



KPMG Taseer Hadi & Co.
Chartered Accountants

Budget brief 2019

An economic and tax commentary



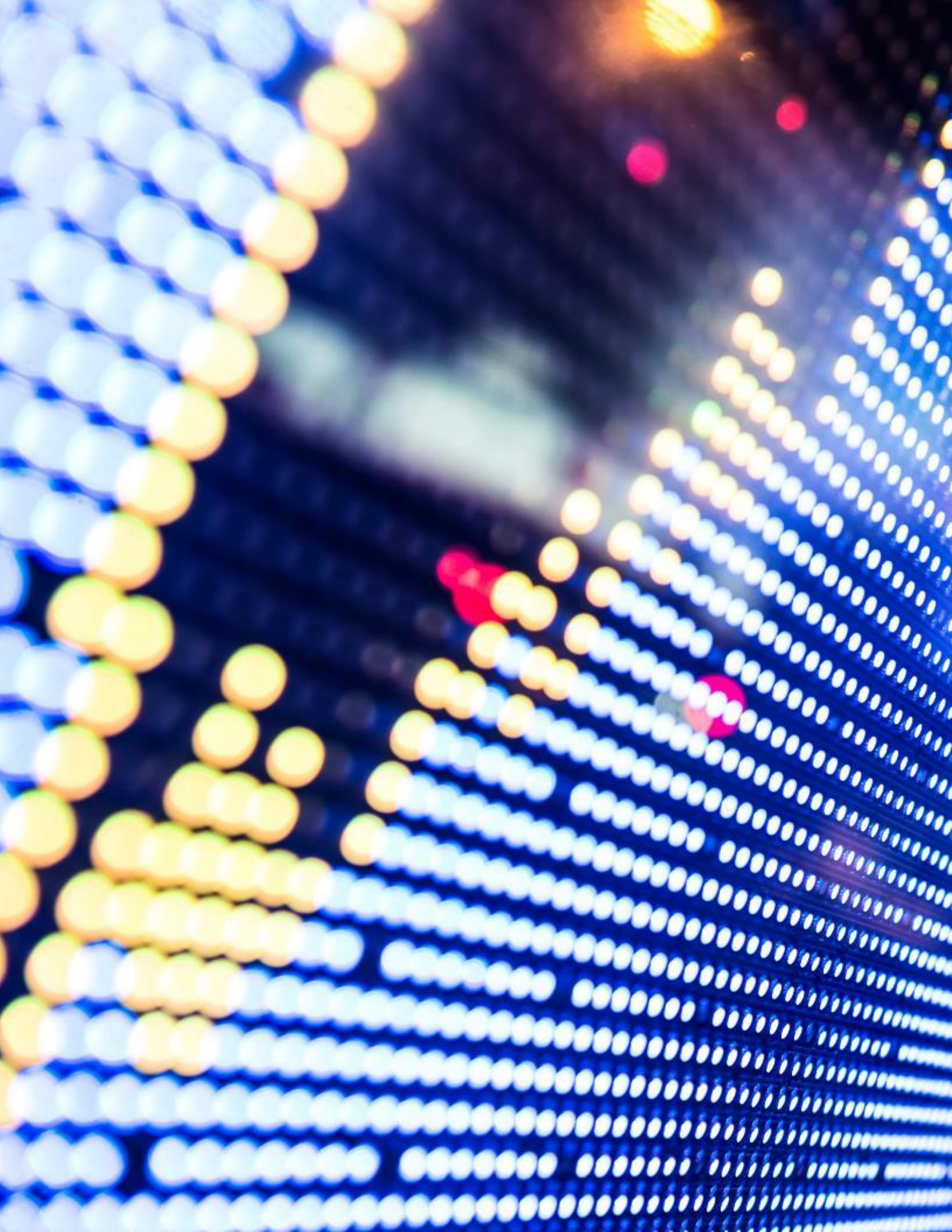
The budget brief 2019 contains a review of the economic scenario and highlights of the Finance Bill 2019 as they relate to direct and indirect taxes and certain other fiscal laws.

The provisions of the Finance Bill 2019 are generally applicable from 01 July 2019, unless otherwise specified.

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

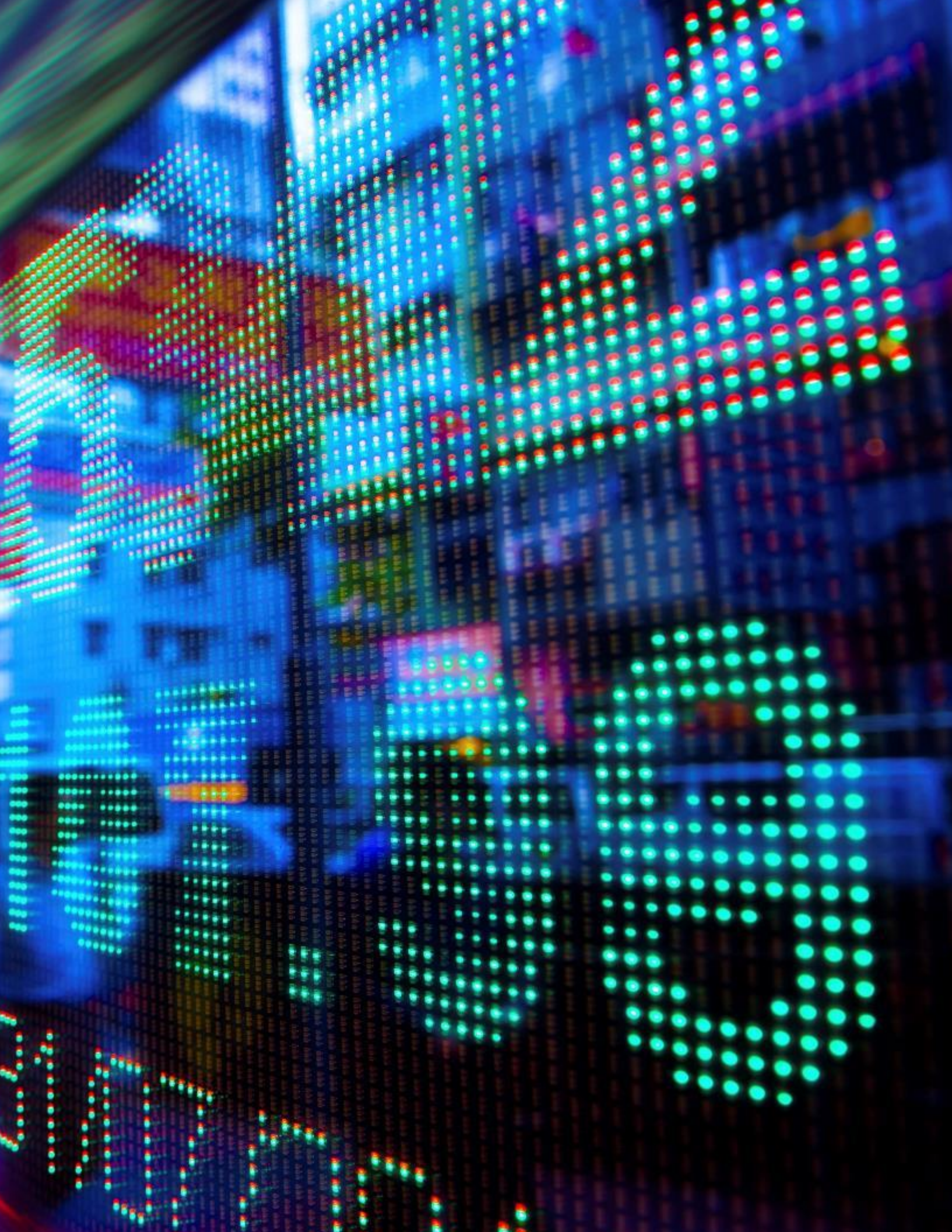
This publication will be updated, after enactment of the Bill, to provide comments on enacted provisions, including changes in the proposals contained in the Bill, the update will be posted on our website www.kpmg.com.pk subsequent to the enactment of Finance Act, 2019.

12 June 2019



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Budget at a Glance

	Budget Estimate 2018-19	%	Revised Estimate 2018-19	%	Budget Estimate 2019-20	%
------(Rupees in billion) -----						
Revenue						
Tax Revenue	4,889	86.4	4,394	87.3	5,822	86.7
Non Tax Revenue	772	13.6	638	12.7	895	13.3
	5,661	100.0	5,032	100.0	6,717	100.0
Less: Provincial Share	2,590	45.8	2,463	48.9	3,255	48.5
Net Revenue	3,071	54.2	2,569	51.1	3,462	51.5
Expenditure						
Development	1,068	20.4	922	16.5	843	12.0
Current	4,179	79.6	4,661	83.5	6,193	88.0
	5,247	100.0	5,583	100.0	7,036	100.0
Deficit	2,176	45.8	3,014	48.9	3,574	48.5
Funded by						
Capital Receipts	533	24.5	1,076	35.7	833	23.3
Domestic Debt - Banks	1,015	46.7	1,356	45.0	339	9.5
External Debt	342	15.7	308	10.2	1,829	51.2
Privatization Proceeds	-	-	-	-	150	4.2
Surplus from Provinces	286	13.1	274	9.1	423	11.8
	2,176	100.0	3,014	100.0	3,574	100.0



Economic Analysis

Macroeconomic Indicators

	Budget 18-19	Revised 18-19	Budget 19-20	Forecast 20-21	Forecast 21-22
Real GDP Growth (%)	6.2	3.3	2.4	3.0	4.5
Inflation (%)	6.0	7.2	11-13	8.3	6.0
	(as percentage of GDP)				
Total Revenue	16.3	14.5	16.7	18.3	19.2
Tax Revenue	13.9	12.6	14.4	16.0	17.0
FBR Tax Revenue	11.6	10.8	12.6	14.2	15.1
Non Tax Revenue	2.4	1.9	2.3	2.3	2.2
Total Expenditure	21.2	21.7	23.8	23.4	22.8
Current	16.5	18.3	20.2	19.7	19.0
Development	4.7	3.4	3.6	3.7	3.8
Fiscal Balance	-4.9	-7.2	-7.1	-5.1	-3.6
Revenue Balance	-0.2	-3.8	-3.6	-1.4	0.2
Total Public Debt	68.0	77.7	77.6	75.2	70.6
GDP at market prices (Rs. In billions)	38,388	38,559	44,003	49,568	55,380

Source: Budget Brief 2019-20

GDP Growth

	18-19 (Jul-Mar) (P)	17-18	16-17	15-16	14-15	13-14	12-13	11-12	10-11	09-10
Nominal GDP US\$ billion	291	315	305	279	271	244	231	224	214	177.0
Nominal GDP Rs. billion	38,559	34,619	31,922	29,076	27,443	25,168	22,385	20,047	18,276	14,867
Real GDP Growth %	3.3	5.8	5.3	4.6	4.1	4.1	3.7	3.8	3.6	2.6
Sectoral GDP Growth %										
Agriculture	0.85	3.8	2.7	0.2	2.1	2.5	2.7	3.6	2.0	0.2
Industry	1.4	5.8	5.4	5.7	5.2	4.5	0.7	2.6	4.5	3.4
Services	4.71	6.4	6.5	5.7	4.4	4.5	5.1	4.4	3.9	3.2
Sectoral Share in GDP %										
Agriculture	18.5	19.0	19.3	19.8	20.7	21.1	21.4	21.6	21.7	22
Industry	20.3	20.6	20.8	20.9	20.7	20.5	20.3	21.0	21.2	21.0
Services	61.2	60.4	60.0	59.3	58.6	58.4	58.2	57.4	57.1	56.9

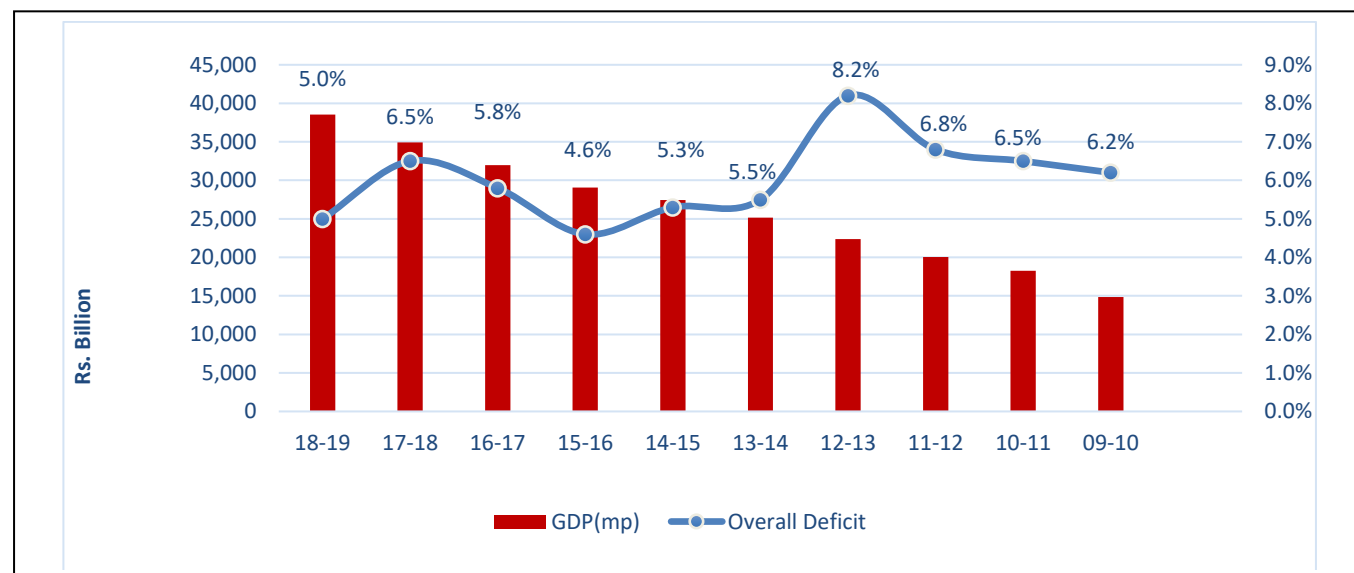
Source: Pakistan Economic Survey 2018-19

Public Debt

	18-19 (Mar) (P)	17-18 (P)	16-17	15-16	14-15	13-14	12-13	11-12	10-11
Public Debt (Rs. billion)	28,608	24,953	21,409	19,677	17,380	15,991	14,292	12,697	10,770
Domestic	18,171	16,416	14,849	13,626	12,193	10,907	9,521	7,638	6,014
Foreign currency	10,437	8,537	6,560	6,051	5,187	5,084	4,771	5,059	4,756
Public Debt (% of GDP)	74.2	72.1	67.0	67.6	63.3	63.5	64.0	63.3	58.9
Domestic	47.1	47.4	46.5	46.8	44.5	43.4	42.5	38.1	32.9
Foreign currency	27.1	24.7	20.5	20.8	18.8	20.1	21.4	25.2	26.0

Source: Pakistan Economic Survey 2018-19

Overall Deficit



Source: Pakistan Economic Survey 2018-19
Budget Brief 2019-20.

Social Indicators

	18-19 (Mar)P	17-18	16-17	15-16	14-15	13-14	12-13	11-12	10-11	09-10
Population (millions)	212.8	207.8	199.1	195.4	191.71	188.02	184.35	178.9	175.3	171.7
Unemployment rate (%)	5.8	5.9	5.9	5.9	5.9	6.0	6.2	6.0	6.0	5.5
GNP per capita – US\$	1,497	1,652	1,630	1,529	1,514	1,389	1,334	1,320	1,274	1,072
Total investment - % of GDP	15.4	16.7	16.2	15.7	15.71	14.65	14.96	15.08	14.1	15.8
National Savings - % of GDP	10.7	10.4	12.0	13.9	14.7	13.4	13.9	13	14.2	13.6

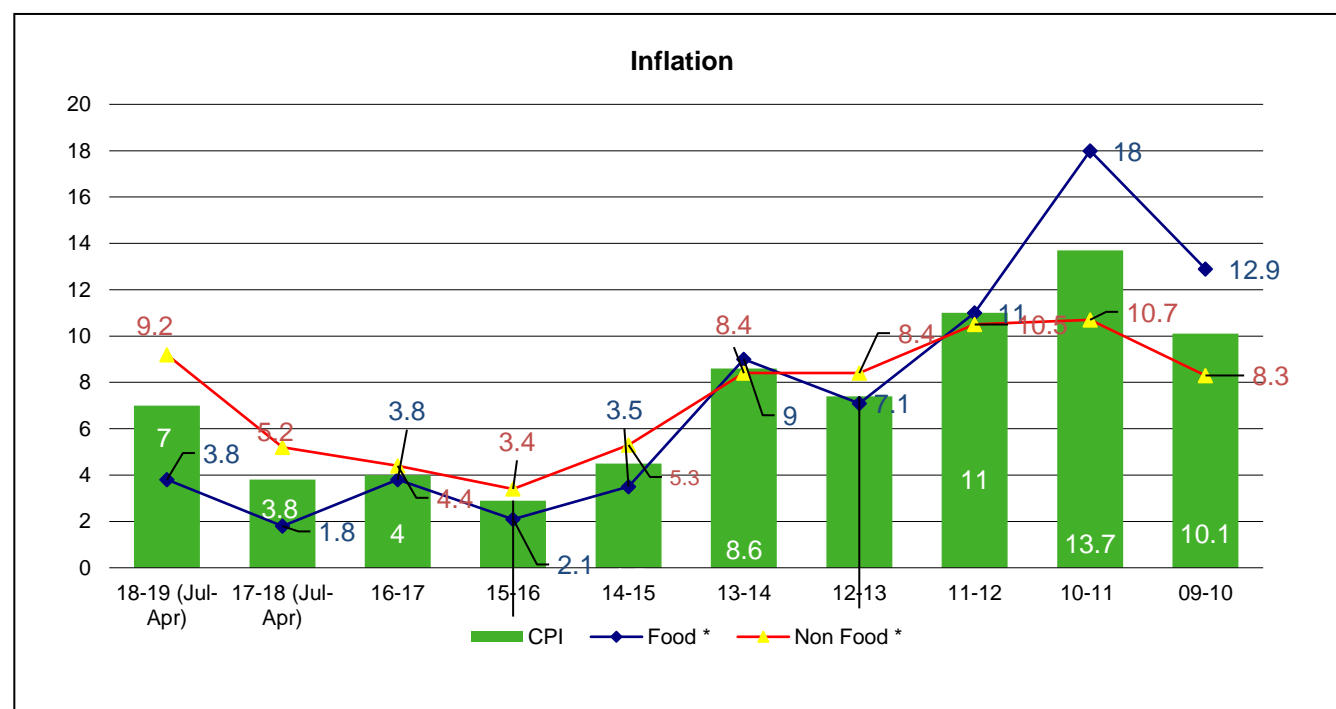
Source: Pakistan Economic Survey 2018-19
Unemployment rate not given from 2014-15 to 2017-18

Exchange Reserves

	18-19 (April)	17-18	16-17	15-16	14-15	13-14	12-13	11-12	10-11	09-10
Exchange reserves (US\$ billion)	15.7	17.3	21.4	23.1	18.7	14.1	11.0	15.3	18.2	12.2
Imports Cover (months)	3.5	3.5	4	7.9	4.9	3.7	2.9	4.4	5.0	4.2
Rupee to USD parity	140.7	121.5	104.8	104.8	101.8	98.8	99.7	94.5	86.0	83.8

Source: Pakistan Economic Survey 2018-19

Inflation



Source: Pakistan Economic Survey 2017-18



10/02

Economic Scenario

Going into the final stretch, the sitting government, despite substantial gains in various areas, specifically load shedding, and a 13 year record GDP growth of 5.79%, struggles with the nemesis of twin deficits; which only proves the dictum that it is, and will always be, all about the economy. National security, national defense, sovereignty, social cohesion, political evolution, provincial autonomy and general stability are all dependent on a strong and stable economy. Even in normal circumstances, financial dependency unequivocally marginalizes the ability to negotiate game changing opportunities, let alone in a crisis; the looming threat of being black listed by FATF might only make the situation worse.

In the previous year's commentary, we had tabled concerns that the earlier exceptional macro level gains may not have been sufficiently robust enough to stimulate the micro economy. Regrettably, economics is not an exact science; while economic indicators can raise red flags, it is near to impossible to exactly predict the timeline for any financial storm. In fact, absolute reliance on one indicator for growth might even be misleading; while the domestic economy has taken off, going forward the external economy can potentially have ominous repercussions for the overall economic situation. These concerns have been explicitly raised in recent views on Pakistan's economy at the international level.

"Economic growth has continued to strengthen. Improved energy supply, investment related to the China-Pakistan Economic Corridor, strong credit growth, and continued investor and consumer confidence, have been underpinning growth, which could reach 5.6 percent this fiscal year within a favorable inflation environment. Yet, macroeconomic stability gains achieved during the 2013–16 EFF have been eroding, putting this outlook at risk. The current account deficit has been quickly widening, reflecting strong domestic demand amid an overvalued exchange rate, fiscal slippages, and an accommodative monetary policy

stance. As a result, foreign exchange reserves have been declining, reaching 2.3 months of imports as of mid-February 2018, despite significant external borrowing. Net international reserves have declined from \$7.5 billion at the end of the EFF to negative \$0.7 billion in mid-February 2018. As a result of fiscal slippages in FY 2016/17, debt-related vulnerabilities have increased"- International Monetary Fund, Executive Summary, First Post-Program Monitoring Discussions, March 2018.

This IMF Country Report 18/78 includes the following key indicators for Pakistan, past, present and projected.

		2014/15	2017/18	2019/20	2022/23
Real GDP at factor cost	% change	4.1	5.6	4.9	5.0
Consumer prices (average)	% change	4.5	5.0	5.0	5.0
Gross National Savings	% of GDP	14.7	12.2	12.4	13.2
Current Account Balance	US\$ billions	(2.7)	(15.7)	(15.4)	(17.4)
Balance on goods, service and Income	US\$ billions	(24.74)	(39.58)	(41.87)	(46.70)
Worker's remittance	US\$ billions	(18.72)	(19.63)	(22.24)	(24.88)
External Debt	US\$ billions	(65.08)	(93.27)	(114.12)	(144.95)
Gross International Reserves	US\$ billions	13.5	12.1	9.5	7.0
Gross external financing requirements	US\$ billions	9.1	24.5	33.8	41.2

To say the projected numbers are worrisome might perhaps be an understatement. While IMF projects that going forward, GDP growth might be maintained around 5%, the external economy is expected to have a crippling overall effect. Perhaps, even controlling inflation might become a challenge, and may exceed estimates of 5%, considering the envisaged pressure on the rupee due to the external imbalance. How will we finance US\$ 33.8

billion in 2019/20 is a bigger mystery. Ironically, IMF projects that Gross International Reserves will collapse to US\$ 7 billion only by 2022/23; just 5 years down the road. Rationally, we assume that IMF has factored in gains from CPEC in its projections, which all the more raises concerns.

“However, as growth picked up, imbalances re-emerged on the internal and external front. On the domestic side, fiscal pressures increased. After having fallen significantly till FY16, the consolidated fiscal deficit widened (excluding grants), reaching 5.8 percent of GDP, compared to 4.6 percent in FY16. A less-than-satisfactory tax collection effort by the center and the provinces, combined with an unprecedented increase in development spending, led to this slide. The provinces have posted fiscal surpluses over the past few years, but these turned into a deficit of 0.5 percentage point of GDP in FY17. On the external side, the current account deficit widened substantially. The trade deficit widened as imports surged and exports declined marginally. While structural issues have caused a long-term decline in Pakistan's export competitiveness, exchange rate flexibility remains critical to supporting competitiveness. Furthermore, international remittances, which have been resilient to previous international and domestic shocks, declined. As a result, Pakistan's official reserves fell to US\$16.2 billion at the end of FY17 compared to a high of US\$18.1 billion at the end of FY16- enough to cover imports for 3.1 months”- Pakistan Development Update, The World Bank, November 2017.

“Other factors that drive Pakistan's sovereign credit rating are its relatively weak fiscal profile and high susceptibility to event risk. The score for fiscal strength is set at “Very Low (-)” to reflect our assessment of the country's narrow revenue base, which hinders debt affordability and increases the debt burden. In particular, Pakistan's limited tax base restricts its fiscal space, while low savings and shallow capital markets hinder stable domestic financing of sizeable budget deficits. The material

foreign currency portion of outstanding government debt (approximately 30.6% of general government debt as of the end of 2017) also exposes the government's balance sheet to foreign exchange risk”- Moody's Investor Service, Credit Opinion, 20 March 2018, Government of Pakistan- B3 Stable.

Pakistan seemingly, today, is a tale of two economies, domestic and external; albeit distress in the one will invariably, eventually, impact the other. The reverberations can already be felt vis-à-vis the recent devaluation of the rupee in 2018, which currently trades at around Rupees 119=US\$ 1. Going forward the State Bank of Pakistan, to manage the exchange rate, will require more dollars, which is dependent upon the ability of the government to borrow more, pursuant to an out of control trade deficit and depleting foreign exchange reserves. Any further rupee devaluation can spark inflation resulting in adverse consequences for the domestic economy.

Going forward, there is perhaps a need to revisit our singular reliance on GDP growth. GDP as an indicator of economic growth, especially for developing economies, is at best a distraction and at its worst, an impostor. The proof of these assertions lies in Pakistan's own experience; with GDP growth improving from 3.5% in 2012 to around 5.79% in 2017 we continue to face economic challenges. For the record our GDP growth for 2006 stood at 6.17%.

In general, knowledge about and understanding of GDP, critically its components (Consumption +Investment +Net Exports + Government expenditure), is scarce. For instance if the government borrows and increases spending, which in substance may well have risks for the economy, it will on the other hand result in GDP growth; essentially Pakistan's recent experience. Further a GDP growth of say 4% brought about by increase in net exports, is qualitatively far better than a 6% growth brought about by consumption; again in Pakistan's case approximately more than

90% of GDP is consumption based with exports in the red, our imports are way more than our exports.

Additionally, an absolute focus on growth, Keynesian style, is not without perils. Development expenditure had increased considerably over the last few years but so has debt servicing. Currently, federal revenue receipts are only sufficient to cover debt servicing and the defense budget; the situation might further deteriorate in the coming year. All other expenditures are met through borrowings; capital receipts, in substance, primarily are in the nature of borrowings. Hence it is not surprising that Pakistan's total debt and liabilities increased to Rs 26.8 trillion at 31 December 2017; current figures are not available at SBP website. And this does not include circular debt which is currently estimated by certain analysts at Rs 900 billion. At June 2013, Pakistan's total debt and liabilities stood at Rs 16.3 trillion, with zero circular debt.

Undoubtedly, the component of GDP which does requires an obsessive government focus is net trade. To say we have been underperforming over the last decade in external trade is perhaps an understatement. Notably, every time you import, you are exporting jobs. This dictum works for FDI as well, since management jobs are retained by the foreign investor and all profits get remitted outside Pakistan.

Beyond loss of jobs, trade deficits need to be financed. Pakistan's external debt and liabilities, included in total debt above, stood at US\$ 88.89 billion at 31 December 2017; current figures are not available at SBP website. To clarify at June 2013 external debt stood at US\$ 60.9 billion with official liquid reserves at US\$ 6 billion; official liquid reserve at 31 December 2017 stand at US\$ 14.3 billion. Over the last four and a half years, whilst official reserves have increased by US\$ 8.3 billion, debt has gone up by US\$ 28 billion.

Considering we continue to run high twin deficits, budget and trade, it can be concluded that we might well be in a debt trap.

We feel it is also important, at this stage, to clarify certain misconceptions generally associated with exports and imports.

EXPORT RECEIPTS BY COMMODITY (Thousand US Dollar)				
Commodity	FY08	FY13	FY17	FY18 P (July - Feb)
	Amount (Thousand US Dollar)			
A. Food Group	2,587,775	4,142,290	3,611,952	2,766,429
B. Textile Group	10,354,218	12,832,240	12,453,506	8,851,323
C. Petroleum Group	1,330,786	677,014	410,718	386,255
D. Other Manufacture	3,399,937	4,658,544	3,654,627	2,709,961
E. All Others	809,598	1,383,023	1,218,618	886,480
less: Freight on Export	359,200	563,079	196,042	169,627
add: Other Exports	2,324,424	1,672,291	784,620	538,879
Total Export as per BOP	20,447,539	24,802,323	21,938,000	15,969,700

As evident from above, the Textile group is more than 50% of all exports, and coupled with the Food group, it would appear that Pakistan's exports are primarily agriculture based. We seem to have had limited success on the industrialization front.

IMPORT PAYMENT BY COMMODITY (Thousand US Dollar)				
Commodity	FY08	FY13	FY17	FY18 P (July - Feb)
	Amount (Thousand US Dollar)			
A. Food Group	3,526,450	3,913,885	5,419,457	3,656,381
B. Machinery Group	5,749,967	4,013,689	7,910,007	5,725,909
C. Transport Group	1,199,524	1,706,876	2,643,253	1,965,627
D. Petroleum Group	10,496,045	14,065,724	10,606,793	8,619,953
E. Textile Group	1,820,656	2,563,063	3,968,310	2,446,283
F. Agri. & Other Chemical	5,111,673	6,322,737	7,122,563	5,289,077
G. Metal Group	2,314,723	2,441,535	3,785,646	3,050,667
H. Miscellaneous Group	742,934	879,871	1,195,983	848,230
I. All Others	3,128,180	3,413,796	4,628,874	2,949,570
less: Freight & Insurance	2,727,212	2,359,271	1,654,831	1,209,309
add: Other Imports	3,919,759	3,194,988	2,879,959	2,318,612

IMPORT PAYMENT BY COMMODITY (Thousand US Dollar)				
Commodity	FY08	FY13	FY17	FY18 P (July - Feb)
	Amount (Thousand US Dollar)			
Total Imports as Per BOP	35,282,697	40,156,892	48,506,014	35,661,000

As evident from the above, petroleum imports in the last ten years have not exceeded 35% of all imports and currently are under 25% of all imports; after the fall in international oil prices. Further even with CPEC, machinery and petroleum group imports have not exceeded worker's remittances in any year.

While we cautiously view the government decision vis-à-vis the domestic assets and foreign assets Amnesty schemes, announced just recently, to address the twin deficits, we are of the view that in isolation they might not completely address the problem. Tax collection and remittances relating to foreign monetary assets are expected to significantly reduce external financing requirements, and domestic amnesty can be expected to alleviate the fiscal burden; both resulting in transiting the informal economy to the formal. However, there is a need to take necessary steps to address future drainage; the stick with the carrot. In addition, unless, going forward, the trade deficit is significantly reduced; there is a risk that gains because of the twin amnesty may be floundered. Albeit at the time of writing this commentary, the fate of the twin amnesty schemes remains uncertain.

Invariably, the age old solution of investment in export oriented and import substitution industry remains the preferred option for Pakistan today. However investment, domestic predominantly and foreign, is dependent upon perceptions.

Index	2008	2013	2017
Ease of doing business	76/178	107/185	147/190
Global Competitiveness Index	92/131	124/144	122/137
Global Corruption Perceptions Index	134/180	127/177	117/180
World Press Freedom Index	152/173	159/179	139/180

Index	2008	2013	2017
Democracy Index	108/167	107/167	110/167
Fragile States Index	9/178	13/178	17/178

The above table of global rankings, despite positives, is perhaps less than encouraging. At the outset there is an urgent need to focus on improving the ease of doing business climate. That might even require a complete revamping of the taxation policy with a view to discourage trade and encourage investment in manufacture. There is an urgent need to strengthen domestic investment much more than pursuing the mirage of Foreign Direct Investment.

Regarding CPEC, we have maintained previously that it is indeed an opportunity of game changing dimensions. However, since information relating to CPEC, by and large, is not generally available in the public domain, it is perhaps impractical to comment upon the related benefits. Pakistan however needs to ensure that future exports receipts are sufficient to meet its obligations arising from the current costs of CPEC. Additionally concerns relating to export of domestic jobs, acquisition of national assets and unfair market advantages need to be monitored and proactively addressed.

We are conscious, that the underlying current in our economic scenario leads towards an anti-free markets regime, state capitalism, protectionism, import tariffs and more particularly planned industrialization. Albeit, adhering to the Washington consensus over the last decade and more has not borne desired fruitful results. Perhaps it is time to realize that a developing economy like Pakistan cannot flourish under an "A one fit all" doctrine. Every economy has its own intricacies which require varying economic strategies.

Unfortunately, the situation was never expected to improve in the election year in any case, especially on the fiscal front; which creates a paradox. Those vying for electoral success, don't appear to

understand, that whoever wins might well have to manage an economy rushing towards the Minsky moment; sudden collapse of asset pricing sparked by debt or currency pressures; in the case of Pakistan perhaps both, and the signs are arguably already there. While we remain optimistic that the situation is not irreversible, however remedies may include tightening of the belt; especially on the consumption front which has ran unbridled for a few years. Remains to be seen whether political manifestos will inform respective voters about the impending tough times.

We conclude with the message, that there is a need to do more, differently.



Highlights

Income Tax

- Simultaneously with substituting the definition of “Filers” with “Active Taxpayers list” (ATL) thereby eliminating the concept of “Non-Filers”, the Government appears to be moving towards targeting the informal sector. The Tenth Schedule provides for a framework whereby withholding agents will be required to collect taxes from persons not on ATL at rates specified in the Ordinance increased by 100%; albeit persons not required to submit an income tax return, subject to an order from The Commissioner, have been exempted. Where such tax is collected, the Commissioner shall proceed with a provisional assessment which will be treated as the final assessment unless the person files returns of income for the relevant year in the prescribed manner, within 45 days of the provisional assessment. Critically, under the provisional assessment the imputed income is to be treated as concealed income which therefore may be subject to further penal action. While we believe that this is a positive step, this can create untold hardships, especially, for the SME sector, should such action under the Tenth Schedule result in initiating proceedings related to previous years. Restricting any such action will encourage previously deemed non-filers to take this amendment positively.
- The Bill, most significantly, proposes to move towards finally doing away with the final tax regime; and hence towards progressive taxation which for us is a positive step. Withholding tax on imports, supply of goods, brokerage and commission, income of CNG stations, execution of construction, assembly and installation contracts and services related thereto, in the case of residents and non-resident, as applicable, will now be treated as minimum tax. Accordingly the final tax will be calculated on their taxable incomes. The minimum tax scheme will not apply to sale of

goods by manufacturing and listed companies; further income of all non-residents from rendering of services will fall under the minimum tax regime, without any option for reduced rates. Henceforth, the Commissioner will not be able to issue an exemption certificate against minimum tax. These steps will also move the economy towards documentation and perhaps competitiveness with consequent reduction in imports. In terms of contracts, we however propose that the change is made applicable in terms of contracts signed after 1st July 2019, to avoid complications. Further, FBR may need to be significantly strengthened for carrying out these additional assessments in a fair manner.

- The strategy to bring offshore assets of Pakistanis within the fold of domestic taxation continues, with The Bill moving towards defining the “Stick” in specific terms, after having provided the “Carrot” in the form of Amnesty Schemes. The penalty for offshore tax evasion is proposed at 200% of tax sought to be evaded, coupled with 7 years’ imprisonment in case of concealment or furnishing of inaccurate particulars; failing to file statement of foreign income and assets may result in imprisonment or fine equaling 2% of the value in undeclared offshore asset. Further any person assisting or advising on transactions to evade taxes on offshore assets, may also be prosecuted for imprisonment up to 7 years or fine equal to Rs 5 million, or both. Further the names of offshore evaders and offshore tax enablers may be published in the print and electronic media by FBR. The Commissioner is also being empowered to freeze domestic assets of persons leaving Pakistan where it is suspected that the person is involved in offshore evasion. While we support all efforts to identify offshore, or even undisclosed onshore assets, of resident Pakistanis for purposes of taxation we are of the view that draconian methods need not be employed, considering

the structural weaknesses in the taxation environment, which still need time for improvement. The argument that the Amnesty provided an escape hatch is debatable since it was not applicable across the board. We support a slow and steady prospective approach, as in the case of documenting the domestic informal sector. Empirical evidence supports our view, if unseen consequences are to be kept to the minimum.

- The State has finally decided to eliminate the final repository of the black economy; immovable property. The Bill proposes to determine capital gains on immovable property on the basis of market values, by and large, and further proposes to tax such gains at 35% if such property is sold within one year. In case the property is sold with 2 to 10 years of purchase, the tax rate is proposed to be 26.25%; no tax will be charged on plots sold after 10 years, and on constructed property sold after 5 years. Further, purchase of immovable property having a market value more than Rs 5 million, or any other asset having a value of more than Rs 1million, will now need to be affected through banking channels. Any noncompliance with payment through banking channel will result in penalty of 5% of fair value, non-allowance of depreciation and such amount will not be considered as cost for determining gain at the time of disposal. It is also being proposed that gifts of any property received from other than direct family members will be subjected to normal taxation as income from other sources. Undoubtedly, the land mafia, if the Government is successful in getting this amendment passed through the parliament, will try to devise ways and means to circumvent this proposal; flight of capital and consequent demonetization are perhaps amongst probable outcomes.
- Perhaps with a view to enhance private credit, it is proposed to tax additional income of banks from additional investments in Federal Government securities at the rate of 37.5% in accordance with a prescribed formula. However there seems to be a serious anomaly in calculating such advanced income in the Finance Bill, albeit clearer in the Salient Features, hence we reserve our further comments on this proposal at this stage.
- In the case of super tax, adjustment of brought forward depreciation and losses will not be available while computing total income, for banks, insurance companies and oil companies. Apparently this being done to bring these sectors in line with others, but perhaps with the intent to also enhance tax collection; notwithstanding that this may not have any impact in the case of banks.
- Rate of tax on income from profit on debt earned by individual and AOP is proposed to be enhanced to 15%, 17.5% and 20% on threshold not exceeding Rs. 5 million, Rs.25 million and Rs. 36 million respectively. Further, the Bill proposes to tax profit on debt exceeding Rs. 36 million under normal rates.
- The Bill seeks to disallow deduction in computing income from business in respect of any amount of commission paid or payable in excess of 0.2 percent of the gross amount of supplies unless the dealer is registered under the Sales Tax Act, 1990 and is appearing in the 'Active Taxpayers List'. The Bill proposes to disallow 75% of the dealer margin against income of a person making supply of specified products under the dealership arrangement, in case, the dealer is not registered under the Sales Tax Act, 1990 and is not appearing in the 'Active Taxpayers' List'. Further for purposes of this section 10% of sale price of the manufacturer shall be treated as dealer's margin.

- Initial allowance of 15% currently available in case of buildings is to be abolished.
- The Bill seeks to enhance the normal useful life of intangibles, which does not have an ascertainable useful life, from 10 years to 25 years. The Bill seeks to exclude self-generated goodwill or any adjustment arising on account of accounting treatment in the manner as may be prescribed from the definition of 'intangibles'.
- New tax credit up to 5% of taxable income has been proposed for a person employing fresh graduates from a university or institution recognized by Higher Education Commission in respect of the amount of annual salary paid to such freshly graduates in a tax year in which they are to be employed. This tax credit would be available to number of freshly qualified graduates not exceeding 15% of the total employees of the Company. This is a positive step to enhance employment.
- Tax credit available to industrial undertaking on purchase of plant and machinery for the purposes of extension, expansion, balancing, modernization, and replacement is proposed to be restricted to 5% from 10% for the Tax Year 2019 after which this tax credit will not be available. However provision of carried forward of the credit shall be continue to apply after the Tax Year 2019.
- The Bill seeks to broaden the scope of 'resident individual' to include such persons who are present in Pakistan for a period of 90 days or more in a tax year and 365 days in aggregate during the four preceding tax years.
- Presently tax credit up to 100% is available to Non Profit Organizations, Trusts and Welfare Institution subject to certain conditions. The Bill seeks that Trusts and Welfare Institutions will also be required to obtain recognition from the Commissioner to avail 100% tax credit. This clause shall take effect from 01 July 2020 onwards. Further the Bill proposes to restrict the benefits of assets of trust or welfare institutions to the donor or family, children or author of the trust or dependents or the maker of the institution or any other person otherwise it would be added and taxed in the hands of the donor.
- The Bill seeks to empower Commissioner to obtain report from independent Chartered Accountant or Cost and management Accountant to determine the fair market value of asset, product, expenditure or service at the time of transactions. This report will be treated as definite information for amendment in assessment.
- The tax authority is being empowered to probe foreign exchange remitted from outside Pakistan through normal banking channel and credited into rupee account by a scheduled bank exceeding Rs. 5 million, earlier this threshold limit was Rs. 10 million.
- It is proposed that where any tax is payable by an association of person in respect of any tax year which could not be recovered from the association of person, the same may now be recovered from a person who is a member of the association of persons.
- At present, the rate of withholding tax on services is 8% /10% but for certain sectors this rate has been reduced to 2% of the turnover. The Bill proposes to omit the aforesaid reduced tax rate of 2% on services of these specified sectors. Further the withholding tax rate of 8%/10% is proposed to be reduced to 4% of the gross amount of turnover. Whereas the present rate of 2% for transport services is being proposed to be enhanced to 4% to bring it in line with other specified service sectors.

- Royalty payable to resident persons would be subject to deduction of adjustable tax at 15%.
- An option is proposed to be introduced to issue income tax refunds through bonds which will be redeemable after three years. The bonds will carry simple interest at 10% p.a. and these would be immune from deduction of Zakat. The bonds will be usable as collateral and further these will be freely tradeable in secondary markets. This has been proposed to address the issue of pending refund claims of taxpayers and to further bring it in line with the sales tax law.
- Based on reliable information, the Commissioner may raid any premises and confiscate undeclared gold, bearer security or foreign currency.
- After conducting tax audit, it would be mandatory for the Commissioner to issue audit report containing audit observations and findings.
- A person engaged in business, profession or vocation would be required to obtain a business license as prescribed by the Board.
- Penalty on various non-compliances of provisions of the law are proposed to be enhanced significantly. These include non-filing of return, non-filing of wealth statement, erroneous calculation in tax return, obstructing the access of tax authorities to premises and records, etc., default in deposit of withholding tax and concealment of income or finishing of inaccurate particulars of income. We are however of the view that this is an unnecessarily harsh approach and should at least be deferred for some years considering that the objective is to adopt the informal sector rather than eliminate this.
- A person filing tax return after due date would be included in active taxpayers' list after paying surcharge ranging from Rs. 1,000 to Rs. 20,000 for different classes of persons.
- Prosecution proceedings can be initiated where a person commits default in furnishing of information of a person from whom tax is collected or deducted.
- The FBR may make prescribe rules for initiating proceedings including criminal proceedings against tax authorities and officials who willfully or deliberately commit acts which result in personal benefits to them or to the taxpayer, or both.
- The FBR may design a regime to minimize personal interaction between tax authorities and low risk and compliant taxpayers.
- The minimum threshold limit of Rs. 0.6 million for salaried individual and Rs. 0.4 million for non-salaried individual with progressive taxation ranging from 5% to 35% is being proposed.
- The corporate tax rate is being frozen to 29% for Tax Year 2019 and onwards.
- The Bill seeks to enhance the rate of minimum tax on turnover from existing rates of 0.5%, 0.2%, 0.25% and 1.25% to 0.75%, 0.25%, 0.3%, and 1.5% respectively for different categories of persons.
- Rate of tax on dividend received on shares of a company set up for power generation or supplying coal exclusively to power generation projects is proposed to be increased from 7.5% to 15%.
- Tax on dividend at 25% is proposed for persons receiving dividend from a company where no tax is payable by such company due to

exemption of income or carry forward of business losses or claim of tax credits.

- Currently income from property earned by individuals and association of persons is taxable at progressive rates of tax with highest slab of rent exceeding Rs. 2 million and tax rate of 20%. The Bill proposes to add three further slabs with highest slab of rent exceeding Rs. 8 million with tax rate of 35%.
- Internal security allowances and compensation in lieu of bearer allowance being given to Armed Forces personnel are proposed to be exempted from tax.
- The Commissioner has been empowered to examine and amend the amount of income as disclosed in the financial statements by an insurance company presented to the Securities and Exchange Commission of Pakistan with respect to commission paid and claim for losses.
- The reversals of provisions against debts classified as 'doubtful' or 'loss' on the premise that these provisions were earlier allowed to the industry are proposed to be taxable.
- The threshold for admissibility of 1% / 5% to be limited to provisions against 'loss' category of advances only.
- The financial institutions which are required to provide information to Board for exchange of information with other countries under bilateral or multilateral agreements, would be exposed to charge of penalties of Rs. 10,000, if they fail to comply with different requirements.
- The banking companies to provide Board with a list of persons receiving profit on debt exceeding Rs. 500,000.
- The exemption available to banking companies from filing of withholding statement with respect to tax deducted on cash withdrawals and profit on debts is proposed to be withdrawn.
- The tax rebate available to full time teachers or researcher is reduced from 40% to 25%. This rebate will not be available to the teachers of medical profession who derive income from private medical practice or who receive share of consideration received from patients.
- Any income of individual domiciled or association of persons or company resident in the Tribal Area forming part of the Provinces of Khyber Pakhtunkhwa and Baluchistan is proposed to be exempt from tax from 01 June 2018 to 30 June 2023.
- The profit and gains accruing to the dependents of Shaheed belonging to Pakistan Armed Forces or a person who dies while in the service of the Pakistan Armed Forces or the service of Federal or Provincial Government in respect of first sale of immovable property acquired or allotted is in recognition of services rendered by the Shaheed or the person who dies in a service is proposed to be exempt. Further the capital gain is proposed to be reduced to 50% on first sale of such property by ex-servicemen of armed forces and ex-employees of the Federal and Provincial Government.
- The Bill seeks to withdraw immunity provided from selection of tax audit in case of person who's income tax affairs has already been audited in any of the preceding three tax years.

Sales Tax

- The definition of the cottage industry is proposed to be substituted to mean a manufacturing person who does not have an industrial gas or electricity connection or is

located in a residential area or does not have a total labour force of more than ten workers or whose annual turnover from all supplies does not exceed two million rupees.

- Definition of retail price of imported goods such as fruit juices, ice cream, aerated water, beverages, cigarettes, shampoo, tea, spices bearing brand names, fertilizers, cement, mineral water will mean the price fixed by the importers as well as by the manufacturers, this proposal will bring the definition of retail price in line with the definition prior to its amendment in the year 2015.
- The powers of Federal Government for issuance or withdrawal of notifications with reference to certain sections of the ST Act, 1990 is withdrawn as this power will now vest with the Board who is to act with the approval of the Minister Incharge.
- Definition of Tier-1 retailer is proposed to be broaden to include a retailer whose shop measures one thousand square feet in area or more.
- Definition of value of supply for manufacture of goods belonging to another person, is proposed to be substituted with actual consideration received by the manufacturer for the value addition carried out in relation to such goods as against the value which these will fetch on sale in open market.
- To streamline the ST Act, 1990 definitions of value of supply of electricity and gas earlier provided under the Special Procedure Rules has been brought under provisions of the main Statute.
- Fixed tax on bricks for different areas to be charged from a person who is in a position to collect such tax on monthly basis.
- Rates at which sales tax is to be withheld by the withholding agents is now brought under the provision of the Statute instead of under Rules currently.
- Restriction being imposed on claim of input tax on purchase of electricity and gas to only those registered persons who hold bills bearing their registration number and address where the connection is installed.
- Certain goods or classes of goods to be specified in respect of which rate of minimum value addition tax at the rate of 3% is to be paid by the specified registered persons or class of registered persons.
- Adjustment of input tax against supplies made to un-registered persons for which sales invoices do not bear the NIC number of the buyer is proposed to be restricted on pro-rata basis. The input tax on imports of scrap of compressors has been allowed.
- The Board will be empowered to relax the restriction to claim input tax to the extent of 95% of the output tax liability for the tax period.
- The refund of input tax against exports will be allowed at the fixed rates and in the manner to be notified by the Board.
- Certain amendments have been proposed in the particulars of tax invoice to be issued by the registered persons.
- The power of Commissioner to conduct sales tax audit was restricted to only once in every three years in the year 2018. This restriction is proposed to be withdrawn.
- The requirement of seeking approval of Commissioner to revise the return will not be required if revised return is filed within sixty days of filing of the return and the tax payable is

more than the amount of tax already paid or the refund claimed is less than the amount as claimed in the return sought to be revised, this proposal is to harmonize the provisions with the income tax law.

- The penalties for failure to file return within the prescribed time are proposed to be enhanced substantially.
- The Board proposed to be empowered to prescribe rules for initiating criminal proceedings against any Inland Revenue authority if his action results into personal benefits and undue advantage for him or his subordinate person or the taxpayer.
- The shareholder of a company or business enterprise who owns not less than 10% of the paid up capital will be made jointly and severally liable with the owner, director and shareholder for payment of tax which cannot be recovered from the company or business enterprise which is wound up.
- The parameters for audit selection by the Board to be kept confidential.
- Certain household items and other goods and appliances to be re-classified from extra tax regime of 2% to the retail tax regime.
- Exemption from sales tax on supplies of electricity and natural gas to certain hospitals and certain prepared and preserved poultry and meat items under retail packing and brand name is to be withdrawn.
- Exemption from tax on supplies of packed meat and fish excluding poultry, offal and live fish to be allowed.
- Exemption has been proposed on supplies and import of plant, machinery, equipment for installation in Tribal areas and of industrial

inputs by the industries located in the Tribal areas and supplies of electricity to industrial and commercial consumers in the Tribal areas subject to certain conditions.

- Imports and supplies of certain steel products by the manufacturers on which Federal Excise Duty is payable in sales tax mode is proposed to be exempted from charge of sales tax. Yet such products will be subject to FED at 17% in sales tax mode.
- Different reduced rates of tax are proposed to be levied on the products of milling industry other than wheat, silver and gold in unworked condition, fat filled milk sold in retail packing under a brand name or a trademark and ginned cotton.
- Reduced rate of tax on the following goods proposed to be withdrawn by bringing them under the normal tax regime.
 - Reclaimed lead
 - Rapeseed, sunflower seed, canola seed, soyabean seed
 - White crystalline sugar
 - Jewelry articles
 - Prepared Food, foodstuff and sweetmeats
 - LNG
- Rate of sales tax on supply of finished articles of textile made ups and artificial leather will be subject to 15% instead of 6%.
- Sales tax on import, local supplies and at the time of registration of IMEI number by CMOs is proposed to be reduced from the existing rates.

Federal Excise Duty

- Duty on steel billets, ingots, ship plates, bars and other long re-rolled products is proposed to be charged at 17% ad valorem in sales tax mode.
- Minimum production for steel billets and ingots, steel bars and other rolled long profiles of steel and ship plates to be determined in accordance with the specified criterion.
- Sales of cigarettes in retail at a price lower than the specified retail price is brought under penal offences.
- Duty on edible oil excluding epoxidized soyabean oil to be enhanced from 16% to 17% ad valorem.
- Duty on vegetable ghee and cooking oil in retail packing to be enhanced from 16% to 17% of retail price and not in retail packing from 16% to 17% ad valorem.
- Rate of Duty on different categories of aerated water is being enhanced from 11.5% to 14%.
- Duty on certain categories of cigarettes to be increased by redefining the price thresholds.
- Duty on portland cement, aluminus cement, slag cement, super sulphate and similar hydraulic cements being increased from Rs.1.50 per kg to Rs.2.0 per kg.
- Existing Duty rate of Rs.17.18 per 100 cubic meter on Liquefied Natural Gas is being replaced with Rs.10.0 per Million British Thermal Unit.
- Exemption from Duty on oil seeds is being allowed.
- Scope of Duty on locally manufactured or assembled motor cars, SUVs and other motor vehicles is being rationalized to levy Duty on motor vehicles of cylinder capacity of 1000 cc and above at the rate ranging from 2.5% ad valorem to 7.5% ad valorem.
- Fruit juices, syrups and squashes, waters containing added sugar or sweetening matter excluding mineral and aerated waters are being brought to the FED net at the rate of 5% of retail price.
- Duty on services of travel by air of passengers for local travel of long routes is being decreased from 2,000 rupees to 1,500 rupees and for short routes from 1,250 rupees to 900 rupees.
- Exemption available on internet services whether dial up or broadband including the email services, data communication network services, value added data services and foreign satellite bandwidth services is proposed to be withdrawn.

Customs

- General reduction of customs duty on various raw materials/industrial inputs from 3% to 0% and specific reduction in customs duty on certain items proposed under First Schedule.
- Reduced rate of customs duty under Fifth Schedule being extended to certain items and deleted for some other items.
- Provisions for audit, provisional determination of liability and bearing expenses being made applicable to exporters besides importers.
- Prime Minister being empowered to appoint and transfer Special Judges of Customs, Members and Chairman of The Customs Appellate Tribunal.

Sales tax on services under the Islamabad

- Sales tax proposed to be reduced from 18.5% to 17% on the services provided by call centers.
- To harmonize the sales tax on services with other Provinces several new services have been inserted in the Schedule.



Income Tax

Significant Amendments

Concept of Active Taxpayer's list defined

The Bill proposes to replace the concept of filer and non-filer enacted through the Finance Act, 2014 with Active Tax Payers. For this purposes tenth schedule is proposed to be inserted with following salient features.

- The applicable rate of withholding and collection of tax under the various prescribed provisions shall increase by hundred percent in case of payments to persons not appearing in active taxpayers' list.
- Where the withholding agent is satisfied that a person not appearing in the active taxpayers' list was not required to file a return of income he shall before collecting or deducting tax under this Ordinance furnish a notice in electronic form to the Commissioner setting out the name, CNIC or NTN and address of the person not appearing in the active taxpayers' list, the nature and amount of the underlying transaction and reason on the basis of which it is considered that the person was not required to file return or statement, as the case may be.
- The Commissioner, on receipt of notice from withholding agent shall within thirty days pass an order either accepting the contention of the withholding agent or make an order that the person not appearing in the active taxpayers' list was required to file the return or statement and thereby directing the withholding agent to deduct or collect tax at prescribed increased rate.
- In case no order is passed within thirty days of receipt of notice the Commissioner shall be deemed to have accepted the contention of the withholding agent.
- Where for a tax year a person's tax has been collected or deducted at increased rates and the person fails to file return of income or statement, as the case may be, for that tax year within the due date provided in law or as extended by the Board, the Commissioner shall within sixty days of that due date make a provisional assessment of the taxable income of the person and issue a provisional assessment order specifying the taxable income assessed and tax due thereon by imputing taxable income on the amount of tax deducted or collected by treating the imputed income as concealed income.
- Imputed income for individuals, association of persons and company means income which would have resulted in the amount of tax at the applicable rate given in Division I of the First Schedule equal to the tax so collected or deducted.
- The provisional assessment shall be treated as the final assessment order unless the return of income for the relevant tax year and the preceding tax year in the prescribed form has been filed by the person within a period of forty-five days of receipt of provisional assessment order. In such a case the tax deducted or collected under this scheme shall be adjustable against the tax payable in the return filed for the relevant tax year.
- In case the provisional assessment is treated as the final assessment order due to non-filing of return of income, the Commissioner shall initiate proceedings for imposition of penalties on account of non-furnishing of return and concealment of income.
- Where the withholding agent fails to furnish in the withholding statement the complete or accurate particulars of persons not appearing on active taxpayers' list, the Commissioner shall initiate penalty proceedings against the

withholding agent within thirty days of filing of withholding statement.

- The Commissioner may amend an assessment order where on the basis of definite information acquired from an audit or otherwise, the Commissioner is satisfied that:
 - any income chargeable to tax has escaped assessment; or
 - total income has been under-assessed, or assessed at too low a rate, or has been the subject of excessive relief or refund; or
 - any amount under a head of income has been misclassified.
- Where a provisional assessment has been treated as final assessment or where in response to the provisional assessment, return has been filed within forty five days or where assessment has been amended by the Commissioner and the assessment order is considered erroneous in so far it is prejudicial to the interest of revenue, the Commissioner may, after making or causing to be made, such enquiries as he deems necessary, amend the assessment order.
- This scheme is however not applicable in case of collecting/ withholding of taxes applicable in following cases:
 - Payment of salary,
 - Payments to non-residents except on royalty, fee for technical services, Insurance/ reinsurance premium, other payments and payments to PE of non-residents on account of services or execution of contracts,
 - Exports,
 - Withdrawal of balance under pension fund,
 - Cash withdrawal from a bank,

- Advance tax on Transactions in Bank,
- Collection of tax by NCCPL,
- On electricity consumption,
- Domestic electricity consumption,
- Tax on steel melters and composite units,
- Purchase of Air tickets'
- On functions and gatherings,
- On cable operators and other electronic media,
- By educational institutions,
- On Dealers, Commission agents and arhatis,
- On purchase of international air tickets,
- On banking transactions otherwise than by cash,
- On use on machinery and equipment,
- On education related expenses remitted abroad,
- On Insurance premium,
- On extraction of minerals,
- Collection of tax on tobacco by Pakistan Tobacco Board.

Inclusion in Active Taxpayer's list upon late filing of tax return

The Finance Act 2018 provided that non-filing of return of income within the due or extended date were subject to following consequences, in addition to penal provisions:

- The name of the person was not to be included in the Active Taxpayers List for that year; and
- Such person was not to be allowed to carry forward any loss for the tax year.

The Bill proposes that such person shall be included in the Active Taxpayer's list upon filing of

tax return beyond the due or extended date subject to payment surcharge at following rates:

Company	20,000
Association of Persons	10,000
Individuals	1,000

The Bill further proposes that such person shall not be:

- issued refund during the period the person is not included in the active taxpayers' list; and
- entitled to additional payment for delayed refund and the period the person is not included in the active taxpayers' list, shall not be counted for computation of additional payment for delayed refund.

Further penalty for late-filing shall apply at the revised rate given at page # 33.

Transfer of assets under foreign jurisdiction

The Bill proposes prosecution and penalty provisions on account of concealment, non-compliance in filing foreign income and asset statement, tax evasion as follows:

- Any person shall commit an offence punishable on conviction with imprisonment up to seven years or with a fine up to two hundred percent of the amount of tax evaded or both, who fails:
 - to declare an offshore asset to the Commissioner or
 - Furnishes inaccurate particulars of an offshore asset and revenue impact of such concealment or furnishing of inaccurate particulars is one hundred thousand rupees or more

- Any person who, without reasonable excuse, fails to comply with a notice issued by the Commissioner in respect of statement of foreign income and assets, shall commit an offence punishable on conviction with imprisonment up to two years or with a fine up to a penalty of two percent of the offshore asset not declared or both.
- Any enabler who enables, guides or advises any person to design, arrange or manage a transaction or declaration in such a manner which results in offshore tax evasion, shall commit an offence punishable on conviction with imprisonment for a term not exceeding seven years or with a fine up to five million rupees or both.

The Bill proposes to empower the Board to undertake following measures as a deterrent:

- publishing the names of offshore evaders, in the print and electronic media who have evaded offshore tax equal to or exceeding two and half million rupees.
- publishing the names of offshore tax enablers, in the print and electronic media who have enabled offshore tax evasion.

Further the Bill seeks to empower the Commissioner to freeze any domestic asset of a person including any asset beneficially owned by the person who as per information received from offshore jurisdiction is believed to be involved in offshore tax evasion or is about to dispose off such assets, for a period earlier of:

- One hundred and twenty days; or
- Till the finalization of proceedings including but not limited to recovery proceedings.

In order to keep track of movement and transfer of asset in foreign jurisdiction that are owned,

possessed and controlled by Pakistani national, the Bill seeks to define the following terms:

- “asset move” means the transfer of an offshore asset to an unspecified jurisdiction by or on behalf of a person who owns, possesses, controls, or is the beneficial owner of such offshore asset for the purpose of tax evasion.
- “offshore asset” in relation to a person, includes any movable or immovable asset held, any gain, profit, or income derived, or any expenditure incurred outside Pakistan.
- “offshore enabler” means a person who owns, possesses, controls, or is the beneficial owner of an offshore asset and does not declare, or under declares or provides inaccurate particulars of such asset to the Commissioners.
- “offshore evader” includes any person who, enables, assists, or advises any person to plan, design, arrange or manage a transaction or declaration relating to an offshore asset, which has resulted or may result in tax evasion.
- “specified jurisdiction” means any jurisdiction which has committed to automatically exchange information under the Common Reporting Standard with Pakistan.
- “unspecified jurisdiction” means a jurisdiction which is not a specified jurisdictions.

Further the Bill proposes penalty on account of concealment, non-compliance in filing foreign income and asset statement at the given at page # 33.

Determination of taxable income for the purpose of super tax

The banking and insurance companies were required to pay super tax on taxable income, after adjusting brought forward business and

depreciation losses. However, this adjustment was not allowed to other tax payers. The Bill proposes to withdraw such adjustment entitlement from the banking and insurance companies.

Enhancement of tax on profit on debt for the persons other than companies

Currently the persons, other than companies are liable to tax on profit on debt at the rates from 10% to 15% under final tax regime.

The Bill proposes to enhance the tax rates as following:

S. No.	Profit on debt	Existing rate	Proposed rate
1	Where profit on debt does not exceed Rs. 5,000,000	10%	15%
2	Where profit on debt exceeds Rs. 5,000,000 but does not exceed Rs. 25,000,000	12.5%	17.5%
3	Where profit on debt exceeds Rs. 25,000,000 but does not exceed Rs. 36,000,000	15%	20%

The Bill also proposes to exclude profit on debt exceeding Rs. 36 million per annum from final tax regime.

Consequently in cases where profit on debt exceeds Rs. 36 million the tax on entire profit on debt shall be charged at the tax rate applicable to such person under normal tax regime.

Gifts to be treated as income

A gift received by a person in cash or in kind was not treated as income of the recipient. Whereas, non-recognition rules contained under section 79 provide that no gain or loss shall be taken to arise for a person disposing of an asset through a gift to

the specified relatives. Further section 39(3) provides that a gift shall be treated valid if it is transfer through normal banking channel.

However, it was generally perceived that the mode of gift was misused for legitimize certain transactions.

Apparently in order to curb the aforesaid perception, the Bill proposes to treat the fair market value of a property or any property received without consideration or as a gift as an income from other source chargeable to tax under section 39. The Income Tax Ordinance, the gift received from the following person shall be excluded from the purview of aforesaid deemed income.

- Grand parents
- Parents
- Spouse
- Real brother
- Real sister
- Son
- Daughter

The scope of donors proposed under section 39 is restrictive as compared to the definition of relatives provided under section 79 for the purpose of non-recognition rules. This needs a revisit to extend the scope of donors to grand children in laws to align both definition.

Tax credit for persons employing fresh graduates

The Bill proposes to introduce tax credit for a person employing freshly qualified graduates in respect of the amount of salary paid to such graduates for a tax year in which such graduates are employed. This tax credit will be in addition to the expenditure claimed by business on payment of salary to their employees.

Freshly qualified graduates shall mean “a person who has graduated after the 01 July 2017 from any institution or university recognized by the Higher Education Commission”.

The tax credit shall be calculated by applying person's average tax rate on the lower of:

- a) the annual salary paid to the freshly qualified graduates in the year; and
- b) five percent of the person's taxable income for the year.

It is further provided that tax credit shall be restricted to the salaries of freshly graduates equal to 15% of total employees in numbers. However, following anomalies require clarifications:

- The salient features issued by FBR provides that unadjusted tax credit can be carried forward for 5 years. However, this has not been prescribed in the proposed section 64C.
- The charging section allows tax credit to all persons including (individual and association of person), where as 15% restriction is prescribed in case of company only.

Tax credit on investment in BMR restricted

Currently, a company investing in purchase of plant and machinery for extension, expansion, balancing, modernizing and replacement is allowed tax credit equal to ten percent of the purchase price of the machinery. The tax credit was first time introduced through the Finance Act, 2010 and initially it was allowed till 30th June 2015 and later extended upto the year 2021.

The Finance Bill proposes to reduce the rate of tax credit from 10% to 5% of the investment effective from tax year 2019.

Further the period of investment is now being curtailed from 2021 to year 2019. However, unadjusted tax credit shall continue to be carried forward for adjustment after tax year 2019 subject to the conditions specified under section 65B.

Resident individual – definition Revised

Previously an individual was treated to be resident in Pakistan if;

- Present in Pakistan for a period of 183 days or more during a tax year or
- Present in Pakistan for a period of 90 days during the tax year and 365 days during preceding four years.
- Employee or official of Federal and Provincial Government and is posted abroad.

Finance Act 2003 omitted the second condition.

The bill now proposes to restore the definition to the position which existed before amendment made through Finance Act 2003.

Determination of fair market value for the purpose of Arm's length transaction

Section 108 empowers the Commissioner to determine transaction between associates to reflect the income of such person realized in arm lengths transaction. Hitherto such determination was made by the Commissioner.

The Bill proposes to provide professional support to the Commissioner to seek services of a Chartered Accountant or Cost Management Accountant with prior permission of the Board for determination of fair market value of the asset, product, expenditure or service at the time of transaction. The

Commissioner shall treat the report of Chartered Accountant or Cost Management Accountant as definite information for the purposes of section 122(8). However if the Commissioner is not satisfied with the aforesaid report then after recording reasons for non satisfaction, the Commissioner may seek report from another Chartered Accountant or Cost Management Accountant.

Tax credit for NPOs

NPO, Trust, or Welfare Institutions are entitled to tax credit equal to 100% of tax payable including minimum tax and final tax subject to fulfillment of specified conditions.

The bill proposes to insert new condition of obtaining approval under section 2(36) w.e.f. July 2020 for claiming such credit.

It is further proposed that none of the assets of trust or welfare institutions should confer a private benefit to donor or family, children or author of the trust or maker of the institution. Where such private benefit is conferred, the amount of such benefit shall be added to the income of the donor.

Further the provision relating to obtaining approval of Chief Commissioner is proposed to be omitted.

Intangibles

Currently deduction for the cost of intangible (used wholly or partly in deriving income from business and having normal useful life exceeding one year) can be amortized over the period of actual useful life. However, where the normal useful life of an intangible is more than ten years or the same is not ascertainable the intangible is treated to have normal useful life of ten years and amortized accordingly.

The Bill now proposes to enhance said limit of normal useful life from ten years to twenty five

years in cases where the useful life is not ascertainable.

The Bill further proposes to exclude self-generated goodwill or any adjustment arising due to accounting treatment, in the manner to be prescribed in the Rules, from the definition of intangible. This amendment appears to nullify the court decision wherein goodwill has been held as part of intangible entitled for amortization.

However, the exclusion is for self-generated goodwill. Hence it can be construed that acquired goodwill shall be treated as intangible and entitled for amortization.

Transaction under dealership arrangement

The Bill proposes to disallow 75% of the dealers margin claimed as expenses in the hands of the person making such supplies in cases where the persons supplying the products, listed in the Third Schedule of the Sales Tax Act, 1990 or any other products as may be prescribed by the Board, under a dealership arrangement with the dealers who are not registered under the Sales Tax Act, 1990 and are also not appearing in ATL issued under Income Tax Ordinance, 2001.

The Bill further proposes that dealer margin shall be treated as 10% of the sale price of the manufacturer.

It is also proposed that amount of commission paid in excess of 0.2 percent of the gross amount of supplies shall be disallowed as an expense unless the dealer is registered under Sales tax Act 1990 and is also appearing in the active taxpayer list of income tax.

Capital gain on immovable property revamped

The Bill proposes to delete sub-section (1A) of section 37 which provides for separate taxation for capital gains on disposal of immovable property on the basis of holding period.

The capital gains are now proposed to be taxed at normal tax rates. However computation of taxable gain on disposal of open plot and constructed property have been provided as under:

S.No.	Holding period of open plot	Holding period of constructed property	Taxable Gain
1	Not exceeding one year	Not exceeding one year	100%
2	Exceeds one year but does not exceed ten years	Exceeds one year but does not exceed five years	75%
3	Exceeds ten years	Exceeds five years	0

Restriction on purchase of assets

At present, there is restriction for non-filers for purchase of immovable property exceeding value of Rs. 5 million. The Bill proposes to relax this condition. The Bill, however, proposes that purchase of immovable property having FMV more than Rs. 5 million or any other asset having FMV more than Rs. 1 million shall not be made otherwise than through normal banking channel. For this purpose, FMV means higher of values notified by FBR.

In case of any violation no depreciation, initial allowance, amortization or deduction on account of pre-commencement expenditure shall be allowed for such assets and such amount shall not be treated as the cost which will result in higher gain on disposal of such assets.

Further, a penalty of 5% of fair market value has also been proposed for violation / non-compliance of this requirement.

Collection of taxes in case of Association of Person (AOP)

At present, if tax payable by a member of an AOP in respect of the member's share of the income of the association cannot be recovered from the member then the AOP is liable for the tax due by the member.

The Bill seeks to enhance applicability for recovery whereby if any tax payable by AOP cannot be recovered from it then every person who was member of the AOP at any time during the year shall be jointly and severally liable for payment of the tax due by the AOP. However, such member(s) is / are entitled to recover the tax paid by him from the AOP or a share of the tax from any other member.

Unexplained income or assets on account of foreign exchange remittances

Presently foreign remittance equivalent to Rs 10 million as a source of investment cannot be questioned.

The Bill proposes to reduce the said amount to Rs. 5 Million.

Return of income

The owner of 250 sq. yards are required to file the return of income.

The Bill seek to relax the return filing requirement by enhancing the limit from 250 sq. yards to 500 sq. yards. As per proposed amendment the owner of 250 sq. yards would not be required to file the return of income.

Deadline to file return of income or statement rationalized

The Bill proposes to change the date of filing of return of income by salaried individuals and statement under Final tax regime from 31 August to 30 September.

Simplified tax regime for specified persons

The Bill proposes to introduce enabling provision for bringing certain persons (e.g. small businesses, construction businesses, medical practitioners, hospitals, educational institutions etc.) in the tax net through simplified procedures of record keeping, tax payment, return filing and assessment. Rules in this regard will be prescribed in due course.

Change in taxation regime from FTR to minimum tax regime

- *Commercial importers*

Upto 30 June 2018, tax required to be paid on import of goods which are sold in the same condition, as they were imported, was taxable under Final Tax Regime (FTR).

The Finance Act, 2018 amended this tax regime for commercial importers and brought them under the ambit of Minimum Tax. However, the Finance Supplementary (Second Amendment) Act, 2019 again brought these commercial imports under the ambit of FTR.

The Finance Bill now once again proposes to bring these commercial imports under the ambit of minimum tax regime.

Such commercial importers will be now required to compare the tax liability calculated under Normal Tax Regime (NTR) with the tax collected at import stage. If tax liability under

NTR is higher than the tax collected at import stage, then tax liability computed under normal taxation regime will become due otherwise tax collected at import stage will be their minimum tax.

- *Ship breakers*

Ship breakers import ships for ship breaking are currently subject to final taxation.

The Finance Bill proposes to change the taxation of such ship breakers from final taxation to minimum taxation.

- *Non-resident Contractor*

Non-resident persons receiving payments from resident persons on account of construction, assembly or installation project in Pakistan etc. are currently under final tax subject to filing of an option. Furthermore, payment on account of insurance premium or re-insurance premium are also currently under final taxation.

The Finance Bill proposes to change the taxation regime of such non-resident contractors and recipients of insurance premium or re-insurance premium from final taxation to minimum taxation.

- *Supply of goods and execution of contract*

Supply of goods and execution of contract are currently subject to final taxation.

The Finance Bill proposes to change the taxation regime for persons engaged in these activities from final taxation to minimum taxation.

Normal tax regime will continue for supply of goods by manufacturers in corporate sector and for the companies listed on Stock Exchange.

Similarly, normal tax regime will continue for execution of contract by the listed companies.

- *Brokerage and commission*

Persons receiving brokerage and commission are currently subject to final taxation.

The Finance Bill proposes to change the taxation of such persons from final taxation to minimum taxation.

- *CNG Stations*

The tax collection on gas consumption is currently treated as final tax on income of CNG station.

The Finance Bill proposes to change the taxation of such persons from final taxation to minimum taxation.

Commissioner empowered to allow reduce rate certificate on payments for cohesive business operations

The Finance Act 2018 amended the definition of “permanent establishment” (PE) of a non-resident person in Pakistan to bring the definition in line with the suggested amendments proposed by the OECD in its report on Base Erosion & Profit Shifting Action Plan 7 namely “Preventing the Artificial Avoidance of Permanent Establishment Status”.

Now the Finance Bill proposes to empower the Commissioner to allow payment after deduction of tax equal to thirty percent of the tax chargeable at the rate of 20% (i.e. 6%) on such payments, provided that credit of tax so deducted shall be available to PE of non-resident accounting for overall profits arising on the overall cohesive business operations.

Withholding tax rates enhanced for specified service sectors

Through the Finance Act, 2015, companies providing services were brought under minimum tax regime in line with Individuals and Association of Persons [AOPs]. On representation, the rate of withholding tax of 8% was reduced for certain specified service sector companies vide Income Tax (Second Amendment) Act, 2016.

Further, such specified service sectors are eligible to carry forward excess minimum amount of tax paid over the corporate tax for adjustment for five subsequent years. Furthermore, they have an option to pay advance tax equal to 2% of total turnover and obtain withholding tax exemption certificate from the concerned Commissioner.

Now the Finance Bill proposes to do away with such facility of lower rate of withholding tax exemption certificate by paying advance tax at 2% of total turnover on one hand and on the other hand, enhanced withholding tax to 4% for such specified service sector companies. Such reduced rate of tax withholding at 4% will also be applicable for individuals and AOPs providing such specified services.

Further, rate of withholding tax for transportation services is also proposed to be enhanced from 2% to 4%.

Withholding tax on royalty to resident persons

Presently, there is no withholding provision in the tax law on payment of royalty to resident persons. The Finance Bill proposes to introduce withholding tax at 15% of gross amount which is adjustable.

Revision of withholding tax recovery order

The Finance Bill proposes to empower the Commissioner to amend or further amend an order

of withholding tax recovery if he considers that the original order is erroneous and prejudicial to the interest of revenue.

Refund payment through income tax refund bonds

The concept of issuance of refund bonds in lieu of cash refunds was earlier introduced through the Finance Supplementary (Second Amendment) Act, 2019 for long outstanding sales tax refunds.

The Finance Bill proposes to apply this concept for income tax refunds as well.

The Finance Bill propose to prescribe a mechanism to pay income tax refunds through 'income tax refund bonds' to be issued by FBR Refund Settlement Company Limited. The modus operandi and salient features of the new scheme, are summarized below:

- FBR shall issue a promissory note to FBR Refund Settlement Company Limited (the company), incorporating the details of refund claimants and the amount of refund determined as payable to each for issuance of income tax refund bonds, of the same amount.
- The income tax refund bonds shall be issued in values in multiples of Rupees one hundred thousand.
- The maturity period of the afore-said bonds shall be three (3) years and shall bear simple profit rate at ten percent (10%) per annum.
- The bonds shall be traded freely in country's secondary markets.
- The bonds shall be approved security for calculating the statutory liquidity reserve.
- The bonds shall be accepted by the banks as collateral.

- There shall be no compulsory deduction of Zakat against the bonds.
- After period of maturity, the company shall return the promissory note to the Board and the Board shall make the payment of amount due under the bonds, alongwith profit due, to the bondholders.
- The bonds shall be redeemable before maturity with simple profit payable at the time of redemption in the light of general or specific policy to be formulated by FBR.
- The refund through bonds shall be paid in prescribed manner to the claimant who opt for this regime.
- Federal Government may notify procedures to regulate the issuance, redemption and other matters relating to the bonds as may be required.

Commissioner empowered to raid premises

The Finance Bill proposes to empower the Commissioner to raid any premises where there is reliable information regarding undeclared gold, bearer security or foreign currency and confiscate the same.

Issuance of audit report prior to passing an amended order

The Finance Bill proposes to issue audit report containing observations and findings after completion of an audit but prior to passing an amended order.

Business license scheme

The Finance Bill proposes that every person engaged in any business, profession or vocation to

obtain a business license and display as prescribed by the Board.

Offences and penalties

It is proposed to enhance the penalties for various offences and introduce new penalties for offshore tax evasion and failure to furnish information under Common Reporting Standards.

S.No.	Offences	Penalties
21	Any person who purchases immovable property having fair market value greater than rupees five million through cash or bearer cheque.	Such person shall pay a penalty of five percent of the value of property determined by the Board under subsection (4) of section 68 or by the provincial authority for the purposes of stamp duty, whichever is higher.
22	Where an offshore tax evader is involved in offshore tax evasion in the course of any proceedings under this Ordinance before any Income Tax authority or the appellate tribunal.	Such person shall pay a penalty of one hundred thousand rupees or an amount equal to two hundred per cent of the tax which was sought to be evaded, whichever is higher.
23	Where in the course of any transaction or declaration made by a person an enabler has enabled, guided, advised or managed any person to design, arrange or manage that transaction or declaration in such a manner which has resulted or may result in offshore tax evasion in the course of any proceedings under this Ordinance.	Such person shall pay a penalty of three hundred thousand rupees or an amount equal to two hundred per cent of the tax which was sought to be evaded, whichever is higher.
24	Any person who is involved in asset move as defined in clause (5C) of section 2 of the Ordinance from a specified territory to an un-specified territory.	Such person shall pay a penalty of one hundred thousand rupees or an amount equal to one hundred per cent of the tax, whichever is higher.
25	Where a Reporting Financial Institution fails to comply with any provisions of section 165B of the Ordinance or Common Reporting Standard Rules in	Such Reporting Financial Institution shall pay a penalty of Rs.10,000 for each default and an additional Rs. 10,000 each

S.No.	Offences	Penalties
	Chapter XIIA of Income Tax Rules, 2002.	month until the default is redressed.
26	Where a Reporting Financial Institution files an incomplete or inaccurate report under provisions of section 165B of the Ordinance and Common Reporting Standard Rules in Chapter XIIA of Income Tax Rules, 2002.	Such Reporting Financial Institution shall pay a penalty of Rs.10,000 for each default and an additional Rs. 10,000 each month until the default is redressed.
27	Where a Reporting Financial Institution fails to obtain valid self-certification for new accounts or furnishes false self-certification made by the Reportable Jurisdiction Person under Common Reporting Standard Rules in Chapter XIIA of Income Tax Rules, 2002.	Such Reporting Financial Institution shall pay a penalty of Rs.10,000 for each default and an additional Rs 10,000 each month until the default is redressed.
28	Where a Reportable Jurisdiction Person fails to furnish valid self-certification or furnishes false self -certification under Common Reporting Standard Rules in Chapter XIIA of Income Tax Rules, 2002.	Such Reportable Jurisdiction Person shall pay a penalty of Rs. 5,000 for each default and an additional Rs. 5,000 each month until the default is redressed.

Proceedings against malpractices

The Bill proposes criminal proceedings against tax authorities and taxpayers who willfully and deliberately commits or omits an act which results in personal benefits and under advantage to the authority or the person or the taxpayer or both.

Avoidance of interaction between officials and taxpayer

In order to create transparency and minimize the personal interaction between the tax authority and taxpayer, the Bill propose an automated impersonal tax regime for low risk and compliant taxpayers.

In the past the direct interaction between tax authorities and taxpayer has given rise to

malpractices which resulted in erosion of taxpayer's confidence in tax machinery.

It is expected that this proposal will give boost to the taxpayer's confidence in tax collection system and will raise the standard of tax collection machinery.

Pre-emptive measures for undervaluation of immoveable property

The Directorate General of Immoveable property was established with powers to initiate the proceedings where he has a reason to believe that the consideration agreed between the transferor and the transferee to acquire the immoveable property is less than fair market value of the property for the purpose of evasion of tax, concealment of unexplained amount or reduction in capital gain tax.

The provision of withholding taxes on the sales and purchase of the immovable property became inapplicable upon issuance of notification by the Federal Government.

However, the Bill proposes to restore the application of withholding tax provision on the sales and purchase of immovable property.

The Bill also proposes to delete the provision of section 111(4)(c) relating to taxation of differential amount between the value notified by the Board and recorded by the authority registering or attesting the transfer.

The Bill further proposes to delete the provisions of section 236W relating to payment of tax on differential amount between the value notified by the Board and recorded by the authority registering or attesting the transfer.

Directorate General of Special Initiative and Valuation

The Bill proposes that the Director General of Special Initiative and Director General of Valuation to be appointed by the Board through notification in the official gazette.

The Board may also specify the functions, jurisdiction and powers of both the Directorates and there officers.

Confidentiality of information

Under current law, any information received under double tax agreement shall be retained confidential.

The Finance Bill proposes to amend sub-section 1B of section 107 of the Ordinance and to allow to share such information with any person acting in execution of the Ordinance where it is necessary to disclose the same to him for the purposes of the Ordinance.

Powers of the Federal Government restricted

The Bill seeks to restrict the power of Federal Government to take immediate action for the purpose of removal of anomalies in taxes, development of backward areas through insertion of exemption in second schedule through notifications. After this restriction any such amendment will be possible either through Act of parliament or ordinance, as applicable in the circumstances.

FIRST SCHEDULE

The rate enhanced for Individuals and AOPs

The Bill proposes to revise the tax slabs and enhance maximum tax rate to 35% on taxable

income exceeding Rs. 6,000,000 for individuals (other than salaried person) and AOPs.

The change in effective incidence of tax liability under the proposed amendments, when compared with existing provisions, could be demonstrated as under:

Taxable Income	Tax liability as per existing rate	Tax liability as per proposed rate	Result - (Saving) / Burden
400,000	-	-	-
600,000	1,000	10,000	9,000
800,000	1,000	30,000	29,000
1,200,000	2,000	70,000	68,000
2,400,000	60,000	250,000	190,000
3,000,000	150,000	370,000	220,000
4,000,000	350,000	620,000	270,000
5,000,000	600,000	920,000	320,000
6,000,000	890,000	1,220,000	330,000
7,000,000	1,180,000	1,570,000	390,000

Salaried individuals

The Bill proposes to revise the tax slabs for salaried individuals. A new Table has been proposed which shall be applicable on salaried individual having income under the head salary exceeding 75% of the taxable income.

The minimum limit of income chargeable to tax under the head salary has been increased to Rs. 600,000 as compared to Rs. 400,000 in the immediately preceding tax year.

The maximum slab caters for income exceeding Rs. 75,000,000 with maximum tax rate of 35% whereas the maximum rate in immediately preceding tax year was 29%.

The change in effective incidence of tax liability under the proposed amendments, when compared with existing provisions, could be demonstrated as under:

Taxable Income	Tax liability as per existing rate	Tax liability as per proposed rate	Result – (Saving) / Burden
500,000	1,000	-	(1,000)
600,000	1,000	-	(1,000)
800,000	1,000	10,000	9,000
1,200,000	2,000	30,000	28,000
1,800,000	30,000	90,000	60,000
2,400,000	60,000	180,000	120,000
2,500,000	65,000	195,000	130,000
3,500,000	215,000	370,000	155,000
4,000,000	290,000	470,000	180,000
4,800,000	450,000	630,000	180,000
5,000,000	490,000	670,000	180,000
8,000,000	1,090,000	1,345,000	255,000
12,000,000	2,090,000	2,345,000	155,000
30,000,000	6,590,000	7,295,000	705,000
50,000,000	11,590,000	13,295,000	1,705,000
75,000,000	17,840,000	21,420,000	3,580,000

Corporate tax rate

By virtue of amendment through the Finance Act, 2018, the corporate tax rate was to reduce gradually on annual basis from 29% applicable for tax year 2019 to 25% applicable for tax year 2023 and onwards.

The Bill proposes to freeze the tax rate of 29% for tax year 2019 and onwards.

Tax on dividend

The Bill proposes to introduce standard tax rate of 15% on dividend received from power generation companies in lieu of present rate of 7.5%.

The Bill further proposes to apply tax rate of 25% on dividend received from a company where no tax is payable by such company due to exemption or carry forward of losses or claim of tax credits. This rate of 25% may also apply to mutual funds, stock funds and development REIT schemes although the intention is to apply the standard rate of 15% as

mentioned in the Salient Features issued with the Bill.

Tax on profit on debt

The Bill proposes to increase the tax rate on profit on debt for individuals and association of persons. The rates for the existing three slabs are proposed to be increased to 15%, 17.5% and 20% from 10%, 12.5% and 15% respectively.

The Bill further proposes to increase the withholding tax on profit on debt from 10% to 15%. However, the reduce rate of 10% shall be applicable on profit of rupees five hundred thousand or less.

Tax on income from property

The income from property is currently taxable under five slabs, the highest being for amount exceeding Rs. 2,000,000 with tax rate of 20%.

The Bill proposes to add three more slabs. The new slabs are for income exceeding Rs. 4,000,000, Rs. 6,000,000 and Rs. 8,000,000 with corresponding tax rates of 25%, 30% and 35% respectively.

Minimum tax rate

The Bill proposes to increase the minimum tax rate on turnover for the specified sectors. The general rate of 1.25% is proposed to be increased to 1.50%.

Whereas, the special reduced rates for specified sectors is proposed to be increased from 0.5%, 0.2% and 0.25% to 0.75%, 0.25% and 0.3%, respectively.

Tax on Imports of pharmaceutical goods

The Bill proposes to introduce a new tax rate of 4% on import of pharmaceutical products that are not manufactured otherwise in Pakistan, as certified by the Drug Regulatory Authority of Pakistan.

SECOND SCHEDULE

Exemption from income proposed

- Certain allowances granted to armed forces were exempt. The Bill now proposes to further exempt Internal Security allowance and compensation in lieu of bearer allowance.
- The Bill proposes to include the following entities in the list of non-profit organization/ institutions to whom donations made will be deductible allowance in the hands of donor:
 - a) Layton Rahmatullah Benevolent Trust (LRBT)
 - b) Akhuwat
- The Bill proposes to further exempt any income derived by following institutions:
 - a) Akhuwat
 - b) Audit Oversight Board
- It is proposed to exempt the profit and gains from sale of immovable property to a Rental REIT Scheme till 30 June 2021.
- The Bill proposes to extend the benefit of exemption to intercorporate dividend if the company being a recipient of such dividend is eligible for group relief even without actually availing group relief.
- The Bill proposes to exempt capital gains on sale of immovable property in the hands of a seller being dependent of a Shaheed or a person died in service.

Reduction in tax liabilities

- The Bill proposes to withdraw reduction in tax liability given to full time teacher/researcher of a government training institution only and also proposes a reduction in tax rate from 40% to 25% for the remaining eligible person under this clause.

The aforesaid proposed reduction in tax liability shall not be available to teachers of medical professions deriving income from private practice or receiving share of consideration received from patients for benefit of this reduction.

- The Bill proposes to reduce the tax payable by 50% on capital gain on first sale of immovable property by the following original allottee duly certified by the allotment authority:
 - a) Ex-servicemen and serving personnel of Armed Forces
 - b) Ex-employee or serving personnel of Federal and Provincial Governments.

Exemptions from specific provisions

- Goods transport contractor was exempted from withholding on supplies provided that the contractors pay tax @ 2.5% on the payments for carriage services. The Bill proposes to increase the rate of tax to 3%.
- The Bill proposes to withdraw the exemptions granted to manufacturer, distributor, dealer and wholesaler to provide complete particulars mentioned in section 165(1)(a) regarding tax collected from the retailers under section 236H. Now the said persons will have to provide complete particulars of the retailers from whom the tax has been collected while filing bi-annual statement.

- The Bill proposes to withdraw the exemptions granted to banking company to provide complete particulars mentioned in section 165(1)(a) regarding tax collected on profits on debts and cash withdrawals. Now the banks will have to provide complete particulars of tax deducted under section 231A and 151 while filing bi-annual statement. This step is likely to increase compliance cost of the Banks against slogan of providing ease of doing business.
- Clause 94 was inserted vide Income Tax (Second Amendment) Act, 2016 wherein certain specified service sectors were excluded from minimum tax regime under section 153 (1)(b) subject to certain conditions including payment of 2% tax on gross amount of total turnover from all sources.

Now the Bill proposes to abolish the said exemption meaning thereby that all of the service sector will fall under minimum tax regime under section 153(1)(b).

- Through Finance Act, 2018 powers of Commissioners and Board was restricted with respect to selection of audit under section 177 and 214C in case of person whose tax affairs have been audited in any of the preceding 3 tax years. Now the Bill proposes to withdraw the exemption meaning thereby the taxpayer can be selected for audit in any tax year. This appears to enhance litigation without any substantial benefit to the national exchequer as the cases normally takes a lot of time for final settlement before the highest judicial Forum.

THIRD SCHEDULE

Initial allowance on buildings

The Bill proposes to delete this initial allowance on buildings currently available at 15%.

FOURTH SCHEDULE

Power of commissioner to amend income disclosed in financial statements

Fourth Schedule prescribed rules for computation of profits and gains of insurance business.

The Bill proposes to authorize the Commissioner 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 claimed for losses.

This proposed amendment will gives excessive discretionary powers which should be subject to some restrictions which may include prior approval of the Board.

SEVENTH SCHEDULE

Seventh Schedule prescribed rules for computation of profits and gains of banking companies.

- The Bill proposes to add the following explanations:
 - provision for advances and off balance sheet items allowed, at the rate of 1 percent or 5 percent, as the case may be, shall be exclusive of reversals of such provisions;
 - reversal of "bad debts" classified as "doubtful" or "loss" are made taxable where the respective provisions are allowed; and
 - with effect from tax year 2020 and onward; reversal of "bad debts" classified as "loss" are made taxable where the respective provisions were allowed.
- Currently the amount of bad debt classified as sub-standard under the Prudential Regulations

issued by State Bank of Pakistan shall not be allowed as expense. The Bill proposes to extend this restriction on claim of expenses on bad debts classified as doubtful. Corresponding amendment is also proposed in provision relating to claim of provision upon reclassification of bad-debts by the taxpayer under Prudential Regulations issued by SBP.

- The Bill further proposed to include an explanation that nothing contained in this Schedule shall be so construed as to restrict power of Commissioner to call for record which he may deem appropriate while conducting audit of the income tax affairs in order to examine accounts and records of a banking company and all provisions of this Ordinance shall be applicable accordingly.

Enhanced rate of tax on taxable income from Federal Government Securities

The Bill proposes to insert new Rule for enhancing the rate of tax on taxable income from Federal Government Securities whereby the taxable income arising from "additional income earned" from additional investment in Federal Government Securities for the tax years 2020 and onwards, shall be taxed at the rate of 37.5% instead of the corporate tax rate of 35%.

Banking company shall now furnish a certificate from external auditor along with accounts while e-filing return of Income certifying the amount of such money invested in Federal Government Securities in preceding tax year, additional investments made for the tax year and net mark-up earned from such additional investments for the tax year.

Moreover, the Commissioner may require the banking company to furnish details of the investments in Federal Government Securities to determine the applicability of the enhanced rate of tax.

"Additional income earned" means any average earned in addition to average amount of such income earned from investment in Federal Government Securities by the bank for the tax year.

The taxable income arising from additional investment under this rule shall be determined according to the following formula, namely:

Taxable income subject to enhanced rate of tax
= $A \times B/C$

Where-

- A is taxable income of the banking company;
- B is net markup income earned from such additional income earned for the tax year as declared in the annual accounts; and
- C is total of the net mark-up and non mark-up income of the banking company as per accounts.

Exclusion of brought forward losses for calculation of super tax

It is now proposed that brought forward losses, if any, shall not be excluded from income computed under this Schedule for the purpose of section 4B of this Ordinance.



Sales Tax

Significant Amendments

General

The General Sales Tax rate of 17% will continue to apply. However, certain austerity steps are proposed for ease of doing business and revenue collection in order to stabilize the economy.

The Government with these proposals seems to aim to eliminate the culture of issuance of Sales Tax General Order/notifications and corresponding debates/litigations.

Definition of cottage industry

The Bill proposes to redefine the term “cottage industry” to mean a manufacturing concern which:

- does not have an industrial, gas or electricity connection;
- is located in a residential area;
- does not have a total labour force of more than ten workers; and
- annual turnover from all supplies does not exceed two million rupees.

Currently, the threshold for “cottage industry” is annual turnover upto ten million rupees and annual utility bills upto eight hundred thousand rupees.

The above proposal aims to curtail the misuse of exemption of sales tax of the manufacturing concerns given under the umbrella of “cottage industry” and to eventually increase tax revenue.

Sales tax based on production capacity and fixed basis

Currently, the Federal Board of Revenue (Board) has the power to levy and collect Sales Tax on the basis of production capacity of plants, machinery or any fixed basis.

The said power of the Board is proposed to be withdrawn with the addition of Tenth Schedule to the Sales Tax Act, 1990, which shall specify the goods on which the sales tax shall be charged on the basis of production capacity or any fixed basis.

The proposed Tenth Schedule provides for fixed sales tax rates for bricks ranging from Rs. 7,500/- per month to Rs. 12,500/- per month according to regions or areas mentioned therein.

Value Addition Tax

Currently, the minimum value addition tax is specified on import of goods at the rate of three percent (3%) through Chapter X of Sales Tax Special Procedures Rules, 2007, in addition to tax chargeable under section 3 of the Sales Tax Act, 1990.

The Bill proposes to insert Twelfth Schedule to the Sales Tax Act, 1990 (replacing Chapter X of Sales Tax Special Procedures Rules, 2007) which proposes to charge value addition tax in addition to tax chargeable under section 3 of the Sales Tax Act, 1990 on all imported goods at the rate of 3% ad valorem.

The proposed Twelfth Schedule replicates the provisions of Chapter X of Sales Tax Special Procedures Rules, 2007 with exception of few proposed changes which are summarized as follows:

- The value addition tax was not chargeable on import of goods by manufacturer for in-house consumption. It is proposed that such exclusion shall be available on raw material/ intermediary goods only if customs duty at 16% or 20% ad valorem under First Schedule to Customs Act, 1969, is applicable on such raw materials/ intermediary goods;

- It is proposed that value addition tax shall be applicable on import of LNG/RLNG and second hand/worn clothing or footwear;
- It is proposed that value addition tax shall not be applicable on import of cellular mobile phones or satellite phones.

Although, no notification has yet been issued with effect to repeal of Chapter X of Sales Tax Special Procedures Rules, 2007, however, as per the Budget Speech, the said Rules will be rescinded vide issuance of SRO.

Input tax credit not allowed

The Bill proposes that the input tax attributable to the supplies made to unregistered persons shall be allowed on proportionate basis out of total supplies, where the sale invoices contain NIC numbers of the unregistered persons.

Sales tax withholding

Currently, the Federal Government has the power to specify any person or class of persons as withholding agent for the purpose of deduction and deposit of sales tax at the specified rate, manner, conditions and restrictions and accordingly, the Federal Government has issued Sales Tax Special Procedure (Withholding) Rules, 2007 which define the withholding agents, the rates at which withholding is to be done, manner of payment and exclusions from said withholding provisions.

The said power of Federal Government is proposed to be withdrawn and the powers to specify manner of payment, conditions and restrictions have been vested to the Board.

Furthermore, it is proposed to insert Eleventh Schedule to Sales Tax Act, 1990, specifying the proposed rates for withholding of sales tax and the persons to act as withholding agents as follows:

S.No.	Withholding Agent	Supplier Category	Existing Rate	Proposed Rate
1	Companies as defined in Income Tax Ordinance, 2001	Registered Persons	1/5 th of Sales Tax shown on invoice/ No withholding for active supplier	1/5 th of Sales Tax shown on invoice
		Persons registered as a wholesaler, dealer or distributor	1/10 th of Sales Tax shown on invoice/ No withholding for active supplier	1/10 th of Sales Tax shown on invoice
		Unregistered Persons	1% of gross value	5% of gross value
2	Federal and Provincial government departments, autonomous bodies and public sector organizations	Registered Persons	1/5 th of Sales Tax shown on invoice/ No withholding for active supplier	1/5 th of Sales Tax shown on invoice
		Persons registered as a wholesaler, dealer or distributor	1/10 th of Sales Tax shown on invoice/ No withholding for active supplier	1/10 th of Sales Tax shown on invoice
		Unregistered Persons	Whole of Sales Tax applicable on gross value of supplies	Whole of Sales Tax applicable on gross value of supplies
3	Registered person as recipient of advertisement service	Advertisement service provider	Whole of Sales Tax	Whole of Sales Tax

Threshold of adjustable input tax

The input tax adjustment for a registered person is restricted up to a maximum of 90 percent of the output tax in a tax period except in case of fixed assets or capital goods. The Board exercising its powers has already excluded certain sectors from the said provision vide sales tax notification SRO 647(I)/2007, dated 27 June 2017.

In addition, the Bill now proposes to empower the Board to relax the maximum limit of input tax adjustment from 90 percent to 95 percent of the output tax in a tax period.

Tax invoice

An option is proposed in the Bill to issue invoices in Urdu or English language. The Bill also proposes to include the following particulars in a tax invoice.

- i. NIC number in case of supplies made to unregistered persons.
- ii. Count, denier and construction in case supplies are related to yarn and fabric

Withdrawal of Rule for conducting Audit once in three year and parameters for selection of audit by the Board

Through Finance Act, 2018 a proviso was inserted to clarify that routine audit of sales tax records shall be conducted only once in every three years. The Bill proposes to do away with this relaxation meaning thereby that the officer of Inland Revenue may conduct audit every year.

Selection of persons for audit of sales tax affairs is currently made through computer balloting by the Board which may either be random or parametric as per discretion of the Board. The Bill proposes that the parameters of selection shall be kept confidential by the Board.

Revision of sales tax return without Commissioner's approval

Currently, the registered persons are allowed to revise their sales tax returns to correct any omission or wrong declaration within 180 days of the filing of return subject to the approval of the concerned Commissioner Inland Revenue.

The Bill proposes to waive off the requirement of approval of Commissioner Inland Revenue where the revised return is filed within 60 days of the filing of return subject to the condition that the tax payable / (refundable) in the revised return is more/(less) respectively than the amount in the original return.

Waiver of extra tax and applicability of Third Schedule

Currently, Chapter XIII of the Sales Tax Special Procedures Rules, 2007 specifies certain goods on which extra sales tax at the rate of 2% is levied in addition to the standard sales tax payable by the manufacturer, whereas, Third Schedule to the Sales Tax Act, 1990 specifies the items on which the amount of sales tax payable on retail price basis, is required to be legibly, prominently and indelibly printed or embossed by the manufacturer on each article and no extra sales Tax is leviable on items specified in Third Schedule to the Sales Tax Act, 1990.

The Bill proposes to move certain items from Chapter XIII of the Sales Tax Special Procedures Rules, 2007 to the Third Schedule to the Sales Tax Act, 1990. Resultantly, extra tax on these items will be abolished and the manufacturers will be required to adhere with the requirements of schedule *ibid*. The list of items are given below:

- Household electrical goods, including air conditioners, refrigerators, deep freezers, televisions, recorders and players, electric

bulbs, tube-lights, electric fans, electric irons, washing machines and telephone sets.

- Household gas appliances, including cooking range, ovens, geysers and gas heaters.
- Paints, distempers, enamels, pigments, colors, varnishes, gums, resins, dyes, glazes, thinners, blacks, cellulose lacquers and polishes sold in retail packing
- Lubricating oils, brake fluids, transmission fluid, and other vehicular fluids sold in retail packing.
- Storage batteries excluding those sold to automotive manufacturers or assemblers
- Tyres and tubes excluding those sold to automotive manufacturers or assemblers

Whereas, following new items are proposed to be inserted in the schedule *ibid*:

- Motorcycles
- Auto rickshaws
- Foam or spring mattresses and other foam products for household use.

Further, as per the Budget Speech, extra tax on following items is proposed to be abolished altogether, however, no notification to rescind Chapter XIII has yet been issued:

- Auto parts and accessories
- Arms and ammunitions
- Tiles
- Biscuits, confectionary, chocolates, toffees and candies

Sales tax on steel industry

The taxation regime for steel melters, re-rollers and ship breakers is presently governed vide Chapter XI of the Sales Tax Special Procedures Rules, 2007. Under this existing regime:

- (a) Steel product manufacturers are required to pay sales tax at the rate of PKR 13 per unit of the electricity consumed.
- (b) On import of scrap, fixed sales tax at the rate of PKR 5,600 per metric ton is paid.
- (c) Apart from few specified items, no input tax adjustment is available, including input tax on import of scrap of compressors.

The Bill proposes to exempt sales tax on import and supplies of steel Billets, ingots, ship plates, bars and other long re-rolled profiles, by inserting Sr. No. 154 in Table I of Sixth Schedule to the Sales Tax Act, 1990.

Although, no notification has yet been issued in this effect, however, as per the Budget Speech, we understand that the current applicable taxation regime will be rescinded vide issuance of SRO in this regard.

Five Sectors dealt under SRO 1125(I)/2011

Currently SRO 1125(I)/2011 deals with the five export oriented sectors namely textile, leather, carpets, sports goods and surgical goods and provides zero rating on local/imported goods used as industrial inputs and supplies were also dealt at reduced rate to consumers/retailers.

As per the Budget Speech, it is proposed to withdraw the benefits allowed under SRO 1125(I)/2011 by restoring standard rate of sales tax i.e. seventeen percent (17%) on all goods dealt under

textile, leather, carpets, sports goods and surgical goods sector. Moreover, Zero-rating of utilities (gas, electricity and fuels) allowed to these export oriented sectors through various sales tax general orders is proposed to be withdrawn, however, no notification to rescind SRO 1125(I)/2011 has yet been issued.

Taxation of retailer

The Bill proposes to redefine Tier-1 retailer to include a retailer, having shop measuring one thousand square feet in area or more.

Further, the Bill proposes to withdraw the option for Tier-1 retailer to pay the sales tax under turnover regime at the rate of 2%. The Bill further proposes a change in Eighth Schedule to Sales Tax Act, 1990 increasing rate of sales tax to 15% (existing 6%) on supplies of finished articles of textile, textile made-ups, leather, and artificial leather by Tier-1 retailer.

Additionally, the customers of a Tier-1 retailer are proposed to be incentivized by entitling a cash back of up to five percent (5%) of the tax involved, however, the Rules are yet to be enacted by the Board.

Currently, the suppliers of electricity to other than Tier-1 retailer are allowed to adjust their input tax against sales tax collected from such retailers. The Bill also proposes to restrict such adjustment and the electricity supplier is supposed to deposit the whole amount of sales tax so collected.

Exemptions withdrawn

Exemptions under the Sixth Schedule on following items are proposed to be withdrawn and sales tax at reduced rates will apply under Eighth Schedule.

Description of goods	Existing Rate	Proposed Rate
Cereal and products of milling industry except wheat and	Exempt	10%

Description of goods	Existing Rate	Proposed Rate
meslin flour if sold in retail packing under brand name or trade mark		
Silver in unworked condition	Exempt	1% plus 2% value addition
Gold in unworked condition	Exempt	1% plus 2% value addition
Milk and cream not concentrated nor containing added sugar or other sweetening matter if sold in retail packing under brand name or trade mark	Exempt	10%
Fat filled milk if sold in retail packing under brand name or trade mark	Exempt	10%
Ginned cotton	Exempt	10%

- Currently, electricity / natural gas supplied to hospitals run by Federal / Provincial Government or charitable operating hospitals of fifty beds or more, teaching hospitals of statutory universities of two hundred beds or more is exempt from sales tax.

The Bill proposes to withdraw the said exemption and accordingly same is proposed to be chargeable at 17%

- Currently, Frozen and similar products of poultry meat/meat offal/ meat of all types/ fish are exempt from sales tax.

The Bill proposes to withdraw the exemption on those products which are sold in retail packing under a brand name or a trademark.

Exemption of supplies and imports for FATA/PATA under Sixth Schedule

SRO 1212(I)/2018 dated 05 October 2018 was issued whereby FATA/PATA has been exempted from sales tax on supplies made till 30 June 2023.

As per the budget speech, the aforesaid SRO is proposed be rescinded and related exemption is

now proposed to be incorporated in Sixth Schedule along with proposal of new exemptions on import of plant, machinery, equipment for installation in tribal areas and supply of electricity to tribal areas.

These proposed exemptions are tabulated below.

Description of goods / Conditions	PCT Heading
<p>(a) Supplies; and</p> <p>(b) imports of plant, machinery, equipment for installation in tribal areas and of industrial inputs by the industries located in the tribal areas, as defined in the Constitution of Islamic Republic of Pakistan as made till 30 June 2023 to which the provisions of the Act or the notifications issued, thereunder, would have not applied had Article 247 of the Constitution not been omitted under the Constitution (Twenty-fifth Amendment) Act, 2018</p> <p>Provided that, in case of imports, the same shall be allowed clearance by the Customs authorities on presentation of a post-dated cheque for the amount of sales tax payable under the Sales Tax Act, 1990 and the same shall be returned to the importer after presentation of a consumption or installation certificate, as the case may be, in respect of goods imported as issued by the Commissioner Inland Revenue having jurisdiction:</p> <p>Provided further that if plant, machinery and equipment on which exemption is availed under this serial number is transferred or supplied outside the tribal areas, the tax exempted shall be paid at applicable rate on residual value</p>	Respective heading
Supplies of electricity, as made from the day of assent to the Constitution (Twenty-fifth Amendment) Act, 2018 till 30 June, 2023 to all residential and commercial consumers in tribal	2716.0000

Description of goods / Conditions	PCT Heading
areas and to such industries in the tribal areas which were set and started their industrial production before 31 May, 2018 but excluding steel and ghee or cooking oil industries	

Other exemptions proposed under Sixth Schedule

- Exemption of sales tax is proposed on steel Billets, ingots, ship plates, bars and other long re-rolled profiles, on such imports and supplies by the manufacturer on which Federal Excise Duty is payable in sales tax mode.
- Presently wheat bran [PCT Heading 2302.3000] is chargeable to sales tax @ 10% under Eighth Schedule, the Bill now proposes to provide exemption of sales tax on its local supply.
- Presently cotton seed oil [PCT Heading 1512.2100 & 1512.2900] is taxable at 17%. The Bill now proposes to provide exemption of sales tax on its local supply.

Reduced rates withdrawn

Reduced rates under the Eighth Schedule on the following items are proposed to be withdrawn and thus chargeable to sales tax at standard rate under section 3 of the Sales Tax Act, 1990:

Description of goods	Existing Rate	Proposed Rate
Reclaimed Lead	5%	17%
Sunflower seed, rapeseed and canola seed	16%	17%
Soybean Seed	6%	17%
White Crystalline Sugar	8%	17%
Potassium Chlorate	17% along with Rs. 65 per kg	17% along with Rs. 70 per kg

Reduced rate proposed

- Reduced Rate of 7.5% is proposed on prepared food, foodstuff and sweet meats supplied by restaurants, bakeries, caterers and sweetmeat shops. Currently the said products are dealt under standard rate of sales tax. Moreover, it is proposed that no input tax adjustment shall be allowed to the buyer.
- LNG imported for servicing CNG sector and local supplies thereof are proposed to be dealt at reduced rate of 5%.
- Currently, the jewelers are entitled to exclude the value of gold or silver used in jewelry supplied from the value of supply and remaining amount is chargeable to tax at the standard rate of sales tax. The Bill proposes to charge 1.5% of value of gold plus 0.5% of value of diamond used therein plus 3% of making charges. Moreover, it is proposed that no input tax adjustment shall be allowed to buyer.



Federal Excise Duty

Significant Amendments

Exemption withdrawn on 'internet services' and 'foreign satellite bandwidth services':

Telecommunication services provided in Islamabad Capital Territory are subject to FED @ 17% under First Schedule to Federal Excise Act, 2005. However, internet & Data Communication Network Services (DCNS) / value added data services are presently exempt from payment of FED under Third Schedule to the said Act. This exemption is proposed to be withdrawn.

Similarly, charges payable on the international leased lines or bandwidth services are exempt from payment of FED for specified consumers. It is proposed to withdraw exemption on bandwidth services as provided by the foreign satellites. Therefore, the exemption will remain applicable only for 'terrestrial' bandwidth services.

Fixed FED regime abolished for edible oil, cooking oil and vegetable ghee industry

Presently, importers and manufacturers of edible oils, cooking oils and vegetable ghee are subject to fixed FED as per following Federal Excise notifications:

- SRO.24(I)/2006, dated 07 January 2006 (Rs.1 per kg is the rate of FED on import of edible oils, cooking oils and vegetable ghee in lieu of FED payable at manufacturing stage in addition to FED applicable at 16% under First Schedule to the Act.)
- SRO.508(I)/2013, dated 12 June 2013 (Rs.0.40 per kg is the rate of FED on import of oilseeds in lieu of FED payable at manufacturing stage of vegetable ghee or cooking oil.)

- SRO.507(I)/2013, dated 12 June 2013 (Rs.1 per kg is the rate of FED on locally produced oils purchased by the manufacturers of cooking oil and vegetable ghee, in lieu of FED payable at manufacturing stage of vegetable ghee or cooking oil).

The above Excise notifications are expected to be rescinded to restore the normal FED regime for the cooking oil and ghee importers / manufacturers. Accordingly, the rate of FED on edible oils of specified PCT headings is being enhanced from 16% to 17% under First Schedule to the Act, which will continue to operate in sales tax mode.

Whereas, the rate of FED also in sales tax mode is proposed to be enhanced on vegetable ghee and cooking oils from 16% to 17% as follows:

S. No.	Description of goods	Proposed FED rate
2	Vegetable ghee and cooking oil	
	(a) in retail packing	17% of retail price
	(b) not in retail packing	17% ad.val.

Consequent to above proposed changes, the Bill also seeks to omit Entry No.54 relating to FED on oilseeds @ Rs.0.40 per kg under Table-I to First Schedule of the Act.

Restoration of normal FED regime for steel sector and introduction of criteria of minimum production

Fixed sales tax regime of the whole of steel sector is also being scrapped, as applicable under Sales Tax Special Procedure Rules, 2007. Sales tax on billets, ingots, bars, ship plates and other long re-rolled products may be exempted at manufacturing and import stage, and in lieu therefore, FED at 17% in sales tax mode may be imposed for the reason that there is no exemption of FED for tribal areas.

Accordingly, insertion of respective entries of the afore-stated steel products are being inserted under First and Second Schedules of the Act.

While the steel sector is being brought under FED net, the concept of 'minimum production' is also being introduced to curb the practices of undocumented production/sales. For this purpose, an enabling provision under Section 3(5) alongwith Fourth Schedule to the Act are proposed to be inserted.

Under proposed Fourth Schedule, the following criteria for minimum production is proposed for the steel sector:

S.No.	Product	Production criteria
1	Steel billets and ingots	One metric ton per 700 kwh of electricity consumed
2	Steel bars and other re-rolled log profiles of steel	One metric ton per 110 kwh of electricity consumed
3	Ship plates	75% of the weight of the vessel imported for breaking

It is also proposed that in case the minimum production determined as per above criteria exceeds the actual supplies for the month, such minimum production shall be treated as quantity supplied during the month and the liability to pay FED shall be discharged accordingly.

Besides above, procedures and conditions are also proposed to be laid down under Fourth Schedule relating to minimum production of ship breakers, minimum production of industrial units employing both distributed power and self-generated power, etc.

FED rates enhanced on locally assembled vehicles

Through Finance Supplementary (Second Amendment) Act, 2019, FED on locally manufactured / assembled cars of 1700 cc and above was introduced @ 10%. Now, in order to

rationalize this levy, it is proposed to broaden the scope of FED as follows:

S. No.	Description of goods	Proposed FED Rate
55B	Locally manufactured or assembled motor cars, SUVs and other motor vehicles, principally designed for the transport of persons (other than those of headings 87.02), including station wagons and racing cars:	
	(a) of cylinder capacity upto 1000cc	2.5% ad.val.
	(b) of cylinder capacity from 1001cc to 2000cc	5% ad.val.
	(c) of cylinder capacity 2001cc and above	7.5% ad.val.

FED rates enhanced on cigarettes

FED on cigarettes is levied on fixed rates. It is proposed to enhance the rates and redefine the thresholds, while abolishing the third-tier introduced earlier under Sr. No. 10a of the First Schedule:

S.No.	Description of goods	Tariff heading	Proposed FED rate
9	Locally produced Cigarettes if their on-pack printed retail price exceeds five thousand nine hundred and sixty rupees per thousand cigarettes.	24.02	Rs. 5,200 per 1000 cigarettes
10	Locally produced cigarettes if their on-pack printed retail price does not exceed five thousand nine hundred and sixty rupees per thousand cigarettes.	24.02	Rs.1,650 per 1000 cigarettes

The above rates of FED have also been notified vide SRO.608(I)/2019, dated 11 June 2019 to apply w.e.f. 12 June 2019.

A new clause is also proposed to be inserted under Section 19(2) of the Act to impose fine at Rs.20,000 in case any person sells cigarettes in retail at a price lower than the retail price plus the amount of sales tax as printed thereon.

FED rates also enhanced on other excisable goods

S.No.	Description of goods	Existing FED rate	Proposed FED rate
4	Aerated waters	11.5% of retail price	14% of retail price
5	Aerated waters, containing added sugar or other sweetening matter or flavoured	11.5% of retail price	14% of retail price
6	Aerated waters if manufactured wholly from juices or pulp of vegetables, food grains or fruits and which do not contain any other ingredient, indigenous or imported, other than sugar, colouring materials, preservatives or additives in quantities prescribed under the West Pakistan Pure Food Rules, 1965	11.5% of retail price	14% of retail price
13	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers	Rs.1.5 per kilogram	Rs.2 per kilogram
31	Liquified natural gas	Rs.17.18 per hundred cubic meters	Rs.10 per Million British Thermal unit (MMBTu)

FED levied on fruit juices, syrups and squashes

FED at 5% of retail price is proposed to be levied on fruit juices, syrups and squashes, waters containing added sugar or sweetening matter etc. excluding mineral and aerated waters.

FED reduced on domestic air travel services

S.No.	Description of goods	Existing FED rate	Proposed FED rate
3	Services provided or rendered in respect of travel by air of passengers within the territorial jurisdiction of Pakistan:		
	(i) Long routes	Rs.2000	Rs.1500
	(ii) Short routes	Rs.1250	Rs.900

Proceedings against persons committing financial malpractices

In order to effectively check misuse of authority to gain financial benefit, a new enabling provision is being introduced under the Act, to prescribe rules for initiating criminal proceedings against officers and officials of the Board who deliberately commit acts or fail to act for personal benefits. Similar action would also be taken against persons who offer bribes or other financial benefits to the tax officials.

Decreasing the legislative burden of Federal Government / Cabinet

Sales tax and Federal Excise laws are being scrutinized to assign powers for procedural matters to the Board instead of Federal Government. Yet, the substantive powers are likely to remain with the Federal Government. Accordingly, the words 'Board, with approval of the Minister-in-charge' are to be substituted by the words 'Federal Government' under Sections 2(23a), 7 and 22 of Federal Excise Act.

FED on unmanufactured tobacco to be borne by the manufacturer

An Explanation is proposed to be inserted under First Schedule to the Act, which clarifies that FED shall always be borne by the cigarette manufacturer and the burden of such duty shall not be passed on to the tobacco grower in any manner.

CUSTOMS

Significant Amendments

First Schedule

- Customs duty is proposed to be reduced from 3% to 0% on various raw materials/industrial inputs to incentivize local industry.
- Customs duty reduced in following other cases:

Description	Existing rate	Proposed rate
Acetic acid (2915.2100)	16%	11%
Oxalic acid (2917.1110)	11%	3%
Coniferous (4408.1000)	11%	3%
Dark Red Meranti, Light Red Meranti and Meranti Bakau (4408.3100) (4408.3900)	11%	3%
Other Wood Slate (4408.9090)	11%	3%
Fibreboard of wood or other ligneous materials, whether or not bonded with resins or other organic substances (44.11)		
Of a density exceeding 0.8 g/cm ² (4411.9200)	16%	11%
Not mechanically worked or surface covered (4411.9310)	16%	11%
Other (4411.9390)	16%	11%
Of a density not exceeding 0.5 g/cm ² (4411.9400)	16%	11%
Uncoated paper and paperboard, of a kind used for writing, etc (48.02)		
Printing paper (4802.5510)	20%	16%
Weighing 40 g/ m ² or more but not more than 150 g/ m ² , in sheets with one side not exceeding 435 mm and the other side not exceeding 297mm in the unfolded state (4802.5600)	20%	16%
In rolls (4802.6100)	20%	16%
Bobbins, spools, cops and similar supports of paper pulp, paper or paperboard (whether or not perforated or hardened) (48.22)		
Of a kind used for winding textile yarn (4822.1000)	20%	16%
Nonwovens, whether or not impregnated, coated, covered or laminated (56.03)		

Description	Existing rate	Proposed rate
Weighing not more than 25 g/m ² (5603.1100)	16%	11%
Weighing more than 25 g/m ² but not more than 70 g/m ² (5603.1200)	16%	11%
Weighing more than 70 g/m ² but not more than 150 g/m ² (5603.1300)	16%	11%
Weighing more than 150 g/m ² (5603.1400)	16%	11%
Weighing not more than 25 g/m ² (5603.9100)	16%	11%
Weighing more than 25 g/m ² but not more than 70 g/m ² (5603.9200)	20%	11%
Weighing more than 70 g/m ² but not more than 150 g/m ² (5603.9300)	16%	11%
Weighing more than 150 g/m ² (5603.9400)	16%	11%
Other round cans (7612.9040)	20%	11%
Other lead- acid accumulators (8507.2000)	35%	20%

Fifth Schedule (Reduced rate)

Condition for reduced rate withdrawn

Presently, agriculture machinery is allowed to be imported on reduced rate of customs duty subject to the condition that the agriculture machinery shall be used by agriculture sector. Now, the Bill proposes to omit such condition.

Goods subject to reduced rate of customs duty proposed

- Machinery, equipment and other capital goods meant for initial installation, balancing, modernization, replacement or expansion of oil refining (Hydro-cracking) and solar air water is proposed to be inserted.
- Solar air water generator
- Plant and machinery as imported by the green field industries, intending to manufacture

taxable goods subject to certain specified conditions.

- Plant, machinery, equipments and materials as are not manufactured locally, imported for the infrastructure development of Large Diameter Gas Pipeline project by the Ministry of Energy (Petroleum Division) subject to certain specified conditions.
- Cystagon, Cysta drops and Trientine Capsules (for personal use only)
- Lithium iron phosphate battery (Li-Fe-PO₄)
- Good imported under various tariff heading if imported by manufactures of diapers/sanitary napkins and infant formula milk, registered under the Sales Tax Act, 1990 subject to certain specified conditions.
- Chemicals imported under various tariff hearing if imported by manufactures of hemodialyzers, registered under the Sales Tax Act, 1990 subject to certain specified condition.
- Aluminum sheet, coils and foil.
- Carbon steel strip of size 0.1x22.20mm.
- AKD wax and dispersing agents.
- Goods imported under different tariff hearings by manufactures of Home Appliances, registered under the Sales Tax Act, 1990 subject to specified conditions.
- Base oil.
- CNG vehicle conversion kits.
- Natural gas.

- Goods imported under various tariff headings as specified in newly inserted Table C of Part VII of Fifth Schedule.

Deletion of certain goods from reduced rate proposed

- Plant, machinery and equipment imported during the period commencing on the 1st July, 2014 and ending on the 30th June, 2019 for setting up Industries in FATA.
- Lead Acid Batteries for Telephone Exchanges
- Set top boxes for gaining access to internet, TV broadcast transmitter, Reception apparatus for receiving satellite signals of a kind used with TV (satellite dish receivers) and Other set top boxes.

Definition

Following definitions are proposed to be inserted:

- a) Customs controls means measures applied by the officers of customs or through Customs Computerized System to manage risks and ensure compliance.
- b) Risk Management System means the systematic application of Customs Controls and Management Procedures on pre- arrival, Customs clearance processes and post clearance of goods and passengers, for identifying, analyzing, evaluating, monitoring, reviewing and treating the risk associated with them.
- c) Selectivity Criteria means the risk parameters determined by the Risk Management Committee constituted under the rules for the application of Risk Management System

Transfer of powers

It is proposed to transfer powers of the Federal Government to the FBR with or without approval of Federal Minister-in-charge in the following cases:

- i. Levy of fee and service charges
- ii. Notify any specific date for the determination of rate of duty on goods imported or exported.
- iii. Notify any specific date for the determination of rate of duty, applicable to any imported or exported goods, if cleared through the Customs Computerized System.
- iv. Determine the date for application of all or specific provision of the Customs Act, 1969 relating to the Customs computerized system on any Customs station.

General power to exempt from customs duties

The Bill proposes to omit the power of the Federal Government to grant exemption of customs duty in relation to development of backward areas or removal of anomalies in duties.

Power to determine the customs value

The Bill proposes to withdraw the powers of the Collector of Customs to determine value of the imported or exported goods on his own motion or on a reference made to him by any person.

Audit of exporter's record

The amendment is proposed to give legal cover to proceedings to recover amount pointed out as a result of audit of exporter's record in addition to importer's record.

Mis-declaration of value for illegal transfer of funds abroad

The Bill proposes a new section to provide that where any person overstates the value of imported goods or understates the value of exported goods or *vice versa*, such person shall be served with a notice within a period of two months from the seizure of goods to show cause as to why such goods may not be confiscated.

Refund to be claimed within one year

The Bill empowers the Board to allow sanction of refund subject to pre-audit and to specify jurisdiction and powers of the Customs officers to sanction refund in terms of amount of Customs duty and other taxes.

Application of risk management system

A new section is proposed to be inserted for application of risk management system in such manner as may be prescribed by rules.

Provisional determination of liability

The Bill proposes to extend the scope of provisional assessment of exported goods besides imported goods.

Power of Prime Minister in lieu of Federal Government

It is proposed that the Prime Minister instead of Federal Government shall be empowered to carry out the following work in consultation with the Chief Justice of the concerned High Court.

- i. Appointment of special Judge Customs

- ii. Transfer of cases from the jurisdiction of one Special Judge Customs to another.

Appellate Tribunal

The Bill proposes to substitute the section where Customs Appellate Tribunal shall consist of a chairman and such other judicial and accountant members as are appointed by the Prime Minister. Criteria for judicial member of the Appellate Tribunal are as under:

- a) a judge of a High Court;
- b) exercised powers of a District Judge and is qualified to be a judge of the High Court; or
- c) an advocate of a High Court and is qualified to be appointed as a judge of a High Court alongwith certain additional conditions.

Criteria for technical member of an Appellate Tribunal are as under:

- a) an officer of Pakistan Customs Service equivalent in rank to the Member of the Board or Chief Collector of Customs or Director General; or
- b) a Collector or Director or Chief of the Board having at least three years experience in that position.

The Prime Minister shall appoint one of the Members of the Appellate Tribunal to be the chairman.

Alternative Dispute Resolution

The Bill proposes to substitute the section of Alternative Dispute Resolution in order to align the provisions of Alternative Dispute Resolution given in other taxing statute.

Owner to make all arrangements and bear all expenses

Presently, this section was applicable to importers. The Bill proposes to expand the application of this section to exporters in relation to make all arrangements and bear all related expenses.

Mobile Handset Levy

Reduction in rates

The Mobile Handset Levy was first introduced vide Finance Act 2018. Subsequently, 6-slab rate table was enacted vide Finance Supplementary (Second Amendment) Act, 2019. Now, the rates of the levy are being reduced, while maintaining exemption on low-price mobile phones:

S. No.	Mobile Phones having C&F Value (US Dollars)	Existing Rate of levy per set in Pak Rupees	Proposed Rate of levy per set in Pak Rupees
1.	Upto 30	Nil	Nil
2.	Above 30 and upto 100	Nil	Nil
3.	Above 100 and upto 200	500	400
4.	Above 200 and upto 350	1500	1200
5.	Above 350 and upto 500	3500	2800
6.	Above 500	7000	5600



Asset Declaration

The Federal Government has promulgated “the Asset Declaration Ordinance, 2019” as one of the initiations towards documentation of economy for the purpose of economic revival and growth by encouraging tax compliance.

The Government now proposes to introduce this as an Act of Parliament as the Asset Declaration Act, 2019” [the Proposed Act] to sanctify the law and to enhance clarity wherever needed.

The key features of the Proposed Act are as follow.

Scope and applicability

The proposed Act shall extend to the whole of Pakistan.

This provisions of the Proposed Act shall apply to undisclosed assets acquired, undisclosed expenditure incurred and undisclosed sales made up to June 30 2018 and benami assets acquired or held on before the date of declaration.

Any person may make declaration on or before 30 June 2019 in respect of any:

- a) Undisclosed assets, held in Pakistan and abroad, acquired up to 30 June 2018;
- b) Undisclosed sales made up to 30 June 2018;
- c) Undisclosed expenditure incurred up to 30 June 2018; or
- d) Benami assets acquired or held on or before the date of declaration.

The Proposed Act provides that assets, sales and expenditure incurred up to 30 June 2018 can be declared.

The benefit of the Proposed Act shall also be available to the undisclosed assets, expenditures and sales in respect of which any proceedings have

been initiated or are pending and have not attained finality under the Income Tax Ordinance, 2001, the Sales Tax Act, 1990 or the Federal Excise Act, 2005 respectively.

Exclusions

The benefit of this Act shall not apply to:

- holders of public office as defined in the Voluntary Declaration of Domestic Assets Act, 2018 or his benamidar as defined in the Benami Transactions (Prohibition) Act, 2017 or their spouses and dependents.

The definition of dependents has not been provided under this Act, henceforth resort to dictionary meaning may create disputes;

- Public company as defined in clause (47) of section 2 of the Income Tax Ordinance, 2001;
- any proceeds or assets that are involved in or derived from the commission of a criminal offence;
- gold, precious metals, precious stones or jewelry;
- bearer prize bonds;
- bearer securities;
- bearer shares, bearer certificates, bearer bonds or any other bearer assets;
- Proceedings pending in any court of law.

Key definitions

Board

Board shall have the same meaning as defined in clause (8) of section 2 of the Income Tax Ordinance, 2001 (XLIX of 2001);

Declarant

Declarant means a person making a declaration under section 3;

Undisclosed assets

“Undisclosed assets” means all domestic and foreign assets of every kind the value of which has been unreported, under-reported or understated and includes benami assets as defined in the Benami Transactions (Prohibition) Act, 2017 (V of 2017);

Undisclosed expenditure

Undisclosed expenditure means any unexplained or unaccounted expenditure under the provisions of the Income Tax Ordinance, 2001 up to the tax year 2018, which has not been declared in the return of income or for which a return of income has not been filed and such expenditure is not accounted for;

Undisclosed sales

Undisclosed sales means sales or supplies chargeable to sales tax or goods or services subject to federal excise duty under the Sales Tax Act, 1990 or the Federal Excise Act, 2005, respectively, which were not declared or have been under-declared up to 30th June 2018.

Holder of public office

Holder of public office means a person as defined in the Voluntary Declaration of Domestic Assets Act, 2018 or his Benamidar as defined in the Benami Transactions (Prohibition) Act, 2017 or their spouses and dependents.

Valuation for declaration

The valuation of assets declared shall be computed in the following manner:

S.No.	Asset	Type	Value
a	Domestic immovable property	Land / Constructed Property If value notified by FBR under sub section 4 of section 68 of the Income Tax Ordinance, 2001	Cost of acquisition but not less than 150% of the FBR value
		Land / Constructed Property If value not notified by FBR or the FBR value is less than the DC value	150% of the DC value
		If FBR value notified for Land but not notified for constructed property under sub section 4 of section 68	150% of the FBR value notified for land and 150% of DC value for constructed property
b	Other assets.	All other assets	Fair market value on the date of declaration but should not be less than the cost of acquisition. In the case of foreign assets, the fair market value shall be determined at the exchange rate prevalent on the date of declaration.

It has been clarified that:

- The value of immovable property declared under the Income Tax Ordinance, 2001 or Voluntary Declaration of Domestic Assets Act, 2018 could be enhanced by filing a declaration under this Act.
- No further action or proceedings will be taken if the earlier declaration filed in respect of an immovable property is in line with the provisions of section 68 of the Income Tax Ordinance, 2001.

Conditions for declaration

The Act has placed following conditions for declaration relating to liquid assets:

S.No.	Asset	Deposit/ Invest	Retention required up to
1	Cash held by the person	Bank account in the manner specified at the time of declaration	30 June 2019
2	Foreign currency held by the person	Foreign Currency Bank Account maintained in Pakistan at the time of declaration	30 June 2019
3	Foreign Liquid Assets-Repatriated to Pakistan	Rupee Bank Account	Not required
		Foreign Currency Bank Account maintained in Pakistan	
		Investment in Pakistan Banao Certificates	
		Any foreign currency dominated bonds issued by Federal Government	
4	Foreign Liquid Assets – Not repatriated to Pakistan	Declarant's Foreign Bank Account and shall be deposited on or before 30 June 2019	Not required

Rates of tax

The rates of tax imposed on undisclosed assets, sales and unexplained expenditures are as follows:

S.No.	Description	Rate (%)
1	All Assets except Domestic immovable properties	4
2	Domestic immovable properties	1.5
3	Foreign Liquid Assets not repatriated	6
4	Unexplained expenditures	4
5	Undisclosed Sales	2

Due date of payment and default surcharge

The due date of payment of tax under this Act shall be on or before 30 June 2019. However, tax could be paid up to 30 June 2020 along with the payment of default surcharge as follows.

S.No.	Description	Rate (% of Amount of Tax)
1	Tax is paid after 30 June 2019 but before 30 September 2019	10
2	Tax is paid after 30 September 2019 but before 31 December 2019	20
3	Tax is paid after 31 December 2019 but before 31 March 2020	30
4	Tax is paid after 31 March 2020 but before 30 June 2020	40

Non-payment of tax and default surcharge within the due date will make the declaration void.

Payment of outstanding demand

The declarant may pay the outstanding demand as determined by the officer of Inland Revenue under the Sales Tax Act, 1990 or the Income Tax Ordinance, 2001 or the Federal Excise Act, 2005 without payment of default surcharge and penalty.

This option shall be available even in the cases where the proceedings are pending in any court of law i.e. High Court or Supreme Court of Pakistan.

Mode and manner of repatriation of assets and payment of tax

The State Bank of Pakistan shall notify the mode and manner of repatriation of assets to Pakistan, deposit of tax and method of conversion of value of asset held outside Pakistan in Pak rupee.

Incorporation in books of account

Consequent to payment of tax on undisclosed assets, sales and expenditures as the case may be, the declarant shall be entitled to record such assets, sales or expenditures in his return, wealth statement or financial statement irrespective of the fact that the assets, sales or expenditures related to a year which is barred by time for revision of return or wealth statement.

Further, no allowance, credit or deduction shall be available on assets under any law so incorporated. It seems depreciation expense would also not be admissible on depreciable assets.

Non refundability

The amount of tax or default surcharge paid under the Act shall not be refundable.

The Act primarily relates to tax paid on undeclared assets, sales, expenditures or benami assets, it however also contain provision for payment of outstanding tax demand relating to pending litigation.

While this clause relates to tax paid on undeclared assets, sales, expenditures and benami assets, however the Act has not provided any exclusion from this restriction for payment of outstanding tax demand relating to pending litigation if later settled in favour of the declarant.

Treatment for undisclosed assets or undisclosed expenditure resulting from undisclosed sales

Where a person declares undisclosed sales and in case of undisclosed assets or undisclosed expenditures resulting from such sales, he is also required to declare such assets or such expenditures or both and pay tax at the rates specified in the Schedule to this Act on such assets

or expenditures or both in addition to tax on such sales.

Where the declarant has paid tax under section 6 of the Act, on, undisclosed assets, undisclosed expenditures; and undisclosed sales

- No tax shall be payable by the declarant under the Income Tax Ordinance, 2001 (XLIX of 2001) in respect of undisclosed assets and undisclosed expenditures.
- In case of undisclosed sales no tax shall be payable by the declarant under the Sales Tax Act, 1990 or the Federal Excise Act, 2005.

Misrepresentation

Declaration made through misrepresentation or suppression of facts would be considered as void irrespective of the provisions of the Act.

Revision of original declaration

A person may file a revised declaration after filing of an original declaration in case a person finds any omission, mistake, computational error or wrong statement therein within the due date specified in section 3 of this Act subject to the condition that the value of asset or tax thereon shall be more than value of asset or tax thereon, declared in the original declaration.

Other matters

- The information of person making a declaration shall be kept confidential irrespective of the provisions of section 216(3) of the Income Tax Ordinance, 2001 except clauses 'a' & 'g' of said sub section, including the Right of Access to Information Act, 2017 and any other law for the time being in force.

- The provisions of the Act shall prevail notwithstanding to the contrary contained in any other law for the time being in force.
- Declaration would not be considered as admissible evidence against the declarant for the purpose of any proceedings relating to imposition of penalty or prosecution under any law.
- FBR may make rules including manner, procedure and payment of tax and conditions under which the declaration shall be filed.
- If any difficulty arises in giving effect to the provisions of the Act the Federal Government may by notification in official gazette remove such difficulty as in inconsistent with the provision of this Act.

Issues for consideration / clarification

There are certain matters that would require consideration / clarifications.

- The definition of undisclosed sales doesn't cater for the services receipts earned by service sector tax payers subject to tax under provincial laws. Though the intent behind this promulgation would not be so still this may be treated as a discriminatory exclusion.
- The definition of undisclosed sales doesn't include exempt sales made by the tax payers under Sales tax Act.
- The matter of disclosing corresponding undisclosed liability needs to be considered in case of disclosure of undisclosed asset (receivable) by the tax payer.
- In respect of benami assets declared under this Act, it is our view that income earned from such assets during the year 2019 will be chargeable to tax in respective tax year.

- Under this Act undisclosed expenditures include both un-explained and unaccounted expenditure, however the rate of tax has been specified only for unexplained expenditures. This may lead to dispute with respect to rate of tax for unaccounted expenditures.

Restriction of proceedings

The Bill proposes to insert a new provision to restrict proceedings on declaration made under the Assets Declaration Act, 2019.

It is proposed that no proceedings shall be undertaken under the Ordinance against the person who declares undisclosed assets, undisclosed expenditures and undisclosed sales under the Assets Declaration Act, 2019.

It is further proposed that the particulars of the person making declaration or any information received in respect of such / any declaration made under the said Act shall be kept confidential except for the requirement of disclosures of information mentioned in clauses (a) and (g) of sub-section (3) of section 216 of the Ordinance.



Islamabad Capital Territory (Tax on Services) Ordinance, 2001

Sales tax in case of call centers

Sales tax has been proposed to be reduced from eighteen and a half per cent (18.5%) to seventeen per cent (17%) on the services provided by the call centers.

Enhancement in scope of services

To harmonize the sales tax on services with other Provinces the followings new services are proposed to be brought in tax net:

Description	PCT Heading if applicable	Rate of tax
Advertisement on hoarding boards, pole signs and signboards and websites or internet	9802.9000	Sixteen percent
Services provided by landscape designers	9814.4000	Sixteen percent
Sponsorship services	9805.9100	Sixteen percent
Services provided or rendered for purchase or sale or hire of immovable property	-	Sixteen percent
Services provided or rendered by legal practitioners and consultants	9815.2000	Sixteen percent
Services provided by accountants and auditors	9815.3000	Sixteen percent
Service provided or rendered by Stockbrokers, future brokers and commodity brokers, money exchanger, surveyors, outdoor photographers, event photographers, videographers, art painters, auctioneers (excluding value of goods) and registrar to an issue	9819.1000, 9819.2000, 9819.5000, 9819.7000, 9819.8000, 9819.9100, 9819.9500 and 9819.9090	Sixteen percent
Services provided by race clubs: Entry/admission and other services	-	Sixteen percent
Services provided or rendered by corporate law consultants	9815.9000	Sixteen percent
Visa processing services including advisory or	-	Sixteen percent

Description	PCT Heading if applicable	Rate of tax
consultancy services for migration or visa application filing services		
Debt collection services and other debt recovery services	-	Sixteen percent
Supply chain management or distribution (including delivery) services	-	Sixteen percent
Services provided or rendered by persons engaged in intercity transportation or carriage of goods by road or through pipeline or conduit	-	Sixteen percent
Ready mix concrete services	-	Sixteen percent
Public relations services	-	Sixteen percent
Training or coaching services other than education services	-	Sixteen percent
Cleaning services including janitorial services, collection of waste and processing of domestic waste	9822.2000, 9822.3000 and 9822.9000	Sixteen percent



The Stamp Act, 1899 (II of 1899) as in force in ICT

Valuation of immovable property

- The Finance Bill proposes that the valuation of immovable property shall be calculated according to the valuation table notified by the District Collector for the payment/charge of stamp duty at *ad valorem* basis. The stamp duty on exchange of property or Gift as per articles 33 or 35 is 4% of the value of property.
- Where an instrument relating to immovable property consists of land and structure, the value of property and structure is proposed to be stated separately in the instrument. The Bill proposes to charge duty on the amount of consideration in the instrument for such transfer or value as per valuation table, whichever is higher.
- The Bill proposes that where the value given in the valuation table, when applies to any immovable property appears to be excessive, the Deputy Commissioner or Commissioner (Revenue) or any other person notified by the Government may determine its correct value for the purposes of determination of the value of the property upon the application of the aggrieved person.

Stamp Duty on instruments

Schedule-I

The Bill proposes certain new instruments to be covered under the Schedule-I as well as amendments in the existing instruments already covered therein with enhanced stamp duty rates.

New instruments proposed for Stamp Duty

The following new instruments are proposed to be included under Schedule-I for charge of Stamp Duty:

Article	Description of instrument	Rate
11	Articles of Clerkship or contract whereby any person first becomes bound to serve as a clerk in order to his admission as an attorney in any High Court	Rs. 1,000
12	Air Tickets issued by any Airlines <ul style="list-style-type: none"> - For domestic flights - For international flights 	Rs. 25 per ticket Rs. 250 per ticket
13	Authenticated Declarations (declaration of newspaper, periodicals or printing presses authenticated by legally competent authority) It is proposed that the duty shall be paid by the declarant and shall not be authenticated unless the duty is paid	5,000 per declaration
29	Decree, Rule of a Court or an Order of the Court based on mutual consent of parties in cases involving transfer on an immovable property including sale, exchange, gift or mortgage, declaring or conferring a right in or title to an immovable property	4% of the value of property
32	Entry as an Advocate or Attorney on the roll of any High Court under the Legal Practitioners and Bar Councils Act, 1973 <ul style="list-style-type: none"> a) in the case of an Advocate b) in the case of an Attorney 	Rs. 1,500 Rs. 2,000

Rationalization in rates of Stamp Duty

The Bill proposes to rationalize the rates of stamp duty from the existing rates for the instruments covered under the Schedule-I applicable in the Islamabad Capital Territory.

The West Pakistan Motor Vehicles Taxation Act, 1958 as in force in ICT

Category and rates substitution

The rates of token tax and category of vehicles from the existing rates and category is proposed to be enhanced. The the proposed token taxes are as follows:

Table 1 – Motor Cycle and Scooter

S. No.	Category	Proposed Rate
1	Motorcycle and Scooter up to 200 cc	1,000 (life time)
2	Motorcycle and Scooter from 201 cc to 200 cc	2,000 (life time)
3	Motorcycle and Scooter from 401 cc and above	5,000 (life time)

Quarterly rates shall not be applicable to lifetime tax.

Table 2 – Motor Vehicles

S. No.	Category	Proposed Rate
1	Engine capacity up to 1,000 CC	Rs. 10,000 (life time provided that quarterly rate shall not be applicable to life time tax)
2	Engine capacity from 1001 to 1300 CC	1,500 per annum
3	Engine capacity from 1301 to 1500 CC	4,000 per annum
4	Engine capacity from 1501 to 2000 CC	5,000 per annum
5	Engine capacity from 2001 to 2500 CC	8,000 per annum
6	Engine capacity from 2501CC and above	12,000 per annum

Table 3 – Motor Cabs up to 6 seats

S. No.	Category	Proposed Rate
1	Motor Cabs up to 6 seats engine capacity up to 1,000 CC	600 per annum
2	Motor Cabs up to 6 seats engine capacity up to 1,001 and above	1,000 per annum

Table 4 - Public Service Vehicle

S. No.	Category	Proposed Rate
1	Public service vehicle (8 seater)	200 per seat per annum
2	Public service vehicle (13 seater)	250 per seat per annum
3	Public service vehicle (15 seater)	300 per seat per annum
4	Public service vehicle (16 seater)	300 per seat per annum
5	Public service vehicle (42 seater)	400 per seat per annum
6	Public service vehicle (52 seater)	500 per seat per annum

Table 5 – Commercial Vehicles and Loading Vehicles

S. No.	Category	Proposed Rate
1	Vehicles not exceeding 1250 KG in laden weight	500 per annum
2	Vehicles with maximum laden capacity exceeding 1250 KG but not exceeding 2030 KG	800 per annum
3	Vehicles with maximum laden capacity exceeding 2030 KG but not exceeding 4060 KG	2,000 per annum
4	Vehicles with maximum laden capacity exceeding 4060 KG but not exceeding 6090 KG	3,000 per annum
5	Vehicles with maximum laden capacity exceeding 6090 KG but not exceeding 8120 KG	3,500 per annum
6	Vehicles with maximum laden capacity exceeding 8120 KG	4,000 per annum

West Pakistan Finance Act, 1964

As In force in ICT

Tax on trades, professionals, callings and employments

The Finance Bill seeks to substitute the existing professional tax on trades, professionals, calling and employments as per the following schedule:

S. No.	Categories	Rates of tax per annum in ICT (Rupees)
1	Companies registered under the Companies Act 2017 having;	
a.	Capital Upto PKR 5 million but not exceeding PKR 10 million	7,000
b.	Capital exceeding PKR 5 million but not exceeding PKR 50 million	18,000
c.	Capital exceeding PKR 50 million but not exceeding PKR 100 million	35,000
d	Capital exceeding PKR 100 million but not exceeding PKR 200 million	80,000
e.	Capital exceeding PKR 200 million	90,000
f.	Employees not exceeding 10	1,000
g.	Employees exceeding 10 but not exceeding 25	2,000
h.	Employees exceeding 25	5,000
2	Lawyers	1,000
3	Members of Stock Exchanges	5,000
4	Money Changer	3,000
5	Motorcycle Dealers	5,000
6	Motor Car Dealers and Real Estate Agents	10,000
7	Health Clubs, Gymnasiums & Others	5,000
8	Recruiting Agents	10,000
9	Jewelers, Departmental Stores, Electronic Goods Stores, Cable Operators, Printing Presses and Pesticide Dealers	1,000
10	Tobacco Vendors – Wholesalers	2,000
11	Medical consultants or specialists/dental surgeons	5,000
12	Registered medical practitioners	2,000
13	others	1,000

West Pakistan Finance Act, 1965 as in force in ICT

Levy and collection of bed tax

The Finance Bill proposes to charge and collect bed tax at the rate of 5% of the invoice or bill excluding sales tax and other applicable taxes from those hotels which are situated within the territorial jurisdiction of Islamabad and consist of atleast 25 lodging units (i.e. Number of bed rooms).

Sectoral Analysis

In this chapter we have summarized the amendments proposed in the Income Tax Ordinance, 2001, Sales Tax Act, 1990 and Federal Excise Act, 2005 where applicable in the following four sectors of the businesses.

Banking and insurance

With respect to banking companies, the Bill proposes to enhance the general rate of 35% to 37.5% as regards additional income from Federal Government securities. The primary objective behind this move appears to divert investment from traditionally safe government securities to private credit; though it may not be out of context to mention that the banking industry is already subject to highest effective corporate tax rate of 39% (including super tax of 4%) without any exemption.

Nevertheless, the proposed amendment for taxation of additional income from additional investment in securities appears to be poorly drafted and needs to be revisited for clarification. It is pertinent to note that the budget documents accompanying the Bill explain the purported objective of this proposal to tax income from the government securities at a higher rate insofar it exceeds 20% of the total income of the bank. The Bill however does not reflect this as it provides a different formula for computation of taxable income; albeit in a not so understandable way. We therefore consider this matter requiring immediate attention of FBR as the proposal is to be effective for the ongoing tax year.

There is a further proposal to tax reversals of provisions against debts classified as 'doubtful' or 'loss' on the premise that these provisions were earlier allowed to the industry under the general rule for admissibility of provisions up to 1% of total advances (5% for advances to SME). This is however likely to trigger litigation as the provisions against 'doubtful' and 'loss' advances are not admissible in entirety to a banking company; the deduction being limited to the 1%/5% threshold.

Henceforth, the threshold for admissibility of 1%/5% is also proposed to be limited to provisions against 'loss' category of advances only; meaning thereby that provision against advances classified as 'doubtful' will no more be tax deductible. It is pertinent to mention that provision against advances classified as 'sub-standard' is already inadmissible.

The Bill also proposes penalty of Rs. 10,000, enhancing to Rs. 10,000 per month for continued default, for non-compliance with reporting requirements under Common Reporting Standards Rules contained in Chapter XIIA of the Income Tax Rules, 2002.

The Bill also clarifies that Scheduler taxation is no bar for the commissioner for the proposed to examination of accounts of banking and insurance companies for tax audit.

In short, there is no respite for the banking industry, not that one was expected!

Non-financial services

Non-financial services are presently subject to withholding tax at rates ranging from 2% (for transport services) to 15% (for non-filers who are also non-corporates). The companies suffer withholding tax at 8% and 12% depending upon their filer status with FBR. While the tax so withheld is adjustable against eventual tax liability, it is treated as 'minimum tax' in case such liability falls short of tax withheld. An exception is provided for specified service providers to pay tax at reduced rate of 2% of turnover and obtain withholding tax exemption with respect to their receipts.

These specific sectors are freight forwarders, air cargo service providers; and those providing courier services, manpower outsourcing services, hotel services; security guard services; software development; IT services and IT enabled services; tracking services; advertisement services; share

registrar services; engineering services; car rental services; and building maintenance services.

The Bill proposes to do away with the concession granted to these service providers which in fact was earned by them after a long drawn process after the law for minimum tax was brought in through the Finance Act, 2015. However, a reduced rate of 4% has been proposed on their receipts which will continue to be minimum tax. Henceforth, it will no more be possible for those sectors to seek exemption from withholding tax as is currently the case.

The minimum tax regime is further proposed to be extended to construction contractors who are presently under final tax regime. Henceforth, tax withheld at 7% of receipts will no more be final discharge of tax liability, but adjustable against corporate tax liability in the same manner as for other service providers.

The present rate of 2% for transport services is also being increased to 4%.

The Bill also broadens the ambit of services subject to sales tax in the Islamabad Capital Territory in line with taxable services in provinces. The most notable amendments being imposition of 16% sales tax on services rendered by legal practitioners, accountants, auditors and corporate law consultants; besides bringing into tax net visa processing services, cleaning services, debt collection services, inter-city transportation services and supply chain management services, *amongst others*. In a similar way, internet services rendered in ICT have been subjected to flat 17% excise duty, though provincial sales tax laws of Punjab and Sindh provide certain exemptions on this service.

The proposed amendments are likely to bring in significant inflationary effect by increasing the cost of services and ultimately, the cost of doing business.

Large scale manufacturing

While contributing only 10% of GDP, large Scale Manufacturing [LSM] contributes substantially to FBR's total tax collection in the form of corporate tax, withholding income tax and sales tax. However, with the exception of exporters, the sector has not received due attention from the policy makers, to the extent it recorded sharp decline of 10.63% in March 2019 on a Year-on-Year basis compared to increase of 4.7% in March 2018.

The Bill contains no substantial relief for LSM industry as the reduction in future corporate tax rates given last year is proposed to be withdrawn and the rate of 29% applicable at present will continue to apply till further change. In addition, the following taxation measures will affect the industry:

Income tax

- Withdrawal of 10% tax credit on balancing, Modernization and Replacement [BMR] of plant and machinery. The credit is currently available for investments till Tax Year 2021; but is proposed to be withdrawn effective Tax Year 2020, while being reduced to 5% for the Tax Year 2019.
- Tax non-admissibility of commission paid to agents who are not on FBR's active taxpayer's list and are not registered under the Sales Tax Act, 1990; where the amount of commission exceeds 0.2% of the supplies made through such agent.
- Abolition of 15% initial allowance on purchase/construction of a new building, including factory premises;
- Penal consequences in the form of enhancement of income by 75% of the dealers' margin with respect to specified supplies made through dealers who are not on FBR's active

taxpayer's list and are not registered under the Sales Tax Act, 1990;

- Enhancement in the Commissioner's powers to conduct transfer pricing audit;

The Bill however proposes a tax credit on employing fresh graduates and provides for settlement of assessed tax refunds through bonds in line with similar provision in the Sales Tax law.

Excise duty

- Enhancement of excise duty applicable on locally manufactured cigarettes, cement, and rationalization of duty on locally assembled cars.
- Duty on steel billets, ingots, ship plates, bars and other long re-rolled products is proposed to be charged at 17% ad valorem in sales tax mode.
- Minimum production for steel billets and ingots, steel bars and other rolled long profiles of steel and ship plates to be determined in accordance with the specified criterion.
- Duty on edible oil excluding opoxidized soyabean oil to be enhanced from 16% to 17% ad valorem.
- Duty on vegetable ghee and cooking oil in retail packing to be enhanced from 16% to 17% of retail price and not in retail packing from 16% to 17% ad valorem.
- Rate of Duty on different categories of aerated water is being enhanced from 11.5% to 14%.
- Existing Duty rate of Rs.17.18 per 100 cubic meter on Liquefied Natural Gas is being replaced with Rs.10.0 per Million British Thermal Unit.

Sales tax

- Imposition of sales tax on retail price of various household appliances and consumer goods
- Increased compliance with sales tax withholding regulations.

Real estate

Taxing the gains made from transactions in real estate has always been a conundrum for the taxation authorities; given the huge size of this economy as well as under-reporting of transaction values. Various amnesty schemes have been introduced from time to time to incentivize declaration of hitherto undisclosed immovable properties. The present Government brought its own 'Assets Declaration Ordinance' in May 2019, proposed to be enacted now as an Act, to whiten undeclared immovable assets on nominal tax payment of 1.5% of value (to be computed as prescribed) by 30th June 2019.

As a general rule however, gain from sale of immovable property held for less than 3 years is subject to income tax at rates ranging from 5% to 10%.

With the aim to enhance revenue base from real estate sector post June 2019, the Finance Bill proposes to enhance the minimum non-taxable holding threshold for the property from 3 years at present to 10 years for an open plot and 5 years for constructed property. Henceforth, capital gain will be computed in accordance with the holding period and will be subject to tax at part of other taxable income of the seller. However, only 75% of the gain will be taxable with respect to a plot / property held for over a year. Accordingly, for a company selling a construed property after 30 June 2019 where such property was held for three years, 75% of the gain will be taxable at corporate rate of 29%.

It was mentioned by the State Minister in his budget speech that FBR will be revising the notified valuation rates of the properties to make them more realistic in line with actual market values which are much higher. Accordingly and in view of higher valuation, the Bill proposes to reduce adjustable withholding tax of 2% on purchase of property exceeding Rs. 4 million to 1% irrespective of the value of property. In a similar way, the rate of withholding tax for seller is also proposed at 1%, adjustable against eventual tax liability.

With specific reference to properties in Islamabad Capital Territory, the Bill provides for amendments in the basis of computation of stamp duty which will henceforth be payable on value of property as computed in accordance with the District Collector's rates, or the actual value declared in the transfer instrument if higher, for the specific area. The rate of duty however continues to be 4%.



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