Highlights

Income Tax

- Deemed income on concessional loans to salaried tax payers shall not be computed for loans upto Rs. 500,000. Further, benchmark rate for computing such deemed income capped at 10%
- Exempt income threshold for individuals and Association of Persons enhanced from Rs. 350,000 to Rs. 400,000 and slabs revised having effect of reduction in tax
- AOPs to be taxed at progressive rates applicable to non-salaried individuals instead of flat rate of 25%
- Dividend received by banks from money market funds and income funds to be taxed @ 25% for tax year 2013 and @ 35% for tax year 2014 onwards instead of @ 10%
- Petroleum E&P companies may opt to pay tax @ 40% of profits and gains net of royalty for tax year 2012 onwards subject to withdrawal of pending appeals etc, and payment of outstanding tax liability upto tax year 2011 by 30 June 2012
- Rate of initial allowance on building reduced from 50% to 25%
- Limit of investment in shares and life insurance policy enhanced for the purpose of tax credit. Further, holding period of shares reduced from three to two years
- Tax credit @ 10% of amount invested for BMR also available against minimum tax and final tax
- Tax credit for BMR allowed to industrial undertakings set up upto 30 June 2011 @ 20% of amount invested
- Tax credit @ 100% of tax payable allowed to new industrial undertakings for corporate dairy farming
- Tax credit @ 100% of tax payable, including minimum tax and final tax liability, allowed to existing company investing 100% new equity through new shares for industrial undertaking including corporate dairy farming
- Gain on disposal of immovable property held for up to one year to be taxed @ 10% and held for upto two years @ 5%
- Manufacturers to collect tax @ 1% from sales to distributors, dealers and wholesalers which shall be adjustable against tax payable by such persons
- Threshold for withholding tax on daily cash withdrawals increased from Rs. 25,000 to Rs. 50,000
- No more withholding of tax by stock exchanges on carryover trades - NCCPL to collect withholding tax @ 10% on margin financing in share business
- Commercial importers, exporters and suppliers may opt out of final tax regime provided their tax liability under normal tax regime is not less than 60%, 50% and 70% of tax collected / deducted at source respectively

- Compensation / additional payment for delayed refund to be paid @ 15% per annum instead of KIBOR per annum
- Default surcharge for delayed payment of tax, advance tax and withholding tax to be calculated @ 18% per annum instead of KIBOR plus three percent per quarter
- Amendments made through Finance (Amendment) Ordinance 2012 regarding taxation of capital gains on shares and securities to be incorporated into the statute through the Act of Parliament
- Income exempt under any provision of the Ordinance including Second Schedule to be included in the scope of "total income" for tax rate purposes
- Additional payment on delayed refunds to be taxed as "income from other sources"
- Tax paid or payable as final tax to be excluded for the purpose of computing minimum tax
- Return of income cannot be revised to declare taxable income less than or loss more than that determined by a best judgment order, a revised order, a provisional order, an amended order, an appeal effect order or a rectified order
- Notice for pointing out deficiency in return may be issued within 182 days from the end of financial year in which the return is furnished instead of by the end of such financial year
- Best judgment assessment made for non-filing of statement of final taxation or wealth statement to prevail over deemed assessment on the basis of return or revised return filed by the tax payer
- Provisional assessment can also be amended by the Commissioner
- The Commissioner empowered to conduct enquiries for amendment of assessment order considered as erroneous and prejudicial to the interest of revenue
- Provisional assessment will be treated as final assessment if a company fails to file return of income alongwith audited or final accounts electronically within sixty days
- Appeal not permissible against provisional or final order under section 122C
- The Commissioner (Appeals) may grant stay against recovery of tax only upto 30 days after affording opportunity of being heard to the Commissioner
- Time limit to decide appeal by Commissioner (Appeals) within four months withdrawn
- The Commissioner, Commissioner (Appeals) or Collector having three years experience as Commissioner or Collector may be appointed as Member of Appellate Tribunal
- Accountant Member may be appointed as Chairperson of the Appellate Tribunal even in normal circumstances

- The Appellate Tribunal may stay recovery of tax upto one hundred and eighty days excluding the period for which recovery was stayed by High Court

- Tax payable as a result of provisional assessment may be paid prior to expiry of sixty days from the date of service of notice of demand

- Tax required to be collected, instead of tax collected, at import stage to be treated as final tax or minimum tax as the case may be

- Tax deductible, besides tax deducted, from profit on debt, payments to non-residents, export proceeds, prizes and winnings, commission or discount allowed to petrol pump operators and brokerage and commission to be treated as final tax

- Withholding tax @ 5% not to apply to insurance premium and re-insurance premium paid to permanent establishment in Pakistan of a non-resident person

- Tax deductible at source, which has not been deducted or short deducted, may be recovered from the recipient

- The Board empowered to make scheme for introduction of tax payer honour card for individual taxpayers who fulfill criteria to be prescribed

- Option given to the taxpayer to pay the amount of penalty voluntarily

- Default surcharge not to apply on payment of tax due after first appeal and non-filing of second appeal

- The Board and other authorities can exercise powers of subordinate authorities

- The Board may condone time limit for any act or thing to be done both by the taxpayer and by the tax authorities

- Rate of tax for retailers having turnover upto 5 million reduced from 1% to 0.5%

- Rate of advance tax on goods transport vehicle enhanced from Re. 1 per kg to Rs. 5 per kg

- Rate of advance tax on passenger transport vehicles plying for hire enhanced from Rs. 100 to Rs. 500 per seat per annum

- Advance tax on purchase of motor vehicle with engine capacity of 1301 cc to 1600 cc enhanced from Rs. 16,875 to Rs. 25,000

- Amounts received from income payment plan out of accumulated balance of pension accounts with a fund manager and / or other funds exempted from tax

- Any income of Citizens Foundation exempted from tax and donations made to the Citizens Foundation eligible for straight deduction

- Profits and gains of venture capital company and fund exempted from tax upto 30 June 2024
- Reduced rate of 3% for withholding tax at import stage for industrial undertaking importing raw material for its own use subjected to production of certificate from the Commissioner
- Inter-corporate dividend and inter-corporate profit on debt exempted from withholding tax
- Electronic media also exempted from withholding tax on advertising services
- Collective investments schemes, modarabas, approved pensions funds, income payment plans, REIT schemes, private equity and venture capital funds, recognized provident funds, approved superannuation funds and approved gratuity funds exempted from tax on capital gains on disposal of securities
- Rates of tax on gain on sale of securities for insurance companies revised downwards upto tax year 2015

Sales Tax

- Higher sales tax rates at 22% and 19.5% slashed to standard rate of 16%
- Sales tax rate on import of soya-bean seed reduced from 7% to 6%
- Sales tax rate on import of rapeseed, sunflower seed and canola seed slashed to 14% from 15%
- Supply of waste paper exempted from sales tax
- Sales tax on steel sector enhanced from Rs. 6 / Kwh to Rs .8 / Kwh
- Remeltable scrap, sprinkler & drip equipments, spray pumps, etc. exempted from sales tax instead of zero-rating
- Supplies against international tenders exempted instead of zero-rating
- Provisions relating to assessment and recovery of tax consolidated

Federal Excise

- FED abolished from 15 types of goods including lubricating oil, base lube oil, perfumes and toilet waters, beauty and make up preparations, preparation for use on the hair, pre-shave, shaving or after shave preparations, personal deodorants, filter rods for cigarettes etc.
- Rate of duty enhanced on locally produced cigarettes
- Rate of duty on cement proposed to be slashed from Rs. 500 PMT to Rs. 400 PMT

- FED on domestic and international travelling proposed to be enhanced at varied rates
- FED on international travelling proposed to be restricted to embarking on journey from Pakistan only
- Live stock insurance proposed to be exempted from FED
- Asset Management Companies proposed to be exempted from FED with effect from 01 July 2007

Customs

- Duty on certain sectors / industries is proposed to be reduced from 35% to 30%
- Duty on 88 pharmaceutical raw materials reduced
- Duty on printing, stationery and self-adhesive paper reduced
- Duty incentive to indigenous industry given

Capital Value Tax

- CVT on immovable property in Islamabad Capital Territory introduced
- CVT introduced vide Finance (Amendment) Ordinance, 2012 on purchase of listed shares to be enacted

Income Tax

Significant amendments

Total income

Sections 9, 10 & 53

The heads of income specified in section 11 excludes “exempt income” which created anomaly in respect of computation of total income and set-off and carry forward of losses. The Finance Bill proposes to amend sections 9, 10 and 53 to clarify that total income shall be the sum of person’s income under all heads of income for the year and person’s exempt income.

Taxation of individuals and Association of Persons

Concessional loans to employees

Section 13

Where an employer has given loan to an employee and no interest is charged or interest charged is less than the benchmark rate provided in the Ordinance, the difference is required to be added to the taxable income of the employee and tax is required to be deducted thereon. The benchmark rate of 5% was specified during year 2003 which has been increased by 1% each year and the current benchmark rate for tax year 2012 is 14%.

The Finance Bill now proposes to cap the benchmark rate at 10% and exempt notional interest from tax where the amount of loan is Rs. 500,000 or less.

Tax rates for individuals and Association of Persons

Division I of Part I of the First Schedule

Until 2006, the individuals and Association of Persons [AoPs] were subject to tax on progressive tax rates. The Finance Act, 2006, substituted progressive tax rates with single rate card. The current rates for salaried individuals range from 1.5% to 20%, whereas, for other individuals from 7.5% to 25%, on taxable income. However, where an individual has taxable income upto Rs. 350,000 no tax is payable, but, if he earns Rs. 350,001 or more he has to pay tax on entire income.

AoPs were also subject to tax on gradual rate basis until 30 June 2010. The Finance Act, 2010, subjected AoP to tax at single rate of 25%.

The Finance Bill now proposes to re-introduce the progressive tax rates for individuals and AoPs with enhanced exemption threshold of Rs.400,000. The existing and proposed rates are tabulated in the rate cards for ready reference.

Initial allowance on building

Section 23 & Third Schedule

Under existing provisions, initial allowance at 50% is available on depreciable assets other than specified depreciable assets. The Finance Bill now proposes that initial allowance at 50% shall be available for plant and machinery only whereas in the case of building initial allowance will be restricted at 25%.

Capital Gains Tax

Capital gains on listed securities

Sections 37A, 100B and the Eighth Schedule

Effective 01 July 2010, Capital Gains arising on sale of shares of listed companies are taxable under section 37A at specified rates ranging from 0% to 10% depending upon the holding period. Such tax is presently being collected by mutual funds and collective investment schemes in relation to the investments made in such funds. In other cases, the investor is required to pay quarterly advance tax as part payment and pay the balance tax along with the return.

Through the Finance (Amendment) Ordinance, 2012 effective 24 April 2012, amendments were brought into the Ordinance specifying rules for computation and collection of Capital Gains tax on listed securities by introducing section 100B and the Eighth Schedule. These amendments have now been made part of the Bill for legislative approval. The salient features of these proposals are as follows:

- The rates of Capital Gains tax on listed securities arising in the Tax years 2013 and 2014 have been reduced as follows:

	Tax year 2013		**Tax year 2014**	
	Existing rate	Revised rate	Existing rate	Revised rate
Where the holding period of security is less than six months	12.5%	10%	15%	10%
Where the holding period is six months or more but less than twelve months	8.5%	8%	9%	8%

- The National Clearing Company of Pakistan Limited (NCCPL) will have the authority to compute, collect and deposit Capital Gains tax on sale of listed securities by individuals, associations of persons and companies except mutual funds, banking companies, non banking finance companies, insurance companies, modarabas, foreign institutional investors (registered with NCCPL as such); and any other person or class of persons notified by the Federal Board of Revenue (FBR). Specific rules for this purpose have been proposed through the Eighth Schedule to the Ordinance.

- The amount of Capital Gains tax collected by NCCPL shall be deposited in a separate bank account with the National Bank of Pakistan and shall be paid to FBR along with interest accrued on such account on yearly basis by 31 July next following the financial year in which the amount was collected.

- NCCPL shall issue an annual certificate to the taxpayers on the prescribed form in respect of capital gains subject to tax under the Schedule for a financial year. If required by the taxpayer or the Commissioner, certificate for a shorter period may also be issued. This certificate will be required to be submitted by the taxpayers along with the returns of income being conclusive evidence of discharge of their Capital Gains tax liability.

- NCCPL shall furnish a quarterly statement of Capital Gains and tax computed thereon in the prescribed manner and format to FBR within thirty days of the end of each quarter.

- Pakistan Revenue Automation Limited (PRAL), any other company or firm approved by FBR and any tax authority not below the level of Additional Commissioner shall conduct regular system and procedural audit of NCCPL on quarterly basis to verify the implementation of the Eighth Schedule and relevant rules.

- NCCPL shall implement the recommendations, if any of the audit report envisaged above and make adjustments for short or excessive deductions. No penal action shall be taken against NCCPL for any error, omission or mistake that occurs from application of system.

- Where the Eighth Schedule apply, the provisions of the Ordinance relating to collection and recovery of advance tax and deduction of tax at source shall not apply.

- Withholding tax at 0.01% in respect of trading of shares by the Members of a stock exchange has been withdrawn. Capital Value tax at 0.01% has however been levied on purchase of shares.

The Bill also contains amnesty provisions of the Finance (Amendment) Ordinance, 2012 whereby no inquiry as to the nature and source of investment will be made where the following conditions are fulfilled:

- the investment was made prior to 24 April 2012 (the date of coming into effect of the Finance (Amendment) Ordinance, 2012), it is maintained for a minimum period of 45 days till 30 June 2012; and a statement of investment is filed along with the return of income and wealth statement for the Tax Year 2012 by the due date for filing of return.

- the investment was made after 24 April 2012 till 30 June 2014, it is kept for a minimum period of 120 days, tax liability thereon is duly paid and a statement of investments is filed along with the return of income and wealth statement within the due date for filing of return.

A taxpayer may opt out from determination and payment of tax under the Eighth Schedule by filing an irrevocable option to NCCPL after obtaining prior approval from the Commissioner. However, in such case, the Commissioner may inquire about the nature and source of investment and provisions regarding amnesty will no more apply.

It is anticipated that the rules relating to computation of Capital Gain contained in Rule 13A to 13M may also be subject to amendments for smooth application of provisions of the Eighth Schedule.

The Finance Bill also proposes to amend provisions of section 37A to exclude exempt capital gains and to provide the formula for computation of capital gains on securities.

Tax on Capital Gains on immovable property

Section 37

The Capital Gains tax on immovable property has now been proposed as an additional revenue generating measure. The gain arising on sale of such property within two years of acquisition is proposed to be taxed in the following manner:

	Proposed rate of tax
• Where the holding period of immovable property is up to one year	10%
• Where the holding period of property is more than one year but less than two years	5%

According to the Finance Minister, the Federal Government had obtained the power to tax gain on immovable property under the eighteenth amendment to the Constitution. However, the legal position would have to be examined by constitutional experts.

Additional payment on delayed refund

Section 39

The courts have held that additional payment on delayed refunds is not in the nature of income hence not taxable. To nullify such judgments, the Finance Bill proposes to provide that such additional payment is to be treated as “Income from Other Sources”.

Tax credits

Tax credit for investment in shares and insurance

Section 62

A person other than a company is entitled for tax credit on investment made in a tax year in shares and insurance. The eligible amount for tax credit is to be determined as lesser of:

- The total cost of acquiring the shares, or the total contribution or premium paid by the person; or
- 15% of taxable income for the year; or
- Rs. 500,000

Further, investment in shares is required to be held for 36 months.

The Finance Bill proposes to enhance the limit of 15% to 20% and the threshold of Rs. 500,000 to Rs. 1,000,000. Further, the period of holding of shares is proposed to be reduced to 24 months.

Tax credit for investment

Section 65B

A company is entitled for tax credit @ 10 per cent of the amount of investment made between 01 July 2010 and 30 June 2015 for the purpose of balancing, modernization and replacement in an industrial undertaking in Pakistan owned by it. The unutilized tax credit can be carried forward for adjustment against the tax payable of the two tax years following the year in which the tax credit arises.

Finance Bill proposes the following changes:

- The tax credit would also be available for adjustment against minimum tax liability and tax liability under the final tax regime. The Finance Bill has, however, not proposed amendments to section 169 which restricts adjustment of credits against tax liability under final tax regime.

- The tax credit is also proposed to be enhanced from 10 per cent to 20 per cent for a company setup before 01 July 2011 for investment made during 01 July 2011 and 30 June 2016.

- The unutilized tax credit for company setup before 01 July 2011 for investment made during 01 July 2011 to 30 June 2016 is proposed to be enhanced to five years following the year in which the tax credit arises.

Tax credit for newly established industrial undertaking

Section 65D

A company establishing and operating a new industrial undertaking with hundred per cent own equity between 01 July 2011 and 30 June 2016 is entitled for tax credit equal to hundred per cent of tax payable on taxable income for a period of five years beginning from the date of setting-up or commencement of commercial production, whichever is later.

The Bill now proposes following changes:

- To extend the tax credit to corporate dairy farming.

- The tax credit is proposed to be available for adjustment against minimum tax liability and tax liability under the final tax regime. The Finance Bill, however, has not proposed amendments to section 169 which restricts adjustment of credits against tax liability under final tax regime.

- Industrial undertaking is to be set up with hundred per cent equity raised through issuance of new shares for cash consideration.

- Loan obtained for the purpose of working capital from banking companies and non-banking financial institutions shall be excluded for entitlement of tax credit.

- The period of five years for tax credit shall commence from the date on which the industrial undertaking is ready to go into trial production or commercial production, whichever is later.

Tax credit for industrial undertakings established before 01 July 2011

Section 65E

A company is entitled for tax credit against tax payable in the same proportion which exists between the total investment made by the industrial undertaking in the purchase and installation of plant and machinery with hundred per cent equity for the purpose of balancing, modernization or replacement and for expansion of plant and machinery already installed in industrial undertaking set-up in Pakistan before 01 July 2011.

The Bill now proposes following changes:

- The scope of tax credit is extended to corporate dairy farming.
- Investment is to be made with hundred per cent new equity raised through issuance of new shares and for that purpose, loan obtained by the company from directors or shareholders is not to be taken as part of "new equity".
- Loan obtained for the purpose of working capital from banking companies and non-banking financial institutions shall be excluded for entitlement of tax credit.
- In addition to the expansion of plant and machinery already installed, the scope of tax credit is extended for undertaking a new project.
- Tax credit is to be allowed for period of five years beginning from the date of setting-up or commencement of commercial production, whichever is later.
- Tax credit shall be allowed:
    - where a taxpayer maintains separate accounts for expansion project or a new project, equal to one hundred per cent of the tax payable, including minimum tax and tax payable under final tax regime; and
    - in other cases, equal to such proportion of the tax payable, including minimum tax and tax payable under final tax regime, as is the proportion between new equity and total equity including new equity.
- The tax credit is proposed to be available for adjustment against minimum tax liability and tax liability under the final tax regime. The Finance Bill does not, however, proposes amendment in section 169 which restricts adjustment of credits against tax liability under final tax regime.

Cost of assets

Section 76

Section 76 of the Ordinance provides broad principles for determination of cost of assets. The Finance Bill now proposes to authorize the Board to prescribe rules for determination of cost for any asset.

Consideration received on disposal of asset

Section 77

Currently, section 77 of the Ordinance provides broad principles for determination of consideration received on disposal of assets. The Finance Bill now proposes to authorize the Board to prescribe rules for determination of consideration received on disposal of assets.

Treatment of branch profits as dividend

Section 19 & 101

Remittance of after tax profits of a branch of a foreign company operating in Pakistan was included in the definition of dividend vide the Finance Act, 2008. However, the taxation of such profits as dividend has been subject matter of dispute as provisions of section 101(6) were not amended to bring such profits within Pakistan-source dividend. The Finance Bill now seeks to remove this anomaly to treat such profits as Pakistan-source dividend.

Minimum tax

Section 113

Section 113 of the Ordinance provides for charge of minimum tax at 1% of turnover (excluding turnover falling under Final Tax Regime) where there is no tax payable or the tax payable is less than 1% of turnover. The existing provisions do not specify as to whether or not “tax payable or paid” includes tax liability under final tax regime.

The Finance Bill proposes to insert explanation in respect of “tax payable or paid” to exclude tax already paid or payable in respect of deemed income falling under FTR.

One percent turnover tax rate is generally considered high and requires appropriate reduction.

Tax on income of retailers having turnover upto Rs. 5 million

Section 113A

An individual or Association of Persons has an option for payment of tax at 1% of turnover as final tax. This rate is now proposed to be reduced to 0.5%.

Return of income

Section 114

A return of income can currently be revised subject to the conditions that the return is accompanied by the revised accounts or revised audited accounts and the reasons for revision of return are submitted in writing.

The Finance Bill proposes to introduce another condition for revision of income tax return thereby restricting the taxpayers from reducing the taxable income or enhancing the loss as determined under the best judgment assessment under section 121, an amended assessment order under section 122, revision order issued under section 122A, the provisional assessment under section 122C, order of the Commissioner Inland Revenue (Appeals) under section 129, order of the Appellate Tribunal Inland Revenue under section 132, order of the High Court under section 133 or rectified order under section 221 of the Ordinance.

Assessments

Original assessment
Section 120

A return of income filed is treated as assessment order issued by the Commissioner. The Commissioner Inland Revenue may, however, issue notice to the taxpayer to provide such information, particulars, statements or documents to remove the deficiencies in the return of income. The time limit provided for the purpose is upto the end of the financial year in which the return of income is furnished.

The Finance Bill now proposes to extend the aforesaid time limit by 180 days from the end of the financial year in which the return is furnished.

Best judgment assessment
Section 121

Under the existing law, a person is entitled to file or revise the return of income even after best judgment assessment was made by the Commissioner. The Finance Bill proposes to treat a return of income or revised return as invalid after the best judgment assessment has been made by the Commissioner.

Amendment of assessments
Section 122

The Commissioner is empowered to amend the assessment made under sections 120 or 121 of the Ordinance either:

- Under specific circumstances on the basis of definite information acquired through audit or otherwise under section 122(5); or

- Where he considers that the assessment order is erroneous in so far it is prejudicial to the interest of revenue under section 122(5A).

The Finance Bill now propose to empower the Commissioner to amend provisional assessment made under section 122C also.

Further, the Finance Bill proposes to remove the references to the assessments made under the repealed Income Tax Ordinance, 1979, being redundant as such assessments have now become time barred.

Further, the Finance Bill also proposes to empower the Commissioner to make or cause to be made such enquiries as he deems necessary before amendment of assessment under section 122(5A) of the Ordinance.

The appellate authorities have held in a number of cases that the Commissioner is not empowered to make enquiries before amendment of assessment under section 122(5A), meaning thereby that the amendment under section 122(5A) can only be made where the matter is apparent as erroneous in so far it is prejudicial to the interest of revenue. The Finance Bill now proposes to empower the Commissioner to make or cause to be made such enquiries as he deems necessary before considering the assessment as erroneous and prejudicial to the interest of revenue. The proposed amendment embeds audit powers within revisional jurisdiction.

Provisional assessment

Section 122C

In order to remove the ambiguity from the current provisions of section 122C of the Ordinance as regards its applicability on 'company', the Finance Bill proposes to specifically provide for the time limit of sixty days for filing of return separately for "individual and association of persons" and "company".

Appeal to the Commissioner (Appeals)

Sections 127, 128 & 129

The Finance Bill proposes to provide specific powers to the Commissioner (Appeals) for grant of stay upto thirty days in aggregate against the recovery of the tax demand.

The Commissioner (Appeals) currently is required to pass order in appeal under section 127 of the Ordinance within four months from the end of the month in which the appeal is lodged, provided that the taxpayer personally serves a notice to the Commissioner (Appeals) at least thirty days before the expiration of four months. The Finance Bill now proposes to remove such time limitation for passing the order in appeal under section 129 of the Ordinance.

The proposed amendments at one hand restrict vested powers of the Commissioner (Appeals) to grant stay of demand and, on the other hand, remove time limitation for decision in appeals. It is suggested that in the cases of grant of stay of demand, the Commissioner (Appeals) should also statutorily be made bound to decide the appeals within the period of stay of demand.

Appellate Tribunal

Appointment of the Appellate Tribunal

Section 130

The Finance Bill seeks to reduce the requirement of experience for appointment of accountant member of the Appellate Tribunal from five years to three years as Commissioner or Collector.

Further, the Bill also proposes for appointment of the accountant member as the Chairperson of the Appellate Tribunal.

Stay of demand by the Appellate Tribunal

Section 131

Presently the Appellate Tribunal is empowered to grant first stay of demand without hearing the respondent upto a period of thirty days. The Finance Bill purposes that the Tribunal can only grant stay, after hearing of respondent Commissioner, upto aggregate period of 180 days, excluding the period of stay granted by the High Court.

Due date for payment of tax assessed under the provisional assessment

Section 137

The tax assessed as a result of provisional assessment under section 122C is payable immediately after a period of 60 days from the date of service of the notice. The Finance Bill now seeks to allow the option to the taxpayer to make payment of tax prior to expiry of sixty days from the date of service of the provisional assessment order.

Withholding tax

Tax deducted or deductible to be treated Final Tax

Sections 148, 151, 152, 153, 154, 156, 156A, 169 & 233

Presently, tax deducted or collected is treated as discharge of final tax liability in respect of commercial imports, profit on debts in specified cases, payments to non-residents for construction and related services or insurance / re-insurance premium, sale of goods or execution of contracts in specified cases, exports and indenting commission, prizes and winnings, commission or discount on petroleum products and brokerage and commission. Where tax was not collected or deducted as required under withholding provisions of the Ordinance, there arose a question whether such amount should be subject to tax under FTR or net income basis.

The Bill proposes that an amount shall be subject to tax under FTR, where the tax is required to be deducted or collected, irrespective that the tax has been deducted / collected or not or short deducted / collected. Corresponding amendments have also been proposed in section 169 of the Ordinance.

Payments to non-residents

Sections 152, 153 & 153A, First Schedule

Section 153(1) contains provisions relating to withholding tax from payments to residents and permanent establishment of non-residents. Whereas, section 152 contains withholding tax provisions from payments to non-residents. The Finance Bill proposes to consolidate the withholding tax provisions pertaining to non-residents in section 152. Accordingly, permanent establishment has been proposed to be excluded from section 153(1) and for the purpose of section 152 corresponding withholding tax rates have been provided in First Schedule. However, corresponding amendments have not been proposed in section 152.
The Finance Bill also proposes to incorporate withholding tax provisions contained in existing section 153A relating to non-resident media persons in section 152.

Further, under the existing provisions of section 153 tax deducted from permanent establishment on sale of goods and execution of contract is treated as final tax. However, the proposed amendments do not clarify as to whether this final tax will continue or not.

It is also proposed that payment of insurance / re-insurance premium to permanent establishment of non-resident person shall not be subject to withholding of tax under section 152(1AA) subject to written permission of the Commissioner.

Collection of tax from Wholesalers and Distributors

Section 153A

The Finance Bill seeks to provide for 1% advance tax to be collected by a manufacturer on sale of goods to a distributor, wholesaler, and dealer. The tax so collected will be adjustable against tax liability of the recipient. The proposed provision appears to be aimed at documentation of economy as well as broadening of tax base.

Cash withdrawal from banks

Section 231A

The Finance Bill proposes to enhance the threshold for cash withdrawal from Rs. 25,000 to Rs 50,000.

Tax on private motor vehicles

Section 231B & Div VII, Part IV, First Schedule

Presently, the rates for motor vehicles of engine capacity of 1001cc to 1300cc and 1301cc to 1600cc are same i.e. Rs. 16,875. The Finance Bill proposes to enhance the rate of tax to Rs. 25,000 for motor vehicles of engine capacity 1301cc to 1600cc.

Collection of tax on stock exchanges' transactions

Sections 233A & 233AA

The stock exchanges are required to collect 0.01% withholding tax on purchase price of listed shares. The Finance Bill proposes to substitute the said withholding tax by 0.01% CVT.

Presently, a stock exchange is required to collect tax from its members on financing of carryover trades in share business at 10%. The Finance Bill proposes to omit the relevant provisions in section 233A and insert a new section 233AA to provide for collection of advance tax by NCCPL in respect of margin financing in shares business. However, for the purpose of section 233AA, rates provided for section 233A have been referred which deals with carryover trades. This anomaly needs to be addressed in the Finance Act appropriately.

Stock exchanges shall however continue to collect tax from its members on purchase and sale of shares in lieu of commission earned by such members.

Tax on motor vehicles

Section 234 & Div III, Part IV, First Schedule

The Finance Bill proposes to enhance the rate of collection of tax on motor vehicles as follows:

- On goods transport vehicle – From Rs. 1 / kg to Rs. 5/ kg.

- On passenger transport vehicles with capacity of 20 persons or more – From Rs. 100 to Rs. 500 per seat per annum.

Additional payment for delayed refunds

Section 171

The rate of compensation on delayed refund at KIBOR is proposed to be replaced by 15 per cent per annum of the amount of refund.

Taxpayer Card

Section 181A

As a measure of broadening of tax base and to encourage the individual taxpayers to come into the tax net, the Finance Bill seeks to insert section 181A to the Ordinance thereby empowering the Board to make scheme for the introduction of a taxpayer honour card for individual taxpayers who fulfill minimum criteria for eligibility of benefits as contained in the scheme. The scheme is yet to be announced.

Offences and penalties

Section 182

The Finance Bill proposes to provide option of voluntary payment of penalty before passing of order by the Commissioner Inland Revenue, Commissioner Inland Revenue (Appeals) or the Appellate Tribunal Inland Revenue.

Default Surcharge

Section 205

The rate of default surcharge on failure to pay tax, advance tax, withholding tax and penalties etc. on or before the due date at KIBOR plus 3 per cent per quarter is proposed to be replaced by 18 per cent per annum of the amount of tax or penalty as the case may be.

The Finance Bill also proposes waiver of default surcharge in case the person opts to pay the tax due on the basis of an order of the Commissioner Inland Revenue (Appeals) under section 129 on or before the due date of tax under the assessment order / amended assessment order or the order under section 161 of the Ordinance, as the case may be, and does not file an appeal before the Appellate Tribunal Inland Revenue.

Income tax authorities

Sections 207 & 211

The Finance Bill proposes to rationalize the hierarchy by making all the authorities as subordinate to the Federal Board of Revenue. The Finance Bill also proposes to insert sub-section (3) in section 211 thereby empowering the Income Tax Authorities to exercise the powers conferred upon any subordinate authority.

Condonation of time limit

Section 214A

The Board is empowered to condone time limitations and permit that an application to be made, or an act or thing to be done can be made or done within such time or period as the Board considers appropriate. However, it is not clear under the existing provisions as to whether or not the aforesaid powers of condonation apply to the time limits provided for the acts or things to be done by the authorities or by the taxpayers under the Ordinance. The Finance Bill now proposes to insert explanation to cover specifically the acts or things to be done both by the taxpayers and the authorities.

There is likelihood that the power of condonation in respect of acts or things to be done by the authorities may be misused to the detriment of taxpayers' interest which may accrue due to lapse of time for instance condonation of time limit provided for amendment of assessment, rectification of orders, audit or maintenance of records, etc. Therefore, it is suggested that the aforesaid powers of condonation should not apply where such condonation becomes prejudicial to the interest of taxpayers. It is further suggested that the taxpayers should be given opportunity of being heard before any condonation that adversely affects the taxpayer.

Director General (Intelligence and Investigation), Inland Revenue

Section 230

The Finance Bill proposes to introduce Directorate General for Intelligence and Investigation of Inland Revenue. The Board shall be empowered to appoint a Director General, Directors, Additional Directors, Deputy Directors, Assistant Directors and other officers for the purpose. The Directorate shall exercise such powers as may be assigned by the Board.

Exemptions and concessions

Exemptions from Tax

Clauses 23B, 23C, 61, 66 & 101 of Part I of the Second Schedule

The Finance Bill proposes amendments to Part I of the Second Schedule to the Ordinance to provide exemption from tax to certain classes of income and taxpayers as follows:

- The Bill proposes insertion of clause (23B) in Part I of the Second Schedule to the Ordinance providing for exemption on payment representing monthly installment from an income payment plan invested out of the accumulated balance of an individual pension account under the Voluntary Pension System Rules, 2005 [VPS Rules 2005], subject to the condition that the accumulated balance is invested for a period of 10 years.

- Through insertion of clause (23C), the Bill proposes exemption on the amount withdrawn out of accumulated balance from approved pension fund that represents the transfer of balance of approved provident fund to the said approved pension fund under the VPS Rules, 2005.

- The Finance Bill proposes to insert 'The Citizen Foundation' in clause 61 & 66 of Part-I of Second Schedule to approved donation paid to Foundation as tax deductable and to exempt income of the Foundation from tax.

- The exemption contained in clause (101) from tax to a venture capital company and venture capital fund registered under the Venture Capital Companies and Funds Management Rules, 2000 and a private equity and venture capital fund ends on 30 June 2014. The Bill proposes to extend it to 30 June 2024.

Reduction in tax rate

Clause 9 of Part II of the Second Schedule

Presently, a reduced withholding tax rate of 3% applies against a general rate of 5% on import of raw materials by an industrial undertaking for its own use. To avoid misuse of this facility, the Finance Bill now proposes to restrict the benefit of reduced rate to cases where an exemption certificate has been issued by the Commissioner.

Exemptions from specific provisions

Clauses 11B, 11C, 16A & 47B of Part IV of the Second Schedule

- Inter-corporate dividend between group companies entitled to group taxation or group relief is exempt from tax. The Finance Bill proposes corresponding amendment to exempt the same from incidence of withholding tax and to further extend the benefit of such exemption to profit on inter-corporate lending within the group by proposed insertion of clauses (11B) & (11C).

- Exemption from withholding on advertisement services rendered by news print media is now proposed to be extended to electronic media vide proposed clause (16A).
- Exemption from withholding tax contained in clause (47B) on dividend, commission and profit given to approved retirement schemes and collective investment schemes is proposed to be extended to tax on Capital Gains on listed securities.

Opting out from Final Tax Regime

Clauses 41A, 41AA and 41AAA of Part IV of the Second Schedule

The Bill provides options to certain taxpayers presently paying taxes under the Presumptive or Final tax regime [FTR] of the Ordinance to opt for Normal tax regime [NTR], provided the tax liability under NTR does not fall below a certain percentage of the tax already deducted or collected, in the following manner:

- In case of commercial importers where tax withheld at the time of imports constitutes final tax under FTR, the tax liability under NTR must be at least 60% of tax collected on imports;
- In case of an exporter or an export indenting agent, the tax liability under NTR must be at least 50% of tax deducted on exports or commission as the case may be;
- Where tax deducted on sale of goods is final, the tax liability under NTR must be at least 70% of tax deducted on sale of goods.

Insurance companies

Fourth Schedule

In the case of insurance companies, the rates of tax on capital gain on securities have been proposed to be revised which are given in rates card.

Taxation of exploration and production companies

Fifth Schedule

There have been long outstanding disputes in respect of tax payable by the exploration and production [E&P] companies revolving around implications under clause 2 of the Schedule to the Mining Act 1948 and taxation clauses of respective Petroleum Concession Agreements [PCAs] wherein ceiling and floor of tax rates have been provided.

E&P companies have been discharging tax obligation as per taxation clause of respective PCAs, at the higher of (i) 55% on profits and gains, and (ii) 50% of profits and gains before deducting royalty.

However, FBR has been contending that clause 2 of the schedule of the Mining Act has prescribed a ceiling of 55% and floor of 50% to be applied on “profit and gains before payments to the government such as royalty”. On the contrary, PCA required that 55% ceiling is required to be applied on “profit and gains only” which is inconsistent with the Mining Act.

This issue has recently been decided by a larger bench of Appellate Tribunal Inland Revenue, Islamabad in favor of FBR and E&P companies are contesting this matter before apex courts.

The Finance Bill proposes to provide an option to E&P companies to pay tax @40% of profit and gain, net of royalty, for tax year 2012 and onwards, provided the company:

- Withdraws pending appeals, references and petitions before any appellate fora; and
- Makes payment of whole outstanding liability created under the Ordinance upto tax year 2011 by 30 June 2012

Taxation of banking companies

Seventh Schedule

Dividend

Currently, dividend received by the banking company from its asset management company is taxed at the rate of 20% as against general tax rate of 10%.

The Finance Bill proposes to prescribe enhanced tax rate on dividend received by a banking company from Money Market Funds and Income Funds to 25% for Tax Year 2013 and to 35% for Tax Year 2014 and onwards. After the proposed amendment dividend received by a banking company from different sources shall be charged to tax in the following manner:

• Dividend received from its asset management company	20%
• Dividend received from Money Market Funds and Income Funds:	
- For the Tax Year 2013	25%
- For the Tax Year 2014 and onwards	35%
• Dividend received from other sources	10%

Advance tax

Earlier, another important amendment was introduced vide SRO 561(I)/2012 dated 24 May 2012 whereby Rule 5 was amended to oblige banking companies to prepare & file estimate with the Commissioner before the installment due on 15 June and in case tax payable was likely to be more than the basis on which advance tax was being discharged, fifty percent of such estimate was required to be discharged by 15 June (after adjustment of amount earlier paid) and balance fifty percent was to be paid in six equal installments.

It is pertinent to mention that in order to comply with this requirement, the banking companies were obliged to estimate their ultimate tax liability about seven months before their financial closing.

Tax Rate Card

The Finance Bill proposes to revise tax rates for individuals deriving income from salary, other than salary and association of persons. The proposed rates are applicable with effect from 01 July 2012 (tax year 2013) except where otherwise specified.

For ready reference of the readers, we have tabulated the existing and proposed rates in following manner.

1. **Salary individuals**

Clauses (IA), Div I, Part I, First Schedule

S. No.	Taxable income (Rs.)	Existing %	Proposed %
1	Upto 350,000	0	0
2	350,001 to 400,000	1.50	0
3	**400,001** to 450,000	2.50	5% of the amount exceeding Rs. 400,000
4	450,001 to 550,000	3.50	
5	550,001 to Rs.650,000	4.50	
6	650,001 to **750,000**	6.00	
7	**750,001** to 900,000	7.50	Rs. 17,500 + 10% of the amount exceeding Rs. 750,000
8	900,001 to 1,050,000	9.00	
9	1,050,001 to 1,200,000	10.00	
10	1,200,001 to 1,450,000	11.00	
11	1,450,001 to **1,500,000**	12.50	
12	**1,500,001** to 1,700,000	12.50	Rs. 92,500 + 15% of the amount exceeding Rs. 1,500,000
13	1,700,001 to 1,950,000	14.00	
14	1,950,001 to 2,250,000	15.00	
15	2,250,001 to **2,500,000**	16.00	
16	**2,500,001** to 2,850,000	16.00	Rs. 242,500 + 20% of the amount exceeding Rs. 2,500,000
17	2,850,001 to 3,550,000	17.50	
18	3,550,001 to 4,550,000	18.50	
19	**4,550,001 and above**.	20.00	

a) tax liability of a person aged 60 years or more, and whose taxable income does not exceed rupees one million, is reduced by 50%.

b) tax credits for investment in shares, life insurance premium, specified donations, contribution to pension fund and profit on debt on housing loan is allowable against the tax liability.

The impact on the tax liability under the proposed rates are given in page No. 44.

2. Individuals (other than salaried individuals) and association of persons (AOP)

Clauses (I), Div I, IB Part I, First Schedule

S. No.	Taxable income (Rs.)	Existing %		Proposed %
		Individual	AOP	
1	Upto 350,000	0	25	0
2	350,001 to 400,000	7.5	25	0
3	400,001 to 500,000	7.5	25	10% of the amount exceeding Rs. 400,000
4	500,001 to 750,000	10	25	
5	750,001 to 1,000,000	15	25	Rs. 35,000 + 15% of the amount exceeding Rs. 750,000
6	1,000,001 to 1,500,000	20	25	
7	1,500,001 to 2,500,000	25	25	Rs. 147,500 + 20% of the amount exceeding Rs. 1,500,000
8	2,500,001 and above	25	25	Rs. 347,500 + 25% of the amount exceeding Rs. 2,500,000

The impact on the tax liability on individuals other than salaried individuals under the proposed rates are given at page No. 45.

3. Companies

Div II, Part I, First Schedule

	Existing Rate %	Proposed Rate %
Small company	25	No change
Modaraba	25	No change
All other companies including banking company	35	No change

4. Tax rate on Dividend Income

Div III, Part I, First Schedule

	Existing %	Proposed %
Dividend received from a company	10	No change
Dividend received from purchaser of power project privatized by WAPDA	7.5	No change
Dividend received from a company set up for power generation.	7.5	No change
Dividend received by a banking company from its asset management company.	20	No change
Dividend received by a banking company from a money market fund and income fund.	10	25/35

5. Capital Gains on securities

Div VII, Part I, First Schedule

5.1 Below rates are applicable to all tax payers excluding banking and insurance companies.

Holding period	Tax Year	Existing %	Proposed %
Less than six months	2012	10	10
	2013	12.5	10
	2014	15	10
	2015	17.5	17.5
Six months or more but less than twelve months	2012	8	8
	2013	8.5	8
	2014	9	8
	2015	9.5	9.5
	2016	10	10

5.2 Rates applicable to insurance companies.

Holding period	Tax Year	Existing %	Proposed %
Less than six months	2012	12.5	10
	2013	15	12.5
	2014	17.5	15
	2015	17.5	17.5
Six months or more but less than twelve months	2012	8.5	8

Holding period	Tax Year	Existing %	Proposed %
	2013	9	8.5
	2014	9.5	9
	2015	10	9

5.3 Rates applicable to banking companies.

Holding period	Existing %	Proposed %
Less than twelve months	35	No Change
More than twelve months	10	No Change

6. Tax rate on Capital Gain on Immovable Property

Div VIII, Part I, First Schedule

Holding period	Existing %	Proposed %
Upto one year	-	10
More than one year but not more than two years	-	5

7. Property Income

Div VI, Part I, First Schedule

7.1 Applicable to all tax payers other than a company

Taxable income	Existing %	Proposed %
150,001 to 400,000	5% of the amount exceeding Rs.150,000	No change

Taxable income	Existing %	Proposed %
400,001 to 1,000,000	Rs.12,500 plus 7.5% of the amount exceeding Rs. 400,000	No change
Above 1,000,001	Rs. 57,500 plus 10% of the amount exceeding Rs.1,000,000	No change

7.2 Applicable to a company

Taxable income	Existing %	Proposed %
Upto 400,000	5%	No change
400,001 to 1,000,000	Rs. 20,000 plus 7.5% of the amount exceeding Rs. 400,000	No change
Above 1,000,001	Rs. 65,000 plus 10% of the amount exceeding Rs. 1,000,000	No change

8. Shipping and Air transport income of Non Residents

Div IV Part I First Schedule

	Existing %	Proposed %
Shipping income	8	No change
Air transport income	3	No change

9. Turnover of Retailer (Individual and Association of Persons)

Section 113B and Div IA, Part I, First Schedule

	Existing %	Proposed %
Turnover upto rupees five million for any tax year	1	0.5
Where turnover exceed Rs. 5 million	Rs. 25,000 + 0.5% of the turnover exceeding Rs. 5 million.	No Change
Where turnover exceed Rs. 10 million	Rs. 50,000 + 0.75% of the turnover exceeding Rs. 10 million.	No Change

10. Salary Tax Scenario – Existing Vs Proposed

Gross	Tax liability		Effective	Effective
Salary	Existing	Proposed	tax saving	tax saving %
400,000	6,000	-	6,000	100
500,000	17,500	5,000	12,500	71
600,000	27,000	10,000	17,000	63
800,000	60,000	22,500	37,500	62
1,000,000	90,000	42,500	47,500	53
1,500,000	179,500	92,500	87,000	48
2,000,000	293,000	167,500	125,500	43
2,500,000	400,000	242,500	157,500	39
3,000,000	525,000	342,500	182,500	35
5,000,000	1,000,000	742,500	257,500	26

11. Personal Tax Scenario (other than salaried individual) – Existing Vs Proposed

Taxable income	Tax liability		Effective tax saving	Effective tax saving %
	Existing	Proposed		
400,000	30,000	-	30,000	100
600,000	60,000	20,000	40,000	67
800,000	120,000	42,500	77,500	64
1,100,000	220,000	87,500	132,500	60
1,500,000	300,000	147,500	152,500	50
2,500,000	625,000	347,500	277,500	44
5,000,000	1,250,000	972,500	277,500	22

Withholding tax rates table – existing and proposed

The following table summarizes existing and proposed withholding tax rates for all classes of person and treatment of withholding tax as adjustable or final tax liability.

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
148	**Collection of tax at Imports** Value of goods inclusive of customs duty and sales tax *(Commercial Imports)*.	5	No change	Final	Final	Final / adjustable subject to conditions	Final / adjustable subject to conditions
	Import of raw material for own consumption by an Industrial undertaking	3	3 subject to certificate	Adjustable / Minimum in case of edible oil & packing materials	Adjustable / Minimum in case of edible oil & packing materials	Adjustable / Minimum in case of edible oil & packing materials	Adjustable / Minimum in case of edible oil & packing materials
149	**Salary**	Single rate per slabs table	Progressive rates	Adjustable	N/A	Adjustable	N/A
150	**Dividend** Dividend distributed by purchaser of a power project privatized by WAPDA and company set up for power generation.	7.5	No change	Final	Final	Final	Final
	Dividend payment by other companies	10	No change	Final	Final	Final	Final
	Remittance of after tax profit by a branch other than branch of a E&P companies (subject to treaty provisions, if applicable)	10	No change	Final	Final	Final	Final
151 **(a)**	**Profit on debt** Yield on an account, deposit or a certificate under the National Savings Scheme or Post office saving account	10	No change	Final	Adjustable	Final	Adjustable
(b)	Profit on a debt, being an account or deposit maintained with a banking company or a financial institution	10	No change	Final	Adjustable	Final	Adjustable
(c)	Profit on any security by Federal Government, a Provincial Government or a local Government other than profit on National Saving Scheme or Post Office	10	No change	Final	Adjustable	Final	Adjustable

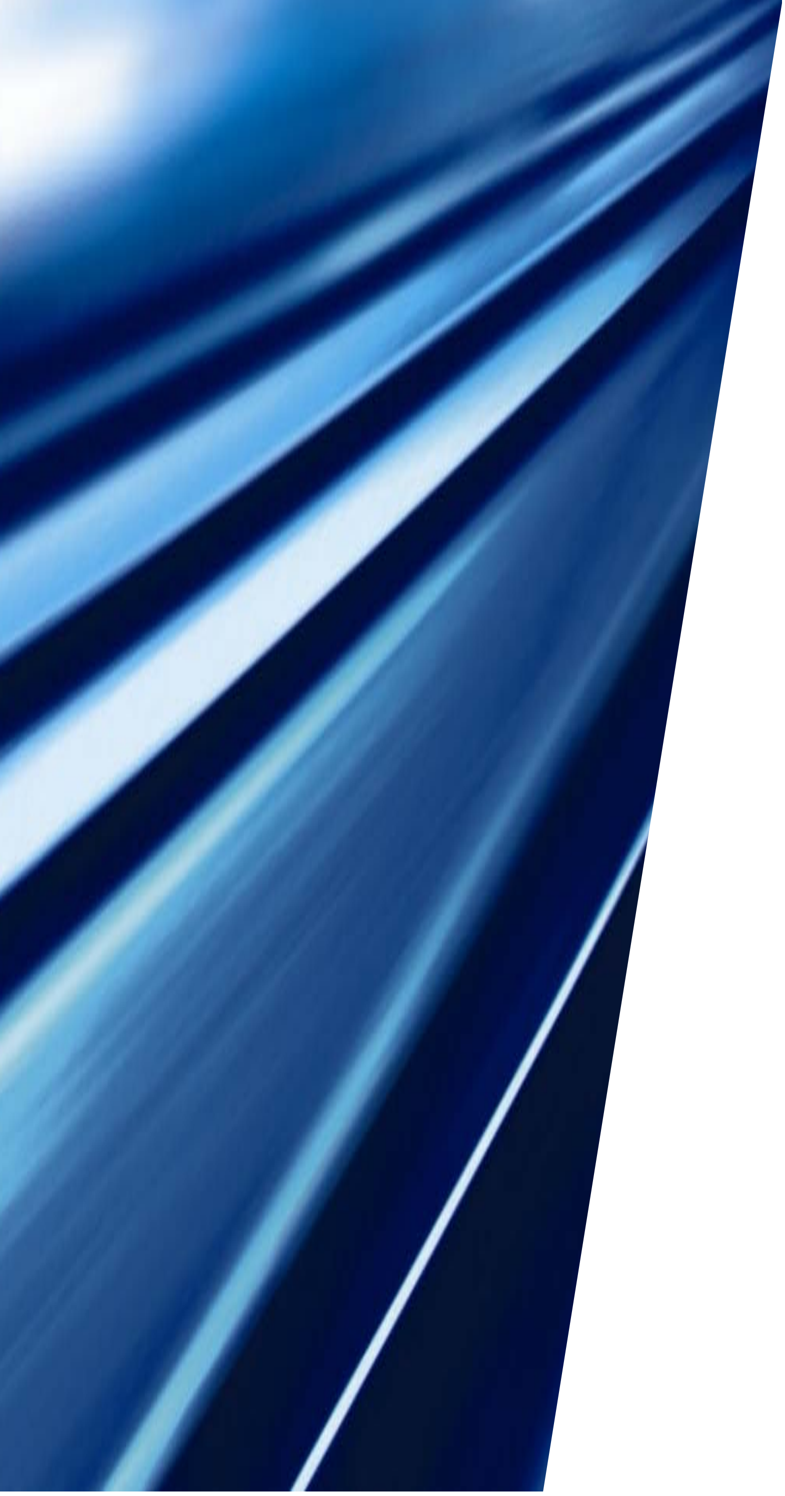
Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
	Saving account to any person						
(d)	Profit on any bond, certificate, debenture, security or instrument of any kind (excluding loan agreement between a borrower and a banking company or a development finance institution) issued by a banking company, a financial institution, company as defined in the Companies Ordinance, 1984 and a body corporate formed by or under any law for the time being in force, to any person other than a financial institution	10	No change	Final	Adjustable	Final	Adjustable
152	**Payments to non-residents**						
(a)	Royalty and technical fee	15	No change	Final	Final	Final	Final
(b)	Execution of a contract or sub-contract under the construction, assembly or installation project in Pakistan including a contract for the supply of supervisory activities in relation to such projects or any other contract for construction or services rendered relating thereto.	6	No change	Final subject to option	Final subject to option	Final subject to option	Final subject to option
(c)	Contract for advertisement services rendered by TV Satellite channel	6	No change	Final subject to option	Final subject to option	Final subject to option	Final subject to option
(d)	Insurance premium or re-insurance premium	5	No change	Final	Final	Final	Final
(e)	Advertisement services relaying from outside Pakistan	10	10	Final	Final	Final	Final
(e)	Profit on debt to non-resident person not having a PE in Pakistan	10	No change	Adjustable / Final in specified situations	Adjustable / Final in specified situations	Adjustable / Final in specified situations	Adjustable / Final in specified situations
(f)	Other payments	20	No change	Adjustable	Adjustable	Adjustable	Adjustable
153	**Goods, services and execution of a contract**						
(a)	Sales of rice, cotton seed or	1.5	No change	Final	Final	Final /	Final (Adjustable

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
	edible oils				(Adjustable for manufacturer / listed company)	adjustable subject to conditions	manufacturer / listed company) / subject to conditions
(b)	Sale of cigarettes and pharmaceutical products by distributors	1	No change	Final	Final (Adjustable for listed company)	Final / adjustable subject to conditions	Final (Adjustable listed company) / subject to conditions
(c)	Supplies provided to specified categories of sales tax zero rated tax payers	1	No change	Final	Final (Adjustable for manufacturer / listed company)	Final / adjustable subject to conditions	Final (Adjustable for manufacturer / listed company) / subject to conditions
	Services rendered to specified categories of sales tax zero rated tax payers	1	No change	Minimum	Adjustable	Minimum	Adjustable
(d)	Sale of any other goods	3.5	No change	Final	Final (Adjustable for manufacturer / listed company)	Final	Final (Adjustable for manufacturer / listed company)
(e)	For passenger transport services	2	No change	Minimum	Adjustable	Minimum	Adjustable
(f)	For other services	6	No change	Minimum	Adjustable	Minimum	Adjustable
(g)	Execution of a contract	6	No change	Final	Final / Adjustable for listed company	Final	Final / Adjustable for listed company
(h)	Deduction by exporter or an export house on rendering of certain services	0.5	0.5	Final	Final	Final	Final
153A	**Payment to traders & distributors** Sale to distributors, dealers and wholesalers		1			Adjustable	Adjustable
154 (a)	**Exports** Export proceeds, Proceeds from sales of goods to an exporter under an inland back-to-back letter of credit or any other arrangement, export of goods by an industrial undertaking located in an Export Processing Zone, Collection by a collector of customs at the time of clearing of goods exported	1	No change	Final	Final	Final / adjustable subject to conditions	Final / adjustable subject to conditions
(b)	Indenting commission	5	No change	Final	Final	Final /	Final / adjustable

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
						adjustable subject to conditions	subject to conditions
155	**Income from Property** Annual rent of immovable property including rent of furniture and fixtures and amounts for services relating to such property	At varying slab rates	No change	Tax imposed is final, instead of tax withheld	Tax imposed is final, instead of tax withheld	Tax imposed is final, instead of tax withheld	Tax imposed is final, instead of tax withheld
156	**Prizes and winnings**						
(a)	Amount of prize bond winning	10	No change	Final	Final	Final	Final
(b)	Prize on cross-word puzzle	10	No change	Final	Final	Final	Final
(c)	Amount of raffle/lottery winning, prize on winning a quiz, prize offered by a company for promotion of sales	20	No change	Final	Final	Final	Final
156A	**Petroleum products** Commission and discount to petrol pump operators	10	No change	Final	Final	Final	Final
156B	**Withdrawal of balance under pension fund** Withdrawal of amount before the retirement age or it is in excess of 50% of the accumulated balance at or after the retirement age	Slab rates	Slab rates	Adjustable	N/A	Adjustable	N/A
231A	**Cash withdrawal** Cash withdrawal exceeding Rs. 25,000 (proposed Rs. 50,000)	0.2 of the amount withdrawn	0.2 of the amount withdrawn	Adjustable	Adjustable	Adjustable	Adjustable
231AA	**Transactions in banks** Withdrawal made through any mode of banking transactions including Demand Draft, Payment Order, Online Transfer, Telegraphic Transfer, CDR, STDR, RTC exceeding Rs. 25,000 in a day	0.3 of the transaction	No change	Adjustable	Adjustable	Adjustable	Adjustable
231B	**Purchase of Motor Vehicle**	Varying slabs	No change	Adjustable	Adjustable	Adjustable	Adjustable
233	**Brokerage & Commission**						
(a)	Payment of brokerage and commission	10	No Change	Final	Final	Final	Final

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
(b)	Commission to advertisement agent	5	No Change	Final	Final	Final	Final
233A	**Collection of tax by stock exchange**						
(a)	On purchase of shares, in lieu of commission of the Member	0.01 of purchase value	No change	Adjustable	Adjustable	Adjustable	Adjustable
(b)	On Sale of shares, in lieu of commission of the Member	0.01 of sale value	No change	Adjustable	Adjustable	Adjustable	Adjustable
(c)	Financing of COT	10	Omitted & provided in 233AA	Adjustable	Adjustable	-	-
233AA	**Collection of tax by NCCPL** On margin financing	-	10	-	-	Adjustable	Adjustable
234	**Tax on motor vehicle** Registered laden weight/ Seating capacity/ Engine capacity	Varying rates	No Change	Adjustable / Final in respect of income earned through plying or hiring out of goods transport vehicle	Adjustable / Final in respect of income earned through plying or hiring out of goods transport vehicle	Adjustable / Final in respect of income earned through plying or hiring out of goods transport vehicle	Adjustable / Final in respect of income earned through plying or hiring out of goods transport vehicle
234A	**CNG stations** -On amount of gas bill	4	No change	Final	Final	Final	Final
235	**Electricity bill of industrial / commercial consumers**						
(a)	On electricity bill below Rs. 20,000	Slab rates	No change	Minimum	Adjustable	Minimum	Adjustable
(b)	On electricity bill exceeding Rs. 20,000	5 /10	No change	Minimum /Adjustable if the bill amount exceeds Rs. 30,000	Adjustable	Minimum /Adjustable if the bill amount exceeds Rs. 30,000	Adjustable
236	**Telephone bill**						
(a)	Telephone bill exceeding Rs. 1,000	10	No change	Adjustable	Adjustable	Adjustable	Adjustable
(b)	Prepaid card for telephones	10	No change	Adjustable	Adjustable	Adjustable	Adjustable
(c)	Sale of units through any electronic medium or whatever form	10	No change	Adjustable	Adjustable	Adjustable	Adjustable

Sec.	Type of Payment	Rate %		STATUS OF TAX COLLECTED / DEDUCTED			
				Existing		Proposed	
		Existing	Proposed	Ind & AOP	Company	Ind & AOP	Company
236A	**Sale by auction / tender** Sale price of the property	5	No change	Adjustable	Adjustable	Adjustable	Adjustable
236B	**Purchase of air ticket -** On gross amount of purchase of domestic air ticket	5	No change	Adjustable	Adjustable	Adjustable	Adjustable
37A	**Redemption of securities** Capital gain on redemption of securities						
	a) Holding period less than six months	10	10	Adjustable	Adjustable	Adjustable	Adjustable
	b) Holing period more than six month but less than twelve months	8	8	Adjustable	Adjustable	Adjustable	Adjustable



Sales Tax Act, 1990

Significant amendments

Higher sales tax rates of 22% and 19.5% slashed to standard rate of 16%

SRO.644(I)/2007 rescinded vide SRO.594(I)/2012, dated 01 June 2012

Higher rates of sales tax applicable at 22% and 19.5% on large number of raw materials, chemicals, paper and paperboards, aluminium, steel products, etc. have been slashed to standard rate of 16% by rescinding of SRO.644(I)/2007, dated 27 June 2007 effective from 02 June 2012. The products mentioned in Table-I and Table-II of SRO.644 would now uniformly be subject to levy of sales tax at standard rate of 16%.

Provisions relating to assessment and recovery consolidated

Sections 11 and 36

The Finance Bill seeks to omit Section 36 of the Act and simultaneously substituting Section 11 of the Act, combining the existing provisions of Section 11 and Section 36 of the Act related to assessment and recovery of tax not levied or short-levied or erroneously refunded under the proposed Section 11 of the Act.

Additionally, under the proposed version, where the recovery of sales tax pertains to cases of inadvertent / non-wilful default, the time limitation of three years has been enhanced to five years, thus, the time limitation for assessment and recovery of sales tax due is being generalized to five (5) years irrespective of the nature of default.

Furthermore, the following other changes may also be noted under the proposed version of Section 11:

1. The assessment order is required to be passed within one hundred and twenty (120) days of the date of issuance of show cause notice or within such extended period as the Commissioner may, for reasons to be recorded in writing, provided that such extended period shall in no case exceed ninety (90) days. Under the existing provisions of Sections 11 (4) and 36(3), the Commissioner is empowered to extend the time limit for issuance of order for sixty (60) days only.

2. Maximum time of sixty (60) days can now be excluded from the time limit prescribed for finalizing the proceedings, which shall be on account of the period during which any case will remain adjourned on the request of the registered person or due to any stay order or proceedings of Alternate Dispute Resolution. Presently, Sections 11(4) and 36(3) allow for the exclusion of maximum time limit to the tune of thirty (30) days.

Replacing zero-rating with exemption for supplies against international tenders

The Bill seeks to omit Entry No.4 of Fifth Schedule to the Act, which provides zero-rating of sales tax on supplies made against international tenders. Corresponding amendment is also proposed under Sr.No.12 to Table-2 of Sixth Schedule, whereby exemption of sales tax will be available on supplies against international tender. This appears to be a revenue measure as no refund of input tax would be admissible in respect of supplies made against international tender in consequence of this conversion of zero-rating to sales tax exemption regime. Corresponding procedural amendments have also been made under Chapter VIIA of Sales Tax Special Procedure Rules, 2007.

Revision of Tariff / PCT Headings

Sixth Schedule – Table-1

Due to introduction of HS-2012 version of Pakistan Customs Tariff this year, certain PCT headings under Sixth Schedule to the Act have been aligned as per following table:

S. No.	Description of goods	Existing PCT heading	New PCT Heading
1	Live animals and live poultry	0101.1000	0101.2100 & 0101.3100
		0102.1020	0102.2110
		0102.1030	0102.2120
		0102.1040	0102.2130
		0102.1090	0102.2190
		0102.9010	0102.3900
		0102.9020	0102.2910
		0102.9030	0102.2920
		0102.9040	0102.2930
		0102.9090	0102.2990, 0102.9000
11	Eggs including eggs for hatching	0407.0010	0407.1100, 0407.1900
		0407.0090	0407.2100, 0407.2900
15	Edible fruits excluding imported fruits (except fruits imported from Afghanistan) whether fresh, frozen or otherwise preserved but excluding those bottled or canned.	0808.2000	0808.3000, 0808.4000
16	Red chillies excluding those sold in retail packing bearing brand names and trademarks.	0904.2010	0904.2110
		0904.2020	0904.2210
31	Holy Quran, complete or in parts, with or without translation; Quranic Verses recorded on any analogue or digital media; other Holy books.	8523.4010	8523,4910
		8523.4030	8523.4920
		8523.4090	8523.4190

Significant amendments in Sales Tax Rules, 2006

SRO.589(I)/2012, dated 01 June 2012

- Second proviso to Rule 5 of Sales Tax Rules, 2006 is added, which provides discretion to the Board to transfer the registration of any registered person or any business unit of a registered person to an area of jurisdiction, where the place of business or registered office or manufacturing unit is located.

- Rule 7 of Sales Tax Rules deals with changes in particulars of registration, however it does not specifically cater to the situation where the legal status of the registered person is changed. Now, a new sub-rule (4) is added to Rule 7, whereby the procedure to effect change in legal status i.e. from individual business to AOP or company has been described. It is also clarified that a new sales tax registration number shall be issued in case of transfer of business or change in nature on any other account.

- Sub-rules (1), (2), (3), (4) & (5) of Rule 12 shall be substituted, wherein the procedures relating to black-listing and suspension of registration were described. By virtue of the substituted rule, the procedure prescribed by the Board shall be followed, where the Commissioner or Board has reasons to believe that the registered person is to be suspended or black-listed.

- Procedure laid down under Chapter IX of Sales Tax Rules for describing procedures applicable for taxpayers' authorized representatives will also apply for representations before Board and any officer of the Board.

Significant amendments in Sales Tax Special Procedure Rules, 2007

SRO.592(I)/2012, dated 01 June 2012

- Rule 58E of Chapter X of captioned Rules provides immunity to commercial importers except with the permission of the Board, who do not claim any refund of excess input tax. This Rule is now omitted as such the commercial importers may not avail immunity from audit.

- Chapter XI of captioned Rules provides special tax regime for steel melting, steel re-rolling, ship breaking units, Pakistan Steel Mills, Heavy Mechanical Complex and Peoples Steel Mills. The tax regime is revamped for these registered persons, whereby the rate of sales tax on steel sector has inter-alia been enhanced from Rs.6/Kwh to Rs.8/Kwh effective from 02 June 2012.

Significant Sales Tax Notifications

SRO.590(I)/2012, dated 01 June 2012

Through this notification, SRO.1020(I)/2006, dated 2 October 2006, has been amended to exclude the commercial importers from the purview of minimum value addition of 10% for payment of sales tax on supply of computer hardware and parts thereof.

SRO.591(I)/2012, dated 01 June 2012

This amends SRO.811(I)/2009, dated 19 September 2009, wherein sales tax zero-rating facility was provided alongwith exemption of customs duty on import and supply of polyethylene and polypropylene meant for manufacture of non-filament yarn and net cloth subject to specified condition laid down therein. Now, the zero-rating is replaced by sales tax exemption on the similar conditions.

Other amendment notifications resulting in change in rates / taxation – w.e.f. 02 June 2012

New SRO issued on 01 June 2012	Amendments made in SRO	Description	Existing rate	Revised rate
SRO.595(I)/2012	SRO.551(I)/2008, dated 11 June 2008	Raw materials, sub-components and components if imported for manufacturing of goods to be supplied against international tender	Exempt	Exemption with-drawn.
		Waste paper falling under PCT heading 4707.0000 [local supplies only]	22%	Exempt
SRO.595(I)/2012 & SRO.602(I)/2012	SRO.551(I)/2008, dated 11 June 2008 & SRO.549(I)/2008, dated 11 June 2008	Remeltable scrap under PCT 72.04 [Import and supply]	0%	Exempt
		Sprinkler equipment [local supply]	0%	Exempt
		Drip equipment [local supply]	0%	Exempt
		Spray pumps and nozzles [local supply]	0%	Exempt
SRO.604(I)/2012	SRO.313(I)/2006, dated 31 March 2006	Sales tax rate on import of soya-bean seed by solvent extraction industries.	7%	6%
SRO.605(I)/2012	SRO.69(I)/2006, dated 28 January 2006	Sales tax rate on import of rapeseed, sunflower seed and canola seed	15%	14%

New SRO issued on 01 June 2012	Amendments made in SRO	Description	Existing rate	Revised rate
SRO.596(I)/2012	SRO.308(I)/2008, dated 24 March 2008	Rates of repayment of sales tax on export of steel products against invoices issued from 02 June 2012 onwards have been enhanced on following:		
		Ingots or billets other than imported or of Pakistan Steel Mills or Peoples Steel Mills	Rs.5,526 PMT	Rs.7,349 PMT
		Mild steel re-rolled products manufactured from ingots and billets other than imported or Pakistan Steel Mills or People Steel Mills	Rs.6,306 PMT	Rs.8,387 PMT
		Mild steel re-rolled products manufactured from imported billets or billets of Pakistan Steel Mills or People Steel Mills.	Rs.7,308 PMT	Rs.9,651 PMT
SRO.597(I)/2012	SRO.345(I)/2010, dated 24 May 2010	Minimum values of billets and ingots enhanced for payment of sales tax at 16% thereof.		
		Billets	Rs.55,000 PMT	Rs.65,000 PMT
		Ingots	Rs.50,000 PMT	Rs.60,000 PMT

Notifications rescinded

Following sales tax notifications also stand rescinded effective from 02 June 2012 vide SRO.594(I)/2012, dated 01 June 2012:

S. No.	Reference of notification rescinded	Subject matter of the rescinded notification	Effect
2.	SRO.849(I)/1997	Exemption of local supply of imported raw materials was provided if imported directly by	Exemption withdrawn.

S. No.	Reference of notification rescinded	Subject matter of the rescinded notification	Effect
		the manufacturer who are liable to pay turnover tax or engaged in manufacture of the goods other than taxable goods.	
3.	SRO.103(I)/2005	Value of Potassic fertilizer for sales tax assessment at import stage and local supply was fixed at Rs.4,610 per metric ton.	Sales tax is now required to be charged and paid on actual sales price.
4.	SRO.15(I)/2006	Value of locally produced Nitrogenous fertilizer and Calcium Ammonium Nitrate was fixed at Rs.3,765 per metric ton.	Sales tax is now required to be charged and paid on actual sales price.