Tax Memorandum 2013

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TAX MEMORANDUM
FINANCE BILL 2013

This memorandum summarises important changes proposed in the Finance Bill 2013 relating to Income Tax, Sales Tax, Federal Excise Duty and Customs Duty. For considering precise impact of a particular change, reference should be made to the specific wordings in the relevant statute.

All changes through the Finance Bill 2013 are effective July 1, 2013, except for amendments in the First Schedule to the Customs Act, 1969 and certain amendments (identified in the memorandum) in the Sales Tax Act, 1990 and Federal Excise Act, 2005 which are effective from June 13, 2013. Effective date of amendments through various notifications are also identified in the memorandum.

The proposals introduced in the Bill are to be approved by the National Assembly, therefore, should not generally be acted upon without obtaining appropriate advice.

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

June 13, 2013

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BUDGET AT A GLANCE

BUDGET FINANCIALS

The following table sets out the Key Budget Financials

	2013-2014		2012-2013	
	Rs in Billion	***%***	***Rs in Billion***	***%***
Tax revenue	2,598		2,504	
Non-tax revenue	822		730	
Gross revenue receipts	3,420	100	3,234	100
Less: Transfer to Provinces	(1,503)	44	(1,460)	45
Net revenue receipts	1,917	56	1,774	55
Expenditure				
- Current expenditure	2,829		2,396	
- Development expenditure	762		564	
	3,591	105	2,960	92
Deficit	**(1,674)**	**49**	**(1,186)**	**37**
- Domestic debts non-bank	507		487	
- Domestic debts banks	975		484	
- Foreign debt	169		135	
- Surplus from provinces	23		80	
	1,674		**1,186**	

INCOME TAX

TAXATION OF DIVIDEND INCOME OF CORPORATE TAXPAYERS
[Section 8]

Presently dividend income of a corporate taxpayer is excluded from the ambit of Final Tax Regime (FTR) of section 8 read with section 169 and is subject to tax at the rate of 10 per cent as a separate block of income. It is proposed to bring the dividend income of corporate taxpayer under the FTR of section 8 read with section 169 as was the case prior to July 1, 2007. However, dividend income of a corporate taxpayer will continue to be taxed at the rate of 10 per cent.

SET OFF OF LOSSES
[Section 56]

Presently loss under any head of income for the year could be set off against income under any other head for the year. It is now proposed that such loss shall not be available for set off against income under the head 'Salary' for that year.

PERSON - DEFINITION
[Section 80]

The definition of "Company" has been enlarged to include:

- A "non-profit organization"; and
- An "entity" or a "body of persons" established or constituted by or under any law for the time being in force.

In addition to cooperative and finance societies, all other societies will now be treated as company.

UNEXPLAINED INCOME OR ASSETS
[Section 111]

Agricultural income can be taken into account in explaining the source and nature of an asset or expenditure only to the extent of the amount worked back on the basis of agricultural income tax paid by a person under the relevant provincial laws.

MINIMUM TAX
[Section 113]

The minimum tax payable by a resident company, individual or Association of Persons (AOPs), has been increased from 0.5 per cent to 1 per cent of their turnover.

It is proposed that in addition to corporate taxpayers, henceforth non-salaried individuals and AOPs will also be entitled to adjust minimum tax paid for the year against the tax liability (other than minimum tax) for the subsequent five tax years.

TAX ON INCOME OF CERTAIN PERSONS / MINIMUM TAX ON BUILDERS
[Sections 113A and 113B]

Presently, retailers being individuals or AOPs having turnover upto Rs 5 million or more for any tax year, could opt to pay final tax which scheme of taxation is proposed to be withdrawn. Taxation of retailers is now inter alia dealt in section 236H.

Under the substituted sections, minimum tax is proposed at the rate of Rs 25 per square foot, as per the construction or site plan approved, on persons deriving income from the business of construction and sale of residential, commercial or other buildings.

A similar levy of minimum tax is proposed at the rate of Rs 50 per square yard, as per the layout or site plan approved, on persons deriving income from the business of land developers from sale of residential, commercial or other plots.

This minimum tax shall be paid on the basis of total number of square feet / yards sold or booked for sale during the year.

RETURN OF INCOME
[Section 114]

It is proposed to require the following to also file a return of income:

- persons having commercial or industrial connections of electricity where the amount of annual bill exceeds Rs 500,000; presently the threshold is annual bill exceeding Rs 1,000,000.

- persons registered with any Chamber of Commerce and Industry or any trade or business association or any market committee or any professional body including Pakistan Engineering Council, Pakistan Medical and Dental Council, Pakistan Bar Council or any Provincial Bar Council, Institute of Chartered Accountants of Pakistan or Institute of Cost and Management Accountants of Pakistan.

- individuals having income under the head 'Income from Business' in excess of Rs 300,000 but not exceeding Rs 400,000 in a tax year.

Presently, the Commissioner has to allow time of at least one month or more to a person who is issued a notice to furnish his return of income. It is proposed to now empower the Commissioner to require furnishing of the return within a period of less than 30 days.

It is also proposed that the written approval of the Commissioner for revising the return will have to be filed with revised return of income.

PERSONS NOT REQUIRED TO FURNISH A RETURN OF INCOME
[Sections 115 and 118]

Presently, a taxpayer whose entire income in a tax year consists of income chargeable under the head 'Salary' is not required to file his return of income, if the employer has filed related annual statement of deduction of income tax from salary, provided his salary income for the tax year does not exceed Rs 500,000. The relief is proposed to be withdrawn and consequently such taxpayers are required to file return of income.

The requirement of electronic filing of return by the salaried individual having salary income of Rs 500,000 or more remains applicable.

WEALTH STATEMENT
[Section 116]

It is proposed to require every resident taxpayer being an individual filing return of income or statement of Final Tax to file a wealth statement irrespective of any threshold of income or tax paid.

It is also proposed that a revised wealth statement must be accompanied with revised reconciliation of wealth statement and reasons for revision thereof.

INVESTMENT TAX ON INCOME
[Section 120A]

It is proposed to withdraw power of Federal Board of Revenue (FBR) to make investment tax schemes.

PROVISIONAL ASSESSMENT
[Section 122C]

Presently, the provisional assessment cannot be enforced, if a return of income is filed within 60 days from date of service of such provisional assessment order. It is now proposed to restrict such period to 45 days.

APPOINTMENT OF THE APPELLATE TRIBUNAL
[Section 130]

It is proposed to allow induction of officers of Inland Revenue Service, being a law graduate, having at least 15 years of service in BS-17 and above, as Judicial members of the Tribunal.

SALARY
[Section 149]

The responsibility for withholding tax from salary has now been extended to any "person responsible for" paying salary. Previously, it was only the "employer" who was responsible for the withholding.

It is now proposed not to consider the following, whilst determining tax to be withheld from salary payments:

a) Charitable donations;
b) Tax credit for investment in shares and insurance;
c) Contribution to an "Approved Pension Fund"; and
d) Profit paid on loan utilized for construction of a new house or acquisition of a house.

As a result, the salaried individuals will claim the above tax credits in their returns, which may result in refund.

PAYMENTS TO NON-RESIDENTS
[Section 152]

It is proposed that definition of "prescribed person" used in sub-section (7) of section 153 would apply for the purpose of sub-section (2A) of section 152 in respect of payments to a Permanent Establishment of a non-resident for sale of goods, rendering of or providing services and execution of contracts.

PAYMENTS FOR GOODS, SERVICES AND CONTRACTS
[Section 153]

A person registered under the Sales Tax Act, 1990 (Act), is now included in the definition of a "prescribed person" responsible for withholding tax on payments for sale of goods, services and execution of contracts.

PAYMENTS TO TRADERS AND DISTRIBUTORS
[Section 153A]

This section required manufacturers to collect tax from traders and distributors. The operations of this section was suspended and it is now proposed to be omitted, however, similar provision with a limited scope, is being introduced in section 236G.

INCOME FROM PROPERTY
[Section 155]

The "prescribed person" for the purposes of withholding tax from payment of rent will now also include the following:

- charitable institutions.
- private educational institutions, boutiques, beauty parlours, hospitals, clinics or maternity homes.
- individual or AOPs paying gross rent of Rs 1,500,000 and above in a year.

CERTIFICATE OF COLLECTION OR DEDUCTION OF TAX
[Section 164]

Presently, a certificate issued by a withholding agent for tax collected or deducted is treated sufficient evidence of tax suffered for claiming credit thereof under section 168. This facilitation is proposed to be withdrawn.

The law envisages furnishing of copies of challans / receipts of payment with the return of income. It appears that such evidences will be verified by the department for allowing the credit for tax collected or deducted claimed in the return of income.

STATEMENTS
[Section 165]

It is proposed to clarify that the provisions of section 165 shall override all conflicting provisions in following laws restricting certain divulgence of information:

- Protection of Economic Reforms Act, 1992
- Banking Companies Ordinance, 1962
- Foreign Exchange Regulations Act, 1947
- Regulations made under the State Bank of Pakistan Act, 1956.

Further, it is proposed to remove the requirement for including particulars of salary paid, where the income exceeds Rs 300,000 but does not exceed Rs 350,000 from annual statement of tax deduction from salary.

FURNISHING OF INFORMATION BY BANKS
[Section 165A]

It is proposed that every banking company shall make arrangements to provide following to the FBR:

- online access to its central database containing details of its account holders and all transactions made in their accounts;
- list containing particulars of deposits aggregating Rs 1,000,000 or more made during the preceding calendar month;
- list of payments made by any person against bills raised in respect of a credit card issued to that person, aggregating Rs 100,000 or more during the preceding calendar month;
- consolidated list of loans written off exceeding Rs 1,000,000 during a calendar year; and
- a copy of each Currency Transactions Report and Suspicious Transactions Report generated and submitted by it to the Financial Monitoring Unit under the Anti-Money Laundering Act, 2010.

Further, each banking company shall nominate a senior officer at the head office to coordinate with the FBR for provision of any additional information and documents as may be required by the FBR. The banking companies and their officers shall not be liable to any civil, criminal or disciplinary proceedings against them for furnishing the requisite information. The information collected shall only be used for tax purposes and kept confidential.

This provision shall be applicable notwithstanding anything contained in any law for the time being in force including but not limited to the Banking Companies Ordinance, 1962, the Protection of Economic Reforms Act, 1992, the Foreign Exchange Regulation Act, 1947 and the regulations made under the State Bank of Pakistan Act, 1956.

This provision is likely to be a source of great concern as the tax authorities have been given wide powers to probe into banking transactions in general. Also, the effect of this provision overriding other important legislations will also likely lead to litigation and, therefore, the provision needs to be revisited and suitably tailored so as to be enforced judiciously and fairly.

ADDITIONAL PAYMENT FOR DELAYED REFUNDS
[Section 171]

It is proposed to clarify that for the purposes of compensation, refund becomes due from the date of the refund order, made on an application under sub-section (1) of section 170, and not from the date of assessment of income treated to have been made by the Commissioner under section 120.

REPRESENTATIVES
[Section 172]

Any person in Pakistan can be regarded a representative of a non-resident, inter alia where such person has any business connection with the non-resident person. An explanation is proposed to be inserted whereby the expression “business connection” would include transfer of asset or business in Pakistan by a non-resident. It appears that the Commissioner is now empowered to recover tax liabilities of the non-resident from a person who has purchased assets or business from the non-resident in Pakistan. This amendment is similar to the one contained in the Indian Income Tax Act, 1961.

AUDIT
[Sections 177 and 214C]

It is proposed to clarify that the Commissioner’s power to select and conduct audit of a person is independent of powers conferred on the FBR under section 214C for selection of a person for tax audit.

Apparently, the proposed amendment is aimed to nullify the effect of a recent decision of Lahore High Court holding that powers to select taxpayers’ cases for audit only vested with FBR. Similar amendments are also proposed in The Act and Federal Excise Act, 2005 (FED Act).

TAXPAYERS REGISTRATION
[Section 181]

It is proposed that the FBR may allow the use of Computerized National Identity Card as an alternative to National Tax Number (NTN).

DISPLAYING OF NTN
[Section 181C]

Presently, NTN is required to be displayed at a conspicuous place at every place of business by a taxpayer under Rule 83(1) of the Income Tax Rules, 2002. It is now proposed to be included in the Ordinance.

It is also proposed to levy penalty of Rs 5,000 under section 182 for non compliance with this section.

OFFENCES AND PENALTIES
[Section 182]

The following changes in penalties are proposed:

Offence	***Existing penalty***	***Proposed penalty***
Where any person fails to furnish a return of income as required under section 114 within the due date.	0.1% of the tax payable for each day of default subject to a minimum penalty of Rs 5,000 and a maximum penalty of 25% of the tax payable in respect of that tax year.	0.1% of the tax payable for each day of default subject to a minimum penalty of Rs 20,000 and a maximum penalty of 50% of the tax payable in respect of that tax year.
Where any person fails to furnish a statement as required under section 115, 165 or 165A within the due date	0.1% of the tax payable for each day of default subject to a minimum penalty of Rs 5,000 and a maximum penalty of 25% of the tax payable in respect of that tax year.	Rs 2,500 for each day of default subject to a minimum penalty of Rs 50,000.
Where a person fails to furnish wealth statement or wealth reconciliation statement.	0.1% of the tax payable for each day of default subject to a minimum penalty of Rs 5,000 and a maximum penalty of 25% of the tax payable in respect of that tax year.	Rs 100 for each day of default.

Offence	Existing penalty	Proposed penalty
Where a taxpayer who, without any reasonable cause, in non compliance with the provisions of section 177:		
(a) fails to produce the record or documents on receipt of first notice;	Rs 5,000	Rs 25,000.
(b) fails to produce the records or documents on receipt of second notice;	Rs 10,000	Rs 50,000
(c) fails to produce the record or documents on receipt of third notice.	Rs 50,000	Rs 100,000.
Any person who fails to furnish the information required or to comply with any other term of the notice served under section 176.	Rs 5,000 for first default and Rs 10,000 for each subsequent default.	Rs 25,000 for first default and Rs 50,000 for each subsequent default.

REWARD TO INLAND REVENUE OFFICERS AND OFFICIALS
[Section 227A]

It is proposed that the FBR may make rules for grant of reward to Inland Revenue Officers and officials for their meritorious conduct and informers providing credible information in cases involving concealment and evasion of income tax and other taxes. Such cash rewards will be given only after realisation of part or whole of the tax involved in such cases.

DIRECTORATE GENERALS OF LAW AND RESEARCH & DEVELOPMENT
[Sections 230B and 230C]

It is proposed to create new directorates within FBR relating to functions, jurisdiction and powers to be specified for “Directorate-General of Law” and “Directorate-General of Research and Development”.

COLLECTION OF TAX BY NATIONAL CLEARING COMPANY OF PAKISTAN LIMITED (NCCPL)
[Section 233AA and Division IIB of Part IV of the First Schedule]

It is proposed to enhance the scope of collection of advance tax at the rate of 10 per cent by NCCPL from margin financiers, trading financiers and lenders on providing of any margin financing, margin trading or securities lending under Securities (Leveraged Markets and Pledging) Rules, 2011 in share business.

TAX ON GOODS TRANSPORT
[Section 234]

Besides certain editorial changes, the tax paid under this section is proposed to be adjustable. Presently the tax paid on goods transport vehicles is under FTR.

COLLECTION OF ADVANCE TAX
[Sections 236D to 236J]

It is proposed to collect advance tax as follows:

Section	***Transactions / Persons subject to advance tax collection***	***Collection / withholding agent***	***Rate applicable***
236D	Persons arranging functions and gathering related to wedding, seminar, workshop, session, exhibition, concert, show, party or any other gathering for such purpose.	Owner, lease-holder, operator / manager of marriage hall, marquee, hotel, restaurant, commercial lawn, club, community place etc.	10% of total amount of bill from the person arranging the gathering.
236E	Distributor of foreign produced films, TV plays and serials	Person responsible for censoring or certifying a foreign-produced film, TV drama serial or play.	Rs 1,000,000 on film; Rs 100,000 per TV play / episode of serial.
236F	Cable operators and other electronic media	PEMRA at the time of issuance/renewal of license	Rs 7,500 to Rs 5,000,000.
236G	Distributors, dealers and wholesaler	Manufacturers or commercial importers of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam.	0.1 per cent of the gross value of sales.
236H	Retailers	Manufacturer, distributors, dealer and wholesaler or commercial importer of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam.	0.5 per cent of the gross value of sales.
236I	Educational fee/charges where annual fee exceeds Rs 200,000.	Educational institutions	5 per cent of the fee
236J	Dealers, commission agents or arhatis, etc.	Market committee or body formed under any provincial or local law.	Rs 5,000 to Rs 10,000

FIRST SCHEDULE

TAX RATES FOR AOPs AND NON-SALARIED INDIVIDUALS
[Clause (1) of Division I of Part I of First Schedule]

Currently, income of AOPs and non-salaried individuals are taxable at rates ranging from 10 per cent to 25 per cent of taxable income.

The Bill proposes to substitute the existing slab rates with the following slabs, effective July 1, 2013:

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 Rs 400,000 but does not exceed Rs 750,000	10% of the amount exceeding Rs 400,000
3	Where the taxable income exceeds Rs 750,000 but does not exceed Rs 1,500,000	Rs 35,000 + 15% of the amount exceeding Rs 750,000
4	Where the taxable income exceeds Rs 1,500,000 but does not exceed Rs 2,500,000	Rs 147,500 + 20% of the amount exceeding Rs 1,500,000
5	Where the taxable income exceeds Rs 2,500,000 but does not exceed Rs 4,000,000	Rs 347,500 + 25% of the amount exceeding Rs 2,500,000
6	Where the taxable income exceeds Rs 4,000,000 but does not exceed Rs 6,000,000	Rs 722,500 + 30% of the amount exceeding Rs 4,000,000
7	Where the taxable income exceeds Rs 6,000,000	Rs 1,322,500 + 35% of the amount exceeding Rs 6,000,000

The change in effective incidence of tax liability under the proposed amendments, when compared with existing provisions, could be demonstrated as under:

S. No.	Taxable Income (per annum)	Existing Tax Liability	Proposed Tax Liability	Tax Impact	Tax Impact in Percentage
	------------------------------------Rupees--------------------------------				
1	400,000	-	-	-	
2	700,000	30,000	30,000	-	0%
3	1,000,000	72,500	72,500	-	0%
4	1,300,000	117,500	117,500	-	0%
5	1,800,000	207,500	207,500	-	0%
6	2,000,000	247,500	247,500	-	0%
7	3,000,000	472,500	472,500	-	0%
8	4,000,000	722,500	722,500	-	0%
9	5,000,000	972,500	1,022,500	50,000	5%
10	6,000,000	1,222,500	1,322,500	100,000	8%
11	7,000,000	1,472,500	1,672,500	200,000	14%
12	8,000,000	1,722,500	2,022,500	300,000	17%
13	9,000,000	1,972,500	2,372,500	400,000	20%

TAX RATES FOR SALARIED INDIVIDUALS
[Clause (1A) of Division I of Part I of the First Schedule]

The Bill also proposes to substitute the tax rates applicable to salaried individuals effective July 1, 2013 as under:

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 Rs 400,000 but does not exceed Rs 500,000	5% of the amount exceeding Rs 400,000
3.	Where the taxable income exceeds Rs 500,000 but does not exceed Rs 800,000	Rs 5,000 + 7.5% of the amount exceeding Rs 500,000
4.	Where the taxable income exceeds Rs 800,000 but does not exceed Rs 1,300,000	Rs 27,500 + 10% of the amount exceeding Rs 800,000

S.No.	Taxable Income	Rate of tax
5.	Where the taxable income exceeds Rs 1,300,000 but does not exceed Rs 1,800,000	Rs 77,500 + 12.5% of the amount exceeding Rs 1,300,000
6.	Where the taxable income exceeds Rs 1,800,000 but does not exceed Rs 2,200,000	Rs 140,000 + 15% of the amount exceeding Rs 1,800,000
7.	Where the taxable income exceeds Rs 2,200,000 but does not exceed Rs 2,600,000	Rs 200,000 + 17.5% of the amount exceeding Rs 2,200,000
8.	Where the taxable income exceeds Rs 2,600,000 but does not exceed Rs 3,000,000	Rs 270,000 + 20% of the amount exceeding Rs 2,600,000
9.	Where the taxable income exceeds Rs 3,000,000 but does not exceed Rs 3,500,000	Rs 350,000 + 22.5% of the amount exceeding Rs 3,000,000
10.	Where the taxable income exceeds Rs 3,500,000 but does not exceed Rs 4,000,000	Rs 462,500 + 25% of the amount exceeding Rs 3,500,000
11.	Where the taxable income exceeds Rs 4,000,000 but does not exceed Rs 7,000,000	Rs 587,500 + 27.5% of the amount exceeding Rs 4,000,000
12.	Where the taxable income exceeds Rs 7,000,000	Rs 1,412,500 + 30% of the amount exceeding Rs 7,000,000

The significant changes, apart from variation in rates, are:

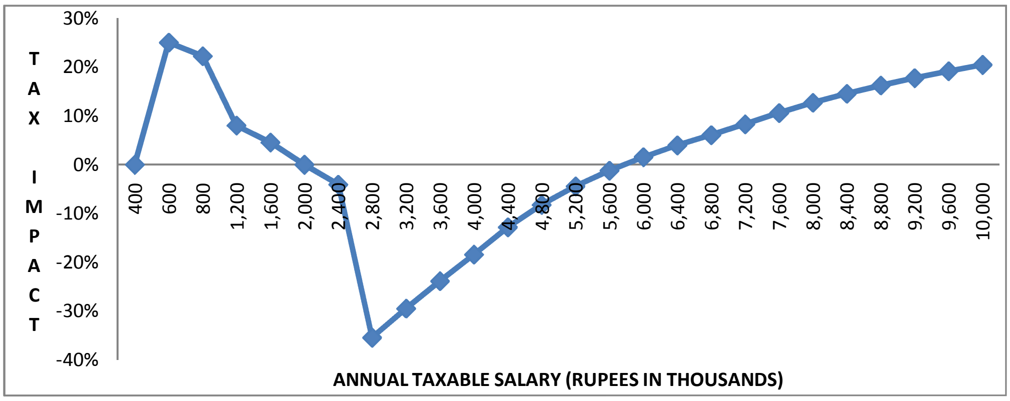
- There would be twelve slabs as against six slabs currently provided for.

- The highest rate of 30 per cent would apply on income exceeding Rs 7,000,000 per annum, whereas this income is currently taxable at the rate of 20 per cent.

Since progressive slab rates are proposed, the concept of ‘marginal relief’ introduced through Finance Act 2008 and amended through Finance Act 2009 is now proposed to be omitted.

The change in effective incidence of tax liability under the proposed amendments, when compared with existing provisions (without marginal relief), could be demonstrated as under:

S. No.	*Taxable Income (per annum)*	*Existing Tax Liability*	*Proposed Tax Liability*	*Tax Impact*	*Tax Impact in Percentage*
	----------Rupees----------				
1	400,000	-	-	-	0%
2	600,000	10,000	12,500	2,500	25%
3	800,000	22,500	27,500	5,000	22%
4	1,200,000	62,500	67,500	5,000	8%
5	1,600,000	110,000	115,000	5,000	5%
6	2,000,000	170,000	170,000	-	0%
7	2,400,000	245,000	235,000	(10,000)	(4%)
8	2,800,000	480,000	310,000	(170,000)	(35%)
9	3,200,000	560,000	395,000	(165,000)	(29%)
10	3,600,000	640,000	487,500	(152,500)	(24%)
11	4,000,000	720,000	587,500	(132,500)	(18%)
12	4,400,000	800,000	697,500	(102,500)	(13%)
13	4,800,000	880,000	807,500	(72,500)	(8%)
14	5,200,000	960,000	917,500	(42,500)	(4%)
15	5,600,000	1,040,000	1,027,500	(12,500)	(1%)
16	6,000,000	1,120,000	1,137,500	17,500	2%
17	6,400,000	1,200,000	1,247,500	47,500	4%
18	6,800,000	1,280,000	1,357,500	77,500	6%
19	7,200,000	1,360,000	1,472,500	112,500	8%
20	7,600,000	1,440,000	1,592,500	152,500	11%
21	8,000,000	1,520,000	1,712,500	192,500	13%
22	8,400,000	1,600,000	1,832,500	232,500	15%
23	8,800,000	1,680,000	1,952,500	272,500	16%
24	9,200,000	1,760,000	2,072,500	312,500	18%
25	9,600,000	1,840,000	2,192,500	352,500	19%
26	10,000,000	1,920,000	2,312,500	392,500	20%



The increase in charge for lower slab rates needs to be rationalised.

CORPORATE TAX RATE
[Division II of Part I of the First Schedule]

The Bill proposes to reduce the rate of tax on the taxable income of a company, other than a banking company, to 34 per cent from the existing rate of 35 per cent. The reduced rate is only applicable for the tax year 2014.

In the Budget Speech, the Finance Minister has proposed to gradually reduce the existing corporate tax rate to 30 per cent by providing a maximum reduction of 1 per cent each year.

INCOME FROM PROPERTY
[Division VI of Part I and Division V of Part III of the First Schedule]

The annual rental income exceeding Rs 1 million derived by individuals, AOPs and companies have now been proposed to be taxed at the following progressive rates:

Rent slabs	Individuals and AOPs	Companies
• Where the gross amount of rent exceeds Rs 1,000,000 but does not exceed Rs 2,000,000	Rs 57,500 plus 10 per cent of the gross amount of rent exceeding Rs 1,000,000	Rs 65,000 plus 10 per cent of the gross amount of rent exceeding Rs 1,000,000
• Where the gross amount of rent exceeds Rs 2,000,000 but does not exceed Rs 3,000,000	Rs 157,500 plus 12.5 per cent of the gross amount of rent exceeding Rs 2,000,000	Rs 165,000 plus 12.5 per cent of the gross amount of rent exceeding Rs 2,000,000
• Where the gross amount of rent exceeds Rs 3,000,000 but does not exceed Rs 4,000,000	Rs 282,500 plus 15 per cent of the gross amount of rent exceeding Rs 3,000,000	Rs 290,000 plus 15 per cent of the gross amount of rent exceeding Rs 3,000,000
• Where the gross amount of rent exceeds Rs 4,000,000	Rs 432,500 plus 17.5 per cent of the gross amount of rent exceeding Rs 4,000,000	Rs 440,000 plus 17.5 per cent of the gross amount of rent exceeding Rs 4,000,000

The above rates would also be applicable for withholding tax.

ADVANCE TAX ON IMPORTS
[Part II of the First Schedule]

The rates of advance tax to be collected by the Collector of Customs under section 148 are proposed to be enhanced from 5 to 5.5 per cent in case of all taxpayers excluding companies and industrial undertakings, for which the previous rate remains applicable.

WITHHOLDING TAX ON GOODS AND SERVICES
[Division III of Part III of the First Schedule]

The rates of tax to be deducted from payments for sale of goods, services and execution of contract made to all the taxpayers, except companies, are proposed to be enhanced as follows:

Sale of goods:	from 3.5 to 4 per cent
Rendering or providing of services:	from 6 to 7 per cent
Execution of contract:	from 6 to 6.5 per cent

PRIZES AND WINNINGS
[Division VI of Part III of the First Schedule]

The rate of withholding tax to be deducted on a prize on prize bond or crossword puzzle, is proposed to be enhanced from 10 to 15 per cent.

ADVANCE TAX ON MOTOR VEHICLES
[Division III of Part IV of the First Schedule]

The amount of advance tax to be collected under section 234 where the motor vehicle tax is paid on a lump sum basis, has now been prescribed as follows:

Engine Capacity		***Amount of Advance Tax Rs***
Upto 1000cc		7,500
1001cc to 1199cc		12,500
1200cc to 1299cc		17,500
1300cc to 1599cc		30,000
1600cc to 1999cc		40,000
Above 2000cc		80,000

WITHHOLDING TAX ON CASH WITHDRAWALS FROM A BANK
[Division VI of Part IV of the First Schedule]

The withholding tax rate on cash withdrawals from a bank is proposed to be enhanced from 0.2 to 0.3 per cent of the gross amount of withdrawal. The currently applicable limit of per day cash withdrawal upto Rs 50,000 not subject to such withholding, remains intact.

ADVANCE TAX ON PURCHASE OF MOTORCARS AND JEEPS
[Section 231B and Division VII of Part IV of the First Schedule]

The amounts of advance tax to be collected by the Motor Vehicle registration authority on the registration of new motorcars / jeeps are proposed to be revised as under:

Engine Capacity		***Existing Advance tax***		***Revised Advance tax***
		---------------------- Rupees ----------------------		
Upto 850cc		7,500		10,000
851cc to 1000cc		10,500		20,000
1001cc to 1300cc		16,875		30,000
1301cc to 1600cc		16,875		50,000
1601cc to 1800cc		22,500		75,000
1801cc to 2000cc		25,000		100,000
Above 2000cc		50,000		150,000

ADVANCE TAX AT THE TIME OF SALE BY AUCTION
[Section 236A and Division VIII of Part IV of the First Schedule]

The rate of advance tax to be collected by a person making sale of any property or goods by public auction has been enhanced to 10 per cent from the existing rate of 5 per cent of the gross sale price of such property or goods.

SECOND SCHEDULE

PART I – EXEMPTIONS FROM TOTAL INCOME

PERQUISITE OF FREE OR CONCESSIONAL PASSAGE
[Clause (53A) of Part I of the Second Schedule]

The perquisite of free or concessional passage provided by transporters including airlines to its employees (including the members of their households and dependants) was exempted from the Salary income vide Finance Act, 2005. This exemption is now proposed to be withdrawn.

INCOME OF UNIVERSITY OR OTHER EDUCATIONAL INSTITUTIONS
[Clause (92) of Part I of the Second Schedule]

Any income of any university or other educational institution established solely for educational purposes and not for purposes of profit, was exempt from tax under clause (86) of Part I of the Second Schedule to the repealed Income Tax Ordinance, 1979. The said exemption was continued under clause (92) of Part I of the Second Schedule to the Income Tax Ordinance, 2001 (Ordinance).

The Bill proposes to withdraw the above exemption and consequently, such universities and educational institutions will now be required to compute their taxable income and pay tax at the applicable rates.

INCOME FROM ICC CHAMPIONS TROPHY 2008
[Clause (98A) of Part I of the Second Schedule]

A specific clause was inserted in 2008 to exempt any income derived by International Cricket Council Development (International) Limited (IDI), International Cricket Council (ICC), employees, officials, agents and representatives of IDI and ICC, officials from ICC members, players, coaches, medical doctors and officials of member countries, IDI partners and media representatives, other than persons who were resident of Pakistan, from ICC Champions Trophy, 2008 which was scheduled to be hosted in Pakistan.

The above clause, being redundant, is proposed to be withdrawn.

DIVIDEND IN SPECIE
[Clause (103B) of Part I of the Second Schedule]

Tax on any dividend in specie derived in the form of shares in a Company, as defined in the Companies Ordinance, 1984 was effectively deferred in a certain manner with effect from July 1, 2010. Where such shares are disposed by the recipient, the amount representing the dividend in specie is taxed at the rate of 10 per cent in accordance with section 5, and the amount representing the difference between the consideration received and the amount taxed as dividend, is taxed under the head Capital Gains under section 37 or 37A, as the case may be.

The Bill proposes to withdraw the above concession and consequently, dividend in specie will be taxed under section 5 at the rate of 10 per cent in the tax year in which the same is received by the shareholder.

SPECIAL ECONOMIC ZONES (SEZ)
[Clause (126E) of Part I of the Second Schedule]

Since July 2009, following corporate income tax holiday had been available with regard to SEZ as announced by the Federal Government:

(a) for a period of five years for projects from the date of start of commercial operations; and

(b) for a period of ten years for developers of the Zone from the date of start of developmental activity in the SEZ.

The Bill proposes to substitute the existing clause 126E by exempting the following:

(a) the income derived by a zone enterprise as defined in the SEZ Act, 2012 for a period of ten years starting from the date the developer certifies that the zone enterprise has commenced commercial production; and

(b) for a period of ten years to a developer of a zone starting from the date of signing of the development agreement in the SEZ as announced by the Federal Government.

PART II – REDUCTION IN TAX RATES

IMPORT OF HYBRID CARS
[Clause (28) of Part II of the Second Schedule]

The Bill proposes to insert a new clause (28) in Part II of the Second Schedule providing for the reduction of tax under section 148 on import of hybrid cars as follows:

Engine Capacity		***Rate of reduction***
Upto 1200 cc		100%
1201 to 1800 cc		50%
1801 to 2500 cc		25%

PART III – REDUCTION IN TAX LIABILITY

FLYING AND SUBMARINE ALLOWANCES
[Clause (1) of Part III of the Second Schedule]

Any amount received as following allowances is presently taxed at 2.5 per cent as a separate block of income:

(a) flying allowance by pilots, flight engineers, navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority, Junior Commissioned Offices or other ranks of Pakistan Armed Forces; and

(b) submarine allowance by the officers of the Pakistan Navy.

The Bill proposes to withdraw the above concessions and consequently, these allowances will be taxed at the applicable rates.

TAX PAYABLE BY A FULL TIME TEACHER OR A RESEARCHER
[Clause (2) of Part III of the Second Schedule]

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

The above reduction in tax liability is now proposed to be withdrawn.

DISTRIBUTORS OF CIGARETTES
[Clause (7) of Part III of the Second Schedule]

Where any company engaged in the business of distribution of cigarettes manufactured in Pakistan is required to pay minimum tax on the amount representing its turnover under section 113, the amount of tax payable under the said section is reduced by eighty per cent.

The above concession is proposed to be extended to non-corporate taxpayers i.e. Individuals and AOPs, who are engaged in the business of distribution of cigarettes manufactured in Pakistan.

PART IV – EXEMPTION FROM SPECIFIC PROVISIONS

PROFIT ON DEBT
[Clause (59)(iv)(a) of Part IV of the Second Schedule]

In the case of any resident individual, no tax is required to be deducted under section 151 from income or profits paid on Defence Saving Certificates, Special Savings Certificates, Savings Accounts or Post Office Savings Accounts, or Term Finance Certificates (TFCs), where such deposit does not exceed Rs 150,000.

The Bill proposes to withdraw the above exemptions effective July 1, 2013.

INCOME FROM HAJJ OPERATIONS
[Clause (72A) of Part IV of the Second Schedule]

The following provisions are proposed to be not applicable in case of a Hajj Group Operator in respect of Hajj operations, provided that the tax has been paid at the rate of Rs 3,500 per Hajji for the tax year 2013 and Rs 5,000 per Hajji for the tax year 2014 in respect of income from Hajj operations:-

(a) Section 21(l)

Any expenditure for a transaction paid or payable under a single account head which, in aggregate, exceeds Rs 50,000 made other than by a crossed cheque drawn on a bank or by crossed bank draft or crossed pay order or any other crossed banking instrument showing transfer of amount from the business bank account of the taxpayer.

(b) Section 113

Minimum tax payable at the rate of 0.5 per cent (proposed by Finance Bill 2013 to be enhanced to 1 per cent) of the turnover from all sources of the tax year where either no tax is payable or the tax paid or payable is less than the rate of minimum tax.

(c) Section 152

Requirement for every person to withhold tax from any payment made to a non-resident person other than certain exceptions laid down in the said section.

IMPORTS BY AN INDUSTRIAL UNDERTAKING
[Clause (72B) of Part IV of the Second Schedule]

Under section 148, the Collector of Customs is required to collect advance tax from every importer of goods on the value of goods at the applicable rate, which is ordinarily treated as a final tax on the income of the importer arising from the imports except inter alia in the case of import of raw material, plant, machinery, equipment and parts by an industrial undertaking for its own use.

The Bill proposes to insert a new clause in Part IV of the Second Schedule whereby the provisions of section 148 will not apply to an industrial undertaking, if the tax liability for the current tax year, on the basis of determined tax liability for any of the preceding two tax years, whichever is higher, has been paid and a certificate to this effect is issued by the concerned Commissioner.

THIRD SCHEDULE

Part II – Initial Allowance

Currently 'eligible depreciable assets' are entitled to initial allowance at the rate of 50 per cent for plant and machinery and 25 per cent for buildings.

The Bill now proposes to reduce the rate of initial allowance to 25 per cent in the case of plant and machinery.

SEVENTH SCHEDULE

[Rule 6 of Seventh Schedule]

The Bill proposes to reduce the rate of tax from 35 per cent to 25 per cent on dividend received from Money Market Funds and Income Funds for tax year 2014 and onwards.