BUDGET DIGEST

2018-19

J.A.S.B. & Associates
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PREAMBLE

This digest summarises important changes proposed in the Finance Bill 2018 (herein after referred as "Finance Bill") relating to Income Tax, Sales Tax, Federal Excise Duty and Customs Duty and has been prepared for the guidance and information of our clients and staff only.

Subject to approval of the National Assembly, all changes through the Finance Bill is effective from July 1, 2018, unless otherwise specifically stated.

It is recommended that while considering the application of the proposed amendments discussed here-in-after, reference should be made to the specific wordings of the relevant statute.

The digest can be accessed & downloaded from www.jasb-associates.com

J.A.S.B. & Associates **May 01, 2018**
Chartered Accountants

VOTE OF THANKS

We would like to sincerely thank the team JASB for putting in round the clock efforts to make this Budget Digest 2018-19 possible in such a short time.
We hope and believe that this document would assist our clients and team members in better understanding and evaluation of the budget proposals.
As part of our strategy for continuous improvement, we highly appreciate feedback on the document.

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1. SALIENT FEATURES

INCOME TAX

- Individual tax rate slabs have been proposed to be revised in line with tax reforms package. Maximum rate of tax for individuals (both salaried and non-salaried) is reduced to 15%.

- Association of Persons tax slabs have also been proposed to be reduced with the highest slab reduced to 30% from 35%.

- Corporate tax rate for companies have been proposed to be gradually reduced from the current 30% to 25% till tax year 2023.

- Super tax has been proposed to be gradually reduced and finally abolished by 2021.

- The following reforms are proposed to be introduced in the real estate sector:
  - Property transactions shall be recorded at the value declared by the buyer and the seller.
  - Property rates notified by FBR (for the purpose of collection of taxes on sale purchase of property) and DC rates are to be abolished.
  - At the Federal level, a 1% adjustable advance tax from the purchaser on the declared value shall be collected and this tax shall replace the existing withholding tax on sellers and purchasers of property.
  - Provinces shall be requested to abolish the provincial rates for the collection of stamp duty (commonly known as DC rates) and to collect a total of one percent tax under stamp duty and capital value tax on the value declared by the buyer and the seller of property.
  - In order to deter under declaration and consequent loss of revenue, FBR shall have the right to purchase any property within six months of registration by paying a 100 % more than the declared value.

- During the last few years Pakistan has become signatory to various international tax agreements. The primary purpose of these agreements is to prevent profit shifting from Pakistan and safeguard the tax base. The following anti-abuse provisions are now proposed:
  - Expansion of the definition of permanent establishment in the principal agency relationship.
  - Introducing a new concept of cohesive business operations.
  - Taxation of gain on disposal of Pakistani assets by a foreign entity.
  - Making the agreements for avoidance of double taxation subject to the provisions of re-characterization of income and deductions.
  - Expansion of the scope and power of the tax authorities, to disregard an entity or a corporate structure that does not have economic or commercial substance.
  - Income of a resident person to include the income attributable to a controlled foreign company.
  - Resident taxpayers required to file a separate statement of foreign income and foreign assets if these are above certain threshold.

- Tax at 5% on issuance of bonus shares is proposed to be abolished.

- Tax on undistributed profits is proposed to be reduced from 7.5 % to 5%, while the condition of distributing 40% of after tax profits is reduced to 20%.

- The limit of investment in shares, Sukuks or life insurance premium has been enhanced from Rs.1.5 million to Rs.2 million for claiming tax credit.

- Time for availing tax credit for investment in BMR, in newly established industrial undertakings and in plant and machinery through mostly equity has been extended from 2019 to 2021.

- Minimum threshold of withholding tax has been proposed to be increased from Rs. 10,000 to Rs. 30,000 for payment for services and from Rs. 25,000 to Rs. 75,000 for payment for goods.

- The condition for getting stay of income tax demand by paying 25 % of the total tax demand during pendency of appeal before Commissioner (Appeals) is proposed to be reduced to 10%.

- Set off of brought forward depreciation losses is now limited to the extent of 50% of the business income for a tax year where the annual taxable income is Rs.10 million or above.

- The benefit of non-recognition of taxable benefit in the form of gift, only to the gift, received from immediate relatives.

- The exemption of foreign exchange remittance from outside Pakistan through normal banking channel is proposed to be restricted to Rs. 10 million in a tax year.

- Tax deductible on account of payment for services rendered by a permanent establishment of a nonresident person to be treated as minimum tax to bring it at par with a similar payment made to a resident person.

- Offshore digital services received from a non-resident person are taxed at 5%

- Proposal has been made to make the decision of ADRC binding on both FBR and the taxpayer, subject to withdrawal of appeals by the tax payer as well as the FBR.

- Late filer of income tax return not to be included in the Active Taxpayers' List for the year and shall not be allowed to carry forward any tax losses.
- Non-filer is proposed to be not permitted to purchase new motor vehicle manufactured in Pakistan or an imported vehicle and not permitted to purchase immovable property of value exceeding Rs. 4 million.
- Service of notice through electronic means to be considered as valid.
- Minimum tax on some service sector companies has been extended from 2018 to 2019.

SALES TAX

- Rate of further tax is proposed to be increased from 2% to 3%.
- Sales tax audit is proposed to be conducted only once in every three years.
- The adjustment of input tax paid on import of scrap compressor is proposed to be restricted.
- Exemption on import of parts by computer manufacturer certified by EDB.
- Exemption on import of plant and machinery is proposed to align with the provisions of the Special Economic Zone Act, 2012.
- Zero rating on stationery items is proposed to be restored.
- Rate of further tax is proposed to be 1% on zero rated domestic supplies of finished goods.
- Adjustment of input tax on packing material to five sectors.

- Rate of sales tax is intended to be reduced from 17% to 12% on import of LNG by PSO and PLL and further supply of RLNG to SNGPL by these companies.

- Value addition tax of 3% on import of LNG is proposed to be waived.

- Reduction in the rate of sales tax to 3% is proposed on all fertilizers.

- Reduction in sales tax rate to 5% on supply of natural gas to fertilizer plants is proposed

FEDERAL EXCISE DUTY

- The rate of FED on tobacco and cement increased

- Audit to be conducted once in every three years

- Commission paid by the State Bank of Pakistan to National Bank or any other banking company, acting as agents for handling banking services of federal and provincial governments is proposed to be exempt from FED.

CUSTOMS

- Additional customs duty is increased from 1% to 2%

- Fixed duty of US$ 5,000 is levied on import of vintage or classic cars/ jeeps.

- Duty is increased on import of rickshaw tyres, soya bean oil, aluminum auto parts scrap etc.

- Customs duty is reduced on aluminum foil for liquid food packaging industry, pre-fabricated structures for hotels, input material for dairy sector, poultry sector, manufacturing of optical fibre cables, cinema industry, LED lights manufacturing, import of coal, and electric vehicles,

2. INCOME TAX

Fee for Offshore Digital Services

[Section 2(22b), section 6, Section 101(12A), Section 152(1C), First Schedule Part I Division IV]

It is proposed that the fee for offshore digital services which includes mainly advertising, designing, creating, hosting or maintenance of websites etc. should be charged to tax at the rate of 5%. Every banking company or a financial institution through which remittance is made outside Pakistan would be responsible for deduction of tax. This tax shall be treated as final tax on income of non-resident.

Filer

[Section 2(23A)]

It is proposed that the taxpayer name mentioned on the active taxpayers list maintained by the AJK and Gilgit-Baltistan shall be treated as filers under the Income Tax Ordinance, 2001 for Pakistan tax purposes.

Bonus shares

[Section 2(29), Section 39(1)(m), Section 236M and Section 236N]

It is proposed that the tax on issuance of bonus share be abolished. Currently, tax at the rate of 5% is withheld on issuance of Bonus shares. As a result of propose changes a tax relief at the rate 5% will be given.

Permanent Establishment and Cohesive Business Operations

[Section 2(41), Section 101(3)(e)]

It is proposed to expand the definition of permanent establishment to include those principal agency relationships in which principal is a non-resident and a resident agent has no express authority to conclude contracts on behalf of the principal but those contracts which mainly includes the contract for the transfer of ownership of property, for the granting of right to use property or for the provision of services are concluded without any material modification by principal.

It is also proposed that any independent agent who is acting exclusively on behalf of the principal to whom he is an associate is not considered as independent agents. Currently, principal agency relationship of independent agents is not treated as permanent establishment.

A new concept of cohesive business operation is proposed to be introduced which includes a complimentary set of activities carried on either in one location or multiple locations by the agents or any associate of the principal which are necessary for the supply of goods (whether or not the title to the goods passes outside Pakistan) or provision of services.

Super Tax
[Section 4B, First Schedule Part I Division IIA]

The bill proposes to extend the super tax up to the tax year 2020. The present rate of super tax is 3% which will apply to the tax year 2018. It is now proposed that the rate be reduced to 2% for the tax year 2019 and 1% for the tax year 2020. For banking companies, the rate will be 4%, 3% and 2% respectively for the tax years 2018, 2019 and 2020.

Tax on Undistributed Profits
[Section 5A, Section 8]

It is proposed to reduce the rate of tax on undistributed profit from 7.5% to 5% while the minimum limit of distribution has proposed to be reduced from 40% to 20% after tax profits. It is also proposed that the said minimum limit of distribution must be only in the form of cash instead of both cash and bonus.
It is further proposed that the tax paid on undistributed profits will not be treated as final tax which means a taxpayer may use benefit of this tax in the settlement of its current or future tax liabilities.

Business Income
[Section 18]

It has been proposed to clarify that the income falling under following sections will be treated as separate block of income and will not be treated as 'Income from Business':

- Tax on undistributed profits (Section 5A)
- Tax on return on investments in Sukuks (Section 5AA)
- Tax on certain payments to nonresidents (Section 6)
- Tax on shipping and air transport income of a non-resident person (Section 7); and
- Tax on profit on debt (Section 7A)

Capital Gain on Gift
[Section 37(4A)(a), [Section 79(1)(c)]

It is proposed to restrict the benefit of non-taxability of gift of non-cash assets to gift between immediate relatives only. Currently, any transfer of non-cash asset by way of a gift does not give rise to any taxable gain or loss and is considered as a tax natural event.

Exemptions and Tax Concessions in the Second Schedule
[Section 53(2)]

It is proposed that the power of the Federal Government to restore to grant any tax exemption or tax concession in the Second Schedule. Currently, the approval of Economic Coordination Committee of the Cabinet was required for such exemption or concessions.

Carry Forward of Business Losses
[Section 57(1), Section 59A(5)]

It is proposed that adjustment of unabsorbed depreciation shall be restricted to 50% of taxable profits of a tax year, if such profits are more than rupees 10 million or more. This amendment will have major impact on companies engaged in the business of leasing and persons having substantial capital investments. Currently, the amount of unabsorbed depreciation is wholly adjustable in a tax year, given that taxable profits are available.

Tax Credit for Investment in Shares and Insurance
[Section 62(2)]

It is proposed that the limit of investment in shares and insurance for the purpose of tax credit be increased from the current Rs. 1.5 million to Rs. 2 million.

Tax Credit for Investment
[Section 65B(2)]

It is proposed that the tax credit allowed to industrial undertaking for investment in Balancing, Modernization and Replacement (BMR) of the plant and machinery be extended for two years from 2019 to 2021.

Tax Credit for Newly Established Industrial Undertakings
[Section 65D(2)(a)]

It is proposed that the time limit for incorporating companies and setting up new industrial undertakings be extended from 2019 to 2021, for availing tax credit.

Tax Credit for Industrial Undertakings Established before the First Day of July, 2011.
[Section 65E(4)]

It is proposed that the time limit for installing plant and machinery be extended from 2019 to 2021, for availing tax credit by industrial undertakings established before 2011, and investing in the purchase and installation of plant and machinery through at least 70% new equity raised.

Special Provisions Relating to Banking Business
[Section 100A(3)]

It is proposed that the rules, conditions and limitations specified in the law related to international taxation and anti-avoidance be also applied to banking business. Currently, the taxability of the banking companies was only based on the provisions in the seventh schedule.

Tax Credit for Certain Persons
[Section 100C(2)(e)]

It is proposed that tax credit on income derived from profit on debt from microfinance banks be available to Non-profit organizations, trusts or welfare institutions. Currently, such credit was available on income derived from profit on debt from scheduled banks only.

Gain on Disposal of Assets Outside Pakistan
[Section 101A]

It is proposed to add a new section on gain on disposal of Pakistani assets by a foreign entity. According to this new proposed provision any gain from the disposal outside Pakistan of an asset located in Pakistan of a non-resident company shall be Pakistan-source. However the proposed provisions of the section are only applicable if the following conditions are met:

a) With respect to shares of a company, the asset shall be treated to be located in Pakistan if:

i. The share or interest derives directly or indirectly, its value principally or wholly from the assets located in Pakistan;
ii. Share or interest representing 10% of more or the share capital of the non-resident company are disposed or alienated.
iii. The share or interest as mentioned above, derives its value principally from an asset located in Pakistan if on the last day of preceding tax year the value of such asset exceeds Rs 100 Million and represents at least 50% of value of total assets.

b) Where the entire assets of the non-resident company are outside Pakistan, a share or interest in such company will be treated as located in Pakistan to the extent of reasonable attribution.

The gain under this provision is taxable as the higher of:

i. 20% of differential between fair market value less cost of acquisition of the asset; or
ii. 10% of the fair market value of the asset.

Agreements for the Avoidance of Double Taxation and Prevention of Fiscal Evasion
[Section 107(2)]

It is proposed that the provision of agreement for avoidance of double taxation and prevention of fiscal evasion would be subject to the provision of Re-characterization of income and deductions.

Transactions between Associates
[Section 108(3)(b)&(4)]

It is proposed that the country by country report and other documents as prescribed under the rules, should be furnished to the tax authorities.

Re-characterization of Income and Deductions
[Section 109(1)(d)&(3)]

It is proposed to expand the scope and power of the tax authorities, to disregard an entity or a corporate structure, that does not have economic or commercial substance, or was created as part of a tax avoidance scheme, to determine the tax liability.

It is also proposed that the definition of a person's liability to tax be added to mean a reduction, avoidance or deferral of tax or increase in a refund of tax and includes such situation in case of a double taxation treaty.

Controlled Foreign Company
[Section 109A]

It is proposed that the taxable income of a resident person should include the income attributable to a controlled foreign company, which currently is not taxable if the same is retained and not repatriated to Pakistan.

As per proposed changes a non-resident company shall be considered as Controlled Foreign Company (CFC) if:

i. More than 50% of its capital or voting rights are directly or indirectly held by Pakistani resident persons or if more than 40% of such capital or voting rights is held by a single Pakistani resident person;

ii. Tax paid in respect of income derived or accrued in a foreign tax year is less than 60% of tax payable on the said income under this Ordinance;
iii. Non-resident company does not derive active business income (as defined in the provisions); and
iv. Shares of the company are not traded on any recognized stock exchange in the relevant jurisdiction.

There will be no tax incidence under these provisions, if the voting rights or capital held by the resident person is less than 10% or income of CFC is less than Rs 10 Million.

Unexplained Income or Assets
[Section 111(2)]

It is proposed that if the concealed income and assets discovered are Pakistan source, than they shall be charged to tax in the year to which they relates. However, if concealed income and assets discovered are foreign source than they are charged to tax in the year of discovery.

It is also proposed that the exemption of foreign exchange remittance from outside Pakistan through normal banking channel be restricted to Rs. 10 million in a tax year.

Foreign Income and Assets Statement
[Section 114(1)(b)(x), 116A, 118(1) & (2A), 182]

It is proposed that every resident taxpayer being an individual, having foreign income equal to or in excess of US$ 10,000 or having foreign assets with a value of US$ 100,000 or more shall be required to file a separate statement of foreign income and foreign assets. Non-filing of the above statement will be penalized at 2% of the value of foreign income or foreign assets for each year of default.

It is also proposed that the resident individuals filing a statement of foreign income and foreign assets shall be required to furnish a return of income.

Best Judgment Assessment
[Section 121(3)]

It is proposed that in case where the Commissioner has issued a notice for furnishing a return of income in respect of one or more of the last ten completed years, best judgment assessment shall only be issued within two years from the end of the tax year in which such notice is issued.

Appeal to the Appellate Tribunal
[Section 131(5)]

It is proposed to restrict the period of stay up till 180 day which are granted by Appellate Tribunal Inland Revenue against recovery of tax payable under this Ordinance. This matter requires re-examination with reference to the pronouncements by the Higher Courts in respect of power of stay by the judicial forum.

Alternative Dispute Resolution (ADRC)
[Section 134A]

It is proposed that the option of seeking remedy in ADRC shall only be available if the applicant waives his right of appeal in the appellate authorities and the recommendations of the ADRC shall be binding on both the parties. The bill further proposes that every ADRC shall include a retired Judge of High Court and Committee will decide the matter within 120 days.

Advance Tax
[Section 137, Section 147]

It is proposed that the unpaid advance tax shall be immediately recoverable. Currently, the recovery of unpaid advance tax is recoverable only after passing of an order and expiry of thirty days from the date of the order.
It is also proposed that for the purposes of determination of advance tax, it shall be estimated based on 110% of the turnover of the last tax year, if the turnover of a quarter is either not provided or not known. It is further proposed that if the estimates provided by the taxpayer result in lower payment of advance tax, these shall be supported by documentary evidence, and in case these are not submitted the Commissioner may reject the estimate, after providing an opportunity of being heard.

Finally, it is also proposed to align the advance tax provisions with those prescribed in the seventh schedule.

Recovery of Tax from Persons Holding Money on Behalf of a Taxpayer
[Section 140]

It is proposed that the threshold of automatic stay against recovery of tax during the pendency of appeal before the Commissioner Inland Revenue Appeals shall be reduced from 25% to 10% of the tax demand.

Imports
[Section 148(8)]

It is proposed to change the tax regime for commercial importer from presumptive regime to minimum tax regime. Accordingly, commercial importers shall be taxed on net income arising from such import transactions and the tax collected at the import stage shall be treated as minimum tax liability.

Payment to Non-Resident
[Section 152(2AA) (7a)]

Services rendered by the permanent establishments of non-residents are subject to tax under normal tax regime but on the other side services rendered by residents are subject to a minimum tax regime in respect of similar withholding taxes. Now it is proposed to extend such minimum tax regime to the services rendered by the permanent establishments of non-residents
Payments to non-residents are subject to withholding tax at source. However, these provisions are not applicable in respect of payments made for import of goods where the title of the goods is transferred outside Pakistan. Now, following exceptions are proposed to this exemption:

- The supply of goods where title in the goods transfers outside Pakistan shall be deemed to be supply made in Pakistan if it is in connection with overall arrangement of supply of goods, installation, constructions, assembly, commission, guarantees or supervisory activities and all or principal activities are undertaken or performed either by the associates of the person supplying the goods or its permanent establishment and whether or not the goods are imported in the name of associate or any other person;
- The supply is made by a resident person or a Pakistan permanent establishment of a nonresident person in connection with the overall arrangement as described above shall be deemed to be payment to nonresident.

Payments for Goods, Services and Contracts
[Section 153(1), Division III, Part III of First Schedule]

The threshold limits prescribed for non-deduction of tax from payments were specified in 1991 and were quite outdated. Now, it is proposed that the threshold of withholding taxes shall be revised from Rs.10, 000 to Rs. 30,000 in respect of services and from Rs. 25,000 to Rs. 75,000 in respect of sale of goods.

It is also proposed that 'builders' and 'developers' shall be included in the definition of prescribed person for the purpose of withholding taxes.
Withholding income tax on payments to non-filers in respect of sale of goods/ execution of contracts has been proposed to be increased. Rate for corporate taxpayer for supplying goods and execution of contract is proposed to be increased to 8% and 14% respectively and for non-corporate taxpayer for supplying goods and execution of contracts is proposed to be increased to 9% and 15% respectively.

Furnishing of Information by Banks
[Section 165A]

Banking companies were required to provide online access to their central database that contains details of account holders and their day to day transactions. Such access is proposed to be restricted and now the banks instead of giving access to online data, provide details of tax collected on cash

withdrawal exceeding Rs.50,000 from filers and non-filers in respect of such accounts where cash withdrawal exceed Rs.1 million or more during each calendar month. The threshold for providing details of deposit in any account during a month has also been proposed to be enhanced from Rs.1 million to Rs.10 million. Similarly, the threshold of credit card transactions is also proposed to be increased from Rs.100, 000 to Rs.200,000 per month.

Credit for Tax Collected or Deducted
[Section 168]

A company, being member of an association of persons, is now able to claim credit of tax deducted in the name of association of persons in the same proportion as the share of the company in the taxable income of the association of persons.

Audit
[Section 177(11)]

In relation to appointment of special audit panels by the Federal Board of Revenue, it is proposed to empower the appointment of a foreign expert or specialist and a tax audit expert deployed under audit assistance program of an international tax organization or tax authorities outside Pakistan.

Offences and Penalties-Return not Filed Within Due Date
[Section 182, 182A]

Penalty for non-filing of statements under various provisions of the Ordinance is proposed to be enhanced, where penalty at the rate of Rs 5,000 will applicable within 90 days of due date of filing of return otherwise Rs 10,000 will be charged.

Where any person fails to file a return of income by the due date, it is proposed that such person shall be excluded from the active taxpayers' list for the year in which the return was not filed within due date and also not allowed to carry forward any loss under the Ordinance.

Automatic Selection for Audit
[Section 214D]

In the finance bill it is proposed to abolish the concept of automatic selection of audit in case of returns filed after the due date.

Disclosure of Information by a Public Servant
[Section 216]

In order to broaden the tax base the restriction on disclosure of information by a Public servant is proposed to not be applicable now with regards to information contained by NADRA.

Services of Notices and Other Documents
[Section 218]

Under the present legislation, notices and orders are only considered to be serviced on the taxpayer when the same are delivered in hard form at the registered address. It is now proposed that notices or other documents required to be served to a person shall be treated as served properly if it is served electronically.

Bar of Suits in Civil Courts
[Section 227]

Under the existing provisions of law, no legal proceeding can be brought before Civil Courts against any order passed under the Ordinance.
It is now proposed to extend the scope of this section by adding wording "any notice issued". As a result of this amendment, any order made or any notice issued under the Ordinance cannot be challenged before Civil Courts.

It has been clarified that Civil Court includes any court exercising power of civil court.

Restriction on Purchase of Certain Assets
[Section 227C]

For the purpose of broadening of tax base and penalizing non-filers, it is proposed that non-filers shall not be able to purchase/register new locally manufactured vehicles or imported vehicles. It is further proposed that non-filers shall not be able to purchase/transfer any immovable property.

Directorate General of Immovable Property
[Section 230F]

The Bill proposes to create new directorate "Directorate General of Immovable Property" to initiate proceedings for the acquisition of property for specified reasons.

The Directorate General may initiate proceedings for acquisition of property when on the basis of valuation made, it has reason to believe that a transferor has transferred immoveable property at a value below fair market value and the consideration for such transfer has been understated for purpose of:

- avoidance or reduction of withholding tax obligations;
- concealment of unexplained amount referred to in sub-section (1) of section 111 representing investment in immovable property; or
- Avoidance or reduction of capital gains tax under section 37.

For any immovable property acquired through proceedings under this section, the Board shall pay the consideration for such acquisition at a sum equal to the consideration for the transfer of the immovable property plus 100% of such consideration.

However, the proceedings referred above shall not be initiated in respect of any immovable property after expiration of a period of 6 months from the end of the month in which the instrument of transfer is registered, recorded or attested.

The proposed section also covers detailed mechanism for conducting such proceedings and passing any order and procedure for filing appeal against such order.

Collection of Tax by a Stock Exchange Registered in Pakistan
[Section 233A]

Under the existing law a stock exchange is required to collect tax from its members on purchase and sale of shares in lieu of tax on commission earned by such members. Tax so deducted is current final for the members. The Bill proposes that the tax so collected shall be treated as adjustable.

Tax on Sale of Certain Petroleum Products
[Section 236HA]

Presently, every person selling petroleum products to a petrol pump operator is required to deduct tax at the rate of 12% from "filer" and 17.5% from "non-filer" on commission or discount allowed to petrol pump operators under section 156A.

The Bill proposes that advance tax is to be collected on the ex-depot sale price at the rate of 0.5% in case of "filer" and 1% in case of "non-filer", if no commission or discount is allowed to operator and distributor.
The Tax so deducted shall be treated as final tax arising from sale of petroleum products.

Advance Tax on Purchase or Transfer of Immovable Property
[Section 236K(3)]

Under the existing provisions of law, any person responsible for registering, recording or attesting transfer of any immovable property shall collect advance tax at the time of registering, recording or attesting transfer at prescribed rates.

The Bill proposes to collect tax on installment basis when payment for immoveable property is in on installments basis

Advance Tax on Persons Remitting Amounts Abroad Through Credit or Debit or Prepaid Cards
[Section 236Y]

The Bill proposes that a banking company shall collect an advance tax at the time of transfer of any sum remitted outside Pakistan using credit cards, debit cards or prepaid cards. Such collection is required to be made at 1% from "filers" and 3% from "non-filers". The advance tax so collected shall be adjustable.

Validation
[Section 241]

The bill proposed to empower the Directorate-General (Intelligence & Investigations) and validate the powers of issuing of notices, passing of order any action taken by the DG (I&I) same as the Commissioner Inland Revenue.

First Schedule

Rate of Tax for Individuals
[Division I, Part I, First Schedule]

Earlier, the rate of tax imposed on taxable income of salaried individual was separate from business individual and limit of taxable income start from Rs. 400,000.

The Bill proposes to introduce same rate for both salaried and business individual and exempt income up to Rs 400,000. New tax rates for individual salaried and business class are.

Taxable Income (Rs.)			Rate of Tax	
From	To		Fixed (Rs.)	Variable
------	400,000			0%
400,001	800,000		1,000	Rs. 1,000
800,001	1,200,000		2,000	Rs.2,000
1,200,001	2,400,000		Nil	5% of the amount exceeding Rs. 1,200,000
2,400,001	4,800,000		60,000	10% of the amount exceeding Rs.2,400,000
4,800,000	------		300,000	15% of the amount exceeding Rs.4,800,000

Rate of Tax for Association of Persons
[Division I, Part I, First Schedule]

The bill proposes reduce the tax rates for AOP. The proposed reduced tax rates are following:

Taxable Income (Rs.)			Taxation	
From	To		Fixed (Rs.)	Variable
0	400,000			0%
400,001	1,200,000		Nil	5% of amount exceeding Rs.400,000
1,200,001	2,400,000		40,000	10% of amount exceeding Rs.1,200,000
2,400,001	3,600,000		160,000	15% of amount exceeding Rs.2,400,000
3,600,001	4,800,000		340,000	20% of amount exceeding Rs.3,600,000
4,800,001	6,000,000		580,000	25% of amount exceeding Rs.4,800,000
6,000,001	------		880,000	30% of amount exceeding Rs.6,000,000

Rate of Tax for Companies
[Division II, Part I, First Schedule]

The rates of tax for public and private companies and cooperative and finance societies are proposed to be further reduced gradually while the rates for banking and small size companies are proposed to be kept at the same level. The existing and proposed rates are following:

Tax Years	Public & Private Companies	Co-Operative & Finance Society	Banking	Small
2018	30%	30%	35%	25%
2019	29%	29%	35%	25%
2020	28%	28%	35%	25%
2021	27%	27%	35%	25%
2022	26%	26%	35%	25%
2023 & Onward	25%	25%	35%	25%

Rate of Super Tax
[Division IIA, Part I, First Schedule]

It is proposed that the rate of super tax shall be reduced gradually. Following are the proposed rates.

Tax Years	Banking	Other Persons having income equal to or exceeding Rs. 500 Million
2018	4%	3%
2019	3%	2%
2020	2%	1%
2021	0%	0%

Capital Gain on Disposal of Securities
[Division VII, Part I, First Schedule]

It is proposed that rate of tax for tax year 2018 remains valid for tax year 2019.

Rate of Advance Tax Collected By Collector
[Division II, Part II, First Schedule]

It is proposed to introduce rate of advance tax collected at the time of import by the Collector of Customs, for person importing coal to be 4% and 6% for filer and non-filer respectively.

Advance Tax on Dividend
[Division I, Part III, First Schedule]

It is proposed that the rate of tax on dividend received by an individual from a rental REIT scheme shall be 7.5%.

Advance Tax on Functions and Gatherings
[Division XI, Part IV, First Schedule]

The Finance bill proposes different advance tax on functions and gatherings for different cities areas. Earlier the flat rate of 5% of the value of bill was applicable to all over Pakistan.

Specified Cities	**Rate of Tax**
For Islamabad, Lahore, Multan, Faisalabad, Rawalpindi, Gujranwala, Bahawalpur, Sargodha, Sahiwal, Shekhurpura, Dera Ghazi Khan, Karachi, Hyderabad, Sukkur, Thatta, Larkana, MirpurKhas, Nawabshah, Peshawar, Mardan, Abbottabad, Kohat, Dera Ismail Khan, Quetta, Sibi, Loralai, Khuzdar, Dera Murad Jamali and Turbat.	5% of the bill ad valorem or Rs. 20,000 per function, whichever is higher
For cities other than those mentioned above	5% of the bill ad valorem or Rs. 10,000 per function, whichever is higher

Advance tax on sale to retailer
[Division XVA, Part IV, First Schedule]

Finance bill proposed advance tax on sale of petroleum products at rate of 0.5% of ex-depot sale price for filers and 1% for non-filers.

Advance tax on banking transactions
[Division XXI, Part IV, First Schedule]

It is proposed to decreases rate on non-cash banking transactions from 0.6% to 0.4%

SECOND SCHEDULE

Allowances to Armed Forces Personnel
[Clause 39A, Part I, Second Schedule]

Various allowances to Armed Forces personnel are proposed to be exempted.

KP Retirement, Provident and Pension Funds
[Clause 57(3), Part I, Second Schedule]

Any income of Khyber Pakhtunkhwa Retirement Benefits and Death Compensation fund, KP General Provident Investment Fund, KP Pension Fund is proposed to be exempted

Exemption of Donation to Specified Institutions
[Clause 57(3), Part I, Second Schedule]

It is proposed that donation paid to following organizations be exempt from income tax:

- Pakistan Sweet Home, Angels and Fairies Place.
- Al-Shifa Trust Eye Hospital
- Aziz Tabba Foundation
- Sindh Institute of Urology and Transplantation, SIUT Trust and Society for the Welfare of SIUT.
- Sharif Trust
- The Kidney Centre Post Graduate Institute
- Pakistan Disabled Foundation.

Exemption of Income
[Clause 66, Part I, Second Schedule]

It is proposed that any income of the following organisations be exempt from income tax:

- Third Pakistan International Sukuk Company Limited
- SAARC Energy Centre.
- Pakistan Bar Council
- Pakistan Centre for Philanthropy
- Pakistan Mortgage Refinance Company
- Aziz Tabba Foundation
- Al-Shifa Trust Eye Hospital.
- Saylani Welfare International Trust.
- Shaukat Khanum Memorial Trust
- Layton Rahmatullah Benevolent Trust (LRBT)
- The Kidney Centre Post Graduate Training Institute
- Pakistan Disabled Foundation.
- Forman Christian College

Pakistan Mortgage Refinance Company
[Clause 90A & 110C, Part I, Second Schedule]

It is proposed that profit on debt derived by any person on bonds issued by Pakistan Mortgage Refinance Company to refinance residential housing mortgage market shall be exempt for a period of five years with effect from 1st July 2018.

It is also proposed that any gain by a person on transfer of a capital asset, being a bond issued by Pakistan Mortgage Refinance Company to refinance residential housing mortgage market shall be exempt for a period of five years with effect from 1st July 2018.

Oil Refinery
[Clause 126BA, Part I, Second Schedule]

It is proposed that the Profits an gains derived by a refinery setup between the five years (from 1st July 2018 to 30 June 2023) would be exempt for 20 years. The daily production capacity of the refinery has to be minimum 100,000 barrels. Exemptions shall also be available to existing refineries, if the existing production capacity is enhanced by at least 100,000 barrels per day, separate accounts are maintained and the refinery is a deem conversion refinery.

Lahore Orange Line Metro Train Project
[Clause 24AA, Part II, Second Schedule]

It is proposed that the rate of tax under section 152 in case of CR-NORINCO JV (as recipient) on payment arising out of commercial contract agreement with the Government of Punjab for installation of E&M equipment for the construction of the Lahore Orange Line Train Project shall be 6% of the gross amount of payment.

Film making
[Clause 7 & 8, Part III, Second Schedule]

It is proposed that the amount of tax payable by foreign film-makers from making films in Pakistan and the tax payable by resident companies deriving income from film making shall be reduced by 50% on the income of film-making.

Public Sector University
[Clause 11A, Part IV, Second Schedule]

It is proposed that the provisions of section 113, regarding minimum tax shall not apply to public sector universities established solely for educational purposes and not for the purposes of profit, with effect from the tax year 2014.

LNG Re-Gasification Charges
[Clause 11E, Part IV, Second Schedule]

It is proposed that the provisions of section 153(1) (b) regarding withholding of income tax on provision of services shall not apply to payments made by SNGPL to SSGCL and Pakistan LNG Terminal Limited.

Transmission Line Projects
[Clause 11E, Part IV, Second Schedule]

It is proposed that the provisions of section 150 regarding withholding of income tax on dividend paid shall not apply to Transmission line project under the transmission Line Policy 2015.

Option to Commercial Importer
[Clause 56B, Part IV, Second Schedule]

Currently an option to a commercial importer was available to opt out of the Final Tax Regime (FTR), subject to fulfillment of certain conditions. Now, the bill proposes to delete the said clause. Consequently, the option will no longer be available to commercial importers.

Trading Houses
[Clause 57, Part IV, Second Schedule]

Currently the levy of minimum tax under Section 113 of the Ordinance was applicable to companies operating trading houses at a reduced rate of 0.5% up to the tax year 2019 and 1% thereafter. The bill proposed to extend the reduce levy of minimum tax up to the tax year 2021.

Advance Tax at Imports
[Clause 60A, 60 AA, 60B and 60C of Part IV, Second Schedule]

It is proposed that exemption be provided from section 148 regarding advance tax at imports collected by the Collector to the following:

- China State Construction Engineering Corporation Limited (CSCEC) and China Communication Construction Company (CCCC) on import of plant, machinery and equipment for the construction of Sukkur-Multan section of Karachi-Peshawar Motorway project and Karakoram highway (KKH) project Phase II (Thakot to Havellian section) of CPEC project.
- CSCEC on import of construction material or goods up to a maximum of Rs. 10,898 million for the construction of Sukkur-Multan section of Karachi-Peshawar Motorway project.
- Ministry of Foreign Affairs on import of thirty five armored and security vehicles for the security of foreign dignitaries.
- On import of equipment to be furnished or installed for Rail based Mass Transit Projects in Lahore, Karachi, Peshawar and Quetta under CPEC.

Lahore University of Management Sciences
[Clause 63, Part IV, Second Schedule]

It is proposed that Lahore University of Management Sciences be deemed to have been approved as a Non-Profit Organization under section 2(36).

Minimum Tax on Service Sector Companies
[Clause 94, Part IV, Second Schedule]

It is proposed that the minimum tax of 2% on specified service sector companies be extended from 2018 to 2019. It is also proposed that the said minimum tax be also available to companies providing inspection, certification, testing and training services.

Selection of Cases for Audit
[Clause 105, Part IV, Second Schedule]

It is proposed that in cases where the income tax affairs of the tax payer have been audited in any of the preceding 3 tax years, the provisions of sections 177 and 214C have proposed to be inapplicable.

However, a proviso is also proposed to be inserted whereby the Commissioner Inland Revenue is empowered to select a person's case for an audit with the approval of the Board.

3. SALES TAX

Printing of Holy Quran

To provide exemption from sales tax on import of paper weighing 60 g/m2 by Federal or Provincial Governments and Nashiran-e-Quran registered with the Government.

Import of LNG

It is proposed to waive value addition tax @ 3% chargeable on under Rule-58B on import of LNG.

It is further proposed to reduce rate of sales tax from 17% to 12% on import of LNG by PSO, PLL and on supply of RLNG by PSO/PLL to SNGPL.

Fertilizers

- Reduced rate of sales tax @ 3% on all fertilizers across the board
- Reduced rate of Sales Tax from 10% to 5% on supply of natural gas to fertilizer plants for use as feed stock.
- LNG imported by fertilizer manufacturers for use as feed stock is also being exempted from Sales Tax.

Dairy & Agriculture Sector

Exemption from sales tax is being granted to:

- Fans for Dairy Farms,
- Preparations for Making Animal Feed and Bovine Semen
- Fish Feed

Moreover, sales tax on agriculture machinery is also reduced from 7% to 5%.

Karachi Shipyard Engineering Works Limited

It is proposed to grant exemption from sales tax on import of machinery, equipment, raw materials, components etc. by Karachi Shipyard Engineering Works Limited.

Manufacturing of Personal Computers and Laptops

It is proposed to grant exemption from sales tax on import of 21 types of computer parts imported by manufacturers registered with and certified by Engineering Development Board.

Import of Promotional and Advertising Materials

It is proposed to grant exemption from sales tax on import of Promotional and Advertising Materials for Display at Exhibitions.

Cinematographic Equipment

It is proposed to reduce rate of sales tax @ 5% is being introduced on import of 19 items of cinematographic equipment for revival of film industry for five years.

Special Economic Zone

It is proposed to grant exemption of sales tax on import of plant and machinery on one time basis for setting up of Special Economic Zone and for installation in that Zone to align Sales Tax Exemption with the Provisions of SEZ Act, 2012.

Stationery Items

It is proposed to restore zero rating on stationary items.

Leather Products

Leather products ready for use are enjoying reduced rate of 6% of sales tax at import stage. Identical rate is also being provided on import of ready to use articles of artificial leather by specifying description and PCT headings of items of leather and artificial leather generally used by public.

Local Supply of Finished Fabric

It is proposed to levy further tax @1% on local supply of finished fabric.

Pakistani Foam Manufacturers

It is proposed to grant exemption of extra tax and further tax @ 2% to Pakistan Foam manufacturers.

Hearing Aids at All Types and Kinds

It is proposed to grant exemption from sales tax on import of items of hearing Aids (all types and kinds).

Second Hand Worn Clothing and Footwear

It is proposed to grant exclusion from value addition tax on import second hand worn clothing and footwear.

Automatic Stay till Disposal of Appeal by the Commissioner (Appeals)

It is proposed to reduce the amount of tax payment from 25% to 10% to get automatic stay till disposal of appeal by Commissioner (Appeals).

State Bank of Pakistan and Its Subsidiaries

It is proposed to grant exemption from federal excise duty on commission paid to banking companies for handling banking services of Federal or Provincial Governments.

Sales Tax and Federal Excise Audit of a Registered Person

It is proposed to impose restriction that audit of registered person can be conducted only once in three years.

Furnace Oil

It is proposed to apply Standard Rate of Sales Tax on import and supplies of Furnace Oil.

Lithium iron Phosphate batteries (LIFE-PO4).

It is proposed to reduce rate of sales tax from 17% to 12% on import of Lithium iron Phosphate batteries (LIFE-PO4).

Further Tax Rate

It is proposed to enhance rate of further tax from 2% to 3%.

Leather and Textile Sector

The rate of sales tax on import and supply of finished articles of leather and textile sector is being increased to 9%. However, all those branded outlets which will be integrated through electronic fiscal devices with FBR online system shall be charged sales tax @6%.

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4. FEDERAL EXCISE DUTY

Locally Produced Cigarettes

The rate of duty on is being enhanced as under:

Tier-1	from	Rs.3,740	to	Rs 3,964
Tier-2	from	Rs.1,670	to	Rs.1,770
Tier-3	from	Rs.800	to	Rs.848

Cement

Federal Excise Duty on is being increased from 1.25 per kg to Rs. 1.50 per kg.

Steel Sector

Rate of sales tax for is being increased to Rs. 13 per unit of electricity consumed. The rate of sales tax for other allied steel industries i.e. ship breakers and re-rollers is also being rationalized.

5. CUSTOMS

Printing and Preservation of Holy Quran

Import of duty free paper weighing 60 g/m2 is allowed besides extending this facility to Nashir-e-Quran registered with the government.

Multi-Ply and Aluminum Foil

Custom Duty on import of Multi-ply & Aluminum foil for liquid food packaging industry is proposed to reduce from 20% to 18%

Finished Rooms or Pre-Fabricated Structures

For setting up of new hotels/motels, Custom Duty on finished rooms/ pre-fabricated structures is proposed to reduce from 20% to 10%.

Dairy Sector

- Custom Duty exempted on bovine semen,
- Custom Duty reduced for preparations and making animal feed from 10% to 5%.
- Import of fans for corporate dairy farmers allowed at concessionary rate of 3%.

Poultry Sector

Custom Duty on growth promoters premix, vitamin premix, Vitamin B12 and Vitamin H2 is proposed to reduce from 10% to 5%.

Local Manufacturing of Optical Fiber Cables

To support the local manufacturing of Optical Fiber Cables, Custom Duty on input materials i.e. Optical fiber (20%), Cable filing compound (11%), Poly butylene (20%), Fiber reinforced plastic (20%) and Water blocking/ swellable tape (11%) is proposed to reduce to 5% besides reduction of Regulatory Duty on Optical Fiber Cables from 20% to 10%.

Entertainment Industry

It is proposed to reduce Custom Duty on specified equipment used in cinema industry to 3%.

Acrylic Tow

It is proposed to withdraw Custom Duty of 11% on acrylic tow

Micro Feeder Equipment Used For Food Fortification

It is proposed to exempt Micro Feeder Equipment used for food fortification from Custom Duty of 3%.

Tasigna (an Anti-Cancer Medicines)

It is proposed to exempt Tasigna (an Anti-Cancer Medicines) from Custom Duty of 5%.

Acetic Acid

It is proposed to reduce Custom Duty from 20% to 16% on import of Acetic Acid.

Charging Stations for Electric Vehicles

It is proposed to exempt "Charging Stations for Electric Vehicles" from Custom Duty of 16%.

Plasters

It is proposed to reduce Custom Duty from 16% to 11% on import of Plaster.

Film of Ethylene

It is proposed to reduce Custom Duty from 20% to 16% on import of Film of Ethylene for Liquid Food Packaging Industry.

Carbon Black (Rubber Grade)

It is proposed to reduce Custom Duty from 20% to 16% on import of rubber grade Carbon Black.

Silicon Electrical Steel Sheets for Manufacturing Transformers

It is proposed to reduce concessionary rate of Custom Duty from 10% to 5% on import of Silicon Electrical Steel Sheets for Manufacturing Transformers.

LED Parts and Components for Manufacturers of LED lights

- Exemption of 5% Custom Duty on specified Items; and
- Levy of 2% Regulatory Duty on LED bulb & Tubes, Energy Saving Bulbs & Tube to protect local industry.

Tanned Hides in Wet State

It is proposed to exempt Custom Duty of 3% on Tanned Hides in wet state.

Two Catalysts for use By PTA Industry

It is proposed to withdraw Custom Duty on i.e. Hydrogen Bromide (11%) and Palladium-on-Carbon (3%) for use by PTA Industry.

Coils of Aluminum Alloys

It is proposed to reduce Custom Duty from 16% to 8% on import of Coils of Aluminum Alloys used in manufacturing of Aluminum Beverage Cans.

Coal Imports

It is proposed to reduce Custom Duty from 5% to 3% on import of Coal.

Import of Fire Fighting Vehicles

It is proposed to reduce Custom Duty from 30% to 10% on import of fire fighting vehicles.

Import of Vintage or Classic Cars/Jeeps

It is proposed to charge concessionary fix duty/taxes of US$ 5,000 on import of vintage or classic cars/jeeps.

Electric Vehicles

It is proposed to reduce Custom Duty from 50% to 25% and exemption of 15% Regulatory Duty on Electric Vehicles and Custom Duty on kits of electric vehicle is proposed to reduce from 50% to 10%.

Import of Solar Panels

Import of solar panels was exempted from the condition of local manufacturing till 30th June 2018 which is proposed to extend till 30th June, 2019.

Double-Sided Tape

It is proposed to increase the Custom Duty from 3% to 11% on import of double-sided tape.

Rickshaw Tyres

It is proposed to increase the Custom Duty from 11% to 20% on import of Rickshaw Tyres.

Soya Bean Oil

It is proposed to increase Custom Duty from Rs.9050/MT & Rs.10200/MT to Rs.12000/MT and Rs. 13,200/MT respectively on import of Soya Bean Oil.

Aluminum Auto Parts Scrap

It is proposed to increase Custom Duty from 30% to 35% on import of Aluminum auto parts scrap.

Di-Octyl Terephthalate (DOTP)

It is proposed to increase Custom Duty from 3% to 20% on import of Di-Octyl Terephthalate (DOTP).

Medium Density Fiber

It is proposed to reduce Custom Duty from 16% to 11% and levy of 5% Regulatory Duty on import of Medium Density Fiber.

Corrective Glasses

It is proposed to reduce Custom Duty from 11% to 3% on import of Corrective Glasses.

Lithium Iron Phosphate Battery (LiFePO4)

It is proposed to reduce Custom Duty from 11% to 8% on import of Lithium Iron Phosphate Battery (LiFePO4).

New Introduction of PCT Headings

- Radial tyres, CKD/SKD kits for home appliances,
- CKD / SKD of Mobile Phone,
- Semi-automatic washing machines,
- Petrol Generating sets,
- Kerosene based mineral oils,
- Relays, Fuses, Gear pumps
- Turbo chargers for vehicles, Electric conductors, Light fittings with fixed/fitted LED/SMD
- Refrigerated out door cabinet designed for insertion of electric and electronic apparatus, Digital/Processed Printing Inks, DOTP (Di-Octyl Terephthalate) and Pigments and preparations based thereon.

Export of Waste & Scrap of Copper

It is proposed to levy of 30% Regulatory Duty on export of Waste & Scrap of Copper

CKD/SKD Kits of Specified Home Appliance

It is proposed to levy 10% Regulatory Duty on CKD/SKD Kits of Specified Home Appliance.

CKD/SKD Kits of Mobile Phone

It is proposed to levy Regulatory Duty @ Rs.175/set on CKD/SKD kits of mobile phones.

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