

BUDGET COMMENTARY 2015



DAUDALLY, LALANI & CO.
CHARTERED ACCOUNTANTS

PREFACE

The Partners of the Firm are pleased to present you this commentary on our Country's Federal Budget 2015 furnished by the Federal Minister of the Finance to the Parliament on June 05, 2015. The Finance Bill proposes to amend Income Tax, Sales Tax, Federal Excise, Customs Duties and Other Laws. Our focus is on tax proposals in the bill.

Upon Parliament's approval, the Finance Bill will be effective from July 1, 2015, except where stated otherwise.

This memorandum is a general lead-in to the Finance Bill. We advise readers to consult professional counsel before exercising and applying any legal provision and acting thereupon. The Firm accepts no responsibility for any action taken (or not taken) as a result of the information contained in this document.

This memorandum can also be accessed on our website <http://www.daudallylalani.com>

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June 05, 2015



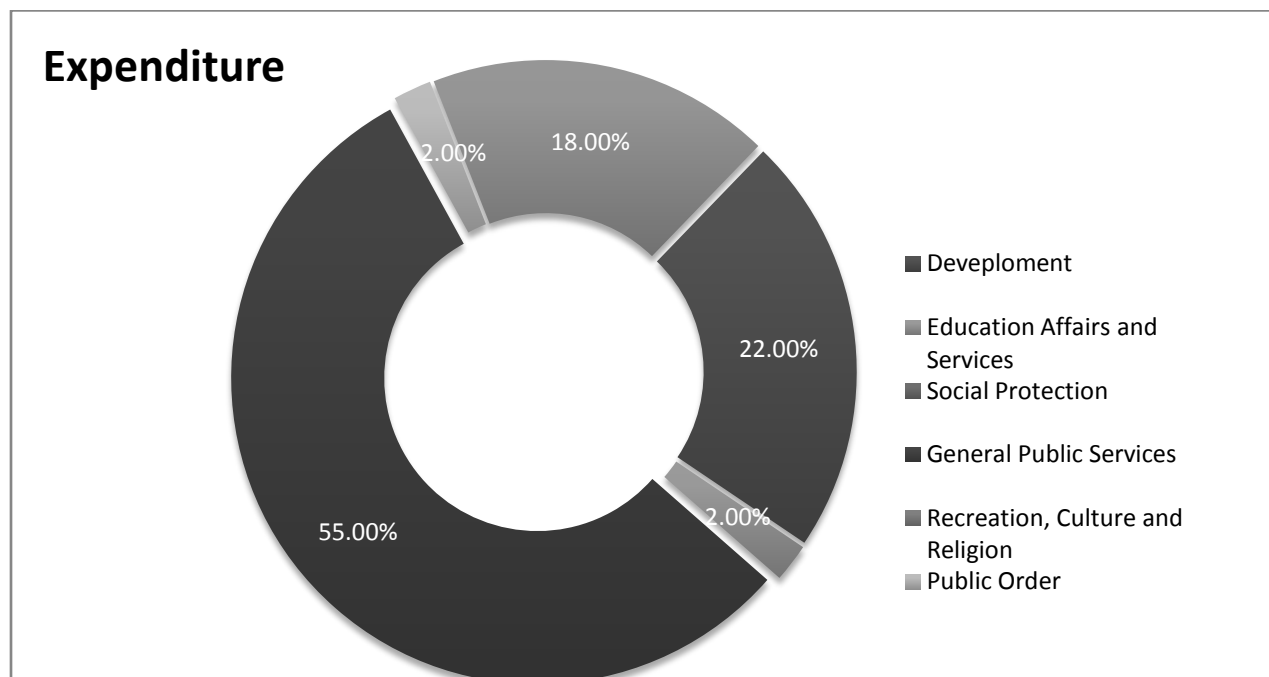
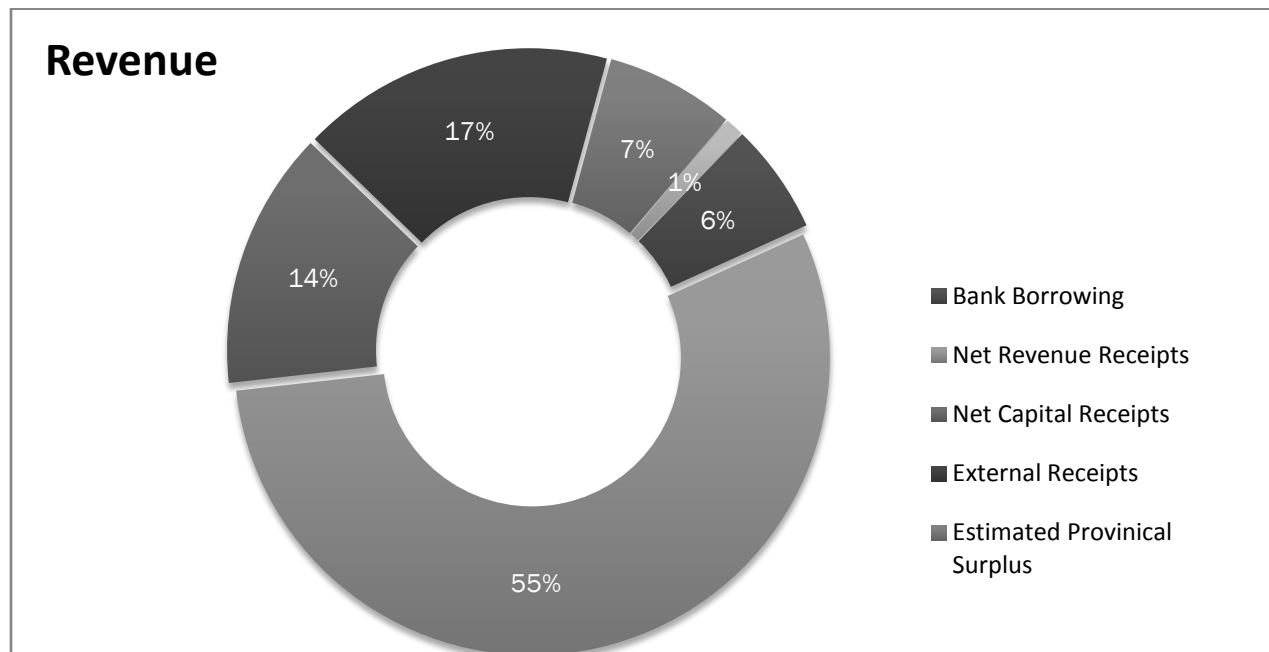


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Budget at a Glance



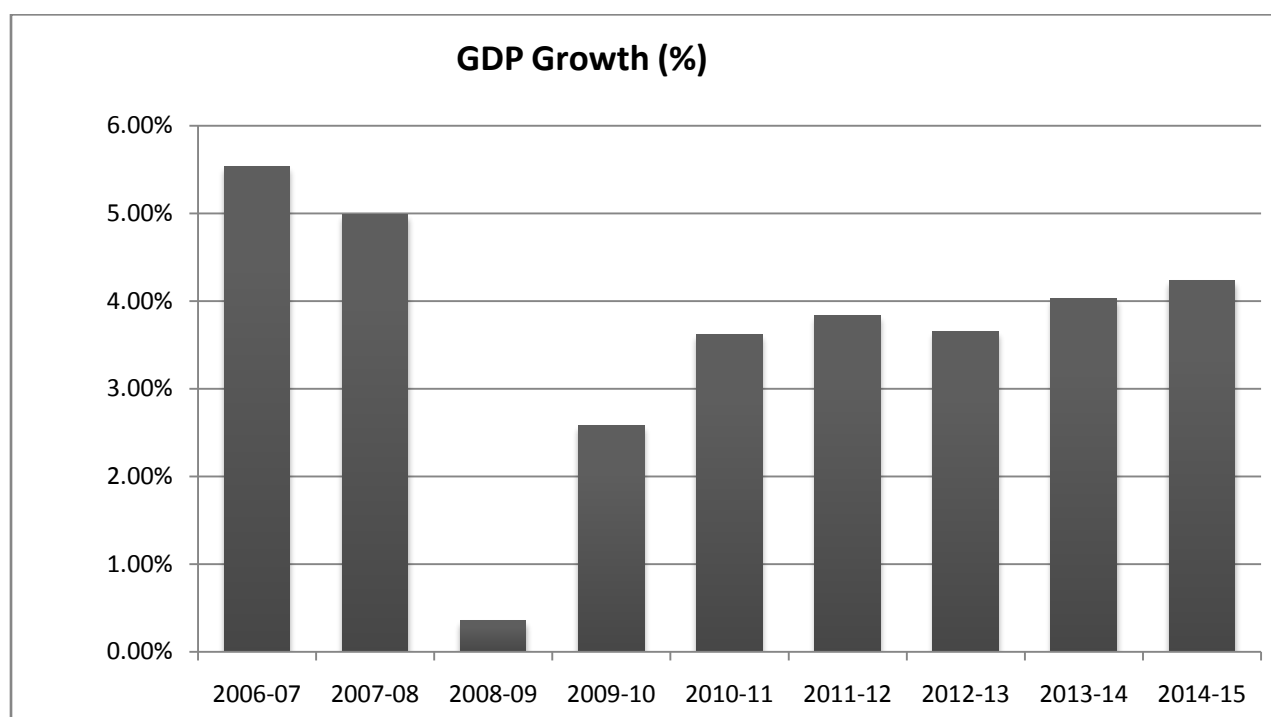
Budget at a Glance

	Budget		Revised	
	2015-2016		2014-2015	
	PKR Billion	%	PKR Billion	%
Receipts				
Revenue				
Tax	3,418	77%	2,910	69%
Non tax	895	20%	1,042	25%
Gross revenue receipts	4,313	97%	3,952	93%
Less: Provincial share	(1,849)	-42%	(1,574)	-37%
Net revenue receipts	2,464	55%	2,378	56%
Other sources				
Net capital receipts	606	14%	603	14%
External receipts	752	17%	693	16%
Estimated provincial surplus	297	7%	142	3%
Privatization Proceeds	50	1%	17	0%
Bank borrowings	283	6%	402	9%
	1,988	45%	1,857	43%
Total Receipts	4,452	100%	4,235	100%
Expenditure				
Current				
General Public Services	2,447	55%	2,530	60%
Defense Affairs and Services	781	18%	720	17%
Public Order and Safety Affairs	95	2%	88	2%
Recreation, Culture and Religion	8	0%	7	0%
Education Affairs and Services	76	2%	65	2%
Social Protection	1	0%	3	0%
Others	75	2%	68	2%
Total current expenditure	3,483	78%	3,481	82%
Development	969	22%	754	18%
Total Expenditure	4,452	100%	4,235	100%

OVERVIEW OF ECONOMY 2014-2015

There are number of factors contributing for revival of economic growth fiscal year 2014-15 registered numerous achievements i-e steep decline in oil prices, rise in foreign exchange buffers, growth in remittances and proceeds from privatization Pakistan's. Economic growth stood at 4.24% in FY 2014-2015 which is the highest level achievement since FY 2008-2009. The economy has taken a turnaround on account of following serious economic agenda and striving sincerely to implement it. Lowest level of inflation i-e 2.1% since 2003-2004, China Pak Economic Corridor, Capital market created history, lowest bank interest rate i-e to the 7% in last 42 years, decline in unemployment rate from 6.2% to 6.0%, etc. Above achievements are aimed due to downside risk prevailed national and international economic horizon.

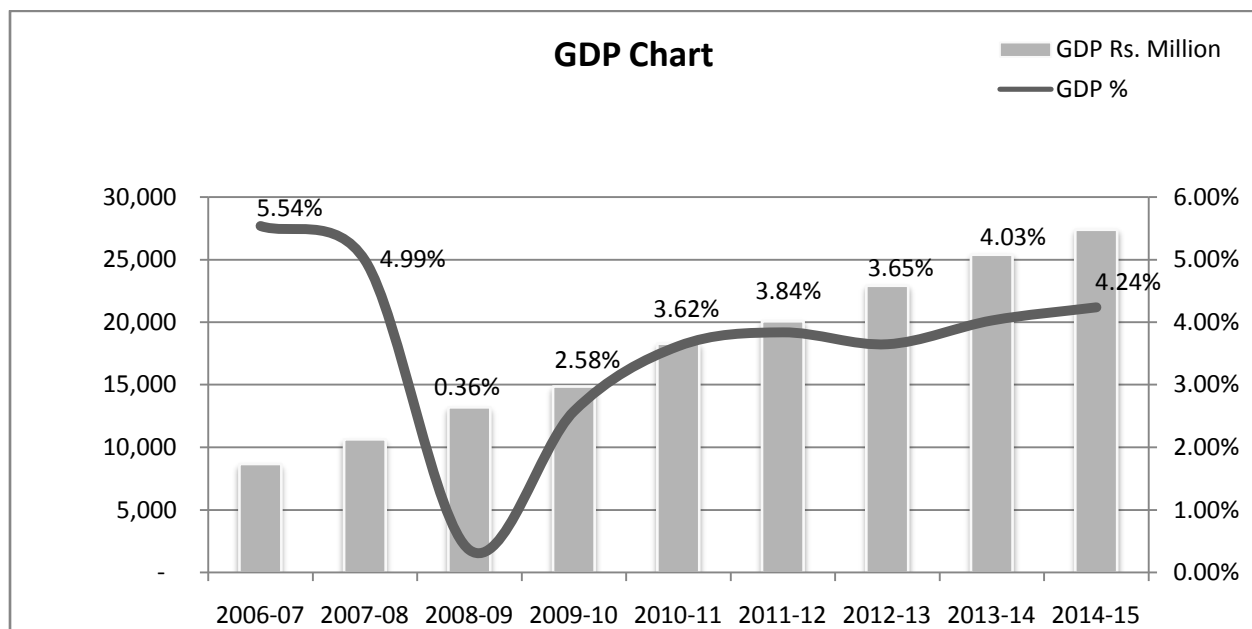
Growth & Investments:



Year	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
GDP Growth	5.54%	4.99%	0.36%	2.58%	3.62%	3.84%	3.65%	4.03%	4.24%

OVERVIEW OF ECONOMY 2014-2015

The GDP growth target was set at 5.1 percent on the back of growth of 3.3 percent from agriculture, 6.8 percent from industry, 5.2 percent from services sector. The growth momentum is broad based and all the three major sectors namely agriculture, industry and services have provided support to improve economic growth. According to provisional estimates the GDP growth during 2014-15 remained at 4.24 percent as compared to last year 4.03 percent revised estimates. Growth in agriculture posted 2.9 percent, industry 3.6 percent and services 5.0 percent.



Agriculture Sector:

Agriculture accounts for 20.88 percent of GDP and 43.5 percent of employment. The agriculture sector has four sub sectors including: crops, livestock, fisheries and forestry. It consists of 39.6 percent of agriculture and 8.3 percent of GDP. Livestock share in the agriculture value added stood at 56.3 percent while it is contributing 11.8 percent to the GDP. The contribution of this sub-sector in agriculture is 2.0 percent with main components of forestry, timber and fire wood. Growth of the forestry is registered at 3.15 percent. Fisheries sub-sector has 2.1 percent share in agriculture sector, it has recorded a growth of 5.75 percent. Important crops like wheat, rice, sugarcane and cotton contains 25.6 percent of agricultural value addition and its contribution in GDP is 5.3 percent.

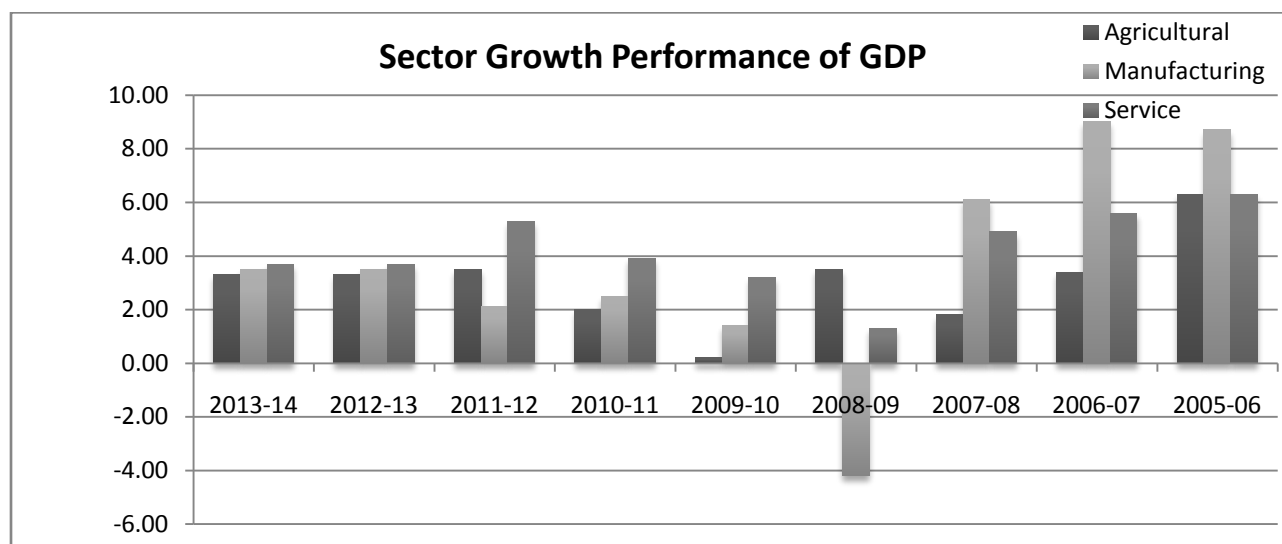
OVERVIEW OF ECONOMY 2014-2015

Manufacturing & Industrial sector :

Manufacturing sector accounts 13.3 percent of GDP and 14.2 percent of total employed labor force. Large scale Manufacturing (LSM) contains 10.6 percent of GDP dominates the overall sector, accounting 80 percent of the sectoral share followed by small Scale Manufacturing, which accounts for 1.7 percent of total GDP and 13.0 percent of Manufacturing. The contribution of construction in industrial sector is 12.0 percent and in GDP it contributes 2.4 percent and provides employment opportunities to 7.33 percent of labor force.

Service Sector :

Growth in this sector at 4.95 percent against the commodity producing sector growth of 3.24 percent. The contribution of the services sector has increased from 56.0 percent of GDP in 2008-09 to 58.82 percent in 2014-15. Services sector contains six sub-sectors including: Transport, Storage and Communications; Wholesale and Retail Trade; Finance and Insurance; Housing Services (Ownership of Dwellings); General Government Services (Public Administration and Defense); and other Private Services (Social Services).

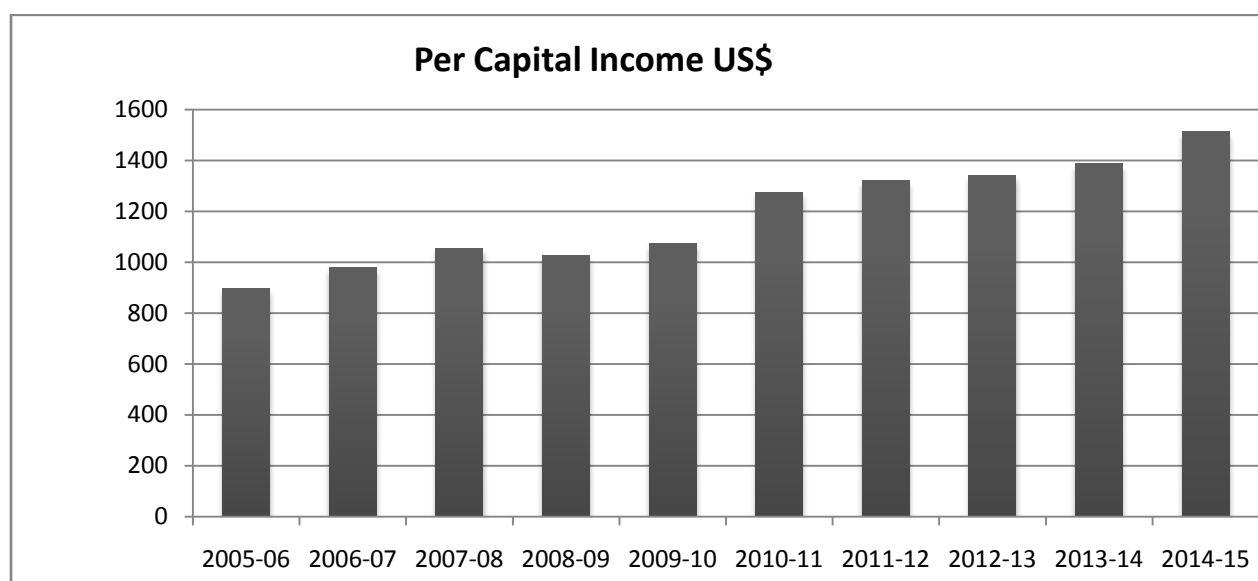


Year	13-14	12-13	11-12	10-11	09-10	08-09	07-08	06-07	05-06
Agriculture	3.3%	3.3%	3.5%	2%	0.2%	3.5%	1.8%	3.4%	6.3%
Manufacturing	3.5%	3.5%	2.1%	2.5%	1.4%	-4.2%	6.1%	9%	8.7%
Service	3.7%	3.7%	5.3%	3.9%	3.2%	1.3%	4.9%	5.6%	6.3%

OVERVIEW OF ECONOMY 2014-2015

Per Capita Income :

Per capita income is an important economic indicator which is mostly used to measure economic development of the country and well being indicator among various countries of the world. Per capita income in dollar terms has registered a significant growth of 9.25 percent in 2014-15 as compared to 3.83 percent last year. The per capita income in dollar terms has increased from \$ 1,386 in 2013-14 to \$ 1,512 in 2014-15.

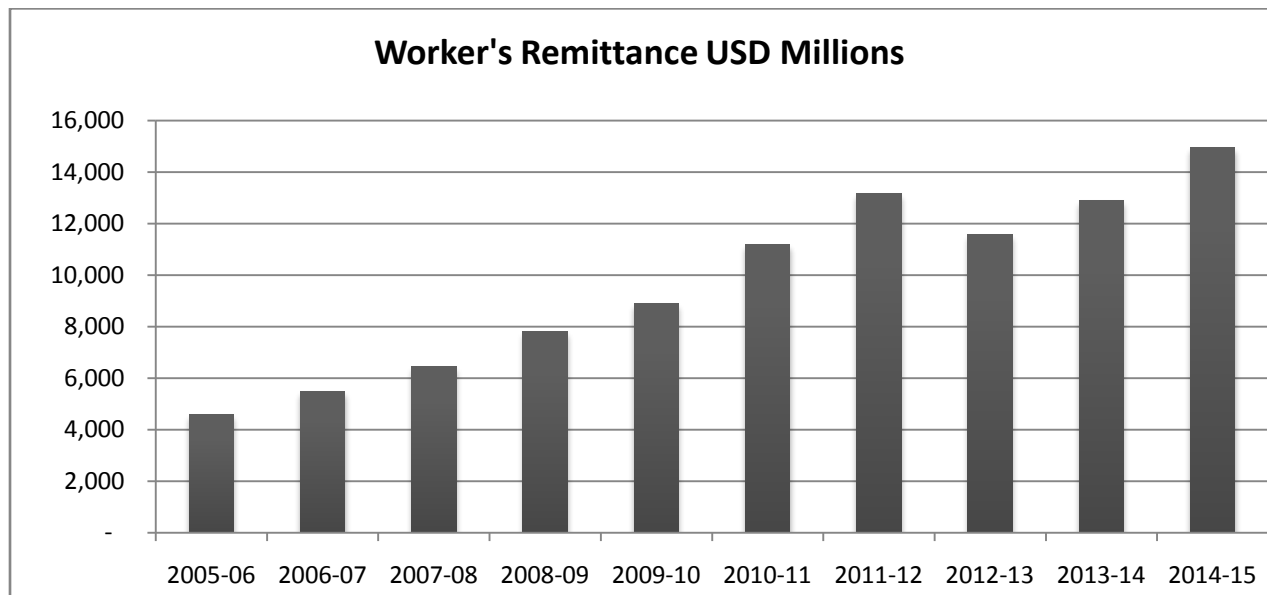


Per Capita Income \$	897	980	1053	1026	1072	1274	1321	1340	1386	1512
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Capital Market:

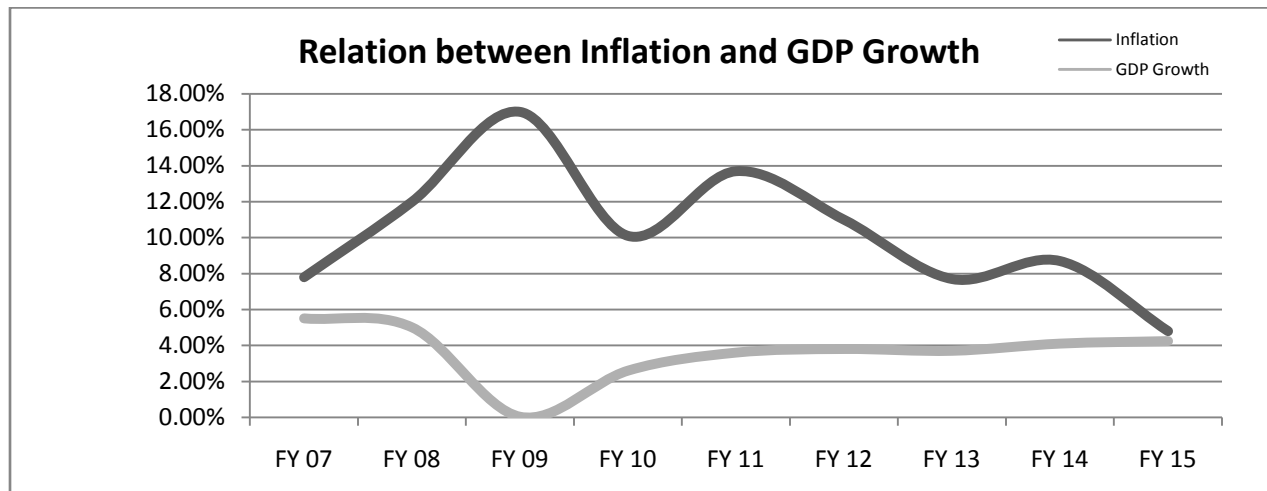
Market history for mega public offerings led by sale of shares by the Government of Pakistan, and in terms of money raised through these offerings. In 2014, the KSE-100 Index gained 6,870 points from 25,261 to 32,131 level, generating a handsome return of 27 percent (31 percent return in US\$ terms) for the investors.

OVERVIEW OF ECONOMY 2014-2015



Worker's Remittances USD Million	4,600	5,494	6,451	7,811	8,906	11,201	13,187	11,570	12,895	14,970
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Inflation:



Inflation	7.8	12	17	10.1	13.7	11	7.7	8.7	4.8
GDP Growth	5.5	5	0.04	2.6	3.6	3.8	3.7	4.1	4.24

OVERVIEW OF ECONOMY 2014-2015

Inflation rate measured through Consumer Price Index (CPI) averaged at 4.8 percent during July-April 2014-15 against 8.7 percent in the same period of last year. This is the lowest level of inflation after 2003. Food and non-food inflation during July-April FY15 have been estimated at 3.6 percent and 5.7 percent as compared to 9.3 percent and 8.2 percent in the same period last year. However, the core inflation remained quite subdued on account of pursuance of appropriate fiscal policy, exchange rate and monetary policies. Throughout the year, the National Price Monitoring Committee (NPMC) kept a constant watch over prices and the supply of essential commodities in its regular meeting.

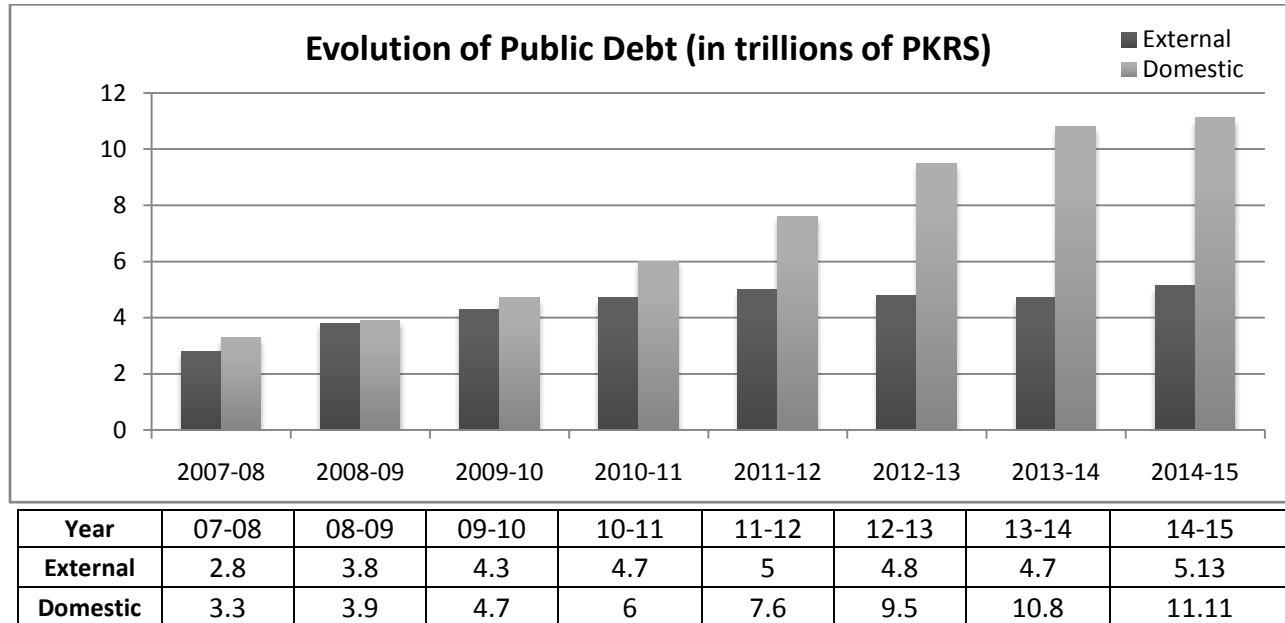
Trade and payments:

Pakistan's overall external account balance posted a surplus of US\$ 2.12 billion during Jul-Apr, 2014-15 against US\$ 1.95 billion in the corresponding period of last year due to marked improvement in the current account and substantial foreign exchange inflows. Current account deficit stood at US\$ 1.4 billion in Jul-Apr 2014-15, which was 53.5 percent less than the deficit of US\$ 2.9 billion in Jul-Apr 2013-14 showing marked improvement. Services account deficit remained lower and stood at \$ 1,632 million during July-April 2014-15 as compared to \$ 2,349 million during the same period last year.

Public Debt :

Public debt was recorded at Rs. 16,936 billion or 61.8 percent of GDP as at end-March 2015 compared with 62 percent during the same period last year. Public debt recorded an increase of Rs.940 billion during first nine months of current fiscal year as compared with Rs. 1,272 billion during the same period last year.

OVERVIEW OF ECONOMY 2014-2015



FINANCE BILL 2015 – HIGHLIGHTS

Income Tax Ordinance, 2001

- A reduction of 1% in corporate income tax is proposed and reduced to 32% for Tax Year 2016.
- 10 years exemption from income tax is proposed on setup of Electricity Transmission Project by June 30, 2018.
- Limit of Tax Credit on new investment in quoted shares is being enhanced to Rs. 1.5 Million.
- Tax Credit is enhanced to 20% for a company if it opts for enlistment in any registered stock exchange in Pakistan.
- The limit of capital at Rs. 25 Million for qualifying as a small company is proposed to be enhanced to Rs. 50 Million.
- The tax rate is reduced from 5% to 2% on the salaried taxpayers earning taxable income from Rs. 400,000 to Rs. 500,000.
- The tax rate is reduced from 10% to 7% on the Non-salaried individual taxpayers and Association of Person earning taxable income from Rs. 400,000 to Rs. 500,000.
- Holding period of listed securities and rates of taxes are proposed for capital gain tax:

Holding period upto 1 year:	15%
Holding period more than 1 year to 2 years:	12.5%
Holding period more than 2 years to 4 years:	7.5%
- Adjustable advance income tax at the rate of 0.6% of the amount of transaction is proposed to be collected on all banking instruments and other modes of transfer of funds through banks in the case of person who do not file Income Tax Returns.

FINANCE BILL 2015 – HIGHLIGHTS

Income Tax Ordinance, 2001

- Now banking companies will pay 35% tax on its income including dividend and capital gains.
- Rate of tax on dividend is proposed to be increased from 10% to 12.5%. In case of non-filer, the tax rate is proposed to be 17.5% of which 5% shall be continued to be adjustable. For Mutual Funds the existing rate of 10% shall continue.
- 10% withholding tax to be imposed on renting out machinery and for use of commercial, industrial and scientific equipment or on renting out of machinery.
- It is proposed that in case of listed company (other than scheduled bank or a modaraba) which does not distribute cash dividend within 6 months of the end of the said income year or distributes dividends to such an extent that its reserves, after such distribution are in excess of 100% of its paid up capital the excess amount may be taxed at the rate of 10%.
- One time tax levy is proposed on the affluent and rich individuals, association of persons and companies earning income above Rs. 500 Million in Tax Year 2015 at the rate of 4% of income for banking Companies and 3% of income for all others.
- Exemption from withholding on payments to electronic and print media in respect of the advertising services may be withdrawn.
- It is proposed that 0.15% withholding tax may be imposed on cash withdrawal by exchange companies.
- Withholding tax rate on commission of advertising agencies is proposed to increase to 10%.

FINANCE BILL 2015 – HIGHLIGHTS

Income Tax Ordinance, 2001

- Income tax holiday for 3 years is being introduced for new industrial undertakings engaged in setting up and operating cold chain facilities and setting up and operating warehousing facilities for storage of agriculture produced
- Tax exemption for 4 years is introduced on setting up company for production of “HALAL” meat by December 31, 2016.
- Rice Mills are exempted from minimum tax for Tax Year 2015.
- Exemption from withholding tax on supply of agricultural produce is to be extended to supply of fish.
- Non-adjustable sales tax on import and supply of agricultural machinery and equipment is proposed to be reduced from 17% to 7%.
- Withholding tax on import of agricultural machinery is proposed to be reduced from 6% to 0%.
- Tax credit has increased has been 50% of taxable income or Rs. 1 Million on markup on housing loan.
- Minimum tax on builders is being suspended for a period of 3 years.
- Capital gain of any person who sells a property to a REIT development scheme will be exempt from tax upto June 30, 2018.
- Exemption of Greenfield projects is being extended upto June 30, 2017.

FINANCE BILL 2015 – HIGHLIGHTS

Income Tax Ordinance, 2001

- Exemption from income tax for 5 years is being granted to industrial undertaking engaged in the manufacturing of equipment, plant and items required to produce solar and wind energy.
- 5 years tax holiday on all new manufacturing units setup in Khyber Pakhtunkhwa between July 01, 2015 to June 30, 2018.

FINANCE BILL 2015 – HIGHLIGHTS

Sales Tax Act, 1990

- It is proposed that “Active taxpayer” is defined as a registered person other than one, who is blacklisted or whose registration is suspended or is blocked in terms of Section 21; who fails to file return by due date for two consecutive tax periods; who fails to file timely income tax return u/s 114 or statement u/s 115 of Income Tax Ordinance; and who fails to file two consecutive monthly or an annual withholding tax statement u/s 165 of the Income Tax Ordinance, 2001.
- Appellate Tribunal defined as one formed u/s 130 of Income Tax Ordinance, 2001.
- It is proposed that the definition of cottage industry raised electricity limit to Rs. 800,000 from Rs. 700,000.
- For registering importer-cum-retailer consideration of his turnover dropped.
- Supply or supply chain expanded to include transfer/delivery of goods held by a manufacturer to its owner or latter’s nominee.

FINANCE BILL 2015 – HIGHLIGHTS

Sales Tax Act, 1990

- Reward introduced for correct information, not known to FBR and public, provided by informant or “whistleblower”.
- Additional sales tax on supply to unregistered person doubled to 2 % from 1%.
- Federal Government empowered to determine manner and rate of sales on any taxable goods.
- In absence of specific provisions recovery procedures under Customs Act, 1969 to apply besides those for collection, payment and enforcement of sales tax.

FINANCE BILL 2015 – HIGHLIGHTS

Customs Act IV of 1969

- Federal Government’s powers to grant exemption from customs duty restricted. Federal Board of Revenue disempowered from granting exemptions.
- Federal Government to place all notifications before National Assembly
- Raised lower limit of Rs. 100 for contravention case to Rs. 20,000.
- Full declaration mandatory for transshipment at port of departure, where issue of its permit, assessment and payment of duties be made.
- Offences of mis-declaration, concealment, etc. covered u/s 156(1)64.

AMENDMENTS IN

Income Tax Ordinance, 2001

Section
2(13AA)

Consumer Goods

The bill seeks to insert new definition of “consumer goods” whereby “consumer goods” means that are consumed by the end consumer rather than used in the production of another good.

Section 2
(22)

Fast Moving Consumer Goods

The bill seeks to insert new definition of “fast moving consumer goods” whereby “fast moving consumer goods” which are those supplied in retail marketing as per daily demand of a consumer;

Section 2
(28A)

Imputed Income

A new definition is proposed to be inserted “Imputed Income” in relation to an amount subject to final tax means the income which would have resulted in the same tax, had this amount not been subject to final tax.

Section 2
(29)

Bonus Shares – Non listed Companies

An amendment is proposed whereby bonus shares issued by non-listed companies are included in the definition of “income”.

Section 2
(42A)

PMEX

A new definition of PMEX is introduced, “PMEX” means Pakistan Mercantile Exchange Limited a futures commodity exchange company incorporated under the Companies Ordinance, 1984 (XLVII of 1984) and is licensed and regulated by the Securities and Exchange Commission of Pakistan.

Section 2
(47A)

Real Estate Investment Trust Regulation 2015

New definition of REIT Scheme is being introduced. “REIT Scheme” means a REIT Scheme as defined in the Real Estate Investment Trust Regulation 2015.

AMENDMENTS IN

Income Tax Ordinance, 2001

Section 2 **Small Company** (59A)

The limit of the paid up capital and reserves for qualifying as “small company” is proposed to enhance from Rs. 25 Million to Rs. 50 Million.

Section 2 **Whistleblower** (75)

A new definition “whistleblower” is introduced in terms of section 227B.

Section 2 A provision is proposed that where a person entitled for tax credit under
(65) section 65B i-e tax credit on investment, section 65D i-e Tax Credit on newly established industrial details, section 65E i-e tax credit on industrial undertaking before 01 July 2011.

Section 4B **Super Tax**

Super tax for rehabilitation of temporarily displaced person

The bill proposed a new section which introduced super tax for rehabilitation of temporarily displaced person. The tax shall be imposed on person whose annual income exceeds Rs. 500 Million. This tax is applicable for Tax Year 2015 and rate of tax shall be:

Banking Company	4%
Others	3%

Where the super tax is not paid by a person liable to pay it, the Commissioner shall by an order in writing determine the super tax payable.

AMENDMENTS IN

Income Tax Ordinance, 2001

Section 5A Tax on undistributed reserves

A new section is proposed whereby a tax shall be imposed on every public company other than schedule bank or modarba. According to this, if a company derives profit for a tax year but:

- It does not distribute cash dividend within 6 months of the end of the said tax year; or
- It distributes dividend to such an extent that its reserves, after such distribution are in excess of 100% of its paid up capital

Then a tax shall be imposed at the rate of 10% on its reserves in excess of 100% of paid up capital. For the purpose of this section, "reserve" includes amounts set-aside out of revenue or other surpluses excluding capital reserves, share premium reserves and reserves required to be created under any law, rules or regulations.

Section 7B Tax on profit on debt

A new section is proposed in which new rates of profit on debt are introduced. It is proposed that every person who receives a profit on debt shall be charged tax under the following rates:

Taxable Income	Rate
Profit upto Rs. 25,000,000	10%
Profit more than Rs. 25,000,000 but less than Rs. 50,000,000	Rs. 2,500,000 + 12.5% of amount exceeding Rs. 25,000,000
Profit more than Rs. 50,000,000	Rs. 5,625,000 + 15% of amount exceeding Rs. 50,000,000

AMENDMENTS IN

Income Tax Ordinance, 2001

Section 15A Deductions – Income from property

(1) (h)

The amendment seeks to allow expense upto 6% for administration and collection charges against “Income from property”

Section 53 Exemptions and tax concessions in the Second Schedule

(2)

The bill seeks to introduce an amendment that in future any amendment in Second Schedule shall be liable to get approval from the Economic Coordination Committee of the Cabinet.

Section 62 Tax Credit for investment in shares and insurance

The bill proposed that the limit of tax credit for investment in new shares offered by the public listed company shall be enhanced from Rs. 1,000,000 to Rs. 1,500,000.

The proposed computation is: $(A/B) \times C$

Where:

- A the amount of tax assessed before tax credit
- B Taxable income
- C Lesser of
 - (i) Cost of shares
 - (ii) 20% of person's taxable income
 - (iii) Rs. 1,500,000

Section 64A Deductible allowance for profit on debt

Section 64 omitted and new section 64A introduced in which it is proposed that every individual shall be entitled to 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 NBFC.

The deductible allowance shall not exceed 50% of taxable income or Rs. 1,000,000 whichever is lower.

It is also proposed that any allowance or part of allowance that is unutilized in a tax year shall not be carried forward to a subsequent tax year.

AMENDMENTS IN

Income Tax Ordinance, 2001

Section 64B Tax credit for employment generation by manufacturers

A new section is proposed whereby a new manufacturing company setup between July 01, 2015 and June 30, 2018 shall be given a tax credit for period of 10 years. The tax credit of 1% of the tax payable shall be allowed where the said company generates employment of 50 employees who will be registered with the Employees Old Age Benefits Institution (EOBI) and the Employees Social Security Institution (SESSI) of Provincial Government.

The conditions to avail this tax credit are:

- The company incorporates and manufacturing unit setup between July 01, 2015 to June 30, 2018;
- More than 50 employees in a tax year registered with EOBI and SESSI;
- Must be incorporated under the Companies Ordinance, 1984 and having registered office in Pakistan;
- The manufacturing unit is not established by the splitting up or reconstruction or reconstitution of an undertaking already in existence or by transfer of machinery or plant an undertaking established in Pakistan at any time before July 01, 2015.

Section 65C Tax credit for enlistment

The bill seeks to enhance the limit of tax credit from 15% to 20% available to a company who opts for enlistments in any registered stock exchange in Pakistan.

AMENDMENTS IN

Income Tax Ordinance, 2001

Section 65C Tax credit for enlistment

The bill seeks to enhance the limit of tax credit from 15% to 20% available to a company which opts for enlistments in any registered stock exchange in Pakistan.

Section 94 Principles of taxation of companies

The bill proposed to provide for taxation of dividend income by resident and non-resident company.

Section 107 Tax treaty

The bill seeks to authorize Federal Government to enter into an agreement bilateral or multilateral with the government or governments of foreign countries or tax jurisdictions for the avoidance of double taxation and the prevention of fiscal evasion and exchange of information including automatic exchange of information with respect to taxes on income imposed under this Ordinance or any other law.

Section 113A Minimum tax on builders

The bill seeks to exempt minimum tax on builder for three years till June 30, 2018. Currently there is a charge of minimum tax on builder.

Section 113B Minimum tax on land developers

The proposed amendment provides 2% as minimum tax rate on land developers.

Section 114 Return of income – Revision

The amendment is proposed to provide facility to those taxpayers who require to revise their tax return. Currently, an approval from the Commissioner of Income Tax is required to revise the income tax return. Now it is proposed that a taxpayer shall allowed to revise their tax return within 60 days of filing without the approval of the Commissioner.

AMENDMENTS IN

Income Tax Ordinance, 2001

Section 128 **Stay on recovery**

Currently, the Commissioner (Appeals) may grant a stay from recoveries of tax for a period of 30 days. The proposed amendment authorize the Commissioner (Appeals) to grant stay from recoveries for a further period of 30 days provided that the order on appeal shall be passed within the said period of 30 days.

Section 137 **Due date for payment of tax**

The taxpayer is liable to pay tax under an assessment order or amendment assessment order issued by the Commissioner within 15 days from the date of services of the notice. The amendment proposed to enhance the due time of payment of tax from 15 to 30 days.

The amendment further proposed to reduce the period of payment from 60 days to 45 days in case where the tax is payable as a result of provisional assessment order under section 122C.

Section 147 **Advance tax paid by taxpayer**

Under sub section 4A it is required that a taxpayer who is require to make payment of advance tax shall estimate the tax payable at any time before the last installment is due. Now it is proposed that a taxpayer who is required to make payment of advance tax shall estimate the tax payable at any time before the 2nd installment is due.

In case the tax payable is likely to be more than the amount that the taxpayer is required to pay, the taxpayer shall furnish to the Commissioner before the due date of 2nd quarter an estimate of the amount of tax payable by the taxpayer and pay 50% of such amount by the due date of the 2nd quarter and the remaining 50% shall be paid after 2nd quarter in 2 equal installments by the due dates of 3rd and 4th quarters of the tax year.

AMENDMENTS IN

Income Tax Ordinance, 2001

Section 148 **Imports – FBR powers**

The amendment seeks to withdraw power of the FBR to grant exemption on imports through SROs.

Section 148A **Tax on local purchase of cooking oil or vegetable ghee by certain persons**

A separate section is being introduced to tax on local purchase of cooking oil or vegetable ghee. The manufacturers of cooking oil or vegetable ghee shall be chargeable to tax at the rate of 2% on purchase of locally produced edible oil and the tax payable shall be final tax in respect of income accruing from locally produced edible oil.

Section 152 (4A) **Payment to non resident**

The proposed amendment seeks to empower the Commissioner who may on application allow payment to non-resident person without deduction of tax or deduction of tax at reduced rates on account of royalty or fees for technical services.

Section 154 (5) **Exports – opt out option**

Currently all exporters are fall under final tax regime whereby banks deduct tax at the rate of 1% from export proceeds received. It is proposed that exporter shall have option to opt out from final tax regime and file return under normal tax regime. The option shall be exercised at the time of filing of return and tax paid under section 154 shall be the minimum tax.

Section 159 **Exemption power withdrawn**

The bill seeks to withdraw power of the board to grant exemption on imports through SROs

Section 161 (IB) **Default surcharge**

The rate of default surcharge is 18%. It is proposed that the rate of default surcharge reduce to 12%.

AMENDMENTS IN

Income Tax Ordinance, 2001

Section 165B Furnishing of information by financial institutions including banks.

A new section is introduced whereby every financial institution shall make arrangements to provide information regarding non-resident persons to the FBR in the prescribed form and manner for the purpose of automatic exchange of information under bilateral agreement or multilateral convention. The information received shall be used only for tax and related purposes and kept confidential.

Section 171 (1) Additional payment for delayed refunds

At present, if refund is due to a taxpayer is not paid within 3 months of the date on which it become due, the Commissioner shall pay to the taxpayer a further amount by way of compensation at the rate of 15% per annum of the amount of the refund computed. Now it is proposed that the rate of compensation shall be reduced from 15% to KIBOR + 0.5%.

Section 176 (1) & (1A) Notice to obtain information or evidence - Special Audit Panel

The bill seeks to propose that the Commissioner may require any person to furnish any information relevant to any tax leviable under the Ordinance or to fulfill any obligation under any agreement with foreign government or governments or tax jurisdiction.

It is also proposed that a special audit panel appointed for any tax year and with the prior approval of the Commissioner, enter the business premises of a taxpayer, to obtain any information, require production of records on which the required information is stored.

AMENDMENTS IN

Income Tax Ordinance, 2001

Section 177 **Audit – Special Audit Panel** (11)

The proposed sub section empowers the FBR to appoint as many special audit panels as may be necessary, comprising two or more members from the following:

- (a) An Officer or officers of Inland Revenue;
- (b) A firm of Chartered Accountants;
- (c) A firm of Cost and Management Accountants;
- (d) Any other person as directed by the Board;

The Special Audit Panel shall be headed by a Chairman who shall be an officer of Inland Revenue authorized to conduct an audit, including a forensic audit, of the income tax affairs of any person or classes of persons and the scope of such audit shall be as determined by the FBR or the Commissioner on case to case basis.

It is also proposed that where a person fails to produce before the Commissioner or a special audit panel to conduct an audit, any accounts, any electronically kept record or any other evidence, the Commissioner may proceed to make best judgment assessment.

Section **CNIC as NTN** 181A (4)

A significant amendment is proposed that from tax year 2015 onward, in case of individuals having Computerized National Identity Card (CNIC) issued by the National Database and Registration Authority, CNIC shall be used as NTN.

Section 210 **Delegation** (1B)

The proposed amendment seeks to empower the Commissioner who can by an order in writing delegate to a Special Audit Panel appointed under section 177(11) to a firm of Chartered Accountants appointed by the Board of the Commissioner to conduct an audit.

AMENDMENTS IN

Income Tax Ordinance, 2001

Section 182 Offences and penalties

Following amendment in offences and penalties is proposed:

S#	Offence	Section	Existing penalties	Proposed penalties
1A	Where any person fails to furnish a statement as required under section 115, 165 or 165A within the due date	115, 165 and 165A	Such person shall pay a penalty of Rs. 2,500 each day of default subject to minimum penalty of Rs. 50,000	Such person shall pay a penalty of Rs. 2,500 for each day of default subject to a minimum penalty of Rs. 10,000
1AA	Where any person fails to furnish wealth statement or wealth reconciliation statement	114, 115 and 116	Such person shall pay a penalty of Rs. 100 for each day of default	Such person shall pay a penalty of 0.1% of the taxable income per week or Rs. 20,000 whichever is higher

Section 214D Automatic selection for audit

A new section is proposed regarding automatic selection for audit. It is proposed that a person registered as retailer under rule (4) or rule (6) of the Sales Tax Special procedure Rules, 2007 who does not fulfill the following parameters shall be selected for audit:

- (a) Name of registered person appears in sales tax active taxpayer's list;
- (b) Income tax return under section 114 has been filed within due date;
- (c) Tax payable under section 137 has been paid;
- (d) 2% tax on turnover under section 113 has been paid;
- (e) 25% higher tax than the previous tax year has been paid

The effective date of this section shall be announced by the board through notification in official gazette.

Section 231B Advance tax on private motor vehicles

The proposed amendment seeks to add two definitions "date of first registration and "motor vehicles"

"Date of first registration" means:

- (a) the date of issuance of broad arrow number in case a vehicle is acquired from the Armed Forces of Pakistan;

AMENDMENTS IN

Income Tax Ordinance, 2001

Section 231B (b) the date of registration by the Ministry of Foreign Affairs in case the vehicle is acquired from a foreign diplomat or a diplomatic mission in Pakistan;
(c) the last day of the year of manufacture in case of acquisition of an unregistered vehicle from the Federal or a Provincial Government; and 75
(d) in all other cases the date of first registration by the Excise and Taxation Department.

“Motor vehicle” includes car, jeep, van, sports utility vehicle, pick-up trucks for private use, caravan automobile, limousine, wagon and any other automobile used for private purpose.”

Section 227B **Reward to whistleblowers**

A new section is proposed whereby if a person (whistleblower) can win the reward if said person reports concealment or evasion of income tax leading to detection or collection of taxes, fraud corruption or misconduct to the competent authority having power to take action against the person or an income tax authority committing fraud corruption, misconduct or involved in concealment or evasion of taxes.

Section 236 **Telephone users**

The proposed amendment seeks to include “internet services” and “prepaid card for internet” with the telephone bill of a subscriber.

Section 236H **Advance tax on sales to retailer**

At present, every manufacturer, distributor, dealer, wholesaler or commercial importer of electronic, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector at the time of sale to retailers shall deduct advance tax at the rate of 0.5% of gross sale amount. Now it is proposed that “fertilizer” shall be excluded from this section. It is also proposed that advance tax shall be withheld from wholesaler in addition to retailer.

AMENDMENTS IN Income Tax Ordinance, 2001

Section 236I **Collection of advance tax by educational institutions**

Amendment seeks to exclude non-resident from payment of advance tax to be withheld by the educational institutions provided that:

- (a) Non-resident shall furnish copy of passport as an evidence to the educational institution that during previous tax year, his stay in Pakistan was less than 183 days;
- (b) Furnishes a certificate that he has no Pakistan- source income and
- (c) The fee is remitted directly from abroad through normal banking channels to the bank account of the educational institution;

Section 236O **Advance tax under chapter XII**

A new section introduced which says that the advance tax under chapter XII shall not be collected in the case of withdrawals made by

- (a) the Federal Government or a Provincial Government;
- (b) a foreign diplomat or a diplomatic mission in Pakistan; or
- (c) a person who produces a certificate from the Commissioner that his income during the tax year is exempt.

Section 236P **Advance tax on banking transactions otherwise than through cash**

The bill seeks to introduce a new section whereby every banking company shall collect advance adjustable tax from a non-filer at the time of sale of any instrument, including demand draft, pay order, special deposit receipt, cash deposit receipt, short term deposit receipt, call deposit receipt, rupee traveller's cheque or any other instrument of such nature.

It is further proposed that every banking company shall collect advance adjustable tax from a non-filer at the time of transfer of any sum through cheque or clearing, interbank or intra bank transfers through cheques, online transfer, telegraphic transfer, mail transfer, direct debit, payments through internet, payments through mobile phones, account to account funds transfer, third party account to account funds transfers, real time account to account funds transfer, real time third party account to account fund transfer, 78 automated teller machine (ATM) transfers, or any other mode of electronic or paper based funds transfer

The advance tax under this section shall be collected at the rate 0.6% where the sum totals of payments for all transactions exceed Rs. 50,000 in a day.

Advance tax under this section shall not be collected in the case of Pakistan Real time Interbank Settlement Mechanism (PRISM) transactions or payments made for Federal, Provincial or local Government taxes.

AMENDMENTS IN

Income Tax Ordinance, 2001

Section 236Q Payment to residents for use of machinery and equipment

A new section is proposed whereby every prescribed person making a payment in full or in part including a payment by way of advance to a resident person for use or right to use industrial, commercial and scientific equipment shall deduct tax from the gross amount at the rate 10% of the amount of payment. The tax deductible shall be final tax on the income of such resident person.

Section 236R Collection of advance tax on education related expenses remitted abroad

The proposed new section states that there shall be collected advance tax at the rate 5% on the amount of education related expenses remitted abroad.

It is also proposed that Banks, financial institutions, foreign exchange companies or any other person responsible for remitting foreign currency abroad shall collect advance tax from the payer of education related expenses.

Tax collected under this section shall be adjustable against the income of the person remitting payment of education related expenses.

For the purpose of this section, “education related expenses” includes tuition fee, boarding and lodging expenses, any payment for distant learning to any institution or university in a foreign country and any other expense related or attributable to foreign education.

Section 236S Dividend in specie

Every person making payment of dividend-in specie shall collect tax from the gross amount of the dividend in specie paid at the following rates

- 12.5% for filer
- 17.5% for non-filer

AMENDMENTS IN

Income Tax Ordinance, 2001

Section 236T Collection of tax by Pakistan Mercantile Exchange Limited (PMEX)

A new section is proposed in which it is proposed that Pakistan Mercantile Exchange Limited (PMEX) shall collect advance tax at the rates 0.1% from its members on purchase and sale of futures commodity contracts and 0.1% from its members on purchase and sale of futures commodity contracts in lieu of tax on the commission earned by such members.

First
Schedule,
Part I, Div
I, Para I

S.No	Taxable Income	Rate Of tax
1	Where the taxable income does not exceed Rs. 400,000	0%
2	Where the taxable income exceeds amount Rs. 400,000 but does not exceed 500,000	7% of the amount exceeding Rs 400,000
3	Where the taxable income exceeds Rs. 500,000 but does not exceed 750,000	Rs 7,000 +10% of the amount exceeding Rs 500,000
4	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs. 1,500,000	Rs 32000 + 15% of the amount exceeding Rs 750,000
5	Where the taxable income exceeds Rs. 1,500,000 but does not exceed Rs. 2,500,000	Rs 14,4500 + 20% of the amount exceeding Rs 150,000
6	Where the taxable income exceeds Rs. 2,500,000 but does not exceed Rs 4,000,000	Rs 344500 + 25% of the amount exceeding Rs 250,0000
7	Where the taxable income exceeds Rs 4,000,000 but does not exceed Rs 6,000,000	Rs 719,500 + 30% of the amount exceeding Rs 4,000,000
8	Where the taxable income exceeds Rs 6,000,000	Rs 1,319,500 + 35% of the amount exceeding Rs 6,000,000

AMENDMENTS IN

Income Tax Ordinance, 2001

First
Schedule,
Part I, Div
I, Para IA

S #	Taxable Income	Rate of Tax
1	Where the taxable income does not exceed Rs. 400,000	0%
2	Where the taxable income exceeds amount Rs. 400,000 but does not exceed Rs. 500,000	2% of the amount exceeding Rs 400,000
3	Where the taxable income exceeds amount Rs. 500,000 but does not exceed Rs. 750,000	Rs 2,000 + 5% of the amount exceeding Rs 500,000
4	Where the taxable income exceeds amount Rs. 750,000 but does not exceed Rs. 1,400,000	Rs 1,4500 +10% of the amount exceeding Rs 750,000
5	Where the taxable income exceeds amount Rs. 1,400,000 but does not exceed Rs. 1,500,000	Rs 79,500 +12.5% of the amount exceeding Rs 1,400,000
6	Where the taxable income exceeds amount Rs. 1,500,000 but does not exceed Rs. 1,800,000	Rs 92,000 +15% of the amount exceeding Rs 1,500,000
7	Where the taxable income exceeds amount Rs. 1800,000 but does not exceed Rs. 2,500,000	Rs 137000 + 17.5% of the amount exceeding Rs 1,800,000
8	Where the taxable income exceeds amount Rs. 2,500,000 but does not exceed Rs. 3,000,000	Rs 259,500 + 20% of the amount exceeding Rs 2,500,000
9	Where the taxable income exceeds amount Rs. 3,000,000 but does not exceed Rs. 3,500,000	Rs 359,500 +22.5% of the amount exceeding Rs 300,000
10	Where the taxable income exceeds amount Rs. 3500,000 but does not exceed Rs. 4000,000	Rs 472,000 +25% of the amount exceeding Rs 3,500,000
11	Where the taxable income exceeds amount Rs. 4,000,000 but does not exceed Rs. 7000,000	Rs 597,000 +27.5% of the amount exceeding Rs 4,000,000
12	Where the taxable income exceeds Rs. 7,000,000	Rs 14,22,000 +30% of the amount exceeding Rs 7,000,000

AMENDMENTS IN

Income Tax Ordinance, 2001

First
Schedule,
Part I, Div
IIA

Super Tax

S #	Person	Rate of Super tax
1	Banking Company	4% of income tax
2	Person, other than a banking company, having income equal to or exceeding Rs. 500 million	3% of the income

First
Schedule,
Part I, Div
IIIA
Sec. 151

Rate for Profit on Debt

S #	Profit on Debt	Rate of tax
1	Where profit on debt does not exceed Rs. 25,000,000	10%
2	Where profit on debt exceeds Rs. 25,000,000 but does not exceed Rs. 50,000,000	2,500,000 + 12.5% of the amount exceeding Rs. 25,000,000
3	Where profit on debt exceeds Rs. 50,000,000	Rs 5,625,000 + 15% of the amount exceeding Rs. 50,000,000.

First
Schedule,
Part I, Div
VII, sec 37A

Capital Gains on disposal of Securities

S #	Period	Tax Year 2015	Tax Year 2016
1	Where holding period of a security is less than twelve months	12.5%	15%
2	Where holding period of a security is twelve months or more but less than twenty four months	10%	12.5%
3	Where holding period of a security is twenty four months or more but less than four years	0%	7.5%

Provided further that a mutual fund or a collective investment scheme or a REIT scheme shall deduct Capital Gains Tax at the rates as specified below, on redemption of securities as prescribed, namely:

S #	Category	Filer	Non-Filer
1	Individual/AOP	10% for stock funds 10% for Others	17.5%
3	Company	10% for stock funds	25%

AMENDMENTS IN

Income Tax Ordinance, 2001

First
Schedule,
Part II,

RATES OF ADVANCE TAX

The rate of advance tax to be collected by the Collector of Customs under section 148 shall be-

S #	Persons	Rate for Filer	Rate for Non-Filer
1	(i) Industrial undertaking importing remelttable steel (PCT Heading 72.04) and directly reduced iron for its own use; (ii) Persons importing potassic fertilizers in pursuance of Economic Coordination Committee of the cabinet's decision No.ECC-155/12/2004 dated the 9 th December, 2004; (iii) Persons importing urea; (iv) Manufacturers covered under Notification No. S.R.O 1125(I)/2011 dated the 31 st December, 2011 and importing items covered under S.R.O 1125(I)/2011 dated the 31 st December, 2011 (v) Persons importing Gold; and (vi) Persons importing Cotton	1% of the import value as increased by custom-duty, sales tax and federal excise duty	1.5% of the imported value as increased by custom-duty, sales tax and federal excise duty
2	Persons importing pulses	2% of the import value as increased by custom-duty, sales tax and federal excise duty	3% of the import value as increased by custom-duty, sales tax and federal excise duty
3	Commercial importers covered under Notification No. S.R.O 1125(I)/2011 dated the 31 st December, 2011 and importing items covered under S.R.O 1125(I)/2011 dated the 31 st December 2011.	3% of the import value as increased by custom-duty, sales tax and federal excise duty	4.5% of the import value as increased by custom-duty, sales tax and federal excise duty
4	Ship breakers on import of ships	4.5%	6.5%
5	Industrial undertakings not covered under S. Nos. 1 to 4	5.5%	8%
6	Companies not covered under S. Nos. 1 to 5	5.5%	8%
7	Persons not covered under S. Nos. 1 to 6	6%	9%

AMENDMENTS IN

Income Tax Ordinance, 2001

Section
152
&
Part-III,
Division-II

Payment to non-residents

The amendment has proposed to enhance the rate of tax to be withheld from the payment made to a non-resident person by way of advance for the sale of goods. The bill has also bifurcated the rates of tax according to the status of the person as filer or non-filer as follows:

Person	Filer	Non-filer
Company	4% of the gross amount payable	6% of the gross amount payable
Any other case	4.5% of the gross amount payable	6.5% of the gross amount payable

Providing services (other than transport services)

Person	Filer	Non-filer
Company	8% of the gross amount payable	12% of the gross amount payable
Any other case	10% of the gross amount payable	15% of the gross amount payable

of the contract (other than a contract for the sale of goods or rendering of or providing services)

Person	Filer	Non-filer
Company	7% of the gross amount payable	10% of the gross amount payable
Any other case	7.5% of the gross amount payable	10% of the gross amount payable
Sportspersons	10% of the gross amount payable (no bifurcation of filer/non-filer in this case)	

AMENDMENTS IN

Income Tax Ordinance, 2001

Section 153 Payment to goods or services

&

Part-III,

Division-III

(other than the sale of rice, cotton-seed or edible oils)

Person	Filer	Non-filer
Company	4% of the gross amount payable	6% of the gross amount payable
Any other case	4.5% of the gross amount payable	6.5% of the gross amount payable

providing of services according to the status of the person

Person	Filer	Non-filer
Company	8% of the gross amount payable	12% of the gross amount payable
Any other case	10% of the gross amount payable	15% of the gross amount payable

execution of the contract (other than a contract for the sale of goods or rendering of or providing services)

Person	Filer	Non-filer
Company	7% of the gross amount payable	10% of the gross amount payable
Any other case	7.5% of the gross amount payable	10% of the gross amount payable
Sportspersons	10% of the gross amount payable (no bifurcation of filer/non-filer in this case)	

AMENDMENTS IN

Income Tax Ordinance, 2001

Section 156A & Part-III, Division-VIA	Petroleum products The commission/discount to the petrol pump operators on sale of petroleum products at the rate of 12% of the amount of payment in case of filers. For non-filers, tax is proposed to be increased from 12% to 15%.
Section 236 & Part-IV, Division-V	Telephone users Tax rate 14% of the amount of bill as advance tax from the subscribers of internet services in addition to the existing above charge from subscribers of mobile telephone and prepaid internet or telephone card.
Section 231A & Part-IV, Division-VI	Cash withdrawal from a bank Tax on cash withdrawal from a bank at the rate of 0.3% of the amount of cash withdrawn excess of Rs. 50,000 in case of filers. For non-filers, tax is proposed to be increased from 0.5% to 0.6%.
Section 231AA & Part-IV, Division-VIA	Advance tax on transactions in bank Collection of tax under section 231AA on the transactions in bank at the rate of 0.3% of the transaction in case of filers. For non-filers, tax is 0.6% of the transaction.
Section 235A & Part-IV, Division-XIX	Advance tax on domestic electricity consumption Relief on advance tax on domestic electricity consumption by revising downwards the amount of monthly bill from Rs. 100,000 to Rs. 75,000.
Section 236P & Part-IV, Division-XXI	Advance tax on banking transactions other than cash Advance tax on banking transactions other than cash at the rate of 0.6% of such transactions for non-filers

AMENDMENTS IN

Income Tax Ordinance, 2001

Section

236T **Rate of collection of tax by Pakistan Mercantile Exchange Limited**

&

Part-IV, Collection of tax by Pakistan Mercantile Exchange Limited by taxing the
Division-XXII sale/purchase of a future commodity contract at the rate of 0.1% and in the
case of commission on sale/purchase of future commodity contract at the rate
of 0.1%.

Section

236Q **Payment to a resident person for right to use machinery and equipment**

&

Part-IV, Tax at the rate of 10% of the amount of payment by a person for the right to
Division-XXIII use machinery and equipment.

Section

236R **Collection of advance tax on education related expenses remitted abroad**

&

Part-IV, Tax shall be collected at the rate of 5% of the amount of total education
Division-XXIV expenses remitted abroad.

AMENDMENTS IN

Income Tax Ordinance, 2001

First Brokerage and Commission

Schedule,
Part I, Div
II

The rate of collection under sub-section (1) of section 233 shall be,-

- (i) In case of filer, -
 - a) 10% of the amount of the payment, in case of advertising agents; and
 - b) 12% of the amount of payment in all other cases; and
- (ii) In case of non-filer, 15% of the amount of payment

Transport Vehicles

In Division III,
-

- (i) For paragraph "(i)" the following shall be substituted, namely:-
 "(1) In case of goods transport vehicles, tax of Rs. 2.50 per kilogram of the laden weight shall be charged for filer and Rs. 4.0 per kilogram of the laden weight for non-filer.";

- (ii) In paragraph (2), for the Table, the following shall be substituted, namely:-

S#	Capacity	Rs. Per seat p.a Filer	Rs. Per seat pa Non-Filer
(i)	Four or more persons but less than ten persons.	50	100
(ii)	Ten or more persons but less than twenty persons.	100	200
(iii)	Twenty persons or more.	300	500

- (iii) In paragraph (3),-

- a) for the word "cars", the word "vehicles" shall be substituted; and
- b) for the Table, the following shall be substituted, namely:-

S#	Engine capacity	For filers	For non-filer
1	Upto 1000cc	Rs. 800	Rs. 1,200
2	1001cc to 1199cc	Rs. 1,500	Rs. 4,000
3	1200cc to 1299cc	Rs. 1,750	Rs. 5,000
4	1300cc to 1499cc	Rs. 2,500	Rs. 7,500
5	1500cc to 1599cc	Rs. 3,750	Rs. 12,000
6	1600cc to 1999cc	Rs. 4,500	Rs. 15,000
7	2000cc & above	Rs. 10,000	Rs. 30,000

AMENDMENTS IN

Income Tax Ordinance, 2001

First
Schedule,
Part I, Div
III

Advance Tax on Purchase, Registration and Transfer of Motor Vehicles

The rate of tax under sub-section (1) and (3) of section 231B shall be as follows:-

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

The rate of tax under sub-section (2) of section 231B shall be as follows:-

Sr. No.	Engine capacity	For filers	For Non-Filer
1	Upto 850cc	-	5,000
2	851cc to 1000cc	5,000	15,000
3	1001cc to 1300cc	7,500	25,000
4	1301cc to 1600cc	12,500	65,000
5	1601cc to 1800cc	18,750	100,000
6	1801cc to 2000cc	25,000	135,000
7	2001cc to 2500cc	37,500	200,000
8	2501cc to 3000cc	50,000	270,000
9	Above 3000cc	62,500	300,000

Provided that the rate of tax to be collected shall be reduced by 10% each year from the date of first registration in Pakistan

In Division XX, for the Table, the following shall be substituted, namely

Sr. No.	Type of Ticket	Rate
1	First/Executive Class	Rs. 16,000 per person
2	Others excluding Economy	Rs. 12,000 per person
3	Economy	0

AMENDMENTS IN

Income Tax Ordinance, 2001

- | | |
|-------------------------------------|---|
| Second Schedule
Part I Clause 61 | The bill proposed that any donation paid to “The Indus Hospital, Karachi” shall be exempt from tax |
| Part I Clause 66 | The bill proposed that the any income of “The Indus Hospital, Karachi” shall exempt from tax |
| Part I Clause 99 | The provision is proposed to be inserted that profit and gains on sale of immovable property to a Developmental REIT Scheme with the object of development and construction of residential buildings shall be exempted upto June 30, 2020. |
| Part I Clause 126A | The bill seeks to proposed that the income derived by China Overseas ports Holding Company Limited from Gwadar port operations for a period of 23 years with effect from February 06, 2007. |
| Part I Clause 126I | A new clause is proposed that profits and gains are exempt from tax that derived by a taxpayer, from an industrial undertaking set up by 31st day of December, 2016 and engaged in the manufacture of plant, machinery, equipment and items with dedicated use (no multiple uses) for generation of renewable energy from sources like solar and wind, for a period of five years beginning from first day of July, 2015 |
| Part I Clause 126J | This clause is proposed that Profits and gains are exempt from tax that derived by a taxpayer, from an industrial undertaking set up between 1st day of July, 2015 and 30th day of June, 2016 engaged in operating warehousing or cold chain facilities for storage of agriculture produce for a period of three years beginning with the month in which the industrial undertaking is set up or commercial operations are commenced, whichever is later. |

AMENDMENTS IN

Income Tax Ordinance, 2001

- Part I Clause 126L This clause is proposed that profits and gains are exempt from income tax that derived by a taxpayer, from a manufacturing unit set up in Khyber Pukhtunkhwa Province between 1st day of July, 2015 and 30th day of June, 2018 for a period of five years beginning with the month in which the industrial undertaking is set up or commercial production is commenced, whichever is later. Provided that exemption under this clause shall be admissible where:
- (a) the manufacturing unit is setup between the first day of July, 2015 and 30th day of June, 2018, both days inclusive; and 105
 - (b) the manufacturing unit is not established by the splitting up or reconstruction or reconstitution of an undertaking already in existence or by transfer of machinery or plant from an undertaking established in Pakistan at any time before 1st July 2015.
- Part I Clause 126M The bill seeks to introduce new exemption clause whereby Profits and gains are exempt that derived by a taxpayer from a transmission line project set up in Pakistan on or after the 1st day of July, 2015. The exemption under this clause shall apply to such project which is:
- (a) owned and managed by a company formed for operating the said project and registered under the Companies Ordinance, 1984 (XLVII of 1984), and having its registered office in Pakistan;
 - (b) not formed by the splitting up, or the reconstruction or reconstitution, of a business already in existence or by transfer to a new business of any machinery or plant used in a business which was being carried on in Pakistan at any time before the commencement of the new business; and
 - (c) owned by a company fifty per cent of whose shares are not held by the Federal Government or Provincial Government or a Local Government
- Part I Clause 141 It is proposed that profit and gains are exempt from tax that derived by LNG Terminal Operators and Terminal Owners for a period of five years beginning from the date when commercial operations are commenced.

AMENDMENTS IN

Income Tax Ordinance, 2001

Part I Clause 142 A new clause is introduced whereby income from social security contributions derived by Balochistan Employees' Social Security Institution, Employees' Social Security Institution Khyber Pakhtunkhwa, Punjab Employees' Social Security Institution and Sindh Employees' Social Security Institution are exempt from total income

Explanation.- For the removal of doubt, it is clarified that all incomes other than social security contributions shall not be exempt.

Part II Clause 28B The bill seeks to introduce lower rate of withholding tax rate for exchange companies. The rate of tax shall be 0.15% under section 231A on cash withdrawal by an exchange company, duly licensed and authorized by the State Bank of Pakistan, exclusively dedicated for its authorized business related transactions, subject to the condition that a certificate issued by the concerned Commissioner Inland Revenue for a financial year mentioning details and particulars of its Bank Account being used entirely for business transactions is provided.

Part IV Clause 11A It is proposed that provision of section 113, regarding minimum tax, shall not apply:

(xviii) Companies, qualifying for exemption under clause (132B) of Part-I of this Schedule, in respect of receipts from a coal mining project in Sindh, supplying coal exclusively to power generation projects.

(xix) LNG Terminal Operators and LNG Terminal Owners.

(xx) Taxpayers located in the most affected and moderately affected areas of Khyber Pakhtunkhwa, FATA and PATA for tax year 2010, 2011 and 2012 excluding manufacturers and suppliers of cement, sugar, beverages and cigarettes.

(xxi) Rice Mills for the Tax Year 2015.

(xxii) Taxpayers qualifying for exemption under clauses (126I) of Part-I of this Schedule in respect of income from manufacture of equipment with dedicated use for generation of renewable energy.

(xxiii) Taxpayers qualifying for exemption under clauses (126J) of Part-I of this Schedule in respect of income from operating warehousing or cold chain facilities for storage of agriculture produce.

Part IV Clause
11D

(xxiv) Taxpayers qualifying for exemption under clauses (126K) of Part-I of this Schedule in respect of income from operating halal meat production, during the period mentioned in clause (126K).

(xxv) Taxpayers qualifying for exemption under clauses (126L) of Part-I of this Schedule in respect of income from a manufacturing unit set up in Khyber Pukhtunkhwa Province between 1st day of July, 2015 and 30th day of June, 2018.

A new clause is proposed whereby the provisions of section 113C (Alternative Corporate Tax) shall not apply to LNG Terminal Operators and LNG Terminal Owners.



AMENDMENTS IN

Sales Tax Act, 1990

2 (1) “Active Taxpayer” defined as:

This new insertion defines active taxpayer as following:
a registered person other than blacklisted person or whose registration is suspended or is blocked in terms of Section 21, who fails to file return by due date for two consecutive tax periods, or who fails to file timely income tax return under section 114 or statement under section 115 of Income Tax Ordinance and fails to file two consecutive monthly or an annual withholding tax statement under section 165 of the Income Tax Ordinance, 2001.

2 (5AB) Definition of “Cottage Industry”

This amendment has sought to raise utility (electricity, gas and telephone) bills limit for an enterprise to be “Cottage Industry” to Rs. 800,000 from Rs. 700,000 during the last twelve months ending any tax period.

2 (28) Retailer

This amendment dropped consideration of total turnover for registering importer-cum-retailer for sales tax under section 14 of Sales Tax Act, 1990

2 [33 (d)] Supply” or “Supply Chain”

New sub-clause inserted to expand definition of “Supply” or “Supply Chain” to include transfer/delivery of goods held by a manufacturer to its owner or latter’s nominee.

AMENDMENTS IN

Sales Tax Act, 1990

3 (1A) Additional sales tax on supply to unregistered person

Amendment seeks to charge additional sales tax on supply to unregistered person at doubled rate of 2 % from 1% last year.

3 (2) (b) Federal Government empowered

Federal Government is empowered to determine manner and rate of sales tax on any taxable goods.

6 (1) Recovery Procedures

In absence of specific provisions recovery procedures under Customs Act, 1969 to apply besides those for collection, payment and enforcement of sales tax.

7 (2) (ii) Input tax credit/adjustment:

Input tax credit / adjustment further permitted on imports which are provisionally assessed to duties under section 81 of Customs Act, 1969.

8 (1) Tax credit not allowed

(h) Input tax credit / adjustment also permitted on pre-fabricated buildings.

The following sub-clauses has been added which do not allow tax credit:

(j) Services in respect of which input tax adjustment is barred under the respective provincial sales tax law;

(k) Import or purchase of agricultural machinery / equipment subject to 7% sales tax under Eight Schedule to the Act; and

(l) From the date to be notified by the Board, input tax credit for such goods and services which are not declared by the supplier at time of filing his return.

AMENDMENTS IN

Sales Tax Act, 1990

13 (2) (a) **Absolute tax exemption powers withdrawn**

Absolute tax exemption powers of the Federal Government and the Board have been withdrawn. Now only Federal Government, in pursuance to approval of Economic Co-ordination Committee of Cabinet, grant tax exemption under certain prescribed circumstances like national security, national food security in emergency situations, natural disaster, implementation of bilateral and multilateral agreements, etc.

13 (6) The Federal Government shall place before the National Assembly in the financial year all exemptions notifications issued.

13 (7) Any notifications shall, unless earlier rescinded, shall stand rescinded on expiry of the financial year in which these were issued.

14 (1) **Registration**

The amendment obligates mandatory registration of suppliers for sales tax under section 14 by including registration of those making zero-rated supplies falling in any of following categories:

- (a) A manufacturer who is not running a cottage industry;
- (b) A retailer who is liable to pay sales tax under the Act or rules there under, except such retailer who is required to pay sales tax through his electricity bill under sub-section (9) of section 3;
- (c) An importer;
- (d) An exporter who intends to obtain sales tax refund against his zero-rated supplies;
- (e) A wholesaler, dealer or distributor; and
- (f) A person who is required, under any other federal law or Provincial law, to be registered for the purpose of any duty or tax collected or paid as if it were a levy of sales tax to be collected under the Act.

AMENDMENTS IN

Sales Tax Act, 1990

21A Active Taxpayers List

By inserting this new sub-section, Board is authorized to keep Active Taxpayers List under prescribed rules, which may provide for restrictions and limitations to be imposed on a person ceasing to be an active tax payer. Active Taxpayer also defined in Finance Bill, 2015 under section 2 (1) of the Sales Tax Act, 1990.

25 (3) Correction of mistake in Section 25 (3)

The mistake is corrected by omitting Section 36 of the Act from Section 25 (3) as it was omitted vide Finance Act, 2012 but was not removed from Section 25(3), reference to section 36 “Recovery of tax not levied or short-levied or erroneously refunded” is omitted.

32A Special Audit Panels

32A (b) (1) Section 32A has been substituted which previously stipulated audit of registered persons by a chartered accountant or a firm of chartered accountants or a cost and management accountant to be appointed by the Board or Commissioner. New section now inducts officer or officers of Inland Revenue in audit panel besides.

Now only Board will maintain a panel of auditors comprising two or more members from following:

- (a) An officer or officers of Inland Revenue;
- (b) A firm of chartered accountants as defined under the Chartered Accountants Ordinance, 1961;
- (c) A firm of cost and management accountants as defined under the Cost and Management Accountants Act, 1966; or
- (d) Any other person as directed by the Board.

The panel shall to conduct audit of a registered person including audit of refund claims and forensic audit. The Board, where it considers appropriate, will get such audit conducted jointly with similar audits being conducted by provincial administrations of sales tax on services. The chairman of a panel of auditors shall be an officer of Inland Revenue.

AMENDMENTS IN

Sales Tax Act, 1990

33 Offences and penalties

This amendment seeks to curtail penalty period on offences and penalties: i.e. for availing reduced penalty, respectively of Rs. 100 per day and Rs. 500 per day, time limit for delayed filing of return and belated payment of tax due has been reduced to ten days from fifteen.

40C Electronic monitoring of registered persons

The amendment incorporated to help in capturing information through machine readable barcodes. For electronic monitoring of registered persons and taxable goods under section 40C affixing of barcodes is made essential. Registered persons are required to acquire stamps, bar codes, etc. from a licensee, appointed by the Board at price approved by it.

45A Summoning of records by outsiders

This amendment empowers the outsiders to request the Board to summon the records of any organization or individual. Previously, Board and Commissioner could summon records by its own motion only. Now records could be called otherwise also, perhaps on advice of others.

56A Agreement for exchange of information

(1) This new sub-section authorizes Federal Government to enter into bilateral or multilateral agreements with provincial governments or with foreign governments for exchange of information regarding sales tax imposed under this Act or other law of Pakistan and under corresponding laws of foreign countries.

(2) Also, Provisions of section 107 of Income Tax Ordinance, 2001 now apply to provisions of this section, with or without changes when needed.

AMENDMENTS IN

Sales Tax Act, 1990

56B Disclosure of information by a public servant
(1) & (2)

The amendment focuses on confidentiality of secret, important, strategic information. That's why a public servant is prohibited to disclose information gathered under this Act, or under bilateral/multilateral/tax information exchange agreement. Only few exceptions are allowed for disclosure as stated in section 216 of Income Tax Ordinance, 2001 which shall apply to provisions of this section.

56C Prize schemes to promote tax culture

Prize scheme is introduced to promote tax culture. The Board is empowered to prescribe prize schemes to encourage general public to make purchases from registered persons issuing tax invoices.

72D Reward to "Whistleblowers"

(1) Board may sanction reward to whistleblowers who give valuable new information regarding concealment or evasion of tax, tax fraud, corruption or misconduct, to competent authority which information is not in public records and not known to the Board.

(2) The Board may prescribe the procedure in this behalf and also specify the apportionment of reward sanctioned under this section.

(3) Board has authority to reject any reward claim by the whistleblower if:

- (a) the information provided is of no value;
- (b) the Board already had the information;
- (c) the information was available in public records; or
- (d) no collection of taxes is made from the information provided.

(4) Definition of "Whistleblower"

The new clause defines the "Whistleblower" as under:

"A person who reports concealment or evasion of sales tax and tax

fraud leading to detection or collection of taxes, fraud, corruption or misconduct, to the competent authority having power to take action against the person or a sales tax authority committing fraud, corruption, misconduct, or involved in concealment or evasion of taxes.”



AMENDMENTS IN

Customs Act IV, 1969

Section 19(1)	<p>General Power to exempt from custom duties.</p> <p>Absolute powers of Federal Government to grant exemption from customs duties restricted pursuant to approval of the Economic Coordination Committee of the Cabinet.</p>
Section 19(4)	<p>The Federal Government shall place before the National Assembly all notifications issued under this section in a financial year.</p>
Section 19(5)	<p>Any notification issued after the promulgation of the Finance Act, 2015 under sub-section (1) shall, if not earlier rescinded, stand rescinded on the expiry of the financial year in which it was issued.</p>
Section 20	<p>Board's power to grant exemption from duty in exceptional circumstances.(Omitted)</p>
Section 32(3)	<p>False statement, error etc.</p> <p>Where, by reason of any inadvertence, error or misconstruction, any duty or charge has not been levied or has been short-levied or has been erroneously refunded, the person liable to pay any amount on that account shall be served with a notice within [three years] of the relevant date requiring him to show cause why he should not pay the amount specified in the notice.</p> <p>Provided that, if the recoverable amount in a case is less than twenty thousand rupees, the Customs authorities shall not initiate the aforesaid action.</p>
Section 79(1)	<p>Declaration and assessment for home consumption or warehousing</p> <p>In order to get full declaration of goods under transshipment at the port of departure.</p> <p>In case of transshipment, assessment and payment of duties and other charges shall be at the port of destination.</p>

AMENDMENTS IN

Customs Act IV, 1969

Section 121(1)	Transshipment of goods without payment of duty To provide a legal cover to authorization of Transshipment Permit (TP) by Customs computerized system.
Section 123(2)	Entry, etc., of transshipped goods To give legal cover to the transshipment of goods to upcountry stations from off-dock terminals.
Section 156(1)	Punishment for offences Seeks to add sub serial number (ii) to serial number 1 of the table under section 156(1) to implement the requirement of placement of invoice and packing list inside the import container.
Section 156(1)64	To cover offences of misdeclaration, illegal removal and concealment in case of transit goods.

AMENDMENTS IN

Federal Excise Act, 2005

Section 16 (2) (5)	Exemption The proposed amendment seeks to insert conditions that while notify any exemption, the federal government may pursuant to the approval to the Economic Coordination Committee of Cabinet, whenever circumstances exist to take immediate action for the purposes of national security, natural disaster, national food security in emergency situation, 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.
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It is also proposed that the Federal Government shall place before the National Assembly all notifications issued under this section in year.

AMENDMENTS IN

Federal Excise Act, 2005

Section 42D **Reward to whistleblowers**

A new section is proposed whereby if a person (whistleblower) can win the reward if said person reports concealment or evasion of duty leading to detection or collection of duty, fraud corruption or misconduct to the competent authority having power to take action against the person or federal excise authority committing fraud corruption, misconduct or involved in concealment or evasion of duty.

Section 46 (4) **Departmental audit**

A new sub section is proposed that the Board may appoint as many special audit panels as may be necessary, comprising two or more members from the following:

- (a) An officer or officers of Inland Revenue;
- (b) A firm of Chartered Accountants
- (c) A firm of Cost and Management Accountants
- (d) Any other person as directed by the Board, to conduct audit

It is also proposed that above person shall conduct audit including audit of refund claims and forensic audit and the scope of such audit shall be determined by the Board or the Commissioner Inland Revenue on a case-to-case basis. It is also proposed that the Board may, where it considers appropriate, also get such audit conducted jointly with similar audits being conducted by provincial administrations of sales tax on services.

Section 47A **Agreements for the exchange of information**

A new section is proposed whereby the Federal Government may enter into bilateral or multilateral agreements with provincial governments or with governments of foreign countries for the exchange of information, including electronic exchange of information, with respect to excise duty imposed under this Act or any other law of Pakistan, or under the corresponding laws of that country and may, by notification in the official Gazette, make such provisions as may be necessary for implementing such agreements

AMENDMENTS IN Federal Excise Act, 2005

1st
Schedule
Section 3

EXCISABLE GOODS

S#	Description of goods	Heading	Rate of duty
4	Aerated waters	2201.1020	12% of retail price
5	Aerated waters, containing added sugar or other sweetening matter or flavored	2202.1010	12% of retail price
6	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	Respective Headings	12% of retail price
9	Locally produced cigarettes if their on-pack printed retail price exceeds rupees three thousand three hundred and fifty per thousand cigarettes	24.02	Rupees three thousand and thirty per thousand cigarettes
10	Locally produced cigarettes if their on pack printed retail price does not exceed rupees three thousand three hundred and fifty per thousand cigarettes	24.02	Rupees one thousand three hundred and twenty per thousand cigarettes
56	Filter rod for cigarettes	5502.0090	Rupee 0.75 per filter rod

3rd
Schedule
Sec16(1)

I Goods - Conditional exemptions

S#	Description of goods	Heading
18	White cement	25.23
19	Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars of cylinder capacity exceeding 850cc.	87.03

3rd
Schedule
Sec16(1)

Services - Conditional exemptions

S#	Description of Services	Heading
9	Services provided or rendered in respect of travel by air of passengers on "socio-economic routes", which means the shortest part of journeys starting from or ending at an airport located in Makran coastal region, FATA, Azad Jammu and Kashmir, Gilgit- Baltistan or Chitral	98.03
10	Services provided or rendered in respect of travel by air of passengers on international journeys from Pakistan to: (a) Hajj passengers; (b) Diplomats; and (c) Supernumerary crew	9803.1000
11	Advertisements in newspapers and periodicals	9802.4000
12	Services provided or rendered by banking companies and nonbanking financial companies in respect of Hajj and Umrahcheque book, insurance, Musharika and Modaraba financing and utility bill collection.	98.13

