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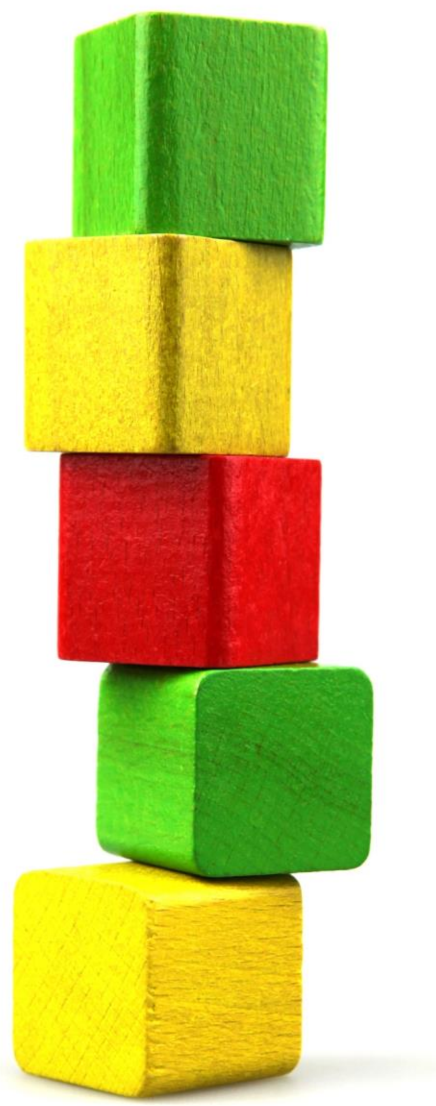
Budget 2016-17

Highlights & Comments



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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 Finance Bill, 2016. It also includes withholding tax guide which summarizes withholding tax provisions for quick reference.

Amendments proposed in the Finance Bill, 2016 will take effect from July 01, 2016, unless stated otherwise, 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. Deloitte Yousuf Adil accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication. The readers are therefore advised to seek professional advice before exercising any judgment, interpretation of any legal provision and acting thereupon.

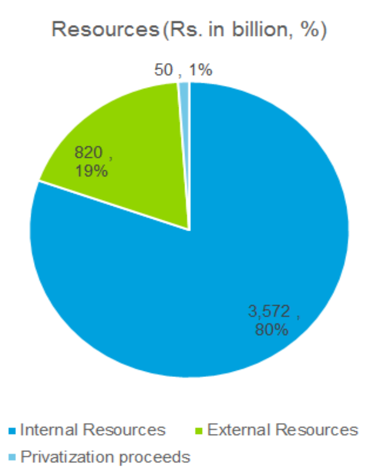
The memorandum can also be accessed on our website http://www2.deloitte.com/pk

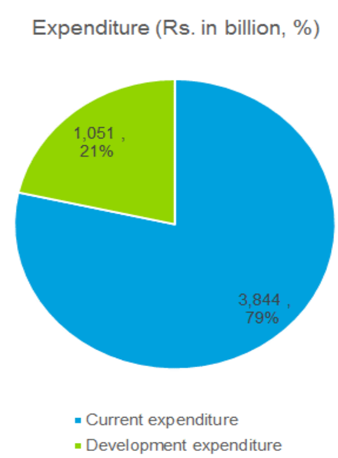
Karachi
June 03, 2016

Contents

Budget at a Glance

	Rupees in billion 2016-17	%	Rupees in billion 2015-16 Revised	%
Sources of Funds				
Net Revenue Receipts (a)	2,779	56.8	2,481	55.4
Net Capital Receipts	454	9.3	588	13.1
External Receipts (net)	870	17.8	873	19.5
Estimated Provincial surplus	339	6.9	337	7.6
Bank Borrowing	453	9.2	199	4.4
Total Sources of Funds	**4,895**	**100.0**	**4,478**	**100.0**
Application of Funds				
General Public Services (b)	2,844	58.1	2,627	59.5
Development Expenditure	1,051	21.4	879	17.8
Defense Affairs and Services	860	17.6	776	17.0
Subsidies	140	2.9	196	5.7
Total Application of Funds	**4,895**	**100.0**	**4,478**	**100.0**
(a) Net Revenue Receipts				
Direct and Indirect Taxes *	3,956	142.4	3,420	137.8
Non-Tax Revenue	959	34.5	913	36.8
Gross Revenue Receipts	4,915	176.9	4,333	174.6
Less: Provincial Share in Taxes	2,136	76.9	1,852	74.6
	2,779	**100.0**	**2,481**	**100.0**
(b) General Public Services				
Foreign Loan Repayments	444	15.6	318	12.1
Interest Payments	1,360	47.8	1,315	50.1
Pension	245	8.6	236	9.0
Grant and Transfers	442	15.6	418	15.9
Running of Civil Government	353	12.4	340	12.9
	2,844	**100.0**	**2,627**	**100.0**
* includes FBR taxes	**3,621**	**130.3**	**3,104**	**125.1**





Economic Review and Budget 2016-17

Fourth budget of PML (N) government for FY16-17 was presented on 3rd June, 2016 by the Finance Minister, Mr. Ishaq Dar with aggregate total outlay of PKR 4.89 trillion. Resource availability is estimated at PKR 4.44 trillion, and the fiscal deficit is planned to be contained to 3.8%. This budget is historic from PML (N)'s perspective as it is the first "fourth" budget of their three tenures.

Economic Overview

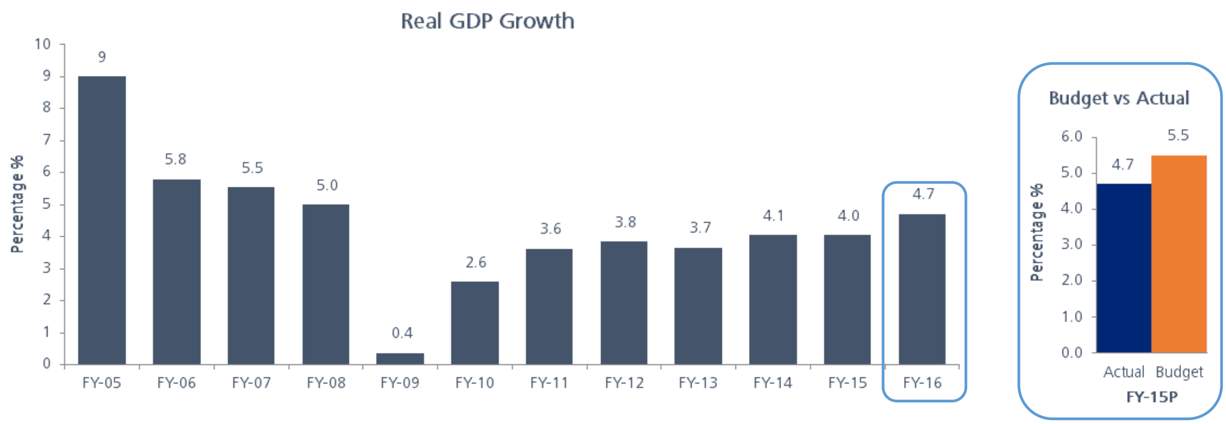
The key feature of the current fiscal year was the continuation of stabilization of the economy with inflation declining to 2.8% during July – April 2016 compared to 4.81% of the corresponding prior year period. Completion of IMF program, building up of foreign exchange reserve, and policy rate being at the lowest level of past 4 decades at 5.75% as on May 2016 were other factors evidencing the stabilization. Clearly, the drastic decline in international oil prices have helped in stabilization of PKR to USD exchange rate, in building of foreign exchange reserves by saving on import bill of oil and reduction in subsidies provided to the power sector pulling down the current account deficit to a reasonable level. Another major factor contributing to decline in fiscal deficit is the slow pace of development spending as only 61% of Rs. 700 billion allocated to PSDP were actually spent to contain the deficit.

The stabilization story is somewhat overshadowed by the economy missing the GDP Growth Target by a significant margin, as the GDP growth rate was restricted to 4.7% as against the target of 5.5%.The decline was agriculture-led which experienced a negative growth rate of 0.19% as compared to 2.53% last year. Main reason for adverse performance of agriculture sector is attributed steep drop in cotton crop by 28% compared to the target. While the Economic Survey points out the global cotton production decline of 15% to rationalize the decline, it is a known fact that torrential rains during June-August period mainly in cotton belt of Punjab had adversely affected the crop output. However, steep fall in commodity prices at global level have also adversely impacted agriculture's out-put during the last three years. Despite adverse performance of agriculture, there is significant improvement in overall GDP Growth, which turns out to be highest in the last eight years, mainly due to impressive performance of the Industrial and Services sectors which grew by 6.8% (2014-15: 4.8%) and 5.71% (2014-15: 4.3%) respectively. The industrial sector growth was an all-time high in eight years led by construction, automobiles, fertilizer, chemicals, pharmaceutical, rubber and cement.

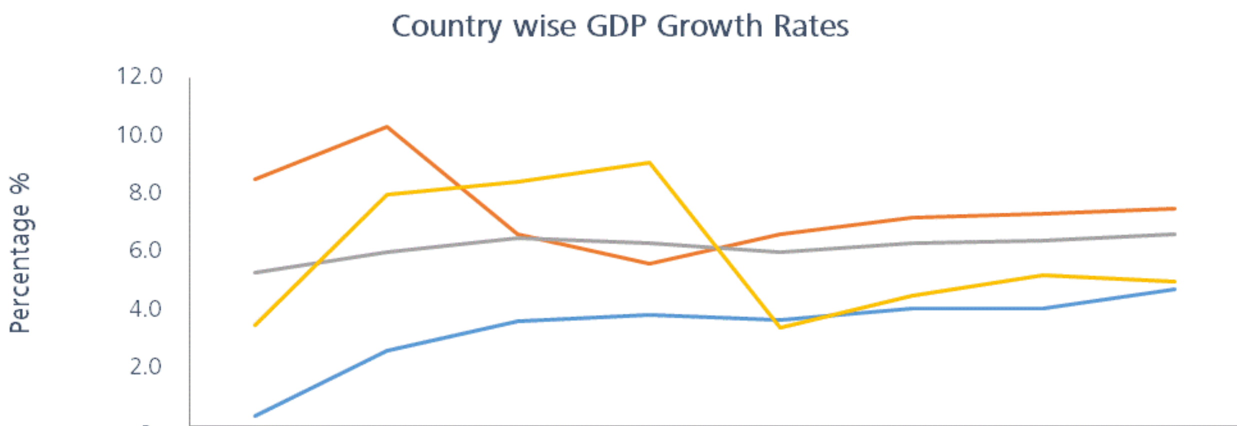
While there seems to be significant improvement in the country's economy in terms of overall economic growth, lowest inflation, drastic fall in current account deficit and improvement in foreign exchange reserves, there are serious concerns as on account of falling exports, crisis in the agriculture and textile sectors that provide employment to large portion of the country's population.

GDP Growth

GDP growth of 4.7% during FY16 reflects significant improvement being the highest in last eight years. However, it is considered much below Pakistan's economic potential, and is significantly lower than other countries in the region especially Bangladesh and India which are growing at the rate of 6.6% and 7.5% respectively as depicted in the graph below.



Source: Table 1.1, Growth and Investments, Economic Survey 2015-16, Ministry of Finance. P = Provisional

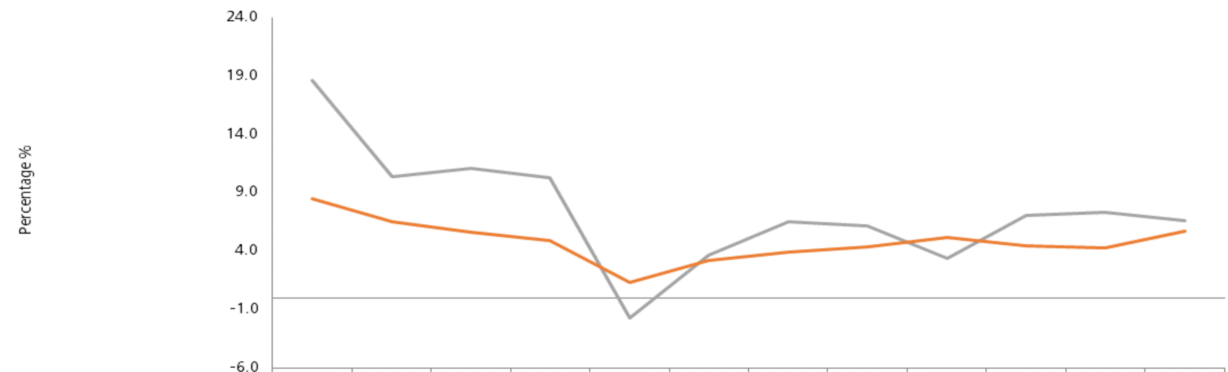


	FY-09	FY-10	FY-11	FY-12	FY-13	FY-14	FY-15	FY-16
Pakistan	0.4	2.6	3.6	3.8	3.7	4.1	4.0	4.7
India	8.5	10.3	6.6	5.6	6.6	7.2	7.3	7.5
Bangladesh	5.3	6.0	6.5	6.3	6.0	6.3	6.4	6.6
Srilanka	3.5	8.0	8.4	9.1	3.4	4.5	5.2	5.0

Source: Table 1.1, Growth and Investments, Economic Survey 2015-16, Ministry of Finance

Despite healthy growth in the economy which has been generated by upsurge in few sectors that include construction, cement, automobile, fertilizer, it is a cause for serious concern that major employment generating sectors such as agriculture, textile manufacturing and other sectors that generate exports are in recession. It is for this reason that significant fiscal incentives have been announced by the Finance Minister to revive these sectors.

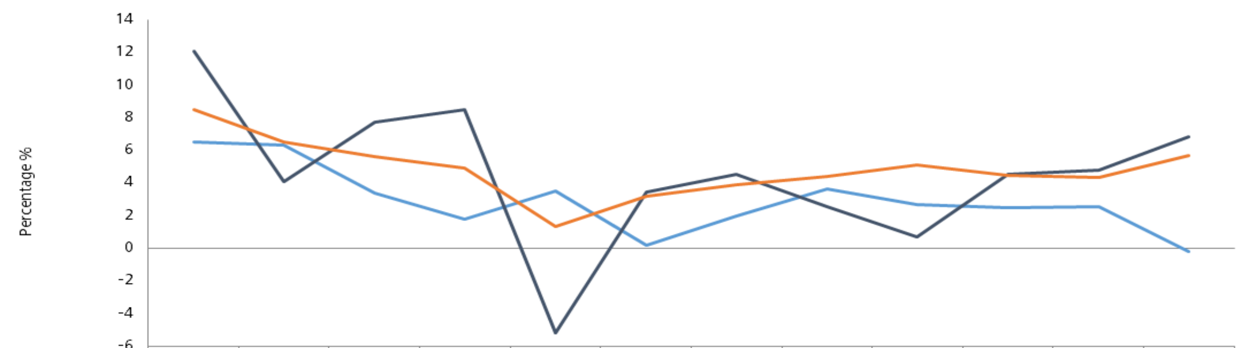
Sector wise Growth Performance



	FY-05	FY-06	FY-07	FY-08	FY-09	FY-10	FY-11	FY-12	FY-13	FY-14	FY-15	FY-16P
Commodity producing sector	18.6	10.4	11.1	10.3	-1.7	3.6	6.5	6.2	3.4	7.0	7.3	6.6
Services	8.5	6.5	5.6	4.9	1.3	3.2	3.9	4.4	5.1	4.5	4.3	5.7

Source: Table 1.2, Growth and Investments, Economic Survey 2015-16, Ministry of Finance

Sector wise Growth Performance

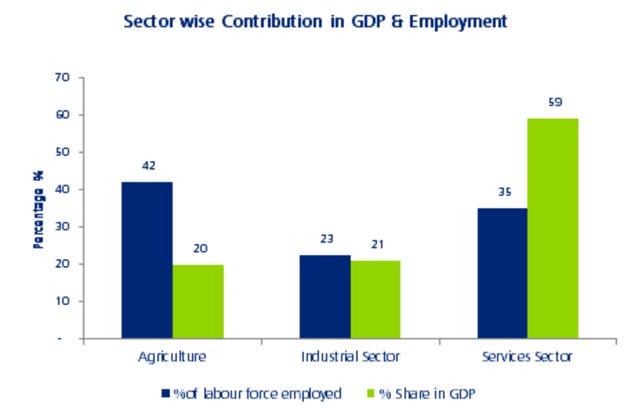


	FY-05	FY-06	FY-07	FY-08	FY-09	FY-10	FY-11	FY-12	FY-13	FY-14	FY-15	FY-16P
Agriculture	6.5	6.3	3.4	1.8	3.5	0.2	2.0	3.6	2.7	2.5	2.5	-0.2
Industrial	12.1	4.1	7.7	8.5	-5.2	3.4	4.5	2.6	0.7	4.5	4.8	6.8
Services	8.5	6.5	5.6	4.9	1.3	3.2	3.9	4.4	5.1	4.5	4.3	5.7

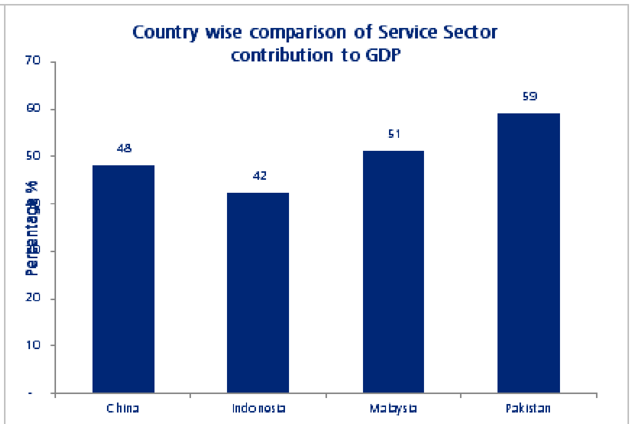
Source: Table 1.2, Growth and Investments, Economic Survey 2015-16, Ministry of Finance

The above chart shows that while agricultural sector plunged significantly, the industrial sector experienced a significant upward movement.

Services sector remains the key contributor to economic growth contributing 59% towards the GDP this year followed by industrial sector that contributed 21%. Due to the inherent nature of services sector, despite being the highest contributor to GDP, this sector does not generate sufficient employment to absorb the increase in work force resulting from increase in population every year. With population of the country touching roughly 195.4 million, growth in commodity producing sectors is considered essential for generating employment to utilize full potential of our young labor force. Moving forward, continued reliance of the economy on services sector will further escalate the unemployment.

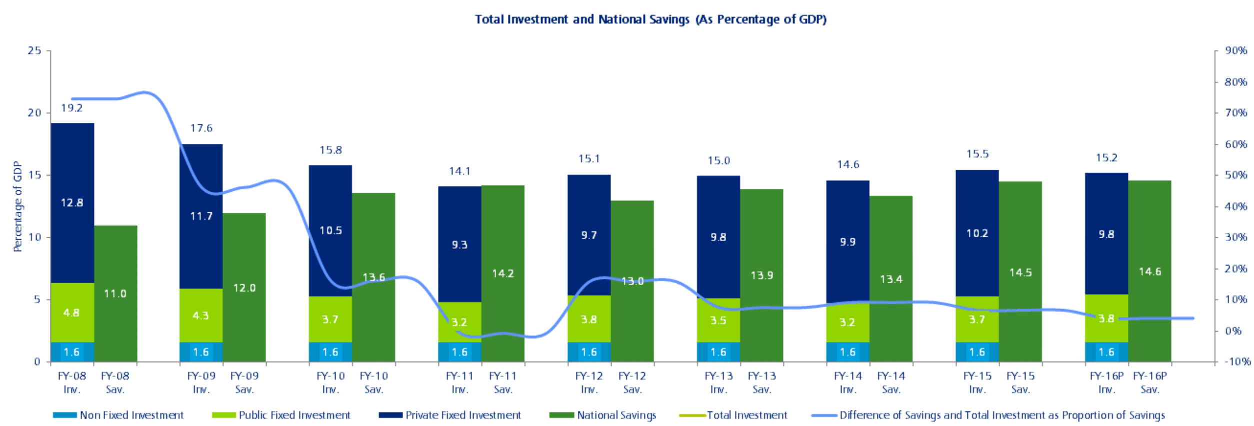


Source: Table 1.2, Growth and Investments and Table 12.8, Population, Labour Force and Employment, Economic Survey 2015-16, Ministry of Finance



Sources: World bank, databank, World development indicators, FY-14 (last updated)

National Savings & Investments

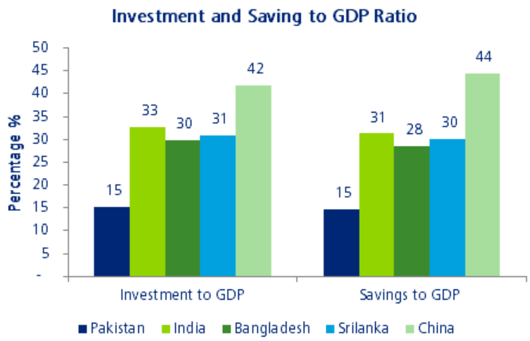


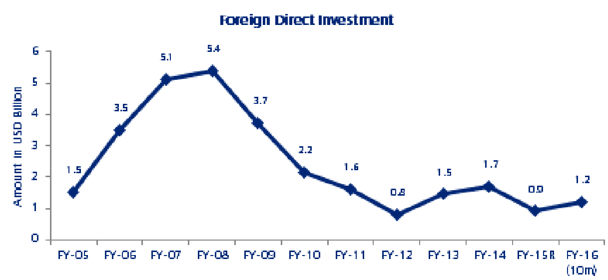
Source: Table 1.7, Growth and Investments, Economic Survey 2015-16, Ministry of Finance; P = Provisional

One of the most serious problems faced by the country is continuing declining trend in investment to GDP ratio, which has reduced from 19.3% of GDP in FY06 to just 15.2% of GDP during FY16. This reduction was more pronounced for private fixed investment which went down from 10.0% to 9.8% rather than public fixed investment which is relatively inefficient in nature. The government's vigor at the inception of the year in relation to privatization failed to provide any success with no privatization materializing despite very enthusiastic plans to do so.

National savings have remained relatively static at 14.6% moving only 0.1% from last year, which still is one of the lowest in the world and should be of serious concern for decision makers. The gap between investment and savings continues to be financed through debt, further escalating the country's overall indebtedness.

Comparing Pakistan's investment to GDP and savings to GDP ratios with those of India, Bangladesh, Sri Lanka, and China portrays a dismal picture of the striking difference. Pakistan resides at a level approximately half as that of the lowest ranking country among these countries, Bangladesh, where the investment to GDP and saving to GDP ratios are 30% and 28% respectively.



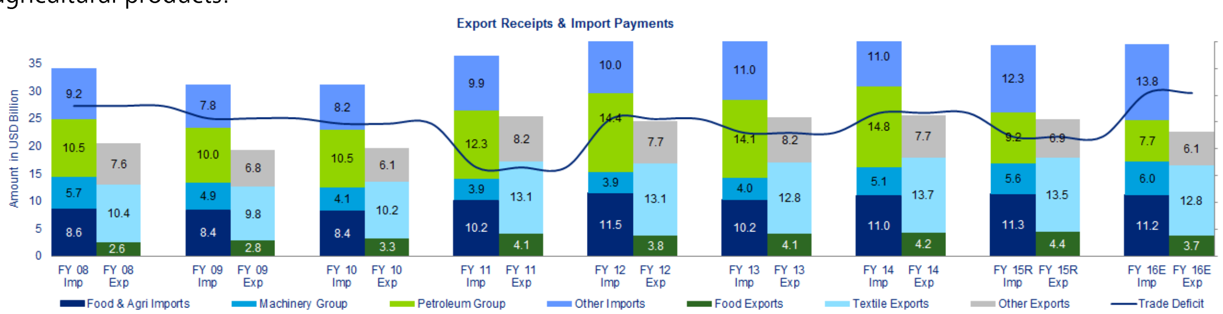


Source: Economic Survey, 2014-15, Ministry of Finance, Deloitte Research, E = Annualized based on 10 months of data

FDI has also dried up in the past few years and is estimated to be around USD 1.2 billion mark in FY16 (12 months estimated). With no domestic savings to fuel the economy with investments and the privatization of public sector entities not moving with sufficient pace, FDI is the major source of investment in the economy. However, the disappointing levels of FDI show that perhaps the benefits of improved international credit ratings and positive outlook highlighted by the Finance Minister have not actually helped in improving investment flows in the country.

Trade Deficit

Pakistan's trade deficit has increased to 70% of exports in FY16 from 28% in FY05. The trade gap has increased owing to increase in imports of consumable items highest being petroleum, food and agricultural products.



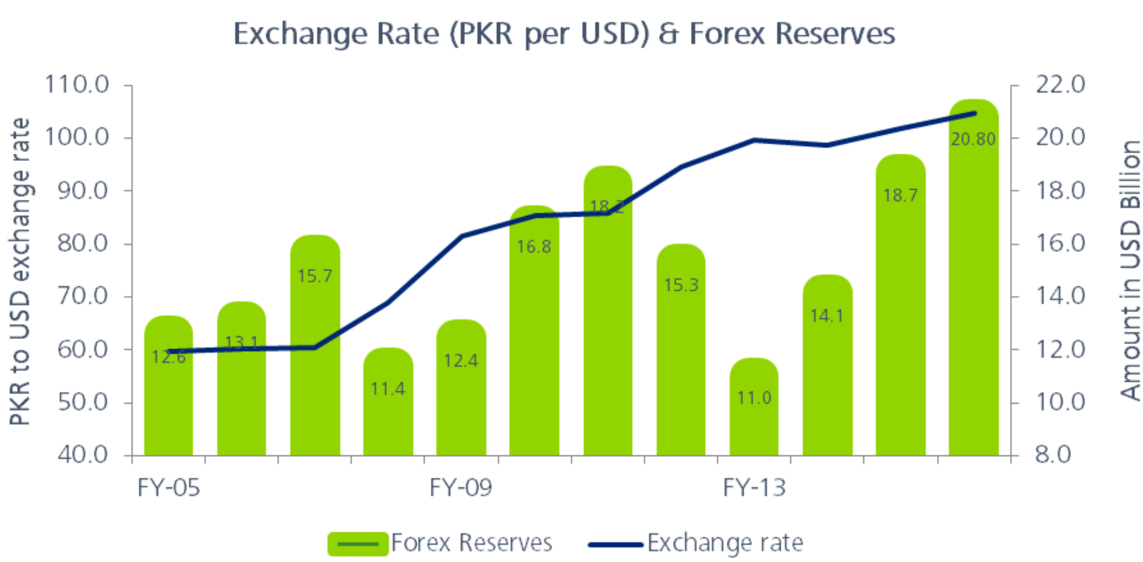
Source: State Bank of Pakistan
E = Annualized based on 10 months of data

Total imports are estimated to be around USD 38.6 billion in FY16, compared to total exports of USD 22.6 billion, both of which have declined significantly compared to FY15. The decline in country's exports, despite GSP plus and certain measures taken for the textile sector should raise serious concern for decision makers. Current account burden was eased slightly through reduction of petroleum imports which are now 20% of total imports, slightly above the 19% of total imports level in FY05 due to reduction in fuel prices supporting the current account deficit which was maintained at a reasonable level.

Another worrying feature is relatively low proportion of imports of capital goods, which although has shown signs of improvement, increasing to 15% of total imports compared to 13% of total imports last year, but it still remains much lower than the 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.

Foreign Exchange

The US Dollar to PKR exchange parity has begun to show some signs of vulnerability as depicted in below graph but the improvement in foreign exchange reserves to nearly US 21 billion is reassuring, which is indeed one of the key achievements of this government. Obviously, a major contributor to improvement in foreign exchange reserves is the space provided by drastic decline international oil prices.

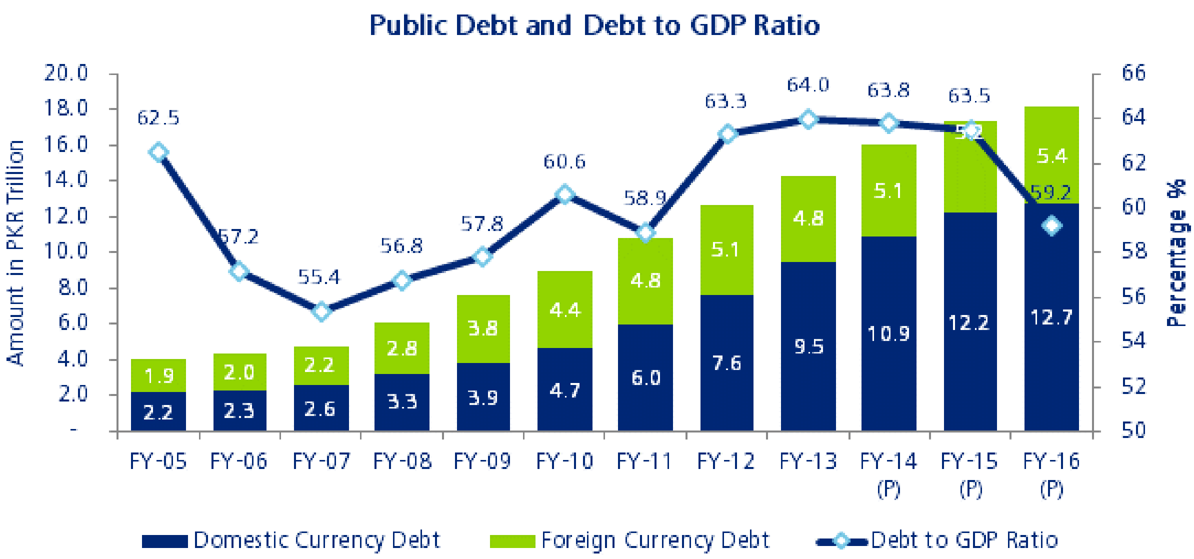


Source: State Bank of Pakistan

Fiscal Policy Implications

Public Debt

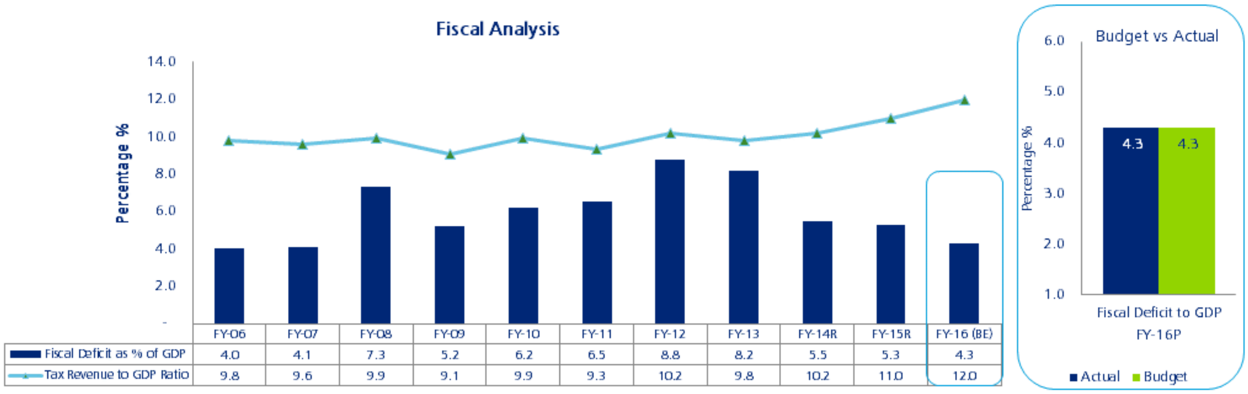
Due to low savings rate and very low tax to GDP ratio, there continuous reliance on public debt as a source to finance fiscal deficits. Due to this reason, public debt continues to surge over the years, as depicted in below graph. However, despite continuing increase in overall debt, owing to low interest rates when compared to GDP growth, the government has succeeded in reducing significantly the total debt to GDP ratio to in the last few years to less than 60%.



Source: State Bank of Pakistan, Ministry of Finance
Note: FY16 figures not for the full year

Tax Collections

Since last many 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 reasons for lack of much needed resources for development. However, during the year government has been successful in improving tax collections, and based on recent reports, it appears that FBR should be able to achieve tax collections of around Rs. 3 trillion. However, improvements in tax collections have been mainly achieved by enhancing the withholding tax regime that has also resulted in some improvement in tax to GDP ratio, while containing fiscal deficit to 4.3% of GDP. However, structural reforms in taxation remain a dire need, not only to shift the concentration of FBR's tax revenue mix from indirect taxation to direct taxation but also for enhancing tax base. Excessive withholding tax regimes, and withholding of refunds has been major impediment for legitimate tax payers that significantly undermines business climate.

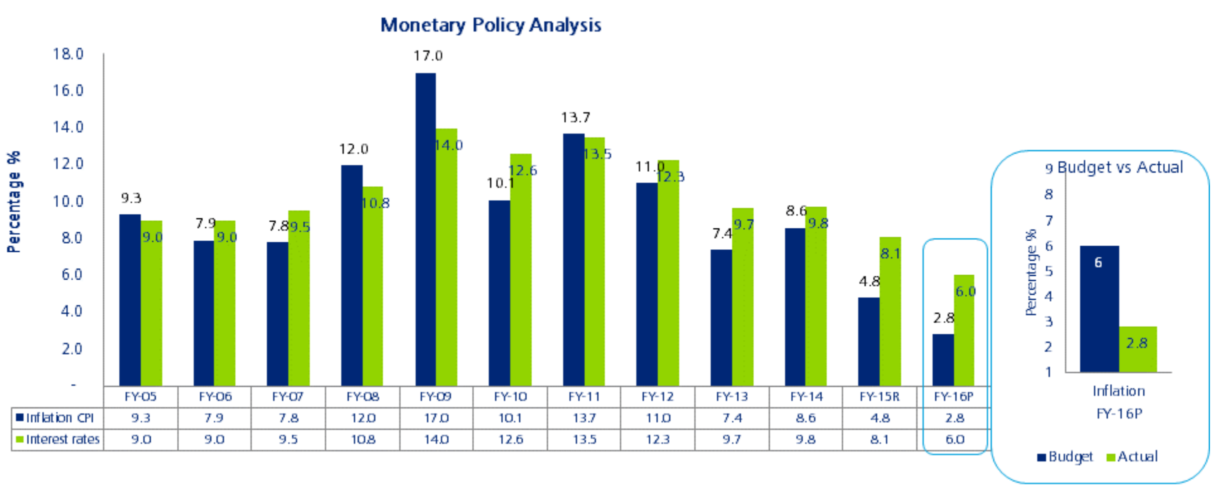


	FY-06	FY-07	FY-08	FY-09	FY-10	FY-11	FY-12	FY-13	FY-14R	FY-15R	FY-16 (BE)
Fiscal Deficit as % of GDP	4.0	4.1	7.3	5.2	6.2	6.5	8.8	8.2	5.5	5.3	4.3
Tax Revenue to GDP Ratio	9.8	9.6	9.9	9.1	9.9	9.3	10.2	9.8	10.2	11.0	12.0

Source: Table 4.1, Fiscal Development, Economic Survey 2015-16, Ministry of Finance
P = Provisional

Monetary Policy and interest rates

Owing to continuing sluggish growth, lack of demand from private sector and low inflation, there was steep decline in State Bank's policy rate, which has been reduced to one of the lowest level in the country's history.

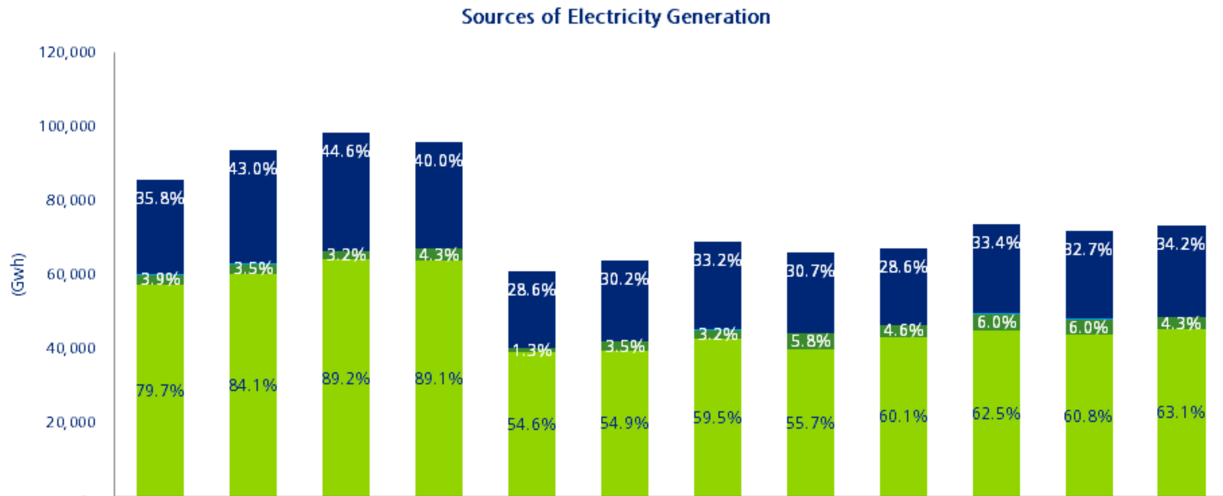


	FY-05	FY-06	FY-07	FY-08	FY-09	FY-10	FY-11	FY-12	FY-13	FY-14	FY-15R	FY-16P
Inflation CPI	9.3	7.9	7.8	12.0	17.0	10.1	13.7	11.0	7.4	8.6	4.8	2.8
Interest rates	9.0	9.0	9.5	10.8	14.0	12.6	13.5	12.3	9.7	9.8	8.1	6.0

Source: Table 7.1, Inflation, Economic Survey 2015-16, Ministry of Finance
P = Provisional

Energy Crisis

Energy sector, which has remained one of the major impediments to Pakistan's growth, appears to be improving gradually owing to government's continuous focus on this sector. While the structural problems in the governance in this sector remain largely unresolved, owing to very attractive government guaranteed returns in this sector, several power generation projects have been initiated, including major projects under CPEC, due to which, it appears that this perennial problem will be substantially contained in the next two to three years, once such projects start generating electricity.

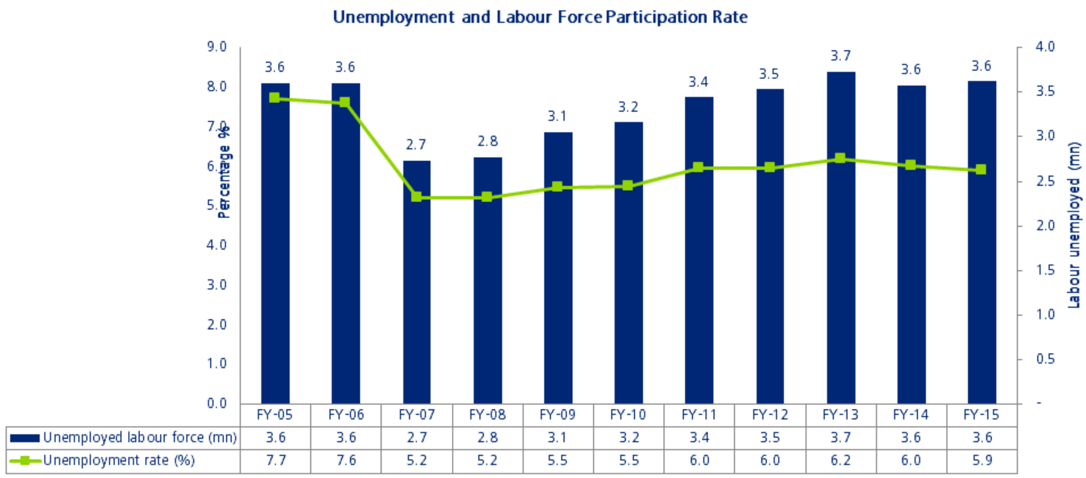


	FY-05	FY-06	FY-07	FY-08	FY-09	FY-10	FY-11	FY-12	FY-13	FY-14	FY-15	FY-16
Hydel	25,671	30,862	31,953	28,707	20,526	21,671	23,817	22,044	20,536	23,953	23,478	24,544
Import	109	149	171	199	195	185	229	-	-	304	350	335
Nuclear	2,795	2,484	2,288	3,077	918	2,521	2,260	4,146	3,301	4,331	4,273	3,078
Thermal	57,162	60,283	63,972	63,877	39,154	39,342	42,664	39,940	43,125	44,847	43,611	45,252

Source: Table 2, Energy, Economic Survey 2015-16, Ministry of Finance, NEPRA
P = Provisional

Employment

Unemployed workforce has increased significantly since 2008 and has risen to 3.62 million in FY15. The un-employment rate as per the Economic Survey reflects, surprisingly slight improvement at 5.9% compared to 6% in the previous year, despite negative growth in main employment creating sectors of agriculture, textiles and exports. Due to low literacy rate, Pakistan lacks skilled labor, and is not able to utilize the full potential of its demographic advantage of having large number of young people that can contribute positively to the economy provided they get appropriate education and skills. Also, the sectorial distribution of Pakistan's economy is tilted 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, as the number of unemployed people continue to rise, and the below statistics may not be reflecting the true picture.



	FY-05	FY-06	FY-07	FY-08	FY-09	FY-10	FY-11	FY-12	FY-13	FY-14	FY-15
Unemployed labour force (mn)	3.6	3.6	2.7	2.8	3.1	3.2	3.4	3.5	3.7	3.6	3.6
Unemployment rate (%)	7.7	7.6	5.2	5.2	5.5	5.5	6.0	6.0	6.2	6.0	5.9

Source: Table 12.10, Population, Labour Force and Employment, Economic Survey 2015-16, Ministry of Finance

Budget and Economic outlook for FY 2016-17

The budget presented by the Finance Minister targets an economic growth of 5.7% for 2016-17 to be attained by raising revenue collections to 3.6 trillion and attracting higher investment both from public and private sectors. The budget aims to reduce the fiscal deficit to 3.8 percent, increase revenue and investment to GDP ratios, address the energy deficit, and promote exports and revival of agriculture sector for which significant incentives have been announced. Given the right economic policies and their effective implementation, the targeted growth appears challenging but achievable. In fact, considering the performance being achieved by other countries in the region, especially India and Bangladesh that are growing in the range of 6.6 to 7.5%, Pakistan should be aiming at a GDP growth of plus 7%, especially considering the huge opportunity created by CPEC investments and continuing improvements in law & order and energy sectors.

The below list summarizes the salient features of the FY16 Budget and three year medium term targets:

- Real GDP is targeted to be 5.7% for FY 16-17 that is to be raised to 7% by FY18-19.
- Fiscal deficit is targeted to be contained to 3.8% in FY16.
- Inflation is targeted to stay in single digit.
- Federal public sector development program is budgeted at Rs. 800 billion.
- Investment to GDP ratio is to be gradually raised to 21% by the end of FY19.
- Tax to GDP ratio is to be raised to 13.9%. by FY 19
- Forex reserves are targeted to be increased to USD 30 billion by FY19
- Debt to GDP ratio to be brought down to 60% in the next 2 years.

Key Challenges for reviving and sustaining the economic growth

With stabilization of the economy and recovery in economic growth in recent years, there are good prospects for further improvement, given the right policies, governance and effective monitoring framework. Clearly, country's economic potential for GDP growth is much larger than is being achieved, as is reflected by what other countries in the region are achieving. Recognizing the importance of agriculture and export generating manufacturing sectors, the government has already announced several fiscal incentives to revive these sectors. However, historically, the real challenge in Pakistan has been lack of effective implementation as several good policy announcements in the past have remained just empty promises.

The fact that the government has been able to stabilize the economy, with significant improvement foreign exchange reserves and relatively stable external account, together with very low inflation and interest rates, the economy's potential to attract investment is much greater than the present state. On the negative side that make sustainable high growth questionable is very low tax to GDP ratio of around 10%, and dismal rate of savings to GDP ratio of 15%, due to which Pakistan's progress and growth remains totally dependent on either foreign investment or more debt. Therefore, while the government has announced significant fiscal incentives to revive growth of agriculture, textile manufacturing and exports, it is obvious that without structural reforms that can drastically improve our taxation system to raise of tax to GDP ratio gradually to 17-18% level, sustained economic growth will not be possible.

Unfortunately, the revenue side of the budget has remained focused on increasing rates of existing taxes and continuing enhancement in the withholding and presumptive tax regimes, especially on extracting more revenue from non-filers. No doubt, this approach has resulted in significant improvement in tax collections, as overall FBR tax collections have increased by nearly 60% in the last three years. However, the improvement in tax to GDP ratio is barely 1 percent reflecting insufficiency of such measures, and highlighting the dire need for more profound structural reforms in tax policy and administration, if we have to mobilize required resources for more speedy progress to prosperity on a sustained basis.

Besides revival of agriculture and large scale manufacturing that can contribute to employment and revive exports, the government also needs to address much needed improvement in governance and management of public sector enterprises, which continue to result in huge wastage of tax payers' money. Much needed privatization program, which seems to have been effectively stalled, needs to be reinitiated with renewed vigour.

The forced budget surpluses of the provinces that are being used to contain overall fiscal deficit by the federal government is now becoming a major impediment in execution of provincial development programs, especially their allocations for social sectors such as education and health. Development spending of provinces is hampered significantly when federal government suspends transfer of funds from divisible pool at the end of every fiscal year to generate such surpluses. One positive announcement is that FED has been withdrawn on services on which the provinces had imposed sales tax, which will remove this double taxation that was a great irritation for tax payers.

Despite several measures proposed in the Budget FY17, the government will need to focus on several intangibles to turnaround the economy. One pervasive area is effective governance and management, especially the ability of the government to take timely decisions as well as ensure implementation. With China's current commitment to invest in Pakistan through CPEC, the government will need to play a key role in provision of the needed support for preparation and facilitation of the implementation of relevant projects, which will not be easy, considering the usual bottlenecks and red tape culture in the government. So far, the inflows from CPEC and its contribution to the economy has remained insignificant, which needs to drastically change for better, if the objective of higher GDP growth is to be achieved.

Also, the implementation of projects such as the Iran Pakistan Gas Pipeline and TAPI need to be monitored and expedited together with streamlining of imports and supply of LNG to ensure better availability of for power generation and industry and affordable prices.

Highlights of Important Fiscal Proposals

Income tax

- A new deductible allowance is introduced entitling an individual having taxable income of less than Rs. 1 million to claim deductible allowance for tuition fee paid in a tax year. The related tax relief shall not exceed the lesser of 5% of tuition fee up to Rs. 60,000 per child per annum or 25% of such individuals taxable income for the year.

- Cap of Rs. 1 million for the availability of deductible allowance for profit on debt on loan obtained for construction of a new house or acquisition of house, shall be enhanced to Rs. 2 million.

- Tax credit shall be allowed for payment of health insurance premium or contribution to any insurance company made by a resident person (other than a company) deriving income chargeable to tax under the head "Salary" or "Income from Business" subject to certain specified conditions.

- Final tax on commission received by life insurance agents, being filers, reduced from 12% to 8% provided such commission received is less than Rs. 500,000 per annum.

- Capital gain tax on sale of immovable property is proposed at the rate of 10% for holding period up to five years. The sale of immovable property held for more than five years will be exempt from capital gain tax.

- Advance tax payable by a buyer of immovable property having value of more than Rs 3 million is being enhanced from 1% to 2% for filer buyer and from 2% to 4% for non-filer buyer. No advance tax shall be collected where the immovable property is held for a period exceeding 5 years.

- Group relief under section 59B on account of surrendering the loss is to be restricted to percentage share capital held by the holding company of its subsidiary company.

- The threshold of turnover for levy of minimum tax is being reduced from Rs. 50 million to Rs. 10 million for individuals and AOPs.

- To reduce unemployment and encourage new industry, tax credit of 1% available to industrial undertaking for every 50 employees is enhanced to 2%. The period for setting up the industrial undertaking is extended from June30, 2018 to June 30, 2019.

- Tax credit available to manufacturers, registered for federal sales tax, making 90% of their sales to registered sales tax persons is enhanced from 2.5% to 3%.

- Disallowance of certain expenditures under section 21(c) on non-withholding of tax from related payments is proposed to be extended to all expenditures in respect of which related payments fall within the ambit of tax withholding provision of the Ordinance. However, such disallowance in respect of purchases of raw materials and finished goods shall not exceed 20% of said purchases. Subsequent recovery of tax under section 161 or 162 shall be considered as tax paid and thereby related expenditure shall be admissible.

- Deduction for expenditure in respect of sales promotion, advertisement and publicity in excess of 5% of turnover incurred by pharmaceutical manufacturers is proposed to be disallowed.

- Foreign trust is proposed to be included in the term "trust" and thereby meaning of "company".

- Specified records are to be kept for transactions with associates.

- Provisional assessment made by the Commissioner not be final if taxpayer files the return of income within 45 days alongwith specified documents and presents accounts and documents for conducting the audit of his income tax affairs.

- An approval of Commissioner is required for revision of return. Such approval is deemed to be granted by the Commissioner in case where he has not done so within 60 days or where income declared in revised return of income is more than or loss declared is less than the amounts of income or loss declared in the original return of income.

- Through an "Explanation" it has been clarified that tax depreciation and initial allowance of tax holiday period is treated to have been allowed during tax holiday period, and written down value after exemption period shall be determined after reducing such tax depreciation and initial allowance of tax holiday period.

- Period of installation of plant and machinery, on which tax credit for balancing, modernization and replacement is available, is proposed to be extended from June 30, 2016 to June 30, 2019.

- Time period for availability of 20% tax credit for enlistment on any registered stock exchange is extended from existing 1 year to 2 years.

- A company set up in Pakistan before July 01, 2011 making investment in the purchase and installation of plant and machinery for an industrial undertaking was entitled to 100% tax credit of the tax payable provided such plant and machinery was installed between July 1, 2011 and June 30, 2016 and 100% of such company's new equity was raised through issuance of new shares. Now the period of installation of plant and machinery has been extended upto June 30, 2019. Further, the condition of raising new equity has been reduced to 70% and tax credit shall be allowed proportionately only on new equity.

- Exemption available on income from exports of computer software or IT services or IT enabled services is proposed to be extended from June 30, 2016 to June 30, 2019 provided 80% of export proceeds are brought into Pakistan in foreign exchange through normal banking channels.

- The period for exemption from the application of provisions of section 111 pertaining to unexplained income or assets available in respect of investment in Greenfield industrial undertaking extended from June 30, 2017 to June 30, 2019.

- For operation and development of Gwadar Port and Gwadar Free Zone, exemptions and concessions are proposed to be granted to certain specified entities in accordance with the decisions of ECC and concession agreements.

- Alternate Corporate Tax is proposed to be considered while computing quarterly advance tax payable by a company.

- Super tax levy is proposed to be extended for tax year 2016. The Bill proposes to exclude brought forward depreciation and business losses from the definition of 'income' for the purposes of section 4B of the Ordinance.

- Minimum tax is now proposed to be charged on companies declaring gross loss before set off of depreciation and other inadmissible expenses.

- Final tax is to be imposed on Builders and Land Developers on the basis of per unit area

- Advance Tax at the rate of 3% of turnover is to be collected from non-filer service providers by provincial sales tax authorities. Such advance tax shall be collected along with the sales tax return filed with the provincial sales tax authorities.

- Income from property, exceeding Rs. 200,000, derived by individuals and AOPs is proposed to be taxed as separate block at tax rates ranging from 5% to 20%.

- An adjustable advance tax at the rate of 5% of the value of minerals extracted, produced, dispatched and carried away from the licensed or leased areas of the mines is proposed to be collected from non-filers by provincial authority collecting royalty.

- Adjustable withholding tax on commercial electricity bills exceeding Rs.20,000 per month is proposed to be taxed at the rate of 12%.

- A leasing company or schedule bank or an investment bank or a development finance institution or modaraba shall collect advance tax at the rate of 3% of the value of motor vehicle, at the time of leasing of motor vehicle to a non-filer.

- It is proposed that every person responsible for making payment directly or through an agent or intermediary to a non-resident person for foreign produced commercial for advertisement on any television channel or any other media shall deduct tax at 20% from the gross amount paid. Such tax withheld shall be the final tax on the income of the concerned non-resident person.

- Applicable tax rates on capital gain arising on disposal of securities proposed to be substituted as follows:

Period of holding Security	Tax Year 2016	Tax Year 2017	
		Filer	Non-Filer
Less than 12 months	15%	15%	18%
12 months or more and less than 24 months	12.5%	12.5%	16%
24 months or more but the security was acquired on or after July 1, 2012	7.5%	7.5%	11%
Security was acquired before July 1, 2012	0%	0%	0%
Future commodity contracts entered into by the members of Pakistan Mercantile Exchange	0%	5%	5%

- Capital gains on disposal of debt securities by companies, currently taxed at corporate tax rate, proposed to be taxed as per the rates provided in the above table.

- Advance withholding tax rate on dividend income of non-filers is enhanced from 17.5% to 20%. Further, enhanced rate of 15% is proposed for non-filers individuals and AOPs receiving dividend from money market fund, income fund or REIT scheme or any other fund.

- Reduced tax withholding rate of 3% has been proposed for supplies made by distributors of fast moving consumer goods, if the distributor is company whereas tax withholding rate of 3.5% is proposed in other cases.

- Tax withholding rate applicable on payments to electronic and print media for advertisement services rendered by a filer has been enhanced from 1% to 1.5%. Furthermore, tax withholding from aforesaid advertising services is proposed to be final tax both in case of filers as well as non-filers.

- Enhanced withholding tax rate of 20% is proposed for non-filers on account of a prize on prize bonds or cross word puzzle.

- Advance tax on sale or transfer of immovable property is enhanced from 0.5% to 1% for filers and from 1% to 2% for non-filers.

- Insurance company or its agents shall collect advance tax at the time of collection of insurance premium from non-filers in respect of general insurance premium at 4% and 1% on life insurance premium exceeding Rs 0.2 million per annum.

- Exemption from income tax on account of any income derived from inter-corporate dividend to the companies entitled for group relief under section 59B has been withdrawn. This could be a major blow to holding company group structure.

- Separate tax rates for filers and non- filers engaged in rendering of services outside Pakistan and construction contracts executed outside Pakistan have been introduced. Currently, tax rate for such services and contracts is 1%, which is proposed to be enhanced to 50% of the tax rate applicable for services rendered or contracts executed in Pakistan. The rates are summarized below:

	Rate of tax			
	Corporate		Non-corporate	
	Filer	Non-Filer	Filer	Non-Filer
For rendering of services	4%	6%	5%	7.5%
For construction contract	3.5%	5%	3.75%	5%

- Exemption from withholding tax on inter corporate dividend and profit on debt in case of companies claiming group relief under section 59B is withdrawn.

- Exemption of minimum tax for companies operating trading houses is withdrawn and minimum tax at 0.5% upto year 2019 and at 1% thereafter is levied.

- Reduced rate of tax (4% of gross receipt) is introduced for the taxation of income of Pakistan Cricket Board from sources outside Pakistan.

- Exemption from withholding of tax under section 151 on interest paid on a Term Finance Certificate held by company has been withdrawn.

- Conditions for the issuance of exemption certificate under section 148 are prescribed by specifying the quantity of imports and imposing mandatory condition for audit of the taxpayer seeking such exemption.

- Reduced minimum tax rate of 2% allowed to low profit margin corporate service providers (including IT sector) for tax year 2016 is to be extended to tax year 2017. This extension is subject to presentation of irrevocable undertaking by November 2016 to present financial statements for audit.

- Dividend of listed companies is proposed to be considered for the purpose of computing income from insurance business carried on by mutual insurance association in addition to capital gains on disposal of shares, vouchers of Pakistan Telecommunication Corporation, modaraba certificates or instruments of redeemable capital and derivative products. It is further proposed that such income shall be taxed at the corporate rate as against the different rates currently specified according to the holding period of the securities.

- The contribution made by employer in excess of one tenth of the salary or Rs100,000, whichever is lower is currently taxable. The limit of Rs 100,000 is proposed to be enhanced to Rs 150,000.

- Capital gains on disposal of units of open ended mutual funds and to which section 100B apply shall be computed and determined under Eighth Schedule and tax thereon shall be collected and deposited by NCCPL.

- Gain or loss arising to persons through trading of future commodity contracts on Pakistan Mercantile Exchange , subject to tax under section 37A and to which section 100B apply, shall be computed and determined under Eighth Schedule and tax thereon shall be collected and deposited on behalf of taxpayers by NCCPL.

Sales tax on goods

- Provincial sales tax on services is not to be allowed as input tax under federal sales tax law. This will increase the cost of doing business and distort the VAT mechanism.

- Pesticides and their ingredients are to be exempted from sales tax.

- Sales tax exemption is to be allowed on import of Laptops & Personal Computers (PCs) in order to make illegal imports uncompetitive and to promote information & communication technology.

- Exempted turnover threshold for cottage industry is to be increased from Rs. 5 Million to Rs. 10 Million; aiding small manufacturers to avoid hardships and sales tax registration requirements.

- For construction and operation of Gwadar Port and for development of Free Zone area of Gwadar Port, exemption from sales tax for 40 years is being granted to Concession Holder of Gwadar Port Authority and its operating companies, their contractors and sub-contractors.

- Sales tax exemption is to be granted for 23 years on sales/supplies to businesses established/situated in Gwadar Free Zone Territory only.

- Sales tax exemption to machinery and equipment for the development of silos is being allowed along with grain handling and storage facilities.

- Stationery items, milk and fat-filled milk are currently exempted as well as zero-rated. Zero-rating on such items is to be withdrawn.

- Sales tax at reduced rate on urea is to be allowed to promote agriculture sector.

- Sales tax is to be charged at slabs of Rs. 300, Rs. 1000 and Rs. 1,500 in respect of low priced, medium priced and smart mobile phones respectively.

- Sales tax on mineral/bottled water is to be taxed on retail price rather than applying 17% on value of supply.

- Ingredients of poultry feed which are currently subject to sales tax at the rate of 5% ad valorem are to be taxed at the rate of 10%.

- Exemptions available to plant, machinery, equipment, etc. used in Bio-Diesel production, are rationalized by excluding specific items from exemption.

- As per salient feature of budget document, purchase of items specified in SRO 1125(I)/2011 including electricity, gas, furnace oil and coal are to be subject to zero rate of sales tax with respect to five export-oriented sectors in order to avoid the refund and to facilitate the exporters.

- As per salient feature of budget document, 5% sales tax is to be imposed on retail sales of locally manufactured finished goods of five export-oriented sectors.

- Exemption of further tax @ 2% is to be allowed on secondhand and worn clothing.

- Tier 1 Retailers are offered with an option to pay sales tax at fixed rate of 2% on their sales without adjustment of input tax.
- In order to bring Marble Industry in sales tax net, sales tax is to be levied @ 1.25 per KWH of electricity consumed by the business in marble industry in addition to standard sales tax at the rate of 17% on supply of electricity and extra tax of 5%.

- Upward increase in rates for steel sector, ship-breakers and steel melters.

Federal excise duty

- FED is withdrawn on services of advertising, shipping agents, banking companies, insurance companies, NBFIs, cooperative financing societies, franchise, stevedores, stock brokers, forex dealers etc., which are already subject to provisional sales tax. It is however yet to be clarified as to whether such exemption is retrospective.

- For the development of Gwadar Port and Free Zone for Gwadar Port, the exemption from FED for 40 years is to be provided on import and supply of materials, equipment, etc. for such construction and development.

- FED exemption is being given for 23 years on sales/supplies made by the businesses established/situated in Gwadar Free Zone Territory only.

- Rate of FED on cigarettes is increased on bi-annual basis.

- FED of Rs. 1/kg is being levied on portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements in place of the current rate of 5% FED charged on retail price.

- The Bill replaces 8% FED on white Crystalline Sugar with the sales tax chargeable at same rate.

- FED on aerated water is to be increased from 10.5% to 11.5%.

- The Bill restricts adjustment of FED where the supplier does not declare the corresponding supply in its return and deposit the FED thereon.

- The Bill levies penalties of five thousand rupees or three percent of the amount of duty involved, whichever is higher, to any person who contravenes any provision of the Act or rules made thereunder for which no penalty has specifically been provided.

Customs duty

- Through the Bill, an increase of 1% has been proposed in customs duty rate wherever it is being charged at 10% and 15%.

- For the development of automobile sector, 'Part-V – Import of Automotive Vehicles (CBUs) under Automotive Development Policy (ADP) 2016-21' is introduced into Fifth Schedule of the Customs Act wherein concessional rates are offered for certain vehicles including agricultural tractors, fully dedicated CNG buses, Hybrid Electric Vehicle, Plug-in Electric Vehicle.

- A reduction from 5% to 2% has been proposed in Customs Duty chargeable on Dairy, Livestock & Poultry sector and Fish Farming, fish feed pellet, whereas Customs Duty on fish / shrimp feed may be reduced from 10% and 20% to zero percent.

- In order to facilitate Charitable Non-profit Institutions Operating Hospitals, the Bill has proposed further exemptions in addition to the existing ones.

- The Bill also proposes to add Part-IV to the Fifth Schedule to exempt Customs Duty on import of certain machinery and equipment for textile sector.

- The Bill has proposed relief from Customs Duty on import of Cool Chain Machinery.

- The Bill has proposed to extend the Relief available on import of Solar Panels till June 2017.

- The Bill has proposed to bring down the Customs Duty to zero percent on import of water quality testing kits and Linear Akyl Benzene.

- Custom Duty on PVC resin, white spirits and thermostats for deep-freezers has been proposed at 3%.

- The Bill also proposes concessional rates of 5% on import of parts and components for manufacturing of LED lights if imported by LED light manufacturers registered under Sales Tax Act subject to annual quota.

- The Bill proposes to increase the Customs Duty on import of Betel Nut from 10% to 20% and Betel Leaves to 600/kg.

- The Bill proposes rationalization of Customs Duty on import of Almonds, Frozen Fish and Medium Density Fiber board by increasing it to 20%.

- The Bill proposes increase in Customs Duty for Cement Clinker and Live Chicken Stock and Chicken Eggs to be at 11%.

- The Bill proposes increase in Customs Duty on import of Stamping foil, Semi printed / Printed Security Paper and Birds eggs (not in shell) to be at 16%.

- The Bill also proposes to remove regulatory duty on Bead Wire used by tyre manufacturer; and on Carbon Steel Strips used by Razor blade manufacturers.

- The Bill also suggested to levy regulatory duty of 25% on powdered milk and whey powder.

Income Tax Ordinance, 2001

1. Super tax [Section 4B]

The Bill proposes to extend super tax to tax year 2016. This levy for the rehabilitation of temporarily displaced person was introduced through the Finance Act, 2015 as one-time tax to be charged on "income" at the rate of :

- 4% for a banking company; and
- 3% for other persons having income of Rs. 500 million or above.

For tax year 2015, the term "income" represented the sum of following incomes:

- Taxable income as per section 9 (i.e. total income less deductible allowances) including profit on debt, dividend, capital gains, brokerage and commission.

- Imputable income as defined in clause (28A) of section 2.

- Profits and gains of insurance business exploration and production of petroleum and mineral deposits, banks and capital gains on listed securities.

The Bill now proposes to exclude depreciation and business losses from the definition of 'income'.

It has, however, been mentioned in "Notes on Clauses" to the Bill that intention is to exclude the brought forward business and depreciation losses from the definition of "income". Wordings proposed in the Bill appear to be not in consonance with explanation given in "Notes on Clauses". This anomaly needs to be removed inline with the rationale explained in "Notes on Clauses".

2. Tax on builders [Sections 7C and 8]

By virtue of these proposed insertions, tax on profit and gains of a person deriving income from the business of construction and sales of residential, commercial or other buildings has been proposed to be charged under final tax regime at the rates proposed in Division VIIIA of Part I of the First Schedule. Moreover, minimum tax on builders under section 113A of the Ordinance has also been proposed to be omitted.

For sale of all "commercial" buildings being constructed in different cities/ urban areas, the rate of Rs. 210 per square foot has been proposed whereas for sale of "residential" buildings different tax rates have been proposed to be applied on the basis of three slabs/ ranges of area in square feet being constructed in different specified cities / urban areas.

Moreover, these proposed amendments will be applicable on business or projects undertaken for construction and sale of residential, commercial or other buildings initiated and approved after July 1, 2016.

Furthermore, it has been proposed to empower the Federal Board of Revenue (FBR) to prescribe mode and manner for payment and collection of this tax, the authorities granting approval for computation and payment plan of tax, and to prescribe responsibilities of the authorities approving, suspending and cancelling no objection certificate to sell alongwith ancillary matters.

Consequential amendment is also proposed to be made in section 8 of the Ordinance to include tax on income of builders within ambit of final taxation.

3. Tax on developers [Sections 7D and 8]

Tax on profit and gains of a person deriving income from the business of development and sales of residential, commercial or other plots has been proposed to be chargeable to tax under final tax regime at the rates as is proposed in Division VIIIB of Part I of the First Schedule. Moreover, minimum tax on builders under section 113B of the Ordinance has also been proposed to be omitted.

Tax rates similar to those applicable on builders have been proposed to be applied to the area of the residential and commercial plots for sale in different cities / urban areas.

Moreover, this section has been proposed to be applied to projects undertaken for development and sale of residential, commercial or other plots initiated and approved after July 1, 2016.

Furthermore, it has been proposed to empower the FBR to prescribe mode and manner for payment and collection of this tax, the authorities granting approval for computation and payment plan of tax, and to prescribe responsibilities of the authorities approving, suspending and cancelling no objection certificate to sell alongwith ancillary matters.

Moreover, consequential amendment is proposed to be made in section 8 of the Ordinance to include tax on income of builders within ambit of final taxation.

4. Income from Property [Sections 15 and 15A]

The Bill proposes to charge fixed tax on individuals and association of persons (AOPs) deriving “Income from property” exceeding Rs. 200,000 under newly proposed Division VIA of Part I of the First Schedule to the Ordinance.

Further, consequential amendment is proposed in section 15A of the Ordinance to replace the word ‘person’ with the word ‘company’ to allow deductions in computing “income from property” only in the case of a company. It would be worth mentioning that the Bill has proposed the substitution of the word “company” in sub-section (1) of section 15A only rather than in all sub-sections of this section. This may later be corrected in the Finance Act, 2016.

5. Income from Business – inadmissible deductions [Section 21]

The Bill proposes to substitute clause (c) of section 21 of the Ordinance. Under the existing law, expenditures of salary, rent, brokerage or commission, profit on debt, payment to non-resident, payment for services or fee paid by the person from which the person is required to deduct tax are not allowed as deductions in computing the income of a person under the head “Income from Business” unless tax is collected or deducted and paid to the Government. After the proposed substitution of said clause (c), any expenditure, payments which fall within the ambit of tax withholding under Part V of Chapter X or Chapter XII of the Ordinance will be inadmissible deduction unless the related payments have been subjected to said tax withholding.

The proposed amendment also provides that the disallowance under this clause in respect of purchase of raw materials and finished goods shall not exceed 20% of the said purchase.

Moreover, it has also been proposed that the subsequent recovery of tax under sections 161 and 162 of the Ordinance in respect of expenditure falling within the ambit of aforesaid clause (c) will entitle the taxpayer to claim deduction for said expenditure in computing his “Income from Business”.

Furthermore, another clause (o) has been proposed to be inserted whereby any expenditure on account of sales promotion, advertisement and publicity incurred by pharmaceutical manufacturers in excess of 5% of its turnover is inadmissible.

6. Depreciation [Section 22]

An explanation has been proposed to be added after sub-section (5) of section 22 of the Ordinance pertaining to depreciation related to exempt period. It has been proposed to clarify that where any building, furniture, plant or machinery is used for the purposes of business during any tax year for which the income from such business is exempt, depreciation admissible under sub-section (1) of section 22 of the Ordinance shall be treated to have been allowed in respect of the said tax year and after expiration of the exemption period, written down value of such assets shall be determined after reducing total depreciation deductions, including any initial allowance under section 23 of the Ordinance, in accordance with clauses (a) and (b) of section 22(5) of the Ordinance.

7. Capital gain on disposal of securities [Section 37A]

The meaning of term “security” includes “derivative products”.

An explanation is proposed to be added to clarify that “derivative products” include “future commodity contracts” entered into by the members of Pakistan Mercantile Exchange whether or not settled by physical delivery. The Bill also seeks to tax capital gain on disposal of “future commodity contracts” at the rate of 5% for tax year 2017.

Further, capital gain on disposal of debt securities by the companies, which is currently taxed at corporate tax rate, is proposed to be taxed as per rates proposed in Division VII.

Previously, capital gain on disposal of securities held for more than four years was exempt from tax. As a consequential amendment in First Schedule, the exemption from tax is now available only in respect of disposal of securities acquired on or before July 01, 2012.

8. Scope of exemptions and tax concessions in the Second Schedule [Section 53]

Scope of exemptions by the Federal Government after approval of Economic Coordination Committee of Cabinet is sought to be extended. The amendment proposes to grant exemption from any tax imposed under this Ordinance including a reduction in the tax rate or tax liability or an exemption from the operation of any provision of the Ordinance to any international financial institution or foreign Government owned financial institution operating under the agreement, memorandum of understanding or any other arrangement with the Government of Pakistan.

9. Group relief [Section 59B]

Under existing tax law, a subsidiary company can surrender its assessed loss for the tax year in favour of its holding company or its subsidiary or between another subsidiary of the holding company subject to fulfillment of certain conditions specified therein.

Group relief is proposed to be restricted to percentage share capital held by the holding company of its subsidiary company. A new section (1A) has been proposed to be inserted under sub-section (1) as per which the loss to be surrendered under sub-section (1) shall be allowed as per following formula:

$$(A / 100) \times B$$

Where:

A is the percentage share capital held by the holding company

B is the assessed loss of the subsidiary company

It is also proposed to withdraw the exemption from income tax on account of any income derived from inter-corporate dividend to the companies entitled for group relief under section 59B.

Such measures will render the purpose of making groups meaningless as main purposes to form a group is to avoid double taxation of dividend and utilize the tax losses within the group entities. The proposed amendments will be a major blow to group structures, where holding is less than 100%.

10. Tax credit for investment in health insurance [Section 62A]

In order to promote health insurance in the country, a new section is proposed for allowing tax credit to a resident person other than a company. The proposed amendment states that tax credit for a tax year shall be allowed for a resident person other than the company in respect of any health insurance premium or contribution paid to any insurance company registered with Securities and Exchange Commission of Pakistan provided that the resident person is driving income chargeable to tax under the head "Salary" or "Income from Business".

Tax credit allowed under this section shall be computed by following formula:

(A / B) x C

Where:

A is the amount of tax assessed to the person for the tax year before allowance of tax credit under this section;

B is the person's taxable income for the tax year; and

C is the lesser of:

(a) Total contribution or premium paid in the year;

(b) 5% of the person's taxable income for the year; and

(c) Rs. 100,000.

The proposed insertion would incentivize health insurance business in Pakistan and would also help in increasing savings.

11. Contribution to an approved pension fund [Section 63]

A new proviso is proposed to be added to provide that the additional contribution of 2% per annum for each year of age exceeding 40 years shall be allowed upto June 30, 2019 subject to the condition that total contribution allowed to such person shall not exceed 30% of total taxable income of the preceding year.

12. Deductible allowance for profit on debt [Section 64A]

Under existing law, every individual is entitled to a deductible allowance for the amount of any profit or share in rent and share in appreciation for value of house paid by the individual in a tax year on a loan by a scheduled bank or non-banking finance institution or advanced by Government or the Local Government, Provincial Government or a statutory body or a listed company where the individual utilizes the loan for construction of a new house or the acquisition of a house.

The deductible allowance in respect of profit on debt is allowed at lower of actual profit / markup or Rs. 1,000,000 or 50% of taxable income. This limit of Rs. 1,000,000 is proposed to be increased to Rs. 2,000,000.

13. Deductible allowance for education expenses [Section 64AB]

This new deductible allowance has been proposed to be introduced through which every individual having taxable income of less than Rs. 1,000,000 will be entitled to deductible allowance for tuition fee paid in a tax year. The amount of deductible allowance allowed for a tax year shall not exceed the lesser of:

(a) 5% of total tuition fee paid in the year;

(b) 25% of the person's taxable income for the year, and

(c) an amount computed by multiplying Rs. 60,000 with number of children of the individual.

Any allowance or part of an allowance under this section for a tax year that is not deducted for the said year shall not be carried forward to a subsequent tax year. Allowance under this section shall be allowed against the tax liability of either of the parents making payment of the fee on furnishing national tax number (NTN) or name of the educational institution.

Allowance under this section shall not be taken into account by the employer for the purposes of tax withholding from salary payments to the individual entitled to deduction of this allowance.

14. Tax credit for employment generation by manufacturers (Section 64B)

Tax credit is presently available to companies, equal to 1% of the tax payable for every 50 employees registered with the Employees Old Age Benefit Institution or the Employees Social Security Institutions of Provincial Governments during the tax year, which is formed for establishing and operating a new manufacturing unit and setup a new manufacturing unit between July 01, 2015 and June 30, 2018.

The rate of tax credit is proposed to be increased from 1% to 2%, and the said credit is proposed to be available for investment upto June 30, 2019.

15. Tax credit to a person registered under Sales Tax Act, 1990 (Section 65A)

Tax credit is presently available to manufacturers registered under the Sales Tax Act, 1990, equal to 2.5% of tax payable in a tax year.

The proposed amendment seeks to increase the rate of credit from 2.5% to 3%.

16. Tax credit on investments (Section 65B)

Tax credit is presently available to companies which invest any amount in the purchase of plant and machinery for the purpose of balancing, modernization and replacement of the plant and machinery upto June 30, 2016.

The proposed amendment seeks to allow the credit for investments made upto June 30, 2019.

17. Tax credit on enlistments (Section 65C)

Tax credit equal to 20% of the tax payable is available to companies which opt for enlistment on any registered stock exchange in

Pakistan, in the tax year in which company is enlisted.

The proposed amendment seeks to extend the tax credit for the following year as well.

18. Tax credits for newly established industrial undertakings (Section 65D)

Tax credit is presently available for companies, formed for establishing and operating a new industrial undertakings, which sets up a new industrial undertaking with 100% of equity, equal to 100% of the tax payable on the taxable income arising for five years beginning from date of setting up or commencement of commercial production on or before the June 30, 2016.

The new section 1(A) is proposed to be introduced, whereby tax credit would be computed according to the following formula:

(A/100) x B

Where:

A is the amount of tax assessed to the person for the tax year before allowance of any tax credit for the tax year; and

B is the equity raised through issuance of new shares for cash consideration.;

The Bill further proposes that business is set up with minimum 70% of equity to avail the credit, and time limit is extended uptill June 30, 2019. The credit will be revocable if business is discontinued in subsequent five years after credit has been allowed.

19. Tax credits for industrial undertakings established before the first day of July, 2011 (Section 65 E)

Tax credit is presently available for companies set-up before July 1, 2011, who invest any amount with 100% of equity raised through issuance of new shares, in the purchase and installation of plant and machinery for an industrial undertaking.

The new section (3A) is proposed to be introduced, whereby tax credit would be computed according to the following formula:

(A/100) x B

Where

A is the amount of tax assessed to the person for the tax year before allowance of any tax credit for the tax year; and

B is the equity raised through issuance of new shares for cash consideration.";

The Bill further proposes that business is set up with minimum 70% of equity to avail this credit, and time limit is extended uptill June 30, 2019. The credit will be revocable if business is discontinued in five years subsequent to the year in which this tax credit has been allowed.

20. Apportionment of deductions (Section 67)

Under the existing law, the apportionment is in respect of expenditure only.

The proposed amendment seeks to provide for apportionment of deductions and allowances as well.

21. Fair market value (Section 68)

Under the existing law, fair market value of any property or rent, asset, service, benefit or perquisite shall be determined without regard to any restriction on transfer or to the fact that it is not otherwise convertible to cash.

The proposed amendment seeks to determine fair market value of property also without regard to value fixed or notified by any provincial authority for the purpose of stamp duty or for any other purpose.

22. Persons (Section 80)

Under the existing law, the term “trust” is defined as an entity or a body of persons established or constituted by or under any for the time being in force and is included in the meaning of “company” and thereby term “person”.

The proposed amendment seeks to clarify that the term “trust” also includes “foreign trust” in the definition of “persons”.

23. Agreements for avoidance of double taxation and prevention of fiscal evasion (Section 107)

Under present law, the Federal Government may enter into an agreement with the foreign Government for avoidance of double taxation and the prevention of fiscal evasion and exchange of information.

It is proposed that the Government can now enter into tax treaty, tax information exchange, a multilateral convention, inter-governmental agreement or a similar agreement or mechanism, for the avoidance of double taxation or for the prevention of fiscal evasion and exchange of information. Presently, any sort of information received or supplied, and any concomitant communication or correspondence made, under a tax treaty, a tax information exchange agreement, a multilateral convention, a similar arrangement or mechanism, shall be confidential subject to section (3) of section 216, whereby such information can be disclosed under certain conditions..

As per the proposed amendment, the above information would be confidential, and sub section (3) of section 216 shall not be applicable.

24. Transaction between associates (Section 108)

Sub-section (3) is proposed to be inserted, whereby every taxpayer who has entered into a transaction with its associate shall:

(a) maintain a master file and a local file containing documents and information as may be prescribed;

(b) keep and maintain prescribed country - by - country report, where applicable;

(c) keep and maintain any other information and document in respect of transaction with its associate as may be prescribed; and

(d) keep the files, documents, information and reports specified in clauses (a) to (c) for the period as may be prescribed.

A taxpayer who has entered into a transaction with its associate shall furnish, within thirty days the documents and information to be kept and maintained under sub-section (3) if required by the Commissioner in the course of any proceedings under this Ordinance;

The Commissioner may, by an order in writing, grant the taxpayer an extension of time for furnishing the above referred documents and information, if the taxpayer applies in writing to the Commissioner for an extension of time to furnish the said documents or information. However, the Commissioner shall not grant an extension of more than forty-five days in this respect, unless there are exceptional circumstances justifying a longer extension of time.

This concept seems to have been borrowed from the OECD's Action Plan on Base Erosion and Profit Sharing. It is to be noted here that the concept of master file requirement is sensitive issue, as information obtained by tax authorities of a country can be shared with tax authorities of other countries due to treaty provisions. It is expected that detailed rules are likely of be formulated in this regard later on.

25. Minimum tax on certain persons (Section 113)

Presently minimum tax is applicable on individuals and associations of persons having turnover of Rs. 50 million or above in a tax year. Moreover, minimum tax is not payable by a company if it has declared gross loss.

It is proposed that the threshold of Rs. 50 million be decreased to Rs. 10 million.

It is further proposed that exemption for companies on the basis of gross loss be abolished.

In addition, amendment is proposed in the explanation whereby Super tax paid under section 4B of the Ordinance is not to be considered as tax for the purpose of computation of minimum tax.

26. Minimum tax on builders and land developers (Sections 113A and 113B)

Minimum tax is presently payable by builders, deriving income from business of construction and sale of residential, commercial or other buildings. It is proposed that the above provisions are abolished.

Minimum tax is presently payable by developers, deriving income from business of development and sale of residential, commercial or other buildings. It is proposed that the above provisions be abolished.

Now tax regime is proposed to be introduced for builders and land developers through sections 7C and 7D respectively.

27. Return of Income (Section 114)

Under the present law, there are inter alia conditions for filing a revised return of income such as approval in writing is sought from the Commissioner and that income declared in revised return of income is more than or the amount of loss declared in revised return of income is less than the amounts for the income or loss declared in the order passed under various sections of the Ordinance, and if such conditions are not met the revised return is to be treated as invalid. However, by way of proviso, where the approval is not granted by Commissioner within 60 days, the approval would be treated as granted.

It is proposed that the above proviso be substituted with a new proviso, whereby such approval is deemed to be granted by the Commissioner in case where he has not done so within 60 days or where income declared in revised return of income is more than or loss declared is less than the amounts of the income or loss declared in the return of income.

28. Provisional assessment (Section 122C)

Under the existing law, where no return of income is filed for a tax year, the Commissioner can make a provisional assessment based on the information available to him. Such assessment is final assessment after the expiry of 45 days from the date of service of provisional assessment, however, the provisional assessment is not final subject to certain conditions where the returns of income is filed within 45 days.

The existing provisos in section 122C are proposed to be replaced, as a result of which the provisional assessment made by the Commissioner would not be final subject to certain conditions, if the return of income is filed within 45 days and accounts and documents are presented for conducting audit of income tax affairs.

28. Advance tax paid by the taxpayer (Section 147)

An explanation is proposed to be inserted in sub-section (4) of section 147, clarifying that the term "tax assessed" referred to in the formula for computing advance tax due for a quarter includes minimum tax representing prescribed percentage of the "turnover" and "Alternative Corporate Tax". It is further proposed that "Alternative Corporate Tax" like minimum tax shall be considered for computing quarterly advance tax.

29. Payments for foreign produced commercials (Section 152A)

A new section viz 152A is proposed to be inserted, whereby every person responsible for making payment directly or through an agent or intermediary to a non resident person for foreign produced commercial for advertisement on any television channel or any other media shall deduct tax at the rate of 20% from the gross amount paid. The aforesaid tax deducted shall be final tax.

30. Payments for goods, services and contracts (Section 153)

A new proviso is proposed to be inserted in sub-section (3) of section 153, whereby tax deducted under section 153(1) for electronic and print media for advertising services shall be final tax effective from July 01, 2016. Presently such tax deduction is minimum tax.

31. Tax collected or deducted as a final tax (Section 169)

Sub-section (4) is proposed to be inserted in section 169 of the Ordinance, whereby higher tax collected or deducted from non-filers as compared to filers is adjustable instead of final tax as is the case with filers.

32. Cash withdrawal from a bank (Section 231A)

The bill seeks to insert an "Explanation" by virtue of which the limit of Rs. 50,000, for collection of tax by the Bank at 0.3% (0.6% for non-filer), shall be the aggregate of cash withdrawals made from all bank accounts in a single day.

By inserting an "Explanation" the legislature intends to make this condition applicable from the inception.

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

This section provides for the motor vehicle registration authority to collect advance tax at the time of registration.

The bill proposes new proviso by virtue of which no collection of advance tax shall be made after 5 years from the date of first registration of vehicles as specified in clauses (a), (b) and (c) of sub section 6.

Further, the bill also proposes to insert new sub-section which requires every leasing company or a schedule bank or an investment bank or a development finance institution or modaraba to collect advance tax at the rate of 3% of the value of motor vehicle, at the time of leasing of motor vehicle to a non-filer.

34. Advance tax at the time of sales at auction (Section 236A)

Currently tax collected under section 236A by any person making sale by public auction or auction by tender of any property or goods is adjustable. The proposed sub-section (3) provides that tax collected on a lease of the right to collect toll shall be final tax.

35. Advance tax on sales or transfer of immovable property (Section 236C)

This section provides for collection of advance tax at the rate of 0.5% for filers and 1% for non-filers by any person responsible for registering or attesting transfer of any immovable property at the time of registration or attesting the transfer, from the seller or transferor.

Now the proposed amendment provides that no advance tax shall be collected where the immovable property is held for a period exceeding 5 years.

36. Advance tax on banking transaction otherwise than through cash (Section 236P)

The bill seeks to insert an “Explanation” by virtue of which the limit of Rs. 50,000, for collection of tax by the Bank at the rate of 0.4% from non-filer, shall be total of payments for all the banking transactions from all the bank accounts in a single day.

By inserting an “Explanation” the legislature intends to make this condition applicable from the inception.

37. Advance tax on insurance premium (Section 236U)

Currently there is exemption of withholding tax on payment of insurance premium to the insurance companies. The bill seeks to introduce a new section for collection of advance tax on insurance premium from non-filers.

The rate of tax to be collected from non-filer under section 236U shall be as under:

- 4% for general insurance premium
- 1% for life insurance premium if exceeding Rs. 0.2 million per annum
- 0% for others

Advance tax collected through agent is also proposed to be treated as have been collected by the insurance company.

38. Advance tax on extractions of minerals (Section 236V)

The Bill seeks to add new section for collection of advance tax on extraction of minerals at the rate of 5% from non-filer on the value of minerals extracted, produced, despatched, and carried away from the licensed and leased areas of the mines. Such advance tax shall be collected by the provincial authority collecting royalty per metric ton from the lease-holder of mines or any person extracting minerals.

39. Advance tax from provincial sales tax registered person (Section 236W)

The Bill proposes that the provincial revenue authority shall collect advance tax at the rate of 3% of turnover from a non-filer who is a provincial sales tax registered person. Advance tax so collected shall be adjustable.

Advance tax is proposed to be collected along with sales tax return filed and such sale tax return shall not be accepted by the provincial revenue authority unless tax required to be collected has been collected or deposited.

The First Schedule

Rates of Tax

Part I

Division VIA (Income from Property)

Income from property is currently taxable at the rates provided under Division I of Part I of the First Schedule to the Ordinance. Such rates were applicable for the income derived by individuals and association of persons from all sources subject to normal tax regime. The Bill proposes to tax the property income derived by the individuals and association of persons as separate block of income at following rates:

S.no	Gross amount	Rate of tax
1.	Where the gross amount of rent does not exceed Rs.200,000.	Nil
2.	Where the gross amount of rent exceeds Rs.200,000 but does not exceed Rs.600,000	5 per cent of the gross amount exceeding Rs.200,000
3.	Where the gross amount of rent exceeds Rs.600,000 but does not exceed Rs.1,000,000	Rs.20,000 plus 10 per cent of the gross amount exceeding Rs.600,000
4.	Where the gross amount of rent exceeds Rs.1,000,000 but does not exceed Rs.2,000,000	Rs.60,000 plus 15 per cent of the gross amount exceeding Rs.1,000,000
5.	Where the gross amount of rent exceeds Rs.2,000,000	Rs.210,000 plus 20 per cent of the gross amount exceeding Rs.2,000,000

Individuals and association of persons deriving income from property less than Rs 200,000 in a year will not be subject to tax, if they do not derive taxable income under any other head.

Considering the above amendment, withholding tax rates for payments on account of income from property have also been aligned in Division V of Part III of the First Schedule.

Division VII (Capital gains on disposal of securities)

The Bill seeks to introduce rate of capital gain tax on listed securities for tax year 2017 as under:

S.no.	Period	Tax Year 2015	Tax Year 2016	Tax Year 2017	
				Filer	Non-filer
1.	Where holding period of a security is less than twelve months	12.5%	15%	15%	18%
2.	Where holding period of a security is twelve months or more but less than twenty-four months	10%	12.5%	12.5%	16%
3.	Where holding period of a security is twenty-four months or more but the security was acquired on or after 1st July, 2012	0%	7.5%	7.5%	11%
4.	Where the security was acquired before 1st July, 2012	0%	0%	0%	0%

Although the Bill is silent, however, it seems that tax rates for non-filers will only be applicable at collection stage and taxpayers will be entitled to claim the excess tax collected as refund while filing the return of income.

It is obvious that the exemption currently available to securities held for more than 48 months has not been considered in the proposed Division VII. This is in contrast to Government policy for encouraging investment in capital market and frequent changes in law and policy would discourage foreign investors.

Further, capital gains on disposal of debt securities by the companies, which is currently taxed at corporate tax rate, is proposed to be taxed as per the above table.

As a consequence of substitution of Division VII, a mutual fund or collective investment scheme or REIT are no more required to deduct capital gain tax on redemption of securities. Gain on investment in such securities will be computed and determined under Eight Schedule and tax thereon shall be collected and deposited by NCCPL.

The Bill also seeks to tax future commodity contracts entered into by the members of Pakistan Mercantile Exchange at 5% for tax year 2017.

Division VIII (Capital gains on disposal of immovable property)

The Bill seeks to substitute rates in respect of capital gain tax on immovable property as under:

Existing:

S.No	Period	Rate
1.	Where holding period of immovable property is up to one year.	10%
2.	Where holding period of immovable property is more one than year but not more than two years.	5%
3.	Where holding period of immovable property is more than two years.	0%

Proposed:

S.No	Period	Rate
1.	Where holding period of immovable property is up to five years.	10%
2.	Where holding period of immovable property is more than five years.	0%

Currently, capital gain on immovable property held for more than 2 years is chargeable to tax at 0%. As a consequence of proposed amendment, 0% rate of tax shall be applicable for property held for more than 5 years.

Division VIIIA (Tax on Builders)

Profits and gains of a person deriving income from the business of construction and sale of residential, commercial or other buildings is proposed to be taxed at the following rates:

Area	Commercial Buildings	Residential Building	
		Area in Sq. ft	Tax rate
Karachi, Lahore and Islamabad	210/ Sq. ft	Upto 750	Rs. 20
		751 to 1500	Rs.40
		1501 and more	Rs. 70
Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta		Upto 750	Rs. 15
		751 to 1500	Rs. 35
		1501 and more	Rs. 55
Urban Areas not specified in A and B		Upto 750	Rs. 10
		751 to 1500	Rs. 25
		1501 and more	Rs. 35

Such collection of tax will be treated as final discharge of liability under section 8. Such amendments to introduce new avenues for final tax regime would act as disincentive for documentation of economy.

Division VIIIB (Tax on Developer)

The profits and gains of a person deriving income from the business of development and sale of residential, commercial or other plots is proposed to be taxed at the following rates:

Area	Commercial Buildings	Residential Building	
		Area in Sq. ft	Tax rate
Karachi, Lahore and Islamabad	210/ Sq. yd	Upto 120	Rs. 20
		121 to 200	Rs.40
		201 and more	Rs. 70
Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta		Upto 120	Rs. 15
		121 to 120	Rs. 35
		201 and more	Rs. 55
Urban Areas not specified in A and B		Upto 120	Rs. 10
		121 to 200	Rs. 25
		201 and more	Rs. 35

Such collection of tax will be treated as final discharge of liability under section 8. Such amendments to introduce new avenues for final tax regime would act as disincentive for documentation of economy.

Part III

Division I (Advance Tax on Dividends)

The Bill seeks to enhance the advance tax rate on dividend income of non-filers from 17.5% to 20%. Further, enhanced rates of tax are proposed for non-filers receiving dividend from money market fund, income fund or REIT scheme or any other fund as under:

Person	Stock Fund	Money market fund, income fund or REIT scheme or any other fund	
		Filer	Non-Filer
Individual	10%	10%	15%
Company	10%	25%	25%
AOP	10%	10%	15%

Division III (Payments for Goods or Services)

Separate withholding tax rates have been proposed for supplies made by the distributors of fast moving consumer goods as under:

Distributor	Rate
Company	3%
Other than company	3.5%

Further, the Bill seeks to enhance withholding tax rate for payments on account of advertisement services to electronic and print media from 1% to 1.5%.

Division III (Prize and Winnings)

In order to promote return filing, withholding tax rate on a prize on prize bond or cross-word puzzle is proposed at 20% for non-filers as against 15% for filers.

Division V (Income from property)

Considering the amendment proposed for taxation of individuals and association of persons in respect of income from property, the withholding tax rates for individuals and association of persons are proposed as under:

S.no	Gross amount	Rate of tax
1.	Where the gross amount of rent does not exceed Rs.200,000.	Nil
2.	Where the gross amount of rent exceeds Rs.200,000 but does not exceed Rs.600,000	5 per cent of the gross amount exceeding Rs.200,000
3.	Where the gross amount of rent exceeds Rs.600,000 but does not exceed Rs.1,000,000	Rs.20,000 plus 10 per cent of the gross amount exceeding Rs.600,000
4.	Where the gross amount of rent exceeds Rs.1,000,000 but does not exceed Rs.2,000,000	Rs.60,000 plus 15 per cent of the gross amount exceeding Rs.1,000,000
5.	Where the gross amount of rent exceeds Rs.2,000,000	Rs.210,000 plus 20 per cent of the gross amount exceeding Rs.2,000,000

Part IV
Division II (Brokerage and commission)

To provide relief to Life insurance agents earning commission upto Rs 0.5 million, the Bill seeks to substitute withholding tax rates on account of commission and brokerage payments as under:

S. No.	Person	Rate of applicable on the amount of payment	
		Filer	Non-Filer
1.	Advertising agent	10%	15%
2.	Life insurance agents where commission received is less than Rs. 0.5 million per annum	8%	16%
3.	Person not covered in 1 and 2 above	12%	15%

Division IIA (Rates for collection of tax by stock exchange registered in Pakistan)

Rate of tax to be collected by the Stock Exchange on purchase and sale of shares is proposed to be enhanced from 0.01% to 0.02%.

Description	Rate	
	Existing	Proposed
In case of purchase of shares as per clause (a) of sub-section (1) of section 233A	0.01% of purchase value	0.02% of purchase value
In case of sale of shares as per clause (b) of sub-section (1) of section 233A	0.01% of sale value	0.02% of sale value

Withholding tax rate on account of trading of shares have been omitted as the relevant clause (c) of sub-section (1) of section 233A was omitted vide Finance Act, 2012.

Division IV (Electricity consumption)

Advance tax rate for commercial consumers of electricity, having monthly bill exceeding Rs 20,000, is proposed to be enhanced from 10% to 12%. This will increase the cost of doing business.

Division X (Advance tax on sale or transfer of immovable property)

Advance Tax on sale or transfer of immovable property is proposed to be enhanced from 0.5% to 1% for filers and from 1% to 2% for non-filers.

Division XVIII (Advance tax on purchase of immovable property)

Advance tax on purchase of immovable property, where the value of property is more than Rs 3 million, is proposed to be enhanced from 1% to 2% for filer buyer and from 2% to 4% for non-filer buyer.

Division XIX (Advance tax on domestic electricity consumers)

Currently, the advance tax rates for domestic electricity consumers are provided as under:

Description	Rates
Monthly bill less than Rs. 100,000	0%
Monthly bill more than Rs. 75,000	7.5%

In order to remove the anomaly and make technical correction in the above rates, the table is proposed to be revised as under:

Description	Rates
Monthly bill less than Rs. 75,000	0%
Monthly bill more than Rs. 75,000	7.5%

Division XXI (Advance tax on banking transactions otherwise than through cash)

Federal Government is empowered to amend the advance tax rate on banking transactions otherwise than cash by notification in the official gazette on recommendation of Economic Coordination Committee of the Cabinet. It is proposed to empower the Government to amend the rates for the period it deems appropriate.

Division XXV (Advance tax on insurance premium)

In order to promote return filing, it is proposed that every insurance company or its agents shall collect advance tax at the time of collection of insurance premium from non-filers in respect of general insurance premium and life insurance premium, at the following rates:

S.No.	Description	Proposed Rate
1.	General insurance premium	4%
2.	Life insurance premium if exceeding Rs. 0.2 million per annum	1%
3.	Others	0%

Division XXII (Collection of tax by Pakistan Mercantile Exchange Limited)

Considering the proposal for omission of section 236T, the tax collection to be made by Pakistan Mercantile Exchange Limited on account of purchase and sale of commodity contract as per section 236 T is proposed to be omitted.

Division XXVI (Advance tax on extraction of minerals)

It is proposed that the provincial authority collecting royalty per metric ton from the lease-holder of mines or any person extracting minerals shall collect tax at 5% of the value of the minerals for non-filers. For filer the rate is proposed at 0%.

The Second Schedule

Exemptions and Tax Concessions

Part I
Exemption from Total Income

[Technical Correction]
Exemption from Any Income
Clause (66) (XVIII)

The Bill seeks to propose technical correction by omitting this sub-clause related to exemption of any income of Micro Finance Banks as the said remedy has already expired in 2012.

Restricts Exemption to Organization Established by the Government
Clause (98)

The amended clause seeks to restrict the exemption from income tax on account of any income to only those organizations that are established by the Government for controlling, regulating or encouraging major games and sports recognized by Government.

Exemption of Inter-Corporate Dividend
Clause (103A)

It is proposed to withdraw the exemption from income tax on account of any income derived from inter-corporate dividend to the companies entitled for group relief under section 59B.

Reference of section 59B is proposed to be omitted by virtue of which exemption from tax in respect of income from inter corporate dividend shall not be available to a subsidiary and its holding company who are entitled to group relief under section 59B. However, group companies entitled to group taxation under section 59AA shall remain eligible for exemption.

Income derived from Gawadar port operations
Clause (126A) [Substituted]

Clause (126A) provides exemption to income derived by China Overseas Ports Holding Company Limited. Now the Bill proposes to substitute Clause (126A) whereby the scope of exemption has been extended to China Overseas Ports Holding Company Pakistan (Private) Limited, Gawadar International Terminal Limited, Gawadar Marine Services Limited and Gawadar Free Zone Company Limited for a period of 23 years, with effect from sixth day of February 2007.

Clauses (126AA) [Addition]

The Bill proposed to insert new Clause which provides exemption on “Profit and Gains” from business setup in Gawadar Free Zone Area for a period of 23 years effective from July 1, 2016.

Clause (126AB) [Addition]

The Bill seeks to exempt “Profit on debt” under Financing Agreement with China Overseas Ports Holding Company Limited, derived by:

(i) Any foreign lender; or
(ii) Any local bank having more than 75% Government shareholding or State Bank of Pakistan.

Clause (126AC) [Addition]

The Bill seeks to provide exemption from income derived by the contractors and sub-contractors of China Overseas Ports Holding Company Limited, China Overseas Ports Holding Company Pakistan (Private) Limited, Gawadar International Terminal Limited, Gawadar Marine Services Limited and Gawadar Free Zone Company Limited from Gawadar Port operations for the period of 23 years from July 1, 2016.

Clause (126AD) [Addition]

The Bill proposed to provide exemption of income tax on account of any income derived by China Overseas Ports Holding Company Limited being dividend received from China Overseas Ports Holding Company Pakistan (Private) Limited, Gawadar International Terminal Limited, Gawadar Marine Services Limited and Gawadar Free Zone Company Limited.

The Bill also proposed to provide exemption of income tax on account of any income derived by China Overseas Ports Holding Company Pakistan (Private) Limited being dividend received from Gawadar International Terminal Limited, Gawadar Marine Services Limited and Gawadar Free Zone Company Limited

Export of IT Products
Clause (133)

In order to increase the foreign remittance to Pakistan, the Bill seeks to propose extension of exemption period till June 30, 2019 for the "income from export of computer software, export of IT services or IT enabled services". The said extension is subject to the condition that 80% of the export proceed must be remitted into Pakistan in foreign exchange through normal banking channels.

Part II
Reduction in tax rates.

Services rendered and Execution of contract
Clause (3)

As a measure to broaden the tax net, the Bill proposes to stipulate tax rates for filers and non- filers engaged in rendering of services outside Pakistan and construction contracts executed outside Pakistan. The proposed revised rates are depicted below.

			Filer	Non-Filer
Clause 2	Rendering of or providing of services	Companies	4%	6%
		Individuals & AOPs	5%	7.5%
Clause 3	Execution of construction contracts	Companies	3.5%	5%
		Individuals & AOPs	3.75%	5%

The revised rates are applicable, subject to remittance of receipts from services and income from contracts into Pakistan in foreign exchange through normal banking channel.

Clause 3B [Addition]

The proposed Bill seeks to introduce new reduced rate (4% of gross receipt) for the taxation of income of Pakistan Cricket Board (PCB) from sources outside Pakistan including media rights, gate money, sponsorship fee, in-stadium rights, out-stadium rights, payments made by International Cricket Council, Asian Cricket Council or any other Cricket Board subject to the following conditions:

(i) PCB will withdraw all cases against tax authorities at any appellate forum or tax authority.

(ii) The tax liability payable upto tax year 2015, under this Clause, is to be paid by June 30, 2016.

PART IV

Exemption from Specific Provisions

Exemption from Minimum Tax under Section 113 Clause (11A) (XXVI) and (XXVII)

The Bill seeks to insert new sub clauses to extend the exemption from minimum tax under section 113 to the following.

(i) China Overseas Ports Holding Company Limited, China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited for a period of twenty three years, with effect from the February 6, 2007.

(ii) companies, qualifying for exemption under Clause (126M) of Part-I of this Schedule, in respect of profits and gains derived from a transmission line project.";

Inter corporate dividend and profit on date Exemption from Withholding Tax Clauses (11B) and (11C)

It is proposed to omit words "or section 59B" in Clauses (11B) and (11C) which seeks to withdraw exemption from withholding tax on inter corporate dividend and profit on debt in case of companies claiming group relief under section 59B.

Exemption from Section 150 Clause (38AA)

The Bill seeks to provide exemption from tax withholding on dividend payment to China Overseas Ports Holding Company Limited, China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited for a period of 23 years.

Reduced rate of minimum tax for trading houses Clause (57)

The existing clause provides for exemption from minimum tax under section 113 to companies operating trading houses. The proposed amendment seeks to provide for levy of minimum tax at 0.5% upto year 2019 and at 1% thereafter.

Term Finance Certificate Exemption from Withholding Tax under Section 151 Clause 59 (i)

The Bill seeks to exclude the interest paid on a Term Finance Certificate held by company from exemption from withholding tax under section 151.

Extension of Concession to Hajj Operators Clause (72A)

The Bill seeks to extend concession of section 21(l), 113 and 152 to Hajj Operators for tax year 2016 also provided on the same condition that tax has been paid at the rate of Rs.5000 per Hajji in respect of income from Hajj operations.

Conditions imposed in Respect of Issuance of Withholding Certificate under Section 148 Clause (72B)

The Bill seeks to add new provisos to provide that quantity of raw material to be imported which is sought to be exempted from tax under section 148 shall not exceed 110 percent of the quantity of raw material imported and consumed during the previous tax year. The Bill also seeks to provide that the Commissioner shall conduct audit of taxpayer's accounts during the financial year in which the certificate is issued in respect of consumption, production and sales of the latest tax year for which return has been filed and taxpayer shall be treated to have been selected for audit under section 214C.

Extension of Exemption from Applicability of Section 111 Clause (86) (a)

The existing clause provides exemption from the applicability of section 111 dealing with unexplained income or assets to following investments:

(i) investment made by an individual in a Greenfield industrial undertaking directly or as an original allottee in the purchase of shares of a company establishing an industrial undertaking or capital contribution in an association of persons establishing an industrial undertaking;

(ii) investment made by an association of persons in an industrial undertaking; and

(iii) investment made by a company in an industrial undertaking;

The above exemption is available if the investment is made on or after January 1, 2014 and commercial production is commenced on or before June 30, 2017. The amended Clause proposes to enhance the period of exemption in respect of applicability of section 111 of the Ordinance upto tax year 2019.

Clauses (91), (92) and (93) [Technical Correction]

The Bill seeks to make a technical correction by numbering Clauses (91), (92) and (93) as Clauses (95), (96) and (97).

Extension of Exemption in Respect of Minimum Tax to Low Profit Service Sector and Inclusion of IT Sector to Promote IT Clause (94)

Through Finance Act 2015, minimum tax at the rate of 8% was levied on corporate service providers. Some corporate service providers with low profit margin were allowed a reduced tax rate of 2% for tax year 2016. It is proposed to extend the applicability of reduced tax rate of 2% allowed to low profit margin corporate service providers upto tax year 2017.

In order to promote IT sector it is proposed that this concession may also be provided to providers of IT and IT enabled services.

The Bill also proposed to add new proviso to put a condition on the company to furnish an irrevocable undertaking by November 2016 to present its accounts to the Commissioner to avail this concession.

The Fourth Schedule

(Rules for the computation of the profits and gains of insurance business)

Rule 6B relating to assessment of business of insurance carried on by a mutual insurance association is proposed to be substituted with a new rule. According to new rule, dividend of listed companies shall also be considered for the purpose of computing income from insurance business carried on by mutual insurance association in addition to capital gains on disposal of shares, vouchers of Pakistan Telecommunication Corporation, modaraba certificates or instruments of redeemable capital and derivative products.

It is further proposed that such income shall be taxed at the corporate rate as against the different rates currently specified according to the holding period of the securities.

The Sixth Schedule

(Recognized Provident Fund)

Currently under clause (a) of rule 3 of Part I of the Sixth Schedule, contribution made by employer in excess of one tenth of the salary or Rs 100,000, whichever is lower shall be included in total income of the employee and liable to tax.

The Bill proposes to enhance the amount of Rs 100,000 to Rs. 150,000.

The Seventh Schedule

(Rules for the computation of the profits and gains of a banking company and tax payable thereon)

Currently super tax under section 4B of the Ordinance is applicable at the rate of 4% of the income of the banking company for tax year 2015 only.

The Bill proposes to extend the application of section 4B to tax year 2016 also. The proposed amendment has been made to meet revenue needs for certain unforeseen expenditure by the Government.

The Eight Schedule

(Rules for the computation of capital gains on listed securities)

The Eight Schedule prescribes the Rules for the computation of capital gains on listed securities. The bill proposes insertion of following rules in the said Schedule.

- Capital gains on disposal of units of open ended mutual funds to which section 100B apply shall be computed and determined under this Schedule and tax thereon shall be collected and deposited by NCCPL in the prescribed manner.

- Gain or loss arising to persons through trading of future commodity contracts on Pakistan Mercantile Exchange, subject to tax under section 37A and to which section 100B apply, shall be computed and determined under this Schedule and tax thereon shall be collected and deposited by NCCPL on behalf of the taxpayer in the prescribed manner.

- Where CDC fails to provide the desired information to NCCPL, NCCPL shall forward the details to the Commissioner who shall exercise powers under the Ordinance to enforce furnishing of the said including all penalty provisions.

- The Asset Management Companies, Pakistan Mercantile Exchange and any other person shall furnish information when required by NCCPL for discharging obligation under this Schedule.

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 final tax, fixed tax, minimum tax or adjustable 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 withholding rates, and as to whether or not these are fixed tax, 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**
			Filer	**Non-filer**	
148	Import of goods	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; Manufacturers covered under Notification No. SRO. 1125(I)/2011 dated 31st December 2011 and importing items covered under S.R.O 1125(I)/2011 dated 31st December 2011.	1%	1.5%	Adjustable only in case of Industrial Undertakings Final Tax for all other cases Minimum tax in case of edible oil

Withholding Section and Reference		Description	Rate		Final Tax, Minimum Tax or Adjustable
			Filer	Non-filer	
		Person importing Gold Persons importing Cotton Designated buyer of LNG on behalf of Government of Pakistan, to import LNG			
		On import of pulse	2%	3%	
		Commercial importers covered under Notification No. SRO 1125(I)/2011 dated 31st December, 2011	3%	4.5%	
		Ship breakers on import of ships	4.5%	6.5%	
		Industrial undertakings (other than above cases)	5.5%	8%	
		By companies (other than above cases).	5.5%	8%	
		By other persons (other than above cases)	6%	9%	
150/236S	Dividend/Dividend in specie	Dividends declared or distributed by purchaser of power project privatized by WAPDA or on shares of a company set up for power generation or on shares of a company supplying coal exclusively to power generation projects.	7.5%		Final Tax
		Dividend declared or distributed by other than above	12.5%	20%	
		Stock fund	10%		
		Stock fund (if dividend receipt are less than capital gains)	12.5%		
		Received by other than Company from money market fund, REIT scheme	10%	15%	

Withholding Section and Reference		Description	Rate		Final Tax, Minimum Tax or Adjustable
			Filer	Non-filer	
		or any other than fund			
		Received by Company from money market fund, REIT scheme or any other than fund	25%		
		Received from Development REIT Scheme with the object of development and construction of residential buildings, set up by 30th day of June 30, 2018, for three years from 30th day of June 2018	5%	7.5%	For tax year 2018 to 2020
151	Profit on debt	Yield on an account, deposit or a certificate under National Saving Scheme or Post Office Savings Account.	10% in all other cases	17.5% for non-filer, if amount exceeds Rs.5 lakh	Adjustable in all cases Additional tax deducted in case of non-filer shall be adjustable
		Profit on any security issued by Federal, Provincial or Local Government. (other than above)			
		Profit on account or deposit maintained with banking company or financial institution.			
		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.			
152	Payment to non-residents	Royalty and fee for technical services.	15%		Final Tax
		Contract for construction,	6%		

Withholding Section and Reference		Description		Rate: Filer	Rate: Non-filer	Final Tax, Minimum Tax or Adjustable
	(other than those subject to tax deduction under sections 149, 150, 156 or 233)	assembly or installation project; construction contract and related services; advertisement services by TV satellite channels.				
		Insurance premium or reinsurance premium.		5%		
		Advertisement services by a media person relaying from abroad.		10%		Adjustable
		Other payments.		20%		
	Payment to permanent establishment in Pakistan of non-residents	Sale of goods	Companies	4%	6%	
			Individuals & AOPs	4.5%	6.5%	
		Transport services		2%		
		Other than transport services.	Companies	8%	12%	
			Individuals & AOPs	10%	15%	
		Execution of contract	Sports persons	10%		
			Companies	7%	10%	
			Individuals & AOPs	7.5%	10%	
152A	Payment for foreign produced commercial	Company and other than company		20%		Final Tax
153	Sale of goods	Rice, cotton seed or edible oils		1.5%		Adjustable only for companies
		Sale of other goods.	Companies	4%	6%	Final Tax in all other cases
			Individuals & AOPs	4.5%	6.5%	
	Rendering of or providing of services	Transport services.	Companies	2%		Minimum Tax
			Individuals & AOPs	2%		Minimum Tax
		Other	Companies	8%	12%	Minimum Tax

Withholding Section and Reference		Description		Rate: Filer	Rate: Non-filer	Final Tax, Minimum Tax or Adjustable
		services.	Individuals & AOPs	10%	15%	Minimum Tax
	Rendering of services by print and electronic media	Company		1.5%	12%	Final Tax
		Other than company		1.5%	15%	Final Tax
	Execution of contracts	Companies		7%	10%	(Final Tax for other) Adjustable for companies registered on stock exchange in Pakistan)
		Individuals & AOP's		7.5%	10%	Final Tax
		Sportspersons		10%		Final Tax
	Rendering or providing of services of stitching, dying, printing, embroidery, washing, sizing and weaving	Company and other than company		1%		Final Tax
	Supplies made by distributor of fasting moving consumer goods	Company		3%		Final Tax Adjustable for companies registered on stock exchange in Pakistan)
		Other than company		3.5%		Final Tax
154	Export	On realization of foreign exchange proceeds on account of export of goods.		1%		Final Tax Option to treat income on minimum tax at the time of
		On realization of foreign exchange proceeds on account of the commission due to an indenting		5%		

Withholding Section and Reference		Description	Rate		Final Tax, Minimum Tax or Adjustable
			Filer	Non-filer	
		commission agent.			return filing
		On realization of the proceeds against sale of goods to an exporter under letter of credit or other arrangements prescribed by FBR.	1%		
		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%		
		On payment for a firm contract to indirect exporter as defined under Duty and Tax Remission for Exports Rules, 2001.	1%		
		On clearance of goods exported	1%		
155	Advance tax on property rent	Individual and AOP Rent — Tax upto Rs.200,000 — Nil. Rs.200,001 to Rs.600,000 — 5% of the gross amount exceeding Rs. 200,000 Rs.600,001 to 1,000,000 — Rs. 20,000 plus 10% of rent exceeding Rs.600,000 Rs.1,000,000 to 2,000,000 — Rs. 60,000 plus 15% of the gross amount exceeding Rs.1,000,000 Rs. 2,000,000 and above — Rs. 210,000 plus 20% of the gross amount exceeding 2,000,000			Fixed Tax
		Companies	15%		Adjustable
156	Prize and winning	Prize bond or cross-word puzzle.	15%	20%	Final Tax

Withholding Section and Reference		Description	Rate: Filer	Rate: Non-filer	Final Tax, Minimum Tax or Adjustable
		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%	15%	Final Tax
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
231A	Advance tax on cash withdrawals from bank	Withdrawal in excess of Rs. 50,000 in a day.	0.3%	0.6%	Adjustable
231AA	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%	0.6%	Adjustable
231B	Advance tax on registration of a new locally manufactured motor vehicles or on the transfer of registration or ownership	**Engine capacity**	**Filer**	**Non-filer**	Adjustable
			------ **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	
	Advance tax on the transfer of registration or ownership	**Engine capacity**	**Filer**	**Non-filer**	Adjustable
			------ **Rs** ------		
		850cc or below	0	5,000	

Withholding Section and Reference		Description	Rate		Final Tax, Minimum Tax or Adjustable
			Filer	Non-filer	
		851cc-1000cc	5,000	15,000	
		1001cc-1300cc	7,500	25,000	
		1301cc-1600cc	12,500	65,000	
		1601cc-1800cc	18,750	100,000	
		1801cc-2000cc	25,000	135,000	
		2001cc-2500 cc	37,500	200,000	
		2501cc- 3000cc	50,000	270,000	
		Above 3000cc	62,500	300,000	
	Leasing of motor vehicle by Leasing company, schedule bank, investment bank, development finance institution and modaraba	3% of the value of motor vehicle only in case of non-filer			Adjustable
233	Brokerage and commission	Advertising agent	10%	15%	Final Tax
		Life insurance where amount less than Rs. 0.5 million / annum	8%	16%	
		Other case not covered above	12%	15%	
233A	Advance tax collected by Stock Exchange	Sale or purchase of shares in lieu of tax on the commission earned by stock exchange members.	0.02% of sale/ purchase value		Adjustable
233A A	Advance tax collected by NCCPL	Profit, markup or interest earned by the member, margin financiers and lenders of securities.	10%		Adjustable
234	Advance tax on motor vehicle (collected in installment)	Goods transport vehicles.	Rs.2.5 per Kg of the laden weight	Rs.4 per Kg of the laden weight	Adjustable
		Goods transport vehicles with laden weight of 8120 Kg or more.	Rs.1,200 per annum		Adjustable

Withholding Section and Reference		Description	Rate: Filer	Rate: Non-filer	Final Tax, Minimum Tax or Adjustable
		(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)	**Rs. per annum per seat** **Filer**	**Non-Filer**	
		4 to 9	50	100	
		10 to 19	100	200	
		20 or more.	300	500	
	Advance tax on motor vehicle (collected in installments)	**Engine capacity**	**Filers**	**Non-Filer**	Adjustable
			------ Rs. ------		
		upto 1000 cc	800	1,200	
		1001 cc – 1199 cc	1,500	4,000	
		1200 cc – 1299 cc	1,750	5,000	
		1300 cc – 1499 cc	2,500	7,500	
		1500 cc – 1599 cc	3,750	12,000	
		1600cc -- 1999 cc	4,500	15,000	
		2000cc & above	10,000	30,000	
	Advance tax on motor vehicle (collected in lump sum)	**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	4% of gas consumption charges			Final Tax

Withholding Section and Reference		Description	Rate		Final Tax, Minimum Tax or Adjustable
			Filer	Non-filer	
	of CNG station				
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 — 12% Rs. 20,001 and above: industrial consumers — 5%			Adjustable
235A	Advance Tax Domestic electricity consumption	7.5% of the monthly bill where if exceeds Rs.75,000			Adjustable
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.			Non-adjustable
236	Advance tax on telephone and internet user	Telephone subscriber other than mobile phone subscriber (where the amount of monthly bill exceeds Rs.1000).	10% of excess amount		Adjustable
		Subscriber of internet, mobile telephone and pre-paid internet or telephone card.	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 Final tax in

<table>
<tr><th colspan="2" rowspan="2">Withholding Section and Reference</th><th rowspan="2">Description</th><th colspan="2">Rate</th><th rowspan="2">Final Tax, Minimum Tax or Adjustable</th></tr>
<tr><th>Filer</th><th>Non-filer</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td colspan="2"></td><td>case of lease of the right to collect tolls</td></tr>
<tr><td>236B</td><td>Advance tax on purchase of air tickets</td><td>Domestic air tickets.</td><td colspan="2">5% of gross amount of air ticket</td><td>Adjustable</td></tr>
<tr><td>236C</td><td>Advance tax on sale or transfer of immovable properties</td><td>On registering or attesting the transfer of immoveable property, where holding period is more than five years advance shall not be collected</td><td>1% of amount of considera tion received for filer</td><td>2% of amount of considerat ion received for filer.</td><td>Adjustable</td></tr>
<tr><td>236D</td><td>Advance tax on function and gathering</td><td>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.

Providing food, services or other facility.</td><td colspan="2">5%</td><td>Adjustable</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 colspan="2">Rs. 100,000</td><td rowspan="2">Adjustable</td></tr>
<tr><td>TV play (single episode)</td><td colspan="2">Rs. 100,000</td></tr>
<tr><td>236F</td><td>Advance tax on cable operator and other electronic media</td><td colspan="3"><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>
</table></td><td>Adjustable</td></tr>
</table>

Withholding Section and Reference		Description	Rate		Final Tax, Minimum Tax or Adjustable
			Filer	Non-filer	
		B-6	170,000	200,000	
		B-7	262,500	300,000	
		B-8	437,500	500,000	
		B-9	700,000	800,000	
		B-10	875,500	900,000	
		20% of the permission fee or renewal fee from IPTV, FM Radio, MMDS, Mobile TV, Mobile Audio, Satellite TV Channels and Landing Rights			
236G	Advance tax on sale to distributors, dealers or wholesalers on 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.	Fertilizer	**0.7%**	1.4%	Adjustable
		Other than Fertilizer	0.1%	0.2%	
236H	Advance tax on sale to retailers	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, dealers and wholesalers or commercial importers.	0.5% of gross amount of sales		Adjustable

Withholding Section and Reference		Description	Rate		Final Tax, Minimum Tax or Adjustable
			Filer	Non-filer	
236I	Advance tax collected by educational institutions	Fee paid to educational institutions	5% of gross amount of fee		Adjustable
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
236K	Advance tax on purchase or transfer of immovable properties	On registering or attesting the transfer of immoveable property where property value exceeded Rs.3 million	2%	4%	Adjustable
236L	Advance tax on purchase of international air tickets booking one-way or return from Pakistan	First/Executive Class	Rs. 16,000 per person		Adjustable
		Other excluding Economy	Rs.12,000 per person		
		Economy	Rs.0		
236M	Bonus share	Issuing bonus shares to a shareholder by Company quoted on stock exchange	5% on the value of bonus shares		Final Tax
236N	Bonus share	Issuing bonus shares to a shareholder by Company not quoted on stock exchange	5% on the value of bonus `shares		Final Tax
236P	Banking transactions otherwise than through cash	Selling any instrument and transferring any amount where transaction amount exceeds Rs.50,000 per day	0.4% of transaction (only in case of non-filer)		Adjustable
236Q	Advance tax on payment to resident for use of machinery and equipment	Payment for use or right to use industrial, commercial and scientific equipment and on account of rent of machinery	10% of amount of payment		Final Tax

Withholding Section and Reference		Description	Rate		Final Tax, Minimum Tax or Adjustable
			Filer	Non-filer	
236R	Advance tax on education related expense remitted abroad	Remitting abroad the payment of education related expense	5% of the amount of total education related expense		Adjustable
236U	Advance tax on insurance premium	General insurance	N/A	4%	Adjustable
		Life insurance premium if exceeding Rs. 0.2 million / annum	N/A	1%	
		Others	N/A	0%	
236V	Advance tax on extraction of minerals	Company and other than company	0%	5%	Adjustable
236W	Advance tax from provincial sales tax registered person by provincial tax authority	Company and other than company	0%	3% of the turnover	Adjustable

Sales Tax Act, 1990

1. Definition (Section 2)

Cottage Industry (Clause 5AB)

At present, a manufacturer whose annual turnover from taxable supplies in any period during the last 12 months ending any tax period does not exceed Rs.5 million or whose annual utility bills do not exceed Rs.800,000; qualifies to be a 'cottage industry' and remains immune from sales tax registration. The Bill proposes to enhance the turnover threshold from Rs, 5 million to Rs. 10 million to qualify as a cottage industry by the manufacturer.

Currently, the low turnover threshold causes undue hardships for small manufacturers and does not lead to significant increase in revenue for FBR. The proposed amendment would significantly reduce hardship to the small manufacturers caused by such low threshold.

Due Date (Clause 9)

Presently, same due date has been specified for filing of sales tax return and its related annexures. The Bill proposes to empower FBR to specify different dates for furnishing different parts or annexures of the return.

Input Tax (Clause 14)

At present, a registered person is also allowed to claim sales tax paid under the provincial sales tax laws on services. It is proposed to exclude provincial sales tax from the definition of input tax as a result of which the related input tax will not be available as a claim under federal sales tax law.

This appears to be a major amendment as the same will increase cost of doing business because in most of the cases taxes paid under the provincial laws will become cost. Besides, the change will result in disintegration of current sales tax regime which is currently operated in VAT mode at all level for prompting the culture of documentation for the purposes of broadening the tax base of direct taxation at federal level.

2. Time and manner of payment (Section 6)

Under the above section, sales tax is required to be paid at the time of filing the return in respect of the relevant tax period. The Bill proposes to remove this requirement of paying tax along with the return and instead empowers FBR to prescribe due date of payment of sales tax. The Board has already specified the due date of payment of tax as 15th of the month while the return filing date has been prescribed as 18th of the same month through the Sales Tax Rules, 2006. This proposed amendment seems to be made in order to provide direct legal authority to FBR for prescribing dates for payment of tax.

3. Determination of tax liability (Sections 7 and 8)

At present, a person is allowed to claim input tax in respect of taxable supply, if he holds a tax invoice in his name and his registration number in respect of such supply for which return is furnished. A provision is proposed to be added whereby FBR will be given authority to specify a date wherefrom additional restriction will be placed to disentitle the registered person from claiming input tax if the underlying purchase is not declared as supply in the supplier's sales tax return or the supplier has not paid the related sales tax. Similar conditions are already given in section 8 for claiming input tax.

Above proposed amendment seems to provide legal cover to the proposed return filing system of FBR which would allow the input tax only on those transactions which would be declared by the supplier in his return.

The said amendment would create problems in claiming input tax where the supplier is a non-compliant person, there is a delay in filing of return by the supplier, etc. Above amendment is also likely to create litigation since the courts have already decided in various judgments that the input tax claim of the buyer acting in good faith cannot be denied due to certain faults on the supplier’s part.

4. Assessment of Tax and recovery of tax not levied or short-levied or erroneously refunded (Section 11)

At present, Officer of Inland Revenue is empowered to conduct proceedings for assessment of tax not levied or short-levied or erroneously refunded. The Bill proposes to enhance the power of the Officer Inland Revenue by empowering him to conduct proceedings where a person required to withhold sales tax fails to withhold such tax, or withholds the same but fails to deposit the same in the prescribed manner.

The said additional power would lead to initiation of proceedings similar to the proceedings for monitoring of income tax withholding, thus creating further hassles for sales tax compliant persons.

5. Exemption (Section 13)

By virtue of powers given in section 13(2) the Federal Government can exempt sales tax under certain circumstances specified in that section, with the approval of the Economic Coordination Committee of Cabinet. As a consequence of proposed amendment in section 13(2) the Federal Government will be eligible to also exempt sales tax in the matters relating to international financial institutions or foreign government owned financial institutions.

The said amendment would enable Federal Government to grant exemptions to promote business with foreign financial institutions.

6. Return (Section 26)

Under the law, separate sales tax return is required to be filed if rate of sales tax is changed during a tax period for declaring tax at respective rate for each portion of tax period. The requirement is going to be dispensed with as a result of omission of the law as proposed in the Bill.

7. Directorate General of Input Output Coefficient Organization (Section 30DDD)

The Bill proposes to form the Directorate General of Input Output Coefficient Organization consisting of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as Board deem necessary.

8. Offences and penalties (Section 33)

At present, serial number 19 of the Table given in section 33 of the Act specifies penalty for a person who contravenes any of the provisions of Sales Tax Act, 1990 for which no penalty has specifically been provided in said section. It is now proposed to apply the same penalty law if violation of sales tax rules is also made.

This amendment would ensure that a penalty is prescribed for any sort of contravention of rules made under the Act.

9. Sale of taxable activity or transfer of ownership (Section 49)

Presently, where taxable activity is sold / transferred to another registered person as an ongoing concern, sales tax chargeable on taxable goods or part thereof is required to be accounted for and paid by the registered person to whom such sale is made or ownership is transferred. The Bill proposes to amend this provision by requiring the transfer of taxable goods or part thereof to the new owner through a zero rated tax invoice, who would account for and pay the sales tax chargeable thereon.

The purpose of zero rated invoice seems to document the transaction of transfer of taxable activity and reporting thereof in the sales tax return. The transferor may continue to claim the input tax relating to the taxable goods transferred as it is claimed under the existing provisions of the law.

10. Disclosure of information by public servant (Section 56B)

The Bill proposes to revamp the law to ensure confidentially of information acquired in the execution of law and also envisage to override applicability of the law over the Freedom of Information Ordinance, 2002 so that no disclosure of information will be permitted regarding information received or supplied in pursuance of bilateral or multilateral agreements with foreign governments for exchange of information.

Third Schedule

Mineral water is charged to sales tax under the normal sales tax regime at 17% of value of supply. The Bill proposes to include mineral water in the Third Schedule in order to charge tax on the basis of retail price.

Fifth Schedule

The Bill proposes to omit following items and their related input from zero-rating regime.

S. No	Description	Tariff Heading
(i)	Color in sets	3213.1000
(ii)	Writing, drawing and marking inks	3215.9010 and 3215.9090
(iii)	Erasers	4016.9210 and 4016.9290
(iv)	Exercise books	4820.2000
(v)	Pencil sharpeners	8214.1000
(vi)	Geometry boxes	9017.2000
(vii)	Pens, ball pens, markers and porous tipped pens	96.08
(viii)	Pencils including color pencils	96.09
(ix)	Milk	04.01
(xviii)	Fat filled milk	1901.9090

Above mentioned items are exempt from tax under the Sixth Schedule of Sales Tax Act, 1990 as well as zero-rated under the Fifth Schedule thereof. It is proposed to withdraw zero rating on these items.

Sixth Schedule

The following items are to become part of exempt goods under the Sixth Schedule:

Exemption in respect of Import and Local Supply

Item Added

Import of material and equipment for construction and development in Gwadar Port
(Clause 100A and 100B)

The bill proposes to allow sales tax exemption on imports and supplied for construction, operation of Gwadar Port and development of Gwadar Free Zone and local supplies made by businesses to be established in the Gwadar Free Zone subject to meeting conditions and following the prescribed procedures.

100A.	Materials and equipment for construction and operation of Gwadar Port and development of Free Zone for Gwadar Port as imported by or supplied to China Overseas Ports Holding Company Limited (COPHCL) and its operating companies namely (i) China Overseas Ports Holding Company Pakistan (Private) Limited (ii) Gwadar International Terminal Limited, (iii) Gwadar Marin Services Limited and (iv) Gwadar Free Zone Company Limited, their contractors and sub-contractors; and Ship Bunker Oils bought and sold to the ships calling on/visiting Gwadar Port, having Concession Agreement with the Gwadar Port Authority. The exemption is proposed to be available for a period of forty year.	Respective heading

S. No	Description	Tariff Heading
100B	Supplies made by the businesses to be established in the Gwadar Free Zone for a period of twenty-three years within the Gwadar Free Zone, subject to the condition that the sales and supplies outside the Gwadar Free Zone and into the territory of Pakistan shall be subjected to sales tax.	Respective Headings

"130.	Premixes for growth stunting	Respective Headings, and subject to conditions imposed for importation under the Customs Act, 1969;
131.	Laptop computers, notebooks whether or not incorporating multimedia kit	8471.3010
132.	Personal computers	8471.3020
133.	Pesticides and their active ingredients registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971(II of 1971), stabilizers, emulsifiers	38.03

Table 3

Currently, coal mining machinery, equipment, spares including vehicles for site use i.e. single or double cabin pick-ups imported for Thar Coal Field are exempt from sales tax. The Bill proposes to exempt dump trucks also for Thar Coal Field from imposition of sales tax.

Eighth Schedule

The Eighth Schedule of the Sales Tax Act, 1990 provides list of taxable supplies, which are entitled to the concessionary rates specified under said Schedule subjected to the conditions specified therein.

The Bill proposes to make amendments in the Schedule; the key changes are enlisted below:

Table I

Poultry feed

Presently, poultry feed and its certain ingredients are subject to sales tax at 5%. The Bill proposes to increase the rate of sales tax on taxable ingredients to 10%.

Following are the tariff headings wise details of the proposed amendment:

S. No	New Tariff Heading	Substituted Tariff Heading	New Rates
15.	2301.1000	2301.2090	10%
15.	2301.2090	2301.2010	10%
15.	2833.2940	2833.2600	10%
15.	2923.9010	2923.9000	10%

Biodiesel

At present, plant, machinery, equipment and specific items used in production of biodiesel are chargeable to sales tax at concessionary rates. In order to prevent exploitation of this facility, the Bill proposes to exclude "specific items" from sales tax concession.

Pesticides

Pesticides and their ingredients are currently under concessionary sales tax regime. The Bill proposes exemption from sales tax on pesticides and other ingredients, which leads to deletion of these items from this Schedule.

New Insertions

Following new entries have been inserted in Eighth Schedule:

S. No.	Description	Tariff heading	Rates
32	White Crystalline Sugar	1701.9910 and 1701.9920	8%
33	Urea, whether or not aqueous solutions	3102.1000	5%

Table II

Grain Handling

Currently, sales tax is levied on machinery and equipment for the development of grain handling and storage facilities on concessionary basis. In order to promote agriculture, the Bill proposes to enhance scope of levy of concessionary sales tax to silos used for storing grains.

Ninth Schedule

Mobile phones

The Ninth Schedule of the Sales Tax Act, 1990 provides the amount of sales tax liability payable by the importers and Cellular Mobile Operators.

The Bill 2016 proposes to increase liability from Rs. 500 to Rs. 1,000 for medium priced cellular mobile phones or satellite phones.

From Rs. 1000 to Rs. 1,500 for smart cellular mobile phones or satellite phones.

Islamabad Capital Territory (Tax on Services) Ordinance, 2001

Section 3: Scope of Tax:

Sub-section (2A)

The Bill proposes that the following provisions of the Sales Tax Act, 1990, shall apply, mutandis mutandis, to the services provided under the Ordinance.

- Power of Federal Government to declare lower or higher tax rate in respect of taxable services (sub-section (2B) of Section 3 of the Act).
- Levy and collect such amount of tax as it may deem fit on any services or class of services in lieu of sales tax (Sub-section 6 of Section 3 of the Act)
- Power of Federal Government to specify any person, or class of persons as withholding agent. (Sub-section 7 of Section 3 of the Act).
- Zero rating of services provided to diplomats etc. (Serial No. 2 Fifth Schedule read with section 4 of the Act)
- Allow exemption provisions (Section 13 of the Act)

Sub-section (2B)

The bill proposes to insert sub-section (2B) in section 3 and seeks that tax shall not be applicable to regulatory and licensing services rendered or provided by an organization established by or under a Federal statute.

Federal Excise Act, 2005

1. Due date (clause (8a) of Section 2):

As per the existing law, same due date has been specified for filing of return of federal excise and its related annexures. The Bill proposes to empower FBR to specify different dates for furnishing different parts or annexures of the return.

2. Filing of return and payment of Duty etc. (Section 4):

Under the above section, FED is required to be paid at the time of filing the return in respect of the relevant tax period. The Bill proposes more flexibility in this regard by empowering FBR to prescribe due date of payment of FED.

Further, where rate of FED is changed during a tax period, the registered person is required to furnish separate return in respect of each portion of tax period showing the application of different tax rates. The Bill proposes to remove the requirement of filing separate return in the aforesaid case.

3. Adjustment of duties of excise (Section 6):

For the purposes of determing a net tax liability FED paid as input for a dutiable supply is allowed to be adjusted, if the registered claimant holds a valid proof of payment of price of goods purchased including the amount of duty and receiving of the price of goods sold including the amount of duty through banking channel. The Bill proposes to impose the additional restriction by barring the registered person from claiming input of FED if the purchase is not declared as supply in supplier's return or the supplier has not paid the related FED.
Above proposed amendment seems to provide legal cover to the proposed return filing system of FBR which would allow the input tax only on those transactions which would be declared by the supplier in his return.

The proposed amendment is in line with change which is also proposed in the Sales Tax Act and would create problems in claiming input tax where the supplier is a non-compliant person, there is a delay in filing of return by the supplier, etc.

Above amendment is also likely to create litigation since the courts have already decided in various judgments that the input tax claim of the buyer acting in good faith cannot be denied due to fault of the supplier.

4. Exemption (Section 16):

In line with the Sales Tax Act, the Federal Government is empowered to allow exemption the in the matters relating to international financial institutions or foreign government owned financial institutions.

The said amendment would enable Federal Government to grant exemptions to promote business with foreign financial institutions.

5. Offences, penalties, fines and allied matters (Section 19):

The Bill proposes to levy penalties of five thousand rupees or three percent of the amount of duty involved, whichever is higher, to any person who contravenes any provision of the Act or rules made thereunder for which no penalty has specifically been provided.

6. Disclosure of information by public servant (Section 47B)

The Bill proposes to revamp this section stipulating that information acquired in the execution of the law should be kept confidential. It is also proposed to override the law over the Freedom of Information Ordinance, 2002, in respect of disclosure of information received or supplied in pursuance of bilateral or multilateral agreements with foreign governments for exchange of information.

First Schedule

1. The Bill proposes to increase FED rate from 10.5% to 11.5% for following supplies:

   - Aerated waters.
   - Aerated waters, containing added sugar or other sweetening matter or flavored.
   - Aerated waters if manufactured wholly from juices or pulp of vegetables, food grains or fruits and which do not contain any other ingredient, indigenous or imported, other than sugar, coloring materials, preservatives or additives in quantities prescribed under the West Pakistan Pure Food Rules, 1965

2. The Bill proposes to revise FED rates for locally produced cigarettes as per below:

1	For the period from 01-07-2016 to 30-11-2016, locally produced cigarettes if their on-pack printed retail price exceeds four Thousand rupees per thousand Cigarettes.	Rupees three thousand four Hundred and thirty-six per Thousand cigarettes
2	For the period from 01-12-2016 onwards, locally produced cigarettes if their on-pack printed retail price exceeds four thousand four hundred rupees per thousand cigarettes.	Rupees three thousand seven hundred and five per thousand cigarettes
3	For the period from 01-07-2016 to 30-11-2016, locally produced cigarettes if their on-pack printed retail price does not exceed four thousand rupees per thousand cigarettes	Rupees one thousand five hundred and thirty-four per thousand cigarettes.
4	For the period from 01-12-2016 onwards, locally produced cigarettes if their on-pack printed retail price does not exceed four thousand four hundred rupees per thousand cigarettes	Rupees one thousand six hundred and forty-nine per thousand cigarettes”

3. The Bill proposes to revise FED rate from five percent of the retail price to one rupee per kilogram, for portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers.

4. The Bill proposes to replace 8% FED on white Crystalline Sugar with sales tax chargeable at the same rate.

Table II

The Bill proposes to exempt following services provided in a province where the provincial sales tax has been levied thereon:

- Advertisements on closed circuit T.V.
- Advertisements on cable T.V. network.
- Advertisements in newspapers and periodicals (excluding and classified advertisements) of hoarding boards, poles signs and sign boards.
- Shipping agents

- Services provided or rendered by banking companies, cooperative financing g societies, modarbas , musharikas, leasing companies, foreign exchange dealers, non-banking financial institutions, Assets Management Companies and other persons dealing in any such services.

- Franchise services.

- Services provided of rendered by stock brokers.

Introduction of this amendment would solve the long standing issue of double levy of both provincial sales tax and FED on services and would be highly beneficial to the taxpayers. FBR should apply above amendment retrospectively since recently, High Court of Sindh has also declared the FED on services ultra vires the constitution with effect from July 01, 2011 in relation to the province of Sindh.

Third Schedule

- The Bill proposes to withdraw FED exemption on white cement.

- The Bill proposes to exempt following goods from FED:

    - Materials and equipment for construction and operation of Gawadar Port and development of Free Zone for Gawadar Port as imported by or supplied to China Overseas Ports Holding Company Limited (COPHCL) and its operating companies namely (i) China Overseas Ports Holding Company Pakistan (Private) Limited, (ii) Gwadar International Terminals Limited, (iii) Gwadar Marine Services Limited and (iv) Gwadar Free Zone Company Limited, their contractors and sub-contractors; and Ship Bunker Oils bought and sold to the ships calling on/visiting Gawadar Port, having Concession Agreement with the Gwadar Port Authority, for a period of forty years, subject to the conditions and procedure as specified under S.No. 100A of Table-1 of Sixth Schedule to the Sales Tax Act, 1990.

    - Supplies made by the businesses to be established in the Gwadar Free Zone for a period of twenty-three years within the Gwadar Free Zone, subject to the condition that the sales and supplies outside the Gwadar Free Zone and into the territory of Pakistan shall be subjected to Federal Excise Duty.

Customs Act, 1969

1. Power to exempt from Customs Duty (Section 19)

Section 19 empowers the Federal Government to exempt whole or part of Customs Duty chargeable on any goods imported into Pakistan or exported from Pakistan, including waiver of any fine, penalties, etc., subject to the approval of the Economic Coordination Committee of Cabinet (ECC).

Such exemption may be granted whenever circumstances exist to take immediate action for the purposes of national security, natural disaster, national food security in the emergency situations, protection of national economic interests in situations arising out of abnormal fluctuation in international commodity prices, removal of anomalies in duties, development of backward areas, and implementation of bilateral and multilateral agreements.

The Bill seeks to expand the scope of above exemption subject to the approval of ECC, to any International financial institution or foreign government owned Financial Institution operating under a memorandum of understanding, an agreement or any other arrangements with the Government of Pakistan.

2. Confidentiality of information (Section 155H)

Section 155H requires the confidentiality and secrecy of trade information gathered by customs authorities during clearance of goods. Declaration, disclosure, publishing or dissemination of such information without explicit permission of the person whom such information pertains, is an offence punishable under section 156 of the Customs Act.

However, usage of above information is permitted under certain circumstances such as for statistical purposes, producing as evidence before legal forums, etc.

The Bill proposes to allow using of such data also under memorandum of understanding, bilateral, regional, multilateral agreements or conventions or using such information for public disclosure of valuation data without disclosing the name and address of the importer/exporter or their suppliers.

First Schedule

Following are the major changes proposed by the Bill:

- Rate of customs duty would be 3% for the goods which were earlier chargeable to customs duty at the rate of 2% and 5%;

- Rate of customs duty increased by 1% for the goods which were chargeable to customs duty at the rate of 10% and 15%;

Insertions

Following are the PCT codes, which are proposed to be inserted by the Bill:

PCT Codes	Description	Proposed Rate
4907.0010	Unused postage, revenue or similar stamps of current or new issue in the country in which they have, or will have, a recognized face value; stamp-impressed paper; banknotes	3%

4907.0090	Other	16%
8539.3110	Energy saving lamp	3%
8539.3120	Energy saving tube	3%
8539.3190	Other	20%
8539.3210	Energy saving lamp	3%
8539.3220	Energy saving tube	3%
8539.3290	Other	20%
8539.3900	Other	20%
8702.9050	Fully dedicated CNG buses (CBU)	20%
8702.9060	Hybrid Electric Vehicle (HEV) CBU	20%
8702.9090	Other	20%
8703.9030	Plug-in Electric Vehicle (PEV) CBU	50%
8704.2212	CBU 2 axle	30%
8704.2213	CBU above 2 axle	20%
8704.2214	Hybrid Electric Vehicle (HEV) CBU	30%
8704.2292	CBU 2 axle	30%
8704.2293	CBU above 2 axle	20%
8704.2294	Hybrid Electric Vehicle (HEV) CBU	30%
8704.2320	CBU 2 axle	30%
8704.2330	CBU above 2 axle	20%
8704.2340	Hybrid Electric Vehicle (HEV) CBU	30%
8704.3220	CBU 2 axle	30%
8704.3230	CBU above 2 axle	20%
8704.3240	Hybrid Electric Vehicle (HEV) CBU	30%
9405.5010	Tubular day lighting device	20%
9405.5090	Other	11%

Many of above PCT Codes are also inserted in 'Part-V – Import of Automotive Vehicles (CBUs) under Automotive Development Policy (ADP) 2016-21' of the Fifth Schedule of Customs Act to provide benefit of concessional rate.

Fifth Schedule

Fifth Schedule of the Customs Act, 1969 provides the list of imported goods which are subject to the concessionary rates specified under said Schedule.

The Bill proposes to substitute the entire schedule; the key changes are enlisted below:

Part-I – Import of plant, machinery, equipment and apparatus including Capital Goods for various industries and sectors

Insertions

Customs Duty at the rate of 2% is proposed on import of following machineries for dairy, livestock and poultry sector.

S. No	Description	PCT Codes
1.	**Agricultural Machinery**	
	F) Dairy, Livestock and poultry, machinery	
	(8) Incubators and brooders	8436.2100 8436.2900
	(9) Machinery for animal feed stuff	8436.1000

The Bill proposes following amendments for chargeability of customs duty at the rate of zero percent on import of following items for use with solar energy:

Serial no. 20 completely replaces the serial no. 23(1) of Part-I of Fifth Schedule of the Customs Act.

S. No	Description	PCT Codes
20.	**Following items for use with solar energy:- Solar Power Home Systems.**	
	1) Off-grid portable solar home system (with or without provision for USB/charging port) comprising of :	
	(i). Photovoltaic generators consisting of panels of photocells (PV module), charge controller with integrated battery (not exceeding 50Ah), essential connecting wires (with or without switches).	8501.3110
	(ii) Bulb holder.	8536.6100
	2).Water purification plants operating on solar energy.	8421.2100

The Bill proposes following amendments in serial no. 23(7) of the Fifth Schedule of Customs Act.

S. No	Description	PCT Codes
21.	**Following systems and items for dedicated use with renewable source of energy like solar, wind, geothermal etc.**	
	6. (a) Solar Water Heaters with accessories.	
	(b) Parts for Solar Water Heaters	8419.1900
	(i) Insulated tank	7309.0000 7310.0000
	(iii) Mounting stand	Respective headings
	(c) Accessories: (i) Electronic controller (ii) Assistant/ Feeding tank (iii) Circulation Pump (iv) Electric Heater/ Immersion Rod (one piece with one solar water heater) (v) Solenoid valve (one piece with one solar water heater) (vi) Selective coating for absorber plates	Respective heading

The Bill proposes following amendments in serial no. 24 of the Fifth Schedule of Customs Act.

S. No	Description	PCT Codes
22.	**Following items for promotion of renewable energy technologies or for conservation of energy:-**	
	(ii) SMD/LED/LVD street lights, having in built/integral PV module with or without solar batteries.	9405.4090
	(iii) Tubular Day lighting Device	9405.5010
	(viii)LED Bulb/Tube lights.	8543.7090
	(x) Light emitting diodes (light emitting in different colors).	8541.5000
	(xi) Water pumps operating on solar energy along with solar pump controllers	8413.7010 8413.7090 8504.4090
	(xii) Energy saver lamps of varying voltages	8539.3110 8539.3210
	(xiii) Energy Saving Tube Lights.	8539.3120 8539.3220
	(xiv) Sun Tracking Control System	8543.7090

The Bill also proposes concessional rates of 5% on import of parts and components for manufacturing of LED lights if imported by LED light manufacturers registered under Sales Tax Act subject to annual quota.

S. No	Description	PCT Codes
23.	Parts and Components for manufacturing LED lights:-	
	(i) Aluminum Housing/ Shell for LED (LED Light Fixture)	9405.1090
	(ii) Metal Clad Printed Circuit Boards (MCPCB) for LED	8534.0000
	(iii) Constant Current Power Supply for of LED Lights(1-300W)	8504.4090
	(iv). Lenses for LED lights	9001.9000

The Bill proposes zero rated customs duty on plant, machinery and production line equipment used for the manufacturing of mobile phones subject to the condition that they are imported by local manufacturer of mobile phones duly certified by Pakistan telecommunication Authority.

Part-III – Raw Materials/Inputs for Poultry and Textile Sector; Other Goods

Insertions

The Bill proposes customs duty at the rate of zero percent on import of following raw materials/input:

S. No	Description	PCT Codes
10	Sodium Iron (Na Fe EDTA), and other premixes of Vitamins, Minerals and Micro-nutrients (food grade)	2106.9070 2829.9000 2936.9000
18	Fish and Shrimp Feed	2309.9090
26	Ethylene glycol (ethanediol) (MEG)	2905.3100
35	Linear Alkyl Benzene	3817.0000

The Bill also proposes concessional rate of customs duty on the import of following raw materials/input subject to certain conditions and limitations:

S. No	Description	PCT Codes	Proposed Rate
21	Chrysotile Asbestos	2524.9000	15%
23	Ethylene	2901.2100	3%
25	Ethylene Dichloride	2903.1500	3%
29	Fatty Alcohol Ethoxylate	3402.1300	5%
37	Polyester Resin	3907.9900	15%
38	Plastic Film (Medical garde)	3920.2040 3921.9090	10%
39	Blister Paper	4802.6990	10%
60	Carbon Steel Strips of thickness 0.09 to 0.1 mm and width 22.2 to 22.4 mm	7226.9200	11%
61	Bicycle Chain Parts	7315.1990	15%
62	Lead Acid Batteries for Telephone Exchanges	8507.2010	11%

Changes

Serial number 26 - Ethylene glycol (ethanediol) (MEG) is reclassified here, earlier it was listed in Miscellaneous section of the repealed fifth Schedule of the Customs Act where it was also chargeable to customs duty at the rate of zero percent.

Part-IV – Imports of Machinery and Equipment for Textile Sector

Insertions

The Bill proposes customs duty at the rate of zero percent on import of following machinery and equipment by textile sector subject to the condition that such machinery and equipment is not included in the list of locally manufactured goods specified in General Order by Engineering Development Board:

S. No	PCT Codes	S. No	PCT Codes
1	8443.1951	23	8447.9090
2	8444.0000	24	8448.1100
3	8445.1100	25	8448.1900
4	8445.1200	26	8449.0000
5	8445.1300	27	8451.1000
6	8445.1910	28	8451.2900
7	8445.1990	29	8451.3000
8	8445.2000	30	8451.4010
9	8445.3000	31	8451.4020
10	8445.4010	32	8451.4030
11	8445.4020	33	8451.5000
12	8445.4030	34	8451.8010
13	8445.4090	35	8451.8020
14	8445.9000	36	8451.8030
15	8446.1000	37	8451.8040
16	8446.2100	38	8451.8050
17	8446.2900	39	8451.8060
18	8446.3000	40	8451.8070
19	8447.1100	41	8451.8090
20	8447.1200	42	8452.2100
21	8447.2000	43	8452.2900
22	8447.9010		

Part-V – Import of Automotive Vehicles (CBUs) under Automotive Development Policy (ADP) 2016-21

Insertions

In order to achieve long-term goal of developing modern, competitive and viable automobile and auto-part industry in Pakistan by 2021, the Bill intend to implement the Automotive Development Policy 2016-21 by proposing chargeability of customs duty at zero percent or at reduced rate on certain automobile parts.

Further, the Bill also proposes to remove regulatory duty on certain automobile parts.

In this context, the Bill proposes concessional rate of customs duty on import of following items:

S. No	Description	PCT Codes	Proposed Rate
1	Agricultural Tractors, having an engine capacity exceeding 35 HP but not exceeding 100 HP	8701.9020	15%
2	Agricultural Tractors (other than mentioned at S. No. 1 above)	8701.9090	10%
3	Fully dedicated LNG buses (CBU)	8702.9030	1%
4	Fully dedicated LPG buses (CBU)	8702.9040	1%

5	Fully dedicated CNG buses (CBU)	8702.9050	1%
6	Hybrid Electric Vehicle (HEV) (CBU)	8702.9060	1%
7	Hybrid Electric Vehicle (HEV) (CBU)	8704.2214 8704.2294 8704.2340 8704.3240	1%
8	Trailers	87.16	15%

Part-VII – Miscellaneous

Insertions

Table-A

S. No	Description	PCT Codes	Proposed Rate
1	Live (baby) Fish for breeding in commercial fish farms	0301.9100 0301.9200 0301.9300 0301.9400 0301.9500 0301.9900	0%
64	Water quality testing kits	3822.0000	0%

Table-B

The Bill proposes to charge customs duty at the arte of five percent of the items specified in Table-B of Part-VII of the Fifth Schedule:

S. No	Description	PCT Codes
1	Cocoa powder, not containing added sugar or other sweetening matter.	1805.0000
2	Unmanufactured tobacco; tobacco refuse	2401.0000
3	Coal (other)	2701.1900
4	Furnace-oil	2710.1941
5	Polymers of ethylene, in primary forms	3901.0000
6	Polymers of propylene or of other olefins, in primary forms	3902.0000
7	Yarn and film grades	3907.6010
8	Newsprint in rolls or sheets	4801.0000
9	Semi-finished products of iron or non-alloy steel	7207.0000
10	U sections of a height exceeding 150 mm	7216.3110
11	I sections of a height exceeding 200 mm	7216.3210
12	H sections of a height exceeding 250 mm	7216.3310
13	L or T sections (of a height exceeding 150 mm	7216.4010
14	Wire of stainless steel.	7223.0000
15	Other alloy steel in ingots or other primary forms; semi-finished products of other alloy steel.	7224.0000
16	Of high speed steel	7227.1000
17	Bars and rods, of high speed steel	7228.1000
18	Other	7228.2090
19	Other	7228.3090
20	Other bars rods, not further worked than forged	7228.4000
21	Other bars and rods, not further worked than cold-formed or cold- finished	7228 5000
22	Other bars and rods	7228.6000

Omissions

S. No	Description	PCT Codes
40	Ethylene glycol (ethanediol) (MEG)	2905.3100

Serial number 40 - Ethylene glycol (ethanediol) (MEG) was chargeable to customs duty at the rate of zero percent, however, it is reclassified to Part-III – Raw Materials/Inputs for Poultry and Textile Sector; Other Goods, where it is also chargeable to customs duty at the rate of zero percent.

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