

Provincial Budget 2017 - Punjab

June 3, 2017

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**PROVINCIAL BUDGET 2017
- PUNJAB**

This Memorandum summarizes salient features of the Provincial Finance Bill presented in the Provincial Assembly of Punjab on June 2, 2017. All changes proposed through the Provincial Bill are effective July 1, 2017, subject to approval by the Provincial Assembly of Punjab.

Proposed modifications in certain other Provincial laws are also summarized in this Memorandum.

This Memorandum can also be accessed on our website www.pwc.com/pk

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PUNJAB FINANCE BILL, 2017 - Highlights

PUNJAB SALES TAX ON SERVICES

- Internet services have been proposed to be subjected to tax at the rate of 19.5% with the exception of those provided to students valuing not more than Rs 1,500 per month.
- Reduced rate of tax of 5% for 'construction service' is proposed with no input tax adjustment.
- Public sector construction projects proposed to be taxed at further reduced rates of 0%/1%.
- Real time invoice verification system proposed to be adopted in line with Federal sales tax regime.

STAMP DUTY

- The Punjab Finance Bill 2017 proposes to merge Capital Value Tax (CVT), generally payable at 2%, into stamp duty.
- Section 6 of the Punjab Finance Act, 2010, through which CVT was levied, is proposed to be repealed, while the exemptions envisaged therein are proposed to remain intact to the extent of payment of CVT.
- The general rate of stamp duty in case of immovable property in an urban area is proposed to be enhanced from 3% to 5%.

PUNJAB FINANCE BILL, 2017

SALES TAX REAL TIME INVOICE VERIFICATION – SECTION 2(17)

In line with power available with Federal Board of Revenue, PRA is proposed to be authorized to prescribe varying dates for submission of different parts of the sales tax return through amendment in section 2(17) of Punjab Act. This seems to aim at introducing the concept of Sales Tax Real Time Invoice Verification (STRIVE) whereby input sales tax adjustment would be available to recipient of service, subject to declaration of output tax by the service provider.

PLACE OF BUSINESS – SECTION 2(30)

The scope of the expression 'place of business' is proposed to be broadened to include persons carrying on economic activity in Punjab through virtual presence, website, web portal, any other form of E-commerce or through liaison offices. Through such amendment, responsibility to pay tax is seemingly intended to be shifted on to provider of service.

JOINT AND SEVERAL LIABILITY OF SERVICE PROVIDER/RECIPIENT – SECTION 11A

A new section 11A is proposed to be inserted to the effect that where the charged tax has not been paid by recipient of service (where designated as 'withholding agent') within 180 days of transaction, both the recipient and provider of service will be jointly and severally responsible for payment thereof.

COLLECTING AGENT – SECTION 14A

Presently, the liability of payment of sales tax, with certain exceptions, primarily rests with the service provider.

A new concept is proposed to be introduced to empower PRA to assign responsibility for payment/collection of sales tax upon intermediary parties (i.e. other than recipient or provider of service) in respect of specified services.

INPUT TAX CREDIT – SECTION 16

Certain procedural amendments are proposed in section 16 to ensure proper control over claim of input sales tax by service providers especially with respect to tax paid under other federal/ provincial laws. Further, PRA, subject to approval of Government, is proposed to be empowered to prescribe limitations/ restrictions as to claim of input sales tax with respect to persons or class of persons.

INPUT TAX ADJUSTMENT ON CAPITAL GOODS – SECTION 16C

It is proposed that input sales tax on capital goods, machinery and fixed assets be available in twelve equal monthly installments. Such mechanism was there in federal law upto 2011, however, given to procedural hitches, it was done away with. The proposal may entail cash flow constraints for taxpayers.

TIME LIMITATION FOR ASSESSMENT – SECTION 24

At present, the time limitation for initiation of proceedings against taxpayers (whether on the basis of audit or otherwise) is ‘five years’ from conclusion of the relevant tax period. Such limitation is now proposed to be enhanced to ‘eight years’.

ADMINISTRATIVE AUTHORITIES – SECTION 39

Following persons are proposed to be introduced in the administrative hierarchy of PRA, who shall be subordinate to the Deputy Commissioner or Assistant Commissioner:

- (i) Risk Compliance Officer; and
- (ii) Enforcement Officer.

PENALTY FOR OBSTRUCTION OF DUTIES – SECTION 48

The amount of penalty provided for in law on account of obstruction in performance of duties of an officer of Authority is proposed to be enhanced from Rs 25,000 to Rs 100,000.

RECOVERY OF TAX ARREARS – SECTION 70

PRA is proposed to be vested with power to enforce recovery of tax due from a defaulter from persons owing any amount to it including those on account of:

- Purchase contracts;
- Contracts with banking companies / Financial institutions;
- Lease contracts;
- Loan Agreements;
- Building loan contracts;
- Life Insurance contracts; and
- Employment contracts.

Further, it is proposed that where a tax demand has been settled to the extent of 25%, no coercive measures could be adopted by the department until the disposal of appeal by the Commissioner (Appeals).

POWER TO RESTRAIN CERTAIN AUTHORITIES – SECTION 76A

A new provision is proposed to be inserted, to empower PRA, with approval of Government, to restrain any other regulatory authority from renewing or granting any license/ permission to a person, to engage in a taxable economic activity, unless he obtains registration under the Punjab Act.

CONDONATION OF TIME LIMIT – SECTION 84

In the context of powers available with the PRA for condonation of time limits, an ‘explanation’ has been proposed to be inserted in section 84 to clarify that such powers are available with respect to functions of PRA’s officials as well.

TAXABLE SERVICES – SECOND SCHEDULE

Exemptions presently available with respect to following services are proposed to be withdrawn, thus taxing these at the rate of 19.5% and 16% respectively:

- Internet services (dial up or broadband) including e-mail DCNS and ‘value added data services’, except those valuing upto Rs 1,500 per month, if provided to students;
- Contractual execution of works upto Rs 50 million.

The presently applicable rate of 16% on 'construction services' is proposed to be reduced to 5%. Such reduced rate, however, is proposed to be effected *without allowance of any input tax adjustment*.

Further, tax rate on construction services, rendered in respect of federal/ provincial governments civil work projects including those of cantonment boards and funded through foreign loans/ PSDP/ ADP, is proposed to be reduced as follows:

- 'zero percent' for projects launched/ negotiated prior to July 1, 2016; and
- 'one percent' for projects launched/ negotiated during July 1, 2016.

Note: Clause 4(13)(ii)(b) of the Punjab Finance Bill, 2017 has been seemingly mis-numbered as Clause 4(13)(iii) giving rise to the confusion that perhaps tax rate has been reduced across the board on 'all services' to 5%, with no input tax adjustment available.

STAMP DUTY ACT, 1899

The Punjab Finance Bill 2017 proposes to merge all the taxes/duties/fees in the one head of account of stamp duty. This inter alia includes merger of Capital Value Tax (CVT) into stamp duty. Consequently, section 6 of the Punjab Finance Act, 2010, through which CVT was levied, is also proposed to be repealed. However, the exemption already envisaged in section 6 of the Finance Act, 2010 (as amended) are proposed to remain intact to the extent of payment of CVT.

Presently, the CVT is payable at 2% of the value of the immovable property where the value of the property is recorded, while it is payable on area based rate where the value of the property is not recorded and in case of constructed properties. Registration fee is being charged at Rs 500 in case of value of the property upto Rs 500,000 and Rs 1,000 in case of value of property exceeding Rs 500,000.

In the bill, the new rate of stamp duty is generally proposed to be 5% of the consideration or value of the urban immovable property. However, the rate of stamp duty on leased property in an urban area is proposed to be enhanced to 3.25%-5.25% which would be payable on the basis of annual rent subject to the tenure of the lease period. The component of registration fee is proposed to be added in stamp duty in the form of additional stamp duty. Refer Annexure A for a comparison between present & proposed rates of stamp duty.

For the purpose of stamp duty, the scope of "urban area" is proposed to be broadened. As per proposed definition, it would mean:

- (a) a rating area under the Punjab Urban Immovable Property Tax Act, 1958;
- (b) the area already declared as an urban area under the Punjab Finance Act, 2010;
- (c) any other area which the Board of Revenue may, by way of notification, declare as an urban area; and
- (d) an area developed by a development authority, housing authority, statutory body, cooperative housing society or a real estate company or developer.

Annexure A (Proposed changes in stamp duty rates)

Sr. No.	Proposed Substituted Description	Existing Proper Stamp-duty	Proposed Proper Stamp-duty
	<p>EXPLANATION Value, in this Article, means the value of the property in accordance with the valuation table as notified by the Collector or where valuation table is not available, the average sale price of a property of similar nature in the same revenue estate or locality in the preceding year as may be determined by the Collector.</p>		
31.	<p>EXCHANGE of immovable property:</p> <p>a) in case of an immovable property of an urban area; and</p> <p>b) in any other case</p>	<p>Three percent of the value of the property of the highest value.</p>	<p>Five percent of the highest value of the property plus two percent of the lowest value of the property; and</p> <p>Three percent of the highest value of the property.</p>
33.	<p>GIFT–Instrument of, including a memorandum of oral gift of an immovable property, not being a SETTLEMENT (Article 58) or WILL or TRANSFER (Article 62) - when executed in respect of an immovable property:</p> <p>a) in case of an immovable property of an urban area; and</p> <p>b) in any other case</p>	<p>Three percent of the value of the property.</p>	<p>Five percent of the value of the property: provided that if the gift deed is executed between spouses, father, mother, son, daughter, grandparent, sibling or from one wife or widow to another wife or widow of the same husband, the rate of stamp duty shall be three percent of the value of the property.</p> <p>Three percent of the value of the property.</p>

Annexure A (Proposed changes in stamp duty rates)

Sr. No.	Proposed Substituted Description	Existing Proper Stamp-duty	Proposed Proper Stamp-duty
35.	<p>LEASE, including an under lease or sub-lease and any agreement to let or sub-let:</p> <p>(1) where by such lease the rent is fixed and no premium is paid or delivered:</p> <p>(a) where the lease purports to be for a term of less than twenty years.</p> <p>(Existing terms proposed to be substituted - where the lease purports to be for a term of less than one year.)</p> <p>(Existing terms proposed to be substituted - where the lease purports to be for a term of not less than one year, but not more than three years.)</p> <p>(Existing terms proposed to be substituted - where the lease purports to be for a term in excess of three years, but not more than twenty years.)</p> <p>(b) where the lease purports to be for a term of twenty years:</p> <p>(i) in case of immovable property in an urban area; and</p> <p>(ii) in any other case</p>	<p>Two percent of the whole amount payable or deliverable under such lease.</p> <p>Two percent of the amount or value of the average annual rent reserved.</p> <p>Two percent of the consideration equal to the amount or value of the average annual rent.</p>	<p>3.25% of the average annual rent of the lease.</p> <p>5.25% of the average annual rent of the lease.</p> <p>3.25% of the average annual rent of the lease.</p>

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Sr. No.	Proposed Substituted Description	Existing Proper Stamp-duty	Proposed Proper Stamp-duty
	<p>(c) where the lease purports to be for a term in excess of twenty years or in perpetuity:</p> <p style="padding-left: 40px;">(i) in case of immovable property in an urban area; and</p> <p style="padding-left: 40px;">(ii) in any other case</p> <p>(d) where the lease does not purport to be for any definite term:</p> <p style="padding-left: 40px;">(i) in case of immovable property in an urban area; and</p> <p style="padding-left: 40px;">(ii) in any other case.</p> <p>(2)</p> <p>(a) where the lease is granted for money advanced and where no rent is reserved:</p> <p style="padding-left: 40px;">(i) in case of immovable property in an urban area; and</p>	<p>Two percent of the consideration equal to the whole amount of rents which would be paid or delivered in respect of the first ten years of the lease.</p> <p>Two percent of the consideration equal to the amount or value of the average annual rent which would be paid or delivered for the first ten years, if the lease continued so long.</p> <p>Two percent of the consideration equal to the amount of such advance as set forth in the lease.</p>	<p>5.25% of the consideration equal to the whole amount of rent which would be paid or delivered in respect of the first ten years of the lease.</p> <p>3.25% of the consideration equal to the whole amount of rent which would be paid or delivered in respect of the first ten years of the lease.</p> <p>5.25% of the consideration equal to the whole amount of rent which would be paid or delivered in respect of the first ten years of the lease.</p> <p>3.25% of the consideration equal to the whole amount of rent which would be paid or delivered in respect of the first ten years of the lease.</p> <p>5.25% of the consideration equal to the amount of advance as set forth in the lease.</p>

Annexure A (Proposed changes in stamp duty rates)

Sr. No.	Proposed Substituted Description	Existing Proper Stamp-duty	Proposed Proper Stamp-duty
	<p>(ii) in any other case.</p> <p>(b) where the lease is granted for a fine or premium and where no rent is reserved:</p> <p>(i) in case of immovable property in an urban area; and</p> <p>(ii) in any other case.</p> <p>(3)</p> <p>(a) where the lease is granted for money advanced in addition to the rent reserved:</p> <p>(i) in case of immovable property in an urban area; and</p>	<p>Two percent of the consideration equal to the amount of such fine or premium as set forth in the lease.</p> <p>Two percent of the consideration equal to the amount of advance as set forth in the lease, in addition to the duty which would have been payable on such lease, if no advance had been paid or delivered; provided that, in any case when an agreement to lease is stamped with the ad valorem stamp required for a lease and a lease in pursuance of such agreement is subsequently executed, the duty on such lease shall not exceed one hundred rupees.</p>	<p>3.25% of the consideration equal to the amount of advance as set forth in the lease.</p> <p>5.25% of the consideration equal to the amount of such fine or premium as set forth in the lease.</p> <p>3.25% of the consideration equal to the amount of such fine or premium as set forth in the lease.</p> <p>5.25% of the consideration equal to the amount of advance as set forth in the lease, in addition to the duty which would have been payable on such lease, if no advance had been paid or delivered: provided that, in any case when an agreement to lease is stamped with the ad valorem stamp required for a lease and a lease in pursuance of such agreement is subsequently executed, the duty on such lease shall not exceed one hundred rupees.</p>

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Sr. No.	Proposed Substituted Description	Existing Proper Stamp-duty	Proposed Proper Stamp-duty
	<p>(ii) in any other case</p> <p>(b) Where the lease is granted for a fine or premium in addition to the rent reserved:</p> <p>(i) in case of immovable property in an urban area; and</p>	<p>Two percent of the consideration equal to the amount of such fine or premium as set forth in the lease, in addition to duty which would have been payable on such lease if no fine or premium had been paid or delivered; provided that, in any case when an agreement to lease is stamped with the ad valorem stamp required for a lease and a lease in pursuance of such agreement is subsequently executed, the duty on such lease shall not exceed one hundred rupees.</p>	<p>3.25 percent of the consideration equal to the amount of advance as set forth in the lease, in addition to the duty which would have been payable on such lease, if no advance had been paid or delivered: provided that, in any case then an agreement to lease is stamped with the ad valorem stamp required for a lease and a lease in pursuance of such agreement is subsequently executed, the duty on such lease shall not exceed one hundred rupees.</p> <p>5.25% of the consideration equal to the amount of such fine or premium as set forth in the lease, in addition to the duty which would have been payable on such lease, if no fine or premium had been paid or delivered: provided that, in any case when an agreement to lease is stamped with the ad valorem stamp required for a lease and a lease in pursuance of such agreement is subsequently executed, the duty on such lease shall not exceed one hundred rupees.</p>

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Sr. No.	Proposed Substituted Description	Existing Proper Stamp-duty	Proposed Proper Stamp-duty
	<p align="center">(ii) in any other case</p> <p>Exemption Lease, executed in the case of a cultivator for purposes of cultivation (including a lease of trees for the production of food or drink) without the payment or delivery of any fine or premium when a definite term is expressed and such term does not exceed one year, or when the average annual rent reserved does not exceed one hundred rupees.</p>		<p>3.25% of the consideration equal to the amount of such fine or premium as set forth in the lease, in addition to the duty which would have been payable on such lease, if no fine or premium had been paid or delivered: provided that, in any case when an agreement to lease is stamped with the ad valorem stamp required for a lease and a lease in pursuance of such agreement is subsequently executed, the duty on such lease shall not exceed one hundred rupees.</p>
40(d)	<p>(i) mortgage with banking companies, that is to say, simple or legal mortgage for banking companies or other financial institutions, when the entire finance is not based on interest; and</p> <p>(ii) in any other case.</p>	<p>One-fifth of one percent, that is to say, 0.2% of the loan amount subject to a maximum of one hundred thousand rupees.</p> <p>One-fifth of one percent, that is to say, 0.2% of the loan amount</p>	<p>0.45% of the loan amount subject to a maximum of one hundred thousand rupees.</p> <p>0.45% of the loan amount.</p>
55.	RELEASE, that is to say any instrument (not being such a release as is provided for by section 23-A) whereby a person renounces a claim on another person or against any specified property.	Three percent of such amount of the claim or value of the property.	

Annexure A (Proposed changes in stamp duty rates)

Sr. No.	Proposed Substituted Description	Existing Proper Stamp-duty	Proposed Proper Stamp-duty
	(i) in case of immovable property in an urban area; and (ii) in any other case.		Five percent of the amount of claim or value of property. Three percent of the amount of claim or value of property.
63.	TRANSFER OF LEASE by way of assignment and not by way of under lease: (i) in case of immovable property in an urban area; and (ii) in any other case. Exemption: Transfer of any lease exempt from duty.	Three percent of the consideration equal to the amount of the consideration for the transfer.	Five percent of the amount of consideration for the transfer. Three percent of the amount of consideration for the transfer.
63- A.	TRANSFER OF RIGHT OR INTEREST RELATING TO AN IMMOVABLE PROPERTY, that is to say, transfer of a right of interest relating to an immovable property or an acknowledgement of such transfer, by a development authority, housing authority, statutory body, cooperative housing society, company or a developer and every instrument by which a right or interest relating to an immovable property is being transferred, registered, recorded or acknowledged by the authority, body, society, company or developer. Explanation – Transfer of the right or interest under this Article does not include original allotment from a development authority, housing authority, statutory body, cooperative housing society or company and transfer through inheritance. (i) in case of immovable property in an urban area; and	Three percent of the consideration equal to the amount of the consideration for the transfer.	Five percent of the value of property.

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Sr. No.	Proposed Substituted Description	Existing Proper Stamp-duty	Proposed Proper Stamp-duty
	(ii) in any other case.		Three percent of the value of property.

In addition to the above table, an additional stamp duty is proposed to be charged at Rs 500, if the amount of consideration does not exceed Rs 500,000, and Rs 1,000, if the consideration exceeds Rs 500,000, on Articles no. 18, 23, 27-A, 31, 32, 33, 40, 45, 48(b) 55, 58 and 63 of the Schedule I of the Stamp Act, 1899.

Further, in case of registration of instruments, an additional stamp duty is proposed to be charged at rates varying from 0.1% to Rs 25 on Article no. 2, 3, 5, 6, 15, 16, 26, 34, 46, 48(a), 48(bb)54, 56, 57 and 61 of the Schedule I of the Stamp Act, 1899.