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HIGHLIGHTS ON FINANCE BILL 2018

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INDEPENDENT MEMBER

Highlights on the Finance Bill, 2018

This document summarizes significant changes proposed to be brought to statute vide the Finance Bill, 2018 (the Bill) relating to Income Tax, Sales Tax, Federal Excise Duty and Customs.

Effective date of applicability of these changes will be July 1, 2018, 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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April 28, 2018

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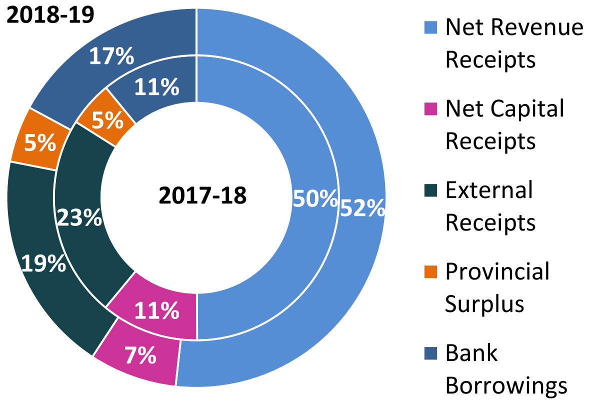
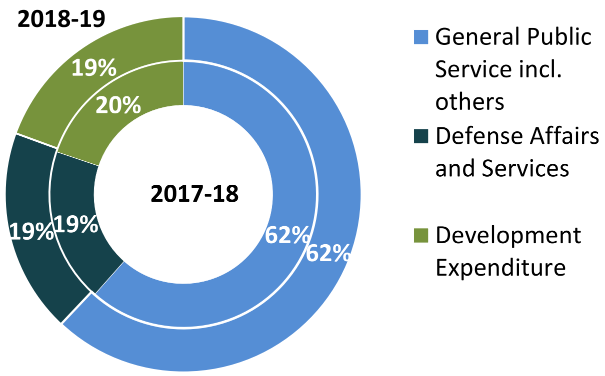
SECTION I BUDGET AT A GLANCE

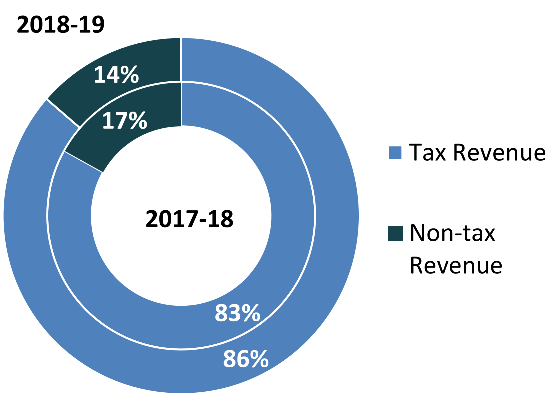
SOURCES OF FUNDS	2018-19	2017-18	Change
	Rupees in Billion		%
Net Revenue Receipts*	3,070.44	2,676.41	14.7
Net Capital Receipts	443.10	594.55	-25.5
External Receipts	1,118.02	1,229.75	-9.1
Provincial Surplus	285.60	273.85	4.3
Bank Borrowings	1,015.30	586.47	73.1
Total	**5,932.46**	**5,361.03**	**10.7**



APPLICATION OF FUNDS	2018-19	2017-18	Change
	Rupees in Billion		%
General Public Service incl. others	3,680.03	3,299.04	11.5
Defense Affairs and Services	1,100.33	999.24	10.01
Development Expenditure	1.152.10	1,062.76	8.4
Total	**5,932.46**	**5,361.04**	**10.7**



*NET REVENUE RECEIPTS	2018-19	2017-18	Change
	Rupees in Billion		%
Tax Revenue	4,888.64	4,147.31	17.9
Non-tax Revenue	771.86	845.18	-8.7
Gross Revenue Receipts	5,660.50	4,992.49	13.4
Less: Provincial Share in Taxes	2,590.07	2,316.08	11.8
Total	**3,070.43**	**2,676.41**	**14.7**



SECTION 2 OVERVIEW OF THE ECONOMY

Pakistan economic growth for fiscal year 2017-18 has been recorded at 5.79 percent, against the target of 6.00 percent. In comparison to last year's economic growth of 5.37 percent, strong economic growth has been underpinned by supportive macroeconomic supply and demand policies, renewed confidence in the private sector and fiscal discipline, the fastest pace in real GDP growth was based on strong growth in agriculture, impressive growth in manufacturing as well as in services. The inflation growth has been curtailed and observed at 3.78% (2017-18) in comparison with last year's inflation growth of 4.01%.

Following is a synopsis of Pakistan economy during the fiscal year 2017-18:

- Fiscal deficit as a percent of GDP was confined at 2.3 percent for the period July-Dec 2017-18 against 2.5 percent in the same period of fiscal year 2016-17.
- The Net Domestic Assets (NDA) of the banking sector witnessed an expansion of Rs.1,243.7 billion (8.9 percent) during 01 July-30 March, FY2018 as compared to the expansion of Rs.1,040.9 billion (8.8 percent) in the same period last year.
- Inflation during July-March 2017-18 averaged at 3.78 percent as against 4.01 percent in the same period last year. The inflation was contained due to subdued food prices offsetting the impact of rise in petroleum and oil prices.
- Imports during the first eight months (July- February 2017-18) increased by 17.01 percent compared with the same period last year, which stood at $ 39,099 million against $ 33,392 million last year while exports during the first eight months (July-February 2017-18) of the current year stood at US$ 14.8 billion against US $ 13.3 billion during corresponding period last year, recording a remarkable growth of 11.6 percent. Trade deficit posted increase of around 20.7 percent during July-March 2017-18.
- Foreign exchange reserves have witnessed a decrease. As of April 16, 2018, foreign exchange reserves decreased to US $ 17.3 billion from US $ 21.4 billion, representing a decrease of 16.82 percent. PAK Rupee has witnessed cumulative depreciation of 9.2 percent against US Dollar in July-March 2017-18.
- As at end December 2017, public debt reached at Rs.22,820 billion (66.3 percent of GDP) compared to Rs.21,407 billion (67.7 percent of GDP) representing an increase of 1,413 billion during first six months of current fiscal year. The Credit Rating of the country remained B for the current fiscal year.
- During July-March 2017-18, growth of 4.4 percent was posted in Foreign Direct Investment (FDI) inflows in comparison to same period last year.
- National savings decreased to 11.4 percent of GDP in 2017-18 compared to 12.0 percent in 2016-17. Domestic savings being witnessed at 6.1 percent of GDP in 2017-18 against 6.6 percent of GDP in 2016-17.
- FY 2018, the performance of stock markets presented a mixed trend between July and December.

Summary of key performance indicators are as follows:

Description	**2014-15**	**2015-16**	**2016-17**	**2017-18P**
Gross Domestic Product (GDP) – Growth %	4.06	4.56	5.37	5.79
Total Investment – Growth %	15.7	15.7	16.1	16.4
Consumer Price Index (CPI) – Growth %	4.5	2.9	4.0	3.8
Trade Deficit - % of GDP	6.4	6.9	8.7	6.3
Current Account Deficit - % of GDP	1.0	1.7	4.1	3.5
Total Public Debt to GDP Ratio	63.5	63.3	67.7	66.3
Foreign Exchange Reserves – US$ billion	14.1	18.6	21.4	17.30*
Depreciation in Rupee Value against US$ - %	-1.52	2.90	0.44	2.23
International Credit Rating – S&P	B-	B-	B	B
PSX – 100 Index – Growth %	16.0	9.8	23.2	-7.1

P = Provisional; (* as of April 16, 2018)

GROWTH

- The FY 2018 recorded a growth of 5.79% being highest in 13 years. This year's strong economic growth has been underpinned by supportive macroeconomic supply and demand policies, renewed confidence in the private sector and fiscal discipline, backed by strong growth in agriculture, impressive growth in manufacturing as well as in services.
- Industrial sector, contributes 21 percent in GDP, recorded the growth of 5.80% compared to 5.43% in the last year due to commitment shown to industrial sector including manufacturing by providing undisrupted energy supply, higher infrastructure spending, ample liquidity in the banking sector and investment friendly low interest rates. Large Scale Manufacturing (LSM) witnessed an impressive growth of 6.24% as compared to growth of 5.62% in the last year. For the current fiscal year, electricity generation & gas distribution witnessed a low growth of 1.84% in comparison to previous year growth of 5.82 percent. Similarly, construction and mining and quarrying sector also registered growth of 9.13% & 3.04% respectively in the current fiscal year as compared to growth of 9.84% & -0.38% in the previous year.
- The agricultural sector accounts for 19 percent of GDP, employing a bulk of the total work force and witnessing a growth of 3.81% against 2.07% growth last year.
- Services sector has witnessed a growth of 6.43 percent in current fiscal year as compared to 6.46 percent last year. Finance and Insurance recorded a growth of 6.13 percent during FY 2018 compared to 10.78 percent last year. All components of services contributed positively, as Wholesale and Retail Trade grew by 7.51 percent, Transport, Storage and Communication by 3.58 percent, Housing Services by 4.00 percent, General Government Services by 11.42 percent and Other Private Services by 6.15 percent.
- The private consumption expenditure in nominal terms reached to 82.1 percent of GDP in FY 2018 as compared to 82.00 percent of GDP last year, whereas public consumption expenditures are 12.4 percent of GDP as compared to 11.3 percent last year.

Description	2014-15 Growth %	2015-16 Growth %	2016-17 Growth %	2017-18 P Growth %
Gross Domestic Product (GDP)	4.1	4.6	5.4	5.8
Agriculture	2.1	0.2	2.1	3.8
Manufacturing	3.9	3.7	5.8	6.2
Commodity Producing Sector	3.6	2.9	3.8	4.8
Services Sector	4.4	5.7	6.5	6.4

P = Provisional

INVESTMENT & SAVING

- Total investment recorded growth of 16.4 percent in FY 2018. Fixed investment as percentage of GDP is recorded at 14.8 percent while Private investment as percentage of GDP reached to 9.80 percent. Public investment as percentage of GDP has increased from 4.50 percent to 5.00 percent recording an impressive growth of 11.11 percent.
- National savings decreased to 11.40 percent of GDP in this fiscal year against 12.0 percent last year. Domestic savings shown a decrease being recorded at 6.1 percent of GDP in this fiscal year as compared to 6.6 percent of GDP the last year.
- During July-March FY 2018, foreign direct investment recorded a growth of 4.4 percent to US$ 2.1 billion against US$ 2.0 billion in the same period last year.

Description	2014-15	2015-16	2016-17	2017-18 P
Total Investment - % of GDP	15.7	15.7	16.1	16.4
Fixed Investment - % of GDP	14.1	14.1	14.5	14.8
Public Investment - % of GDP	3.7	3.8	4.5	5.0
Private Investment - % of GDP	10.4	10.3	10.0	9.8
National Saving - % of GDP	14.7	13.9	12.0	11.4

P = Provisional

CAPITAL MARKETS

- During FY 2018, the performance of stock markets presented a mixed trend between July and December.
- The benchmark 100 index touched all time high closing level of 52,867.46 points on May 24, 2017.
- The aggregate market capitalization at March 30, 2018 stood at Rs. 9,370.6 billion. The average daily value traded (T+2) in first nine months of FY 2018 was Rs. 8.54 billion and the average daily turnover was 192.25 million shares.
- Some of the relevant statistics related to the Pakistan Stock Exchange are as follows:

Description	2014-15	2015-16	2016-17	2017-18 P
PSX – 100 Index Points (Month end June)	34399	37783	50935	45560 M
PSX – 100 Index – Growth %	16.0	9.8	23.2	-7.1
Aggregate Market Capitalization (Growth %)	5.7	2.3	25.5	-5.2
Turnover of Shares (Volume Million)	64.6	55.4	70.5	61.4

P = Provisional M = March 30, 2018

INFLATION

- Average inflation during first nine months of the current fiscal year, (July-March) has been contained at 3.78 percent which was lower than the level observed during the same period of last year recorded at 4.01 percent.
- Food inflation have been estimated at 1.99 percent as compared to 3.8 percent in the same period last year.
- Non-food inflation have been estimated at 5.03 percent as compared to 4.16 percent in the same period last year. The increase in non-food inflation over the last year is due to increase in prices of major consumable items and related supply & demand parity.
- Core inflation has been recorded at 5.45% as against 5.07 percent during the same period last year.

Description	2014-15	2015-16	2016-17	2017-18 P
CPI (Consumer Price Index)	4.5	2.9	4.0	3.8
Food Inflation	3.5	2.1	3.8	1.99*
Non-food Inflation	5.3	3.4	4.2	5.0
SPI (Sensitive Price Index)	1.7	1.3	1.4	1.0
WPI (Wholesale Price Index)	-0.3	-1.0	3.8	2.7

P = Provisional; (* July to March 2018)

BALANCE OF PAYMENTS & RESERVES

- The trade deficit has been widened by 20.6% to US$ 22.3 billion in July-March FY 2018 due to surge in Import bill by 16.6 percent.
- The current account deficit increased to US$ 12.03 billion in July-March FY 2018 as compared to US$ 7.99 billion in the same period last year. As a percentage of GDP it stood at 3.5 percent against 4.1 percent of the comparing period last year.
- Exports during July-February FY2018 reached to US$ 14.8 billion as compared to US$ 13.3 billion in July- February FY2017, registered a remarkable growth of 11.6 percent. imports were up by 17.1 percent in the first eight months of the current fiscal year, rising from US $33,392 million during FY2017 (July-February) to US $39,099 million during first eight months of current financial year.
- The remittances registered a significant growth of 3.6 percent during July-March FY 2018 as against the decline of 2.0 percent last year, and reached to US$ 14.6 billion during first nine months of current financial year as compared to US$ 14.1 billion during the same period last year.
- Total foreign exchange reserves declined by US $ 4.5 billion to reach at US$ 17.3 billion in March, FY2018 compared to US$ 21.4 billion in May FY2017.
- Exchange rate averaged at Rs.107.03 per US$ in July - Feb FY2018, compared to Rs.104.69 per US$ of the comparing period last year.
- Some of the relevant statistics related to balance of payments and foreign exchange reserves are as follows:

Description	2014-15 Growth %	2015-16 Growth %	2016-17 Growth %	2017-18 P Growth %
Exports	-7.20	-9.60	-2.68	12.98*
Imports	0.29	0.31	14.04	20.31*
Workers' Remittances ($ in billion)	18.72	19.92	12.41	12.83
Foreign Direct Investment (FDI)	-8.0	5.4	14.8	15.03**
Foreign Exchange Reserves – US$ in billion	14.1	18.6	21.4	17.3

P = Provisional (*July to Jan) (** July to March)

PUBLIC DEBT

- Public debt was recorded at Rs.22,820 billion as at end December 2017 registering an increase of Rs.1,413 billion during first six month of current fiscal year.
- Out of this total increase, increase in domestic debt was Rs.582 billion while government borrowing from domestic sources for financing of fiscal deficit was Rs.412 billion. This differential is mainly attributed to increase in government credit balances with banking system. Similarly, increase in external debt contributed Rs.830 billion to public debt. Revaluation gain on account of appreciation of US Dollar against other foreign currencies reduced the impact of net external inflows.
- External debt and Liabilities (EDL) stock was recorded at US$ 88.9 billion as at end of December 2017 out of which external public debt was US$66.9 billion. Moreover, external public debt recorded an increase of US$ 4.4 billion during first six months of current fiscal year.

Description	2014-15 Growth %	2015-16 Growth %	2016-17 Growth %	2017-18 P Growth %
Domestic Currency Debt – Growth	11.70	11.70	9.01	3.9
Foreign Currency Debt – Growth	2.2	16.8	8.3	12.7
Foreign Currency Debt to Total Public Debt Ratio	29.8	30.75	30.61	32.35
Total Public Debt to GDP Ratio	63.5	63.3	67.7	67.0
Depreciation in Value of Rupee against US$ - %	-1.52	2.90	0.44	2.23
International Credit Rating – S&P	B-	B-	B	B
New Guarantees issued as a percentage of GDP	0.6	0.7	1.9	0.2

P = Provisional

TAXATION EXEMPTIONS

- Total tax exemptions for fiscal year 2017-18 have been estimated at Rs.540.98 billion compared to Rs. 415.751 billion for the previous fiscal year.
- Exemptions in income tax contribute 11.4 percent to total exemptions whereas exemptions in sales tax and custom duties account for 52 percent and 36.6 percent respectively.
- Custom duties expenditures have been significantly increased from Rs.151.686 billion to Rs.198.15 billion for the fiscal year 2017-18.
- Income tax and sales tax exemptions represent a growth of 341.29 percent and 12.38 percent respectively.

Rs. Billion

Description	2014-15	2015-16	2016-17	2017-18 P
Income Tax	83.6	67.3	14.0	61.78
Sales Tax	478.4	207.3	250.1	281.05
Custom Duties	103	119.9	151.7	198.15
Total	**665.0**	**394.5**	**415.8**	**540.98**

P = Provisional

SECTION 3 SALIENT FEATURES

Income Tax

Relief measures

1. Substantial reduction in tax rates for individuals and considerable reduction for tax rate for AOPs;
2. Bonus shares taken out from the ambit of income and therefore 5% advance tax collected on bonus shares also abolished;
3. Relaxation on taxation of undistributed profits by way of:
   a. Reduction of rate of tax from existing 7.5% to 5%;
   b. Minimum profit distribution threshold reduced from 40% to 20%;
   c. Treating the tax on undistributed profits as advance tax for companies;
4. Continuing to lower the normal tax burden for companies;
5. Monetary limit of investment amount for tax credit for investment in shares, insurance and sukuks from increased from existing Rs. 1.5M to Rs. 2M;
6. Extension of various tax credits for investment by companies till the year 2021;
7. Scope of 100% tax credit available to NPOs on profit on debt from scheduled banks also extended to profit on debt from micro-finance banks;
8. The requirement to pay 25% of tax due for filing and appeal and avoiding notice under section 140 has been lowered to 10% of tax due;
9. Concessional rate of 7.5% on dividend from rental REITS for both filer and non-filer individuals;
10. Enhancement in the monetary ceiling for non-deduction of withholding tax on payments on account of supply of goods from existing Rs. 25,000 to Rs. 75,000 and for rendering of services from existing Rs. 10,000 to Rs. 30,000;
11. Companies being member of AOPs to avail proportionate credit for advance tax collected from such AOPs;
12. The Commissioner may only proceed for audit after approval from the Board for such cases where an audit has already been conducted in past three years;
13. The tax collected by Stock Exchange on sale and purchase of shares in lieu of tax on the commission earned by stock brokers once to be treated as advance tax;
14. Exemption on donations allowed in case of various NPOs and charitable institutions;
15. Exemption on income granted to various NPOs and charitable institutions;
16. Conditional exemption available to modarabas for trading activities also to be available to manufacturing activities;
17. Exemption from total income to new set-ups for refineries as well as for existing refineries on capacity enhancement;
18. 50% reduction in tax payable on income from film-making in Pakistan for foreign and local film-makers from making films in Pakistan;
19. Exemption from minimum tax with effect from the tax year 2014 for public sector universities established solely for educational purposes and not for the purposes of profit;
20. Exemption from withholding tax on re-gasification charges paid by Sui Southern Gas Company Limited and Pakistan LNG Terminal Limited to Sui Northern Gas Pipelines Limited;
21. Exemption from withholding tax on dividends paid to Transmission Line Projects under Transmission Line Policy 2015;
22. Immunity from collection of tax at import stage on construction materials or goods up to a maximum of Rs. 10,898M imported by M/s CSCEC for construction of Sukkur-Multan section of Karachi-Peshawar Motorway project of National Highway Authority under CPEC;
23. The period for concessionary rate of 0.5% available to large trading houses to be extended to tax year 2021;

24. Timeframe for minimum tax a concessionary rate of 2% for specified corporate sectors extended till tax year 2019 and the concession also made available to companies providing inspection, certification, testing and training services.

Revenue measures

1. Direct measures:
   - (i) Fee for offshore digital services brought under the tax net at 5% of gross fee to be collected by bank while effecting the payment;
   - (ii) Extension in timeframe for collection of super tax till the year 2020;
   - (iii) Gain on disposal of assets outside Pakistan to be taxed in Pakistan if the value of disposed assets is primarily based on assets located in Pakistan;
   - (iv) Income from controlled foreign company also to be included in the income of a resident person on proportionate basis;
   - (v) The tax withheld from PE of resident rendering services in Pakistan to be treated as minimum tax instead of advance tax;
   - (vi) Advance tax to be collected at 1% from filers and 3% from non-filers on all foreign payments made through credit, debit and prepaid cards.

2. Indirect measures:
   - (i) Broadening the scope of permanent establishment of non-residents;
   - (ii) Excluding bonus shares from the purview of distribution of profits for the purposes of tax on undistributed profits;
   - (iii) Limiting the adjustments in tax due to set-off and carry forward of unabsorbed depreciation and amortizations to 50% of income;
   - (iv) The Commissioner to have the authority to pierce the corporate veil for corporate structures that do not have an economic or commercial substance or were created as part of the tax avoidance scheme;
   - (v) The powers for recharacterization of income also linked to offshore income;
   - (vi) The stay granted by tribunal would cease to have any effect after expiry of 180 day and after which the Commissioner shall proceed to recover the tax;
   - (vii) Commercial imports to be treated under minimum tax regime instead of final tax regime;
   - (viii) Builders and developers are also proposed to be included in the list of withholding agents without any limitation to turnover;
   - (ix) Rates for withholding tax in case of non-filers increased for supply of goods and execution of contracts;
   - (x) Collection of advance on functions subjected to monetary minimums for specified metropolitan areas.

Other measures

1. Rationalization for the concept of tax free gifts by restricting it to gifts from specified family members;
2. The immunity without any monetary ceiling on amount in foreign currency brought to Pakistan through normal banking channels to be restricted to Rs. 10M in a tax year;
3. Requirement to file statement of foreign income and assets for resident persons;
4. Time limit of two years from the date of notice issued under 114(4) placed on passing an order based on best judgement;
5. Committee for alternate dispute resolution now to pass a decision binding on both the taxpayer and the Board instead of submitting its recommendations to the Board. The timeframes involved in the process has also been improved;
6. Turnover for the purpose of advance tax to be estimated at one-fourth of 110% of the turnover of the latest tax year in case the taxpayer fails to provide turnover or the turnover for the quarter is not known;

7. Individuals and AOPs with turnover of Rs. 50M in any of the preceding tax years to withhold tax on payment for goods and services;
8. Banks to submit list of persons containing particulars of cash withdrawals exceeding Rs. 50,000 per day and tax deductions thereon for filers and non-filers, aggregating to Rs. 1M or more during each preceding month. The monthly threshold for reporting deposits to be increased from Rs. 1M to Rs.10M and monthly threshold for reporting credit card transactions from increased from existing Rs.100,000 to Rs. 200,000;
9. In case of delayed filing of returns, names not to appear on active tax payers list for the year for which return was not filed within the due date and further that carry forward of loss will not be allowed for that year;
10. Cases for delayed filing of return no more to be automatically included in the list of audits;
11. NADRA to have access over information available with the Board for the purposes of broadening he tax base;
12. Communications sent electronically through IRIS now to be considered as due service of notice;
13. Non-filers will no more be able to book or purchase new local motor vehicles or register new local or imported vehicles. Moreover, non-filers will also not be able to register any purchase or sale transaction for moveable property. A ceiling of Rs. 4M has been given in salient features published by FBR in this regard, however, this ceiling could not be found in the Finance Bill;
14. Subject to the specified framework, the Board will have the right to initiate the proceedings for acquisition of any immoveable property at double the value of consideration for transfer within 6 months from the end of the month from its transfer in case the consideration paid for transfer is below the fair value of the property. As per the salient features published by the Board, the consideration for acquisition by the Board to reduce gradually over next fiscal years, however, this reduction has not been incorporated in the Finance Bill;
15. The implicit immunity for banking companies from the provisions contained in Chapter VII (International) and Chapter VIII (Anti-avoidance) has been withdrawn.

Sales Tax & Federal Excise

Sales Tax

Relief Measures

1. Reduction in the rate of tax as under;
   a. 5% on supply of natural gas to fertilizer plants from existing rate of 10%;
   b. 6% of sales tax is proposed on import of ready to use articles of artificial leather;
   c. 3% on all fertilizers across the board;
   d. 5% on agricultural machinery from existing rate of 7%;
   e. 12% on import of lithium iron phosphate batteries (Li-Fe-PO4) and on import of LNG by M/s PSO and M/s PLL and on supply of RLNG by these companies to M/s SNGPL from existing rate of 17%;
   f. 5% on import of 19 items of cinematographic equipment for revival of film industry for five years:
2. Exemptions from chargeability of sales tax in respect of the following:
   a. LNG imported by fertilizer manufacturers for use as feed stock;
   b. Fans for Dairy Farms, Preparations for Making Animal Feed, Bovine Semen & Fish Feed;
   c. Karachi Shipyard Engineering Works Limited on import of machinery, equipment, raw materials, components etc.
   d. Import of 21 types of computer parts imported by manufacturers registered with and certified by Engineering Development Board for and manufacturing of personal computers and laptops;
   e. Import of promotional and advertising materials for display at exhibitions;
   f. Import of hearing aids of all types;

3. To waive value addition tax @ 3% on import of LNG;
4. Zero rating of tax on Stationery items;
5. Exemption of extra tax and further tax @ 2% to Pakistani foam Manufacturers;
6. Exclusion from value addition tax on import of second hand worn clothing and footwear is proposed;
7. SRO 1125(I)/2011, dated 31.12.2011 is being amended to provide rate of further tax @1% on local supply of finished fabric.

Revenue Measures

1. Enhancement in the rate of further tax from 2% to 3%;
2. The rate of sales tax on import and supply of finished articles of leather and textile sector is proposed to be increased to 9% from 6%;
3. The rate of sales tax for steel sector is being increased to Rs. 13 per unit of electricity consumed.

Regulatory Measures

1. The amount of tax to qualify for automatic stay reduce from 25% to 10%;
2. Audit of a registered person to be conducted only once in three years;
3. The Standard rate of sales tax proposed on import and supplies of furnace oil;
4. Default surcharge rate fixed at 12% per annum from existing KIBOR plus 3% per annum.

Federal Excise Duty

Revenue Measures

1. Enhancement in rate of Federal Excise Duty on cement from Rs.1.25 per kg to Rs.1.50 per kg;
2. The rate of duty on locally produced cigarettes is being enhanced;

Regulatory Measures

1. The amount of tax to qualify for automatic stay reduce from 25% to 10%;
2. Audit of a registered person to be conducted only once in three years;
3. The Standard rate of sales tax proposed on import and supplies of furnace oil;
4. Default surcharge rate fixed at 12% per annum from existing KIBOR plus 3% per annum.

Customs

Relief Measures

1. Reduction in the rate of duty as under:
   a. Growth promoters premix, vitamin premix, Vitamin B12 and Vitamin H2 for poultry sector from 10% to 5%;
   b. Multi-ply and Aluminum foil for Liquid Food Packaging Industry from 20% to 18%;
   c. Acetic Acid, film of ethylene (for Liquid Food Packaging Industry) & Carbon Black (rubber grade) from 20% to 16%;
   d. Import of coal, across the Board & import of Fire fighting vehicles from 5% to 3% & 30% to 10% respectively;
   e. Specified equipment used in cinema industry at 3%;
   f. Plasters from 16% to 11%;
   g. Silicon electrical steel sheets for manufacturing transformers from 10% to 5%;
   h. Coils of aluminium alloys used in manufacturing of Aluminium beverage cans from 16% to 8%;
   i. Finished rooms (Pre-fabricated structures) for setting up of new hotels/motels from 20% to 10%;

j. Preparations for making animal feed reduced from 10% to 5%;
k. Electric Vehicles from 50% to 25% & kits of electric vehicle from 50% to 10%;

2. Exemption of custom duty in respect of the following:
   a. 3% on Micro Feeder Equipment used for food fortification & tanned hides in wet state;
   b. 5% on Tasigna (an anti-cancer medicines);
   c. 16% on charging stations for electric vehicles;
   d. 5% on specified LED parts and components for manufacturers of LED lights;

3. Tariff rationalization
   The proposed changes in the rate of duty are as under:
   a. Increase of CD on double-sided tape from 3% to 11%;
   b. It have been proposed to increase customs duties on Soya bean oil and its fractions, whether or not refined, incase of Crude oil, whether or not degummed from Rs.9,050/MT to Rs. 12,000/ MT & incase of other from Rs.10,200/MT to Rs. 13,200/MT
   c. Aluminum auto parts scrap from 30% to 35%;
   d. Di-octyl Terephthalate (DOTP) from 3% to 20%;
   e. Medium Density Fiber from 16% to 11% and levy of RD at 5%;
   f. Corrective glasses from 11% to 3%;
   g. Rickshaw tyres from 11% to 20%;
   h. Lithium iron phosphate battery (LiFePO4) from 11% to 8%.

Revenue Measures

1. Increase of additional customs duty from 1% to 2%;
2. Levy of 30% RD on export of waste & scrap of copper;
3. Review of RD on non-essential and luxury items;
4. 10% RD levied on CKD/SKD kits of specified Home Appliance;
5. Levy of RD @ Rs.175/set on CKD/SKD kits of mobile phones.

SECTION 4 INCOME TAX

1. INDIVIDUALS & ASSOCIATION OF PERSONS (AOPs) [Division I Part I of First Schedule]

Rate of tax for individuals

It has been sought to enact the following reduced rates for taxation of both salaried and non-salaried individuals:

Taxable Income (Rs.) From	To		Rate of Tax		
Up to 400,000			0%		
400,000	800,000	Rupees	1,000		
800,000	1,200,000	Rupees	2,000		
1,200,000	2,400,000	Rupees	NIL	PLUS	5% of the amount exceeding Rs. 1,200,000
2,400,000	4,800,000	Rupees	60,000	PLUS	10% of the amount exceeding Rs. 2,400,000
Above 4,800,000		Rupees	300,000	PLUS	15% of the amount exceeding Rs. 4,800,000

Rate of tax for AOPs

The new rates for taxation of AOPs have been proposed as under:

Taxable Income (Rs.) From	To		Rate of Tax		
Up to 400,000			0%		
400,000	1,200,000	Rupees	NIL	PLUS	5% of the amount exceeding Rs. 400,000
1,200,000	2,400,000	Rupees	40,000	PLUS	10% of the amount exceeding Rs. 1,200,000
2,400,000	3,600,000	Rupees	160,000	PLUS	15% of the amount exceeding Rs. 2,400,000
3,600,000	4,800,000	Rupees	340,000	PLUS	20% of the amount exceeding Rs. 3,600,000
4,800,000	6,000,000	Rupees	580,000	PLUS	25% of the amount exceeding Rs. 4,800,000
Above 6,000,000		Rupees	880,000	PLUS	30% of the amount exceeding Rs. 6,000,000

2. DEFINITIONS

Fee for offshore digital services **[Section 2(22B)]**

It has been sought to bring the income from digital services rendered from outside Pakistan under the ambit of tax and, therefore, the Bill proposes a definition for "fee for offshore digital services" as any consideration for providing or rendering services by a nonresident person for online advertising including digital advertising space, designing, creating, hosting or maintenance of websites, digital or cyber space for websites, advertising, e-mails, online computing, blogs, online content and online data, providing any facility or service for uploading, storing or distribution of digital content including digital text, digital audio or digital video, online collection or processing of data related to users in Pakistan, any facility for online sale of goods or services or any other online facility.

Filer **[Section 2(23A)]**

The Bill seeks to amend the definition of filers and include the tax filers with AJ&K Council Board of Revenue or Gilgit-Baltistan Council Board of Revenue under the definition of filer.

Income (bonus shares) **[Section 2(29)]**

Bonus shares received from quoted and non-quoted companies was brought under the ambit of tax vide the Finance Act, 2015. It has now been sought to exclude bonus shares once again from the scope of income.

Permanent establishment **[Section 2(41)]**

The Bill seeks to broaden the scope for determining the permanent establishment status for non-residents. This includes broadening the scope of local agents, not being an agent of independent status acting in the ordinary course of business, to such agents which:

(a) have and habitually exercise an authority to conclude contracts on behalf of the foreign principal; or
(b) have played and habitually play the principal role leading to the conclusion of contracts that are routinely concluded without material modification by the foreign principal.

Following further conditions are sought to apply for these contracts that such contracts:

(a) are in the name of the foreign principal;
(b) for the transfer of the ownership of or for the granting of the right to use property, which is owned by the foreign principal or if the right to use vests with the foreign principal; or
(c) for the provision of services by the foreign principal.

It has also been sought to include an explanation clarifying that an 'agent of independent status acting in the ordinary course of business does not include a person acting exclusively or almost exclusively on behalf of the person to which it is an associate.

A new criterion for determining the permanent establishment status for non-residents is also sought to be adopted applicable to cases with a fixed place of business that is used or maintained by a non-resident if that non-resident or it’s associate carries on business at that place or at any other place in Pakistan and:

(a) that place or other place constitutes a permanent establishment of the non-resident or it’s associate; or
(b) business carried on by the non-resident or it’s associate at the same place or at more than one place constitute complementary functions that are part of a cohesive business operation.

It has also been explained that:

(a) the term “cohesive business operation” includes an overall arrangement for the supply of goods, installation, construction, assembly, commission, guarantees or supervisory activities and all or principal activities are undertaken or performed either by the person or the associates of the person; and
(b) supply of goods includes the goods imported in the name of the associate or any other person, whether or not the title to the goods passes outside Pakistan.

3. SUPER TAX [Section 4B & Div IIA Part I First Schedule]

Super tax for rehabilitation of temporarily displaced persons was imposed on ‘one-time basis’ for Tax Year 2015 and the applicability was later extended to the tax year 2017. It has now been sought to extend the incidence of this tax to tax year 2020 and to propose the following new rates:

S. No.	Tax Payer Type	Rate of Super Tax (% of Income) Tax Year			
		2018	*2019*	*2020*	*2021*
1.	Banking company	4%	3%	2%	0%
2.	Other taxpayers with income of Rs. 500M and above	3%	2%	1%	0%

4. TAXATION OF COMPANIES

Tax on undistributed profits **[Section 5A & 8]**

Tax at 7.5% on undistributed profits is applicable for tax year 2017 and onwards on accounting profit before tax for every public company, other than a scheduled bank or a modaraba, that derives profit for a tax year but does not distribute at least 40% of its after-tax profits within six months of the end of the tax year through cash or bonus shares.

The Bill now seeks to:

(a) Reduce the rate of tax from existing 7.5% to 5%;
(b) The minimum profit distribution threshold to be reduced to 20% from prevailing 40%; and
(c) exclude bonus distribution from the purview of profit distribution for the purpose of this tax.

It has also been sought to give relief to companies by treating this tax as advance tax.

Tax rate for companies **[Div II Part I First Schedule]**

The following rate of tax have been proposed for companies:

Tax Year	Existing Rate
2019	29%
2020	28%
2021	27%
2022	26%
2023 and onwards	25%

Bonus shares issued by companies **[Section 236M & 236N]**

Provisions for advance tax collectible at 5% on bonus issue by companies are proposed to be abolished.

5. TAX ON CERTAIN PAYMENTS TO NON-RESIDENTS

[Section 6 & Div IV Part I First Schedule]

It has been sought to tax the fee for offshore digital services provided by non-residents as payments to non-residents taxable at 5% of gross fee.

6. INCOME FROM BUSINESS **[Section 18]**

The Bill seeks to include an explanation that income subject to taxation under following sections shall not be chargeable to tax under the head income form business:

(a) Section 5A: Tax on undistributed profits
(b) Section 5AA: Tax on return on investments in sukuks
(c) Section 6: Tax on certain payments to non-residents
(d) Section 7: Tax on shipping and air transport income of non-residents; and
(e) Section 7A: Tax on shipping of residents

7. CAPITAL GAINS/ NON-RECOGNITION RULES **[Section 37 & 79]**

The fair market value of the asset, on the date of its transfer or acquisition by a person under a gift is treated to be the cost of the asset. It has proposed to restrict the scope of gifts to only such gifts which are received from:

(a) an ancestor, a descendant of any of the grandparents, or an adopted child, of the individual, or of a spouse of the individual; or

(b) a spouse of the individual or of any person specified above.

Moreover, the concession by way of non-recognition of any gain/ loss on gifts has also been restricted to gifts from above mentioned relatives only.

8. CAPITAL GAIN ON SALES OF SECURITIES [Section 37A Div VII Part I First Schedule]

Rates table applicable for capital gain on securities for Tax Year 2018 has been proposed to remain applicable to the Tax Year 2019. Applicable rates are as under:

S. No.	Holding Period of Security/ Case	*Filers*	*Non-filers*
1.	Less than 12 months	15.0%	20.0%
2.	12 months or more but less than 24 months	15.0%	20.0%
3.	24 months or more but the security was acquired on or after 1st July, 2013	15.0%	20.0%
4.	Where security was acquired before 1st July, 2013	0%	0%
5.	Future commodity contracts entered into by the members of PME	5%	5%

9. INCOME FROM OTHER SOURCES (Bonus shares) [Section 39]

Income of shareholders of a company, from the issuance of bonus shares was brought under the ambit of taxation vide the Finance Act, 2014. The Bill now proposes to do away with this tax.

10. CARRY FORWARD OF BUSINESS LOSSES [SECTION 57]

It has been sought to limit the set-off of brought forward losses due to depreciation, initial allowance, first year allowance, accelerated depreciation and amortization of intangibles up to 50% of income, except in cases where the taxable income is up to Rs. 10M.

11. LIMITATIONS ON SET OFF AND CARRY FORWARD OF LOSSES [SECTION 59A]

The Bill seeks to limit set-off of losses on account of depreciation, initial allowance, amortization of intangibles and pre-commencement expenditure against 50% of business income until the same have been completely set-off.

12. TAX CREDITS

Tax credit for investment in shares and insurance **[Section 62]**

It has been sought to increase the monetary limit of investment amount for tax credit for investment in shares, insurance and sukuks from existing Rs. 1.5M to Rs. 2M.

Extension in period for tax credits

The time limitation for following tax credits have been extended till the year 2021:

(a) Companies investing in extension, expansion and BMR **[Section 65B]**

(b) Newly established industrial undertakings owned by companies **[Section 65D]**

(c) Industrial undertakings established before the first day of July, 2011 **[Section 65E]**

13. TAX CREDIT FOR CERTAIN PERSONS [Section 100C]

100% tax credit is available to NPOs, trusts and welfare institutions on income from certain specified heads, including profit on debt from scheduled banks. It has been proposed to extend the purview of this benefit to profit on debt from micro-finance banks also.

14. GEOGRAPHICAL SOURCE OF INCOME [Section 101]

It has been proposed that business income of a non-resident person shall be Pakistan-source income to the extent to which it is directly or indirectly attributable to import of goods, whether or not the title to the goods passes outside Pakistan, if the import is part of an overall arrangement for the supply of goods, installation, construction, assembly, commission, guarantees or supervisory activities and all or principal activities are undertaken or performed either by the associates of the person supplying the goods or its permanent establishment, whether or not the goods are imported in the name of the person, associate of the person or any other person.

Moreover, it has also been sought to clarify by way of explanation that any income on account of the following shall not be chargeable under the head income from business for non-residents:

(a) Section 5A: Tax on undistributed profits
(b) Section 5AA: Tax on return on investments in sukuks
(c) Section 6: Tax on certain payments to non-residents
(d) Section 7: Tax on shipping and air transport income of non-residents; and
(e) Section 7A: Tax on shipping of residents

Furthermore, the fee for offshore digital services has been proposed as Pakistan-source income, where this fee is:

(a) paid by a resident person, except where the fee is payable in respect of services utilized in a business carried on by the resident outside Pakistan through a permanent establishment; or
(b) borne by a permanent establishment in Pakistan of a non-resident person."

15. GAIN ON DISPOSAL OF ASSETS OUTSIDE PAKISTAN [Section 101A]

A new section has been proposed that aims to tax gains from the disposal or alienation outside Pakistan of an asset of a non-resident company located in Pakistan.

Where the asset is any share or interest in a nonresident company, the asset shall be treated to be located in Pakistan, if:

(a) the share or interest derives, directly or indirectly, its value wholly or principally from the assets located in Pakistan; and
(b) shares or interest representing ten per cent or more of the share capital of the non-resident company are disposed or alienated.

The share or interest shall be treated to derive its value principally from the assets located in Pakistan, if on the last day of the tax year preceding the date of transfer of a share or an interest, the value of such assets exceeds Rs. 100M and represents at least 50% of the value of all the assets owned by the non-resident company.

The fair market value shall be determined under the prescribed rules instead of provisions under section 68; and shall be without reduction of liabilities.

Where the entire assets by the non-resident company are not located in Pakistan, the income of the non-resident company, from disposal or alienation outside Pakistan of a share of, or interest in, such non-resident company shall be treated to be located in Pakistan, to the extent it is reasonably attributable to assets located in Pakistan and determined as may be prescribed.

Where the asset of a non-resident company derives, directly or indirectly, its value wholly or principally from the assets located in Pakistan and the non-resident company holds, directly or indirectly, such assets through a resident company, such resident company shall, for the purposes of determination of gain and tax thereon shall furnish to the Commissioner within 60 days of the transaction of disposal or alienation of the asset by the non-resident company, the prescribed information or documents, in a statement as may be prescribed.

The Commissioner may, by notice in writing, require the resident company, to furnish information, documents and statement within a period of less than sixty days as specified in the notice.

The person acquiring the asset from the non-resident person shall deduct tax from the gross amount paid as consideration for the asset at the rate of 15% and shall be paid to the Commissioner by way of credit to the Federal Government through remittance to the Government Treasury or deposit in an authorized branch of the State Bank of Pakistan or the National Bank of Pakistan, within 15 days of the payment to the non-resident.

The resident company, referred above, shall collect advance tax as computed from the non-resident company within thirty days of the transaction of disposal or alienation of the asset by such non-resident company.

Where the tax has been deducted and paid by the person acquiring the asset from the non-resident person, the said tax shall be treated as tax collected/ paid and shall be allowed a tax credit for that tax in computing the tax.

The tax to be deducted or to be collected shall be the higher of:

(a) 20% of A, where A = fair market value less cost of acquisition of the asset; or

(b) 10% of the fair market value of the asset.

No tax shall be payable by the non-resident company in respect of gain under sub-section (8) of section 22 or capital gains under section 37 or 37A where tax has been collected, deducted or paid under section 101A.

16. RECHARACTERISATION OF INCOME AND DEDUCTIONS [Section 109]

To do away with the corporate immunity, it has been sought to empower the Commissioner to disregard an entity or a corporate structure that does not have an economic or commercial substance or was created as part of the tax avoidance scheme.

Moreover, it has also been sought to clearly link the provisions of recharacterization of income with offshore income under section 107.

17. CONTROLLED FOREIGN COMPANY [Section 109A]

It has been proposed to insert a new section on income of foreign companies owned/ controlled by residents as under:

(1) There shall be included in the taxable income of a resident person for a tax year an income attributable to controlled foreign company;

(2) Controlled foreign company would mean a non-resident company, if:

- (a) 50% or more of the capital or voting rights of the non-resident company are held, directly or indirectly, by one or more persons resident in Pakistan or more than forty percent of the capital or voting rights of the nonresident company are held, directly or indirectly, by a single resident person in Pakistan;
- (b) tax paid, after taking into account any foreign tax credits available to the non-resident company, on the income derived or accrued, during a foreign tax year, by the non-resident company to any tax authority outside Pakistan is less than 60% of the tax payable on the said income under the Ordinance;
- (c) the non-resident company does not derive active business income as defined above; and
- (d) the shares of the company are not traded on any stock exchange recognized by law of the country or jurisdiction of which the non-resident company is resident for tax purposes;

(3) A company shall be treated to have derived active income if:

(a) more than 80% of income of the company does not include income from dividend, interest, property, capital gains, royalty, annuity payment, supply of goods or services to an associate, sale or licensing of intangibles and management, holding or investment in securities and financial assets; and

(b) principally derives income under the head “income from business” in the country or jurisdiction of which it is a resident;

(4) Income of a controlled foreign company is an amount equal to the taxable income of that company determined in accordance with the provisions of the Ordinance as if that controlled foreign company is a resident taxpayer;

(5) The amount of attributable income for a tax year shall be computed according to the following formula:

A x (B/100)

Where:

A is the amount of income of a controlled foreign company; and

B is the percentage of capital or voting rights, whichever is higher, held by the person, directly or indirectly, in the controlled foreign company.

(6) The amount of attributable income shall be treated as zero, if the capital or voting rights of the resident person is less than ten percent;

(7) Income of a controlled foreign company shall be treated as zero, if it is less than Rs. 10M;

(8) The income of a controlled foreign company in respect of a foreign tax year shall be determined in the currency of that controlled foreign company and shall, for purposes of determining the amount to be included in the income of any resident person during any tax year under the provisions of this section, be converted into Rupees at the State Bank of Pakistan rate applying between that foreign currency and the Rupee on the last day of the tax year;

(9) Foreign tax year, in relation to a non-resident company, means any year or period of reporting for income tax purposes by that non-resident company in the country or jurisdiction of residence or, if that company is not subject to income tax, any annual period of financial reporting by that company; and

(10) The income attributable to controlled foreign company and taxed in Pakistan shall not be taxed again when the same income is received in Pakistan by the resident taxpayer.

18. UNEXPLAINED INCOME OR ASSETS [Section 111(2) & (4)]

The Bill seeks to introduce separate treatment for unexplained income or assets within and outside Pakistan that the amount shall be included in income chargeable to tax as under:

a. Where the unexplained income or assets pertain to Pakistan: To be included in the tax year to which the amount relates

b. Where the unexplained income or assets pertain outside Pakistan: To be included in the tax year immediately preceding the tax year in which the amount was discovered.

It has also been to sought to clarify that where the investment, money, valuable article or expenditure in respect of assets or expenditure situated or incurred outside Pakistan liable to be included in the income of tax year 2018 and onwards on the basis of discovery made by the Commissioner during tax year 2019 and onwards and the person explains the acquisition of such asset or expenditure from sources relating to tax year in which such asset was acquired or expenditure was incurred, such explanation shall not be rejected on the basis that the source does not relate to the tax year immediately preceding tax year in which the asset or expenditure was discovered by the Commissioner.

Presently there is an immunity without any monetary ceiling on amount in foreign currency brought to Pakistan through normal banking channels. The Bill now seeks to place a cap of Rs. 10M in a tax year in this regard.

19. STATEMENT OF FOREIGN INCOME & ASSETS [Section 116A, 114 & 118]

Section 116A was inserted vide Income Tax (Amendment) Ordinance, 2018. The Bills now again seeks to enact this section as under:

"***Foreign income and assets statement***.

(1) Every resident taxpayer being an individual having foreign income of not less than ten thousand United States dollars or having foreign assets with a value of not less than one hundred thousand United States dollars shall furnish a statement, hereinafter referred to as the foreign income and assets statement, in the prescribed form and verified in the prescribed manner giving particulars of:

(a) the person's total foreign assets and liabilities as on the last day of the tax year;

(b) any foreign assets transferred by the person to any other person during the tax year and the consideration for the said transfer; and

(c) complete particulars of foreign income, the expenditure derived during the tax year and the expenditure wholly and necessarily for the purposes of deriving the said income.

(2) The Commissioner may by a notice in writing require any person being an individual who, in the opinion of the Commissioner on the basis of reasons to be recorded in writing, was required to furnish a foreign income and assets statement but who has failed to do so to furnish the foreign income and assets statement on the date specified in the notice."

Necessary amendments have also been proposed in section 114 and 118 to give effect to the filing requirement for statement under section 116A.

20. BEST JUDGEMENT ASSESSMENT [Section 121]

The Commissioner has been empowered to serve notice to non-filers for past 10 years, whereas, the authority to pass assessment order is currently limited to 5 years only. The Bills now seeks to do away with this anomaly by including a proviso on extending the authority to pass order on best judgement basis for the said ten years. However, the order needs to be framed within two years from the date of notice issued under 114(4).

21. APPEAL TO THE APPELLATE TRIBUNAL [Section 131]

A new proviso has been sought to be inserted whereby the stay granted by tribunal would cease to have any effect after expiry of 180 day and after which the Commissioner shall proceed to recover the tax.

22. ALTERNATIVE DISPUTE RESOLUTION [Section 134A]

With certain constitutional changes to the composition of the committee, the Bill also seeks to include following conditions:

(a) For filing an application, the aggrieved person and the Board, as the case may be, shall withdraw the appeals pending before the Appellate Authority; and

(b) The committee shall not commence the proceedings, unless the order of withdrawal by the Appellate Authority is communicated to the Board within 75 days of the appointment of the committee, otherwise, the said committee shall be dissolved.

Presently, the committee was bound to make its recommendations within 90 days from its appointment or another committee could be formed by the Board in case a committee couldn't make its recommendations with the stipulated timeframe. Furthermore, the Board also had a timeframe of 90 days to pass an order. Now, the Bill proposes empower the committee to pass a decision which is binding on both the Board and the aggrieved person within a total timeframe of 120 days from the date of communication of appeal withdrawal order. It has also been proposed that If the committee fails to decide within the period of 120 days, the Board shall dissolve the committee and the matter shall be decided by the Appellate Authority, which issued the order of withdrawal and the appeal shall be treated to be pending before such Appellate Authority as if the appeal has never been withdrawn. The Board shall communicate the order of dissolution to the Appellate Authority and the Commissioner. The aggrieved person, on receipt of the order of dissolution, shall communicate to the Appellate Authority mentioned, which shall decide the appeal within six months of the communication of the order of dissolution.

23. RECOVERY OF TAX FROM PERSONS HOLDING MONEY ON BEHALF OF A TAXPAYER [Section 140]

The Commissioner is restrained from issuing notice under section 140(1) for recovery of any tax due from a taxpayer if the taxpayer files an appeal under section 127 by paying 25% of the amount of tax due. The Bill now seeks to lower requirement for payment of 25% to 10%.

24. ADVANCE TAX PAID BY THE TAXPAYER [Section 147]

It has been sought to include a proviso after component A of section 147(4) that, where the taxpayer fails to provide turnover or the turnover for the quarter is not known, the same shall be taken to be one-fourth of 110% of the turnover of the latest tax year for which a return has been filed.

The Bill also seeks to provide clarity that estimates for reduction of advance tax shall be supported by necessary documentary evidence.

25. MINIMUM TAX

Imports **[Section 148, Part II First Schedule & Clause (56B) Part IV Second Schedule]**

Tax collected in case of commercial imports is final tax since the inception when the presumptive tax regime was first introduced to Pakistan tax law. Now, these imports are being proposed to be treated under minimum tax regime, whereby the tax collected at import stage will be compared to normal tax liability and the shortfall with the later needs to be paid along with return of income.

Moreover, it has also been sought to propose concessional rates for import of coal at 4% for filers and 6% for non-filers.

Pursuant to the proposed change from final tax regime to minimum tax, the option for normal tax regime available to importers under clause (56B) of Part IV of Second Schedule has also been proposed to be withdrawn.

26. FINAL TAX

Tax on sale of certain petroleum products

[Section 236HA & Div XVA Part IV of First Schedule]

The Bill seeks to impose collection of tax on ex-depot sale price from such petrol pump operators or distributers which are not allowed a commission or discount. The tax is collectible at the following rates and shall be in the nature of final tax:

Tax Payer Status	Proposed Rates
Filer	0.5%
Non-filer	1.0%

27. COLLECTION OR DEDUCTION OF WITHHOLDING TAX

Dividend **[Section 150 Div I Part III First Schedule]**

With a view to promote investments in rental REITs, it has been sought to collect withholding on dividends from rental REITs in case of individuals at a reduced rate of 7.5% irrespective of individual's filing status.

Payments to non-residents on account of offshore digital services
[Section 152(1C) & Div IV of Part I of First Schedule]

A new sub-section (1C) is proposed to be inserted to section 152 making it mandatory on banks while remitting outside Pakistan any amounts on account of fee for offshore digital services, to non-residents on behalf of resident or PEs of non-residents to withhold tax at 5% on the gross amount.

Payments to PE of non-residents on account of services **[Section 152(2B)]**

The Bill seeks to insert a new sub-section 2B to section 152, whereby it is proposed to make the tax withheld from PE of non-resident rendering services to be treated as minimum tax instead of advance tax. The concession and provisions applicable to cases of residents under clause 94 of Part IV of Second Schedule of the Ordinance will also apply to PEs of non-residents.

Payments for goods, services and contracts
[Section 153 & Division III Part III First Schedule]

It has been sought enhance to threshold for non-deduction of tax on goods and services, while enacting these thresholds which were earlier available as per SRO 586(I)/1991.

Nature of Payment	Existing Threshold	Proposed Threshold
Supply of goods	Rs. 25,000	Rs. 75,000
Rendering of services	Rs. 10,000	Rs. 30,000

Moreover, it has been sought to require individuals and AOPs with turnover of Rs. 50M in any of the preceding tax years to withhold tax on payment for goods, services and contracts.

Builders and developers are also proposed to be included in the list of withholding agents.

There have been proposed few changes for withholding tax in case of non-filers and the following table shows the comparative rates – changes are marked with an asterisk (*):

Payment made on Account of	Type of Vendor	Existing Rates		Proposed Rates	
		Filers	*Non-filers*	*Filers*	*Non-filers*
Supply of goods (General Rate)	Companies	4%	7%	4%	*8%
	Other cases	4.5%	7.75%	4.5%	*9%
Supply by FMCG distributors	Companies	2%	2%	2%	2%
	Other cases	2.5%	2.5%	2.5%	2.5%
Supply of rice, cotton seed oil or edible oil	All types	1.5%	1.5%	1.5%	1.5%
Payment for services (General Rate)	Companies	8%	14.5%	8%	14.5%
	Other cases	10%	17.5%	10%	17.5%
Payments to electronic and print media for advertising services	Companies	1.5%	12%	1.5%	12%
	Other Cases	1.5%	15%	1.5%	15%
Payments for transport services	All types	2%	2%	2%	2%
Execution of contracts	Companies	7%	12%	7%	*14%
	Sportsperson	10%	10%	10%	10%
	Other cases	7.5%	12.5%	7.5%	*15%

Furnishing of information by banks **[Section 165A]**

Banks are presently required to provide online access to its central database containing details of its account holders and all transactions made in their accounts to the Board. Instead of this obligation, it has now been sought that Banks would provide a list of persons containing particulars of cash withdrawals exceeding Rs. 50,000 in a day and tax deductions thereon for filers and non-filers, aggregating to Rs. 1M or more during each preceding calendar month. Moreover, the monthly threshold for reporting deposits is proposed to be increased from existing Rs. 1M to Rs. 10M and increasing the monthly threshold for reporting credit card transactions from existing Rs. 100,000 to Rs. 200,000.

Credit for tax collected or deducted **[Section 168(2A) & (2C)]**

The Bill seeks to give relief to companies which are member of an AOP in respect of advance tax collected or deducted from AOP by allowing credit of this tax to such companies instead of the AOP in which a company is a member. This tax credit to be allowed as per the following formula:

$$\mathbf{(A/B) \times C}$$

Where:

A is the amount of share of profits before tax received by the company as a member from the association of persons;

B is the taxable income of the association of persons; and

C is the amount of tax withheld in the name of the association of persons.

Advance tax on purchase or transfer of immovable property
[Section 236K & Div XVIII Part IV of First Schedule]

Advance tax is collectible by local authorities, housing authorities, housing societies, co-operative societies and registrar of properties on purchase or transfer of immovable property. It has now been sought to link collection of this advance tax with payment in installments.

Advance tax on persons remitting amounts abroad through credit or debit or prepaid cards **[Section 236Y & Division XXVII Part IV of First Schedule]**

It has been proposed to subject to advance tax all foreign payments made through credit cards, debit cards or prepaid cards at the following rates:

Tax Payer Status	Proposed Rates
Filer	1%
Non-filer	3%

Advance tax on functions and gatherings **[Section 236D & Div XI Part IV First Schedule]**

Advance tax at 5% is collectible on functions and gathering. The Bills now seeks to subject this 5% to a minimum prescribed amount of advance tax to be collected in respect of function of marriage in a marriage hall, marquee, hotel, restaurant, commercial lawn, club, a community place or any other place used for such purpose.

S. No.	City	Minimum Amount
1.	Islamabad, Lahore, Multan, Faisalabad, Rawalpindi, Gujranwala, Bahawalpur, Sargodha, Sahiwal, Shekhupura, Dera Ghazi Khan, Karachi, Hyderabad, Sukkur, Thatta, Larkana, Mirpur Khas, Nawabshah, Peshawar, Mardan, Abbottabad, Kohat, Dera Ismail Khan, Quetta, Sibi, Loralai, Khuzdar, Dera Murad Jamali and Turbat	Rs. 20,000
2.	Other cities	Rs. 10,000

Advance tax on banking transactions otherwise than through cash
[Section 236P & Div XXI Part IV First Schedule]

The Bill seeks to enact the reduced rate of 0.4% advance tax already applicable on banking transactions other than cash withdrawals by non-filers.

28. AUDIT [Section 177 & Clause (105) of Part IV Second Schedule]

It has been sought that the Board may also appoint on the special audit panel a foreign expert or specialist or a tax audit expert deployed under an audit assistance programme of an international tax organization or a tax authority outside Pakistan.

A new proviso for maintaining confidentiality of information is also proposed to be adopted for all experts from outside the Board by way of signing agreement of confidentiality between the Board and the person, international tax organization or a tax authority, as the case may be.

A new clause (105) has also been proposed, whereby an immunity for three years has been sought for such cases where an audit has been conducted during past three years. However, the Commissioner may proceed for audit in these cases only after approval from the Board.

29. OFFENCES AND PENALTIES [Section 182]

Presently the minimum penalty for delayed filing of statement under final tax, monthly withholding statements and statements to be furnished by banks is Rs. 10,000. The Bill now seeks to reduce the minimum penalty to Rs. 5,000 for cases where the required statement is filed and tax paid within 90 days of the due date.

A new penalty at 2% per annum of the foreign income or value of the foreign assets has also been proposed for delayed filing of statement of foreign assets under section 116A.

30. RETURN NOT FILED WITHIN DUE DATE [Section 182A]

With the continued efforts to promote filing of returns over the past few years, it has been sought to take harsh measures against non-filers since their names will not appear in active tax payers list for the year for which return was not filed within the due date and further that carry forward of loss will not be allowed in case of delayed returns.

31. AUTOMATIC SELECTION FOR AUDIT [Section 214D]

Cases for delayed filing of returns were automatically exposed to audit proceedings. The Bill now seeks to do away with this concept.

32. DISCLOSURE OF INFORMATION BY A PUBLIC SERVANT [Section 216(3)(3kb)]

It has been sought to make all the information available with the Board to the National Database and Registration Authority (NADRA) for the purpose of broadening of the tax base.

33. SERVICE OF NOTICES AND OTHER DOCUMENTS [Section 218]

Notices and communications with taxpayers are already being made electronically through IRIS and now the Bill seeks to give legal cover to this manner of service of notices and documents on taxpayers.

34. RESTRICTION ON PURCHASE OF CERTAIN ASSETS [Section 227C]

It has been sought that non-filers will no more be able to book or purchase new local motor vehicles or register new local or imported vehicles. Moreover, non-filers will also not be able to register any purchase or sale transaction for moveable property. A ceiling of Rs. 4M has been given in salient features only in this regard.

35. DIRECTORATE GENERAL OF IMMOVABLE PROPERTY [Section 230F]

A new section 230F regarding probing into sale and purchase transaction for immoveable properties and compulsorily acquiring the same as per certain conditions is being proposed. The section reads as under:

(1) The Directorate-General of Immovable Property, (hereinafter referred to as Directorate-General in this section, shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors and Assistant Directors and such other officers as the Board may, by notification in the official Gazette, appoint.

(2) The Board may, by notification in the official Gazette, specify the functions and jurisdiction of the Directorate-General and its officers.

(3) The Directorate-General may, subject to the provisions and conditions as may be prescribed, initiate proceedings for the acquisition of property for the reasons and purposes specified in sub-section (4).

(4) The proceedings under sub-section (3) shall be initiated, where the Directorate-General, on the basis of valuation made by it, has reason to believe that any immovable property of a fair market value has been transferred by a person, hereinafter referred to as the transferor, to another person, hereinafter referred to as the transferee, for a consideration which is less than the fair market value of the immovable property and that the consideration for such transfer as agreed to between the transferor and transferee has been understated in the instrument of transfer for the purposes of ─

(a) the avoidance or reduction of withholding tax obligations under this Ordinance;

(b) concealment of unexplained amount referred to in sub-section (1) of section 111 representing investment in immovable property; or

(c) avoidance or reduction of capital gains tax under section 37.

(5) The Directorate-General may appoint any valuer or expert as it considers necessary for the purposes of determination of valuation including fair market value of immovable property.

(6) The mode and manner of appointment of a valuer or expert shall be as may be prescribed.

(7) The valuation made under sub-section (4) and reasons that consideration is less than the fair market value shall be recorded in writing.

(8) No proceedings shall be initiated in respect of any immovable property after expiration of a period of six months from the end of the month in which the instrument of transfer in respect of such property is registered, recorded or attested.

(9) The mode and manner of initiation of proceedings and acquisition of immovable property under this section shall be as may be prescribed:
Provided that the proceedings shall not be initiated unless the transferee is provided with an opportunity of being heard and where the objection by the transferee, if any, is rejected by the Directorate-General, it shall record in writing the reasons for rejection through an order.

(10) If the Directorate-General is satisfied with the objections or reasons furnished by the transferee or the transferor, it shall, by order in writing, declare that the property shall not be acquired under this section.

(11) If after hearing the objections, if any, and after taking into account all the relevant material on record, the Directorate-General is satisfied that the fair market value of such property exceeds the consideration by more than fifty per cent of such consideration and that transfer as agreed to between the transferor and the transferee has not been truly stated in the instrument of transfer it may, after obtaining approval of the Board, make an order for acquisition of the immovable property under this section.

(12) The transferee may prefer express appeal to the Appellate Tribunal of Immovable Property against the order of acquisition of any immovable property under sub-section (11) within sixty days of service of a copy of such order.

(13) There shall be established an Appellate Tribunal of Immovable Property to exercise the powers conferred on the Tribunal under this section.

(14) The appointment of members of the Tribunal, powers, functions, constitution of the Tribunal and mode and manner of disposal of appeals shall be as may be prescribed.

(15) The Appellate Tribunal may, after giving the appellant and the Directorate-General an opportunity of being heard, pass such order as it thinks fit.

(16) The transferee or the Directorate-General aggrieved by any order of the Tribunal may, within sixty days of the date on which the order under sub-section (15) is served, prefer an appeal against such order to the High Court.

(17) As soon as may be after the order for acquisition of immovable property made under sub-section (11) becomes final, the Directorate-General may, by notice in writing, order the transferee or any other person who may be in possession of the immovable property to surrender or deliver possession thereof to the Directorate-General within thirty days of the date of the service of the notice.

(18) The order referred to in sub-section (11) becomes final if either no appeal has been there against filed or on appeal filed before the Tribunal, the order is confirmed and no appeal is filed before the High Court or on appeal filed before the High Court the order is confirmed.

(19) Notwithstanding anything contained in any law or any agreement for the time being in force, where order referred to in sub-section (11) becomes final, the immovable property and all rights including ownership rights thereof shall be vested in the Federal Government and shall be treated to be in the same position in relation to such rights as the person in whom such rights would have continued to vest if such order had not become final.

(20) Where any immovable property is acquired under this section, the Board shall make the payment of consideration for acquisition to the person or persons entitled thereto, as soon as may be, after the property becomes vested in the Federal Government.

(21) Notwithstanding the provisions of section 68, for the purpose of this section:

(a) “consideration for acquisition” means a sum equal to the aggregate of the amount of the consideration for the transfer of immovable property and hundred per cent of such consideration;

(b) “fair market value” in relation to an immovable property means the price that the immovable property would ordinarily fetch on sale in the open market on the date of execution of the instrument of transfer of such property;

(c) "immovable property" means any land with or without a superstructure or any building or part of a building or any rights therein and includes, where any land or any building or part of a building is transferred along with any machinery, plant, equipment, furniture and fittings; and

(d) "transfer" in relation to any immovable property means transfer of such property by way of sale or exchange or lease for a term of not less than ten years.

(22) The provisions of this section shall come into force on such date as the Federal Government may, by notification in official Gazette, appoint.

(23) From the date of appointment as mentioned in subsection (21), rates mentioned in column (3) of the Table in Division XVIII shall be 1% and provisions of clause (c) of sub-section (4) of section 111, section 236C, section 236W and Division X of Part IV of the First Schedule shall not apply.

36. COLLECTION OF TAX BY A STOCK EXCHANGE REGISTERED IN PAKISTAN[Section 233A]

The tax collected by Stock Exchange on sale and purchase of shares in lieu of tax on the commission earned by stock brokers was made final tax vide the Finance Act, 2017. The Bill now seeks to once again make this collection as advance tax.

37. VALIDATION [Section 241]

The Bill seeks to condone any omissions, irregularities or deficiencies in the establishment, or conferment of powers and functions, of the Directorate-General (Intelligence and Investigation), Inland Revenue and authorities specified in section 230. It also seeks to give legal validity to all orders passed, notices issued and actions taken in exercise or purported exercise of the powers and functions of the Commissioner under the Ordinance by the Directorate-General (Intelligence and Investigation), Inland Revenue or the authorities specified in section 230.

38. EXEMPTIONS FROM TOTAL INCOME [Second Schedule Part I]

Exemptions proposed to be granted

a. *Allowances to armed forces personnel* **[Clause (39A)]**

Amounts paid as kit allowance, ration allowance, special messing allowance, SSG allowance, Northern Areas compensatory allowance, special pay for Northern Areas and height allowance to the Armed Forces personnel.

b. *Exemption on total income* **[Clause (57)]**

(i) Khyber Pakhtunkhwa Retirement Benefits and Death Compensation Fund;
(ii) Khyber Pakhtunkhwa General Provident Investment Fund; and
(iii) Khyber Pakhtunkhwa Pension Fund.

c. *Exemption on donations* **[Clause (61)]**

(i) Pakistan Sweet Home, Angels and Fairies Place;
(ii) Al-Shifa Trust Eye Hospital;
(iii) Aziz Tabba Foundation;
(iv) Sindh Institute of Urology and Transplantation, SIUT Trust and Society for the Welfare of SIUT;
(v) Sharif Trust;
(vi) The Kidney Centre Post Graduate Institute;
(vii) Pakistan Disabled Foundation.

d. *Exemption on income* **[Clause (66)]**

Any income derived by:

(i) SAARC Energy Centre;
(ii) Pakistan Bar Council;
(iii) Pakistan Centre for Philanthropy;
(iv) Pakistan Mortgage Refinance Company Limited;
(v) Aziz Tabba Foundation;
(vi) Al-Shifa Trust Eye Hospital;
(vii) Saylani Welfare International Trust;
(viii) Shaukat Khanum Memorial Trust;
(ix) Layton Rahmatullah Benevolent Trust (LRBT);
(x) The Kidney Centre Post Graduate Training Institute;
(xi) Pakistan Disabled Foundation;
(xii) Forman Christian College.

e. *Profit on debt paid by Pakistan Mortgage Refinance Company* **[Clause (90A)]**

Profit on debt on bonds issued by Pakistan Mortgage Refinance Company to refinance the residential housing mortgage market, for a period of five years with effect from the 1st day of July, 2018.

f. *Income of modarabas* **[Clause (100)]**

The existing conditional exemption available to modarabas for trading activities also to be available to manufacturing activities.

g. *Capital gains on bonds issued by Pakistan Mortgage Refinance Company* **[Clause (110C)]**

Gain on transfer of a capital asset, being a bond issued by Pakistan Mortgage Refinance Company to refinance the residential housing mortgage market, during the period from the 1st day of July, 2018 till the 30th day of June, 2023.

h. ***Income of new refineries*** **[Clause (126BA)]**

Profits and gains derived by a refinery set up between the 1st day of July, 2018 and the 30th day of June, 2023 with minimum 100,000 barrels per day production capacity for a period of 20 years beginning in the month in which the refinery is set up or commercial production is commenced, whichever is later. Exemption under this clause shall also be available to existing refineries, if:

(a) existing production capacity is enhanced by at least 100,000 barrels per day;

(b) the refinery maintains separate accounts for income arising from aforesaid additional production capacity; and

(c) the refinery is a deep conversion refinery.

39. REDUCTION IN TAX LIABILITY [Second Schedule Part III]

Exemption proposed to be granted

Income from film making **[Clause (7) & (8)]**

50% reduction in tax payable on income from film-making in Pakistan for foreign and local film-makers from making films in Pakistan.

40. EXEMPTIONS FROM SPECIFIC PROVISIONS [Second Schedule Part IV]

Exemption proposed to be granted

Exemption from minimum tax under section 113 **[Clause (11A)(xxx)]**

Exemption from minimum tax under section 113 with effect from the tax year 2014 to be granted to public sector universities established solely for educational purposes and not for the purposes of profit.

Exemption from withholding tax on rendering of services **[Clause (11E)]**

Exemption from withholding tax on rendering of services on payments received by Sui Southern Gas Company Limited and Pakistan LNG Terminal Limited from Sui Northern Gas Pipelines Limited on account of re-gasification charges.

Exemption from withholding tax on dividends **[Clause (12A)]**

Exemption from withholding tax on dividends paid to Transmission Line Projects under Transmission Line Policy 2015.

Exemption from withholding tax on imports

a. Consequent to the merger of Bakri Trading Company Pakistan (Pvt.) Ltd. and Overseas Oil Trading Company (Pvt.) Ltd. the exemption from withholding tax at import stage now to be granted to Bakri Energy (Private) Limited. **[Clause (56)(ia)]**

b. Import of construction materials or goods up to a maximum of Rs. 10,898M imported by China State Construction Engineering Corporation (M/s CSCEC) for construction of Sukkur-Multan section of Karachi-Peshawar Motorway project of National Highway Authority under CPEC to be granted immunity from collection of tax at import stage. **[Clause (60AA)]**

Non-profit organization **[Clause (63)]**

Lahore University of Management Sciences proposed to be granted the status of non-profit organization.

Extension in the period of exemption

a. ***Large trading houses*** **[Clause (57)]**

The period for concessionary rate of 0.5% available to large trading houses to be extended to tax year 2021.

b. ***Withholding tax on services rendered*** **[Clause (94)]**

Filer companies, rendering the following services, are granted exemption from the withholding provisions of section 153(1)(b) up to June 30, 2016, subject to certain conditions, including that the tax payable or paid on income shall be at least 2% of the gross amount of turnover:

(i) Freight forwarding services;
(ii) Air cargo services;
(iii) Courier services;
(iv) Manpower outsourcing services;
(v) Hotel services;
(vi) Security guard services;
(vii) Software development services;
(viii) Tracking services;
(ix) Advertising services, other than by print or electronic media;
(x) Share registrar services;
(xi) Engineering services; and
(xii) Car rental services

The Bill now seeks to extend the timeframe for this concession up to June 30, 2019 provided that an irrevocable declaration shall be filed with the Commissioner by November 2018.

Moreover, it is also proposed to include the inspection, certification, testing and training services in the above list.

41. ENACTMENT OF EXISTING EXEMPTIONS AVAILABLE THROUGH VARIOUS SROs

The Bills also seeks to enact various exemptions and concessions already incorporated in the Ordinance vide various SROs issued from time to time.

42. BANKING COMPANIES

Provisions related to international tax and anti-avoidance **[Section 100A]**

There was an implicit immunity for banking companies from the provisions contained in Chapter VII (International) and Chapter VIII (Anti-avoidance). The Bill now seeks to do away with this implicit immunity.

Provisions related to international tax and anti-avoidance **[Section 147(4A) & (6)]**

Banking companies are required to pay advance tax on monthly basis under Rule 5A of Seventh Schedule. However, without proposing related changes to the said Rule 5, the Bills seeks to make advance tax payable on the basis under section 147(4A). The concession for reduction in advance tax under 147(6) would not be applicable to banking companies.

Seventh Schedule

Pursuant to the proposed changes to section 100A, related amendments have also been proposed to the Seventh Schedule. Likewise, pursuant to the proposed extension in applicability timelines for super tax, consequent amendment has also been proposed to the Seventh Schedule.

SECTION 5 SALES TAX & FEDERAL EXCISE DUTY

1. SALES TAX ACT, 1990

Scope of Tax **[Section 3(1A)]**

The bill seeks to enhance the rate of further tax at three percent of the value from existing rate of two percent with the view to encourage the unregistered persons to opt for registration.

It has been further sought to empower "Federal Government" to issue notification instead of the "Board with the approval of the Minister In charge of Federal Government" in respect of the following:

a. exclude or include any taxable supply specified in the Third Schedule to the Sales Tax Act, 1990;
b. specify the goods in respect of which the liability to pay tax shall be of the person receiving the supply; and
c. in addition to the normal levy of sales tax on imported goods and taxable supplies, levy and collect tax at such extra rate or amount not exceeding seventeen per cent of the value of such goods or class of goods and on such persons or class of persons.

Zero Rating **[Section 4]**

The bill proposes to curtail the powers of Finance Minister and empower the "Federal Government" to make amendments in respect of export of goods chargeable to tax at the rate of zero per cent.

Determination of Tax Liability & Levy and collection of tax on specified goods on value addition **[Section 7 & 7A]**

It has been sought to empower "Federal Government" instead of "Board with the approval of the Minister-In-Charge of Federal Government" to issue amendments with respect to determination of tax liability and levy/ collection of tax on value addition for a registered person.

Tax credit not allowed **[Section 8]**

The bill proposes to curtail the powers of Finance Minister and empower the "Federal Government" to make amendments in respect of the admissibility of input tax credit on specified goods or services.

Further amendment has been sought that a registered person shall not be entitled to reclaim or deduct input tax paid on import of specified scrap of compressors.

Assessment giving effect to an order **[Section 11B]**

A new sub-section is proposed to be inserted to facilitate the tax payers by removing unnecessary disputes in quantification of tax liability where by the Commissioner or an Officer of Inland revenue is required to issue the appeal affect order within one year from the end of the financial year in which the order was issued by the Appellant Authorities (Commissioner Appeals, Appellate Tribunal, High Court and Supreme Court). Provided that limitation under this sub-section shall not apply, if an appeal or reference has been preferred against the order passed by Appellate Tribunal or a High Court.

Access to record, documents, etc. [**Section 25(2**)]

The bill proposes to conduct audit of sales tax registered persons once in every three years. It is likely that this decision shall be able to provide relief to registered persons and highly appreciable among the business community.

Directorate General, (Intelligence and Investigation) Inland Revenue [Section 30A]

It has been sought to specify the functions and jurisdiction of directorate general, its officers and confer power and authorities to director general and its officers to administer and manage sales tax affairs.

Default Surcharge [Section 34]

The bill seeks to propose default surcharge at fixed rate of twelve percent of the amount of tax as opposed to the current calculation based on KIBOR plus three per cent per annum;

Posting of Inland Revenue Officer [Section 40B]

The bill proposes to withdraw the powers of Chief Commissioner to post Officer of Inland Revenue to the premises of registered person to monitor production, sale of taxable goods and the stock position, which are now vested only with the Board.

Alternative dispute resolution [Section 47A]

The bill seeks to enact Alternative Dispute Resolution to facilitate registered persons and to save from prolonged litigation at Appellate stage and before higher Judiciary. The modified procedure proposed includes:

a. Any aggrieved person having pending appeal before Appellate Authority may apply to the Board for appointment of committee for the resolution of the matter;
b. The Board may appoint a committee within sixty days of the receipt of application which shall only commence proceedings on receipt of order of withdrawal of appeal from the Appellate Authority within seventy five days from the appointment of the committee;
c. The appointed committee members to comprise an officer of Inland Revenue not below the rank of commissioner and two persons from a panel of retired High Court/ District & Session Court Judges, Chartered/ Cost Accountants, Advocates, Income Tax Practitioner or reputable tax payers;
d. The committee to examine the issue, direct to conduct an audit, if deemed necessary, and give decision within one hundred twenty days of its appointment which shall be binding on both the parties; and
e. The Board shall dissolve the committee if the decision is not passed within the prescribed time limit and the case shall be reverted back before the appellate authority as if the appeal had never been withdrawn.

Recovery of arrears of tax [Section 48]

It has been sought to reduce payment of tax to ten percent of the amount of tax due by the tax payer against twenty five percent stipulated in the existing statute, in case taxpayer has filed an appeal with the Commissioner (Appeals) in respect of the order under which the tax sought to be recovered has become payable and the appeal has not been decided by the Commissioner (Appeals).

Zero rating [Fifth Schedule]

The Bill seeks to include the following items chargeable to tax at the rate of zero percent in the Fifth Schedule of the Sales Tax Act, 1990:

Sr.	Description
(xx)	Colors in sets (PCT heading 3213.1000).
(xxi)	Writing, drawing and marking inks (PCT heading. 3215.9010 and 3215.9090)
(xxii)	Erasers (PCT heading 4016.9210 and 4016.9290)
(xxiii)	Exercise books (PCT heading 4820.2000)
(xxiv)	Pencil sharpeners (PCT heading 8214.1000)
(xxv)	Geometry boxes (PCT heading 9017.2000)
(xxvi)	Pens, ball pens, markers and porous tipped pens (PCT heading 96.08)
(xxvii)	Pencils including color pencils (PCT heading 96.09)

Exemptions **[Sixth Schedule]**
[Table I – Imports or Supplies]

The bill proposes following changes in the Sixth Schedule of the Sales Tax Act 1990:

Sr.	Description	Heading/Sub-Heading No. substituted / inserted with
137.	Paper weighing 60 g/m2 for printing of Holy Quran imported by Federal or Provincial Governments and Nashiran-e-Quran as per quota determined by IOCO;	4802.5510
138.	Fish Feed	Respective Heading
139.	Fans for dairy farms	8414.5990
140.	Bovine semen	0511.1000
141.	Preparations for making animal feed	2309.9000
142.	Promotional and advertising material including technical literature, pamphlets, brochures and other giveaways of no commercial value, distributed free of cost by the exhibitors	9920(3)
143.	(i) Hearing aids (all types and kinds); (ii) Hearing assessment equipment; (a) Audiometers; (b) Tympanometer; (c) ABR (d) Oto Acoustic Omission	9937
144.	Liquefied Natural Gas imported by fertilizer manufacturers for use as feed stock	2711.1100
145.	Plant, machinery, equipment including dumpers and special purpose motor vehicles, if not manufactured locally, imported by M/s China State Construction Engineering Corporation Limited (M/s CSCECL) for the construction of Karachi – Peshawar Motorway (Sukkur – Multan Section) and M/s China Communication Construction Company (M/s CCCC) for the construction of Karakorum Highway (KKH) Phase-II (Thakot – Havellian Section) subject to the following conditions: (i) that the exemption under this Notification shall only be available to contractors named above; (ii) that the equipment and construction machinery imported under this Notification shall only be used for the construction of the respective allocated projects; (iii) that the importer shall furnish an indemnity bond, in the prescribed manner and format as set out in Annex-A, at the time of import to the extent of customs-duties exempted under this Notification on consignment to consignment basis; (iv) that the Ministry of Communications shall certify in the prescribed manner and format as set out in Annex-B that the imported equipment and construction machinery are bonafide requirement for construction of Sukkur – Multan Section (392.0 km) of Karachi – Peshawar Motorway or for the construction of Karakorum Highway(KKH) Phase-II Thakot to Havellian Section (118.057 km) as the case may be; (v) for the clearance of imported goods through Pakistan Customs Computerized System the authorized officer of the Ministry shall furnish all relevant information, as set out in Annex-B, online against a specific user ID and password obtained under section 155D of the Customs Act, 1969 (IV of 1969). In Collectorates or Customs stations where the Pakistan Customs Computerized System is not operational, the Director Reforms and Automation or any other person authorized by the Collector in this behalf shall enter the requisite information in the Pakistan Customs Computerized System on daily basis, whereas entry of the data obtained from the customs stations which have not yet been computerized shall be made on weekly basis; (vi) that the equipment and construction machinery, imported under this Notification, shall not be re-exported, sold or otherwise disposed of without prior approval of the FBR. In case goods are sold or otherwise disposed of with prior approval of FBR the same shall be subject to payment of duties as may be prescribed by the FBR; (vii) in case the equipment and construction machinery, imported under this Notification, is sold or otherwise disposed of without prior approval of the FBR in terms of para (vi) above, the same shall be subject to payment of statutory rates of customs duties as were applicable at the time of import; (viii) notwithstanding the condition at para (vi) and (vii) above, equipment and construction machinery, imported under this Notification, may be surrendered at any time to the Collector of Customs having jurisdiction, without payment of any customs duties, for further disposal as may be prescribed by the FBR; (ix) the indemnity bond submitted in terms of para (iii) above by the importer shall be discharged on the fulfillment of conditions stipulated at para (vi) or (vii) or (viii) above, as the case may be; and (x) that violation of any of the above mentioned conditions shall render the goods liable to payable of statutory rate of customs duties leviable on the date of clearance of goods in addition to any other penal action under relevant provisions of the law.	Respective headings

Sr.	Description	Heading/Sub-Heading No. substituted / inserted with
146.	Equipment, whether or not locally manufactured, imported by M/s China Railway Corporation to be furnished and installed in Lahore Orange Line Metro Train Project subject to the following conditions: (a) that the equipment imported under this Notification shall only be used in the aforesaid Project; (b) b that the importer shall furnish an indemnity bond, in the prescribed manner and format as set out in Annex-C to this Notification, at the time of import to the extent of sales tax exempted under this Notification on consignment to consignment basis; (c) that the Punjab Mass Transit Authority, established under the Punjab Mass Transit Authority Act, 2015 (ACT XXXIII of 2015), hereinafter referred as the Regulatory Authority, shall certify in the prescribed manner and format as set out in Annex-D to this Notification that the imported equipment is bona fide requirement of the Project under the Contract No. PMA-CRNORINCO-OL, dated 20.04.2015, hereafter referred as the contract, signed between the Regulatory Authority and CR-NORINCO; (d) in the event a dispute arises whether any item is entitled to exemption under this Notification, the item shall be immediately released by the Customs Department against a corporate guarantee, valid for a period of six months, submitted by the importer. A certificate from the Regulatory Authority duly verified by the Transport and Communication Section of the Ministry of Planning, Development and Reform, that the item is covered under this Notification shall be given due consideration by the Customs Department towards finally resolving the dispute. Disputes regarding the local manufacturing only shall be resolved through the Engineering Development Board of the Federal Government; (e) for the clearance of imported equipment through Pakistan Customs Computerized System the authorized officer of the Regulatory Authority shall furnish all relevant information, as set out in Annex-D to this Notification, online against a specific user ID and password obtained under section 155D of the Customs Act, 1969 (IV of 1969). In Collectorates or Customs stations where the Pakistan Customs Computerized System is not operational, the Director Reforms and Automation or any other person authorized by the Collector in this behalf shall enter the requisite information in the Pakistan Customs Computerized System on daily basis, whereas entry of the data obtained from the customs stations which have not yet been computerized shall be made on weekly basis; (f) that the equipment, imported under this Notification, shall not be reexported, sold or otherwise disposed of without prior approval of the Federal Board of Revenue (FBR). In case goods are sold or otherwise disposed of with prior approval of FBR the same shall be subject to payment of sales tax as may be prescribed by the FBR; (g) in case the equipment, imported under this Notification, is sold or otherwise disposed of without prior approval of the FBR in terms of condition (f), the same shall be subject to payment of statutory rates of sales tax as were applicable at the time of import; (h) notwithstanding the condition (f) and (g), equipment imported under this Notification may be surrendered at any time to the Collector of Customs having jurisdiction, without payment of any sales tax, for further disposal as may be prescribed by the FBR; (i) the indemnity bond submitted in terms of condition (b) above shall stand discharged on submission of a certificate from the Regulatory Authority to the effect that the equipment has been installed or consumed in the said Project. In case the equipment is not consumed or installed in the project the indemnity bond shall be discharged on fulfillment of conditions stipulated at (f) or (g) or (h), as the case may be; and (j) that violation of any of the above conditions shall render the goods liable to payment of statutory rate of sales tax leviable on the date of clearance of goods in addition to any other penal action under relevant provisions of the law. Explanation. For the purpose of this provision, “equipment” shall mean machinery, apparatus, materials and all things to be provided under the contract for incorporation in the works relating to Lahore Orange Line Metro Train Project	Respective headings
147.	Goods supplied to German Development Agency (Deutsche Gesellschaft für Internationale Zusammenarbeit) GIZ	Respective heading
148.	Imported construction materials and goods imported by M/s China State Construction Engineering Corporation Limited (M/s CSCECL), whether or not locally manufactured, for construction of Karachi-Peshawar Motorway (Sukkur-Multan Section) subject to fulfilment of same conditions, limitations and restrictions as are specified under S. No. 145 of this table, provided that total incidence of exemptions of all duties and taxes in respect of construction materials and goods imported for the project shall not exceed ten thousand eight hundred ninety-eight million rupees.	Respective Heading

Exemptions [Sixth Schedule]

[Table 3 – Imports or Supplies]

It has been proposed to insert the following new items in the Sixth Schedule of the Act:

Sr.	Description	Respective headings	Conditions
17.	Machinery, equipment, raw materials, components and other capital goods for use in building, fittings, repairing or refitting of ships, boats or floating structures imported by Karachi Shipyard and Engineering Works Limited.	Respective headings	Nil

Sr.	Description	Respective headings	Conditions
18.	The following parts for assembling and manufacturing of personal computers and laptops:		If imported by manufacturers and assemblers of Computers and laptops, registered with and certified by Engineering Development Board in Accordance with quota determined by IOCO
	(i) Bare PCBs	8534.0000	
	(ii) Power Amplifier	8542.3300	
	(iii) Microprocessor/ Controllers	85.42	
	(iv) Equipment for SMT Manufacturing	8486.2000	
	(v) Laptop batteries	8506.5000	
	(vi) Adopters	8504.4020	
	(vii) Cooling fans	8414.5190	
	(viii) Heat sink	7616.9920	
	(ix) Hard Disk SSD	8471.7020	
	(x) RAM/ROMS	8471.7060 and 8471.7090	
	(xi) System on Chip/FPGA-IC	85.42	
	(xii) LCD / LED Screen	8528.7211	
	(xiii) Motherboards	8534.0000	
	(xiv) power supply	84.73	
	(xv) Optical Drives	8471.7040	
	(xvi) External Ports	8536.2090	
	(xvii) Network cards	8517.6990	
	(xviii) Graphic cards	8471.5000	
	(xix) wireless cards	8517.6970	
	(xx) micro phone	8518.3000	
	(xxi) Trackpad	8471.6020	
19.	Plant and machinery, except the items listed under Chapter 87 of the Pakistan Customs Tariff, imported for setting up of a Special Economic Zone (SEZ) by zone developers and for installation in that zone by zone enterprises, on one time basis as prescribed in the SEZ Act, 2012 and rules thereunder subject to such conditions, limitations and restrictions as a Federal Board of Revenue may impose from time to time.	9917(2)	Nil

Eighth Schedule

The bill seeks to propose following changes in the Eighth Schedule of the Sales Tax Act 1990:

Sr.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	
		Existing	**Proposed**
25.	Agricultural tractors	8701.9020	8701.9220 and 8701.9320

The Bill seeks to adopt reduced rate of Sales tax from the existing on the following items in Table I vide Eight Schedule of the Sales Tax Act, 1990:

[Table I - Eighth Schedule]

S. #	Description	Rate of Sales Tax	
		Existing	**Proposed**
26.	Tillage and seed bed preparation equipment	7%	5%
27.	Seeding or planting equipment	7%	5%
28.	Irrigation, drainage and agro-chemical application equipment	7%	5%
29.	Harvesting, threshing and storage equipment	7%	5%
30.	Post-harvest handling and processing miscellaneous machinery	7%	5%
43.	Natural gas	10%	5%

It has been further proposed to insert the following new items in Table I of the Eight Schedule of the Sales Tax Act 1990

[Table I - Eighth Schedule]

S.#	Description	Respective headings	Rate of Sales Tax	Conditions
50.	LNG	2711.1100	12%	If imported by M/s. Pakistan State Oil & M/s. Pakistan LNG Limited
51.	RLNG	2711.2100	12%	If supplied by M/s. Pakistan State Oil & M/s. Pakistan LNG Ltd to M/s. SNGPL
52.	Fertilizers (all types)	Respective heading	3%	Nil
53.	The following cinematographic Equipment imported during the period commencing on the 1st day of July, 2018 and ending on the 30th day of June, 2023.		5%	Subject to same limitations and conditions as are specified in Part -1 of Fifth Schedule to the Customs Act, 1969 for availing 3% concessionary rate of customs duty on the import of these equipment.”
	(i) Projector	9007.2000		
	(ii) Parts and accessories for projector	9007.9200		
	(iii) Other instruments and apparatus for cinema	9032.8990		
	(iv) Screen	9010.6000		
	(v) Cinematographic parts and accessories	9010.9000		
	(vi) 3D Glasses	9004.9000		
	(vii) Digital Loud Speakers	8518.2200		
	(viii) Digital Processor	8519.8190		
	(ix) Sub-woofer and Surround Speakers	8518.2990		
	(x) Amplifiers	8518.5000		
	(xi) Audio rack and termination board	7326.9090 8537.1090		
	(xii) Music Distribution System	8519.8990		
	(xiii) Seats	9401.7100		
	(xiv) Recliners	9401.7900		
	(xv) Wall Panels and metal profiles	7308.9090		
	(xvi) Step Lights	9405.4090		
	(xvii) Illuminated Signs	9405.6000		
	(xviii) Dry Walls	6809.1100		
	(xix) Ready Gips	3214.9090		
54.	lithium iron phosphate battery (Li-Fe-PO4)	8506.5000	12%	Nil

The Bill seeks to insert the following new item in Table -II vide Eight Schedule of the Sales Tax Act, 1990:

[Table II - Eighth Schedule]

S. #	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Conditions
9.	Capital goods otherwise not exempted, for Transmission Line Projects.	Respective heading	The concession will be available in respect of those Transmission Line Projects which are being executed under Standard Implementation Agreement under Policy Framework for Private Sector Transmission Line Projects, 2015 and Projects Specific Transmission Services Agreement. Provided that sales tax charged under this provision shall be non-adjustable and non-refundable.

2. SALES TAX SPECIAL PROCEDURE RULES 2007

The bill seeks to provide exemption for value addition tax at the rate of 3% on import of LNG under Sales tax special procedure Rules 2007.

3. ANNOUNCEMENTS THROUGH SALIENT FEATURES

It has been proposed through salient features of the Finance Bill that certain measures are expected to be enacted through notifications in due course. The significant announcements in this respect are as under:-

a. Input tax adjustment on packing material to be allowed to five export oriented sectors through SRO 1125 (1)/ 2011 dated December 31, 2011;
b. Exclusion from value addition tax on import of second hand worn clothing and footwear;
c. Import of ready to use articles of artificial leather to be charged to sales tax at reduced rate of 6%;
d. Exemption of extra tax and further tax at the rate of 2% to Pakistani Foam manufacturers;
e. Amendment to charge further tax at the rate of 1 % on local supply of finished fabric through SRO 1125 (1)/ 2011 dated December 31, 2011;
f. Sales tax to be charged at standard rate on import and supply of furnace oil previously chargeable at the rate of 20%;
g. Sales tax for steal sector to be increased to Rs.13 per unit of electricity consumed, moreover the rate of sales tax for other allied steel industries i.e shipbreakers and re-rollers is also being rationalized.

4. FEDERAL EXCISE ACT, 2005

Default Surcharge **[Section 8]**

The bill seeks to propose default surcharge at the fixed rate of twelve percent of the amount of tax as opposed to the current calculation based on KIBOR plus three per cent per annum.

Assessment giving effect to an order **[Section 14B]**

A new sub-section is proposed to be inserted to facilitate the tax payers by removing unnecessary disputes in quantification of tax liability where by the Commissioner or an Officer of Inland revenue is required to issue the appeal affect order within one year from the end of the financial year in which the order was issued by the Appellant Authorities (Commissioner Appeals, Appellate Tribunal, High Court and Supreme Court).

Provided that limitation under this sub-section shall not apply, if an appeal or reference has been preferred against the order passed by Appellate Tribunal or a High Court.

Appointment of Federal Excise officers and delegation of Powers **[Section 29]**

The Bill proposes to insert a new sub section whereby the Directorate General and its officers shall perform functions in accordance with the directions of the Board.

Deposit, pending appeal, of duty demanded or penalty levied **[Section 37]**

It has been sought to provide relief to tax payer, by restricting to pay only ten percent as opposed to the previous requirement of twenty five percent of the amount of tax due, whereby notice for recovery of tax due from a tax payer shall not be issued in cases where appeal filed by the tax payer has not yet been decided by the Commissioner Appeals.

Alternate Dispute Resolution **[Section 38]**

The bill seeks to enact Alternative Dispute Resolution to facilitate registered persons and to save from prolonged litigation at Appellate stage and before higher Judiciary. The modified procedure proposed includes:

a. Any aggrieved person having pending appeal before Appellate Authority may apply to the Board for appointment of committee for the resolution of the matter;
b. The Board may appoint a committee within sixty days of the receipt of application which shall only commence proceedings on receipt of order of withdrawal of appeal from the Appellate Authority within seventy five days from the appointment of the committee;
c. The appointed committee members to comprise an officer of Inland Revenue not below the rank of Commissioner and two persons from a panel of retired High Court/ District & Session Court Judges, Chartered/ Cost Accountants, Advocates, Income Tax Practitioner or reputable tax payers;
d. The committee to examine the issue, direct to conduct an audit, if deemed necessary, and give decision within one hundred twenty days of its appointment which shall be binding on both the parties; and
e. The Board shall dissolve the committee if the decision is not passed within the prescribed time limit and case shall be reverted back before the appellate authority as if the appeal had never been withdrawn.

Access to records and posting of excise staff etc. **[Section 45]**

It has been proposed that the powers of Commissioner for appointment of Officer Inland Revenue at the premises of registered person to monitor the production and maintenance of federal excise records shall be withdrawn and now only vested with the Board.

Audit **[Section 46]**

The Bill seeks to insert a new subsection specifying that the audit of a registered person shall be conducted only once in three years.

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

The Bill seeks to propose that description of and duty on the locally produced cigarettes is proposed to be modified/ enhanced as under:

Existing				Proposed			
Sr.	**Description of goods**	**Heading /sub-heading Number**	**Rate of FED**	**Sr.**	**Description of goods**	**Heading/ sub-heading Number**	**Rate of FED**
9	Locally produced cigarettes if their on-pack printed retail price exceeds four thousand five hundred rupees per thousand cigarettes.	24.02	Rupees three thousand seven hundred and forty per thousand cigarettes	9	Locally produced cigarettes if their on-pack printed retail price exceeds four thousand five hundred rupees per thousand cigarettes	24.02	Rupees three thousand nine hundred and sixty four per thousand cigarettes*****
10	Locally produced cigarettes if their on-pack printed retail price exceed two thousand nine hundred and twenty five rupees per thousand cigarettes but does not exceed four thousand five hundred rupees per thousand cigarettes	24.02	Rupees one thousand six hundred and seventy per thousand cigarettes	10	Locally produced cigarettes if their on-pack printed retail price exceed two thousand nine hundred and twenty five rupees per thousand cigarettes but does not exceed four thousand five hundred rupees per thousand cigarettes	24.02	Rupees one thousand seven hundred and seventy per thousand cigarettes*****
10a	Locally produced cigarettes if their on-pack printed retail price does not exceed two thousand nine hundred and twenty five rupees per thousand cigarettes	24.02	Rupees eight hundred per thousand cigarettes	10a	Locally produced cigarettes if their on-pack printed retail price does not exceed two thousand nine hundred and twenty five rupees per thousand cigarettes	24.02	Rupees eight hundred and forty eight per thousand cigarettes*****

It has been further sought that duty on Cement to be enhanced as under:

Sr.	Existing			Sr.	Proposed		
	Description of goods	**Heading/ sub-heading Number**	**Rate of FED**		**Description of goods**	**Heading/ sub-heading Number**	**Rate of FED**
13	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not colored or in the form of clinkers	25.23	One rupee and twenty five paisa per kilo gram	13	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not colored or in the form of clinkers	25.23	One rupee and fifty paisa per kilo gram*

Conditional Exemption - Services

The Bill seeks to insert the following new entry: **[Table I to Third Schedule to the Act]**

Sr.	Description
22.	Equipment, whether or not locally manufactured, imported by M/s China Railway Corporation to be furnished and installed in Lahore Orange Line Metro Train Project subject to the following conditions: (a) that the equipment imported under this Notification shall only be used in the aforesaid Project; (b) that the importer shall furnish an indemnity bond, in the prescribed manner and format as set out in Annex-A to this Notification, at the time of import to the extent of sales tax exempted under this Notification on consignment to consignment basis; (c) that the Punjab Mass Transit Authority, established under the Punjab Mass Transit Authority Act, 2015 (ACT XXXIII of 2015), hereinafter referred as the Regulatory Authority, shall certify in the prescribed manner and format as set out in Annex-B to this Notification that the imported equipment is bona fide requirement of the Project under the Contract No. PMA-CR-NORINCO-OL, dated 20.04.2015, hereafter referred as the contract, signed between the Regulatory Authority and CR-NORINCO; (d) in the event a dispute arises whether any item is entitled to exemption under this Notification, the item shall be immediately released by the Customs Department against a corporate guarantee, valid for a period of six months, submitted by the importer. A certificate from the Regulatory Authority duly verified by the Transport and Communication Section of the Ministry of Planning, Development and Reform, that the item is covered under this Notification shall be given due consideration by the Customs Department towards finally resolving the dispute. Disputes regarding the local manufacturing only shall be resolved through the Engineering Development Board of the Federal Government; (e) for the clearance of imported equipment through Pakistan Customs Computerized System the authorized officer of the Regulatory Authority shall furnish all relevant information, as set out in Annex-B to this Notification, online against a specific user ID and password obtained under section 155D of the Customs Act, 1969 (IV 118 of 1969). In Collectorates or Customs stations where the Pakistan Customs Computerized System is not operational, the Director Reforms and Automation or any other person authorized by the Collector in this behalf shall enter the requisite information in the Pakistan Customs Computerized System on daily basis, whereas entry of the data obtained from the customs stations which have not yet been computerized shall be made on weekly basis; (f) that the equipment, imported under this Notification, shall not be re-exported, sold or otherwise disposed of without prior approval of the Federal Board of Revenue (FBR). In case goods are sold or otherwise disposed of with prior approval of FBR the same shall be subject to payment of sales tax as may be prescribed by the FBR; (g) in case the equipment, imported under this Notification, is sold or otherwise disposed of without prior approval of the FBR in terms of condition (f), the same shall be subject to payment of statutory rates of sales tax as were applicable at the time of import; (h) notwithstanding the condition (f) and (g) equipment imported under this Notification may be surrendered at any time to the Collector of Customs having jurisdiction, without payment of any sales tax, for further disposal as may be prescribed by the FBR; (i) the indemnity bond submitted in terms of condition (b) above shall stand discharged on submission of a certificate from the Regulatory Authority to the effect that the equipment has been installed or consumed in the said Project. In case the equipment is not consumed or installed in the project the indemnity bond shall be discharged on fulfillment of conditions stipulated at (f) or (g) or (h), as the case may be; and (j) that violation of any of the above conditions shall render the goods liable to payment of statutory rate of sales tax leviable on the date of clearance of goods in addition to any other penal action under relevant provisions of the law. Explanation. For the purpose of this provisions, “equipment” shall mean machinery, apparatus, materials and all things to be provided under the contract for incorporation in the works relating to Lahore Orange Line Metro Train Project.
23.	Imported construction materials and goods imported by M/s China State Construction Engineering Corporation Limited (M/s CSCECL), whether or not locally manufactured, for construction of Karachi-Peshawar Motorway (Sukkur-Multan Section) subject to fulfilment of same conditions, limitations and restrictions as are specified under S. No. 145 of Table-1 of Sixth Schedule to the Sales Tax Act, 1990, provided that total incidence of exemptions of all duties and taxes in respect of construction materials and goods imported for the project shall not exceed ten thousand eight hundred ninety-eight million rupees.

The Bill seeks to insert the following new entry: **[Table II to Third Schedule to the Act]**

Sr.	Description of services	Heading/sub-heading number
14.	Commission paid by State Bank of Pakistan and its subsidiaries to National Bank of Pakistan or any other banking company for handling banking services of Federal or Provincial Governments as State Bank of Pakistan's agents	Respective headings

5. ANNOUNCEMENTS THROUGH FINANCE BILL FOR LEVIES ON TOBBACO & SMART PHONES

The following have been proposed through Finance Bill:

Commission paid by State Bank of Pakistan to Banks

The bill seeks to propose exemption of duty on commission paid by State Bank of Pakistan and its subsidiaries to banking companies for handling banking services of Federal and Provincial Government.

Health levy on tobacco

Pakistan Tobacco Board or its contractors, at the time of collecting cess on tobacco, directly or indirectly, shall collect Health Levy at the rate of ten rupees per kilogram of tobacco from every person purchasing tobacco including manufacturers of cigarettes.

Mobile handset levy

The bill seeks to propose Mobile handset levy on smart phones of different categories as below:-

Sr.	Category of Smart Phone	Rate of Levy per set in Rs.
1.	Where Import value of handset (including duties and taxes) does not exceed Rs.10,000/-	Nil
2.	Where Import value of handset (including duties and taxes) exceeds Rs.10,000 but does not exceed Rs.40,000 /-	1,000
3.	Where Import value of handset (including duties and taxes) exceeds Rs.40,000 but does not exceed Rs.80,000 /-	3,000
4.	Where Import value of handset (including duties and taxes) exceeds Rs.80,000	5,000

* These amendments will have effect from the next day of accord of assent by the President of Islamic Republic of Pakistan

SECTION 6 CUSTOMS ACT, 1969

Pakistan custom-waters **[Section 2(p)]**

The Bill seeks to extend the enforcement territory of Customs in sea waters from existing 12 nautical miles to 24 nautical miles measured from coast baseline of Pakistan.

Person **[Section 2(pa)]**

It has been proposed to specifically include local manufacturer under the scope of person.

Goods dutiable* **[Section 18(3)]**

It has been sought to shift the authority towards Federal Government to impose regulatory duty on all or any of the goods, specified in the First Schedule. Earlier, this authority was exercised by the Board, with approval of the Federal Minister-in-charge.

Goods dutiable **[Section 18(5)]**

The Bill seeks to exclude regulatory duties from the purview of the rates as agreed by the Government of Pakistan under multilateral trade agreements.

General power to exempt from customs-duties **[Section 19(1)]**

The general power to exempt customs duties currently available to the Board, with approval of the Federal Minister-in-charge pursuant to the approval of the Economic Coordination Committee of Cabinet has now been proposed to be shifted to the Federal Government.

General power to exempt from customs-duties **[Section 19(5)]**

The notifications issued to exempt customs duties using the general exemption power is sought to remain in force until June 30, 2019 (unless earlier rescinded by the Federal Government).

Power to use data exchange information for determination of customs value **[Section 25AA]**

It has been proposed to insert this new section to allow for assessment and valuation by using the information or data obtained through mutual legal assistance agreements under section 219A entered by the Board on customs matters.

Power to takeover the imported goods **[Section 25C]**

The bill seeks to empower Chief Collector instead of the Board to approve the order sought by the Collector of Customs for using the power to take over goods under section 25C.

False statement, error, etc. **[Section 32(3)]**

A new proviso is sought to be inserted to relieve, in cases of inadvertence, errors or misconstruction, if the full amount of short paid duty, taxes or charges are voluntarily paid prior to initiation of audit inquiry or investigation.

Refund to be claimed within one year **[Section 33(3A)]**

A new section is proposed to be inserted to allow the refund claims to be processed within 180 days which may further be extended up to 90 days under special circumstances.

Arrival of conveyance **[Section 42(2)]**

The Bill seeks to further clarify and broaden the scope of the matters, for which the advance information may be required from the in-charge of the conveyance entering Pakistan, by covering passenger & crew manifest and passenger & crew name record information.

Power to refuse port clearance to vessels or permission for departure to other conveyance **[Section 55(1)]**

The Bill proposes to broaden the matters for which the agent may be accountable and is required to submit declaration, in order to get the vessel clearance, by including other dues in the existing claim for damage or short delivery of goods in the imported cargo.

Provisional release of imported goods **[Section 83B]**

It has been sought to allow release of goods upon the written request of the owner after payment of duty, taxes or other charges and furnishing bank guarantee or pay order against any probable penalty or fine, where the offence does not necessitate confiscation of goods or the goods are not needed for evidence purposes.

Frustrated cargo how dealt with **[Section 138(1)]**

The Bill seeks to enhance the scope of frustrated cargo by including the case where the consignee has dishonored his commitments.

Punishment for offences **[Section 156(12A)]**

The failure to furnish documents required by the officer for inspection under section 155M has been proposed to be penalized up to the extent of one million rupees and/or imprisonment up to one year.

Punishment for offences **[Section 156(63)]**

The Bill seeks to bifurcate the existing offences related to transshipments and proposes:

I. Confiscation of goods and the carrier, penalty of up to five times the value of goods and imprisonment of up to seven years where such offence relates to pilferage of the goods, replacement en-route, failure to reach port of destination or transshipment of non-allowed goods.
II. Penalty of up to five hundred thousand rupees or three times the amount of duties and taxes involved where such offence relates to any other contravention of the rules relating to transshipments.

Vesting of confiscated property in the Federal Government **[Section 182]**

The Bill proposes to authorize any officer or person authorized by the Collector or Director to take and hold possession of the confiscated property.

Procedure in appeal **[Section 193A(2)]**

It has been proposed to insert a new subsection empowering the Collector (Appeals) to provide stay on recovery of duties and taxes up to thirty days upon filing of appeal after providing opportunity of being heard to the concerned officer.

Orders of Appellate Tribunal **[Section 194B(3)]**

The Bill seeks to replace the authority from Controller Valuation to Director Valuation, to whom the Appellate Tribunal is required to send the copies of orders passed against the disposal of appeals related to valuation cases.

Customs-house agents to be licensed **[Section 207]**

The Bill seeks to include the licensed shipping agent, in line with the licensed Custom agents, so that any of them could act on behalf of principal for any transaction or activity related to entrance or departure of conveyance or customs clearance, import or export.

Authorized economic operator programme **[Section 212A]**

A new section is inserted inorder to devise an authorized economic operator programme, to provide facilitations relating to supply chains of imported and exported goods and to simplify the procedures for regulatory compliances.

Validation* **[Section 221A(2)]**

The Bill proposes to insert a subsection to validate the regulatory duties which have already been levied, collected or realized or which has not been levied, collected or realized, after commencement of Finance Act, 2017 and before commencement of Finance Act, 2018.

***** These amendments will have effect from the next day of accord of assent by the President of Islamic Republic of Pakistan

SECTION 7 PETROLEUM PRODUCTS (PETROLEUM LEVY) ORDINANCE, 1961

The Bills seeks to propose the following changes in the rates of levy as per Fifth Schedule to the Ordinance:

S. No.	**Petroleum Products**	**Unit**	**Existing Rates** (Rs. per Unit)	**Proposed Rates** (Rs. per Unit)
1.	High Speed Diesel Oil (HSDO)	Litre	8	30
2.	Motor Gasoline (87 ROM)	Litre	10	30
3.	Superior Kerosene Oil (SKO)	Litre	6	30
4.	Light Diesel Oil (LDO)	Litre	3	30
5.	High Octane Blending Component (HOBC)	Litre	14	30
6.	E-10 Gasoline	Litre	9	30
7.	Liquefied Petroleum Gas (produced/ extracted in Pakistan)	Metric Ton	11,486	20,000

SECTION 8 RATES FOR WITHHOLDING (INCOME) TAX

LINK TO DOWNLOAD: http://tagm.co/pdf/WithholdingRatesTaxYear2019.pdf

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