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Federal Budget 2017

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FEDERAL BUDGET 2017

This memorandum gives a brief overview of Pakistan economy and significant amendments proposed by the Finance Bill 2017. All changes proposed through the Finance Bill 2017 are effective July 1, 2017 except certain amendments which will be effective on the next day of assent given by the President.

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

May 27, 2017

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KEY ECONOMIC INDICATORS

Economic Survey 2016-17

It is widely acknowledged that Pakistan has immense economic potential. According to a report published by PricewaterhouseCoopers in 2017, Pakistan is projected to become the world's 20th largest economy by 2030 and 16th largest by 2050. Several other reputed international publications such as Bloomberg, Economist etc, have also acknowledged the impressive economic gains of Pakistan in the last four years.

The accommodative monetary policy stance, increase in development spending, substantial growth in private sector credit, inspired activities in the power sector, friendly and pro-growth policies for real sector growth, such as relief measures and in particular for the agriculture sector, were instrumental in achieving this impressive growth performance.

Given these positive developments, the broadbased growth is expected to continue. The country's outlook is brightened and looks promising on the back of agricultural recovery, rebound in industrial activities and inflow of investment under CPEC. The CPEC will not only further develop Pakistan but also strengthen human ties across both sides of the border. Along the CPEC route, new industrial zones should open opportunities for investment, particularly for small and medium sized auxiliary businesses. Joint ventures between Pakistan and Chinese corporations should promote strategic development and mutual assistance. China is rapidly technologically advancing and therefore business collaboration should bring this knowhow on our doorsteps.

	FY 16 – 17	*FY 15 – 16*
GDP growth rate	5.28%	4.50%
Per capita income - US$	1,629	1,531
FDI (July – April) US$ million	1,733	1,537
Inflation	4.1%	2.8%
Public debt (PKR billion)		
- **Domestic**	14,748	13,627
- **Foreign**	6,124	6,051
	20,872	19,678
Budget deficit - %age of GDP	3.9%	3.5%

Source: Economic Survey of Pakistan 2016-2017

BUDGET AT GLANCE

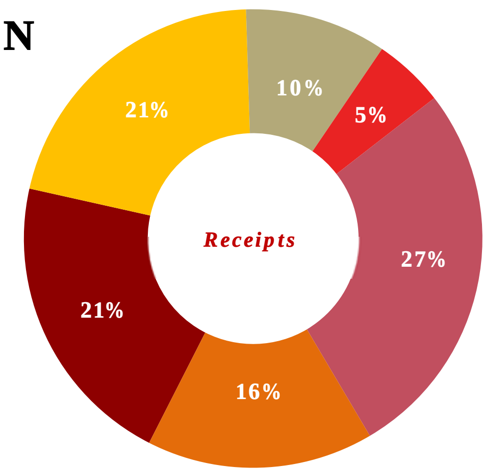
Budget Financials

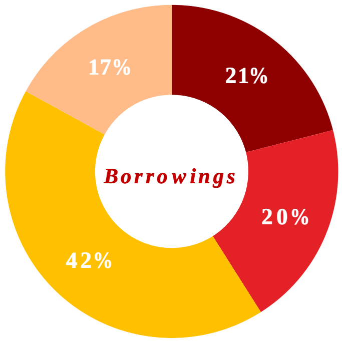
The following table sets out the Key Budget Financials:

	2017-2018		2016-2017 (Revised)	
	Rs in Billion	**%**	**Rs in Billion**	**%**
Tax revenue	4,330		3,825	
Non-tax revenue	980		912	
Gross revenue receipts	5,310		4,737	
Public account receipt – net	213		165	
Total receipts	5,523	100	4,902	100
Less: Provincial share in Federal taxes	(2,384)	(43)	(2,121)	(43)
Net revenue receipts	3,139	57	2,781	57
Expenditure				
- Current expenditure	3,852	70	4,050	83
- Development expenditure	1,340	24	936	19
	5,192	94	4,986	102
Deficit	**(2,053)**	**(37)**	**(2,205)**	**(45)**
- Domestic debts non-bank	428		160	
- Domestic debts banks	390		741	
- Foreign debts / grants	838		996	
- Privatization proceeds	50		18	
- Surplus from provinces	347		290	
	(2,053)		**(2,205)**	

WHERE FROM THE RUPEE COMES IN AND WHERE IT GOES OUT

IN





- Income Tax (21%)
- Sales Tax (21%)
- Customs Duty (7%) and FED (3%)
- Petroleum levy, Gas Infrastructure Cess & Others (5%)
- Borrowings (27%)
- Non-tax revenue (16%)

- Domestic debts non-bank (21%)
- Domestic debts banks (20%)
- Foreign debts (42%)
- Surplus from provinces (17%)

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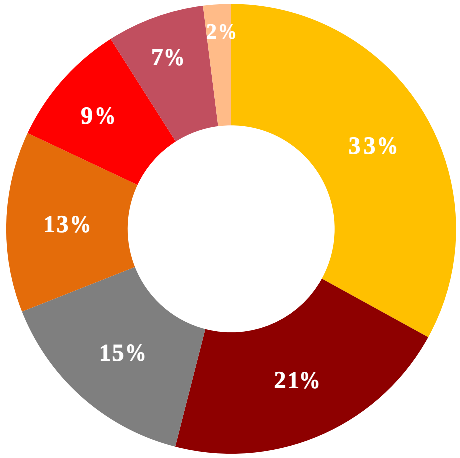


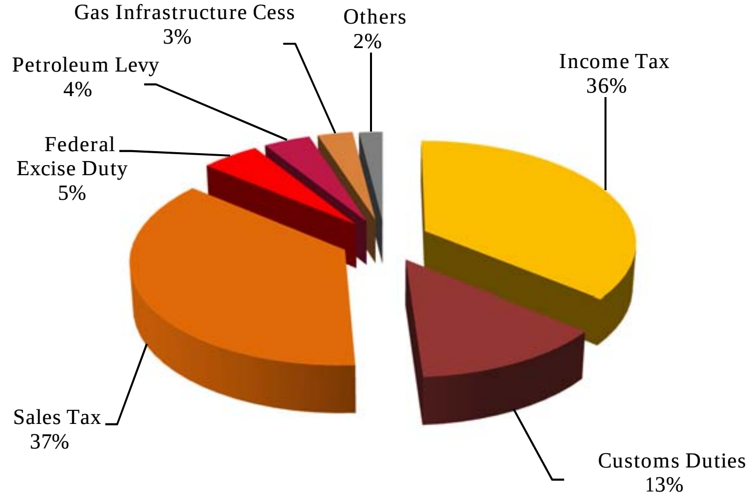
- Provincial share in Federal taxes (33%)
- Debt servicing (21%)
- Development expenditure (15%)
- Defence Affairs and Services (13%)
- Federal Government expenses including pensions (9%)
- Grants and transfers (7%)
- Subsidies (2%)

BREAK-UP OF TAX REVENUE

There is no substantial change in the ratio of direct and indirect taxes.

A substantial and incremental shift is required to decrease disparity in income and reduce the burden of indirect taxes on common man.

	FY 17 – 18 Rs in Billion	FY 16 – 17 (Revised) Rs in Billion
Direct Taxes:		
• Income Tax	1,578	1,364
• Workers' Welfare Fund	15	13
	1,593	1,377
Indirect Taxes:		
• Customs Duty	581	491
• Sales Tax	1,605	1,445
• Federal Excise Duty	231	206
• Petroleum Levy	160	155
• Gas Infrastructure Cess	110	80
• Natural Gas Surcharge	43	65
• Others	7	6
	2,737	2,448
	4,330	3,825



INCOME TAX

CONCEPT OF STARTUP BUSINESS & RELATED INCENTIVES

A new definition of 'Startup Business' has been introduced for persons (being a resident individual, Association of Persons or Company having annual turnover of less than Rs 100 Million in last five tax years) engaged in technology driven products or services certified by Pakistan Software Export Board (PSEB). The profits of such businesses have been exempted from tax, including minimum tax, for a period of three tax years. Withholding tax will also not apply on payments received by such businesses.

Such entities will be exempt from tax in the tax year in which the entity is certified by PSEB and subsequent two tax years.

Existing undertakings engaged in similar businesses incorporated or registered on or after July 1, 2012 are also entitled to this exemption.

The nature of technology driven products and rendering of such services would have to be prescribed for the practical implementation of this concession.

EXTENSION OF SUPER TAX FOR REHABILITATION OF TEMPORARILY DISPLACED PERSONS FOR ANOTHER YEAR

Super tax for rehabilitation of temporarily displaced persons as introduced in tax year 2015 as 'one time levy' for banking companies at 4% and companies having income above Rs 500 Million at 3% was extended in 2016. This has been further extended for tax year 2017.

Consequential amendments are required to be made in the Seventh Schedule relating to Banking Companies.

TAX ON UNDISTRIBUTED PROFITS

The tax on undistributed reserves has been substituted by a new concept of tax on undistributed profits for the year of every public company other than scheduled bank and modaraba.

The salient features of this new regime are as under:

(i) Tax shall be payable on profits for the year if not distributed upto 40%.

(ii) Distribution will include cash distribution as well as issue of bonus shares.

In the earlier regime, such tax was payable where the company did not distribute 40% of after-tax profits or 50% of paid up capital, whichever was less. Now, the applicability is solely based on the profits for the year if distribution during the year is less than the prescribed limit.

The new regime shall remain inapplicable on Power Companies and State owned companies.

Distribution relates to the 'accounting profit' of a company, accordingly, it would have to be prescribed in the law that the term 'profit' for the purpose of applicability of this section in relation to distribution represents the accounting profit.

The concept of taxation of undistributed profits needs to be examined in the context and in comparison to the tax incidence for a non-corporate entity and multiple taxation on the same income.

EXTENSION OF TIME PERIOD FOR TAX CREDIT ON ENLISTMENT OF COMPANIES

Tax credit for enlistment is presently available for two tax years at 20% of the tax payable. The said tax credit will now be available for four tax years in the following manner:-

(i) For first two years (including the year of enlistment) at the rate of 20%;

(ii) For following two years at the rate of 10%.

NON-PROFIT ORGANIZATIONS (NPOs)

Prior to Finance Act, 2014, NPOs were exempt from tax under the Second Schedule. Through Finance Act, 2014 a special regime was introduced through section 100C whereby exemption was substituted by 100% tax credit. This tax credit is available to NPOs on fulfilling conditions inter alia prescribed in Rule 213.

As per the statement of the Finance Minister in the Budget Speech, non-fulfilment of certain conditions disentitled the NPOs from whole of the tax credit as available under the Ordinance. It appears that the amendments have been made in order to avoid such eventuality.

In the Bill, it is proposed that in case of all NPOs:

(i) The administrative expenses will not exceed 15% of total receipts;

(ii) The surplus funds as defined in the said section will be taxed at 10%.

The term surplus funds has been defined in the Bill as under:

"Surplus funds mean funds or monies:

(i) *not spent on charitable and welfare activities during the tax year;*

(ii) *received during the tax year as donations, voluntary contributions, subscriptions and other incomes;*

(iii) *or more than 25% of the total receipts of the NPO received during the tax year;*

(iv) *are not part of the restricted funds.*

*Explanation: For the purposes of this sub-*section, *"restricted funds" means any fund received by the organization but could not be spent and treated as revenue during the year due to any obligation placed by the donor."*

There appears to be a drafting error in above definition as the amount received as donations, voluntary contributions, subscriptions and other incomes cannot be held as surplus funds. It is considered that appropriate draft of the definition of surplus fund may be as under:

"surplus fund means amounts received during the year as donations, voluntary contributions, subscriptions and other incomes not spent on charitable and welfare activities during the year and not part of the restricted funds, if the unspent amount is more than 25% of the total receipts during the tax year."

The proposed amendment does not appear to be in line with the rationale in the Finance Minister's speech as the amount of surplus funds will now be taxed in almost all cases. The proposed amendment needs to be withdrawn as it results in taxation of a non-profit organization which is neither correct nor in line with the above referred rationale.

This is not the right course of action as 'Not for Profit Organizations' by their very nature are not taxable entities as such income is available only for welfare and charitable purposes. The restriction on the quantum of expenditure may be justified in certain cases however tax on surplus funds is not desirable as the same funds will ultimately be used only for charitable, welfare and not for profit purposes.

However, Rule 213 needs to be aligned with the proposed amendments in section 100C.

CORPORATE TAX

The rate of tax for companies for the tax year 2018 shall be 30% as prescribed in the First Schedule.

RATE OF TAX ON DIVIDENDS

The rate of tax and withholding on dividend is proposed to be increased as under:

DIVIDEND RECEIVED FROM	INCREASED FROM
Company	12.5 to 15 percent for ‘filers’ only
Mutual Funds	10 to 12.5 percent

CAPITAL GAINS ON DISPOSAL OF SECURITIES

Capital gains on disposal of securities shall be subject to tax at a flat rate of 15 % [20% for non-filer] for securities acquired on or after July 1, 2013.

The revised table is as under.

Holding period	Tax rate					
	Tax Year 2015	Tax Year 2016	Tax Year 2017		Tax Year 2018 and onwards	
			Filer	Non-Filer	Filer	Non-Filer
Where holding period of a security is less than twelve months	12.5%	15%	15%	18%	15%	20%
Where holding period of a security is twelve months or more but less than twenty-four months	10%	12.5%	12.5%	16%		
Where holding period of a security is twenty-four months or more but the security was acquired on or after 1st July, 2013	0%	7.5%	7.5%	11%		
Where the security was acquired before 1st July, 2013	0%	0%	0%	0%	0%	0%
Future commodity contracts entered into by members of Pakistan Mercantile Exchange	0%	0%	5%	5%	5%	5%

ENHANCEMENT OF MINIMUM TAX

The rate of minimum tax on turnover has been enhanced from 1% to 1.25%.

FIXED TAX REGIME FOR BUILDERS AND DEVELOPERS

Fixed tax regime for builders and developers was introduced through Finance Act 2016. Under this regime, the tax incidence was based on the area constructed / developed instead of net income from such project. This regime has been rescinded with effect from tax year 2018. Consequently, persons eligible to such schemes will now be taxable under normal regime from tax year 2018 and onwards. Furthermore, the Scheme will not be applicable even for tax year 2017 for those persons who have not paid tax under the Scheme as prescribed in Rule 13S.

ADMINISTRATIVE EMPHASIS ON BROADENING OF TAX BASE AND TRANSFER PRICING

This is a positive step for improving tax culture in the country. Under the present system, the matters relating to broadening of tax base and transfer pricing are held / undertaken by the regular field force. This has resulted in lack of emphasis on these two sensitive tax matters which are essential for the development of effective tax culture in the country. As a matter of administrative reform and to bring Pakistan’s present system in line with international best practices, two new directorates for broadening of tax base and transfer pricing have been established.

The Directorate of transfer pricing will be empowered to conduct independent transfer pricing audits. This will be in addition to the regular tax audits undertaken by the field forces.

SPECIAL WITHHOLDING MECHANISM FOR SERVICE RECEIPTS

In the media, travel and other service industries, there is a prevalent practice (as also prescribed in the FBR’s Circulars) that the payment to the service provider and agents is split according to certain basis and the withholding obligations rest with the payer on payment to the service provider and the agent respectively.

In certain cases, the service providers were required by the Tax Department to ensure compliance to withholding provisions on agent's service fees. Furthermore, in some cases, there were disallowances on that account by invoking section 21(c) of the Ordinance.

The Supreme Court of Pakistan in a recent judgement reaffirmed that the withholding obligations arise only when there is 'actual payment' by a person. In the aforesaid cases, there is no actual payment by the service provider to the agents.

Under the proposed amendment, the agent or a third person shall be treated to have been paid service charges or fee by the service provider. The service provider shall collect withholding tax on agent's service charges alongwith their service receipts.

In order to remove the potential exposure for the payer / end customer with regard to non-deduction of tax on agent's service charges appropriate provisions be introduced in the law to the effect that there will be no withholding tax obligation on the payer / end consumer as the same has been shifted to the service provider.

COMMON REPORTING STANDARDS

Common Reporting Standards which were introduced by way of insertion of Chapter XIIA in the Income Tax Rules, 2002 have now been made part of the main law under section 165B. This has provided legislative cover to the amendments earlier made in the Rules.

Penalty has also been prescribed for non-compliance with the provisions relating to Exchange of Information and Common Reporting Standards.

PENALTY PRESCRIBED FOR TRANSFER PRICING

Through Finance Act, 2016, requirement for maintaining certain prescribed transfer pricing related documentation was introduced. Now, it is proposed that in the case of failure to maintain the said transfer pricing documentation, the penalty at 1 percent of the value of transactions can be imposed.

The transfer pricing related documents have, however, not yet been prescribed in the Rules.

ADVANCE RULING

The option available to non-resident taxpayers having permanent establishment seeking advance ruling from the Board has been reinstated.

SALES PROMOTION EXPENDITURE OF PHARMA COMPANIES

The expenditure incurred on sales promotion of pharmaceutical companies in excess of 5% of turnover was not considered as admissible expenditure. The aforesaid limit has been enhanced to 10%. This provision has already been challenged by certain taxpayers in High Court where the matter is pending.

ARRANGEMENTS WITH ISLAMIC FINANCIAL INSTITUTIONS FOR DEPRECIABLE ASSETS

As a matter of clarificatory amendment, it has been prescribed that where depreciable asset is jointly held by a taxpayer and Islamic Financial Institution under a Musharika or diminishing Musharika arrangement, such asset will be deemed to be owned by the taxpayer for the purpose of claiming depreciation. This clarification has been introduced in order to dispel the impression that under such arrangements the assets are not treated to be held by taxpayer.

IMPLEMENTATION PROCESS FOR TAX CONCESSIONS BY FEDERAL GOVERNMENT

The process of providing exemption and tax concessions in the Second Schedule is subject to the prescribed procedure. In the present circumstances such process requires the approval of the Federal Government, which as held by the Supreme Court of Pakistan could only be the Prime Minister and his Cabinet.

Now, the process of exemptions and tax concessions can be initiated by the Federal Board of Revenue with the approval of the Minister Incharge subject to approval of Economic Coordination Committee.

Consequently any notification issued from July 1, 2016 onwards is validated on account of this amendment upto June 30, 2018.

Similar amendments have also been made in Customs Act, Sales Tax and Federal Excise Act.

EDUCATION EXPENDITURE

The prescribed limit of taxable income for deductible allowance for education expenditure has been enhanced from Rs 1 Million to Rs 1.5 Million.

TAX CREDIT ON SALE TO REGISTERED PERSONS

In order to provide incentive for sales tax registration, a tax credit at 3% of the tax liability was introduced for manufacturers. The Finance Minister in his Speech stated that no concrete result has been achieved on this account accordingly the tax credit is being abolished.

The present scheme provides incentive for documentation and hence should be continued.

CONCESSIONAL LOANS TO EMPLOYEES

Where the employer provides interest free / concessional loans to their employees, a deemed interest at prescribed rate is added to employee's taxable income. The loans below Rs 500,000 are not subject to such incidence. The said limit for the application of law has been increased to Rs 1 Million.

DIVIDENDS FROM NON-RESIDENT COMPANIES

Dividend received from non-resident companies are to be taxed in a manner similar to the dividends received from resident companies. Nevertheless, the provisions of sub-section 3 of section 94 were prone t0 misinterpretation resulting in taxation of the dividend income from non-resident companies at the rate higher than the maximum rate of tax on dividend income as per section 5. The said provision has been hence omitted.

PROVISIONAL ASSESSMENT ABOLISHED

The concept of provisional assessment, which was introduced in 2010 has been deleted.

However, in case the taxpayer fails to file a return, the Officer still has the power to frame a best judgement assessment under section 121 of the Ordinance.

TIME FOR REVISION OF WEALTH STATEMENT

Wealth statement could be revised on discovering a wrong statement or omission any time before the issuance of an assessment order. Now, such revision cannot be made after the receipt of notice under section 122 (9) of the Ordinance.

EXTENSION IN FILING OF RETURN

Chief Commissioner is now specifically empowered to grant extension for a further period of fifteen days unless there are exceptional circumstances justifying a longer extension in time for filing the return of income.

APPOINTMENT OF JUDICIAL MEMBER

The provision enabling the appointment of an Inland Revenue Officer as a Judicial Member of the Appellate Tribunal has been deleted.

TAX COLLECTED ON IMPORTED FERTILIZER MADE FINAL

Tax collected at import stage on Fertilizers imported by the manufacturer of fertilizer is now subject to the final tax regime.

EXEMPTION CERTIFICATE FACILITY EXTENDED TO CERTAIN NON-RESIDENTS

The permanent establishments of a non-resident person engaged in the following activities will now also be entitled to exemption certificate, if they do not opt for final tax regime:-

(i) contracts or sub-contract under construction, assembly or installation project in Pakistan;

(ii) contract for construction or services rendered relating thereto;

(iii) contract for advertisement services by T.V Satellite channels.

Previously, such facility of exemption was only available to permanent establishments of non-residents who were engaged in supply of goods, rendering of services and execution of contracts.

REVISION OF WITHHOLDING STATEMENTS ALLOWED

Withholding tax statements are now allowed to be revised within sixty days of filing on discovery of any omission or wrong statement.

DEFAULT SURCHARGE ON ADVANCE TAX OF SPECIAL TAX YEAR

The calculation of default surcharge on delayed payment of advance tax in the case of companies having special tax year has been aligned with that of a company following a normal tax year i.e. from the first day of the fourth quarter of the respective tax year.

TAX COLLECTED FROM STOCK EXCHANGE MEMBERS

The commission income of members of the Stock Exchange will now be subject to final tax regime.

CNG STATIONS

Tax liability of CNG stations shall be the aggregate amount of tax collected on electricity and gas bills. If there is any other tax collection or deduction on account of CNG stations then the said amount will be now refundable to them.

The bill also proposes a separate rate of advance tax for non-filers at the rate of 6% of the gas consumption charges. Currently, the applicable rate is 4 % for both filers and non-filers.

MINIMUM TAX ON IMMOVABLE PROPERTY ACQUIRED AND SOLD IN SAME TAX YEAR

The tax collected by registering authority on transfer of immovable property shall be the minimum tax on income of the seller if it is acquired and disposed of in the same tax year.

TAX COLLECTION BY PAKISTAN TOBACCO BOARD

Pakistan Tobacco Board is now required to collect advance tax at the rate of 5% of the purchase value of tobacco from persons purchasing tobacco including manufacturers of cigarettes. The tax so collected shall be adjustable against the income of the purchasers. This measure has been introduced to curtail the manufacture of illicit and non-duty paid cigarettes.

PROFIT ON DEBT

The present rates of tax on profit on debt of non-corporate taxpayers are as under:

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

The rate of tax on profit on debt has been proposed to be revised as under:

Profit on Debt	Rate of tax
Where profit on debt does not exceed Rs.5 Million	10%
Where profit on debt exceeds Rs.5 Million but does not exceed Rs.25 Million	12.5%
Where profit on debt exceeds Rs.25 Million	15%

WITHHOLDING TAX ON CERTAIN PAYMENTS MADE TO NON-RESIDENTS

The rate of withholding tax on payments to the below non-residents being non-filers is proposed to be enhanced from 12% to 13%:

- a 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 projects.
- any other contract for construction or services rendered, other than a contract for 'technical services'.
- a contract for advertisement services rendered by T.V., Satellite Channels.

The rate of tax on payments made to the permanent establishment of non-resident in Pakistan in case of non-filers is proposed to be increased as under:

Rate of Tax	Supply of goods		Rendering of services	
	Company	Others	Company	Others
Existing	6%	6.5%	12%	15%
Proposed	7%	7.75%	14%	17.5%

WITHHOLDING TAX ON PAYMENTS TO RESIDENTS FOR GOODS, SERVICES AND CONTRACTS

In case of payments made to resident non-filers, the rate of tax deduction is proposed to be increased as under:

Description	Rate of tax	
	Present	Proposed
Supply of goods:		
- Company	6%	7%
- Others	6.5%	7.75%
Rendering of services:		
- Company	12%	14.5%
- Others	15%	17.5%
Execution of contract:		
- Company	10%	12%
- Others	10%	12.5%

In the case of supplies made by the distributors of Fast Moving Consumer Goods, the rate of tax deduction is proposed to be reduced as under:

Rate of Tax	Company	Others
Existing	3%	3.5%
Proposed	2%	2.5%

WITHHOLDING TAX ON PROPERTY INCOME

The applicable rate of withholding tax on income from property received by a Company being a non-filer is proposed to be increased from 15% to 17.5%.

TAX WITHHOLDING ON PRIZES AND WINNINGS

The rate of withholding tax on a prize on prize bond or crossword puzzle, is proposed to be enhanced from 20% to 25% for non-filer.

TAX WITHHOLDING ON PETROLEUM PRODUCTS

The rate of collection on petroleum products is proposed to be increased from 15% to 17.5% for non-filer.

ADVANCE TAX ON TELEPHONE AND INTERNET SUBSCRIBERS

The rate of advance tax in case of subscribers of internet, mobile telephone and prepaid internet or telephone cards is proposed to be reduced from 14% to 12.5%.

ADVANCE TAX ON PURCHASE, REGISTRATION AND TRANSFER OF MOTOR VEHICLES

In case of filers, the rate of advance tax on registration or transfer is proposed to be reduced in the following cases:

Engine capacity	Tax Amount	
	Existing	Proposed
Upto 850 cc	10,000	7,500
851 cc to 1000 cc	20,000	15,000
1001 cc to 1300 cc	30,000	25,000

ADVANCE TAX AT THE TIME OF SALE BY AUCTION

Tax at the rate of 15% is proposed to be collected from non-filers purchasing any property or goods through public auction. Presently, the applicable rate is 10% for both filers and non-filers.

ADVANCE TAX ON SALES TO RETAILERS

Presently, every manufacturer, distributor, dealer, wholesaler or commercial importer of specified goods at the time of sale to retailers and every distributor or dealer at the time of sale to wholesaler are required to collect advance tax at 0.5%.

The Bill proposes to increase the rate to 1% for non-filers and for sale of electronics by filers.

ADVANCE TAX ON INSURANCE PREMIUM

The lower limit for collection of advance tax by insurance companies on life insurance premium from non-filers is proposed to be enhanced from Rs. 0.2 million to Rs. 0.3 million in aggregate.

EXEMPTION FROM TOTAL INCOME

Income or classes of income derived by following persons or class of persons have been proposed to be exempt from tax:

- Asian Infrastructure Investment Bank and persons as provided in Article 51 of Chapter IX of the Articles of Agreement signed and ratified by Pakistan and entered into force on December 25, 2015;
- Gulab Devi Chest Hospital;
- Pakistan Poverty Alleviation Fund;
- National Academy of Performing Arts;
- Profit on debt received by Japan International Cooperation Agency (JICA) from Islamabad-Burhan transmission Reinforcement Project (Phase I) undertaken in pursuance to the loan agreement for Islamabad-Burhan transmission Reinforcement Project (Phase I);and
- A political party registered under the Political Parties Order, 2002 with the Election Commission of Pakistan.

EXEMPTION FROM SPECIFIC PROVISIONS

1. Import of specified petroleum products

The exemption from the withholding tax provisions of section 148 has been proposed to be extended to the following entities importing specified petroleum products:

- Z&M Oils (Pvt) Ltd,
- Exceed Petroleum (Pvt) Ltd,
- Petrowell (Pvt.) Ltd,
- Quality-1 Petroleum (Pvt) Ltd,
- Horizon Oil Company (Pvt) Ltd,
- Outreach (Pvt) Ltd,
- Kepler Petroleum (Pvt) Ltd

2. Hajj Group Operators

Following exemptions / concessions available to Hajj Group Operators operating Hajj Operations are proposed to continue for tax year 2017, provided they discharge their tax liability at Rs. 5,000 per Haji:

(i) exempt from Minimum Tax under section 113;
(ii) exempt from application of section 152; and
(iii) compliance of payment through banking channel for payments exceeding Rs. 10,000.

3. Import of raw materials

Presently, taxpayers are allowed to apply for exemption from tax collection on import of raw materials, provided tax liability of current tax year, determined on the basis of tax liability of higher of the two preceding tax years, is paid. That facility was however, subject to certain requirements which inter alia included a restriction that exempted quantity of raw material should not exceed 110 per cent of the quantity imported / consumed in the last tax year.

The aforesaid ceiling of 110 per cent has now been proposed to be enhanced to 125 per cent.

4. Minimum Tax on Service Sector Companies

Service sector companies were subjected to Minimum Tax Regime under section 153 of the Ordinance vide Finance Act, 2015, wherein tax withholding at applicable rate was made Minimum Tax (8%). The said regime was however rationalized for thirteen service sectors for the period July 1, 2015 till June 30, 2017, under Clause (94) of Part IV of Second Schedule to the Ordinance.

The said rationalized scheme is proposed to be extended from June 30, 2017 to June 30, 2018, provided taxpayer files an irrevocable undertaking by November, 2017 to present its accounts to the Commissioner for audit of its tax affairs.

In addition to thirteen sectors, services rendered by Pakistan Stock Exchange have been proposed to avail rationalized Minimum Tax Regime, subject to fulfilment of prescribed conditions.

5. Cash Withdrawals from Branchless Banking Agent Account

The provisions of advance tax under section 231A has been proposed not to apply in respect of cash withdrawal made from a "Branchless Banking (BB) Agent Account" utilized to render branchless banking to customers.

6. Advance tax on motor vehicle registration

The provisions of advance tax under section 231B(1A) has been proposed not to apply to light commercial vehicles leased under the Prime Minister's Youth Business Loan Scheme.

TAXATION OF BANKING COMPANIES

Income, profit and gains of a banking company is taken to be the balance of the income, from all sources before tax, as disclosed in the annual accounts required to be furnished to the State Bank of Pakistan, subject to certain specified provisions. One such provision includes exclusion of adjustment made in the annual accounts on application of international accounting standards 39 and 40.

An explanation has been proposed to be introduced to clarify that such exclusion shall not be construed so as to allow notional loss, or charge to tax any notional gain on any investment under any regulation or instruction unless all the events that determine such gain or loss have occurred and the gain or loss can be determined with reasonable accuracy.

This explanation is in line with the underlying accounting concept of accrual and the provisions of section 34(3) of the Ordinance. Accordingly, this explanation will only be applicable in cases where there are any regulatory provisions which does not comply with the principles of accrual.

COLLECTION OF CAPITAL GAINS TAX BY NCCPL

Presently, NCCPL is required to furnish statement of capital gains and tax thereon to Board for a quarter within thirty days of the end of that quarter. The time limit for filing of the said statement has been proposed to be extended to forty five days of the end of the quarter.

Currently, NCCPL is required to deposit amount collected on behalf of Board in National Bank of Pakistan [NBP] by July 31st of the next following financial year in which the amount was collected. The due date for depositing the said amount with NBP has now been proposed to be extended to August 15.

SALES TAX

SPECIAL REGIME FOR CERTAIN RETAILERS/WHOLESALERS

Through Chapter II of Sales Tax Special Procedure Rules, 2007, 'retailers' (other than those operating on small scale) were given an option to pay a single stage 2% sales tax on 'total turnover' (including exempt supplies) instead of generally applicable VAT mode of taxation.

The aforesaid regime was not being implemented by certain retailers on the basis of their contention that a special regime [tax incidence based on electricity bills] is applicable on their activities.

The aforesaid rules were, however, struck down by Lahore High Court holding that Federal Government acted out of jurisdiction while enacting such Rules.

The regime as contained in the Rules is now proposed to be enacted through insertion of sub-section 9A in section 3 of the Sales Tax Act, 1990 ('ST Act') to address the legal infirmities identified by Lahore High Court. This resultantly mean that such retailers are now required to discharge their sales tax liability on the basis as prescribed.

This regime, however, excludes the turnover representing export oriented items covered under notification SRO 1125(I)/2011 in respect whereof sales tax was to be charged at reduced or nil rates.

SALES TAX ON IMPORTED GOODS MEANT FOR CONSUMPTION IN FATA/ PATA ETC.

Under the presently applicable provisions of section 3(1)(b) of the ST Act, goods "imported" into Pakistan are subject to levy of sales tax.

Such provisions are now proposed to be amended to include the goods imported, irrespective of their final destinations to such places where ST Act is not applicable.

The said amendment is apparently aimed to neutralize the effect of Peshawar High Court's judgment whereby it has been held that goods imported for consumption in territories, where ST Act is not applicable (FATA/PATA etc.), are not subject to levy of sales tax.

LEVY OF 'FURTHER TAX' ON ZERO-RATED SUPPLIES

In the context of 'zero rated' supplies made under notification SRO 1125(I)/2011 [covering export oriented items], Lahore High Court had recently ruled that 'zero rated' supplies did not attract 'further tax', section 3(1A) of the ST Act being subservient to section 4 of the ST Act, where under a particular supply is zero rated.

The effect of such judgment is proposed to be done away with through introduction of appropriate amendments in sections 3(1A) and 4 of the ST Act.

This amendment will have prospective effect.

OFFENCES AND PENALTIES

It is proposed to introduce harsher penalties for persons involved in illicit manufacture and trade of 'cigarettes' and in this respect a new entry is proposed to be inserted in Table to section 33 of the ST Act.

STAY AGAINST RECOVERY SUBJECT TO DEPOSIT OF 25% OF DEMAND

In line with the scheme embodied in Income Tax Ordinance, a *proviso* is proposed to be inserted in section 48 of the ST Act to provide that where a demand has been settled to the extent of 25%, no coercive measures could be adopted by department for recovery of remainder unless the disposal of appeal against assessment order by Commissioner Inland Revenue, Appeals.

EXEMPTIONS

Import and supply of following items have been proposed to be exempted from levy of sales tax through insertion of following entries in Table I to the Sixth Schedule to the Act:

Entry No.	Description	HS Code
100C	Vehicles imported by China Overseas Ports Holding Company Limited (COPHCL) and its operating companies.	Respective headings
134	Goods received as gift or donation from a foreign government or organization by the Federal or Provincial Governments or any public sector organization subject to recommendations of the Cabinet Division and concurrence by the Federal Board of Revenue.	9908.
135	Sunflower and canola hybrid seeds meant for sowing	Respective headings
136	Combined harvesters up to five years old	8433.5100
137	Single cylinder agriculture diesel engines (compression-ignition internal combustion piston engines) of 3 to 36 HP, and CKD kits thereof.	8408.9000

The scope of exemption presently available in respect of 'import and supply' of following items have been proposed to be elaborated/ enhanced in the following manner:

Entry No.	Description
84	Preparations suitable for young children have also been included in addition to those for 'infants'.
97	Markers and porous tipped pens have also been specified in addition to pens and ball pens.
100A	Material and equipment for construction of Gwadar Port etc. have been elaborated to include "plant, machinery, equipment, appliances and accessories"

Further, through modification of Entry Nos. 14 and 15 and insertion of Entry Nos. 14A and 15A in Table 3 to the Sixth Schedule, it is proposed that exemption presently available in respect of equipment and accessories relating to renewable energy sources (solar, wind, geothermal) or technologies (LEDs) is elaborated by specifying the nature and respective tariff headings of such equipment/ accessories.

ZERO RATING

Zero rating for 'preparations for infant use' enlarged to include 'preparations for young children' as well.

REDUCED RATE OF SALES TAX

Fertilizer industry

Fertilizer products (other than Urea) are presently subject to tax under 'retail price regime'. Such products are proposed to be subject to sales tax at following fixed rates per bag:

Description	Sales tax rate Rs per 50 kg Bag
NP(22-20)	168
NP(18-18)	165
NPK-I	251
NPK-II	222
NPK-III	341
SSP	31
CAN	98

Since, fertilizer products manufactured from LNG are already subject to reduced rate of 5%, above fixed taxes have been proposed only in respect of fertilizers manufactured from natural gas other than LNG.

Presently, natural gas supplied to fertilizer manufacturer is subject to tax at standard rate of 17% whereas supply of fertilizers is subject to sales tax at the rate of 10%.

This disparity results in the accumulation of sales tax refunds for fertilizer industry.

It is proposed that natural gas supplied to fertilizer products is made subject to tax at reduced rate of 10% in order to harmonize the input and output tax rates.

Such reduced rate, however, is proposed to be applicable only if natural gas is used in production of 'Urea'. This harmonization should be extended to all input related to the fertilizer industry.

'Phosphoric acid' imported by fertilizer companies for manufacture of DAP is proposed to be reduced to 5%.

Others

Reduced rated of 5% for technology related equipment (set top boxes for gaining access to internet, TV broadcast transmitter, reception apparatus for receiving satellite signals of a kind used with TV (satellite dish receivers) and other set top boxes) extended for financial year 2017-18.

Poultry related equipment has been proposed to be subject to reduced rate of tax @ 7%.

For education institutions, rate of tax on import of multimedia projectors has been reduced to 10%.

Supply of locally produced coal is proposed to be subject to tax at higher of 17% of value of supply or Rs 425 per metric tonne.

SALES TAX ON MOBILE PHONES

Sales tax rates on cellular mobile phones (other than smartphones) are proposed to be harmonized at Rs 650. At present, while low priced mobiles/ satellite phones are subject to tax at Rs 300, medium priced category is taxed at Rs 1,000.

ANNOUNCEMENTS THROUGH SALIENT FEATURES

Through 'Salient Features' issued along with the Budget documents, certain measures have been announced, however, the enabling enactments are expected to be made through notifications in due course.

Certain significant announcements are as under:-

(i) Withdrawal of Sales Tax withholding on supplies between registered persons with the exception of advertisement services subject to Islamabad Capital Territory (Tax on Services) Ordinance, 2001;

(ii) The rate of tax on retail sales of five export oriented sectors is being enhanced from 5% to 6%.

(iii) It is also proposed that sales tax on commercial imports of fabrics will be applicable at the rate of 6%.

(iv) Services which are subjected to sales tax on turnover basis without input tax adjustment under Provincial Sales Tax laws are proposed to be taxed in the similar manner under the Islamabad Capital Territory (Tax on Services) Ordinance, 2001.

(v) Exemption from sales tax is also proposed on export of IT services.

(vi) The existing rate of Rs 9 per unit of electricity is proposed to be enhanced to Rs 10.5 per unit with corresponding increase in ship breaking and other allied industry.

FEDERAL EXCISE DUTY

GENERAL

Excise Duties are essentially levied to discourage consumption of undesirable items. Over the time, the Excise Duties were gradually reduced, phased out and substituted by VAT regime.

LOCALLY MANUFACTURED CIGARETTES

Amendments are proposed to enhance the scope of penalty provisions to include counterfeited tax stamps, banderoles, stickers, labels or barcodes used for tax evaded or counterfeited cigarettes.

The levy of Excise is proposed to be revised as below subject to certain restrictions on reduction on retail price and minimum price.

Description of goods	Revised rate	
	Current	Proposed
Locally produced cigarettes if their on-pack printed retail price exceeds Rs 4,400* per 1,000 cigarettes.	Rs 3,705 per 1,000 cigarettes	Rs 3,740 per 1,000 cigarettes
Locally produced cigarettes if their on-pack printed retail price does not exceeds Rs 4,400 per 1,000 cigarettes.	Rs 1,649 per 1,000 cigarettes	
Locally produced cigarettes if their on-pack printed retail price is between Rs 2,925 and Rs 4,500 per 1,000 cigarettes.		Rs 1,670 per 1,000 cigarettes
Locally produced cigarettes if their on-pack printed retail price does not exceeds Rs 2,925 per 1,000 cigarettes.		Rs 800 per 1,000 cigarettes

* *This is Rs 4,500 effective from July 1, 2017.*

CEMENT

The levy of excise duty on various types of cement, classified under PCT heading 25.23, is proposed to be increased from “Re 1 per kg” to “Re 1.25 per kg”, with effect from July 1, 2017.

TELECOMMUNICATION SERVICES

In order to streamline the incidence of tax on nationwide basis, the Federal Excise Duty on telecommunication services [applicable only on Islamabad Capital Territory] is proposed to be reduced from “18.5% of the charges” to “17% of the charges”, with effect from July 1, 2017.

RECOVERY OF DEMAND

It is proposed to provide stay against recovery of any tax due if the taxpayer has deposited 25% of the tax demand, where the Commissioner (Appeals) has not decided the appeal. This proposed stay would not be limited to 6 months as previously allowed on payment of 15% of the tax demanded.

STRUCTURAL AMENDMENTS TO STREAMLINE ADMINISTRATIVE AUTHORITIES

It is proposed to streamline the performance of functions of Chief Commissioner and Commissioner in respect of such persons as directed by FBR and Chief Commissioner respectively.

It is also proposed to make District Taxation Officers and Assistant Directors Audit as Federal Excise officers under the Act.

CUSTOMS DUTY

DIRECTORATE GENERAL OF CHINA PAKISTAN ECONOMIC CORRIDOR (CPEC)

A new section 3AA has been inserted for establishing a separate Directorate for CPEC to provide for effective supervision and monitoring of trade flows under the strategic initiative of the Federal Government. The Directorate General of CPEC shall consist of a Director General and as many Directors, Additional Directors, Assistant Directors and such other officers as notified by the Federal Board of Revenue.

ASSISTANCE TO THE OFFICERS OF CUSTOMS

Enabling provisions are proposed to require officers of Inland Revenue and National Highway and Motorway Police to assist the officers of customs in discharge of their functions under the Customs Act.

POWER TO DETERMINE THE CUSTOM VALUE

Under section 25A, Collector Customs or Director of Customs Valuation is empowered to make valuation of any goods or category of goods imported into or exported out of Pakistan. In case where declared value is higher than the value so determined, it is now provided that such declared value will be considered as Customs Value.

REFUND TO BE CLAIMED WITHIN ONE YEAR

Section 33 provides for refund of custom duties where:

(i) paid through inadvertence, error or misconstruction; or
(ii) arising as a result of decision of an appellate authority.

Presently, the refund in case of (i) is not allowed if incidence of customs duty has been passed on to buyer or consumer. Now after the amendment, such restriction has also been placed for cases referred in (ii) above.

PERIODS FOR WHICH GOODS REMAIN WAREHOUSED

A corrective amendment is made to empower Chief Collector to allow second extension in warehousing period. Previously such powers were provided in relevant rules.

RIGHT OF APPEAL IN CASE OF CANCELLATION OF USER ID

It is proposed to allow right of appeal with the Chief Collector in cases of cancellation or suspension of User ID by Collector.

PENALTIES / OFFENCES

FBR has been empowered to regulate the imposition of penalties under section 156 of the Customs Act. Further a new entry has been introduced for imposing penalty on an agency / persons (including port authorities) for failure to entertain a delay and detention certificate issued by the officer of Customs.

REVISIONARY POWERS / APPEAL

Under section 195, the Board, Collector of Customs and now Collector of Customs (Adjudication) can examine the record of any proceedings to satisfy the legality or proprietory of any order passed by a subordinate officer. As a result of exercising such revisionary powers, the Board, Collector Customs or Collector of Customs (Adjudication), as the case may be, can now assign the case to pass fresh order to an officer of equal or higher rank, who has passed the earlier order.

If such fresh order is passed by an officer below the rank of Additional Collector, appeal can be filed before Collector (Appeals) whereas if such order is passed by officer not below the rank of Additional Collector, appeal can be filed before Appellate Tribunal.

POWER TO ENTER INTO MUTUAL LEGAL ASSISTANCE AGREEMENTS ON CUSTOMS MATTERS

A new section 219A is introduced empowering FBR to enter into memorandum of understanding with International Organisations / Foreign custom authorities pertaining to mutual assistance in custom matters, in order to enhance international cooperation, participation in international initiatives / joint operations and greater access to Technical Assistance and Capacity Building activities. FBR has also been empowered to make rules in this regard.

ADOPTION OF WCO HS VERSION 2017

Pakistan being a signatory to HS Convention has adopted HS 2017, and incorporated its nomenclature/New HS Codes in Customs Tariff with addition, creation and deletion of local PCT codes. Consequential changes have also been made in the Fifth Schedule and SROs/Notifications in the respective HS Codes.

TARIFF RATIONALIZATION

(i) Separate PCT code for compressors of vehicles at 35% duty is proposed.

(ii) Separate PCT code for classification of electric cigarettes is proposed at 20%.

(iii) Concession in duty/taxes on Hybrid Electric Vehicles above 2500 cc withdrawn.

(iv) Additional duty is levied on cylinder head for motorcycles.

(v) Extension of concession on 11 more components of trailers

REDUCTION IN CUSTOMS DUTY

(i) By virtue of amendment in First and Fifth Schedule, reduction in customs duty has been proposed for the following items:

Items	Rate	
	Old	New
Fowls of the species Gallus domesticus (chicken)	11	3
Hatching eggs	11	3
Sheets of veneering	16	11
Pre-fabricated modular clean rooms panels	20	3
Fabric (non-woven) for pharmaceutical industry	16	5
Uncoated polyester film and aluminum wire for manufacturers of metalized yarn	20	11
Raw materials for manufacturers of baby diapers namely Adhesives based on polymers or rubbers and Hot melt adhesives.	16	11
Raw materials for manufacturers of baby diapers namely Pre-laminated Tape, Frontal Tape, PE + NW laminate sheet and Poly back sheet.	20	16
Coal - others	11	5

(ii) Import of solar panels and related components were exempted from the condition of 'local manufacturing' till 30th June 2017 which is extended till 30th June, 2018.

(iii) Concessionary rate of 11% available on Set top boxes, TV broadcast transmitter and Reception apparatus etc. extended till 30.6.2018.

(iv) Surcharge in excess of 0.25% for cargo in-bonded at Karachi for upcountry Bonds exempted.

(v) Exemption extended on import / donation of specified items (presently allowed only to municipal authorities including development authorities), to Federal, Provincial, AJ&K, Gilgit-Baltistan Governments, NDMA, PDMA and Govt. emergency/ rescue services excluding contractors thereof.

(vi) Customs duty on import of Bituminous and other coal imported by coal based power projects having an implementation agreement with the Government of Pakistan is reduced to 3%

INCREASE IN CUSTOMS DUTY

Customs duty is proposed to be increased in following cases:

- Aluminum beverage cans; from 11% to 20%.
- Bituminous coal; from 3% to 5%

EXEMPTION FROM CUSTOMS DUTY

Exemption from customs duty is proposed on following items:

- Raw skins and hides
- Stamping foils
- Ostriches
- 5 years old combined harvesters threshers
- Cellular mobile phones (converted into Regulatory Duty)
- Certain telecom equipments

LEVY / INCREASE OF REGULATORY DUTY

Regulatory duty is proposed / increased as under:

- 10% on import of harvesters-threshers five to ten years old
- 20% on import of harvesters-threshers more than ten years old.
- 5% on synthetic filament yarn (of polyesters)
- 10% on animal protein meals
- From 5% to 15% on 565 non-essential items.
- Rs. 250 per set levied on mobile phones (In lieu of existing customs duty of Rs. 250 per set).
- Certain telecom equipments at 9%.
- Levy on betel nuts increased from 10% to 25%.
- Rs 200/KG levied on betel leaves.

REDUCTION IN REGULATORY DUTY

Regulatory duty is proposed to be reduced as under:

(i) From 5% to 0% on Fowls of the species Gallus domesticus (chicken)

(ii) From 10% to 5% on aluminum waste or scrap

Note: The notifications for amendments relating to Regulatory Duty and Additional Duty are yet to be issued. The above comments are based on 'Salient Features' issued with the Budget Documents.