SUMMARY OF PROPOSED CHANGES
IN FEDERAL BUDGET

BUDGET MEMORANDUM 2014

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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 2014 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
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OVERVIEW COMMENTS

Budget and Economy

The Federal Budget 2014 was announced in the National Assembly on June 3, 2014 with loads of hope from business community for relief, concessions and allowance of non availability of utility, necessarily required to make the growth in economy.

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

One thing is appreciated in this budget that there is visible difference be created with tax rate differential between filer and non-filer persons. However, it is believed that non-filer category should have been more penalized with more higher rate to force them to come in the net rather than pushing the prices in presumptive tax regime.

One aspect which the Government has overlooked is the evil of whitening the black money through foreign remittance and cover is available in 'undisclosed income' for the same. This should have been done away with. Further, with compulsion of NTN registration for any new commercial and industrial connection of utility, the same should have been made compulsory for all existing connections as well to make non-discrimination.

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

Overview of Budget

COMPARITIVE BUDGETARY POSITION

2013-14 AND 2014-15

(Rs. in Million)

Classification	Budget 2013- 14	Revised 2013- 14	Budget 2014-15
RESOURCES (a+b)	**3,010,454**	**3,681,022**	**4,073,839**
Internal Resources	**2,434,035**	**2,966,910**	**3,205,229**
Net revenue Receipts	1,917,708	2,183,807	2,225,322
Net Capital Receipts	493,226	600,058	690,618
Estimated Provincial Surplus	23,101	183,045	289,289
External Resources	**576,419**	**714,112**	**868,610**
EXPENDITURE	**3,985,437**	**4,057,293**	**4,301,745**
Current Expenditure	3,196,082	3,198,585	3,463,245
Development Expenditure	789,355	858,708	838,500
Federal PSDP	540,000	425,000	525,000
Development Loans & Grants to Provinces	77,540	144,348	151,688
Other Development Expenditures	171,815	289,360	161,813
BANK BORROWING	**974,987**	**376,271**	**227,906**
Total Current Expenditures excluding Repayment of Foreign loans	**2,829,321**	**2,935,004**	**3,130,071**

Overview of Budget

NET REVENUE RECEIPTS

(Rs. in Million)

Classification	Budget 2013- 14	Revised 2013- 14	Budget 2014-15
TAX REVENUE (A+B)	**2,671,414**	**2,513,945**	**3,129,210**
FBR Taxes……………………A	**2,475,000**	**2,275,000**	**2,810,000**
Direct Taxes	975,700	891,000	1,180,000
Indirect Taxes	1,499,300	1,384,000	1,630,000
Other Taxes………………..B	**196,414**	**238,945**	**319,210**
NON-TAX REVENUE	**748,582**	**1,083,198**	**816,294**
Income from property and Enterprise	239,913	321,274	191,992
Receipt from Civil Administration and Other Functions	316,782	389,515	417,453
Miscellaneous Receipts	191,887	372,409	206,850
Gross Revenue receipts	**3,419,997**	**3,597,142**	**3,945,504**
Provincial share in Gross Revenue	1,502,289	1,413,335	1,720,182
Net Revenue Receipts	**1,917,708**	**2,183,807**	**2,225,322**

Overview of Budget

TAX REVENUE

(Rs. in Million)

Classification	Budget 2013- 14	Revised 2013- 14	Budget 2014-15
A. FBR TAXES (I+II)	**2,475,000**	**2,275,000**	**2,810,000**
I. Direct Taxes	**975,700**	**891,000**	**1,180,000**
Taxes on Income	948,700	876,910	1,163,821
Workers Welfare Fund	21,000	13,500	15,500
Capital Value Tax (CVT)	-	590	679
Income Support Leavy	6,000	-	-
II. Indirect Taxes	**1,499,300**	**1,384,000**	**1,630,000**
Customs Duty	279,000	241,000	281,000
Sales Tax	1,053,500	1,005,000	1,171,000
Federal Excise	166,800	138,000	178,000
B. OTHER TAXES	**196,414**	**238,945**	**319,210**
Other Indirect Taxes	3,000	3,860	4,720
Airport Taxes	75	85	90
Gas Infrastructure Development Cess	38,000	88,000	145,000
Natural Gas Development Surcharge	35,339	39,000	46,400
Petroleum Levy	120,000	108,000	123,000
TOTAL TAX REVENUE	**2,671,414**	**2,513,945**	**3,129,210**

SALIENT FEATURES
Of The Budget 2014

INCOME TAX

- ✓ Definition of Filer and Non-File has been introduced
- ✓ 5% Advance Tax on issuance of Bonus shares
- ✓ Definition of Stock Fund has been inserted
- ✓ Section 4A in respect of Surcharge omitted
- ✓ Rates of Dividend has been proposed to be amended
- ✓ Capital gain on immovable property is liable to be taxed if holding period is upto 2 years
- ✓ Definition of Debt Security made part of Capital Gain on Securities
- ✓ Rates of Taxes on Capital Gain on Securities has been increased
- ✓ Income from Bonus shares fall under the head of Income from Other Sources
- ✓ Sale of Spectrum License by PTA is exempt from Tax
- ✓ Company's Share in the profits of AOP has been proposed to be excluded from Total income of AOP
- ✓ AOP Taxation has been revised
- ✓ Special Provision relating to Capital Gain tax has been substituted
- ✓ Exemptions previously available to Non-profit organization proposed to be omitted
- ✓ Tax Credit available to certain persons subject to proposed conditions
- ✓ Rate of Minimum Tax has been proposed to be revised
- ✓ Principle of Alternative Corporate taxation has been introduced
- ✓ Non- Resident persons being member of Professional Body are not liable to file Return of Income
- ✓ Removal of ambiguity regarding the Designations FBR officers
- ✓ Cost & Management Accountant be appointed as an Accountant Member of ATIR
- ✓ Withholding tax rates on Imports proposed to be revised
- ✓ Final Tax on Import of ship by ship breaker
- ✓ Withholding tax on the Directorship fee under the head Salary
- ✓ Withholding Tax rates on Dividend proposed to be revised and segregated between Filer and Non- Filer

- ✓ Withholding Tax rates on Profit on Debt proposed to be revised and segregated between Filer and Non- Filer
- ✓ Uplift in the rates of Withholding taxes on Payment for Goods and Services
- ✓ Upsurge in the Withholding tax rate on Commission or Discount to Petrol pump operators
- ✓ Compulsory registration as Taxpayer for subscribing the Utility Services
- ✓ Special Judge of Customs to exercise power on Income Tax offenses
- ✓ Increase in withholding tax rates on Cash Withdrawal for Non- Filers
- ✓ Substitution proposed on Advance tax on private motor vehicle
- ✓ Hike in the Motor vehicle tax and division of the same among Filer and Non- Filer
- ✓ Advance tax on Domestic Electricity Consumption
- ✓ Collection of Tax from Steel Melters, Re- Rollers etc.
- ✓ Proposed change in the name of withholding agent on purchase of Air ticket
- ✓ Uplift for Non-Filers in the rate of Advance tax on Sale or transfer of immovable property
- ✓ Proposed addition to levy Advance tax on Purchase or transfer of immovable property
- ✓ Proposed addition to levy Advance tax on Purchase of International Air ticket
- ✓ Proposed Imposition of Advance tax on issuance of Bonus shares
- ✓ 50% reduction in tax liability of Disabled or Over 60 Years individuals
- ✓ Compensatory allowance to a citizen on a mission abroad is now taxable
- ✓ Clauses related to Non- Profit organization has been omitted
- ✓ Exemption on Foreign Currency Bearer Certificate is proposed to be omitted
- ✓ Provision related to Collective Investment Scheme or REIT has been proposed
- ✓ Incentive to the fruit processing or Preservation units setup in FATA/ Tribal Area
- ✓ Proposed levy of 1% on receipt of Construction contracts outside Pakistan
- ✓ Concession in tax rate on establishment of industrial Undertaking
- ✓ Tax on allowances received by Pilots
- ✓ Exemption of Withholding on inter-Corporate Dividend
- ✓ Exemption of Withholding on inter-Corporate Profit on Debt
- ✓ Replacement of Clauses opting out of PTR
- ✓ Reduction in the rate of Initial allowance on Building

SALES TAX & FEDERAL EXCISE

The budgetary measures pertaining to Sales Tax & Federal Excise are primarily aimed at:

- ✓ Registration of retailers on two tier system basis.
  Enforced through amendment in the Sales Tax Special Procedure Rules, 2007, effective from 01.07.2014.

- ✓ Input tax adjustment is proposed to be restricted only to the extent of goods and services actually used in manufacturing/sales of the taxable activity
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

- ✓ Electronic scrutiny and intimations system is to be introduced.
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

- ✓ Further tax charged @ 1% on supplies made to unregistered persons is being specifically excluded from the purview of output tax.
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

- ✓ Transposition of SRO 575(I)/2006 to schedules with certain changes. Seven sectors of SRO at reduced rate have been charged to 5% sales tax. The concessions for the socially sensitive sectors shall be retained.
  Enforced through Finance Bill, 2014, and rescission of the notification, effective from 01.07.2014.

- ✓ Rationalization of sales tax on steel sector, ship breakers and steel melters operating in the sugar mills.
  Enforced through amendment in the Sales Tax Special Procedure Rules, 2007, effective from 01.07.2014.

- ✓ Transposition of SRO 727(I)/2011 to Schedule with 5% rate of sales tax. This notification grants exemption on import and supply of plant and machinery not manufactured locally subject to certain conditions. It is proposed to charge sales tax at reduced rate of 5% on such plant and machinery, subject to the same conditions, by transferring the notification to the relevant Schedule of the Sales Tax Act, 1990.
  Enforced through Finance Bill, 2014, and rescission of the notification, effective from 01.07.2014.

- ✓ Transposition of SRO 549(I)/2008, dated 11.06.2008 to Fifth Schedule. This notification grants zero-rating on certain goods, including petroleum crude oil, certain raw materials for export oriented sectors, etc. Since this zero-rating is considered essential, while the notification is required to be deleted, it is proposed to transfer the items in the notification to the Fifth Schedule of the Sales Tax Act,1990.
  Enforced through Finance Bill, 2014, and rescission of the notification, effective from 01.07.2014.

- ✓ Transposition of SRO 551(I)/2008, dated 11.06.2008 to Schedules with certain changes. This notification grants exemption to a number of goods such as raw material for pharmaceutical industry, iodized salt, medical equipment, components of energy saver lamps, renewable energy items, raw cotton and oil seeds for sowing etc. It is proposed to continue the exemption on certain items by transferring them to the Sixth Schedule of the Sales Tax Act, 1990. Re-meltable scrap (S. No. 31) is proposed to be deleted while oilseed for sowing, and raw and ginned cotton (S. No. 10 and 33) are proposed to be charged to reduced rate of sales tax @ 5% by transferring them to the relevant Schedule of the Sales Tax Act, 1990. However, local supply of raw and ginned cotton shall remain exempt by transferring to the Sixth Schedule.
  Enforced through Finance Bill, 2014, and rescission of the notification, effective from 01.07.2014.

- ✓ Transposition of SRO 501(I)/2013, dated 12.06.2013 to Schedules with certain changes. This notification grants exemption to certain goods. It is proposed to charge sales tax at reduced rate of 5% on soyabean meal, oil cake and directly reduced iron by transferring them to the relevant Schedule of the Sales Tax Act, 1990. Purpose built taxis is proposed to be deleted, being redundant. Exemption on socially sensitive goods, such as wheelchairs and energy saver lamps, is proposed to be retained by transferring them to the Sixth Schedule to the Sales Tax Act, 1990.
  Enforced through Finance Bill, 2014, and rescission of the notification, effective from 01.07.2014.

- ✓ Rescission of SRO 69(I)/2006, dated 28.01.2006. This notification grants reduced rate of sales tax 14% to rapeseed, sunflower seed and canola seed. It is proposed to rescind the said notification, thereby charging standard rate of sales tax (17%) on these seeds.
  Enforced through rescission of the notification, effective from 01.07.2014

- ✓ Transposition of zero-rating facility for dairy and stationery industry and input materials of these industries. The facility of zero-rating has already been provided under SRO 670(I)/2013, dated 18.07.2013. The facility is retained and the same is proposed to be incorporated in the Fifth Schedule.
  Enforced through Finance Bill, 2014, and rescission of the notification, effective from 01.07.2014.

- ✓ SRO 1125(I)/2011 is being revisited and it is proposed to amend the said SRO to provide for charging of sales tax at the standard rate of 17% on the import of finished articles of leather and textile.
  Enforced through amendment in the notification, effective from 01.07.2014.

- ✓ Reduction in rate of sales tax on local supply of tractors is being proposed in order to promote farm mechanization.
  Enforced through amendment in the notification, effective from 01.07.2014.

- ✓ Exemption from sales tax to import and supply of "Cochlear Implants System" (Hearing Aids) is being introduced to facilitate the handicapped.
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

- ✓ Replacement of capacity tax on aerated waters. The existing scheme shall be reverted to the normal tax regime.
  Enforced through rescission of the Federal Excise Duty and Sales Tax on Production Capacity (Aerated Waters) Rules, 2013, effective from 01.07.2014.

- ✓ The rates of Federal Excise Duty on cigarettes are proposed to be enhanced.
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

- ✓ Federal Excise Duty on the cement sector is being replaced from specific basis (Rs. 400 per MT) to 5% on retail price.
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

- ✓ Federal Excise Duty on international travel is being enhanced.
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

- ✓ Federal Excise Duty on chartered flights is being proposed to be levied at the standard rate on full amount charged
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

- ✓ Withdrawal of FED @ 10% on motor vehicles exceeding 1800cc. FED @ 10% was imposed on motor cars, Sports Utility Vehicles (SUVs) and other motor cars exceeding 1800cc through Finance Act, 2013.
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

- ✓ It is being proposed to grant exemption to high efficiency irrigation equipment and greenhouse farming equipment in order to promote agriculture.
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

- ✓ Reduction in rate of Federal Excise Duty on Telecommunication Services is being proposed in view of increase in the scope of telecommunication services with the advent of 3G and 4G technologies.
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

- ✓ Exemption on import of plant, machinery and equipment for GilgitBaltistan, Balochistan Province and Malakand Division and FATA is being proposed to promote industrialization, job creation and economic uplift of the less developed regions.
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

- ✓ Specific rates of sales tax on mobile phones is being introduced for charging of sales tax.
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

- ✓ Uniform treatment of crude palm oil is being proposed so that exemption of sales tax and charging Federal Excise Duty is being done as in case of other edible oils.
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

- ✓ Provision for specifying zones for the purpose of charging sales tax and Federal Excise Duty on the basis of prices in respective zones.
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

- ✓ Exclusion of Federal Excise Duty on Telecommunication Services subject to Provincial Sales Tax is being proposed.
  Enforced through Finance Bill, 2014, effective from 01.07.2014.

CUSTOMS

RELIEF MEASURES:

- In order to encourage industrialization and promote fruit cultivation, plant, machinery and equipment imported for setting up fruit processing and preservation industrial units in Gilgit-Baltistan, Balochistan and Malakand Division exempted from whole of customs duty.

- To generate employment and encourage industrialization, plant, machinery and equipment imported for setting up industries in FATA, exempted from whole of customs duty.

- Customs duty on UPS (PCT code 8504.4010) reduced from 20% to 15%to provide relief to general public.

- Customs duty on petroleum coke not-calcined (PCT code 2713.1100) decreased from 5% to lowest slab of 1% to reduce input costs for manufacturing concerns.

TARIFF RATIONALIZATION MEASURES:

(a) Maximum general tariff rate of 30% reduced to 25%.

(b) Exemption of duty and taxes on Hybrid Electric Vehicles (HEVs) rationalized: HEVs upto 1800 cc granted 50% exemption of duty and taxes and above 1800 cc granted 25% exemption of duty and taxes.

(c) Substitution of 0% duty slab with 1% customs duty in Tariff. Socially sensitive items continued at 0% in new Fifth Schedule to the Customs Act.

(d) Customs duty on networking equipments increased from 5% to 10%.

(e) Fixed amounts of duty and taxes on used vehicles revised upward by 10% approximately.

(f) Customs duty on flat-rolled products of alloy steel (PCT codes 72.25 and 72.26) increased from 0 and 5% to 10% to bring them at par with flat rolled products of non-alloy steel.

(g) Customs duty @ 5 % levied on import of generators above 1100 KVA (PCT code 8502.1390).

(h) A uniform rate of 15% customs duty levied on dyes except basic dyes (3204.1300) and indigo blue dyes (3204.1510) being used in textile sector.

(i) A uniform rate of 10% customs duty on all kinds of CDs/DVDs of PCT codes 8523.4000 levied.

(j) Customs duty on flavouring powders (PCT code 2106.9030) enhanced from 10% to 20% to avoid misclassification

(k) A uniform rate of 10% levied on Liquid paraffin (PCT code 2710.1995) and White oil (PCT 2710.1996) being same in nature.

(l) Customs duty on dryers (PCT code 8421.1900) increased from 5% to 10%.

(m) A uniform rate of 15% levied on starches (PCT code 11.08) to rationalize duty structure and avoid classification disputes.

(n) Customs duty on coloring matters (PCT code 3206.4990) enhanced from 5% to 10% to reduce the chance of misclassification.

(o) Customs duty on Satellite mobile phones whether or not functional on cellular networks (PCT code 8517.1230) reduced from 25% to 10%.

REVENUE MEASURES:

Regulatory duty levied on luxury goods.

INCOME TAX ORDINANCE, 2001

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

Amendments / Insertions in Definitions — Section 2

Filer — **Section 2(23A)**

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

Bonus Share — **Section 2(29)**

Exclusion of Bonus share in the definition of income has been excluded. Following words have been excluded from the definition of income;

> *"but does not include, in case of a shareholder of a company, the amount representing the face value of any bonus share or the amount of any bonus declared, issued or paid by the company to the shareholders with a view to increasing its paid up share capital"*

A new section 236M has been inserted whereby 5% advance withholding tax has been imposed on issuance of Bonus shares which shall be treated as final tax. Income arising our of bonus share shall be included under the head of income "from other source".

Non-filer — **Section 2(35C)**

means a Insertion of new definition of non-filer as; person who is not a filer. This is in line with insertion of definition of Filer u/s 2(23A)

Stock Fund — **Section 2(61A)**

New definition is inserted;
"stock fund" means a collective investment scheme or a mutual fund where the investible funds are invested by way of equity shares in companies, to the extent of more than seventy per cent of the investment;"

Surcharge — Section 4A

Surcharge @15% on tax withheld was levied for tax year 2011 only. The same section has now omitted, being redundant.

Dividend — Section 5

Tax rates for Dividend income is proposed to be changed as;

S3#	Dividend By	Rate
(a)	In the case of dividends declared or distributed by purchaser of a power project privatized by WAPDA or on shares of a company set up for power generation or on shares of a company, supplying coal exclusively to power generation projects	7.5%
(b)	in all other cases	10%

Proviso	Dividend received by a person from a stock fund	12.5% for tax year 2015 and onwards, if dividend receipts are less than capital gains
	Dividend received by a company from a collective investment scheme or a mutual fund, other than a stock fund	25% for tax year 2015 and onwards

Capital Gains — Section 37

Due to tax rate specifically given for the holding periods in First Schedule, the period stated in the section (two years) has been omitted.

Capital gains derived on immovable property (land) if it is derived within two years is taxed 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%
3	Where holding period o Immovable property is More than two years	0%

Capital gain on disposal of securities — Section 37A

Proviso for period of holding of securities for one year has been omitted, since tax rate specify the holding period.

Definition of "Debt Security" has been inserted and is made art of definition of security under Capital Gain on Securities;

"Debt Securities" means-

(a) Corporate Debt Securities such as Term Finance Certificates (TFCs), Sukuk Certificates (Sharia Compliant Bonds), Registered Bonds, Commercial Papers, Participation Term Certificates (PTCs) and all kinds of debt instruments issued by any Pakistani or foreign company or corporation registered in Pakistan; and

(b) Government Debt Securities such as Treasury Bills (T-bills), Federal Investment Bonds (FIBs), Pakistan Investment Bonds (PIBs), Foreign Currency Bonds, Government Papers, Municipal Bonds, Infrastructure Bonds and all kinds of debt instruments issued by Federal Government, Provincial Governments, Local Authorities and other statutory bodies."

Tax rates under this section are proposed as;

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%
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%
TAX YEAR 2015			
3	Where holding period of a security is less than twelve months.	2015	12.5%
4	Where holding period of a security is twelve months or more but less than twenty-four months.	2015	10%
5	Where holding period of a security is twenty-four months or more	2015	0%

Income from Other Sources — Section 39

Income arising to the shareholder of a company, from the issuance of bonus shares as amended by section 2(23A)/236M has been included in the head of income under "Income from other source".

Income of Federal Government — Section 49(4)

Proviso has been inserted to exempt income from sale of spectrum licenses by PTA, being income of Federal Government.

"Provided that the income from sale of spectrum licenses by Pakistan Telecommunication Authority on behalf of the Federal Government after the first day of March 2014 shall be

treated as income of the Federal Government and not of the Pakistan Telecommunication Authority.";

Share profits of company Section 88A

Share of profit of company derived from AOP was added to taxable income of the company with proportionate tax credit. Due to amendment in section 92, this section is proposed to be omitted.

Principle of Taxation of AOP Section 92(1)

AOP is taxed separately from its members and taxed share of members was exempt from further tax. New proviso is proposed as;

"Provided that if at least one member of the association of persons is a company, the share of such company or companies shall be excluded for the purpose of computing the total income of the association of persons and the company or the companies shall be taxed separately, at the rate applicable to the companies, according to their share.";

By insertion of this proviso, income of AOP shall be prorated before taxation, if any member of AOP is a company and company shall pay tax at corporate rate of taxation on its share of income. That portion of profit in the hands of AOP shall not be taxed.

Special provision relating to capital gain tax Section 100B

This section was inserted by Finance Act 2012 wherein Foreign Institutional investor being a person registered with NCCPL as a foreign institutional investor was exempt from capital gain tax. The same has been substituted by "a company, in respect of debt securities only"

Debt securities have duly been defined in proposed amendment in section 37A.

Tax credit for certain persons Section 100C

New section is proposed to reorganize exemption clauses given for **non-profit organizations** in Part I, Second Schedule to the Income Tax Ordinance, 2001 under this section, specifying and enhancing the conditions thereto. Consequently, relevant clauses [(58), (58A), (59) and (60)] are proposed to be omitted.

(1) Non-profit organizations, trusts or welfare institutions, as mentioned in sub-section (2) shall be allowed a tax credit equal to one hundred per cent of the tax payable, including minimum tax and final taxes payable under any of the provisions of this Ordinance, subject to the following conditions, namely:-
(a) return has been filed;
(b) tax required to be deducted or collected has been deducted or collected and paid; and
(c) withholding tax statements for the immediately preceding tax year have been filed.

(2) Persons eligible for tax credit under this section include-

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

Provided that in the case of income under the head "income from business", the exemption in respect of income under the said head shall not exceed an amount which bears to the income, under the said head, the same proportion as the said amount bears to the aggregate of the incomes from the aforesaid sources of income.

(b) a trust administered under a scheme approved by the Federal Government in this behalf and established in Pakistan exclusively for the purposes of carrying out such activities as are for the benefit and welfare of—

(i) ex-servicemen and serving personnel, including civilian employees of the Armed Forces, and their dependents; or

(ii) ex-employees and serving personnel of the Federal Government or a Provincial Government and their dependents, where the said trust is administered by a committee nominated by the Federal Government or, as the case may be, a Provincial Government;

(c) a trust or welfare institution or non-profit organization approved by Chief Commissioner for the purposes of this sub-clause;

(d) income of a university or other educational institution being run by a non-profit organization existing solely for educational purposes and not for purposes of profit;

(e) any income which is derived from investments in securities of the Federal Government, profit on debt from scheduled banks, grant received from Federal Government or Provincial Government or District Governments, foreign grants and house property held under trust or other legal obligations wholly, or in part only, for religious or charitable purposes and is actually applied or finally set apart for application thereto:

Provided that nothing in this clause shall apply to so much of the income as is not expended within Pakistan:

Provided further that if any sum out of the amount so set apart is expended outside Pakistan, it shall be included in the total income of the tax year in which it is so expended or of the year in which it was set apart, whichever is the greater, and the provisions of section 122 shall not apply to any assessment made or to be made in pursuance of this proviso.

Explanation.— Notwithstanding anything contained in the Mussalman Wakf Validating Act, 1913 (VI of 1913), or any other law for the time being in force or in the instrument relating to the trust or the institution, if any amount is set apart, expended or disbursed for the maintenance and support wholly or partially of the family, children or descendents of the author of the trust or the donor or, the maker of the institution or for his own maintenance and support during his life time or payment to himself or his family, children, relations or descendents or for the payment of his or their debts out of the income from house property dedicated, or if any expenditure is made other than for charitable purposes, in each case such expenditure, provision, setting apart, payment or disbursement shall not be deemed, for the purposes of this clause, to be for religious or charitable purposes; or

(f) any income of a religious or charitable institution derived from voluntary contributions applicable solely to religious or charitable purposes of the institution:

Provided that nothing contained in this clause shall apply to the income of a private religious trust which does not ensure for the benefit of the public."

Minimum tax on the income of certain persons — Section 113

The rate of minimum tax given under the section as 1% is proposed to be omitted with insertion of rates as specified in Division IX of Part I of First Schedule

Inserted new division for rates under this section is as;

Minimum tax under section 113

S.No	Person(s)	Minimum Tax as percentage of the person's turnover for the year
(1)	**(2)**	**(3)**
1.	(a) Oil marketing companies, Oil refineries, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds rupees one billion.); (b) Pakistan International Airlines Corporation; and (c) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production.	0.5%
2.	(a) Distributors of pharmaceutical products, fertilizers and cigarettes; (b) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990; (c) Rice mills and dealers; and (d) Flour mills.	0.2%
3.	Motorcycle dealers registered under the Sales Tax Act, 1990	0.25%
4.	In all other cases.	1%

Consequential clauses in Part III of Second Schedule for reduced minimum tax rates have been omitted.

Alternative Corporate Tax — Section 113C

New section is proposed to be inserted whereby all companies shall have to compute minimum tax on their accounting profits @17% of such income. For the said section, Accounting income, Alternate Tax Rate, Corporate Tax has been defined. This section shall not be applicable to insurance companies, companies engaged in exploration and production of petroleum, exploration and extraction of mineral deposits and Banking companies.

Any excess ACT paid over and above corporate tax shall be carried forward and shall be adjustable against normal profits for immediately following 10 years.

(1) Notwithstanding anything contained in this Ordinance, for tax year 2014 and onwards, tax payable by a company shall be higher of the Corporate Tax or Alternative Corporate Tax.
(2) For the purposes of this section.-
(a) "Accounting Income" means the accounting profit before tax for the tax year, as disclosed in the financial statements or as adjusted under sub-section (7) or sub-section (11) excluding share from the associate recognized under equity method of accounting;
(b) "Alternative Corporate Tax" means the tax at a rate of seventeen per cent of a sum equal to accounting income less the amounts, as specified in sub-section (8), and determined in accordance with provisions of sub-section (7) hereinafter;
(c) "Corporate Tax" means total tax payable by the company, including tax payable on account of minimum tax and final taxes payable, under any of the provisions of this Ordinance but not including those mentioned in sections 8, 161 and 162 and any amount charged or paid on account of default surcharge or penalty and the tax payable under this section.
(3) The sum equal to accounting income, less any amount to be excluded therefrom under sub-section (8), shall be treated as taxable income for the purpose of this section.
(4) The excess of Alternative Corporate Tax paid over the Corporate Tax payable for the tax year shall be carried forward and adjusted against the tax payable under Division II of Part I of the First Schedule, for following year.
(5) If the excess tax, as mentioned in sub-section (4), is not wholly adjusted, the amount not adjusted shall be carried forward to the following tax year and adjusted as specified in sub-section (4) in that year, and so on, but the said excess cannot be carried forward to more than ten tax years immediately succeeding the tax year for which the excess was first computed.
Explanation.- For the purpose of this sub-section the mechanism for adjustment of excess of Alternative Minimum Tax over Corporate Tax, specified in this section, shall not prejudice or affect the entitlement of the taxpayer regarding carrying forward and adjustment of minimum tax referred to in section 113 of this Ordinance.
(6) If Corporate Tax or Alternative Corporate Tax is enhanced or reduced as a result of any amendment, or as a result of any order under the Ordinance, the excess amount to be carried forward shall be reduced or enhanced accordingly.
(7) For the purposes of determining the "Accounting Income", expenses shall be apportioned between the amount to be excluded from accounting income under sub-section (8) and the amount to be treated as taxable income under sub-section (2).
(8) The following amounts shall be excluded from accounting income for the purposes of computing Alternative Corporate Tax:-
(i) exempt income;
(ii) income subject to tax under section 37A and final tax chargeable under sub-section (7) of section 148, section 150, sub-section (3) of section 153, sub-section (4) of sections 154, 156 and sub-section (3) of section 233; and
(iii) income subject to tax credit under section 65D and 65E.

(9) The provisions of this section shall not apply to taxpayers chargeable to tax in accordance with the provisions contained in the Fourth, Fifth and Seventh Schedules.
(10) Tax credit under section 65B shall be allowed against Alternative Corporate Tax.
(11) The Commissioner may make adjustments and proceed to compute accounting income as per historical accounting pattern after providing an opportunity of being heard."

Return of Income — Section 114(1)(b)

It is proposed to exclude non-resident persons registered under Chamber of Commerce & Industry or any trade or business association or any market committee or any professional body to file the return.

Correction of Designation of officers of FBR — Section 122B/127

Corrective amendments are proposed to change Regional Commissioner with "Chief Commissioner" and taxation officer to "Officer Inland Revenue"

Appointment of Appellate Tribunal — Section 130

Now along with departmental officers and chartered accountants, Cost and management accountants having experience of more than 10 years can be appointed as Accountant Member of the ATIR.

New sub section is proposed as;

(d) a person who has, for a period of not less than ten years, practiced professionally as a cost and management accountant within the meaning of Cost and Management Accountants Act, 1966 (XIV of 1966).

Imports — Section 148

The bill seeks to include import of ships by ship-breakers under final tax. Consequently, application of section 153(1)(a) shall not be applicable under clause 9AA of Part IV of second Schedule, provided ships are imported after July 1, 2014.

Further, the bill has proposed to substitute withholding tax rates under imports as follows;

S. No.	PERSONS	RATE
1	i) Industrial undertaking importing remeltable steel (PCT Heading 72.04) and directly reduced iron for its own use ii) Persons importing potassic fertilizers in	1% of import value as increased by customs-duty, sales tax and

	pursuance of Economic Coordination Committee of the cabinet's decision No. ECC-155/12/2004 dated the 9 2004; iii) Persons importing urea; and iv) Manufacturers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31December, 2011 dated the 31, 2011.	federal excise duty
2	Persons importing pulses	2% of import as increased by customs-duty, sales tax and federal excise duty
3	Commercial importers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31 December, 2011.	3% of import value as increased by customs-duty, sales tax and federal excise duty
4	Ship breakers on import of ships	4.5%
5	Industrial undertakings not covered under S. Nos. 1 to 4	5.5%
6	Companies not covered under S. Nos. 1 to 5	5.5%
7	Persons not covered under S. Nos. 1 to 6	6%

Salary Income — Section 149(3)/(4)

The bill seeks to tax directorship fee under the head 'Salary income withholding tax" at the rate of 20% which shall be adjustable tax.

The new insertion is proposed as;

(3) Notwithstanding anything contained in sub-sections (1) and (2), every person responsible for making payment for directorship fee or fee for attending board meeting or such fee by whatever name called, shall at the time of payment, deduct tax at the rate of twenty percent of the gross amount payable .

(4) Tax deductible under sub-section (3) shall be adjustable.

Dividend — Section 150

Major change in this deduction of tax on dividend is difference of tax rate for filer and non-filer. Tax rates to be deducted under dividend income are proposed to be changed as follows;

	Category	Tax Rate
(a)	In the case of dividends declared or distributed by purchaser of a	7.5%

	power project privatized by WAPDA or on shares of a company set up for power generation or on shares of a company, supplying coal exclusively to power generation projects;	
(b)	For filers other than mentioned in (a) above	10%
(c)	For non-filers other than mentioned in (a) above	15%

Consequently, clause 17 of Part II of Second Schedule has been omitted.

Provided that the rate of tax required to be deducted by a collective investment scheme or a mutual fund shall be-

	Stock Fund	**Money market Fund, Income Fund or any other fund**
Individual	10%	10%
Company	10%	25%
AOP	10%	10%

Provided further that in case of a stock fund if dividend receipts of the fund are less than capital gains, the rate of tax deduction shall be 12.5%

Profit on Debt — Section 151

The bill seeks to make distinction on tax deduction on profit on debt in case of filer and non-filer. However, profit up to Rs.500,000/- shall have no distinction for filer or non-filer and both cases, the tax rate shall be 10%. The rates are proposed as;

The rate of tax to be deducted shall be;
- ✓ *10% of the yield or profit for filers; and*
- ✓ *15% of the yield or profit paid, for non-filers:*

Provided that for a non-filer, if the yield or profit paid is rupees five hundred thousand or less, the rate shall be ten per cent";

Any excess tax deducted in case of non-filer is made adjustable tax against other tax liability. Bill seek to insert proviso as;

"Provided that in the case of a non-filer other than a company the final tax shall be equal to the tax deductible in the case of filer and the tax deducted in excess of that shall be advance income tax adjustable against tax liability."

Payments to Sports Person under the contracts — Section 153

Withholding tax rates under section 153 have been substituted to include

Section	Payment by	Old Rates (%)	New Rates (%)
153(1)(a)	Sale of rice, cotton, cotton seed or edible oil	1.5	1.5
153(1)(a)	Sale of any other goods in case of company	3.5	4
153(1)(a)	Sale of any other goods in case of other taxpayer	4	4.5
153(1)(b)	For transport services	2	2
153(1)(b)	For other services in case of company	6	8
153(1)(b)	For other services in case of other taxpayer	7	10
153(1)(c)	Execution of Contracts in case of company	6	7
153(1)(c)	Execution of Contracts in case of other taxpayer	6.5	7.5
153(1)(c)	Execution of Contracts in case of sports person	-	10
153(2)	Services by Exporter or Export House	0.5	1

The bill seek to include "contracts signed by sports person" in the preview of "Contracts" which shall be subjected to tax @10% for non-corporate person and shall be treated as final discharge.

Further, by including tax rates of rice, cotton seed etc herein this table, consequential clauses of 13E, 13HH has been omitted in Part II of Second Schedule.

Petroleum Products Section 156A

The bill seek to enhance withholding tax rate for every person selling petroleum products to a petrol pump operator from 10% to 12% on the amount of commission or discount allowed to the operator.

Compulsory registration in certain cases Section 181AA

The bill seek to insert new section whereby every person seeking commercial or industrial connection of utility shall be required to be registered as taxpayer under Income Tax Ordinance.

> ***181AA. Compulsory registration in certain cases.-*** *(1) Notwithstanding anything contained in any law, for the time being in force , any application for commercial or industrial connection of electricity or natural gas, shall not be processed and such connection shall not be provided unless the person applying for electricity or gas connection is registered under section 181.*

Trial by Special Judge Section 203

The bill seek to insert new proviso whereby special judge under appointed under Customs Act shall have the jurisdiction to try offences under Income Tax Ordinance.

The newly proposed proviso is;

"Provided that the Federal Government may, by, notification in official Gazette, declare that a special judge appointed under section 185 of the Customs Act 1969 (IV of 1969) shall have jurisdiction to try offences under this Ordinance."

Cash Withdrawal — Section 231A

The bill seeks to enhance cash withdrawal advance tax rate for non-filer as 0.5% against existing rate for filers as 0.3% on any cash over and above Rs.50,000 withdrawn from a bank in a day.

Advance tax on private motor vehicles — Section 231B

Earlier, advance tax was only applicable by E&T Department at the time of new locally manufactured car. The bill seek to enhance the advance tax by E&T Department at the time of new registration of new locally motor vehicle or jeep, at time of transfer of registration or ownership. Further every manufacturer of a motor car or jeep, who shall collect advance tax at the time of sale of a motor car or jeep

Exemption is granted only in case of imported vehicle where advance tax is paid at the time of import.

New proposed section is read as;

231B. Advance tax on private motor vehicles.— *(1) Every motor vehicle registering authority of Excise and Taxation Department shall collect advance tax at the time of registration of a new locally manufactured motor vehicle, at the rates specified in Division VII of Part IV of the First Schedule.*

(2) Every motor vehicle registering authority of Excise and Taxation Department shall collect advance tax at the time of transfer of registration or ownership of a private motor vehicle, at the rates specified in Division VII of Part IV of the First Schedule.

(3) Every manufacturer of a motor car or jeep shall collect, at the time of sale of a motor car or jeep, advance tax at the rate specified in Division VII of Part IV of the First Schedule from the person to whom such sale is made.

(4) Sub-section (1) shall not apply if a person produces evidence that tax under sub-section (2) in case of a locally manufactured vehicle or tax under section 148 in the case of imported vehicle was collected from the same person in respect of the same vehicle.

(5) The advance tax collected under this section shall be adjustable:

Provided that the provisions of this section shall not be applicable in the case of –

(a) the Federal Government;
(b) a Provincial Government;
(c) a Local Government;
(d) a foreign diplomat; or
(e) a diplomatic mission in Pakistan.

Further, rates of advance tax have been changed in case of filer and non-filer person. New rates proposed under this section as per Division VII of Part IV of First Schedule are;

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

Brokerage and Commission — Section 233

The bill seeks to enhance withholding tax rates in the following cases as follows;

Section	Payment by	Old Rates (%)	New Rates (%)
233	Commission & Brokerage of Advertising agents	5	7.5
233	Commission & Brokerage in all other cases	10	12

Tax on Motor Vehicle — Section 234

Further, the bill seeks to enhance the existing rates of advance tax at the time of of motor vehicle tax by E & T Department. Further, distinction has been made in filer and non-filer cases;

S. No.	Engine Capacity	Tax for filer	Tax for Non-filer
(1)	(2)	(3)	(4)
1.	Upto 1000cc	Rs. 1,000	Rs. 1,000
2.	1001cc to 1199cc	Rs. 1,800	Rs. 3,600
3.	1200cc to 1299cc	Rs. 2,000	Rs. 4,000
4.	1300cc to 1499cc	Rs. 3,000	Rs. 6,000
5.	1500cc to 1599cc	Rs. 4,500	Rs. 9,000
6.	1600cc to 1999cc	Rs. 6,000	Rs.12,000
7.	Above 2000cc	Rs.12,000	Rs.24,000

Where motor vehicle tax is collected in lumpsum;

S. No.	Engine Capacity	Tax for filer	Tax for Non-filer
(1)	(2)	(3)	(4)
1.	Upto 1000cc	Rs. 10,000	Rs. 10,000
2.	1001cc to 1199cc	Rs. 18,000	Rs. 36,000
3.	1200cc to 1299cc	Rs. 20,000	Rs. 40,000
4.	1300cc to 1499cc	Rs. 30,000	Rs. 60,000
5.	1500cc to 1599cc	Rs. 45,000	Rs. 90,000
6.	1600cc to 1999cc	Rs. 60,000	Rs.120,000
7.	Above 2000cc	Rs.120,000	Rs.240,000

Domestic electricity consumption — Section 235A

Advance tax is proposed to be imposed on consumption of electricity bill where electricity bill exceeds Rs.100,000 per month @7.5%.

The tax collected under this section shall be adjustable tax against tax liability.

Tax on Steel Melters, re-rollers etc — Section 235B

The bill seek to impose collection of tax from every steel melter, steel re-roller, composite steel units, registered under Chapter XI of Sales Tax Special Procedure Rules, 2007 at the rate of one rupee per unit of electricity consumed for the production of steel billets , ingots and mild steel (MS products) excluding stainless steel .

The tax collected under this section shall be deemed to be the tax required to be deducted under sub-section (1) of section, on the payment for local purchase of scrap. Consequently, application of section 153(1)(a) shall not be applicable under clause 9A of Part IV of second Schedule.

Tax collected under this section shall be non-adjustable and credit of the same shall not be allowed to any person.

Advance Tax on purchase of Air Ticket — Section 236B

The bill proposes to substitute 'person preparing' with "airline issuing" as a withholding agent to collect advance tax under this section.

The advance tax collected under this section is adjustable. The Board shall prescribe the time, manner and mode for collection of such tax.

Advance tax on sale or transfer of immoveable property — Section 236C

The bill seeks to enhance advance tax for non-filer as 1% against existing rate for filers as 0.5% in case of registering or transfer of any immovable property at the time of registering or attesting the transfer of .immovable property.

Advance tax on purchase or transfer of immovable property — Section 236K

The bill seeks to introduce collection of tax by registering / transfer authority at the time of registering or attesting the transfer shall collect advance tax at the following rates;

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

The tax so collected shall be adjustable tax. However, this imposition of tax shall not be applicable on the scheme introduced by the Federal, Provincial Governments for expatriate Pakistanis.

The newly proposed section read as;

(1) Any person responsible for registering or attesting transfer of any immovable property shall at the time of registering or attesting the transfer shall collect from the purchaser or transferee advance tax at the rate specified in Division XVIII of Part IV of the First Schedule.

(2) The advance tax collected under sub-section (1) shall be adjustable.

(3) The advance tax under this section shall not be collected in the case of the Federal Government, a Provincial Government, a Local Government or a foreign diplomatic mission in Pakistan.

(4) Nothing contained in this section shall apply to a scheme introduced by the Federal Government, or Provincial Government or an Authority established under a Federal or Provincial law for expatriate Pakistanis.

Advance Tax on Purchase of International Air Ticket — Section 236L

The bill proposes to impose advance tax on purchase of First/Business/Club class International Air Ticket, to be collected by the Airline operating in Pakistan.

The rate of tax shall be 3% for filer and 6% for non-filer. The tax collected shall be adjustable tax.

Bonus Shares — Section 236M

The bill proposes to impose advance tax on issuance of Bonus shares by every person issuing bonus shares to a shareholder of the company, shall collect tax at the rate of five per cent on the value of the bonus shares determined on the basis of day-end price on the first day of closure of books.

The company issuing bonus shares shall make adequate arrangements for collection of such tax and in case of default, said tax shall be collected from the company, without prejudice to any other liability which it may incur under this Ordinance.

Tax required to be collected under this section shall be a final tax on the income of the shareholder of the company arising from issuance of bonus shares.

FIRST SCHEDULE

Reduction for Disabled or Over 60 years; Div I, Part I, 1B

The tax liability shall be reduced by 50%where the taxable income in a tax year, other than income on which the deduction of tax is final, does not exceed one million rupees of a person;
(i) holding a National Database Registration Authority's Computerized National Identity Card for disabled persons; or
(ii) a taxpayer of the age of not less than sixty years on the first day of that tax year,

With insertion of reduction tax rate for persons over 60 years here in First Schedule,

SECOND SCHEDULE

EXEMPTION FROM TOTAL INCOME Part I

Various amendments / omissions have been proposed in this part. The important ones are;

Compensatory Allowance on a mission abroad Clause 35

The bill seek to omit the clause related to any compensatory allowance to a citizen of Pakistan locally recruited in Pakistan mission abroad as does not exceed 75% of his gross. salary. By omission in this clause, all compensatory allowance shall be taxable.

Non Profit Organizations Clause 58/58A/59/60

The said clauses have been omitted related to non-profit organizations. These have now been made part of the Statute in section 113C.

Foreign Currency Bearer Certificates Clause 81A/88A

The exemption to holders of Foreign Currency Bearer Certificates and holders Federal Government Securities and redeemable capital is proposed to be omitted.

Collective Investment Scheme or REIT — Clause 99

Income of Collective investment scheme or REIT is exempt provided 90% of its accounting income of that year is distributed. A new proviso is proposed whereby bonus shares, units or certificates shall not be taken into account to determine this 90% share.

> *"Provided that for the purpose of determining distribution of at least 90% of accounting income, the income distributed through bonus shares, units or certificates as the case may be, shall not be taken into account."*

Industrial Undertaking — Clause 126

Redundant clause related to previous periods which are no more applicable has been substituted. New proposed substituted clause shall make exempt "Any income derived by a public sector university"

Fruit processing or preservation unit — Clause 126H

The bills seeks to make new insertion, whereby; Profits and gains derived by a taxpayer, from a fruit processing or preservation unit set up in Balochistan Province, Malakand Division, Gilgit-Baltistan and FATA between the first day of July, 2014 to the thirtieth day of June, 2017, both days inclusive, engaged in processing of locally grown fruits, for a period of five years beginning with the month in which the industrial undertaking is setup or commercial production is commenced, whichever is later.

REDUCTION IN TAX RATES — Part II

Construction Contracts outside Pakistan — Clause 3

Amendment is proposed whereby construction contracts outside Pakistan shall be charges to tax at the rate of 1% on gross receipts.

Industrial Undertaking — Clause 18A

The bill seeks to promote industrialization in the country by introducing concession in tax rate by 20% for the following industrial set up, provided fifty percent capital is injected by FDI.

"The rate of tax as specified in Division II of Part I of the First Schedule shall be reduced to 20% for a company setting up an industrial undertaking between the first day of July, 2014 to the thirtieth day of June, 2017, for a period of five years beginning from the

month in which the industrial undertaking is set up or commercial production is commenced, whichever is later:
Provided that fifty percent of the cost of the project including working capital is through owner equity foreign direct investment."

REDUCTION IN TAX LIABILITY Part III

Allowance received by Pilots Clause 1AA

Total allowances received by pilots of any Pakistani airlines shall be taxed at a rate of 7.5%, provided that the reduction under this clause shall be available to so much of the allowances as exceeds an amount equal to the basic pay

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 Clause 56(B)/(C)/(D)/(E)/(F)/(G)

Following clauses which were inserted by Finance Act 2012 are now being proposed to be replaced by insertion of new clauses as;

> *(56B) The provisions of sub-section (7) of section 148, and clause (a) of sub-section (1) of section 169 shall not apply to a person being a commercial importer if the person opts to file return of total income along with accounts and documents as may be prescribed, subject to the condition that minimum tax liability under normal tax regime shall not be less than 5.5%, of the imports, if the person is a company and 6% otherwise.*

(56C)The provisions of sub-section (3) of section 153, in respect of sale of goods and clause (a) of sub-section (1) of section 169 shall not apply to a person, if the person opts to file return of total income along with accounts and documents as may be prescribed subject to the condition that minimum tax liability under normal tax regime shall not be less than 3.5% of the gross amount of sales, if the person is a company and 4% otherwise.

(56D) The provisions of sub-section (3) of section 153, in respect of contracts and clause (a) of sub-section (1) of section 169 shall not apply to a person if the person opts to file return of total income along with accounts and documents as may be prescribed subject to the condition that minimum tax liability under normal tax regime shall not be less than 6% of contract receipts, if the person is a company and 6.5% otherwise.

(56E) The provisions of sub-section (2) of section 153 and clause (a) of sub-section (1) of section 169 shall not apply in respect of a person if the person opts to file return of total income along with accounts and documents as may be prescribed subject to the condition that minimum tax liability under normal tax regime shall not be less than 0.5% of gross amount of services received.

(56F)The provisions of sub-section (2) of section 156A and clause (a) of sub-section (1) of section 169 shall not apply in respect of a person if the person opts to file return of total income along with accounts and documents as may be prescribed, subject to the condition that minimum tax liability under normal tax regime shall not be less than 10% of the commission or discount received.

(56G)The provisions of sub-section (3) of section 233 and clause (a) of sub-section (1) of section 169 shall not apply in respect of a person if the person opts to file return of total income along with accounts and documents as may be prescribed, subject to the condition that minimum tax liability under normal tax regime shall not be less than 10% of the commission.

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 20% to 10%.

SEVENTH SCHEDULE

BANKING COMPANIES

Tax on income computed — Rule 6

The income from 'Dividend" and "Capital Gain" is proposed to be changed as "Net income from Dividend" and "Net income from Capital Gains" and shall be taxed at 10% and 12.5% respectively.

Computation of net income from Dividend & Capital Gains Rule 6A/6B

After proposed amendment in Rule 6 s above, computation for net income is proposed to be computed as hereunder;

For the purpose of rule 6, net income from dividend shall be computed according to the following formula, namely:- where-
(A/C) x B
A is the total amount of expenditure as per this Schedule;
B is the gross amount of dividend received; and
C is the gross amount of receipts including dividend.

For the purpose of rule 6, net income from capital gains shall be computed according to the following formula, namely:- where-
(A/C) x B
A is the total amount of expenditure as per this Schedule;
B is the gross amount of capital gains; and
C is the gross amount of receipts including capital gains

SALES TAX ACT, 1990

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

Sales tax on the import and supply of Goods specified in Eight Schedule — Section 3(2)(aa)

Scope of Tax has been enhanced by insertion of new section whereby goods specified in the Eighth Schedule shall be charged to tax at such rates and subject to such conditions and limitations as specified therein.

Eighth Schedule has been proposed to include soya bean meal, oil cake and directly reduced iron to be charged @5% Sales Tax. Further, import of oilseeds meant for sowing, raw cotton and ginned cotton, plant and machinery not manufactured locally and having no compatible local substitute to be charged @5% Sales Tax. These items were exempt under different SRO previously. [Currently through SRO 501(I)/2013, dated 12.06.2013]

Further, Plant, machinery, equipment and apparatus, including capital goods, specified column (2) of the Annexure to the Schedule, falling under the HS Codes specified in column (3) of that Annexure, shall be charged to sales tax at the rate of five percent. Certain conditions have been imposed besides on import of the same. These items include Machinery and equipment for development of grain handling and storage facilities, Cool chain machinery and equipment, items imported by Call Centers, Business Processing Outsourcing facilities duly approved by Telecommunication Authority, Machinery, equipment, materials, capital goods, specialized vehicles, Construction machinery, equipment and specialized vehicles, Machinery, equipment and other capital goods meant for initial installation, balancing, modernization, replacement or expansion of oil refining (mineral oil, hydro- cracking and other value added petroleum products), petrochemical and petrochemical downstream products including fibers and heavy chemical industry, cryogenic facility for ethylene storage and handling, etc.

Sales tax on the import and supply of Goods specified in the Ninth Schedule — Section 3(3B)

New insertion has been made whereby sales tax on the import and supply of the goods specified in the Ninth Schedule to this Act shall be charged, collected and paid at the rates, in the manner, at the time, and subject to the procedure and conditions as specified therein or as may be prescribed, and the liability to charge, collect and pay the tax shall be on the persons specified therein. The liability to pay sales tax at the time of import of cellular mobile phones or satellite phones shall be on the importer. [Currently through SRO 460(I)/2013 dated May30, 2013]

Ninth Schedule specify items with sales tax thereon as;
Low Priced Cellular Mobile, Rs.150 per phone
Medium Priced Cellular, Rs.200 per phone
Smart Cellular Mobile, Rs.500 per phone

Sales Tax on CNG stations — Section 3(8)

The bill seeks to enhance sales tax in case of supply of natural gas to CNG stations, the Gas Transmission and Distribution Company shall charge sales tax from the CNG stations at the rate of seventeen per cent (previously it was nine percent) of the value of supply to the CNG consumers, but excluding the amount of tax

Through Amendment Ordinance, 2014, sub-section (8) of section 3 and section 3B of the Sales Tax Act, 1990 were substituted. It is being proposed to get approval of the Parliament to the changes made through the President Ordinance.
Enforced through Finance Bill, 2014, effective from 01.07.2014.

Sales Tax on Retailers — Section 3(9)

Retailers of international and national chains in air-conditioned malls are to be charged sales tax through their electricity bills at 5% and 7.5% in addition to sales tax charged on supply of electricity.

Chargeability of the sales tax @ 5% in case of monthly electricity bill up to Rs. 20,000 and @7.5% of the monthly electricity bill exceeding Rs. 20,000

The new insertion read as;

> *"Tax shall be charged from retailers through their monthly electricity bills, at the rate of five per cent where the monthly bill amount does not exceed rupees twenty thousand and at the rate of seven and half per cent where the monthly bill amount exceeds the aforesaid amount, subject to the exclusions, procedure, restrictions and limitations as prescribed in Chapter II of the Sales Tax Special Procedure Rules, 2007:*
> *Provided that the tax under this sub-section shall be in addition to the tax payable on supply of electricity under sub-sections (1), (1A) and (5)."*

Enforced through amendment in the Sales Tax Special Procedure Rules, 2007, effective from 01.07.2014.

Zero Rating — Section 4

Zero rated goods as specified by the Board has now been proposed to change only to the extent of "goods supplied at reduced rate of sales tax".

Determination of tax liability — Section 7

For the said section, output tax is restricted by excluding further tax of section 3(1A). Now, if the input tax is in excess of the aggregate of output tax and further tax, then the amount of further tax shall be paid separately and such excess shall be carried forward for adjustment against the output tax for subsequent tax periods.

Further, new insertion is proposed whereby a registered person shall not be entitled to deducted input tax from output tax unless;

The goods and services against which input tax is claimed are,–

(a) imported or purchased for the purpose of sale or re-sale by the registered person on payment of tax;
(b) used directly as raw material, ingredient, part, component or packing material by the registered person in the manufacture or production of taxable goods;
(c) electricity, natural gas and other fuel consumed directly by the registered person in his declared business premises for the manufacture, production or supply of taxable goods; or
(d) plant, machinery and equipment used by the registered person in his declared business premises for the manufacture, production or supply of taxable goods

Tax Credit not allowed — Section 8

The bill seeks to enhance the limitation of tax credit claim by restricting it further by insertion of new sub clauses. A registered person shall not be entitled to reclaim or deduct input tax paid on;

(f) goods and services not related to the taxable supplies made by the registered person;
(g) goods and services acquired for personal or non-business consumption;
(h) goods used in, or permanently attached to, immoveable property, such as building and construction materials, paints, electrical and sanitary fittings, pipes, wires and cables, but excluding such goods acquired for sale or re-sale or for direct use in the production or manufacture of taxable goods; and
(i) vehicles falling in Chapter 87 of the First Schedule to the Customs Act, 1969 (IV of 1969), parts of such vehicles, electrical and gas appliances, furniture, furnishings, office equipment (excluding electronic cash registers), but excluding such goods acquired for sale or re-sale.

Electronic scrutiny and intimation — Section 20B

The bill seeks to empower the Board to implement a computerized system for the purpose of automated scrutiny, analysis and cross-matching of returns and other available data relating to registered persons and to electronically send intimations to such registered persons about any issue detected by the system.

The intimation sent by the computerized system shall be in the nature of an advice or advance notice, aimed at allowing the registered person to clarify the issue, rectify any mistake or take other corrective action before any legal or penal action is initiated.

The Board may prescribe procedures and specifications for the smooth and efficient operation of the computerized system.

Zero Rated Supplies — **Fifth** Schedule

In addition to existing list of zero rated items, following list has been added to zero rate list by addition or excluding the same from exempt list;
[Currently through SRO 549(I)/2008 and SRO 670(I)/2013]
9. Goods exempted under section 13, if exported by a manufacturer who makes local supplies of both taxable and exempt goods.
10. Petroleum Crude Oil (PCT heading 2709.0000).
11. Raw materials, components, sub-components and parts, if imported or purchased locally for use in the manufacturing of such plant and machinery as is chargeable to sales tax at the rate of zero percent, subject to the condition that the importer or purchaser of such goods holds a valid sales tax registration showing his registration category as "manufacturer"; and in case of import, all the conditions, restrictions, limitations and procedures as are imposed by Notification under section 19 of the Customs Act, 1969 (IV of 1969), shall apply.
12. The following goods and the raw materials, packing materials, sub-components, components, sub-assemblies and assemblies imported or purchased locally for the manufacture of the said goods, subject to the conditions, limitations and restrictions as specified in Chapter XIV of the Sales Tax Special Procedure Rules, 2007:–

(i) Colors in sets (PCT heading 3213.1000)
(ii) Writing, drawing and marking inks (PCT heading3215.9010 and 3215.9090)
(iii) Erasers (PCT heading 4016.9210 and 4016.9290)
(iv) Exercise books (PCT heading 4820.2000)
(v) Pencil sharpeners (PCT heading 8214.1000)
(vi) Geometry boxes (PCT heading 9017.2000)
(vii) Pens, ball pens, markers and porous tipped pens(PCT heading 96.08)
(viii) Pencils including color pencils (PCT heading 96.09)
(ix) Milk including flavored milk (PCT heading 04.01 and 0402.9900)
(x) Yogurt (PCT heading 0403.1000)
(xi) Cheese (PCT heading 0406.1010)
(xii) Butter (PCT heading 0405.1000)
(xiii) Cream (PCT heading 04.01 and 04.02)
(xiv) Desi ghee (PCT heading 0405.9000)
(xv) Whey (PCT heading 04.04)
(xvi) Milk and cream, concentrated and added sugar or other sweetening matter (PCT heading 0402.1000)
(xvii) Preparations for infant use put up for retail sale (PCT heading 1901.1000)
(xviii) Fat filled milk (PCT heading 1901.9090)
(xix) Bicycles (PCT heading 87.12).

Zero Rated Supplies — Sixth Schedule

Exemptions granted vide SRO 551(I)/2008, dated 11.06.2008 is proposed to continue by transferring them to the Sixth Schedule of the Sales Tax Act, 1990. These items include; Poultry, Dairy, Stationery, Construction materials to Gawadar Export Processing Zone's investors and to Export Processing Zone, Raw and pickled hides and skins, wet blue hides and skins, finished leather, and accessories, components and trimmings, if imported by a registered leather goods manufacturer, for the manufacture of goods wholly for export, Substances registered as drugs under the Drugs Act, 1976, Raw materials for the basic manufacture of pharmaceutical active ingredients and for manufacture of pharmaceutical products, Components or sub-components of energy saver lamps, Goods imported temporarily with a view to subsequent exportation, as concurred by the Board, renewable source of energy like solar and wind, White crystalline sugar, cardiology/cardiac surgery, neurovascular, electrophysiology, endosurgery, endoscopy, oncology, urology, gynecology, disposables and other equipment, etc

SPECIAL SALES TAX REGIME FOR EXPORT ORIENTED SECTORS

SRO 1125(I)/2011 provides special sales tax regime for export oriented sectors.

As per the 'Salient Features' to the Finance Bill, the standard rate of 17% shall be payable on the import of finished articles of leather and textile instead of present rate as prescribed in the said SRO.

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CUSTOMS ACT

Following changes made in the Customs Act, 1969:

(a) In section 2, clauses (k) and (m) merged in a single definition of "customs-station".

(b) In section 7, words "Central Excise" substituted with the word "Federal Excise".

(c) In section 18, new subsection 1A is inserted to add the Fifth Schedule to the Customs Act, 1969 to levy specified conditional rates of customs duty on goods and class of goods.

(d) In section 18A the words "Central Excise and Salt Act, 1944" substituted with the words "Federal Excise Act, 2005"

(e) To ensure rational applicability of valuation data in cases of imported goods, clause

(d) of sub-section (5) of section 25 omitted. Resultantly, reference to clause (d) in sub section (6) also omitted.

(f) The word "taxes" inserted in sub-sections (2), (3) and (3A) of section 32 to recover non-levied and short levied taxes.

(g) The words "taxes and other charges levied thereon" inserted in sub-section (3) of section 80 to include taxes and other charges on reassessment of goods.

(h) For uniformity of the two provisions in subsection (1), the words "taxes and other charges levied thereon" inserted.

(i) Under the Control of Narcotics Substances Act, 1997 cases involving narcotics and narcotic substances are to be tried in Special Courts created under the said Act. Necessary change made in section 185B.

(j) In Sub-sections (3) of section 194 the words "Customs and Excise Group" are proposed to be substituted by "Customs Service of Pakistan" in line with section 202B. Further, the word "five" is proposed to be substituted with the word "three" to bring experience of a senior Collector for appointment as technical member of the Appellate Tribunal, at par with section 130 of Income Tax Ordinance, 2001.

Your suggestions and feedback will warmly be welcome.

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