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Federal Budget 2018



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FEDERAL BUDGET 2018

This memorandum gives a brief overview of Pakistan economy and significant amendments proposed by the Finance Bill 2018. All changes proposed through the Finance Bill 2018, subject to approval by National Assembly and Presidential assent, are effective July 1, 2018.

These notes also contain our comments on four Presidential Ordinances promulgated on April 8, 2018.

Certain amendments will be effective on the next day of assent given by the President to these provisions.

This memorandum can also be accessed on <https://www.pwc.com.pk/en/tax-memorandum.html>

April 28, 2018

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KEY ECONOMIC INDICATORS

Economic Survey 2017-18

Pakistan has made great strides in improving its economic outcomes and reducing its macroeconomic vulnerability in the recent years. As a result economic growth has continued to gain traction, albeit at varying speeds across the sectors, founded on the government's commitment to higher growth and low inflation. GDP continued to grow above 5 percent in each of the last 2 years reaching 5.79 percent highest in 13 years in the outgoing fiscal year FY2018 and 4 percent in each of the three preceding years. This achievement is remarkable as it has been accomplished in the face of global head winds.

This year's strong economic growth has been underpinned by supportive macroeconomic supply and demand policies, renewed confidence in the private sector and fiscal discipline. Major international institutions anticipate that global economic growth will increase from previously subdued levels, which is a welcome development for a broadly favourable future outlook in Pakistan.

Apart from these positive developments, risks/challenges remain on domestic and external fronts, particularly the unfavorable BOP position due to a widening Current Account Deficit (CAD) along with less than expected foreign inflows and a decline in exports in the last two to three years. Slow global growth in international trade flows was an external factor that contributed to the low export growth. However, this declining trend has started to fade out due, on the one hand, to government's supportive initiatives for export growth along with efforts to limit the import of luxury goods and a recovery of the global economy on the other.

	FY 17 – 18	FY 16 – 17
GDP growth rate	5.79%	5.37%
Per capita income - US\$	1,641	1,633
FDI (July – March) US\$ million	2,100	2,000
Inflation (July – March)	3.8%	4.0%
Public debt (PKR billion)		
- Domestic	15,437	14,855
- Foreign	7,383	6,552
	22,820	21,407
Budget deficit - %age of GDP	4.1%	5.8%

Source: Economic Survey of Pakistan 2017-2018

BUDGET AT GLANCE

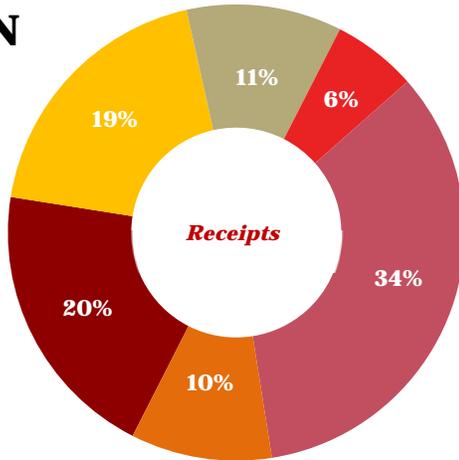
Budget Financials

The following table sets out the Key Budget Financials:

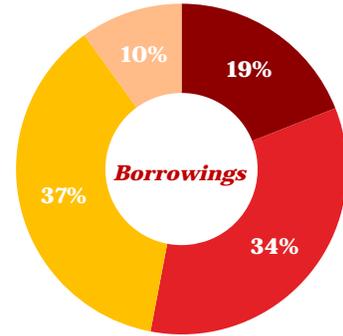
	2018-2019		2017-2018 (Revised)	
	<i>Rs in Billion</i>	%	<i>Rs in Billion</i>	%
Tax revenue	4,889		4,147	
Non-tax revenue	772		845	
Gross revenue receipts	5,661		4,992	
Public account receipt – net	127		69	
Total receipts	5,788	100	5,061	100
Less: Provincial share in Federal taxes	(2,590)	(45)	(2,316)	(46)
Net revenue receipts	3,198	55	2,745	54
Expenditure				
- Current expenditure	5,023	87	4,450	88
- Development expenditure	1,152	20	1,063	21
	6,175	107	5,513	109
Deficit	(2,977)	(52)	(2,768)	(55)
- Domestic debts non-bank	559		678	
- Domestic debts banks	1,015		586	
- Foreign debts / grants	1,118		1,230	
- Surplus from provinces	285		274	
	2,977		2,768	

WHERE FROM THE RUPEE COMES IN AND WHERE IT GOES OUT

IN

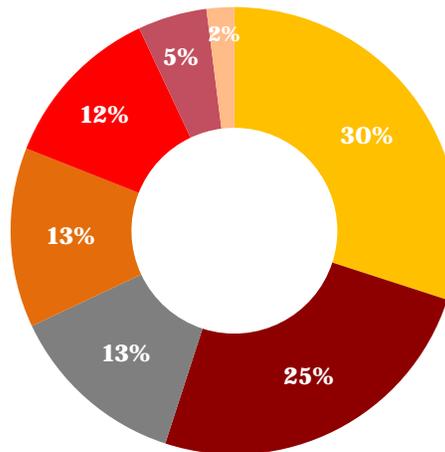


- Income Tax (20%)
- Sales Tax (19%)
- Customs Duty (8%) and FED (3%)
- Petroleum levy, Gas Infrastructure Cess & Others (6%)
- Borrowings (34%)
- Non-tax revenue (10%)



- Domestic debts non-bank (19%)
- Domestic debts banks (34%)
- Foreign debts (37%)
- Surplus from provinces (10%)

OUT



- Provincial share in Federal taxes (30%)
- Debt servicing (25%)
- Development expenditure (13%)
- Defence Affairs and Services (13%)
- Federal Government expenses including pensions (12%)
- Grants and transfers (5%)
- Subsidies (2%)

BREAK-UP OF TAX REVENUE

There is a slight downward change in the ratio of direct and indirect taxes.

A substantial and incremental shift is required to decrease disparity in income and reduce the burden of indirect taxes on common man.

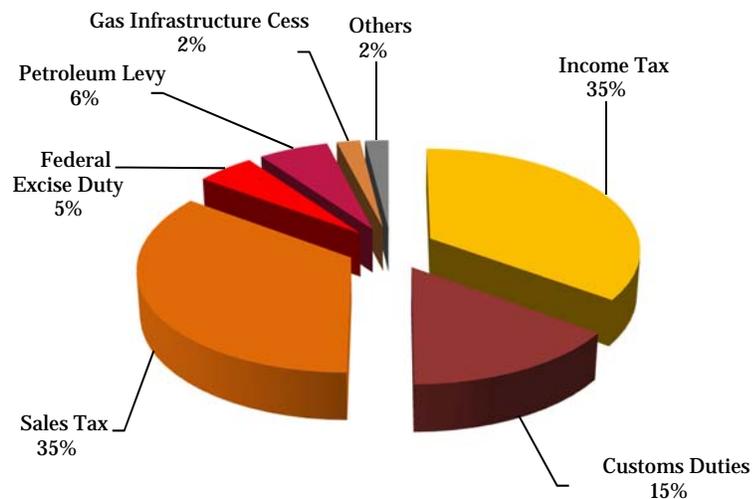
Direct Taxes:

- Income Tax
- Workers' Welfare Fund

Indirect Taxes:

- Customs Duty
- Sales Tax
- Federal Excise Duty
- Petroleum Levy
- Gas Infrastructure Cess
- Natural Gas Surcharge
- Others

FY 18 – 19	FY 17 – 18 (Revised)
Rs in Billion	Rs in Billion
1,710	1,540
19	17
1,729	1,557
735	600
1,700	1,547
265	225
300	170
100	15
16	23
44	10
3,160	2,590
4,889	4,147



EXECUTIVE SUMMARY

1. The Finance Bill 2018 includes certain policy changes in the taxation regime that have been there over three to four decades. Following revolutionary positive measures have been introduced:

- a) Valuation of Immovable Properties and the pre-emptive right of the Government to acquire under-declared properties;
- b) Restriction on acquisition of immovable properties and new vehicles by non-filers;
- c) Measures relating to non-cash gifts between persons who are not relatives;
- d) Abolition of presumptive tax regime for Commercial Importers;
- e) Introduction of the concept of year of discovery for taxation of unexplained foreign sourced income and foreign assets;
- f) Withdrawal of immunity of foreign remittances exceeding certain threshold; and
- g) Substantial reduction in tax rates for Individuals including salaried class.

2. As a result of the reduction in tax rates for businesses undertaken by Individuals, the difference in tax incidence for similar businesses undertaken by corporate sector and Association of Persons (AOP) vis-à-vis an Individual has widened. The net effective take home income through a corporate business and AOP is limited to Rs 60 if the profit is Rs 100 whereas same business undertaken by an individual will result in take home income of Rs 85. This difference may lead to de-corporatization of businesses. We propose that the gap should be reduced. Generally accepted international measure for the same is to treat tax on dividend as adjustable against corporate tax liability so as to avoid economic double taxation.

3. The Government has introduced one time compliance scheme for disclosure of undeclared income and assets. The Finance Bill has proposed certain measures to curb the possibility of future accumulation of undeclared foreign assets and foreign income.

4. In order to incorporate tax measures for proper disclosure of foreign assets and foreign income and enhance the ambit of anti-avoidance provisions, the Finance Bill has introduced certain provisions which may deem a foreign source income as Pakistan source income. This aspect needs to be examined in relation to the generally accepted principle of international taxation.

5. In order to avoid protracted litigation and delay in settlement of cases, the whole concept of Alternative Dispute Resolution (ADR) has been revamped. Now, the ADR Committee (ADRC) will comprise of three members, out of which two will be independent persons. If the taxpayer decides to opt for ADR regime instead of appellate regime then the recommendations of ADRC will be binding on both the parties.

6. In the past, certain anti-corporate tax measures such as levy of tax on bonus shares, tax on undistributed profits and super tax had been introduced. Through the Finance Bill, corrective actions have been taken in respect of all these measures and tax on bonus shares has been abolished whereas the other two taxes are to be phased out over the period of time.

7. In the past, regressive measures were adopted that had rolled back the business oriented regime for group taxation. It was expected that certain measures will be introduced to reinstate all-inclusive group taxation system. No such measures are, however, appearing in the Finance Bill. It is expected that these measures will be taken care of in the Finance Act, 2018.

8. There has been disputes between taxpayers and tax department on the matter of taxability of composite contracts undertaken by non-residents. These disputes inter alia primarily relate to taxation of offshore supplies being part of an overall arrangement. The Finance Bill has proposed deeming provisions for taxation of income from such supplies which, in our view, overrides the principles of nexus as laid down in international taxation system. This matter requires reconsideration to bring it in line with the generally accepted principles especially in the cases where the contracts are executed by a person resident in a tax treaty jurisdictions.

9. Domestic tax laws around the globe invariably provide principles to curb tax avoidance measures, however, details guidelines and processes are laid down for this purpose. Substantial powers have been provided to taxation authorities for undertaking actions in case of tax avoidance schemes which include disregarding a legal entity and protection provided under the tax treaties. These provisions without substantive guidelines and safeguards are prone to abuse by the tax authorities. It is suggested that the application of the same be subject to the adoption of detailed guidelines for General Anti-Avoidance Regulations (GAAR).

10. Banking companies are subject to tax on their profits as determined by the regulations prescribed by State Bank of Pakistan (being the Regulator of Banking Sector in Pakistan). The application of recharacterisation provisions in the case of banking companies is undesirable where the amount of profit is the one as determined in accordance with SBP regulations.

11. It should be the objective of every growth based taxation policy to encourage capital investment in plant and machinery. This objective is achieved by allowing charge for depreciation against taxable income and the right to carry forward in subsequent year. The Finance Bill has proposed certain measures whereby the right to adjust brought forward unabsorbed depreciation is being deferred. This negates the very objective of the concept as described above which may lead to curtailment of industrial investment without any real benefit to the Government.

12. There has been a general and genuine complaint of taxpayers for repetitive selection for tax audits. A corrective measure has been proposed whereby a composite audit, covering Income Tax, Sales Tax and Federal Excise, shall be undertaken not more than once in three years. There are cases of abuse of provisions relating to amendment of assessment in order to create tax demands. Corrective measures are required in this regard also.

INCOME TAX

GENERAL

The President of Pakistan promulgated four Ordinances on April 8, 2018 which have been placed before the National Assembly. The Finance Bill 2018 now proposed is to be read in conjunction with such Ordinances. Summary of the measures introduced has been included as Annexure A to this note. The provisions contained in Income Tax (Amendment) Ordinance, 2018 have, however, been made part of the Finance Bill, 2018.

The other three Ordinances referred above laid before the National Assembly are deemed to be the Bills introduced as per Article 89 of the Constitution of Pakistan. The Finance Bill 2018 and these three Bills are expected to be passed simultaneously by the National Assembly.

NEW TAX REGIME FOR IMMOVABLE PROPERTIES

The Prime Minister whilst announcing the Economic Reforms Package indicated that a new regime is to be introduced with respect to transactions relating to purchase of immovable properties and their valuation.

The Finance Bill 2018 has completely revamped the valuation regime for immovable properties by proposing substantial amendments.

For almost four decades (since introduction of repealed Income Tax Ordinance, 1979), there was an implied mechanism to the effect that the valuation as prescribed for stamp duty purposes (generally referred as DC rates) was to be treated as the value of such immovable property for taxation purposes.

This implied that there could not be any addition for under-declaration of the value of immovable property even though there was apparent gap between the fair value / transaction value and the DC rates. Through an amendment made in 2016, the FBR prescribed valuations for immovable properties which were higher than the DC rates.

The taxation officers were required to accept such prescribed values. However, the prescription of standard rate is not a solution for the under-declaration of the actual transaction value. It has been observed that the actual transactions were generally undertaken at a much higher rate. Furthermore, the concept of prescribing a standard value for property is a deviation from the commercial reality and effectively provided an immunity for unexplained investment.

It has been considered that the difference between the transaction value and the prescribed value represented a deemed protected place of parking for untaxed funds. There was a need to curb this tendency. It is for the first time that a real corrective step has been taken to remove the parking lot of untaxed money in this sector.

The standard valuation method as described above has been replaced by a transaction value method. Now, there will be no standard rate for the taxation authorities whilst examining a case relating to acquisition of immovable property.

Transaction value method in this case is always prone to under-declaration. This tendency has to be eliminated by way of some provision in the law. This possibility is now to be avoided and eliminated by providing a right of purchase by the Government in the manner as prescribed in the law and briefly described in the following paragraphs. This right is a safeguard against under valuation for the reason that an under-declarant will be exposed to acquisition by the Government at certain value. This mechanism is already in place in many other countries including India.

A new section 230F has been introduced whereby a post of 'Director General of Immovable Property' has been created to handle this subject.

The aforesaid mechanism is a practical measure to curb the under-declaration of the property price, however, this subject would require to be examined with reference to Constitutional provisions of law as the immovable property is a Provincial Subject.

The revised regime shall come into force from such date as the Federal Government may appoint. The 1% adjustable advance tax from the purchaser on the declared value shall be collected and this shall replace the existing withholding tax on seller and purchase of properties from such application of the regime.

The procedure for the operation of this section is briefly discussed as under:

- a) The proceedings in respect of any transaction will be initiated where there are reasons to believe that the consideration for the transfer is under-stated inter alia to avoid taxation.
- b) The Director General will appoint a valuer or expert for determination of fair market value of the property.
- c) No proceedings will be initiated after the expiry of six months from the date of transaction.
- d) If, after the hearing, the DG is satisfied that the FMV of such property exceeds the declared consideration by more than 50% then he shall make an order under this section (FMV Rs 100; Consideration declared Rs 60; Excess Rs 40; 50% of consideration declared Rs 30 hence the aforesaid provisions are triggered. If the declared consideration is Rs 70 the provisions shall not be triggered).
- e) The aforesaid order of the DG can be challenged before the Appellate Tribunal of Immovable Property (to be formed) within 60 days of the receipt of order.
- f) In case the order is against the transaction, then the immovable property including ownership rights will be vested in the Federal Government and the same will be treated to be in the same position as it has not been done.
- g) The consideration for acquisition by the Government shall be equal to the aggregate of the amount of the consideration for the transfer of property and 100% of such consideration. As per the salient features of the budget, the said amount shall be revised downwards in subsequent years, however, no such provisions are laid down in the Finance Bill.
- h) The order of the AT can be challenged before the High Court and then Supreme Court.
- i) Where the property is acquired under this section, the FBR shall make a payment of consideration to the person.

ACQUISITION OF CERTAIN ASSETS ONLY BY FILERS

A fundamental step has been taken in order to curb acquisition of certain assets by persons who are outside the taxation regime. A new provision in the form of section 227C has been introduced which overrides any other law for the time being in force. Under this provision, a person who is not a 'filer' (a taxpayer whose name does not appear in the active taxpayers' list issued by the Board or is not holder of a taxpayer's card) will not be entitled to processing of any application:

- a) For booking, registration or purchase of a newly manufactured vehicle or imported vehicle.
- b) From any authority responsible for registration, recording, attesting immovable property.

This appropriate step which has been undertaken to curb the parking of untaxed money in acquisition of new vehicles and immovable properties need to be examined in the context of Constitutional provisions in relation to the fundamental right in respect of acquisition of assets.

Furthermore, there are persons who are not filers as their income is not chargeable to tax due to exemptions or other concessions such as persons acquiring such assets out of funds generated from exempt incomes, such as Agriculture income. A mechanism would have to be provided to cater for these situations.

As per 'salient features' of the budget released along with the Finance Bill, the prohibition on purchase of immovable property by non-filers is for the properties having declared value exceeding Rs 4 Million.

STRENGTHENING TAX ENFORCEMENT ON FOREIGN ASSETS AND INCOME

Some major amendments have been made for strengthening tax enforcement in respect of foreign income and foreign assets. These amendments are in continuation to the measures introduced in the Economic Reforms Package earlier introduced on April 8, 2018. These provisions are to be carefully taken into consideration by the persons who hold foreign assets and income if the same are not declared under the Pakistan tax regime especially in relation to the Foreign Assets (Declaration and Repatriation) Ordinance, 2018.

Gain on disposal of Pakistan asset by a foreign (offshore) entity

Any gain from disposal made outside Pakistan, of an asset located in Pakistan, shall be considered as Pakistan source income. This is a fundamental change in the concept of Pakistan source income. Previously, this provision was only applicable on immovable properties and certain rights in relation thereto [section 101(9) and (10)]. The proposed amended provisions mean that a gain arising to a non-resident person that is otherwise not taxable in Pakistan will become taxable in Pakistan if it relates to an underlying asset in Pakistan.

This provision of law is an extension of the concept of nexus of taxability of income in Pakistan. The concept of taxability in relation to the underlying source is generally limited to real estate properties. The commentaries on international taxation reveals that in the case of real estate properties the jurisdiction where the property is located has the primary right to tax gain from such property. The extension of this concept to 'all assets' need to be examined under the concept of nexus and territorial jurisdiction of Pakistan tax law. The Indian case of Vodafone is relevant in this regard.

Illustration: A Limited BVI owns B Limited BVI. Shares of a Pak Co are held by B Limited BVI. Sale of shares of B Limited BVI by A Limited BVI to another non-resident shall now be considered as Pakistan source income.

Notwithstanding the general concept as explained above, the proposed provisions of section 101A are only applicable if the following conditions are met:

- a) With respect to shares of a company, the asset shall be treated to be located in Pakistan if:
 - (i) The share or interest derives directly or indirectly, its value principally or wholly from the assets located in Pakistan;
 - (ii) Share or interest representing 10% of more or the share capital of the non-resident company are disposed or alienated.
 - (iii) The share or interest as mentioned above, derives its value principally from an asset located in Pakistan if on the last day of preceding tax year the value of such asset exceeds Rs 100 Million and represents at least 50% of value of total assets.
- b) Where the entire assets of the non-resident company are outside Pakistan, a share or interest in such company will be treated as located in Pakistan to the extent of reasonable attribution.

The gain under this provision is taxable as the higher of:

- (i) 20% of differential between fair market value less cost of acquisition of the asset; or
- (ii) 10% of the fair market value of the asset.

The law requires that the underlying resident company shall file information of such disposal to the Commissioner Inland Revenue. The practical implication of this provisions needs to be examined as the underlying company may not be privy to the transaction if the same is held through interposed entities. Such resident company is required to collect advance tax from the non-resident company within 30 days of the transaction of disposal or alienation of the asset by such non-resident company. Any tax already deducted by the acquirer will be adjustable against such tax deduction.

Furthermore, acquirer of non-resident's assets is required to deduct tax from the gross amount paid as consideration for the asset and the same has to be deposited within fifteen days of the payment.

Where the tax is paid in the above manner, there will be no further tax liability on gain of such assets under the head business or capital gains.

Controlled Foreign Company (CFC)

This measure appears to be a part of the overall scheme to bring into tax ambit the income earned through offshore entities owned by Pakistani residents. The income of such companies is not taxed in Pakistan if the same is retained and not repatriated to Pakistan. In order to curb this tendency of non-repatriation, there is an internationally accepted concept whereby the income of foreign controlled companies owned by residents of respective jurisdictions can be taxed even prior to distribution. No further tax is then paid at the time of actual distribution. This concept is termed as CFC regime.

This concept is prevalent in various developed economies as anti-deferral measure whereby a resident company can be taxed on its income from a foreign subsidiary irrespective of whether such income is received. In the absence of such provisions, the tax incidence is generally arisen only when the income is received by the holding company such as dividends, interest, etc. Generally such measures are applicable in respect of such foreign companies which are situated in tax haven countries.

The CFC regime as introduced in Pakistan, is briefly summarized as under:-

- a) A company shall be considered as CFC if:
 - (i) More than 50% of its capital or voting rights are directly or indirectly held by Pakistani resident persons or if more than 40% of such capital or voting rights is held by a single Pakistani resident person;
 - (ii) Tax paid in respect of income derived or accrued in a foreign tax year is less than 60% of tax payable on the said income under this Ordinance;
 - (iii) Non-resident company does not derive active business income (as defined in the provisions); and
 - (iv) Shares of the company are not traded on any recognized stock exchange in the relevant jurisdiction.

There will be no tax incidence under these provisions, if:

- the voting rights or capital held by the resident person is less than 10%; or
- income of CFC is less than Rs 10 Million.

For determination of income to be taxed under this section, certain procedures have been laid down in the provisions.

Treaty override provisions not applicable in Tax Avoidance Schemes

It is a settled position in Pakistan that in case of any conflict between the provisions of an Agreement for avoidance of double taxation and prevention of fiscal evasion (referred as Double Tax Treaty) and the domestic tax law, then the provisions of the Treaty override the domestic law.

Section 109 of the Ordinance provides conditions where the Commissioner can recharacterise transactions solely entered into for tax avoidance purposes. The amendment has been proposed in section 107 to the effect that recharacterisation will not be ineffective on account of treaty override provisions. This amendment effectively means that the substance of the transaction will form the basis of taxation and no rescue shall be available on the basis of a structure designed to avail treaty benefits.

TAXATION OF COMPOSITE CONTRACTS OF NON RESIDENTS

The tax department is of the view that where the supply of goods is a part of an overall arrangement of cohesive business operation then the whole income of non-resident from such contract including offshore supply of goods is to be treated as Pakistan source income. Certain amendments have been proposed to substantiate the aforesaid view. It is considered that the proposed amendment need to be examined in relation to the generally accepted principle of international taxation.

Definition of Cohesive Business Operation

A new definition of the term 'cohesive business operation' has been inserted which means an overall arrangement for the supply of goods, installation, construction, assembly, commission, guarantee or supervisory activities and all or principal activities performed by the person or his associate. Any person engaged in cohesive business operation as defined above shall be deemed to have a Permanent Establishment in Pakistan. Furthermore, by way of another amendment in same section, it has been stated that the import in the name of an

associate or any other person whether or not the title passes outside Pakistan shall also be considered to be part of cohesive business operation.

The objective of this amendment read with the amendment made in section 101 appears to tax income of a non-resident arising from a transaction wholly undertaken outside Pakistan such as income relating to supply of goods where the title is passed outside Pakistan if the same is part of cohesive business operation. This matter requires re-examination with respect to nexus of Pakistan law for a transaction undertaken outside Pakistan. It is however clear that under section 107, the Double Tax Treaty provisions will override this law. Even if the proposed amendment is considered a valid law, the same will only be applicable in non-treaty cases.

Withholding Tax on Payments to Non-Residents – Transfer of Title

Payments to non-residents are subject to withholding tax at source. However, these provisions are not applicable in respect of payments made for import of goods where the title in the goods is transferred outside Pakistan. Consequently, in almost all the cases payments for imports made under letters of credit are not subject to tax withholding at source.

The aforesaid concept has been reinforced in the Finance Bill. However, two exceptions have been created:

- a) The supply of goods where title in the goods transfers outside Pakistan shall be deemed to be supply made in Pakistan if it is in connection with overall arrangement of supply of goods, installation, constructions, assembly, commission, guarantees or supervisory activities and all or principal activities are undertaken or performed either by the associates of the person supplying the goods or its permanent establishment and whether or not the goods are imported in the name of associate or any other person; or

- b) The supply is made by a resident person or a Pakistan permanent establishment of a non-resident person in connection with the overall arrangement as described above shall be deemed to be payment to non-resident.

The validity of the aforesaid amendment needs to be examined with reference to the nexus of taxability of income arising for such supply in Pakistan.

These withholding provisions have been introduced to cater for the concept of 'cohesive business arrangement' as described above.

DEFINITION OF PERMANENT ESTABLISHMENT

The concept of dependent agent for the purpose of definition of PE has been appropriately amended to include a person who has no right to conclude the contract however in practical terms has habitually played the principal role in the execution of contracts that are concluded without any material variations. Furthermore, an Explanation has been inserted to clarify that an agent will not be considered as independent if he is acting exclusively or almost exclusively for one Principal which is his associate.

GRADUAL REDUCTION IN CORPORATE TAX RATES

The corporate tax rates for companies other than banking companies are proposed to be reduced from 30% to 25% over a period of five years as under.

Tax year	Rate of Tax
2019	29%
2020	28%
2021	27%
2022	26%
2023 and onwards	25%

SUPER TAX

A one-time super tax which was levied for Tax Year 2015 had been extended to tax years 2016 and 2017 in the past. Through the proposed amendment, this super tax is now to be removed in phases by the tax year 2020. Accordingly, rate of super tax for the following years shall be:

	2018	2019	2020
Banking Companies	4%	3%	2%
Other Companies having taxable income of Rs 500 Million or above	3%	2%	1%

TAX ON UNDISTRIBUTED PROFITS

Undistributed reserves were taxed in the tax years 2015 and 2016. This was replaced by a tax on undistributed profits in the year 2017. Presently, such tax is payable at the rate of 7.5% of the whole profits, if distribution (including by way of bonus shares) is less than 40% of profits.

It is now proposed to reduce the said tax rate to 5% and the minimum distribution for the levy of this tax has been reduced from 40% to 20% and for this purpose, bonus shares will not be considered as part of distribution.

GIFTS TO NON-RELATIVES NO MORE TAX NEUTRAL

Under the present law, any transfer of asset by way of a gift does not give rise to any taxable gain or loss. For this purpose, the gifts can be made by any person not necessarily being a relative (as defined in section 85). Now, through this very major amendment in the law, the gift to any person other than a relative will be considered as taxable transfer and gain or loss arising on such transfer will be taxed / deductible in the hands of the person making the gift. This is one of the major amendment made in the taxation law after the abolition of Gift Tax Act, 1963.

After the abolition of said Act, the term gift was applicable to all persons even though not relatives. Now, the non-taxability concession is only available to gifts between relatives. The aforesaid amendment is applicable on non-cash gifts only. Under section 39(3) of the Ordinance, there is no incidence on cash gifts, if made by 'any person' provided he is NTN holder and the cash is transferred through banking channel.

RESTRICTION ON ADJUSTMENT OF UNABSORBED DEPRECIATION AND AMORTISATION

Under the present law, the amount of unabsorbed depreciation is wholly admissible without any limits in the subsequent year. Under the proposed amendment, if the profit for a tax year is Rs 10 Million or more, such adjustment shall be restricted only to the extent of 50% of profit. This amendment will have major impact on companies engaged in the business of leasing and persons having substantial capital investments.

EXTENSION IN SCOPE OF RECHARACTERISATION OF INCOME REGIME

Income Tax Ordinance, 2001 contained extensive provisions relating to Commissioner's power for recharacterisation of any transaction or element of transaction. A new sub-section has been inserted in these provisions whereby in order to identify any tax avoidance scheme, a Commissioner is empowered to disregard an entity or a corporate structure that does not have any commercial or economic substance or was created as part of tax avoidance scheme. This is a very significant amendment whereby in the case of offshore structures, the Commissioner may now deem to have the power to disregard the intervening entities even outside Pakistan which are interposed for tax avoidance purposes.

This amendment without any detailed regulations or guidance for anti-avoidance provisions are prone for misuse. In all other jurisdictions, such provisions do not form part of the law and instead the same are incorporated in relevant regulations under GAAR.

Through another amendment, the term 'reduction' in tax liability for tax avoidance scheme under section 109(2) has been defined to include any tax payable under the Ordinance, that would have been payable under the Ordinance if the provisions of treaty would not have been applicable.

This is a very relevant amendment in relation to actual and deemed treaty shopping cases.

YEAR OF TAXABILITY FOR CONCEALED AND UNEXPLAINED ASSETS

Prior to the amendment introduced through Income Tax (Amendment) Ordinance, 2018 in section 111(2), both domestic and foreign assets if remained concealed or unexplained were chargeable to tax in the tax year to which such amount relates i.e. the year of acquisition. However, a very fundamental change was made with respect to concealed foreign assets and concealed foreign source income.

The concept of taxability in the 'year of discovery' was introduced as against the 'year of acquisition' in respect of foreign assets and foreign income.

The tax authorities are consequently empowered to ask any taxpayer to file a return in respect of foreign assets and foreign income for any prior tax year without any time limitation.

The above amendments are now being made part of the Finance Bill, however, with a further additional explanation to the effect that the concept of taxability in the year preceding the year of discovery will not be applicable if the person explains the source of asset or investment at the time of assessment being made in the year of discovery.

THRESHOLD INTRODUCED FOR IMMUNITY ON FOREIGN REMITTANCES

Under the position prior to Income Tax (Amendment) Ordinance, 2018, any amount of foreign exchange remitted from outside Pakistan through normal banking channel and encashed into Pak Rupees could not be subject to any enquiry for income tax purposes.

The aforesaid blanket exemption was made unavailable for remittances exceeding Rs 10 Million in a tax year per person after the effective date of the above Ordinance. This amendment has now been made part of the Finance Bill.

DETAILED STATEMENT OF FOREIGN INCOME AND FOREIGN ASSETS

Foreign assets formed part of the Wealth Statement to be filed under section 116 of the Income Tax Ordinance, 2001. Through Income Tax (Amendment) Ordinance, 2018 every resident taxpayer being an individual, having foreign income equal to or in excess of US\$ 10,000 or having foreign assets with a value of US\$ 100,000 or more has been required to file a separate statement of foreign income and foreign assets under a newly inserted Section 116A. The said provision has now been made part of the Finance Bill.

The statement shall include the following information:-

- a) The person's total foreign assets and liabilities as of last date of the tax year;
- b) Any assets transferred by the person to another person during the tax year and the amount of consideration;
- c) Complete particulars of foreign income and expenditure wholly and exclusively incurred to derive such income; and
- d) Expenditure incurred during the year.

The Commissioner may also require any person to file or furnish the above statement.

Non-filing of the above statement will be penalized at 2% of the value of foreign income or foreign assets for each year of default.

ABOLITION OF PRESUMPTIVE TAX REGIME FOR COMMERCIAL IMPORTERS

Since 1992, the commercial importers are subject to tax on presumptive tax basis. Under that system, the tax collected at source at the import stage is considered as a final tax liability in respect of income from such imports. The commercial importers have the option to be taxed on net income basis subject to a minimum tax equal to the amount of tax collected at import stage.

A very major shift has been proposed in the tax policy measures whereby the right to be taxed under presumptive regime has been abolished and such commercial importers shall be taxed on net income arising from such import transactions and the tax collected at the import stage shall be treated as minimum tax liability in this respect.

The term 'commercial importer' means a person engaged in the import of goods where the goods are sold in the same condition as they were when imported.

REVAMPING THE PROCEDURE OF ALTERNATIVE DISPUTE RESOLUTION

The procedure of settlement of dispute through Alternative Dispute Resolution mechanism is essentially recommendatory in nature. The Federal Board of Revenue is not mandatorily required to accept the recommendation of the ADRC. Consequently, the appellant is not necessarily required to withdraw the appeal filed before an appellate forum for seeking remedy under the ADRC.

Under the revamped scheme, the whole structure has been changed. Firstly, the option of seeking remedy in ADRC shall only be available if the applicant waives his right of appeal in the appellate authorities. Secondly, the recommendations of ADRC will now consequently be binding on both the parties.

There are certain procedural changes, which include:

- a) Every ADRC shall include a retired Judge of High Court; and
- b) The Committee will be required to decide the matter within 120 days failing which the appeal will be reinstated.

TAX CREDIT FOR INVESTMENT IN SHARES

Tax credit on investment in shares and life insurance premium shall now be allowed on investment upto Rs 2 Million as compared with the existing limit of Rs 1.5 Million.

TAX CREDITS RELATING TO INDUSTRIAL INVESTMENTS

The tax credits relating to BMR Investments and equity based investments in new industrial undertakings and expansion projects were applicable on investments made upto June 30, 2019. These credits are being extended to investments to be made upto June 30, 2021.

BANKING COMPANIES

Under the existing provisions of law, there was a view that the provisions relating to non-arm's length transaction and recharacterisation are not applicable in the case of banking companies subject to special tax regime under the Seventh Schedule. An amendment has been made in section 100A (being the primary legislation governing Seventh Schedule) to the effect that such provisions will also be applicable on companies covered under the Seventh Schedule. Consequential amendment has also been made in the Seventh Schedule. The amendment in this respect implies the inapplicability of such provisions for earlier years.

The taxability of banking companies under the Seventh Schedule is based on the principle that the income should be taxed on the basis of profits determined and ascertained under the regulations made by the Regulator of Banking companies i.e. State Bank of Pakistan. The provisions of recharacterisation of income so determined under the aforesaid section defeats the very purpose of Seventh Schedule as the financial statements prepared in accordance with the regulatory requirements of the State Bank of Pakistan may be subject to an altogether different treatment by the application of recharacterisation provisions.

STAY BY APPELLATE TRIBUNAL

The Appellate Tribunal Inland Revenue is empowered to stay recovery of tax payable under the Ordinance. A new proviso has been inserted in the section providing such powers to the Tribunal which intends to restrict the effect of such stay for a period not more than 180 days. This matter requires re-examination with reference to the pronouncements by the Higher Courts in respect of power of stay by the judicial forum.

REDUCTION IN THE MINIMUM THRESHOLD TO PRECLUDE RECOVERY OF TAX

Presently, tax payer has the option of precluding recovery on payment of 25% of the tax demand during the pendency of appeal before the Commissioner Inland Revenue Appeals. This threshold is proposed to be reduced to 10% of the tax demand.

DEPLOYMENT OF INTERNATIONAL TAX AUDIT EXPERT

A tax audit expert deployed under Audit Assistance program of an International tax organization or tax authorities outside Pakistan is now permissible for an audit undertaken by the tax authorities under section 177.

ADVANCE TAX

Immediate Recovery of Unpaid Advance Tax

Recovery of unpaid advance tax is presently recoverable only after passing of an order and after the expiry of thirty days from the date of the order. An amendment is proposed whereby any unpaid advance tax shall now be immediately recoverable.

Power to Estimate Turnover

It is proposed that where the turnover of a quarter for the determination of advance tax is either not provided or is not known then it shall be estimated based on 110% of the turnover of the latest tax year for which a return has been filed.

Advance Tax Provisions for Banking Companies

An amendment is proposed to align the advance tax provisions under Section 147 with those prescribed in the Seventh Schedule.

SERVICES RENDERED BY PERMANENT ESTABLISHMENTS OF NON-RESIDENTS

Presently the services rendered by the permanent establishments of non-residents are subject to tax under normal tax regime whereby withholding taxes suffered on such payments is adjustable. On the other hand, services rendered by residents are subject to a minimum tax regime in respect of similar withholding taxes. It is now proposed to extend such minimum tax regime also to the services rendered by permanent establishments of non-residents.

THRESHOLD FOR WITHHOLDING TAXES

The threshold of withholding taxes under section 153 of the Ordinance has been revised as under:

	Current	Proposed
Sale of goods	Rs 25,000	Rs 75,000
Services rendered	Rs 10,000	Rs 30,000

PRESCRIBED PERSONS FOR WITHHOLDING TAX

'Builders' and 'developers' have been included in the definition of prescribed person for the purpose of withholding taxes.

FURNISHING OF INFORMATION BY BANKS

The requirement for providing online access to central database containing details of account holders and all transactions made therein have been restricted to cash withdrawals exceeding Rs 50,000 in a day and tax deductions thereon for filers and non-filers aggregating to Rs 1 Million or more during each preceding calendar month.

CONSEQUENCES FOR NOT FILING THE RETURN WITHIN DUE DATE

Where any person fails to file a return of income by the due date, such person shall be:

- Excluded from the Active taxpayers' list for the year in which the return was filed within due date;
- Not allowed to carry forward any loss under the Ordinance.

AUTOMATIC SELECTION OF AUDIT

The concept of automatic selection of audit in case of returns filed after the due date has been abolished.

ACCESS TO INFORMATION OF NADRA

The restriction on disclosure of information by a Public servant shall also not be applicable now to information contained in NADRA as per their records for the purpose of broadening the tax base.

ELECTRONIC SERVICE OF NOTICES AND ORDERS

Under the present regime, notices and orders are only considered to be serviced on the taxpayer when the same are delivered in hard form at the registered address.

It is now proposed that the service will be effective if the notices and orders are served electronically in prescribed manner.

The above amendment needs to be examined in view of the fact that it is not necessary that all taxpayers have constant access to their Emails for tracking the notices and orders. In the past, there has been incidents where such orders were sent electronically without service causing unnecessary litigation and hardship.

WITHHOLDING TAX ON SALE OF CERTAIN PETROLEUM PRODUCTS

A new final withholding tax provision is proposed to require every person selling petroleum products to a petrol pump operator or distributor to collect advance tax on ex-depot sale price of such products at the prescribed rate.

WITHHOLDING TAX ON CREDIT & DEBIT CARD TRANSACTION

Through the proposed withholding tax provision, banking companies will be required to collect adjustable advance tax at the time of transfer of any sum remitted outside Pakistan on behalf of any person who has completed a credit card transaction, a debit card transaction or a prepaid card transaction with a person outside Pakistan at the prescribed rates.

FEE FOR OFFSHORE DIGITAL SERVICES

A new definition has been inserted for 'fee for offshore digital services' which means consideration for rendering or providing services of online advertising and online collection of data processing or any facility for online sale of services.

The taxation of the above income of non-residents not having a Permanent Establishment in Pakistan will be taxed in a similar manner as is currently applicable on income of royalty and fees for technical services. The rate of tax is proposed at 5%.

DEFINITION OF FILER

For the purposes of definition of filer, the expression Board has been extended to AJ&K Council of Board of Revenue or Gilgit Baltistan Board of Revenue. This amendment has also been made for the reasons that the Ordinance has been adopted by these areas whereas there was no corresponding definition of their respective Boards in the Ordinance. Consequently, the list of filers issued by such Boards will also be applicable.

EXCLUSION FROM BUSINESS INCOME

An Explanation has been inserted in section 18 of the Ordinance that the income and tax charge for the below-mentioned sections shall not form part of 'income from business' for any purpose of the Ordinance:

- a) Undistributed profits (Section 5A);
- b) Return on investment in Sukuks (Section 5AA);
- c) Royalty, fees for technical services and fees for offshore digital services of non-residents (Section 6);
- d) Shipping and Air transport income of non-residents (Section 7);
- e) Shipping income of resident persons (Section 7A)

REDUCTION IN TAX RATES FOR INDIVIDUALS AND ASSOCIATION OF PERSONS (AOPs)

In line with 'tax reforms' announced and implemented through promulgation of Income Tax (Amendment) Ordinance, 2018 (2018 Ordinance), tax rates for individuals have been proposed to be significantly reduced with maximum rate of tax applicable @ 15% of income in excess of Rs 4.8 million and basic tax exemption 'effectively' increased to Rs 1.2 million. In contrast with 2018 Ordinance, nominal charge of upto Rs 2,000 has been proposed for person grossing income upto Rs 1.2 million.

Similarly, as provided in 2018 Ordinance, reduction in tax rates for AOPs has also been proposed with maximum rate of tax applicable at 30% of income. Further, such AOPs, as are prohibited from statutorily incorporating, that were not allowed any relief in 2018 Ordinance, have also been proposed to be taxed uniformly with other types of AOPs.

In addition, tax rate for 'companies' has also been proposed to be reduced gradually with a reduction of 1% in tax rate each year from tax year 2019 and onwards so as tax rate applicable thereto stands reduced to 25% by tax year 2023.

The proposed tax rates for individuals, AOPs and companies are provided in Annexure B along with detailed analyses of existing versus proposed tax rates and consequential savings to taxpayers.

The proposed significant differences in tax rates applicable to individuals, AOPs and companies are expected to create economic aberrations and are likely to discourage 'corporatization'. Significant variation in tax rates applicable to various forms of enterprises need to be harmonized in order to restrict the opportunities for tax arbitrage.

TAX RATES FOR CAPITAL GAINS ON SALE OF SECURITIES

Tax rates for capital gains on sale of quoted shares and other specified securities are proposed to be kept at par with those applicable for tax year 2018.

No corresponding change has been proposed in related provisions prescribing the tax rate with respect to 'holding period', consequent where to, gain on disposal of securities held for more than 5 years but less than 6 years, earlier taxable at 'zero' percent would become taxable @ 15% (20% for non-filers).

ADVANCE TAX ON SALE OR TRANSFER OF IMMOVABLE PROPERTY BY DEPENDENTS OF SHAHEEDS & FIRST ALLOTTEES

Earlier, under sub-section (4) of section 236C of the Ordinance read with Division VIII of Part I of First Sch., exemption from payment of advance tax under section 236C was also applicable to original allottees of property by Federal/ Provincial Government in addition to dependents of 'martyrs' and those died in service of Pakistan. While, in August 2016, through a Presidential Ordinance, necessary amendments in section 236C were made to limit such exemption to dependants of 'martyrs' and those died in service of Pakistan, corresponding amendment was not made in Division VIII of Part I of First Sch.

Such amendment is now being proposed so that 'original allottees' are excluded from the scope of subject exemption and limit it only to dependants of Shaheeds and those died in service of Pakistan.

REDUCTION OF ADVANCE TAX ON IMPORT OF COAL

Rate of tax on import of coal is proposed to be reduced to 4% for filers and 6% for non-filers.

REDUCED RATE OF TAX ON DIVIDENDS RECEIVED FROM RENTAL REITs

Tax rate applicable on dividend received by an individual from Rental REIT has been proposed to be reduced from 12.5% to 7.5% to encourage investment in Rental REIT schemes.

The rate of tax on inter-corporate dividend in case of REITs is 25%. This anomaly needs to be addressed in the Finance Act.

INCREASE OF WITHHOLDING TAX RATES FOR NON-FILERS ON RECEIPTS FROM SALE OF GOODS & EXECUTION OF CONTRACTS

Withholding income tax on payments to non-filers in respect of sale of goods/ execution of contracts has been proposed to be increased as under:

Category	Sale of goods		Execution of contracts	
	Existing	Proposed	Existing	Proposed
Company	7%	8%	12%	14%
Other than company	7.75%	9%	12.5%	15%

This amendment has been stated to have been undertaken to broaden the tax net.

ADVANCE TAX ON FUNCTIONS AND GATHERINGS

Advance tax is presently collectible from persons arranging / holding functions /gatherings / marriage parties at a flat rate of 5% of gross amount of bill.

It is proposed that a minimum amount of advance tax (Rs 20,000 for such arrangers in larger cities and Rs 10,000 for those in smaller cities) is made applicable in case of marriage functions.

ADVANCE TAX ON SALE OF PETROLEUM PRODUCTS

It is proposed that a final tax is introduced in case of petroleum products sold to such petrol pump operators/distributors that are not allowed a commission or discount:

- 0.5% of ex-depot sale price for filers; and
- 1% of ex-depot sale price for non-filers.

The proposed amendment is aimed at bringing into tax net such traders of petroleum products that are not in the regulated market.

ADVANCE TAX ON TRANSACTIONS THROUGH BANKING INSTRUMENTS

Reduced rate of 0.4% of adjustable advance income tax collectible under section 236P of the Ordinance on banking transactions by non-filers is proposed to be made permanent.

Initially, such advance tax was prescribed at 0.6% of the amount involved but was time and again reduced to 0.4% on the demand of trader community. The proposal is aimed to address the ambiguity and introduce a permanent rate of advance tax in this respect.

IMPOSITION OF ADVANCE TAX ON AMOUNT REMITTED ABROAD THROUGH CREDIT, DEBIT OR PREPAID CARDS

It is proposed that an advance tax at following rates is imposed on remittances made abroad through debit cards, credit cards and prepaid cards:

- 1% of gross amount of remittance for filers; and
- 3% of gross amount of remittance for non-filers.

EXEMPTION FROM INCOME

1. Exemption to Armed Forces Personnel

It is proposed that the following allowances paid to Armed Forces Personnel will be exempt from income tax:

- Kit allowance
- Ration allowance
- Special messing allowance
- SSG allowance
- Northern Areas compensatory allowance
- Special pay for Northern Areas
- Height allowance

2. Deductible donations

Following institutions are proposed to be added to the existing list of the non-profit organization / institutions in which case donations are eligible for straight deduction in the hands of donors:

- Pakistan Sweet Home, Angels and Fairies Place
- Al-Shifa Trust Eye Hospital
- Aziz Tabba Foundation
- Sindh Institute of Urology and Transplantation, SIUT Trust and Society for the Welfare of SIUT
- Sharif Trust
- The Kidney Centre Post Graduate Institute
- Pakistan Disabled Foundation

3. Institutions exempt from tax

Income derived by following persons is proposed to be exempt from tax:

- Khyber Pakhtunkhwa Retirement Benefits and Death Compensation Fund
- Khyber Pakhtunkhwa General Provident Investment Fund
- Khyber Pakhtunkhwa Pension Fund have been exempted from tax
- Third Pakistan International Sukuk Company Limited

- SAARC Energy Centre
- Pakistan Bar Council;
- Pakistan Centre for Philanthropy;
- Pakistan Mortgage Refinance Company Limited;
- Aziz Tabba Foundation;
- Al-Shifa Trust Eye Hospital;
- Saylani Welfare International Trust;
- Shaukat Khanum Memorial Trust;
- Layton Rahmatullah Benevolent Trust (LRBT);
- The Kidney Centre Post Graduate Training Institute;
- Pakistan Disabled Foundation; and
- Forman Christian College.

4. Income from bonds issued by Pakistan Mortgage Refinance Company, exempt from tax

Profit on debt and capital gain on transfer bonds issued by Pakistan Mortgage Refinance Company in order to refinance the residential housing mortgage market is exempt from tax for a period of five years i.e. effective from July 1, 2018 to June 30, 2023.

5. Income of a modaraba, excluding income earned from manufacturing or trading activity

Previously, income of a modaraba registered under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), excluding income earned from trading activity, was exempted from tax. After the proposed amendment, exemption will be withdrawn for income from manufacturing activity.

▪ **Exemption to refineries**

It is proposed to exempt profits and gains derived by the qualifying refineries for a period of twenty years, which are as under:

- New refinery set up between July 1, 2018 and June 30, 2023 with minimum production capacity of 100,000 barrels per day
- Existing refinery, being a deep conversion refinery, which will enhance its production capacity at least by 100,000 barrels per day

Existing refineries would additionally be required to maintain separate accounts for income arising from additional production capacity in order to avail this exemption.

REDUCTION IN TAX LIABILITY FOR INCOME FROM FILM-MAKING

The tax payable by foreign film-makers on income from film-making in Pakistan and by resident companies deriving income from film making is proposed to be reduced by fifty percent.

EXEMPTION FROM SPECIFIC PROVISIONS

1. Re-gasification charges exempt from withholding tax

It is proposed to grant exemption from withholding tax to Sui Southern Gas Company Limited and Pakistan LNG Terminal Limited on payments received from Sui Northern Gas Pipelines Limited on account of re-gasification charges.

2. Dividend by Transmission Line Projects

Dividends paid to Transmission Line Projects under Transmission Line Policy 2015 are proposed not subject to withholding tax.

3. Shuhada Family Welfare Account

Profit on investment in Shuhada Family Welfare Account is proposed not to be subject to withholding tax in line with the exemption presently available to Bahbood Saving Certificates and Pensioner's Benefit Account.

4. All commercial importers proposed to tax under the normal taxation regime

At present, commercial importers are taxable under the final tax regime whereby advance tax collected by the customs authorities at import stage is regarded as full and final discharge of their ultimate tax liability. An option is however available to be taxed under the normal tax regime subject to payment of minimum tax not less than 5.5% of imports in case of a company and 6% in other cases.

All the commercial importers are now proposed to tax under the normal tax regime without any exception and the tax collected at import stage is proposed to be considered as minimum tax on income arising from such imports.

5. Exemption to Trading Houses

Exemption on account of minimum tax payable at a reduced rate of 0.5%, instead of 1.25%, currently available to companies operating trading houses upto the tax year 2019 is being extended to the tax year 2021.

6. NPO status extended to LUMS

It is proposed that the Lahore University of Management Sciences (LUMS) shall be deemed to have been approved by the Commissioner as a non-profit organization in terms of section 2(36) of the Income Tax Ordinance, 2001

7. Reduced rate of minimum tax on services

Service sector companies are subjected to Minimum Tax Regime vide the Finance Act, 2015 whereby tax withheld on services is made Minimum Tax (8%). The said regime has earlier been rationalized for thirteen service sectors whereby they were given option to opt for payment of minimum tax at a reduced rate of 2% for the period from July 1, 2015 to June 30, 2018, under Clause (94) of Part IV of Second Schedule to the Ordinance. The option can be exercised, through an irrevocable undertaking, by a specified date, which was November 2017 for tax year 2018. Companies opting for this concessional regime are required to present their accounts to the department within 30 days of filing of return for audit of its income tax affairs.

The concessional regime is being extended for another year i.e. tax year 2019 (the year ending on June 30, 2019) for which the option can be exercised by November 2018.

Moreover, this regime is also proposed to be extended to inspection, certification, testing and training services as well.

8. Selection for audit once in three years

It is proposed that a taxpayer shall not be selected by the Federal Board of Revenue (FBR) and the Commissioner Inland Revenue (CIR) in terms of section 177 and 214C of the Income Tax Ordinance, 2001 for a tax audit where its income tax affairs were already audited in any of the preceding three tax years. The CIR may, however, select a taxpayer with the approval of the FBR.

VALIDATING EXISTING EXEMPTIONS EXTENDED THROUGH NOTIFICATIONS

Various exemptions have been granted by the Federal Government through Notifications / Statutory Regulatory Orders (SROs). Under the law, the Federal Government is required to place all such notifications / SROs before the National Assembly under the law for its approval.

All such Notifications / SROs are being validated through the proposed bill. The detail is as under:

Clause	Notification	Nature
Part-I Second Schedule		
72A	924(I)/2016 dated September 30, 2016	Income derived by Sukuk holder in relation to Sukuk issued by Third Pakistan International Sukuk Company Limited, including any gain on disposal of such Sukuk is granted exemption from tax.

Clause	Notification	Nature
Part-II Second Schedule		
24AA	44(I)/2017 dated January 27, 2017	A reduced of 6% is provided through this notification for M/s CR-NORINCO JV (Chinese Contractor) on receipts from commercial contract signed with the Government of Punjab for installation of electrical and mechanical (E&M) equipment for construction of the Lahore Orange Line Metro Train Project.
Part-III Second Schedule		
6	1280(I)/2017 dated December 22, 2017	Amendment has been proposed to include profit on investment in Shuhada Family Welfare Account, which will be subject to a maximum rate of 10% of the profits like the case of Bahbood Saving Certificates and Pensioner's Benefit Account.
Part-IV Second Schedule		
1A	924(I)/2016, dated September 30, 2016	The requirement of approval of security by the Board for the purpose of exemption under section 46 to be waived for Sukuk issued by Third Pakistan International Sukuk Company Limited.

Clause	Notification	Nature
11A(xxviii)	924(I)/2016, dated September 30, 2016	Grant of exemption to Third Pakistan Sukuk Company from minimum tax in terms of section 113.
11A(xxx)	29(I)/2018 dated January 12, 2018	Non-profit public sector universities are granted exemption from minimum tax currently payable 1.25% of gross turnover. This exemption is available with effect from July 1, 2013.
60A	735(I)/2016 dated August 9, 2016	China State Construction Engineering Corporation Limited and China Communication Construction Company Exemption are granted exemption from collection of advance tax payable on import of plant and machinery imported by for the construction of Sukkur-Multan section of Karachi-Peshawar Motorway project and Karakorum Highway Phase-II of CPEC project
60AA	79(I)/2018 dated January 29, 2018	China State Construction Engineering Corporation Limited is granted exemption from collection of advance tax payable on import of construction materials or goods upto a maximum value of

Clause	Notification	Nature
		Rs 10,898.000 million meant for the construction of Sukkur Multan section of Karachi-Peshawar Motorway Project of National Highway authority under the CPEC project
60B	899(I)/2016 dated September 26, 2016	Exemption extended to 35 armoured and security vehicles to be imported by or for Ministry of Foreign Affairs, Government of Pakistan for the purposes of security of visiting foreign diplomats. This exemption is subject to certain conditions.
60C	44(I)/2017 dated January 27, 2017	Import of equipment for Rail Based Mass Transit Projects in Lahore, Karachi, Peshawar and Quetta under the CPEC project is exempt from advance tax payable at import stage.
86	1065(I)/2013 dated December 20, 2013	Immunity from probing has been provided to investments made by an individual in a Greenfield industrial undertaking provided that the investment is made on or after January 1, 2014 and commercial production is commenced by June 30, 2019. This exemption is subject to certain conditions.

Clause	Notification	Nature
95	924(I)/2016, dated September 30, 2016	The provisions of section 147, 150A, 151, 152, 231A, 231AA, 236A and 236K shall not apply to the Third Pakistan International Sukuk Company Limited, as a payer.
96	924(I)/2016, dated September 30, 2016	The provisions of section 147, 150A, 151, 155, and 236K shall not apply to the Third Pakistan International Sukuk Company Limited, as a recipient.
100	6(I)/2017 dated January 9, 2017	Insurance premium is exempt from withholding tax in terms of section 236U in case of insurance company collecting premium under crop loan and livestock insurance schemes.
103	1217(I)/2017 dated November 23, 2017	Earlier, profit on debt received by persons other than companies was subject to a flat rate of presumptive tax. Effective from July 1, 2015, profit on debt is taxed on the basis of progressive rates at 10% for profit on debt upto 5 million; 12.5% for profit on debt exceeding Rs 5 million upto R25 million; and 25%

Clause	Notification	Nature
		for profit on debt exceeding Rs 25 million. A concession has been provided through this notification for profit on investment in Bahbood Savings Certificates or Pensioner's Benefit Account whereby tax is payable according to the normal rate with a maximum cap of 10%.
104	234(I)/2018 dated February 13, 2018	At present, a tax is payable at the rate of 7.5% of accounting profit before tax by every public company (other than a bank or a modaraba) that derives profit for a tax year but does not distribute at least 40% of its after tax profits within six months from the end of the tax year through cash or bonus shares. Through this notification, an exception is extended to a company where a restriction has been imposed on distribution of dividend by the company on account of an agreement with the Government of Pakistan.

SALES TAX

GENERAL

The Finance Minister has announced that existing refunds of export oriented sectors will be cleared in the next 12 months.

Exemption / reduction in sales tax is proposed for:

- a) dairy farming;
- b) feed for animals and fish;
- c) certain agriculture machinery;
- d) parts for manufacturing personal computers and laptops;
- e) cinematography for revival of film industry; and
- f) plant and machinery for setting up special economic zone.

The general rate has been kept at 17% and the scheme of taxation has also remained unchanged.

FURTHER TAX

A tax over and above standard rate of tax is chargeable on supplies to persons who have not obtained sales tax registration. This is termed as 'further tax'. At present, further tax is charged at the rate of 2%. It is now proposed to be increased to 3%.

INADMISSIBLE INPUT TAX

Sales tax paid on acquisition of certain items is considered as inadmissible input tax under section 8 of the Act. Import of scrap of compressors falling under PCT heading 7204.4940 are now proposed to be included in the list of inadmissible items.

ASSESSMENT GIVING EFFECT TO AN ORDER

A new section has been proposed for giving appeal effect to an appellate order within one year unless an appeal / reference thereagainst has been filed. Parallel amendment is also proposed in FE Act, 2005.

COMPOSITE AUDIT ONCE IN THREE YEARS ONLY

The Finance Minister in his budget speech stated that a composite audit in case of companies will be conducted once in three years for Sales Tax, Federal Excise and Income Tax. This provision has been introduced in all three taxation legislations.

DIRECTORATE GENERAL, (INTELLIGENCE AND INVESTIGATION) INLAND REVENUE

It is proposed to grant power to FBR to specify the functions, jurisdiction and powers of the officers of this directorate through notification. Parallel amendment is also proposed in the FE Act.

DEFAULT SURCHARGE

Consistent with IT Ordinance, 2001 the rate of default surcharge is proposed to be fixed at 12% p.a. from "KIBOR + 3% p.a.". Parallel amendment is also proposed in FE Act, 2005.

POSTING OF INLAND REVENUE OFFICER

Power to post officers of Inland Revenue by Chief Commissioner and Commissioner to premises of registered person is proposed to be withdrawn. Similar amendment is also proposed in FE Act, 2005.

REVAMPING OF ALTERNATIVE DISPUTE RESOLUTION (ADR) MECHANISM

The procedure of settlement of dispute through Alternative Dispute Resolution mechanism is essentially recommendatory in nature. The Federal Board of Revenue is not mandatorily required to accept the recommendation of the ADRC. Consequently, the appellant is not necessarily required to withdraw the appeal filed before an appellate forum for seeking remedy under the ADRC.

Under the revamped scheme, the whole structure has been changed. Firstly, the option of seeking remedy in ADRC shall only be available if the applicant waives his right of appeal in the appellate authorities. Secondly, the recommendations of ADRC will now consequently be binding on both the parties.

There are certain procedural changes, which include:

- a) Every ADRC shall include a retired Judge of High Court; and
- b) The Committee will be required to decide the matter within 120 days failing which the appeal will be reinstated.

Parallel amendments are also proposed in IT Ordinance, 2001 and FE Act, 2005.

REDUCTION IN THE MINIMUM THRESHOLD TO PRECLUDE RECOVERY OF TAX

Presently, taxpayer has the option of precluding recovery on payment of 25% of the tax demand during the pendency of appeal before the Commissioner Inland Revenue Appeals. This threshold is proposed to be reduced to 10% of the tax demand. It has been proposed to reduce payment of tax from 25% to 10% to avail stay against recovery proceedings until the disposal of appeal by the Commissioner Inland Revenue (Appeals).

FEDERAL BOARD OF REVENUE (FBR)'S AUTHORITY FOR ISSUANCE OF NOTIFICATIONS TRANSFERRED TO FEDERAL GOVERNMENT

Powers to issue notifications under the ST Act, 1990 have been reverted back to the Federal Government instead of FBB with the approval of the Minister Incharge.

PROTECTIONS TO EXISTING NOTIFICATIONS /APPOINTMENTS

Amendments have been proposed to

- extend the legal cover to un-rescinded notifications under ST Act, 1990 upto July 1, 2018; and
- establish / confer powers of Directorate General (Intelligence and Investigation) and all notices and actions before commencement of Finance Act 2018 under the ST Act, 1990, IT Ordinance, 2001 and FE Act, 2005

FIFTH SCHEDULE – ZERO RATING

Zero rating is being restored on certain stationery items under Fifth Schedule to the ST Act, 1990 subject to conditions specified therein. Earlier these items were exempt through Finance Act 2016. However, no corresponding amendment is proposed to omit these entries from Table 1 of Sixth Schedule.

Description	PCT Heading
Colors in sets	3213.1000
Writing, drawing and marking inks	3215.9010 & 3215.9090
Erasers	4016.9210 & 4016.9290
Exercise books	4820.2000
Pencil sharpeners	8214.1000
Geometry boxes	9017.2000
Pens and ball pens, markers and porous tipped pens	96.08
Pencils including color pencils	96.09

SIXTH SCHEDULE - EXEMPTIONS

- a) Import or supply of following items have been proposed to be exempted from levy of sales tax through insertion in Table I to the Sixth Schedule to the ST Act, 1990.

Entry No.	Description	HS Code
137	Paper weighing 60 g/m ² for the printing of Holy Quran imported by Federal or Provincial Governments and Nashiran-e-Quran as per quota determined by IOCO	4802.5510
139	Fans for dairy farms	8414.5990
140	Bovine semen	0511.1000
141	Preparations for making animal feed	2309.9000
142	Promotional and advertising material including technical literature, pamphlets, brochures and other give-aways of no commercial value, distributed free of cost by the exhibitors	9920(3)
143	Hearing aids (all types and kinds) and hearing assessment equipment	9937
145	Conditional exemption on the import (if not manufactured locally) of plant, machinery, equipment including dumpers and special purpose motor vehicles by M/s China State Construction Engineering Corporation Limited and M/s China Communication Construction Company for specified purposes	Respective heading
146	Conditional exemption on import (whether or not locally manufactured) of equipment by M/s China Railway Corporation for installation in Lahore Orange Line Metro Train Project	Respective heading
148	Conditional exemption on import (whether or not locally manufactured) of construction materials and goods by M/s China State Construction Engineering Corporation Limited for specified purposes	Respective heading

- b) Import or supply of following items have been proposed to be exempted from levy of sales tax. Previously these items were subject to reduced rate under Eighth Schedule to the ST Act, 1990. Corresponding amendments have been proposed to omit such entries from the Eighth Schedule.

Entry No.	Description	HS Code
138	Fish Feed	Respective heading
144	Liquefied Natural Gas imported by Fertilizer manufactures for use as feed stock	2711.1100

- c) Exemption on import or supply of following items is proposed. Previously this exemption was available under SRO 641(I)/2017 dated July 13, 2017.

Entry No.	Description	HS Code
147	Goods supplied to German Development Agency GIZ	Respective heading

- d) Following items are proposed to be exempt from levy of sales tax subject to specified conditions through insertion in Table III to the Sixth Schedule to the ST Act, 1990.

Entry No.	Description	HS Code
18	Following parts for assembling and manufacturing of personal computers and laptops:	8534.0000
	(i) Bare PCBs	8542.3300
	(ii) Power amplifier	85.42
	(iii) Microprocessor / Controllers	8486.2000
	(iv) Equipment for SMT manufacturing	8506.5000
	(v) Laptop batteries	8504.4020
	(vi) Adapters	8414.5190
	(vii) Cooling fans	7616.9920
	(viii) Heat sink and	8471.7020
	(ix) Hard Disk SSD	8471.7060
	(x) RAM / ROMs	8471.7090
	()	85.42
	(xi) System on Chip / FPGA-IC	8528.7211
	(xii) LCD / LED Screen	8534.0000
	(xiii) Motherboards	84.73
	(xiv) Power supply	8471.7040
	(xv) Optical drives	8536.2090
	(xvi) External ports	8517.6990
	(xvii) Network cards	8471.5000
	(xviii) Graphic cards	8517.6970
	(xix) Wireless cards	8518.3000
	(xx) Micro phone	8471.6020
	(xxi) Trackpad	
19	Plant and machinery, except the items listed under Chapter 87 of the Pakistan Customs Tariff, imported for setting up of a Special Economic Zone (SEZ) by zone developers and for installation in that zone by zone enterprises, on one time basis as prescribed in the SEZ Act, 2012 and rules thereunder subject to specified conditions	9917(2)

- e) Following items are proposed to be exempt from levy of sales tax. Previously these items were exempt under SRO 335(I)/1991 dated April 6, 1991.

Entry No.	Description	HS Code
17	Machinery, equipment, raw materials, components and other capital goods for use in building, fittings, repairing or re-fitting of ships, boats or floating structures imported by Karachi Shipyard and Engineering Works Limited	Respective heading

EIGHTH SCHEDULE

- a) Reduced rate of tax on agricultural tractors PCT heading 8701.9020 is proposed to be substituted with PCT headings 8701.9220 and 8701.9320 (Agricultural tractors, having an engine capacity exceeding 26kW but not exceeding 75kW) at serial number 25 of Table I;
- b) It is proposed to reduce sales tax from 7% to 5% in respect of following items

S. No. of Table 1	Description
26	Tillage and seed bed preparation equipment:
27	seeding or planting equipment
28	irrigation, drainage and agro-chemical application equipment
29	harvesting, threshing and storage equipment
30	post-harvest handling and processing & miscellaneous machinery

- c) All fertilizers are now proposed to be subject to sales tax @ 3%.
- d) Decrease of sales tax rate from 10% to 5% for natural gas (if supplied to fertilizer plants for use as feed stock in manufacturing of fertilizer) is proposed.
- e) Following items are proposed to subject to lower rate of:

Sr No. of Table 1	Description	PCT Heading	Rate of tax
50.	LNG*	2711.1100	12%
51.	RLNG	2711.2100	12%
53.	The following cinematographic Equipment imported during the period commencing on the 1st day of July, 2018 and ending on the 30th day of June, 2023.		
53.	(i) Projector	9007.2000	5%
	(ii) Parts and accessories for projector	9007.9200	
	(iii) Other instruments and apparatus for cinema	9032.8990	
	(iv) Screen	9010.6000	
	(v) Cinematographic parts and accessories	9010.9000	
	(vi) 3D Glasses	9004.9000	
	(vii) Digital Loud Speakers	8518.2200	
	(viii) Digital Processor	8519.8190	
	(ix) Sub-woofer and Surround Speakers	8518.2990	
	(x) Amplifiers	8518.5000	
	(xi) Audio rack and termination board	7326.9090 8537.1090	
	(xii) Music Distribution System	8519.8990	
	(xiii) Seats	9401.7100	
	(xiv) Recliners	9401.7900	
	(xv) Wall Panels and metal profiles	7308.9090	
	(xvi) Step Lights	9405.4090	
	(xvii) Illuminated Signs	9405.6000	
	(xviii) Dry Walls	6809.1100	
	(xix) Ready Gips	3214.9090	
54.	lithium iron phosphate battery (Li-Fe- PO4)	8506.5000	12%

* In salient features, it is also proposed to waive value addition tax of 3% chargeable on import of LNG under Rule 58B of the Sales Tax Special Procedure Rules, 2007.

- f) Capital goods otherwise not exempted for Transmission Line Projects (respective headings) are proposed to reduce rate of sales tax @ 10%, subject to specified condition, through insertion in Table-2.

FEDERAL EXCISE DUTY

INCREASE OF DUTY ON CIGARETTES AND CEMENT

The levy of excise duty on locally manufactured cigarettes and Cement are proposed to be enhanced respectively by 6% and 20% in the manner detailed below:

Description	Amount of duty	
	Current	Proposed
Cigarettes		
For on-pack printed retail price exceeding Rs 4,500 per 1,000 cigarettes.	Rs 3,740 per 1,000 cigarettes	Rs 3,964 per 1,000 cigarettes
For on-pack printed retail price between Rs 2,925 and Rs 4,500 per 1,000 cigarettes.	Rs 1,670 per 1,000 cigarettes	Rs 1,770 per 1,000 cigarettes
For on-pack printed retail price upto Rs 2,925 per 1,000 cigarettes.	Rs 800 per 1,000 cigarettes	Rs 848 per 1,000 cigarettes
Cement	Re. 1.25 per Kg.	Re. 1.5 per Kg.

The revised rates are proposed to be effective immediately upon enactment of Finance Act, 2018 and intervening period is proposed to be covered by way of issuance of a notification SRO at the end of April 2018.

EXEMPTION OF DUTY

IMPORT OF EQUIPMENT/ MATERIALS BY CONTRACTORS OF SPECIFIED INFRASTRUCTURE PROJECTS

In line with exemptions proposed from sales tax, duty is proposed to be exempted in respect of following to certain procedural requirements:

- Import of equipment (machinery, apparatus, materials etc.) by M/s China Railway Corporation for installation in Lahore Orange Line Metro Train Project; and
- Import of construction material etc. by M/s China State Construction Engineering Corporation Limited for construction of Sukkar-Multan section of Karachi-Peshawar Motorway with exemption for all duties/ taxes capped at Rs 10.9 billion.

COMMISSION PAID BY STATE BANK OF PAKISTAN TO BANKS

Duty is proposed to be exempted on commission paid by State Bank of Pakistan and its subsidiaries to banking companies for handling banking services of Federal/ Provincial Governments.

The proposed exemption is neutral from revenue perspective and seemingly aims administrative ease.

LEVIES ON TOBACCO & SMART PHONES

The following levies are proposed to be introduced on tobacco and imported smart phones:

- Health levy on tobacco, collectable at Rs 10 per Kilogram of tobacco by Pakistan Tobacco Board or its contractors, at the time of collection of cess on tobacco; and
- Mobile handset levy for smart phones valuing in excess of Rs 10,000, collectable by the Federal Board of Revenue in the manner to be prescribed as detailed below:

Category of smartphone	Rate of levy per set
For sets having import value (including duties and taxes) between Rs 10,000 and Rs 40,000.	Rs 1,000
For sets having import value (including duties and taxes) between Rs 40,000 and Rs 80,000.	Rs 3,000
For sets having import value (including duties and taxes) exceeding Rs 80,000	Rs 5,000

CUSTOMS ACT

VALIDATION OF REGULATORY DUTY IMPOSED THROUGH SRO 1035

Through Finance Act, 2017, amendments were introduced whereby Board was empowered to levy regulatory duty by issuing notification in the official Gazette with the approval of Minister Incharge. The Board, in exercise of such powers, levied regulatory duty on import of various items vide SRO 1035(I)/2017 dated October 16, 2017. The said SRO was challenged before the Hon'ble Sindh High Court (SHC) on various grounds including constitutional validity of amendments made through Finance Act, 2017. The Hon'ble SHC through its recent judgment declared these amendments as ultra vires to the Constitution. As a result, SRO 1035 and regulatory duty collected thereunder was also held to be of no legal effect. The said order of SHC has been challenged by FBR before Hon'ble Supreme Court of Pakistan which has granted stay against operation of said judgment.

In order to nullify the effect of above judgment of SHC, section 221A is proposed to be inserted to the Customs Act, 1969. The said section provides that notwithstanding any order or judgment of any court, a High Court and the Supreme Court, the regulatory duty already levied, collected and realized in exercise of any powers under the Customs Act, before the commencement of the Finance Act, 2018 and after the commencement of the Finance Act, 2017, shall be deemed to have been validly levied, collected and realized under the said Act, in exercise of the powers conferred on the commencement of the Finance Act, 2018, and where any such regulatory duty has not been levied, collected or realized, the same shall be recoverable in accordance with the provisions of the Customs Act.

The aforesaid retrospective validation of the law through the Finance Bill may be examined by the Courts.

EXCLUSION OF REGULATORY DUTY FROM PURVIEW OF MULTILATERAL AGREEMENTS

Currently, cumulative incidence of customs duty, regulatory duty and additional custom-duty is subject to maximum rates provided under multilateral trade agreements. It is proposed to exclude regulatory duty incidence from such restriction.

EXTENSION OF CUSTOMS ENFORCEMENT

Pakistan's territorial jurisdiction for Customs purposes is proposed to be extended from 12 nautical miles to 24 nautical miles from appropriate base line on the coast of Pakistan.

TRADE FACILITATION AGREEMENT

WTO members concluded Trade Facilitation Agreement (TFA) in 2013. Under TFA, members have agreed for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building in this area.

One of the salient features of TFA was to introduce Economic Operator Programme (EOP) which has been done through introduction of section 212A. EOP is aimed to lower documentary and data requirements; low rate of physical inspections and examinations; rapid release time; deferred payment of duties, taxes, fees and charges; use of comprehensive guarantees or reduced guarantees; a single customs declaration for all imports or exports in a given period; and clearance of goods at the premises of the authorized operator or another place authorized by Customs. These benefits are provided to Authorized Economic Operators meeting eligibility criteria. Detailed rules are expected to be framed by the Federal Government in this regard.

Following amendments have also proposed been to comply with the TFA:

- (i) Provisional release of imported goods where an offence is detected in respect of goods which are not liable to confiscation or requiring evidence at later stage. The release is made subject to payment of duties and taxes or other charges and furnishing of bank guarantee / pay order by the owner for settlement of any fine or penalty.
- (ii) Draft rules will be made public to provide an opportunity for offering comments before the rules are notified.
- (iii) Export of frustrated cargo has been allowed without payment of duty where consignee has dishonored his commitment.
- (iv) No recovery proceedings to be initiated for short levied duties and taxes by reason of inadvertence, error or misconstruction where full amount of such short paid duties and taxes has been voluntarily paid before initiation of audit inquiry / investigation.

POWER OF COLLECTOR (APPEALS) TO GRANT STAY OF DEMAND

It is proposed to empower Collector (Appeals) to grant stay from recovery of duty and taxes for maximum period of 30 days, after affording opportunity of being heard to the concerned Customs Officer.

PENALTIES FOR CONTRAVENING REGULATIONS IN TRANSHIPMENT CASES

For transshipment cases, following penalties are proposed where such goods are either pilfered, replaced en-route or fails to reach destination port including goods which are barred for transshipment;

- confiscation for both goods as well as conveyance carrying such goods;
- ten times value of goods; and
- imprisonment for maximum term of seven years.

TIME PERIOD OF DISPOSAL OF REFUND APPLICATIONS

Presently there is no time period specified for processing refund of customs duties and charges either paid through inadvertence, error or misconstruction or arising through appellate orders. Now after the proposed amendment, refund claim would be disposed off within 180 days of filing. The said period may further be extended by the Collector for 90 days for reasons to be recorded in writing.

ADDITIONAL INFORMATION FOR ARRIVAL OF CONVEYANCE

Additional details are proposed to be required from a conveyance that is en-route to Pakistan for provision of accurate and complete information of passenger in advance to thwart attempts of money laundering and currency smuggling.

RESPONSIBILITY OF SHIPPING AGENTS FOR THE DUES

Amendments are proposed to make the shipping agents also responsible for the dues charged and collected by them in connection with the discharge and delivery of goods.

VALIDATION OF NOTIFICATIONS ISSUED ON OR AFTER JULY 1, 2016

The validity of notifications issued on or after July 1, 2016, and placed before National Assembly has been extended from June 30, 2018 to June 30, 2019.

POWER TO TAKEOVER GOODS ASSIGNED TO CHIEF COLLECTOR

Presently, Collector of Customs is empowered to take over imported goods, if declared value of goods is less than the transactional value. Such action is taken after obtaining approval of the Board. After the proposed amendment, such goods can now be taken over by Collector of Customs after obtaining approval of Chief Collector.

LEGALIZATION OF DATA USAGE OBTAINED THROUGH MUTUAL ASSISTANCE AGREEMENTS

A new section 25AA is proposed to be introduced, to legalize use of data / information obtained by FBR from international organisations / foreign customs authorities, for the purposes of valuation.

REDUCTION IN CUSTOMS DUTY

- (i) By virtue of amendments in First and Fifth Schedules, reduction in customs duty is proposed for the following items subject to certain conditions:

Items	Rate	
	Old	New
Pepper of genus piper crushed or ground	16	11
Cinnamon crushed or ground	16	11
Gypsum	11	3
Plasters	16	11
Limestone or related stones used in manufacture of lime or cement	11	3
Bituminous and other Coal	11	3
Carbon black (rubber grade)	20	16
Acetic acid and stearic acid	20	16*
Colouring matter obtained from acacia catechu (black cutch), or inorganic products of a kind used as luminophores	16	11
Medium density fiber board	16	11
Woven fabrics of flax	20	16
CKD/SKT kits of vacuum cleaners of a power not exceeding 1500 W and having a dust bag or other receptacle capacity not exceeding 20l	20	16
CKD/SKT kits of other vacuum cleaners	20	16
CKD/SKT kits of other industrial vacuum cleaners	20	16
CKD/SKT kits of electric instantaneous or storage water heaters and immersion heaters	20	16
CKD/SKT kits and others of instantaneous gas water heaters	20	16
Corrective glasses	11	3
Micro feeder equipment	3	0
Tasigna (an anti-cancer medicine)	5	0
Charging stations for electric vehicles	16	0
Multi-ply and Aluminum foils	20	18
Pre-fabricated room/structures for setting up of new hotels/motels in hill stations, Gilgit-Baltistan,	20	11

Items	Rate	
	Old	New
Coastal areas of Balochistan (excluding Hub)		
Bovine Semen	3	0
Preparations for making animal feed	10	5
Fans for corporate dairy farmers	20	3
Growth promoter premix, Vitamin premix, Vitamin B12, Vitamin H2	10	5
Cattle feed premix	10	5
Optical fiber	20	5
Cable filing compound	11	5
Polybutylene/Terephthalate	20	5
Fiber reinforced plastic	20	5
Water blocking/swellable tape	11	5
Acrylic/modacrylic tow	11	6.5
Film of ethylene for liquid food packaging industry	20	16
Silicon electrical steel sheets for manufacturing transformers **	10	5
Coil of aluminum alloys used in manufacturing of Aluminum beverage cans	16	8
Fire fighting vehicles	30	10
Lithium Iron phosphate battery	11	8
Electric vehicles**	50	25
Kits of electric vehicles	50	10
Use of following catalyst by PTA industry:		
- Hydrogen Bromide	11	0
- Palladium-on-carbon	3	0
Tanned hides in wet states	3	0
Specified LED parts and components for manufacturers of LED lights	5	0

* *Import by Lotte Chemicals is proposed at further reduced customs duty of 5%.*

- (ii) Import of solar panels and related components were exempted from the condition of 'local manufacturing' till 30th June 2018 which is extended till 30th June, 2019**.
- (iii) Customs duty on specified equipments in cinema industry reduced to 3% subject to certain conditions.
- (iv) To standardize printing and preservation of Holy Quran, custom duty on papers imported for printing Holy Quran is now restricted to paper weighing 60 g/m. Moreover, now Nashir-e-Quran registered with the government can avail such concession as well.

(v) For promotion of exports, Custom Duty on raw materials / inputs on 104 PCTs withdrawn and on 28 PCTs reduced.

(vi) Import of vintage or classic cars and jeeps at fix duty/taxes of US\$ 5,000**

** *These concessions are announced in salient features to the budget; however notifications are yet to be issued*

INCREASE IN CUSTOMS DUTY

Customs duty is proposed to be increased in following cases:

Items	Rate	
	Old	New
Soya- bean oil and its fractions		
- Crude oil, whether or not degummed;	Rs.9,050/MT	Rs.12,000/MT
- Others	Rs.10,200/MT	Rs.13,200/MT
Double sided tape	3%	11%
Other category of toilet papers	3%	20%
Aluminum scrap of auto parts	30%	35%
New pneumatic tyres for rickshaw	11%	20%
Liquid Pumps for motor cars and vehicles	3	35
Air or vacuum pumps for motor cars and vehicles	16%	35%
Fuses for motor cars and vehicles	20%	35%
Relays for motor cars and vehicles for a voltage not exceeding 60V	3%	35%
Other relays for motor cars and vehicles for a voltage not exceeding 60V	3%	35%

TARIFF RATIONALISATION

Separate PCT headings have been introduced for the following:

Description	Rate of duty
Charging station for electric vehicle	16%
Light fittings with fixed/fitted LED or SMD or COB for chandeliers and electric ceiling, other electric lamps and light fittings	20%
Di-Octyl Terephthalate	20%
Refrigerated out door cabinet designed for insertion of electric and electronic apparatus	20%
CKD/SKD kits of household or laundry type washing machine	20%
Kerosene based mineral oils	3%
Electric generating set	11%
Digital and processed printing ink	20%

LEVY / INCREASE OF REGULATORY DUTY

Regulatory duty is levied / increased as under:

- 30% on export of waste and scrap of copper
- 10% on CKD/SKD kits of specified home appliances
- Rs 175/set on CKD/SKD kits of mobile phones.
- 2% on LED bulb & Tubes, Energy Saving Bulbs & Tube.

REDUCTION IN REGULATORY DUTY

Regulatory duty is proposed to be reduced as under:

- (i) From 20% to 10% on Optical Fiber Cables
- (ii) From 15% to 0% on electric vehicles.

REVIEW IN REGULATORY DUTY

Regulatory duty is proposed to be reviewed on non-essential and luxury items:

ADDITIONAL CUSTOMS DUTY

Additional Customs duty imposed on various items is proposed to be increased from 1% to 2%:

Note: The notifications for amendments relating to Regulatory Duty and Additional Duty are yet to be issued. The above comments are based on 'Salient Features' issued with the Budget Documents.

EXEMPTION TO DIGNITARIES

At present, import of certain items by the Dignitaries of UAE, Qatar, Bahrain and Kingdom of Saudi Arabia are subject to 0% Customs Duty (PCT 9905). The said concession is proposed to be extended to following Dignitaries as well:

- H.H. Shaikh Mohammad Bin Khalifa Al-Thani, Former Deputy Prime Minister of the state of Qatar;
- His Royal Highness Prince Fahad Bin Sultan Bin Abdul Aziz, Governor of Tabuk of Kingdom of Saudi Arabia; and
- His Royal Highness Prince Mansour Bin Mohammad Bin S. Bin Abdul Rehman Al-Saud - Kingdom of Saudi Arabia.

EXEMPTION TO CHARITABLE INSTITUTION

At present, import of certain items / equipments by charitable institutions and hospitals is charged to custom duty at 0% subject to conditions (PCT 9914). An additional condition is proposed to avail such concession that the goods imported shall not be sold or disposed of before 7 years of import. Such goods if sold before seven years after approval of FBR entail payment of duties and taxes to be assessed at the time of their disposal.

PETROLEUM PRODUCTS (PETROLEUM LEVY) ORDINANCE, 1961

The maximum petroleum levy rates as specified in the Fifth Schedule to the Petroleum Products (Petroleum Levy) Ordinance, 1961 is proposed to be substituted as under:

S. No	Petroleum Product	Unit	Levy Rate (Rupees per unit)	
			Existing	Proposed
1	High Speed Diesel Oil (HSDO)	Litre	8	30
2	Motor Gasoline 87 ROM	Litre	10	30
3	Superior Kerosene Oil (SKO)	Litre	6	30
4	Light Diesel Oil (LDO)	Litre	3	30
5	High Octane Blending Component (HOBC)	Litre	14	30
6	E-10 Gasoline	Litre	9	30
7	Liquefied Petroleum Gas (produced / extracted in Pakistan)	Metric ton	11,486	20,000

ANNEXURE A - MEMORANDUM ON TAX REFORMS PACKAGE

Preamble

The Prime Minister of Pakistan announced the salient features of the Tax Reforms Package on April 6, 2018. Firm's comments on the Package were released on the same day (available at <https://www.pwc.com/pk>).

As announced by the Prime Minister, these measures have now been incorporated in four Ordinances promulgated by the President of Pakistan which will be effective from April 10, 2018. These Ordinances¹ are:

- 1) The Foreign Assets (Declaration and Repatriation) Ordinance, 2018;
- 2) The Protection of Economic Reforms (Amendment) Ordinance, 2018;
- 3) Voluntary Declaration of Domestic Assets Ordinance, 2018; and
- 4) Income Tax (Amendment) Ordinance, 2018.

These are four Independent Ordinances; however, they represent interdependent status for an overall tax reforms package as announced by the Prime Minister. An integrated analysis and review of the aforesaid provisions reveals that a one-time opportunity is being provided for compliance with appropriate deterrents against non-disclosure in future.

¹ The comments are based on the drafts available through press information.

THE FOREIGN ASSETS (DECLARATION AND REPATRIATION) ORDINANCE, 2018

Persons covered

Under this Ordinance, all citizens of Pakistan wherever they may be, except holders of public office as defined in the Ordinance (Annexure A) their spouses and dependent children, may declare their foreign assets except where proceedings are pending in any court of law in respect of such assets. These persons are referred as 'declarants'.

Definition of foreign assets

Foreign assets have been defined to mean any movable or immovable property held outside Pakistan and include real estate, mortgaged assets, stocks and shares, bank accounts, bullion, cash, jewels and paintings, accounts and loan receivables, beneficial ownership or beneficial interest or contributions in offshore entities and trusts.

Liquid assets have been defined to mean cash or an asset that can be readily converted into cash with the minimal impact on the asset's value and includes bank notes, marketable securities, stocks, promissory notes, government bonds, deposit certificates and other similar instruments.

Rates of tax

Foreign assets declared under this Ordinance shall be chargeable to tax at the following rates:

1.	Liquid assets not repatriated	5%
2.	Immovable assets outside Pakistan	3%
3.	Liquid assets repatriated and invested in government securities for 5 years in US Dollar denominated bonds with 6 monthly profit payment in equivalent Rupees (rate of return being 3% per annum) and payable at maturity in equivalent Rupees	2%
4.	Liquid assets repatriated	2%

Valuation of assets

The declaration shall be made at the 'Fair Market Value' which shall be the price of foreign asset determined and declared by the declarant himself but in no case to be less than the cost of acquisition of such assets.

Overriding effect and confidentiality

The provisions of this Ordinance shall have effect notwithstanding anything to the contrary contained in any other law for the time being in force. All confidentiality provisions of the Income Tax Ordinance, 2001 and Right of Access to Information Act, 2017 shall apply to declarations made under this Ordinance and any person in breach of such provisions may be fined and / or imprisoned.

Declaration not admissible as evidence

Nothing contained in the declaration made under this Ordinance shall be admitted as evidence against the declarant for the purpose of any proceedings relating to imposition of penalty or for the purpose of prosecution under any law including the Income Tax Ordinance, 2001.

Effect of declaration

No tax shall be payable by the declarant under any law for the time being in force including Income Tax Ordinance, 2001 in respect of assets declared under this Ordinance. Declarants shall be entitled to incorporate the same in their books of account. For the purpose of Income Tax Ordinance, 2001, the cost of acquisition of foreign assets shall be the declared value and the date of acquisition shall be the date of declaration.

Effective date

The declaration and repatriation shall be made on or after April 10, 2018 but on or before June 30, 2018.

THE PROTECTION OF ECONOMIC REFORMS (AMENDMENT) ORDINANCE, 2018

An important amendment has been made in the Protection of Economic Reforms Act, 1992 which shall have effect notwithstanding anything contained in the Foreign Currency Accounts (Protection) Ordinance, 2001.

Under this amendment, no cash shall be allowed to be deposited in any foreign currency account unless the account holder is a filer as defined in the Income Tax Ordinance, 2001.

This effectively means that the present system of feeding the foreign currency accounts by cash shall be limited only to person who are filers under the Income Tax Ordinance, 2001.

This provision is applicable from April 9, 2018.

VOLUNTARY DECLARATION OF DOMESTIC ASSETS ORDINANCE, 2018

Persons entitled

Under this Ordinance, every company, Association of Persons and all citizens of Pakistan wherever they may be, except holders of public office as defined in the Ordinance (Annexure A) their spouses and dependent children, may make declaration for undisclosed income and domestic assets except where proceedings are pending in any court of law in respect of such assets.

Assets covered

Domestic asset means assets of every kind other than foreign assets as defined in the Foreign Assets (Declaration and Repatriation) Ordinance, 2018.

Rate of tax

The assets declared shall be charged at the following rates:

1.	Foreign currency held in foreign currency accounts in Pakistan as on March 31, 2018 and encashed in equivalent Pak Rupees	2%
2.	Foreign currency held in foreign currency account in Pakistan as on March 31, 2018 which is invested in Government Securities for 5 years in US Dollar denominated bonds with 6 monthly profit payment in equivalent Rupees (rate of return being 3% per annum) and payable at maturity in equivalent Rupees	2%
3.	All other assets	5%

Valuation

A table has been prescribed in the law for valuation of various assets to be declared under the aforesaid Ordinance (Annexure B).

Effect of declaration

No tax shall be payable by the declarant under any law for the time being in force including Income Tax Ordinance, 2001 in respect of assets declared under this Ordinance. Declarants shall be entitled to incorporate the same in their books of account. For the purpose of Income Tax Ordinance, 2001, the cost of acquisition of domestic assets shall be the declared value and the date of acquisition shall be the date of declaration.

Effective date

The declaration shall be made on or after April 10, 2018 but on or before June 30, 2018.

**INCOME TAX (AMENDMENT)
ORDINANCE, 2018**

Some major amendments have been made in the Income Tax Ordinance, 2001 in relation to the overall tax reforms package.

Year of taxability for concealed and unexplained assets

Prior to this amendment, both domestic and foreign assets if remained concealed or unexplained were chargeable to tax in the tax year to which such amount relates i.e. the year of acquisition. However, now a very fundamental change has been made with respect to concealed foreign assets and concealed foreign source income.

The concept of taxability in the 'year of discovery' has been introduced as against the 'year of acquisition' in respect of foreign assets and foreign income.

The tax authorities are consequently empowered to ask any taxpayer to file a return in respect of foreign assets and foreign income for any prior tax year without any time limitation.

This provision is to be read in relation to Foreign Assets (Declaration and Repatriation) Ordinance, 2018 and it appears that the legislature does not intend to provide time limitation provisions for foreign assets and foreign income that would remain undeclared.

Section 111(4)

Under the present position, any amount of foreign exchange remitted from outside Pakistan through normal banking channel and encashed into Pak Rupees cannot be subject to any enquiry for income tax purposes.

The aforesaid blanket exemption shall not be available for remittances exceeding Rs 10 Million in a tax year per person after the effective date of this Ordinance.

Detailed statement of foreign income and foreign assets

Foreign assets formed part of the Wealth Statement to be filed under section 116 of the Income Tax Ordinance, 2001. Now, through this Ordinance, every resident taxpayer being an individual, having foreign income equal to or in excess of US\$ 10,000 or having foreign assets with a value of US\$ 100,000 or more shall be required to file a separate statement of foreign income and foreign assets under a newly inserted Section 116A, the contents of which are prescribed (Annexure C).

Penalty for not filing statement under Section 116A

A penalty at the rate of 2% of the value of foreign income or foreign assets shall be payable in case of default in filing of statement of foreign income and foreign assets.

Rate of tax for Individuals (salaried and non-salaried)

The rate of tax for Individuals (salaried and non-salaried) has been revised downward effective July 1, 2018 (Annexure D).

ANNEXURE B - REVISED TAX RATES AND THEIR IMPACT

A. TAX RATES FOR INDIVIDUALS

Sr No.	Taxable income	Rate
1.	Where the taxable income does not exceed Rs 400,000	0%
2.	Where the taxable income exceeds Rs 400,000 but does not exceed Rs 800,000	Rs 1,000
3.	Where the taxable income exceeds Rs 800,000 but does not exceed Rs 1,200,000	Rs 2,000
4.	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,400,000	5% of the amount exceeding Rs 1,200,000
5.	Where the taxable income exceeds Rs 2,400,000 but does not exceed Rs 4,800,000	Rs 60,000 + 10% of the amount exceeding Rs 2,400,000
6.	Where the taxable income exceeds Rs 4,800,000	Rs 300,000 + 15% of the amount exceeding Rs 4,800,000

B. TAX RATES FOR ASSOCIATION OF PERSONS

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

C. TAX RATES FOR COMPANIES

Sr No.	Tax year	Rate
1.	2019	29%
2.	2020	28%
3.	2021	27%
4.	2022	26%
5.	2023 and onwards	25%

D. COMPARISON – INDIVIDUALS*(All figures are in PKR)*

Annual taxable income	Existing tax		Proposed tax	Saving	
	Other than salaried	Salaried	Salaried & non-salaried	Other than salaried	Salaried
400,000	-	-	-	-	-
800,000	39,500	19,500	1,000	38,500	18,500
1,200,000	99,500	59,500	2,000	97,500	57,500
1,600,000	164,500	107,000	20,000	144,500	87,000
2,000,000	244,500	172,000	40,000	204,500	132,000
2,400,000	324,500	242,000	60,000	264,500	182,000
2,800,000	419,500	319,500	100,000	319,500	219,500
3,200,000	519,500	404,500	140,000	379,500	264,500
3,600,000	619,500	497,000	180,000	439,500	317,000
4,000,000	719,500	597,000	220,000	499,500	377,000
4,400,000	839,500	707,000	260,000	579,500	447,000
4,800,000	959,500	817,000	300,000	659,500	517,000
5,200,000	1,079,500	927,000	360,000	719,500	567,000
5,600,000	1,199,500	1,037,000	420,000	779,500	617,000
6,000,000	1,319,500	1,147,000	480,000	839,500	667,000
6,400,000	1,459,500	1,257,000	540,000	919,500	717,000
7,000,000	1,669,500	1,422,000	630,000	1,039,500	792,000
>7,000,000	Rs 1,319,500 + 35% of the amount exceeding Rs 6,000,000	Rs 1,422,000 + 30% of the amount exceeding Rs 7,000,000	Rs 300,000 + 15% of the amount exceeding Rs 4,800,000	Rs 1,039,500 + 20% of the amount exceeding Rs 7,000,000	Rs 792,000 + 15% of the amount exceeding Rs 7,000,000

E. COMPARISON – ASSOCIATION OF PERSONS*(All figures are in PKR)*

Annual taxable income	Existing tax		Proposed tax	Saving	
	<i>Prohibited from incorporation</i>	<i>Others</i>	<i>All types of association of persons</i>	<i>Prohibited from incorporation</i>	<i>Others</i>
400,000	-	-	-	-	-
800,000	39,500	39,500	20,000	19,500	19,500
1,200,000	99,500	99,500	40,000	59,500	59,500
1,600,000	164,500	164,500	80,000	84,500	84,500
2,000,000	244,500	244,500	120,000	124,500	124,500
2,400,000	324,500	324,500	160,000	164,500	164,500
2,800,000	419,500	419,500	220,000	199,500	199,500
3,200,000	519,500	519,500	280,000	239,500	239,500
3,600,000	619,500	619,500	340,000	279,500	279,500
4,000,000	719,500	719,500	420,000	299,500	299,500
4,400,000	839,500	839,500	500,000	339,500	339,500
4,800,000	959,500	959,500	580,000	379,500	379,500
5,200,000	1,079,500	1,079,500	680,000	399,500	399,500
5,600,000	1,199,500	1,199,500	780,000	419,500	419,500
6,000,000	1,319,500	1,319,500	880,000	439,500	439,500
>6,000,000	Rs 1,319,500 + 35% of the amount exceeding Rs 6,000,000	Rs 1,319,500 + 32% of the amount exceeding Rs 6,000,000	Rs 880,000 + 25% of the amount exceeding Rs 6,000,000	Rs 439,500 + 10% of the amount exceeding Rs 6,000,000	Rs 439,500 + 7% of the amount exceeding Rs 6,000,000