PREFACE

This booklet contains notes and comments on the amendments made in the fiscal laws by the Finance Act, 2015. Through Tax Memorandum released by our firm on June 6, 2015 available on www.pwc.com.pk/en/tax-memorandum we presented general comments, suggestions and effects of the various proposals made in the Finance Bill presented to the National Assembly by the Finance Minister.

This document describes specific changes in the respective provisions alongwith our comments and notes on the matter being virtually an update of the fiscal laws as they stand on July 1, 2015.

In Chapter 1 of this booklet, for easy reference, a summary of major changes between the provisions as proposed in the Finance Bill and those actually introduced in the Finance Act, 2015 has been made. This Chapter also includes some provisions which were not included in the Finance Bill.

Some of the matters in Chapter 1 are important and the respective industry or relevant persons will have to make appropriate representations to the government for resolution of such matters.

Notes and comments in the booklet provide views on certain matters which have generally been made with positive connotation, however readers are requested to seek specific opinions and views on contentious issues especially for the reason that executive field officers and at times even the appellate and judicial forums apply and interpret the laws on the basis of text ignoring the intention of law.

We will be sending a separate booklet containing notes and comments on Customs Duty and Provincial Sales Tax on Services. These laws and regulations do not form part of this booklet on account of delayed availability of notifications and gazetted copies of legislations.

We consider that readers will find the matter useful and seek appropriate assistance for professional guidance wherever required. We thank the staff which has helped us in preparing this booklet. The text of this booklet can be accessed on our website www.pwc.com.pk/en/FinanceAct2015.

Partners
A.F. Ferguson & Co
July 1, 2015
Karachi / Lahore / Islamabad
<table>
<thead>
<tr>
<th>Chapter No.</th>
<th>Description</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
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</tr>
</tbody>
</table>
CHAPTER 1

SUMMARY OF CHANGES BETWEEN THE CONTENTS OF FINANCE BILL AND FINANCE ACT AND CERTAIN NEW PROVISIONS INTRODUCED IN THE ACT

INCOME TAX

1) Through the Finance Bill, 2015, the rate of tax on companies other than banking companies was proposed to be reduced to 32% for tax year 2016. In the Finance Act, the corporate tax rates for tax years 2017 and 2018 have now also been prescribed at 31% and 30% respectively. This positive policy of reduction of the corporate tax rate is the demonstration of honoring the commitment as made by the Finance Minister in 2013 whereby the rate of tax for companies is to be brought to 30% in a phased manner over five years (from tax years 2014 to 2018). Notwithstanding all other aspects this resolves the accounting issues, especially relating to deferred taxation, which arose on account of a proposed change in subsequent years not legislatively incorporated.

2) The proposal of levying tax on undistributed reserves of a public company (other than modaraba, schedule bank and Government-owned companies) has been substantially amended in line with suggestions made in our tax memorandum. As indicated there will be no incidence of tax on undistributed reserves if a public company distributes in cash lower of 40% of the profit for the year or 50% of the paid up capital within 6 months of end of the tax year; except for tax year 2015 for which distribution can be made before due date of filing of return of income. Furthermore, the exemption from payment of tax on undistributed reserves has now also been extended to power generation companies qualifying for exemption under clause (132) Part I of the Second Schedule.

3) The proposal to revamp the tax regime for profit on debt (interest income) has appropriately been corrected. The presumptive tax regime will not be applicable on companies, which will continue to be liable to pay tax on profit on debt as is presently being paid, whereas all non-corporate taxpayers will be liable to pay tax on gross interest income on presumptive basis at the following rates:

<table>
<thead>
<tr>
<th>S. No</th>
<th>Profit on Debt</th>
<th>Rate of tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Where profit on debt does not exceed Rs 25,000,000</td>
<td>10%</td>
</tr>
<tr>
<td>2.</td>
<td>Where profit on debt exceeds Rs 25,000,000 but does not exceed Rs 50,000,000</td>
<td>2,500,000 + 12.5% of the amount exceeding Rs 25,000,000</td>
</tr>
<tr>
<td>3.</td>
<td>Where profit on debt exceeds Rs 50,000,000</td>
<td>Rs 5,625,000 + 15% of the amount exceeding Rs 50,000,000.</td>
</tr>
</tbody>
</table>

4) In the Finance Bill, it was proposed that exporters be given a one-time, irrevocable option to be taxed under normal regime. In the Finance Act, the said proposal of an option to exporters to be taxed under normal regime has been adopted, with the amendment that this option will be exercised ‘every year’ at the time of filing of income tax return. This option will also be available for the tax year 2015.
5) It was proposed in the Finance Bill that tax deductible on services rendered or provided by a company shall not be minimum tax. This provision was proposed to take effect from tax year 2009 being the year in which the minimum tax provisions were originally introduced. There was effectively no proposal to change the law since provisions to that effect were contained in clause (79) of Part IV of the Second Schedule to the Ordinance. Thus, in essence, the contents of the clause were proposed to be the part of the substantive provision of the law.

In the Finance Act, 2015 this essential and vital corrective amendment has not been carried forward and at the same time clause (79) has also been deleted. As a result of totally undesired action, entities in service sector like telecom, hotels etc. are now also subject to minimum tax provisions like other taxpayers. The rate of minimum tax would be as under:

<table>
<thead>
<tr>
<th>Service provider</th>
<th>Filer</th>
<th>Non-Filer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>8%</td>
<td>12%</td>
</tr>
<tr>
<td>Other than Company</td>
<td>10%</td>
<td>15%</td>
</tr>
</tbody>
</table>

This is a totally undesirable situation and such entities will never be able to absorb such incidence of tax. The corrective measure is immediately required, which may be:

- Introduction of Income Tax (Amendment) Act, 2015 where this correction is made with full disclosure of all the events, since 2009 in the preamble of the said Act; or.

- Reinstatement of Clause 79 after seeking approval as is now required under the law.

The action suggested is to be incorporated with effect from July 1, 2015.

6) Through the Finance Act, 2015, it is now provided that every person (other than retailers registered under Rule (4) of Sales Tax Special Procedural Rules, 2007) shall be automatically selected for audit of income tax affairs for a tax year if:

- Complete return of income is not filed within the due date or extended due date; or

- Tax payable as per return has not been paid.

It has, however, been provided that such automatic selection for audit shall not be applicable if the person, within 90 days from the due date, files the tax return and:

(a) 25% higher tax, than the tax paid during immediately preceding tax year, has been paid by a person on the basis of taxable income and had declared taxable income in the return for immediately preceding tax year; or

(b) tax at the rate of 2% of the turnover or the tax payable under Part I of the First Schedule, whichever is higher, has been paid by a person alongwith the return and in the immediately preceding tax year has either not filed a return or had declared income below taxable limit. Where return has been filed for the immediately preceding tax year, turnover declared for the tax year is not less than the turnover declared for the immediately preceding tax year.
7) In the Finance Bill, 2015, retailers registered under the sales tax law were proposed to be subject to automatic selection for audit of their income tax affairs under section 177 of the Ordinance under specified circumstances. However, as per the Finance Act, 2015, the retailers registered under Rule (4) of Sales Tax Special Procedural Rules, 2007, who remain on sales tax active taxpayers list throughout the tax year, will now be exempt from automatic selection of audit as well as selection for audit under sections 177 and 214C.

8) The highest slab rate of income tax applicable to an Association of Person that is a professional firm prohibited from incorporating by any law or the rules of the body regulating their profession is prescribed to be 32% applicable from the year 2016. This positive amendment will require two additional steps viz:

- Rate of tax prescribed be applicable to members of AOP; and

- Appropriate clarification that under Section 92 of the Ordinance that the taxable entity is the member of AOP not being an AOP.

9) At present, Mutual fund or Collective Investment Scheme are required to deduct Capital Gains Tax, at the following rates, on redemption of securities:

<table>
<thead>
<tr>
<th>Holding period</th>
<th>Rate of tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 12 months</td>
<td>12.5%</td>
</tr>
<tr>
<td>12 - 24 months</td>
<td>10%</td>
</tr>
<tr>
<td>Over 24 months</td>
<td>0%</td>
</tr>
</tbody>
</table>

In the Finance Bill, 2015, it was proposed that Mutual fund or Collective Investment Scheme or a REIT scheme will deduct capital gains tax on redemption of securities at the following rates:

<table>
<thead>
<tr>
<th>Category</th>
<th>Filer</th>
<th>Non-Filer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Stock Fund</td>
<td>Others</td>
</tr>
<tr>
<td>Individuals and Association of persons</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Company</td>
<td>10%</td>
<td>25%</td>
</tr>
</tbody>
</table>

The above proposal to introduce the concept of filer and non-filer while deducting capital gains tax on redemption of securities has not been ratified and the following flat rates have been prescribed in the Finance Act, 2015:

<table>
<thead>
<tr>
<th>Category</th>
<th>Stock Fund</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals and Association of persons</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Company</td>
<td>10%</td>
<td>25%</td>
</tr>
</tbody>
</table>
10) The rate of tax withholding applicable on dividend in case of filers, which was inadvertently kept unchanged @ 10% despite increase in related tax liability to 12.5%, has now been corrected in the Finance Act, 2015. Tax withholding for filer is now brought in line with the rate of tax liability (i.e., 12.5%).

11) The rate of tax applicable on dividend received by a person from a mutual fund, which was prescribed in the Finance Bill, 2015 to be the same as the general rate of 12.5% on dividend income, has been prescribed in the Finance Act, 2015 to be 10%, in line with withholding rates.

12) Tax rate applicable to dividend received from certain stock funds was proposed in the Finance Bill, 2015 to be increased from 12.5% to 15% but such increase has not been ratified. Consequently, the presently enacted rate of 12.5% will continue to apply.

13) Prior to the Finance Act, 2015, tax withholding was not required on payments to electronic and print media in respect of advertising services, by virtue of the exemption available under clause (16A) of Part IV of Second Schedule to the Income Tax Ordinance, 2001. Through the Finance Act, 2015, the rates of tax withholding required from payments to electronic and print media for advertising services have been prescribed as under:

<table>
<thead>
<tr>
<th>Service provider being</th>
<th>Filer</th>
<th>Non-Filer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>*1%</td>
<td>12%</td>
</tr>
<tr>
<td>Other than Company</td>
<td>*1%</td>
<td>15%</td>
</tr>
</tbody>
</table>

* As mentioned by the Finance Minister during his winding up speech on the Federal Budget, the tax withholding rate prescribed for 'filers' has been kept at 1% which is also the rate of minimum tax payable on their turnover. Therefore, this tax withholding will not result in creation of any refunds to be paid to them. Furthermore, such tax withholding will also enable FBR to ensure documentation and collect record of their transactions.

14) Tax credit of 10% is available to a company under section 65B of the Income Tax Ordinance, 2001 on investment in the purchase of plant and machinery for the purposes of extension, expansion, balancing, modernization and replacement of the plant and machinery. Tax credit was allowed on plant and machinery purchased and installed at any time between July 1, 2010 and June 30, 2015. Through the Finance Act, 2015, the eligibility for tax credit has been extended to plant and machinery purchased and installed by June 30, 2016.

15) The proposal contained in the Finance Bill to dispense with the condition of obtaining prior approval from the Commissioner for filing a revised return, if the revised return is filed within 60 days of filing of the original return, has been ratified. Through the Finance Act, 2015, another significant amendment has been made to the effect that the revision request will be deemed to be approved after expiry of 60 days from date of request if the Commissioner does not decide on the request within the prescribed period.

16) Presently the e-filing of income tax return is mandatory by a person whose salary income for the tax year is Rs. 500,000 or more. The tax return of such person is also required to be accompanied by wealth statement as well as proof of deduction or payment of tax. Through the Finance Act, 2015, the Federal Board of Revenue (FBR) has been empowered to amend the condition for e-filing of tax return, wealth statement and proof of deduction or payment of tax or to relax this condition for a particular tax year.
17) The proposal contained in the Finance Bill, 2015 to eliminate the discretionary powers of the Federal Government and FBR for granting concessions and exemptions has been adopted. However, in order to avoid unnecessary litigation and disputes at field level, protection / savings for the substantive provision have now been introduced through the Finance Act, 2015 to the effect that SROs already issued shall continue to remain in force unless rescinded by FBR through notification in the official Gazette.

18) Provisions of section 113C, relating to Alternative Corporate Tax (ACT), have been rephrased. ACT is now applicable on company in respect of income subject to tax at corporate rate as provided in Division II, Part I of the First Schedule, if such tax or Minimum Tax payable under section 113 is less than 17% of accounting income. Income subject to tax under Final Tax Regime, or separate block of income are not subject to ACT. There is effectively no change in the law.

19) Under section 236H, tax is collected from sale of specified goods to retailers. Through the Finance Act, 2015, an amendment is made in section 236H, whereby such tax will also be collected on sale of specified goods by every distributor or dealer to another wholesaler.

20) Through Federal Budget 2015, a presumptive tax regime was introduced, applicable on payment to resident person for use or right to use industrial, commercial and scientific equipment. In that situation a presumptive tax would have been applicable on all leasing business and the same aspect was identified in the tax memorandum issued by the firm. This aspect has been acknowledged. Now by virtue of amendment through the Finance Act, 2015, such tax will not be applicable on payment for use or right to use agricultural machinery and machinery leased by leasing company, investment bank, modaraba, schedule bank or development financial institution.

21) Collection of tax by Pakistan Mercantile Exchange Limited on certain transaction is now adjustable, instead of minimum tax originally proposed through Finance Bill.

**WORKERS’ WELFARE FUND**

Mutual funds and collective investment schemes including National Investment (Unit) Trust or REIT Scheme, have been excluded from the definition of ‘industrial establishment’ subject to Workers’ Welfare Fund (WWF) under the Workers’ Welfare Fund Ordinance, 1971 (WWFO). There was a view that these entities were subject to payment of WWF, after the amendment made in WWFO through Finance Act 2008. Mutual Funds in particular had challenged the levy of WWF that it cannot be imposed on them as they do not have any workers, and they are being operated by Asset Management Companies. Further, the levy was challenged on the ground that Federal Government has no right to levy WWF as this represents a Provincial subject after the 18th amendment in the Constitution of Pakistan.
CHAPTER 2 – INCOME TAX

CONSUMER GOODS AND FAST MOVING CONSUMER GOODS
[Sections 2(13AA) and 2(22A)]

The term “consumer goods” has been defined to mean goods used by end consumers. End consumption has been defined to be the stage where such items are not subjected to any further production process.

“Fast moving consumer goods’ (FMCG) have been defined as those consumer goods which are supplied in retail marketing. Supply in the retail marketing has been related to replenishment on the basis of daily demand of the consumers. This implies that there is a regular replenishment of supply on the basis of demand from the consumers. These may include milk, cigarettes, mineral water, aerated beverages etc. Practical difficulties are expected to arise in certain cases on account of the use of the concept of replenishment on daily demand by the consumers.

This definition has been introduced for the practical reason that the reduced rate of minimum tax (@ 0.2 %) which was previously applicable for distributors of all consumer goods shall now be limited only to distributors of FMCG.

REIT SCHEME, DEVELOPMENTAL REIT SCHEME AND RENTAL REIT SCHEME
[Sections 2(47A), (17D) and 2(47C)]

REIT Scheme for the purposes of income tax laws will be those which are so defined under the Real Estate Investment Trust Regulations 2015 issued by the Securities & Exchange Commission of Pakistan.

Under the REIT Regulations there can be two kinds of REIT schemes. Those engaged in development of properties for sale are classified as developmental REIT whereas those engaged in acquisition and construction of immovable properties for renting are termed as ‘rental REITs’.

These definitions have been introduced for the reason that special provisions and rates of tax, as the case may be, have been introduced for these two kinds of REIT Schemes. Furthermore, within REITs certain provisions are limited to developmental REIT Schemes only.

’IMPUTABLE INCOME’
[Section 2(28A)]

The term imputable income has been defined. This means the income which will be deemed to be there by way of imputation if in certain cases an amount is taxed on presumptive tax basis.

As per this definition imputable income has been related to presumptive tax. For example in the case of a company, if imports of Rs 100 are subjected to a presumptive tax equal to 5% (or Rs 5) being the tax levied on the value of imported goods then the imputed income from such imports will be Rs 16.2 (5/32X 100). Income of Rs. 16.2 shall give rise to tax equal to Rs 5 if tax at the rate of 32% applied.
This definition has been inserted inter alia for the purposes of levy of one-time super tax on income above Rs 500 million as such tax is also payable by persons subject to presumptive tax.

**ONE-TIME SUPER TAX**  
*Section 4B*

A one-time super tax for tax year 2015 has been levied on (i) banking companies; and (ii) all other taxpayers having income of Rs 500 million or above. The general rate of super tax is 3% while the rate of tax for banking companies shall be 4%.

As specifically stated in the relevant provision, this ‘tax’ is for the rehabilitation of temporary displaced persons.

The term ‘income’ for the purpose of this section shall be the taxable income under section 9 of the Income Tax Ordinance, 2001 (excluding exempt income) and also includes profit on debt, dividend, capital gains, brokerage and commission, if not part of taxable income. In the cases subject to presumptive regime, such income will represent ‘imputable income’ as newly defined under section 2(28A) of the Ordinance which has been explained earlier.

Income for the purposes of this section represent taxable income for the year determined in after taking into account taxable losses for the earlier years.

One-time super tax shall also be payable on persons subject to special tax regimes like insurance companies (Fourth Schedule), entities engaged in exploration and production of petroleum and mineral deposits (Fifth Schedule), Banking companies (Seventh Schedule) and persons earning capital gains on listed securities (Eighth Schedule). Nevertheless, in case of companies engaged in the extraction and production of petroleum and mineral deposits such tax shall be payable only if such companies are taxable at the rate prescribed under the Ordinance not being those subject to tax under the respective overriding Agreements with Government of Pakistan.

Super tax is payable for tax year 2015 which includes cases having special tax years other than June 30, 2015 such as banking companies, insurance companies, sugar companies, etc.. Tax year 2015 for the entities which follow special tax year under the law, such as banking companies, textile companies etc., has already ended before the enactment of Finance Act, 2015

This effectively represents retrospective charge in the cases where financial statements have already been finalised. One-time super tax shall be payable alongwith the tax to be paid as per the return of income for tax year 2015.

The Commissioner Inland Revenue has been empowered to issue order for the recovery of one-time super tax.

Board will make rules for the recovery of one-time super tax.
TAX ON UNDISTRIBUTED RESERVES  
[Section 5A]  

Undistributed reserves of a public company (other than a modaraba, a scheduled bank, companies where Government owns more than 50% of shares and companies engaged in power generation) have been taxed with effect from tax year 2015.

Such tax is payable at the rate of 10% on the whole amount of undistributed reserves as are in excess of 100% of paid up capital of the company after the distribution of cash dividend within six months of the end of tax year.

However no such tax shall be payable if the public company distributes ‘profit’ equal to lower of 40% of its after tax profits for the year or 50% of its paid up capital. Since distribution is made out of accounting profits or reserves the term ‘profit’ as used in the provision will refer to the sum as determined under the Companies Ordinance, 1984. For the purposes of definition of the term ‘profit’, the Board’s circular issued on this subject with reference to the law earlier prescribed will be a reasonable reference for this purpose.

This effectively represents re-introduction of similar levy imposed under section 12(9A) of repealed Income Tax Ordinance, 1979 vide Finance Act 1999.

As stated above distribution of dividend which shall be accounted for whilst ascertaining the incidence of tax under this section will be the one released within six months of the end of the end of financial year. However by way of a special dispensation in respect of tax year 2015 any cash distribution before the date of filing the return shall be considered as distribution for tax year 2015. This means that companies which have ended their financial year before June 30, 2015 or those where the income year is ending on June 30, 2015 distribution of dividend to the extent prescribed, if any will absolve the company from the incidence of tax under this section.

The term ‘reserves’ has been defined in sub-section (3) of newly inserted Section 5A of the Ordinance. As per that definition reserves shall be the amount set aside out of revenue or other surpluses excluding capital reserves, share premium reserves and reserves required to be created under any law, rules or regulations. Since distribution and ascertainment of reserves relates to Financial Statements as prepared under the Companies Ordinance, 1984, therefore for practical purposes the term reserves for the purposes of this provision would reflect the amount as ascertained under the Companies Ordinance, 1984. Under the Companies Ordinance, 1984 ‘Capital Reserves’ being an exclusion from reserves for the determination of tax incidence has not been defined, however in the disclosure requirements as per the Fourth Schedule there is an inclusive definition of capital reserves that includes ‘or any reserves not regarded free for distribution by way of dividend’ within that ambit.

This provision, in essence, levies a tax on entire undistributed accumulated reserves in excess of paid up capital if there is no distribution to the prescribed extent. This tax is effectively chargeable on reserves that have arisen out of already taxed income.
TAX ON SHIPPING INCOME OF A RESIDENT PERSON
[Section 7A and Clause (21) of Part II of the Second Schedule]

Income of resident persons engaged in business of shipping are taxable on presumptive basis under clause (21) of Part II of the Second Schedule to the Ordinance. Through Finance Act, 2015, such provisions have now been replaced in Section 7A of the Ordinance, and made part of provisions dealing with final tax under section 8 of the Ordinance.

TAX ON PROFIT ON DEBT
[Sections 7B and 151]

Profit on debt received by persons other than companies is subject to presumptive tax by way of application of provisions of clause (b) of sub-section (1) of Section 169 of the Ordinance.

This provision has now been replaced by way of separate section 7B of the Ordinance.

Now all persons other than companies shall be subject to special regime laid down in Section 7B of the Ordinance. Under that provision following tax rates applied on the gross amount of profit on debt shall be the tax liability in respect of profit on debts:

(i) Where profit on debt does not exceed Rs 2.5 million : 10 %

(ii) Where profit on debt exceeds Rs 2.5 million but does not exceed Rs 5 million: 12.5% on amount exceeding 2.5 million;

(iii) Where profit on debt exceeds Rs 5 million: Rs 5,625,000 and 15% of amount exceeding 15 %.

Incidence of tax is now not necessarily related to withholding made under Section 151 of the Ordinance. Total tax liability in respect of such income is that prescribed under Section 7B. Nevertheless withholding provisions as applicable earlier remain the same.

The rate of withholding tax under section 151 for non-filers has been enhanced from 15% to 17.5%.

INCOME FROM PROPERTY
[Section 15A(h)]

Expenses incurred to the extent of 6% of rent chargeable wholly and exclusively for the purpose of deriving rent are admissible against rental income. Previously, such expenses were limited to ‘collection charges’ only.

Now any expenditure wholly or exclusively for the purposes of deriving rent including administration and collection charges shall be admissible, to the extent of 6% of rent chargeable.
FIRST YEAR ALLOWANCE & EXEMPTION FROM TAX ON MANUFACTURER OF CELL PHONES  
[Section 23A & Clause (126N) Part of the Second Schedule]

Companies engaged in the manufacturing of cellular phones which also qualify for exemption under the newly inserted clause (126N) shall be eligible to First Year Allowance under the Third Schedule to the Ordinance.

Under Clause (126N), Profits and gains derived by a taxpayer from an industrial undertaking, duly certified by the Pakistan Telecommunication Authority, engaged in the manufacturing of cellular mobile phones, are exempt from tax for a period of five years, from the month of commencement of commercial production. Such undertaking should commence its commercial production between the first day of July, 2015 and the thirtieth day of June, 2017 and should not be formed by the splitting up, or the reconstruction or reconstitution, of a business already in existence or by transfer to a new business of any machinery or plant used in a business which was being carried on in Pakistan.

CAPITAL GAIN ON DISPOSAL OF SECURITIES  
[Section 37A and Division VII of Part 1 of the First Schedule]

Under section 37A, capital gains on disposal of securities were taxable only if such securities were held for a period less than twelve months, however, the First Schedule to the Ordinance prescribed rates for taxation, where securities were held for a period over 12 months but less than 24 months. Through Finance Act, 2015 the limitation of right of taxation provided in section 37A in relation to holding period of twelve months has been removed.

Now there is no holding period prescribed in the substantive law for taxing capital gain on securities. This amendment may be relevant for taxation of holding period over one year in the earlier years.

A revised status of tax on Capital Gains on disposal of ‘securities’ under section 37A has been prescribed as under:

<table>
<thead>
<tr>
<th>Holding period</th>
<th>Tax Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
</tr>
<tr>
<td>Less than 12 months</td>
<td>15%</td>
</tr>
<tr>
<td>12 months to less than 24 months</td>
<td>12.5%</td>
</tr>
<tr>
<td>24 months to less than 48 months</td>
<td>7.5%</td>
</tr>
<tr>
<td>More than 48 months</td>
<td>0%</td>
</tr>
</tbody>
</table>

This revision has two dimensions. Firstly, the rates have been revised upwards. Secondly, the holding period for taxable gains has been enhanced. Enhancement of holding period for taxable instances will effectively apply retrospectively as gains for holding period between 24 to 48 months which were exempt from tax prior to Finance Act, 2015 will now fall under taxable incidence.

Specific rates have also been prescribed for withholding tax on redemption of securities by a mutual fund or a collective investment scheme or a REIT scheme.
In case if recipient is an individual or an association of person the rate of withholding shall be 10% both for stock fund or any other fund whereas if the recipient is a company such rate shall be 10% for stock fund and 25% for other funds. Nevertheless in all situations in case of a stock fund if dividend receipts of the said fund are less than capital gains then the rate shall be 12.5%.

There shall be no withholding on capital gains on securities which are not taxable on account of the fact that the holding period is more than 48 months.

**POWERS OF FEDERAL GOVERNMENT**

*Section 53*

Federal Government has the power to issue notification inter alia to amend Second Schedule to the Ordinance that relates to exemptions from tax and other related concessions. The manner of enforcement of such power has been prescribed. Under the new scheme Federal Government can exercise such power only on the basis of the approval of the Economic Coordination Committee of the Cabinet (ECC). It has been further provided that ECC shall exercise such powers where circumstances exist to take immediate action for the purpose of national security, natural disaster, protection of national economic interest in situations arising out of abnormal fluctuation in international commodity prices, removal of anomalies in taxes, development of backward areas and implementation of bilateral and multilateral agreements. In substance, all situations where such notifications can be issued have now been brought specifically within the ambit of this new set of regime.

The only effective change therefore is that there will be a decision of ECC before any notification is issued under this section.

A new sub-section (4) has been inserted whereby any notification issued after July 1, 2015 shall be rescinded on the expiry of the financial year in which it is issued. This effectively means that if not incorporated in the subsequent Finance Act any notification issued even with the approval of ECC will be automatically rescinded.

**RESTRICTION ON POWERS OF FEDERAL GOVERNMENT TO ISSUE SROs FOR TAX EXEMPTIONS AND CONCESSIONS**

*Section 148(2)*

The Finance Act has deleted sections 148(2) and 159(3), (4) and (5) of the Ordinance. Under these sections Federal Government has been empowered to issue tax exemptions and concessions in respect of various provisions of the Ordinance.

The relevance of the SROs already in force prior to omission of this section has been validated by way of a special section inserted in the relevant provisions. Accordingly any notification issued under the said sub-sections and for the time being in force shall remain in force, unless rescinded by the Board through notification in the official gazette.
Special rate of tax on local purchase of cooking oil or vegetable ghee for manufacturers at the rate of 2% has been placed under a special provision. Such tax shall be final tax in respect of such activity.

**TAX CREDIT FOR INVESTMENT IN SHARES AND INSURANCE**  
[Section 62]

The maximum amount eligible for the purpose of computing tax credit under this section has been increased from Rs. 1 million to Rs. 1.5 million.

**DEDUCTIBLE ALLOWANCE FOR PROFIT ON DEBT**  
[Section 64A]

In case of an individual a deduction shall be allowed for an amount not exceeding 50% of total income or Rs. 1 million, whichever is lower, in respect of:

- Profit or share in rent; or
- Share in appreciation for value of house paid in respect of loan obtained for the construction of a new house or acquisition of house.

The above deduction is allowed if the amount is paid to a scheduled bank or non-banking finance institution regulated by the Securities and Exchange Commission of Pakistan or Government or Local Government, Provincial Government or a statutory body or a public company listed on a stock exchange.

Upto June 30, 2015, eligible taxpayers were allowed to claim ‘tax credit’ in respect of the above profit on debt subject to the maximum limit of Rs 750,000. With the introduction of this new provision, the taxpayer is now allowed to claim the above ‘profit on debt’ as a deductible allowance instead of tax credit which may have beneficial impact on slab rates for certain taxpayers. The limit on the amount of profit on debt is also enhanced to Rs 1 million.

**TAX CREDIT FOR EMPLOYMENT GENERATION**  
[Section 64B]

Any company formed for establishing and operating a new manufacturing unit between July 1, 2015 and June 30, 2018 shall be allowed a tax credit of 1% of tax payable for every 50 employees registered with EOBI and social security schemes.

The maximum tax credit shall, however, not exceed 10% of the tax payable and the tax credit will be allowed for a period of ten years.


**TAX CREDITS**

[Section 65]

Entitlement of tax credits under Sections 65B, 65D and 65E has been corrected through this amendment. A new sub-section has been inserted in section 65 which deals with general provisions relating to tax credit, to clarify that all these tax credits are deductible from ‘minimum taxes’ and ‘final taxes’. The deduction of these tax credits from ‘minimum tax’ and ‘final tax’ was already provided in the respective provisions of section 65B, 65D and 65E.

**TAX CREDIT FOR INVESTMENT**

[Section 65B]

Tax credit for investment in extension, expansion, balancing modernization and replacement of plant and machinery has been extended from June 30, 2015 to June 30, 2016.

**MINIMUM TAX ON LAND DEVELOPERS**

[Section 113B]

Enabling provisions to collect minimum tax on land developers were introduced through the Finance Act, 2013. Federal Government was supposed to prescribe the rate of tax. Since no rate has so far been prescribed, therefore, land developers were not subject to minimum tax. Now, a minimum tax @ 2% of value of land notified by the authorities for stamp duty has been levied on land developers.

**ALTERNATIVE CORPORATE TAX (ACT)**

[Section 113C]

Through this amendment certain provisions relating to ACT have been rephrased. ACT is now applicable on company in respect of income subject to tax at corporate rate as provided in Division II, Part I of the First Schedule, if such tax or Minimum Tax payable under section 113 is less than 17% of accounting income. Income subject to tax under Final Tax Regime, or separate block of income are not subject to ACT. Accordingly there is no effective change in the incidence under this provision of law.

Exemption from ACT for companies which are subject to tax rate of 20% under the provisions of clause (18A) of Part I of the Second Schedule has been omitted.

Newly inserted Section 64B relating to tax credit on employment generation shall be accounted for whilst determining the incidence of ACT.
**FILING OF REVISED RETURNS**  
*Section 114*

The condition of obtaining prior approval from the Commissioner for filing a revised return is dispensed with if the revised return is filed within 60 days of filing of the original return. Through the Finance Act, 2015, another significant amendment has been made to the effect that the revision request will be deemed to be approved after expiry of 60 days from date of request if the Commissioner does not decide on the request within the prescribed period.

**STAY BY THE COMMISSIONER (APPEALS)**  
*Section 128*

Commissioner (Appeals) has been empowered to grant a stay for a further period of 30 days and is required to decide the appeal within such extended period. Now the period of stay against demand that can be made by the Commissioner (Appeals) is 60 days from the date when the amount was payable.

Based on interpretation of Article 199 of the Constitution of Islamic Republic of Pakistan, this implies that the stay shall continue to be operative until the appeal is disposed of.

**PAYMENT OF TAX ON DEMAND**  
*Section 137*

The time period of 30 days instead of 15 days has been prescribed for payment of tax demand pursuant to an order.

Time period of payment of demand in respect of provisional assessment has now been reduced from 60 to 45 days.

**UPWARD ESTIMATE FOR ADVANCE TAX**  
*Section 147*

Advance tax to the extent of 50% of the ‘estimate’ if higher than the latest assessed basis is to be paid by the due date of second instalment for that particular year.

Presently taxpayers, other than banks, are not mandatorily required to discharge advance tax liability to the extent of 90% of the tax payable based on an estimate before the last instalment is due.

This effectively means that whilst discharging the quarterly liability on the basis of estimate, not being latest assessed basis, the taxpayer has to ensure that out of total estimated liability, at least 50% is paid by the due date of the second instalment. The purpose of this amendment is to ascertain the manner of determination of default surcharge in cases where the aforesaid criteria is not met.
PAYMENTS TO NON-RESIDENTS
[Section 152(4A)]

Upto June 30, 2012, the Commissioner Inland Revenue was allowed to issue exemption certificates in cases of residents and permanent establishments (PE) of non-resident companies. Through Finance Act, 2012, some withholding provisions applicable to PEs of non-residents were transposed in section 152 where the entire withholding tax provisions relating to non-residents were consolidated.

In this process, the enabling provisions for the issue of exemption certificates were missed out. As a corrective measure, a new sub-section (4A) has been introduced in section 152 to empower the Commissioner to issue exemption certificates in eligible cases of non-residents.

TAX DEDUCTED ON PAYMENTS TO SPORTSMAN
[Section 153]

Tax deducted from sportsman under Section 153 shall now be final tax in respect of such income with effect from tax year 2013. Receipts by sportsman are classified as execution of contract for withholding tax purposes.

OPTION FOR NORMAL TAX REGIME FOR EXPORTERS
[Section 154]

The exporters are subject to tax at the rate of 1% of export proceeds. This collection of tax is also the discharge of final tax liability in respect of income from such exports. Under clause (41AA) of Part IV of the Second Schedule which was inserted by Finance Act, 2012 and omitted by Finance Act, 2014 exporters were entitled to opt out on a year to year basis from the presumptive tax regime subject to minimum payment of tax.

The right to opt out of presumptive tax regime for exporter has been reinstated. This right has been allowed for the tax year 2015 and the following years.

Right to opt out of presumptive tax regime shall be exercised on year to year basis and shall be undertaken at the time of filing the return of income under Section 114. The prescription of the requirement of filing an option on year to year basis is not warranted to be specified in the provision of law as the same is otherwise implied for practical purposes.

Nevertheless the amount deducted at source shall be the minimum tax liability on income from such exports.

Since the tax deducted is being treated as minimum tax under this provision which is otherwise equal to minimum tax therefore for practical purposes economic benefit shall inter alia accrue only in relation to losses (if any) arising from export business, which could be set off and carried forward (including the rights available under the group relief provisions).
Furthermore this option may also resolve the matters in respect of certain exporters if presumptive taxation is incorrectly being construed to a subsidy in respect of anti-dumping or any other proceedings in the importing countries.

**TIME OF DEDUCTION OF TAX**

*Section 158*

Deduction of tax at source is to be made on the ‘amount actually paid’ other than the cases where such deduction is made at the time of credited to the account of the recipient. Board has been empowered to define the term ‘actually paid’.

Notwithstanding the rights vested to Board for such definition same cannot be in deviation from the substance of the transaction.

**RATE OF DEFAULT SURCHARGE & COMPENSATION**

*Sections 161, 171 and 205*

The general rate of default surcharge has been reduced from 18% to 12%.

The rate of statutory compensation on delayed refund is also reduced from 15% to KIBOR plus 0.5%.

**FURNISHING INFORMATION BY FINANCIAL INSTITUTIONS INCLUDING BANKS**

*Section 165B*

A new section 165B has been introduced requiring every financial institution to make arrangement to provide information regarding to non-resident persons to the Board in the prescribed form and manner for the purposes of automatic exchange of information under bilateral or multilateral convention.

The term financial institutions as used in this provision will include banks.

This provision is to be read in conjunction with the extension of powers of the Government of Pakistan to enter into bilateral or multilateral agreements with other country or countries as the case may be as described under Section 107 of the Ordinance.

By way of application of this section financial institutions will be required to automatically disseminate information regarding a non-resident person that may be sought by any other country under a bilateral or multilateral agreement entered into with the Government of Pakistan.

It appears that such dissemination of information can be undertaken without the consent or approval of that person if such information is required under the respective bilateral or multilateral agreement. Nevertheless such information shall be used for tax purposes and remain confidential.
These amendments have apparently been made to cater for reporting and other requirements introduced in various countries such as US FATCA regulations.

A similar provision in respect of resident person is prescribed under Section 165A. That provision is being contested in the judicial forums inter alia in relation to laws relating to customer secrecy, etc.

**TAX COLLECTED OR DEDUCTED AS A FINAL TAX**

*Section 169*

A corrective amendment has been made whereby taxes ‘paid’ under Section 148 in addition to taxes collected shall also form part for determination of final tax liability.

This amendment has apparently been made to cater for payment of taxes in relation to imported goods if the same is recovered subsequent to clearance at the port. The reason may be recovery required as a result of a post-clearance audit.

**SPECIAL AUDIT BY PANELS**

*Sections 176(1A), 177*

A new concept of formation of panel for conducting special audit has been introduced.

Under these provisions, a panel comprising of two or more persons will be empowered to conduct an audit including a forensic audit of income tax affairs of a taxpayer.

The Panel shall consist of an Officer of Inland Revenue or a Firm of Chartered Accountant or Cost and Management Accountant or any other person as directed by the FBR.

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

This process is supposed to overcome practical and legal difficulties, such as issuance of notice, conduct of proceedings, finalising of orders and other statutory matters that arose when the process of audit by the firms of Accountants was introduced under the repealed Ordinance. At that time such audit were to be wholly conducted by the Firms of Accountants.

Nevertheless despite the prescription of the legal process for the ascertainment of the role and responsibilities of an accounting Firm, a framework in consultation with the professional institutes governing firms of Chartered Accountants and Cost and Management Accountants will have to be designed for the purposes of audit by the panel.

This concept has concurrently been introduced for the purpose of Sales Tax and Federal Excise Duty in the respective laws.
COMPUTERISED NATIONAL IDENTITY CARD (CNIC) NUMBER
[Section 181]

Through this amendment, it is proposed that in the case of an individual, CNIC number shall be treated as NTN.

In practical sense, this amendment also implies that henceforth, there is no requirement for an individual to obtain an NTN for filing the return of income. Now, a return of income can be filed with reference to the CNIC of that person. Through this amendment the process of obtaining NTN for filing of return is no more required.

This section does not imply in any sense that every person having a CNIC is required to file return of income.

OFFENCES AND PENALTIES
[Section 182]

Minimum penalty for non-filing of statement has been reduced from fifty to ten thousand rupees. Furthermore penalty for non-furnishing wealth statement and or wealth reconciliation statement which was earlier Rs 100 per day of default has been brought to 0.1% of the taxable income per week or Rs 20,000 whichever is higher.

PROSECUTION FOR MAKING FALSE OR MISLEADING STATEMENT
[Section 195]

Misleading statement for the purposes of prosecution has been related to the conditions laid down in the sections for the levy of penalty. Previous entry had become redundant on account of deletion of section 187 of the Ordinance.

AUTOMATIC SELECTION FOR AUDIT
[Section 214D]

Every person, other than persons registered as retailers under Sales Tax Special Procedures Rules 2007, shall be subject to automatic selection for audit under section 177 of the Ordinance if:

(a) Complete return of income has not been filed within the due date;

(b) Tax payable as per return has not been paid;

Proceedings for automatic audit shall commence after 90 days of the date when the tax was due.
However automatic selection of audit shall not be made if a person within ninety (90) days from the date when the return of income was due has paid:

(a) 25% higher tax, than the tax paid during immediately preceding tax year, has been paid by a person on the basis of taxable income and had declared taxable income in the return for immediately preceding tax year; or

(b) tax at the rate of 2% of the turnover or the tax payable under Part I of the First Schedule, whichever is higher, has been paid by a person alongwith the return and in the immediately preceding tax year has either not filed a return or had declared income below taxable limit. Where return has been filed for the immediately preceding tax year, turnover declared for the tax year is not less than the turnover declared for the immediately preceding tax year.

Retailers registered under Sales Tax Special Procedures Rules 2007 shall not be subject to the provisions of automatic selection of audit, selection of audit under Section 177 and selection of audit by the Board under Section 214C of the Ordinance if their name remains on the sales tax active taxpayers’ list through the tax year. This regime shall be applicable from the date to be notified by the FBR.

**REWARD FOR WHISTLEBLOWERS**  
[Section 227B]

A new concept of ‘whistleblower’ has been introduced. This empowers the Board to reward persons in addition to its officers who provide information regarding concealment or evasion of tax/duty, tax fraud, corruption or misconduct.

**ADVANCE TAX ON BANKING TRANSACTION OTHERWISE THAN THROUGH CASH**  
[Sections 236P, 231A and 231AA]

Under this provisions all banking companies shall collect advance tax at the rate of 0.6% on all transactions from an account either by way of sale of any instrument including demand draft, pay order, etc. and/or transfer of any sum through cheque and other similar manners or clearing interbank transfer through cheques etc.

This effectively means that all ‘debits’ in an account shall be subject to advance tax collection.

This provision shall only be applicable on accounts maintained by non-filers. The names of filers appear on Active Taxpayers List as maintained on electronic system by the Board.

This provision will only be applicable where the sum total of payments for all transactions in an account exceed Rs 50,000 in a day.

It is important that the Finance Minister whilst concluding the budget session has stated that the basis of aforesaid threshold will be changed to Rs 50,000 per transaction instead of Rs 50,000 in a day.
Nevertheless this amendment which represent a practical solution, as referred to by the Finance Minister does not form part of the Act as has been presented before the parliament. This apparent omission is expected to be corrected.

The amounts so collected are adjustable against the tax liability if the person files the return of income.

Provisions of this section shall not be applicable on transaction through Pakistan Real time Interbank Settlement Mechanism (PRISM) or payments of Federal, Provincial or Local Governments taxes.

This provision is applicable on all accounts maintained in a banking company. Banks will be required to collect such tax on all accounts unless that particular account is maintained by a person who is a filer. Accordingly unless intimated by the account holders about his status collection will become applicable on all accounts with the enactment of law.

In another context, bank accounts are also maintained by persons who are otherwise require to be on active taxpayers lists such as persons maintaining accounts out of funds earned from agricultural income, income exempt from tax, or persons otherwise not required to file return of income. This matter will require legal and constitutional considerations. Unless specifically excluded, banks will be required to collect advance on all such accounts.

This provision is in addition of an existing provisions of Section 231AA where in all cases (being a filer or non-filer) a collection of tax is made on ‘cash transactions’. This means that section 236P applies to non-cash transactions of non-filers whereas section 231A and 231AA apply on cash transactions of all persons.

The rate of withholding tax on cash withdrawals under section 231A (in case of non-filers) and section 231AA (in case of both filers and non-filers) has been enhanced from 0.5% to 0.6%.

**ADVANCE TAX ON PRIVATE MOTOR VEHICLES**

[Section 231B]

‘Motor vehicles’ for the purposes of this section has been defined to include cars, jeep, van, sports utility vehicle, pick-up trucks for private use, caravan automobiles, limousine, wagon and any other automobile used for private purposes.

Date of first registration has been defined for the purposes of collection of advance tax on private motor vehicles.

**TELEPHONE USERS**

[Section 236]

Adjustable Advance tax collectible on telephone bills will now also be collected on internet charges at the rate of 14%. Such collection shall be collected on internet bill of a subscriber and prepaid card for internet.
ADVANCE TAX ON PURCHASE OF AIR TICKET
[Section 236B]


ADVANCE TAX ON SALES TO RETAILERS
[Section 236H]

Advance tax collection on sales to retailers under this section has been made inapplicable for sale of fertilizers.

Furthermore previously such collection was applicable only on sales to retailers. Now such collection shall also be made on sales by every distributor or dealer to another wholesaler.

COLLECTION OF ADVANCE TAX BY EDUCATIONAL INSTITUTIONS
[Section 236I]

Collection of advance tax by Educational Institutions will not apply in case of a non-resident person if:

- The person furnishes a copy of passport as an evidence to the educational institution that during previous tax year the stay in Pakistan was less than 180 days;

- A certificate is furnished that there is no Pakistan source income; and

- The fee is remitted directly from abroad through normal banking channel to the bank account of the educational institution.

ADVANCE COLLECTION OF TAX ON PURCHASE OR TRANSFER OF IMMOVABLE PROPERTY
[Section 236K]

Provisions relating to advance collection of tax on purchase or transfer of immovable properties is not applicable inter alia on schemes introduced by Federal or Provincial Governments for expatriate Pakistanis. It has now been provided that such concession shall be applicable only if the payment is received from a normal banking channel.
EXEMPTION FROM ADVANCE COLLECTION OF TAX  
[Section 236O]

A special section has been introduced to prescribe that provisions relating to advance collection of tax under Chapter XII of the Ordinance are not be applicable in the following cases:

(i) Federal or Provincial Governments;

(ii) Diplomats or a diplomatic mission; and

(iii) A person who produces a certificate from the Commissioner that the income during the year is exempt from tax;

This exemption was previously laid down in the respective sections. It appears that the word ‘withdrawal’ in this section would not limit the application of this provision to Section 231A or 231AA where incidence is related to withdrawal from banks. It appears that the provision of this section is applicable to all situations under this Chapter.

There appears to be no reason for not excluding ‘Local Government’ under this provision as such entity is also exempt from tax under Section 49 of the Ordinance.

PAYMENTS TO RESIDENTS FOR THE USE OF MACHINERY AND EQUIPMENT  
[Section 236Q]

A new presumptive tax at the rate of 10% has been introduced on payments to a resident person for the use or right to use any industrial, commercial or scientific equipment.

This provision will however not apply on payment for such consideration for the use of agricultural machinery or where the recipient is a leasing company, a scheduled bank, an investment bank, a modaraba or a development finance institution.

Presently, such payments to non-residents are subject to final tax regime. Even in such cases of non-residents, presumptive tax is not applicable if the person has a Permanent Establishment in Pakistan.

COLLECTION OF ADVANCE TAX ON EDUCATION RELATED EXPENSES REMITTED ABROAD  
[Section 236R]

In line with the tax collection regime for payments of education fees to local institutions in certain cases, a parallel regime has been introduced for advance tax collection at 5% on adjustable basis for remittance of education expenses abroad.
Under this provision, every bank, financial institution, an exchange company or any other person responsible for remitting foreign currency abroad shall collect advance tax from the payer if the remittance is on account of education related expenses abroad.

Education related expenses have been defined in this section to include tuition fee, boarding and lodging expenses, and any payment for distant learning to any institution or university abroad or any other expenditure related or attributable to foreign education.

On the practical side every institution referred above, whilst remitting foreign currency abroad shall collect advance tax on account of the payer if such remittance is being made for education related expenses as defined above. Nevertheless foreign exchange regulations will have to be appropriately adjusted/amended in case if the purpose of remittance is not required to be disclosed voluntarily.

The payer shall be entitled to claim the amount so collected against the tax liability.

**DIVIDEND IN SPECIE**
*Section 236S*

Distribution by way of dividend in specie has now been subjected to collection of tax. Such collection shall be made on the gross amount of dividend in specie which in accounting sense represents the value of asset released from the reserves as per the financial statements.

Specific provision would have to be introduced to implement such collection process as in this case an amount would be required to be paid by the recipient of dividend to the company to comply with these provisions.

**COLLECTION OF TAX BY PAKISTAN MERCANTILE EXCHANGE LIMITED (PMEX)**
*Section 236T*

Pakistan Mercantile Exchange Limited (PMEX) is made responsible to collect advance tax at 0.05% from its members on purchase and sale of futures commodity contracts. The tax so collected shall be an adjustable tax in the hands of members.

**REVISION IN TAX RATES FOR INDIVIDUALS AND ASSOCIATION OF PERSONS NOT BEING SALARIES AND FOR SALARY INCOME**
*Division 1 of Part I of First Schedule*

Minor adjustment has been in schedule for the charge of tax on income of individuals and AOP. Income exceeding Rupees 400,000 to 750,000 with a rate of 10% has been revised to Rs 400,000 to Rs 500,000 with a rate of 7% and a new slab has been introduced for salary between Rs 500,000 to Rs 750,000. All corresponding adjustments have been made in the schedule.
Similar adjustments have been made in slabs relating to salary income. A new slab of income between Rs 400,000 to Rs 500,000 has been introduced with a rate of 2%. Previously income under this slab was taxable at the rate of 5%.

**TAX RATES FOR PROFESSIONAL FIRMS**  
*[Proviso to Division I of Part I of the First Schedule]*

A proviso has been added to the rate prescribed under this part of the First Schedule in respect of rate applicable for Association of Persons. By way of this proviso in case of AOPs, being professional firms, where there is a prohibition under any law or the rules of body governing that profession to incorporate as a limited liability company the maximum rate of tax shall be 32% instead of 35% as prescribed in the Table. Such reduced rate shall be applicable for tax year 2016 and onwards.

Furthermore, the said proviso has to refer to a member of an AOP in addition to an AOP as under correct application of Section 92 taxable person is a member of an AOP not being an AOP.

**TAX RATES ON COMPANIES**  
*[Division II of Part 1 of the First Schedule]*

Rates of tax for companies for the following tax years 2016, 2017 and 2018 shall be 32%, 31% and 30% of taxable income respectively.

This positive policy of reduction of the corporate tax rate is the demonstration of meeting the commitment as made by the Finance Minister in 2013 whereby the rate of tax for companies was to be brought to 30% in a phased manner over five years (from tax years 2014 to 2018). Notwithstanding all other aspects this resolves many accounting issues, especially relating to deferred taxation, which arose on account of a proposed change in subsequent years not legislatively incorporated.

**RATE OF TAX ON DIVIDEND**  
*[Sections 5 and 150 read with Division I of Part III and Division III of Part I of the First Schedule]*

General rate of tax on dividend, being dividend from a company (other than inter alia being a power generation company) of 10% has been enhanced to 12.5%. However, in the case of non-filer recipient, the rate of withholding tax under section 150 will be 17.5%.

However dividend from a mutual fund shall remain taxable at the rate of 10% (except for dividend received from stock fund which shall be taxable at the rate of 12.5%, if dividend receipts are less than capital gains).

Dividend received by a company from a Collective Investment Scheme or a mutual fund other than stock funds are taxable at a higher rate of 25%. Dividend received by a company from a REIT Scheme shall also be subject to the higher rate of 25%.
Nevertheless, a special concession has been provided by way of reduction of dividend rate by 50% for a REIT Scheme provided that:

- Dividend is from a Developmental REIT Scheme set up with the object of development and construction of residential buildings; and
- Scheme is set up by June 30, 2018.

Reduced rate shall be applicable for dividends paid after June 30, 2018 for the period of three years.

**MINIMUM TAX UNDER SECTION 113**

*Division IX of Part 1 of First Schedule*

Dealers or distributors of fertilizers shall now be subject to minimum tax at the rate of 0.5% instead of 0.2% of turnover of the year.

Furthermore reduced rate of 0.2% rate of minimum tax which was previously applicable for distributors of all consumer goods shall now be limited to only to distributors of fast moving consumer goods. Such goods have now also been defined in Section 2(22A) of the Ordinance.

**RATES OF ADVANCE TAX ON IMPORTS**

*Part II of First Schedule*

The revised rate of advance tax to be collected on imports is as under.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Persons</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>(i) Industrial undertaking importing remeltatable steel (PCT Heading 72.04) and directly reduced iron for its own use;</td>
<td>1% of the import value as increased by customs-duty, sales tax and federal excise duty</td>
</tr>
<tr>
<td></td>
<td>(ii) Persons importing potassic fertilizers in pursuance of Economic Coordination Committee of the cabinet’s decision No.ECC-155/12/2004 dated the 9th December, 2004;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(iii) Persons importing urea;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(iv) Manufacturers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31st December, 2011 and importing items covered under S.R.O. 1125(I)/2011 dated the 31st December, 2011</td>
<td>1.5% of the import value as increased by customs-duty, sales tax and federal excise duty</td>
</tr>
<tr>
<td></td>
<td>(v) Persons importing Gold;</td>
<td></td>
</tr>
</tbody>
</table>
RATES OF WITHHOLDING TAXES FOR PAYMENTS UNDER SECTIONS 152(2A) AND 153 [Divisions II and III of Part III of First Schedule]

The revised rates of withholding for payments subject to tax withholding under section 152(2A) and 153 are as under:

<table>
<thead>
<tr>
<th>Category</th>
<th>Sale of goods</th>
<th>Rendering of services</th>
<th>Transportation services</th>
<th>Execution of contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Section 152(2A)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Filer</td>
<td>4%</td>
<td>8%</td>
<td>*2%</td>
<td>7%</td>
</tr>
<tr>
<td>Corporate Non-filer</td>
<td>6%</td>
<td>12%</td>
<td>*2%</td>
<td>10%</td>
</tr>
<tr>
<td>Non Corporate Filer</td>
<td>4.5%</td>
<td>10%</td>
<td>*8%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Non Corporate Non-filer</td>
<td>6.5%</td>
<td>15%</td>
<td>*12%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Section 153</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Corporate Filer</td>
<td>4%</td>
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<td>Non Corporate Non-filer</td>
<td>6.5%</td>
<td>15%</td>
<td>*12%</td>
<td>10%</td>
</tr>
</tbody>
</table>

*No change*
**RATES OF WITHHOLDING TAXES ON BROKERAGE AND COMMISSION**  
*Division II of Part IV of First Schedule*

The revised rates of withholding taxes on brokerage and commission are as under:-

(a) In case of filers,-

- 10% of the amount of the payment in case of advertising agents; and

- 12% of the amount of payment in all other cases.

(b) In case of non-filers, 15% of the amount of payment.

**RATE OF WITHHOLDING TAX ON MOTOR VEHICLE**  
*Division III of Part IV of First Schedule*

Separate rates of advance tax have been prescribed for filers and non-filers in respect of goods transport vehicles, passenger transport vehicles and private motor cars which are tabulated below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Filer</th>
<th>Non-Filer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods Transport Vehicles</td>
<td>Rs. 2.50 / kg of laden weight</td>
<td>Rs. 4.00 / kg of laden weight</td>
</tr>
<tr>
<td>Passenger Transport Vehicles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Four or more person less than ten persons</td>
<td>Rs. 50 / seat per annum</td>
<td>Rs. 100 / seat per annum</td>
</tr>
<tr>
<td>- Ten or more persons but less than twenty persons</td>
<td>Rs. 100 / seat per annum</td>
<td>Rs. 200 / seat per annum</td>
</tr>
<tr>
<td>- Twenty persons or more</td>
<td>Rs. 300 / seat per annum</td>
<td>Rs. 500 / seat per annum</td>
</tr>
</tbody>
</table>

**Private Motor Vehicles:**

<table>
<thead>
<tr>
<th>Engine Capacity</th>
<th>Filer</th>
<th>Non-Filer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 1000 cc</td>
<td>Rs. 800</td>
<td>Rs. 1,200</td>
</tr>
<tr>
<td>1001 cc to 1199 cc</td>
<td>Rs. 1,500</td>
<td>Rs. 4,000</td>
</tr>
<tr>
<td>1200 cc to 1299 cc</td>
<td>Rs. 1,750</td>
<td>Rs. 5,000</td>
</tr>
<tr>
<td>1300 cc to 1499 cc</td>
<td>Rs. 2,500</td>
<td>Rs. 7,500</td>
</tr>
<tr>
<td>1500 cc to 1599 cc</td>
<td>Rs. 3,750</td>
<td>Rs. 12,000</td>
</tr>
<tr>
<td>1600 cc to 1999 cc</td>
<td>Rs. 4,500</td>
<td>Rs. 15,000</td>
</tr>
<tr>
<td>2000 cc and above</td>
<td>Rs. 10,000</td>
<td>Rs. 30,000</td>
</tr>
</tbody>
</table>
SECOND SCHEDULE
PART I

The following exemptions have been inserted, withdrawn or modified:

NEW EXEMPTIONS
INCOME OF PUNJAB GENERAL PROVIDENT INVESTMENT FUND
[Clause 57(xiv)]

Income of Punjab General Provident Investment Fund established under the Punjab General Provident Fund Investment Fund Act, 2009 and the trust established thereunder have been exempted.

DONATION TO THE INDUS HOSPITAL
[Clause 61(xiv)]

Donation to 'The Indus Hospital, Karachi' is now also included in the list of allowable tax deduction for the donors.

INCOME OF THE INDUS HOSPITAL
[Clause 66 (xxxiii)]

Income of The Indus Hospital is exempt from tax.

INCOME OF CERTAIN INDUSTRIAL UNDERTAKINGS
[Clauses (126I) to (126L)]

Exemption from tax on the profits and gains derived by the following industrial undertakings engaged in:

- Manufacture of plant, machinery and equipment and items for exclusively used in generation of renewable energy from sources like solar and wind, for 5 years from July 1, 2015 provided that the said undertaking is set up by December 31, 2016.

- Operations of warehousing or cold chain facilities for storage of agriculture produce, for 3 years from setting up of undertaking or commencement of commercial operations, whichever is later, provided that such undertaking is set-up during July 1, 2015 to June 30, 2016.

- Production of halal meat upon obtaining of halal certification, for 4 years from setting up of undertaking or commencement of commercial production, whichever is later. It is applicable where the undertaking is set up during July1, 2015 to June 30, 2017. This exemption in principle should apply to meat processing which carries halal certification that is generally applicable for meat meant for exports.
• Manufacturing in the provinces of Khyber Pakhtunkhwa and Baluchistan, for 5 years beginning from setting up of said undertaking or commencement of commercial production, whichever is later. This is subject to the conditions that:

(i) The unit is set up during July 1, 2015 to June 30, 2018; and

(ii) It is not established by splitting up or reconstruction or reconstitution of an existing undertaking or by transfer of plant or machinery from a Pakistani undertaking established prior to July 1, 2015.

• Transmission line project set up in Pakistan on or after July 1, 2015 for a period of ten years, subject to the following conditions:

(i) The project is owned and managed by a company formed for this purpose and registered under the Companies Ordinance, 1984 having registered office in Pakistan;

(ii) The company has not been formed by splitting up or reconstruction or reconstitution of an already existing business or by transfer to a new business of any plant or machinery used in a business which was carried on in Pakistan at any time before the commencement of the new business.

(iii) 50% shares of the company (owning the project) are neither owned by nor it is controlled by the Federal / Provincial / Local governments.

(iv) Project is not set up on or after June 30, 2018.

*LNG TERMINAL OPERATORS AND TERMINAL OWNERS*

[Clause (141)]

The profits and gains derived by LNG Terminal Operators and Terminal Owners has been exempted for a period of 5 years beginning from the date of commencement of commercial operations.

*INCOME FROM SOCIAL SECURITY CONTRIBUTIONS*

[Clause (142)]

Income from social security contributions as derived by respective Employees’ Social Security Institutions of the respective provinces i.e. Baluchistan, Khyber Pakhtunkhwa, Punjab and Sindh has been exempted.
**EXEMPTIONS WITHDRAWN**

The following exemptions have been withdrawn:

<table>
<thead>
<tr>
<th>Clause Reference</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>(20)</td>
<td>Income from an annuity issued under the Pakistan Postal Annuity Certificate Scheme.</td>
</tr>
<tr>
<td>(113)</td>
<td>Capital gains on sale of shares of public company set up in any Special Industrial Zone notified by the Federal Government.</td>
</tr>
<tr>
<td>(126F)</td>
<td>Profit and gains derived by a taxpayer of most / moderately effected areas of Khyber Pakhtunkhwa, FATA and PATA.</td>
</tr>
</tbody>
</table>

**EXEMPTIONS MODIFIED**

**REAL ESTATE INVESTMENT TRUST [REIT]**

[Clause (99A)]

The gain on disposal of immovable property to a REIT scheme is exempt from tax upto June 30, 2015 which has been extended to June 30, 2020 for sale of immovable property to a Developmental REIT Scheme with the objective of development and construction of residential buildings. This exemption should have also been applicable on all REITs.

**INTER CORPORATE DIVIDEND**

[Clause (103A)]

Inter-corporate dividends within the group companies are exempt from tax under clause (103A) of Part I of the Second Schedule to the Ordinance. This exemption is available both for entities entitled to group taxation [a regime laid down under Section 59AA of the Ordinance] OR group relief [a regime laid down under Section 59B of the Ordinance].

Through the amendment made in the aforesaid clause, the right to claim exemption for inter-corporate dividend will now be “subject to the condition that return of the group has been filed for the tax year”.

This amendment is restricted to the cases of group taxation where there is a requirement of filing a group return.

Similar conditions have been made applicable on related exemptions from withholding of tax under sections 150 and 151 of the Ordinance by amending clauses (11B) and (11C) in Part IV of the Second Schedule.
CHINA OVERSEAS PORTS HOLDING COMPANY LIMITED
[Clause (126A)]

The period of exemption of income derived by China Overseas Ports Holding Company Limited from Gwadar port operations has been extended from 20 to 23 years.

PART II

The following amendments have been made in relation to reduction in tax rates:

**REDUCTION IN TAX RATE**

**WITHHOLDING OF TAX ON CASH WITHDRAWALS BY EXCHANGE COMPANIES**
[Clause (28B)]

Reduced rate of withholding of tax of 0.15% under section 231 A on cash withdrawals made exclusively for own business of an Exchange Company is now applicable. This is subject to the condition that certificate is issued by the Commissioner mentioning particulars of the bank account(s) used for its own business transactions.

Such companies were exempted from the applicability of the provisions of section 231A under clause (61A) of Part IV of Second Schedule which has been abolished.

**WITHDRAWAL OF REDUCTION IN TAX RATES**

**GOODS / PASSENGER TRANSPORT VEHICLES**
[Clauses (14A) and (14B)]

The following reductions stand withdrawn:

- Reduced rate of Rs 250 per seat per annum in case of passenger transport vehicles.
- Provisions relating to the reduced tax rate of Rs 2 per kilogram of the laden weight during a specified time limit.
PART II AND III

REDUCED RATES TRANSPOSED AND WITHDRAWN

EXEMPTION TRANSPOSED

PART II

<table>
<thead>
<tr>
<th>Clause ref</th>
<th>Description</th>
<th>New section ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) 13C</td>
<td>Reduced rate of tax on the purchase price of edible oil for manufacture of cooking oil/gee</td>
<td>148A</td>
</tr>
<tr>
<td>(2) 14</td>
<td>Goods transport vehicles. Passenger transport</td>
<td>Division III of Part IV of First Schedule</td>
</tr>
<tr>
<td>(3) 21</td>
<td>Taxation of shipping income of a resident person</td>
<td>7A</td>
</tr>
</tbody>
</table>

PART III

| (4) 16     | Reduction of penalty from Rs.50,000 to Rs.10,000                             | S.No.1A of 182(1) |

PART IV

NEW CLAUSES / MODIFICATION FOR EXEMPTIONS FROM SPECIFIC PROVISIONS

EXEMPTION FROM MINIMUM TAX UNDER SECTION 113

Clause (11A) extended / modified as under:

<table>
<thead>
<tr>
<th>Sub-Clause</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>i</td>
<td>The reference to REIT Rules has been updated</td>
</tr>
<tr>
<td>iv</td>
<td>Specific exemption to Kot Addu Power Company Limited with reference to the omitted clause (138) of Part I of this Schedule has been removed. This is a corrective amendment.</td>
</tr>
<tr>
<td>xix</td>
<td>LNG Terminal Operators and LNG Terminal Owners</td>
</tr>
<tr>
<td>xx</td>
<td>Taxpayers in most / moderately effected areas of Khyber Pakhtunkhwa, FATA and PATA for tax years 2010, 2011 and 2012 other than manufacturers and suppliers of cement, sugar, beverages and cigarettes.</td>
</tr>
<tr>
<td>xxi</td>
<td>Rice mills for the tax year 2015</td>
</tr>
<tr>
<td>xxii to xxv</td>
<td>Industrial undertakings covered under the clauses (126I), (126J), (126K) and (126L) inserted vide the Finance Act 2015</td>
</tr>
<tr>
<td>xxviii</td>
<td>Coal mining projects in Sindh on supply of coal exclusively to power generation projects. Earlier the exemption was incorrectly linked to the sale of electricity.</td>
</tr>
</tbody>
</table>
WITHHOLDING OF TAX ON INTER CORPORATE DIVIDEND AND PROFIT ON DEBT
[Clauses (11B) & (11C)]

In order to align the amendments made in clause (103A), being the requirement of filing of the group return for cases of group taxation under section 59AA of the Ordinance, the clauses granting exemption from withholding of tax under sections 150 and 151 i.e. on inter corporate dividend and inter corporate profit have been made appropriately amended.

The condition prescribed is for the return of the group to be filed for the latest completed tax year.

EXEMPTION FROM ALTERNATIVE CORPORATE TAX
[Clause (11D)]

LNG Terminal Operators and LNG Terminal Owners have been exempted from application of Alternative Corporate Tax under section 113C.

WITHHOLDING OF TAX ON PAYMENTS TO PE OF PETROLEUM EXPLORATION AND PRODUCTION (E&P) COMPANIES
[Clause (46)]

This clause has been amended to correct the reference of section 152 (2A) in the context of non-withholding of tax on PE of Petroleum Exploration and Production (E&P) Companies.

Through the Finance Act, 2012, the provisions with respect to income tax withholding from payments to permanent establishment [PE] of non-resident were shifted from section 153 to section 152 , however the related reference in this clause was not updated. This has now been aligned.

EXEMPTION FROM COLLECTION OF TAX ON IMPORTS
[Clauses (56)(i), (i(a), (91)& (92)]

Exemption from collection of tax at import stage under section 148 was available in respect of goods classified in Chapters 27, 86 and 99 of Pakistan Customs Tariff. The general exemption in respect of goods under Chapter 27 and under PCT heading 9918 (in Chapter 99) have been withdrawn. Specific imports are now covered under the sub-clause (ia).

- Import of specified items by specified entities as detailed below:

  Imports covered are:
  - Bituminous mineral crude (PCT code 2709.000);
  - Furnace Oil (PCT code 2710.1941);
  - High Speed Diesel Oil (PCT code 2710.1931);
  - Motor Spirit (PCT code 2710.1210);
  - J.P.1 (PCT code 2710.1912);
  - Base Oil for lubricating oil (PCT code 2710.1993)
  - Light diesel oil (PCT Code 2710.1921); and
  - Super Kerosene Oil
Imports made by:
- Pakistan State Oil Company Limited;
- Shell Pakistan Limited;
- Attock Petroleum Limited;
- Byco Petroleum Pakistan Limited;
- Admore Gas (Private) Limited;
- Chevron Pakistan Limited;
- Total-PARCO Pakistan (Private) Limited;
- Hascol Petroleum Limited;
- Bakri Trading Company Pakistan (Private) Limited;
- Overseas Oil Trading Company (Private) Limited;
- Gas and Oil Pakistan (Private) Limited; and
- Oil refineries.

- Items relating to agriculture under specified PCT codes under each of below categories:
  - Tillage and seed bed preparation equipment;
  - Seeding or planting equipment;
  - Irrigation, drainage and agro-chemical application equipment;
  - Harvesting, threshing and storage equipment; and
  - Post-harvest handling and processing & miscellaneous machinery.

- Specified aircrafts, equipment relating to aircrafts and aviation as per the PCT headings as prescribed.

**MINIMUM TAX ON LARGE TRADING HOUSES**

[Clause (57)]

Large trading houses as defined under this clause are exempt from payment of minimum tax for a period of ten years. Disputes emanated in certain cases when the field forces denied exemption of minimum tax on the alleged contention that the minimal activity of preparation and sale of bakery items alters the character of entity from trading house to a manufacturer.

This action has now been undone by a clarificatory amendment. Now, the activity of preparation and sale of bakery items to the extent of 2% of total turnover shall not disqualify such companies from the aforesaid exemption subject to fulfilment of other conditions.

**EXEMPTION TO INTERNATIONAL FINANCE CORPORATION**

[Clause (67A)]

An exemption has been granted on all transactions carried on any stock exchange upto June 30, 2015 from the applicability of the provisions of the section 100B and the Eighth Schedule has been granted to International Finance Corporation (IFC). There is no basis for restricting this procedure upto June 30, 2015 only as the income of IFC is exempt from tax.
EXEMPTIONS TO ITEMS IN RELATION TO RENEWABLE ENERGY RESOURCES
[Clause (77)]

Exemption from collection of tax under section 148 and deduction of tax under section 153 is available on specified items of renewable energy resources.

Such items now include "tubular daylighting devices such as solatube".

INAPPLICABILITY OF PROVISIONS RELATING TO UNEXPLAINED INCOME OR ASSETS
[Clause (86)]

The provisions of section 111 (Unexplained income or assets) are inapplicable in certain circumstances under this clause.

This includes a situation where investment in industrial undertakings if made on or after 1 January 2014 and the commercial production commenced on or before June 30, 2016.

This date is now proposed to be extended to June 30, 2017.

WITHHOLDING ON EXPORT OF HALAL MEAT
[Clause (93)]

Exports of units producing halal meat and qualifying for exemption under clause (126K) are exempt from the application of withholding tax under section 154(1) of the Ordinance. This exemption is applicable for a period of four years.

CLASSES FOR EXEMPTION FROM SPECIFIC PROVISIONS NOW WITHDRAWN

WITHHOLDING ON ELECTRONIC AND PRINT MEDIA SERVICES
[Clause (16A)]

Exemption from withholding tax on services under section 153(1)(b) available to electronic and print media in respect of advertising services has been withdrawn.

COLLECTION ON IMPORTS OF POTATOES
[Clouse (56B) & (56H)]

The exemption from application of section 148 in respect of import of potatoes were time limited and thus, have been withdrawn.
WITHHOLDING OF TAX ON CASH WITHDRAWALS BY EXCHANGE COMPANIES
[Clause (61A)]

Exchange companies were exempted from the applicability of the provisions of section 231A under this clause. It has now been omitted after the introduction of a reduced rate of withholding under clause (28B) of Part II of the Second Schedule.

WITHHOLDING OF TAX ON PAYMENTS TO FEDERAL AND PROVINCIAL GOVERNMENTS & DIPLOMATS
[Clauses (89) & (90)]

The clauses which specifically granted exemption from the applicability of the provisions of sections 236I and 236D of the Ordinance to Federal and Provincial governments and foreign diplomats etc. have been omitted due to insertion of section 236O of the Ordinance.

HAJJ OPERATORS
[Clause (72A)]

Exemption available to Hajj Group Operators from applicability of various provisions has been extended to cover the tax year 2015 i.e. in retrospect. These include:

- Clause (I) of section 21 (expenditure for a transaction under single account head which in aggregate exceed Rs. 50,000),
- Section 113 (minimum tax); and
- Section 152 (payment to non-resident) upon payment of specified amount per hajji.

MINIMUM TAX
[Clause (79)]

It was proposed in the Finance Bill that tax deductible on services rendered or provided by a company shall not be minimum tax. This provision was proposed to take effect from tax year 2009 being the year in which the minimum tax provisions were originally introduced. There was effectively no proposal to change the law since provisions to that effect were contained in clause (79) of Part IV of the Second Schedule to the Ordinance. Thus, in essence, the contents of the clause were proposed to be the part of the substantive provision of the law.

In the Finance Act, 2015 this essential and vital corrective amendment has not been carried forward and at the same time clause (79) has also been deleted. As a result of totally undesired action, entities in service sector like telecom, hotels etc. are now also subject to minimum tax provisions like other taxpayers. The rate of minimum tax would be as under:

<table>
<thead>
<tr>
<th>Service provider</th>
<th>Filer</th>
<th>Non-Filer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>8%</td>
<td>12%</td>
</tr>
<tr>
<td>Other than Company</td>
<td>10%</td>
<td>15%</td>
</tr>
</tbody>
</table>
This is a totally undesirable situation and such entities will never be able to absorb such incidence of tax. The corrective measure is immediately required, which may be:

- Introduction of Income Tax (Amendment) Act, 2015 where this correction is made with full disclosure of all the events, since 2009 in the preamble of the said Act; or.
- Reinstatement of clause 79 after seeking approval as is now required under the law.

The action suggested is to be incorporated with effect from July 1, 2015.

**FILING OF WEALTH STATEMENT**  
*Clause (83))*

The time limited exemption applicable for the tax year 2013 in the context of filing of a wealth statement by persons other than a company and a member of an Association of persons has been omitted.

**FOURTH SCHEDULE – INSURANCE COMPANIES**  
*Rule 6A)*

This rule granted exemption of capital gains on sale of shares of listed securities in the hands of Insurance companies for the tax year ending on June 30, 2010. Since the provision was time limited and had become redundant, it has been omitted.

*Rule 6B)*

The tax rates applicable on the sale of shares of listed companies, vouchers of Pakistan Telecommunication Corporation, modaraba certificate or instruments of redeemable capital and derivative products have been aligned with those applicable on the other taxpayers. The table inserted is as under:

<table>
<thead>
<tr>
<th>Period</th>
<th>Tax Year 2015</th>
<th>Tax Year 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where holding period of a security is less than twelve months</td>
<td>12.5%</td>
<td>15%</td>
</tr>
<tr>
<td>Where holding period of a security is twelve months or more but less than twenty four months</td>
<td>10%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Where holding period of a security is twenty four months or more but less than four years</td>
<td>0%</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

The proviso to the Table granting exemption to securities held for more than 12 months has been omitted on account of the revised tax rates.

*Rule 6D)*

One-time Super Tax under section 4B of the Ordinance has been made applicable for the Insurance companies.
**FIFTH SCHEDULE**
*Rules 4AA of Part I & 2A of Part II*

One-time super tax is applicable on companies engaged in the extraction and production of petroleum and mineral deposits if such companies are taxable at the rate prescribed under the Ordinance, not being those subject to tax under the respective overriding Agreements with the Government of Pakistan.

**SEVENTH SCHEDULE – BANKING COMPANIES**
*Rules 6A, 6B, 7B & 7C*

The tax rates for banking companies have been amended as under:

- With effect from tax year 2015, all incomes including dividend and capital gains of a banking company will now be subject to tax at the rate of 35%. Previously, dividend income and long-term capital gains (for more than 12 months) were subject to tax at the rate of 10% and 12.5% respectively.

  Consequently, the provisions relating to attribution of expenses, inserted by the Finance Act 2014, have been omitted.

- One-time super tax at the rate of 4% is payable by banking companies for tax year 2015.

It is important to note that special regime of rates of tax are applicable in such cases and banking companies were not extended the benefit of reduction of tax rate from 35% to 30% over a period of 5 years (2014 to 2018), which is otherwise available to all other companies.

The revised regime that has increased the tax rates, including the levy of one-time super tax, is applicable for the accounting year already ended on December 31, 2014 (i.e., Tax year 2015).

The matter of retrospective application especially in relation to the tax liability in respect of capital gains needs to be examined.

**EIGHTH SCHEDULE – CAPITAL GAINS TAX COLLECTION BY NCCPL**
*Sub-Rule 8*

One-time super tax at the rate of 3% is payable by all taxpayers assessed under this Schedule on their taxable income for the tax year 2015.
ACTIVE TAXPAYERS  
[Sections 2(1) and 21A]

The concept of ‘Active Taxpayers’ contained in the Sales Tax General Order No.34 has now been introduced in the main law. The Board has been empowered to maintain Active Taxpayers’ List (ATL) and to make rules for restrictions and limitations in respect of such persons which ceases to be on ATL. This may inter alia include non-availability of input tax.

All registered persons are to be treated as active taxpayers except those who:

- Are Black listed, blocked or suspended;
- Fail to file return for 2 consecutive months;
- Fail to file income tax return by due date;
- Fail to file two consecutive monthly or annual statements under section 165 of the Income Tax Ordinance, 2001.

TOLL MANUFACTURING  
[Section 2(33)(d)]

‘Toll manufacturing’ represents supply of goods taxable under the Federal Sales tax laws. Provincial revenue authorities have incorrectly considered the same as being a service rendered subject to tax by Provincial governments under respective provincial sales tax laws. This amendment reiterates the Federal Government’s stance on this matter.

Toll manufacturing is effectively a part of the whole process of manufacturing of goods undertaken by two persons. The definition of ‘supply’ has been amended to consolidate the aforesaid status of toll manufacturers as being a supplier of goods for Federal sales tax purposes.

INCREASE IN THE RATE OF FURTHER TAX  
[Section 3(1A)]

Supply of taxable goods to unregistered persons was subject to tax @ 18%. Such rate of 18% represented 17% being the standard sales tax and 1% as the amount of further tax. Now, the rate of tax on such supplies is increased to 19% on account of enhancement of further tax to 2%.
**INPUT TAX**  
*Section 8(1)(j), 8(1)(k) and 8(1)(l)*

Following amendments have been made in respect of admissibility of input tax representing a significant departure from the VAT principles:

(a) Services for which input tax adjustment is barred under respective provincial sales tax laws will not be allowed as input tax for determining the Federal sales tax liability. There is no rationale of relating the admissibility of input tax on genuine services rendered in relation to supply of goods under the Federal Sales tax law.

(b) Input tax on certain goods and services to be identified by the FBR has been declared inadmissible for the buyer if the supplier has not declared the output for the same in the return. This amendment effectively means that an eligible input tax shall become inadmissible only for the reason that the supplier of goods has not declared such supply in his return of sales tax. There is no rationale for relating these two different aspects with the admissibility of input tax. The items which will fall within this mischief will be notified by the FBR.

(c) Input tax on import or purchase of agricultural machinery or equipment which is subject to sales tax at 7% under Eighth Schedule shall not be admissible as input tax in respect of supply of goods.

The aforesaid restrictions could lead to a challenge for the same under the Constitutional provisions.

Input tax paid in respect of pre-fabricated buildings has been allowed, previously this was not an allowable adjustment.

**PRIZE SCHEME**  
*Section 56C*

Prize scheme has been introduced to encourage the general public to make purchases from registered persons issuing sales tax invoices. Such provisions exist in many other jurisdictions and the entitlement to prize is usually made on the basis of lottery where the possession of a receipt / sales tax invoice is an eligible criteria.

**COTTAGE INDUSTRY**  
*Section 2(5AB)*

Any person having utility bills exceeding Rs 800,000 during the last 12 months instead of previous limit of such bills exceeding Rs 700,000 has been excluded from the definition of cottage industry.
JOINT AND SEVERAL LIABILITY
[Section 8A]

The department can recover unpaid sales tax from the buyer by invoking the provisions of joint and several liability only where the department proves collusion between the buyer and the supplier of taxable goods. Previously, there was an ambiguity regarding department’s onus of proving collusion.

INPUT TAX ADJUSTMENT ON IMPORTED GOODS
[Section 7(2)(ii)]

Input tax adjustment on imports based on provisional bill of entry or goods declaration under section 81 of the Customs Act, 1969 is now allowed.

FIFTH SCHEDULE – ZERO RATING

Supply of locally manufactured plant and machinery earlier zero rated under SRO 397(I)/2001 continues to be zero rated under Fifth Schedule.

Export of exempted goods by manufacturer shall be zero rated. Accordingly, respective input tax adjustment would be available to such manufacturer/exporter.

SIXTH SCHEDULE - EXEMPTIONS

Import or supply of the following goods has been exempted:

<table>
<thead>
<tr>
<th>Description</th>
<th>PCT Heading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aircraft, whether imported or acquired on wet or dry lease</td>
<td>8802.4000</td>
</tr>
<tr>
<td>Maintenance kits for use in trainer aircrafts of PCT headings 8802.2000 and 8802.3000</td>
<td>Respective Headings</td>
</tr>
<tr>
<td>Spare parts for use in aircrafts, trainer aircrafts or simulators</td>
<td>Respective Headings</td>
</tr>
<tr>
<td>Machinery, equipment and tools for setting up maintenance, repair and overhaul (MRO) workshop by MRO company recognized by Aviation Division</td>
<td>Respective Headings</td>
</tr>
<tr>
<td>Operational tools, machinery, equipment and furniture and fixtures on one-time basis for setting up Greenfield airports by a company authorized by Aviation Division</td>
<td>Respective Headings</td>
</tr>
<tr>
<td>Aviation simulators imported by airline company recognized by Aviation Division</td>
<td>Respective Headings</td>
</tr>
<tr>
<td>Import of plant, machinery and production line equipment used for the manufacturing of mobile phones by the local manufacturers of mobile phones duly certified by the Pakistan Telecommunication Authority</td>
<td>Respective Headings</td>
</tr>
</tbody>
</table>
Local supply of the following goods has been exempted:

<table>
<thead>
<tr>
<th>Description</th>
<th>PCT Heading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw and pickled hides and skins, wet blue hides and skins</td>
<td>41.01, 41.02, 41.03, 4104.1000, 4105.1000, 4106.2100, 4106.3000, 4106.9000</td>
</tr>
<tr>
<td>Bricks (upto June 30, 2018)</td>
<td>6901.1000</td>
</tr>
<tr>
<td>Crushed stone (upto June 30, 2018)</td>
<td>2517.1000</td>
</tr>
<tr>
<td>Poultry feed, cattle feed, sunflower seed meal, rape seed</td>
<td>2306.3000, 2306.4900, and respective headings</td>
</tr>
<tr>
<td>meal and canola seed meal</td>
<td></td>
</tr>
</tbody>
</table>

Items exempted under SRO 880(I)/2007 being diagnostic kits or equipments, SRO 408(I)/2012 pertaining to Blood Bag CPDA-1 and SRO 760(I)/2012 relating to urine drainage bags will continue to be exempted under Sixth Schedule.

Supplies of marble and granite by manufacturers exempted under SRO 76(I)/2008 continues to be exempted under Sixth Schedule subject to conditions of annual turnover of less than Rs 5 million and annual utility bills not more than Rs 800,000.

Items covered under Fifth Schedule to the Customs Act, 1969 have been exempted under Sixth Schedule.

Import and supply of equipment under PCT codes 3006.9100, 3926.9050 and 8539.3930 have been exempted under the Sixth Schedule.

**EIGHTH SCHEDULE**

Following items are to be subject to reduced rate of 7%:

<table>
<thead>
<tr>
<th>Description</th>
<th>PCT Heading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tillage and seed bed preparation equipment</td>
<td>Certain PCT headings</td>
</tr>
<tr>
<td>Seeding or planting equipment</td>
<td>Certain PCT headings</td>
</tr>
<tr>
<td>Irrigation, drainage and agro-chemical application equipment</td>
<td>Certain PCT headings</td>
</tr>
<tr>
<td>Harvesting, threshing and storage equipment</td>
<td>Certain PCT headings</td>
</tr>
<tr>
<td>Post-harvest handling and processing &amp; miscellaneous machinery</td>
<td>8437.1000 &amp; 8433.4000</td>
</tr>
<tr>
<td>Pesticides and their active ingredients registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971 (II of 1971), stabilizers, emulsifiers and solvents</td>
<td>Certain PCT headings</td>
</tr>
</tbody>
</table>

(In case of supplies of pesticides and their active ingredients, no input tax credit shall be admissible, except that of the tax paid on the same items)
Following items are to be subject to reduced rate of 10% instead of 5%:

<table>
<thead>
<tr>
<th>Description</th>
<th>PCT Heading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and equipment for development of grain handling and storage facilities.</td>
<td>Respective heading</td>
</tr>
<tr>
<td>Complete plants for relocated industries.</td>
<td>Respective heading</td>
</tr>
<tr>
<td>Machinery, equipment and other capital goods meant for initial installation, balancing, modernization, replacement or expansion of oil refining (mineral oil, hydro-cracking and other value added petroleum products), petrochemical and petrochemical down-stream products including fibers and heavy chemical industry, cryogenic facility for ethylene storage and handling.</td>
<td>Respective heading</td>
</tr>
</tbody>
</table>

Following items subject to reduced rate of 5% have been omitted from the Eighth Schedule:

<table>
<thead>
<tr>
<th>Description</th>
<th>PCT Heading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Following items imported by Call Centers, Business Processing Outsourcing facilities duly approved by Pakistan Telecommunication Authority.</td>
<td>Various</td>
</tr>
<tr>
<td>(1) Telephone sets/head sets</td>
<td></td>
</tr>
<tr>
<td>(2) Cat 5/Cat 6/Power cables</td>
<td></td>
</tr>
<tr>
<td>(3) PABX Switch</td>
<td></td>
</tr>
<tr>
<td>(4) Plasma TV</td>
<td></td>
</tr>
<tr>
<td>(5) Dedicated telephone exchange system for call centres.</td>
<td></td>
</tr>
<tr>
<td>(6) Other digital cell recorders</td>
<td></td>
</tr>
<tr>
<td>Proprietary Formwork System for building/structures of a height of 100 ft and above and its various items/components consisting of the following, namely:-</td>
<td>Various</td>
</tr>
<tr>
<td>(1) Plastic tube.</td>
<td></td>
</tr>
<tr>
<td>(2) Plastic tie slot filters/plugs, plastic cone.</td>
<td></td>
</tr>
<tr>
<td>(3) Standard steel ply panels, Special sized steel ply panels, wedges, tube clamps (B-Type &amp; G Type), push/pull props, brackets (structure), steel soldiers (structure), drop head, standard, prop tic, buard rail post (structure), coupler brace, cantilever frame, decking beam/Infill beam and doorway angles.</td>
<td></td>
</tr>
<tr>
<td>(4) Lifting Unit (Structure)</td>
<td></td>
</tr>
<tr>
<td>(5) Bolts, tie bolts, anchor bolt assembly (fastener), anchor screw (fastener).</td>
<td></td>
</tr>
<tr>
<td>(6) Nuts</td>
<td></td>
</tr>
<tr>
<td>(7) Steel pins, tie wing nut (fastener).</td>
<td></td>
</tr>
<tr>
<td>(8) Steel washers, water plate (fastener).</td>
<td></td>
</tr>
<tr>
<td>(9) Adjustable base jack (thread rod with nut and steel plate), adjustable fork head (threaded rod with nut and steel channel).</td>
<td></td>
</tr>
</tbody>
</table>
Import and supply of ingredients of poultry and cattle feed exempt under SRO 1007(I)/2005 are to be taxed at 5% under Eighth Schedule.

Reduced rate notified vide the following notifications are subject to the same reduced rate and conditions under the Eighth Schedule:

- SRO 69(I)/2006 @ 16% (Rapeseed, sunflower seed and canola seed)
- SRO 313(I)/2006 @ 6% (Soya bean seed)
- SRO 657(I)/2013 @ 5% (Secondhand and worn clothing or footwear)
- SRO 573(I)/2014 @ 10% (Agricultural tractors)

**NINTH SCHEDULE**

Sales tax rates under the Ninth Schedule on import, local supply and registration of IMEI by Cellular Mobile Operators have been doubled.

It is further clarified that sales tax on import shall be paid by the importer and by the manufacturer in case of supply of locally manufactured mobile phones.

**SALES TAX ON DAIRY PRODUCTS**

In case of both processed and unprocessed milk existing status for the levy of sales tax has been retained, however, the sales tax regime for other dairy products like flavoured milk, yogurt etc. has been revamped by way of substitution into either exemption or reduced tax rate of 10%.

**REVAMPING OF SALES TAX REGIME FOR CERTAIN ITEMS**

Sales tax regime for certain items identified in the ‘Annexure A` has been revamped. This revamping inter alia includes substitution of zero rating with the exemption regime and introduction of reduced rate of tax for certain items which were earlier exempt / zero rated. All these aspects have been identified in the Annexure referred above.
## ANNEXURE A

<table>
<thead>
<tr>
<th>Description</th>
<th>HS Code</th>
<th>Current Law</th>
<th>Amended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soyabean meal</td>
<td>2304.0000</td>
<td>Tax rate 5%</td>
<td>Tax rate 10%</td>
</tr>
<tr>
<td>Ingredients of poultry feed, cattle feed, except soyabean meal of PCT heading 2304.0000 and oil-cake of cottonseed falling under PCT heading 2306.1000.</td>
<td>2301.2090, 2305.0000, 2306.2000, 2306.3000, 2306.4100, 2306.5000, 2309.9010, 2309.9020, 2309.9090, 2936.2100, 2936.2200, 2936.2300, 2936.2400, 2936.2500, 2936.2600, 2936.2700, 2936.2800</td>
<td>Exempt</td>
<td>Omitted</td>
</tr>
<tr>
<td>Products of animal origin, not elsewhere specified or included</td>
<td>Respective Headings of Chapter 5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residues and waste from the food industries; prepared animal fodder</td>
<td>Respective Headings of Chapter 5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes</td>
<td>Respective Headings of Chapter 23</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organic chemicals</td>
<td>Respective Headings of Chapter 29</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Albuminoidal substances; modified starches; glues; enzymes</td>
<td>Respective Headings of Chapter 35</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whey</td>
<td>04.04</td>
<td></td>
<td>Omitted</td>
</tr>
<tr>
<td>Flavored milk</td>
<td>0402.99</td>
<td></td>
<td>Exempt if not sold in retail packing under brand name</td>
</tr>
<tr>
<td>Butter</td>
<td>0405.1000</td>
<td></td>
<td>Reduced rate of 10% if sold in retail packing under a brand name</td>
</tr>
<tr>
<td>Desi ghee</td>
<td>0405.9000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cheese</td>
<td>0406.1010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Milk and cream, concentrated or containing added sugar or other sweetening matter</td>
<td>0402.1000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yogurt</td>
<td>0403.1000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>HS Code</td>
<td>Current Law</td>
<td>Amended</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------</td>
<td>------------------</td>
<td>----------------------------------</td>
<td>----------------------------------------------</td>
</tr>
<tr>
<td>Processed cheese not grated or powdered</td>
<td>0406.3000</td>
<td>Exempt</td>
<td>Exempt if not sold in retail packing under brand name</td>
</tr>
<tr>
<td>Cream</td>
<td>04.01 and 04.02</td>
<td>Zero rated subject to certain conditions specified in Chapter XIV of STSPR</td>
<td>Omitted</td>
</tr>
<tr>
<td>Re-importation of foreign origin goods which were temporarily exported out of Pakistan subject to similar conditions as are envisaged for the purposes of applying zero-rate of customs duty under the Customs Act, 1969.</td>
<td>8417.8000, 8430.2000 and 8479.8990</td>
<td>Exempt</td>
<td>Omitted</td>
</tr>
<tr>
<td>Incinerators of disposal of waste management, motorized sweepers and snow ploughs</td>
<td>99.18</td>
<td></td>
<td>Tax rate 5%</td>
</tr>
<tr>
<td>Plant, machinery, equipment and specific items used in production of bio-diesel</td>
<td></td>
<td>Respective headings</td>
<td></td>
</tr>
<tr>
<td>Reclaimed lead, if supplied to recognized manufacturer of lead batteries</td>
<td></td>
<td>Respective headings</td>
<td></td>
</tr>
<tr>
<td>Waste papers</td>
<td></td>
<td>Respective headings</td>
<td></td>
</tr>
<tr>
<td>Plant and machinery not manufactured locally and having no compatible local substitutes</td>
<td></td>
<td>Tax rate 5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tax rate 10%</td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER 4 – FEDERAL EXCISE DUTY

POWERS TO GRANT EXEMPTIONS BY FBR / FEDERAL GOVERNMENT
[Section 16]

As a positive policy measure, the discretionary powers of the Federal Government and the FBR to grant ‘exemptions’ from duties under the Federal Excise Act, 2005 [FE Act] has been abolished. However, in special circumstances identified below, such notifications can be issued by the Federal Government subject to approval of Economic Coordination Committee of Cabinet:

- National security;
- Natural disaster;
- National food security in emergency situations;
- Protection of national economic interests in situations arising out of abnormal fluctuation in international commodity prices;
- Removal of anomalies in duties;
- Development of backward areas; and
- Implementation of bilateral and multilateral agreements.

This amendment was introduced recently through Presidential Ordinance. Through Finance Act, 2015 the contents of the Ordinance have been adopted in the FE Act.

Further, the exemptions to be granted by the Federal Government under these provisions have to be placed before the National Assembly and those exemptions would not extend beyond the end of financial year in which these are granted. It is, however, apt to highlight that powers available with the Federal Government to subject specified goods to ‘lower rate’ of duty available under section 3(4) of FE Act, have not been made subject to above conditions.

POWERS OF BOARD OR COMMISSIONER TO REVIEW THE ORDER BY SUBORDINATE OFFICERS
[Section 35]

Under the section 35 of FE Act, FBR and Commissioner Inland Revenue are empowered, on a *suo moto* basis, to examine/call for the record of any proceedings and review an order passed by any of subordinate authorities.

An amendment has been introduced in this legal provision which has effectively enabled the FBR to undertake revisionary powers even on the basis of application by the taxpayer in addition to the right of ‘*suo moto*’ action.
MONITORING & TRACKING OF GOODS  
[Section 45A]

By virtue of certain amendments introduced through Finance Act, 2013, certain provisions were inserted in the FE Act vesting FBR with the powers to require specific goods to be affixed with stamps, banderols, stickers, labels etc. so as to these could be electronically monitored/identified.

Through Finance Act, 2015 an amendment has been made in these provisions whereby ‘barcodes’ could also be used as electronic identifiers and FBR has been empowered to prescribe vendors from which such identifiers could be procured at notified prices.

AGREEMENTS FOR EXCHANGE OF INFORMATION & DISCLOSURE OF INFORMATION  
[Sections 47A and 47B]

New provisions have been introduced in the FE Act whereby Federal Government has been empowered for entering into bilateral or multilateral agreements with the provincial governments as well as the governments of foreign countries with respect to exchange of information concerning the excise duties.

Further, in line with the provisions already there in the Income Tax Ordinance, information obtained under such agreements or that in possession of public servants under FE Act have to be kept confidential notwithstanding other laws.

AERATED BEVERAGES  
[S. Nos. 4, 5, and 6 in Table I of the First Schedule]

The rate of duty was proposed to be enhanced from 9% to 12% of retail price. However, through Finance Act, 2015, the rate of duty has been enhanced from 9% to 10.5% of the retail price with effect from July 1, 2015.

LOCALLY PRODUCED CIGARETTES  
[S. Nos. 9 and 10 in Table I of the First Schedule]

Description of and duty on the locally produced cigarettes (PCT heading 24.02) has been enhanced as under with effect from June 5, 2015 through SRO 481(I)/2015 dated June 5, 2015:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Description of goods</th>
<th>Previous rate</th>
<th>Revised rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Locally produced cigarettes if their on-pack printed retail price exceeds Rs 3,350 (previously Rs 2,706) per 1,000 cigarettes</td>
<td>Rs 2,632 per 1,000 cigarettes.</td>
<td>Rs 3,030 per 1,000 cigarettes.</td>
</tr>
<tr>
<td>10</td>
<td>Locally produced cigarettes if their on-pack printed retail price does not exceed Rs 3,350 (previously Rs 2,706) per 1,000 cigarettes</td>
<td>Rs 1,085 per 1,000 cigarettes.</td>
<td>Rs 1,320 per 1,000 cigarettes.</td>
</tr>
</tbody>
</table>

It appears that average tax incidence would increase from 58% to 63%.
FILTER ROD FOR CIGARETTES  
[S. No. 56 in Table I of the First Schedule]

Duty on filter rod for cigarettes (PCT heading 5502.0090) has been introduced through Finance Act, 2015, with effect from July 1, 2015:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Description of goods</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>56</td>
<td>Filter rod for cigarettes</td>
<td>Rs 0.75 per filter rod.</td>
</tr>
</tbody>
</table>

EXEMPTIONS

Travel by air on socio economic routes  
[S. No. 3 in Table II of the First Schedule]

Excise duty on services provided or rendered in respect of travel by air of passengers on socio economic routes has been conditionally exempted through Finance Act, 2015 by way of insertion in Third Schedule to the FE Act. Previously duty was payable at Rs 500 per passenger.

Socio economic routes have been redefined as the shortest part of journeys starting from or ending at an airport located in Makran coastal region, FATA, Azad Jammu and Kashmir, Gilgit-Baltistan or Chitral. The phrase “the shortest part of journeys” needs to be further clarified to avoid tax disputes.

Exemptions available under notification consolidated in Third Schedule  
[S. No. 18 in Table I and S. No. 9, 10, 11 and 12 in Table II of the Third Schedule]

The exemptions earlier available in respect of following goods/services under notification SRO 778(I)/2006, notification SRO 474(I)/2009, notification SRO 802(I)/2009 and 81(I)/2010 have been incorporated in the Third Schedule to the FE Act:

- White cement (PCT heading 25.23);
- Services in respect of travel by air of passengers on socio-economic routes;
- Services of air travel for Hajj passengers, diplomats and Supernumerary crew;
- Advertisement in newspapers and periodicals; and
- Services provided or rendered by banking companies and non-banking financial companies in respect of Hajj and Umrah, cheque book, insurance, Musharika and Modaraba financing and utility bill collection.

However, exemption proposed in respect of motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars of cylinder capacity exceeding 850cc has not been made part of the Finance Act, 2015.