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Commentary on Finance Act, 2016

The Budget Brief 2016 contained a review of economic scenario and highlights of Finance Bill 2016 as related to direct and indirect taxes and certain other laws.

This publication includes our comments on the amendments enacted in the Income Tax Ordinance, 2001, Sales Tax Act, 1990, Federal Excise Act, 2005, Customs Act, 1969, Islamabad Capital Territory (Tax on Services) Ordinance, 2001.

The provisions of the Finance Act, 2016 are generally applicable from 01 July 2016, unless otherwise specified.

These comments represent our interpretation of the legislation, and we recommend that while considering their application to any particular case, reference be made to the specific wordings of the relevant statutes.

25 June 2016

Contents

Significant changes from Finance Bill to Finance Act

Income Tax Ordinance, 2001

- **Super Tax** - Exclusion from income of "other than depreciation and business losses" clarified to be exclusion from taxable income of "brought forward depreciation and brought forward business losses" *– Section 4B*

- **Inadmissible deduction** – Limitation of disallowance upto 20% shall be in respect of purchases of raw materials and finished goods and not for any other inadmissible expenditure – *Section 21(c)*

- **Capital gains on immovable property** – Gain arising on disposal of immovable property to a Rental REIT Scheme made taxable at 5% upto 30 June 2019 irrespective of the holding period– *Section 37(1A) and Division VIII of Part I of First Schedule*

- **Tax credit for investment in health insurance** – made available only to a "filer" resident person, other than a company – *Section 62A*

- **Tax credits for setting up industrial undertaking or expansion projects** – Relaxation in equity investment requirement from 100% to 70% corroborated with correction in formula for tax credit – *Sections 65D and 65E*

- **Fair market value** – Proposal to disregard valuation for stamp duty purposes withdrawn, barring Commissioner's discretion to estimate value for immovable property and the same will be determined by panel of approved valuers of State Bank of Pakistan – *Section 68*

- **Notice to file return –** Where no return was filed for last five tax years, Commissioner may require filing of returns up to last 10 completed tax years – *Section 114*

- **Alternative Dispute Resolution** – Period for making an order by the Board on recommendation by ADR Committee extended from 45 days to 90 days, with condition that if no order is made by the Board within such time, the recommendations will be treated as an order passed by the Board – Section 134A

- **Recovery of tax from persons holding money on behalf of taxpayer** – No recovery notice to be issued if appeal is pending before the Commissioner (Appeals) and 25% of tax due has been paid – Section 140

- **Advance tax from provincial sales tax registered person** – Proposed section 236W substituted with new section 147A, interalia, providing point of time for determination of status as "filer" and treating advance tax due as tax due under an assessment order and allowing adjustment of this tax against advance tax due under section 147 – *Section 147A*

- **Payment to non-resident for execution of contract** – Withholding tax rate of 6% for specified contracts, and varying rates for companies and other cases, replaced with uniform rate of 7% in the case of "filer" and 12% in the case of "non-filer", except that rate of 10% in case of sportspersons shall continue – *Section 152(1A)&(2A)(c) and Division II of Part I of First Schedule*

- **Payment to permanent establishment of non-residents –** Sale of goods by permanent establishment of non-resident person exempted from deduction of tax, if goods are sold in same conditions as they were when imported and tax has been paid under section 148 (treated as final tax) – *Section 152(2A)*

- **Advance tax on foreign produced TV plays and Serials –** Proposed amendments withdrawn by omitting section 236E altogether and its corresponding rates in First Schedule – *Section 236E and Division XII of Part I of First Schedule*

- **Advance tax on cable operators and other electronic media –** PEMRA shall collect tax at the rate of 50% of the permission fee from every TV Channel on which foreign TV drama serial or play in any language, other than English, is screened or played - *Section 236F and Division XIII of Part I of First Schedule*

- **Exemption to gratuity or commutation of pension –** Exemption limit enhanced from Rs. 200,000 to Rs. 300,000 for payment received by way of gratuity or commutation under any scheme approved by the Board, other than specified scheme and funds – *Clause (13) of Part I of Second Schedule*

- **Reduction in tax rate for Shari'ah Compliant Company –** Corporate tax rate reduced by 2% in case of listed company fulfilling prescribed shari'ah compliant criteria approved by SBP, SECP, FBR and fulfilling the other specified conditions – *Clause (18B) of Part II of Second Schedule*

- **Exemption from collection of tax at import stage on import of ships and aircraft –** Pakistani entity, flying Pakistani flag, exempted from collection of tax on import of ships and other floating boats – PIA is exempted on import or acquisition of aircraft on wet or dry lease with effect from 19 March 2015 – *Clauses (98)&(99) of Part IV of Second Schedule*

Sales Tax Act, 1990

- **Alternative Dispute Resolution** – Period for making an order by the Board on recommendation by ADR Committee extended from 45 days to 90 days, with condition that if no order is made by the Board within such time, the recommendations to be treated as an order passed by the Board – *Section 47A*

- **Exemptions from sales tax –** In addition to exemptions from sales tax proposed in the Finance Bill, following new exemptions have been enacted:

  - Import and supply of ships of gross tonnage less than 15 LDT

  - Import of raw material for basic manufacture of pharmaceutical active ingredients and manufacture of pharmaceutical products, liable to customs duty not exceeding 11 percent advalorem

  - Energy saver lamps and tube lights of varying voltages

  - Inverters with provision for direct connection / input from renewable energy source and with Maximum Power Point Tracking

  - Exemption from sales tax on import or acquisition of aircraft on wet or dry lease provided vide the Finance Act, 2015 made applicable in the case of PIA effective from 19 March 2015

  S. No. 103, 105, 110, 119, 123 of Tab-1 of Sixth Schedule

- **Reduced sales tax rate** –In addition to reduced rates proposed in the Finance Bill, further items have been provided with following reduced rates of sales tax:

  - Agricultural tractors – 5%

  - Laser Land leveler – 7%

  - Set top boxes for gaining access to internet – 5%

  - Milk Chillers, Tubular heat exchanger, Milk Processing Plant, Milk Spray Drying Plant, Milk UHT Plant, Milk Filters, other machinery and equipment for manufacturing of dairy products, if imported by registered manufacturer member of Pakistan Dairy Association – 5%

S. No. 25, 26, 34 of Tab-1 and S. No. 7 of Tab-2 of Eighth Schedule

- **Amendments effective from 25 June 2016** – Following amendments are made effective from 25 June 2016:

  - Withdrawal of exemption from sales tax on white crystalline sugar

  - Exemption from sales tax on pesticides and their active ingredients registered by the Department of Plant Protection, stabilizers, emulsifiers and solvents as listed

  - Reduced rates of sales tax on agricultural tractors, white crystalline sugar, and urea whether or not in aqueous solution

  - Enhanced sales tax on Medium Priced Cellular Mobile Phones or Satellite Phones, and Smart Cellular Mobile Phones or Satellite Phones

Islamabad Capital Territory (Tax on Services) Ordinance, 2001

- **New services subjected to sales tax** –Following new services made liable to sales tax in Islamabad at 16%:

  - Valuation services

  - Competency and eligibility testing services excluding education testing services provided or rendered under a bilateral or multilateral agreement signed by the government of Pakistan

  Entry No. 37 of the Schedule

Federal Excise Act, 2005

- **Alternative Dispute Resolution** – Period for making an order by the Board on recommendation by ADR Committee extended from 45 days to 90 days, with condition that if no order is made by the Board within such time, the recommendations to be treated as an order passed by the Board – *Section 38*

- **Exemption from FED –** Exemption from FED provided to chartered flights services used by or for armed forces to move troops and equipment deployed locally or internationally, including those for movement of troops and equipment to UN missions – *Entry 13 of Third Schedule*

- **Amendments effective from 25 June 2016** – Amendments enacted in Table 1 of First Schedule are effective from 25 June 2016

Customs Act, 1969

- **Alternative Dispute Resolution** – Period for making an order by the Board on recommendation by ADR Committee extended from 45 days to 90 days, with condition that if no order is made by the Board within such time, the recommendations to be treated as an order passed by the Board – *Section 195C*

- **Amendments effective from 25 June 2016** – Amendments enacted in the First and Fifth Schedules have been made effective from 25 June 2016

Income Tax Ordinance, 2001

Significant amendments

Super tax for rehabilitation of TDPs extended to tax year 2016

Section 4B

The Finance Act 2015 imposed one time levy of super tax for rehabilitation for temporarily displaced persons on banking companies at the rate of 4% of income and other taxpayers having income equal to or exceeding Rs. 500 million at the rate of 3% of income.

The Finance Act has now made the following amendments:

- The levy of super tax has been extended to tax year 2016, and
- For the purpose of determination of "income" for this levy, the adjustment of brought forward depreciation and brought forward business losses shall no longer be available.

For this purpose, the term income shall constitute the following:

(i) Profit on debt, dividend, capital gain, brokerage and commission;

(ii) Taxable income (other than brought forward depreciation and brought forward business losses) of a person for a tax year under all heads of income determined under section 9;

(iii) Imputable income defined in section 2(28A); and

(iv) Income computed under:

a. Fourth Schedule - Insurance business;

b. Fifth Schedule - Production of oil and natural gas and extraction and exploration of other mineral deposits;

c. Seventh Schedule – Banking business; and

d. Eighth Schedule - Capital gain on listed securities.

Tax on builders - change of taxation regime from minimum tax to final tax

Section 7C, 8 and 113A

The Finance Act 2013 introduced minimum tax on income from the business of construction, sale of residential, commercial or other buildings, however, the rates of minimum tax were not prescribed.

The Finance Act 2015 deferred the application of minimum tax till 30 June 2018.

The Finance Act has now changed the taxation regime for builders from minimum tax to final tax at following rates:

Areas	Commercial	Residential Sq Ft		
		Upto 750	751 to 1500	1501 & more
	Rate Rs / Sq. Ft			
A	210	20	40	70
B	210	15	35	55
C	210	10	25	35

Further, FBR has been empowered to prescribe:

- The mode and manner for payment and collection of tax,
- Authorities granting approval for the computation and payment of tax, and
- Responsibilities and powers of authorities approving, suspending and cancelling NOC to sell and the matters connected thereto.

The provisions of this section shall apply to business or projects undertaken for construction and sale of residential, commercial or other buildings initiated and approved after 01 July 2016.

Corresponding amendments have been made in section 8 to provide that tax imposed shall be final tax and shall not be reduced by any tax credit.

Tax on developers - change of taxation regime from minimum tax to final tax

Sections 7D, 8 and 113B

The Finance Act 2013 introduced minimum tax on income from the business of development and sale of residential, commercial or other plots. The Finance Act 2015 prescribed the rate of minimum tax of 2% of the value of land notified by the authority for the purpose of stamp duty.

The Finance Act has now changed the taxation regime for developers from minimum tax to final tax at the rates summarized are as follows:

Areas	Commercial	Residential Sq Yds		
		Up to 120	121 to 200	201 & more
	Rate Rs / Sq Yd			
A	210	20	40	70
B	210	15	35	55
C	210	10	25	35

FBR has been empowered to prescribe:

- The mode and manner for payment and collection of tax,
- Authorities granting approval for the computation and payment of tax, and
- Responsibilities and powers of authorities approving, suspending and cancelling NOC to sell and the matters connected thereto.

The provisions of this section shall apply to business or projects undertaken for development and sale of residential, commercial or other plots initiated and approved after 01 July 2016.

Corresponding amendments have been made in section 8 to provide that tax imposed shall be final tax and shall not be reduced by any tax credit.

Individuals and AOPs deriving income from property made liable to tax as a separate block of income

Section 15, 15A, Division VIA of Part I and Division V of Part III of the First Schedule

Currently, income from property of an individual and an AOP is subjected to tax in the following manner:

- Deductions admissible under section 15A are allowed against rental income.
- Net income from property is charged to tax at the rates applicable to the individuals and AOPs under the First Schedule.
- Individuals or AOPs are entitled to the basic threshold of exemption of Rs. 400,000 meaning thereby that an individual or AOP shall not pay any tax on income upto Rs. 400,000.
- Income from property is subjected to withholding tax at the prescribed rates which are different than the charging rates.

The Finance Act has now changed the taxation regime from the above to a separate block of income in respect of income from property derived by an individual or an AOP. The salient features of the scheme are as follows:

- Income from property shall be subjected to withholding tax and the charge of tax at the same rates.
- An individual or AOP deriving only income from property not exceeding Rs. 200,000 in a tax year shall be exempt from tax.

- Deductions admissible under section 15A shall no longer be allowed to individuals and AOPs.

The revised rates applicable to income from property are as follows:

<table>
<tr><th>S. No.</th><th>Amount (Rs.)</th><th>Existing Rate / Tax</th><th>Revised Rate / Tax</th></tr>
<tr><td>1</td><td>Up-to 200,000</td><td rowspan="2">-</td><td>-</td></tr>
<tr><td>2</td><td>200,000 to 400,000</td><td rowspan="3">5%</td></tr>
<tr><td>3</td><td>400,000 to 500,000</td><td>7%</td></tr>
<tr><td>4</td><td>500,000 to 600,000</td><td rowspan="2">7,000+ 10%</td></tr>
<tr><td>5</td><td>600,000 to 750,000</td><td rowspan="2">20,000 +10%</td></tr>
<tr><td>6</td><td>750,000 to 1,000,000</td><td rowspan="2">32,000+ 15%</td></tr>
<tr><td>7</td><td>1,000,000 to 1,500,000</td><td rowspan="2">60,000 +15%</td></tr>
<tr><td>8</td><td>1,500,000 to 2,000,000</td><td rowspan="2">144,500+ 20%</td></tr>
<tr><td>5</td><td>2,000,001 to 2,500,000</td><td rowspan="4">210,000 + 20%</td></tr>
<tr><td>6</td><td>2,500,001 to 4,000,000</td><td>344,500+ 25%</td></tr>
<tr><td>7</td><td>4,000,001 to 6,000,000</td><td>719,500+ 30%</td></tr>
<tr><td>8</td><td>6,000,001 and above</td><td>Rs 1,319,500+35%</td></tr>
</table>

Impact on tax liability due to the change is compared below. To compare the effect of change, repair allowance [20%] and collection charges [6%] have been taken in income from property under existing law.

Gross Rents	Taxable rental income	Tax liability		Increase/ (Decrease)
		Existing	Revised	
A	B	On B	On A	
200,000	148,000	0	0	0
400,000	296,000	0	10,000	10,000
500,000	370,000	0	15,000	15,000
600,000	444,000	3,080	20,000	16,920
750,000	555,000	12,500	35,000	22,500
1,000,000	740,000	31,000	60,000	29,000
1,500,000	1,110,000	86,000	135,000	49,000
2,000,000	1,480,000	141,500	210,000	68,500
2,500,000	1,850,000	214,500	310,000	95,500
4,000,000	2,960,000	459,500	610,000	150,500
6,000,000	4,440,000	851,500	1,010,000	158,500

Inadmissibility of all deductions due to non-withholding of tax

Section 21(c)

Section 21(c) provides that no deduction shall be allowed against income from business in respect of any salary, rent, brokerage or commission, profit on debt, payment to non-resident, payment for services or fee paid by a person without deduction or collection of tax at source, unless such tax has been paid.

The Finance Act extends this inadmissibility to all expenditure (instead of currently specified expenses).

It has further been provided that recovery / payment of tax under section 161 or 162 shall be treated as payment of tax and the relevant expense shall no more be considered as inadmissible.

It has also been provided that disallowance under this clause in respect of purchases of raw materials and finished goods shall not exceed 20% of purchases of raw materials and finished goods.

Deductibility of advertisement and sales promotion expenses of pharmaceutical manufacturers restricted

Section 21(o)

The Drugs Act, 1976 prescribes that advertisement and sales promotion expenses (ASP) in case of pharmaceutical manufacturer should not exceed 5% of its turnover of drugs. In past, based on this provision, the tax authorities curtailed admissibility of ASP to 5% of turnover in the case of number of pharmaceutical companies. However, the Courts held that a bonafide expenditure cannot be disallowed based on the restriction provided under a different statute. Accordingly, the entire claim of ASP, subject to the fulfillment of the conditions prescribed under the income tax law, are allowed to the pharmaceutical companies.

The Finance Act has now inserted clause (o) in section 21 to restrict admissibility of ASP incurred by pharmaceutical manufacturers to the extent of 5% of turnover.

It is noted that under the Drugs Act, the restriction relates to turnover of the drugs, i.e. registered under the Act, whereas, enacted restriction apparently does not differentiate drugs and non-drug products of a pharmaceutical manufacturer.

Depreciation deemed to be allowed during exempt period

Section 22

The Third Schedule of the repealed Income Tax Ordinance, 1979 contained a clause to provide that depreciation shall be deemed to have been allowed during tax exempt period. On conclusion of such exemption period, written down value (WDV) was to be determined as if the depreciation was deemed to have been allowed. However, the Income Tax Ordinance, 2001 does not contain any such provision. This resulted in different interpretations as if the depreciation on assets used during an exempt period was to be deemed and adjusted for the purpose of determination of WDV post exempt period or otherwise.

The Finance Act has now inserted an explanation for removal of doubt in section 22(5) containing almost similar concept as was provided in the Third Schedule of the repealed Ordinance. According to this explanation, where any building, furniture, plant and machinery used for the purpose of business during a tax exempt period, depreciation thereon shall be treated to have been allowed. Consequently, after expiry of the exemption period, WDV of such assets shall be determined after reducing total depreciation deduction including initial allowance.

This explanation shall have retrospective effect as if it has always been there. Its implications can arise in respect of open tax years.

Holding period extended for zero tax on capital gains on immovable property

Section 37(1A) and Division VIII of Part I of First Schedule

Currently, if an immovable property is disposed of after holding for a period more than two years, the tax at zero percent is applicable on resultant capital gain.

The Finance Act now provides that capital gains derived on immovable property held up to five years shall be chargeable to tax at 10%, and beyond five years at 0%.

However, gain arising on disposal of immovable property to a Rental REIT Scheme shall be taxable at 5% upto 30 June 2019 irrespective of holding period.

Further, gain arising on disposal of immovable property to a Developmental REIT Scheme shall continue to be exempt until 30 June 2020 as provided in clause (99) of Part I of Second Schedule.

Future commodity contracts made liable to capital gain tax at 5%

Section 37A, Division VII of Part I of First Schedule, and Eighth Schedule

For the purpose of determination of capital gain, the term “securities” is defined to mean share of a public company, voucher of PTC, modaraba certificate, an instrument of redeemable capital, debt securities and derivative products.

The Finance Act has inserted an explanation to clarify that derivative products shall include future commodity contracts entered into by the members of Pakistan Mercantile Exchange, whether or not settled by physical delivery. It is also provided that capital gains on such contracts shall be chargeable to tax at 5% for tax year 2017. As the definition has restropective effect, therefore, to avoid any dispute, the Finance Act provides Zero percent tax rate on capital gain on future contracts for tax years 2015 and 2016.

The future commodity contracts are now to be treated as derivatives and subject to withholding tax by National Clearing Company of Pakistan Limited under the Eighth Schedule to the Ordinance.

This explanation shall have retrospective effect as if it has always been there.

Capital gains on securities acquired on or after 01 July 2012 no more exempt

Section 37A, Division VII of Part I of First Schedule, and Eighth Schedule

Until 30 June 2016, capital gains on securities, held for more than 4 years, are subject to tax at zero rate, irrespective of date of acquisition.

The Finance Act has now changed the tax rates and provides that:

- Gain on securities acquired on or before 30 June 2012 shall be taxed at zero rate
- Gain on securities acquired on or after 01 July 2012, and held for more than twenty four months, shall be taxed at 7.5% in the case of filer and 11% in the case of non-filer.
- The Finance Act introduces higher tax rates for non-filers in respect of capital gains on listed securities. In others slabs also.

Holding based tax rates introduced for gain on debt securities derived by companies

Section 37A, Division VII of Part I of First Schedule, and Eighth Schedule

Currently gain derived by a company from debt securities is taxable at applicable corporate tax rate.

The Finance Act has substituted Division VII without proviso relating to taxation of gain on debt securities. Consequently, holding based tax rates depending on holding period of debt securities shall now be applicable. If debt security was acquired on or before 30 June 2012, the gain will be subject to tax at zero rate.

Tax concessions/ exemptions to foreign institutions

Section 53(2)

The Finance Act empowers the Federal Government to allow exemption, reduction in tax rates, reduction in tax liabilities and exemptions from operation of provisions of the Ordinance to international financial institutions or foreign government owned financial institutions operating under an agreement, MOU or any other arrangements with the Government of Pakistan.

Restriction on benefit of loss surrendered by a group company

Section 59B

A group company, being a subsidiary or a holding company, may surrender its assessed loss, excluding capital and brought forward losses in favour of another group company.

The Finance Act limits the benefit of losses to be surrendered to the extent of percentage of shares held by holding company in its subsidiary company.

Tax credit for investment in health insurance

Section 62A

The Finance Act has introduced tax credit to a resident person being a “filer”, other than a company, deriving income from salary or business in respect of health insurance premium paid or contribution made to an insurance company. The tax credit shall be computed by applying the average tax rate on lower of:

- total contribution or premium paid,

- 5% of taxable income and
- Rs. 100,000

  As no corresponding amendment has been made in section 149, therefore, this tax credit shall not be available for adjustment against tax deductions from salary by the employer.

Tax credit for contribution to an Approved Pension Fund

Section 63

Tax credit for contribution to an approved pension fund is allowed against salary income or income from business earned by an eligible person. The tax credit is computed by applying the average tax rate on lower of:

- Total contribution or premium,
- 20% of taxable income and additional 2% per year for each of year of age to a person joining the pension fund at the age of forty one years, upto tax year 2016, subject to the upper limit of 50% of taxable income of preceding tax year.

The Finance Act has now extended the facility of additional 2% per year for each year of age to a person exceeding 40 years, upto tax year 2019 subject to upper limit of 30% of taxable income of preceding tax year.

Deductible allowance on profit on debt

Section 64A

The Finance Act enhances the limit for deductible allowance on profit on debt from Rs. 1 million to Rs. 2 million. Consequently, an individual's deductible allowance for a tax year shall be fifty percent of taxable income or Rs. 2 million, whichever is less.

Earlier, until 30 June 2015, tax credit on profit on debt was allowed and such credit was available for adjustment against tax deduction from salary by the employer as provided in section 149. The Finance Act, 2015 replaced the tax credit with deductible allowance by omitting section 64 and inserting new section 64A. However, reference of section 64 in section 149 was not changed / omitted. Consequently, it appears that the deductible allowance on profit on debt shall not be available for estimation of taxable salary by the employer for the purposes of section 149.

Deductible allowance for education expenses

Section 64AB

The Finance Act inserts a new section to provide deductible allowance to individuals having taxable income less than Rs. 1 million in respect of tuition fee paid by them. The allowance shall be allowed at lower of:

- 5% of the total tuition fee paid,
- 25% of person's taxable income, and
- Rs. 60,000 x number of children.

The unadjusted allowance cannot be carried forward to subsequent tax years.

This tax credit will be allowed to either of the parents on furnishing of NTN and the name of the educational institution.

However, the employer is not entitled to take into account this allowance for the purpose of deduction of tax from salary.

Tax credit for employment generation by manufacturers

Section 64B

Section 64B allows tax credit of 1% of the tax payable of a manufacturing unit set up between 01 July 2015 and 30 June 2018 on every 50 employees registered with EOBI and Employee Social Security Institution.

The Finance Act extends the period to set-up the manufacturing unit up to 30 June 2019 and also enhances the rate of this tax credit from 1% to 2% of tax payable for every fifty employees.

Tax credit to a person registered under sales tax

Section 65A

The Finance Act increases the rate of tax credit from 2.5% to 3% of tax payable for a tax year in case of every manufacturer registered under Sales Tax Act, 1990 if 90% of its sales are made to registered persons under the Sales Tax Act, 1990.

Tax credit for investment

Section 65B

A company investing in purchasing in plant and machinery for the purpose of extension, expansion and BMR is entitled to tax credit at the rate of 10% of the amount invested, provided the plant and machinery is purchased and installed till 30 June 2016.

The Finance Act extends the time limit for purchase and installation till 30 June 2019.

Tax credit for enlistment

Section 65C

A company opting for enlistment on a stock exchange is entitled to tax credit of 20% of tax payable for the year in which it is enlisted.

The Finance Act extends the tax credit from one year to two years i.e. in the year of enlistment and the following tax year.

Tax credit for newly established industrial undertaking

Section 65D

A company establishing and operating new industrial undertaking including corporate dairy farming is entitled to tax credit equal to 100% of tax payable for a period of five years provided the industrial undertaking is set up between 01 July 2011 and 30 June 2016 with 100% equity raised through issuance of new shares for cash consideration.

The Finance Act relaxes the condition of 100% equity investment to at least 70% and also extends the period to set up the company and industrial undertaking from 30 June 2016 to 30 June 2019. In view of the relaxation in equity investment requirements, tax credit will be allowed in proportion of the equity raised through issuance of shares against cash to total investment.

Further, in case of discontinuation of business before five years, the tax credit so allowed shall be retrieved by the Commissioner by re-computing the tax payable for the relevant tax year.

Tax credit for industrial undertaking established before July 2011

Section 65E

A company set up before 30 June 2011 investing in the purchase and installation of plant and machinery for the purpose of expansion of existing undertaking or undertaking a new project including corporate dairy farming is entitled to tax credit equal to 100% of tax payable for a period of five years provided such investment is made with 100% equity raised through issuance of new shares for cash consideration.

The Finance Act relaxes the condition of 100% equity investment to at least 70% and also extends the period for such investment from 30 June 2016 to 30 June 2019. In view of the relaxation in equity investment requirements, tax credit will be allowed in proportion of the equity raised through issuance of shares against cash to total investment

Further, in case of discontinuation of business before five years, the tax credit so allowed shall be retrieved by the Commissioner by re-computing the tax payable for the relevant tax year.

Apportionment of deductions and allowances

Section 67

An expenditure incurred in derivation of more than one income is required to be apportioned between the different heads of income and income taxable under different regimes i.e. normal and final tax regimes and expenditure incurred for the purpose of income chargeable to tax and for some other purpose. The Board is empowered to make rules for the purpose of apportioning the expenditure.

Certain other deductions and allowances are also deducted to arrive at the taxable income. The Finance Act now provides that, besides expenditure, the deductions and allowances will also be apportioned in the similar manner applicable for apportionment of expenditure.

It is noted that section 67 falls within Part I of Chapter IV of the Ordinance providing common rules, whereas, section 67 is also subject to the provisions of the Ordinance. The common rules, by and large, apply to the computation of total income. On the other hand, deductible allowances falls within Part IX of Chapter III. Section 9 provides reduction of deductible allowances covered in Part IX from total income.

It is also noteworthy that section 67, as amended now, deals with expenditure, deductions, and allowances relating to derivation of income, whereas, the allowances provided in Part IX of Chapter III are considered not relating to derivation of income e.g. WWF, WPPF, Zakat, etc.

Therefore, despite the changes made in section 67, there still remains room of interpretation that such deductions or allowances not relating to derivation of income would remain available for reduction from total income without any apportionment.

Fair market value

Section 68

This section defines the parameters for the purpose of determination of fair market value of any property or rent, assets, service, benefit or perquisite as value ordinarily fetched on sale or supply in the open market. It is further provided that value of property, or rent, assets, service, benefit or perquisite shall be determined without regard to any restriction on transfer etc.

The Finance Bill proposed to disregard the value fixed or notified by any provincial authority for the purpose of stamp duty or for any other purpose, for determination of fair market value.

The Finance Act, while withdrawing the proposal, also withdrew the discretion of the Commissioner in so far determination of fair market value of immovable property, and has provided that it shall be determined on the basis of valuation made by a panel of approved valuers of the State Bank of Pakistan. .

Transaction between associates

Section 108

The Commissioner is empowered to distribute, apportion or allocate income, deductions or tax credits between the persons who are associates to reflect the income that the persons would have realized in an arm's length transaction.

The Finance Act now provides that every taxpayer entering into a transaction with its associates shall:

- maintain a master file and local file containing documents and information as may be prescribed;
- keep and maintain prescribed country-by-country report, where applicable;
- keep and maintain any other information and document in respect of transaction with its associate as may be prescribed; and
- keep the files, documents, information and reports specified above for the period as may be prescribed.

Upon requisition by the Commissioner, the above documents are required to be furnished within 30 days or such time as may be extended by the Commissioner upto 45 days or beyond in exceptional circumstances.

It appears that the change is aimed to incorporate the action plans for documentation of Base Erosion and Profit Shifting approved by the OECD. It is expected that FBR will prescribe the extent of and manner in which the documents will be maintained and the information to be furnished.

Scope of minimum tax extended

Section 113

An individual and AOP having turnover of Rs. 50 million or above is liable to minimum tax at the rate of 1% of turnover. The Finance Act reduces this threshold to Rs. 10 million. Accordingly, an individual or AOP having turnover of Rs. 10 million or more for tax year 2017 or in any subsequent tax year is now liable to minimum tax at the rate of 1% of turnover.

The Finance Act also omits the proviso that minimum tax shall not apply in case of a company which has declared gross loss before setting off of depreciation and other inadmissible expenses. The effect of this proposal is that a company shall be liable to minimum tax irrespective of declaring gross loss before setting off of depreciation etc.

Further, an explanation has also been inserted to provide that tax payable or paid under final tax regime and super tax under section 4B shall not be considered as tax payable or paid for the purpose of minimum tax.

Revision of return and notice to file return

Section 114

A taxpayer is required to obtain approval from the Commissioner before revision if return is revised after sixty days of filing of return.

The Finance Act now allows revision of return considered as deemed assessment order under section 120 without approval of the Commissioner where the taxable income is more than the income declared or the loss is less than the loss declared in the original return.

The Finance Act has now empowered the Commissioner to issue a notice to file return of income in respect of one or more of the last ten completed tax years, in cases where a person has not filed return for any of the last five completed tax years.

Provisional assessment

Section 122C

The Commissioner is empowered to make provisional assessment based on his best judgment if the taxpayer does not file return of income despite calling of the same by the Commissioner. Such a provisional assessment is considered as final if the taxpayer does not file return and other required documents within forty five days from the service of the provisional order.

The Finance Act now provides that provisional assessment shall not be treated as final assessment if:

- In case of individuals and AOPs, the return of income alongwith wealth statement and wealth reconciliation are filed within 45 days. Further, such individual and AOP shall present its accounts and documents for tax audit of that tax year.
- In case of companies, return of income tax alongwith audited accounts or final accounts, as the case may be, for the relevant tax year are filed by the company electronically during the said period of forty-five days. Further, such company shall present its accounts and documents for conducting audit of its income tax affairs for that tax year.

Alternative Dispute Resolution (ADR) – deemed order by the Board

Section 134A

The salient features of present ADR scheme are:

- The Board is required to constitute ADR Committee within 60 days of receipt of an application by an aggrieved taxpayer on an issue
- The ADR Committee shall include an officer of inland revenue and two persons from a panel
- The ADR Committee examines the issue, including making inquiries and seeking expert opinion if required, and is required to make recommendations within 90 days of its constitution
- The Board, is required to pass such order as it may deem appropriate within 45 days of receipt of recommendations of ADR Committee
- If taxpayer is not satisfied with the Board's order, he may continue to pursue his remedy before the relevant authority, as if no such order had been made by the Board

The Finance Act, while extending the period to make any order by the Board from 45 days to 90 days, has now provided that if Board does not make an order within 90 days of receipt of recommendations of ADR Committee, the recommendations shall be treated to be an order passed by the Board.

The Finance Act has also provided that the ADR Committee member shall not be below the rank of the Commissioner.

Stay of recovery until decision of appeal by Commissioner (Appeals) subject to payment of 25% of tax demand

Section 140

Section 140 empowers the Commissioner to recover tax, payable by a taxpayer, from any person holding money on behalf of a taxpayer.

There have been judgments of the courts directing the tax authorities not to recover tax demand until decision in appeal by the Commissioner (Appeals).

The Finance Act now bars the Commissioner to issue a recovery notice under section 140 if:

- the taxpayer has filed an appeal in respect of the order giving rise to tax demand;
- the appeal has not been decided by the Commissioner (Appeals); and
- the taxpayer has paid 25% of the tax due

Alternative Corporate Tax to be considered for advance tax

Section 147

The Finance Act has inserted an explanation for the purpose of removal of doubt that Alternative Corporate Tax (ACT) under section 113C is to be considered for the purpose of calculation of advance tax.

This explanation shall have retrospective effect as if it has always been there. Its implications may arise in such cases where advance tax discharged was lesser than the required limit, and where the ACT was applicable, in tax years 2014 and onward.

Advance tax from provincial sales tax registered person

Section 147A

The Finance Bill proposed a new section 236W for collection of advance tax by provincial revenue authority from a non-filer at 3% of the turnover along with sales tax return filed by such person.

The Finance Act has withdrawn proposed section 236W and inserted a new section 147A for the same purpose, with added features like:

- providing the point of time for determination of status as “filer” i.e. 30 June of the previous tax year to absolve such person from collection of tax;
- to treat tax collected as advance tax and availability thereof to discharge advance tax obligations under section 147;
- to treat tax required to be collected as advance tax due, and as an amount due under an assessment order; and
- to treat tax collected creditable in computing tax due by the taxpayer, and if not adjusted fully or partly, the same to be refundable.

Restriction on disclosure of information obtained from financial institutions and banks

Sections 165B

Section 165B obligates the financial institutions and banks to provide information to the Board in prescribed form and manner. Sub-section (2) provides the utilization of information shall be only for tax and related purposes and kept confidential subject to provisions of section 216 dealing with disclosures of information by a public servant.

Section 216(3) however precludes disclosure of such information in specified circumstances including in case of an inquiry into the conduct of an official of Income Tax Department, an investigation into the conduct and affairs of any public servant, and to the Federal Tax Ombudsman. Further, per section 216(6), restriction does not apply in the case of Federal Government publishing particulars and the amount of tax paid by a holder of a public office as defined in the National Accountability Bureaue Ordinance, 1999.

The Finance Act now removes the reference of section 216, which results in a way that information obtained under section 165B shall now only be used for income tax and related purposes and kept confidential. However, it may be viewed that irrespective of omission of reference, section 216 may remain operative for the purpose of section 165B as well.

Time extended to file refund application

Section 170

Currently, the taxpayer claiming the refund is required to file refund application within 2 years of the later of date of filing of return or the assessment order, as the case may be.

The Finance Act extends the aforesaid time limit for filing of refund application from two years to three years.

Penalty for non-furnishing of information by the financial institutions and banks

Section 182

The Finance Act now provides penalty of Rs. 2,500 for each day of default subject to a minimum penalty of Rs. 10,000 for non-furnishing of information by financial institutions and banks under section 165B.

Withholding tax provisions

Sections 150, 152A, 153, 155, 231A, 231B, 233, 233A, 236, 236A, 236C, 236P, 236U, 236V

The Finance Act has made following significant changes in various withholding tax provisions / rates:

(i) Enhanced withholding tax rates have been prescribed for non-filers on dividends (section 150).

(ii) Withholding tax rate of 6% for specified payments on execution of contracts to non-resident person, and varying rates for companies and other cases, has been replaced with uniform rate of 7% in the case of “filer” and 12% in the case of “non-filer”, except that rate of 10% in case of sportspersons shall continue (Section 152(1A) & (2A)(c) and Division II of Part I of First Schedule).

(iii) Payments to permanent establishment of non-resident person on account of sale of imported goods in the same condition as they were when imported and tax has been paid under section 148 (treated as final tax) (Section 152(2A).

(iv) New withholding tax has been introduced at the rate of 20% of gross amount of payment to non-resident person for foreign produced commercials for advertisement on television channels or any other media. Further, the tax so withheld shall be considered as final tax (section 152A).

(v) Withholding tax on payment to resident person engaged in electronic and print media on account of advertising services has been increased from 1% to 1.5% for filers and such withholding tax shall be final tax with effect from 01 July 2016 (section 153).

(vi) Withholding tax on supply of fast moving consumer goods by a distributor is reduced from 4% to 3% in the case of company, and from 4.5% to 3.5% in other cases (section 153).

(vii) Withholding tax rates on payment of rent of immovable property to an individual or association of persons are aligned with the rates of taxation of such rental income (section 155).

(viii) It has been clarified that for the purpose of withholding tax on cash withdrawals from bank, the limit of Rs. 50,000 shall be aggregate withdrawals from all the bank accounts in a single day (section 231A).

(ix) Every leasing company or a scheduled bank or an investment bank or a development finance institution or a modaraba shall collect advance tax at the time of leasing of a motor vehicle to a non-filer at the rate of three per cent of the value of the motor vehicle (section 231B).

(x) Withholding tax rate on brokerage and commission to life insurance agents where commission received is less than Rs. 500,000 per annum, has been changed from 12% to 8% in case of filer, and from 15% to 16% in case of non-filer. (section 233)

(xi) Rate of collection of tax by stock exchange on purchase and sale of shares has been increased from 0.01% to 0.02% (section 233A).

(xii) Rate of collection of tax from telephone and internet users has been increased from 10% to 12% (section 236).

(xiii) Tax collected on the lease of the right to collect tolls at the rate of 10% of the gross sale price of such lease shall be final tax (section 236A).

(xiv) No advance tax shall be collected on sale or transfer or immovable property held for a period exceeding five years. Further, withholding tax rates have been enhanced from 0.5% to 1% for filer and from 1% to 2% for non-filer (section 236C).

(xv) Advance tax on foreign produced TV plays and Serials has been withdrawn, and PEMRA has been made responsible to collect tax at the rate of 50% of the permission fee from every TV Channel on which foreign TV drama serial or play in any language, other than English, is screened or played (Sections 236E & 236F and Divisions XII & XIII of Part I of First Schedule)

(xvi) Rates for collection of tax on purchase or transfer of immovable property has been enhanced from 1% to 2% for filer and from 2% to 4% for non-filer (section 236K).

(xvii) It has been clarified that for the purpose of withholding tax on specified banking transaction by non-filers, the limit of Rs. 50,000 shall be aggregate transfers from all the bank accounts in a single day (section 236P).

(xviii) Adjustable withholding tax shall be collected by insurance company or their agents from non-filers at the rate of 4% on general insurance premium and at the rate of 1% on life insurance premium, if exceeding Rs. 200,000 per annum (section 236U).

(xix) Adjustable withholding tax shall be collected by provincial authority collecting royalty per metric ton from the lease-holder of mines or any person extracting minerals if he is a non-filer, at the rate of 5% of the value of minerals extracted, produced, dispatched and carried away from the licensed or leased areas of the mines. For the purpose of this section, value of minerals shall be as specified by FBR (section 236V).

Adjustability of withholding tax in case of non-filers

Section 169

The Finance Act provides that where the tax collected or deducted is final tax, and separate rates for filer and non-filer have been provided, the final tax shall be the tax rate for filer and the excess tax on account of higher rate of non-filer shall be adjustable in the return filed for the relevant tax year.

Second Schedule - Exemptions

Part I

The Finance Act has inserted, withdrawn and modified certain exemptions in Part I of the Second Schedule, as listed below:

New Exemptions

Exemptions to entities working at Gwadar - Clauses (126A) to (126AD)

- Income derived by following companies from Gwadar port operations starting from 6 February 2007 for a period of 23 years [Clause (126A)]:
  - China Overseas Ports Holding Company Limited (already existed);
  - China Overseas Ports Holding Company Pakistan (Private) Limited;
  - Gwadar International Terminal Limited;

- Gwadar Marine Services Limited; and
- Gwadar Free Zone Company Limited.

- Profit and gains derived by a taxpayer from business set up in Gwadar Free Zone Area for a period of 23 years from 1 July 2016 - Clause (126AA);
- Profit on debt derived under a financing agreement with China Overseas Ports Holding Company Limited by any foreign lender or local bank having more than 75 per cent shareholding of the Government or State Bank of Pakistan for a period of 23 years with effect from 01 July 2016 - Clause (126AB)
- Income derived by contractors and sub-contractors of the following companies from Gwadar Port operations for a period of 20 years with effect from 1 July 2016 [Clause (126AC)]:
  - China Overseas Ports Holding Company Limited;
  - China Overseas Ports Holding Company Pakistan (Private) Limited;
  - Gwadar International Terminal Limited (GITL);
  - Gwadar Marine Services Limited (GSML); and
  - Gwadar Free Zone Company Limited (GFZCL).
- Dividend received by China Overseas Ports Holding Company Limited from China Overseas Ports Holding Company Pakistan (Private) Limited, GITL, GMSL, and GFZCL for a period of 23 years with effect from 01 July 2016 - Clause (126AD)
- Dividend received by China Overseas Ports Holding Company Pakistan (Private) Limited from GITL, GMSL, and GFZCL for a period of 23 years with effect from 01 July 2016 - Clause (126AD)

Exemptions Withdrawn

Micro Finance Banks - Clause (66)(xviii)

Exemption to income of Micro Finance Banks had already expired on 30 June 2012, hence omitted.

Inter-corporate dividend for Group Relief - Clause (103A)

Exemption to inter-corporate dividend to group companies entitled to group relief under section 59B has been withdrawn. Exemption to 100% owned group shall continue, subject to fulfilment of specified conditions.

Exemptions Modified

Exemption to gratuity or commutation of pension - Clause (13)

Exemption limit has been enhanced from Rs. 200,000 to Rs. 300,000 for payment received by way of gratuity or commutation under any scheme approved by the Board, other than specified scheme and funds.

Sports Boards - Clause (98)

Exemption to sports boards has been restricted to sports boards or organisations established by Government only.

IT related services - Clause (133)

Exemption to income from export of computer software or IT services or IT enabled services expiring on 30 June 2016 has been extended to 30 June 2019 subject to the condition that 80 per cent of export proceeds is brought into Pakistan in foreign exchange through normal banking channels.

Part II

The Finance Act has modified and added certain clauses in Part II of the Second Schedule for reduction in tax rates:

Services rendered and construction contracts executed outside Pakistan - Clause (3)

Currently income from services rendered and construction contracts executed outside Pakistan is taxable @ 1 per cent of the gross receipts.

The Finance Act has enhanced the tax rate equal to 50 per cent of withholding tax rates applicable to resident person in respect of services rendered and execution of contracts respectively.

Pakistan Cricket Board - Clause (3B)

Income derived by Pakistan Cricket Board from sources outside Pakistan shall be taxed at the rate of 4 per cent of gross receipts.

Pakistan Cricket Board may opt to pay tax at the rate of 4 per cent of gross receipts from tax year 2010 and onwards subject to the following conditions:

- withdrawal of appeals, references and petitions on the issue of tax rate; and

- payment of outstanding tax liabilities under this clause upto tax year 2015 by 30 June 2016.

Reduction in tax rate for Shari'ah compliant listed company – Clause (18B)

Corporate tax rate shall be reduced by 2% in case of listed company subject to the following conditions:

- it fulfils prescribed shari'ah compliant criteria approved by SBP, SECP, and board;

- it derives income from manufacturing activities only;

- it has declared taxable income for the last three consecutive tax years; and

- it has issued dividend for the last five consecutive tax years.

Part IV

The Finance Act has inserted, withdrawn and modified following clauses in Part IV of the Second Schedule providing for exemption from specific provisions:

New exemptions

Exemption from minimum tax under section 113

The Finance Act has provided exemption to following entities from application of section 113 regarding minimum tax under clause (11A):

i) China Overseas Ports Holding Company Limited, China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited; and Gwadar Free Zone Company Limited for 23 years from 6 February 2007. [sub-clause (xxvi)]

ii) Companies qualifying for exemption under clause (126M) of Part-I of Second Schedule in respect of profits and gains derived from a transmission line project. [sub-clause (xxvii)]

Exemption from withholding tax on dividend – Clause (38AA)

The Finance Act provided exemption from withholding tax on dividend under section 150 to China Overseas Ports Holding Company Limited, China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited for 23 years.

As per notes to clauses to the Finance Bill exemption from withholding tax on profit on debt under section

151 and commission and brokerages under section 233 to such entities were mentioned. However, no such exemption has been enacted through the Finance Act.

Exemption from collection of tax at import stage on import of ships and aircraft- Clauses (98) & (99)

Pakistani entity, flying Pakistani flag, has been exempted from collection of tax on import of ships and other floating boats including tugs, survey vessels and other specialized crafts purchased or bare-boat chartered. This exemption shall be available up to the year 2020 subject to the condition that the ships and crafts are used for the purpose for which they were procured. In case such ships and crafts are used for demolition purposes, tax collectible under section 148 shall be chargeable.

Pakistan International Airline Corporation has also been exempted on import or acquisition of aircraft on wet or dry lease with effect from 19 March 2015.

Extension in concession to Hajj Group Operators - Clause (72A)

The Finance Act has extended concession, from applicability of clause (l) of section 21 (expenditure for a transaction under single account head which in aggregate exceed Rs. 50,000), section 113 (minimum tax), section 152 (payment to non-resident) as available to Hajj Group Operators upon payment of specified amount per hajji, for tax year 2016.

Audit of industrial undertaking obtaining exemption certificate on imports - Clause (72B)

The Finance Act empowers the tax authorities for selection and to conduct audit of the industrial undertaking who obtained withholding tax exemption certificate under section 148 on imports.

Furthermore, exemption on imports shall be applicable to the extent of 110 per cent of quantity of raw material imported and consumed during the previous tax year. This condition has already been specified in SRO 717(I) of 2014.

If taxpayer fails to present accounts or documents, the certificate issued shall be cancelled and tax not collected shall be recovered.

Investments in industrial undertakings - Clause (86)

Provisions of section 111 (Unexplained income or assets) are not applicable in case investment in industrial undertakings is made on or after 1 January 2014 and commercial production commences on or before 30 June 2017. This date is has now been extended to 30 June 2019.

Minimum tax on specified service sector - Clause (94)

Consequent to the amendments made vide Finance Act, 2009 a dispute arose as to whether tax deducted from payment on account of services was to be treated as minimum tax or adjustable in case of companies. The FTO held that minimum tax applies to companies.

Through amendments vide the Finance Act 2015, the tax deducted from payment on account of services to companies has been treated as minimum tax.

In order to address the grievances of certain corporate service providers, Clause (94) was introduced by the Income Tax (Second Amendment) Ordinance, 2015, ratified by Income Tax (Second Amendment) Act, 2016, to provide exemption from applicability of minimum tax on specified service sectors from 1 July 2015 till 30 June 2016. However, minimum tax at 2 per cent applies on such specified service sectors if they file undertaking to the Commissioner for audit of income tax affairs for tax year 2016 or 2017, as the case may be. Upon filing such undertaking, the Commissioner was empowered to issue exemption certificate from withholding tax under section 153 by paying 2 per cent tax on turnover.

The Finance Act has now extended the benefit of reduced rate of 2% upto 30 June 2017. Further, for tax year 2017, a company is required to file the undertaking by November 2016.

Further, “IT services and IT enabled services” as defined in clause (133) has been included as specified service sector to obtain benefit of Clause (94).

Earlier, in the Finance Bill 2015, there was a proposal to clarify that minimum tax on corporate services sector is not applicable retrospectively, however, that proposal did not finally enacted, perhaps due to the decision of FTO. Recently, the President of Islamic Republic of Pakistan has set-aside the findings of the FTO.

There is no rationale to assume minimum profit margins for taxation purposes and impose minimum tax on corporate service sector when companies' actual profits can easily be ascertained from audited financial statements. The corporate sector should be taxed on net income basis as the companies are generally compliant with the corporate laws and regulations, and their financial results and position are generally properly documented. The concept of 'minimum tax' is against the norms of taxation of income and indirectly tantamount to the continuation of presumptive tax regime which is not a good proposition for documented sector. After the Presidential Orders, it can now be expected that there will be consideration to abolish / exempt minimum tax on corporate services sector.

Exemptions withdrawn

Withholding tax on Inter-corporate dividend and profit on debt for Group Relief - Clauses (11B) and (11C)

Exemption from withholding tax on inter-corporate dividend and profit on debt to group companies, entitled to group relief under section 59B has been withdrawn. 100% owned group entitled for group taxation under section 59AA shall continue to have this exemption.

Minimum tax on trading houses - Clause (57)

Exemption from minimum tax under section 113 for trading houses has been withdrawn.

Further, reduced rate of minimum tax under section 113 for trading houses at 0.5 per cent shall be applicable upto tax year 2019.

Withholding tax on TFC - Clause (59)(i)

Exemption from withholding tax on profit or interest paid on Term Finance Certificate has been withdrawn.

Filing of wealth statement - Clause (82)

A person whose taxable income is less than one million rupees was not required to file wealth statement for tax year 2014. Since the said exemption was not extended to tax year 2015 it became superfluous, therefore, withdrawn.

Fourth Schedule - Taxation regime of Insurance entities

Insurance Companies Rule (6B)

Rule 6B of Fourth Schedule provides for reduced rate of tax on capital gain, whereas the courts have held that dividend is also taxable at reduced rate provided for the purpose of section 5 of the Ordinance.

The Finance Act has substituted Rule (6B) to provide that tax on capital gains and dividends shall be taxed at corporate rate of tax.

Sixth Schedule - Retirement funds

Enhancement of limit of employer annual contribution to provident fund Rule (3)

The Finance Act has enhanced non-taxable limit of employer annual contribution to provident fund, for the purpose of salary income, from Rs. 100,000 to Rs. 150,000.

Seventh Schedule - Taxation regime of banking companies

Super tax on banking companies [Rule (7C) and section 4B]

The Finance Act has extended levy of super tax under section 4B for rehabilitation of temporarily displaced persons at the rate of 4% on banking companies to tax year 2016.

Eighth Schedule – Rules for capital gains

Tax collection on mutual fund and commodity contract by NCCPL – section 37A, 100B, Sub-rules (IA) and (IB) of Rule 1 of Eighth Schedule, Clause 47B of Part IV of Second Schedule, Rule 13O of Income Tax Rules, 2002

Capital gains on units of open ended mutual funds are subject to withholding tax under Division VII Part I to the First Schedule which has been omitted now and new sub-rules (IA) and (IB) inserted in Rule 1 of Eighth Schedule to empower NCCPL to compute and determine tax from capital gains in case of units of open ended mutual funds and future commodity contracts on Pakistan Mercantile Exchange.

It is provided in newly inserted sub-rule (1A) of Eighth Schedule that second and third proviso in Division VII of Part I of First Schedule (regarding deduction of capital gains tax by a mutual fund, collective investment schem or a REIT scheme on redemption of securities of stock funds and other funds at specific / reduced rates) shall continue to apply, whereas, te substituted Division VII of Part I does not contain such provisos. This gives rise to an anomaly. It appears that in absence to the two prvisos in Division VII, the proviso in sub-rule (1A) would become redundant and NCCPL will be required to collect tax at rates based on holding period and acquisition date of security, as entrusted.

In terms of sections 37A(2) and 100B(2) read with Eighth Schedule, the following entities shall not be subject to collection of capital gains tax by NCCPL:

- Mutual Fund
- Banking Company
- Non-Banking Finance Company
- Insurance Company
- Modaraba
- any other person or class of person notified by the Board

It is however noted that clause (47B) of Part IV of Second Schedule interalia provides exemption from deduction of tax under Division VII of Part I of First Schedule by a mutual fund, collective investment scheme, or a REIT scheme on capital gains on redemption of securities, in resepect of the following:

- National Investment (Unit) Trust
- Collective Investment Scheme
- Modaraba
- Approved Pension Fund
- Approved Income Payment Plant
- REIT Scheme
- Private Equity and Venture Capital Fund
- Recognized Provident Fund
- Approved Superannuation Fund
- Approved Gratuity Fund

However, while shifting the withholding tax obligations to NCCPL by omitting provisos in Division VII, clause (47B) has not been amended to incorporate reference of section 100B. Consequently, it can be viewed that the Funds / Scheme, not covered within exclusions provided in section 100B(2) would be required to obtain withholding tax exemption certificate. Alternatively, such Funds / Scheme may consider to opt out from applicability of determination and payment of tax under Eighth Schedule, by filing an irrevocable option to NCCPL after obtaining prior approval of te Commissioner in the manner prescribed in Rule 13N(17) read with Part III of Rule 13O of the Income Tax Rules, 2002. Per Rule 13N(17), the Commissioner shall not accord prior approval, unless the taxpayer is a filer. Therefore, especially in the case of staff retirement funds, it would be imperative to file their return of income, if not already done so, to become filer so as to seek such prior approval, and then file the irrevocable option with NCCPL.

Information provided to NCCPL-Rule 1, Sub-rules (3A)

The Finance Act also binds the Asset Management companies, Pakistan Mercantile Exchange or any other person to furnish information required by NCCPL.

A proviso has been inserted in sub-rule (3) which provides that if such information was not provided by Central Depository Company of Pakistan Limited then NCCPL shall forward the case to the Commissioner for enforcement. It appears that such proviso should have also been included in sub-rule (3A).

Tax Rate Card

1. Tax rates for individuals (other than salaried) and association of persons

Existing progressive tax rates applicable to individuals (other than salaried) and association of persons shall continue to apply in Tax Year 2017, as given below:

S.No.	Taxable income	Rate of tax
1.	Where the taxable income does not exceed Rs. 400,000	0%
2.	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000	7% of the amount exceeding Rs.400,000
3.	Where the taxable income exceeds Rs.500,000 but does not exceed Rs.750,000	Rs. 7,000 + 10% of the amount exceeding Rs.500,000
4.	Where the taxable income exceeds Rs.750,000 but does not exceed Rs.1,500,000	Rs.32,000 + 15% of the amount exceeding Rs.750,000
5.	Where the taxable income exceeds Rs.1,500,000 but does not exceed Rs.2,500,000	Rs.144,500 + 20% of the amount exceeding Rs.1,500,000
6.	Where the taxable income exceeds Rs.2,500,000 but does not exceed Rs.4,000,000	Rs.344,500 + 25% of the amount exceeding Rs.2,500,000
7.	Where the taxable income exceeds Rs.4,000,000 but does not exceed Rs.6,000,000	Rs.719,500 + 30% of the amount exceeding Rs.4,000,000
8.	Where the taxable income exceeds Rs.6,000,000	Rs.1,319,500 + 35% of the amount exceeding Rs.6,000,000

In the case of professional firm, prohibited from incorporation, the maximum rate will be 32% (instead of 35%) for tax year 2006 and onward.

2. Tax rates for salaried taxpayers

Existing progressive tax rates applicable to salaried individuals, where salary income exceeds 50% of taxable income, shall continue to apply in Tax Year 2017, as given below:

S.No.	Taxable income	Rate of tax
1.	Where the taxable income does not exceed Rs.400,000	0%
2.	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000	2% of the amount exceeding Rs.400,000
3.	Where the taxable income exceeds Rs.500,000 but does not exceed Rs.750,000	Rs. 2000 + 5% of the amount exceeding Rs.500,000
4.	Where the taxable income exceeds Rs.750,000 but does not exceed Rs.1,400,000	Rs.14,500 + 10% of the amount exceeding Rs.750,000
5.	Where the taxable income exceeds Rs.1,400,000 but does not exceed Rs.1,500,000	Rs. 79,500 + 12.5% of the amount exceeding Rs.1,400,000

S.No.	Taxable income	Rate of tax
6.	Where the taxable income exceeds Rs.1,500,000 but does not exceed Rs.1,800,000	Rs. 92,000 + 15% of the amount exceeding Rs.1,500,000
7.	Where the taxable income exceeds Rs.1,800,000 but does not exceed Rs.2,500,000	Rs.137,000 + 17.5% of the amount exceeding Rs.1,800,000
8.	Where the taxable income exceeds Rs.2,500,000 but does not exceed Rs.3,000,000	Rs. 259,500 + 20% of the amount exceeding Rs.2,500,000
9.	Where the taxable income exceeds Rs.3,000,000 but does not exceed Rs.3,500,000	Rs. 359,500 + 22.5% of the amount exceeding Rs.3,000,000
10.	Where the taxable income exceeds Rs.3,500,000 but does not exceed Rs.4,000,000	Rs.472,000 + 25% of the amount exceeding Rs.3,500,000
11.	Where the taxable income exceeds Rs.4,000,000 but does not exceed Rs.7,000,000	Rs.597,000 + 27.5% of the amount exceeding Rs.4,000,000
12.	Where the taxable income exceeds Rs.7,000,000	Rs.1,422,000 + 30% of the amount exceeding Rs.7,000,000

3. Tax rate for companies

Tax Year	Rate
2007 to 2013	35%
2014	34%
2015	33%
2016	32%
2017	31%
2018 and onward	30%

Small company shall continue to be taxed at the rate of 25%.

4. Super Tax – Tax Year 2016

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

5. Rates of Dividend Tax

Category	Rate
Dividend distributed by purchaser of power project, or power generation company	7.5%
Dividend received from a mutual fund	10%
Dividend received from a stock fund (if fund's dividend receipts are less than capital gains)	12.5%
Dividend received by a company from a collective investment scheme, REIT Scheme, or a mutual fund, other than a stock fund	25%
Other cases	12.5%
Dividend from a Developmental REIT Scheme set up by 30 June 2018	50% of the applicable rate

Dividend receipts of insurance companies shall be subject to corporate tax rate.

6. Rates for Profit on Debt (other than a company)

S.No.	Profit on debt	Rate of tax
1.	Where profit on debt does not exceed Rs 25,000,000	10%
2.	Where profit on debt exceeds Rs 25,000,000 but does not exceed Rs 50,000,000	Rs. 2,500,000 + 12.5% of the amount exceeding Rs 25,000,000
3.	Where profit on debt exceeds Rs 50,000,000	Rs 5,625,000 + 15% of the amount exceeding Rs 50,000,000]
4.	Where the taxable income exceeds Rs.750,000 but does not exceed Rs.1,400,000	Rs.14,500 + 10% of the amount exceeding Rs.750,000

7. Tax rates for individuals and association of persons in respect of income from property

Existing, and revised tax rates applicable on income from property derived by an individual or association of persons are as follows:

S No.	Gross Rent	Tax Rate	
		Existing	Revised
1	Where gross amount of rent is upto Rs.150,000	Nil	Nil
2	Where gross amount of rent is Rs.150,001 to Rs.200,000	**10% of amount exceeding Rs. 150,000**	Nil
3	Where gross amount of rent is Rs. 200,001 to Rs. 600,000	**10% of amount exceeding Rs. 150,000**	5% of the amount exceeding Rs. 200,000
3	Where gross amount of rent exceeds Rs. 600,000 upto Rs. 1,000,000	**10% of amount exceeding Rs. 150,000**	Rs.20,000+ 10% of the amount exceeding Rs. 600,000
4	Where gross amount of rent exceeds Rs. 1,000,000 upto Rs. 2,000,000	**Rs.85,000 + 15% of the amount exceeding Rs. 1,000,000**	Rs.60,000+ 15% of the amount exceeding Rs. 1,000,000
5	Where gross amount of rent exceeds Rs. 2,000,000	**Rs.85,000 + 15% of the amount exceeding Rs. 1,000,000**	Rs.210,000 + 20% of the amount exceeding Rs. 2,000,000

8. Capital gains on disposal of securities

Div VII, Part I, First Schedule

The current tax rates applicable for Tax Year 2016 and revised for Tax Year 2017 on capital gain on securities are tabulated below:

i. For securities

Holding months	TY 2016	Revised for TY 2017	
		Filers	Non-Filers
Where holding period of security is less than 12 months	15%	15%	18%
Where holding period of security is 12 months or more but less than 24 months	12.5%	12.5%	16%
Where holding period of security is 24 months or more but less than 48 months	7.5%	7.5%, if security was acquired on or after 01 July 2012; 0% if security was acquired before 01 July 2012	11%, if security was acquired on or after 01 July 2012; 0%, if security was acquired before 01 July 2012
Where holding period is more than 4 years	0%	7.5%, if security was acquired on or after 01 July 2012; 0% if security was acquired before 01 July 2012	11%, if security was acquired on or after 01 July 2012; 0%, if security was acquired before 01 July 2012

ii. For future commodity contract by members of PMEX

Tax at the rate of 5% shall be applicable on gain on future commodity contract.

9. Capital Gain on disposal of immovable property

Section 37(1A) - Division VIII, Part I, First Schedule

The Finance Act amended the rates of tax as follows:

Holding period- Years	Existing	Revised
Upto 1	10%	10%
1 to 2	5%	10%
2 to 5	0%	10%
More than 5	0%	0%

Further, gain arising on disposal of immovable property to a Rental REIT Scheme shall be taxed at the rate of 5% up to 30 June 2019 irrespective of holding period.

10. Tax on Builders

Section 7C-Division VIIIA, Part I, First Schedule

The rates for final tax enacted are as follows:

Areas	Commercial	Residential Sq Ft		
		Upto 750	751 to 1500	1501 & more
	Rate Rs per Sq Ft			
A	210	20	40	70
B	210	15	35	55
C	210	10	25	35

Where:

A. Karachi, Lahore and Islamabad

B. Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad and Quetta

C. Urban Areas not specified in A and B

11. Tax on Developers

Section 7C-Division VIIIA, Part I, First Schedule

Enacted rates are as follows:

Areas	Commercial	Residential Sq Yds		
		Up to 120	121 to 200	201 & more
	Rate Rs per Sq Yd			
A	210	20	40	70
B	210	15	35	55
C	210	10	25	35

Where:

A. Karachi, Lahore and Islamabad

B. Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala ,Sahiwal, Peshawar, Mardan, Abbottabad and Quetta

C. Urban Areas not specified in A and B.

Withholding tax rates table – existing and revised

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Revised	
		Existing	Revised	Ind & AOP	Company	Ind & AOP	Company
147A	**Advance tax collection from provincial sales tax registered person**						
	- Advance tax collection from provincial sales tax registered person being non-filer	-	3	-	-	Adjustable	Adjustable
148	**Collection of tax at Imports**						
(a)	Value of goods inclusive of customs duty and sales tax imported by;						
	- Industrial undertaking (Filer / Non filer)	5.5 / 8	No Change	Adjustable / Minimum in case of edible oil & packing materials	Adjustable / Minimum in case of edible oil & packing materials	Adjustable / Minimum in case of edible oil & packing materials	Adjustable / Minimum in case of edible oil & packing materials
	- Industrial undertaking importing remeltable steel (PCT Heading 72.04) & directly reduced iron for own use. (Filer / Non filer)	1 / 1.5	No Change	Adjustable	Adjustable	Adjustable	Adjustable
	- Person importing potassic fertilizers in pursuance of Economic Committee of the Cabinet decision No. ECC – 155/12/2004 dated 9 December 2004. (Filer / Non filer)	1 / 1.5	No Change	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions
	- Person importing urea (Filer / Non filer)	1 / 1.5	No Change	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions
	- Person importing gold (Filer / Non filer)	1 / 1.5	No Change	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions
	- Person importing cotton (Filer / Non filer)	1 / 1.5	No Change	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Revised	
		Existing	Revised	Ind & AOP	Company	Ind & AOP	Company
	- Designated buyer of LNG, on behalf of Govt. of Pakistan (Filer / Non filer)	1 / 1.5	No change	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions
	- Person importing pulses (Filer / Non filer)	2 / 3	No Change	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions
	- Other companies (Filer / Non filer)	5.5 / 8	No Change	-	Final / adjustable subject to conditions	-	Final / adjustable subject to conditions
	- Other taxpayers (Filer / Non filer)	6 / 9	No Change	Final / adjustable subject to conditions	-	Final / adjustable subject to conditions	-
(b)	Import by persons covered under SRO. 1125(I)2011 dated 31 December 2011						
	- Manufacturer (Filer / Non filer)	1 / 1.5	No Change	Adjustable	Adjustable	Adjustable	Adjustable
	- Commercial importers (Filer / Non filer)	3 / 4.5	No Change	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions	Final / adjustable subject to conditions
(c)	Import of ships by ship breakers (Filer / Non filer)	4.5 / 6.5	No Change	Final	Final	Final	Final
149	**Salary**	Progressive rates	No Change	Adjustable	N/A	Adjustable	N/A
	Director fee	20	No change	Adjustable	N/A	Adjustable	N/A
150	**Dividend**						
(a)	Dividend distributed by purchaser of a power project privatized by WAPDA and company set up for power generation.	7.5	No change	Final	Final	Final	Final
(b)	Dividend payment by other companies (Filer / non-filer)	12.5 / 17.5	12.5 / 20	Final / Adjustable	Final / Adjustable	Final / Adjustable	Final / Adjustable
(c)	Remittance of after tax profit by a branch other than branch of a E&P companies (subject to	12.5 / 17.5	12.5 / 20	Final / Adjustable	Final / Adjustable	Final / Adjustable	Final / Adjustable

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Revised	
		Existing	Revised	Ind & AOP	Company	Ind & AOP	Company
	treaty provisions, if applicable) (Filer **/** non-filer)						
(d)	Dividend payment by Collective Investment Scheme, REIT Scheme or mutual fund						
	- Stock fund	10 / 12.5 (subject to condition)	10	Final / Adjustable	Final / Adjustable	Final / Adjustable	Final / Adjustable
	- Money market fund, income fund or REIT scheme any other fund						
	- Ind & AOP (Filer / non-filer)	10	10 / 15	Final / Adjustable	-	Final / Adjustable	-
	- Company	25	No change	-	Final	**-**	Final
151	**Profit on debt**						
(a)	Yield on an account, deposit or a certificate under the National Savings Scheme or Post office saving account (Filer **/** non-filer)	10 / 17.5 (subject to condition)	No Change	Final/ Adjustable	Adjustable	Final/ Adjustable	Adjustable
(b)	Profit on a debt, being an account or deposit maintained with a banking company or a financial institution (Filer **/** non-filer)	10 / 17.5 (subject to condition)	No Change	Adjustable	Adjustable	Adjustable	Adjustable
(c)	Profit on any security by Federal Government issued, a Provincial Government or a local Government other than profit on National Saving Scheme or Post Office Saving account to any person (Filer **/** non-filer)	10 / 17.5 (subject to condition)	No Change	Adjustable	Adjustable	Adjustable	Adjustable
(d)	Profit on any bond, certificate, debenture, security or instrument of any kind (excluding loan agreement between a borrower and a banking company or a development finance institution) issued by a banking company, a financial institution,	10 / 17.5 (subject to condition)	No Change	Adjustable	Adjustable	Adjustable	Adjustable

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Revised	
		Existing	Revised	Ind & AOP	Company	Ind & AOP	Company
	company as defined in the Companies Ordinance, 1984 and a body corporate formed by or under any law for the time being in force, to any person other than a financial institution (Filer **/** non-filer)						
152	**Payments to non-residents**						
(a)	Royalty and technical fee	15	No change	Final	Final	Final	Final
(b)	Execution of a contract or sub-contract under the construction, assembly or installation project in Pakistan including a contract for the supply of supervisory activities in relation to such projects or any other contract for construction or services rendered relating thereto (Filer **/** non-filer)	6	7 / 12	Final subject to option	Final subject to option	Final subject to option	Final subject to option
(c)	Contract for advertisement services rendered by TV Satellite channel	6	7 / 12	Final subject to option	Final subject to option	Final subject to option	Final subject to option
(d)	Insurance premium or re-insurance premium	5	No change	Final	Final	Final	Final
(e)	Advertisement services relaying from outside Pakistan	10	No change	Adjustable	Adjustable	Adjustable	Adjustable
(f)	Profit on debt to non-resident person not having a PE in Pakistan	10	No change	Adjustable / Final in specified situations	Adjustable / Final in specified situations	Adjustable / Final in specified situations	Adjustable / Final in specified situations
(g)	Other payments	20	No change	Adjustable	Adjustable	Adjustable	Adjustable
152(2A)	**Payments to PE of a non-resident**						
(a)	Sale of goods						
	- Company (Filer / Non filer)	4 / 6	No change	-	Adjustable	-	Adjustable
	- Other than company (Filer / Non filer)	4.5 / 6.5	No change	Adjustable	-	Adjustable	-

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Revised	
		Existing	Revised	Ind & AOP	Company	Ind & AOP	Company
(b)	Transport services	2	No change	Adjustable	Adjustable	Adjustable	Adjustable
(c)	Other services						
	- Company (Filer / Non filer)	8 / 12	No change	-	Adjustable	-	Adjustable
	- Other than company (Filer / Non filer)	10 / 15	No change	Adjustable	-	Adjustable	-
(d)	Execution of a contract						
	- Company (Filer / Non filer)	7 / 10	7 / 12	-	Adjustable	-	Adjustable
	- Other than company (Filer / Non filer)	7.5 / 10	7 / 12	Adjustable	-	Adjustable	-
(e)	Sports Person	10	No change	Adjustable	-	Adjustable	-
152A	**Payments for foreign produced commercials**						
	Payment to non-resident person directly to through an agent for foreign produced commercial for advertisement	-	20			Final	Final
153	**Goods, services and execution of a contract**						
(a)	Sales of rice, cotton seed or edible oils	1.5	No change	Final / adjustable subject to conditions	Final / (Adjustable for manufacturer / listed company / subject to conditions)	Final / adjustable subject to conditions	Final / (Adjustable for manufacturer / listed company) / subject to conditions
(ab)	Sales of fast moving consumer goods by the distributors, in the case of; - Company (Filer / Non filer)	4 / 6	3	-	Final / Adjustable subject to conditions	-	Final / Adjustable subject to conditions
	- Other tax payers (Filer / Non filer)	4.5 / 6.5	3.5	Final / adjustable subject to conditions	-	Final / adjustable subject to conditions	-
(d)	Sale of any other goods in the case of;				Final /		Final /

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Revised	
		Existing	Revised	Ind & AOP	Company	Ind & AOP	Company
	- Company (Filer / Non filer)	4 / 6	No Change	-	Adjustable for manufacturer / listed company subject to conditions	-	Adjustable for manufacturer / listed company subject to conditions
	- Other tax payers (Filer / Non filer)	4.5 / 6.5	No Change	Final / adjustable subject to conditions	-	Final / adjustable subject to conditions	-
(e)	Passenger transport services	2	No change	Minimum	Minimum	Minimum	Minimum
(f)	Other services in the case of; - Company (Filer / Non filer)	8 / 12	No change	-	Minimum	-	Minimum
	- Other tax payers (Filer / Non filer)	10 / 15	No change	Minimum	-	Minimum	-
(g)	Electronic and print media for advertisement services in the case of; - Company (Filer / Non filer)	1 / 12	1.5 / 12		Minimum / Adjustable		Final
	- Other tax payers (Filer / Non filer)	1 / 15	1.5 / 15	Minimum / Adjustable	-	Final	-
(g)	Execution of a contract in the case of; - Company (Filer / Non filer)	7 / 10	No change	-	Final / Adjustable for listed company / subject to conditions	-	Final / Adjustable for listed company / subject to conditions
	- Other tax payer (Filer / Non filer)	7.5 / 10	No change	Final	-	Final	-
	- Sports person	10	No change	Final	-	Final	-
(h)	Deduction by exporter or an export house on payment for rendering of certain services	1	No change	Final	Final	Final	Final
154	**Exports**						
(a)	Export proceeds, proceeds from sales of goods to an exporter under an inland back-to-back letter of credit or any	1	No change	Final	Final	Final / Adjustable (minimum) subject to option	Final / Adjustable (minimum) subject to option

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Revised	
		Existing	Revised	Ind & AOP	Company	Ind & AOP	Company
	other arrangement, export of goods by an industrial undertaking located in an Export Processing Zone, Collection by a collector of customs at the time of clearing of goods exported						
(b)	Indenting commission	5	No change	Final	Final	Final / Adjustable (minimum) subject to option	Final / Adjustable (minimum) subject to option
155	**Income from Property**						
	Annual rent of immovable property including rent of furniture and fixtures and amounts for services relating to such property	Progressive rates	Progressive rates	Adjustable	Adjustable	Adjustable	Adjustable
156	**Prizes and winnings**						
(a)	Amount of prize bond winning (Filer / Non filer)	15	15 / 20	Final	Final	Final	Final
(b)	Prize on cross-word puzzle (Filer / Non filer)	15	15 / 20	Final	Final	Final	Final
(c)	Amount of raffle/lottery winning, prize on winning a quiz, prize offered by a company for promotion of sales	20	No change	Final	Final	Final	Final
156A	**Petroleum products**						
	Commission and discount to petrol pump operators (Filer / Non filer)	12 / 15	No change	Final	Final	Final	Final
156B	**Withdrawal of balance under pension fund**						
	Withdrawal of amount before the retirement age or it is in excess of 50% of the accumulated balance at or after the retirement age	Average rate of preceding three years	No Change	Adjustable	N/A	Adjustable	N/A
231A	**Cash withdrawal**						
	Cash withdrawal exceeding Rs 50,000 from all bank	0.3 / 0.6 of the amount withdrawn	No change	Adjustable	Adjustable	Adjustable	Adjustable

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Revised	
		Existing	Revised	Ind & AOP	Company	Ind & AOP	Company
	accounts in a single day (Filer **/** Non filer)						
231AA	**Transactions in banks**						
	Sale against cash of any instrument including Demand Draft, Payment Order, Online Transfer, Telegraphic Transfer, CDR, STDR, RTC exceeding Rs 25,000 in a day (Filer **/** Non filer)	0.3 / 0.6 of the transaction	No change	Adjustable	Adjustable	Adjustable	Adjustable
231B	**Advance tax on private motor vehicle**	Varying slabs for filers and non - filers	No change	Adjustable	Adjustable	Adjustable	Adjustable
	- On registration of motor vehicle						
	- On transfer of registration or ownership of a private motor vehicle.						
	- On sale of motor vehicle						
233	**Brokerage & Commission**						
(a)	Commission to advertisement agent (Filer / Non filer)	10 /15	No change	Final	Final	Final	Final
(b)	Life Insurance Agent where commission is less than Rs. 0.5 million per annum (Filer / Non filer)	12 / 15	8 / 16	Final	Final	Final	Final
(a)	Payment of brokerage and commission (Filer / Non filer)	12 / 15	No Change	Final	Final	Final	Final
233A	**Collection of tax by stock exchange**						

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Revised	
		Existing	Revised	Ind & AOP	Company	Ind & AOP	Company
(a)	On purchase of shares, in lieu of commission of the Member	0.01 of purchase value	0.02 of purchase value	Adjustable	Adjustable	Adjustable	Adjustable
(b)	On Sale of shares, in lieu of commission of the Member	0.01 of sale value	0.02 of purchase value	Adjustable	Adjustable	Adjustable	Adjustable
233AA	**Collection of tax by NCCPL**						
	On margin financing, trading financiers and lenders	10	No change	Adjustable	Adjustable	Adjustable	Adjustable
234	**Tax on motor vehicle**						
	Registered laden weight/ Seating capacity/ Engine capacity	Varying rates for filer and non-filer	No Change	Adjustable	Adjustable	Adjustable	Adjustable
234A	**CNG stations**						
	On amount of gas bill	4	No Change	Final	Final	Final	Final
235	**Electricity bill of industrial / commercial consumers**						
(a)	Electricity bill upto Rs 20,000.	Slab rates	No change	Minimum	Adjustable	Minimum	Adjustable
(b)	On electricity bill exceeding Rs 20,000 (Industrial consumer / commercial consumer)	5 /10	5 /12	Minimum /Adjustable if the bill amount exceeds Rs 30,000	Adjustable	Minimum /Adjustable if the bill amount exceeds Rs 30,000	Adjustable
235A	**Domestic electricity consumption** On electricity bill exceeding Rs 75,000	7.5	No change	Adjustable	-	Adjustable	-
235B	**Tax on steel melters, re-rollers etc.** On electricity bill of steel melters, steel re-rollers, composite steel units.	Re. 1 per unit of electricity consumed	No change	Non-adjustable	Non-adjustable	Non-adjustable	Non-adjustable
236	**Telephone & internet bill**						
(a)	Telephone bill exceeding Rs 1,000	10	No change	Adjustable	Adjustable	Adjustable	Adjustable

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Revised	
		Existing	Revised	Ind & AOP	Company	Ind & AOP	Company
(b)	Subscriber of internet and prepaid internet card or sale of units through any electronic medium or whatever form	14	No change	Adjustable	Adjustable	Adjustable	Adjustable
(c)	Mobile telephone and prepaid card for telephones or sale of units through any electronic medium or whatever form	14	No change	Adjustable	Adjustable	Adjustable	Adjustable
236A	**Sale by auction / tender**						
	Sale price of the property	10	No change	Adjustable	Adjustable	Adjustable	Adjustable
236B	**Purchase of air ticket –** On gross amount of purchase of domestic air ticket	5	No change	Adjustable	Adjustable	Adjustable	Adjustable
236C	**Sale or transfer of immovable property –** On gross amount of consideration (Filer / non-filer)	0.5 / 1	1 / 2	Adjustable	Adjustable	Adjustable	Adjustable
236D	**Advance tax on functions and gatherings –** On total amount of bill of arranging or holding a function including payment of food, service or facility.	5	No change	Adjustable	Adjustable	Adjustable	Adjustable
236F	**Advance tax on cable operators and other electronic media.** On issuance or renewal of license for distribution services.	Varying amount	No change	Adjustable	Adjustable	Adjustable	Adjustable
	Permission or renewal fee from every TV Channel on which foreign TV drama serial or a play in any language, other than English, is screened or viewed	Rs. 100,000 per episode under omitted section 236E	50% of permission or renewal fee	Adjustable	Adjustable	Adjustable	Adjustable

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Revised	
		Existing	Revised	Ind & AOP	Company	Ind & AOP	Company
236G	**Advance tax on sales of specified goods to distributors, dealers and wholesalers**						
	- Fertilizer - Other than fertilizer (Filer / Non filer)	0.7 / 1.4 0.1 / 0.2	No change No change	Adjustable Adjustable	Adjustable Adjustable	Adjustable Adjustable	Adjustable Adjustable
236H	**Advance tax on sales of specified goods to retailers or wholesaler**	0.5	No change	Adjustable	Adjustable	Adjustable	Adjustable
236I	**Collection of advance tax by educational institutions** On amount of fee exceeding Rs 200,000	5	No change	Adjustable	N /A	Adjustable	N/A
236J	**Advance tax on issuance or renewal of license to dealers, commission agents and arhatis etc.**	Varying amount	No change	Adjustable	Adjustable	Adjustable	Adjustable
236K	**Advance tax on purchase of immovable property** On purchaser or transferee for registering or attesting transfer of any immovable property exceeding value Rs. 3 million (Filer / Non-filer)	1 / *2 (*subject to the date notified by the Board)	2 / *4 (*subject to the date notified by the Board)	Adjustable	Adjustable	Adjustable	Adjustable
236L	**Advance tax on purchase of international air ticket** On sale of international air ticket for first / executive class. (First class / others excluding economy class)	Rs. 16,000 / Rs. 12,000 per person	No Change	Adjustable	Adjustable	Adjustable	Adjustable
236M	**Bonus shares issued by companies quoted on stock exchange**	5	No Change	Final	Final	Final	Final
236N	**Bonus shares issued by companies not quoted on stock exchange**	5	No Change	Final	Final	Final	Final

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Revised	
		Existing	Revised	Ind & AOP	Company	Ind & AOP	Company
236P	**Advance tax on banking transactions otherwise than through cash** Advance tax from non – filer on specified banking transactions where the sum of these transactions from all bank accounts exceeds Rs. 50,000 in a day.	0.6	No Change	Adjustable	Adjustable	Adjustable	Adjustable
236Q	**Payment to residents for use of machinery and equipment** - Payment to resident person for use or right to use industrial, commercial and scientific equipment	10	No Change	Final	Final	Final	Final
	- Payment to resident person on account of rent of machinery	10	No Change	Final	Final	Final	Final
236R	**Collection of advance tax on education related expenses remitted abroad**	5	No Change	Adjustable	Adjustable	Adjustable	Adjustable
236S	**Dividend in Specie**						
(a)	Dividend distributed by purchaser of a power project privatized by WAPDA and company set up for power generation.	7.5	No Change	Final	Final	Final	Final
(b)	Dividend payment by other companies Filer / non-filer	12.5 / 17.5	12.5 / 20	Final / Adjustable	Final / Adjustable	Final / Adjustable	Final / Adjustable
(c)	Remittance of after tax profit by a branch other than branch of a E&P companies (subject to treaty provisions, if applicable) (Filer / non-filer)	12.5 / 17.5	12.5 / 20	Final / Adjustable	Final / Adjustable	Final / Adjustable	Final / Adjustable

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Revised	
		Existing	Revised	Ind & AOP	Company	Ind & AOP	Company
(d)	Dividend payment by Collective Investment Scheme, REIT Scheme or mutual fund - Stock fund	10 / 12.5 (subject to condition)	10	-	-	Final	Final
	- Money market fund, income fund or REIT scheme any other fund - Ind & AOP (Filer / non-filer) - Company	10 25	10 / 15 No change	Final / Adjustable -	- Final	Final / Adjustable -	- Final
236U	**Collection of tax on insurance premium from Non-filers**						
	- General Insurance premium - Life insurance premium if exceeding Rs. 0.2 million per annum	- -	4 1	- -	- -	Adjustable Adjustable	Adjustable Adjustable
236V	**Collection of tax on extraction of minerals**						
	- Advance tax collection on value of minerals for non-filers	-	5	-	-	Adjustable	Adjustable

Sales Tax Act, 1990

Significant Amendments

Exemption threshold for cottage industry enhanced

Section 2(5AB)

Manufacturers whose annual turnover from taxable supplies made in any tax period during the last twelve months ending any tax period does not exceed five (5) million rupees or whose annual utility bills during the last twelve months ending any tax period does not exceed eight hundred thousand rupees were given the status of cottage industry for availing the exemption from the levy of sales tax through finance Act 2007.

The Act now enhances the exemption threshold limit of turnover from Rs. five (5) million to Rs. ten (10) million per annum providing incentive to the units functioning within the cottage industry.

Filing of annexures of sales tax return in different dates

Section 2(9)

The term 'due date' is defined in Sales Tax Act with reference to filing of sales tax return under Section 26 of Sales Tax Act, which is 15th day of the month following the end of tax period or such other date as the Board may, by notification in the official Gazette, specify.

Now, the Act prescribes multiple due dates for furnishing of different parts or annexures of the sales tax return. This insertion aligns the definition with the new scheme of e-filing of sales tax returns, where the sellers and buyers will be required to file their respective returns or annexures of sales and purchases in different due dates.

Provincial sales tax on services not claimable as input tax

Section 2(14)(d)

Clause (d) of Section 2(14) is omitted, which represents input tax on account of Provincial sales tax levied on services rendered or provided to the person read with SRO. 212(I)/2014, dated 26 March 2012.

The amendment is certainly a very harsh revenue measure, as it will enhance the cost of doing business significantly and will affect the trade and industry quite severely.

Eventually, SRO. 212(I)/2014, dated 26 March 2012 is also expected to be withdrawn, which may also give rise to another legal issue, whether input tax on sales tax paid or payable with FBR as applicable under Islamabad Capital Territory (Tax on Services) Ordinance, 2001 (ICT Ordinance), would be admissible for input tax credit. In case, SRO. 212(I)/2014, dated 26 March 2012, which presently covers sales tax under ICT Ordinance, stands rescinded, then the definition of 'input tax' after omission, may not also cater the input tax under ICT Ordinance.

Time and manner of sales tax payment

Section 6(2)

Consequent to amendment in the definition of term 'due date', the provisions of Section 6(2) is also being aligned to cater payment of sales tax on local supplies of taxable goods by prescribing different dates in accordance with the multiple filing dates of annexures of sales tax returns, as expected to be notified under Chapter-I of Sales Tax Rules, 2006.

Admissibility of input tax linked with supplier's declaration / payment of sales tax

Section 7(2)(i) & Section 8(1)(l)

Input tax claim is considered valid for local supplies in case the registered person holds a tax invoice in his name bearing the registration number. Now, the Act inserts a Proviso to Section 7(2)(i) to bind the registered person to ensure the supplier must have declared the sales in his sales tax return or the supplier has already deposited sales tax due.

It seems that the amendment is aimed to reverse the decisions of superior courts / appellate authorities, where it was categorically held that the registered buyers cannot be deprived of their legitimate right to claim input tax when they have complied with the mandatory provisions of Sections 7, 8, 8B and 73 of Sales Tax Act.

Section 8(1)(l) already restricted input tax on goods and services on the basis of non-declarations by the registered supplier in the sales tax return. The Act aligns the above provision of Section 8 to restrict input tax in cases where the supplier has not paid the related sales tax in the return.

On a practical note, it would be a cumbersome and difficult exercise for a registered buyer to reconcile each and every purchase invoice with the suppliers' declarations in their returns or to track the invoice-wise payments of sales tax.

Assessment of withholding sales tax, if not deducted

Section 11(4A)

Withholding sales tax regime is applicable under Sales Tax Special Procedure (Withholding) Rules, 2007, whereby the prescribed withholding agents are required to withhold and pay sales tax at varied rates on purchases of taxable goods.

The field formations of FBR have been raising demands of sales tax in cases where compliance with withholding sales tax regime is not made by the withholding agents. These demands were largely challenged by the registered persons either on the premise that recovery of sales tax at standard rate of 17% is not justified when the concerned supplier deposit the entire amount of sales tax through its monthly return or section 11 does not empower inland revenue officers to initiate any such proceedings against the withholding agents.

To provide legal backing to the cases being made out, a new sub-section has been inserted to empower the Inland Revenue Officer to, inter-alia, issue a show cause notice to the withholding agent on his failure to withhold sales tax or to deposit the withheld amount of sales tax in prescribed manner.

Filing of separate sales tax return

Section 26(2)

The Act omits sub-section (2) of Section 26, which provides that separate date-wise sales tax returns are required to be filed whenever any change in sales tax rate occurs during the tax period.

In past, the registered persons were required to file separate returns in consequence of change in sales tax rate till the time FBR did not launch its e-filing portal for returns. Considering that e-filing of return is compulsory for every registered person, which caters to the issue of change in sales tax rate, as such Section 26(2) has been omitted due to its redundancy.

Directorate of Inland-IOCO established

Section 30DDD

FBR plans to establish a new Directorate i.e. Directorate General of Input Output Co-efficient

Organization (IOCO) under Inland Revenue Wing. Such Directorates already exist under the Customs Wing of FBR, who are engaged in determination / fixation of duty drawback rates of various imported goods within the industrial segments involved in exports of goods.

It is expected that the functions that may be assigned to the new establishment would ultimately help to improve the quality of sales tax audits.

Alternative Dispute Resolution (ADR) – deemed order by the Board

Section 47A

The salient features of present ADR scheme are:

- The Board is required to constitute ADR Committee within 30 days of receipt of an application by an aggrieved taxpayer on specified disputes
- The ADR Committee shall include an officer of Inland Revenue not below the rank of Additional Commissioner and two persons from the notified panel
- The ADR Committee examines the issue, including making inquiries and seeking expert opinion if required, and is required to make recommendations within 90 days of its constitution
- The Board is required to pass such order as it may deem appropriate within 45 days of receipt of recommendations of ADR Committee
- Chairman FBR and a member nominated may rectify the ADR Order on application by the aggrieved person if any error in the order or decision is found
- On payment of Sales Tax and other duty and taxes by the registered person on the basis of ADR Order, such Order shall be submitted before the appellate / litigation forum where the matter is subjudice for consideration of orders

The Finance Act, while extending the period to make any order by the Board from 45 days to 90 days, has now provided that if Board does not make an order within 90 days of receipt of recommendations of ADR Committee, the recommendations shall be treated to be an order passed by the Board.

The Act also requires that Inland Revenue Officer to be appointed under ADR Committee, should not be below the rank of Commissioner Inland Revenue.

Zero-rated invoice required in transfer of business

Section 49(2)

The provisions of Section 49 deals with the sales and transfer of business in mergers and acquisitions. Such transfer of business may take place either between two registered persons or between a registered and an unregistered person. Sales tax is not applicable in case the transfer of assets / business takes place between two registered persons.

In above situation, the Act prescribes to require the registered transferor of business to issue a zero-rated invoice to the transferee in the event of such acquisition. However, the transferee will be obligated to account for sales tax in his books, which shall be payable at the time of ultimate disposal of taxable goods.

The change is though procedural in nature, but seems a welcome change to cap the interpretational issues.

Disclosure of information by a public servant

Section 56B

The provision of Section 58B bars the public servant to disclose any confidential information in specified matters. The Act substitutes Section 56B mainly to give an overriding effect over the provisions of the Freedom of Information Ordinance, 2002, apart from other changes of clarificatory nature.

Retail price regime for mineral / bottled waters

Entry No.37 of Third Schedule

The Act introduces retail price sales tax regime for mineral / bottled water under Third Schedule to Sales Tax Act. Thus, the importer and/or manufacturer of mineral water will charge and collect sales tax at 17% on market retail price basis.

Zero rating facility withdrawn

Fifth Schedule

S. No.	Description of Goods	PCT Heading
12(i)	Colours in sets	3213.1000
12(ii)	Writing, drawing and marking inks	3215.9010 and 3215.9090
12(iii)	Erasers	4016.9210 and 4016.9290
12(iv)	Exercise Books	4820.2000
12(v)	Pencil Sharpeners	8214.1000
12(vi)	Geometry boxes	9017.2000
12(vii)	Pens, Ball pens, markers and porous tipped pens	96.08
12(viii)	Pencils including colour Pencils	96.09
12(ix)	Milk	04.01
12(xviii)	Fat Filled Milk	1901.9090

Except milk and fat filled milk, the above stationery articles shall remain exempt under sixth schedule to Sales Tax Act.

Sales tax exemptions introduced

Sixth Schedule – Table-I

S. No.	Description of goods	PCT heading
100A	Materials and equipment for construction and operation of Gwadar Port and development of Free Zone for Gwadar Port as imported by or supplied to China Overseas Ports Holding Company Limited (COPHCL) and its operating companies namely (i) China Overseas Ports Holding Company Pakistan (Private) Limited (ii) Gwadar International Terminal Limited, (iii) Gwadar Marin Services Limited and (iv) Gwadar Free Zone Company Limited, their contractors and sub-contractors; and Ship Bunker Oils bought and sold to the ships calling on/visiting Gwadar Port, having Concession Agreement with the Gwadar Port Authority, for a period of forty year, subject to various conditions	Respective Headings
100B	Supplies made by the businesses to be established in the Gwadar Free Zone for a period of twenty-three years within the Gwadar Free Zone, subject to the condition that the sales and supplies outside the Gwadar Free Zone and into the territory of Pakistan shall be subjected to sales tax	Respective Headings

S. No.	Description of goods	PCT heading
130	Premixes for growth stunting	Headings, and subject to conditions imposed for importation under the Customs Act, 1969;
131	Laptop computers, notebooks whether or not incorporating multimedia kit	8471.3010
132	Personal computers	8471.3020
133	Pesticides and their active ingredients registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971 (For item-wise details, please refer the Bill).	Respective headings

The conditions prescribed under the existing exemption clauses under Table-I of Sixth Schedule are amended as follows:

- Exemption on import and supply of ships of gross tonnage of less than 15 LTD is provided. The Act omits the words 'less than 15 LTD' to broaden the scope of exemption for ships.
- Raw materials for manufacturing of active ingredients and pharmaceutical products are exempt, provided that in case of import, only such raw materials are exempt which are liable to customs duty at the rate not exceeding 10%. The Act amends the rate from 10% to 11% owing to increase in slab rate of 10% by 1% under First Schedule to the Customs Act, 1969.
- PCT headings under Sr.No.110, which provides exemption on renewable source of energy, are reshuffled.
- Scope of exemption under Sr.No.110 also stands extended to cover tabular day lighting devices, energy saver lamps, tube lights, and invertors (off grid / on-grid hybrid
- Aircrafts are exempt under Sr.No.123, whether imported or acquired on wet or dry lease. The Act inserts a proviso to provide applicability of exemption on import / acquisition of leased aircraft by PIAC effective from 19 March 2015.

Sixth Schedule- Table-III

S. No.	Description of goods	PCT heading
4	Dump Trucks for Thar Coal Field	Respective headings

Sales tax exemption withdrawn

Sixth Schedule- Table-I

S. No.	Description of goods	PCT Heading
111	White Crystalline Sugar	1701.9910 and 1701.9920
119	Tabular day lighting devices (TDDs)	8539.3930

Goods subject to reduced rate of sales tax - Eighth Schedule

Eighth Schedule- Table-I

S. No.	Description of goods	Rate of sales tax
15	Meat and Bone Meal (PCT Heading 2301.1000)	10%
15	Of Zinc (PCT Heading 2833.2940)	10%
15	Betaine (PCT Heading 2923.9010)	10%
26	Laser Land Leveler (PCT Heading 8432.8090)	7%

S. No.	Description of goods	Rate of sales tax
32	White Crystalline Sugar (PCT Heading 1701.9910 and 1701.9920)	8%
33	Urea, whether or not in aqueous solution (PCT Heading 3102.1000)	5%
34	1. Set top boxes for gaining access to internet (PCT Heading 8517.6950) 2. TV broadcast transmitter (PCT Heading 8525.5020) 3. Reception apparatus for receiving satellite signals (PCT Headings 8528.7110 & 8528.7220) 4. Other set top boxes (PCT Headings 8528.7190 & 8528.7290)	5% (Subject to approval by PEMRA & concession will be applicable upto 30 June 2017)

Eighth Schedule- Table-II

S. No.	Description of goods	Rate of sales tax
1	Silos	10%
8	1. Milk chillers (PCT Headings 8418.6910 & 8418.6990) 2. Tubular heat exchanger (for pasteurization)(PCT Heading 8419.5000) 3. Milk processing plant, milk spray drying plant, milk UHT plant (PCT Headings 8419.3900 & 8419.8100) 4. Milk filters (PCT Heading 8421.2900) 5. Any other machinery and equipment for manufacturing of dairy products (Respective PCT Headings under Chapters 84 and 85)	5% (if imported by registered manufacturer who is member of Pakistan Dairy Association)

Reduced rate of sales tax withdrawn

Eighth Schedule- Table-I

S. No.	Description of goods	PCT heading
15	Fish Meal	2301.2010
15	Zinc Sulphate	2833.2600
15	Betafin	2923.9000
31	Pesticides and their active ingredients registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971 (For item-wise details, please refer the Bill).	Respective Headings

Reduced rate enhanced

Eighth Schedule- Table-I

S. No.	Description of goods	Rate	
		Existing	Revised
15	Ingredients of poultry feed, cattle feed except soya bean meal and oil-cake of cotton seed (Respective Headings).	5%	10%

Lower rate further reduced

Eighth Schedule- Table-I

S. No.	Description of goods	Rate	
		Existing	Revised
25	Agricultural tractors	10%	5%

Fixed rates enhanced

Ninth Schedule

S. No.	Description of goods	Rate	
		Existing	Revised
2.B	Medium Priced Cellular Mobile Phones or Satellite Phones.	Rs. 500	Rs. 1000
2.C	Smart Cellular Mobile Phones or Satellite Phones.	Rs. 1000	Rs. 1500

Amendments effective from 25 June 2016

Following amendments are made effective from 25 June 2016:

— Withdrawal of exemption from sales tax on white crystalline sugar

— Exemption from sales tax on pesticides and their active ingredients registered by the Department of Plant Protection, stabilizers, emulsifiers and solvents as listed

— Reduced rates of sales tax on agricultural tractors, white crystalline sugar, and urea whether or not in aqueous solution

— Enhanced sales tax on Medium Priced Cellular Mobile Phones or Satellite Phones, and Smart Cellular Mobile Phones or Satellite Phones

Islamabad Capital Territory (Tax on Services) Ordinance, 2001

Services subject to ICT sales tax

Schedule to ICT (Tax on Services) Ordinance, 2001

The Finance Act inserts Entry No.37 in the Schedule to apply ICT sales tax at 16% on following services w.e.f. 01 July 2016:

"Valuation services; competency and eligibility testing services excluding education testing services provided or rendered a bilateral or multilateral agreement signed by the Government of Pakistan."

Linkage of charging and exemption provisions of Sales Tax Act

Section 3(2A)

For collection and payment of sales tax on taxable services under the Islamabad Capital Territory (Tax on Services) Ordinance, 2001, all the provisions of Sales Tax Act, allied Rules and notifications apply mutatis mutandis.

The Finance Act now develops linkage of the afore-mentioned statutes for charge of sales tax, zero-rating and exemptions by insertion of Section 3(2A) under ICT Ordinance.

Sales tax not applicable on services by Federal regulatory and licensing authorities

Section 3(2B)

The Bill seeks to provide immunity from levy of sales tax on services rendered or provided by regulatory and licensing body established by or under a Federal statute.


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Federal Excise Act, 2005

Significant Amendments

FED on specified services abolished

Table-II to First Schedule

The Act inserts a Note that FED shall not apply on the following services, provided in the Provinces, where Provincial sales tax has been levied:

- Advertisement on closed circuit T.V;
- Advertisements on cable T.V. network;
- Advertisement in newspapers and periodicals (excluding classified advertisements), and on hoarding boards, pole signs and sign boards;
- Shipping agents;
- Services provided or rendered by banking companies, insurance companies, cooperative financing societies, modarabas, musharikas, leasing companies, foreign exchange dealers, non-banking financial institutions, asset management companies and other persons dealing in any such services;
- Franchise services; and
- Services provided or rendered by stockbrokers

Filing of annexures of return in different dates

Section 2(8a)

The term 'due date' is defined in Federal Excise Act with reference to filing of return under Section 4 of Federal Excise Act, which is 15th day of the month following the end of tax period or such other date as the Board may, by notification in the official Gazette, specify.

Now, the Act prescribes multiple due dates for furnishing of different parts or annexures of the return. This insertion is made to align the definition with the new scheme of e-filing of returns, where the sellers and buyers will be required to file their respective returns or annexures of sales and purchases on different due dates.

Filing of separate sales tax return

Section 4(3)

The Act omits sub-section (3) of Section 4, which provides that separate date-wise returns are required to be filed whenever any change in FED occurs during the tax period.

In past, the registered persons were required to file separate returns on change in FED rate till the time FBR did not launch its e-filing portal for returns. As the e-filing of return is compulsory for every registered person, Section 4(3) is now omitted due to its redundancy.

Adjustment of duties of excise

Section 6(2A)

Presently, input FED can be adjusted against output FED provided the taxpayer holds valid proof for payment of the price of goods purchased by him.

The Act inserts a sub-section to allow adjustment of FED only if the supplier of input goods and services has declared such supply in his return and has paid the amount of duty due as indicated in his return.

The insertion in Section 6 interalia covers the input tax on services, which should not be a subject matter of section 6. The input tax on services may have nexus with section 7, but not with Section 6, which entirely deals with adjustment of input FED against output FED in relation to excisable goods only.

Exemptions

Section 16

The Federal Government pursuant to the approval of the Economic Coordination Committee of Cabinet, whenever circumstances exist to take immediate action for specified purposes or implementation of bilateral or multilateral agreements exempt any goods from duty leviable through notification.

In order to expand the scope of this section, it is amended to include any international financial institution or foreign government owned financial institution operating under a memorandum of understanding, an agreement or any other arrangement with the Government of Pakistan.

Offences and Penalties

Section 19

The Act prescribes a penalty at the rate of Rs. 5,000 or 3% of duty involved, whichever is higher, in case of non-compliance of the Federal Excise Act or allied rules, for which no specific penalty is provided.

Alternative Dispute Resolution (ADR) – deemed order by the Board

Section 38

The salient features of present ADR scheme are:

— The Board is required to constitute ADR Committee within 30 days of receipt of an application by an aggrieved taxpayer on specified disputes

— The ADR Committee shall include an officer of Inland Revenue and two persons from the notified panel

— The ADR Committee examines the issue, including making inquiries and seeking expert opinion if required, and is required to make recommendations within 90 days of its constitution

— The Board, is required to pass such order as it may deem appropriate within 45 days of receipt of recommendations of ADR Committee

— Chairman FBR and a member nominated may rectify the ADR Order on application by the aggrieved person if any error in the order or decision is found

— On payment of duty and taxes by the aggrieved person on the basis of ADR Order, all previous decisions / orders shall stand modified and all such proceedings shall abate

The Finance Act, while extending the period to make any order by the Board from 45 days to 90 days, has now provided that if Board does not make an order within 90 days of receipt of recommendations of ADR Committee, the recommendations shall be treated to be an order passed by the Board.

Disclosure of information by a public servant

Section 47B

The provision of Section 47B bars the public servant to disclose any confidential information in specified matters. Section 47B stands substituted mainly to give an overriding effect over the provisions of the Freedom of Information Ordinance, 2002, apart from other changes of clarificatory nature.

Rates of FED enhanced

Table-I of the First Schedule

All changes in FED rates have come into force on the next day following the assent of the President of Pakistan i.e. 25 June 2016.

Entry No.	Description of goods	Existing FED Rate	Revised FED Rate
4,5 and 6	Aerated waters	10.5% of retail price	11.5% of retail price
9a	For the period from 01-07-2016 to 30-11-2016, locally produced cigarettes if their on-pack printed	Rs. 3,155 per 1,000 cigarettes (as notified vide SRO 1181(1)/20	Rs. 3,436 * per 1,000 cigarettes

Entry No.	Description of goods	Existing FED Rate	Revised FED Rate
	retail price exceeds Rs.4,000 (existing Rs.3,600) per 1,000 cigarettes	15 dated 30 November 2015	
9b	For the period from 01-12-2016 onwards, locally produced cigarettes if their on-pack printed retail price exceeds Rs.4,000 per 1,000 cigarettes	-	Rs. 3,705 per 1,000 cigarettes
10a	For the period from 01-07-2016 to 30-11-2016, locally Produced cigarettes if their on-pack printed retail price does not exceed Rs.4,000 (existing Rs.3,600) per 1,000 cigarettes	Rs. 1,420 per 1,000 cigarettes (as notified vide SRO 1181(1)/2015 dated 30 November 2015	Rs. 1,534 * per 1,000 cigarettes
10b	For the period from 01-12-2016 onwards, locally produced cigarettes if their on-pack printed retail price does not exceeds Rs.4,000 per 1,000 cigarettes	-	Rs. 1,649 per 1,000 cigarettes
13	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers	5% of the retail price	1 Rs per Kg

*Note: The revised rates for locally produced cigarettes as per entries 9a and 10a have been notified to become applicable w.e.f. 4 June 2016 vide SRO 473(1)/2016 dated 3 June 2016.

Introduction of FED Exemption

Table-I of the Third Schedule

Entry No.	Description of goods
13	Chartered flight services used by or for armed forces to move troops and equipment deployed locally or internationally, including those for movement of troops and equipment to UN missions.
19	Materials and equipment for construction and operation of Gwadar Port and development of Free Zone for Gwadar Port as imported by or supplied to China Overseas Ports Holding Company Limited (COPHCL) and its operating companies namely (i) China Overseas Ports Holding Company Pakistan (Private) Limited, (ii) Gwadar International Terminals Limited, (iii) Gwadar Marine Services Limited and (iv) Gwadar Free Zone Company Limited, their contractors and sub-contractors; and Ship Bunker Oils bought and sold to the ships calling on/visiting Gwadar Port, having Concession Agreement with the Gwadar Port Authority, for a period of forty years, subject to the conditions and procedure as specified under S. No. 100A of Table-1 of Sixth Schedule to the Sales Tax Act, 1990.
20	Supplies made by the businesses to be established in the Gwadar Free Zone for a period of twenty-three years within the Gwadar Free Zone, subject to the condition that the sales and supplies outside the Gwadar Free Zone and into the territory of Pakistan shall be subjected to Federal Excise Duty

FED replaced by Sales Tax

Entry No. 53 of Table-I of the First Schedule and Entry No. 3 of the Second Schedule

The Act omits entries relating to White Crystalline Sugar from First and Second Schedules.

Through another amendments in Sales Tax Act, sales tax @ 8% is notified on White Crystalline Sugar.

Withdrawal of FED Exemption

Table-I of the Third Schedule

Entry No.	Description of goods
18	White Cement

Customs Act, 1969

Significant Amendments

Effective date of changes in duty rates

First Schedule & Fifth Schedule

All changes in rates of customs duty have come into force on the next day following the assent of the President of Pakistan i.e. 25 June 2016.

Changes in Customs Duty slab rates

First Schedule

- A new customs duty slab of 3% is introduced by merging two slabs of customs duty having rates of 2% and 5%
- Generally, 10% and 15% slabs rate of customs duty are substituted with 11% and 16% slabs rate respectively

Reduction in Customs Duty

Fifth Schedule

Description	Existing	Revised
Agricultural Machinery		
(F) Dairy, Livestock and Poultry, machinery	5%	2%
Active Pharmaceutical Ingredients		
Moxifloxacin	5%	3%
Alfacalcidole	5%	3%
Acid Hypophosphorous		
Dextro-Methorph Hbr	5%	3%
Sodium Benzoate	5%	3%
Sodium Valproate	5%	3%

Description	Existing	Revised
Diphenhydramine	5%	3%
Alprazolam	5%	3%
Fluconazole	5%	3%
Famotidine	5%	3%
Lactulose	5%	3%
Hydrcortisone Acetate Micronised	5%	3%
Clotrimazole	5%	3%
Ferrous Sulphate	5%	3%
Artemether	5%	3%
Lumefantrine	5%	3%

Duty concessions under Automotive Development Policy 2016-21

Fifth Schedule

S. No.	Description	PCT Code	Customs Duty
1	Agricultural Tractors, having an engine capacity exceeding 35 HP but not exceeding 100 HP	8701.9020	15%
2	Agricultural Tractors (other than mentioned at S. No. 1 above)	8701.9090	10%
3	Fully dedicated LNG buses (CBU)	8702.9030	1%
4	Fully dedicated LPG buses (CBU)	8702.9040	1%
5	Fully dedicated CNG buses (CBU)	8702.9050	1%

S. No.	Description	PCT Code	Customs Duty
6	Hybrid Electric Vehicle (HEV) (CBU)	8702.9060	1%
7	Hybrid Electric Vehicle (HEV) (CBU)	8704.2214 8704.2294 8704.2340 8704.3240	1%
8	Trailers	87.16	15%

Introduction of zero rating Customs Duty

Fifth Schedule

- Fish and shrimp feed
- Fish for breeding in commercial fish farms
- Import of machinery and equipment for textile sector, not locally manufactured.
- Water quality testing kits

Exemption of customs duty on disposal of old and used ambulances by Edhi Foundation

First Schedule (9912)

The ambulances already imported or to be imported by Edhi Foundation can be disposed of after expiry of seven years from the date of importation without payment duty and taxes leviable at the time of import with the prior approval of FBR.

General power to exempt from customs duties

Section 19

The Federal Government pursuant to the approval of the Economic Coordination Committee of Cabinet, whenever circumstances exist to take immediate action for specified purposes or implementation of bilateral or multilateral agreements exempt any goods from customs duty imported into or exported from Pakistan through notification.

In order to expand the scope of this section, it is amended to include any international financial institution or foreign government owned financial institution operating under a memorandum of understanding, an agreement or any other arrangement with the Government of Pakistan.

Confidentiality of information

Section 155H

Under this section, all trade information gathered by Customs during clearance of goods shall be confidential and shall not be used except for specified purposes.

The Act amends the provisions to include confidential information in relation to sharing of data contents under a memorandum of understanding, bilateral, regional, multilateral agreements or conventions as well as public disclosure of valuation data without disclosing name and address of the importer or exporter or their suppliers.

Alternative Dispute Resolution (ADR) – deemed order by the Board

Section 195-C

The salient features of present ADR scheme are:

- The Board is required to constitute ADR Committee within 30 days of receipt of an application by an aggrieved taxpayer on specified disputes
- The ADR Committee shall include an officer of customs and two persons from the notified panel

- The ADR Committee examines the issue, including making inquiries and seeking expert opinion if required, and is required to make recommendations within 90 days of its constitution

- The Board, is required to pass such order as it may deem appropriate within 45 days of receipt of recommendations of ADR Committee

- Chairman FBR and a member nominated may rectify the ADR Order on application by the aggrieved person if any error in the order or decision is found

- On payment of duty and taxes by the aggrieved person on the basis of ADR Order, all previous decisions / orders shall stand modified and all such proceedings shall abate

The Finance Act, while extending the period to make any order by the Board from 45 days to 90 days, has now provided that if Board does not make an order within 90 days of receipt of recommendations of ADR Committee, the recommendations shall be treated to be an order passed by the Board.

Owing to insertion of proviso to sub-section (4) to treat the ADRC's recommendations as deemed order, consequential amendment has also been made under sub-section (5) to Section 195-C.

Fiscal Responsibility and Debt Limitation Act, 2005 [The Act]

Background

Fiscal Responsibility and Debt Limitation Act, 2005 was enacted to provide for elimination of revenue deficit and reduction of public debt to a prudent level by effective public debt management and by the stated target dates. The stated targets could admittedly not be met.

Accordingly, the Finance Act has provided for revised targets.

The scope of deficit under the Act has been enlarged from revenue deficit to total fiscal deficit. Further definition of public debt has been amended.

Amendments

The Finance Act has introduced certain changes to the Act as follows:

A. Federal Fiscal deficit [FFD]

- Broadens the scope of the Act from revenue deficit to FFD.

- Provide for reduction of FFD in a phased manner in contrast to elimination of revenue deficit.

- A definition of Federal Fiscal Deficit [FFD] is provided as the "*difference between total net revenue receipts and total expenditure of the Federal Government*." This is wider in scope from revenue deficit which is the difference between total current expenditure and total revenue of the Government.

- Total expenditure scope is enlarged to include net lending of the Federal Government along with recurrent expenditure, development expenditure.

- Total net revenue of Federal Government is defined as total revenue [already defined] minus transfer of provincial share.

- Target for reduction of FFD excluding foreign grants is phased out as follows:

  i. Limiting FFD to 4 % of GDP during three years beginning from 2017-18;

  ii. Thereafter FFD to be kept at 3.5% of GDP.

B. Total Public Debt and Debt to GDP ratio

Total Public Debt has been amended to mean "*The debt of the Government serviced out of consolidated fund and debts owed to International Monetary Fund*". As against current general definition as *'sum of total outstanding borrowings of the Government'*.

The target to public debt has been raised to have debt to GDP ratio of 50% by 2032-33.

i) The current target date [i.e. 2103] to achieve 60% debt to GDP ratio has been extended to 2016-17;

ii) For five years from 2018-19 onwards reduction of total public debt by 0.5% of GDP to be achieved each year; and

iii) For ensuing ten years starting from 2023-24 a reduction of 0.75% of GDP to be achieved each year.

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