

TARIQ ABDUL GHANI MAQBOOL & CO.  
Chartered Accountants

An Exclusive Correspondent Firm  
of *PKF* International in Pakistan

HIGHLIGHTS ON  
Finance Bill  
2012



## **Highlights on the Finance Bill, 2012**

This document summarizes significant changes proposed to be brought to statute vide the Finance Bill, 2012 (the Bill) relating to Income Tax, Sales Tax & Federal Excise Duty, Customs and levy on Petroleum Products.

Effective date of applicability of these changes will be July 1, 2012, unless otherwise mentioned.

Nothing contained in this document shall be construed as our advice in general or on a given case, accordingly, for ascertaining any effect of these changes in general or particular, 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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June 2, 2012

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## SECTION I BUDGET AT A GLANCE

| SOURCES OF FUNDS      | 2012-13           | 2011-12      | Change      |
|-----------------------|-------------------|--------------|-------------|
|                       | Rupees in Billion |              | %           |
| Net Revenue Receipts* | 1,775             | 1,529        | 16.1        |
| Net Capital Receipts  | 478               | 395          | 21.0        |
| External Receipts     | 386               | 414          | -6.8        |
| Provincial Surplus    | 80                | 125          | -36.0       |
| Bank Borrowings       | 484               | 304          | 59.2        |
| <b>Total</b>          | <b>3,203</b>      | <b>2,767</b> | <b>15.8</b> |

| Year    | Net Revenue Receipts* | Net Capital Receipts | External Receipts | Provincial Surplus | Bank Borrowings |
|---------|-----------------------|----------------------|-------------------|--------------------|-----------------|
| 2011-12 | 55%                   | 14%                  | 15%               | 11%                | 5%              |
| 2012-13 | 55%                   | 15%                  | 12%               | 7%                 | 11%             |

| APPLICATION OF FUNDS                            | 2012-13           | 2011-12      | Change      |
|---|-------------------|--------------|-------------|
|   | Rupees in Billion |              | %           |
| General Public Service including Debt Servicing | 2,067             | 1,820        | 13.6        |
| Defense Affairs and Services                    | 545               | 495          | 10.1        |
| Development Expenditure                         | 591               | 451          | 31.0        |
| <b>Total</b>                                    | <b>3,203</b>      | <b>2,766</b> | <b>15.8</b> |

| Year    | General Public Service including Debt Servicing | Defense Affairs and Services | Development Expenditure |
|---------|---|------------------------------|-------------------------|
| 2011-12 | 65%   | 18%                          | 17%                     |
| 2012-13 | 66%   | 18%                          | 16%                     |

| *NET REVENUE RECEIPTS           | 2012-13           | 2011-12      | Change       |
|---------------------------------|-------------------|--------------|--------------|
|                                 | Rupees in Billion |              | %            |
| Tax Revenue                     | 2504              | 2074         | 20.7%        |
| Non-tax Revenue                 | 730               | 658          | 10.9%        |
| Gross Revenue Receipts          | <b>3,234</b>      | <b>2,732</b> | <b>18.4%</b> |
| Less: Provincial Share in Taxes | 1459              | 1203         | 21.3%        |
| <b>Total</b>                    | <b>1,775</b>      | <b>1,529</b> | <b>16.1%</b> |

| Year    | Tax Revenue | Non-tax Revenue |
|---------|-------------|-----------------|
| 2011-12 | 77%         | 24%             |
| 2012-13 | 76%         | 23%             |

## **SECTION 2 OVERVIEW OF THE ECONOMY**

Despite repeated claims for revival of economy from the Government of Pakistan, the outgoing year was yet another year of dismal economic performance as the key economic indicators remained below the targets set in the fiscal budget for the year 2011-12.

Rising energy and commodity prices together with heavy rains in Sindh and Balochistan added to the misery of the overall economic environment. The energy crises in Pakistan is also a key factor in low growth of economy.

Following is a synopsis of Pakistan economy during the fiscal year 2011-12:

- GDP growth for 2011-12 has been estimated 3.7 percent, lower than that target growth of 4.2 percent, as compared to 3.0 percent growth in the previous fiscal year 2011.
- Fiscal deficit increased to 5 percent in the first 10 months of the current fiscal year, whereas the target was set at 4.0 percent in the fiscal budget 2011-12.
- Inflation declined to 10.8 percent as compared to 14.1 percent in the previous year. Due to this, the State Bank of Pakistan reduced its discount rate by 200 basis points during the year 2011-12.
- Imports grew by 14.5 percent compared to stagnant exports this year, widening the trade deficit and overall Current Account Deficit.
- Foreign Currency Reserves stood at US\$ 16.5 billion in April 2011-12 compared to US\$ 18.2 billion at the end of the previous fiscal year representing a decline of 9.3 percent. Further, the value of Rupee also depreciated against US\$ by 3.4 percent in the first 10 months of 2011-12.
- In the absence of the foreign funding, the Government's heavily relied on local borrowings which resulted in a growth of 19.8 percent in the first three quarters of 2011-12. The Credit Rating of the country remained at B-.
- Foreign Direct Investment (FDI) in Pakistan stood at \$ 666.7 million during July-April 2011-12 as against \$ 1292.9 million previous year, resulting in a decline of 48.4 percent.
- National Savings were 10.7 percent of GDP as compared to 13.2 percent in the previous year.
- Capital market indicated better performance with KSE – 100 Index increasing by 16 percent as of the end of April 2011-12.

Summary of key performance indicators are as follows:

| Description                                | 2008-09 | 2009-10 | 2010-11 | 2011-12P |
|--|---------|---------|---------|----------|
| Gross Domestic Product (GDP) – Growth %    | 1.7     | 3.8     | 3.0     | 3.7      |
| Total Investment – Growth %                | 18.2    | 15.4    | 13.1    | 12.5     |
| Consumer Price Index (CPI) %               | 20.8    | 11.7    | 14.1    | 10.8A    |
| Total Public Debt to GDP Ratio             | 59.6    | 60.2    | 55.5    | 58.2M    |
| Foreign Exchange Reserves – US\$ billion   | 12.4    | 16.7    | 18.2    | 16.5A    |
| Depreciation in Rupee Value against US\$ % | 19.2    | 5.0     | 2.2     | 3.4A     |
| International Credit Rating – S&P          | CCC+    | B-      | B-      | B-       |
| KSE – 100 Index                            | (41.0)  | 35.7    | 21.5    | 16.0     |

P = Provisional;      M = March 2012;      A = April 2012

## GROWTH

- The economy grew by 3.7% as compared to 4.2% target, set in the fiscal budget for the year.
- Agriculture sector recorded a growth of 3.13 percent against the target of 3.4 percent and previous year's growth rate of 2.38 percent. The Large Scale Manufacturing sector grew by 1.78 percent as compared to the target of 2.0 percent and against the growth of 1.15 percent in the previous year. The services sector performed better in the previous year showing a growth of 4.02 percent as compared to 4.45 percent in 2010-11, this was lower than the target of 5.0 percent set for the outgoing year.
- Total consumption has reached 88.35 percent of GDP in fiscal year 2011-12 as compared to 83.0 percent in the previous fiscal year. The share of investment in GDP growth remained negative. Factors responsible for this decline were significant decline in foreign direct investment, serious energy shortages, unstable law and order situation and higher interest rates in the recent years.
- Net exports have contributed negatively to the economy. The balance between investment and consumption has also been disturbed from 2008-09 onwards due to domestic and external shocks. The composition of aggregate demand highlights an alarming factor. The contribution of fixed investment to economic growth has become negative since 2008-09.

| Description                  | 2008-09<br>Growth % | 2009-10<br>Growth % | 2010-11<br>Growth % | 2011-12<br>Growth % P |
|------------------------------|---------------------|---------------------|---------------------|-----------------------|
| Gross Domestic Product (GDP) | 1.7                 | 3.8                 | 3.0                 | 3.7                   |
| Agriculture                  | 4.0                 | 0.6                 | 2.4                 | 3.1                   |
| Manufacturing                | (3.6)               | 5.5                 | 3.1                 | 3.6                   |
| Services Sector              | 1.7                 | 2.9                 | 4.5                 | 4.0                   |

P = Provisional

## INVESTMENT & SAVING

- Investment has been hard hit by domestic and international factors during the last few years.
- Total investment has declined from 22.1 percent of GDP in 2007-08 to 12.5 percent of GDP in 2011-12. Fixed investment has decreased to 10.9 percent of GDP in 2011-12 from 20.5 percent of GDP in 2007-08. Private investment witnessed a contraction of 7.9 percent in 2011-12 compared to 15.0 percent of GDP in 2007-08.
- Public investment as a percent of GDP also declined to 3.0 percent in 2011-12 against the 5.4 percent in 2007-08. The composition of investment between the private and public sector has also changed during the period under review.
- National savings are 10.7 percent of GDP in 2011-12 as compared to 13.6 percent in 2007-08. Domestic savings have also declined from 11.5 percent of GDP in 2007-08 to 8.9 percent of GDP in 2011-12. Net foreign resource inflows are financing the saving investment gap.

| Description                   | 2008-09 | 2009-10 | 2010-11 | 2011-12 P |
|-------------------------------|---------|---------|---------|-----------|
| Total Investment - % of GDP   | 18.2    | 15.4    | 13.1    | 12.5      |
| Fixed Investment - % of GDP   | 16.6    | 13.8    | 11.5    | 10.9      |
| Public Investment - % of GDP  | 4.3     | 3.6     | 2.9     | 3.0       |
| Private Investment - % of GDP | 12.3    | 10.2    | 8.6     | 7.9       |
| National Saving - % of GDP    | 12.5    | 13.2    | 13.6    | 10.7      |

P = Provisional

## CAPITAL MARKETS

- The Pakistan Stock Markets remained range bound during first half with predominately declining trend of 9.2 percent. However, the KSE -100 index resumed momentum during the 3rd and 4th quarters of the FY 12 mainly due to decline in interest rates in later 1st half of the year. Moreover, injection of local funds due to promulgation of Presidential Ordinance providing inquiry relieve in source of funds, if the money remain invested in the stock market for a period of 45 days (till June 30, 2012) and 120 days (till June 30, 2014).
- The aggregate market capitalization as on May 04, 2012 stood at Rs. 3,730.489 billion which remained below 18.1 percent of the provisional estimates of GDP, fiscal year 2012.
- The investment by foreign investors in the capital markets during the period from July 2011 to March 2012 depicted a net outflow of US\$ 176.303 million. This reflects that present bullish sentiments in the equity markets are due to restoration of the confidence of the local investors.
- Only five new companies were listed on all three Stock Exchanges during the current year. Some of the relevant statistics related to the Karachi Stock Exchange are as follows:

| Description                     | 2008-09<br>Growth % | 2009-10<br>Growth % | 2010-11<br>Growth % | 2011-12<br>Growth % M |
|---------------------------------|---------------------|---------------------|---------------------|-----------------------|
| KSE – 100 Index                 | (41.0)              | 35.7                | 21.5                | 16.0A                 |
| Aggregate Market Capitalization | (43.0)              | 27.5                | 20.4                | 7.3M                  |
| Paid up Capital                 | 10.6                | 16.4                | 3.7                 | 12.2M                 |
| Turnover of Shares              | (55.5)              | 52.5                | (34.8)              | (15.7)                |
| Funds Mobilized (Rs. Billion)   | 44.9                | 148.8               | (72.2)              | 245.7M                |

M = March 2012

## INFLATION

- The Consumer Price Index (CPI) on average basis recorded as 10.8 percent during Jul-Apr 2011-12 as compared to 13.8 percent during the same period previous year. The two broad component of CPI, food and non-food inflation recorded an increase of 11.1 percent and 10.7 percent respectively during the period under review compared to 18.8 percent and 10.8 percent during Jul-Apr 2010-11.
- The main factor contributing to the rise of non-food inflation was the upward adjustment of energy, gas and fuel prices.
- Both supply and demand side factors are responsible for food price escalation. These included supply disruption on account of the natural calamities during the year as well as the increase in transportation cost due to high fuel prices; on the demand side, the price hike is the consequence of the inflationary gap measured as the difference between monetary expansion and growth of overall national productivity.

| Description                 | 2008-09 | 2009-10 | 2010-11 | 2011-12 P |
|-----------------------------|---------|---------|---------|-----------|
| CPI (Consumer Price Index)  | 20.8    | 11.7    | 13.8    | 10.8A     |
| Food Inflation              |         | 12.0 A  | 18.8    | 11.1A     |
| Non-food Inflation          |         | 11.0 A  | 10.8    | 10.7A     |
| SPI (Sensitive Price Index) | 23.4    | 13.3    | 18.1    | 8.5A      |
| WPI (Wholesale Price Index) | 18.2    | 12.6    | 21.0    | 11.2A     |

P = Provisional; A= April 2012

## BALANCE OF PAYMENTS & RESERVES

- The current account deficit stood at \$ 3,394 million during July-April 2011-12. This deficit in the current account was largely caused by the widening of trade and services account deficit. However, continued support from current transfers in the form of workers' remittances helped in containing further increase in the current account deficit during the period under review.
- The trade deficit expanded mainly due to the 14.5 percent growth in imports and the 0.1 percent increase in exports; thereby widening the trade deficit by 49.2 percent during the period. The major factor behind the widening of the trade deficit was the sharp rise in the import bill during July-April 2011-12 which increased due to the higher international prices of crude oil.
- During July-April 2011-12, the services account deficit recorded an expansion of \$ 1,122 million. This deterioration in the services account was primarily due to the 16.6 percent fall in services exports. In addition to this, the 5.0 percent increase in imports also contributed to the deterioration in the services account during the period under review.
- Pakistan's foreign exchange reserves declined to \$ 16.5 billion as of April 2012 as compared to \$ 18.2 billion as of April 2011. This was mainly due to current account deficit and repayment of \$ 400 million to the IMF.
- The exchange rate averaged at Rs. 85.50/US\$ during July-April 2010- 11, whereas it averaged at Rs. 88.55/US\$ during July-April 2011-12. The Pak Rupee depreciated by 3.4 percent during July-April 2011-12 over the depreciation of 2.2 percent in July-April 2010-11.
- Some of the relevant statistics related to balance of payments and foreign exchange reserves are as follows:

| Description                              | 2008-09<br>Growth % | 2009-10<br>Growth % | 2010-11<br>Growth % | 2011-12 P<br>Growth % |
|--|---------------------|---------------------|---------------------|-----------------------|
| Exports                                  | (6.4)               | 2.9                 | 25.0                | 0.1A                  |
| Imports                                  | (10.3)              | (1.7)               | 15.1                | 14.5A                 |
| Workers' Remittances                     | 21.1                | 14.0                | 22.3                | 25.8A                 |
| Foreign Direct Investment (FDI)          | 3,720               | 2,151               | 1,293               | 667                   |
| Foreign Exchange Reserves – US\$ billion | 12.4                | 16.7                | 18.2                | 16.5A                 |

P = Provisional;      M = March 2012;      A = April 2012

## PUBLIC DEBT

- Total Public Debt (TPD) of the country has been ever increasing, however the trend shows that Government is more reliant on domestic sources due to non-availability of funds from foreign sources.
- The surge in TPD has resulted in rise in the TPD to GDP ratio from 55.5 percent in 2010-11 to 58.2 percent in 2011-12. Similarly the ratio of interest payment to the GDP has also increased by over 100 basis points.
- Although the Guarantees issued during the year were below the legal upper limit of 2% of the GDP, total outstanding guarantees are Rs. 487 billion at March 2012.

| Description                                      | 2008-09<br>% | 2009-10<br>% | 2010-11<br>% | 2011-12<br>% |
|--|--------------|--------------|--------------|--------------|
| Domestic Currency Debt – Growth                  | 17.8         | 20.7         | 17.4         | 19.8M        |
| Foreign Currency Debt – Growth                   | 34.4         | 14.7         | 6.4          | 2.6M         |
| Foreign Currency Debt to Total Public Debt Ratio | 49.2         | 49.6         | 45.5         | 40.1         |
| Total Public Debt to GDP Ratio                   | 59.6         | 60.2         | 55.5         | 58.2M        |

M = March 2012



| Description                                     | 2008-09<br>% | 2009-10<br>% | 2010-11<br>% | 2011-12<br>% |
|---|--------------|--------------|--------------|--------------|
| Depreciation in the Value of Rupee against US\$ | 19.2         | 5.0          | 2.2          | 3.4A         |
| Domestic Interest Payment as a ratio of GDP     | 4.4          | 3.0          | 4.7          | 3.5          |
| International Credit Rating – S&P               | CCC+         | B-           | B-           | B-           |
| New Guarantees issued as a percentage of GDP    | 2.2          | 1.5          | 0.1          | 0.71         |

A = April 2012

### TAXATION EXEMPTIONS

- Total Taxation exemptions have been increased by 5.9% mainly due to increase in exemptions related to Income Tax by 49.7 percent.
- More than 49.4 percent of the total exemptions are in the Custom Duties while 37.5 percent relate to the Income Tax and the remaining to the Sales Tax.
- Capital Gains exemptions reduced to 3.0 percent of total Income Tax exemptions from 46 percent in the previous year, while 67.4 percent exemptions are specific to Independent Power Producers as compared to 1.9 percent in the previous year.
- Key exemptions of Sales Tax are pharmaceutical products (23.9%), tractors (17.6%). Exemptions to fertilizer sector have been withdrawn.
- Custom exemptions are mainly granted on raw materials and components; plant, machinery and equipment imported by high-tech, priority and value added industries; import for energy sector projects; and exemptions to exploration and production companies. Some of these exemptions are due to international contractual obligations.

| Description   | 2008-09      | 2009-10      | 2010-11      | 2011-12 P    |
|---------------|--------------|--------------|--------------|--------------|
| Income Tax    | 40.8         | 46.5         | 46.5         | 69.6         |
| Sales Tax     | 17.5         | 27.4         | 33.8         | 24.3         |
| Custom Duties | 61.3         | 76.3         | 94.9         | 91.6         |
| <b>Total</b>  | <b>119.6</b> | <b>150.2</b> | <b>175.2</b> | <b>185.5</b> |

P = Provisional

## SECTION 3 SALIENT FEATURES

### Income Tax

1. The **basic limit of exemption from income tax in respect of individuals (salaried & business individuals) and association of persons** is proposed to be increased to Rs. 400,000 from existing Rs.350,000;
2. It has been sought to **revisit the rates of income tax as well as the number of slabs for individuals (salaried and business) and association of persons**, whereby the maximum rate of tax has been proposed at 20% and 25% respectively;
3. The bill seeks to entrust National Clearing Company Pakistan Ltd. (NCCPL) with the responsibility of withholding agent in respect of **capital gains tax** and also to collect **advance tax** in respect of **margin financing**;
4. It has been sought to introduce **Eighth Schedule to Income Tax Ordinance 2001** outlining the role of NCCPL;
5. It has been proposed that **exempt income** to be included in calculating the **total income**;
6. It has been proposed to widen the scope of the term **capital asset** for the purpose of computing **capital gains** by including **immovable properties** under its ambit and charging tax at the rate of 10% and 5% for gains on disposal of immovable property held for up to 1 year and 2 years respectively;
7. It has also been sought to **revise the tax rates chargeable on disposal of capital gains** with respect to the holding period of securities;
8. The bill seeks to specify that deemed income on **concessional loan to salaried tax payers** shall not be computed for loans up to Rs.500,000. Further, the benchmark rate for computing such deemed income proposed to be fixed at 10%;
9. The bill proposes to relaxing the restriction to **20%** from existing **15%** of person's taxable income and increasing the monetary threshold to **Rs. 1,000,000** from existing **Rs. 500,000** in respect of **tax credit for investment in shares and life insurance premia**;
10. The bill seeks to broaden the scope of **corporate industrial undertakings** by including **corporate dairy farming** under its ambit and allowing certain benefits in this respect;
11. It is proposed to **reduce the Minimum Tax**, from the existing rate of 1.0% to 0.5%;
12. It has been sought to allow **Commissioner (Appeals)** and **Appellate Tribunal** to grant **stay of 30 days and 180 days** respectively for recovery of due taxes from the tax payer;
13. The bill seeks to propose a conceptual change whereby **actual tax collected/ deducted** on certain incomes/ activities covered under **FTR** has been stretched to **tax collectible/ deductible**;
14. It has sought that **manufacturer** to collect **withholding Tax @ 1% on gross amount of sales to a distributor, dealer & whole seller**;
15. It has been sought that **commercial importers, exporters and suppliers** may opt **out of final tax regime** provided their tax liability under **normal regime** is not less than **60%, 50% and 70%** of the tax collected/ deducted at source respectively;
16. It has been sought to introduce **tax payers honor card** for **compliant tax payers**;
17. It has been proposed to enhance the threshold for **daily cash withdrawals** to **Rs.50,000** from the existing **Rs.25,000** for the purpose of collection of withholding tax;

18. The bill seeks to extend the timeframe available for **exemption** in respect of **profit and gains of a venture capital company** and a **venture capital fund** up to 2024;
19. It has been proposed that **donations** made to **Citizen Foundation** shall be eligible for **deduction from income**, moreover, **income of Citizen Foundation** also proposed to be **exempt from tax**;
20. It has been sought to reduce the benefit of **initial depreciation** on **building** at **25%** from the prevailing rate of **50%**;
21. It has been proposed to charge tax at the rate of **25%** and **35%** for **Tax Year 2013** and **Tax Year 2014 and onwards** respectively on **dividends received by banks** from money market funds.

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### Sales Tax & Federal Excise

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#### **Sales tax**

1. It has been proposed to enhance the value of locally produced billets and ingots chargeable to sales tax to Rs.65,000 PMT and Rs.55,000 PMT from the prevailing Rs.60,000 PMT Rs.50,000 PMT respectively;
2. The bill seeks to reduce the higher rates of sales tax of 22% and 19.5% to the standard rate of 16%;
3. Supplies against International Tender proposed to be exempted from levy of sales tax which previously was chargeable to tax at the rate of zero percent;
4. It has been sought to withdraw the value fixed for fertilizers for the purpose of assessment of sales tax at import stage as well as on local supplies;
5. The bill seeks to reduce the rate of sales tax on the value of import of soya bean to 6% from the existing rate of 7%;
6. It has been proposed to reduce the rate of sales tax to 14% on rape seed bey solvent from the prevailing rate of 15%;
7. It has been proposed to abolish the minimum value addition at the rate of 10% on supply of computer hardware and parts;
8. The bill seeks to grant sales tax exemption on supply of waste paper, import and supplies of re-meltable scrap and supplies of sprinkler equipment, drip equipment, spray pumps and nozzles;

#### **Federal excise**

1. It has been sought to enhance the rate of federal excise duty on locally produced cigarettes;
2. The bill seeks to withdraw exemption of federal excise duty on viscose staple fibre;
3. It has been proposed to abolish federal excise duty on lubricating oil, base lube oil, perfumes and toilet waters, beauty or makeup preparations, filter rods for cigarettes etc.;
4. It has been sought to include the services provided by Asset Management Companies under conditional exemptions;
5. The bill seeks to reduce the rate of federal excise duty on cement from Rs.500 PMT to Rs.400 PMT.

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**Customs**

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1. It has been sought to reduce the maximum general tariff slab to 30% from prevailing 35%;
2. The bill seeks to improve the governance and enforcement of laws and regulations by suggesting to establish new Directorates General;
3. It has been proposed to empower the Board to make changes in Pakistan Customs Tariff only for the purpose of statistical suffix of the Pakistan Customs Tariff (PCT) Code;
4. The bill seeks to abolish the punishment of whipping from the powers of the Special Judge in cases of smuggling, possession or acquiring of smuggled goods and armed intimidation;
5. It has been proposed to enhance the jurisdiction and powers of custom officers in certain cases;
6. It has been sought to empower the officer of customs to file an appeal against the orders passed by an officer not below the rank of Additional Collector;
7. The bill seeks to propose cash rewards for customs officers and informers;
8. It has been proposed to widen the scope of the term smuggle to eliminate the possibility of pilferage in transit;
9. The bill seeks to reduce the rate of custom duty to 10% on self-copy papers and self-adhesive papers from existing 25% and 20% respectively;
10. It has been proposed to reduce the rate of duty on import of hybrid electric vehicles (HEVs) by 25%;
11. It has been sought that components and sub components of the various items to be omitted from SRO 565 to withdraw reduced rate benefits;
12. The bill seeks to reduce the rate of customs duty on import of shredded tyres scrap by cement manufacturers to 10% from prevailing 20%;
13. It has been proposed to reduce the rate of customs duty on raw materials and components for printing and stationery sector.

## **SECTION 4 INCOME TAX**

### **1. INDIVIDUALS AND ASSOCIATION OF PERSONS**

#### **Basic exemption limit**

**[First Schedule Part I Div I]**

The bill seeks to enhance the basic exemption limit from Rs. 350,000 to Rs. 400,000.

#### **Tax rates for salaried individuals**

The existing tax rate slabs are proposed to be reduced from 17 to 5. The proposed rates are as under:

| <i>Taxable Income (Rupees)</i> |           | <i>Rate of Tax</i> |         |   |
|--------------------------------|-----------|--------------------|---------|---|
| From                           | To        |                    |         |   |
| Up to 400,000                  |           |                    |         | 0.00%                                     |
| 400,001                        | 750,000   |                    |         | 5.00% of the amount exceeding Rs. 400,000 |
| 750,001                        | 1,500,000 | Rupees             | 17,500  | 10% of the amount exceeding Rs. 750,000   |
| 1,500,001                      | 2,500,000 |                    | 92,500  | 15% of the amount exceeding Rs. 1,500,000 |
| Above 2,500,000                |           |                    | 242,500 | 20% of the amount exceeding Rs. 2,500,000 |

#### **Tax rates for non-salaried individuals and Association of Persons (AOPs)**

The bill proposes to bring tax rate for AOPs in line with tax rates of non salaried Individuals, making it subject to tax up to 25% instead of prevailing flat rate of 25%.

| <i>Taxable Income (Rupees)</i> |           | <i>Rate of Tax</i> |         |  |
|--------------------------------|-----------|--------------------|---------|--|
| From                           | To        |                    |         |  |
| Up to 400,000                  |           |                    |         | 0.00%                                      |
| 400,001                        | 750,000   |                    |         | 10.00% of the amount exceeding Rs. 400,000 |
| 750,001                        | 1,500,000 | Rupees             | 35,000  | 15% of the amount exceeding Rs. 750,000    |
| 1,500,001                      | 2,500,000 |                    | 147,500 | 20% of the amount exceeding Rs. 1,500,000  |
| Above 2,500,000                |           |                    | 347,500 | 25% of the amount exceeding Rs. 2,500,000  |

## 2. DEFINITIONS

### **National Clearing Company of Pakistan Limited (NCCPL) [Section 2(35AA)]**

The bill seeks to include the definition of NCCPL, being a company incorporated under the Companies Ordinance, 1984 and licensed as clearing house by the Securities & Exchange Commission of Pakistan.

## 3. TAXABLE INCOME & TOTAL INCOME [Section 9, 10 & 53]

The Bill seeks to clarify that total income includes income from all heads of income and also any income exempt from tax.

## 4. VALUE OF PERQUISITES [Section 13]

It has been sought not to consider the impact of interest at the benchmark rate or at any rate difference from the benchmark rate on loan to employees within a limit of Rs. 500,000. Moreover, the Bill also seeks to fix the benchmark rate at 10%.

## 5. CAPITAL GAIN [Section 37]

### ***Immovable Property***

The Bill seeks to enhance the scope of the term capital asset for the purpose of computing capital gains, by including immovable property under the purview of capital assets. This proposal subjects to tax any gains from disposal of immovable property held for a period of up to two years under the head capital gain, as below:

| <b><i>Holding Period</i></b> | <b><i>Rate of Tax</i></b> |
|------------------------------|---------------------------|
| Up to one year               | 10%                       |
| Up to two years              | 5%                        |

### ***Disposal of Securities***

It has also been sought to revise the rates for taxation of gains upon disposal of securities as under:

| <b>Year</b>   | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| Where holding period of a security is less than 6 months.                         | 10%         | 10%         | 10%         | 10%         | 17.5%       |
| Where holding period of a security is more than 6 months but less than 12 months. | 7.5%        | 8%          | 8%          | 8%          | 9.5%        |
| Where holding period of a security is 1 year or more                              |             |             |             | 0%          |             |

## 6. INCOME FROM OTHER SOURCES [Section 39]

The Bill seeks to include any additional payment on delayed refund under any tax law under the scope of income from other sources.

## 7. TAX CREDITS

[Section 62]

The bill proposes to further increase benefits from tax credit for **investment in shares and insurance** as follows:

### **Eligible amount for tax credit**

- a. relaxing the restriction of 15% on person's taxable income for the year to 20%;
- b. enhancing the monetary threshold of Rs.500,000 to Rs.1,000,000.

### **Minimum holding period for investment**

Reducing the minimum holding period for investment from prevailing 36 months to 24 months.

## 8. TAX CREDIT FOR INVESTMENT

[Section 65B]

It has been sought to broaden the scope of the term tax payable, for the purpose of computing tax credit on investment made by companies in plant and machinery, by including the amount of minimum tax and final tax. Although it could be debated as how could the tax credits be claimed for cases falling under minimum or final tax regimes.

Further, it has also been proposed that a tax credit equal to 20% of the amount invested between July 2011 to June 2016 shall be allowed in plant and machinery under BMR for corporate industrial undertaking units set-up earlier than July 2011.

## 9. TAX CREDIT FOR NEWLY ESTABLISHED INDUSTRIAL UNDERTAKINGS

[Section 65D]

The Bill seeks to broaden the scope of newly established corporate industrial undertakings (i.e. an industrial undertaking established during the period between July 2011 and June 2016) by including corporate dairy farming under this ambit for the purpose of allowing 100% tax credit on tax payable, which is available to new industrial undertakings for the period of five years from the date of setting-up or commercial production, whichever is later.

## 10. TAX CREDIT FOR OTHER INDUSTRIAL UNDERTAKINGS

[Section 65E]

Tax credit under this section was already available to equity financed corporate industrial units.

However, the Bill seeks to revisit the concept and proposes that tax credit will be allowed when investment is made by a company set up before 01 July 2011 in Pakistan including an undertaking engaged in corporate dairy farming through 100% new equity raised through issuance of shares utilized in the purchase and installation of plant and machinery for an industrial undertaking for the purpose of:

- a. Expansion of the plant and machinery already installed; or
- b. undertaking a new project.

The tax credit is proposed to be allowed against the tax payable including minimum tax and tax paid under final tax regime for a period of 05 years from the date of setting up or commencement of commercial production, whichever is later.

Moreover, in the case of a new project, it is proposed that a taxpayer maintaining separate accounts shall be allowed a tax credit equal to 100% of the tax payable including minimum tax and taxes payable under final tax regime attributed to such expansion project or new project.

However, in cases where separate accounts are not maintained, tax credit is proposed to be allowed in the ratio of the new equity and the total equity including the new equity capital.

**11. SPECIAL PROVISION RELATING TO CAPITAL GAIN TAX** **[Section 100B]**

Pursuant to the proposed changes to capital gain taxation, the Bill proposes to introduce a new section 100B emphasizing that National Clearing Company Pakistan Ltd. (NCCPL) to be entrusted with the responsibility of withholding agent in respect of capital gain tax.

It has also been further sought to introduce an eighth schedule outlining the functional role and operating mechanism for withholding tax on capital gains wherein the Central Depository Company (CDC) has been proposed to assist NCCPL for discharging its obligation and NCCPL shall be required to issue an annual certificate to the taxpayers on the prescribed form in respect of capital gain subjected to tax under the said schedule.

**12. GEOGRAPHICAL SOURCE OF INCOME** **[Section 101]**

With an earlier amendment bringing the profits repatriated by branches of foreign companies under the dividend, it has now been sought to further clarify that repatriation of such after tax profits considered as dividend are to be treated as Pakistan source income.

**13. MINIMUM TAX** **[Section 113 & Division IA of Part I of First Schedule]**

The Bill seeks to reduce the rate of minimum tax from prevailing 1% to a proposed 0.5%. The Bill further seeks to clarify that no account shall be made for tax paid or payable under final tax regime for the purpose of computing minimum tax.

**14. RETURN OF INCOME** **[Section 114]**

The Bill seeks to add an additional restrictive condition for revision of return of income whereby it has been sought that a return of income could not be revised unless taxable income declared is not less than and loss declared is not more than income or loss, as the case may be, determined by an order issued under the following sections:

- a. Section 121 – Best judgment assessment,
- b. Section 122 – Amendment of assessments,
- c. Section 122A – Revision by the Commissioner,
- d. Section 122C – Provisional assessment,
- e. Section 129 – Decision in appeal,
- f. Section 132 – Disposal of appeals by the Appellate Tribunal,
- g. Section 133 – Reference to High Court, or
- h. Section 221 – Rectification of mistakes.

**15. ASSESSMENTS** **[Section 120]**

It has been proposed to empower the Commissioner for an additional period of 180 days from the from the end of the financial year in which the return was furnished for issuing a notice to the tax payer to require him to remove deficiencies relating to information being submitted.

**16. BEST JUDGMENT ASSESSMENTS** **[Section 121]**

The Bill seeks to provide that in case a tax payer fails to produce documents required to be maintained under section 174 or any other relevant document of evidence that may be required under section 121(1)(d) then the return of income submitted by the taxpayer shall cease to hold any legal effect.



**17. PROVISIONAL ASSESSMENT**

**[Section 122C]**

A provisional assessment is deemed to be considered as final assessment after expiry of 60 days from the date of service of order of provisional assessment. However, the Bill now seeks that provisional assessment shall not be considered as made if, during the said period of 60 days, the person being:

- a. an individual or an AOP files the requisite documents;
- b. a company files the return of income tax along with audited accounts electronically.

**18. PROCEDURE IN APPEAL**

**[Section 128]**

It has been sought to introduce a new sub-section allowing the Commissioner (Appeals) to grant a maximum stay of 30 days in aggregate for recovery of due taxes from the tax payer where he considers that such recovery would cause undue hardship to the tax payer.

**19. DECISION IN APPEAL**

**[Section 129]**

It has been sought to withdraw the relief previously available to taxpayers by virtue of lapse of due time of 4 months from the end of the month in which the appeal was filed, in case the Commissioner (Appeals) does not dispose-off the appeal by passing of the order within 4 months or an extended period of 60 days.

**20. APPEAL TO THE APPELLATE TRIBUNAL**

**[Section 131]**

It has been proposed to introduce a new sub-section allowing the Appellate Tribunal to grant a maximum stay of 180 days in aggregate for recovery of due taxes from the tax payer where he considers that such recovery would cause undue hardship to the tax payer.

It has been further proposed that any period of stay granted by High Court shall be excluded in computing the aforementioned period of 180 days.

**21. FINAL TAX REGIME**

**[Sections 148(7), 148(8), 151(3), 152(1B), 152(1BB), 153(3), 154(4), 156(3), 156A(2), 169(1) & 233]**

The bill seeks to propose a conceptual change whereby the ambit of final tax regime has been stretched to cover cases where certain incomes/ activities which were covered under the said regime only by incidence of actual tax deduction or collection to cases where such taxes could be deducted or collected.

**22. PAYMENTS TO NON-RESIDENTS**

**[Section 152]**

It has been sought to re-classify the arrangement of law relating to payments to non-residents by inserting the case of payments to non-resident media person for relaying advertisement services from outside Pakistan to section 152 and removing it from section 153.

It has also been proposed that no tax to be withheld from payment of insurance or re-insurance premium paid to permanent establishment of a non-resident in case where a written permission to this effect is issued by the Commissioner.

**23. PAYMENTS TO TRADERS AND DISTRIBUTORS**

**[Section 153A]**

The Bill seeks to introduce a new section wherein every manufacturer at the time of sale to distributors, dealers and wholesalers shall collect tax at the rate of 1% of gross amount of sale.

It has been further proposed that such tax collected would be adjustable against the tax payable by such distributors, dealers, wholesalers in the year the tax was so collected.

**24. ADDITIONAL PAYMENT FOR DELAYED REFUNDS** **[Section 171]**

The bill proposes to fix the rate of 15% in respect delayed payments of refund to a taxpayer which was previously calculated with reference to KIBOR.

**25. TAXPAYER HONOR CARD SCHEME** **[Section 181A]**

To recognize and incentivize compliant taxpayers, it is proposed to introduce a Taxpayer Honor Card scheme for all taxpayers who have filed tax returns and paid due taxes for certain number years to be announced by the Federal Board of Revenue. The FBR has also been proposed to be empowered to make rules in this regard.

**26. DEFAULT SURCHARGE** **[Section 205]**

The Bill seeks to specify a fixed rate of 18% per annum to be charged in respect of default surcharge on tax, penalty or other amount unpaid which previously stood at KIBOR plus 3% per quarter.

**27. ADMINISTRATIVE CHANGES** **[Section 207 & 230]**

In addition to proposing certain administrative changes it has also been proposed to provide legal cover to presently functional Directorate General Intelligence and Investigation (working through an office order). It could be envisaged that the roles and function in this case would be same as of Directorate General of Sales Tax and Federal Excise Laws.

**28. CASH WITHDRAWAL FROM A BANK** **[Section 231A]**

The Bill seeks to facilitate the taxpayers by increasing the limit of cash withdrawal to Rs. 50,000 per day from prevailing Rs 25,000 for collection of advance tax @ 0.2%.

**29. COLLECTION OF TAX BY STOCK EXCHANGES** **[Section 233A & 233AA]**

Previously, stock exchanges were deducting taxes in respect of margin financing (COT/ Badla). Currently the same function is being performed by National Clearing Company Pakistan Ltd. (NCCPL) and, therefore, it has been sought to empower NCCPL to collect advance in respect of these transactions.

**30. EXEMPTION FROM TOTAL INCOME** **[Second Schedule Part I]**

**Exemptions proposed to be granted**

**a. Amounts received as monthly installment from an income payment plan [Clause 23B]**

The amounts received as monthly installment from an income payment plan invested out of the accumulated balance of an individual pension accounts with a pension fund manager or an approved annuity plan or another individual pension account of eligible person or the survivors pension account maintained with any other pension fund manager as specified in the Voluntary Pension System Rules 2005 have been proposed to be exempt from tax provided accumulated balance is invested for a period of ten years:

It has however been proposed that where any amount is so exempted and subsequently it is discovered, on the basis of documents or otherwise, by the Commissioner that any of the conditions specified in this clause were not fulfilled, the exemption originally allowed shall be deemed to have been wrongly allowed and the Commissioner may, notwithstanding anything

contained in the Ordinance, re-compute the tax payable by the taxpayer for the relevant years and the provisions of the Ordinance shall, so far as may be, apply accordingly

**b. Withdrawal of accumulated balance from approved pension fund [Clause 23C]**

Any withdrawal of accumulated balance from approved pension fund that represent the transfer of balance of approved provident fund to the said approved pension fund under the Voluntary Pension System Rules, 2005 has also been proposed to be exempt from the purview of income tax.

**c. Approved Non-profit organizations [Clause 61 & 66]**

The Citizens Foundation has been proposed to be included in the list of entities to whom any donation made is exempt from tax. The Foundation's income has also been proposed to be exempt from tax.

**d. Venture Capital Companies, Venture Capital Fund and Private Equity & Venture Capital Funds [Clause 101]**

Profits and gains derived by a venture capital company and venture capital fund registered under Venture Capital Companies and Funds Management Rules, 2000 and a Private Equity and Venture Capital Fund are exempt up June 2014. This timeframe has been extended June 2024.

**31. REDUCTION IN TAX RATES [Clause 9A of Part II of Second Schedule]**

The privilege of reduced rate of 3% on imports by an industrial undertaking being subjected to a exemption certificate to be granted by the Commissioner.

**32. EXEMPTION FROM SPECIFIC PROVISIONS [Second Schedule Part IV]**

***Exemptions granted***

**a. Inter-corporate dividend within the group companies [Clause 11B]**

The provisions of section 150 have been proposed not apply in respect of inter-corporate dividend within the group companies entitled to group taxation under section 59AA or section 59B. This is aimed to facilitate groups by non-collection of withholding tax on dividends that are actually exempt on the other hand.

**b. Inter-corporate profit on debt [Clause 11C]**

It has been proposed that the provisions of section 151 shall not apply in respect of inter-corporate profit on debt within the group companies entitled to group taxation under section 59AA or section 59B.

**c. Option to opt-out of final tax [Clause 41A, 41AA & 41AAA – Read with Section 169]**

It has been sought to attract certain cases presently falling under the ambit of final tax regime to opt-out of this regime by declaring tax under normal regime at or above specified thresholds, as under:

| Type of Taxpayer                                       | Required Threshold<br>(% of Tax already collected/ deducted) |
|--|--|
| Commercial importers                                   | 60%  |
| Exporters  | 50%  |
| Supplier of goods (not being a corporate manufacturer) | 70%  |

**d. Capital gains arising to certain entities [Clause 47B]**

It has been proposed to save National Investment Unit Trust or a collective investment scheme or a modaraba or Approved Pension Fund or an Approved Income Payment Plan or a REIT

Scheme or a Private Equity and Venture Capital Fund or a recognized provident fund or an approved superannuation fund or an approved gratuity fund from the incidence of capital gains arising on disposal/ trading of securities.

**e. Temporary import of goods** **[Clause 56]**

It is been proposed to rectify the reference of customs and sales tax SRO for the purpose of non-collection of tax at import stage on goods temporarily imported in Pakistan.

**Exemption withdrawn**

The Bill seeks to withdraw the available exemption from provisions of section 148 on import of solar PV panels/ panels/ modules, along with related components including invertors, charge controllers and batteries, LVD induction lamps, SMD LEDs with or without ballast with fittings and fixtures, fully assembled wind turbines including alternator and mast, solar torches, lanterns and related instruments.

**[Clause 76]**

**33. THIRD SCHEDULE – DEPRECIATION** **[Part II]**

It has been sought to restrict benefit of initial depreciation on buildings at 25% instead of prevailing rate of 50%.

**34. FOURTH SCHEDULE – INSURANCE BUSINESS**

The bill proposes the revised rate of taxation for capital gain of Insurance Companies in respect of securities from Tax Year 2012 to Tax Year 2015.

**[Rule 6B]**

| Tax Year | Holding period less than 6 months | Holding period more than 6 months but less than 12 months |
|----------|-----------------------------------|---|
| 2011     | 10.0%                             | 8.0%  |
| 2012     | 10.0%                             | 8.0%  |
| 2013     | 12.5%                             | 8.5%  |
| 2014     | 15.0%                             | 9.0%  |
| 2015     | 17.5%                             | 9.0%  |

**35. FIFTH SCHEDULE – EXPLORATION & PRODUCTION OF PETROLEUM**

A new rule 4A has been proposed to be introduced as under:

“Notwithstanding anything contained in this schedule, a person, for tax year 2012 and onward, may opt to pay tax at the rate of 40% of the profits and gains, net of royalty, derived by a petroleum exploration and production undertaking:

Provided that this option shall be available subject to withdrawal of pending appeals, references and petitions before appellate fora by the person and payment of whole of the outstanding tax liability created under this Ordinance up to tax year 2011, by the 30th June, 2012:

Provided further that this option is available only for one time and shall be irrevocable.”

**36. SEVENTH SCHEDULE – BANKING COMPANIES**

The bill seeks that dividend received from Money Market Funds and Income Funds by banking companies shall be taxed at the rate of 25% for tax year 2013 and at the rate of 35% for tax years 2014 and onwards.

### **37. EIGHTH SCHEDULE – COMPUTATION OF CAPITAL GAINS ON LISTED SECURITIES**

The bill seeks to introduce a new schedule "Eighth Schedule" to the Ordinance as under:

- 1. Manner and basis of computation of capital gains and tax thereon.**- (1) Capital gains on disposal of listed securities, subject to tax under section 37A, and to which section 100B apply, shall be computed and determined under this Schedule and tax thereon shall be collected and deposited on behalf of taxpayers by NCCPL in the manner prescribed.  
(2) For the purpose of sub-rule (1), NCCPL shall develop an automated system.  
(3) Central Depository Company of Pakistan Limited shall furnish information as required by NCCPL for discharging obligations under this Schedule.  
(4) NCCPL shall issue an annual certificate to the taxpayer on the prescribed form in respect of capital gains subject to tax under this Schedule for a financial year:  
Provided that on the request of a taxpayer or if required by the Commissioner, NCCPL shall issue a certificate for a shorter period within a financial year.  
(5) Every taxpayer shall file the certificate referred to in sub-rule (4) along with the return of income and such certificate shall be conclusive evidence in respect of the income under this Schedule.  
(6) NCCPL shall furnish to the Board within thirty days of the end of each quarter, a statement of capital gains and tax computed thereon in that quarter in the prescribed manner and format.  
(7) Capital gains computed under this Schedule shall be chargeable to tax at the rate applicable in Division VII of Part I of the First Schedule.
- 2. Sources of Investment.**- (1) Where a person has made any investment in the listed securities, enquiries as to the nature and source of the amount invested shall not be made for any investment made prior to the introduction of this Schedule, provided that –
  - (a) a statement of investments is filed with the Commissioner along with the return of income and wealth statement for tax year 2012 within the due date as provided in section 118 of this Ordinance and in the manners prescribed; and
  - (b) that the amount remains invested for a period of forty- five days upto 30th of June 2012, in the manner as may be prescribed.(2) Where a person has made any investment in the shares of a public company traded at a registered stock exchange in Pakistan from the date of coming into force of this Schedule till June 30, 2014, enquiries as to the nature and sources of amount invested shall not be made provided that –
  - (a) the amount remains invested for a period of one hundred and twenty days in the manner as may be prescribed ;
  - (b) tax on capital gains, if any, has duly been discharged in the manner laid down in this Schedule; and
  - (c) a statement of investments is filed with the Commissioner along with the return of income and wealth statement for the relevant tax year within the due date as provided in section 118 of this Ordinance and in the manner prescribed.(3) For the purpose of this rule, amount of investment shall be calculated in the prescribed manner, excluding market value of net open sale position in futures and derivatives, if such sale is in a security that constitutes the said investment.
- 3. Certain provisions of this Ordinance not to apply.**- The respective provisions for collection and recovery of tax, advance tax and deduction of tax at source laid down in the Parts IV and V of Chapter X shall not apply on the income from capital gains subject to tax under this Schedule and these provisions shall apply in the manner as laid down in the rules made under this Ordinance, except where the recovery of tax is referred by NCCPL to the Board in terms of rule 6(3).
- 4. Payment of tax collected by NCCPL to the Board.**- The amount collected by NCCPL on behalf of the Board as computed in the manner laid down under this Schedule shall be deposited in a separate bank account with National Bank of Pakistan and the said amount shall be paid to the Board along with interest accrued thereon on yearly basis by July 31st next following the financial year in which the amount was collected.
- 5. Persons to whom this Schedule shall not apply.**- If a person intends not to opt for determination and payment of tax as laid down in this Schedule, he shall file an irrevocable option to NCCPL after obtaining prior approval of the Commissioner in the manner prescribed. In such case the provisions of rule 2 shall not apply.
- 6. Responsibility and obligation of NCCPL.**- (1) Pakistan Revenue Automation Limited (PRAL), a company incorporated under the Companies Ordinance, 1984 (XLVII of 1984) or any other company or firm approved by the Board and any authority appointed under section 209 of this Ordinance, not below the level of an Additional Commissioner Inland Revenue, shall conduct regular system and procedural audits of NCCPL on quarterly basis to verify the implementation of this Schedule and rules made under this Ordinance.  
(2) NCCPL shall implement the recommendations, if any, of the audit report under sub-rule (1), as approved by the Commissioner, and make adjustments for short or excessive deductions. However, no penal action shall be taken against NCCPL on account of any error, omission or mistake that has occurred from application of the system as audited under sub-rule (1).  
(3) NCCPL shall be empowered to refer a particular case for recovery of tax to the Board in case NCCPL is unable to recover the amount of tax.
- 7. Transitional Provisions.**- In respect of tax year 2012, for the period commencing from coming into force of this Schedule till June 30, 2012, the certificate issued by NCCPL under rule 1(4) shall be the basis of capital gains and tax thereon for that period.

## **SECTION 5 SALES TAX & FEDERAL EXCISE DUTY**

### **1. SALES TAX ACT, 1990**

#### **Assessment of tax & recovery of tax not levied or short-levied or erroneously refunded**

##### **[Section 11 & Section 36]**

The bill seeks to substitute section 11 and abolish section 36 of the Sales Tax Act, 1990 relating to *assessment and recovery of taxes* by merging the relevant clauses of section 36 with section 11 of the Act, 1990. The significant changes sought are as under:

- a. issuance of a show cause notice and passing an order for assessment in respect of non-payment of due tax, short payment, input tax credit or refund not admissible which previously was confined to making an assessment for calculation of due tax/ credit/ refund;
- b. providing uniformity in timeframe for service of show cause notice at five years in both the cases for passing of an order relating to the assessment, reckoned from the time of payment or charge as per section 6 of the Act and within five years reckoned from the date of refund where the tax or charge has been erroneously refunded;
- c. while an assessment order has to be passed within the existing period of one hundred and twenty days of the issuance of the show cause notice, extension time allowed to the commissioner for passing of the said order has now been proposed to be enhanced from sixty days to ninety days;
- d. the total timeframe for adjournments to be increased from existing period of thirty days to a proposed timeframe of sixty days.

#### **Zero Rating**

##### **[Fifth Schedule]**

The bill seeks to propose a change by exempting the sales tax previously chargeable at the rate of zero percent on *Supplies against International Tender*. This makes the cost of local exporters participating in international tenders to increase considerably since they will now not be able to claim the input tax on such supplies.

#### **Exemptions**

##### **[Sixth Schedule]**

The bill seeks to propose following changes in the Sixth Schedule of the Sales Tax Act, 1990

##### **[Table I – Imports or Supplies]**

| S #. | Description  | Heading/ Sub-Heading No. omitted   | Heading/ Sub-Heading No. substituted with   |
|------|--|--|---|
| 1.   | Live animals and live poultry  | 0101.1000, 0102.1020,<br>0102.1030, 0102.1040,<br>0102.1090, 102.9010,<br>0102.9020, 0102.9030,<br>102.9040, 0102.9090 | 0101.2100, 0101.3100,<br>0102.2100, 0102.2120,<br>0102.2130, 0102.2190,<br>0102.3900, 0102.2910,<br>0102.2920, 0102.2930,<br>0102.2990, 0102.9000 |
| 11.  | Eggs including eggs for hatching   | 0407.0010, 0407.0090   | 0407.1100, 0407.1900,<br>0407.2100, 0407.2900   |
| 15.  | Edible fruits excluding imported fruits (except fruits imported from Afghanistan) whether fresh, frozen or otherwise preserved but excluding those bottled or canned | 0808.2000  | 0808.3000, 0808.4000  |
| 16.  | Red Chillies excluding those sold in retail packing bearing brand names and trade marks  | 0904.2010, 0904.2020   | 0904.2110, 0904.2210  |
| 31.  | Holy Quran, complete or in parts, with or without translation; Quranic verses recorded on any analogue or digital media; other Holy Books                            | 8523.4010, 8523.4030,<br>8523.4090   | 8523.4910, 8523.4920,<br>8523.4190  |

The bill seeks to propose following changes in the Sixth Schedule of the Sales Tax Act, 1990

**[Table II – Local Supplies only]**

| S #. | Description   | Heading/ Sub-Heading No. |
|------|---|--------------------------|
| 2.   | Supply of locally produced crude vegetable oil obtained from the locally produced seeds <u>other than cotton seed</u> except cooking oil, without having undergone any process except the process of washing. <i>The underlined words depict the proposed changes</i> | Respective headings      |
| 12.  | Supplies against International Tender – <i>previously this was zero rated</i>   | Respective headings      |

## 2. SALES TAX SPECIAL PROCEDURES RULES, 2007

Effective June 2, 2012, SRO 529(I)/2012 brings the following changes to the Sales Tax Special Procedure Rules, 2007 –

### Chapter X: Special Procedure for Payment of Sales Tax by Importers

#### ***Filing of return and audits***

**[Rule 58E]**

Rule 58E provided that importers who do not claim any refund of excess input tax shall not be subjected to audit except with the permission of the Federal Board of Revenue. The SRO withdraws this clause, making all cases of importers being subjected to audit without the pre-condition for permission from the Board.

### Chapter XI: Special Procedure for Payment of Sales Tax by Steel-Melters, Re-rollers and Ship breakers

**[Rule 58F to 58MB]**

The SRO revises charge of tax on taxable activities of Sales Tax by Steel-Melters, Re-rollers and Ship breakers as under:

| <b>Activity</b>  | <b>Existing Rate</b>  | <b>Revised Rate</b>   |
|--|---|---|
| <u>Steel-Melters &amp; Re-rollers not on self generation of electricity</u>  |   |   |
| a. Electricity consumed by single meter users for the production of steel billets, ingots and mild steel (MS) products excluding stainless steel | Rs. 6 per unit  | Rs. 8 per unit  |
| b. Where the due amount of sales tax is not mentioned on the electricity bill  | Rs. 4.75 per unit   | Rs. 8 per unit  |
| <u>Steel-Melters &amp; Re-rollers on self generation of electricity</u>  |   |   |
| a. For Steel-Melters – Sales tax liability on the basis of the gas bill  | Rs. 1,392 per HM <sup>3</sup> less sales tax paid on gas bill | Rs. 1,900 per HM <sup>3</sup> less sales tax paid on gas bill |
| b. For Re-rolling Mills – Sales tax liability on the basis of the gas bill   | Rs. 38,964 per inch of mil size                               | Rs. 51,822 per inch of mil size                               |
| <u>Ship breakers</u>   |   |   |
| Quantity of re-rollable scrap supplied   | Rs.4848 per metric ton  | Rs. 6,700 per metric ton                                      |

Steel-Melters & Re-rollers, claiming input tax on fixed rates on the basis of electricity bills shall no more be entitled any adjustments or refunds of sales tax on local procurement of plant, machinery and equipment.

Timing and manner of payment has also been changed for Ship breakers by enforcing payments through post-dated cheques based on LDT weight of ships.

Moreover, certain changes have also been introduced to the invoicing thresholds in applicable cases as well as the assessed value for the purpose of sales tax in respect of billets and re-rollable scrap has been enhanced.

### 3. SALES TAX RULES, 2006

Effective June 2, 2012, S.R.O 589(1)/2012 brings the following changes to the Sales Tax Rules, 2006 –

|                    |   |  |
|--------------------|---|--|
| Rule 5             | Application for registration                            | The Federal Board of Revenue has been empowered to transfer the registration of any registered person or any business of a registered person to an area of jurisdiction where the place of business or registered office or manufacturing units is located.  |
| Rule 7             | Change in the particulars of registration               | <p>The change in the legal status of business in the following cases shall be allowed by Local Registration Office on receipt of verification documents from Regional Tax Office/ Large Taxpayer Unit:</p> <ul style="list-style-type: none"> <li>• Transfer of individual business from any person to his spouses or children;</li> <li>• Individual to AOP; and</li> <li>• AOP to Corporate Entity provided where the same persons who are members of AOP are also nominated directors in the Corporate Entity.</li> </ul> <p>In all other cases, a new sales tax registration number to be issued for change in nature or transfer of business.</p> |
| Rule 12            | Blacklisting & suspension of registration               | It has been sought to remove the procedure available on law vide sub-rules (1) to (5) in respect of suspension or black-listing and to empower the Board to prescribe procedure in this regard.  |
| Rule 46 and others | Procedure and conditions for making zero-rated supplies | In conformity with the proposed change that supplies against international tenders be exempted instead of being treated as zero-rated, necessary changes have also been brought to Rule 46 and other related Rules.  |

### 4. OTHER SALES TAX NOTIFICATIONS (SROs)

#### ***SROs Amended***

| Amending SRO | Amended SRO   | Amendment (with effect from June 2, 2012)   |
|--------------|---------------|---|
| 590(I)/ 2012 | 1020(I)/ 2006 | Abolishment of the minimum value addition at the rate of 10% on supply of computer hardware and parts under PCT headings 84.71 & 84.73  |
| 591(I)/ 2012 | 811(I)/2009   | Granting of sales tax exemption on import and supply of polyethylene and polypropylene for manufacturing of mono filament yarn and net cloth provided that the manufacturer, having in-house manufacturing facility, is registered and makes exempt supplies of net cloth to green house farming. |



| Amending SRO  | Amended SRO   | Amendment (with effect from June 2, 2012)  |             |               |               |  |              |              |   |              |              |  |              |              |
|---|---------------|--|-------------|---------------|---------------|--|--------------|--------------|---|--------------|--------------|--|--------------|--------------|
| 595(I)/ 2012  | 551(I)/ 2008  | <p>Withdrawal of sales tax exemption previously available on raw materials, components, sub-components imported for the manufacturing of goods to be supplied against international tenders.</p> <p>Exemption granted on supplies of waste paper, import &amp; supplies of re-meltable scrap and supplies of sprinkler equipment, drip equipment, spray pumps &amp; nozzles.</p>   |             |               |               |  |              |              |   |              |              |  |              |              |
| 596(I)/ 2012  | 308(I)/2008   | <p>Enhancing the repayment-cum drawback rate on the following items w.e.f June 02, 2012:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Description</th> <th style="text-align: center;">Existing Rate</th> <th style="text-align: center;">Proposed Rate</th> </tr> </thead> <tbody> <tr> <td>Ingots or billets other than imported or Pakistan Steel Mills or of People Steel Mills</td> <td style="text-align: center;">4,100<br/>PMT</td> <td style="text-align: center;">7,349<br/>PMT</td> </tr> <tr> <td>Mild Steel re-rolled products manufactured from ingots and billets other than imported or Pakistan Steel Mills or of People Steel Mills</td> <td style="text-align: center;">4,717<br/>PMT</td> <td style="text-align: center;">8,387<br/>PMT</td> </tr> <tr> <td>Mild Steel re-rolled products manufactured from imported billets or billets of Pakistan Steel Mills or of People Steel Mills</td> <td style="text-align: center;">5,460<br/>PMT</td> <td style="text-align: center;">9,651<br/>PMT</td> </tr> </tbody> </table> | Description | Existing Rate | Proposed Rate | Ingots or billets other than imported or Pakistan Steel Mills or of People Steel Mills | 4,100<br>PMT | 7,349<br>PMT | Mild Steel re-rolled products manufactured from ingots and billets other than imported or Pakistan Steel Mills or of People Steel Mills | 4,717<br>PMT | 8,387<br>PMT | Mild Steel re-rolled products manufactured from imported billets or billets of Pakistan Steel Mills or of People Steel Mills | 5,460<br>PMT | 9,651<br>PMT |
| Description   | Existing Rate | Proposed Rate  |             |               |               |  |              |              |   |              |              |  |              |              |
| Ingots or billets other than imported or Pakistan Steel Mills or of People Steel Mills  | 4,100<br>PMT  | 7,349<br>PMT   |             |               |               |  |              |              |   |              |              |  |              |              |
| Mild Steel re-rolled products manufactured from ingots and billets other than imported or Pakistan Steel Mills or of People Steel Mills | 4,717<br>PMT  | 8,387<br>PMT   |             |               |               |  |              |              |   |              |              |  |              |              |
| Mild Steel re-rolled products manufactured from imported billets or billets of Pakistan Steel Mills or of People Steel Mills            | 5,460<br>PMT  | 9,651<br>PMT   |             |               |               |  |              |              |   |              |              |  |              |              |
| 597(I)/ 2012  | 345(I)/2010   | <p>Enhancing the value of locally produced billets and Ingots chargeable to sales tax to Rs.65,000 per metric ton &amp; Rs.60,000 per metric ton from Rs.55,000 per metric ton &amp; Rs.50,000 per metric ton respectively;</p> <p>The above mentioned values to be considered as minimum which previously stood as fixed for the purposes of charging sales tax.</p>  |             |               |               |  |              |              |   |              |              |  |              |              |
| 602(I)/ 2012  | 549(I)/ 2008  | <p>Withdrawal chargeability of sales tax at the rate of zero percent on re-meltable scrap (PCT Heading 72.04);</p> <p>Sales tax to be charged at the rate of zero percent on cotton seed oil (if supplied to registered manufacturer of vegetable ghee &amp; cooking oil).</p>   |             |               |               |  |              |              |   |              |              |  |              |              |
|   | 68(I)/ 2009   | <p>Withdrawal of chargeability of sales tax at the rate of zero percent on sprinkler equipment, drip equipment, spray pumps &amp; nozzles.</p>   |             |               |               |  |              |              |   |              |              |  |              |              |
| 604(I)/ 2012  | 313(I)/2006   | <p>Reduction in the rate of sales tax to 6% from existing 7% on the value of import of soya bean seed by solvent extraction industries.</p>  |             |               |               |  |              |              |   |              |              |  |              |              |
| 605(I)/ 2012  | 69(I)/2006    | <p>Reduction in the rate of sales tax on value of import of rapeseed by solvent to 14% instead of the existing 15%.</p>  |             |               |               |  |              |              |   |              |              |  |              |              |

**SROs Rescinded – with effect from June 2, 2012**

| Rescinding SRO | Rescinded SRO | Effect  |
|----------------|---------------|---|
| 594(I)/ 2012   | 555(I)/ 1996  | Removal of limits available to various officers of Sales Tax in respect of charging of additional tax, imposition of penalty & recovery of amount erroneously refunded.   |
|                | 849(I)/ 1997  | Withdrawal of Sales Tax Exemption on supply of imported raw material, components & sub-components and goods other than consumer goods & consumer durables excluding mild steel products and their raw materials specified under various notifications imported directly by certain manufacturers. |
|                | 103(I)/ 2005  | Withdrawal of value fixation for Potassic Fertilizers for assessment of sales tax at import stage as well as against local supplies of these fertilizers at Rs.4,610 PMT.   |
|                | 15(I)/ 2006   | Removal of fixed value of taxable supply of locally produced nitrogenous fertilizer, calcium ammonium nitrate at Rs.3,765 PMT.  |
|                | 644(I)/ 2007  | Withdrawal of chargeability of sales tax at the rates of 22% & 19.5% on the import and supply of items falling under various headings of the Customs Act, 1969 (IV of 1969).  |

**5. FEDERAL EXCISE ACT, 2005**

**Changes to the Description of Goods and/ or Rate of Duty**

The Bill seeks to propose following changes to the description and rate of the Federal Excise Duty.

**[Table I to First Schedule to the Act]**

| Existing |   |  | Proposed   |  |
|----------|---|--|--|--|
| Sr.      | Description of goods  | Rate of FED  | Description of goods   | Rate of FED  |
| 9.       | Locally produced cigarettes if their retail price exceeds twenty one rupees per ten cigarettes  | 65% of retail price  | Locally produced cigarettes if their retail price exceeds twenty two rupees and eighty six paisas per ten cigarettes;  | 65% of retail price  |
| 10.      | Locally produced cigarettes if their retail price exceeds Eleven rupees and fifty paisa per ten cigarettes but does not exceed twenty one rupees per ten cigarettes | Rs.6.04 per 10 cigarettes plus 70% per incremental rupee or part thereof | Locally produced cigarettes if their retail price exceeds Thirteen rupees and thirty six paisa per ten cigarettes but does not exceed twenty two rupees and eighty six paisas per ten cigarettes | Rs.7.02 per 10 cigarettes plus 70% per incremental rupee or part thereof |
| 11.      | Locally produced cigarettes if their retail price does not exceed Eleven rupees and fifty paisa per ten cigarettes  | Rs.6.04 per 10 cigarettes  | Locally produced cigarettes if their retail price does not exceed Thirteen rupees and thirty six paisa per ten cigarettes  | Rs.7.02 per 10 cigarettes  |
| 13.      | Portland cement, Aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not colored or in the form of clinkers              | Rs.500 per metric ton  | No change in description of goods  | Rs.400 per metric ton  |

### Abolishment of Duty

The bill seeks to abolish the whole amount of Federal Excise Duty leviable on the certain items by omitting certain entries in to the First Schedule. **[Table I to First Schedule to the Act]**

| Sr. | Description  | Heading/ Sub-Heading No. |
|-----|--|--------------------------|
| 22. | Lubricating oil in packs not exceeding 10 litres   | 2710.1951                |
| 23. | Lubricating oil in packs exceeding 10 litres   | 2710.1952                |
| 24. | Lubricating oil in bulk (vessels, boozers, lorries etc.)   | 2710.1953                |
| 25. | Lubricating oil manufactured from reclaimed oils or sludge or sediment, subject to the condition if sold in retail packing or under brand names the words manufactured from reclaimed oil or sludge or sediment should be clearly printed on the pack  | respective headings      |
| 27. | Base lube oil  | 2710.1993                |
| 42. | Perfumes and toilet waters   | 3303.0000                |
| 43. | Beauty or makeup preparations & preparations for the care of the skin (other than medicaments), including sun screen or sun tan preparations; manicure and pedicure preparations   | 33.04                    |
| 44. | Preparations for use on the hair excluding herbal hair oil & kali mehndi   | 33.05                    |
| 45. | Pre shave, shaving or after shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorizers, whether or not perfumed or having disinfectant properties (excluding agarbaddi & other odoriferous preparations which operate by burning) | 33.07                    |

### Certain restriction imposed on manufacture, import and supply of cigarettes

- a. The bill seeks to impose certain conditions wherein a manufacturer or importer of cigarette shall not be able to introduce or sell a new cigarette brand variant of the same existing brand family at a price lower than the lowest actual price of the existing variant of the same brand family;
- b. It is further sought that any new brand introduced in the market shall not be priced and sold lower than 5% below the price of the most popular price category i.e. the highest number of excise tax paid on cigarettes sold in the previous year.

### Changes to the Description of Services and/ or Rate of Duty

The Bill also seeks to propose following changes to the rates of duty on services.

**[Table II to First Schedule to the Act]**

| Existing |  |  | Proposed   |  |
|----------|--|--|--|--|
| Sr.      | Description of Services  | Rate of FED  | Description of Services  | Rate of FED  |
| 3a.      | Services provided or rendered in respect of travel by air of the passenger within the territorial jurisdiction of Pakistan;        | Sixteen percent of the charges plus Rs.20 per ticket                               | Services provided or rendered in respect of travel by air of the passenger within the territorial jurisdiction of Pakistan;        | Sixteen percent of the charges plus Rs.60 per ticket |
| 3b.      | Services provided or rendered in respect of travel by air of the passengers embarking on international journey to or from Pakistan |  | Services provided or rendered in respect of travel by air of the passengers embarking on international journey to or from Pakistan |  |
|          | (i) Passengers embarking to/ from SAARC, USE, KSA, Africa, Afghanistan   | Rs. 3,240 for Economy & economy plus<br>Rs. 4,240 for Club, Business & first class | (i) Economy & economy pls  | Rs. 3,840  |
|          | (ii) Passengers embarking to/ from Europe, Far East, China, USA, Canada, Australia, South America & others                         | Rs. 4,240 for Economy & economy plus<br>Rs. 5,740 for Club, Business & first class | (ii) Club, Business & first class  | Rs. 6,840  |

**Conditional Exemptions**

The bill seeks to insert the following new entries

**[Table II to Third Schedule to the Act]**

| Sr. | Description of Goods   | Heading/Sub-heading number |
|-----|--|----------------------------|
| 7.  | Live stock insurance   | 9813.1600                  |
| 8.  | Services provided by Asset Management Companies w.e.f. July 01, 2007 | Respective headings        |

**6. FEDERAL EXCISE RULES, 2005**

Rule 41A of the Federal Excise Rules, 2005 relating to Special procedure for collection of excise duty on services provided by aircraft operators amended vide SRO 600(I)/2012:

| Sub Rule | Amendment   |
|----------|---|
| (1)      | The purview of levy of excise duty being restricted to travel by air of passengers within Pakistan and international air travel of passengers embarking from Pakistan for abroad  |
| (6)      | Sub-rule 6 amended to conform the amendment made to sub-rule 1  |
| (7)      | The sub-rule whereby duty was presently chargeable at the rate applicable for the farther destination in terms of distance from Pakistan has been substituted by making obligatory on the airline operating in Pakistan that uplifts passengers from Pakistan for another airline, to charge, collect and pay the duty with respect to such passengers. |
| (15)     | Sub-rule 15 also amended to conform the amendment made to sub-rule 1  |

**7. FEDERAL EXCISE SROs**

***SROs Amended***

| Amending SRO | Amended SRO  | Amendment (with effect from June 2, 2012)  |     |                      |                            |    |                            |           |    |   |       |    |  |       |    |  |       |
|--------------|--|--|-----|----------------------|----------------------------|----|----------------------------|-----------|----|---|-------|----|--|-------|----|--|-------|
| 598(I)/2012  | 649(I)/2005  | Following goods being produced in non-tariff areas and brought to tariff areas for sale or consumption to be excluded the purview of excise duty:  |     |                      |                            |    |                            |           |    |   |       |    |  |       |    |  |       |
|              |  | <table border="1"> <thead> <tr> <th style="text-align: center;">Sr.</th> <th style="text-align: center;">Description of Goods</th> <th style="text-align: center;">Heading/sub-heading number</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">3.</td> <td>Perfumes and toilet waters</td> <td style="text-align: center;">3303.0000</td> </tr> <tr> <td style="text-align: center;">4.</td> <td>Beauty or make-up preparations and preparations for the care of the skin (other than medicaments), including sunscreen or sun tan preparations: manicure or pedicure preparations</td> <td style="text-align: center;">33.04</td> </tr> <tr> <td style="text-align: center;">5.</td> <td>Preparations for use on the hair excluding herbal hair oil and kali mehndi</td> <td style="text-align: center;">33.05</td> </tr> <tr> <td style="text-align: center;">6.</td> <td>Pre-shave, shaving or after-shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorizers, whether or not perfumed or having disinfectant properties</td> <td style="text-align: center;">33.07</td> </tr> </tbody> </table> | Sr. | Description of Goods | Heading/sub-heading number | 3. | Perfumes and toilet waters | 3303.0000 | 4. | Beauty or make-up preparations and preparations for the care of the skin (other than medicaments), including sunscreen or sun tan preparations: manicure or pedicure preparations | 33.04 | 5. | Preparations for use on the hair excluding herbal hair oil and kali mehndi | 33.05 | 6. | Pre-shave, shaving or after-shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorizers, whether or not perfumed or having disinfectant properties | 33.07 |
| Sr.          | Description of Goods   | Heading/sub-heading number   |     |                      |                            |    |                            |           |    |   |       |    |  |       |    |  |       |
| 3.           | Perfumes and toilet waters   | 3303.0000  |     |                      |                            |    |                            |           |    |   |       |    |  |       |    |  |       |
| 4.           | Beauty or make-up preparations and preparations for the care of the skin (other than medicaments), including sunscreen or sun tan preparations: manicure or pedicure preparations  | 33.04  |     |                      |                            |    |                            |           |    |   |       |    |  |       |    |  |       |
| 5.           | Preparations for use on the hair excluding herbal hair oil and kali mehndi   | 33.05  |     |                      |                            |    |                            |           |    |   |       |    |  |       |    |  |       |
| 6.           | Pre-shave, shaving or after-shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorizers, whether or not perfumed or having disinfectant properties | 33.07  |     |                      |                            |    |                            |           |    |   |       |    |  |       |    |  |       |

| Amending SRO | Amended SRO | Amendment (with effect from June 2, 2012)                                     |
|--------------|-------------|---|
| 599(I)/2012  | 474(I)/2009 | Withdrawal of exemption of duty on Viscose Staple Fibre (Respective Headings) |

**SROs Rescinded** – with effect from June 2, 2012

| Rescinding SRO | Rescinded SRO | Effect   |
|----------------|---------------|--|
| 603(I)/2012    | 807(I)/2005   | Withdrawal of rebate of duty, paid on base oil used in the manufacture of specified goods.   |
|                | 671(I)/2006   | Withdrawal of minimum price fixation for lubricating oil in packs (PCT headings 2710.1951 and 2710.1952) at US\$ 2 per litre for the purpose of assessment of excise duty at import stage. |
|                | 777(I)/2006   | Withdrawal of duty to give effect to changes brought to Table II to First Schedule to the Act.   |
|                | 949(I)/2006   | Withdrawal of exempt on import and supply of solvent oil (PCT heading 2710.1150) for manufacture of shoe adhesives, which was previously available subject to the certain conditions.      |
|                | 1229(I)/2007  | Withdrawal of exemption of Special Excise Duty on tractor parts supplied by registered vendors to the manufacturers of agricultural tractors.  |
|                | 47(I)/2012    | Withdrawal of duty to give effect to changes brought to Table II to First Schedule to the Act.   |

## **SECTION 6 CUSTOMS**

### **1. CUSTOMS ACT, 1969**

**Smuggle** **[Section 2(s)]**

The Bill seeks to widen the definition of **Smuggle** by including “en route pilferage of transit goods” to eliminate the possibility of pilferage in transit.

**Appointment of officers of customs and their powers** **[Section3]**

The Bill proposes to insert new sections namely 3AA, 3BB, 3BBB, 3CC to establish new Directorates General for transit trade, Reform and Automation, Risk Management and Intellectual Property rights and Enforcement respectively.

**Pakistan Customs Tariff** **[Section 18(E)]**

It has been sought to add a new subsection empowering the Board to make changes in Pakistan Customs Tariff as specified in the First Schedule to the Customs Act 1969 only for the purpose of statistical suffix of the Pakistan Customs Tariff (PCT) Code.

**Punishment for offences** **[Section 156(1)]**

The Bill seeks to abolish the punishment of whipping from the powers of the Special Judge in cases of smuggling, possession or acquiring of smuggled goods and armed intimidation.

**[Table - serial No. 8, 89(i) & 92 column 2]**

It is proposed to include the custodian of goods and inland carrier under the ambit of penalty imposable due to contravention of any rule or condition relatable to transport of goods from one place in Pakistan to another through foreign territory and transit of goods, an imprisonment upto five years through conviction by a Special Judge have also been proposed.

**[Table - serial No. 64 column 2]**

The Bill proposes to enhance the ambit of penalty to an attempt to interfere with the Customs Computerized System and an attempt to interfere with user identifier by any person.

**[Table - serial No. 101, 102 & 103 column 2]**

**Power of adjudication** **[Section 179]**

The Bill seeks to enhance the jurisdiction and powers of Custom officers in cases involving confiscation of goods or recovery of duty and other taxes not levied, short levied or erroneously refunded, imposition of penalty or any other contravention under Customs Act or the rules made thereunder or imposition of penalty as follows:

| <b>Designation</b>   | <b>Previous Limit</b>     | <b>New limit</b>            |
|----------------------|---------------------------|-----------------------------|
| Collector            | Not Applicable            | Without limit               |
| Additional Collector | Without limit             | Not exceeding Rs. 3 Million |
| Deputy Collector     | Not exceeding Rs. 800,000 | Not exceeding Rs. 1 Million |
| Assistant Collector  | Not exceeding Rs. 300,000 | Not exceeding Rs. 500,000   |
| Superintendent       | Not Applicable            | Not Exceeding Rs. 50,000    |
| Principal Appraiser  | Not Applicable            | Not Exceeding Rs. 50,000    |

**Appeals to Collector (Appeals)**

**[Section 193(1)]**

The Bill proposes to make any person including the officers of Customs eligible to file an appeal to Collector Appeals on an order made by an officer not below the rank of the Additional Collector. The appeal may also be filed against an order of claims of refund. Previously, the officers of Customs were not eligible to file an appeal.

**Appeals to the Appellate Tribunal**

**[Section 194A]**

The Bills seeks to enhance the right of appeal of any person or an officer of Customs to file an appeal with the Appellate Tribunal against an order passed by an officer not below the rank of Additional Collector under his adjudication powers in cases involving confiscation of goods or recovery of duty and other taxes not levied, short levied or erroneously refunded, imposition of penalty or any other contravention under this Act or the rules made thereunder or imposition of penalty.

**Procedure for sale of goods and application of sale proceeds**

**[Section 201(1A)]**

The Bill proposes to include electronic means as a mode of sale.

**Reward to Customs Officers and Officials**

**[Section 202 B]**

The Bill seeks to offer cash rewards to Customs officers for their meritorious conduct and informer for providing credible information in cases involving evasion of customs duty and other taxes, and confiscation of goods.

**Maintenance of records**

**[Section 211(1)]**

The Bill, by proposing substitution of the existing sub-section (1) of Section 211, seeks to include the transport operators and tracking companies among the persons involved directly or indirectly in the business of international trade for the purpose of requiring them to keep record of their transactions. Furthermore, it also seeks to require maintenance of record of transit trade transactions, in addition to the current requirement of keeping record of imports and exports.

**[First Schedule]**

The maximum general tariff slab has been proposed to be reduced from 35% to 30%. This will reduce the number of duty slabs from 8 to 7.

Pakistan Customs Tariff classification structure is being aligned with the World Customs Organization nomenclature for commodity classification.

Introduction of 12 Digit Subheadings in Customs Tariff to fulfill the requirement of full automation of import processing through the Customs computerized system (Web-Based One Customs – WeBOC) and statistical purposes.

New tariff headings been created in the Tariff for facilitation of the textile industry and to update national tariff in accordance with international best practices.

**[SRO 573(I)/2012]**

The reference of PACCS has been changed with Customs Computerized System, as PACCS is no more used as a tool for customs clearance.

Previously, the Collector Sales Tax and Federal Excise were entrusted with authority to process and approve concessional import duties. Now, the Bill proposes to pass on this authority to Collector (Customs).

To avail the benefits of SRO 565, the Bill proposes to include the description “HRC (Prime Quality) of thickness exceeding 10 mm” in Sr. No. 88- Welded steel pipes (Raw material, components and sub components), having HS Code 7208.3690.

To withdraw the benefits of reduced customs duty provided in SRO 565, it is sought that the components and sub components of the following items to be omitted from its purview:

**Sr. No. 6 - Car Air Conditioners**

| <b>Sr. No.</b> | <b>Sub components/ components</b> | <b>Heading/sub-heading</b> |
|----------------|-----------------------------------|----------------------------|
| 29             | Filter Drier                      | 8421.3910                  |
| 33             | Motor                             | 8501.1000                  |
| 34             | Resistor                          | 8533.2100                  |
| 35             | Thermister                        | 8533.3100                  |
| 37             | Relay                             | 8536.4100                  |

**Sr. No. 83(a) - Microwave oven**

| <b>Sr. No.</b> | <b>Sub components/ components</b>  | <b>Heading/sub-heading</b> |
|----------------|------------------------------------|----------------------------|
| 3              | Main mounted circuit board         | 8516.9000                  |
| 4              | Cover top                          | 8516.9000                  |
| 5              | Door assembly                      | 8516.9000                  |
| 6              | Display with mounted circuit board | 8516.9000                  |
| 7              | High voltage block assembly        | 8516.9000                  |
| 8              | Accessories                        | 8516.9000                  |
| 9              | Main chassis and frame with motor  | 8516.9000                  |
| 11             | Magnetron                          | 8540.7100                  |
| 12             | Mechanical Timer                   | 9106.9000                  |

**Sr. No. 83(d) - Stereo Cassette/Stereo Car Cassette Player**

| <b>Sr. No.</b> | <b>Sub components/ components</b>           | <b>Heading/sub-heading</b> |
|----------------|---|----------------------------|
| 4              | Accessories                                 | 8522.9000                  |
| 5              | Braket                                      | 8522.9000                  |
| 6              | Rear cover assy                             | 8522.9000                  |
| 7              | Remote control                              | 8522.9000                  |
| 8              | Main frame or chassis with top cover        | 8522.9000                  |
| 9              | Nobs and buttons                            | 8522.9000                  |
| 10             | Front panel assy with mounted circuit board | 8522.9000                  |
| 11             | Mechanism assy with motor and head          | 8522.9000                  |

**Sr. No. 83(b) - Car Cassette/ CD Player**

**Sr. No. 83(c) - Hi Fi System**

**Sr. No. 83(e) - Radio Cassette Player**

**Sr. No. 83(i) - Car Audio System**

**Sr. No. 83(f) - Pocket Size Cassette Player**

| <b>Sr. No.</b> | <b>Sub components/ components</b>           | <b>Heading/sub-heading</b> |
|----------------|---|----------------------------|
| 4              | Accessories                                 | 8522.9000                  |
| 5              | Braket                                      | 8522.9000                  |
| 6              | Rear cover assy                             | 8522.9000                  |
| 7              | Main frame or chassis with top cover        | 8522.9000                  |
| 8              | Nobs and buttons                            | 8522.9000                  |
| 9              | Front panel assy with mounted circuit board | 8522.9000                  |
| 10             | Mechanism assy with motor and head          | 8522.9000                  |

**Sr. No. 83(g) - DVD/ VCD Player**

| <b>Sr. No.</b> | <b>Sub components/ components</b> | <b>Heading/sub-heading</b> |
|----------------|-----------------------------------|----------------------------|
| 3              | MPEG card                         | 8522.9000                  |
| 4              | Metal case                        | 8522.9000                  |
| 5              | Loader                            | 8522.9000                  |
| 6              | Panel with PCB & Card             | 8522.9000                  |
| 7              | Power board                       | 8522.9000                  |
| 8              | Remote control                    | 8522.9000                  |



Sr. No. 84(B)- CKD Kits for assembly of Payphones, WLL phones, CDMA phones & GSM phones

Sr. No. 84(C) - Kits for CDMA Fixed Wireless Terminals (FWT)

| Sr. No. | Sub components/ components | Heading/sub-heading |
|---------|----------------------------|---------------------|
| 5       | Sealed lead acid batteries | 8507.2010           |

Sr. No. 85 - Viscose Staple Fiber (Raw material)

| Sr. No. | Sub components/ components | Heading/sub-heading |
|---------|----------------------------|---------------------|
| 7       | Wood pulp                  | 4782.0000           |

Sr. No. 98 - Fans

| Sr. No. | Sub components/ components                | Heading/sub-heading |
|---------|---|---------------------|
| 4       | Non Grain Oriented Electrical Steel Sheet | 7225.1900           |

Sr. No. 133 - Fortified Rosin (Raw material)

| Sr. No. | Sub components/ components | Heading/sub-heading |
|---------|----------------------------|---------------------|
| 2       | Maleic Anhydride           | 2917.1400           |

Customs duty on self-copy papers and self-adhesive papers has been reduced from 25% and 20% to 10%.

In order to encourage import of hybrid electric vehicles (HEVs) at affordable prices the rate of duty and taxes presently applicable to HEVs and their batteries are being reduced by 25%.

In order to simplify the tariff the composite rate of duty on cinematographic film is being change to a simple specific rate of Rs. 5 per meter.

**[SRO 574(I)/2012]**

Customs duty on 88 pharmaceutical raw materials and other input goods has been reduced from 10% to 5% other than surgical tape which has significantly reduced from 25% to 5%.

Customs duty on import of shredded tyres scrap (4004.0020) by cement manufacturers is reduced from 20% to 10%.

Customs duty on raw materials and components for printing and stationery sector has been reduced as follows:

| PCT Code  | Description   | Existing Rate | Revised Rate |
|-----------|---|---------------|--------------|
| 215.1190  | Black Ink   | 20%           | 10%          |
| 215.1990  | Colour Ink  | 20%           | 10%          |
| 701.3020  | CTP Plates  | 10%           | 5%           |
| 4802.5700 | Fully sensitized cheque paper weighing 40 g/m2 or more but not more than 150 g/m2 | 20%           | 10%          |
| 9612.1010 | Red bleed through ribbons for dot matrix printers                                 | 20%           | 10%          |
| 3215.1990 | Anti-forgery security printing ink  | 20%           | 10%          |

## **SECTION 7      PETROLEUM PRODUCTS**

**[Fifth Schedule]**

The bill seeks to replace the existing Fifth Schedule with the following:

| <b>S. No.</b> | <b>Petroleum products</b>                                  | <b>Unit</b> | <b>Maximum<br/>Petroleum<br/>Levy Rate<br/>(Rupees per unit)</b> |
|---------------|--|-------------|--|
| 1.            | High Speed Diesel Oil (HSDO)                               | Litre       | 8  |
| 2.            | Motor Gasoline 87 ROM                                      | Litre       | 10   |
| 3.            | SKO  | Litre       | 6  |
| 4.            | Light Diesel Oil (LDO)                                     | Litre       | 3  |
| 5.            | HOBC   | Litre       | 14   |
| 6.            | E – 10 Gasoline  | Litre       | 9  |
| 7.            | Liquefied Petroleum Gas (produced / extracted in Pakistan) | Metric Ton  | 11,486   |

**ANNEX APPLICABLE RATES FOR WITHHOLDING (FINAL/ ADVANCE/ MINIMUM) TAX**

**[First Schedule & Corresponding Sections]**

|   | Nature of Payment   | Tax Rate  | Advance/ Final/ Minimum Tax   |
|---|---|---|---|
| Cases of residents & permanent establishment of non-residents | <b>Dividend paid to:</b><br>- Companies under group relief scheme<br>- Power Companies (dividends distributed by power generation companies & purchaser of power projects privatized by WAPDA)<br>- Other cases<br>Dividends received by a banking companies from its asset management company<br>Dividends received from Money market Funds & Income Funds   | Exempt<br><br>7.50%<br><br>10%<br>20%<br>TY2013: 25%<br>TY:2014:35% | Advance tax for companies, Final Tax for other cases<br><br><br>Final Tax<br><br>Final Tax  |
|   | <b>Imports</b><br>- General<br>- Import of Raw Material by Industrial undertaking for its own use<br>- Import of all fiber, yarns and fabrics and goods covered by the Zero Rating regime of Sale Tax<br>- Import of potassic fertilizer<br>- Items under reduced rates as per Part II of 2nd Schedule  | 5%<br><br>3%<br>1%<br><br>1%<br>1%                                  | <b>Final Tax (General)</b><br><b>Advance Tax</b> in the case of:<br>- an industrial undertaking importing goods as Raw material or plant & machinery for own use;<br>- fertilizer imported by the manufacturer of fertilizer<br>- import of motor vehicles in CBU condition by the manufacturer of motor vehicles<br>- Option available for commercial importer for NTR by declaring 60% or more of tax collected as tax expense.<br><b>Minimum Tax</b> in case of Import of edible oil packing material. |
|   | <b>Profit on debt:</b><br>- Profit on debt from Debt instruments, Government securities including Treasury Bills and Pakistan Investment Bonds<br>- Others  | 10%   | Advance tax for companies, Final Tax for cases other than companies   |
|   | <b>Payments for goods other than imported goods</b> in case of:<br>- sale of rice, cotton seed, edible oil<br>- sale of any other goods<br><br>- Rice sold by Rice Exporters Association of Pakistan to Utility Stores Corporation<br>- Sale by distributors of cigarettes and pharmaceutical products<br>- Sale by manufacturers to traders and distributors | 1.50%<br><br>3.50%<br><br>1%<br>1%<br>1%                            | <b>Advance Tax</b> in case of listed companies and companies engaged in manufacturing. Option available for NTR by declaring 70% or more of tax deducted as tax expense.<br><b>Final Tax</b> for other cases.<br>Final Tax<br>Final Tax<br>Advance Tax  |
|   | <b>Payments for services</b><br>- To owner of Newspaper & magazines Advertisement<br>- Transports Services<br>- All others  | 6%<br><br>2%<br><br>6%  | Advance Tax<br>Minimum Tax<br>Advance Tax for companies & Minimum Tax for other cases   |
|   | <b>Payment on account of execution of contract</b>  | 6%  | Advance Tax in case of listed companies Final Tax in other cases  |
|   | <b>Exports</b><br>- Payments by export houses for services rendered for stitching, dying, printing, embroidery, washing & weaving<br>- At the time of realization of proceeds on export of goods [Exemption to cooking oil or vegetable ghee exported to Afghanistan if tax u/s 148 is paid.]   | 0.50%<br><br>1%   | <b>Final Tax</b><br>Option available to exporters for NTR by declaring 50% or more of tax collected as tax expense  |
|   | <b>Indenting commission</b> on realization of proceeds on account of commission to:-<br>- non-export indenting agent<br>- Export indenting agent /export buying house.<br>- an exporter on sale of goods under inland back to back LC or any other arrangement as may be prescribed by FBR.   | 5%<br>1%<br>1%  | Final Tax   |
|   | <b>Export of goods by units located in EPZ</b>  | 1%  |   |
|   | <b>Payment for a firm contract</b> (direct exporter or export registered under DTRE rules 2001)   | 1%  |   |
|   | <b>Rental of property income</b>  | various as per slabs  | Advance Tax   |
|   | <b>Purchase of Air Domestic Tickets</b>   | 5%  | Advance Tax   |

**ANNEX APPLICABLE RATES FOR WITHHOLDING (FINAL/ ADVANCE/ MINIMUM) TAX**

**[First Schedule & Corresponding Sections]**

|  | Nature of Payment  | Tax Rate   | Advance/ Final/ Minimum Tax  |                    |                     |             |
|--|--|--|--|--------------------|---------------------|-------------|
| <b>Cases of residents &amp; permanent establishment of non-residents</b> | <b>Prizes and winnings:</b><br>- Prize on prize bonds and cross-word puzzle<br>- Winnings from a raffle, lottery, prize on winning a quiz or prizes related to companies' sales promotion schemes  | 10%<br>20%   | Final Tax  |                    |                     |             |
|  | <b>Petrol Pump Operators</b>   | 10% on Commission  | Final Tax  |                    |                     |             |
|  | <b>Withdrawal of balance under pension fund</b><br>- Withdrawal before retirement age<br>- Withdrawal in excess of 50% of accumulated balance at or after the retirement age   | Avg. rate of tax for 3 preceding years or rate applicable for the year, whichever is lower | Final Tax (as Separate Block of Income)  |                    |                     |             |
|  | <b>Cash withdrawals from banks (daily limit Rs. 50,000/-)</b>  | 0.2%   | Advance Tax  |                    |                     |             |
|  | <b>Tax on purchase of locally manufactured Motor Vehicles</b> – Exemption is available to Federal, Provincial and Local Govts., Foreign Diplomatic Mission in Pakistan and persons whose income is exempt                                  | Various rates based on engine capacity   | Advance Tax  |                    |                     |             |
|  | <b>Tax on motor vehicle</b> (to be collected with motor vehicle tax)   | Various rates  | Advance Tax (for Passenger transport & private motor cars) & Final (in other cases)                      |                    |                     |             |
|  | <b>Brokerage and commission</b><br>- General (including resident agent)<br>- In case of advertising agent  | 10%<br>5%  | Final Tax  |                    |                     |             |
|  | <b>Collection of tax by NCCPL from members of stock exchanges</b><br>- on purchase/sale of shares in lieu of the commission earned<br>- in respect of trading of shares<br>- in respect of financing of carryover trade in shares business | 0.01%<br>0.01%<br>10%  | Advance Tax  |                    |                     |             |
|  | <b>CNG Station</b> - on the amount of gas bill of a CNG station  | 4%   | Final Tax  |                    |                     |             |
|  | <b>Tax on electricity Bills</b>  | Various rates  | - Minimum Tax (for Non-corporate tax payers up to bill amount of 30K)<br>- Advance Tax (for other cases) |                    |                     |             |
|  | <b>Telephone Bills</b><br>- Mobile phone Bills and prepaid telephone cards<br>- General (Landline bills exceeding Rs. 1,000)   | 10%<br>10%   | Advance Tax  |                    |                     |             |
|  | <b>Capital gain from sale of securities –</b>  | <b>for Insurance</b>   | Years  | Less Than 6 Months | Less than 12 months | Advance Tax |
|  |  |  | 2012   | 10%                | 8%                  |             |
|  |  |  | 2013   | 12.5%              | 8.5%                |             |
| 2014   |  |  | 15%  | 9%                 |                     |             |
| <b>Other than Insurance</b>  |  | 2015   | 17.5%  | 9%                 | Advance Tax         |             |
|  |  | 2012   | 10%  | 8%                 |                     |             |
|  |  | 2013   | 10%  | 8%                 |                     |             |
|  |  | 2014   | 10%  | 8%                 |                     |             |
| 2015   | 17.5%  | 9.5%   |  |                    |                     |             |
| <b>Sale by public auction and tender</b>                                 | 5%   | Advance Tax  |  |                    |                     |             |
| <b>Cases of non-residents</b>  | <b>Payment for profit on debt</b><br>- on debt instruments, Govt. securities including T.Bills & PIBs where the investment is made through a local Special Rupee Convertible A/C<br>- others   | 10%<br>10%   | Final Tax<br>Advance Tax   |                    |                     |             |
|  | <b>Dividends</b> (including repatriation of profits by branches)   | 10%  | Final Tax  |                    |                     |             |
|  | <b>Contracts</b>   | 6%   | Final Tax (if option exercised under clause (41), Part IV, 2nd Schedule) otherwise Advance Tax           |                    |                     |             |
|  | <b>Royalties/ Fee for Technical Services</b>   | 15% of the gross amount or reduced rate under DTA  | Final Tax  |                    |                     |             |
|  | <b>Shipping income</b>   | 8%   | Final Tax  |                    |                     |             |
|  | <b>Air transport income</b>  | 3%   | Final Tax  |                    |                     |             |
|  | <b>Insurance or re-insurance premium</b>   | 5%   | Final Tax  |                    |                     |             |
|  | <b>Payments to non-resident media persons</b>  | 10%  | Final Tax  |                    |                     |             |
| <b>Any other receipt</b>   | 20% of the gross amount or reduce rate under DTA   | Advance Tax  |  |                    |                     |             |

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**TARIQ ABDUL GHANI MAQBOOL & CO.**

Chartered Accountants

**Head office**

173-W, Block 2, P.E.C.H.S., Karachi

Tel. +9221-34322582 - 3

+9221-34322606 - 7

Fax. +9221-34522492

**Islamabad Office**

A-321 Street 15, F-10/2, Islamabad

Tel. +92 51 8356545

Fax. +92 51 8356546

**Lahore Office**

57-D/1 Gulberg-III, Lahore

Tel. +92 42 35759501 - 3

Fax. +92 42 35759504

Email: [info@tagm.co](mailto:info@tagm.co)

Web: [www.tagm.co](http://www.tagm.co)