

Highlights On Finance Bill 2009

Highlights on the Finance Bill, 2009

This document summarizes significant changes proposed to be brought to statute vide the Finance Bill, 2009 (Bill) relating to Income-tax, Sales-tax, Federal Excise Duty and Customs.

Effective date of applicability of these changes will be July 1, 2009, unless otherwise mentioned.

For ascertaining any effect of these changes in a particular case, the wordings in the Bill should carefully be examined, taking into consideration the applicable laws and regulations, and precise advice should be sought before taking any decision based on, or acting up on any of the contents hereof.

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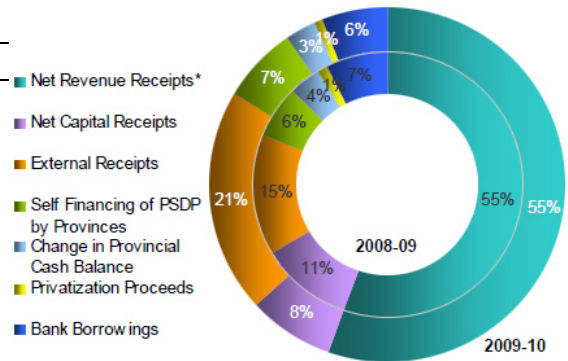
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June 15, 2009

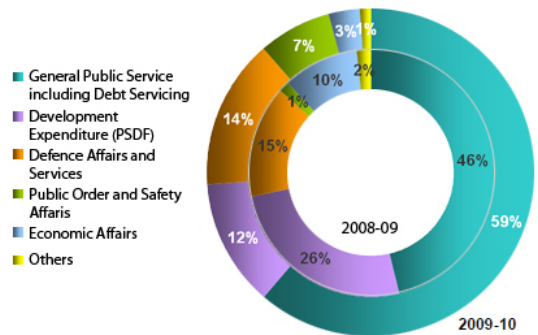
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SECTION I BUDGET AT A GLANCE

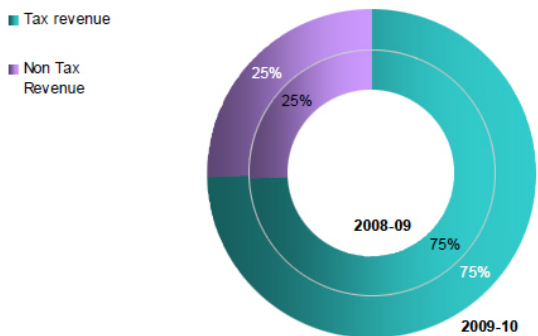
	2009-10	2008-09	Change
	Rupees in Billion		%
SOURCES OF FUNDS			
Net Revenue Receipts	1,371	1,111	23.40
Net Capital Receipts	191	221	(13.80)
External Receipts	510	300	70.13
Self Financing of PSDP by Provinces	173	124	39.52
Change in Provincial Cash Balance	73	79	(7.72)
Privatization Proceeds	19	25	(22.40)
Bank Borrowings	145	149	(2.95)
Total	2,482	2,010	



	2009-10	2008-09	Change
	Rupees in Billion		%
APPLICATION OF FUNDS			
General Public Service including Debt Servicing	1,189	930	27.86
Development Expenditure (PSDP)	783	516	51.76
Defense Affairs and Services	343	296	15.84
Public Order & Safety Affairs	35	27	28.15
Economic Affairs	85	201	(57.76)
Others	48	40	19.00
Total	2,482	2,010	



	2009-10	2008-09	Change
	Rupees in Billion		%
NET REVENUE RECEIPTS			
Direct Taxes	1,512	1,251	20.87
Indirect Taxes	514	428	20.06
Gross Revenue Receipts	2,026	1,679	20.66
Provincial Share in Taxes	-655	-568	15.29
Total	1,371	1,111	



SECTION 2 OVERVIEW OF THE ECONOMY

Pakistan economy weathered unprecedented set of challenges during 2008-09. The outgoing fiscal year witnessed culmination of four separate and sever shocks (local microeconomic crises result of policy induced imbalances, spike in world commodity prices, effects of turmoil in global financial market & sharp decline in external capital to finance) that Pakistan has had to endure over the course of past two years.

Notwithstanding the intensity of the multiple shocks Pakistan's economy has had to face over the past two years, in relative terms, its economy has exhibited a fair degree of resilience. Compared to other countries affected by the global financial crisis, it is remarkable that Pakistan is among a handful of countries with a positive rate of growth, and among a very few with the lowest decline in real GDP growth.

Pakistan's economy has lost significant momentum in the last few years and one of the prime contributors to this derailing is Pakistan's proactive role in war against terror. A very conservative estimate has placed economic cost of this war for Pakistan at around US\$ 35 billion since 2001-02 and we have also lost precious lives and infrastructure as well.

Following is overview of Pakistan economy during the fiscal year 2008-09

- Real GDP grew by 2.4 % in 2008-09 as against 4.1 % last year and the growth target of 4.5%.
- Pakistan's per capita real income rose from \$ 1,042 last year to \$ 1,046 in 2008-09 showing a %age increase of 2.5 % in 2008-09 as against 3.4% last year.
- The total investment as a %age of GDP, bifurcated among fixed, private sector & public sector is as under:

Year	Total investment	% Inc/ Dec	Fixed investment	As a % of GDP		% Inc/ Dec	Public sector	% Inc/ Dec
				% Inc/ Dec	Private sector			
2007-08	22.5%		20.4%		15.7%		5.6%	
2008-09	19.7%	↓ 2.8%	18.1%	↓ 2.3%	13.2%	↓ 2.5%	4.9%	↓ 0.7%

- The national savings rate has increased to 14.4 % of GDP in 2008-09 from 13.5 % of GDP last year while the domestic savings declined substantially from 16.3 % of GDP in 2005-06 to 11.2 % of GDP in 2008-09.
- The overall foreign investment during the first ten months (July-April) of the current fiscal year has declined by 42.7 % and stood at \$ 2.2 billion as against \$3.9 billion in the comparable period of last year.
- Foreign direct investment (private) showed some resilience and stood at \$3,205.4 million during the first ten months (July-April) of the current fiscal year as against \$3,719.1 million in the same period last year, thereby showing a decline of 13.8 %.
- Private portfolio investment on the other hand showed a net outflow of \$451.5 million as against a net inflow of \$98.9 million during the comparable period of last year.
- The Commodity Producing Sector (CPS) witnessed marginal growth of 2 % [comprising CPS (0.08) & services sector (1.92)], being the lowest ever in the last eighteen years.

COMMODITY PRODUCING & SERVICE SECTOR

Description	Service sector	Whole sale & retail trade sector
	Growth %	
Current year	3.6%	3.1%
Last year	6.6%	5.3%
Target	6.1%	5.4%

The major contributions to GDP growth came from transport, storage & communication (0.3 %age points or 14.6 %), wholesale & retail trade (0.7 %age points or 27.1 %) and social services (0.8 %age points or 38.6%).

Description	Agricultural sector	Livestock sector
	Growth %	
Current year	4.7%	3.7%
Last year	1.1%	4.2%
Target	3.5%	-

Major crops accounting for 33.4 % of agricultural value added registered an impressive growth of 7.7 % as against a negative growth of 6.4 % last year and a target of 4.5 %.

MANUFACTURING AND PROCESS INDUSTRIES

- Despite the fact that small and medium manufacturing sector maintained its healthy growth of last year at 7.5 %, the output in the manufacturing sector decreased by 3.3 % in 2008-09 contrary to the expansion of 4.8 % in last year.
- Acute energy out-ages, insecure environment and political turmoil in our country throughout the last year or so has significantly contributed towards the decline of 7.7 % in the large scale manufacturing sector as opposed to the expansion of 4 % in the last year against the target of 5.5 % for the current year.
- The cement sector posted a growth rate of 4.71 % during the current fiscal year mainly due to the increase of 48.8 % in cement exports while the fertilizer industry also posted a positive growth due to increase in production. However, the steel production value slid down from Rs.11,133 million in 2007-08 to Rs. 9,971 million in the current financial year, witnessing a decrease of 10.44 %.
- The mining and quarrying sector witnessed lowest ever growth in almost one decade and grew by 1.3 % in 2008-09 as against 4.4 % growth last year and target of 5.0 %.

CAPITAL MARKET

- The stock market has seen an episode of precipitous decline: the KSE-100 index has fallen by over 62 % (as on December 31, 2008) since touching its peak in April 2008.
- The stock market observed gigantic foreign outflows due to the removal of price floor mechanism in the middle of December 2008. The prospects of healthy foreign interest become doubly depressing by looking at the figure of foreign equity investment during the first nine months of the current fiscal year 2008-09 which stands at a negative \$418.4 million as of March 2009. With no fresh merger and acquisition activity in the year 2008-09, the international investors remained keen to increase their ownership share.

INFLATION

- Inflation rate as measured by the change in Consumer Price Index (CPI), averaged at 22.3 % during the first ten months (July-April) 2008-09 as against 10.3 % in the same period last year. Food and non-food inflation have been estimated at 26.6 % and 19.0 % against 15.0 % and 6.8 % in the same period of last year.

EXPORTS / IMPORTS

Exports	First 10 months – % change		Imports	First 10 months – % change	
	Current year	Last year		Current year	Last year
Growth rate	↓ 3%	↑ 10.2%	Growth rate	↓ 9%	↑ 30%
US Dollars	14.8 B	15.1B	US Dollars	28.92B	32.06 B

RESERVES

- Pakistan's current account deficit (CAD) decreased to US\$ 8.5 billion during Jul - April 2008-09 against US\$ 11.2 billion in the comparable period of last year, showing an improvement of 23.5 %.
- Workers' remittances amounted to \$ 6355.6 million in July - April 2008-09 as against \$ 5319.1 million in the corresponding period last year, thereby showing an increase of 19.5 %.

Composition of Foreign Exchange Reserves

	Amount in US Dollars
Total liquid foreign exchange reserves as on May 2009	11.6 billion
Share of State bank of Pakistan' share	8.28 billion
Share of other banks	3.32 billion

LOCAL & FOREIGN DEBT POSITION

- External debt and liabilities (EDL) Pakistan's total external debt increased from US\$ 46.3 billion at end-June 2008 to US\$ 50.1 billion by end- March 2009 — an increase of US \$ 3.8 billion or 8.2 %. In relative terms, EDL as % age of GDP increased from 28.1 % at end June 2008 to 30.2 % by end-March 2009 — an increase of 2.1 %. The country's debt burden is also defined as external debt and liabilities as %age of foreign exchange earnings which increased from 124.3 % by end-June 2008 to 144.3 % by end-March 2009.
- The spread on Pakistani sovereign bonds as given by the EMBI have gone up by 1550 bps and have a rating of B3/CCC+.
- Public debt increased by Rs.1,367 billion in the first nine months of 2008-09, reaching a total outstanding amount of Rs.7,268 billion. Total public debt has been growing at an average of 12 % per year since the fiscal year 1999-2000.
- Total domestic debt is positioned at Rs. 3,758.6 billion at end March 2009 which implies net addition of Rs.484.1 billion in the nine months of the current fiscal year and therefore has shown a growth of 14.8 % which is lower than last years' growth of 23.3 %.

- Interest payments on domestic debt stood at Rs. 551 billion which sums to 41.8 % of tax revenues and 30.5 % of total revenues estimates of 2008-09. As a % age of total expenditure budgeted for 2008-09, interest payments are currently 23%. The interest payments on domestic debt stood at 4.3 % of GDP for 2008-09.

OIL, GAS & ENERGY SECTOR

- The consumption of petroleum products, gas and coal during the first nine months (July-March 2008-09) of the current fiscal year decreased by 3.4 %, 2.5 % and 26.5 %, respectively over the corresponding period of last year. On the other hand, supply of crude oil, petroleum products, coal, and electricity during the first nine months of the outgoing fiscal year 2008- 09 decreased by 5.5 %, 2.8 %, 26.5 % and 17.9 %, respectively over the corresponding period of last year

Petroleum Products		Natural Gas	
Production of crude oil per day has decreased to 66,531 barrels per day during July-March 2008-08 from 70,165 barrels per day during the same period last year, showing a decrease of 5.2 %.		The average production of natural gas per day stood at 3,986.5 million cubic feet during July- March, 2008-09, as compared to 3,965.9 million cubic feet over the same period last year, showing an increase of 0.52 %	
Sector	% consumption	Sector	% consumption
Transport sector	51.60	Power	37.70
Power Sector	33.10	Industrial	20.90
Agricultural sector	1.10	Household	16.80
Industrial sector	10.30	Fertilizer	19.80
Household sector	1.70	Transport	2.00
Other sectors	2.20	Commercial	2.80

- The total installed generation capacity has increased to 19,754 MW during July-March 2008- 09 from 19,566 MW during the same period last year, showing a marginal increase (1.0 %). Total installed capacity of WAPDA stood at 11,454 MW during July-March 2008-09 of which, hydel accounts for 57.2 % or 6,555 MW, thermal accounts for 42.8 % or 4, 899 MW. The number of villages electrified increased to 133,463 by March 2009 as compared to 126,296 by March 2008, showing an increase of 5.7 %.

BANKING & FINANCE SECTOR

- The banking sector of Pakistan has grown substantially amongst different segments of the financial sector. Over the last seven years the extraordinary performance of the banking sector has induced foreign direct investment (FDI) of \$ 4.2 billion of which almost 90 % has been received by the banking sector.
- Islamic banking is rapidly transforming into a viable alternate form of financing. The overall deposits of IBIs at the end of December 2008 stood at Rs.198 billion and reflected a share of 5.2 % in banks deposits as compared to 1.4 % only in 2003-04. On the other hand, the total assets of Islamic banks reached to Rs.271.1 billions from Rs. 44.1 billion in 2003-04 and contributed 5.3 % in banking assets till end-December 2008.
- The structure of loan portfolio of the banks has changed significantly as by end December 2008, 78 % of the total bank advances were lent at the rate of 12 % and above as compared to 70 % of bank advances extended at rates between 9 and 12 % during the same period of last year.
- The net bank credit to the government for financing commodity operations and budgetary support amounted to Rs. 458 billion during July- May 2008-09 against Rs. 421 billion during the same period last year. Government's budgetary borrowing from the banking system decreased by Rs.339.9 billion during July-May 2008-09 against an increase of Rs 360.4 billion in the corresponding period of 2007-08.
- NFA has improved by Rs. 130 billions as on 9th May, 2009 after contracting by Rs 357 billion on 6 December, 2008. This improvement mainly came by end-March 2009 as the government received \$ 500 million each from the World Bank financing for poverty reduction and the Bank of China deposits with the SBP. Notwithstanding these inflows net foreign assets of the banking system decelerated by Rs 227.1 billion during Jul-May2008-09, which is still a major source of drain on domestic liquidity.
- NDA of the banking system decelerated sharply during Jul-May 2008-09 to 11.0 % as compared to 21.3 % during the same period last year.
- Finance and insurance sector witnessed slow down of 1.2 % compared with an expansion of 12.9% in 2007-08.
- Credit to private sector grew by Rs.21.8 billion during July-May 2008-09 as compared to Rs.369.8 billion during the corresponding period last year which implies sharpest deceleration in almost one decade. The stock of private sector credit grew by 0.8 % as compared to 16.5 % in the comparable period of last year. Credit to private sector as % of GDP has declined to 22.2 % in 2008-09 as compared to 28.1 % during the same period last year.
- Credit to the manufacturing sector decreased to Rs.89.4 billion during July-March 2008-09 compared to Rs.193 billion in the same period last year. The main contribution to the decline in advances came from the textile sector where massive contraction from whopping Rs.94.2 billion to just Rs.2.4 billion has taken place.
- The gross disbursement to agriculture sector grew by 9.6 % and stood at Rs .151.9 billion in July-March 2008-09 as compared with 24.8 % growth in the same period last year

TAXATION

- The cost of Income Tax exemption is estimated to be Rs 40.864 billion for the fiscal year 2008-09 as against Rs 27.66 Billion last year which represents 47% increase over last year.
- Key exemptions of Sales Tax are pharmaceutical products, tractors and other agricultural machinery and fertilizers. The cost of Sales Tax exemptions is estimated to be Rs.17.5 billion for the fiscal year 2008-09 as against Rs.17.6 billion last year.
- The cost of key customs exemptions is estimated to be Rs 61.282 billion for the fiscal year 2008-09 as against Rs 41.397 Billion last year which represents 48% increase over last year.
- Custom exemptions are mainly given on raw materials and components; plant, machinery and equipment imported by high-tech, priority and value added industries; imports for energy sector projects; and exemptions to exploration and production companies. Some of these exemptions are due to international contractual obligations. The following is the break-up of main exemptions in customs duties allowable in fiscal year 2008-09 compared to fiscal year 2007-08

TRANSPORT & COMMUNICATION

Pakistan Railway	Earnings in the current fiscal year stood at Rs. 17,442 million through carriage of 63.0 million passengers and 5.4 million tons of freight
PIA	<ul style="list-style-type: none"> • International passenger traffic registered \uparrow 3.5 % (excluding Hajj traffic) despite seat capacity \downarrow 2.3% • Domestic passenger traffic registered \uparrow 3.6 % despite seat capacity \downarrow 7.4% • In terms of capacity utilization, Passenger Seat Factor (excluding Hajj) \uparrow to 74.5 % in 2008 as compared to 70.3 in 2007 • Cargo capacity was also lowered by 13.8 % during the year 2009 • Load factor compared to the year 2008 improved by 2.7 %
Port Authorities	<ul style="list-style-type: none"> • During the first seven months of the current fiscal year, a remarkable increase of 44.3 % in exports handled by KPT • Port Qasim Authority handled 18.01 million tones cargo depicting a shortfall of 9 % over Jul 07- Mar 08 owing to global economic crisis • Pakistan National Shipping Corporation (PNSC) lifted 5,762.2 million tones of liquid cargo and 865.0 million tons of dry cargo during the current fiscal year. • The consolidated revenues of the Group for the quarter ending March 31, 2009 were Rs.9,503 million during the period under review as against Rs.7,471 million for the corresponding period last year showing an increase of 27 %.

GENERAL

- The trend of investment on Education in terms of GDP has been 2.50 % and 2.47 % in the years 2006-07 and 2007-08 respectively whereas it is estimated to be 2.10 % during the 2008-09. The budget allocation has increased by 8.6 % in 2008-09 as against an increase of 17 % in 2007-08.
- The total outlay on health during 2008-09 is estimated at Rs.74 billion which shows an increase of 23 % over last year and works out to be 0.5 % of GNP.
- Pakistan has a labour force of 51.78 million people that includes 10.96 million of women labour, being 0.1 million more than the previous year. The total number of people employed stands at 49.09 million, being 1.44 million more than the previous year.
- Presently, some 2700 CNG stations are operating in the country. Approximately 2.0 million vehicles were converted to CNG by March 09' as compared to 1.7 million vehicles during same period last year, showing an increase of 17.6 %.
- Agriculture dominates the distribution of employed persons among all the major sectors leading at (44.65%) during 2007-08, manufacturing has the share of (12.99%). The "Others" category has the combined distribution of employed persons in several industries of (0.1%). During the period 1999-2000 to 2005-06, 11.33 million work opportunities were created, mainly due to the strong economic growth; however, in the subsequent year i.e. 2007-08, an increase of 1.44 million employed persons was seen.
- During the current fiscal year total tele-density reached to 60.6 %. During the first 9 months of 2008-09, cellular Market added 3,422,599 subscribers with average of 0.3 million per month and total subscribers reached 91.4 million. Total fixed line subscribers in Pakistan stand at a total of 3.7 million as of March, 2009, yielding total teledensity of 2.3 %. Total WLL subscribers stood at 2.5 million

Service type	% share
Cellular segment	93.7 %
Fixed Local Loop (FLL)	3.8 %
Wireless Local Loop (WLL)	2.5 %

and density in the country touched 1.5 % in March, 09. There are currently more than 12,000 cities/ towns/villages covered by WLL services

SECTION 3 SALIENT FEATURES

INCOME TAX

1. The **basic limit of exemption from income tax in respect of salaried person** is proposed to be increased from Rs.180,000 to Rs. 200,000. In the case of women salaried taxpayers, the basic exemption limit is proposed to be increased from Rs. 240,000 to Rs. 260,000.
2. The Bill seeks to impose a new tax under the head **Internally Displaced Persons Tax (IDPT)** being chargeable for tax year 2009. The incidence of IDPT falls on the cases of individuals and AOPs having income of Rs. 1 Million and above at the rate of 5% on tax payable. The impact on corporate employees (with ex-bonus salary of Rs. 1 Million or more) will therefore be on a significantly higher side due to 30% IDPT on bonus in such cases.
3. **Electronic filing of tax return**, along with **wealth statement** and **wealth reconciliation statement**, is proposed to be made mandatory for salaried persons with salary of Rs. 500,000 and above.
4. It has been proposed to increase the **limit for allowing depreciation on passenger transport vehicles**, not plying for hire, from the existing limit of Rs. 1 Million to Rs. 1.5 Million.
5. It has been sought to allow accelerated depreciation at 90% rate on plant, machinery and equipments installed for **generation of alternate energy by a corporate industrial undertaking** set up anywhere in Pakistan.
6. The concept of **minimum tax** has been proposed to be reinstated with the maximum carry-forward period of 3 subsequent tax years. A conceptual change this time is that the turnover, for the purpose of calculating the minimum tax, would not include amount covered under the final tax regime.
7. With reference to **foreign companies**, the Bill seeks to restrict the implied concept of dividend only on that portion of their branches' after tax profit, which is actually remitted outside Pakistan.
8. It has been sought to revert to the original concept for allowing the concessional corporate income tax rate of 20% to all cases of **small companies**.
9. It has been suggested that all the cases of **AOPs** will be subjected to payment of advance tax, irrespective of their income threshold.
10. **Advance tax payments** are proposed to be linked to the tax-turnover ratio for the previous year applied to the quarterly turnover and deducting taxes paid during the quarter.
11. **Non-profit organizations** are proposed to be made liable to withhold tax on payments for goods, services and contracts.
12. It has been proposed to empower the Collector of Customs to collect **tax at 1% on the gross value of exported goods** at the time of clearance.
13. It has been sought to make the **tax collected on monthly electricity Bills** up to Rs. 30,000 for non-corporate consumers as minimum tax, while in case of Bills higher than this threshold, the tax is proposed to be made admissible for adjustments.
14. Advance tax at 5% on sale price has been proposed on **public auctions**.
15. The **rate for collection of tax at import stage proposed to be enhanced** from existing 2% to 4% of the value of imports.
16. The Bill seeks to prescribe a reduced rate of 2% for deduction of tax on source from **news print media services**.
17. It has been sought to increase in minimum capital threshold from Rs. 100 Million to Rs. 250 Million and increase in the minimum limit for total assets from more than Rs.100 million to more than Rs. 350 Million for qualification criteria for **Large Import Houses**.
18. The Bill seeks to withdraw the immunity from collection of tax at import stage presently available to **Large Trading Houses** as well as to immune these taxpayers from payment of minimum tax for a period of 10 years from the date of commencement of business operations.
19. The most lethal suggestion brought forward by the Bill is to **exclude certain activities from the purview of final tax regime** and making the tax collected as minimum tax. These activities include **Commercial Imports, Import of Edible Oil & Packing Material, Rendering of Services and Exports**. A normal tax return will now have to be filed in these cases with the exception that the tax collected or deducted on these activities shall constitute the base-line for determining the tax liability in case the liability under normal tax framework is lower.
20. It has been proposed to make it mandatory for **non-corporate taxpayers, covered under final tax regime** and having the tax incidence of Rs. 20,000 or more, to file a **wealth statement** along with **reconciliation of wealth statement** at the time of filing the statement of final tax.
21. The Bill seeks to allow a **tax credit of 2.5% to sales tax registered manufacturers**, who sell a minimum of 90% of their produce to sales tax registered buyers with certain requirements for furnishing of details.
22. It has been sought to withdraw the prevailing relief to **export indenting agents** and **export buying houses** for being taxed at par with exporters.
23. It has been sought to increase the income threshold for **senior citizens** to Rs. 750,000 for the purpose of computing reduction in tax liability.
24. It has been proposed to reduce the rate of reduction in tax liability available to certain full time teachers and researchers from existing 75% to the tune of 50%.
25. The Bill seeks to change the admissibility thresholds against provisions for non-performing loans and proposes to make the concept of minimum tax applicable to **banking companies**.

SALES TAX & FEDERAL EXCISE

SALES TAX

Exemptions from sales tax

Import and local supply of Lysine Sulphate [SRO 477(I)/2009, dated 13th June, 2009, effective from the 1st July, 2009].

Zero rating of sales tax on

Import and local supply of wheel chairs [SRO 472(I)/2009 dated 13th June, 2009, effective from the 14th June, 2009]

Other measures

- a. Introduction of KIBOR plus three percent per month as default surcharge [Enforced through amendment in Sales Tax Act, 1990 and Federal Excise Act, 2005, effective from the 1st July, 2009].
- b. Reduction in the period by which the Collector / Federal Excise Officer can extend the time limit for adjudication of cases under Sales Tax Act, 1990 and Federal Excise Act, 2005 respectively [Enforced through amendment in section 11 and 36 of Sales Tax Act, 1990 and section 31 of Federal Excise Act, 2005, effective from the 1st July, 2009]
- c. Introduction of penalty / imprisonment for violation of section 40B of the Sales Tax Act, 1990 [Enforced through amendment in section 33 of Sales Tax Act, 1990, effective from the 1st July, 2009]
- d. Redefining the time period regarding reopening of any decision or order by the Board or Collector from five to three years [Enforced through amendment in section 45A of Sales Tax Act, 1990 and section 35 of Federal Excise Act, 2005, effective from the 1st July, 2009]
- e. Regularization of the system of Alternate Dispute Resolution [Enforced through amendments in section 47A of Sales Tax Act, 1990 and section 38 of Federal Excise Act, 2005, effective from the 1st July, 2009]
- f. Introduction of KIBOR as the rate of amount payable in addition to refund in case of delay in payment of refund of Sales Tax & Federal Excise Duty [Enforced through amendments in section 67 of Sales Tax Act, 1990 and introduction of section 44A of Federal Excise Act, 2005, effective from the 1st July, 2009]
- g. Harmonization of provisions regarding appeals to Appellate Tribunal under Sales Tax Act, 1990 and Federal Excise Act, 2005 with Customs Act, 1969 [Enforced through amendments in section 46 of Sales Tax Act, 1990 and section 34 of Federal Excise Act, 2005, effective from the 1st July, 2009]

FEDERAL EXCISE

Enhancements and fresh levies

- a. Levy of duty at the rate of twenty paise per SMS in addition to the rate specified for telecommunication services [Table-II of First Schedule to the Federal Excise Act, 2005, effective from 1st July, 2009].
- b. Levy of duty at the rate of sixteen percent on advertisement in newspapers, periodicals, hoarding boards, pole signs, sign board and shop boards [Table-II of First Schedule to the Federal Excise Act, 2005, effective from 1st July, 2009].
- c. Levy of duty at the rate of sixteen percent in VAT mode on fund/ non-fund services provided by banking and non-banking financial companies [Table-II of First Schedule to the Federal Excise Act, 2005, effective from 1st July, 2009].
- d. Levy of duty on services at the rate of sixteen percent in VAT mode on services provided by the port and terminal operators including wharfage in respect of imports [Table-II of the First Schedule to the Federal Excise Act, 2005, effective from 1st July, 2009].
- e. Levy of duty at the rate of sixteen percent in VAT mode on services provided by the stock brokers [Table-II of the First Schedule to the Federal Excise Act, 2005, effective from 1st July, 2009].
- f. Rate of duty enhanced on locally produced Cigarette in different slabs [Table-I of First Schedule to the Federal Excise Act, 2005, effective from 14th June, 2009].
- g. Rate of duty on insurance services enhanced from 10% to 16% in VAT mode [Table-II of First Schedule to the Federal Excise Act, 2005, effective from 1st July, 2009].
- h. Withdrawal of exemption on import of ware potatoes and onion aimed at providing protection to local growers of potato and onion. [amendment in Sixth Schedule, effective from 14th June, 2009]

Withdrawal/ Reduction in Federal Excise Duty

- a. The federal excise duty on cement reduced from Rupees 900/ PMT to Rupees 700/PMT. [Table I of First Schedule to the Federal Excise Act, 2005, effective from the 14th June, 2009].
- b. 5% federal excise duty on motor vehicle has been withdrawn [SRO 474(I)/2009, dated 13th June, 2009, effective from the 14th June, 2009].
- c. Rate of duty on telecommunication services reduced from 21% to 19% [Table-II of First Schedule to the Federal Excise Act, 2005, effective from 1st July, 2009].
- d. Activation charges on cellular phones reduced from rupees 500 to rupees 250 [[SRO 476(I)/2009, dated 13th June, 2009, effective from the 1st July, 2009]

SECTION 4 INCOME TAX

1. INDIVIDUALS AND AOPS

[First Schedule Part I Div I]

Rates of tax for salaried persons			Rates of tax for non-salaried individuals & AOPs		
Taxable Income (Rupees)		Rate of Tax	Taxable Income (Rupees)		Rate of Tax
From	To		From	To	
Up to 200,000		0%	Up to 100,000		0%
200,001	250,000	0.50%	100,001	110,000	0.50%
250,001	350,000	0.75%	110,001	125,000	1.00%
350,001	400,000	1.50%	125,001	150,000	2.00%
400,001	450,000	2.50%	150,001	175,000	3.00%
450,001	550,000	3.50%	175,001	200,000	4.00%
550,001	650,000	4.50%	200,001	300,000	5.00%
650,001	750,000	6.00%	300,001	400,000	7.50%
750,001	900,000	7.50%	400,001	500,000	10.00%
900,001	1,050,000	9.00%	500,001	600,000	12.50%
1,050,001	1,200,000	10.00%	600,001	800,000	15.00%
1,200,001	1,450,000	11.00%	800,001	1,000,000	17.50%
1,450,001	1,700,000	12.50%	1,000,001	1,300,000	21.00%
1,700,001	1,950,000	14.00%	Above 1,300,000		25.00%
1,950,001	2,250,000	15.00%			
2,250,001	2,850,000	16.00%			
2,850,001	3,550,000	17.50%			
3,550,001	4,550,000	18.50%			
4,550,001	8,650,000	19.00%			
Above 8,650,000		20.00%			

Treatment of marginal limits

Taxable Income (Rupees)	Total Tax Liability	
	Tax Liability on the Maximum Amount of the Previous Slab	Tax Liability on the Marginal Amount
Up to 0.55 M		20%
Up to 1.05 M		30%
Up to 2.25 M	As per Respective Slab Rates	40%
Up to 4.55 M		50%
Above 4.55 M		60%

Women taxpayers

It has been proposed that the non-taxable limit for salaried women taxpayers be enhanced to Rs. 260,000, while that for non-salaried cases has been maintained at the existing limit of Rs. 125,000.

Internally Displaced Persons Tax (IDPT)

Based on the plea to rehabilitate IDPTs, the Bill seeks to impose a new tax under the head Internally Displaced Persons Tax, to be treated as Income Tax:

	Rate of IDPT
On bonus received by corporate employees with salary income of Rs. 1 Million or more (excluding bonus) for the tax year 2009 – to be treated as a separate block for this purpose	30% on the bonus
On the tax payable by all individuals (both salaried & non salaried) and AOPs having taxable income of Rs. 1 Million or more for the tax year 2009	5% on the tax payable

2. FILING OF RETURN AND STATEMENTS BY CERTAIN SALARIED TAXPAYERS [Section 115]

Presently salaried cases with no other income were not obliged to file return of income, since the annual statement of tax on salary filed by the employers was construed as the return of such employees.

The Bill now seeks taxpayers with salary income of Rs. 500,000 or more to file their return electronically along with the proof of deduction or payment of tax and the wealth statement.

3. INCOME FROM PROPERTY [Section 15, First Schedule Part I Div VI & First Schedule Part III Div V]

Rates for taxation of income from property and collection of tax at source

Finance Act, 2008 increased the overall tax burden on income from property to a manifold impact by adopting slab-base on income as against the previous flat rate of 5%.

The Bill now seeks to give some relief on this head of income by way of proposing a reduction in slab rates for taxation and collection of tax at source under this head. The proposed rates are given as under:

<i>In case of Individuals & AOPs</i>			<i>In case of Companies</i>		
<i>Gross Rental (Rupees)</i>		<i>Rate of Tax</i>	<i>Gross Rental (Rupees)</i>		<i>Rate of Tax</i>
From	To		From	To	
	Up to 150,000	NIL		Up to 400,000	5% of the gross rent
150,001	400,000	5% of gross rent exceeding Rs.150,000	400,001	1,000,000	Rs.20,500* + 7.5% of gross rent exceeding Rs.400,000
400,001	1,000,000	Rs.12,500 + 7.5% of gross rent exceeding Rs.400,000	Exceeding 1,000,000		Rs.65,000 + 10% of gross rent exceeding Rs.1,000,000
	Exceeding 1,000,000	Rs.57,500 + 10% of gross			

* There appears to be a mistake, since the correct amount works out at Rs. 20,000.

4. BUSINESS INCOME

Dairy farming and similar businesses

[Section 20(1A)]

The Bill seeks to propose a relief for deduction in computation of business income in respect of animals which have been used for the purposes of the business or profession (otherwise than as stock-in-trade) and have died or become permanently useless for such purposes.

The deduction shall be computed as the difference between the actual cost to the taxpayer of the animals and the amount, if any, realized in respect of the carcasses or animals.

Depreciation

It has been proposed to increase the **limit for allowing depreciation on passenger transport vehicles**, not plying for hire, from the existing limit of Rs. 1 Million to Rs. 1.5 Million. [Section 22(13)(a)]

The Bill also seeks to restrict the **revaluation of the asset on account of exchange fluctuation** only in the year of occurrence of exchange fluctuation and not in previous years. [Explanation to Section 76(5)]

Accelerated depreciation to alternate energy projects

[Section 23B]

The Bill proposes to allow depreciation at accelerated rate of 90% by way of allowing First Year Allowance on plant, machinery and equipments installed for generation of alternate energy by a corporate industrial undertaking set up anywhere in Pakistan.

Minimum tax on the income of certain persons

[Section 113]

Provisions regarding payment of minimum tax were abolished by Finance Act, 2008. However, the Bill seeks to reinstate the provisions with certain new concepts.

Resident companies are proposed to be subjected to minimum tax at 0.5% of turnover from all sources during a year, where, for any reason, there is no tax incidence or the tax incidence is less than the said 0.5%

The applicability of minimum tax may arise in any of the following cases:

- a. loss for the year;
- b. loss due to the setting-off earlier years' losses;

- c. income being exempt from tax;
- d. no tax being payable for the reason of application of credits or rebates; or
- e. no tax being payable due to claiming of allowances or deductions (including depreciation and amortization deductions)

The ambit of this section is proposed to apply only in such cases where there is a gross profit before setting-off depreciation and other inadmissible expenses.

Where minimum tax exceeds the actual tax payable, if any, the excess amount of tax paid shall be carried forward for adjustment against tax liability of three subsequent tax years immediately succeeding the tax year for which the minimum tax was paid.

Turnover, for the purpose of computing minimum tax, would mean:

- a. gross receipts, exclusive of Sales Tax and Federal Excise duty or any trade discounts shown on invoices, or Bills, derived from the sale of goods;
- b. gross fees for rendering of services and giving benefits;
- c. commission;
- d. gross receipts from the execution of contracts;
- e. the company's share of the amounts stated above of any association of persons of which the company is a member

However, turnover would not include any amount covered under the Final Tax Regime. **[Section 137]**

Place of business

[Section 209(5)]

The Bill seeks to insert an explanatory proviso for adopting rules for determining place of business for taxpayers, which was previously governed under CBR's (FBR's) order dated May 27, 2003. The guiding principles are as under:

<i>Type of Taxpayer</i>	<i>Place of Business</i>
Listed or unlisted public limited companies	The place where the registered office is situated
<u>Other companies</u>	
a. Primarily engaged in manufacture or processing	The place where the factory is situated
b. Primarily engaged in business other than manufacture or processing	The place where main business activities are actually carried on

5. FOREIGN COMPANIES

Dividend

[Section 2(19) and Section 5]

1. The definition of Dividends was broadened by virtue of an amendment brought vide the Finance Act, 2008, whereby the after tax profits of branches of foreign companies operating in the country were implied as dividend irrespective of the timing of their actual repatriation.

To do away with this anomaly, the Bill seeks to imply only that portion of branch's after tax profit, which is actually remitted outside Pakistan.

2. The Bill also seeks to exclude remittance of after tax profit by a branch of Petroleum Exploration and Production (E&P) foreign company, operating in Pakistan from the purview of dividend.

6. SMALL COMPANIES

Through an amendment brought to the Statute vide Finance Act, 2008, the rates of tax for small companies were linked to the turnover-base. The Bill now proposes to revert to the original concept for allowing the concessional corporate tax rate of 20% to all cases of small companies, abolishing turnover limits.

7. ADVANCE TAX AND WITHHOLDING TAX

1. The Bill seeks to make certain amendments necessary to implement the conceptual nature of withholding tax collections on amounts that are either not in the nature of income but are subjected to collection of tax at source or are covered under the purview of final tax regime. Accordingly, ***taxes collected on the following items are proposed to be excluded for the purpose of applicability for payment of advance tax:***
 - a. cash withdrawal from a bank
 - b. purchase of motor cars and jeeps
 - c. tax on motor vehicles

- d. CNG Stations
 - e. electricity Bills
 - f. telephone cards and Bills [Section 147(1)]
2. It has been suggested that all the cases of **association of persons** will be subjected to payment of advance tax, irrespective of the any income threshold. [Section 147(2)]
3. Through an amendment brought to the statute vide the Finance Act, 2004, the total amount of **quarterly advance tax** was made payable to the extent of previous years' tax incidence after considering taxes already deducted or collected in a quarter. It has now been proposed to revert to the pre Finance Act, 2004 situation, whereby the advance tax payments will be linked to the tax-turnover ratio for the previous year applied to the quarterly turnover and deducting taxes paid during the quarter. It has further been clarified that the minimum tax liability has also to be taken in account while working out the advance tax liability.
- The liability to pay quarterly advance tax in the absence of last assessed income or declared turnover has been proposed to be made applicable to association of persons also, i.e. just like in case of companies.
- [Section 147(4), 147(4AAA) and 147(6A)]
4. The Bill seeks to include **non-profit organizations** in the list of prescribed persons liable to withhold tax at source on payments for goods, services and contracts. [Section 153(9)(cc)]
5. A new sub-section is proposed to be inserted to Section 154, empowering the Collector of Customs to collect tax at 1% on the gross value of exported goods at the time of clearance. Apparently, the intention behind this proposal is to bring **exports to neighboring countries, through land routes**, against which realizations are made in cash. However, in the absence of clear instructions under the proposed sub-section for limited scope application only to cases other than to which a recovery has to be made under any other subsection of section 154, there arises an ambiguity if the Collector of Customs moves to collect tax on all cases at the time of effecting custom clearance. [Section 154(3C) & First Schedule Part III Div Clause (1)]
6. The Bill seeks to make it mandatory on the withholding agents to provide to the taxpayer copies of the tax payment challan or any other equivalent document as **proof of payment of tax** along with the certificate of tax deducted or collected. On the other hand the taxpayers are proposed to be required to furnish copies of tax payment challans and the aforesaid certificate along with the return of income. [Section 164(1)]
7. It has been sought to extend the applicability of collection of advance tax on registration stage for all type of **private motor vehicles**, which was previously limited to motor cars and jeeps only. [Section 231B]
8. Due to amendments brought vide Finance Acts 2007 and 2008; **advance tax collected on electricity Bills** of up to Rs. 20,000 for non-corporate consumers is being treated as minimum tax, with no admissibility for refund. It has now been proposed to make the tax so collected on monthly Bills up to Rs. 30,000 as minimum tax; while in case of Bills higher than this threshold, the tax so collected will be admissible for adjustments. [Section 235(4)]
9. It has been proposed to make it mandatory on any person making **sale by public auction**, to collect advance tax, computed on the basis of sale price at 5%;
- For this purpose, the public auction is proposed to mean and include:
- a. an auction of any confiscated or attached property or goods for and on behalf of the Government, Local Government, a Company, a Foreign Association Declared to be a Company, a Foreign Contractor/ Consultant/ Consortium/ Collector of Customs/ Commissioner of Income Tax or any other authority; and
 - b. the awarding of any lease to any person, including a lease of the right to collect tolls, fees or other levies
- [Section 236A & First Schedule Part IV Div VIII]
10. The rate for **collection of tax at import stage** is proposed to be enhanced from existing 2% to 4% of the value of imports. [First Schedule Part II]
11. The Bill seeks to prescribe a reduced rate of 2% for deduction of tax on source from **news print media services**. [First Schedule Part III Div III Clause (2) Para (i)]

8. FINAL (PRESUMPTIVE) TAX

Taxation of income of certain retailers

[Section 113B]

By limiting the ambit of section 113 only to that portion of turnover not subjected to deduction of tax under section 153, the Bill seeks to do away with the dual incidence of tax on such retailers, with turnover exceeding Rs. 5 Million, who also supply goods to persons liable to withhold tax on payments. Since, in these cases the turnover was legally exposed to be subjected to tax twice, i.e. both under section 113 and section 153.

Large import houses

[Section 148(7)(d)]

The following minimum criteria have been enhanced for being classified as large import houses for the purposes of treatment under normal tax framework by way of immunity from treating the tax at import stage as advance tax:

1. Increase in minimum capital threshold from Rs. 100 Million to Rs. 250 Million;
2. Increase in the minimum limit for total assets from more than Rs.100 million to more than Rs. 350 Million.

Exclusions form the final tax regime

The Bill seeks to make the amount collected or deducted in the following cases as **minimum tax instead of final tax**:

1. Commercial imports [Section 148(7)]
2. Import of edible oil and packing material [Section 148(8)]
3. Rendering of services by resident taxpayers, including packaging and repackaging
[Sub-proviso to 2nd Proviso to Section 153(6)]
4. Exports [Section 154(4)]

In line with the above proposed change, it has also been proposed to omit the cases of **commercial imports, exports and rendering of services by residents** from the category of persons not required to file a return of income.

[Section 115(4)]

Wealth statement

[Section 115(4B)]

The Bill seeks to make it mandatory for non-corporate taxpayers, falling under final tax regime and having the tax incidence of Rs. 20,000 or more, to file a wealth statement along with reconciliation of wealth statement at the time of filing the statement of final tax.

9. TAX CREDITS

Charitable donations by companies

[Section 61]

The Bill seeks to enhance the limit of 15% on the donor company's income to a 20% threshold on income for the purpose of applying the average rate of tax to calculate the amount eligible to tax credit on account of charitable donations.

Profit on debt

[Section 64]

It has been sought to allow a further relief in computing the eligible amount for calculation of tax credit on profit on debt for the construction or acquisition of a house. Accordingly, the Bill seeks to enhance the base parameters from 40% of taxable income to 50% as well as increasing the monetary threshold from Rs. 500,000 to Rs. 750,000.

Tax credit to a person registered under the Sales Tax Act, 1990

[Section 65A]

With a view to promote documentation of the economy, the Bill seeks to insert a new section for allowing a tax credit of 2.5% to such manufacturers, registered under the Sales Tax Act, 1990, who sell a minimum of 90% of their produce to sales tax registered buyers.

It is, however, important to note that this credit will be allowable only in cases where:

1. the manufacturer provides complete details of the buyer;
2. the manufacturer is not covered under final tax or minimum tax.

Although the limit does not appear to be comprehensible, the Bill proposes to restrict any carry forward of such tax credits.

10. RETURN OF INCOME

Filing of tax return

[Section 114(1)(b)(3)]

The Bill seeks to bring the following cases of individuals within the purview of the mandate to file return of income:

Persons who:

- a. own immovable property with a land area of 500 sq. yards or more located in a rating area;
- b. own a flat having covered area of 2,000 sq. feet or more located in a rating area;
- c. own a motor vehicle having engine capacity above 1,000CC; and
- d. have obtained National Tax Number.

Revised return

[Section 114(6)]

It has been sought to introduce certain conditions for filing of revised return, which include

- a. the revised return should be accompanied by revised accounts;
- b. reasons for revising the return should be furnished in writing;

It has also been proposed that no revision to return can be made after the issuance of a notice for amendment of assessment.

Revised statements

[Section 115(4A)]

It has also been proposed to introduce the concept of filing revised statements, within a period of 5 years, for cases which are not liable to furnish return of income under section 114.

Wealth statement

[Section 116(1)(e)]

The Bill proposes to empower the Commissioner of Income Tax to demand wealth reconciliation statement along with the wealth statement.

Wealth reconciliation statement

[Section 116(2)]

The Bill also proposes to make it mandatory for all cases with current or last declared income of Rs. 500,000 or more to file a wealth reconciliation statement in addition to the wealth statement.

11. ASSESSMENTS

Best judgment assessment

[Section 121]

It has been sought to broaden the scope of Commissioner's powers to make best judgment assessment for cases falling under the final tax regime, where the taxpayer fails to furnish the prescribed statement under section 115(5).

Amendment of assessments

[Section 122]

The Bill seeks to make certain changes to section 122, with apparently no conceptual change.

12. APPEALS

Appeal to the Commissioner (Appeals)

Right to Appeal

The Bill seeks to enhance the purview of right to appeal before Commissioner (Appeals) against orders passed by the Commissioner on the following additional two grounds:

- a. appeal against order for additional tax passed under section 205; and
- b. appeal against an order giving effect to any finding or directions in any order made by the Commissioner (Appeals), Appellate Tribunal, High Court or Supreme Court.

It has also been sought to enhance the collections from appeal fee revenue by fixing the fee for appeal against assessment orders at Rs. 1,000, which was previously lower of Rs. 1,000 or 10% of the tax assessed. **[Section 127]**

Time limit for serving the appeal order

With a view to add efficiencies to the appeal process, the Bill seeks to propose a time limit of 120 days for serving order on the appellant and the Commissioner from the date of filing of appeal. However, this period may be extended to a further 60 days, on reason to be recorded. **[First proviso to Section 129(4)]**

It has also been sought to relieve the above period by excluding the period during which the hearing of an appeal is adjourned at the request of the appellant or is postponed due to any appeal or proceedings or stay order, remand or alternative dispute resolution proceedings or for any other reason. **[Second proviso to Section 129(4)]**

Appointment of the Appellate Tribunal **[Section 130]**

With a view to dispose pending cases, as well as to increase the overall efficiency at the appellate tribunal level, the Bill seeks to insert the two subsections to section 130, in order to:

- a. empowering the Chairman to constitute single member benches to hear such cases or class of cases as may be notified by the Federal Government. **[Sub-section (8A)]**
- b. empower the Chairman or any other member of the Appellate Tribunal authorized, in this behalf by the Chairman may, sitting singly, dispose of any case where the amount of tax or penalty involved does not exceed Rs. 5 Million. **[Sub-section (8AA)]**

Appeal to Appellate Tribunal **[Section 131]**

With a proposed new (3rd) proviso to section 131(5), the grievances of taxpayers is expected to increase manifold since the it has been sought to further restrict the powers of the Tribunal in allowing stay of tax recovery without awarding an opportunity of being hear to respondents (Department).

The Bill also seeks to fix the appeal fee at Rs. 2,000.

Alternative Dispute Resolution **[Section 134]**

The Bill seeks to impose limitations on eligibility for applications before the Federal Board of Revenue in the following cases:

- a. where prosecution proceedings have been initiated; or
- b. where interpretation of question of law having effect on identical other cases already exists. (words in underline are interpretations in the given context)

Moreover, it has also been sought to prescribe following timeframes for the alternative dispute resolution process:

Process in Alternative Dispute Resolution	Timeframe
a. For appointment of a Committee by the FBR	Within 60 days of receipt of such application by the Board
b. For processing the case and making recommendations	Within 180 days of its constitution
c. Reconstitution of committee by FBR in case it fails to make recommendation	Within stipulated or extended period
d. Passing an order on the recommendation of the committee	Within 45 days of the recommendations

13. RECOVERY OF TAX **[Section 138]**

The Bill seeks to empower the Commissioner require, by notice in writing to the taxpayer or to another person, to stop removal of any goods manufactured or stored or kept by the taxpayer or on his behalf by the said other person, applicable only on the outstanding demand payable as confirmed or modified by the Appellate Tribunal.

14. REFUNDS

Timeframe for refunds **[Section 170(4)]**

It has been proposed to increase the timeframe for processing of refund applications from the existing period of 45 days to 90 days from the date of lodging the application for refund.

Powers to withhold refund in certain cases **[Section 170A]**

The proposed section 170A reads as under:

- “(1) Where an order giving rise to a refund is the subject matter of an appeal or further proceedings under this Ordinance, the Commissioner may, withhold refund till such time as he deems fit.*
- (2) No refund under sub-section (1) shall be withheld unless the taxpayer has been given a reasonable opportunity of being heard.*
- (3) The Commissioner shall make an order, stating the reason for withholding the refund and shall communicate the same to the taxpayer”.*

Additional payment for delayed refunds

[Section 171(1)]

The Bill proposes to link the percentage for additional payments for delayed refunds to KIBOR instead of the existing rate of 6%.

It has also been sought to adopt a proviso to section 171(1), which is expected to favor nothing to taxpayers expect increased distress. The proviso reads as under:

“Provided that where there is reason to believe that a person has claimed the refund which is not admissible to him, the provision regarding the payment of such additional amount shall not apply till the investigation of the claim is completed and the claim is either accepted or rejected.”

15. APPOINTMENT OF CA FIRMS

[Section 176, Section 177 and Section 210]

It has been sought to empower the Commissioner to appoint CA firms approved by the Federal Board of revenue to obtain information when appointed to collect information from taxpayers under section 176 as well as to conduct audit of taxpayers under section 177.

16. ADDITIONAL TAX

[Section 205]

The Bill seeks to heavily enhance the incidence of additional tax from existing rate 12% to KIBOR plus 3%.

17. ADMINISTRATION

Power of the Board to call for records

[Section 214B]

The Bill seeks to insert a new section to empower the Federal Board of Revenue, of its own motion, to call for and examine the record of any departmental proceedings under the Ordinance or the rules made there-under for the purpose of satisfying itself as to the legality or propriety of any decision or order passed therein and may pass such order as it may think fit.

It has however been proposed to place the following restrictions to this case:

- a. no order imposing or enhancing any tax or penalty than the originally levied shall be passed unless the person affected by such order has been given an opportunity of showing cause and of being heard;
- b. no such proceeding shall be initiated in a case where an appeal is pending;
- c. no order shall be made under the proposed section after the expiry of 3 years from the date of original decision or order.

Directorate General (Intelligence and Investigation of Income Tax)

[Section 229A]

It has been proposed to constitute a new Directorate with the name of “The Directorate General (Intelligence and Investigation of Income Tax)”, which shall consist of a Director-General and as many Directors, Additional Directors, Deputy Directors and Assistant Directors and such other officers as the Federal Board of Revenue may appoint. The Directorate General (Intelligence & Investigation of Income Tax) shall exercise such powers under this Ordinance, as may be assigned to the Directorate by the Board.

18. GENERAL

Substitution of the words “Director-General” in place of “Regional Commissioner”

Substitution of the words “Federal Board of Revenue” in place of “Central Board of Revenue”

19. EXEMPTIONS FROM TOTAL INCOME

[Second Schedule Part I]

Enhancement in exempt limits

1. The exempt limit of withdrawal from approved pension funds is proposed to be enhanced from existing 25% to 50% being made at the time of retirement, disability and death of the contributory. **[Clause 23A]**
2. The Bill proposes to enhance the exemption of donation to prescribed institutions made by companies from the existing limit of 15% to 20%. **[Clause 61(b)]**

Restrictions on exemption

It has been proposed to make it compulsory for universities or other educational institutions to obtain approval of the Director-General for tax exemption. **[Clause 92]**

20. REDUCTION IN TAX RATES

[Second Schedule Part II]

Exemption granted

1. The Bill proposes to adopt a reduced rate of 1% for collection of withholding tax on gross sales value by **distributors of cigarette and pharmaceutical products.** **[Clause 24A]**
2. The Bill seeks to make the activity of local purchase of imported edible oil subject to tax at 2%. **[Clause 13C]**

Omissions (withdrawals) proposed

1. With the cases of exporters proposed to be considered under the concept of minimum tax, it has been sought to withdraw the prevailing relief to **export indenting agents and export buying houses** for being taxed at par with exporters (i.e. 1% final tax on commission receipts of such taxpayers) **[Clause 5]**
2. The Bill seeks to withdraw the reduced tax rates (7.5%) privilege on **dividends declared or distributed by purchaser of a power project privatized by WAPDA.** **[Clause 17]**

21. REDUCTION IN TAX LIABILITY

[Second Schedule Part III]

1. Senior citizens are presently entitled to a reduction in tax liability of 50% in cases where the income is up to Rs. 500,000. The Bill now seeks to increase this eligible income limit to Rs. 750,000. **[Clause 1A]**
2. It has been sought to reduce the rate of reduction in tax liability available to certain full time teachers and researchers from existing 75% to the tune of 50%. **[Clause 2]**

22. EXEMPTION FROM SPECIFIC PROVISIONS

[Second Schedule Part IV]

Exemptions granted

1. The Bill seeks to give immunity from the applicability of proposed minimum tax to the following taxpayers:
 - a. National Investment (Unit) Trust
 - b. collective investment scheme authorized or registered under NBFC Rules
 - c. Approved real estate investment trust
 - d. Any company in respect of turnover representing transactions in shares, or securities listed on a registered stock exchange;
 - e. Petroleum dealers engaged in retail sale of petroleum and petroleum products through petrol pumps (for turnover on account of sale of petroleum and petroleum products), excluding petrol pumps which are directly operated or managed by companies engaged in distribution of petroleum and petroleum products;
 - f. Hub Power Company Limited on receipts on account of sale of electricity;
 - g. Kot Addu Power Company Limited;
 - h. Certain companies, in respect of receipts from sale of electricity;
 - i. Provincial Governments and Local Government and other tax-exempt Government bodies;
 - j. Pakistan Red Crescent Society;
 - k. Special purpose, non-profit companies scrutinizing the receivables of Provincial Governments;
 - l. Approved non-profit organizations;
 - m. Exporters of computer software, IT services or IT enabled services;
 - n. Certain persons engaged in the business of shipping;
 - o. Exempt venture capital companies, venture capital funds and private equity and venture capital funds;
 - p. Registered Modarabas;
 - q. Corporate and Industrial Restructuring Corporation;
 - r. Corporatized entities of PWAPDA, for their receipts on account of sales of electricity for the specified period;
 - s. Morahaba banks and financial institution approved for Islamic Banking and Finance in respect of turnover under a morabaha arrangement; and
 - t. WAPDA First Sukuk Company Limited. **[Clause 11A]**

2. It has been sought to give a special retrospective relief from the applicability of Minimum Tax w.e.f. July 1, 1991 to institutions of the Agha Khan Development Network (Pakistan) listed in Schedule 1 of the Accord and Protocol dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network **[Clause 16]**
3. The Bill seeks to grant relaxation from Minimum Tax to certain investment of non-residents **[Clause 19]**
4. Large trading houses are proposed to be given immunity from payment of Minimum Tax for a period of 10 years from the date of commencement of business operations. **[Clause 57]**
5. It has been proposed to grant exemption to cotton ginner and suppliers of lint from collection on tax on electricity consumption Bills. **[Clause 66A]**

Exemptions withdrawn

Presently large trading houses were immune from collection of tax at import stage. It has now been proposed to withdraw this immunity. **[Clause 57]**

23. BANKING COMPANIES

[Seventh Schedule]

1. The Finance Act 2008 subjected the maximum **provision against non-performing loans** and bad debts to the general conditions prescribed under section 29 of the Income Tax Ordinance, 2001 and the specific limit as per section 29A of the Ordinance in case of consumer loans of 3% of the related tax year's income as attributable to such loans.
The Bill now seeks to amend the present concept for provisioning by way of linking allowable limit for provisions in respect of classified advances and off balance sheet items at the rate of 1% of such classified advances.
However, a certificate from the external auditor would be required to be furnished to the effect that such provisions are based upon and in line with the Prudential Regulations. **[Rule 1 Clause (c)]**
Moreover, if actual bad debts are less than 1% of the classified advances, the actual bad debts shall be allowed and the excess amount, if any, provided for, shall not be allowed to be carried forward.
2. A new proviso has also been sought to be adopted for restricting carry-forward of provision to the quantum of actual bad debts and 1% of the classified advances, whichever is the lower. **[Proviso to Rule 1 Clause (c)]**
3. The following new clauses are also sought to be inserted to Rule 1:
Clause (ca) The amount claimed as expense, on account of "bad debts" classified under the Prudential Regulations issued by the State Bank of Pakistan as "substandard", shall not be allowed.
Clause (cb) Where any addition made under sub-rule (ca) is reclassified by the taxpayer as 'doubtful' or 'loss', under the Prudential Regulations issued by the State Bank of Pakistan, provision of sub-rule (c) shall mutatis mutandis apply in computing the provision for that tax year.
Clause (cc) Where any addition made under sub-rule (ca) is reclassified by the taxpayer in a subsequent year as 'recoverable', a deduction shall be allowed in computing the income for that tax year.
4. Revived provisions of the **Minimum Tax** at 0.5% on are also proposed to be made applicable to Banking Companies. **[Rule 7A]**

24. APPLICABLE RATES FOR WITHHOLDING/ ADVANCE/ FINAL TAX [First Schedule & Corresponding Sections]

	Nature of Payment	Tax Rate	Advance/ Final/ Minimum Tax	
Cases of Residents and Permanent Establishments of Non-residents	Dividend paid to: <input type="checkbox"/> Companies under group relief scheme <input type="checkbox"/> Other cases	Exempt 10%	N/A Final Tax	
	Imports	4%	Advance Tax for Corporate Manufacturers & Large Import Houses, while Minimum Tax in Other Cases	
	Profit on debt paid to: <input type="checkbox"/> Individuals <input type="checkbox"/> Companies and AOPs	10% 10%	Final Tax Advance Tax	
	Payments for goods other than imported goods in the case of: <input type="checkbox"/> sale by distributors of cigarettes and pharmaceutical products <input type="checkbox"/> sale of rice, cotton-seed and edible oils <input type="checkbox"/> general rate	1% 1.5% 3.5%	Adv. Tax for Listed Cos, Final Tax for Other Cases Final Tax Adv. Tax for Listed Cos & Corporate Manufacturers, Final Tax for Other Cases	
	Payments for services <input type="checkbox"/> Passenger and road transport services and news print media services <input type="checkbox"/> Other services	2% 6%	Final Tax for Transport Services & Minimum Tax for Other Cases	
	Payment on account of execution of contract	6%	Advance Tax for Listed Companies & Final Tax for Others	
	Exports (including exports through land routes against cash collection)	1%	Minimum Tax	
	Indenting commission	5%	Final Tax	
	Rental of property income	Refer para 3	Final Tax	
	Tax on Builders (on the basis of covered constructed area)	Rs.50/ sq. ft	Minimum Tax	
	Tax on Developers (on the basis of on the area of land developed)	Rs.100/ sq. yd	Minimum Tax	
	Prizes and winnings: <input type="checkbox"/> Prize on prize bonds <input type="checkbox"/> Winnings from a raffle, lottery, prize on winning a quiz, cross-word puzzle or prizes related to companies' sales promotion schemes	10% 20%	Final Tax	
	Brokerage and commission	10%	Final Tax	
	Tax on vehicles (to be collected with motor vehicle tax)	Various rates based on engine capacity	Final Tax in case of Commercial Vehicles & Advance Tax in Other Cases	
	Tax on purchase of locally manufactured motor vehicles	Various rates based on engine capacity	Advance Tax	
	Tax on electricity Bills	Various rates	Minimum Tax for Non-corporate Tax-payers up to Monthly Bill Amount of 30K & Advance Tax for Companies	
	Telephone Bills	Various rates	Advance Tax	
	Mobile phone Bills and prepaid telephone cards	10%	Advance Tax	
	Tax on gas Bills for CNG stations	4%	Final Tax	
	Cash Withdrawal from a bank above exceeding cumulative sum of Rs.25,000	0.3%	Advance Tax	
	Cases of Non-residents	Salary, supply of goods & services*, income from property and prizes & winnings (* services of news agencies, syndicate services & individual contributors/ writers not to be subjected to withholding tax)	Same as Residents	Final Tax
		Profit on debt	As per applicable Double Tax Treaty	Advance Tax
		Dividends (including repatriation of profits by branches)	10%	Final Tax
Contracts		6%	Advance Tax, with option for Final Tax	
Royalty or fee for technical services		As per applicable DTT	Final Tax	
Shipping income of non-residents		8%	Final Tax	
Air transport income of non-residents		3%	Final Tax	
Payments received by foreign insurance companies from local insurance companies against insurance and re-insurance		5%	Final Tax	
Payments to non-resident media persons		10%	Final Tax	
Any other receipts		30%	Advance Tax	

SECTION 5 SALES TAX & FEDERAL EXCISE

1. SALES TAX ACT, 1990

Definitions

[Section 2(14A)]

The Bill seeks to insert the definition of KIBOR (Karachi Inter Bank Offered Rate) as applicable on first day of each quarter of the financial year.

Adjustable input tax

[Section 8B]

The Bill seeks to further facilitate tax payers by allowing refund of the excess input tax which previously was only adjustable, subject to the fulfillment of conditions as prescribed under sub section (2) of section 8B.

Assessment of tax

[Section 11]

The Bill seeks to restrict the period by which the Collector may extend the time limit for passing of an order under section 11 to sixty (60) days instead of the current time limit of one hundred and twenty (120) days.

It is further sought that for the computation of the subject time limit, the period during which the proceedings are adjourned on the request of taxpayer, postponed due to an appeal or stay order, remand or alternative dispute resolution proceedings, shall be excluded.

Tax Invoices

[Section 23]

The Bill seeks to propose an additional requirement to disclose NTN/ CNIC of the unregistered persons on the tax invoice, with a view to keep close monitoring of the records of unregistered persons.

Retention of records and documents for five years

[Section 24]

The Bill seeks to propose an alteration to the time limit for retention of records and documents, which previously stood at five years after the end of tax period, by extending the time limit till the final decision in any proceedings including proceedings for assessment, appeal, revision, reference, petition and any proceedings before an Alternative Dispute Resolution Committee, whichever is later.

Offences and penalties

[Section 33]

The Bill seeks to widen the scope of enforcement by attracting penal provisions for violation of section 40B (Posting of Sales Tax Officer) in relation to calling for the records, documents and access to premises etc.

Default surcharge

[Section 34]

The Bill seeks to propose a major changeover by modifying the default surcharge rate as KIBOR plus 3% per annum of the amount of tax due or the amount of refund erroneously made instead of existing 1.5%.

It is further sought to abolish the default surcharge previously applicable on account of tax fraud and, for the purposes of the said section, the amount of tax due does not include the amount of penalty.

Recovery of tax not levied, short levied or erroneously refunded

[Section 36]

The Bill seeks to restrict the period by which the collector can extend the time limit for adjudication cases, for passing of an order in case of recovery of tax not levied or short levied or erroneously refunded, to sixty (60) days instead of the current time limit of one hundred and twenty (120) days.

It is further sought that for the computation of the subject time limit, the period during which the proceedings are adjourned on the request of taxpayer, postponed due to an appeal or stay order, remand or alternative dispute resolution proceedings, shall be excluded.

Power of Adjudication

[Section 45]

The Bill seeks to widen the scope of empowerment by vesting additional powers to officials under adjudication as under:

<i>Official</i>	<i>Powers</i>
i) Additional Collector	Cases falling under section 11 and section 36 without any restriction as to the amount of tax involved or amount erroneously refunded.
ii) Deputy Collector	Cases falling under section 11 and section 36 provided that the amount of tax involved or the amount erroneously refunded does not exceed Rs. 2.5 Million.
iii) Assistant Collector	Cases falling under section 11 and section 36 provided that the amount of tax involved or the amount erroneously refunded does not exceed Rs. 1 Million.
iv) Superintendent	Cases falling under section 11 and section 36 provided that the amount of tax involved or the amount erroneously refunded does not exceed Rs. 10,000.
v) Other Officers	Such cases as may be notified by the Board.

Power of the board and collector to call for records

[Section 45A]

The Bill seeks to propose a major changeover, in relation to the powers vested with the board and collector to call for records for any decision/ order passed by a subordinate officer, by restricting the time period to three years instead of the current five years.

Appeals

[Section 45B]

The Bill seeks to restrict the period up to which the Collector Appeals may extend the time limit for passing an order within sixty (60) days instead of the current time limit of one hundred and twenty (120) days.

It is further sought that for the computation of the above mentioned time limit, the period during which the hearing of the appeal is adjourned on the request of appellant, postponed due to any appeal or proceeding or stay order, remand or alternative dispute resolution proceedings etc., shall be excluded.

Appeal to Appellate Tribunal

[Section 46]

The Bill seeks to propose a major changeover by restricting the time limit for filing of the appeal to appellate tribunal, to be filed within sixty (60) days of the receipt of decision/ order, which previously was allowed even after the expiry of 60 days, subject to the conditions specified therein.

It is further sought to harmonize the process of admittance, hearing and disposing of the appeal by appellate tribunal in line with the provision laid down in the Custom Act 1969.

Alternate Dispute Resolution

[Section 47A]

The Bill seeks to extend the timeframe available to the committee constituted by the board, for making the recommendations in relation to the dispute under consideration, from sixty (60) days to one hundred and eighty (180) days.

It is sought to propose that if the committee fails to make the recommendations within the stipulated time as mention above, the board may dissolve the existing and constitute a new committee.

Further, the Bill seeks to specify a period of forty five (45) days from the receipt of the recommendations of the committee, for the board for passing an order as deemed appropriate.

Delayed refund

[Section 67]

The Bill seeks to facilitate the tax payer by proposing a change through modification of the percentage of the compensation to be claimed, in addition to the refund amount, at the rate of KIBOR per annum of the amount of refund due instead of existing six percent, wherein the refund has not been provided within the stipulated time period.

Exemptions

[Sixth schedule]

The Bill seeks to abolish the exemption of sales tax on ware potatoes and onions previously exempted;

The Bill seeks to exempt sales tax on certain items including:

Tractors, bulldozers and combined harvesters; and components (which include sub-components, components, sub-assemblies and assemblies but exclude consumables) imported in any kit form and direct materials for assembly or manufacture thereof, subject to the same conditions as are envisaged for the purpose of exemption under the Customs Act 1969 (IV of 1969).

Sales tax Notifications (SROs)

S.R.O. 471(I)/2009 To amend SRO. 509(I)/2007 dated the 9th June, 2007 to the effect of excluding the following items from zero rating of sales tax with effect from 14th June 2009:
Monofilament, sun shading, nylon fishing net, other fishing net, rope of poly ethylene and rope of nylon, tyre cord fabric.

S.R.O. 472(I)/2009 To direct that the TABLE in Notification No. S.R.O. 549(I)/2008, dated the 11th June, 2008, be substituted with the following and the same shall be effective from the 14th June, 2009:

S.No.	Description of goods	Conditions & Restrictions
3.	Plant, machinery and equipment whether manufactured locally or imported except those specified in Annexure to the notification.	Import & supply thereof
7.	Raw materials, components, sub-components and parts.	If imported or purchased locally for use in the manufacturing of such plant and machinery as is chargeable to sales tax at the rate of zero percent subject to the condition that the importer or the purchaser of the raw materials, components, sub-components and parts hold a valid sales tax registration showing his registration category as "manufacturer" and, in case of imported components, sub-components and parts, all the conditions, restrictions, limitations and procedures as are imposed by notification under Section 19 of the Customs Act, 1969 (iv of 1969), shall apply.
9.	Wheel chair	8713.1000 and 8713.9000

S.R.O. 473(I)/2009 To amend SRO. 551(I)/2008 dated 11th June, 2007 to the effect of exempting *Cinematographic film exposed and developed (3706.1000 and 3706.9000)* from sales tax with effect from 14th June 2009.

S.R.O. 476(I)/2009 To amend SRO. 542(I)/2008 dated the 11th June, 2007 to the effect of reducing the levy of sales tax on mobile telephone sets to Rs. 250 per set instead of existing Rupees 500 per set with effect from 1st July 2009.

S.R.O. 477(I)/2009 To make certain further amendments to Notification No. S.R.O. 1007(I)/2005 dated the 26th September, 2005 to the effect of exempting import and local supply of Lysine Sulphate.

2. FEDERAL EXCISE ACT, 2005

Definitions

[Section 2(15A)]

The Bill seeks to insert the definition of KIBOR (Karachi Inter Bank Offered Rate) as applicable on first day of each quarter of the financial year.

Duties specified in the first schedule to be levied

[Section 3]

The Bill seeks to empower the Board to specify the goods or services in respect of which the liability to pay tax shall be of any other person.

Assessment of duty etc.

[Section 4A]

The Bill seeks to empower the assistant collector to determine the minimum liability of duty, similar to the manner as prescribed under the Sales Tax Laws, if the registered person fails to file the return by due date.

It is further sought that notice for payment of minimum liability of duty shall abate wherein the registered person files the return after the due date along with the duty payable, default surcharge & penalty.

Default surcharge

[Section 8]

The Bill seeks to propose a major change over by modifying the default surcharge rate as KIBOR plus 3% per annum of the amount of duty payable under section 3 of the Federal Excise Act, 2005 instead of existing 1.5%.

Records **[Section 17]**

The Bill seeks to propose an alteration to the time limit for retention of records for a period of 5 years or the time period till the final decision in any proceedings including proceedings for assessment, appeal, revision, reference, petition and any proceedings before an Alternative Dispute Resolution Committee, whichever is later.

Invoice **[Section 18]**

The Bill seeks to propose an addition requiring disclosing NTN/ CNIC of the unregistered persons on the invoice, with a view to keep close monitoring of the records of unregistered persons.

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

The Bill seeks to impose a penalty provision if health warning and name of the manufacture in case of cigarettes is not printed on the goods.

Power of Adjudication **[Section 31]**

The Bill seeks to widen the scope of empowerment by vesting additional powers under adjudication as under:

<i>Official</i>	<i>Powers</i>
i) Additional Collector	Cases involving evasion of excise duty (principal amount) or erroneous refund of excise duty, without limit.
ii) Deputy Collector	Cases involving evasion of excise duty (principal amount) or erroneous refund of excise duty provided the amount of duty involved does not exceed Rs. 2.5 Million.
iii) Assistant Collector	Cases involving evasion of excise duty (principal amount) or erroneous refund of excise duty provided the amount of duty involved does not exceed Rs. 1 Million.
iv) Superintendent/ Principal Appraiser/ Senior Auditor	Cases involving evasion of excise duty (principal amount) or erroneous refund of excise duty provided the amount of duty involved does not exceed Rs. 10,000. Provided that all cases of contravention of act or rules where no evasion of duty is involved shall be adjudicated by the deputy collector of the respective collectorate of federal excise.

The Bill seeks to curtail the time limit, for deciding of the case under section 31 sub-section (3), within 60 days of the issuance of show cause notice instead of the current time limit of 90 days.

It is further sought that for the computation of the above mentioned time limit, the period during which the proceedings are adjourned on the request of taxpayer, postponed due to an appeal or proceeding or injunction order, remand or alternative dispute resolution proceedings, shall be excluded.

Appeal to Collector (Appeals) **[Section 33]**

The Bill seeks to restrict the time frame available to the Collector (Appeals), for passing of an order within sixty (60) days from the date of filing of appeal instead of the current time limit of ninety days (90) days.

It is further sought that for the computation of the above mentioned time limit, the period during which the hearing of the appeal is adjourned on the request of appellant, postponed due to any appeal or proceeding or stay order, remand or alternative dispute resolution proceedings etc., shall be excluded.

Appeals to Appellate Tribunal and reference to High Court **[Section 34]**

It is sought to harmonize the process of admittance, hearing and disposing of the appeal by appellate tribunal in line with the provision laid down in the Custom Act 1969.

Powers of Board or Collector to pass certain orders **[Section 35]**

The Bill seeks to further empower the board or collector, for calling and examination of the records by enhancing the time limit to a period of 3 years instead of current period of 2 years from the date of decision/ order.

Alternative Dispute Resolution **[Section 38]**

The Bill seeks to extend the timeframe available to the committee constituted by the board, for making the recommendations in relation to the dispute under consideration, from sixty (60) days to one hundred and eighty (180) days.

It is sought to propose that if the committee fails to make recommendations within the stipulated time as mention above, the board may dissolve the existing and constitute a new committee.

Further, the Bill seeks to specify a period of forty five (45) days from the receipt of the recommendations of the committee, for the board for passing an order as deemed appropriate.

Delayed refund

[Section 44A]

The Bill seeks to facilitate the duty payer by proposing a compensation to be claimed, in addition to the refund amount, at the rate of KIBOR per annum of the amount of refund due wherein the duty has not been refunded within the stipulated time period.

First Schedule

[Table 1]

The Bill seeks to propose changes to the rate of Federal Excise Duty as follows:

S #	Description of goods	Headings/ sub-heading No.	Rate of duty
8.	Cigars, cheroots, Cigarillos and cigarettes, of tobacco or of tobacco substitutes	24.02	64% of the retail price
9.	Locally produced cigarettes if their retail price exceeds Rs. 19.50 per 10 cigarettes.	24.02	64% of the retail price
10.	Locally produced cigarettes if their retail price exceeds Rs. 10 per 10 cigarettes but does not exceed Rs. 19.50 per 10 cigarettes.	24.02	Rs. 4.75 per 10 cigarettes + 75% incremental rupee or part thereof
11.	Locally produced cigarettes if their retail price does not exceed Rs. 10 per 10 cigarettes	24.02	Rs. 4.75 per 10 cigarettes
12.	Cigarettes manufactured by a manufacturer who remains engaged on and after the 10 th June, 1994, either directly or through any other arrangement, in the manufacture of any brand of cigarette in non-tariff areas	24.02	64% of the retail price
13.	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cement, whether or not colored or in the form of clinkers.	25.23	Rs. 700 per Metric Ton

First Schedule

[Table 2]

S #	Description of goods	Headings/ sub heading No.	Rate of duty
2A.	Advertisements in newspapers and periodicals, and on hoarding boards, pole signs, sign boards and shop boards.	9802.4000 and 9802.9000	16% of the charges.
6.	Telecommunication services.		19% of the charges.
6A.	Short Message Service (SMS)	9812.1710	20 Paisas per SMS in addition to rate specified at serial number 6
7.	Services provided or rendered in respect of insurance to a policy holder by an insurer, including a re-insurer		16% of the gross premium paid
8.	Services provided by banking companies or non-banking financial companies		16% of the charges
13.	Services provided or rendered by stockbrokers.	9819.1000	16% of the charges
14.	Services provided or rendered by port and terminal operators in relation to imports excluding stevedoring services.	9819.9090	16% of the charges

Amendments to Federal Excise Rules, 2005

[SRO S.R.O. 475(I)/2009]

Definitions

The SRO seeks to include two new definitions as under and to re-number certain definitions, as necessary:

Port Operator includes Karachi Port Trust (KPT) or any other person or organization managing the operations of any customs-port as declared under section 9 of the Customs Act, 1969 (IV of 1969) **[Rule 2(1)(oa)]**

Terminal Operator includes Karachi International Container Terminal (KICT), Pakistan International Container Terminal (PICT) and Qasim International Container Terminal (QICT) **[Rule 2(1)(p)]**

Special procedures

Insurance companies

[Rule 40]

It has been sought to exclude health insurance, crop insurance and marine insurance for export from the purview of Special procedures as prescribed under Rule 40.

Banking companies, financial institutions and NBFCs

[Rule 40A]

The SRO seeks to delete the words "non-fund" from sub-rule (2) and to include Musharika and Modaraba Financing under the purview of special procedures. **[Rule 40A(2)]**

The duty is currently payable by the banking company or financial institution or non-banking finance company on the gross amount charged for service provided to the customers. The SRO now excludes the amount charged on account of markup from the purview of the gross amount charged to the customers. **[Rule 40A(4)]**

The prescribed Annex under **Rule 40A(6A)** has also been substituted by the SRO as under:

**Quarterly reconciliation of Federal Excise Services provided by the
Banking & Non-Banking Financial Companies under rule 40A of the Federal Excise Rules, 2005.**

Name of the Bank / Non-Banking Financial Companies _____
Federal Excise Registration No. _____ Quarter ended _____

S. No.	Particular of service	Value of service as per Return (in Rs.)			
		Month 1	Month 2	Month 3	Total
(a)	L/C commission;				
(b)	guarantee commission;				
(c)	brokerage commission;				
(d)	issuance of pay order and demand drafts;				
(e)	bill of exchange charge;				
(f)	transfer of money including telegraphic transfer, mail transfer and electronic transfer;				
(g)	providing bank guarantees;				
(h)	bill discounting commission;				
(i)	safe deposit lockers fee;				
(j)	safe vaults;				
(k)	credit and debit card issuance, processing, operation charges; and				
(l)	commission and brokerage on foreign exchange dealings;				
(m)	advances & loans				
(n)	financial Leasing				
(o)	commodity or equipment leasing				
(p)	hire-purchase leasing				
(q)	other leasing				
(r)	services provided as a banker to an issue				
(s)	others.				
RECONCILIATION		(In Rs)			
		Value of services as above	FED Paid @ 16%	Input tax adjustment claimed	Net FED paid
	Month 1				
	Month 2				
	Month 3				
	Total:				

Amount of Services as per published accounts: _____ Difference if any: _____

Telecommunication services

[Rule 43]

The SRO substitutes the exiting forms with the following Form (monthly statement) to be filled, which takes account of the change brought to the levy applicable to SMS:

MONTHLY STATEMENT FOR TELECOM SERVICES
RENDERED BY M/S. _____ DURING THE TAX PERIOD _____

S. No.	Description	Value	Federal Excise Duty/Sales tax paid
1.	Pre-paid mobile services (cards sold/ easyload/ top-up etc)		
2.	Post-paid mobile service.		
3.	Activation charges.		
4.	SMS Nos. _____		
5.	Other telecom services provided		
6.	Other taxable services/ supplies		
7.	Input Tax adjustable		
8.	Net FED/ Sales Tax paid on the return		

Services provided by Port Operator and Terminal Operator in relation to imports

[Rule 43B]

Services provided by Port Operator and Terminal Operator in relation to imports have also been brought for the first time under the purview of the Excise Duty.

The newly inserted Rule prescribes that All import related services provided by a Port Operator and Terminal Operator, shall be leviable to duty on the basis of gross amount charged for the services. The following services have been specifically nominated for this purpose:

- | | |
|---|--|
| (i) piloting and mooring; | (iv) wharfage; and |
| (ii) delivery charges; | (v) other import related services provided in port area. |
| (iii) storage in port area including demurrage; | |

It has also been made mandatory on the Port Operator and Terminal Operator to maintain such records as stipulated in section 17 of the Federal Excise Act, 2005 in such manner as will enable distinct ascertainment of payment of duty due.

Services provided by stockbrokers

[Rule 43C]

Excise duty has been levied on the gross commission charged from clients in respect of purchase or sale of shares in a Stock Exchange.

Stock brokers have now been required to maintain records as stipulated in section 17 of the Federal Excise Act, 2005 in such manner as will enable distinct ascertainment of payment of duty due.

Other Federal Excise Notifications (SROs)

S.R.O. 474(I)/2009 The SRO seeks to exempt whole amount of excise duty leviable on the below mentioned items:

S.No.	Description	Headings/ sub-headings Nos.
1.	Motor cars and other motor vehicles principally designed for the transport of persons including station wagon and racing cars of cylinder capacity exceeding 850cc.	87.03
2.	Viscose staple fibre.	Respective headings
3.	Services provided or rendered by banking companies and non-banking financial companies in respect of Hajj and Umrah, cheque book, insurance, Musharika and Modaraba financing and utility Bill collection.	Respective headings

S.R.O. 478(I)/2009 To direct the table in notification No. SRO. 550(I)/2006 dated 5th June, 2006 be substituted with the following and the same shall be effective from the 1st July, 2009:

S.No.	Heading number	Description of services
1.	98.02	Advertisements
2.	9803.1000	Services provided or rendered in respect of travel by air of passengers within territorial limits of Pakistan
3.	9804.1000	Carriage of goods by air
4.	9805.1000	Shipping agents
5.	98.12	Telecommunication services
6.	98.13	Services provided or rendered by banking companies and non-banking financial companies
7.	98.13	Services provided by insurance companies
8.	9819.1000	Services provided or rendered by stockholders
9.	9819.9090	Services provided or rendered by port and terminal operators

3. SALES TAX PENALTIES

Sec Ref.	Contravention or Offence		Penalty	Relaxation/ Exception
26	Failure to	Furnish a return within the due date	Rs. 5,000	If return is filed within 15 days of the due date, penalty of Rs. 100/ day of default
23		Issue an invoice when required under this Act.	Higher of Rs. 5,000 or 3% of the amount of tax	None
73		Make payment in the manner prescribed under section 73 of the Act		
71 & Gen		Fulfill any of the conditions, limitations or restrictions prescribed in a Notification issued under any of the provisions of this Act		
Gen	Contravention of any of the provision of the Act for which no penalty has specifically been provided under section 33 of the Act			
3, 7 & 23	Un-authorized issues an invoice in which an amount of tax is specified		Higher of Rs. 10,000 or 5% of the amount of tax	None
14	Failure to notify the changes of material nature in the particulars of registration of taxable activity.		Rs. 5,000	None
3, 6, 7 & 48	Failure to deposit the amount of tax due or any part thereof in the time or manner laid down under the Act or rules or orders made there-under.	Payment made within 15 days from the due date	Rs. 500/ day of default	None
		Payment made within 60 of payment notice	Higher of Rs. 10,000 or 5% of the amount tax	None
		Tax due remains unpaid even after the expiry of 60 days of issuance of payment notice	Further exposure for imprisonment for a term up to 3 years or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge
7	Erroneous calculation in the return, due to which amount of tax less than the actual tax due is paid	First event during a year	No penalty	- N/A -
7 & 26		Repetition of error	Higher of Rs. 5,000 or 3% of the amount of tax	
14	Failure to	Apply for registration when it was required	Before making taxable supplies Higher of Rs. 10,000 or 5% of the amount tax Within sixty days of the commencement of taxable activity Further exposure for imprisonment for a term up to 3 years or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge
22 & 24		Maintain records required under the Act or the rules made there-under	Higher of Rs. 10,000 or 5% of the amount tax	
25	Failure to produce records without any reasonable cause	On receipt of 1 st notice	Rs. 5,000	None
		On receipt of 2 nd notice	Rs. 10,000	
		On receipt of 3 rd notice	Rs. 50,000	
26	Failure to furnish information required by the Board through a notification under section 26(5)		Rs. 10,000	
2(37) & Gen	Submission of a false or forged document to any officer of sales tax		Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 5 years or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge
	Destruction, alteration, mutilation or falsification of records including a sales tax invoice			
	Intentional making of false statement/ declaration/ representation/ personification or gives any false information or issuing or using a document which is forged or false			

Sec Ref.	Contravention or Offence	Penalty	Relaxation/ Exception	
25, 38 & 38A	Denial/ obstruction in the access to the business premises, registered office or to any other place where records are kept	Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 3 years or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge	
	Refusal of access to the stocks, accounts or records or fails to present the same when required under section 25, 38 or 38A			
2(37)	Committing, causing or attempting to commit tax fraud, or abetting or conniving in commissioning of tax fraud	Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 5 years or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge	
48	Violation of any embargo placed on removal of goods in connection with recovery of tax	Higher of Rs. 25,000 or 10% of the amount of tax PLUS further exposure for imprisonment for a term up to 1 year or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge	
31 & Gen	Obstructing the authorized officer in the performance of his official duties	Higher of Rs. 25,000 or 100% of the amount of tax	None	
Gen	Authorized officer of Sales Tax, who acts/ omits/ attempts to act/ omit in a manner causing loss to the sales tax revenue or otherwise abets or connives in any such act	Exposure for imprisonment for a term up to 3 years or with fine up to the amount of tax involved or with both	Exposure is subject to conviction by a Special Judge	
Gen	Repetition of an offence for which a penalty is provided under the Act	Twice the amount of related penalty	None	
50A	Intentional	Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 1 year or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge	
				access or attempt to gain access to the computerized system without lawful authority
	and dishonest damage or impairment of the computerized system			
	and dishonest damage or impairment to any duplicate tape/ disc/ other medium on which any information obtained from the computerized system is kept or stored			
	Unauthorized			use or disclosure or publish or otherwise dissemination of information obtained from the computerized system
				use of unique user identifier of any other registered user to authenticate a transmission of information to the computerized system
Falsification of any record or information stored in the computerized system				
Failure to comply with or contravention of any of the conditions prescribed for security of unique user identifier				

Note: Proviso to section 11A clarifies that none of the penalties can be imposed unless a show cause notice is served.

SECTION 6 CUSTOMS

1. CUSTOMS ACT, 1969

Definitions

The Bill seeks to include the words certificate of country of origin, Vessel Information Report (VIR) and Carrier Declaration in the definition of "documents" **[Section 2 (kka)]**

The Bill seeks to introduce the concept of KIBOR (Karachi Inter Bank Offered Rate) as applicable on first day of each quarter of the financial year. **[Section 2(1c)]**

It is sought to abolish the definition of Land Custom Station due to its repetition in clause (k); **[Section 2(m)]**

It is proposed that the monetary limit with respect to value of goods to be enhanced from Rs 50,000 to Rs.200,000 for taking cognizance under the smuggling provision. **[Section 2 (s)]**

Provision of accommodation at Customs-ports

[Section 14-A]

The Bill seeks to bring body corporate, port trusts or terminal operators liable to provide office accommodation to Custom Department.

Prohibitions

[Section 15]

The Bill seeks to introduce a new proviso wherein the offences relating to goods imported or exported in violation of intellectual property rights shall be adjudicated by an appropriate officer of customs.

Power to defer collection of customs-duty

[Section 21A]

The Bill seeks to propose a major change by modifying the rate of surcharge as KIBOR plus 3% per annum instead of the existing 14%, as applicable in case of deferment of custom duties by the Federal Board of Revenue.

Power to determine the customs value

[Section 25A]

It is proposed to empower Director Customs Valuation to determine customs value on his own motion. It is further sought that an officer of customs may also make a reference for determination of value.

Review of the value determined

[Section 25D]

The Bill seeks to fix a time limit of 30 days from the date of determination of value for filing review application.

False statement, error, etc

[Section 32]

The Bill seeks to facilitate the taxpayer by providing the opportunity to submit any declaration electronically through automated clearance system regarding any matter of customs to streamline the process of computerized clearance system (PACCS).

Refund to be claimed within one year

[Section 33]

A new proviso is proposed to be inserted through which refund of duty/ taxes shall not be allowed in cases where the sanctioning authority is satisfied that incidence of customs duty and other levies has been passed on to the buyer or consumer.

Delivery of import manifest in respect of a conveyance other than a vessel

[Section 44]

It is proposed to insert the words "before arrival or" in order to enable a conveyance other than a vessel to deliver import manifest in advance. Further, it is also proposed to insert the words "or file electronically" in order to enable a conveyance other than a vessel to file import manifest electronically.

Clearance for home consumption

[Section 83(2)]

The rate of surcharge (i.e.14%) is proposed to be replaced with KIBOR plus 3% per annum to link surcharge rate with market interest rate.

Submission of post-dated cheque and indemnity bond

[Section 86(1)(b)]

The existing rate of surcharge of 1% is proposed to be replaced with KIBOR plus 3% per annum to link surcharge rate with market interest rate.

Declaration by passenger or crew of baggage

[Section 139]

The Bill proposes to include a new proviso through which a passenger availing the facility of green channel for clearance of his baggage to be considered as declaration made by him to the effect that no dutiable or contraband goods are contained in his baggage.

Cancellation of registration of registered user

[Section 155F]

The Bill seeks to propose an amendment empowering the Collector under the subject section to immediately suspend Unique User Identifier on information of misuse of the same.

It is further sought that the Collector of Customs shall, after giving an opportunity of hearing, pass an order confirming suspension or otherwise the use of unique User Identifier, as deemed appropriate.

Power of Adjudication

[Section 179]

The Bill seeks to propose an amendment empowering the Principal Appraiser and Superintendent of Customs to adjudicate petty cases not exceeding Rs.50,000.

It is further sought that the time limit for finalization of adjudication shall commence from the date of issuance of show cause notice and period of adjournments by the party, if any, shall be excluded for computation of the time limit.

Orders of Appellate Tribunal

[Section 194B]

It is proposed that Appellate Tribunal shall not pass stay order for suspending recovery of duty and taxes without providing opportunity of hearing to respondents and such stay shall not exceed 180 days, as against the existing timeframe of 60 days.

Powers of Board or Collector to pass certain order

[Section 195]

The Bill seeks to further empower the board or collector by enhancing the period of reopening of cases to three years instead of the existing two years.

Maintenance of Records

[Section 211]

It is sought that retention of records is to be linked with the final decision in any proceedings, including proceeding for assessment, appeal, revision, reference, petition and any proceeding before an Alternative Dispute Resolution Committee.

2. CUSTOMS NOTIFICATIONS

The following is the summary of proposed amendments:

Enhancement and fresh levies

- It is proposed to introduce regulatory duty on various items along with the regulatory duty on luxury/non essential items;
- The Bill seeks to propose following changes in the rate of duty by increasing duty on the certain items as mentioned below:
 - Hydrogen Peroxide to 10% from existing 5%
 - Isobutyl Acetate to 20% from existing 5%;
 - Welded stainless steel pipes to 15% from existing 5%;
 - Multi system air-conditioners having capacity of 5 tones and above to 35% from existing 10%, plus Regulatory Duty at 15%;
 - Tufted carpets to 15% from existing 10% to avoid mis-declaration with other types of carpets;
 - Import of Spark Plugs and Wire Condensers to 10% from 5%;
 - Residue oil to 15% from existing 10%;
 - Plastic sanitary ware to 25% from existing 20%.
 - Conductors falling under PCT code 8544.6000 to 25% from existing 20%
 - Additional Duty of 32.5% is proposed to be increased on certain localized parts of motorcycles to protect local vendor industry.

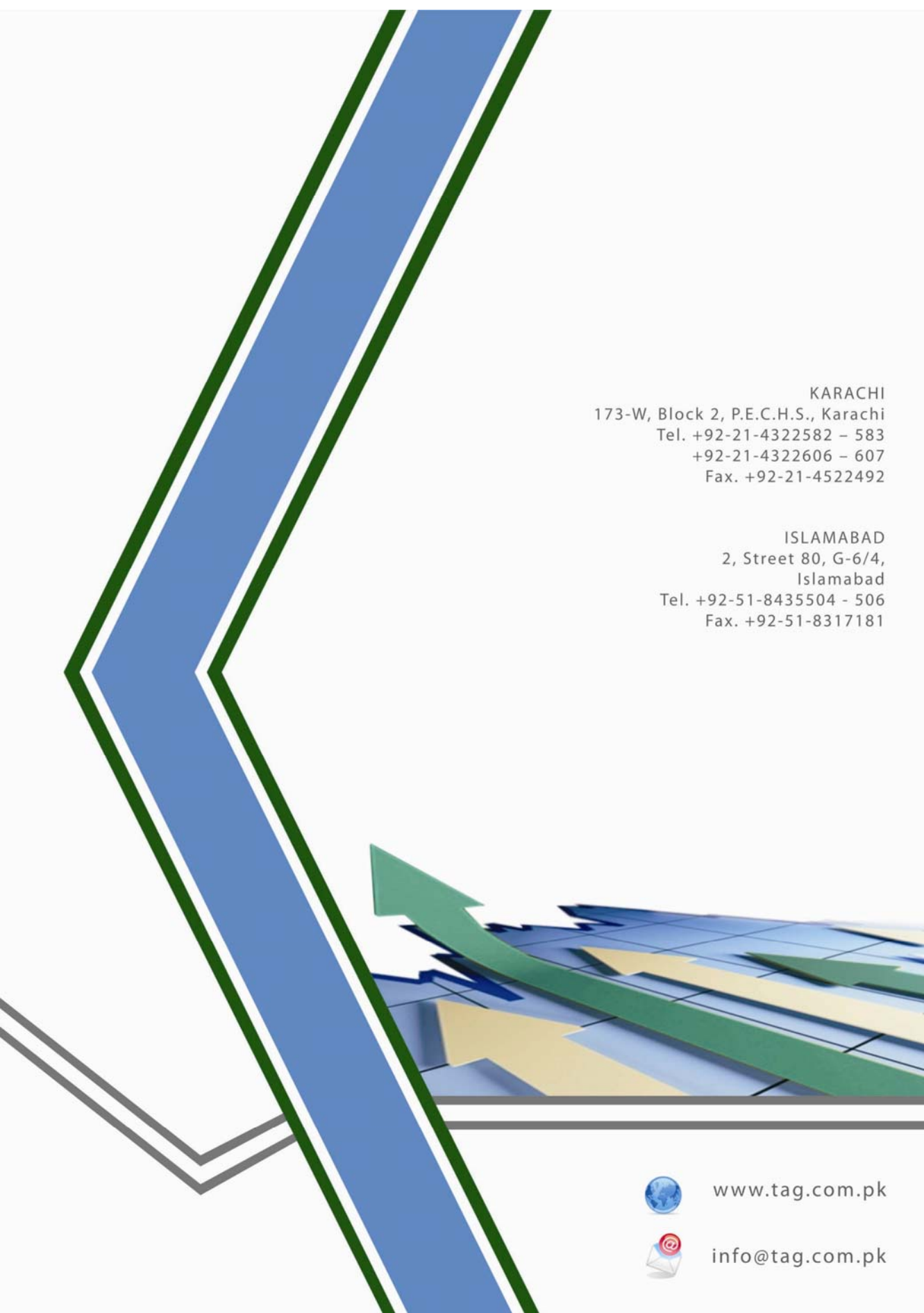
Withdrawals, exemptions & reductions

- It is proposed to exempt customs duty on colostomy bags (PCT 3926.9050);
- It is proposed to reduced the rate of custom duty to 0% instead of the existing 5% on Betain (PCT 2923.9010);
- The duty on calf milk replace (CMR) is proposed to be reduced to 0% instead of the existing 20%, subject to certification by the Ministry of Livestock and Dairy Development;

- The duty on Cattle Feed Premix is proposed to be reduced to 0% from existing 20%, subject to certification by the Ministry of Livestock and Dairy Development;
- The Bill seeks to propose partial waiver of 10% in regulatory duty for manufacturers of sack Kraft paper bags.
- It is sought to waive the regulatory duty completely in respect of certain items if imported for establishing wholesale or retail chain stores, subject to the condition that companies import such items for their own utilization and not for sale;
- Exemption from duty on import of linear alkyl benzene from 5% is proposed;
- Scope of exemptions on import of solar equipments is proposed to be enhanced;
- Duty exemption is proposed on steel tubes for manufacturing of CNG cylinders;
- Duty exemption on inputs for manufacturing parts/components for engineering sector is proposed.
- It is proposed to reduce duty on mobile phones from Rs. 500 per set to Rs.250 per set and to withdraw Regulatory Duty currently charged at Rs. 250 per set;
- It is proposed to reduce the rate of duty on raw materials for manufacturing pre-fabricated steel buildings to 5% from the existing 10%;
- It is proposed to reduce the rate of custom duty on CBU motorcycles to 65% from existing 70%;
- Concessions and exemptions of duty on pharmaceutical raw materials, life savings drugs, cancer diagnostic, HIV diagnostic, Diagnostic kits or equipments are proposed;
- Reduction in duty is proposed on import of Kits for 4-stroke auto-rickshaws from 32.5% to 20%;
- It is proposed to reduce concessionary rate by 5% on import of pharmaceutical packing materials (PVC rigid film and aluminum foil);
- Reduction of Duty from 10% to 5% on CRC black plate for manufacture of tin plate is proposed;
- It is proposed to reduce duty on raw materials of transformers and control panels;
- Customs Duty on certain non-localized components used in the manufacture of 'Trailers' is proposed to be reduced to 5% from existing 15%.
- Customs Duty on certain non-localized components and sub-assemblies of motorcycles is proposed to be reduced to 15% from existing 20%.

Other measures

- It is proposed that Regulatory Duty shall not be levied in case of imports covered under:
 - customs notifications issued under Free Trade Agreements (FTA) and Preferential Trade Agreements (PTA);
 - notification No. SRO 678(1) 2004 dated August 7, 2004;
 - Chapter 99 of First Schedule of the Customs Act, 1969;
 - the Baggage Rules, 2006;
 - Sub Chapters 3 & 7 of Chapter XII & XV of Customs Rules, 2001;
 - Small & Medium Enterprises and Export Oriented Units Rules, 2008;
 - temporary importation scheme vide SRO 492(1)/2009 dated 13th June 2009.
- It is proposed to continue exemption of Duty on import of agricultural tractors;
- It is proposed to rationalize duty on silicon sealant;
- It is proposed to freeze duty structure on cars/Jeeps and Light Commercial Vehicles for a period of one year. .
- Regulatory Duty at 0% on Pigment Thickener is proposed to be merged in Tariff;
- It is proposed to rationalize Duty on unglazed ceramic tiles to bring Duty incidence at par with that on glazed tiles.
- Rationalization of duty on spin finish oil is proposed;
- It is proposed to rationalize duty on LED panels, carbon black of rubber grade, rolling coating printing ink and printed aluminum foil;
- Uniform rate of duty is proposed on Cameras of PCT 8525.8000;
- It is proposed to rationalize duty rate on import of cinematographic films by adding Rs. 5 per meter in 5% ad.val.



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