ISHTIAQ RANA & CO.
CHARTERED ACCOUNTANTS

BUDGET BRIEF 2019

Strictly for circulation to clients and staff of Ishtiaq Rana & Co.

ISHTIAQ RANA & CO. (Chartered Accountants) is pleased to present comments & summary on this year's budget. This commentary view will help our clients and users to understand the amendments in Income Tax, Sales Tax, Federal Excise Duty, Custom Duty, Regulatory Duty and The Companies Ordinance through Finance Bill 2019. These comments will also reflect our understanding of the legislation.

This memorandum is correct to the best of our knowledge and belief at the time of going to press. Changes of consequential, administrative, procedural or editorial in nature have either been excluded from these comments or dealt briefly. It is intended as a general guide and therefore is not a substitute for specific professional advice which should be sort before any action is taken.

The proposals introduced in the Bill have to be approved by the National Assembly before they become effective. They should, therefore, not generally be acted upon without obtaining appropriate advice. This should not be published or reproduced in any manner without the Firm's Consent

Finally we would like to extend our heartiest gratitude to our associates Mr. Mushtaq Ahmad Rana (Advocate High Court), Mr. Ahmad Salman Naz (FCA), Mr. A. U. Khan, Miss Mayra Sundas & Mr. Ghulam Sabir for their valuable contributions in this regard. Further we would also record our warm appreciation for the excellent teamwork displayed by our staff.

LAHORE

June 12, 2019

ISHTIAQ RANA & CO.
CHARTERED ACCOUNTANTS

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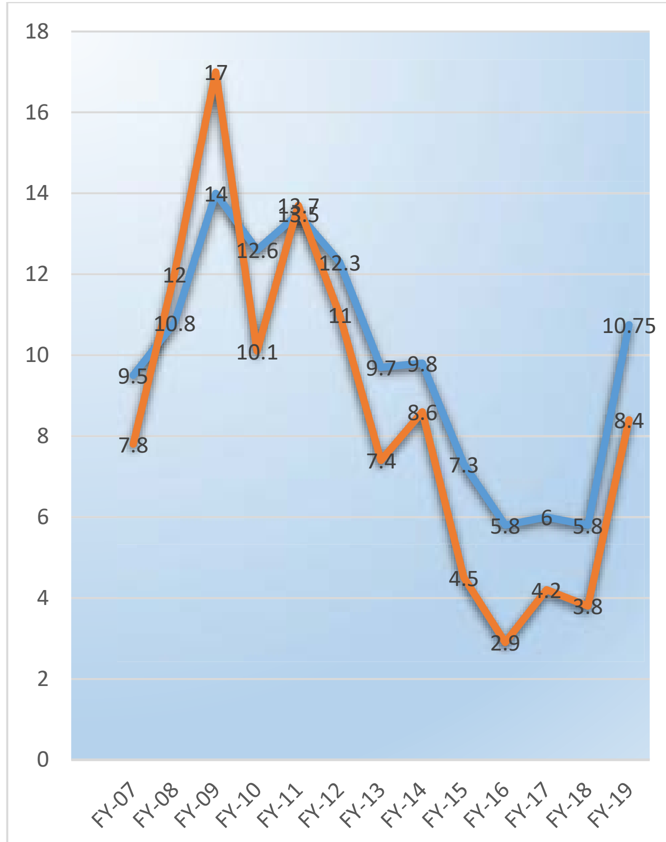
ECONOMIC SURVEY OF PAKISTAN 2019-20 – SALIENT FEATURES

Interest rate and CPI index analysis for last thirteen (13)years show a sharp rise in inflation after five years and the increase ion the discount rate.

Financial year	Interest Rates	Inflation CPI
	%	%
FY-07	9.5	7.8
FY-08	10.8	12
FY-09	14	17
FY-10	12.6	10.1
FY-11	13.5	13.7
FY-12	12.3	11
FY-13	9.7	7.4
FY-14	9.8	8.6
FY-15	7.3	4.5
FY-16	5.8	2.9
FY-17	6	4.2
FY-18	5.8	3.8
FY-19	10.75	8.4



Overall three year analysis at a glance reflecting the economic situation. FY2018-19(Provisional)is worse have a decline in GDP growth as well as per capita income. The projected situation for the FY 2019-20 is further on negative side with a GDP growth of 2.7% mand per capita income of lower side up to US$ 1343

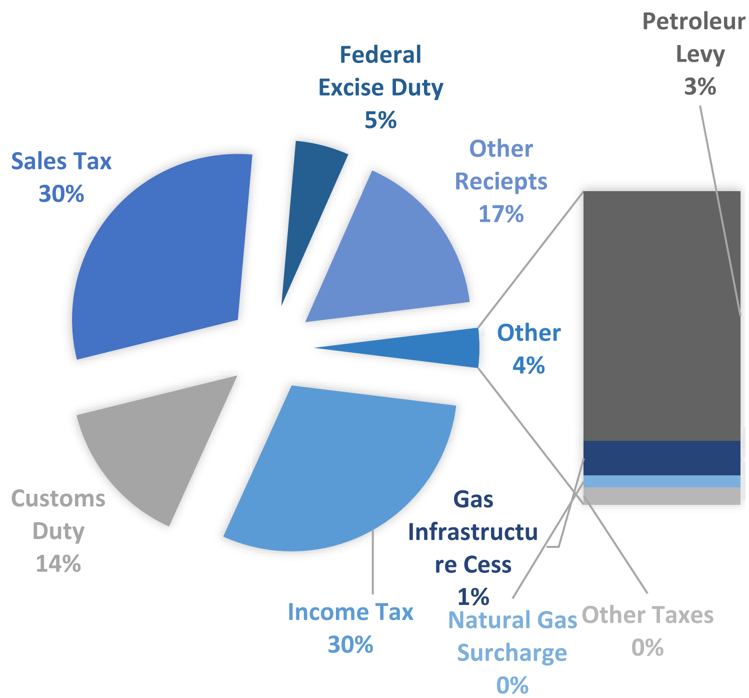
Particulars	FY 2019-20 Pr	FY 18-19 PV	FY 17-18	FY 16-17
GDP Growth	2.7%	3.29	5.79	5.37
Per Capita US $	1341	1497.3	1641	1633
FDI July-March	N/A	1376	2100	2000
US $ Million				
Inflation(July-March)	7.4%	8.1%	3.80%	4%
Public Debt (PKR Billion)				
Domestic	19,275	18170	15437	14856
Foreign	12,657	9625	7383	6552
Budget Deficit	5.5%	6%	4.1%	5.8%

BUDGET ANALYSIS AT A GLANCE

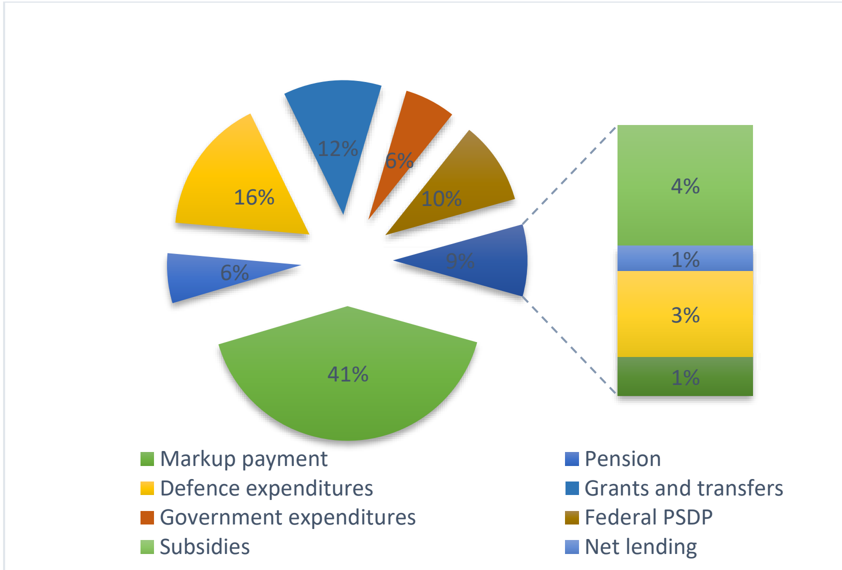
REVENUE	Amount Rupees (Billion)	%
Direct Tax	**2,078**	**31.0%**
Indirect Tax	3,473	52.0%
Other tax Revenue	271	4.0%
Total Tax Revenue	**5822**	
Non Tax Receipts & Public Account Reciepts	1,145	13.0%
Gross Revenue Receipts	**6,967**	**100.0%**
Less: Share of Provinces	(3,255)	
Net Revenue	**3,712**	
Provincial Surplus	423	
Total Resources	**3885**	
Total Expenditures	-7036	
Deficit	**(3151)**	

Deficit Funded by	Amount Rupees (Billion)	%
Markup payment	2891	41%
Pension	421	6%
Defense Expenditures	1152	16%
Grants & Transfers	831	12%
Government Expenditures	431	6%
Subsidies	272	4%
Others	194	3%
Development expenditures	844	12%
Total	**7036**	**100.0%**

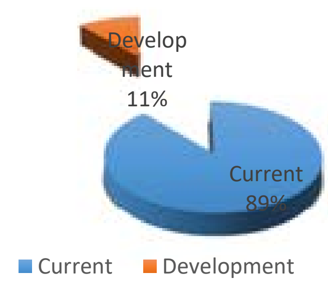
REVENUE	Amount Rupees (Billion)	%
Direct Tax		
Income Tax	2078	29.83%
Total	**2078**	29.83%
Indirect Tax		
Customs Duty	1001	14.37%
Sales Tax	2108	30.26%
Federal Excise Duty	364	5.22%
Petroleum Levy	216	3.10%
Gas Infrastructure Cess	30	0.43%
Natural Gas Surcharge	10	0.14%
Other Taxes	15	0.22%
Total	**3744**	53.74%
Total Tax Revenue	**5822**	83.57%
Other Reciepts	**1,145.00**	16.43%
Gross Revenue Receipts	**6,967.00**	100.00%
Less:Provincial Share	3,255.00	
Net Revenue Receipts	**3,712.00**	
Less Expenditures	**8,422.00**	
Deficit	4,710.00	
Deficit Funded by		
Capital Receipts	150	24.00%
Bank Borrowings	1105	47.00%
External Receipts	3032	16.00%
Surplus from Provinces	423	13.00%
Gross Total	**4,710.00**	**71.00%**



Expenditure	Amount Billion	%
Markup payment	2891	41.1%
Pension	421	6.0%
Defence expenditures	1152	16.4%
Grants and transfers	831	11.8%
Government expenditures	431	6.1%
Federal PSDP	701	10.0%
Subsidies	272	3.9%
Net lending	57	0.8%
Others Misc	194	2.8%
Other Development Exp	86	1.2%
Total expenditure	**7036**	**100%**



EXPENDITURES	AMOUNT Rupees (Billion)	%
Current Expenditures	**7,473**	**89%**
Development Expenditures	**949**	**11%**
Total	**8,422**	



INCOME TAX

The budgetary measures pertaining to Income Tax are primarily aimed at:

- ***Introduction of promissory note for refund payments:***
  A long pending issue of refunds got accumulated over the long period was addressed by proposing a new proviso in the finance bill by issuing promissory note by FBR to claimant at their option. These bonds will have maturity period of 3 years and will redeemed through a newly formed company called FBR refund Settlement Company Limited along with profit.

- ***Introduction of additional nominal tax for placement on ATL in case of late filing:***
  Currently if a person fails to file return within due date, his name is removed from ATL and the person is subject to higher rate of tax. Now the condition of not placing name on ATL for the whole year is being abolished. Late filers would now be penalized through withholding of any tax credit.in addition to this, a nominal tax for placement on ATL after due date would also be imposed as follows

S.No	Person	Tax rate
1	Company	Rs.20,000
2	AOP	Rs.10,000
3	Non-salaried individuals	Rs.3,000
4	Salaried individuals	Rs.1,000

- ***Introduction of tax credit for employing fresh graduates:***
  To encourage the job generation by the taxpayers for fresh graduates having graduated after 1st July 2017,from institutes/universities recognized by HEC would be given a tax credit ,equal to the amount of annual salary paid to such graduates. This credit will be allowed against salaries of those fresh graduates which are not more than 15% of the total employees.

- ***Gifts to be treated as income from other source:***
  Previously the gifts were not taxable in the hands of recipient but now gift has been included in the definition of "income" and would be treated as income from other sources in the hands of its recipient, subject few exclusions i.e close / blood relations.

- ***Change in the rate of minimum turnover tax:***
  Following changes are proposed to enhance the tax revenue under the domain of minimum turnover tax .

S.No	Previous	Proposed
1	1.25%	1.5%
2	0.2%	0.25%
3	0.25%	0.3%
4	0.5%	0.75%

- ***Change in tax rate for services:***
  It is proposed to omit the clause 94 so that the tax rate for services having reduced rates i.e from 2% to 4% including transport services,is being equalized with the rate of tax prevailing for the other services.
  The tax on the imports for commercial importers shall also be considered as minimum tax.

- ***Corporate tax rate:***
  Corporate tax rate has been fixed at the rate of 29% for the next 2 years.

- ***Taxation Related to income from property:*.**

Taxability of the income under head "Income from Property has being proposed to be taxed on the rate in extended rate of tax slabs under new tax table proposed taxation slab for this income is as follows:

Particulars	Tax Slab
Where the gross amount of re does not exceed Rs.200,000	NIL
Where the gross amount of rent exceeds Rs.200,000 but does not exceed Rs.600,000	5%of the gross amount exceeding Rs.200,000
Where the gross amount of rent exceeds Rs.600,000 but does not exceed Rs.1,000,000	Rs.20,000 Plus 10%of the gross amount exceeding Rs.600,000
Where the gross amount of rent exceeds Rs.1,000,000 but does not exceed Rs.2,000,000	Rs.60,000 plus 15 % of the gross amount exceeding Rs.1,000,000
Where the gross amount of rent exceeds Rs.2,000,000 but does not exceed Rs.4,000,000	Rs.210,000 plus 20 % of the gross amount exceeding Rs.2,000,000
Where the gross amount of rent exceeds Rs. 4,000,000 but does not exceed Rs.6,000,000	Rs.610,000 plus 25% of the gross amount exceeding Rs.4,000,000
Where the gross amount of rent exceeds Rs.6,000,000 but does not exceed Rs.8,000,000	Rs.1,110,000 plus 30 %of the gross amount exceeding Rs.6,000,000
Where the gross amount of rent exceeds Rs.8,000,000	Rs.210,000 plus 20 % of the gross amount exceeding Rs.2,000,000

- ***Change in taxation of capital gains on immovable properties:***

It is proposed to change the taxability structure related to immoveable property from final rate of tax to normal taxation in the following manner:

✓ **For open plots**

where the holding period is up to 1st year the whole gain will be taxable.

Where the holding period is between 1-10 years, 75% of the gain shall be taxed and

Where the holding period is beyond 10 years no gain shall be taxable.

✓ **For Constructed plots**

Gain on sale of constructed property is fully taxable if holding period is up to one year and

if holding period is between 1-5 years, 75% of gain shall be taxed

where the holding period is above 5 years, no gain shall be taxed.

- ***Changes in the taxation of real estate sector:***

✓ The rate of withholding tax on purchase of immovable property have been reduced from 2% to 1%. FBR will now issue revised rates of immovable property which would be closer to or about 85% of market value of immovable property.in case of purchase of property, the threshold of Rs.4 million have been abolished and now the immobile property would taxed irrespective of the value of property.

✓ Currently there is no withholding tax on sale of property if property is held for a period of more than 3 years. In case of sale of property; withholding tax would be collected where the holding period is up to 5 years. The restriction over purchase of property exceeding Rs.5 million for non-filer has been withdrawn.

- ***Rate of Tax for Salaried & Non salaried Individual***

Rate of taxation for salaried and non salaried individuals were proposed to be changed through the finance bill 2019. Earlier definition used for the classification of an individual person as salaried or otherwise is based on the proportion of such salary income in the total taxable income of the individual for the tax year. An amendment has been proposed whereby an individual shall be considered as 'salaried' if salary income constitutes seventy-five percent (75%) or more of the total taxable income for the year. Previously this threshold was fifty percent.(50%)

Further it is also proposes to increase the threshold of taxable income for salaried person to Rs 600,000 and earlier it was Rs 400,000.the proposed tables for the taxation of salaried and non-salaried individuals are as follows:

SALARIED INDIVIDUAL

Particulars	Tax Slab
Where the taxable income does not exceed Rs 600,000	0%
Where the taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	5% of the amount exceeding Rs 600,000
Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 1,800,000	Rs 30,000 + 10% of the amount exceeding Rs 1,200,000
Where the taxable income exceeds Rs 1,800,000 but does not exceed Rs 2,500,000	Rs 90,000 + 15% of the amount exceeding Rs 1,800,000
Where the taxable income exceeds Rs 2,500,000 but does not exceed Rs 3,500,000	Rs 195,000 +17.5% of the amount exceeding Rs 2,500,000
Where the taxable income exceeds Rs 3,500,000 but does not exceed Rs 5,000,000	Rs 370,000 + 20% of the amount exceeding Rs 3,500,000
Where the taxable income exceeds Rs 5,000,000 but does not exceed Rs 8,000,000	Rs 670,000 + 22.5% of the amount exceeding Rs 5,000,000
Where the taxable income exceeds Rs 8,000,000 but does not exceed Rs 12,000,000	Rs 1,345,000 + 25% of the amount exceeding Rs 8,000,000
Where the taxable income exceeds Rs 12,000,000 but does not exceed Rs 30,000,000	Rs 2,345,000 + 27.5% of the amount exceeding Rs 12,000,000
Where the taxable income exceeds Rs 30,000,000 but does not exceed Rs 50,000,000	Rs 7,295,000 + 30% of the amount exceeding Rs 30,000,000
Where the taxable income exceeds Rs 50,000,000 but does not exceed Rs 75,000,000	Rs 13,295,000 + 32.5% of the amount exceeding Rs 50,000,000
Where the taxable income exceeds Rs 75,000,000	Rs 21,420,000 + 35% of the amount exceeding Rs 75,000,000

NON SALARIED INDIVIDUAL

Particulars	Tax Slab
Where the taxable income does not exceed Rs 400,000	0%
Where the taxable income exceeds Rs400,000but does not exceed Rs 600,000	5% of the amount exceeding Rs 400,000
Where the taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	Rs 10,000 + 10% of the amount exceeding Rs 600,000
Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,400,000	Rs 70,000 + 15% of the amount exceeding Rs 1,200,000
Where the taxable income exceeds Rs 2,400,000 but does not exceed Rs 3,000,000	Rs 250,000 +20% of the amount exceeding Rs 2,400,000
Where the taxable income exceeds Rs 3,000,000 but does not exceed Rs 4,000,000	Rs 370,000 + 20% of the amount exceeding Rs 3,000,000
Where the taxable income exceeds Rs 4,000,000 but does not exceed Rs 6,000,000	Rs 620,000 + 30% of the amount exceeding Rs 4,000,000
Where the taxable income exceeds Rs 6,000,000	Rs 1,220,000 + 35% of the amount exceeding Rs 6,000,000

- ***Conversion of final tax regime to minimum tax regime:***

  - ✓ It is proposed that the Final tax regime currently available to commercial importers, commercial suppliers, contractors, person deriving brokerage or commission income and persons earning from CNG stations the tax collected from above mentioned persons shall now be treated as minimum tax liability
  - ✓ Certain exclusion are also proposed to be maintained as it is for exporters, persons winning prizes and sellers of petroleum products.

- ***Tax on dividend:***

  The rate of dividend received on shares of power generations companies or share of a company supplying coal exclusively to power generation projects has been increased from 7.5% to 15%.

- ***Initial allowance on building:***

  Initial allowance on buildings has been abolished.

- ***Tax treatment of profit on debt:***

  The rates for profit on debt have been revised as follows.

Amount	Previous	Proposed
Rs.5 m	10%	15%
Rs.5-25m	12.5%	17.5%
Rs.25-36m	15%	20%

- ***Avoidance of profit shifting to dealers:***

  Amount of commission paid exceeding 0.2 of gross amount of supplies shall be disallowed unless the dealer is register under the sales tax act 1990 and also appearing in active tax payer list of income tax.

  If the excess commission has paid to an associate dealer 75% of margin paid to dealer shall be treated as income of supplier.

- ***Change in limit of foreign remittance as source of investment:***

  The limit of foreign remittance as source of investment has been reduced from Rs.10m to Rs.5m.

- ***Change in useful life of intangible asset:***

  Where the life of any taxable intangible asset is not ascertainable it should be amortized over a period of 25 years.

- **Assets Purchased through banking channel**

  Person purchasing immovable properties having market value exceeding Rs. 5 million (1 million in case of any other asset) would be required to make payment through a crossed banking instrument.

  In case of non-compliance of above provisions, any deduction shall not be allowed and penalty at the rate of FBR value of asset shall be imposed.

- ***Tax credit under section 100C:***

  Non profit organizations shall be allowed 100% credit only if they are recognized by commissioner according to prescribed procedure. The same procedure shall be followed for trust and welfare institutions.

- ***New business registration scheme:***

  Every person deriving income from business shall be liable to register though NADRA e saholat Centre. However, where the income from business is lower than threshold shall not be liable to file return.

- ***Independent evaluation of an-arm length transactions between associates:***

  In order to obtain data about fair market value it is proposed to empower the commissioner to obtain such information from an independent chartered accountant or cost accountant if such information is not readily available.

- ***Powers to amend the order of recovery from withholding agent:***

  A provision is proposed to amend the order of recovery subject to condition that such powers shall not be exercised by officer below the rank of Additional Commissioner of Inland Revenue.

- **Definition of resident individual**

  Amendment in the definition of the resident individual is proposed. As follows:

  <u>*An individual present in Pakistan for a period of, or periods amounting in aggregate to, 90 days or more in the tax year and who in the four years preceding tax year, has been in Pakistan for a period, or periods amounting in aggregate,365 days or more.*</u>

- **Automated impersonal tax regime**

  A new provision has been introduced which authorizes the board to design an automated impersonal tax regime and prescribed rules in respect of same through a notification in the gazette.

- **Proceedings against person involve in financial malpractices:**

  New provision which prescribe rules for initiating criminal proceeding against the officers and officials of board who deliberately commit acts of or fail to act for personnel benefits has been introduced.

- ***Transactions under dealership arrangements:***

  If a person supplies products listed in the Third Schedule to the Sales Tax Act, 1990 or any other products as prescribed by the Board, under a dealership arrangement with the dealers who are not registered under the Sales Tax Act, 1990 and are not appearing in the active taxpayers list under this Ordinance, an amount equal to seventy-five percent of the dealer's margin shall be added to the income of the person making such supplies.

- ***Restriction of proceedings:***

  Where any person entitled to declare undisclosed assets, undisclosed expenditure and undisclosed sales under the Assets Declaration Act, 2019 declares such assets, expenditures or sales to pay tax, no proceedings shall be undertaken under this Ordinance in respect of such declaration.

- ***Prosecution for concealment of an offshore asset***

  Any person who fails to declare an offshore asset to the Commissioner or furnishes inaccurate particulars of an offshore asset and revenue impact of such concealment or furnishing of inaccurate particulars is one hundred thousand rupees or more shall commit an offence punishable on conviction with imprisonment up to seven years or with a fine up to two hundred percent of the amount of tax evaded or both.

- ***Prosecution for non-compliance with notice:***

  Any person who, without reasonable excuse, fails to comply with a notice under sub-section (2) of section 116A; shall commit an offence punishable on conviction with imprisonment up to two years or with a fine up to a penalty of two percent of the offshore asset not declared or both.

- ***Prosecution for enabling offshore tax evasion:***

Any enabler who enables, guides or advises any person to design, arrange or manage a transaction or declaration in such a manner which results in offshore tax evasion, shall commit an offence punishable on conviction with 129 imprisonment for a term not exceeding seven years or with a fine up 5 million rupees or both.

- ***Enhanced rate of tax on taxable income from Federal Government securities:***

The taxable income arising from additional income earned from additional investment in Federal Government securities for the tax years 2020 and onwards, shall be taxed at the rate of 37.5% instead of the rate provided in Division II of Part I of the First Schedule-

- ***Full time teacher & researcher tax credit***

It is proposed to reduce the tax credit on the salary of teacher & researcher existing from 40% to 25%.

Further, it is proposed that the tax credit shall not be available to a full time teacher or researcher of a government training institution and to the teachers of medical profession who derive income from private medical practice or who receive share of consideration from patients.

- ***Tax Credit on BMR.***

The tax credit in respect of investments made in balancing, modernization and replacement, etc. will not be available in respect of plant and machinery installed after June 30, 2019 as against June 30, 2021 under the current provision, however, the carry forward of unabsorbed tax credit relating to prior years shall continue to apply after June 30, 2019. The rate of tax credit for tax year 2019 is also proposed to be reduced from 10% to 5% of the amount of eligible investment.

- ***Special procedure for certain persons / sectors***

It is proposed that special procedure for scope and payment of tax, record keeping, filing of return and assessment in respect of following persons in such cities and territories as may be specified shall be prescribed by the Federal Government:-

- ✓ Small businesses;
- ✓ Construction businesses;
- ✓ Medical practitioners;
- ✓ Hospitals;
- ✓ Educational Institutions; and
- ✓ Any other sector specified by the Federal government

Requirement to file a return of total income

It is purposed to change the requirement of filing of a return by a Persons owning immovable property with land area of 250 sq yards or more to be enhanced to 500 sq yards or more.

- ***Due date of filling of return by Salaried Individual***

The due date for filing return of income by salaried individuals is proposed to be September 30th instead of August 31st immediately succeeding the end of tax year

- ***Exemption of Armed Forces Personals***

It is proposed that the exemption on allowances paid to Armed Forces Personnel shall be extended to include the following: -

- ✓ Internal security allowance
- ✓ Compensation in lieu of bearer allowance

- ***Selection of audit once in three years***

  Through Finance Act, 2018, it was introduced that a taxpayer shall not be selected by the FBR and the Commissioner Inland Revenue (CIR) in terms of sections 177 and 214C of the Income Tax Ordinance, 2001 for a tax audit where its income tax affairs were already audited in any of the preceding three tax years. The said relief is now proposed to be withdrawn.

- ***Withholding statements***

  Before the proposed amendment through finance bill 2019 the following persons are <u>not required to</u> furnish the details relating to name, CNIC, NTN and address of the withholdees:

  (i) manufacturer, distributor, dealer and wholesalers, making sales of certain goods to retailers; and

  (j) (ii) banking companies collecting / deducting tax on cash withdrawals and profit on debts.

  It is now proposed that such relief be withdrawn

SALES TAX

- ***Fixed Rate of Sales Tax On Brick kilns***

Brick kiln are proposed to be taxed at fixed rate as under

Category A	Rs 12,500 pm
Category B	Rs 10,000 pm
Category C	Rs 7,500 pm

- ***Reduction in ST Rate for Food Supplied By Restaurants and Bakeries***

It is proposed to reduce the rate of sales tax is reduced from 17% to 7.5%.

Further proposed that such registered persons shall not be allowed to adjust the related input tax. As the sector is undocumented and related raw materials are also exempted from tax such as meat, vegetables, flour etc.

- ***Reduction of Sales tax rate on Concentrated Milk (Powder)***

This rate of sales tax is proposed to rationalize the same because the sales tax regime on various forms of milk is uneven. Milk and cream, concentrated, and unsweetened /unflavored is subject to a higher rate. While the sweetened on enjoying exemption .Now both the categories are proposed to be taxed @10%.

- ***Enhancement in the scope of Third Schedule***

Third Schedule covers the goods manufactured in Pakistan, however, it is now proposed to include items imported of similar nature by importers through necessary amendments in the following provisions.

✓ Definition of retail price
✓ Definition of value of supply
✓ Scope of levy of tax on retail price

Further the following items are proposed to be included in the third schedule regime

✓ electric and gas appliances
✓ foam
✓ confectionary
✓ lubricants (in retail packing)
✓ batteries, tyres / tubes etc.

- ***Cottage Industry Definition Introduced***

Finance bill FY 2019-2020 proposed some substitutions in definition of cottage industry. According to these amendments cottage industry means a manufacturing concern, which fulfils each of following conditions, namely:

a) Does not have an industrial gas or electricity connection;
b) Is located in a residential area;
c) Does not have a total labour force of more than ten workers and
d) Annual turnover from all supplies does not exceed two million rupees.

- ***Proceedings against persons***

A new proviso section 33A is proposed to be inserted which includes that the Board shall prescribe rules for initiating criminal proceedings against any authority mentioned in section 30 to 30DDD including any person subordinate to the aforesaid authorities, who willfully and deliberately commits or omits an act which results in personal benefits and undue advantage to the authority or the person or taxpayer or both.

- ***Liability for payment of tax in case of private companies or business enterprises***

  It is proposed that any director, partner or shareholder, who pays tax liability of the company or business enterprise

  1. Shall be entitled to recover the tax paid by him from the said company or business enterprise, or
  2. Shall also be entitled to recover A share of the tax from other director or partner, or a share in the proportion of holding from another shareholder, as the case may be.
  3. The provisions of this Act shall apply to any amount due under this section as if it were tax due under an order for assessment made under this Act.

- ***Withdrawal of Zero Rating of Utilities (gas, electricity and fuels)***

  Zero-rating of utilities (gas, electricity and fuels) allowed to the export oriented sectors through various sales tax general orders proposed to be withdrawn.

- ***Reduced ST Rate for Ginned Cotton***

  It is proposed that the Ginned cotton which is presently exempt from levy of sales tax to be taxed subjected to reduced rate of 10%.

- ***Exclusion of zero-rating on import and Supply of polyethylene and polypropylene***

  It is proposed to rescind notification no. SRO. 769 (I)/2009, dated 4th September, 2009, which grants zero-rating on import and supply of polyethylene and polypropylene for manufacture of mono filament yarn and net cloth, being similar in nature to SRO 1125, and that granting zero-rating to local supplies is to be discouraged.

- ***Change in the Retailers Regime***

  To rationalize tax on retailers and to capture its full potential retailers are to be divided under tiers as follows: Tier-I retailers are as follows

  a retailer operating as a unit of a national or international chain of stores;

  - ✓ a retailer operating in an air-conditioned shopping mall, plaza or center, excluding kiosks;
  - ✓ a retailer whose cumulative electricity bill during the immediately preceding twelve consecutive months exceeds Rupees six hundred thousand;
  - ✓ a wholesaler-cum-retailer, engaged in bulk import and supply of consumer goods on wholesale basis to the retailers as well as on retail basis to the general body of the consumers;
  - ✓ a retailer whose turnover during the preceding twelve months exceeds Rs. 5 million;
  - ✓ a retailer running business in a premises having covered area of more than one thousand sq. ft.

  The Finance Bill proposes the following conditions to Tier I retailers:

  1. Retailers be made mandatory to integrate their points of sales (POSs) with FBR's Computerized System so that the sales are reported in real time.
  2. Customers will be allowed cash back of up to 5% of the sales tax charged on invoices on retention.

Restoration of Normal Regime for Steel Sector

Sales tax from steel sector is collected through electricity bills at Rs. 13 per KWH. Imported scrap used in making billets is subject to sales tax at Rs. 5,600 / MT which is adjustable. For ship-breakers, ships imported for breaking are exempt from payment of sales tax. However, for ship plates obtained from breaking of ship, sales tax is payable at Rs. 9,300 per MT. Further, steel industry set up in tribal areas is exempt from payment of sales tax and steel units in other areas are not able to compete with them. In order to do away with this complex regime, it is proposed as under:

- ✓ The special procedure may be scrapped and these items be brought in normal tax regime.
- ✓ Billets, ingots, bars, ship plates and other long profiles may be subjected to FED at 17% in sales tax mode for the reason that there is no exemption from FED for tribal areas.
- ✓ Sales tax payable on these products on imports and by manufacturers may be exempted. Minimum benchmarks are also being set of electricity consumption and production.

Increase in Rate of Tax on sugar

Presently Sugar is subject to sales tax at 8%. In order to generate much need revenue, it is proposed that the sales tax rate on sugar may be enhanced to 17%.

Chargeable Fixed value of CNG Enhanced

Since then CNG prices have been de-regulated and CNG prices have risen. Further gas tariff has also been raised. In order to realize due sales tax from this Sector, it is proposed to re-notify the value for sales tax on supply from gas Distribution Company to CNG dealers. So, the prices are being changed for region I from 64.80/kg to 74.04/kg for region II from Rs. 57.69/kg to 69.75/kg.

Increase in ST on Import & Supply of Finished Leather & Textile Products

The rate of sales tax on import and supply of finished articles of leather and textile sector is being increased to 17% .However, all those branded outlets which will be integrated through electronic fiscal devices with FBR online system shall be charged sales tax @15%.

Withdrawal of Exemption from Certain items under sixth schedule

It is proposed to withdraw the exemption of certain items by excluding from the Sixth Schedule and brought into the normal tax ambit if sold in retail packing and with a brand name. exclusion proposed are

1. Frozen Sausages,
2. meat if Preserved,
3. fat filled milk and
4. cereals other than those of wheat and meslin.

Gold Silver Diamond & Jewelry included in eight Schedule

It is proposed to introduce reduced rate/minimal tax rate of 1% on gold and silver. Similarly, presently, jewelry is taxed on the basis of making charges only.

Based on regional models, it is proposed that gold in jewelry may be taxed at 1.5%, diamond at 0.5% and making charges at 3%, with input adjustment Available only in respect of gold.

- ***Special procedure Rules for Marble industry***

  Presently, sales tax is payable by marble industry under special procedure whereby sales tax is charged at Rs. 1.25 per unit of electricity consumed. In view of low yield of this tax, it is proposed that special procedure may be done away with and standard regime of 17% be restored

- ***Simplified Sales tax Registration process***

  It is proposed to issue sales tax registration, through an automated interface without any physical contact with the tax officers. Biometric verification shall be done within a month of registration through NADRA Sahulat centers.

- ***Insertion of Section 58***

  It is proposed to incorporate provisions enabling directors / partners to recover the paid amount from company, on the same pattern as already provided in Income Tax Ordinance, 2001.

FEDERAL EXCISE DUTY

- ***FED on Packaged non aerated sugar / Flavored Juices syrups & Squashes***

The federal excise duty on non-aerated packaged sugary drinks, such as juices, syrups and squashes are proposed to be subjected to FED at 5% of retail price. In order to generate revenue and also to provide level playing field for aerated water which are proposed to be subjected to higher FED at 14%.

- ***FED on Locally Manufactured / assembles Cars***

It is proposed to rationalize and reduce this levy on locally manufactured / assembled cars, as previously FED on locally manufactured / assembled cars of 1700 cc and above was @10%. the following slabs are being proposed:

- ✓ Cars from 0 to 1000cc 2.5%
- ✓ Cars from 1001cc to 2000cc 5%
- ✓ Cars from 2001cc and above 7.5 %

- ***Increase in rate on LNG***

Duty on LNG is proposed to be substantially increased from "Rs 17.18 per hundred cubic meter" to "Rs 10 per MMBTu" to bring it at par with that applicable on local natural gas.

- ***Withdrawal of exemption on Internet services foreign satellite bandwidth services***

In order to protect local services providers, it is proposed to withdraw exemption on services provided by foreign satellites and maintain exemption only on terrestrial bandwidth services Telecom services provided in Islamabad Capital Territory are subject to FED under the Federal Excise Act, 2005. However, internet services are presently exempt from payment of FED under Third Schedule to the Federal Excise Act, 2005 similarly, bandwidth services are also exempted from payment of FED.

- **Increase in FED on aerated water**

It is proposed to increase rate of FED on aerated waters from 11.5% to 14%.This increase will help in generating more revenue.

- ***Restoration of normal procedures for / increase in FED of ghee / cooking oil***

In order to do restore normal regime, in addition to measures included in the Finance Bill, the following notifications providing for Rs. 1/ kg and Rs. 0.40 per kg rates are proposed to be rescinded Accordingly, it is proposed to increase rate of FED to 17% on edible oils / ghee / cooking oil

- ***Increase in FED on Cigarettes***

It is proposed to enhance the rates and redefine the thresholds by abolishing the third tier introduced earlier. FED on cigarettes is levied on fixed rate basis

- ***Increase in FED on Cement***

Cement is chargeable to federal excise duty @ 1.5 per kg. It is now proposed to Increase federal excise duty on cement to Rs. 2 per kg

CUSTOM DUTY

Some of the prominent changes in related to custom duty are as follows.

- ***Reduced clearance period for import/export goods***

  Clearance period for imported /exported goods shall be reduced from 20 days to 15 days. The further extension period is also reduced from 10 days to 5 days

- ***Reduction of time limit for passing order***

  The time limit for passing order by the collector (appeals) is proposed to be reduced from 120 days to 90 days.

- ***Withdrawal of Powers of the collectors of Customs***

  The powers to determine the value is restricted to the director of customs valuation whereas the powers of collector of customs to determine the value are proposed to be withdrawn.

- ***Reduction in period of declaration of goods***

  The period of the declaration of goods by the owner for home consumption, warehousing and transshipment is proposed to be reduced from 15 days to 10 days.

- ***Increase in Custom duty***

  ✓ Withdrawal of concessional customs duty is proposed on following items: - Plant and Machinery for setting up industry in FATA - Lead acid batteries for telephone exchanges - Set top boxes used for internet, TV broadcast transmitters, reception apparatus for receiving satellite signals and other set top boxes

  ✓ Custom duty on LNG is proposed to be increased from 0% to 5%.

- ***Additional Custom duty***

  Additional Customs Duty is proposed to be increased on non-essential and luxury items.

- ***Filling of goods declaration***

  The time limit for filing of goods declaration and payment of duty, taxes and other charges has been proposed to be reduced from 15 to 10 days. The penalty for non-filing of the declaration within the stipulated time is proposed to be amended from PKR 15,000 to PKR 5,000 per day for the initial five days of default and at a rate of PKR 10,000 per day for each day of default thereafter.

- ***Clearance on provisional basis***

  At present, only importers are allowed to get the clearance of their consignments on provisional basis in case of a disputes to the value or classification thereof. It is proposed to extend this facility to exporters as well.

- ***Auction of goods not cleared with in time***

  Currently, the customs authority is allowed to auction the goods not cleared or warehoused or transshipped or exported or removed from the customs port within 20 days (extendable to further 10 days). It is proposed to reduce it to 15 days (extendable to further 5 days).

- ***Perishable goods warehousing period***

  Warehousing period for perishable items is proposed to be reduced from three months to one month. However, the Chief Collector of Customs is empowered to extend it for a period as may be deemed fit.

- ***Confiscation of goods***

  In case the value of imports or exports is mis-declared for illegal transfer of funds abroad, the goods are proposed to be confiscated.

- ***Exemption of duties on various tariff lines***

  In order to increase the exports and to secure domestic manufacturing sectors, the duties on more than 1600 tariff lines have been exempted or reduced.

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