



**BUDGET
MEMORANDUM
2012**

ILYAS SAEED & Co
Chartered Accountants

Disclaimer:

This Memorandum has been prepared as a general guide for the benefits of our clients and is available to other interested persons. This is not an exhaustive commentary and only lays out interpretations of the significant amendments proposed by the Finance Bill 2012 and takes into consideration important aspects of the changes proposed to be made.

It is recommended that the text of the Bill and the relevant notifications / provisions, where applicable, be referred to in considering the interpretation of any provision. These comments are correct to the best of our knowledge and belief at the time of printing. It is recommended that specific professional advice should be sought before any action is taken.

This Budget Memorandum can be downloaded from our web site;
www.ilyassaeed.com

LAHORE
June 2, 2012

CONTENTS

	Page
Overview of Budget & Economy	2
Salient Features of Budget	
Income Tax	4
Sales Tax and Excise	9
Customs	11
Important Amendments;	
Income Tax Ordinance, 2001	13
Sales Tax Act, 1990	32
Federal Excise Act	38
Capital Value Tax	40
Schedule - Rates of Tax	
Salary Tax Rates	42
Individual Tax Rates	42
Company Tax Rates	43
Income from Property Tax Rates	43
Retailer Tax Rates	43
Capital Gains	44
Withholding Tax Rate Schedule	45
Withholding Tax Rates for non-resident	46

This page is intentionally left blank



OVERVIEW

Budget and Economy

The Federal Budget 2012 was announced in the National Assembly on June 1, 2012 amid roar and shouting and beating by opposition parties.

Budget was silent on many aspects and did not address the core issues faced by our economy like availability of utilities, power sector, agriculture investment and technologies, law and order situation except the expenditure to be stated for Defence without any further details.

This budget gives an impression that the government had given a perfect election year budget. No real term plan was highlighted by our finance guru in his budget speech.

Sustained economic policies coupled with socio economic stability with minimal political instabilities will see us through. There is no lack of commitment, enthusiasm and courage in our nation. All we need is to follow the right path continuously.

Let's resolve that we will work together to shape our destiny. May Allah bless us with all the courage and strength to work together for a brighter and healthy future for us, our generations to come and for ever-lasting Pakistan.

Irfan Ilyas
FCA, FCCA
Partner

This page is intentionally left blank



SALIENT FEATURES Of The Budget 2011

INCOME TAX

1. Basic exemption limit is now being raised for salaried and business individuals to Rs.400,000. The existing rate slabs are proposed to be reduced from 17 to 5.
2. The normal progressive slab rates are being introduced for the Association of Persons (AOPs). The existing slabs are proposed to be reduced to 5 from 6. Basic exemption upto the income of Rs. 400,000 is also to be provided.
3. In the case of business community, the rate of minimum tax is proposed to be reduced to 0.5% from 1% on gross turnover.
4. Advance tax @ 0.2 % is withheld on cash withdrawal from banks where such withdrawal exceeds Rs. 50,000 per day.
5. It is proposed to introduce a Taxpayer Honour Card scheme for all taxpayers who have filed tax returns and paid due taxes for the last 5 fiscal years. The holders of the card will be entitled to various privileges and benefits.
6. Capital Gain Tax (CGT) is being levied on the sale of property if it is disposed off within two years of its acquisition.
7. The changes made through the Finance (Amendment) Ordinance, 2012 are being incorporated into the statute through the Finance Bill 2012. This will provide guarantee to the capital market that the Government is committed to its sustainability and growth.
8. The limit of investment eligible for tax credit is being enhanced from 15% to 20% of the taxable income. The existing limit of investment of Rs. 500,000 in securities or insurance premium is also being increased to Rs. 1,000,000/- . The retention period of securities is also being reduced from three to one year.
9. In case of employees availing small amounts of loans from their employer, the loan upto Rs. 500,000/- is proposed to be exempt from income tax whereas the benchmark interest rate for loans above this limit shall be fixed at 10% instead of the progressively increasing rate which has reached 13%.
10. It is proposed that accumulated balance of provident fund transferred to approved pension fund should be separately marked by the Pension Fund Manager and any withdrawal representing this marked balance should be exempt from tax and be treated as if that is withdrawn from provident fund and hence tax free.

11. Income of retirement/pension funds is exempt from tax if 90% of the profit is distributed as dividend. Any payment from a provident fund is exempt from tax in the hands of recipient. The said funds be granted exemption from deduction of withholding tax.
12. Intra-group debt be exempted from withholding tax. However, the income from profit on debt will remain taxable.
13. Amounts received as monthly installment from an income payment plan invested for a period of ten years out of the accumulated balances into a pension fund, annuity or individual pension accounts as specified in the Voluntary Pension System Rules, 2005 is proposed to be exempt from tax.
14. The income of the Workers Profit Participation Fund (WPPF) is exempt under the Companies Profit (Workers Participation) Act 1968. However Income Tax Ordinance does not recognize this exemption. It is proposed that the exemption to WPPF be granted in the Income Tax Ordinance 2001.
15. Person making a payment of insurance premium or re-insurance premium to a non-resident person is required to deduct tax from the gross amount paid. It is proposed to exempt withholding tax from payment to P.E. of a Non-resident.
16. Dividend received by banks from money market funds and income funds are to be taxed progressively over a period of two years. For tax year 2013 @ 25% and for tax year 2014 and onwards @ 35%.
17. The taxpayers opting out of PTR a lower rate of tax is being offered to commercial importers, exporters and suppliers if they opt out of the PTR.
18. Manufacturers shall be made withholding agents to collect 1% tax against the sales made to traders & distributors. However, the tax so collected shall be adjustable against their income.
19. The tax rates for passengers as well as goods transport vehicles are proposed to be enhanced as under:-

20 persons or more;	from Rs. 100 to Rs. 500 per seat per annum
In case of goods transport and vehicle:	from Rs. 1 to Rs. 5 per Kg laden weight
20. Levy and collect CVT on transactions of immovable properties in Islamabad with identical structure adopted by the provinces.
21. Clarity in the law by revamping the sections and extending the facility of tax credit to investments for extension of the existing manufacturing facility and to corporate dairy farms.

22. The value of vehicles is enhanced from Rs 1.5 (m) to Rs 2.5 (m) for the purpose of depreciation allowance.
23. Legal cover is provided to the office of Directorate General Intelligence and Investigation is performing its functions.
24. NCCPL shall collect and deposit the tax on behalf of the taxpayers in margin financing (Badla)
25. The rate initial depreciation on new building is being reduced to 25%.
26. The exemption granted to profit and gains to the Venture Capital Company and Venture Capital Fund till 2014 is proposed to be extended for 10 years i.e. upto 2024.

SALES TAX & FEDERAL EXCISE

Objectives

- Reduction in the higher rates of Sales Tax from 22% and 19.5% to 16%.
- Reduction in Federal Excise Duty on cement from Rs. 500/ PMT to Rs. 400/ PMT
- Elimination of excise duty on 10 items with the objective to further phasing out of Federal Excise regime.
- Streamlining the sales tax regime by substituting zero-rating on certain items with a view to stop illegal refunds.
- Enhancing tax incidence on cigarettes by revising upward price tiers.

Relief Measures

(a) Removing aberrations in rates of sales tax @ 22% and 19.5% to standard rate of 16% through rescinding of SRO 644(I)/2007 dated 27-06-2007. SRO 594(I)/2012, dated 01.06.2012, effective from the 02.06.2012.

(b) Reducing federal excise duty on cement from Rs. 500/ PMT to 400/ PMT enforced through amendment in Table-I of First Schedule to the Federal Excise Act, 2005, effective from the 01.07.2012.

(c) Phasing out of federal excise duty regime by reducing the number of goods liable to federal excise duty enforced through amendment in Table-I of First Schedule to the Federal Excise Act, 2005, effective from the 02.06.2012.

(d) Exemption of federal excise duty on live stock insurance enforced through amendment in Table-II of Third Schedule to the Federal Excise Act, 2005, effective from the 01.07.2012.

(e) Retrospective exemption of federal excise duty on services rendered by Asset Management Companies enforced through amendment in Table-II of Third Schedule to the Federal Excise Act, 2005, effective from the 01.07.2012.

(f) Grant of exemption to waste paper to enhance collection as well as restrict inadmissible input tax adjustment in this sector.

Revenue Measures

(a) Revision of FED in the upward limit of price tiers of cigarettes, effective from the 02.06.2012.

(b) Increase in the rate of sales tax on steel sector from Rs. 6/ Kwh to Rs. Rs. 8/ Kwh enforced through amendment Sales Tax Special Procedures Rules, 2007.

(c) Substitution of zero-rating with exemption on supplies against international tender enforced, effective from the 02.06.2012.

(d) Substitution of zero-rating with exemption on certain items such as remeltable scrap and sprinkler.

Simplification / Measures

(a) Shifting of cotton seed oil from exemption to zero-rating regime.

(b) Revise Federal Excise Duty on foreign travel, effective from the 01.07.2012.

(c) Harmonize section 11 and 36 of the Sales Tax Act, 1990, effective from the 01.07.2012.

(d) Alignment of PCT Headings in various schedules to the Sales Tax Act, 1990, with the HS-2012 version of Pakistan Customs Tariff.

(e) Updation of the restriction related to prices of cigarettes in the First Schedule to the Federal Excise Act, 2005.

(f) Simplification of collection procedure of FED on air travel from Pakistan by excluding the charge of FED on air travel to Pakistan.

CUSTOMS

Policy Objectives:

- Relief to general public.
- Encouraging growth and investment.
- Providing incentives for local industry.
- Reducing cost of doing business.
- Better regulation and enforcement.

Relief Measures:

- a) The maximum general tariff slab has been reduced from 35% to 30%. This will reduce the number of duty slabs from 8 to 7.
- b) Customs duty on raw materials and components for printing and stationery sector has been reduced.
- c) Customs duty on major pharmaceutical raw materials and other input goods has been further reduced from 10% to 5%.
- d) Customs duty on self-copy papers and self-adhesive papers has been reduced from 25% and 20% to 10%.

Incentives for Local Industry:

- (a) Three major Notifications (SRO 565, 567 and 575) provide exemptions and concessions on import of plant and machinery for setting up of industries and import of raw materials for a large number of domestic industries. These are being cleansed of anomalies and are being simplified.
- (b) In order to promote indigenous industry, some industrial raw materials are being included in the concessionary regime.
- (c) Customs duty on scrap of rubber / shredded tyres has been reduced from 20% to 10% to encourage its use as a substitute fuel for the cement industry.

Tariff Measures:

- (a) WCO has made 5-yearly changes in HS nomenclature for commodity classification and has issued HS-2012 version. Pakistan Customs Tariff classification structure is being aligned with the WCO nomenclature.
- (b) Introduction of 12 Digit Subheadings in Customs Tariff to fulfill the requirement of full automation of import processing through the Customs computerized system (WeBOC) and statistical purposes.

(c) The Ministry of Textile Industry has recommended new tariff headings for facilitation of the textile industry and to update national tariff in accordance with international best practices. These headings are accordingly being created in Tariff.

(d) In order to encourage import of hybrid electric vehicles (HEVs) at affordable prices the rate of duty and taxes presently applicable to HEVs and their batteries are being reduced by 25%.

(e) In order to simplify the tariff the composite rate of duty on cinematographic film is being change to a simple specific rate of Rs. 5 per meter.

(f) Correction of classification and description of some items is being made in the Tariff.

Legislative Measure:

(a) Quasi judicial and administrative functions are being separated at the Collectorate's level.

(b) Enabling provision for introduction of the facility of "e-auction".

(c) Incorporation of an explicit provision for condoning delays in time-limits

(d) Provision of appeal in cases where the application for refund has been declared.

(e) Definition of smuggling has been made more comprehensive by including en route pilferage of transit goods.

(f) Application of record keeping provisions on transport operators (for transit goods) and on tracking companies.

(g) Declaring attempts to make un-authorized access/ use or interfere with the Customs computerized system an offence.

(h) Introduction of the punishment of imprisonment for a term not exceeding five years, where rules or conditions of transit are contravened.

(i) Establishment of formations for better enforcement.

(j) Removal of the punishment of "whipping", in cases of smuggling, possession or acquiring of smuggled goods and armed intimidation of persons engaged in the discharge of duty under the Customs Act.

INCOME TAX ORDINANCE, 2001

The detailed comments on the significant proposed amendments in Income Tax Ordinance, 2001 are;

Amendments / Insertions in Definitions

Section 2

NCCPL

Section 2(35AA)

“NCCPL” means National Clearing Company of Pakistan Limited, which is a company incorporated under the Companies Ordinance, 1984 (XLVII of 1984) and licensed as —Clearing House by the Securities and Exchange Commission of Pakistan; and

Taxable Income / Total Income

Section 9/10

Scope of income has been increased by making addition in the definition of total income and relating it to taxable income with addition as;

The total income of a person for a tax year shall be the sum of the;

- (a) Person's income under all heads of income for the year; and
- (b) person's income exempt from tax under any of the provisions of this Ordinance;

Now with proposed amendment, exempt income will also be considered in computing total income of a person under all heads of income for the year.

Value of perquisites

Section 13

Before proposed amendment, where a loan is made by an employer to an employee and either no profit on loan is payable by the employee or the rate of profit on loan is less than the benchmark rate, the profit on loan computed at the benchmark rate was chargeable to tax to the employee under the head “Salary”.

Now the bill seeks to insert proviso that this condition shall not apply to loans not exceeding 500,000/- [five hundred thousand rupees]

Further, the benchmark rate has also been defined as 10 [ten] percent instead of such rate as the Federal government may by notification specify.

Capital Gains

Section 37

The bill seeks to include capital gains derived on immovable property (land) if it is derived within two years. Consequently immovable property is proposed to be

excluded from the definition of 'capital asset'. This will act as a curb for investors who are either speculating or holding real estate for trading purpose. The following insertion is proposed in the section;

“(1A) Notwithstanding anything contained in sub-sections (1) and (3), gain arising on the disposal of immovable property, held for a period up to two years, by a person in a tax year, shall be chargeable to tax in that year under the head Capital Gains at the rates specified in Division VIII of Part I of the First Schedule.”; and

The rate of tax to be paid under this sub-section [(1A) of section 37] shall be as follows:

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

Capital gain on disposal of securities

Section 37A

The proposed amendment seeks to insert the exclusion of capital gains which are exempt from tax under the Ordinance from capital gain tax on disposal of securities.

Ne sub-section is proposed to define the methodology of computation of capital gains;

“(1A) The gain arising on the disposal of a security by a person shall be computed in accordance with the following formula, namely:-

A - B

Where -

A is the consideration received by the person on disposal of the security; and

B is the cost of acquisition of the security.”

Income from Other Sources

Section 39

The bill seeks to include “additional payment on delayed refund under any tax law” in the head income from other source and bring it into normal tax.

Exemptions and tax concessions in the Second Schedule

Section 53

With proposed amendment in section 10 by enhancing the scope of taxable income, the sub section in this section is proposed to be deleted which was taking into account all exempt incomes under any provision of Second Schedule, in total computation of total income.

Limitations on set off and carry forward of losses

Section 59A

These proposed amendments seeks to omits the unnecessary sub-sections references and harmonize the set off and carry forward of losses of AOP.

Tax credit for investment in shares and insurance

Section 62

The bill seeks to enhance the total contribution limit for every resident person other than a company to be entitled to a tax credit for a tax year either in respect of the cost of acquiring of new shares or in respect of any life insurance premium paid on a policy to a life insurance company in the year from fifteen per cent [15%] to twenty percent [20%] of the person's taxable income for the year; or from five hundred thousand rupees [500,000] to one million [1,000,000].

Further, the holding period for such investment is also proposed to be reduced from "thirty six months" to "twenty-four months"

Tax credit for investment

Section 65B

The bill seeks to expand the tax credit equal to ten percent of the amount of investment against the tax payable including minimum tax and final tax payable under any provisions of the Ordinance where a taxpayer being a company invests any amount in the purchase of plant and machinery, for the purposes of balancing, modernization and replacement of the plant and machinery, already installed therein, in an industrial undertaking set up in Pakistan and owned by it.

This proposed amendment has increased the scope of tax credit and has enforced the legal interpretations of this section and has sought to enhance the tax credit for investment on all taxes payable under the Ordinance.

The bill also seeks to widen the scope of tax credit under this section to already set up companies before first day of July 2011, who makes investment in BMR between July 1, 2011 to June 30, 2016 shall get the credit equal to twenty percent of the amount so invested.

Following sub section 4 is inserted and existing sub sections 4 and 5 have been reworded and re numbered.

"(4) The provisions of this section shall apply mutatis mutandis to a company setup in Pakistan before the first day of July, 2011, which makes investment during first day of July, 2011 and 30th day of June, 2016, for the purposes of balancing, modernization and replacement of the plant and machinery already installed in an industrial undertaking owned by the company. However, credit equal to twenty per cent of the amount so invested shall be allowed against the tax payable, including on account of minimum tax and final taxes payable under any of the provisions of this Ordinance. The credit shall be allowed in the year in which the plant and machinery in the purchase of which the investment as aforesaid is made, is installed therein."

(5) Where no tax is payable by the taxpayer in respect of the tax year in which such plant or machinery is installed, or where the tax payable is less than the amount of credit as aforesaid, the amount of the credit or so much of it as is in excess thereof, as the case may

be, shall be carried forward and deducted from the tax payable by the taxpayer in respect of the following tax year and so on, but no such amount shall be carried forward for more than two tax years in the case of investment referred to in sub-section (1) and for more than five tax years in respect of investment referred to in sub-section (4), however, the deduction made under this section shall not exceed in aggregate the limit specified in sub-section (1) or sub-section (4), as the case may be”.

(6) Where any credit is allowed under this section and subsequently it is discovered by the Commissioner Inland Revenue that any one or more of the conditions specified in this section was, or were, not fulfilled, as the case may be, the credit originally allowed shall be deemed to have been wrongly allowed and the Commissioner, notwithstanding anything contained in this Ordinance, shall re-compute the tax payable by the taxpayer for the relevant year and the provisions of this Ordinance shall, so far as may be, apply accordingly.”

Tax credit for newly established industrial undertakings

Section 65D

The scope of industrial undertaking is sought to be enhanced to include Corporate Dairy Farming in it for this section.

The bill seeks to expand the tax credit under this section against tax payable including minimum tax and final tax payable under any provisions of the Ordinance with abolition of condition of credit admissibility for only the year in which plant and machinery is purchased and installed.

Admissibility of Tax credit under this section has been restricted for the industrial undertaking which is set up with hundred per cent equity raised through issuance of new share for cash consideration.

However, the following proviso is proposed to be inserted, namely:-

“Provided that short term loans and finances obtained from banking companies or non-banking financial institutions for the purposes of meeting working capital requirements shall not disqualify the taxpayer from claiming tax credit under this section.”

The said proviso would be a relief to the demands of business community for obtaining short term financing for working capital.

A new sub section has been inserted as;

“(5) For the purposes of this section and sections 65B and 65E an industrial undertaking shall be treated to have been set up on the date on which the industrial undertaking is ready to go into production, whether trial production or commercial production.”

This new insertion addressed the concern of business community with respect to the period of set up which is now proposed to be defined as when it is ready to go into production.

Tax credit for industrial undertakings established before the first day of July, 2011

Section 65E

This whole section is proposed to be revamped as;

“(1) Where a taxpayer being a company, setup in Pakistan before the first day of July, 2011, invests any amount, with hundred per cent new equity raised through issuance of new shares, in the purchase and installation of plant and machinery for an industrial undertaking, including corporate dairy farming, for the purposes of-

- (i) expansion of the plant and machinery already installed therein; or*
- (ii) undertaking a new project,*

a tax credit shall be allowed against the tax payable in the manner provided in sub-section (2) and sub-section (3), as the case may be, for a period of five years beginning from the date of setting up or commencement of commercial production from the new plant or expansion project, whichever is later.

(2) Where a taxpayer maintains separate accounts of an expansion project or a new project, as the case may be, the taxpayer shall be allowed a tax credit equal to one hundred percent of the tax payable, including minimum tax and final taxes payable under any of the provisions of this Ordinance, attributable to such expansion project or new project.

(3) In all other cases, the credit under this section shall be such proportion of the tax payable, including minimum tax and final taxes payable under any of the provisions of this Ordinance, as is the proportion between the new equity and the total equity including new equity.

(4) The provisions of sub-section (1) shall apply if the plant and machinery is installed at any time between the first day of July, 2011 and the 30th day of June, 2016.

(5) The amount of credit admissible under this section shall be deducted from the tax payable, including minimum tax and final taxes payable under any of the provisions of this Ordinance, by the taxpayer in respect of the tax year in which the plant or machinery referred to in sub-section (1) is installed and for the subsequent four years; and

(6) Where any credit is allowed under this section and subsequently it is discovered, on the basis of documents or otherwise, by the Commissioner Inland Revenue that any of the condition specified in this section was not fulfilled, the credit originally allowed shall be deemed to have been wrongly allowed and the Commissioner Inland Revenue may, notwithstanding anything contained in this Ordinance, re-compute the tax payable by the taxpayer for the relevant year and the provisions of this Ordinance shall apply accordingly.

(7) For the purposes of this section, ‘new equity’ means equity raised through fresh issue of shares against cash by the company and shall not include loans obtained from shareholders or directors:

Provided that short term loans and finances obtained from banking companies or non-banking financial institutions for the purposes of meeting working capital requirements shall not disqualify the taxpayer from claiming tax credit under this section.”

The proposed substitution of this section seeks removal of doubts and ambiguities in earlier drafting of the section.

Cost

Section 76

This section establishes the cost of an asset for the purposes of this Ordinance. The bill seeks to insert new clause, empowering the Board who may prescribe rules for determination of cost for any asset.

Consideration received

Section 77

This section deals with the the consideration received by a person on disposal of an asset. The bill seeks to insert new clause, empowering the Board who may prescribe rules for determination of consideration received for any asset.

Special provision relating to capital gain tax

Section 100B

A new section is proposed as;

Special provision relating to capital gain tax.-

(1) Capital gains on disposal of listed securities and tax thereon, subject to section 37A, shall be computed, determined, collected and deposited in accordance with the rules laid down in the Eighth Schedule.

(2) The provisions of sub-section (1) shall not apply to the following persons or class of persons, namely:-

- (a) a mutual fund;*
- (b) a banking company, a non-banking finance company, and an insurance company subject to tax under the Fourth Schedule;*
- (c) a modaraba;*
- (d) a foreign institutional investor^{ll} being a person registered with NCCPL as a foreign institutional investor; and*
- (e) any other person or class of persons notified by the Board.*

A new schedule [Eighth] is proposed to be inserted in the Ordinance, determining rules for collection and deposit of capital gains tax on listed securities by NCCPL.

Minimum tax on the income of certain persons

Section 113

The rate of minimum tax has been reduced in First Schedule to the Ordinance from 1% of Turnover to 0.5% of Turnover.

Further, the following explanation has been added which only explains the terms of tax payable or paid under the Ordinance as;

“Explanation.- For the purpose of this sub-section, the expression “tax payable or paid” does not include tax already paid or payable in respect of deemed income which is assessed as final discharge of the tax liability under section 169 or under any other provision of this Ordinance.”;

Return of Income

Section 114(6)(c)

A new clause is proposed to be added, namely:-

“(c) taxable income declared is not less than and loss declared is not more than income or loss, as the case may be, determined by an order issued under sections 121, 122, 122A, 122C, 129, 132, 133 or 221:

Provided that if any of the above conditions is not fulfilled, the return furnished shall be treated as an invalid return as if it had not been furnished.”

In case of filing of revised return, an additional condition is being proposed. Where any person who, having furnished a return, discovers any omission or wrong statement therein, may file revised return. This insertion clarifies that the return after assessment can still be revised, provided that the income assessed is not less or loss assessed is not more in the revised return.

Assessment

Section 120

The Commissioner is empowered to issue notice to the taxpayer informing him of the deficiencies in the return and directing him to provide such information, particulars, statement or documents by such date specified in the notice.

The period for asking such deficient information was up to the end of the financial year in which return was furnished. Now the bill seeks to enhance that time period to the expiry of one hundred and eighty days from the end of the financial year in which return was furnished.

Best judgement assessment

Section 121

The bill seeks to give extra powers to the Commissioner in case of the best judgement assessment by clarifying the scope as;

The Commissioner may, based on any available information or material and to the best of his judgement, make an assessment of the taxable income of the person and the tax due thereon and the assessment, if any, treated to have been made on the basis of return or revised return filed by the taxpayer shall be of no legal effect.

Now, if the Commissioner has made best judgement assessment in case of a person failing to furnish the return or statements as required by the Commissioner, the best judgement assessment will prevail even if the person has filed the return already.

Assessment

Section 122

The bill seeks to empower the Commissioner also to amend the provisional assessment made under section 122C.

Further, bill seeks to empowers Additional Commissioner u/s 122(5A) to make such enquires before amending an assessment order as he deems necessary.

Provisional assessment

Section 122C

Provisional assessment in case where a person fails to furnish the return in response to a notice has been clarified as "being an individual or an association of persons".

Further, new proviso is proposed to include companies in the scope with filing of reurn electronically as;

"Provided further that the provisions of sub-section (2) shall not apply to a company if return of income tax alongwith audited accounts or final accounts, as the case may be, for the relevant tax year are filed by the company electronically during the said period of sixty days."

Procedure in appeal

Section 128

A new sb section is proposed as;

"(1A) Where in a particular case, the Commissioner (Appeals) is of the opinion that the recovery of tax levied under this Ordinance, shall cause undue hardship to the taxpayer, he, after affording opportunity of being heard to the Commissioner against whose order appeal has been made, may stay the recovery of such tax for a period not exceeding thirty days in aggregate."

Previously, under various authorities, the Commissioner (Appeals) could grant stay on the application of the appellant and that stay could be extended up to six months. With the insertion of this new sub clause, the orders of Commissioner (Appeals) for stay of recovery have been restricted. One, the assessing officer who passed the order has to be given the opportunity of being heard and second the stay of demand cannot exceed thirty days.

Decision in appeal

Section 129

The bill seeks to delete the condition that where the Commissioner (Appeals) has not made an order on an appeal before the expiration of four months from the end of the month in which the appeal was lodged, the relief sought by the appellant in the appeal shall be treated as having been given provided a notice by the appellant stating that no order has been made is personally served by the appellant on the Commissioner (Appeals) not less than thirty days before the expiration of the period of four months.

The bill seeks to done away with this condition. Seldom this provision was invoked by appellant and the condition was very stringent to serve notice before 30 days personally by the appellant. Now, there is no limit for the Commissioner to pass the order within any limit after the appeal has been heard.

Appointment of the Appellate Tribunal

Section 130

The bill seeks to reduce the experience limit for accountant member for ATIR from five to three years. Now a Commissioner Inland Revenue or Commissioner Inland Revenue (Appeals) having at least three years experience as Commissioner or Collector can be appointed as accountant member of ATIR.

Further, the condition of special circumstance has been excluded and now ordinarily an accountant member can also be appointed as Chairman ATIR.

Appeal to the Appellate Tribunal

Section 131

The bill seeks to modify the procedure of recovery of tax by the ATIR as;

“Provided that if on filing of application in a particular case, the Appellate Tribunal is of the opinion that the recovery of tax levied under this Ordinance and upheld by the Commissioner (Appeals), shall cause undue hardship to the taxpayer, the Tribunal, after affording opportunity of being heard to the Commissioner, may stay the recovery of such tax for a period not exceeding one hundred and eighty days in aggregate:

Provided further that in computing the aforesaid period of one hundred and eighty days, the period, if any, for which the recovery of tax was stayed by a High Court, shall be excluded.”

Earlier the Appellate Tribunal could stay the recovery of the tax on filing the application. Now the bill seeks to make some restrictions as to the opinion of ATIR that the recovery of tax levied shall cause undue hardship to the taxpayer.

Due date for payment of tax

Section 137

In case of provisional assessment, tax shall be payable immediately after a period of sixty days from the date of service of the notice. Now clarificatory proviso is proposed to be inserted for payment of tax under provisional assessment to make payment even before expiry of 60 days as;

“Provided further that the taxpayer may pay the tax payable prior to expiry of the period of sixty days specified in the first proviso.”

Imports

Section 148

The bill seeks to expand the scope of tax on imports by insertion of “tax required to be collected”. Currently the language of law says the “tax collected” shall be final tax for imports. Now with insertion of “required to be” will take into account all imports even if tax has not been deducted / collected at import stage.

Similarly on the import of edible oil and packing material, tax required to be collected under imports for a tax year shall be minimum] tax.

Profit on Debt

Section 151

The bill seeks to expand the scope of tax on profit on debt and now includes tax deducted or deductible. Now even if, the tax has not been deducted but it was deductible under the provisions of profit on debt shall be taken under this section.

Payments to non-residents

Section 152

Section 153A has been substituted and said provisions have been included as sub clause under this section for tax deduction on payments to non residents persons on advertisement services as;

“1AAA)Every person making a payment for advertisement services to a non-resident media person relaying from outside Pakistan shall deduct tax from the gross amount paid at the rate specified in Division IIIA of Part III of the First Schedule.”

The rate of tax deduction under this new sub clause shall be 10% of gross amount.

The bill further seeks to exclude payment of insurance premium or re-insurance premium to a non-resident person from withholding tax with the written approval of the Commissioner, that the amount is taxable to a permanent establishment in Pakistan of the non-resident personll .

Further the scope of final taxation arising from a contract and payment of insurance premium or re-insurance premium is proposed to be enhanced from tax deducted to tax deductible. Now, even if the tax has not been deducted, the gross amount shall be liable for tax deduction and shall be treated as final tax.

Further, any payment which comes under the ambit of supplies and services of section 153 shall be made liable for withholding tax under this section. Every person paying an amount to a non-resident person even for supplies and services shall deduct tax from the gross amount paid.

Payments for goods, services and contracts

Section 153

With consequential amendment in section 152, permanent establishment in Pakistan of a non resident person has been excluded from the scope of withholding tax on payment for goods and services and contracts under section 153.

The bill seeks to expand the scope of tax under this section for supplies and contracts and now includes tax deductible. Now every tax deductible under the provisions of this section for supplies and contracts shall be taken under this section as final tax.

Payment to Traders and Distributors

Section 153A

Existing section 153A is proposed to be inserted as sub clause 1AAA in section 152. This substituted section now takes into account withholding tax on payment to traders and distributors by manufacturers.

*“153A. Payment to Traders and Distributors.- (1) Every manufacturer, at the time of sale to distributors, dealers and wholesalers, shall collect tax at the rate specified in Part IIA of the First Schedule, from the aforesaid persons, to whom such sales have been made.
(2) Tax credit for the tax collected under sub-section (1) shall be allowed in computing the tax due by the person on the taxable income for the tax year in which the tax was collected.”*

The rate of withholding tax under this section shall be 1% of gross amount and shall be treated as advance tax for the year.

Exports / Prize and Winnings / Petroleum Products Section 154/156/156A

The bill seeks to expand the scope of tax under these sections and now includes tax deductible. Now every tax deductible under the provisions of these sections (even not deducted) shall be taken as final tax.

The bill seeks to plug the wrong disclosures where tax was deducted only. Now all transactions falling under these sections shall be liable to pay tax accordingly, even if not deducted.

Tax collected or deducted as a final tax

Section 169

In consequence to above proposed amendments to make “tax deductible, consequential amendment has been made under this section to substitute “tax required to be deducted” from ‘deduction of tax’.

Further, recovery of tax where tax was deductible but was not deducted is proposed to be included as;

“(f) tax deductible has not been deducted, or short deducted, the said non-deduction or short deduction may be recovered under section 162, and all the provisions of this Ordinance shall apply accordingly.”

Section 162 deals with recovery of tax from the person from whom tax was not collected or deducted.

Additional payment for delayed refunds

Section 171

Additional payment for delayed refund is proposed to be substituted from “KIBOR” to “fifteen” percent. Earlier it was 6% which was substituted by KIBOR by Finance Act 2009.

Notice to obtain information or evidence

Section 177

Finance Act 2009 authorized the firms of Chartered Accountants to conduct audit under section 177 with the approval of commissioner. However, it was limited for those who were selected for audit. Now the bill seeks to abolish this limitation and now a firm of CA with prior approval of the Commissioner may enter the business premises of any taxpayer, even not selected for audit.

Consequential amendment in section 210 has also been proposed.

Tax Payer Card

Section 181B

The following new section is proposed;

“181B. Tax Payer Card.- Subject to this Ordinance, the Board may make a scheme for introduction of a tax payer honour card for individual taxpayers, who fulfill a minimum criteria to be eligible for the benefits as contained in the scheme.”

Default surcharge

Section 205

The rate of additional tax, for failure to pay any tax by the due date is currently at the rate of KIBOR + 3% per quarter. The Bill now seeks to fix the rate of default surcharge at 18% per annum.

It is also proposed that if a tax payer opts to pay the tax due including defaulted withholding tax in consequence of the order of the Commissioner (Appeals) and does not file an appeal before the Appellate Tribunal, he would not pay default surcharge from the day the tax was due on the basis of the original order till the day the notice for recovery of tax, under Section 137(2).

Condonation of time limit

Section 214A

An explanation is proposed to be inserted in this section to clarify that subordinate authority is also allowed to seek condonation of time limit.

The following explanation shall be added, namely;

“Explanation,- For the purpose of this section, the expression —any act or thing is to be done; includes any act or thing to be done by the taxpayer or by the authorities specified in section 207.”

**Directorate General (Intelligence and Investigation),
Inland Revenue**

Section 230

New section is proposed to include new authority under the Ordinance;

“230. Directorate General (Intelligence and Investigation), Inland Revenue.- (1) The Directorate General (Intelligence and Investigation) Inland Revenue shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors and Assistant Directors and such other officers as the Board, may by notification in the official Gazette, appoint.

(2) The Board may, by notification in the official Gazette,-

(a) specify the functions and jurisdiction of the Directorate General and its officers; and

(b) confer the powers of authorities specified in section 207 upon the Directorate General and its officers.

Cash withdrawal from a bank

Section 231A

The limit for cash withdrawal tax is proposed to be enhanced from twenty-five thousand per day to fifty thousand rupees per day

Brokerage and commission

Section 233

The bill seeks to expand the scope of tax under this section and now includes withholding tax as required to be deducted. Now every tax deductible under the provisions of this section (even not deducted) shall be taken as final tax.

Collection of tax by NCCPL

Section 233AA

The bill seeks to introduce collection of tax by NCCPL as defined in section 2(35AA) as;

233AA. Collection of tax by NCCPL.- NCCPL shall collect advance tax from the members of Stock Exchange registered in Pakistan, in respect of margin financing in share business at the rate specified in Division IIA of Part IV of First Schedule.

FIRST SCHEDULE

Tax Rates

The minimum threshold of income for taxation been enhanced from Rs 350,000 to Rs 400,000 per annum, without marginal tax rates for salary income, individuals and AOP.

Detailed rates are given as per Schedule to this Memorandum

SECOND SCHEDULE

EXEMPTION FROM TOTAL INCOME

Part I

Various redundant clauses have been omitted from this part. The important ones are;

Monthly installment from pension account

Clause 23B

New clause is proposed as;

(23B) The amounts received as monthly installment from an income payment plan invested out of the accumulated balance of an individual pension accounts with a pension fund manager or an approved annuity plan or another individual pension account of eligible person or the survivors pension account maintained with any other pension fund manager as specified in the Voluntary Pension System Rules 2005 shall be exempt from tax provided accumulated balance is invested for a period of ten years:

Provided that where any amount is exempted under this clause and subsequently it is discovered, on the basis of documents or otherwise, by the Commissioner that any of the conditions specified in this clause were not fulfilled, the exemption originally allowed shall be deemed to have been wrongly allowed and the Commissioner may, notwithstanding anything contained in this Ordinance, re-compute the tax payable by the taxpayer for the relevant years and the provisions of this Ordinance shall, so far as may be, apply accordingly.

Transfer of balance of approved provident fund to pension fund

Clause 23C

A new clause is proposed as;

(23C) Any withdrawal of accumulated balance from approved pension fund that represent the transfer of balance of approved provident fund to the said approved pension fund under the Voluntary Pension System Rules , 2005.

Exempt donations to approved institutions

Clause 61

The name of “The Citizens Foundation” has been proposed for addition to the said of institutions to whom payment of donations is exempt from tax.

Venture Capital Company and Venture Capital Fund

Clause (101)

Profits and gains derived by a venture capital company and venture capital fund presently are exempt from tax up to 30 June 2014. The Bill seeks to extend the exemption to profits and gains derived by them upto 30 June 2024.

REDUCTION IN TAX RATES

Part II

Industrial Imports

clause (9A)

A proviso is proposed as;

Provided that the rate of 3% shall be applicable on production of an exemption certificate issued by the Commissioner.

Now reduced rate of import for industrial undertaking shall be subject to the certificate from commissioner.

EXEMPTION FROM SPECIFIC PROVISIONS

Part IV

Withholding of tax from inter-corporate dividend

Clause (11B)

A new clause is proposed to exempt withholding of tax on inter corporate dividends. Though, the same was exempt under Clause 103B of Part I of Second Schedule.

“(11B) The provisions of section 150 shall not apply in respect of inter-corporate dividend within the group companies entitled to group taxation under section 59AA or section 59B.”

Withholding of tax from inter-corporate profit on debt

Clause (11C)

A new clause is proposed to exempt withholding of tax on inter corporate profit on debt within group companies. Though, inter corporate profit on debt is not exempt.

“(11C) The provisions of section 151 shall not apply in respect of inter-corporate profit on debt within the group companies entitled to group taxation under section 59AA or section 59B.”

Option to opt out of PTR

Clause 41A/41AA/41AAA

Following new clauses are proposed to encourage the categories falling under PTR to file normal tax returns, with the given conditions

(41A) The provisions of sub-section (7) of section 148 and clause (a) of sub-section (1) of section 169 shall not apply in respect of a person if he opts out of presumptive tax regime subject to the condition that minimum tax liability under normal tax regime shall not be less than 60% of tax already collected under sub-section (7) of section 148.”

(41AA) The provisions of sub-section (4) of section 154 and clause (b) of sub-section (1) of section 169 shall not apply in respect of a person if he opts out of presumptive tax regime subject to the condition that minimum tax liability under normal tax regime shall not be less than 50% of tax already deducted under sub-section (4) of section 154.”

(41AAA) The provisions of clause (a) of sub-section (1) of section 153 and clause (b) of sub-section (1) of section 169 shall not apply in respect of a person if he opts out of

presumptive tax regime subject to the condition that minimum tax liability under normal tax regime shall not be less than 70% of tax already deducted under clause (a) of sub-section (1) of section 153.”

THIRD SCHEDULE

Rate of initial allowance on building

Initial allowance under section 23 of the Ordinance for building is proposed to be reduced from existing 50% to 25%.

FOURTH SCHEDULE

Gain on disposal of shares

Rule (6B)

The Bill seeks to substitute the rates of tax for gain on disposal of shares of listed companies, vouchers of Pakistan Telecommunication Corporation, modaraba certificates or instruments of redeemable and derivative products, as:

YEAR	HOLDING PERIOD	
	Securities is less than six months (%)	Securities is more than six months but less than twelve months (%)
2011	10.0%	8.0%
2012	10.0%	8.0%
2013	12.5%	8.5%
2014	15.0%	9.0%
2015	17.5%	9.0%

SEVENTH SCHEDULE

BANKING COMPANIES

Dividend received from Asset Management Companies

Rule 6

Through Finance Act 2011, the tax rate on the “Dividend” received by a banking company from its asset management company were taxed at the rate of 20% instead of earlier 10%

Now, the bill seeks to insert new proviso as;

“Provided also that the dividend received from Money Market Funds and Income Funds shall be taxed at the rate of 25% for tax year 2013 and at the rate of 35% for tax years 2014 and onwards.”

EIGHTH SCHEDULE

Consequent to insertion of section 100B for capital gains on listed securities, rules of their taxation are proposed as per insertion of this eighth schedule as;

RULES FOR THE COMPUTATION OF CAPITAL GAINS ON LISTED SECURITIES

[section 100B]

1. Manner and basis of computation of capital gains and tax thereon.-

(1) Capital gains on disposal of listed securities, subject to tax under section 37A, and to which section 100B apply, shall be computed and determined under this Schedule and tax thereon shall be collected and deposited on behalf of taxpayers by NCCPL in the manner prescribed.

(2) For the purpose of sub-rule (1), NCCPL shall develop an automated system.

(3) Central Depository Company of Pakistan Limited shall furnish information as required by NCCPL for discharging obligations under this Schedule.

(4) NCCPL shall issue an annual certificate to the taxpayer on the prescribed form in respect of capital gains subject to tax under this Schedule for a financial year:

Provided that on the request of a taxpayer or if required by the Commissioner, NCCPL shall issue a certificate for a shorter period within a financial year.

(5) Every taxpayer shall file the certificate referred to in sub-rule (4) along with the return of income and such certificate shall be conclusive evidence in respect of the income under this Schedule.

(6) NCCPL shall furnish to the Board within thirty days of the end of each quarter, a statement of capital gains and tax computed thereon in that quarter in the prescribed manner and format.

(7) Capital gains computed under this Schedule shall be chargeable to tax at the rate applicable in Division VII of Part I of the First Schedule.

2. Sources of Investment.- (1) Where a person has made any investment in the listed securities, enquiries as to the nature and source of the amount invested shall not be made for any investment made prior to the introduction of this Schedule, provided that –

(a) a statement of investments is filed with the Commissioner along with the return of income and wealth statement for tax year 2012 within the due date as provided in section 118 of this Ordinance and in the manners prescribed; and

(b) that the amount remains invested for a period of forty- five days upto 30th of June 2012, in the manner as may be prescribed.

(2) Where a person has made any investment in the shares of a public company traded at a registered stock exchange in Pakistan from the date of coming into force of this Schedule till June 30, 2014, enquiries as to the nature and sources of amount invested shall not be made provided that –

(a) the amount remains invested for a period of one hundred and twenty days in the manner as may be prescribed ;

(b) tax on capital gains, if any, has duly been discharged in the manner laid down in this Schedule; and

(c) a statement of investments is filed with the Commissioner along with the return of income and wealth statement for the relevant tax year within the due date as provided in section 118 of this Ordinance and in the manner prescribed.

(3) For the purpose of this rule, amount of investment shall be calculated in the prescribed manner, excluding market value of net open sale position in futures and derivatives, if such sale is in a security that constitutes the said investment.

3. Certain provisions of this Ordinance not to apply.- The respective provisions for collection and recovery of tax, advance tax and deduction of tax at source laid down in the Parts IV and V of Chapter X shall not apply on the income from capital gains subject to tax under this Schedule and these provisions shall apply in the manner as laid down in the rules made under this Ordinance, except where the recovery of tax is referred by NCCPL to the Board in terms of rule 6(3).

4. Payment of tax collected by NCCPL to the Board.- The amount collected by NCCPL on behalf of the Board as computed in the manner laid down under this Schedule shall be deposited in a separate bank account with National Bank of Pakistan and the said amount shall be paid to the Board along with interest accrued thereon on yearly basis by July 31st next following the financial year in which the amount was collected.

5. Persons to whom this Schedule shall not apply.- If a person intends not to opt for determination and payment of tax as laid down in this Schedule, he shall file an irrevocable option to NCCPL after obtaining prior approval of the Commissioner in the manner prescribed. In such case the provisions of rule 2 shall not apply.

6. Responsibility and obligation of NCCPL.- (1) Pakistan Revenue Automation Limited (PRAL), a company incorporated under the Companies Ordinance, 1984 (XLVII of 1984) or any other company or firm approved by the Board and any authority appointed under section 209 of this Ordinance, not below the level of an Additional Commissioner Inland Revenue, shall conduct regular system and procedural audits of NCCPL on quarterly basis to verify the implementation of this Schedule and rules made under this Ordinance.

(2) NCCPL shall implement the recommendations, if any, of the audit report under sub-rule (1), as approved by the Commissioner, and make adjustments for short or excessive deductions. However, no penal action shall be taken against NCCPL on account of any error, omission or mistake that has occurred from application of the system as audited under sub-rule (1).

(3) NCCPL shall be empowered to refer a particular case for recovery of tax to the Board in case NCCPL is unable to recover the amount of tax.

7. Transitional Provisions.- In respect of tax year 2012, for the period commencing from coming into force of this Schedule till June 30, 2012, the certificate issued by NCCPL under rule 1(4) shall be the basis of capital gains and tax thereon for that period.¶ .

This page is intentionally left blank



SALES TAX ACT, 1990

The detailed comments on the significant proposed amendments in Sales Tax Act, 1990 are:

Assessment of Tax and recovery of tax not levied or short-levied or erroneously refunded

Section 11/36

At present in the Sales Tax Act, 1990 separate sections are given for “Assessment of Tax” under section 11 and “Recovery of tax not levied or short-levied or erroneously refunded” under section 36.

The bill seeks to consolidate both under section 11 and section 36 is proposed to be deleted.

“11. Assessment of Tax and recovery of tax not levied or short-levied or erroneously refunded.— (1) Where a person who is required to file a tax return fails to file the return for a tax period by the due date or pays an amount which, for some miscalculation is less than the amount of tax actually payable, an Officer of Inland Revenue shall, after a notice to show cause to such person, make an order for assessment of tax, including imposition of penalty and default surcharge in accordance with section 33 and 34:

Provided that where a person required to file a tax return files the return after the due date and pays the amount of tax payable in accordance with the tax return along with default surcharge and penalty, the notice to show cause and the order of assessment shall abate.

(2) Where a person has not paid the tax due on supplies made by him or has made short payment or has claimed input tax credit or refund which is not admissible under this Act for reasons other than those specified in sub-section (1), an Officer of Inland Revenue shall, after a notice to show cause to such person, make an order for assessment of tax actually payable by that person or determine the amount of tax credit or tax refund which he has unlawfully claimed and shall impose a penalty and charge default surcharge in accordance with section 33 and 34.

(3) Where by reason of some collusion or a deliberate act any tax or charge has not been levied or made or has been short-levied or has been erroneously refunded, the person liable to pay any amount of tax or charge or the amount of refund erroneously made shall be served with a notice requiring him to show cause for payment of the amount specified in the notice.

(4) Where, by reason of any inadvertence, error or misconstruction, any tax or charge has not been levied or made or has been short-levied or has been erroneously refunded, the person liable to pay the amount of tax or charge or the amount of refund erroneously made shall be served with a notice requiring him to show cause for payment of the amount specified in the notice:

Provided that, where a tax or charge has not been levied under this sub-section, the amount of tax shall be recovered as tax fraction of the value of supply.

(5) *No order under this section shall be made by an Officer of Inland Revenue unless a notice to show cause is given within five years, of the relevant date, to the person in default specifying the grounds on which it is intended to proceed against him and the officer of Sales Tax shall take into consideration the representation made by such person and provide him with an opportunity of being heard:*

Provided that order under this section shall be made within one hundred and twenty days of issuance of show cause notice or within such extended period as the Commissioner may, for reasons to be recorded in writing, fix provided that such extended period shall in no case exceed ninety days:

Provided further that any period during which the proceedings are adjourned on account of a stay order or Alternative Dispute Resolution proceedings or the time taken through adjournment by the petitioner not exceeding sixty days shall be excluded from the computation of the period specified in the first proviso.

(6) *Notwithstanding anything in sub-section (1), where a registered person fails to file a return, an officer of Inland Revenue not below the rank of Assistant Commissioner shall subject to such conditions as specified by the Federal Board of Revenue, determine the minimum tax liability of the registered person.*

(7) *For the purpose of this section, the expression "relevant date" means--*

(a) the time of payment of tax or charge as provided under section 6; and

(b) in a case where tax or charge has been erroneously refunded, the date of its refund."

There is no major change except the time limit prescribed for recovery of tax on account of inadvertence, error or misconstruction has been enhanced to five years from 3 years. The order is required to be passed within 120 days of the issuance of the show-cause notice. The Commissioner will now have powers to grant extension for passing an order for a period of up to 90 days.

The relevant SRO (SRO 555(I)/1996 dated 01 July 1996) specifying the authority of officers to carry out recovery under section 11 has now been rescinded. Now any Officer of Inland Revenue can conduct recovery proceedings.

Supplies against International Tender

Fifth & Sixth Schedules

"Supplies against international tenders" are zero rated at the moment. It is proposed that the same be included in exempt supplies. By including it in exempt supplies, Input tax on such supplies will no longer be available.

Relevant SRO 551(I)/2008 dated 11 June 2008 providing exemption from sales tax on raw materials, sub-components and components if imported for manufacturing of goods to be supplied against international tender.

This exemption has now been withdrawn and such goods will now be taxable at the import stage effective 02 June 2012. Relevant Rules 50A, 50B and 50C of Chapter VIIA to Sales Tax Rules, 2006, underlying the procedures and conditions for making zero rated supplies against international tenders have been revised to take cognizance of the change from zero-rating to exempt status of supplies against international tender.

SALES TAX RULES, 2006

SRO 589(I)/2012 has been issued to amend the Sales Tax Rules 2006 and the same shall be effective from June 2, 2012.

Application for registration

Rule 5

Under clause (c) of Rule 5 of the Sales Tax Rules, the Board is now empowered to also transfer the registration of any registered person or any business of a registered person to an area of jurisdiction where the place of business or registered office or manufacturing units are located besides corporate persons to apply for transfer of registration to the Collectorate having jurisdiction where the place of business is located.

Change in the particulars of registration

Rule 7

Specific procedures have been included in Rule 7 for change in the particulars of registration on the basis of name, address, business category (i.e. manufacturer, importer etc.) or other particulars.

Blacklisting and suspension of registration

Rule 12

Rule 12 has been substituted to include procedure by the Board for blacklisting or suspending the registered person.

Now where the Commissioner or Board have reasons to believe that the registered person is to be suspended or blacklisted, the procedure as prescribed by the Board shall be followed.

However, no procedures have yet been prescribed by the Board along with the notification.

SALES TAX SPECIAL PROCEDURE RULES 2007

SRO 592(I)/2012 has been issued to amend the Sales Tax Special Procedures Rules 2007 and the same shall be effective from June 2, 2012.

Special procedures for payment of sales tax by Importers Filing of return and audit

Rule 58E

The exclusion is made for commercial importers who did not claim any refund of excess input tax from audit except with the permission of the Board.

Now, commercial importers whether or not claiming any refund of excess input tax can now be subjected to audit.

SIGNIFICANT CHANGES THROUGH SROs

Amendments made in significant SROs

SRO 590 dated 2 June 2012

Withdrawal of commercial importers from the categories of persons on whom the minimum value addition sales tax on supply of computer hardware and parts is prescribed.

SRO 591 dated 2 June 2012

Withdrawal of zero-rating on import and supply of polyethylene and polypropylene for manufacturing of mono filament yarn and net cloth subject to certain conditions. The same would now be exempt from sales tax, resulting in non adjustment of input tax.

SRO 593 dated 2 June 2012

Scope of zero-rating is restricted on textiles and articles thereof excluding monofilament of more than 67 decitex.

SRO 595 dated 2 June 2012

Withdrawal of exemption on raw materials, subcomponents and components if imported for the manufacturing of goods to be supplied against international tenders.

Sales tax exemption has been granted to waste paper. Moreover remeltable scrap, sprinkler and drip equipment, spray pumps and nozzles have also been granted exemption and zero rating of the same have been withdrawn.

Now, input tax adjustment would no longer be available against supply of these goods.

SRO 596 dated 2 June 2012

Rates for repayment of sales tax on steel products exported from Pakistan have been increased.

SRO 597 dated 2 June 2012

Rates fixed for minimum value of locally produced billets and ingots supplied by registered persons opting to pay sales tax on ad valorem basis have been increased.

SRO 602 dated 2 June 2012

Zero-rating has been granted on cotton seed oil if supplied to registered manufacturers of vegetable ghee and cooking oil.

Consequent to SRO 595 above, zero rating has been withdrawn on remeltable scrap, sprinkler and drip equipment, spray pumps and nozzles.

SRO 604 dated 2 June 2012

Rate of sales tax on the value of import of soyabean seed by solvent extraction industries has been reduced from 7% to 6%.

SRO 605 dated 2 June 2012

Rate of sales tax has been reduced on the value of import of rapeseed, sunflower seed and canola seed by solvent extraction industries from 15% to 14%.

Notifications Rescinded

SRO 594(I)/2012

Under SRO 594 dated 2 June 2012, the following significant notifications have been rescinded.

849(I)/1997

Exemption from sales tax to imported industrial raw material and other goods, if imported directly by the manufacturers who are liable to pay turnover tax or are engaged in manufacture of the goods other than taxable goods.

644(I)/2007

Levy of sales tax at higher rate 22% and 19.5% of value of goods on import and supply of certain goods.

Now all higher rates have been abolished and a uniform sales tax rate has been levied across the board.

This page is intentionally left blank



FEDERAL EXCISE DUTY ACT 2005

The comments on the significant proposed amendments in Federal Excise Act, 2005 are:

First Schedule

Following is the proposed changes in Table 1 'Rate of Federal Excise Duty' in first schedule

- The rates of duty on cigarettes have been proposed to be increased by substituting entries in Table I of First Schedule to the Federal Excise Act, 2005 as follows:

Description	Rate of duty
Locally produced cigarettes if their retail price exceeds twenty two rupees and eighty six paise per ten cigarettes	65% of the retail price
Locally produced cigarettes if their retail price exceeds thirteen rupees and thirty six paise per ten cigarettes but does not exceed twenty two rupees and eighty six paise per ten cigarettes	Seven rupees and two paise per ten cigarettes plus 70% per incremental rupee or part thereof
Locally produced cigarettes if their retail price does not exceed thirteen rupees and thirty six paise per ten cigarettes	Seven rupees and two paise per ten cigarettes

Further; any new brand introduced in the market shall not be priced and sold lower than 5% below the price of the Most Popular price Category (MPPC). MPPC is the price point at which the highest number of excise tax paid cigarettes are sold in the previous fiscal year.

- The rate of duty on cement has been proposed to be decreased as:

Nature of goods /services	Proposed new rate of duty	Existing rate of duty
Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers	Four hundred rupees per metric ton	Five hundred rupees per metric ton

- Excise duty on travel by air is proposed to be changed by substituting Clause (b) of serial No.3 of Table II of the First Schedule:

Services	Rate of duty
Services provided or rendered in respect of travel by air of the passengers embarking on international	

journey from Pakistan. (i) Economy and economy plus (ii) Club, business and first class	Three thousand eight hundred and forty rupees Six thousand eight hundred and forty rupees
---	--

- Duty has been withdrawn from various goods by excluding the same from Table 1 of First Schedule to The Federal Excise Act.

Sr. No in Table	Descriptions	Existing rate (to be abolished)
22	Lubricating oil in packs not exceeding 10 litres	Ten percent of the retail price
23	Lubricating oil in packs exceeding 10 litres	Ten percent of the retail price
24	Lubricating oil in bulk (vessels, boozers, lorries etc.)	Seven rupees and fifteen paise per litre
25	Lubricating oil manufactured from reclaimed oils or sludge or sediment, subject to the condition if sold in retail packing or under brand names the words manufactured from reclaimed oil or sludge or sediment should be clearly printed on the pack	Two rupees per litre
27	Base lube oil	Seven rupees and fifteen paise per litre
42	Perfumes and toilet waters	Ten percent of retail price if packed in retail packing and ten percent ad volarem if in bulk
43	Beauty or make-up preparations and preparations for the care of the skin (other than medicaments), including sunscreen or sun tan preparations; manicure or pedicure preparations	Ten percent of retail price if packed in retail packing and ten percent ad valorem if in bulk
44	Preparations for use on the hair excluding herbal hair oil and kali mehndi	Ten percent of retail price if packed in retail packing and ten percent ad valorem if in bulk
45	Pre-shave, shaving of after-shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorizers, whether or not perfumed or having disinfectant properties (excluding agarbatti and other odoriferous preparations which operate by burning)	Ten percent of retail price if packed in retail packing and ten percent ad valorem if in bulk

CAPITAL VALUE TAX

The comments on the significant proposed amendments in Capital Value Tax are:

CVT on Shares of Public Company

The Bill seeks to enact the amendment vide the Finance Amendment Ordinance, 2012 promulgated on 24 April 2012 to charge CVT on shares of public company listed on stock exchange and collection of CVT on shares lies with the registered stock exchanges.

CVT on purchase of immovable property

The Bill proposes to rationalize the rates of CVT on purchase of immovable property as under:

Category of Property	Rate of CVT
Residential immovable property (other than flats) situated in urban area, measuring at least one kanal or 500 square yards whichever is less.	
(i) Where the value of immovable property is recorded	2% of the recorded value or Rs.100 per square yard of the landed area whichever is higher
(ii) Where the value of immovable property is not recorded	Rs.100 per square yard of the landed area
(iii) Where the immovable property is a constructed property	Rs.10 per square feet of the constructed area in addition to the value worked out above
Commercial immovable property of any size	
(i) Where the value of immovable property is recorded	2% of the recorded value or Rs.100 per square yard of the landed area whichever is higher
(ii) Where the value of immovable property is not recorded	Rs.100 per square yard of the landed area
(iii) Where the immovable property is a constructed property	Rs.10 per square feet of the constructed area in addition to the value worked out above
Residential Flats	
(i) Where the value of immovable of property is recorded	2% of the recorded value or Rs.100 per square feet of the covered area whichever is higher
(ii) Where the value of immovable of property is not recorded	Rs.100 per square feet of the covered area

This page is intentionally left blank



RATES OF TAX

TAX RATES FOR SALARY INCOME

TAX YEAR 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	5% 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. 17,500+10% 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.92,500+15% of the amount exceeding Rs.1,500,000
5	Where the taxable income exceeds Rs.2,500,000	Rs. 242,500+20% of the amount exceeding Rs.2,500,000

Where the income of an individual chargeable under the head —salary exceeds fifty percent of his taxable income, the rates of tax to be applied shall be ‘salary tax rates’

TAX RATE FOR BUSINESS INDIVIDUAL and AOP

TAX YEAR 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	Rs.347,500+25% of the amount exceeding Rs.2.500,000

RATES OF TAX FOR COMPANIES

TAX YEAR 2013

Corporate / Company tax rate	=	35%
Small company as defined in section 2, tax rate	=	25%

INCOME FROM PROPERTY

TAX YEAR 2013

The rate of tax to be paid under section 15, in case of Individuals and Association of Persons

S. No	Taxable Income	Rate of tax.
1	Where the gross amount of rent does not exceed Rs.150,000,	0%
2	Where the gross amount of rent exceeds Rs.150,000 but does not exceed Rs.400,000,	5% of the amount exceeding Rs.150,000/-
3	Where the gross amount of rent exceeds Rs.400,000 but does not exceed Rs.1,000,000,	Rs.12,500 plus 7.5 per cent of the gross amount exceeding Rs.400,000.
4	Where the gross amount of rent exceeds Rs.1,000,000	Rs.57,500 plus 10 per cent of the gross amount exceeding Rs.1,000,000.

The rate of tax to be paid under section 15, in the case of company

S. No	Taxable Income	Rate of tax.
1	Where the gross amount of rent does not exceed Rs.400,000,	5% of the gross amount of rent
2	Where the gross amount of rent exceeds Rs.400,000 but does not exceed Rs.1,000,000,	Rs.20,000 plus 7.5 per cent of the gross amount exceeding Rs.400,000.
3	Where the gross amount of rent exceeds Rs.1,000,000	Rs.65,000 plus 10 per cent of the gross amount exceeding Rs.1,000,000.

TAXATION OF RETAILERS UNDER SECTION 113B

TAX YEAR 2013

Retailers under this section shall pay final tax at the following rates which shall form part of single stage sales tax.

S. No	Amount of Turnover	Rate of tax.
1	Where turnover exceeds Rs.5,000,000 but does not exceed Rs.10,000,000	Rs.25,000 plus 0.5% of the turnover exceeding Rs.5,000,000
2	Where turnover exceeds Rs.10,000,000	Rs.50,000 plus 0.75% of the turnover exceeding Rs.10,000,000

CAPITAL GAINS ON DISPOSAL OF SECURITIES

TAX YEAR 2013

The rate of tax to be paid under section 37A shall be as follows –

S. No.	Period	Tax Year	Rate of tax
1	Where holding period of a security is less than six months	2011	10%
		2012	10%
		2013	10%
		2014	10%
		2015	17.5%
2	Where holding period of a security is more than six months but less than twelve months.	2011	7.5%
		2012	8%
		2013	8%
		2014	8%
		2015	9.5%
2016	10%		
3	Where holding period of a security is twelve months or more.	–	0%

CAPITAL GAINS ON DISPOSAL OF IMMOVABLE PROPERTY

TAX YEAR 2013

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

COLLECTION OF TAX FROM DISTRIBUTORS, DEALERS AND WHOLESALERS

TAX YEAR 2013

The rate of tax to be collected under section 153A by manufacturer shall be 1% of the gross amount of sales.

DEDUCTION OF TAX AT SOURCE

TAX YEAR 2012

Section	Type of Payment	Status	Rate (%)
5	Dividend income	Final Discharge	10
6	Royalty or Fee for technical services to Non - resident	Final Discharge	15
7	Shipping income of a non- resident person	Final Discharge	8
	Air transport income of a non- resident person	Final Discharge	3
148	Imports	Final Discharge	5
149	Salaries	Adjustable	Standard Rate
150	Dividends	Adjustable	5
	Received by Public Company including an Insurance Company	Final/Adjustable	10
	Others	Final/Adjustable	10
151 (a)	National Saving Deposit Certificate including DSC and NSC	Final Discharge	10
151(b)	Deposit with a banking company or a financial institution	Final Discharge	10
151(c)	Profit on bond, certificate, debenture, security or instrument of any kind issued by a banking company or a financial institution	Final Discharge	10
152	Payment to non resident - On the Gross Amount	As per below table	
153(1)(a)	Sale of rice, cotton, cotton seed or edible oil	Final Discharge	1.5
153(1)(a)	Sale of any other goods	Final Discharge	3.5
153(1)(b)	For transport services	Adjustable	2
153(1)(b)	For other services	Adjustable	6
153(1)(c)	Execution of Contracts - value less than thirty million	Final Discharge	6
153(1)(c)	Execution of Contracts - value more than thirty million	Final Discharge	6
153(1A)	Payments to non-resident media persons	Final Discharge	0.5
153(3)	Execution of Contracts - Turnkey projects	Final Discharge	8
153(3)	Execution of Contracts - hydel power project	Final Discharge	5
153(3)	Execution of Contracts - any other power project	Final Discharge	4
154	Exported Goods manufactured in Pakistan (Part I, Seventh Schedule) (Reference Section 154)	Final Discharge	1
154	Exported Goods manufactured in Pakistan (Part II, Seventh Schedule) (Reference Section 154)	Final Discharge	1
154	Exported Goods manufactured in Pakistan (Part III, Seventh Schedule) (Reference Section 154)	Final Discharge	1
154(2)	Commission on realization of foreign exchange	Adjustable	5
156	Prize Bonds, raffle, lottery or crossed-word puzzle	Final Discharge	10/20
156A	Commission or Discount on Petroleum Products	Final Discharge	10
231A	Transfer of Funds / Cash Withdrawal	Adjustable	0.20
233	Brokerage and Commission	Adjustable	10
234	Transport Business	Adjustable	Various
234A	CNG Stations	Final Discharge	4
235	Electricity	Adjustable	Various
236	Mobile / Telephone (Where bill exceeds Rs.1,000)	Adjustable	10
236A	Auction	Adjustable	5
236B	Air Tickets	Adjustable	5

PAYMENT TO NON RESIDENT

TAX YEAR 2013

Type of payment	Rate (%)
Dividends from: - a company engaged in power generation project	7.5
- others	10
Branch profit remittance tax (other than branch offices of E&P companies)	10
Technical services fee	15
Insurance premium / reinsurance premium	5
Advertisement services to a media person relaying from outside Pakistan	10
Royalty	15
Shipping income	8
Air transport income	3
Profit on debt	20
Profit on debt where nonresident does not have a PE in Pakistan	10
Others (excluding those specifically mentioned herein)	20
Execution of a contract	
- contract or sub-contract under a construction, assembly or installation project in Pakistan, including a contract for the supply of supervisory activities in relation to such project	6
- contract for construction or services rendered relating thereto	6
- a contract for advertisement services rendered by TV satellite channels	6

Withholding Tax (WHT) collected/deducted under various heads / sections of the Income Tax Ordinance, 2001 (ITO) is to be deposited u/s 160 of ITO read with rule 43(b) and 44(2) of Income Tax Rules 2002. Stating NTN or CNIC is mandatory for every person who's tax is deducted.

As required under section 160, the tax collected or deducted shall be paid to the Commissioner by way of credit to the Federal Government, where the tax has been collected or deducted by a person, by remittance to the Government Treasury or deposits in an authorized branch of the State Bank of Pakistan or the National Bank of Pakistan, within NEXT WEEK from the end of THE WEEK in which THE TAX IS DEDUCTED.

A person responsible for collecting or deducting tax under the Ordinance shall furnish a monthly statement within FIFTEEN days of the end of each month to the Commissioner.

Your suggestions and feedback will warmly be welcome.





"MGI" is leading worldwide association of independent auditing, accounting and consulting firms with more than 240 offices in more than 82 countries with head office in UK.

All MGI members offer a personal service, with high partner contact, to expanding business, both locally and globally.

Worldwide, the MGI name is a symbol of valued business relationships. Each member firm operates independently with all members subjected to regular review to ensure that high standards of service, professionalism and technical support are maintained at all times.

In Pakistan, Ilyas Saeed & Co, Chartered Accountants is the member firm of MGI, which is among the nation's leading professional services firms, providing audit and assurance, tax, consulting and management advisory services.

www.ilyassaeed.com

ILYAS SAEED & Co

Chartered Accountants

Audit & Assurance | Management Advisory | Tax

LAHORE

A-4, Sea Breeze Homes,
Shershah Block
New Garden Town, Lahore
Phones: (042) 35861852 –
35868849 Fax: (042) 35856145
Cell: 0300 8440423

KARACHI

418 Press Center
Shahrah e Kamal
Attaturk,
Karachi
Tel. (021) 32635676

ISLAMABAD

Office # 26, 2nd Floor,
Rose Plaza,
I – 8 Markaz, Islamabad
Tel. (051) 4102626 – 7.
Fax: (051) 4102628
Cell: 0300 85584235

GUJRANWALA

B – 3, 1st Floor,
Trust Plaza,
Gujranwala.
Ph: (055) 3856736,
3856782
Cell: 0300 8740402