

BRIEFING
FINANCE BILL 2017



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Preface

The document encompasses the proposed amendments in the Income Tax Ordinance, 2001, Sales Tax Act, 1990, Federal Excise Act, 2005 & Islamabad Capital Territory (Tax on Services) Ordinance, 2001.

Hopefully, this document will enhance the perception of the reader regarding Budget 2017-2018.

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Although best efforts have been made to ensure comments on each and every single change proposed by the Finance Bill 2017-2018 and accuracy of the information in this document, because of time constraint errors and omissions are regretted.

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SALIENT FEATURES – FEDERAL BUDGET 2017-2018

Reproduced

(As provided by Federal Government alongwith Finance Bill, 2017)

CUSTOMS

RELIEF MEASURES:

1. Reduction of duty from 11% to 3% and removal of 5% RD on grandparent and parent stock of chicken
2. Reduction of duty on import of hatching eggs from 11% to 3%
3. Reduction of RD on aluminium waste or scrap from 10% to 5%
4. Exemption of 3% CD on raw skins & hides
5. Exemption of 16% CD on stamping foils
6. Reduction of CD on sheets for veneering from 16% to 11%
7. Reduction of CD on pre-fabricated modular clean rooms panels from 20% to 3%
8. Exemption of 3% CD on import of ostriches
9. Reduction of CD on fabric (non-woven) for pharmaceutical industry from 16% to 5%

PROTECTION TO LOCAL INDUSTRY

10. 5% RD levied on import of synthetic filament yarn (of polyesters)
11. Increase of CD on aluminium beverage cans from 11% to 20%
12. CD reduced on uncoated polyester film and aluminum wire from 20% to 11% for manufacturers of metalized yarn
13. CD reduced from 20% to 16% and from 16% to 11%, on raw materials for manufacturers of Baby Diapers

TARIFF RATIONALIZATION

14. CD rate on Bituminous coal and other coal equalized @ 5%. However, for the Power Projects in IPPs Mode, CD on import of both types of coal reduced to 3%
15. Separate PCT code for compressors of vehicle @ 35% CD created
16. Separate PCT code for classification of electric cigarettes created at 20% CD
17. RD @ 10% levied on animal protein meals

REVENUE MEASURES:

18. RD levied/increased on 565 non-essential items by various rates ranging from 5% to 15%
19. CD @ Rs. 250 per set converted into RD @ Rs. 250 per set on mobile phones
20. CD @ 11% and 16% exempted and instead RD at uniform rate of 9% levied on the telecom equipment
21. RD on betel nuts increased from 10% to 25% while RD @ Rs.200/kg levied on betel leaves
22. Concession in duty/taxes on Hybrid Electric Vehicles above 2500 cc withdrawn

MISCELLANEOUS:

23. ADOPTION OF WCO HS VERSION 2017,- Pakistan being a signatory to the HS Convention is obliged to adopt the HS 2017, incorporated its nomenclature/New HS Codes in Pakistan Customs Tariff with addition, creation and deletion of local PCT codes and also made relevant changes in the Fifth Schedule and SROs/Notifications where HS Codes have changed.
24. Exemption from CD extended on import of combined harvesters threshers up to 5 years old while 10% and 20% RD levied on five to ten years and more than ten years old respectively.

25. Additional duty on cylinder head for motorcycles levied
26. Extension of concession on 11 more components of trailers
27. Concessionary rate of 11% available on Set top boxes, TV broadcast transmitter and Reception apparatus etc. extended till 30.6.2018.
28. Surcharge in excess of 0.25% for cargo in-bonded at Karachi for upcountry Bonds exempted
29. Expansion of scope of exemption on import/donation by allowing imports and donation of Federal, Provincial, AJ&K, Gilgit-Baltistan Governments, NDMA, PDMA and Govt. emergency/ rescue services
30. Import of solar panels and related components were exempted from the condition of 'local manufacturing' till 30th June 2017 which is extended till 30th June, 2018.

SALES TAX & FEDERAL EXCISE

BUDGETARY MEASURES (FY 2017-18)

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

1. Reduction of sales tax on fertilizers to replace subsidy. Due to complications in payment of subsidy to fertilizers manufacturers and importers, the subsidy is proposed to be substituted with reduction in sales tax rates on various fertilizers. Instead of ad valorem rates, specific rates have been proposed. However, the rate on urea fertilizer shall remain unchanged at 5% ad valorem.
2. Reduction in rate of sales tax on poultry machinery. Sales tax on import of seven types of poultry machinery is proposed to be reduced to 7%.
3. Exemption from sales tax on combined harvesters. Presently, combined harvesters are subject to sales tax at 7% ad valorem under Eighth Schedule. It is proposed to provide exemption from whole of sales tax on combined harvesters upto five years old by inserting an entry in the Sixth Schedule.
4. Exemption from sales tax on agriculture diesel engine. Sales tax on agricultural diesel engines (from 3 to 36 HP) is proposed to be exempted.
5. Exemption from sales tax on imported seeds for sowing. Presently, imported oil seeds are subject to sales tax @ 5% under Eighth Schedule. Exemption from payment of sales tax is being provided on import of sunflower and canola hybrid seeds meant for sowing.
6. Exemption from sales tax on multimedia projectors. Exemption from sales tax is being provided on import of multimedia projectors by educational institutions.
7. Exemption from sales tax on gifts and donations. Exemption from sales tax is being provided to gifts and donations received from foreign governments and organizations to the Federal and Provincial Governments and public sector organizations.
8. Exemption from extra tax to lubricating oil. In order to enable industrial consumers to avail input tax adjustment on lubricating oils purchased from the traders, the entry relating to lubricating is being omitted from Chapter XIII of the Sales Tax Special Procedures Rules, 2007, thus withdrawing the levy of 2% sales tax on lubricating oils.
9. Reduction in sales tax on import and supply of hybrid electric vehicles. Reduction in sales tax at the rate of 50% is available on import of Hybrid Electric Vehicles upto 1800cc and at the rate of 25% on Hybrid Electric Vehicles exceeding 1800cc. It is proposed to maintain reduction in sales tax at the rate of 50% on Hybrid Electric Vehicles having engine capacity upto 1800cc and restrict reduction at the rate of 25% on engine capacity from 1801cc to 2500cc only. Similar reduction is proposed to be provided on local supply of the said two categories of Hybrid Electric Vehicles.

10. Automatic stay against recovery. It is proposed to provide for automatic stay against recovery against recovery of Sales Tax and Federal Excise Duty demand till decision by the Commissioner Inland Revenue (Appeals) subject to 25% of the amount of sales tax and FED demand.
11. Exemption from sales tax on premises to fight growth stunting. It is proposed to provide for exemption from sales tax on premises to fight growth stunting.
12. Exemption to vehicles for development of Gwadar Port. It is proposed to provide exemption from sales tax to vehicles for construction and development of Gwadar Port and Gwadar Free Zone on the line of exemption available to vehicles under the Customs Act, 1969. Scope of exemption already provided to materials and equipment, is being clarified by extending exemption to plant, machinery, equipment, appliances and accessories.
13. Exemption from sales tax to items for renewable sources of energy. Existing exemption available to items for renewable sources of energy is proposed to be aligned with exemption available to these items under the Customs Act, 1969.
14. Exemption from sales tax to items for conservation of energy. Exemption from sales tax is proposed to be provided to items for conservation of energy on the pattern of exemption available under the Customs Act, 1969.
15. Exemption to parts and components for manufacturing LED lights. Exemption is proposed to be provided to parts and components for manufacturing LED lights on the pattern of exemption available under the Customs Act, 1969.
16. Withdrawal of sales tax withholding. Sales tax withholding is proposed to be withdrawn on supplies from registered persons to other registered persons with the exception of advertisement services.
17. Reduction in Federal Excise Duty on Telecommunication Services. Federal Excise Duty on telecommunication services is proposed to be reduced from 18.5% to 17%.
18. Services under Islamabad Capital Territory (Tax on Services) Ordinance, 2001. Services which are subject to sales tax on the basis of turnover without input tax adjustment under Provincial Sales Tax Laws are proposed to be taxed in the similar manner. Exemption from sales tax is also proposed to be provided on export of IT services.
19. Rationalization of sales tax on mobile phones. Mobile phones are chargeable to sales tax at the rates of Rs. 300, Rs. 1,000 and Rs. 1,500 per mobile phone set depending upon categories of mobile phones. It is proposed to merge sales tax rates of Rs. 300 and Rs. 1,000 per set into Rs. 650 per set. The proposal will promote use of information technology and will also reduce disputes on categorization of mobile phones.
20. Increase in Federal Excise Duty on cement Federal Excise Duty on cement is proposed to be enhanced from Rs. 1 per kg to Rs. 1.25 per kg.
21. Enhancement of rates of Federal Excise Duty on cigarettes. Since 2014, FED is being charged on cigarettes on the basis of specific rates for two tiers. In order to arrest the declining revenue trends and to curb the menace of illicit low priced cigarettes of inferior quality, a new tier is being introduced and the proposed duty structure for the three tiers.
22. Rate of sales tax for steel sector. Steel sector is currently paying sales tax on the basis of consumption of electricity at the rate of Rs. 9 per unit of electricity. The existing rate of Rs 9/unit of electricity is proposed to be enhanced to Rs.10.5 and corresponding increase shall be made in ship breaking and other allied industry. And to promote the ease of doing business the issues pertaining to steel industry shall be resolved in consultation with the industry.
23. Regularization of retailers' regime. Tier-1 retailers are under obligation to pay sales tax under normal regime. Alternatively, they have the option to pay sales tax @ 2% of turnover without any input tax adjustment. The said regime had been introduced under an SRO which has been struck down by the Lahore High Court. It is proposed to provide for payment of sales tax by tier-1 retailers through Sales Tax Act, 1990.

24. Payment of sales tax on retail sales of five export oriented sectors. Retail sales of five export oriented sectors are chargeable to sales tax @ 5%. It is proposed to increase the said rate to 6%.
25. Sales tax on commercial import of fabrics. Commercial import of fabrics is zero-rated under SRO 1125(I)/2011 dated 31.12.2011. It is proposed to levy sales tax @ 6% on commercial import of fabrics.
26. Clarificatory amendment regarding application of sales tax on imports. Goods imported into Pakistan are subject to sales tax. However, in order to clarify the matter in view of some court judgments Clarificatory amendment is being made to section 3 regarding application of sales tax on imports destined for non-tariff areas.
27. Removing ambiguity regarding application of further tax in respect to persons making zero-rated supplies. Clarificatory amendment is proposed to be made regarding application of further tax under section 3(1A) on zero-rated supplies covered under section 4 of the Sales Tax Act, 1990. However, zero-rated supplies made to diplomats, privileged persons, duty free shops and similar categories shall be excluded from the purview of further tax.
28. Inclusion of Inland Revenue Authorities. District Taxation Officer, Deputy/Assistant Director Audit are proposed to be included in the list of Inland Revenue authorities
29. Assigning of jurisdiction of sales tax to Chief Commissioners Inland Revenue. Presently, Federal Board of Revenue assigns jurisdiction of Sales Tax and Federal Excise directly to Commissioners Inland Revenue. It is proposed that the Federal Board of Revenue may assign jurisdiction to Chief Commissioners Inland Revenue who may further assign jurisdiction to Commissioners Inland Revenue under his administrative control.
30. Service of electronically sent notices to companies be construed as proper service. Notices sent to companies through electronic medium is proposed to be treated as proper service alongwith other prescribed modes.
31. Fixation of minimum sales tax on supply of locally produced coal. Minimum sales tax @ Rs. 425 per metric tonne is proposed to be provided for locally produced coal.
32. Penalties are proposed to be imposed on persons manufacturing, possessing, transporting, distributing, storing, selling non-duty paid/ counterfeit cigarettes.

INCOME TAX

RELIEF MEASURES

1. **Reduction in Tax Rate for Companies:** Continuing with the policy of reducing corporate tax rates, the rate has been reduced further from 31% to 30% for the Tax Year 2018.
2. **Reduction of withholding tax rates for mobile phone subscribers:** The number of mobile phone subscribers in Pakistan has shown a gradual and sustained increase and presently there are about 140 Million mobile telephone subscribers in Pakistan belonging to various strata of society. In order to promote mobile phone density, the rate of withholding income tax for mobile phone subscribers is being reduced from 14% to 12.5%.
3. **Introducing concept of start-ups:** In order to promote innovation and entrepreneurship in Information Technology the concept of start-up has been introduced. A start-up has been defined as a business set-up by an individual, AOP or a company having turnover upto Rs.100 Million, registered and certified by the Pakistan Software Export Board (PSEB) as an information technology entity engaged in offering technology driven products or services to any sector of the economy. In order to incentivize the start-ups, tax exemption is being accorded to profits earned by such start-ups for a period of three years. Moreover, exemption from levy of minimum tax as well as withholding tax (as recipient) is also being accorded to such start-ups.

4. **Exemption on cash withdrawal by branchless banking agents:** At present, tax @ 0.3% and 0.6% is deducted upon aggregate cash withdrawals exceeding Rs.50,000 per day from filers and non-filers respectively. In order to promote digital payments in the country and to assist in the realization of the long term vision of Universal Financial Inclusion in Pakistan, exemption is being accorded to branchless banking agents operating under the Asaan Mobile Account Scheme from withholding tax on cash withdrawals made for the purpose of making payments to their respective customers.
5. **Exemption from collection of advance tax on vehicles leased under the Prime Minister's Youth Loan Scheme:** At present, advance tax @ 3% is collected at the time of leasing motor vehicles to a non-filer. In order to facilitate the generation of employment opportunities among the unemployed youth and to mitigate their hardship, exemption from collection of advance tax is being accorded to vehicles leased under the Prime Minister's Youth Loan Scheme.
6. **Enhancement in limit for importing raw material by manufacturers without collection of income tax at the import stage:** Presently, the quantitative limit for import of raw materials by an industrial undertaking for its own use, without collection of tax at the import stage, is 110% of the raw materials imported and consumed in the previous tax year. In order to promote industrialization and manufacturing the quantitative limit for import of raw materials by industrial undertaking, without collection of income tax at the import stage, on the basis of exemption certificate issued by the Commissioner, is being enhanced from 110% to 125% of the quantity imported and consumed in the previous tax year.
7. **Reduction in threshold for paying advance tax in the case of an individual:** At present an individual is obliged to pay advance tax if his latest assessed taxable income is Rs.500,000 or more. In order to provide relief and to facilitate small taxpayers, the threshold for payment of advance tax on the basis of latest assessed taxable income is being enhanced from Rs.500,000/- to Rs.1,000,000/-
8. **Further relief on tax credit for education expenses:** At present, individuals having taxable income of less than one million rupees are entitled to a deductible allowance in respect of education expenses incurred by them. In order to provide respite upto middle income groups paying tuition fees, the threshold of taxable income for individuals entitled to a deductible allowance in respect of education expenses incurred is being increased from Rs.1,000,000/- taxable income to Rs.1,500,000/-.
9. **Relief from Withholding tax on Life Insurance Premium:** Presently, advance tax is collected by insurance companies from non-filers if life insurance premium paid by such non-filers exceeds Rs.200,000/- per annum. In order to provide respite to taxpayers having life insurance policies the threshold for collection of advance tax from such non-filers is being enhanced from Rs.200,000/- to aggregate amount of Rs.300,000/- per annum.
10. **Relief for individuals and AOP's paying health insurance premium /contribution:** At present a resident person other than a company, deriving income from salary or business and being a filer is entitled to a tax credit in respect of any health insurance premium or contribution paid to an insurance company. In order to provide respite to individuals and AOP's availing health insurance the lower limit of tax credit available to such persons, on a proportionate basis, is being increased from Rs.100,000/- to Rs. 150,000/-.
11. **Reduction of withholding tax rates on Registration of Motor Vehicles:** In order to encourage and incentivize compliant taxpayers, being filers of income tax returns, withholding tax on registration and transfer of motor vehicles having engine capacity upto 850cc, 851cc to 1000cc and 1001cc to 1300 cc is being reduced from existing Rs.10,000/-, Rs.20,000/- and Rs.30,000/- to Rs.7,500/-, Rs.15,000/- and Rs.25,000/- respectively.
12. **Loan to employee by employer:** A present interest free loan exceeding Rs. 0.5 Million provided by an employer to an employee is treated as a perquisite and is subjected to tax in the hands of the employee. In order to provide relief to such employees it is proposed to enhance this limit of interest free loans from the existing 0.5 Million to 1 Million.

13. **Extending period for which tax credit on enlistment is available:** At present, upon enlistment of a company in the stock exchange, 20% tax credit for a period of two tax years is available on the tax payable by such company. In order to further incentivize the enlistment of companies on the stock exchange such tax credit is being extended for another two tax years, however, such tax credit shall be allowed @10% of the tax payable for each of these subsequent two tax years.
14. **Reduced rate of minimum tax on services rendered by the Pakistan Stock Exchange:** Presently, services rendered by Pakistan Stock Exchange Limited are subjected to 8% minimum tax which results in an effective tax rate which is much higher than the prevalent corporate rate of tax. To further improve the performance of the Stock Exchange it is being subjected to reduced rate of minimum tax @ 2% on its services.
15. **Limit for sales promotion by pharmaceutical companies to be enhanced:** A provision was introduced in the Finance Act, 2016 whereby expenditure incurred by pharmaceutical companies on sales promotion, advertisement and publicity, in excess of 5% of turnover was to be treated as an inadmissible expense. In view of the difficulty being experienced by pharmaceutical companies in carrying out their normal business activities the limit for expenditure incurred by such companies on sales promotion, advertisement and publicity is being enhanced from 5% to 10% of turnover.
16. **Tax neutrality in Islamic Banking viz-a-viz conventional banking:** In order to promote and incentivize Islamic Banking, special provisions have been introduced whereby tax neutrality has been accorded in the case of Musharika financing by extending the benefit of depreciation on assets coowned in the case of a Musharika arrangement.
17. **Fixed tax by Hajj Group Operators:** At present Hajj Group operators are paying Rs.5000/- per Haji in respect of income from Hajj operations. In order to facilitate Hajj Group operators the fixed tax of Rs.5000/- per Haji is being extended for the Tax Year 2017.
18. **Exemption to income of political parties:** At present there is no specific exemption in the law in respect of income of political parties. As a relief measure, exemption is now being proposed on income of all political parties registered with the Election Commission of Pakistan under the Political Parties Order, 2002.
19. **Exemption for Non-Profit /Charitable Institutions:** In order to encourage non–profit/charitable institutions ,income of the following charitable organization/non- profit organizations is proposed to be exempted:-
 - (a) Gulab Devi Chest Hospital
 - (b) Pakistan Poverty Alleviation Fund
 - (c) National Academy of Performing Arts
20. **Incentivizing distribution of dividend:** At present, there is exemption from tax on the undistributed reserves of a public company, other than a banking company or a modaraba if the lesser of at least 40% of after tax profit or 50% of the paid up capital is distributed as dividend. In order to protect the interest of small investors and to promote payment of dividends the condition regarding distribution of 50% of paid up capital is being omitted.
21. **Concept of provisional assessment to be abolished:** At present, there is no right of appeal against a provisional assessment order which attains finality after the expiry of 45 days from the date of service of such order if the taxpayer fails to furnish a complete return of income. In order to alleviate the hardship being faced by various taxpayers who are unable to file return of income within 45 days on account of genuine reasons and have no remedy against such order, the concept of provisional assessment is being done away with.
22. **Revision of withholding tax statements:** Presently taxpayers are unable to revise withholding tax statements in case of any error /omission. In order to facilitate taxpayers, a new provision is being

introduced enabling taxpayers to revise withholding tax statements suo-moto within 60 days of the filing of withholding tax statements.

23. Empowering Chief Commissioner to revise order refusing extension in filing of tax return and statements:

At present there is no remedy available to a taxpayer if the concerned Commissioner refuses to grant extension in filing of an income tax return, or a wealth tax statement. In order to facilitate such taxpayers, the Chief Commissioners are being empowered to revise an order by a Commissioner refusing to grant such extension.

24. Reduction of withholding tax rates on fast moving consumer goods: The present the rate of withholding tax on sale /supply of Fast Moving Consumer Goods is 3% and 3.5% respectively for companies and noncompanies. Distributors of Fast Moving Consumer Goods typically have high volumes but low profit margins, therefore, the incidence of withholding tax at the present rates causes undue hardship for such distributors. In order to mitigate their hardship, the rates of withholding tax are being reduced to 2% and 2.5% respectively for companies and noncompanies.

REVENUE MEASURES

25. Taxation of Dividend: The present rate of tax of 12.5 % on dividend income is on the lower side as compared to most other countries in the region. It is proposed that the rate be increase to 15%. Furthermore, rate of tax on dividend received from mutual funds is being rationalized and enhanced from existing 10% to 12.5%.

26. Rationalization of rates on interest income: At present there are three slabs for taxation of interest income for persons earning interest income upto Rs.25 Million, from 25 Million to 50 Million and in excess of Rs.50 Million. In order to rationalize taxation of interest income and to reduce the incidence of tax upon persons earning lesser interest income the following new slabs are being introduced:-

- (a) Where mark-up does not exceed Rs. 5 M 10%
- (b) Where mark-up exceeds Rs.5 M but does not exceed Rs.25 M 12.5%
- (c) Where mark-up exceeds Rs.25 M 15%

27. Simplification of rate structure on Capital Gains Tax: At present there is a three tier rate structure for capital gains tax on securities based upon the holding period of securities i.e. less than 12 months, more than 12 months but less than 24 months and more than 24 months but less than 5 years. For the purposes of simplification and promotion of stock market transactions, a flat /single rate of tax of 15% for filers and 20% for nonfilers is being introduced.

28. Withdrawal of tax credit to manufacturers making 90% sale to registered persons: A tax credit of 3% of tax liability was made available to all manufacturers who make 90% of their sales to sales tax registered persons in order to encourage documentation and for facilitating entry into the formal sector, however, this incentive has failed to achieve its desired objective and has failed to contribute, in any meaningful manner, towards documentation. In this backdrop this tax credit is being withdrawn.

29. Rationalizing minimum tax: At present the standard rate for minimum tax is 1% of turnover. In order to facilitate and encourage the organized and compliant sector to making correct declarations of their taxable income and tax liability thereon, the rate of minimum tax is being enhanced from 1% to 1.25%.

30. Tax on Builders and Developers: Vide the Finance Act, 2016 a fixed tax on builders and developers on the basis of developed or built up area was introduced at different rates for various cities across the country. The departure from normal tax regime to fixed tax regime did not yield the expected results, therefore, it is proposed that the normal tax regime be reintroduced for land developers and builders.

31. Rationalizing tax on import of DAP fertilizers: Presently tax collected at import stage on DAP fertilizer constitutes final discharge of tax liability for commercial importers whereas the same is adjustable for urea

manufacturers who also commercially import DAP fertilizer. In order to rationalize this disparity and for the sake of uniformity, commercial import of DAP fertilizer both by commercial importers as well as urea manufacturers is proposed to be brought into the final tax regime.

32. **Extension in Super Tax:** At present, Super Tax is levied at the rate of 4% on the income of Banking Companies and at the rate of 3% for other persons. The circumstances which necessitated introduction of Super Tax are still continuing, therefore, it is proposed to extend the levy of Super Tax by one more year, i.e. for the tax year 2017.
33. **Advance Tax on Stock Exchange Brokers:** Currently the rate of advance withholding tax collected from stock exchange brokers is 0.02% and is adjustable. This withholding tax is now being made final tax in respect of such persons.
34. **Documentation of Purchase of Tobacco:** Illicit and non-duty paid cigarette manufacturing has created distortions. In order to document purchase of tobacco, Pakistan Tobacco Board is being entrusted with collection of withholding tax on purchase of tobacco by manufacturers of cigarettes at the rate of 5% of the purchase value of tobacco, at the time of collecting cess.
35. **Rationalization of withholding tax on sale to retailers in respect of electronics goods:** At present, the rate of withholding tax on sales made by manufacturers, wholesaler, dealers and distributors of electronics goods to retailers is liable to adjustable withholding tax at the rate of 0.5%. It is proposed to enhance the tax rate to 1%.
36. **Manufacturers/wholesaler to collect withholding tax from distributors/dealers of batteries:** Presently, manufacturers/commercial importers are required to collect withholding tax on sale to dealers, distributors and wholesalers on sale of various items such as electronic goods, cigarettes, etc. at the rate of 0.1% of such sales. The scope of this withholding tax is being extended to batteries. Similarly, every distributor, dealer, wholesaler while making sales to retailers in respect of the above referred commodities are required to collect withholding tax at the rate of 0.5% of the amount of sales. The scope of this withholding tax is being extended to batteries.
37. **Increasing cost of non-compliance with tax laws:** The government, since the preceding three years, has consistently adopted the policy of creating a distinction between compliant and non-compliant taxpayers by prescribing higher withholding tax rates for non-filers and resultantly increasing the cost of doing business for such non-filers. Continuing with this policy the differential of withholding tax rates for filers viz-a-viz non-filers, is being enhanced in scope and rates for various transactions including, payments made to residents and non-resident persons for sales/services/contracts, payments for prize bond/lottery, sale by auction, commission/discount to petrol pump operators etc.

COMMENTARY BY THE TEAM OF SOFTAX

“The bill” means Finance Bill, 2017-18.

“The Board” means Federal Board of Revenue

“Ordinance” means The Income Tax Ordinance, 2001

The proposed amendments will take effect from 1st day of July, 2017 except otherwise provided.

INCOME TAX

1. Definitions [Sections 2]

1.1 Fast Moving Consumer Goods [Sections 2 (22A), Division IX, Part I, First Schedule]

The Finance Act 2015 inserted definition of “Consumer Goods” and “Fast Moving Consumer Goods” to make distinction between both the categories because the reduced rate of minimum tax u/s 113 of the Income Tax Ordinance, 2001 (the Ordinance) i.e. 0.2% was applicable to both the Consumer Goods and Fast Moving Consumer Goods, after this amendment the reduced rate is only applicable to “Fast Moving Consumer Goods”.

Now, the bill proposed to exclude “durable goods” from the definition of fast moving consumer goods.

Durable goods are a category of consumer products that do not need to be purchased frequently because they are made to last for a long time. They are also called consumer durables or durables.

1.2 Inland Revenue Officer [Sections 2 (38A), 207, 208]

Currently the Inland Revenue Officer means any Additional Commissioner Inland Revenue, Deputy Commissioner Inland Revenue, Assistant Commissioner Inland Revenue, Inland Revenue Officer, Inland Revenue Audit Officer.

Now the bill proposed to introduce two new authorities of “District Taxation Officer” and “Assistant Director Audit” therefore inserted these two designations in the definition of Inland Revenue Officer and in section 207 (Income tax authorities) and 208 (Appointment of income tax authorities).

The insertion of these two new designations seems to be in line with the directions of honorable Lahore High Court in the case of M/s Nestle Pakistan Limited etc vs. The Federal Board of Revenue etc. reported at (2017) 115 TAX 84, where the honorable court directed FBR “Audit, being administrative proceedings, shall complete on issuance of Audit Report. If audit is not completed within the given time frame, the selection shall be deemed to have been dropped. After issuance of Audit Report; adjudication proceedings shall be carried out by some other taxation officer to satisfy command of the Constitution under Article 10A, secondly enhance its capacity to audit a selected taxpayer for last five years to give respite from consecutive selections”.

1.3 Startup [Sections 2 (62A), clause (144) Part I & Clause 11A (xxix), 43F Part IV of 2nd Schedule]

The bill proposed to insert the new definition of “startup”, which means a business of resident individual, AOP or a company incorporated or registered in Pakistan on or after first day of July, 2012 and the person is engaged in or intends to offer technology driven products or services to any sector of the economy provided that the person is registered with and duly certified by the Pakistan Software Export Board (PESB) and having turnover of less than one hundred million in each of the last five tax years.”

It is proposed that the profit and gains derived by a “startup” as defined above shall be exempt from tax for the tax year in which the start up is certified by the Pakistan Software Export Board and the following two tax years. It is further proposed that the provisions of section 113 (Minimum tax) shall not be applicable to “startup”.

The bill further proposed to exempt startup from application of section 153, being recipient of payment by insertion of clause 43F in Part IV of the second schedule.

2. Super tax for rehabilitation of temporarily displaced persons [Sections 4B, Division IIA, Part I, First Schedule, Seventh Schedule]

To meet enhanced revenue needs for the rehabilitation of Temporarily Displaced Persons, the Finance Act, 2015 levied a one-time tax called Super Tax on the wealthy and rich individuals, association of persons and companies earned income above Rs. 500 million in Tax Year 2015 @ 3% of their income and the banking companies were required to pay 4% of their income without any exemption threshold.

The Finance Act, 2016 enhanced this period from one year to two years by inserting Tax Year 2016 in sub-section (1) of section 4B.

Now, the bill proposed to further extend the levy of super tax to Tax year 2017.

3. Tax on undistributed profits [Sections 5A, Division VIIIA, Part I of First Schedule]

In order to encourage public listed companies to distribute dividend which would encourage investment in stock markets, the Finance Act, 2015 inserted section 5A where the listed companies other than a scheduled bank or a modaraba, which does not distribute cash dividends within six months of the end of the said income year or distributes dividends to such an extent that its reserves, after such distribution, are in excess of hundred percent of its paid up capital, the excess amount is taxed at the rate of 10%.

This condition is not applicable to:

- a. Companies in which not less than 90% shares are held by the Government,
- b. A public company which distributes profit equal to either forty percent of its after tax profits or fifty percent of its paid up capital, whichever is less, within six months of the end of the tax year,
- c. Companies established electric power generation projects on or after 01-07-1988 under clause (132) Part I of second schedule.

The reserves include amounts set-aside out of revenue or other surpluses excluding capital reserves, share premium reserves and reserves required to be created under any law, rules or regulations.

Now the bill proposed to substitute section 5A. After such substitution, for tax year 2017 and onwards, tax @ 10% shall be imposed on every public company other than a scheduled bank or a Modaraba that derived profit for a tax year but does not distribute at least 40% of its after tax profits within six months of the end of the tax year through cash or bonus shares. For tax year 2017 bonus shares or cash dividend may be distributed before the due date of filing of return.

This provision is not applicable to:

- a. Companies established electric power generation projects on or after 01-07-1988 under clause (132) Part I of second schedule.; and
- b. a company in which not less than 50% share are held by the Government

Resultantly, the omission of condition regarding distribution of 50% of paid up capital will protect the interest of small investors and promote the payment of dividends.

4. Tax on Builders and Developers [Sections 7C, 7D & 8]

Before Tax Year 2017, the builders and developers were liable to pay tax on their income under normal tax regime. From Tax Year 2017 onward a fixed tax regime on the basis of developed or built up area was introduced at different rates for various cities across the country by Finance Act, 2016. The departure from normal tax regime to fixed tax regime might not yield the expected results, therefore, it is proposed that the normal tax regime be reintroduced for land developers and builders.

Similarly, the provisions of section 7C and 7D are also proposed to be deleted from section 8 which deals with final tax regime.

5. Loan by employer to employee [Section 13(7)]

Profit on loan by the employer to the employee is chargeable to tax under the head “Salary” at the benchmark rate of 10% where no profit on loan is payable by the employee or the differential of actual profit paid by the employee and the benchmark rate.

Finance Act, 2015 restricted the application of this provision to the loans not exceeding Rs. 500,000/-.

Now, the bill proposed to increase this threshold of Rs. 500,000/- to Rs. 1,000,000/-.

6. Sales promotion, advertisement & publicity expense by pharmaceutical sector [Section 21]

Section 21 of the Ordinance restricts few deductions while computing business income.

Finance Act, 2016, restricted that any expenditure in respect of sales promotion, advertisement and publicity in excess of five per cent of the turnover incurred by pharmaceutical manufacturers shall not be allowed as deduction from business revenue.

In view of the difficulty being experienced by pharmaceutical companies in carrying out their normal business activities the limit for expenditure incurred by such companies on sales promotion, advertisement and publicity is proposed to be enhanced from 5% to 10% of the turnover.

7. Depreciation [Section 22]

Currently, the depreciation of leased assets is claimed by the lessor like; leasing company, investment bank, Modaraba, schedule bank or development finance institutions in respect of assets owned by them.

Now the bill proposed to extend the scope of claiming depreciation on jointly owned depreciable asset by the taxpayer and an Islamic financial institution under the Musharika financing arrangements. In this case the depreciable asset shall be treated to be wholly owned by the taxpayer, and the depreciation shall be claimed by the taxpayer and not the Musharika financier.

8. Exemptions and tax concessions in the Second Schedule [Section 53]

Section 53 of the Ordinance mainly deals with exemptions available in the second schedule of the Ordinance. Federal Government is empowered to amend second schedule through notifications as and when required, but Finance Act, 2015 restricted amendment of second schedule with the approval of the Economic Coordination Committee of Cabinet, whenever circumstances exist to take immediate action for the

purposes of national security, natural disaster, national food security in emergency situations, protection of national economic interests in situations arising out of abnormal fluctuation in international commodity prices, removal of anomalies in taxes, development of backward areas and implementation of bilateral and multilateral agreements, granting an exemption from any tax imposed under this Ordinance including a reduction in the rate of tax imposed under this Ordinance or a reduction in tax liability under this Ordinance or an exemption from the operation of any provision of this Ordinance to any international financial institution or foreign Government owned financial institution operating under an agreement, memorandum of understanding or any other arrangement with the Government of Pakistan.

Now, the bill proposed to shift the authority to FBR for issuance of exemption notifications with the approval of Minister Incharge of the Federal Government pursuant to the approval of the Economic Coordination Committee of Cabinet.

After insertion of sub-section (4) of section 53 by Finance Act, 2015 w.e.f 01-07-2015 any notification issued by the Federal Government in pursuant to the approval of the Economic Coordination Committee of Cabinet shall if not earlier rescinded, stand rescinded on the expiry of the financial year in which it was issued.

The bill proposed to insert two different provisos in sub-section (4) of section 53 and directed in both the provisos that the notifications issued w.e.f 01-07-2015 shall continue in force till 30-06-2018 if not rescinded earlier.

9. Deductible allowance for profit on debt and education expenses [Section 64A & 64AB]

Part X of Chapter III of the Ordinance deals with tax credits but Finance Act, 2015 inserted section 64A (deductible allowance for profit on debt) and shifted the tax credit available on profit on debt paid against loan for construction or acquisition of house under section 64 to deductible allowance under section 64A and then the Finance Act, 2016 inserted section 64AB i.e. deductible allowance for education expense.

The bill proposed to shift the above allowances at their right place i.e. Part IX, Chapter III, so section 64A and 64AB are proposed to be renumbered as section 60C and 60D.

The Finance Act, 2016 introduced deductible allowance for education expenses to individual having taxable income of less than rupees one million. It was restricted that the amount of deductible allowance for a tax year shall not be in excess of:

- a. 5% of the total tuition fee paid in the year
- b. 25% of the person's taxable income for the year
- c. An amount computed by multiplying sixty thousand with number of children of the individual

Now, the bill proposed to extend the scope of this allowance for individual having taxable income of less than rupees one million to rupees one and a half million with same above mentioned restrictions.

10. Tax credit for investment in health insurance [Section 62A]

Finance Act, 2016 inserted section 62A and allowed tax credit for Health Insurance to salaried and business individuals to be calculated with the following formula:

(A/B) x C

Where:

A is the amount of tax assessed to the person for the tax year before allowance of tax credit under this section;

B is the person's taxable income for the tax year; and

C is the lesser of —

- (a) the total contribution or premium paid by the person referred to in sub-section (1) in the year;
- (b) five per cent of the person's taxable income for the year; and
- (c) one hundred thousand rupees

The bill proposed to increase the threshold of Rs. 100,000/- to Rs. 150,000/- in clause (c) of component C of the above mentioned formula.

11. Tax credit to a person registered under the Sales Tax Act, 1990 [Section 65A]

Every manufacturer registered under the Sales Tax Act, 1990 is entitled to a tax credit of 3% of tax payable for a tax year, if 90% of his sales are to the person who is registered under the Sales Tax Act, 1990.

Now the bill proposed to withdraw this credit w.e.f Tax Year 2018.

12. Tax credit for enlistment [Section 65C]

Section 65C was inserted by Finance Act, 2010 where one time tax credit equivalent to 20% of tax payable for the tax year was available to a company for enlistment with any registered stock exchange in Pakistan.

Finance Act, 2016 extended the period of credit from one year two years, first credit in the year of enlistment and 2nd in the subsequent year.

Now the bill proposed to further extended the period from two to three years but reduced the percentage of credit from 20 to 10 percent for second and third years.

13. Principles of taxation of companies [Section 94]

Dividend received by a person from a resident or non-resident company is taxed u/s 5 of the Ordinance w.e.f Tax Year 2004, then the Finance Act, 2013 shifted the dividend income of a company from normal to final tax regime.

In line with above amendments, the bill proposed to omit irrelevant sub-section (3) of section 94 which deals with dividend received by a person from a non-resident company.

14. Special provisions relating to the production of oil and natural gas, and exploration and extraction of other mineral deposits [Section 100]

This section provides that the profit and gains from

- (a) the exploration and production of petroleum including natural gas and from refineries set up at the Dhodak and Bobi fields;
- (b) the pipeline operations of exploration and production companies; or
- (c) the manufacture and sale of liquefied petroleum gas or compressed natural gas,

and tax payable thereon shall be computed in accordance with the rules in Part I of the Fifth Schedule of the Ordinance, but this provision was not applicable to the profits and gains attributable to the production of petroleum including natural gas discovered before the 24th day of September, 1954.

Now the bill proposed to insert a proviso in sub-section (2) and directed that the income and gain of the production of petroleum including natural gas discovered before the 24th day of September, 1954 shall be computed in accordance with part I of the Fifth Schedule of the Ordinance.

15. Tax credit for certain persons (Non Profit Organizations) [Section 100C]

Finance Act 2014 inserted new section 100C to provide conditional 100% tax credit from tax payable including minimum and final tax instead of exemption to non profit organizations, trusts and welfare institutions subject to the following conditions:

- (a) *return has been filed;*
- (b) *tax required to be deducted or collected has been deducted or collected and paid; and*
- (c) *withholding tax statements for the immediately preceding tax year have been filed.*

The bill proposed to insert another condition to avail 100% tax credit by Non-profit organizations i.e. the administrative and management expenditure does not exceed 15% of the total receipts.

The bill further proposed to tax the surplus funds of non-profit organization @ 10% and also defined the term “surplus funds” in the following manner:

Surplus funds means funds or monies

- (i) *not spent on charitable and welfare activities during the tax year;*
- (ii) *received during the tax year as donations, voluntary contributions, subscriptions and other incomes;*
- (iii) *are more than twenty five percent of the total receipts of the non-profit organization received during the tax year;*
- (iv) *are not part of restricted funds:*

Explanation: For the purpose of this subsection, “restricted funds” mean any fund received by the organization but could not be spent and treated as revenue during the year due to any obligation placed by the donor.”

16. Minimum tax on the income of certain persons [Section 113, Division IX, P I, 1st schedule]

The bill proposed to increase the rate of minimum tax from 1% to 1.25% of the turnover. It is important to mention here that Finance Act, 2016 reduced the exemption threshold of 50 million to 10 million for individuals and AOPs.

17. Persons not required to furnish a return of income [Section 115]

Section 115(3) provides that a widow, an orphan below the age of twenty five, a disabled person or in the case of ownership of immovable property a non-resident person are not required to furnish return of income u/s 114 only because of ownership of immovable property with a land area of 250 square yards or more or owns any flat located in areas falling within the municipal limits existing immediately before the commencement of Local Government laws in the provinces; or areas in a Cantonment; or the Islamabad Capital Territory.

Now the bill proposed to extend the scope of non-furnishing of return by the above mentioned persons from above mentioned ownership of immovable property to:

- a. Owns immovable property with a land area of 500 square yards or more located in a rating area; or
- b. Owns a flat having covered area of 2,000 square feet; or

- c. Owns a motor vehicle having engine capacity above 1000CC.

18. Wealth Statement [Section 116]

Currently the taxpayer may revise his wealth statement before amendment of assessment under sub-section (1) or (4) of section 122 of the Ordinance, means during assessment proceedings.

Now the bill proposed to restrict the revision of wealth statement after receipt of notice u/s 122(9), means the taxpayer may revise return during audit proceedings but after receipt of show cause notice u/s 122(9) of the Ordinance he cannot revise the wealth statement.

19. Extension of time for furnishing returns and other documents [Section 119]

Section 119 authorize Commissioner Inland Revenue to grant the applicant an extension of time for furnishing the return or statement as the case may be, but in case of rejection by the Commissioner no alternate remedy was available.

Now the bill proposed that in case of rejection by the Commissioner Inland Revenue, the Chief Commissioner may on an application made by the taxpayer for extension or further extension of time for submission of return or statement, as the case may be grant extension or further extension for a period not exceeding fifteen days unless there are exceptional circumstances justifying a longer extension of time.

20. Best judgment assessment [Section 121]

Currently, the commissioner based on any available information or material can issue best judgment assessment u/s 121 of the Ordinance in the following circumstances:

- (a) furnish a statement as required by a notice under sub-section (5) of section 115 (person not required to furnish return u/s 114); or
- (b) furnish a return as required under section 143 or section 144 (non-resident ship or aircraft owners); or
- (c) furnish the statement as required under section 116 (wealth statement); or
- (d) produce before the Commissioner, or a special audit panel appointed under sub-section (11) of section 177 or any person employed by a firm of chartered accountants 3[or a firm of cost and management accountants] under section 177, accounts, documents and records required to be maintained under section 174, or any other relevant document or evidence that may be required by him for the purpose of making assessment of income and determination of tax due thereon.

Now the bill proposed to extend the scope of above mentioned circumstances where the commissioner can make best judgment assessment to non-submission of return u/s 114 (3) and 114(4) of the Ordinance.

In line with above mentioned proposed amendment, the bill also seeks to delete the concept of provisional assessment u/s 122C of the Ordinance.

21. Provisional Assessment [Section 122C, 114, 116, 122, 127, 137]

Section 122C was originally inserted by the Finance (Amendment) Ordinance, 2009 dated 28-10-2009. It provides that upon non-submission of return by a person, the commissioner may issue provisional assessment order, which is treated as final assessment order after expiry of 45 days, if the person does not submit the return of income alongwith wealth statement and wealth reconciliation.

Now, the bill proposed to withdraw the concept of provisional assessment and shifted it to section 121 as best judgment assessment.

In line with deletion of section 122C, parallel amendments are also proposed in section 114, 116, 122, 127 and 137 of the Ordinance.

22. Appointment of the Appellate Tribunal [Section 130]

Finance Act, 2013 inserted the condition that law graduate officer of Inland Revenue Service in BS-20 or above may be appointed as Judicial Member of the Appellate Tribunal.

Now the bill proposed to withdraw this condition, means the above Officer cannot be appointed as a Judicial Member of the Appellate Tribunal.

23. Recovery of tax from persons assessed in Azad Jammu and Kashmir [Section 146]

Section 146 provides that where any person assessed to tax for any tax year under the law relating to income tax in the Azad Jammu and Kashmir (AJK) has failed to pay the tax and income tax authorities of the AJK cannot recover the tax because the person's residence is in Pakistan or has no movable or immovable property in the AJK, the Deputy Commissioner of AJK may forward a certificate of recovery to the Commissioner and the Commissioner shall recover such tax in accordance with the provisions of this Ordinance.

Now, the bill proposed to add Gilgit Baltistan (GB) in addition to AJK in section 146, means all the recovery provisions of section 146 shall also apply to GB.

24. Advance tax paid by the taxpayer [Section 147]

Currently the individual having latest assessed taxable income of Rs. 500,000/- or more is liable to pay advance tax in four quarters by or before 15th of September, 15th of December, 15th of March and 15th of June.

The bill proposed to increase the threshold of Rs. 500,000/- to Rs. 1,000,000/- for individual.

25. Imports [Section 148]

The tax paid at import stage on account of import of fertilizer by the manufacturer of fertilizer does not fall under the final tax regime.

The bill proposed to transfer this transaction from normal tax regime to final tax regime, means the tax paid at import stage on account of import of fertilizer by the manufacturer of fertilizer shall be treated as final discharge of tax liability on income from such imports.

26. Payments to non-residents [Section 152, Clause 41, P IV 2nd Schedule]

The bill proposed to make few technical corrections in section 152 by:

- a. Substituting the reference of Division IIIA of Part III of the First Schedule with Division II of Part III of the First Schedule, because Division IIIA was omitted by Finance Act, 2012.
- b. Changing the references (i), (ii) and (iii) of sub-section (2A) with (a) (b) and (c)

The bill further proposed that the tax deductible from payment of contract to non-resident shall not be treated as final discharge of tax liability under sub-section (1B) of section 152 unless such person opts for it. This option was available in clause (41) Part IV of second schedule, which is now proposed to be omitted.

Currently the certificate of exemption or deduction of tax at lower rate is issued by the Commissioner to permanent establishment of non-resident on account of supply of goods, services and contract payments in case the deductible tax is adjustable.

Now the bill proposed to extend the scope of issuance of exemption or lower rate certificate to non-resident on account of contract payment under sub-section (1A) of section 152, if it is adjustable and not final tax.

27. Payment for goods, services and contracts [Section 153]

The bill proposed to insert a clarificatory provision in sub-section (1) of section 153, where the recipient of the payment against services, receives the payment through an agent or any other third person and the agent or, as the case may be, the third person retains service charges or fee, by whatever name called, from the payment remitted to the recipient, the agent or the third person shall be treated to have been paid the service charges or fee by the recipient and the recipient shall collect tax along with the payment received and deposit with Government exchequer.

28. Statements [Section 165]

An old demand of the withholding agents. The bill proposed that on discovery of any omission or wrong declaration in the withholding statement, the withholding agent may revise statement within sixty days of the filing of such statement.

29. Furnishing of information by financial institutions including banks [Section 165B]

Various countries introduced reporting and other requirements like US Foreign Accounts Tax Compliance Act (FATCA) regulations. The Federal Government in line with these reporting requirements time to time made corresponding changes in the Ordinance to cater the need of the time.

The Act authorized Government of Pakistan to enter into Agreements for Exchange of Information and other relevant matters in addition to the existing provisions of Agreements for Avoidance of Double Taxation and Prevention of Fiscal Evasion.

After this amendment the government shall be entitled to obtain or render information in respect of transactions or activities undertaken in other countries by Pakistanis or Foreign Nationals in Pakistan.

Additionally, the Act inserted a new section 165B, which enable the banks and financial institutions to provide information in relation to non-resident persons to FBR that may be required to be furnished to any other country under the agreement referred above.

Now, the bill extended the scope from non-resident person to any other reportable person on account of furnishing of information. The term “reportable person” and “financial institution” shall be defined in newly awaited Chapter XIIA of the Income Tax Rules, 2002.

The corresponding penalty provisions are also proposed to be inserted in section 182 of the Ordinance.

30. Notice to obtain information or evidence [Section 176]

The bill proposed that in addition to the firm of chartered accounts a firm of cost and management accountants may also call for required information or documents with prior approval of the Commissioner.

The above amendment was awaited, because the firm of cost and management accountants may conduct audit u/s 177, but they were not authorize to call for information or documents from a person under section 176.

31. Offences and Penalties [Section 182]

Finance Act, 2016 inserted provisions regarding documentation on account of transaction between associates by inserting sub-section (3), (4) and (5) in section 108. Every taxpayer who has entered into a transaction with its associate shall:

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

Finance Act, 2016 further provided that a taxpayer who has entered into a transaction with its associate shall furnish, within thirty days the documents and information to be kept and maintained, if required by the Commissioner in the course of any proceedings under this Ordinance. If the taxpayer applies in writing to the Commissioner for an extension of time to furnish the said documents or information. The Commissioner may, by an order in writing, grant the taxpayer an extension of time (not more than 45 days in normal circumstances) for furnishing the documents and information.

Now the bill proposed a corresponding amendment in section 182 to levy penalties on the person not maintaining or not furnishing the above mentioned records to the Commissioner, the bill proposed to insert reference of section 108 in serial # 7 and 9 of the table.

In addition to above the bill further proposed that if any person who fails to keep and maintain documents and information required u/s 108 or Income Tax Rules, 2002 shall be liable to pay 1% of the value of transactions, the record of which is required to be maintained under section 108 or the Income Tax Rules, 2002.

The bill further proposed to insert serial # 17 in table of penalties, if any reporting financial institution or reporting entity who fails to furnish information or country-by-country report to the Board as required u/s 107, 108 or 165B within the due date shall pay a penalty of two thousand rupees for each day of default subject to minimum of twenty five thousand rupees.

32. Prosecution for non-compliance with certain statutory obligations [Section 191]

The bill proposed that if a person fails to furnish return of income u/s 114(4) or do not comply with the obligation of sections 231A to 236X shall commit an offence punishable on conviction with a fine or imprisonment for a term not exceeding one year, or both.

33. Default surcharge [Section 205]

If the amount of advance tax paid u/s 147 by a person is less than 90% of the tax chargeable for the relevant tax year, the person is liable to pay default surcharge @ 12% p.a on the amount of tax so chargeable or the amount by which the tax paid by him falls short of the ninety percent.

The bill proposed that in the case of person having a special tax year, the default surcharge shall be calculated on and from the first day of the fourth quarter of the special tax year till the date on which assessment is made or the last day of special tax year, whichever is earlier.

34. Advance Ruling [Section 206A]

The concept of “Advance Ruling” was brought to facilitate foreign investors. The provisions of advance ruling were not applicable to a non-resident taxpayer having a permanent establishment in Pakistan.

Now the bill proposed to extend this provision to the non-resident taxpayers having a permanent establishment in Pakistan.

35. Disclosure of information by a public servant [Section 216]

All particulars contained in returns, statements, accounts and other documents are confidential and no public servant discloses any such particulars.

Sub-section (3) allows the public servants to disclose information with certain authorities. The bill proposed to insert Employees Old Age Benefit institution in respect sharing of information regarding salaries in statements furnished under section 165.

Sub-section (5) authorizes Board to publish with prior approval of the Federal Government, any such particulars as are referred to in sub-section (1). The bill proposed to insert words “Minister Incharge of” before Federal Government, means that the Board will now publish particulars with prior approval of the Minister Incharge of the Federal Government.

36. Reward to officers and officials of Inland Revenue [Section 227A]

Cash reward is sanctioned to the officer on account of detection of concealment or evasion cases after realization of part or whole of the taxes involved. The bill proposed to insert other meritorious (commendable) services in addition to detection of concealment or evasion cases for the sake of reward to the officers.

37. Reward to whistleblowers. [Section 227B]

Section 227B was inserted by Finance Act, 2015. Sub-section (3) provides few conditions due to which the claim for reward by the whistleblowers shall be rejected. The bill proposed to insert another condition “the information is not supported by any evidence” in sub-section (3) which may also attract rejection of claim for reward by the whistleblowers.

38. Directorate-General of Broadening of Tax Base/Directorate General of Transfer Pricing. [Section 230D/230E]

The bill proposed two new Directorates, one Directorate-General of Broadening of Tax Base which’ll look after the matters relevant to broadening of tax base and the second Directorate-General of transfer pricing which’ll look after the matters of transfer pricing in the case of transactions between associates.

39. Advance tax on private motor vehicles [Section 231B]

Section 231B deals with collection of tax by the manufacturers of motor vehicles and collection of tax by the registering authorities.

The bill proposed that every leasing company or a scheduled bank or a nonbanking financial institution or an investment bank or a Modaraba or a development finance institution, whether shariah compliant or under conventional mode, at the time of leasing of a motor vehicle to a non-filer, either through ijara or otherwise, shall collect advance tax at the rate of three per cent of the value of the motor vehicle.

40. Collection of tax by a stock exchange registered in Pakistan [Section 233A]

A stock exchange registered in Pakistan collects advance tax from its members in lieu of tax on their commission. The tax collected under this section is adjustable against tax liability of the members.

The bill proposed that the tax collected under this section shall be considered as final discharge of tax liability of the members against such transaction.

41. CNG Stations [Section 234A]

The tax collected by the person preparing gas consumption bill is treated as final tax on the income of a CNG station arising from the consumption of the gas.

Tax collected on electricity consumption was refundable to the CNG stations as directed by the Honorable Lahore High Court in the judgment of Al-Karam CNG reported as 2011 PTD 1.

The bill proposed that the tax collected on electricity consumption of CNG station shall also be considered as final discharge of tax liability.

The bill further proposed to insert the following explanation for removal of doubt:

“It is clarified that for the purposes of this section tax on income arising from consumption of gas referred to in sub-section (3) means the tax collected under sub-section (1) which is inclusive of sales tax and all incidental charges”.

42. Electricity consumption [Section 235]

The bill proposed to insert the following explanation for removal of doubt:

“It is clarified that for the purposes of this section electricity consumption bill referred to in sub-section (2) means electricity bill inclusive of sales tax and all incidental charges”.

In case of a taxpayer other than company, tax collected upto bill amount of thirty thousand rupees per month is treated as minimum tax on the income of such person and no refund is allowed.

The bill proposed to substitute the threshold of Rs. 30,000/- per month with Rs. 360,000/- per annum to avoid monthly calculation of tax amount subject to minimum tax, because the tax liability under this Ordinance is calculated on annual basis.

43. Domestic Electricity Consumption [Section 235A]

The bill proposed to insert the following explanation for removal of doubt:

“It is clarified that for the purposes of this section electricity consumption bill referred to in sub-section (2) means electricity bill inclusive of sales tax and all incidental charges”.

44. Advance tax on sale or transfer of immovable property / Advance tax on purchase or transfer of immovable property / Tax on purchase or transfer of immovable property [Section 236C / 236K / 236W]

Section 236C was inserted by Finance Act, 2012, 236K was inserted by Finance Act, 2014 and 236W was inserted by the Income Tax (Fourth Amendment) Act, 2016, section 236C and 236K require collection of tax by the person registering or attesting transfer of any immovable property from seller and buyer, whenever 236W requires collection of tax @ 3% from the buyer on the difference amount of prescribed value by FBR and value prescribed for stamp duty.

The bill proposed to extend the scope of collecting authority from “person registering” to “person recording” the transfer of any immovable property.

The bill further proposed to insert the following explanation for removal of doubt:

“It is clarified that the person responsible for registering, recording or attesting transfer includes person responsible for registering, recording or attesting transfer for local authority, housing authority, housing society, co-operative society and registrar of properties”.

The tax collected under section 236C and 236K are adjustable against the final tax liability of the seller and buyer, but the bill proposed that if the property is acquired and disposed off within the same tax year, the tax collected u/s 236C shall be treated as minimum tax.

45. Advance tax on sale to distributors, dealers, wholesalers and retailer [Section 236G & 236H]

Every manufacturer or importer at the time of sale of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam section to distributors, wholesalers and dealers collect advance tax u/s 236G and every manufacturer, distributor, dealer, wholesaler or commercial importer at the time of sale of above mentioned goods collect advance tax u/s 236H from the retailers.

The bill proposed to insert “paint” in the list of goods subject to collection of tax u/s 236G and 236H.

46. Advance tax on tobacco [Section 236X]

The bill proposed that the Pakistan Tobacco Board, at the time of collecting cess on tobacco, directly or indirectly, shall collect advance tax @ 5% of the purchase value of tobacco from every person purchasing tobacco including manufacturers of cigarettes. Tax collected under this section shall be adjustable against the final tax liability of the taxpayer.

47. Validation [Section 241]

In a few judgments of superior courts, the notifications issued before 1st day of July 2017 declared invalid. The bill proposed to insert section 241 to establish that all the notifications and orders issued and notified in exercise of the powers conferred upon the Federal Government before 1st of July 2017 shall be deemed to have been rightly issued and notified in exercise of those powers irrespective of the fact that these are declared invalid by the honorable High Court or the Supreme Court.

48. 1st Schedule

The bill proposed following amendments in the rates of taxes under different provisions of the Ordinance. The major emphasis is to increase the burden of tax on non-filers.

PART – I DIVISION – III

DIVIDEND INCOME – SECTION 5

Type of Dividend	Existing Rates	Proposed Rates
Dividend other than power projects	12.5%	15%
Mutual Fund	10%	12.5%

Division IIIA Rate for Profit on Debt

S. No	Profit on Debt	Rate of tax	Profit on Debt	Rate of tax
EXISTING			PROPOSED	
1.	Where profit on debt does not exceed Rs 25,000,000	10%	Where profit on debt does not exceed Rs. 5,000,000	10%
2.	Where profit on debt exceeds Rs 25,000,000 but does not exceed Rs 50,000,000	2,500,000 + 12.5% of the amount exceeding Rs 25,000,000	Where profit on debt exceeds Rs. 5,000,000 but does not exceeds Rs. 25,000,000	12.5%
3.	Where profit on debt exceeds Rs 50,000,000	Rs 5,625,000 + 15% of the amount exceeding Rs 50,000,000	Where profit exceeds Rs. 25,000,000	15%

Division VII Capital Gains on Disposal of Securities

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

	Period	Tax Year 2015	Tax Year 2016	Tax Year 2017		Tax Year 2018	
				Filer	Non-Filer	Filer	Non-Filer
EXISTING						PROPOSED	
1.	Where holding period of a security is less than twelve months	12.5%	15%	15%	18%	15%	20%

2.	Where holding period of a security is twelve months or more but less than twenty-four months	10%	12.5%	12.5%	16%		
3.	Where holding period of a security is twenty-four months or more but the security was acquired on or after 1 st July, 2012 2013	0%	7.5%	7.5%	11%		
4.	Where the security was acquired before 1 st July, 2012 2013	0%	0%	0%	0%	0%	0%
5.	Future commodity contracts entered into by the members of Pakistan Mercantile Exchange	0%	0%	5%	5%	5%	5%

Division IX
Minimum tax under section 113

S. No.	Person(s)	Minimum Tax as percentage of the person's turnover for the year	
EXISTING			PROPOSED
1.	(a) Oil marketing companies, Oil refineries, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds rupees one billion.); (b) Pakistan International Airlines Corporation; and (c) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production. (d) Dealers or distributors of fertilizers.	0.5%	No Change

2.	(a) Distributors of pharmaceutical products, fast moving consumer goods and cigarettes; (b) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990; (c) Rice mills and dealers; and (d) Flour mills.	0.2%	No Change
3.	Motorcycle dealers registered under the Sales Tax Act, 1990.	0.25%	No Change
4.	In all other cases.	1%	1.25%

PART – III
Advance Tax on Dividend
DIVISION I

The rate of tax to be deducted under section 150 and 236S shall be-

Type of Dividend	Existing Rates		Proposed Rates	
	Filer	Non-Filer	Filer	Non-Filer
Power Projects	7.5%	7.5	No Change	
Dividend other than power projects	12.5%	20%	15%	No Change

Division II

Person	Stock Fund		Money market Fund, Income Fund or , REIT Scheme or] any other fund		
	Existing	Proposed	Existing	Proposed	Existing
(1)	(2)		Filer		Non-Filer
Individual	10%	12.5%	10%	12.5%	15%
Company	10%	12.5%	25%		25%
AOP	10%	12.5%	10%	12.5%	15%

Payments to non-residents [Section 152]

Payment to Non-Resident	Existing Rate for Non-Filers	Proposed Rates for Non-filers
Payment for execution of specified contract under sub-section (1A) of section 152	12%	13%
Payment for sales of Goods - Company	6%	7%
Payment for sales of Goods - Other than company	6.5%	7.75%
Payment for Service other than transport - Company	12%	14%
Payment for Service other than transport – Other than Company	15%	17.5%
Payment for Execution of Contracts	12%	13%

Division III

Payments for Goods or Services [Section 153]

Payment to Resident	Existing	Proposed
in the case of the sale of rice, cotton seed or edible oils, 1.5% of the gross amount payable; or		Proposed to insert Explanation:- For the removal of doubt, it is clarified that “cotton seed and edible oils” means cotton seed oil and edible oils.
Supplies made by the distributor of Fast moving consumer goods.-		
(i) Company	3%	2%
(ii) Other case	3.5%	2.5%
Payment for sales of Goods – Company	6% (Non-Filer)	7% (Non-Filer)
Payment for sales of Goods – Other than company	6.5% (Non-Filer)	7.75% (Non-Filer)
Payment for rendering of or providing of service other than transport - Company	12% (Non-Filer)	14.5% (Non-Filer)
Payment for rendering of or providing of service other than transport – Other than Company	15% (Non-Filer)	17.5% (Non-Filer)
Payment for Execution of Contracts - Company	10% (Non-Filer)	12% (Non-Filer)
Payment for Execution of Contracts - Other than Company	10% (Non-Filer)	12.5% (Non-Filer)

Division V

Income from Property [Section 155]

Income from Property	Existing	Proposed
17.5% is proposed for non-filer Companies. No change for filer rate i.e. 15%	-	17.5%

Division VI
Prizes and Winnings [Section 156]

Prizes & Winnings	Existing		Proposed	
	Filer	Non-Filer	Filer	Non-Filer
Prize bond or cross-word puzzle	15%	20%	No Change	25%

Division VIA
Petroleum Products [Section 156A]

Petroleum Products	Existing		Proposed	
	Filer	Non-Filer	Filer	Non-Filer
Commission or discount allowed to petrol pump operator	12%	15%	No Change	17.5%

Division VIB
CNG STATIONS [Section 234A]

CNG STATION	Existing		Proposed	
			Filer	Non-Filer
Gas bill of a Compressed Natural Gas Station	4%		4%	6.5%

PART – IV
DEDUCTION OR COLLECTION OF ADVANCE TAX

Division IV
Electricity Consumption

Rate of collection of tax under section 235 where the **gross** amount of electricity bill,-

(a)	does not exceed Rs. 400.	Rs.	0
(b)	Exceeds Rs.400 but does not exceed Rs.600	Rs.	80
(c)	Exceeds Rs.600 but does not exceed Rs.800	Rs.	100
(d)	Exceeds Rs.800 but does not exceed Rs.1000	Rs.	160
(e)	Exceeds Rs.1000 but does not exceed Rs.1500	Rs.	300
(f)	Exceeds Rs.1500 but does not exceed Rs.3000	Rs.	350
(g)	Exceeds Rs.3000 but does not exceed Rs.4500	Rs.	450
(h)	Exceeds Rs.4500 but does not exceed Rs.6000	Rs.	500
(i)	Exceeds Rs.6000 but does not exceed Rs.10000	Rs.	650
(j)	Exceeds Rs.10000 but does not exceed Rs.15000	Rs.	1000
(k)	Exceeds Rs.15000 but does not exceed Rs.20000	Rs.	1500
(l)	Exceeds Rs.20000	(i) at the rate of 12 per cent for commercial consumers; (ii) at the rate of 5 per cent for industrial consumers	

Division V
Telephone users [Section 236]

		EXISTING	PROPOSED
(a)	in the case of a telephone subscriber (other than mobile phone subscriber) amount of bill where the amount of monthly bill exceeds Rs.1000.	10% of the exceeding amount of bill	NO CHANGE
(b)	in the case of subscriber of internet, mobile telephone and pre-paid internet or telephone card	14% of the amount of bill or sales price of internet pre-paid card or prepaid telephone card or sale of units through any electronic medium or whatever form.]	14% 12.5% of the amount of bill or sales price of internet pre-paid card or prepaid telephone card or sale of units through any electronic medium or whatever form.]

Division VII
Advance Tax on Purchase, Registration and Transfer of Motor Vehicles [Section 231B]

S. No.	Engine capacity	Filers	
		Existing	Proposed
1.	upto 850cc	10,000	7,500
2.	851cc to 1000cc	20,000	15,000
3.	1001cc to 1300cc	30,000	25,000

Division VIII
Advance tax at the time of sale by auction [Section 236A]

Sale by auction	Existing	Proposed	
		Filer	Non-Filer
Advance tax at the time of sale by auction	10%	10%	15%

Division XV

Advance tax on sale to retailers [Section 236H]

Category of sale	Existing	Proposed	
	Filer/Non-Filer	Filer	Non-Filer
Electronics	0.5%	1%	1%
Others	0.5%	0.5%	

Division XXV

Advance Tax on Insurance Premium [section 236u]

The rate of tax to be collected from non-filers under section 236U shall be as under:-

S.No.	Type of Premium	Proposed	Rate
(1)	(2)		(3)
1.	General insurance premium	No Change	4%
2.	Life insurance premium if exceeding Rs 0.2 million per annum	Life insurance premium if exceeding Rs 0.2 million per annum Rs. 0.3 million in aggregate	1%
3.	Others	No Change	0%

49. 2nd Schedule

Exemptions and Tax Concessions

Part I – Exemption from total income

1. Income derived by the institutions listed in clause 66 is exempt from tax, the bill proposed following amendments in clause 66.
 - a. in sub clause (xxxi) only substituted the words “Society for Welfare of Patients of SIUT” with the words “Society for the Welfare of SIUT” a technical correction.
 - b. Inserted sub clause (xxxvi) Asian Infrastructure Investment Bank and persons as provided in Article 51 of Chapter IX of the Articles of Agreement signed and ratified by Pakistan and entered into force on December 25, 2015.
 - c. Income of the following institutions is proposed to be exempted:
 - Gulab Devi Chest Hospital
 - Pakistan Poverty Alleviation Fund
 - National Academy of Performing Art.
2. Technical correction: The bill proposed to substitute the word “Gawadar” with “Gwadar” in clauses (126A), (126AA), (126AC) and (126D)
3. The bill proposed to exempt any profit on debt received by Japan International Cooperation Agency (JICA), from Islamabad- Burhan Transmission Reinforcement Project (Phase-I) undertaken in pursuance to the loan agreement for Islamabad-Burhan Transmission Reinforcement Project (Phase-I).
4. The bill proposed that any income derived by a political party registered under the Political Parties Order, 2002 with the Election Commission of Pakistan shall be exempt from tax under this ordinance.

Part IV – Exemption from specific provisions

1. The bill proposed to omit the irrelevant clause (56A), because it relates to section 236E of the Act, which was omitted by the Finance Act, 2016.
2. The bill proposed to exempt the following institutions from application of section 148 by amending sub clause (ia) of clause 56:
 - a. Z&M Oils (Pvt) Ltd
 - b. Exceed Petroleum (Pvt) Ltd.
 - c. Petrowell (Pvt) Ltd.
 - d. Quality-1 Petroleum (Pvt) Ltd.
 - e. Horizon Oil Company (Pvt) Ltd.
 - f. Outreach (Pvt) Ltd. and
 - g. Kepler Petroleum Ltd.
3. The bill proposed to further extend the period of exemption from section 21(I), 113 and 152 to Hajj Group Operators in respect of Hajj operations till Tax Year 2017.
4. Clause (72B) provides exemption from section 148 to industrial undertaking if the tax liability for the current tax year, on the basis of determined tax liability for any of the preceding two tax years, whichever is higher is available, subject to issuance of certificate by the Commissioner subject to following restrictions:
 - a. The quantity of raw material to be imported must not be more than 110 per cent of quantity imported or consumed during the previous tax year

- b. Commissioner shall conduct audit of the taxpayer by treating that he is selected for audit u/s 214C.
- c. If taxpayer fails to present accounts or documents to the Commissioner, the Commissioner shall by order in writing cancel the certificate issued.

The bill proposed to increase the quantity of raw material to be imported from 110 per cent to 125 percent of quantity imported or consumed during the previous tax year.

- 5. Technical correction: clause (91) provides exemption from application of section 148, the bill proposed to correct different PCT codes.
- 6. Proposed amended clause (94) – This clause was inserted by the Income Tax (Second Amendment) Ordinance, 2015. The bill proposed that the tax deducted u/s 153(1)(b) shall not be considered as minimum tax from first day of July, 2015 to 30th of June, **2018** in case of a company being filer and engaged in providing or rendering freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services or car rental services and **services rendered by Pakistan Stock Exchange Limited:**

Provided that the tax payable or paid on the income from providing or rendering aforesaid services shall not be less than two percent of the gross amount of turnover from all sources and that the company furnishes in writing an irrevocable undertaking by the fifteenth day of November, 2015 to present its accounts to the Commissioner within thirty days of filing of return, for audit of its income tax affairs for **any of the tax years 2016 to 2018**, as the case maybe.

The bill further proposed that for Tax Year 2018, the company shall furnish irrevocable undertaking by November 2017 to present its accounts to the Commissioner.

- 7. The bill proposed to insert a new clause (101) and provided that the provisions of section 231A shall not apply in respect of cash withdrawal made from a “Branchless Banking (BB) Agent Account” utilized to render branchless banking services to customers.
- 8. The bill further proposed to insert a new clause (102) and provided that provisions of section 231B(1A) [collection of 3% advance tax from non-filer] shall not apply to light commercial vehicles leased under the Prime Minister’s Youth Business Loan Scheme.

50. 7th Schedule

Rules for the computation of the profits and gains of a banking company and tax payable thereon

Sub-rule (g) of Rule 1 provides that adjustment made in the annual accounts, on account of application of international accounting standards 39 and 40 shall be excluded in arriving at taxable income. The bill proposed to insert the following explanation for removal of doubt:

“It is clarified that nothing in this sub-rule shall be so construed as to allow a notional loss, or charge to tax any notional gain on any investment under any regulation or instruction unless all the events that determine such gain or loss have occurred and the gain or loss can be determined with reasonable accuracy”.

51. 8th Schedule

Rules for the computation of capital gain on listed securities

Eight Schedule was inserted by Finance Act, 2012, earlier the same amendment was made by Finance (Amendment) Ordinance, 2012. The motive behind these rules was to provide special provisions relating to capital gain tax and exemption from explanation to the source of investment to increase stock investment.

Sub-rule (6) of Rule 1 provides that NCCPL shall furnish to the Board with thirty days of the end of each quarter, a statement of capital gains and tax computed thereon in that quarter in the prescribed manner and format. The bill proposed to extend the period of thirty days to forty five day.

Under Rule 6, the NCCPL is required to deposit the amount of tax with NBP by July 31st next following the financial year in which the amount was collected. The bill proposed to extent this date of deposit from 31st July to 15th of August.

SALES TAX

1. Tier-1 retailers [Section 2(43A), 3(9A)]

Previously a retailer whose annual value of supplies exceeds five million was required to be registered and liable to pay turnover tax as per given rates. Then requirement of registration for retailer has been changed vide SRO 608(I)/2014 dated July 2, 2014, resultantly the retailers falling in any of the following categories shall be required to be registered as a retailer as specified in rule 4 of Chapter II [Special Procedure for payment of Sales Tax by retailers] of the Sales Tax Special Procedure Rules, 2007

- (a) a retailer operating as a unit of a national or international chain of stores
- (b) a retailer operating in an air-conditioned shopping mall, plaza or centre, excluding kiosks
- (c) a retailer who has a credit or debit card machine. [This clause was omitted by SRO 738(I)/2015]
- (d) a retailer whose cumulative electricity bill during the immediately preceding twelve consecutive months exceeds rupees six hundred thousand; and
- (e) a wholesaler-cum-retailer, engaged in bulk import and supply of consumer goods on wholesale basis to the retailers as well as on retail basis to the general body of the consumers

Now the bill proposed to add new definition of “Tier-1 retailers” and proposed to shift above mentioned categories from Special Procedure to clause (43A) of section 2 of the Sales Tax Act, 1990 as under for requirement of registration for Tier-1 retailers.

- (a) a retailer operating as a unit of a national or international chain of stores
- (b) a retailer operating in an air-conditioned shopping mall, plaza or centre, excluding kiosks
- (c) a retailer whose cumulative electricity bill during the immediately preceding twelve consecutive months exceeds rupees six hundred thousand; and
- (d) a wholesaler-cum-retailer, engaged in bulk import and supply of consumer goods on wholesale basis to the retailers as well as on retail basis to the general body of the consumers

Rule 5 of Chapter II of the Sales Tax Special Procedure Rules, 2007 explains the retailers required to pay tax on standard rate. Now the bill proposed to insert sub-section (9A) in section 3 to shift all the provisions of rule 5 to sub-section (9A) of section 3 in the following manner:

Tier-1 retailers shall pay tax at standard rate (17%) alongwith adjustment of input tax and submit monthly Sales Tax return

Supply of finished goods under SRO 1125(I)/2011 by retailer, sales tax will be charged at the rate specified in the said notification.

Retailer may opt upto 15-07-2017 to pay turnover tax @ 2% of the total turnover

2. Scope of tax [Section 3(1)(b)]

Clause (b) of sub-section (1) of section 3 of the Sales Tax Act, 1990 deals with scope of tax on import of goods where Custom authorities are required to collect sales tax @ 17% when goods are imported into Pakistan.

Now the bill proposed to insert the words “irrespective to their final destination in territories of Pakistan as specified in clause (2) of Article 1 of the Constitution of Islamic Republic of Pakistan”. These words are proposed to be inserted after the word Pakistan to explain the territories of Pakistan which are explained in clause (2) of Article 1 of the Constitution of Islamic Republic of Pakistan. After this amendment, sales tax shall be charged at import stage on goods imported by the person of non-tariff areas like FATA and PATA.

3. Further Tax [Section 3(1A) & 4]

Earlier sub-section (1A) of section 3 was inserted through Finance Act, 1998 and then was omitted by Finance Act, 2004. Again this sub-section was inserted through Finance Act, 2013 w.e.f. June 13, 2013. This sub-section explained that when supplies are made to a person who has not obtained registration number, there shall be charged, levied and paid a further tax @ 2% in addition to the rate specified in sub-sections (1), (1B), (2), (5) and (6).

Now the bill proposed to substitute “and (6)” to “(6) and section 4”. Plain reading of this sub-section reveals that 2% further tax is charged to un-registered person in addition to specified rates (i.e. 17%, fixed rate, reduce rate, retail price, extra tax etc), but there was a confusion regarding zero rated supplies. When zero rated supplies were made to un-registered persons then further tax will be charged or not? Section 4 deals with zero rated supplies and reference of zero rated supplies was not available in section 3(1A), meaning by the further tax is not applicable on zero rated supplies.

A clarification was issued by FBR that further tax shall be charged at the time of making zero rated supplies to un-registered person. Then the honorable Lahore High Court directed that further tax shall not be collected from un-registered persons at the time of making zero rated supplies.

Now the insertion of section 4 after sub-section (6) shows the intend of legislature that in future further tax @ 2% shall be charged at the time of making zero rated supplies to un-registered person, because now sub-section (1A) is not subservient to section 4 by inserting words “except those of sub-section (1A)” in the preamble of section 4.

4. Power to issue notification [Section 3(2)(b), (3A), (5), 7(3)(4), 7A(1)(2), 8, 13(2)(a), (6)(7), 60, 65, 71]

Power to issue notification under different provisions of the Sales Tax Act, 1990 proposed to shift from Federal Government to Board with the approval of the Minister Incharge of the Federal Government.

The notifications issued before 01-07-2016 if not earlier rescinded, shall be deemed to have been in force w.e.f. 01-07-2016 and shall continue to be in force till 30-06-2018 because previously amendment was made that if notifications issued will be rescinded on 30th June of every year.

It is also further proposed that all notifications issued on or after 01-07-2016 shall continue to be in force till 30-06-2018 if not earlier rescinded.

Same provisions are inserted in Income Tax and Federal Excise Laws

5. Appointment of authorities [Section 30(1)(ea)(fa)(2A)(2B)]

Two new officers [District Taxation Officer and Assistant Director Audit] are proposed to add in authorities of Income Tax, Sales Tax and Federal Excise Laws. Detail is available in Income Tax commentary. Same provision is inserted in Income Tax and Federal Excise Laws

6. Offences and Penalties [Section 33]

The bill proposed to insert entry # 23 wherein heavy penalties/prosecution imposed on persons selling cigarette packs without, or with counterfeited, tax stamps, banderoles, stickers, labels or barcodes.

7. Recovery of arrears of tax [Section 48]

The bill proposed to insert proviso at the end of section 48 wherein it is proposed that commissioner shall not issue recovery notice if taxpayer filed appeal with the Commissioner (Appeals) alongwith payment of 25% tax due, means automatic stay.

8. Service of orders, decisions etc [Section 56(1)(d)]

The bill proposed to insert clause (d) of sub-section (1) of section 56 wherein it is proposed that any notice, order or requisition required to be served on a resident individual sent electronically through email or to the e-folder maintained for the purpose of e-filing of Sales Tax-cum-Federal Excise returns by the public and private limited companies shall be treated as properly served on the individual.

9. Validation [Section 74A]

In a few judgments of superior courts, the notifications issued before 1st of July 2017 declared invalid. The bill proposed to insert section 74A to establish that all the notifications and orders issued and notified in exercise of the powers conferred upon the Federal Government before 1st of July 2017 shall be deemed to have been rightly issued and notified in exercise of those powers irrespective of the fact that these are declared invalid by the honorable High Court or the Supreme Court.

10. Third Schedule –

Third Schedule deals with the supplies of taxable goods mentioned in third schedule wherein concept of retail price items is implemented. Currently total number of items mentioned in third schedule are 20.

The bill proposed to amend & omit the following in the Third Schedule of the Sales Tax Act 1990:

Sr. #	Description of goods	Heading/su-heading Number	Proposed
2	Ice Cream	21.05 2105.000	Proposed to be substituted
32	Fertilizers	Respective headings	Proposed to Omit

15. The Fifth Schedule

The goods mentioned in this schedule are charged to sales tax at the rate of zero per cent.

Serial # 12 sub-serial # (xvii) Proposed to be substituted.

Sr.#	Description of goods	Proposed
12(xvii)	Preparations for infant use put up for retail sale	Proposed to be Substituted

	Preparations suitable for infants or young children, put up for retail sale	
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16. The Sixth Schedule

The supply of goods mentioned in this schedule is exempt from levy of sales tax. The following amendments are proposed to be made in this schedule.

See section 13(1)

Table-1 (Imports or Supplies)

Sr. #	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Proposed
84	Preparations for infant use, put up for retail sale Preparations suitable for infants or young children, put up for retail sale	1901.1000	Proposed to be substituted
97	Pens and ball pens pens, ball pens, markers and porous tipped pens	96.08	Proposed to be substituted
100A	Materials and equipment (plant, machinery, equipment, appliances and accessories) 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 the following conditions and procedure, namely,- (A) Conditions and procedure for imports.- (i) This exemption shall be admissible only to China Overseas Ports Holding Company Limited (COPHCL) and its operating companies, their contractors and sub-contractors which hold the Concession Agreement; (ii) Ministry of Ports and Shipping shall certify in the prescribed manner and format as per annex-I that the imported materials and equipments are bonafide requirement for construction and operation of Gwadar Port and development of Free Zone for Gwadar Port. The authorized	Respective headings	Proposed to be inserted Spelling of "Gawadar" is proposed as "Gwadar"

	officer of that Ministry shall furnish all relevant information online to Pakistan Customs against a specific user ID and Password obtained under section 155D of the Customs Act, 1969 (IV Of 1969). In already computerized Collectorate or Customs station, where the computerized system is not operational, the Project Director or any other person authorized by the Collector in this behalf shall enter the requisite information in the Customs Computerized System on daily basis, whereas entry of the data obtained from the customs stations which have not yet been computerized shall be made on weekly basis, provided that this condition shall not apply to ship bunker oils; and (iii) The goods so imported shall not be sold or disposed of without prior approval of the FBR and payment of sales tax leviable at the time of import, provided that this condition shall not apply to ship bunker oils.		
100C	Vehicles imported by 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 Marine Services Limited and (iv) Gwadar Free Zone Company Limited, for a period of twenty three years for construction, development and operations of Gwadar Port and Free Zone Area subject to limitations, conditions prescribed under PCT heading 9917		Proposed to be inserted
130.	Premixes for growth stunting	Respective Headings, and subject to conditions imposed for importation under the Customs Act, 1969; Sodium Iron (Na Fe EDTA), and other premixes of Vitamins, Minerals and Micro-nutrients (food grade) and subject to conditions imposed for importation	Proposed to be substituted

		under the Customs Act, 1969	
133.	Pesticides and their active ingredients registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971(II of 1971), stabilizers, emulsifiers and solvents, namely:- Ingredients for pesticides Cadusafos Technical Material Other Ingredients for pesticides Tiethanolamine and its salt	38.03	Proposed to be omitted
134	Goods received as gift or donation from a foreign government or organization by the Federal or Provincial Governments or any public sector organization subject to recommendations of the Cabinet Division and concurrence by the Federal Board of Revenue.	9908	Proposed to be inserted
135	Sunflower and canola hybrid seeds meant for sowing	Respective heading	Proposed to be inserted
136	Combined harvesters upto five years old	8433.5100	Proposed to be inserted
137	Single cylinder agriculture diesel engines (compression-ignition internal combustion piston engines) of 3 to 36 HP, and CKD kits thereof	8408.9000	Proposed to be inserted

Table – 3

ANNEXURE

Bill proposed to substitute existing serial # 14 and 15 as following:

Sr. #	Description	PCT heading	Condition
(1)	(2)	(3)	(4)
14	Following items with dedicated use of renewable source of energy like solar, wind, geothermal etc:- Solar Home Systems. a). Inverters b). Charge controllers/current controllers c). Energy saver lamps of varying voltages (operating on DC). d). Energy saver lamps of varying voltages (operating on AC). e). Light emitting diodes (light emitting indifferent colors). f). Water pumps operating on solar energy. g). Water purification plants operating on solar energy. h). Batteries NiCd, Li-ion & Lead Acid specific utilization and integrated with solar electrification system. (i) Energy Saving Tube Lights 2. Solar Parabolic Trough Power Plants. a). Parabolic Trough collectors modules. b). Absorbers/Receivers tubes. c). Steam turbine of an output exceeding 40MW. d). Steam turbine of an output not exceeding 40MW. e). Sun tracking control system. f). Control panel with other accessories.	8504.4090 9032.8990 8539.3110 8539.3110 8541.5000 8413.7090, 8413.7010 8421.2100 8507.3000 8507.8000 8539.3120 8502.3900 8503.0010 8503.0090 8406.8100 8406.8200 8543.7090 8537.1090 8412.8090 8543.7000 8543.7000	Nil
	3. Solar Dish Sterling Engine. a). Solar concentrating dish. b). Sterling engine. c). Sun tracking control system. d). Control panel with accessories. e). Generator 4. Solar Air Conditioning System a). Absorption chillers. b). Cooling towers. c). Pumps. d). Air handling units. e). Fan coils units. f). Charging & Testing equipment. 5. Solar Desalination System a). Solar photo voltaic panels b). Solar water pumps c). Storage batteries.	8543.7090 8406.8200 8501.6100 8415.1090 8418.6990 8419.8910 8413.3090 8415.8200 8415.9099 9031.8000 8421.2100 8541.4000 8413.3090 8507.2090 9032.8990 8504.4090	

	d) Charge controllers. e) Inverters. 6. Solar Thermal Power Plants with accessories. 7. Solar Water Heaters with accessories. a) Vacuum tubes (Glass). b) Selective coating for absorber plates. c) Copper, aluminum and stainless steel sheets. d) Copper and aluminum tubes. 8. PV Modules a). Solar cells. b). Tempered Glass. c) Aluminum frames. d) O-Ring. e) Flux f) Adhesive labels. g) Junction box + Cover h) Sheet mixture of Paper and plastic i) Ribbon for PV Modules (made of silver & Lead) j) Bypass diodes. k) EVA (Ethyl Vinyl Acetate) Sheet (Chemical).	8502.3900 8419.1900 7020.0090 Respective heading Respective heading Respective heading Respective heading 8541.4000 8541.4000 7007.2900 7610.9000 4016.9990 3810.1000 3919.9090 8538.9090 3920.9900 Respective headings 8541.1000 3920.9900 8479.8990 8514.3000 8461.9000 3824.9099 2848.0000 Respective headings 9030.8900 8504.4020	
	9. Solar Cell Manufacturing Equipment. a) Crystal (Grower) Puller (if machine). b). Diffusion furnace. c). Cutting and shaping machines for silicon ingot. f). Solar grade polysilicon material. g). Phosphene Gas. h). Aluminum and silver paste. 10. Pyranometers and accessories for solar data collection 11. Solar chargers for charging electronic devices 12. Remote control for solar charge controller. 13. Wind Turbines. a). Rotor b). Hub c) Generator d) Deep cycle battery 14. Wind water pump 15. Geothermal energy equipments. 1). Geothermal Heat Pumps 2). Geothermal Reversible Chillers	8543.7010 8412.8090 8412.9090 8412.9090 8501.6490 8507.8000 8413.8190 8418.6100, 8418.6990 8418.6990 8415.8300 8418.6100 8419.5000 8515.8000 8419.8990 8479.6000	

	3). Air handlers for indoor quality control equipments 4). Hydronic heat pumps 5). Slim Jim heat exchangers 6). HDPE fusion tools 7). Geothermal energy Installation tools and Equipment 8). Dehumidification equipment 9). Thermostats and Intelli Zone 16. Any other item approved by the Alternative Energy Development Board (AEDB) and concurred to by the FBR.	9032.1090	
15	Following items for promotion of renewable energy technologies 1. LVD induction lamps 2. SMD, LEDs with or without ballast with fittings and fixtures. 3. Wind turbines including alternators and mast. 4. Solar torches 5. Lanterns and related instruments 6. PV module, with or without, the related components including invertors, charge controllers and batteries	8539.3990 9405.1090 8502.3100 8513.1040 8513.1090 8541.4000, 8504.4090, 9032.8990, 8507.0000	Nil Subject to certification by AEDB that the inverters, charge controllers and batteries being imported are in quantities which commensurate with the PV modules being imported.
14.	Following items for use with solar energy:- Solar Power Systems.	8501.3110 8501.3210	
	(1) Off-grid/On-grid solar power system (with or without provision for USB/charging port) comprising of : (i) PV Module. (ii) Charge controller. (iii) Batteries for specific utilization with the system (not exceeding 50 Ah in case of portable system). (iv) Essential connecting wires (with or without switches). (v) Inverters (off-grid/ on-grid/ hybrid with provision for direct connection/ input renewable energy source and with Maximum Power Point Tracking (MPPT). (vi) Bulb holder (2) Water purification plants operating on solar energy.	8541.4000 9032.8990 8507.2090 8507.3000 8507.6000 8544.4990 8504.4090 8536.6100 8421.2100	
14A	Following systems and items for dedicated use with renewable source of energy like solar, wind, geothermal etc. 1. (a) Solar Parabolic Trough Power Plants. (b) Parts for Solar Parabolic Power Plants. (i) Parabolic Trough collectors/modules. (ii) Absorbers/Receivers tubes. (iii) Steam turbine of an output exceeding 40MW.	8502.3900 8503.0010 8503.0090	

	(iv) Steam turbine of an output not exceeding 40MW. (v) Sun tracking control system. (vi) Control panel with other accessories. 2. (a) Solar Dish Stirling Engine. (b) Parts for Solar Dish Stirling Engine. (i). Solar concentrating dish. (ii). Sterling engine. (iii). Sun tracking control system. (iv). Control panel with accessories. (v). Stirling Engine Generator 3. (a) Solar Air Conditioning Plant (b) Parts for Solar Air Conditioning Plant (i). Absorption chillers. (ii). Cooling towers. (iii). Pumps. (iv). Air handling units. (v). Fan coils units. (vi). Charging & testing equipment. 4. (a) Solar Desalination System (b) Parts for Solar Desalination System (i). Solar photo voltaic panels. (ii). Solar water pumps. (iii). Deep Cycle Solar Storage batteries. (iv). Charge controllers. (v). Inverters (off grid/on grid/ hybrid) with provision for direct connection/input from renewable energy source and with Maximum Power Point Tracking (MPPT) 5. Solar Thermal Power Plants with accessories with accessories. 7. (a) PV Modules. (b) Parts for PV Modules (i). Solar cells. (ii). Tempered Glass. (iii). Aluminum frames. (iv). O-Ring. (v). Flux. (vi). Adhesive labels. (vii). Junction box & cover. (viii). Sheet mixture of paper and plastic (ix). Ribbon for PV Modules (made of silver & Lead). (x). Bypass diodes. (xi). EVA (Ethyl Vinyl Acetate) Sheet (Chemical). 8. Solar Cell Manufacturing Equipment. (i). Crystal (Grower) Puller (if machine). (ii). Diffusion furnace. (iii). Oven. (iv). Wafering machine. (v). Cutting and shaping machines for silicon ingot. (vi). Solar grade polysilicon material. (vii). Phosphene Gas.	8406.8100 8406.8200 8543.7090 8537.1090 8412.8090 8543.7000 8543.7000 8543.7090 8406.8200 8501.6100	
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	(viii). Aluminum and silver paste.		
	9. Pyranometers and accessories for solar data collection.	9030.8900	
	10. Solar chargers for charging electronic devices	8504.4020	
	11. Remote control for solar charge controller.	8543.7010	
	12. Wind Turbines. (a) Wind Turbines for grid connected solution above 200 KW (complete system). (b) Wind Turbines upto 200 KW for off-grid solutions comprising of: (i). Turbine with Generator/ Alternator. (ii). Nacelle with rotor with or without tail. (iii). Blades. (iv). Pole/ Tower. (v). Inverter for use with Wind Turbine. (vi). Deep Cycle Cell/ Battery (for use with wind turbine)	8412.8090 8412.8090 Respective Headings 8507.2090	
	13. Wind water pump	8413.8100	
	14. Geothermal energy equipment. (i). Geothermal heat pumps. (ii). Geothermal Reversible Chillers. (iii). Air handlers for indoor quality control equipment. (iv). Hydronic heat pumps. (v). Slim Jim heat exchangers. (vi). HDPE fusion tools. (vii). Geothermal energy installation tools and equipment. (viii). Dehumidification equipment. (ix). Thermostats and intellizone.	8418.6100 8418.6990 8415.8300 8418.6100 8419.5000 8515.8000 8419.8990 8479.6000 9032.109	
	15. Any other item approved by the Alternative Energy Development Board (AEDB) and concurred to by the FBR.	Respective headings	
15	Following items for promotion of renewable energy technologies or for conservation of energy:- (i) SMD/LED/LVD lights with or without ballast, fittings and fixtures. (ii) SMD/LED/LVD street lights, with or without ballast, PV module, fitting and fixtures (iii) Tubular day lighting device. (iv) Wind turbines including alternators and mast. (v) Solar torches. (vi) Lanterns and related instruments. (vii) LVD induction lamps. (viii) LED bulb/tube lights. (ix) PV module, with or without, the related components including invertors (offgrid/on grid/ hybrid) with provision for direct connection/input from renewable energy source and with	9405.1090 8539.3290 8543.7090 9405.4090 8539.3290 8543.7090 9405.5010 8502.3100 8513.1040 8513.1090 8539.3290 8543.7090	

	Maximum Power Point Tracking (MPPT), charge controllers and solar batteries. (x) Light emitting diodes (light emitting in different colors). (xi) Water pumps operating on solar energy along with solar pump controllers (xii) Energy saver lamps of varying voltages (xiii) Energy Saving Tube Lights. (xiv) Sun Tracking Control System (xv) Invertors (off-grid/on grid/hybrid) with provision for direct connection/input from renewable energy source and with Maximum Power Point Tracking (MPPT). (xvi) Charge controller/ current controller. Provided that exemption under this serial shall be available with effect from 01.07.2016	8541.4000 8504.4090 9032.8990 8507.0000 8541.5000 8413.7010 8413.7090 8504.4090 8539.3110 8539.3210 8539.3120 8539.3220 8543. 7090 8504.4090 9032.8990	
15A	Parts and components for manufacturing LED lights: (i) Aluminum housing/ shell for LED (LED light fixture) (ii) Metal clad printed circuit boards (MCPCB) for LED (iii) Constant current power supply for of LED lights (1-300W) (iv) Lenses for LED lights	9405.1090 8543.0000 8504.4090 9001.9000	If imported by LED light manufacturers registered under the Sales Tax Act, 1990 subject to annual quota determination by the Input Output Coefficient Organization (IOCO)

17. The Eighth Schedule

“AMENDMENTS PROPOSED IN EIGHTH SCHEDULE”

Sr. #	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Proposed	Remarks
26(iv)	Sub soiler	8432.3090	8432.3900	Substituted
27(iv)	Fertilizer or manure spreader or broadcaster	8432.4000	8432.4100	Substituted
(vi)	Canola or sunflower drill	8432.3010	8432.3100	Substituted
(vii)	Sugarcane Planter	8432.3090	8432.3900	Substituted
34	Set top boxes.....		Concession period from 30-06-2017 to 30-06-2018	

35	DAP	Respective Heading	Rs. 100 per 50 kg Bag	Nil
36	NP (22-20)	Respective Heading	Rs. 168 per 50 kg Bag	If manufactured from gas other than imported LNG
37	NP (18-18)	Respective Heading	Rs. 165 per 50 kg Bag	If manufactured from gas other than imported LNG
38	NPK-I	Respective heading	Rs. 251 per 50 kg Bag	If manufactured from gas other than imported LNG
39	NPK-II	Respective heading	Rs. 222 per 50 kg Bag	If manufactured from gas other than imported LNG
40	NPK-III	Respective heading	Rs. 341 per 50 kg Bag	If manufactured from gas other than imported LNG
41	SSP	Respective Heading	Rs. 31 per 50 kg bag	If manufactured from gas other than imported LNG
42	CAN	Respective Heading	Rs. 98 per 50 kg bag	If manufactured from gas other than imported LNG
43	Natural gas	Respective Heading	10%	If supplied to fertilizer plants for manufacturing of urea
44	Phosphoric acid	2809.2010	5%	If imported by fertilizer company for manufacturing of DAP
45	Following machinery for poultry sector :			
	(i) Machinery for preparing feeding stuff	8436.1000	7%	
	(ii) Poultry incubators and Brooders	8436.2100 and 8436.2900	7%	
	(iii) Insulated sandwich panels	9406.0090	7%	
	(iv) Poultry sheds	9406.0020	7%	
	(v) Evaporative air cooling	8479.6000	7%	

	system			
	(vi) Evaporative cooling pad	8479.9010	7%	
46	Multimedia Projectors	8528.6210	10%	If imported by educational institution
47	Locally produced Coal	27.01	Rs. 425 per metric tonne or 17% ad valorem, whichever is higher	Nil

18. The Ninth Schedule

Ninth Schedule regarding specified sales tax paid on the import of Low Priced Cellular mobile, Medium Priced Cellular and Smart Cellular Mobile at the time of registration of a new International Mobile Equipment Identity (IMEI) number and on each phone set at the time of import according to the liability, procedure and conditions mentioned in the Ninth Schedule are reproduced herewith with proposed changes:-

“NINTH SCHEDULE”

[See sub-section (3B) of section 3]

TABLE

(1)	(2)	(3)	(4)	(5)	
Sr. #	Description / Specification of Goods	Sales tax on import (payable by importer at the time of import)	Sales tax (chargeable at the time of registration of IMEI number by CMOs)	Sales tax on supply (payable at time of supply by CMOs)	Remarks
2	A. Low priced Cellular Mobile phones or Satellite Phones (i) All cameras: 2.0 mega-pixels or less (ii) Screen size: 2.6 inches or less (iii) Key pad	Rs. 300 650	Rs. 300 650		Rate increased from 300 to 650
2	B. Medium Priced Cellular Mobile Phones or Satellite Phones i. One or two cameras: between 2.1 to 10 mega-pixels ii. Screen size: between 2.6 inches and 4.2 inches iii. Micro-processor: less than 2 GHZ	Rs. 1000 650	Rs. 1000 650	-	Rate decreased from 1000 to 650

FEDERAL EXCISE DUTY

1. **Definition of Due Date [2(8a)]**

The bill proposed to amend clause (8a) of Section 2 of the Act.

The word “Federal Government” is proposed to be substituted with the word “Board” in the definition of due date. Currently the Federal Government has power to notify the different dates for filing of return, now the bill proposed to give such powers to the Board.

2. **Duties specified in the First Schedule to be levied [Section: 3]**

Presently the Federal Government is empowered to levy excise duty on goods which are produced or manufactured in the non-tariff areas and are brought to the tariff areas for sale or consumption.

The bill proposed to transfer these powers to **Board** subject to the approval of the Minister-in-charge of the Federal Government.

Similarly, the powers of Federal Government to levy and collect duty on any class of goods or services on higher or lower rates are proposed to be transferred to the **Board** subject to the approval of the Minister-in-charge of the Federal Government.

3. **Exemptions [Section: 16]**

Through a notification in the official Gazette, Federal Government (with the approval to the Economic Coordination Committee of Cabinet) is empowered to exempt any goods or any services from the whole or any part of the Excise Duty.

Now the bill proposed to transfer these powers and responsibility to place all such notifications before the National Assembly to **Board** subject to the approval of the Minister-in-charge of the Federal Government.

Notifications issued for exemption by Federal Government after 1st July, 2015 were automatically rescinded on the expiry of the financial year in which such notification was issued.

The bill proposed to in force such notifications with effect from 1st July, 2016 and shall continue to be in force till 30th June, 2018 and notifications issued after 1st July, 2016 shall continue to be in force till 30th June, 2018 if not earlier rescinded.

4. **Offences, penalties, fines and allied matters [Section: 19]**

The bill proposed to substitute sub-section (10) and extend the scope of offences as: production of counterfeited cigarettes or is engaged in the production of cigarettes packs without affixing, or affixing counterfeited, tax stamps, banderoles, stickers, labels or barcodes.

5. **Appointment of Inland Revenue Officers and delegation of powers [Section: 29]**

The bill proposed to make District taxation officer and Assistant Director Audit as Federal Excise Officer under the Federal Excise Act, 2005.

It is further proposed that the Chief Commissioners Inland Revenue shall perform their functions in respect of such persons or classes of persons of such areas as the Board may direct and the Commissioners Inland Revenue shall perform their functions in respect of such persons or classes of person of such areas as the Chief Commissioner to whom they are sub-ordinate may direct.

6. Deposit, pending appeal, of duty demanded or penalty levied [Section: 37]

The bill proposed to restrict the Commissioner for issuing notice for recovery of any tax due from a taxpayer who has filed an appeal before Commissioner (Appeals) till the appeal has not been decided. This automatic stay is subject to payment of 25% of the tax demand.

7. Validation [Section: 43A]

In a few judgments of superior courts, the notifications issued before 1st of July 2017 declared invalid. The bill proposed to insert section 43A to establish that all the notifications and orders issued and notified in exercise of the powers conferred upon the Federal Government before 1st of July 2017 shall be deemed to have been rightly issued and notified in exercise of those powers irrespective of the fact that these are declared invalid by the honorable High Court or the Supreme Court.

8. Service of notices and other documents [Section: 47]

The bill proposed to insert new medium of serving notice properly by inserting clause (d) in sub-section (1) and sub-section (2) which is reproduced as under:

“(d) sent electronically through email or to the e-folder maintained for the purpose of e-filing of Sales Tax-cum-Federal Excise returns by the limited companies, both public and private.”

9. First Schedule – Table I (EXCISABLE GOODS)

The bill proposed following changes in Table I of the First Schedule of the Federal Excise Act, 2005:

Sr. #	Description of goods	Heading/sub-heading Number	Rate of duty (Current)	Rate of duty (Proposed/Implemented)
9	Locally produced cigarettes if their on-pack printed retail price exceeds four thousand five hundred rupees per thousand cigarettes	24.02		Proposed to be inserted Rupees three thousand and seven hundred and forty per thousand cigarettes
9a	For the period from 01-07-2016 to 30-11-2016, locally produced cigarettes if their on-pack printed retail price exceeds four thousand rupees per thousand cigarettes	24.02	Rupees three thousand four hundred and thirty-six per thousand cigarettes	Proposed to be omitted
9b	For the period from 01-12-2016 onwards, locally produced cigarettes if their on-pack printed retail price exceeds four thousand four hundred rupees per thousand cigarettes	24.02	Rupees three thousand seven hundred and five per thousand cigarettes	Proposed to be omitted
10	Locally produced cigarettes if their on-pack printed retail price exceeds two thousand nine hundred and twenty-five rupees per thousand cigarettes but does not exceed four thousand five hundred rupees per thousand cigarettes.	24.02		Proposed to be inserted Rupees one thousand six hundred and seventy per thousand cigarettes
10a	For the period from 01-07-2016	24.02	Rupees one thousand	Rupees eight

	to 30-11-2016, locally produced cigarettes if their on-pack printed retail price does not exceed four thousand rupees per thousand cigarettes. Locally produced cigarettes if their on-pack printed retail price does not exceed two thousand nine hundred and twenty-five rupees per thousand cigarettes.		five hundred and thirty-four per thousand cigarettes	hundred per thousand cigarettes
10b	For the period from 01-12-2016 onwards, locally produced cigarettes if their on-pack printed retail price does not exceed four thousand four hundred rupees per thousand cigarettes		Rupees one thousand six hundred and forty-nine per thousand cigarettes	Proposed to be omitted
13	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not colored or in the form of clinkers.	25.23	One rupee per kilogram	One Rupee and twenty-five paise per kilogram

10. Restrictions

EXISTING	PROPOSED	NOTES
Restriction 1.— For the purpose of levy, collection and payment of duty at the rates specified in column (4) against serial numbers 9, 10 and 11, no cigarette manufacturer shall reduce price from the level adopted on the day of the announcement of the latest Budget.	Restriction-1.— Reduction.— For the purpose of levy, collection and payment of duty at the rates specified in column (4) against serial number 9, no cigarette manufacturer shall reduce retail price from the level adopted on the day of the announcement of the latest budget.	Proposed to substitute the Restriction at the end of Table-I in First Schedule.
(2) Variants at different price points.— No manufacturer or importer of cigarette can introduce or sell a new cigarette brand variant of the same existing brand family at a price lower than the lowest actual price of the existing variant of the same brand family. For the purposes of this restriction, current minimum price variant of existing brand means the lowest price of a brand variant on the day of announcement of Budget [of the current financial year].	Proposed to be omitted	
(3) Minimum Price of New Brands.— Any new brand introduced in the market shall not be priced and sold lower than 5% below the price of the Most Popular Price Category (MPPC). MPPC is the price point at which the highest number of excise tax paid	Restriction-3 – Minimum Price. – No brand shall be priced and sold at a retail price (excluding sales tax) lower than forty-five percent of the retail price under column (2) serial number 9 of Table-I of the First Schedule to this Act.	Proposed to substitute

cigarettes are sold in the previous fiscal year

11. First Schedule – Table II (EXCISABLE SERVICES)

Sr. #	Description of goods	Heading/sub-heading Number	Rate of duty (Current)	Rate of duty (Proposed)
6	Telecommunication services, excluding such services in the area of a Provincial sales tax and has started collecting the same through its own Board or Authority, as the case may be	98.12 (All sub-headings)	Eighteen and a half per cent of charges.	Seventeen

12. Third Schedule – Table I (CONDITIONAL EXEMPTIONS - GOODS)

The bill proposed to omit serial # 18 and insert following new entries in Table I of the Third Schedule of the Federal Excise Act, 2005:

Sr. #	Description of goods	Heading/sub-heading Number	Proposed
19	Materials and equipment (Gawadar plant, machinery, equipment, appliances and accessories) for construction and operation of Gawadar Gwadar Port and development of Free Zone for Gawadar 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 Gawadar 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.	Respective Headings	Proposed to be inserted words (plant, machinery, equipment, appliances and accessories) also spelling correction word “Gawadar” replace with “Gwadar”
20	Vehicles imported by 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 Marine Services Limited; and (iv) Gwadar Free Zone Company Limited; for a period of twenty-three years for construction, development and operations of Gwadar Port and Free Zone Area subject to limitations, conditions prescribed under PCT heading 9917 (3).	Respective Headings	Proposed to be inserted

AN OVERVIEW OF THE ECONOMY - YEAR 2016-2017

- Pakistan 's economy has picked up some momentum with real GDP (*the value of total goods produced and services provided in the whole year*) is growing at the rate of 4.7% in the Financial Year 2016. The sharp decline in cotton production is to some extent is compensated by remarkable growth in industrial and service sector as both these sectors crossed their targets growth, whereas other key macro-economic indicators (*these are economics statistics released by the governments*) like inflation (*the general increase in prices and decline the value of money*) fiscal balance (*amount of money the government collects from taxes and sale of assets minus the amount of money it spends, when the balance is negative it is called fiscal deficit and when the balance is positive it is called fiscal surplus*) and current account balance (*which is defined as the sum of values of exports minus imports plus net income from abroad and net currents transfers*) recorded improvement.
- External sector (*portion of country's economy that interacts with economies of other countries*) has become more stable because robust growth in workers remittances from abroad. Due to inflows from foreign financial institutions, sharp decline in petroleum prices in global markets country's foreign exchange reserves (*total value of foreign currencies like dollar, euro etc. held by the State Bank of Pakistan as well as other banks in Pakistan*) have reached the all-time high US \$ 21 billion in May 2016 which can finance 5 months import bill. This improvement in external sector was critical in maintaining exchange rate (*the value of dollar in rupees*) stability during the year.
- The industrial sector during FY 2016 recorded a remarkable growth of 6.8% against the target of 6.4% and is all time high in the last eight years. This was supported by the continuous improvement in electricity and gas supplies which also recorded an impressive growth of 12.18%. The construction activities also recorded an impressive growth of 13.10%. The construction related activities will gain further momentum on the back of increasing public sector development spending coupled with infrastructure and power sector development program under CPEC (*China Pakistan Economic Corridor*). The large-scale manufacturing sector (*which produces fertilizers, automobiles, cement, chemicals, pharmaceuticals and rubber etc.*) which contributes 80% in manufacturing and 51.8% in industrial sector also shown impressive growth of 4.70% during the July- March FY 2016 compared to 2.81% of last year.
- The construction sector also supported related industries like paints, varnish, steels, bricks etc. The hotel business is high, huge global standard shopping malls are coming up. Many skilled and semi-skilled daily wage workers are now engaged in the construction sector as compared to the past. The unemployment rate has decreased from 6.2% in FY 2013 to 5.9% in FY 2015.
- The capital market (*Pakistan Stock Exchange*) reaching historical levels is another sign of investor's interest in Pakistan's economy. Pakistan stock exchange is showing a remarkable performance. Many companies of the world are interested in investment in Pakistan, particularly in power, energy, oil and gas, automobiles and textile sector. There is continuous uptick in FDI (*an investment made by one individual or a company into other country*) and with CPEC investment program it will further gain momentum going forward.
- The increase in credit (*bank loans*) to private sector remained remarkably strong, which helped the industrial, food, beverage, textiles, electricity & construction sectors. A welcome development is the rise in fixed investment (*purchase of plant and machinery*) as well working capital. Many firms are availing credit for expansion of their businesses. Banking sector performance also remained strong and its solvency has been strengthened. These bode well for a brighter outlook for development.
- However, the important challenge is the decline in our export, particularly textile which to some extent moving but not to the level where it should be. The main reason attributed is the slowdown in Chinese economy resulted in

huge unsold stock of yarns and fabric and stiff competitive and limited demand created uncertainty in this sector. In India, their textile sector is also passing through the same phenomena. The yarn and fabric prices also declined noticeably in India. It may be noted that world cotton production declined by 15 percent as all major production areas except Australia saw declines and the four largest – India, China, United States, and Pakistan –fell sharply due to decline in prices. Central Asia, Turkey, Mexico and Greece likewise also showed significant production declines.

- On international level world economy is slow that is not growing at an impressive pace. According to the IMF's April 2016 World Economic Outlook due to weak aggregate demands (*Total demands of goods and services*) falling commodity prices and increasing market volatility (*variation of prices*) in major economies (*economies of developed countries*). The highest growing region is Emerging and Developing Asia where growth was estimated to attain 6.6 percent in 2015 and is forecast to decline to 6.4 percent in the current year. In this region, China's growth rate would go down from 6.9 percent to 6.5 percent in 2016.
- Although Pakistan's economy showed highest growth rate in the last eight years but still it could not achieve the set target of 5.5% due to low growth in agricultural sector (-0.19%) mainly due to decrease in cotton, rice and maize production. However, the industrial sector recorded the growth of 6.80% and Services sector progressed at the rate of 5.71%
- The industrial sector contributes 21.02% in GDP (*The value of total goods and services produced during the year in Pakistan*) recorded a growth of 6.80% as compared to 4.81% last year. Industrial sector performance shows that it has surpassed the targeted growth of 6.4 percent, which is an indicator that industrial revival is taking place on fast track. Industrial sector has four sub-sectors including mining & quarrying, manufacturing, electricity generation & distribution and gas distribution and construction. Manufacturing registered a growth of 5.00 % during this fiscal year as compared to 3.90% last year. Construction is considered as one of the potential components of industrial sector. This sector has recorded a growth of 13.10% against the growth of 6.24% last year. This sub sector has crossed the targeted growth of 8.5%. Mining and quarrying has recorded a growth of 6.80% against the growth of 3.97% last year. Electricity generation & distribution and Gas Distribution has registered a growth of 12.18 % during this fiscal year as compared to 11.98% growth last year.
- Services sector also met the planned target and has emerged as the most significant driver of economic growth and contributing a major role in the increase of economic growth (*an increase in goods and services per head of the population over a period*) in the country. The share of the services sector has increased from 56.6 percent of GDP FY 2009 to 59.16 percent in FY 2016. Services sector has witnessed a growth of 5.71 percent in this fiscal year as compared to 4.31 percent last year. Services sector performance remained broad based, as all components of services contributed positively, as Wholesale and Retail Trade grew by 4.57 percent, Transport, Storage and Communication by 4.06 percent, Finance and Insurance by 7.84 percent, Housing Services by 3.99 percent, General Government Services by 11.13 percent and Other Private Services by 6.64 percent.
- Per capita income (*the average income earned by a person in one year*) reflects average standards of living of people in the country. The per capita income in dollar terms has increased from \$ 1,516.8 in FY 2015 to \$ 1,560.7 in FY 2016. The contributing factors for the increase in per capita income include acceleration in real GDP growth, lower growth in population and stability of Pak rupee.
- Saving is a key determinant of achieving higher level of investment in the country. National savings (*National's income minus consumption and government spending*) increased to 14.6 percent of GDP in this fiscal year against 14.5 percent last year. Domestic savings (*savings of household, corporate sector and public sectors*) are recorded at 8.3 percent of GDP in this fiscal year as compared to 8.4 percent of GDP the last year. Net foreign resource inflows

finance the saving investment gap. It is essential for the sustainable growth that saving investment gap should be filled in a careful manner.

- Worker's Remittances is the largest source of foreign exchange earnings after exports. Pakistan is one of the largest labor exporting countries in the region. During July-April FY 2016, the remittances have reached to \$16.034 billion as compared to \$15.235 billion in same period last year, recorded a growth of 5.25 percent over the last year.
- Agriculture sector is a vital component of Pakistan's economy as it provides the raw materials to down the line industries and helps in poverty alleviation impact. This sector contributed 19.8 percent in GDP and it remains the largest employer absorbing 42.3 percent of the country's total labor force.
- During FY 2016, the performance of agriculture sector as a whole remained dismal as it witnessed a growth of (-0.19) percent against 2.53 percent growth during the same period last year. The growth of crops declined by 6.25 percent, while the other sub component of Agriculture sector like Livestock, Forestry and Fishing posted positive growth of 3.63 percent, 8.84 percent and 3.25 percent, respectively. The growth of sub Sector of crops included important crops, other crops and cotton ginning remained negative as it posted a growth of (-7.18) percent, (-0.31) percent and -21.26 percent which impacted negatively on crops. Important crops having a share of 23.55 percent in agricultural value added has witnessed growth of (-7.18) percent during FY 2016 against growth of (-0.52) percent during the same period.
- The Livestock sector having contribution of 58.55 percent in the agriculture recorded a growth of 3.63 percent during FY 2016 compared to 3.99 percent growth during the same period last year. The Fishing sector having contribution of 2.17 percent in agriculture value addition recorded a growth of 3.25 percent compared to 5.75 percent growth of last year. Forestry sector having contribution of 2.06 in the agriculture value addition posted a growth of 8.84 percent this year as compared to the negative growth of 10.43 percent last year.
- Large Scale Manufacturing (LSM) witnessed a growth of 6.8 percent during March 2016 as compared to growth 5.8 percent in the comparable period of last year. On average July-March FY 2016 LSM registered a growth of 4.70 percent as compared to 2.8 percent in the comparable period of last year.
- The industry specific data shows that most of the sub sectors recorded positive growth during the period July-March FY 2016 over corresponding period of last year i.e. Automobiles 23.43 percent, Fertilizers 15.92 percent, Leather Products 12.18 percent, Rubber products 11.68 percent, Non-Metallic mineral products 10.23 percent, Chemicals 10.01 percent, Pharmaceuticals 7.21 percent, Food Beverage and Tobacco 3.66 percent, Coke & Petroleum Products 2.40 percent and Textile 0.62 percent.
- The other sectors which recorded negative growth during the period under review are Wood Product declined by 58.03 percent, Engineering Products 17.64 percent, Electronics 9.98 percent, Iron & Steel Products 7.48 percent and Paper & Board 2.90 percent. In Automobile sector such as buses, LCVs (*Light carriage vehicles*) trucks and jeeps & cars registered growth of 81.95 percent, 68.53 percent, 41.68 percent and 29.73 percent, respectively. The only decline witnessed in the production of tractors which declined by 38.63 percent.
- The Mining and Quarrying sector grew by 6.8 percent in FY 2016 as against 4.0 percent last year. Calcite, Rock Salt, Phosphate, Marble, Gypsum, Dolomite, Soap Stone, Lime Stone and Natural Gas posted a positive growth rate of 123.79 percent, 65.16 percent, 53.96 percent, 50.50 percent, 47.57 percent, 33.28 percent, 26.10 percent, 23.19 percent and 1.49 percent. However, some witnessed negative growth rate during the period under review such as Magnesite 58.14 percent, Barytes 42.12 percent, Sulphur 37.18 percent, Crude oil 8.21 percent, Chromite 3.85 percent and Coal 0.66 percent.

- The fiscal sector (*government's revenues and spending*) has witnessed a notable improvement because contained expenditures and increased revenues. The budget deficit (*sum of revenue minus spendings*) has witnessed a substantial decline from 8.2 percent of GDP in FY2013 to 5.3 in FY2015 in response to the efforts taken by the government to reduce power subsidies together with raising tax revenues. During the current fiscal year. the fiscal deficit has been contained at 3.4 percent of GDP during July-March, FY2016 against 3.8 percent of GDP in the same period of last year. A fiscal deficit target for the FY2016 has been set at 4.3 percent which will be further brought down to 3.5 percent of GDP by FY2018.
- Similarly, overall tax-to-GDP ratio (*the ratio of tax collected to country's gross domestic product*) increased from 9.8 percent of GDP in FY2013 to 11.0 percent of GDP during FY2015. FBR tax revenues posted a growth of 14.9 percent during FY2015 and stood at 9.4 percent of GDP against 9.0 percent of GDP in the FY2014.
- 2016 has seen more expansion in credit (*bank loans*) to private sector due to monetary policy (*the process with which the SBP controls supply of the currency to ensure price stability and general trust in currency*) stance by SBP. SBP cut its policy rate (*the rate of interest at which the SBP lends money to other banks*) significantly to 5.75 percent in May 2016 which is the lowest in 44 years. The flows of Credit to Private Sector (CPS) have seen increase of 82.0 percent compared to the of 41.5 percent during same period last year. The flows of CPS stood at Rs.311.7 billion during Jul-06th May, FY2016 against Rs.171.2 billion in the same period of last year.
- Fiscal year 2015-16 has witnessed a significant and an overall steady rise in the stock market indices (*measure of share prices*) where historic and unprecedented levels are being crossed. During current year PSX (*Pakistan Stock Exchange*) 100-index reached 36,266.23 levels on 11th May, 2016, the highest level in Pakistan stock market history.
- The government remained successful in containing inflation (*general increase in prices and fall in value of the money*) at 8.62 percent in FY2014 and further to 4.53 percent in FY2015. Inflation during July-April FY2016 has been further contained at 2.79 percent, which is the lowest in 13 years. Food and non-food inflation have been estimated at 2.1 percent and 3.3 percent as compared to 3.6 percent and 5.7 percent in the same period last year.
- The overall external account balance (*the value of exports minus imports*) recorded US\$ 0.9 billion during July-April FY2016 compared to US\$ 2.1 billion during the same period last year, due low oil prices in international market and high flow of money from out of the country. The current account balance decreased by 17.7 percent during July-April FY2016 as compared to last year (US\$ 1.519 billion in FY2016 against US\$ 1.846 billion). The country's total foreign exchange reserves reached to highest level to US\$ 21.4 billion by May18, 2016, compared to US\$ 18.6 billion in end June 2015 Exchange rate remained at Rs.104.75 per US\$ in May FY2016, compared to Rs 101.78 per US\$ at end June 2015. The Pak Rupee's depreciation was around 2.9 percent during July-May FY2016.
- Public debt (*the money owed by the government of Pakistan*) was recorded at Rs. 19,168 billion as at end March 2016 registering an increase of Rs. 1,787 billion during first nine month of current fiscal year. Out of this total increase, increase in domestic debt was Rs. 1,200 billion while government borrowing from domestic sources for financing of fiscal deficit(the increase of government spending from its revenue) was Rs.786 billion.
- On the social side the literacy rate of population has increased to 60% in FY2015 as compared to 58% to FY2014. Literacy rate remains high in urban areas as compared to rural areas and higher among males as compared to females. Province wise data suggest that Punjab leads with 63 percent followed by Sindh with 60 percent, Khyber Pakhtunkhwa with 53 percent and Baluchistan have the lowest literacy rate of 44 percent.
- Pakistan continues to be the sixth most populated country in the world with an estimated population of 195.4 million. The population growth rate is 1.89 which is higher as compared to neighboring countries. The government

is aware of this issue and trying to tackle this issue of high population growth rate through introducing different programs.

- According to the Labor Force Survey 2014-15, Pakistan has 61.04 million labor force. Out of this labor force only 57.42 million people got employment and 3.62 million people are unemployed. Unemployment rate has decreased from 6.24 percent in 2012-13 to 5.9 percent in 2014-15. The total labor force working in the agricultural sector decreased from 43.7 percent in 2012-13 to 42.3 percent in 2014-15. In manufacturing sector the labor force participation rate has increased from 14.1 percent in 2012-13 to 15.3 percent in 2014-15.
- The government is aware of its responsibilities to increase energy supply, provision of better communication and transportation facilities. And to alleviate the poverty by improving the living standard of the masses.

This document contains comments, which represent our interpretation and point of view, and it is recommend that while considering their application to any particular case, reference be made to the specific wordings of the relevant statutes.

Further we accept no responsibility or liability for any losses occasioned as a result of reliance on the information included in this document.

SOFTAX'S TEAM