



EY Ford Rhodes Budget Flash 2019

This document contains our brief comments on the proposed amendments introduced through the Finance Bill, 2019 in the fiscal laws of the country. Our detailed comments will follow in a separate document which will be released in due course. The comments in this document may not be taken to be our opinion on the proposed amendments.

Income tax

- The concept of 'filer' and non-filer' proposed to be completely abolished from the Income Tax Ordinance, 2001 (the Ordinance) and be replaced with 'person not appearing in the Active Taxpayers' List'. Tenth Schedule proposed to be inserted to provide complete framework for dealing with persons not appearing in the Active Taxpayers' List including rates of deduction / collection of tax, filing of returns, assessments etc. in order to forcefully bring them in the tax net.
- Major shift in taxation of gain on sale of immovable properties proposed. Exemption on capital gain to vary on the basis of holding period of open plots or constructed property. Normal tax rates to be applicable instead of reduced tax rates presently applicable.
- Purchase of immoveable property having fair market value of five million rupees or more and any other asset having fair market value of one million rupees or more, required to be transacted through banking channel. If done through any other mode than such asset not to be eligible for depreciation / amortization and the purchase price not to be recognized as cost at the time of computing gain on sale of such asset.
- The Bill has proposed amendments aimed to bring a substantial shift with respect to taxation of following income, whereby the tax collected / paid on such income is to be treated as minimum tax instead of final tax-
 - i. Income arising from commercial imports
 - ii. Income from profit on debt (other than a company)
 - iii. Income arising to a non-resident person on account of certain contracts and services
 - iv. Income arising from supply of goods
 - v. Income from execution of contracts except for a contract in respect of a sportsperson
 - vi. Commission income
 - vii. Income of CNG Stations



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In line with the above proposed amendments, the Bill proposes to omit Clause (94), Part IV of the Second Schedule providing for reduced rate of 2% on specified services and section 153(4A) relating to issuance of exemption certificate to such service providers.

It is also proposed to introduce rate of tax deduction at 4% for specified services as were mentioned in Clause (94). Further, rate of tax on transport services is proposed to be enhanced to 4% from 2%.

- Special procedures proposed to be introduced for small businesses, construction businesses, medical practitioners, hospitals, educational institutions and any other sector specified by the Federal Government.
- The threshold for non-questionable foreign remittance under section 111(4) proposed to be reduced to five million rupees in a tax year from the present threshold of ten million rupees.
- It is proposed that every person engaged in any business, profession or vocation shall obtain and display a business license as prescribed by the Federal Board of Revenue.
- Minimum threshold for non-chargeability of salaried individual is proposed to be enhanced to Rs.600,000. Further, the highest tax rate applicable on salaried individuals is proposed to be enhanced to 35%.
- Threshold for applicability of salary tax rates enhanced to apply to total income comprising of at least 75% salary income instead of present threshold of 50% salary income.
- The corporate tax rate for the tax year 2019 is 29% which was to be reduced by 1% on yearly basis upto 25%. It is now proposed to restrict such rate at 29% for tax year 2019 and onwards.
- Reduced rate of 7.5% applicable on dividend received from power companies is proposed to be enhanced to 15%.
- The taxpayers governed under the Fourth, Fifth, Seventh and Eighth Schedules, will also not take benefit of brought forward depreciation and business losses while computing super tax.
- Any amount or fair market value of any property received without consideration or received as gift, is proposed to be chargeable to tax as 'other income' in the hands of the recipient except for the gift received from grandparents, parents, spouse, real brother, real sister, son or a daughter.
- Rate of tax credit under section 65B of the Ordinance for investment in plant and machinery for balancing, modernization and replacement is proposed to be retrospectively reduced to 5% for the tax year 2019. The period for investment in plant and machinery for availing tax credit is also to be curtailed to 30 June 2019 from 30 June 2021.
- Criteria for 'resident' individual proposed to be extended to include an individual present in Pakistan for an aggregate period of ninety days or more in a tax year and who has been in Pakistan for an aggregate period of three hundred and sixty-five days or more in four years preceding the tax year.
- Monitoring of withholding tax proceedings concluded under section 161 of the Ordinance may be amended or further amended by the Commissioner Inland Revenue after providing an opportunity of being heard.
- Penalties for various offences under the Ordinance are proposed to be substantially enhanced. In addition, certain new penalties are proposed to be introduced for various offences.



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- Where the return of income is filed after the due date, the name of the person filing such return is proposed to be included in the Active Taxpayers' List, if the taxpayer pays the prescribed surcharge.
- Section 227C of the Ordinance, providing restrictions for non-filers on registration of new locally manufactured or imported motor vehicles and purchase of immovable property is proposed to be deleted.
- Currently, where life of an intangible asset is not ascertainable, the same is treated as having a useful life of ten years and amortized accordingly. The Bill proposes to enhance such useful life to twenty five years. It is also proposed to exclude self-generated goodwill from the ambit of intangible assets eligible for amortization.
- The date of filing of return of income for salaried individuals is proposed to be aligned with the due date prescribed for other individuals i.e. 30 September instead of 31 August.
- The rate of adjustable withholding tax on royalty payable to a resident person is proposed at 15% of the gross amount.
- The Bill proposes to introduce mechanism for issuance of income tax refunds by the FBR through promissory notes / bonds to be issued by FBR Refund Settlement Company Limited.
- The general rate of minimum tax on turnover under section 113 of the Ordinance is proposed to be increased to 1.5%.
- The Bill proposes to seek a new proviso in clause (99A) whereby profit and gains on sale of immoveable property to a rental REIT Scheme shall be exempt from tax upto 30 June 2021. Previously, this exemption was available on profit and gain on sale of immoveable property to a developmental REIT Scheme, which is upto 30 June 2020.
- Currently, reduction of tax rate @ 40% is available for a full time teacher or a researcher who is employed in a non-profit education or research institution duly recognized by the Higher Education Commission (HEC), a Board of Education or a University recognized by the HEC including government training and research institution. The Bill proposes to reduce the rate of rebate to 25% from 40% as well as withdrawal of this rebate to teachers of medical profession who derive income from private medical practice or who receive share of consideration from patients.
- The Bill proposes to withdraw the initial allowance on building available at the rate of 15%.
- The Bill proposes to insert a new Rule 6E in the Fourth Schedule, whereby the Commissioner is empowered to examine and amend the amount of income as disclosed in the financial statements presented to the Securities and Exchange Commission of Pakistan with respect to commission paid and claim for losses.

Sales tax

- The term 'Cottage industry' is sought to be re-defined as a manufacturer located in a residential area with less than ten workers and annual turnover upto two million rupees without having industrial gas and electricity connection.
- The term "retail price" is proposed to include the price fixed by an importer in case of imported goods.



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- The value of supply in case of toll manufacturing is defined as actual consideration received by the toll manufacturer for its value addition.
- The sales tax on bricks is proposed to be levied under fixed sales tax regime by introducing Tenth Schedule in the Act.
- The rates for withholding/deduction of sales tax by withholding agents are introduced under the newly inserted Eleventh Schedule to the Act.
- Tier-1 retailer inter-alia includes a retailer whose shop measures 1,000 sq.ft. or more.
- The Tier-1 retailers shall pay sales tax at the applicable rates and will no more have option to pay sales tax on turnover basis or at the rates specified in SRO 1125.
- Customers of Tier-1 retailer may receive cash back up to 5% of the sales tax paid on their purchases.
- The regime of value addition tax on imports inserted with some modifications by introducing the Twelfth Schedule to the Act.
- NIC number of un-registered buyer to be mentioned on the sales tax invoice; otherwise, related input tax adjustment shall not be available on pro-rata basis.
- The Board may relax the limit of input tax adjustment from 90% to 95%.
- Audit of records of a registered person may be conducted in each year.
- The sales tax return may be revised without permission of the Commissioner subject to the condition that the revised return is filed within sixty days and tax payable is higher than the already tax paid or refund claim is less than originally claimed.
- The Board may prescribe rules to initiate criminal proceedings against the Officials of Sales Tax.
- The penalty for non-filing of sales tax return is enhanced from Rs.5,000 to Rs.10,000. Where return filing is not delayed more than 10 days, the penalty is increased from Rs.100 to Rs.200 for each date of default.
- Parameters for selection of sales tax audit by the Board to be kept confidential.
- The extra sales tax regime withdrawn and certain goods to be inserted into the Third Schedule subject to sales tax at retail price.
- The sales tax exemption on certain items including silver and gold, electricity and gas supplied to hospitals, frozen meat and sausages sold in retail packing, fat filled milk sold in retail packing withdrawn.
- New exemptions introduced in the Sixth Schedule on supply of electricity and other goods including import of plant and machinery to Tribal areas, import or supply of steel products by the manufacturers on which FED is levied under sales tax mode and local supplies of Cottonseed oil and Wheat Bran.



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- Reduced rate of sales tax proposed to be withdrawn from Eight Schedule on reclaimed lead, rapeseed, sunflower, canola, soya been seed and white crystalline sugar.
- Reduced rate of sales tax to be levied on the following goods under the Eighth Schedule to the Act:
 - i. Products of milling industry sold in retail packing
 - ii. Fat filled milk
 - iii. Silver and Gold in unworked condition
 - iv. Articles of Jewelry
 - v. Prepared food and food stuff supplies by restaurants, bakeries, caterers and sweetmeat shops
 - vi. Ginned cotton
 - vii. Finished articles of textile made-ups and leather supplied by the retailers
 - viii. LNG imported for servicing CNG sectors and local supplies
- The rate of sales tax on handsets proposed to be revised.
- The list of sales tax on services levied under Islamabad Capital Territory (Tax on Services) Ordinance, 2000 expanded in lines with the provincial sales tax laws.

Federal Excise Duty

- Duty on supply of steel products proposed to be charged at 17% ad valorem in sales tax mode which shall not be less than the duty on production of steel products as prescribed in newly inserted Fourth Schedule.
- The Board may prescribe rules to initiate criminal proceedings against the Officials of Federal Excise.
- The rate of duty on edible and vegetable ghee and cooking oil proposed to be increased from 16% to 17% and fixed duty on import of oil and oil seeds withdrawn.
- The rate of duty on certain kinds of aerated water proposed to be increased from 11.5% to 14%.
- The duty on un-manufactured tobacco shall be borne by the manufacturer and not to be passed on to grower.
- The rate of duty on locally produced cigarettes is proposed to be increased.
- The rate of duty on cement is proposed to be increased from Rs. 1.50/ kg to Rs. 2/ kg.
- The rate of duty on LNG proposed to be levied at Rs. 10/MMBTU in place of Rs. 17.8/100 cubic meter.
- The rate of duty on locally manufactured/assembled motor vehicles is proposed to be levied at the rate of 2.5% upto 1000cc, 5% from 1001cc to 2000cc and 7.5% on 2001 cc and above. Presently, vehicles of engine capacity of 1700cc and above are subject to duty.
- The duty is proposed to be levied on fruit juices, syrups and squashes at the rate of 5% of the retail price.



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- The rate of duty on domestic air travel proposed to be reduced from Rs.2,000 to Rs.1,500 for long routes and Rs.1,250 to Rs.900 for short routes.
- The exemption of duty on internet services is proposed to be withdrawn while the exemption on broadband is proposed to be restricted to terrestrial broadband.

Customs

- To boost exports and to secure domestic manufacturing sector, duties on more than 1,600 tariff lines are proposed to be exempted or reduced which includes raw material and intermediaries goods for textile and paper sector, wooden furniture, home appliances industry, solar panel assemblers, chemical industry, pharma industry etc.
- Duty on import of LNG is proposed to be levied at the rate of 5%.
- Additional custom duty on non-essential and luxury items are proposed to be enhanced.
- Regulatory duty on mobile phones and tyres are proposed to be reduced.
- Goods are proposed to be confiscated in case the value of imports or exports are mis-declared for illegal transfer of funds abroad.
- Refund of duties are proposed to be subject to pre-audit.
- The period of declaration of goods by the owner for home consumption, warehousing and transshipment is proposed to be reduced from fifteen to ten days.
- The clearance period of imported or exported goods is proposed to be reduced from twenty to fifteen days. The power to extend the period for further ten days also proposed to be reduced to five days.
- The period of warehousing of perishable goods proposed to be reduced from three to one month.
- Risk Management System shall be introduced by the Customs Authority to enforce customs controls for managing risks and ensuring compliance.
- The power of the Collector of Customs to determine the value is proposed to be withdrawn and restricted to the Director of Customs valuation.
- The power to issue show cause notice in respect of non-levied or short-levied duty is proposed to be extended to exporters.
- Exports are proposed to bring within the ambit of provisional determination of liability by the Officer of Customs.
- Certain new penalties are proposed to be inserted.
- The Board may prescribe rules to initiate criminal proceedings against the Customs Officials.



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- Monetary threshold limits of the Officers of Customs for adjudication are proposed to be re-defined.
- Option to pay fine in lieu of confiscation of goods on import and export of prohibited or restricted goods to be extended to violation of other provisions of the Act.
- The time limit for passing an Order by the Collector (Appeals) is proposed to be reduced from 120 days to 90 days.
- Procedure for constitution of the Appellate Tribunal is proposed to be modified.
- Powers and procedures of ADRC are proposed to be modified.

This Budget Flash is correct to the best of our knowledge and belief at the time of its publication. It is intended to provide only a general outline of the proposals announced in the Federal Budget. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. The Firm and Ernst & Young do not accept any responsibility for any loss arising from any action taken or not taken by anyone using this publication.