SALIENT FEATURES

CUSTOMS SALIENT FEATURE – BUDGET FY 2018-19

RELIEF MEASURES

1. To standardize printing and preservation of Holy Quran, import of duty free paper weighing 60 g/m^2 is allowed besides extending this facility to Nashir-e-Quran registered with the government.

2. For promotion of exports, CD on raw materials / inputs (104 PCTs) withdrawn and (28 PCTs) reduced.

3. Reduction of CD on Multi-ply and Aluminum foil from 20% to 18% for Liquid Food Packaging Industry.

4. Reduction of CD on finished rooms (Pre-fabricated structures) from 20% to 10% for setting up of new hotels/motels.

5. To support dairy sector, CD exempted on bovine semen, and preparations for making animal feed reduced from 10% to 5% and import of fans for corporate dairy farmers allowed at concessionary rate of 3%.

6. Reduction of CD on growth promoters premix, vitamin premix, Vitamin B12 and Vitamin H2 for poultry sector from 10% to 5%.

7. To encourage local manufacturing of Optical Fiber Cables, CD on input materials i.e, Optical fiber (20%), Cable filing compound (11%), Polybutylene (20%), Fiber reinforced plastic (20%) and Water blocking/ swellable tape (11%) reduced to 5% besides reduction of RD on Optical Fiber Cables from 20% to 10%.

8. CD on specified equipment used in cinema industry reduced to 3%.

9. Withdrawal of 11% CD on acrylic tow.

10. Exemption of 3% CD on Micro Feeder Equipment used for food fortification.

11. Exemption of 5% CD on Tasigna (an anti-cancer medicines).

12. Reduction of CD on Acetic Acid from 20% to 16%.

13. Exemption of 16% CD on charging stations for electric vehicles.

14. Reduction of CD on plasters from 16% to 11%.

15. Reduction of CD on film of ethylene from 20% to 16% for Liquid Food Packaging Industry.

16. Reduction of CD on Carbon Black (rubber grade) from 20% to 16%.

17. Reduction of concessionary rate of CD from 10% to 5% on silicon electrical steel sheets for manufacturing transformers.

18. Exemption of 5% CD on specified LED parts and components for manufacturers of LED lights and Levy of 2% RD on LED bulb & Tubes, Energy Saving Bulbs & Tube to protect local industry.

19. Exemption of 3% CD on tanned hides in wet state.

20. Withdrawal of CD on two catalysts for use by PTA industry i.e. Hydrogen Bromide (11%) and Palladium-on-carbon (3%)

21. Reduction of CD from 16% to 8% on Coils of aluminium alloys used in manufacturing of Aluminium beverage cans

22. Reduction of CD on import of coal, across the Board, from 5% to 3%.

23. Reduction of CD on import of Fire fighting vehicles from 30% to 10%

24. Concessionary import of vintage or classic cars and jeeps at fix duty/taxes of US$ 5,000.

25. Reduction of CD from 50% to 25% and Exemption of 15% RD on Electric Vehicles and CD on kits of electric vehicle reduced from 50% to 10%.

26. Import of solar panels were exempted from the condition of 'local manufacturing' till 30th June 2018 which is extended till 30th June, 2019.

TARIFF RATIONALIZATION

1. Increase of CD on double-sided tape from 3% to 11%.

2. To protect domestic manufacturers, increase of CD on rickshaw tyres from 11% to 20%.

3. Increase of CD on Soya bean oil from Rs.9050/MT & Rs.10200/MT to Rs.12000/MT and Rs. 13,200/MT respectively.

4. Increase of CD on aluminum auto parts scrap from 30% to 35%.

5. Increase of CD on Di-octyl Terephthalate (DOTP) from 3% to 20%.

6. Reduction of CD from 16% to 11% and levy of 5% RD on Medium Density Fiber.

7. Reduction of CD on corrective glasses from 11% to 3%.

8. Reduction of CD on Lithium iron phosphate battery (LiFePO4) from 11% to 8%.

9. New PCT codes created for Radial tyres, CKD/SKD kits for home appliances, CKD / SKD of Mobile Phone, Semi-automatic washing machines, Petrol Generating sets, Kerosene based mineral oils, Relays, Fuses, Gear pumps and Turbo chargers for vehicles, Electric conductors, Light fittings with fixed/fitted LED/SMD, , Refrigerated out door cabinet designed for insertion of electric and electronic apparatus, Digital/Processed Printing Inks, DOTP (Di-Octyl Terephthalate) and Pigments and preparations based thereon.

REVIEW OF RD

1. Levy of 30% RD on export of waste & scrap of copper

2. Review of RD on non-essential and luxury items

3. 10% RD levied on CKD/SKD kits of specified Home Appliance

4. Levy of RD @ Rs.175/set on CKD/SKD kits of mobile phone

<u>REVENUE MEASURES:</u>

1. Increase of additional customs duty from 1% to 2%

SALES TAX & FEDERAL EXCISE BUDGETARY MEASURES (FY 2018-19)

The budgetary measures pertaining to Sales Tax & Federal Excise are primarily aimed at:

1. To provide exemption from sales tax on import of paper weighing 60 g/m2 by Federal or Provincial Governments and Nashiran-e-Quran registered with the Government for printing of Holy Quran as per quota determined by IOCO.

Enforced through Finance Bill, 2018, effective from 01.07.2018.

2. To waive the value addition tax @ 3% chargeable on import of LNG under Rule-58B of Sales Tax Special Procedure Rules, 2007.

Enforced through SRO ____(I)/2018, dated ____/2018, effective from 01.07.2018.

3. To provide reduced rate of sales tax from 17% to 12% on import of LNG by M/s PSO and M/s PLL and on supply of RLNG by these companies to M/s SNGPL.

Enforced through Finance Bill, 2018, effective from 01.07.2018.

4. To provide reduced rate of sales tax @ 3% on all fertilizers across the board and to provide for reduced rate from 10% to 5% on supply of natural gas to fertilizer plants for use as feed stock. Moreover, rate of sales tax on LNG imported by fertilizer manufacturers for use as feed stock is also being exempted.

Enforced through Finance Bill, 2018, effective from 01.07.2018.

5. Exemption from sales tax is being granted to Fans for Dairy Farms, Preparations for Making Animal Feed and Bovine Semen which are currently chargeable to sales tax at standard rate of 17% is being granted. Likewise, exemption from sales tax is also being provided to Fish Feed which is presently chargeable to sales tax @ 10%. Moreover, sales tax on agriculture machinery is also reduced from 7% to 5%.

Enforced through Finance Bill, 2018, effective from 01.07.2018.

6. Zero rating on import of potato is being granted retrospectively on 200,000 metric tonnes imported during the period 5th May, 2014 to 31st July, 2014.

Enforced through SRO ____(I)/2018, dated ____/2018, effective from 01.07.2018.

7. Exemption is being granted to Karachi Shipyard Engineering Works Limited on import of machinery, equipment, raw materials, components etc.

Enforced through Finance Bill, 2018, effective from 01.07.2018.

8. Exemption is being granted on import of 21 types of computer parts imported by manufacturers registered with and certified by Engineering Development Board for assembling and manufacturing of personal computers and laptops in accordance with quota determined by IOCO.

Enforced through Finance Bill, 2018, effective from 01.07.2018.

9. Exemption is being granted on import of promotional and advertising materials for display at exhibitions.

Enforced through Finance Bill, 2018, effective from 01.07.2018.

10. Reduced rate of sales tax @ 5% is being introduced on import of 19 items of cinematographic equipment for revival of film industry for five years subject to limitations and conditions imposed under the Customs Act, 1969.

Enforced through Finance Bill, 2018, effective from 01.07.2018.

11. Exemption of sales tax on import is being granted to plant and machinery on one time basis for setting up of Special Economic Zone and for installation in that zone by zone enterprises to align exemption from sales tax with the provisions of SEZ Act, 2012.

Enforced through Finance Bill, 2018, effective from 01.07.2018.

12. Zero rating is being restored on Stationery items under the Fifth Schedule to the Sales Tax Act, 1990..

Enforced through Finance Bill, 2018, effective from 01.07.2018.

13. Leather products ready for use are enjoying reduced rate of 6% of sales tax at import stage. Identical rate is also being provided on import of ready to use articles of artificial leather by specifying description and PCT headings of items of leather and artificial leather generally used by public.

Enforced through SRO ____(I)/2018, dated ____/2018, effective from 01.07.2018.

14. SRO 1125(I)/2011, dated 31.12.2011 is being amended to provide rate of further tax @1% on local supply of finished fabric.

Enforced through SRO ____(I)/2018, dated ____/2018, effective from 01.07.2018.

15. Exemption of extra tax and further tax @ 2% is being granted to Pakistani foam manufacturers.

Enforced through SRO ____(I)/2018, dated ____/2018, effective from 01.07.2018.

16. Exemption from sales tax on import of hearing aids at all types and kinds is being granted.

Enforced through Finance Bill, 2018, effective from 01.07.2018.

17. Exclusion from value addition tax on import of second hand worn clothing and footwear is being provided to grant relief to the general masses.

Enforced through SRO ____(I)/2018, dated ____/2018, effective from 01.07.2018.

18. The amount of tax to qualify for automatic stay till disposal of appeal by the Commissioner (Appeals) is being reduced from 25% to 10%.

Enforced through Finance Bill, 2018, effective from 01.07.2018.

19. Provisions for giving appeal effect under the Sales Tax Act, 1990 and the Federal Excise Act, 2005 are being introduced to facilitate the taxpayers by removing unnecessary disputes in quantification of tax liability pursuant to appeal order passed by Commissioner-IR (Appeals), Appellate Tribunal-IR, High Court or Supreme Court of Pakistan.

Enforced through Finance Bill, 2018, effective from 01.07.2018.

20. Exemption from federal excise duty is being granted on commission paid by State Bank of Pakistan and its subsidiaries to banking companies for handling banking services of Federal or Provincial Governments.

Enforced through Finance Bill, 2018, effective from 01.07.2018.

21. Restriction is being imposed that sales tax and federal excise audit of a registered person can be conducted only once in three years.

Enforced through Finance Bill, 2018, effective from 01.07.2018.

22. SRO 962(I)/2015, dated 30.09.2015 is being rescinded to provide for standard rate of sales tax on import and supplies of furnace oil.

Enforced through SRO ____(I)/2018, dated ____/2018, effective from 01.07.2018.

23. Input tax adjustment is being allowed on packing materials to five export oriented sectors covered under SRO 1125(I)/2011, dated 31.12.2011.

Enforced through SRO ____(I)/2018, dated ____/2018, effective from 01.07.2018.

24. Rate of sales tax is being reduced from 17% to 12% on import of lithium iron phosphate batteries (Li-Fe-PO4).

Enforced through Finance Bill, 2018, effective from 01.07.2018.

25. The rate of further tax under section 3(1A) of Sales Tax Act, 1990 is enhanced from 2% to 3%.

Enforced through Finance Bill, 2018, effective from 01.07.2018.

26. The rate of sales tax on import and supply of finished articles of leather and textile sector is being increased to 9%. However, all those branded outlets which will be integrated through electronic fiscal devices with FBR online system shall be charged sales tax @6%.

Enforced through SRO ____(I)/2018, dated ____/2018, effective from 01.07.2018

27. The rate of duty on locally produced cigarettes is being enhanced as under:

Tier	Existing Rate of FED	Proposed Rate of FED
Tier-1	3,740	3,964
Tier-2	1,670	1,770
Tier-3	800	848

Enforced through SRO _____(I)/2018, dated ____04.2018

28. Federal Excise Duty on cement is being increased from 1.25 per kg to Rs. 1.50 per kg.

Enforced through Finance Bill, 2018, effective from 01.07.2018

29. Rate of sales tax for steel sector is being increased to Rs. 13 per unit of electricity consumed. Moreover, the rate of sales tax for other allied steel industries i.e. ship breakers and re-rollers is also being rationalized.

Enforced through amendment of the Sales Tax Special Procedures Rules, 2007 with effect from 01.07.2018

30. Scope of services under Islamabad Capital Territory (Tax on Services) Ordinance, 2001 is being increased owing to the fact that services which are chargeable to sales tax in provinces are not chargeable to sales tax in Islamabad Capital Territory (Tax on Services) Ordinance, 2001.

Enforced through amendment SRO ____(I)/2018, dated 01.07.2018, effective from 01.07.2018

31. Input tax paid on import of scrap of compressors is being disallowed by making necessary insertions in section 8 of the Sales Tax Act, 1990.

Enforced through Finance Bill, 2018, effective from 01.07.2018

32. Currently d*efault surcharge is calculated @ KIBOR plus 3% per annum. The rate of default surcharge is being introduced at 12% per annum in the Sales Tax Act, 1990 and Federal Excise Act, 2005.*

Enforced through Finance Bill, 2018, effective from 01.07.2018

33. *N*on-adjustable/non-refundable sales tax @ 5% on import of capital goods, whether or not locally manufactured, for transmission line projects under Standard Implementation Agreement under Policy Framework for Private Sector Transmission Line Projects, 2015 and Projects Specific Transmission Services Agreement is being introduced.

Enforced through Finance Bill, 2018, effective from 01.07.2018

INCOME TAX

Relief Measures

- **Increase in threshold of taxable income:**

  In pursuance of the government's policy of providing relief to the common man and alleviating the hardship of persons having low incomes the Honorable Prime Minister in his press conference held on 5th April,2018 announced that threshold of taxable income would be enhanced from Rs.400,000/- to Rs.1,200,000/-. Subsequently, the Income Tax (Amendment) Ordinance, 2018 [Ordinance No.V of 2018] was promulgated on April 08, 2018.As per this Ordinance the enhanced threshold of taxable income shall apply with effect from 1st July, 2018.

- **Reduction in tax rates for individuals:**

  Presently, there are seven taxable slabs for non-salaried individuals with the highest slab having a tax rate of 35% whereas there are eleven taxable slabs for salaried individuals with the highest slab having a tax rate of 30%. In pursuance of the policy announced by the Prime Minister the Income Tax (Amendment) Ordinance, 2018 [Ordinance No. V of 2018] was promulgated on April 08, 2018. In a bid to provide relief to individuals (including salaried individuals) the maximum tax rate for all individuals has been reduced to 15% and five taxable slabs for all individuals have been introduced including a nominal tax slab of Rs.1000/- for persons earning income exceeding Rs.400,000/- upto Rs.800,000/- and another nominal income tax slab of Rs.2000/- for persons earning income exceeding Rs.800,000/- upto Rs. 1,200,000/-.

- **Reduction in corporate tax rates:**

  In a bid to promote and incentivize companies and bolster their competitiveness, the corporate tax rates shall be reduced from 30% in Tax Year 2018 to 25% in Tax Year 2023.The corporate tax rate will be 29% in Tax Year 2019 and will be reduced by 1% each year upto Tax Year 2023. i.e the corporate tax rate shall be

29% for Tax Year 2019, 28% for Tax Year 2020, 27% for Tax Year 2021, 26% for Tax Year 2022 and 25% for Tax Year 2023.

- **Reduction in Tax Rates for Association of Persons:**

  Consequent to reduction in tax rates for individuals through the Income Tax (Amendment) Ordinance, 2008, the tax rates for Association of Persons have become considerably higher compared to those for individuals which places the AoPs in a disadvantageous position. The existing threshold of taxable income for AoPs is Rs.400,000 and there are seven progressive tax slabs with the highest slab having a tax rate 35%. In order to ensure fair and equitable treatment and to encourage businesses formed as AoPs the highest tax rate for AOP's has been reduced to 30% and the existing seven slabs have been reduced to six slabs as under:-

S. No.	**Taxable Income**	**Rate of Tax**
(1)	(2)	(3)
1.	Where the taxable income does not exceed Rs.400,000	0%
2.	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.1,200,000	5% of the amount exceeding Rs.400,000
3.	Where the taxable income exceeds Rs.1,200,000 but does not exceed Rs.2,400,000	Rs.40,000 + 10% of the amount exceeding Rs.1,200,000
4.	Where the taxable income exceeds Rs. 2,400,000 but does not exceed Rs.3,600,000	Rs.160,000 + 15% of the amount exceeding Rs.2,400,000
5.	Where the taxable income exceeds Rs. 3,600,000 but does not exceed Rs.4,800,000	Rs.340,000 + 20% of the amount exceeding Rs.3,600,000
6.	Where the taxable income exceeds Rs. 4,800,000 but does not exceed Rs.6,000,000	Rs.580,000 + 25% of the amount exceeding Rs.4,800,000
7.	Where the taxable income exceeds Rs.6,000,000	Rs.880,000 + 30% of the amount exceeding Rs.6,000,000

- **Institution of tax reforms in the real estate sector:**

  Widespread tax reforms have been envisaged for streamlining the issues related to the real estate sector. The salient features of such tax reforms are as under:-

  (i) Property transactions shall be recorded at the value declared by the buyer and the seller.

  (ii) Property rates notified by FBR (for the purpose of collection of taxes on sale purchase of property) and DC rates are to be abolished.

  (iii) At the Federal level , a one percent adjustable advance tax from the purchaser on the declared value shall be collected and this tax shall replace the existing withholding tax on sellers and purchasers of property.

  (iv) Non-filers shall not be permitted to purchase property having declared value exceeding four million rupees.

  (v) Provinces shall be requested to abolish the provincial rates for the collection of stamp duty (commonly known as DC rates) and to collect a total of one percent tax under stamp duty and capital value tax on the value declared by the buyer and the seller of property.

  (vi) In order to deter under-declaration and consequent loss of revenue, FBR shall have the right to purchase any property within six months of registration by paying a certain amount over and above the declared value which may be 100 percent in the fiscal year 2018-19, 75 percent in the fiscal year 2019-20 and 50 percent in the fiscal year 2020-21 and thereafter.

  In order to implement the above measures, enabling provisions shall be incorporated in the Income Tax Ordinance, 2001. Detailed procedure(s) and the date of coming into force of the above measures shall be notified later.

- **Successive reduction in the rates of super tax:**

  Presently the rate of super tax under section 4B of the Income Tax Ordinance, 2001 is 4% for banking companies and 3% for persons other then banking companies having income of Rs.500 Million and above. In order to encourage, incentivize and increase the competitiveness of companies and to enable them to contribute optimally towards economic growth, super tax shall be gradually withdrawn. It will be continued at the same rate for the financial year 2017-2018, however, the rate of super tax for both banking as well as non-banking persons shall be reduced by 1% for each successive year starting from the financial year 2018-19**.**

- **Reduction in tax rate on undistributed profit:**

  Presently under section 5A of the Income Tax Ordinance, 2001 public companies are obliged to distribute at least 40% of their after tax profits through cash or issuance of bonus shares within six months of the end of the financial year, failing which such companies are subjected to tax @ 7.5% of their accounting profit (before tax). In order to create a balance between safeguarding the interest of shareholders as well as facilitating capital formation through retention of corporate profit earnings for future investments, the condition of distributing 40% of after tax profits is being reduced to 20% and the applicable tax rate on accounting profit in case of failure to distribute such dividend is being reduced from 7.5% to 5%.

- **Extension of tax credits upto 30th June, 2021:**

  Tax credit under section 65B is available to companies for the purpose of extension, expansion, balancing, modernization and replacement of plant & machinery at the rate of 10% of the amount invested. Further, tax credit under section 65D is available to companies setting up a new industrial undertaking for a period of five years. Tax credit under section 65E is available to companies for the purchase and installation of plant & machinery through at least 70% new equity. The above tax credits can be availed by companies making investments upto 30.6.2019. In order to incentivize investment and setting up of industrial undertakings /manufacturing concerns such tax credits are being extended for two more years upto 30th June, 2021.

- **Revamping the mechanism of Alternative Dispute Resolution:**
  The concept of alternative dispute resolution was introduced to provide an avenue for the expeditious settlement of disputes between FBR and taxpayers and to reduce the high pendency of cases at various appellate forums. Presently, the recommendation of the Alternative Dispute resolution committee is not binding upon the taxpayer or FBR, therefore it has not been effective in mitigating the hardship of taxpayers who are still compelled to go through a protracted litigation process. In a bid to make the mechanism of ADRC effective, the decision of the ADRC committee has been made binding upon both the taxpayer as well as the department pursuant to withdrawal of appeals by the taxpayer as well as the department. The composition of the members of ADRC shall also be changed to enable retired High Court Justices and tax professionals to be included in the Committee in addition to representatives of FBR.Remuneration for the members of the ADRC shall be as prescribed under the Income Tax Rules ,2002.

- **Abolition of automatic selection for audit on late filing of return:** Presently, a person is automatically selected for audit under section 214D of the Ordinance if return of income is filed after the due date specified under the law or after the extended time allowed by the Board or the Commissioner. The concept of automatic selection for audit causes hardship for taxpayers and may discourage new taxpayers. Section 214D relating to automatic selection for audit is therefore being omitted. Simultaneously, a penalty has been introduced whereby late filers of income tax returns shall not be entitled to have their names placed on the active taxpayers list nor will such late filers be entitled to claim brought forward losses for the tax year for which return is filed late.

- **Audit by Commissioner to be restricted to once in three years:**
  In order to facilitate taxpayers who may be subjected to audit repetitively, FBR in its audit policy has announced that a taxpayer shall not be selected for audit by the Board more than once in three years through computer ballot. However, under section 177 of the Ordinance the Commissioner may also select a case for

audit in successive tax years on the basis of reasons to be recorded in writing. In order to facilitate taxpayers who have been subjected to audit repeatedly the powers of a Commissioner to select a case for audit under section 177 of the Ordinance have been curtailed to once in three years except with the prior approval of the Board in exceptional circumstances.

- **Reduced rate of advance tax on banking transactions by non-filers:** Under section 236P of the Ordinance banks are obliged to collect advance tax at the rate of 0.6% from non-filers on non-cash banking transactions (such as transfer of funds through demand draft, pay order, cash deposit receipt cheques/clearing, online transfers, direct debit, telegraphic transfers etc) which are in excess of Rs.50,000/- per day. This rate has temporarily been reduced to 0.4% and is extended periodically pursuant to the recommendation of the ECC of the Cabinet. In order to provide certainty and to allay concerns regarding likelihood of restoration of 0.6% tax, such rate of tax for non-filers has been reduced to 0.4% on a permanent basis.

- **Withholding tax on issuance of bonus shares to be withdrawn:** Presently, receipt of bonus shares is included in the definition of income and withholding tax under section 236M and 236N of the Income Tax Ordinance, 2001 is charged @ 5% on the issuance of bonus shares to shareholders. In order to encourage capital formation and enable companies to issue bonus shares in lieu of dividends to improve their liquidity, withholding tax on issuance of bonus shares has been withdrawn and receipt of bonus shares has been ousted from the definition of income under the Income Tax Ordinance, 2001.

- **Enhancing limit of tax credit for investment in shares:**
  A resident person, other than a company, is allowed a tax credit for acquiring new shares offered by a public company listed on the stock exchange, sukuks offered by a listed company or upon payment of life insurance premium to a life insurance company. Such tax credit is limited to the extent of 20% of taxable income for the year, total cost of acquiring shares/sukuks or 1.5 Million Rupees

whichever is less.In order to incentivize investment in shares/sukuks the limit of 1.5 Million Rupees has been increased to 2 Million Rupees.

- **Reduction in Minimum threshold of payment of tax to preclude recovery of tax:**

  Presently under section 140 of the Income Tax Ordinance, 2001 taxpayers have the option of preventing recovery of tax through attachment of bank accounts etc, if 25% of the tax due is paid by the taxpayer during the pendency of appeal before the Commissioner (Appeals). In order to provide relief and facilitate taxpayers, the minimum threshold of payment of tax to preclude recovery of tax during pendency of first appeal has been reduced from 25% to 10% of the tax payable.

- **Increase in minimum threshold of tax deduction on payment for goods and services:**

  At present tax is deducted by withholding agents under section 153 of the Income Tax Ordinance, 2001 if payments for services exceeds Rs.10,000 and if payments for supply of goods exceeds Rs.25,000/-. In order to provide relief to withholding agents the minimum threshold of tax deduction on goods and services has been enhanced three-fold from Rs.10,000/- to Rs.30,000/- in the case of payments for provision of services and from Rs.25,000/- to Rs.75,000/- in the case of payments for supply of goods.

- **Obligation to act as withholding agent to be deferred to the succeeding year:**

  Individuals and AOP's become liable to act as withholding agents under section 153 of the Income Tax Ordinance, 2001 if their annual turnover exceeds Rs.50 Million per annum. Such persons are not prepared to discharge their obligations as a withholding tax agent immediately upon crossing the 50 Million threshold for turnover during the currency of a tax year. In order to provide relief, persons crossing the threshold of turnover of Rs. 50 Million during a Tax Year shall be obliged to discharge their obligations as a withholding tax agent in the succeeding tax year.

- **Reduction in penalty for failure to file withholding statements within the due date:**
  The existing penalty, under section 182 of the Ordinance for failure to file withholding tax statements within the due date is Rs. 2,500 per day subject to a minimum penalty of Rs.10,000/-. This penalty is perceived as severe for withholding agents who have nil liability to pay tax or for those who have deducted and deposited the tax withheld within the prescribed time limit but could not file withholding tax statement. In order to provide relief to withholding tax agents who have deposited tax within the due date but have failed to file their withholding tax statements, the minimum penalty for failure to file such withholding tax statements has been reduced from Rs.10,000/- to Rs.5000/- and only the proposed minimum penalty of Rs.5000/- may be imposed if withholding tax statement is filed within three months of the due date. However existing penalty of Rs. 2,500/- per day (from the due date of filing of withholding tax statement) would apply if the statement is filed after a period of three months from the due date.

- **Extension in reduced rate of minimum tax for large trading houses:** Companies qualifying as large trading houses upon fulfillment of certain conditions specified in clause (57) of Part-IV of the Second Schedule have the facility of reduced rate of minimum tax @ 0.5% up to the tax Year 2019. In order to promote and encourage the growth of such entities, the facility of reduced rate of minimum tax is being extended for another two years upto 30th June, 2021.

- **Relief for taxpayers filing returns in AJ&K and Gilgit–Baltistan:** Persons conducting various businesses/transactions within the territory of Pakistan and filing their income tax returns in the territories of AJ&K and Gilgit–Baltistan are subjected to higher withholding tax rates applicable to non-filers as their names do not appear in the Active Taxpayers list being maintained by FBR. In order to mitigate the hardship of such persons, it has been decided that the persons appearing on the Active Taxpayers List maintained by the Inland Revenue Department in AJ&K and the Gilgit–Baltistan Council Board of Revenue shall be treated as filers under the Income Tax Ordinance, 2001.

- **Collection of advance tax on purchase of property in installments:** Advance tax under section 236K of the Ordinance is collected from the purchaser of property at the time of transfer of such property. In cases where payments for purchase of property are made in installments the purchaser has to bear the entire burden of collection of such advance tax at the time of transfer or property. In order to provide relief to persons purchasing property in installments, advance tax on purchase of property shall be collected piecemeal with each installment.

- **Reduction in withholding tax rate of dividend paid by a REIT scheme:** Tax is required to be deducted at the rate of 12.5% from a filer upon payment of dividend by a REIT Scheme. In order to promote REIT schemes in Pakistan the rate of withholding tax on payment of dividend by a rental REIT Scheme to a filer has been reduced from 12.5% to 7.5%.

- **Exemption from withholding tax on issuance of bonus shares to Mutual Funds:**

  Income derived from mutual funds is exempt from income tax if not less than ninety percent of the accounting income of that year is distributed amongst shareholders. However, mutual funds are subjected to withholding tax @ 5% on issuance of bonus shares. In order to operationalize exemption from income tax already available to mutual funds, such funds have now been exempted from withholding tax on issuance of bonus shares.

- **Promoting microfinance banks:**

  Non-profit organizations, trusts and welfare institutions are entitled to 100% tax credit on their income from certain specified heads under section 100C of the

Income Tax Ordinance, 2001. One of the incomes that qualifies for credit under section 100C is profit on debt from scheduled banks. Resultantly, non-profit organizations are incentivized to keep their investments in scheduled banks instead of opting for microfinance banks. In order to promote microfinance banks, profit on debt derived by non-profit organizations from micro-finance banks shall also qualify as income eligible for 100% credit under section 100C of the Income Tax Ordinance, 2001.

- **Relief to members of the Stock Exchange:**

  The tax collected by the Stock Exchange from its members @ 0.02% on the purchase and sale of shares under section 233A of the Ordinance is currently treated as final tax. The tax on commission earned by members of the stock exchange has now been made adjustable.

- **Incentivizing film making in Pakistan:**

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

- **Exemption for allowances of Armed Forces Personnel:**

  Various allowances being given to Armed Forces Personnel i.e Kit allowance, Ration Allowance, Special Messing Allowance, SSG Allowance, Northern Areas Compensatory Allowance, Special pay for Northern Areas and Height Allowance are being exempted from tax.

- **Pakistan Mortgage Refinance Company Limited:**

  PMRC is a key initiative of the State Bank of Pakistan and has been established for promoting affordable housing finance for the middle and low income groups. It aims at expansion of the primary residential mortgage market by issuing bonds and sukuks to raise funds. In order to encourage this initiative aimed towards provision of affordable housing finance for middle and low income groups the income of Pakistan Mortgage Refinance Company is being exempted under clause (66) of Part-I of the Second Schedule to the Income Tax Ordinance, 2001. Exemption has also been accorded to income and gains derived by investors from PMRC bonds issued to refinance the residential mortgage market. Exemption has also been accorded to capital gains tax on the resale of PMRC bonds by the investors to encourage its marketing/increase its attractiveness

- **Rationalization of tax rate on the import of coal:**

  Tax collected @ 5.5% (from companies) and 6% (from persons other than companies) on coal imported by commercial importers/large trading houses constitutes final tax. In order to reduce the direct cost of manufacturing businesses utilizing coal, the tax rate on import of coal by manufacturers as well as commercial importers has been reduced to 4% for filers and 6% for non-filers.

REVENUE MEASURES

- **Carry forward of depreciation losses:**

  Presently unabsorbed depreciation losses can be carried forward indefinitely until they are completely absorbed /adjusted against business income. This tax regime leads to payment of less or nil tax liability for many years. The set off of brought forward depreciation losses have now been limited to the extent of fifty per cent of the business income for a Tax Year except in instances where the taxable income is upto Rs. 10 million. Hence taxpayers will still be entitled to carry forward unabsorbed depreciation losses indefinitely, however, such carry forward will be staggered over a greater number of years.

- **Withholding tax on payments remitted abroad through credit/debit/ prepaid cards:**

  Credit cards/debit cards are being utilized to pay for foreign travel, lodging, shopping etc and also for online shopping from merchants outside Pakistan. This results in outward flow of foreign remittance through the banks issuing such credit/debit cards. There is also a need to document such transactions in order to complement efforts aimed towards broadening of the tax base. Banks issuing credit /debit cards will now be obliged to collect 1% advance tax from filers and 3% advance tax from non-filers in respect of credit/debit card transactions resulting in outward flow of remittances from Pakistan.

- **Tax at import stage on commercial importers:**

  At present the tax collected under section 148 of the Income Tax Ordinance, 2001 from commercial importers at the import stage is final tax, therefore, commercial importers are not required to file their return of income and compute their taxable income. This leads to under-invoicing, domestic transfer pricing and evasion of tax. Tax collected from commercial importers at the import stage shall now constitute minimum tax instead of final tax, therefore, commercial importers shall be required to file their returns of income depicting their taxable income(s). This measure is also a step towards gradual phasing out of the final tax regime.

- **Rationalization of withholding tax rates for non-filers:**

  FBR has consistently espoused the policy of creating a distinction between compliant and non-compliant taxpayers. In order to enhance the cost of doing business for non-filers, withholding tax rates have been increased for non-filers in the case of supplies/sale of goods and contracts under section 153 of the Ordinance. For sales/supplies, the rate of tax for non-filers has been increased from 7% to 8% in the case of companies and from 7.75% to 9% in the case of persons not being companies. For contracts, the rate of tax for non-filers has been increased from 12% to 14% in the case of companies and from 12.5% to 15% in the case of persons not being companies.

- **Minimum tax for marriage halls:**

  Marriage halls, banquet halls, commercial lawns etc are mandated to collect 5% of the bill in respect of functions under section 236D of the Ordinance. In order to improve and streamline the collection of this tax, marriage halls are now required to collect either 5% of the bill or Rs.20,000/- per function in major cities and Rs.10,000/- per function in the remaining cities , whichever is higher.

- **Non-recognition of capital gain on gift to be restricted to relatives:** No gain or loss is taken to arise on the disposal of an asset by reason of a gift of the asset under sections 37 and 79 of the Ordinance i.e. it is treated as a non-recognition event, therefore, no liability for capital gains tax arises. Such non-recognition shall now be restricted to gifts given to “relatives” of an individual as defined in section 85(5) of the Income Tax Ordinance, 2001.

- **Payments made for services to permanent establishments of non-residents:**

  Tax deducted on payments to resident persons for rendering or providing of services under section 153(1)(b) of the Ordinance constitutes minimum tax whereas tax deducted on similar payments being made to permanent establishments of non-resident persons does not constitute minimum tax. This treatment is prejudicial to resident persons as they are at a comparative disadvantage viz-a-viz non-residents having permanent establishments in Pakistan. In order to provide a level playing field, the tax deductible on services rendered /provided by permanent establishments of non-resident persons shall also be treated as minimum tax.

- **Tax on Dealers Margin of a Petrol Pump Operator:**

  At present, OMC’s selling petroleum products to a petrol pump operator deduct tax @ 12% from filers and 17.5% from non-filers on commission or discount allowed to a petrol pump operator. As the prices of high speed diesel are to be deregulated tax on dealers margin shall now be collected on ex-depot sale price of HSD (excluding dealers margin) at the rate of 0.5% from a filer and 1% from a non-filer.

TECHNICAL MEASURES

- **Time limit for taking cognizance of concealed income arising outside Pakistan:**

  Cognizance of concealed income earned/arising in Pakistan can be taken within five years from the end of the financial year in which the return of income is filed in terms of the time limit delineated under section 122 of the Income Tax Ordinance, 2001. An amendment has been made in section 111(2) of the Income Tax Ordinance, 2001 whereby concealed income earned/arising from outside Pakistan may be taxed in the tax year prior to the year of discovery of such unexplained income or asset.

- **Foreign remittances through normal banking channels:**

  Prior to the promulgation of the Income Tax (Amendment) Ordinance, 2008 a person was not required to explain the nature as well as the source of any amount of foreign exchange which is remitted from outside Pakistan through normal banking channels and subsequently encashed into Pakistani Rupees by any scheduled bank .In order to discourage whitening of untaxed money and legitimizing tax evaded incomes through this conduit, amendment has been made in section 111(4) of the Ordinance whereby persons would be required to explain the source of investment if the amount of foreign remittances in a year exceeds Rs.10 million.

- **Furnishing of Foreign Income and Assets Statement:**

  A new section 116A has been inserted whereby it has been made mandatory for resident individuals to furnish a foreign income and assets statement alongwith return of income if such individual earns foreign income equivalent to or exceeding USD 10,000/- or is the owner of foreign assets having a value equivalent to or exceeding USD 100,000-. The foreign income and assets statement shall contain particulars/details regarding total foreign assets and liabilities (as on the last day of the Tax Year) as well as details of foreign assets transferred to another person during the tax year and consideration received in lieu of such transfer. Complete particulars of foreign income earned and the expenditures incurred for earning such income shall also be furnished through this statement.

- **Return of Income to be filed mandatorily by a person required to furnish Foreign Income and Assets Statement:**

  If an individual meets the conditions stipulated in section 116A of the Income Tax Ordinance,2001 with respect to earning of foreign income or ownership of foreign assets, such individual shall mandatorily be required to file return of Income Tax alongwith foreign income and assets statement in terms of section 114(2)(f) of the Ordinance.

- **Time limitation for issuance of a notice calling for return of income in case of foreign income /assets:**

  Through the Income Tax (Amendment) Ordinance, 2018 a proviso has been added in sub-section (5) of section 114 whereby the time limit for issuance of a notice calling for return shall not apply if the Commissioner is satisfied on the basis of reasons to be recorded in writing that a person who failed to furnish his return has foreign income or owns foreign assets.

- **Penalty for failure to furnish Foreign Income and Assets Statement:** A person who fails to furnish Foreign Income and Assets statement within the due date shall also ,be subject to levy of penalty of 2% of the foreign income or value of the foreign assets for each year of default under section 182 of the Income Tax Ordinance, 2001.

- **Purchase of property by non-filers:**

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

- **Purchase of new motor vehicles:**

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

- **Time limitation in best judgement assessment:**

  Notice to furnish a return of income under section 114(4) of the Income Tax Ordinance, 2001 can be issued for one or more of the last ten completed tax years to a person who has not filed return of income for any of the last five tax years. However, presently best judgement assessment under section 121 of the Ordinance can only be made for the last five years .Necessary amendment has been made whereby best judgement assessment under section 121, in the aforementioned instance can be made within two years from the end of the tax year in which notice to file return of income has been issued.

- **Legal cover to electronic service of notices**:

  Necessary amendment has been made in section 218 of the Income Tax Ordinance, 2001 to grant legal sanctity to service of notices through electronic mode.

- **Builders and Developers specified as withholding agents:**

  Individuals and AOP's having turnover of Rs. 50 Million or above in a Tax Year are obliged to act as withholding agents whilst making payments for goods, services and contracts under section 153 of the Income Tax Ordinance,2001. Builders and Developers have now specifically been included in the ambit of withholding tax agents for the purpose of section 153 of the Ordinance regardless of the quantum of their turnover.

- **Allowing credit of tax to companies as per their share in an AOP:**

  In cases where a company is a member of an association of persons, the company has to file a separate return in respect of its share of income in the AOP. However, tax is deducted in the name of the AOP and the company is unable to take credit of tax deducted against income declared by the company. In order to alleviate the hardship of companies being members of an AOP, necessary amendment has been made to enable companies to take credit of tax deducted in the name of the AOP in the same proportion as the share of the company in the profits of the AOP.

- **Exemption from capital gains on disposal of immovable property by dependents of Shaheeds:**

  Capital gains on sale of immovable property by a dependent of a Shaheed belonging to Pakistan Armed Forces as well as dependent of a person who dies in service of Pakistan Armed Forces or Federal or Provincial Government is taxed at the rate of 0% irrespective of the holding period. However, zero percent rate is applicable to persons mentioned in sub-section (4) of section 236C which was omitted through the Presidential Order dated 31.08.2016. Necessary amendment has been made to ensure grant of exemption to dependents of the above persons as originally intended.

- **Streamlining procedure for payment of advance tax:**

  At present, a taxpayer can file a lower estimate of advance tax without furnishing any basis of such lower estimate. Provisions of law have been streamlined so that a lower estimate is accompanied by an estimate of the turnover of the remaining quarters, reasons for any projected decline in turnover, documentary evidence of any claim of expenses resulting in lowering of estimate and computation of estimated taxable income. In case the estimate is not supported with adequate basis, the Commissioner shall have the mandate to reject the lower estimate and the taxpayer shall be required to pay advance tax on the basis of his turnover for the quarter.

  In order to streamline computation of advance tax where the taxpayer has not paid advance tax and his turnover for the quarter is not known, turnover for the quarter shall be taken to be 10% higher than one-fourth of the turnover for the year.

Banking companies are required to pay advance tax in 12 monthly installments but lower estimate is not allowable as per the Seventh Schedule. The existing provision of law has been clarified by technical amendments in the Seventh Schedule. Furthermore, banks are required to pay advance tax in 12 “equal” installments , however, banks interpret the term “equal” to imply that the amount of advance tax paid in the first month shall also be paid in all subsequent months.An enabling provision has been provided in law for collection of advance tax from banks on the basis of their actual income.

- **Foreign loss of Branch of a Resident Bank:**

  As per section 104, a foreign-source loss of a person shall be carried forward and adjusted only against foreign income of the person. Resident banks having foreign branches adjust their foreign-source loss against their Pakistan-source income. Banks are allowed provisions for advances and off balance sheet items but where such deductions in respect of foreign branches results in loss, such loss can only be adjusted against foreign source income. Necessary amendment in line with section 104 has been introduced in Rule 1(c) of the Seventh Schedule to the Ordinance so that provisions for advances and off balance sheet items of foreign branches of resident banks cannot be claimed as a deduction against their income.

- **International obligations:**

  During the last three to four years Pakistan has become signatory to various international tax agreements. The primary purpose of these agreements is to prevent profit shifting from Pakistan and safeguard our tax base. Through these agreements data would be exchanged between various tax jurisdictions. International tax organizations such as OECD, UN and CATA would facilitate jurisdictions in plugging anti-abuse measures in the domestic tax laws through their recommendations. Obligations on part of the signatories to adopt these measures are commonly known as BEPS Action Points (Base Erosion and Profit Shifting). Out of a total of 15 actions proposed by OECD, five have already been implemented by Pakistan. Four actions are required to be implemented through administrative measures and assistance by international tax auditors in audit. The following six anti-abuse provisions shall now be implemented:-

i. Splitting of contracts (Avoiding tax by splitting the composite contracts into number of contracts).

ii. Offshore indirect transfers (Taxation of gain arising on transfer of assets located in Pakistan and transferred to non-residents outside Pakistan through sale of shares indirectly).

iii. Taxation of Offshore digital services (Availing current loopholes in tax legislation to avoid payment of tax in Pakistan by non-residents whereas residents are taxable).

iv. Abuse of treaty provisions (Designing a tax avoidance scheme by introducing a new entity with no economic substance in jurisdictions with which Pakistan has favourable treaties).

v. Re-characterization of income (The provision of law is already in the Ordinance and is to be streamlined in accordance with international best practices to plug tax avoidance loopholes).

vi. Controlled Foreign Companies Rules (Taxing passive income parked outside Pakistan by domestic multinational companies for tax deferral).