

# Provincial Budgets 2015 - Punjab & Sindh

June 14, 2015

**A. F. FERGUSON & CO.**

**PROVINCIAL BUDGETS 2015  
PUNJAB & SINDH**

This Memorandum summarises salient features of the provincial budgets and the Finance Bills presented in the Provincial Assemblies of Punjab and Sindh. Under the Constitution, taxing rights on rendering of services, taxes on immovable properties and agricultural income tax inter alia lie with the provinces. All changes proposed through the Provincial Bills are effective July 1, 2015, subject to approval by the Provincial Assemblies.

This Memorandum can also be accessed on our website [www.pwc.com/pk](http://www.pwc.com/pk)

June 14, 2015

**Table of Contents**

	<i>Page Number</i>
<i>Punjab Finance Bill</i>	<b>2</b>
<i>Sindh Finance Bill</i>	<b>6</b>

## PUNJAB FINANCE BILL 2015

### PUNJAB SALES TAX ON SERVICES

#### Additions to the list of taxable services

1. **Transportation of goods** by air and inter-city carriage of goods by rail or road. The transport of goods through water or by an individual owner of a vehicle for carriage of goods are proposed to remain outside the scope of taxable services. At present, cargo services by road passenger transportation businesses and transportation through pipeline and conduit services are taxable.
2. **Air transport services** in respect of passengers embarking from Punjab:
  - Domestic: Long Routes (exceeding 500 kms) @ Rs 2,500 and short routes @ Rs 1,500.
  - International (excluding Hajj or Umrah passengers, diplomats & supernumerary crew): Economy & Economy plus @ Rs 5,000 and Club, Business and First class @ Rs 10,000.

*The extension of the list of taxable services to include goods transportation by air as well as air travel of passengers requires re-examination in relation to the Fourth Schedule to the Constitution of Pakistan regarding the right of taxability by the Federal Government.*

3. **Visa processing services** including advisory or consultancy services for foreign education or for migration, visa application filing, services provided by document collection centers and subsequent assistance in visa processing (including all ancillary services).
4. Lease of machinery, equipment and appliances.

5. **Public relation services** including communication services and services provided by public relations or media management businesses, communication specialists, media researchers, and services provided by opinion poll agencies.
6. Services provided by practicing CAs, ACMAs, actuaries, practicing company secretaries, receivers, liquidators, auctioneers, tax consultants, auditors and corporate law consultants, whether individual or otherwise.
7. Chartered flight services within or originating from the Punjab.
8. Debt collection and similar other recovery services.
9. Supply chain management or distribution (including delivery) services.
10. Services provided by photography studios and event or occasion photographers / film-makers excluding non-corporate (individual) photographers operating from small road-side shops declared as such by the PRA.
11. Sponsorship services.

#### Extension in the scope of services already taxable

1. Services of caterers to include all ancillary or allied services, such as floral or other decoration, furnishing of space whether, or not involving rental of equipment and accessories.
2. Courier services to include logistic as well as express cargo services.
3. Franchise services to include 'licensing services'.

4. Services of builders, in addition to services provided by property developers and promoters.
5. All IT services are proposed to be subjected to tax while at present, taxable services are restricted only to those provided by Software or System Development Consultants.
6. Services provided by other consultants to include evaluation services (including competency and eligibility testing services), certification, verification and equivalence services, marketing or sales services, surveyors services, training or coaching services (other than general education services). Further event management services to include whole range and variety of their services regardless of separate or individual classification thereof. Likewise, other consultants to include services provided by consultants by whatever name called or treated.
7. Services provided by a registrar to a public issue are proposed to be taxed. Further, services provided by share registrars etc. to include investor account services, trustee or custodial services, and allied or connected services.
8. Services provided by fashion designers to include those fashion designers which use logo, brand name, house mark etc.
9. Services provided by architects to include those provided by landscapers and landscape designers.
10. Services provided by rent-a-car to include services of rental of any vehicle for transportation of persons.
11. Services provided by Spas, Salons, Suanas, Turkish baths, Jacuzzis, hair transplants and similar other establishments are proposed to be subjected to tax.

**All the new services and/ or services with broadened scope are proposed to be chargeable to tax @ 16%, except in case of air travel in respect whereof flat rates as mentioned above are applicable.**

### ***Increase in rate***

Rate of tax on Freight forwarding agents is proposed to be enhanced to Rs 1,000 per bill of lading as against existing rate of Rs 400 per bill of lading.

### ***Exemptions / exclusions curtailed and / or withdrawn***

1. Exemption in respect of the following construction services is proposed to be withdrawn/ curtailed:
  - Industrial and commercial projects of value not exceeding Rs 50 million per annum;
  - Construction of industrial zones;
  - Construction services rendered to organisations exempt from income tax;
  - Residential construction projects with covered area not exceeding 10,000 sq. feet in case of houses and 20,000 sq. feet in case of apartments is to be restricted to one such unit.
2. Exemption in respect of advertisement services financed out of grant-in-aid agreements is proposed to be restricted to only those that are financed out of foreign grant-in-aid agreements.
3. Exemption available to various small scale beauty parlors, clinics, slimming clinics etc. is proposed to be restricted only to those that do not have the facility of air conditioning in premises.

### ***Retention of records and documents***

The period for which a person is required to retain any record or documents under this Act is proposed to be extended from five to six years.

### **Forensic audit**

An amendment is proposed in section 34 empowering PRA to appoint CAs, CMAs and/ or other experts to conduct 'forensic audit' of records of any registered person and may also conduct such audit jointly with Federal and/ or other provincial authorities.

Such powers are already available in respect of conduct of a 'special audit'.

### **Whistle blowers**

A new concept of 'whistle blower' is proposed to be introduced in the Sales Tax Act. This will empower the PRA to reward persons in addition to its officers who provide information regarding concealment or evasion of tax or tax fraud. This is in line with concept proposed to be introduced in Federal fiscal laws through Finance Bill, 2015.

### **Prize Schemes**

The Bill proposes to empower PRA (with the approval of the Provincial Government) to introduce 'prize schemes' to encourage general public to make purchases only from registered persons issuing tax invoices.

### **Non-Banking Financial Institution**

Previously, non-banking finance company had been defined in the Punjab Sales Tax on Services (Definitions) Rules, 2012 only. It is proposed to include such definition in the Sales Tax Act.

This amendment seems to address the controversy that through secondary legislation, scope of tax cannot be enhanced.

### **Taxability through Rules / Circulars**

Section 3 of the Sales Tax Act is proposed to be modified to show legislature's intent to the effect that services mentioned in First Schedule are not exhaustive and all the services mentioned in the Second Schedule, Rules and Circulars shall be taxable.

Presently, the Government of Punjab, under section 5 of the Sales Tax Act, is empowered to charge to tax/ exempt a service through inclusion or omission thereof from the Second Schedule. The amendment aims at vesting such powers with Punjab Revenue Authority ('PRA') which under section 76 is empowered to frame rules and issue circulars.

Legal status of this amendment needs to be examined as, with the proposed intent, there would be no rationale in retaining the First Schedule.

### **Continuity of sales tax exemption on internet services**

Through a notification dated May 28, 2015, the Punjab government had imposed 19.5% tax on all kinds of internet usage for users whose monthly bill exceeds Rs 1,500 or if the broadband speed is more than 2Mbps.

In the Budget Speech, the Punjab Finance Minister has announced withdrawal of tax on internet services. It is expected that the notification dated May 28, 2015 will be withdrawn in due course.

### **STAMP DUTY**

Stamp duty on transfer of leasehold immovable property is proposed to be levied on the basis of rates, as notified by the District Collector under section 27-A of the Stamp Act, 1899. Such levy is presently applicable on the basis of value declared by transferor/ transferee.

The subject amendment aims to contain the loss of revenue due to under-declaration of value in case of transfer of leasehold rights in immovable property.

### ***CAPITAL VALUE TAX ON IMMOVABLE PROPERTY***

Section 6 of the Punjab Finance Act, 2010, introduced capital value tax on the capital value of an immovable property payable by every person who acquires by purchase, gift, exchange, power of attorney, an immovable property or a right to use (including renewal of the lease) thereof for more than twenty years.

Through the Punjab Finance Bill, 2015, it is proposed that the exemption of capital value tax, available to immovable property in urban areas valuing one million rupees, be withdrawn. The subject withdrawal is proposed to counter the misuse of said exemption by splitting the transactions to avoid taxation.

### ***INFRASTRUCTURE CESS***

The Punjab Infrastructure Development Cess Bill, 2015 has also been tabled along with the Finance Bill 2015. The Bill envisages collection of cess @ 0.90% of the value assessed for the purpose of customs duties, on the transportation of goods (other than fresh food items) imported into Punjab and customs-cleared goods through ports, dry-ports, airports and other custom stations including bonded warehouses.

The collection of cess is proposed to be made through the automated system of Pakistan Customs maintained and operated by PRAL.

### ***EDUCATION CESS ON CLUBS***

While Education cess on clubs was levied through Punjab Finance Act, 2011, with effect from July 1, 2012, services rendered by clubs were also made subject to levy of sales tax by the Sales Tax Act. In order to prevent double taxation of clubs in this manner, the education cess on clubs is proposed to be abolished.

## SINDH FINANCE BILL 2015

### SINDH SALES TAX ON SERVICES

#### Reduction in general rate of Sales Tax

There is a proposal in the Sindh Finance Bill, 2015 to reduce the existing general rate from 15% to 14% for all services. However, it has been announced in the Budget speech that the following services will be subject to Sindh Sales Tax (SST) at a rate different from the general rate:

- Telecommunication services (rate is proposed to be reduced from 19.5% to 18%);
- Services taxable at reduced rate (rate is proposed to be increased from 5% to 6%);
- Services rendered by program producers (rate is proposed to be reduced from 10% to 6%); and
- Services rendered by Construction & Building industry [such service providers will have the option to choose between the standard rate of 14% (with input adjustment) or lower rate of 6% (without input adjustment)].

#### Proposed additions to the list of taxable services

Following new services are proposed to be taxed:

1. Services provided or rendered by laboratories other than the services relating to pathological, radiological or diagnostic tests of patients
2. Credit rating Agency
3. Futures brokers
4. Underwriters
5. Indenters
6. Packers and Movers
7. Erection, commissioning and installation services

8. Technical inspection and certification services, including quality control certification services and ISO certifications
9. Valuation services, including competency and eligibility testing services
10. Auctioneers (**Note 1**)
11. Travel Agents (**Note 1**)
12. Dredging and Desilting (**Note 1**)
13. Intellectual property services (**Note 1**)
14. Ready mix concrete service (**Note 2**)
15. Collection of utility bills by Banks and NADRA (**Note 3**)

**Note 1** Mentioned in the Budget Speech to be taxed @ 10% for which a notification is likely to be issued.

**Note 2** Mentioned in the Budget Speech to be taxed @ 6% (without input adjustment) or 14% (with input adjustment), at the option of the service provider. Notification in this regard is likely to be issued by the Board. Also, inclusion of 'ready mix concrete', being 'goods' subject to Federal tax, needs to be re-examined.

**Note 3** The exemption presently available to Banks and NADRA on their service charges for collection of utility bills is proposed to be withdrawn, by way of amendment in the relevant Notification.

For the purpose of taxing new services, certain new definitions are proposed in the Finance Bill. Furthermore, the definition of 'share transfer agent' is proposed to include 'share depository agent'. In the salient features, it is stated that such inclusion in the definition is intended to tax the custodianship services.

### ***Renting of immovable property proposed to be subject to sales tax on services***

Apart from the above-referred services proposed to be included in the list of taxable services, one of the most significant proposed amendment is to include renting of immovable property as being a service subject to SST.

This proposed amendment needs to be re-examined in the context whether renting of immovable property is a service or not. Furthermore, right of the Provincial Government to tax renting of immovable property needs to be examined in terms of the Constitutional provisions.

The term “Renting of immovable property” is defined to include renting, letting, sub-letting, leasing, subleasing, licensing or similar other arrangements of immovable property for use in the course or furtherance of business or commerce. It is also proposed that the term is not meant to include the following:

- a) renting of immovable property by a religious body to another religious body;
- b) renting of vacant land or premises solely used for agriculture, aquaculture, farming, forestry, animal husbandry or mining purposes;
- c) renting of land or premises solely used for outdoor games and sports;
- d) renting of buildings solely used for residential purposes or solely used as hostels and boarding homes of a recognised educational institution; and
- e) renting of immovable property by hotels, motels, guest houses, clubs and marriage halls and lawns which are otherwise liable to SST.

The term ‘immovable property’ has also been defined to include the following:

- a) building and part of a building and the land or space appurtenant thereto;
- b) land or space incidental to the use of such building or part of a building;
- c) common or shared areas and facilities relating to the property rented;
- d) vacant land or space given on lease or license for construction or temporary structure to be used at a later stage for furtherance of business or commerce; and
- e) plant, machinery, equipment, furniture, fixture or fitting installed in or provided in or attached to the immovable property;

Although it is proposed in the Sindh Finance Bill, 2015 that the general SST rate (i.e., 14%) is to apply to the services for renting of immovable property, it was mentioned in the Budget Speech that such services will be subject to SST @ 6%. It is therefore expected that a notification to this effect will be issued by the Board if the proposal to tax these services is ratified in the Sindh Finance Act, 2015.

### ***Services of Commission Agents proposed to be taxed***

Another significant proposal in the Sindh Finance Bill, 2015 is to levy SST on the services of Commission Agents. For this purpose, the term “Commission Agent” is defined to mean a person who acts on behalf of another person for causing sale or purchase of goods or provision or receipt of services, for a consideration, and also includes any person who, while acting on behalf of another person:

- a) deals with goods or services or documents of title to such goods or services; or
- b) collects payment of sale price of such goods or services; or
- c) guarantees for collection or payment for such goods or services; or
- d) undertakes any activity relating to such sale or purchase of such goods or provision or receipt of such services.



### **Best Judgement Assessment**

It is proposed that an officer of SRB, not below the rank of Assistant Commissioner, be empowered to pass an assessment order to the best of his judgement, based on any available information or material, for purpose of determining the minimum tax liability of a registered person where such person fails to:

- File the return for a tax period by the due date; or
- Furnish any information, explanation, documents record or any other information required in a notice.

The minimum tax liability so determined in the best judgement order shall not be the final tax liability and the registered person shall be liable to discharge his actual liability, determined as a result of audit or special audit or forensic audit.

### **Delegation of powers**

At present, only the Board has the powers to suspend the registration of a registered person. It is proposed that such powers be now delegated to an Assistant Commissioner or any other officer authorised by the Board.

Apart from the above, the power to arrest and prosecute a person committing tax fraud or any offence warranting prosecution under the Act lies with the Commissioner of the Board or any office of an equal rank. It is proposed that such powers be delegated to an Assistant Commissioner or any other officer authorised by the Board.

At present, only an officer of the Board being at least equal to the rank of a Deputy Commissioner has the powers to file a reference with the High Court on any question of law arising out of an order of the Appellate Tribunal. It is now proposed that the power to file reference be now delegated to an officer of the Board being at least an Assistant Commissioner.

### **Right to Appeal against an Order for suspension of registration**

At present, an order passed for suspending the registration of a registered person is not appealable before the Commissioner (Appeals). It is now proposed that appeal against such order may now be filed.

### **Formation of Panel for Special Audit**

A new concept of formation of panel for conducting special audit is proposed to be introduced. Under these provisions, a panel comprising of two or more persons will be empowered to conduct an audit including a forensic audit of income tax affairs of a taxpayer. The Panel is proposed to consist of an Officer of the Board or a Firm of Chartered Accountants or Cost and Management Accountants or any other person as appointed by the Board.

The procedure prescribed envisages that a member of the Panel other than Officer of the Inland Revenue shall effectively provide the support function only. The legal and procedural aspects for conducting such audit shall be undertaken by the member of the panel being the Officer of Inland Revenue.

### **Offences and Penalties**

The rates of penalties for some of the offences already described in the Act are proposed to be increased. It is also proposed to impose penalties where a registered person:

- (a) fails to intimate any change in particulars of registration within 15 days from date of such change; or
- (b) denies or obstructs the entry or access of the officer of the SRB posted to his business premises or fails to facilitate the officer of the SRB in the discharge of his duty to monitor the provision of services by such person; or

- (c) contravenes any of the provisions of the rules or notification issued in relating to withholding or deduction of tax or payment of the tax so withheld or deducted.

### ***Deposit of Sales Tax demand while appeal is pending***

It is proposed that an appellant will be required to pay the tax assessed / determined in the order against which appeal has been filed, unless stay for recovery of demand is granted by the appellate authority.

Presently, where an appellant has filed an appeal against an order in which sales tax demand has been raised, only the 'admitted' amount of sales tax is required to be paid. However, practically the demand raised in the order is recovered on the date specified in the notice of demand, unless stay is granted by the appellate authority.

### ***Recovery of arrears of tax***

A duly authorised officer of the Board is empowered to take various steps to recover the amount of tax due from any person under the Act. It is now proposed that embargo on economic activity of the person may also be levied till the recovery of the full amount of tax due.

### ***STAMP DUTY***

The 'value' for the purpose of Stamp Duty is proposed to be revised in respect of the following:

- In case of transfer of property by Developmental REITs to end-users, it is proposed that stamp duty be computed on the 'transaction value'. Presently, the duty is chargeable on the 'market value'.
- In case of transfer of lease by way of assignment, stamp duty is proposed to be chargeable on 'the amount of consideration for such transfer' or 'value as per the Valuation Table', whichever is higher. Presently, the duty is chargeable on the amount of consideration for such transfer.

Apart from the above, Sindh Finance Bill, 2015 proposes to levy stamp duty @ 0.01% of the face value of shares on transfer of shares from one Central Depository Company (CDC) account or sub-account to another CDC account or sub-account. Presently, stamp duty is applicable only on transfer of physical shares and not on electronic transfers within CDC accounts or sub-accounts. . Furthermore, the rate of stamp duty on deposit of shares to CDC is proposed to be increased from 0.10% to 0.15% of the face value of shares.

Stamp Duty is also proposed to be levied on Health Insurance at the same rates as are applicable to Life Insurance schemes.

Besides the above, the Sindh Finance Bill, 2015 has put forth proposal to increase the rates of stamp duty on certain documents. In particular, stamp duty on Purchase Order for supply of goods is proposed to be increased from 0.20% to 0.25% of the amount of Purchase Order.

### ***INFRASTRUCTURE CESS***

Infrastructure cess is levied and collected on total value of a consignment of goods, as assessed by the Customs authorities, upon entering the Sindh province from outside the country through Air or Sea and on its movement. The cess is presently levied at the rates ranging from 0.90% to 0.95% based on net weight of goods. An upward revision in the rates of cess is proposed so that the revised rates will be in the range of 1.00% to 1.05%.