmatsu Limited, providing audit, consulting, financial advisory, enterprise risk management and tax services, through nearly 600 professionals in four cities across the country. For more information, please visit our web site at **www.deloitte.com/view/en_PK/pk/index**.