



# PAKISTAN BUDGET DIGEST 2018-19

## Income Tax

### Increase in threshold of taxable income

Threshold of taxable income would be enhanced from Rs.400,000/- to Rs.1,200,000/-.



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## Income Tax

### Reduction in tax rates for individuals

Maximum tax rate has been reduced to 15% from 35% (individuals other than salaried) and 30% (salaried individuals).



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## Income Tax

### Reduction in corporate tax rates

Corporate tax rates shall be reduced from 30% in Tax Year 2018 to 25% in Tax Year 2023. 1% reduction every year.



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## Income Tax

### Reduction in Tax Rates for Association of Persons

Maximum tax rate of 35% is proposed to reduce to 30%. Slab rates have also been revised



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## Income Tax

### Tax reforms in real estate sector

1. Property transactions shall be recorded at the value declared by the buyer and the seller.
2. Property rates notified by FBR (for the purpose of collection of taxes on sale purchase of property) and DC rates are to be abolished.
3. At the Federal level, a one percent 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.



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## Income Tax

### Tax reforms in real estate sector - (Cont.)

4. Non-filers shall not be permitted to purchase property having declared value exceeding Rs 4 M.
5. Provinces 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.
6. to cater under-declaration the FBR shall have the right to purchase any property within six months of Registration.



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### Successive reduction in the rates of super tax

Will be reduced by 1% every year for all applicable tax payers.



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## Income Tax

### Reduction in tax rate on undistributed profit

- The condition of distributing 40% of after tax profits is being reduced to 20% ;and
- The applicable tax rate on accounting profit in case of failure to distribute such dividend is being reduced from 7.5% to 5%.





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### Extension of tax credits up to 30th June, 2021

Time limit to avail tax credits are being extended for two more years up to 30th June, 2021



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### Abolition of automatic selection for audit

No more automatic selection of audit for late filers of return



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Audit to be restricted to once in three years

Maximum one audit in three years by Commissioner



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### Reduced rate of advance tax for non-filer

Rate of tax is proposed to reduce from 0.6% to 0.4% on banking transactions



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### Tax on issuance of bonus shares to be withdrawn

Withholding tax on issuance of bonus shares has been withdrawn and receipt of bonus shares has been ousted from the definition of income



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### Enhancing limit of tax credit for investment in shares

The monetary limit to make investment in shares/sukuks is proposed to increase from Rs 1.5 Million to Rs 2 Million.



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### Reduction in Minimum threshold of payment of tax

In order to provide relief and facilitate taxpayers, the minimum threshold of payment of tax to preclude recovery of tax during pendency of first appeal has been reduced from 25% to 10% of the tax payable.



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### Increase in minimum threshold of tax deduction

In order to provide relief to withholding agents the minimum threshold of tax deduction on goods and services has been enhanced three-fold from Rs.10,000/- to Rs.30,000/- in the case of payments for provision of services and from Rs.25,000/- to Rs.75,000/- in the case of payments for supply of goods.





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### Obligation to act as withholding agent

In order to provide relief, persons (AOPs or individuals ) crossing the threshold of turnover of Rs. 50 Million during a Tax Year shall be obliged to discharge their obligations as a withholding tax agent in the succeeding tax year.



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## Income Tax

### Extension in reduced rate of minimum tax

In order to promote and encourage the growth of such entities, the facility of reduced rate of minimum tax is being extended for another two years up to 30<sup>th</sup> June, 2021.



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## Income Tax

### Taxpayers filing returns in AJ&K and Gilgit-Baltistan

Persons appearing on the Active Taxpayers List maintained by the Inland Revenue Department in AJ&K and the Gilgit-Baltistan Council Board of Revenue shall be treated as filers under the Income Tax Ordinance, 2001.



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### Advance tax on purchase of property

Advance tax on purchase of property on installments shall be collected piecemeal with each installment.



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## Income Tax

### Reduction in withholding tax rate of dividend

Dividend tax on dividend by REIT Scheme to filers is proposed to reduce from 12.5% to 7.5%.



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## Income Tax

### Tax on issuance of bonus shares to Mutual Funds

No more withholding tax on issuance of bonus shares by Mutual Funds.



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### Microfinance banks

Profit on debt derived by non-profit organizations from micro-finance banks shall also qualify as income eligible for 100% credit under section 100C of the Income Tax Ordinance, 2001.



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### Relief to members of the Stock Exchange

The tax on commission earned by members of the stock exchange has now been made adjustable instead of full & final tax.





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### Incentivizing film making in Pakistan

In order to encourage and promote film-making in Pakistan, 50% tax rebate shall be allowed to foreign film makers making films in Pakistan and a 50% tax reduction in income tax liability shall be allowed to companies deriving income from film making for a period of five years.



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### Pakistan Mortgage Refinance Company Limited

Exemption has also been accorded to income and gains derived by investors from PMRC bonds issued to refinance the residential mortgage market.

Exemption has also been accorded to capital gains tax on the resale of PMRC bonds by the investors to encourage its marketing/increase its attractiveness.



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### Rationalization of tax rate on the import of coal

In order to reduce the direct cost of manufacturing businesses utilizing coal, the tax rate on import of coal by manufacturers as well as commercial importers has been reduced to 4% for filers and 6% for non-filers.



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### Carry forward of depreciation losses

The set off of brought forward depreciation losses have now been limited to the extent of fifty per cent of the business income for a Tax Year except in instances where the taxable income is upto Rs. 10 million.



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### Withholding tax on payments remitted abroad

Banks issuing credit /debit cards will now be obliged to collect 1% advance tax from filers and 3% advance tax from non-filers in respect of credit/debit card transactions resulting in outward flow of remittances from Pakistan.



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### Tax at import stage on commercial importers

Tax collected from commercial importers at the import stage shall now constitute minimum tax instead of final tax..



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### Rationalization of withholding tax rates for non-filers

For sales/supplies, the rate of tax for non-filers has been increased from 7% to 8% in the case of companies and from 7.75% to 9% in the case of persons not being companies. For contracts, the rate of tax for non-filers has been increased from 12% to 14% in the case of companies and from 12.5% to 15% in the case of persons not being companies.



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### Minimum tax for marriage halls

Marriage halls are now required to collect either 5% of the bill or Rs.20,000/- per function in major cities and Rs.10,000/- per function in the remaining cities , whichever is higher.





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### Non-recognition of capital gain

Such non-recognition of capital gain shall now be restricted to gifts given to “relatives” of an individual as defined in section 85(5) of the Income Tax Ordinance, 2001



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### Payments to non-residents

In order to provide a level playing field, the tax deductible on services rendered /provided by permanent establishments of non-resident persons shall also be treated as minimum tax.



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### Tax on Dealers Margin of a Petrol Pump Operator

As the prices of high speed diesel are to be deregulated tax on dealers margin shall now be collected on ex-depot sale price of HSD (excluding dealers margin) at the rate of 0.5% from a filer and 1% from a non-filer



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### Time limit for taking cognizance of concealed income

An amendment has been made in section 111(2) of the Income Tax Ordinance, 2001 whereby concealed income earned/arising from outside Pakistan may be taxed in the tax year prior to the year of discovery of such unexplained income or asset.



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### Foreign remittances through normal banking channels

Persons would be required to explain the source of investment if the amount of foreign remittances in a year exceeds Rs.10 million.



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### Furnishing of Foreign Income and Assets Statement

It has been made mandatory for resident individuals to furnish a foreign income and assets statement along with return of income if such individual earns foreign income equivalent to or exceeding USD 10,000/- or is the owner of foreign assets having a value equivalent to or exceeding USD 100,000.



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### Return of Income to be filed mandatorily

If an individual meets the conditions with respect to earning of foreign income or ownership of foreign assets, such individual shall mandatorily be required to file return of Income Tax along with foreign income and assets statement.



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### Time for issuance of a notice calling for tax return

A person who fails to furnish Foreign Income and Assets statement within the due date shall also, be subject to levy of penalty of 2% of the foreign income or value of the foreign assets for each year of default.





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### Purchase of property by non-filers

Non-filers shall be prohibited from purchasing property having declared value exceeding Rs.4 million.



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### Purchase of new motor vehicles

Non-filers shall not be permitted to purchase new motor vehicles manufactured in Pakistan or new imported vehicles.



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### Builders and Developers specified as withholding agents

Builders and Developers have now specifically been included in the ambit of withholding tax agents for the purpose of section 153 of the Ordinance regardless of the quantum of their turnover.



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### Tax credit to companies as per their share in an AOP

In order to alleviate the hardship of companies being members of an AOP, necessary amendment has been made to enable companies to take credit of tax deducted in the name of the AOP in the same proportion as the share of the company in the profits of the AOP.



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### International obligations

The following six anti-abuse provisions shall now be implemented:-

- i. Splitting of contracts (Avoiding tax by splitting the composite contracts into number of contracts).
- ii. Offshore indirect transfers (Taxation of gain arising on transfer of assets located in Pakistan and transferred to non-residents outside Pakistan through sale of shares indirectly).



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## Income Tax

### International obligations - (Cont.)

- iii. Taxation of Offshore digital services (Availing current loopholes in tax legislation to avoid payment of tax in Pakistan by non-residents whereas residents are taxable).
- iv. Abuse of treaty provisions (Designing a tax avoidance scheme by introducing a new entity with no economic substance in jurisdictions with which Pakistan has favourable treaties).



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### International obligations - (Cont.)

- v. Re-characterization of income (The provision of law is already in the Ordinance and is to be streamlined in accordance with international best practices to plug tax avoidance loopholes).
- vi. Controlled Foreign Companies Rules (Taxing passive income parked outside Pakistan by domestic multinational companies for tax deferral).