
Finance Act, 2014



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The Finance Bill, 2014 was presented in National Assembly on June 3, 2014. Subsequently, various amendments were proposed by the Finance Minister and were incorporated in the Finance Bill. National Assembly of Pakistan passed the Finance Act, 2014 on June 21, 2014, and the same was assented by the President of Pakistan on June 25, 2014.

Through the memorandum dated June 4, 2014, significant amendments proposed in fiscal statutes by the Finance Bill, presented in the National Assembly on June 3, 2014, were described in brief.

By way of the notes released by the firm on June 20, 2014, comments were made on further amendments in Finance Bill proposed by the Finance Minister.

The Act, as now passed by the National Assembly and assented by the President of Pakistan, represents the amended position of the respective laws as is applicable from July 1, except for amendments in First and Second Schedules to the Customs Act, 1969 and amendments in Fifth, Sixth, Eighth and Ninth Schedules to the Sales Tax Act, 1990, which have been made applicable from June 26, 2014, by virtue of assent of the President of Pakistan to the Finance Act, 2014 on June 25, 2014.

These notes have been compiled in a manner that the same represent a self-contained document on the amendments introduced by the Finance Act, 2014.

This memorandum also contains our views on the revised status of the respective fiscal statutes, after the enactment of the Finance Act, 2014. It is however advised that reference should be made to the specific wordings in the relevant statute and the amendments made through the Finance Act, 2014 should be acted upon only after obtaining appropriate advice.

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

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INCOME TAX

FILERS & NON-FILERS **[Sections 2(23A) & 2(35C)]**

The Finance Act, 2014 has introduced separate enhanced rates for withholding / collection of tax for 'non-filers' under the following heads:

S. No.	Description	Section reference
(1)	(2)	(3)
1.	Tax withholding on payment of Dividend	150
2.	Tax withholding on payment of Profit on Debt	151
3.	Tax withholding on Cash withdrawals	231A
4.	Collection of Advance tax on registration or transfer of registration of private motor vehicles	231B
5.	Collection of Advance tax on motor vehicles	234
6.	Collection of Advance tax from seller of immovable property	236C
7.	Collection of Advance tax from purchaser of immovable property	236K
8.	Collection of Advance tax on sale of specified products to distributors, dealers and wholesalers	236G

For the above purpose, new definitions of 'filer' and 'non-filer' have been inserted in section 2 of the Ordinance. A 'Filer' has been defined as a taxpayer whose name appears on the 'active taxpayers list' or is a holder of taxpayer card, whereas all other persons are defined to be treated as 'non-filers'.

From practical perspective, a mechanism is to be placed to ascertain the status of a person as being a non-filer at the time of withholding.

BONUS SHARES **[Sections 2(29), 236M & 236N]**

Definition of 'income' as per section 2(29) has been amended and the words "but does not include, in case of a shareholder of a company, the amount representing the face value of any bonus share or the amount of any bonus declared, issued or paid by the company to the shareholders with a view to increase its paid up capital" have been deleted.

This exclusion from income which was apparently clarificatory in nature was necessary to tax bonus shares in the hands of the shareholders. Through the Finance Act, 2014, the issuance of bonus shares has now been made taxable under Final Tax Regime (FTR) in the hands of shareholders.

Two sections viz. 236M and 236N have been introduced which inter alia provide the mechanism for collection of tax on bonus shares issued by listed and unlisted companies respectively.

Under these sections, the issue of bonus shares has been deemed to be income of the shareholders. Further, by an additional clause in section 39 of the Ordinance, income arising to a shareholder from the issue of bonus shares has been made taxable under the head 'income from other sources'.

Brief outline of the new mechanism of taxation is as under:

a) Issuance of Bonus shares by a company quoted on the Stock Exchange

- A company which is quoted on the Stock Exchange and issues bonus shares to its shareholders is required not to issue bonus shares equal to 5% of the number of bonus shares to be issued to shareholders.
- Bonus shares will be issued by a company to a shareholder only after collecting tax equal to 5% of the value of the bonus shares to be issued to the shareholder (including 5% bonus shares withheld as above) within a prescribed time.
- For purpose of determining value of bonus shares, the 'day-end price on the first day of closure of books' is prescribed to be used.
- The above referred tax is to be collected by the company within 15 days from the first day of closure of books.

- In case the shareholder fails to make payment of 5% tax within 15 days or the company fails to collect the tax within 15 days, the 5% bonus shares withheld by the company will be deposited by the company with the Central Depository Company of Pakistan Limited or any other entity prescribed by FBR.
- The bonus shares deposited with CDC or other entity, as mentioned above, will be disposed of in the mode and manner to be prescribed by FBR, and the proceeds shall be paid on behalf of the shareholder by way of credit to the Federal Government.

b) Issuance of Bonus shares by a company not quoted on the Stock Exchange

- A company which is not quoted on the Stock Exchange and issues bonus shares to its shareholders will deposit tax, within 15 days of the closure of the books, @ 5% of the value of the bonus shares on the first day of closure of books, whether or not tax has been collected from the shareholders by the Company. Rules are to be issued by FBR for determining the value of bonus shares of unquoted securities.
- Before the issuance of bonus shares, the company liable to deposit tax shall be entitled to collect and recover the amount of tax deposited from the shareholder on whose behalf the tax has been deposited.
- In case a shareholder neither makes payment of tax to the company nor collects his bonus shares, within 3 months of the date of issuance of bonus shares, the company may proceed to dispose bonus shares to the extent it has paid tax on shareholder's behalf.

The validity of taxing bonus shares, value to be taxed and manner of collection are to be examined. Case laws in the comparative jurisdictions support the view that bonus share do not *per se* represent 'income' under the Ordinance.

In addition to the same, the matter that needs to be resolved especially in the case of listed companies is the right of surrender of certain part of shares to CDC or other entity to be prescribed by FBR and disposal of shares for the payment of tax for such purposes, and the manner of collection.

In case of unlisted companies, the consequences under the corporate law for disposal of shares to collect tax on bonus shares, if shareholders do not pay tax on bonus shares, need to be thrashed out.

TAX ON DIVIDENDS FROM MUTUAL FUNDS

[Sections 2(61A) & 5 and Division I of Part III of the First Schedule]

Through the Finance Act, 2014, enhanced rate of tax withholding on dividends received from Stock Funds has been prescribed, if dividend receipts of the Fund are less than capital gains. For that purpose, 'Stock Fund' has been defined to mean a collective investment scheme or a mutual fund where the investible funds are invested by way of equity shares in companies, to the extent of more than 70% of the investment.

The rate of tax withholding / liability on dividends received by a Company from other than 'Stock Fund' has also been enhanced from 10% to 25%.

The rates of tax withholding on dividends received from various categories of fund have now been prescribed as under:

<i>Description of unit holder</i>	<i>Stock Fund</i>	<i>Money market Fund, Income Fund or any other fund</i>
Individual	10% *	10%
Company	10% *	25%
AOP	10% *	10%

* *If dividend receipts are less than capital gains, the rate of tax for unit holders shall be 12.5%.*

INITIAL ALLOWANCE ON BUILDINGS
[Section 23 and Part II of the Third Schedule]

The rate of initial allowance on buildings has been reduced from 25% to 15%.

CAPITAL GAINS ON DISPOSAL OF SECURITIES

Extension of holding period for purpose of taxability
[Section 37A and Division VII of Part I of the First Schedule]

Gain on sale of securities was subjected to tax by Finance Act, 2010 in case such securities were held for less than 12 months. Through the Finance Act, 2014, the gain arising on disposal of securities with holding period of 12 to 24 months has also been taxed and as such, zero rate of tax is now applicable only where the holding period of securities exceeds 24 months.

Corresponding amendment is desired in the time period for which Capital loss on disposal of securities may be carried forward, which at present is not allowed to be carried forward to the subsequent tax year.

A comparison of tax rates on gain on disposal of securities for the Tax Year 2015, prior to and after Finance Act 2014 is as under:

PRIOR TO		AFTER	
FINANCE ACT, 2014		FINANCE ACT, 2014	
Holding period	Tax rate	Holding period	Tax rate
(1)	(2)	(3)	(4)
0 - 6 months	17.5%	0 - 12 months	12.5%
6 - 12 months	9.5%	12 - 24 months	10%
Over 12 months	0%	Over 24 months	0%

Consequent to this amendment, those investors who acquired securities before July 1, 2014 with the objective of deriving exempt capital gains upon disposal after a holding period of one year, would now suffer tax incidence under the amended regime. However, such taxation may be examined on the principle of estoppel /

vested right. As new tax rates have been prescribed on tax year basis, issue would also arise for taxpayers following calendar year as tax year and have derived exempt capital gains (based on one year holding period) in the Tax Year 2015 before the enactment of the Finance Act, 2014.

Application of NCCPL's mechanism for collection / payment of capital gains tax to Foreign Institutional Investors
[Section 100B and Eighth Schedule]

Prior to the Finance Act, 2014, the mechanism for collection and payment of capital gains tax through a third party clearing house National Clearing Company of Pakistan Limited (NCCPL), as laid down in the Eighth Schedule, was not applicable for taxing gain / losses on disposal of securities by 'Foreign Institutional Investors' (FII). Now such persons are subject to tax under the regime unless they opt out with the approval of the Commissioner Inland Revenue. FII are defined in respective provisions.

Taxation of Debt Securities
[Section 37A]

Prior to the Finance Act, 2014, capital gains on disposal of debt securities were taxable under section 37 at the normal tax rate (i.e., corporate tax rate in case of companies and applicable slab rate in case of taxpayers other than companies).

Through the Finance Act, 2014, capital gains on disposal of debt securities listed on stock exchange have been made taxable under section 37A, in the manner similar to 'securities' previously included under section 37A of the Ordinance. It has however been prescribed that in case of companies, capital gains on disposal of debt securities will be subject to tax at the corporate tax rate (and not at the CGT rates prescribed for 'securities').

The effects of including ‘debt securities’ in the definition of ‘securities’ under section 37A and then prescribing corporate tax rate as the applicable rate in case of companies (which rate was already applicable, prior to the Finance Act, 2014, on capital gains arising to a company from disposal of debt securities) are as under:

- (a) There can be view that the benefit of 25% reduction in tax liability, which was available under section 37(3) in case of disposal after a holding period of one year, will no longer be available.
- (b) Zero rate of tax on capital gains now available to ‘securities’ on disposal after a holding period of 24 months or more will not be available to capital gains arising to a company on disposal of debt securities.

The term ‘Debt securities’ is defined to mean:

- (i) *Corporate Debt Securities such as Term Finance Certificates (TFCs), Sukuk Certificates (Sharia Compliant Bonds), Registered Bonds, Commercial Papers, Participation Term Certificates (PTCs) and all kinds of debt instruments issued by any Pakistani or foreign company or corporation registered in Pakistan; and*
- (ii) *Government Debt Securities such as Treasury Bills (T-bills), Federal Investment Bonds (FIBs), Pakistan Investment Bonds (PIBs), Foreign Currency Bonds, Government Papers, Municipal Bonds, Infrastructure Bonds and all kinds of debt instruments issued by Federal Government, Provincial Governments, Local Authorities and other statutory bodies.*

SALE OF SPECTRUM LICENSE **[Section 49]**

By way of a special provision, income from sale of spectrum license by Pakistan Telecommunication Authority (PTA) shall be treated as income of the Federal Government and not that of PTA for the purposes of taxation under the Ordinance.

TAXATION OF INCOME OF A COMPANY BEING A MEMBER OF AN ASSOCIATION OF PERSONS (AOP) **[Section 92]**

Under section 92 of the Ordinance, an AOP is taxable and the share of a member of such AOP is exempt from tax in the hands of the member. Prior to Finance Act, 2014, this provision was applicable to all persons, even if the member was a company incorporated in or outside Pakistan.

By way of an amendment in this section, in case if a company is a member of an AOP, it shall be taxed separately at the rate applicable to the company on its respective share.

The procedure now prescribed is reinstatement of the concession provided earlier by way of CBR’s Circular No. 4 of 1964 dated December 11, 1964. The extract of the same is reproduced as under:

“It has been brought to the notice of the Central Board of Revenue that Pakistani Companies entering into a ‘Joint venture’ arrangement with foreign companies are not quite clear about their liability to Pakistan Income-tax. The position is that in the case of a joint venture, each participant in such venture is liable to tax on its own share of profits and at the rates applicable to its total income. To avoid complications, when a Pakistani company desires to enter into a joint venture arrangement with a reputable and reliable foreign company, such arrangement may, if necessary, be got cleared before hand from the Central Board of Revenue.”

As announced by the Finance Minister in the Budget Speech, this amendment has been made to provide the right of reduced rate of tax inter alia for local and foreign companies being the members of an AOP.

As a consequence of this amendment, the taxation of non-resident companies is aligned with the treatment prescribed in the respective Agreements for Avoidance of Double Taxation, wherever applicable.

ZERO RATED TAXATION FOR CERTAIN PERSONS
[Section 100C]

A concept of zero rating, being tax credit equal to 100% of tax payable including minimum tax, has been introduced for certain Non-Profit Organisations (NPOs), trusts and welfare institutions.

Previously such institutions were exempt from tax under Clauses (58), (58A), (59) and (60) of Part I of the Second Schedule to the Ordinance. Under the new scheme, such persons are now subject to zero rate of tax if the following conditions are complied:

- (a) return has been filed;
- (b) tax required to be deducted or collected has been deducted or collected and paid; and
- (c) withholding tax statements for the immediately preceding tax year have been filed.

Through an amendment in section 159, such persons shall be entitled to receive 'Nil' withholding / collection of tax certificate on amounts subject to withholding tax provisions, which are eligible for tax credit under section 100C. Through Circular No. 2 of 2014 dated July 17, 2014, FBR has clarified that the 'Nil' withholding / collection of tax certificate will be issued if return and withholding statements for the immediately preceding year have been filed and withholding tax has also been paid.

We consider that any default in respect of withholding / collection of taxes by these entities would not affect the tax credit available to them under section 100C, and recourse at first stage would be made under the respective provisions of law on account of such default. Only in case where appropriate recourse cannot be made for any reason, tax credit available under section 100C, should be disallowed and that too on proportionate basis and to the extent of default. We expect FBR to clarify this matter.

MINIMUM TAX REGIME
[Section 113 and Division IX of Part I of the First Schedule]

Minimum tax is payable under section 113 of the Ordinance. The rates of minimum tax have been revamped as under:

S. No.	Person(s)	Minimum Tax as percentage of person's turnover for the year
(1)	(2)	(3)
1.	(a) Oil marketing companies, Oil refineries, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds rupees one billion.); (b) Pakistani Airlines; and (c) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production.	0.5%
2.	(a) Distributors of pharmaceutical products, consumer goods including fast moving consumer goods, fertilizers, and cigarettes; (b) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990; (c) Rice mills and dealers; and (d) Flour mills.	0.2%
3.	Motorcycle dealers registered under the Sales Tax Act, 1990.	0.25%
4.	In all other cases.	1%

ALTERNATIVE CORPORATE TAX (ACT)
[Section 113C]

A new concept of ACT has been introduced. ACT is applicable from Tax Year 2014. Under the concept, the minimum tax liability in case of a company is higher of tax on accounting income or the corporate tax liability determined under the Ordinance at the rates prescribed in the law. Tax liability under the Ordinance includes 'minimum tax on turnover under section 113 of the Ordinance.

ACT, if payable, shall be for the accounting year ended December 31, 2013, June 30, 2014, or any period relevant to tax year 2014.

This concept is applicable for all companies except insurance companies, companies engaged in exploration and production of petroleum, and banking companies, as per Fourth, Fifth and Seventh Schedule to the Ordinance respectively.

Under the newly inserted section 113C, the ACT, being the tax determined on accounting income, has been prescribed at 17% of such income.

The ACT is not applicable to:

- exempt income;
- income taxable under FTR;
- gain on disposal of listed securities subject to tax under the Eighth Schedule;
- income entitled to 100% tax credit on account of equity investment;
- income of non-profit organizations, trusts or welfare institutions to whom tax credit is available under section 100C of the Ordinance; and
- income of a company setting up an industrial undertaking between July 1, 2014 to June 30, 2017, to whom reduced rate of tax is available under clause (18A) of Part II of the Second Schedule.

For the purpose of this section, following terms have been defined as under:

- (a) "Accounting Income" means the accounting profit before tax for the tax year, as disclosed in the financial statements or as adjusted under sub-section (7) or sub-section (11) excluding share from the associate recognized under equity method of accounting;
- (b) "Alternative Corporate Tax" means the tax at a rate of seventeen per cent of a sum equal to accounting income less the amounts, as specified in sub-section (8), and determined in accordance with provisions of sub-section (7) hereinafter;
- (c) "Corporate Tax" means total tax payable by the company, including tax payable on account of minimum tax and final taxes payable, under any of the provisions of this Ordinance but not including those mentioned in sections 8, 161 and 162 and any amount charged or paid on account of default surcharge or penalty and the tax payable under this section.

In case if the amount of ACT is higher than the corporate tax then the excess so determined shall be adjustable against the normal tax payable for the following years. However, the same cannot be carried forward for more than 10 years succeeding the tax year in which the excess was first computed. It has been specifically provided that mechanism of adjustment of ACT shall not prejudice the right of carry forward of the normal minimum tax under section 113 of the Ordinance. Tax credit under section 65B shall be allowed against ACT.

The Commissioner Inland Revenue has been empowered to make adjustments in the computation of the accounting income as per the historical accounting pattern, after due notice. This clause requires reconsideration in the light of prevalent accounting framework under Generally Accepted Accounting Principles adopted by the Institute of Chartered Accountants of Pakistan and approved by the Securities and Exchange Commission of Pakistan.

FBR is expected to clarify certain practical issues relating to ACT, including those relating to advance tax liability for Tax Year 2014, which has already been discharged before the enactment of the Finance Act, 2014.

WEALTH STATEMENT **[Section 116]**

By way of SRO 978(I)/2013 dated November 13, 2013, relaxation from filing of wealth statement for Tax Year 2013 only was allowed to an individual or member of AOP whose last declared or assessed income, or declared income for the year, is less than Rs. 1 million. Through the Finance Act, 2014, the same relaxation has been extended for Tax Year 2014.

ADVANCE TAX AT IMPORT STAGE **[Section 148 and Part II of the First Schedule]**

Prior to the Finance Act, 2014, advance tax at import stage was collected by the Customs Authority at the general rate of 5% unless reduced by specific notification / provisions.

A new regime has been prescribed for the collection of advance tax at import stage. Details of the same are given below:

S. No. (1)	Persons (2)	Rate (3)
1.	(i) Industrial undertaking importing remeltable steel (PCT Heading 72.04) and directly reduced iron for its own use; (ii) Persons importing potassic fertilizers in pursuance of Economic Coordination Committee of the cabinet's decision No. ECC-155/12/2004 dated December 9, 2004; (iii) Persons importing urea; and (iv) Manufacturers covered under SRO 1125(I)/2011 dated December 31, 2011.	1% of import value as increased by customs duty, sales tax and federal excise duty
2.	Persons importing pulses	2% of import value as increased by customs duty, sales tax and federal excise duty

S. No. (1)	Persons (2)	Rate (3)
3.	Commercial importers covered under Notification No. S.R.O. 1125(I)/2011 dated December 31, 2011.	3% of import value as increased by customs duty, sales tax and federal excise duty
4.	Ship breakers on import of ships	4.5%
5.	Industrial undertakings not covered under S. Nos. 1 to 4	5.5%
6.	Companies not covered under S. Nos. 1 to 5	5.5%
7.	Persons not covered under S. Nos. 1 to 6	6%

The general rate has been increased to 5.5% in the case of an importer being a company and 6% in other cases.

In terms of Clause (72B) of Part IV of the Second Schedule, the concerned Commissioner is empowered to issue exemption certificate if the tax liability for the current tax year, on the basis of determined tax liability for any of the preceding two tax years, whichever is the higher, has been paid. Now, a proviso has been inserted under Clause (72B), whereby it is clarified that the aforesaid exemption certificate shall be issued by the Commissioner only if an application for the said certificate is filed before the Commissioner, in the manner and after fulfilling the conditions as specified in a circular issued by the Board for the purpose of the clause. For that purpose, FBR has already issued Circular No. 8 of 2013. Therefore, the apparent purpose of inserting the proviso is to provide legal cover to that Circular.

WITHHOLDING TAX ON DIRECTORS' FEE **[Section 149]**

Under section 2(22) of the Ordinance, directorship or any other office involved in the management of the company is treated as 'employment'. Accordingly, in all cases, withholding on such payments is to be made at the rate applicable for the income under the head 'Salary'.

A new provision has been inserted in the Ordinance, being clarificatory in nature, whereby every person responsible for making payment for directorship fee or fee for attending board meeting or such fee by whatever name called shall, at the time of payment, deduct tax @ 20% of the gross amount payable.

This amendment is expected to remove certain other interpretation or manner of application of law in respect of directorship fee and other such payment.

FINAL TAX LIABILITY IN CASE OF NON-FILERS

[Sections 150 & 151, and Divisions I & IA of Part III of the First Schedule]

Profit on debt

Enhanced rate of withholding tax has been prescribed in case if a person is a non-filer as defined in the newly inserted section 2(23A) of the Ordinance. For such persons, the withholding rate is prescribed @ 15% of the amount of profit on debt if such payment of profit is more than Rs. 500,000.

The aforesaid threshold of Rs. 500,000 should strictly apply in relation to a transaction for payment. However, the intent of law appears to be that aforesaid limit of Rs. 500,000 is applicable on annual basis for a withholding agent. We expect FBR to clarify this matter.

Through Circular No. 2 of 2014 dated July 17, 2014, FBR has clarified that in case a joint account is held in a bank by more than one person, joint account holders as an entity shall be treated as filer if at least one person in the joint account is a filer. Similarly, in case an account is held in a bank in the name of a minor, the minor shall be deemed to be filer if the parent, guardian or any person who has made deposits in the minor's account is filer.

It has been provided that final liability of a non-filer will remain equal to the filer being 10% of the profit on debt and the excess withholding will be adjustable against tax liability.

These provisions apparently imply that a person being a non-filer at the time of withholding is entitled to adjust the excess withholding by filing the tax return.

The enhanced withholding rates for non-filers are also applicable to a company, however, the entire withholding in case of a company will be adjustable as profit on debt is taxable at corporate tax rate, and tax withholding made is adjustable.

Dividend (other than from Mutual Fund)

The rate of withholding tax on dividend for non-filers has been enhanced from 10% to 15%, except where special rate of tax is prescribed @ 7.5% or where the dividend income is derived from Mutual Fund, for which separate rates are prescribed.

Unlike the adjustment for excess withholding for non-filers in the case of profit on debt, no parallel provision has been expressly provided in this case. Through Circular No. 2 of 2014 dated July 17, 2014, FBR has clarified that upon filing of return, the recipient of dividend can apply the rate of 10%; resulting that additional 5% withholding on account of non-filer would be adjustable / refundable.

ENHANCEMENT IN GENERAL WITHHOLDING TAX RATES

[Sections 153, 156A & 233; Divisions III, IV & IVA of Part III and Division II of Part IV of the First Schedule]

The rates of withholding tax have been enhanced as under:

S. No.	Description	Tax withholding rate	
		Previous	Revised
(1)	(2)	(3)	(4)
1.	Supply of goods by Companies	3.5%	4%
2.	Supply of goods by other than companies	4%	4.5%
3.	Services rendered by Companies	6%	8%
4.	Services rendered by other than companies	7%	10%
5.	Execution of contract by Companies	6%	7%

S. No.	Description	Tax withholding rate	
		Previous	Revised
(1)	(2)	(3)	(4)
6.	Execution of contract by other than companies	6.5%	7.5%
7.	Export oriented services	0.5%	1%
8.	Commission or discount on Petrol Pump Operators	10%	12%
9.	Commission or brokerage other than advertising agents	10%	12%

There is no change in the mechanism of taxation in respect of aforesaid withholding tax provisions.

WITHHOLDING OF TAX FROM SPORTS PERSON

[Section 153(1)(c) and Division III of Part III of the First Schedule]

A special withholding rate of 10% has been prescribed in respect of amount payable in the case of sports persons.

COMPULSORY REGISTRATION SCHEME FOR COMMERCIAL AND INDUSTRIAL CONSUMERS OF ELECTRICITY AND NATURAL GAS

[Section 181AA]

Commercial and industrial connection for electricity and natural gas shall not be processed unless the person is registered as a taxpayer under the provisions of the Ordinance.

Taxpayers' registration scheme has been prescribed in section 181 of the Ordinance.

COLLECTION OF TAX ON CASH WITHDRAWALS

[Section 231A and Division VI of Part IV of the First Schedule]

Enhanced advance tax rate of 0.5% of the amount of cash withdrawal has been prescribed for a non-filer, as against the general rate of 0.3% on cash withdrawals.

COLLECTION OF ADVANCE TAX ON MOTOR VEHICLES

First-time registration or transfer of registration

[Section 231B and Division VII of Part IV of the First Schedule]

Prior to the Finance Act, 2014, advance tax was required to be collected under section 231B of the Ordinance only at the time of first-time registration of new locally manufactured motor vehicles.

Section 231B has been substituted with following consequential implications:

- The word 'new locally manufactured' has been omitted which inter alia means that advance tax collection is now also required at the time of registration of imported motor vehicles. However, advance tax shall not be collected on registration if evidence is provided that taxes have been collected at the time of sale by the manufacturer or collected at import stage in respect of the same person for the same vehicle.
- Advance tax is now also required to be collected at the time of transfer of registration or ownership; however, such tax collection not is required on transfer after 5 years from the date of first registration in Pakistan.
- Advance tax collection by every manufacturer is now also required at the time of sale of motor car or jeep.
- The revised rates, including enhanced rates for non-filers, are as under:

S. No.	Engine Capacity	Tax for filer	Tax for Non-filer
(1)	(2)	(3)	(4)
		----Rupees----	
1.	Upto 850cc	10,000	10,000
2.	851cc to 1000cc	20,000	25,000
3.	1001cc to 1300cc	30,000	40,000
4.	1301cc to 1600cc	50,000	100,000
5.	1601cc to 1800cc	75,000	150,000
6.	1801cc to 2000cc	100,000	200,000
7.	2001cc to 2500cc	150,000	300,000
8.	2501cc to 3000cc	200,000	400,000
9.	Above 3000cc	250,000	450,000

- (e) The rate of advance tax on transfer of registration or ownership of a private motor vehicle are to be reduced by 10% each year from the date of first registration in Pakistan.

Payment of Motor Vehicle Tax on installment / lump sum basis
[Section 234 and Division III of Part IV of the First Schedule]

Section 234 of the Ordinance requires collection of advance tax along with Motor Vehicle Tax, either on installment basis or in lump sum, at the discretion of the owner of motor vehicle.

Through the Finance Act, 2014, the rates of collection of tax under section 234 have been revised, besides prescribing enhanced rates for non-filers. The revised rates, including enhanced rates for non-filers, are as under:

S. No.	Engine capacity	Advance tax on installment basis		Advance tax on lump sum basis	
		for filer	for Non-filer	for filer	for Non-filer
(1)	(2)	(3)	(4)	(5)	(6)
-----Rupees-----					
1.	Upto 1000cc	1,000	1,000	10,000	10,000
2.	1001cc to 1199cc	1,800	3,600	18,000	36,000
3.	1200cc to 1299cc	2,000	4,000	20,000	40,000
4.	1300cc to 1499cc	3,000	6000	30,000	60,000
5.	1500cc to 1599cc	4,500	9,000	45,000	90,000
6.	1600cc to 1999cc	6000	12,000	60,000	120,000
7.	2000cc & above	12,000	24,000	120,000	240,000

TAX COLLECTION ON DOMESTIC ELECTRICITY CONSUMPTION
[Section 235A and Division XIX of Part IV of the First Schedule]

Every person preparing bill for domestic consumption of electricity shall collect advance tax in the following manner:

- (i) 7.5% if the amount of monthly bill is Rs. 100,000 or more.
- (ii) 0% if the amount of monthly bill is less than Rs. 100,000.

Previously, such tax was collected only in the case of industrial and commercial consumers.

TAX ON STEEL MELTERS AND RE-ROLLERS ETC.
[Section 235B and Clause (9A) Part IV of Second Schedule]

A new provision has been inserted to introduce collection of tax from steel melters, steel re-rollers, composite steel units registered under the Sales Tax Act on their electricity bills.

This tax shall be collected by the person preparing electricity consumption bill.

The rate of collection shall be Re 1 per unit of electricity consumed for the production of steel billets, ingots and mild steel products excluding stainless steel.

The aforesaid collection, which is optional, shall be treated as tax on the payment of local purchases of scrap and shall be non-adjustable and credit shall not be allowed to any person. If such person opts not to pay tax on electricity bill, then withholding on payment of local purchases of scrap would apply.

TAX COLLECTION ON MOBILE PHONE SUBSCRIBERS
[Section 236 and Division V of Part IV of the First Schedule]

The rate of advance tax collection on mobile phone bills has been reduced from 15% to 14%.

RATE OF ADVANCE TAX ON FUNCTIONS AND GATHERINGS, ETC
[Section 236D and Division XI of Part IV of the First Schedule]

The rate of adjustable withholding tax on functions and gatherings has been reduced from 10% to 5%.

COLLECTION OF ADVANCE TAX ON SALE TO DEALERS, DISTRIBUTORS & WHOLESALERS

[Section 236G and Division XIV of Part IV of the First Schedule]

Prior to the Finance Act, 2014, a uniform rate of 0.1% for collection of advance tax was applicable on sale to distributors, dealers or wholesalers of items specified in Section 236G. Through the Finance Act, the rates of advance tax have been prescribed as under:

Category of Sale	Rate	
	Filer	Non-Filer
(1)	(2)	(3)
Fertilizers	0.2%	0.4%
Other than fertilizers	0.1%	0.2%

TAX ON PURCHASE, SALE OR TRANSFER OF IMMOVABLE PROPERTY

[Sections 236 C & 236K and Divisions X & XVIII of Part IV of the First Schedule]

In addition to the tax incidence on seller / transferor of immovable property under section 37A read with section 236C of the Ordinance, a new section 236K has been inserted for the collection of tax by the Registering or Attesting authority, as the case may be, from the purchaser or transferee of the property. Furthermore, rate of tax collection under section 236C for the non-filer seller / transferor has been prescribed at 1%, as against the general rate of 0.5% which is applicable to a filer seller / transferor.

The amount so collected under this provision is adjustable against tax liability of the purchaser / transferee or seller / transferor, as the case may be. Through Circular No. 2 of 2014 dated July 17, 2014, FBR has clarified that in the case of inheritance, since the property is neither purchased nor any consideration is paid, withholding tax under this section shall not be applicable. However, in case of gifts, as its genuineness cannot be determined at that stage, withholding tax shall be paid on the value notified by the provincial governments. In case of genuine gift, the taxpayer may claim refund after filing the return.

This scheme is not applicable for purchasers being expatriate Pakistanis.

The revised rates of tax to be collected on purchase or transfer of an immovable property are as under:

S. No. (1)	Period (2)	Rate of Tax (3)	
1.	Where value of immovable property is upto Rs. 3 million.	0%	
2.	Where the value of immovable property is more than Rs. 3 million	Filer	1%
		Non-Filer	2%

Provided that the rate of tax for Non-Filer shall be 1% upto the date appointed by the Board through notification in the official gazette.

The matter of right of taxation on the transactions involving immovable property by the Federal Government is to be re-examined in the light of Constitutional provisions.

COLLECTION OF TAX ON PURCHASE OF INTERNATIONAL AIR TICKET

[Section 236L and Division XX of Part IV of the First Schedule]

Through the Finance Act, 2014, every airline, operating in Pakistan, has been required to collect advance tax on the gross amount of international air tickets issued to the passengers booking one-way or return tickets for Pakistan.

The tax so collected under this section shall be adjustable.

The rate of advance tax shall be as under:

S. No. (1)	Type of Ticket (2)	Rate (3)
1.	Economy	0%
2.	Other than Economy	4%

REDUCED TAX RATE FOR DISABLED PERSONS

[Division I of Part I of the First Schedule]

A relief has been provided by way of reduced rate to the extent of 50% for the employment income of disabled persons in case their income is less than Rs. 1 million.

RATE OF TAX FOR COMPANIES

[Division II of Part I of the First Schedule]

The corporate tax rate for Tax Year 2015 has been reduced to 33%. However, this relief in tax rate is not available to banking companies, which will continue to be taxed @ 35%.

EXEMPTION FOR MUTUAL FUNDS

[Clause (99) of Part I of the Second Schedule]

Prior to the Finance Act, 2014, income of mutual funds was exempt from tax provided 90% of the accounting income as reduced by realized or unrealized capital gains is distributed to unit holders.

A proviso has been inserted in Clause 99 of Part I of the Second Schedule which states that for the purpose of claiming above exemption, bonus shares, units or certificates are not to be considered as distribution of 90% of income. It consequently means that only cash dividend shall be taken into consideration for computation of 90% limit to claim exemption.

This amendment is similar to the existing clause (100) of Part I of the Second Schedule to the Ordinance in respect of modarabas.

EXEMPTION TO PUBLIC SECTOR UNIVERSITIES

[Clause (126) of Part I of the Second Schedule]

Through the Finance Act, 2014, exemption from income tax has been made available to those public sector universities which are established solely for educational purposes and not for the purpose of profit. The said exemption is effective from July 1, 2013.

This retrospective amendment has been made to provide exemption to certain entities which were generally exempt from tax under the omitted provisions of Clause (92) of Part I of the Second Schedule to the Ordinance (deleted by the Finance Act, 2013) and were not covered under Clause (58A) of the said schedule.

EXEMPTION TO CHINA OVERSEAS PORTS HOLDING

[Clause (126A) of Part I of the Second Schedule]

Prior to the Finance Act, 2014, exemption was available for a period of 20 years to the income of the following:-

- (a) Gwadar Free Zone Company Limited
- (b) PSA Gwadar International Terminal Limited
- (c) Gwadar Marine Services Limited
- (d) PSA Gwadar (Pte) Limited

This exemption is now available for income derived by China Overseas Ports Holding from Gwadar Port operations for a period of 20 years with effect from February 6, 2007.

EXEMPTION FOR FRUIT PROCESSING OR PRESERVATION UNIT

[Clause (126H) of Part I of the Second Schedule]

Through the Finance Act, 2014, profits and gains derived by a taxpayer, from a fruit processing or preservation unit set up in Balochistan province, Malakand Division, Gilgit – Baltistan or FATA between July 1, 2014 to June 30, 2017, provided that the taxpayer is engaged in processing of locally grown fruits have been exempted from tax

This exemption is available for a period of 5 years commencing from the month in which the industrial undertaking is set up or commercial production is commenced, whichever is later.

COAL MINING PROJECT IN SINDH
[Clause (132B) of Part I of the Second Schedule]

Profits and gains derived by a taxpayer from a coal mining project in Sindh, for supply of coal exclusively to power generation projects, have been exempted from tax.

Such entities have also been exempted from minimum tax under section 113 of the Ordinance.

The words 'from sale of coal' are to be inserted after the word 'sale of electricity' in the said clause to clarify the matter. This appears to be an omission.

Dividends paid by a company supplying coal exclusively to power generation projects have also been made taxable at a reduced rate of 7.5%.

WITHHOLDING TAX FOR RICE EXPORTERS' ASSOCIATION
[Clause (13HH) of Part II of the Second Schedule]

Following reduced rates of withholding tax under section 153 on sale value of rice sold by Rice Exporters Association of Pakistan to Utility Store Corporation have been withdrawn:

- (i) 1% on the sale value of rice sold in accordance with the agreement signed with Ministry of Food, Agriculture and Livestock (MINFAL) on April 30, 2008.
- (ii) 0.75% on the sale value sold in accordance with the agreement signed with MINFAL on May 5, 2008.

NEW INDUSTRIAL UNDERTAKING SET UP WITH FOREIGN DIRECT INVESTMENT (FDI)
[Clause (18A) of Part II of the Second Schedule]

Reduced tax rate of 20% has been prescribed for the investment in new Industrial Undertakings if financed on equity basis by way of FDI.

This concession shall be available provided the company sets up an industrial undertaking between July 1, 2014 to June 30, 2017 and 50% of the cost of the project including working capital is through owner equity FDI.

This reduced rate would be available for a period of 5 years beginning from the month in which the industrial undertaking is set up or commercial production is commenced whichever is later.

WITHHOLDING TAX ON ADVERTISING AGENTS
[Clause (26) of Part II of the Second Schedule]

The reduced rate of 5% withholding tax in the case of payments of commission to Advertising Agents has been increased to 7.5%.

ALLOWANCES OF PILOTS
[Clause (1AA) of Part III of the Second Schedule]

Prior to the Finance Act, 2014, flying allowance of certain pilots to the extent of amount not exceeding Basic Salary were taxed @ 2.5% as a separate block of income.

Through the Finance Act, 2014, total allowances received by pilots of any Pakistani Airlines have now been made taxable at the rate of 7.5% provided that such reduction will be available to so much of the allowance as exceeds an amount equal to the basic pay.

The reduction should have been restricted to the allowances not exceeding the amount equal to the basic pay as was previously available for flying allowance.

WITHHOLDING TAX EXEMPTION ON PAYMENT OF GOODS

[Clause (9A) of Part IV of the Second Schedule]

Amendments have been made in provisions of section 153(1)(a) to the effect that tax withholding is not required on:

- (i) payments for purchase of scrap by steel melters, steel re-rollers, composite steel units; and
- (ii) payments received by ship breakers for ships imported after July 1, 2014.

FOREIGN NEWS AGENCIES

[Clause (41B) of Part IV of the Second Schedule]

The exemption from withholding tax under section 152(2) has been withdrawn in respect of payments to foreign news agencies, syndicate services, and non-resident contributors having no Permanent Establishment in Pakistan.

OPTION TO CERTAIN PERSONS FOR TAXATION UNDER NORMAL REGIME

[Clauses (41A), (41AA) & (41AAA) of Part IV of the Second Schedule]

Through Finance Act, 2012, an option was introduced for commercial importers, traders, exporters and indenting commission agents to be taxed under Normal Tax Regime (NTR), subject to a condition that minimum tax liability in respect of such income is not less than:

- 60% of tax collected at import stage
- 70% of tax deducted at source on such sales
- 50% of the tax collected at the time of realization of export proceeds and indenting commission

Provisions relating to this option have been revamped. Further, the scope of the regime has been extended to certain other persons whereby the provisions relating to FTR would not apply if the person opts to file return of total income

along with accounts and documents as may be prescribed. Minimum tax payable to be eligible for the regime is as follows:

- (a) Commercial importer: 5.5% of the imports if the person is a company and 6% in other cases.
- (b) Sale of goods: 3.5% of the gross amount of sales if the person is a company and 4% in other cases.
- (c) Contracts: 6% of contract receipts if the person is a company and 6.5% in other cases.
- (d) Services provided to Exporter & Export House, Services of stitching, dyeing, printing, embroidery, washing, sizing, and weaving to an Exporter or Export House: 0.5% of the gross amount of services received.
- (e) Petrol Pump Operators: 10% of the commission or discount received on sale of petroleum products by Petrol Pump Operators.
- (f) Commission agents: 10% of the amount of brokerage or commission.

The option available to exporters of goods for taxation under NTR has been withdrawn by Finance Act, 2014.

COMPANIES OPERATING TRADING HOUSES

[Clause (57) of Part IV of the Second Schedule]

An explanation has been inserted to the effect that exemption from applicability of section 153 on companies operating certain trading houses is restricted to their capacity as 'recipient', and not as 'payer'.

It has been further clarified that exemption under section 113 and 153 for such companies is subject to the condition that such companies should be registered with Sales Tax department under the Sales Tax Act, 1990.

DIVIDEND AND CAPITAL GAINS OF BANKING COMPANIES
[Seventh Schedule]

Prior to the Finance Act 2014, income of banking companies by way of dividend and capital gains from sale of listed shares held for more than one year were chargeable to tax @ 10% under the Seventh Schedule, except for the dividends received from its Asset Management Company and money market and income funds which were taxed @ 20% and 25% respectively.

Through the Finance Act, 2014 the net income of a banking company from dividend and net income from capital gains on disposal of shares held for more than one year are to be taxed @ 10% and 12.5% respectively.

There is no change in the taxation of dividend received from Asset Management Company and money market and income funds.

The concept of attribution of expenses has been introduced for entities subject to tax under the Seventh Schedule also.

Net income from dividend is to be computed according to the following formula:-

$$\frac{\text{Total amount of expenditure as per Seventh Schedule}}{\text{Gross amount of receipt including dividend}} \times \text{Gross amount of dividend received}$$

Net income from capital gains is to be computed according to the following formula:-

$$\frac{\text{Total amount of expenditure as per Seventh Schedule}}{\text{Gross amount of receipts including capital gains}} \times \text{Gross amount of Capital Gains}$$

Attribution of expenses in relation to the amount of capital gains instead of 'cost of shares' requires re-examination.

SALES TAX

DETERMINATION OF RETAIL PRICE **[Section 2]**

Presently, manufacturers of goods subject to sales tax on retail price basis are required to pay sales tax at the highest retail price where more than one retail price is fixed by the manufacturers for any particular brand or variety of such goods.

Through the Finance Act, 2014, FBR has been authorised to specify 'zones' or 'areas' only for the purposes of determining highest retail price for any brand or variety of goods. This effectively seems to be a positive amendment aimed at resolving the long outstanding grievance of such manufacturers with regard to payment of sales tax on highest retail price without taking into account geo-economics of various zones and areas.

RETAILERS **[Section 3 and SRO 608(I)/2014 dated July 2, 2014]**

Through SRO 608(I)/2014 dated July 2, 2014 whole system of sales tax for 'retailers' has been revamped. Special Procedures for the retailers as earlier prescribed have been repealed.

Under the new procedures retailers have been segregated into two categories, viz.:

Retailers subject to tax under the normal regime [Category 1]

- (a) National or international chain of stores
- (b) Retailers operating in an air-conditioned shopping mall etc
- (c) Retailer who has a credit or debit card machine

- (d) Retailers whose cumulative electricity bill during the previous twelve months exceed six hundred thousand rupees
- (e) Wholesaler-cum-retailer, engaged in bulk import and supply of consumer goods on wholesale basis to retailers as well as on retail basis to the general body of the consumers.

The term 'national and international chain of stores' has been defined in the rules.

Other retailers [Category 2]

All other persons engaged in the business of retail sale of goods.

Retailers classified under category 1 above shall be subject to tax under regular procedures of law. This inter alia means charge of sales tax at the rate of 17% with relevant input adjustment, however, retailers making supplies of finished goods of 5 export-oriented sectors, shall continue to pay sales tax at reduced rate as specified in SRO 1125(I)/2011 dated December 31, 2011. Other salient features specified for retailers falling in category 1 are:

- (a) these retailers shall install and operate Fiscal Electronic Cash Registers (FECR), for which seamless and real time access shall be provided to FBR. CIR having jurisdiction can also made on-site physical inspection of FECR;
- (b) these retailers shall issue invoices from FECR from the date to be specified by FBR, and until such time, shall issue serially numbered invoices or cash memos for supplies made; and
- (c) the retailers shall be subject to audit under normal procedure.

Retailers classified under category 2 above have effectively been exempted from sales tax on ad-valorem basis. Their sales tax liability shall be equal to the amount charged to such person through electricity bill at following rates for which purpose sub-section (9) has been inserted in section 3 of the Act:

<i>S. No.</i> <i>(1)</i>	<i>Description</i> <i>(2)</i>	<i>Rate</i> <i>(3)</i>
1.	In case of monthly electricity bill upto Rs. 20,000	5%
2.	If monthly electricity bill exceeds Rs. 20,000	7.5%

This effectively means that now there is no special rate of sales tax on retailers. Retailers have been excluded from the ambit of sales tax regime if such persons do not fall within the classification referred to in (1) above.

Retailers of category (2) shall not be required to file monthly returns, and will be exempt from audit

A close analysis of these procedures reveals that it would be extremely difficult to implement the system as in practical sense it is very difficult to register retailers which have been so classified such as persons having credit or debit card machine etc.

Exclusions

Vehicle dealers paying sales tax in the manner prescribed in Chapter VIII and registered retailers exclusively making supplies of goods specified in Chapter XIV on which extra tax was already been paid have been excluded from the applicability of above new Scheme for retailers.

NO ADJUSTMENT ON INPUT FOR FURTHER TAX *[Section 7]*

On account of specific provisions introduced in the Act, the amount collected by a seller of goods as further tax shall be deposited separately without adjustment of any input tax.

This effectively means that if the input tax is in excess of the aggregate of output tax and further tax, then the amount of further tax shall be paid separately and such excess shall be carried forward for adjustment against the output tax for subsequent tax periods.

INPUT TAX ADJUSTMENT – VAT REGIME *[Section 8]*

Specific provisions have been introduced in section 8 to restrict admissibility of input tax with respect to:

- (i) Goods and services not related to the taxable supplies;
- (ii) Goods and services acquired for personal or non-business consumption;
- (iii) Goods used in immovable property; and
- (iv) Vehicles, their parts, electrical appliances, furniture, furnishings, office equipment other than goods acquired for sale or re-sale.

Through SRO 490(I)/2004 dated June 12, 2004 issued under section 8(1)(b) of the Act, input adjustment on following items were already notified to be inadmissible, unless the same were acquired as stock-in-trade:

- (a) vehicles falling in Chapter 87 of the First Schedule to the Customs Act, 1969 (IV of 1969);
- (b) food, beverages, garments, fabrics, etcetera and consumption on entertainment;
- (c) gifts and give-aways;
- (d) supply of electricity and gas to residential colonies of registered persons;
- (e) building materials including cement, bricks, paints, varnishes, distempers etc.;
- (f) office equipment and machines (excluding electronic fiscal cash registers), furniture, structure, fixture and furnishings excluding those directly used in taxable activity;

- (g) electrical and gas appliances, pipes, fittings excluding those directly used in taxable activity;
- (h) wires, cables, ordinary electrical fittings and sanitary fittings, excluding those directly used in taxable activity;
- (i) crockery, cutlery, utensils etc., excluding those directly used in taxable activity; and
- (j) goods on which adjustment or deduction of duty and sales tax is claimed under sub-rule (1) of rule 6 of the Federal Excise Duty and Sales Tax on Production Capacity (Aerated Water) Rules, 2013 in excess of seventy two percent of the gross amount payable in the month as determined under rule 4 read with rule 5 of the said Rules. The excess unadjusted amount may be carried forward to the subsequent month, subject to the condition that no refund on account of unadjusted duty and taxes shall be admissible.

After the incorporation of the new clauses in section 8(1) of the Act, the entries underlined above should have been deleted from SRO 490(I)/2004 dated June 12, 2004. Subsequent to the Finance Act, 2014, FBR has issued SRO 570(I)/2014 dated June 26, 2014 through which only entry No. (j) appearing above has been deleted consequent to repeal of Production Capacity (Aerated Waters) Rules, 2013. This means that entries underlined above appear in section 8(1) of the Act as well as in SRO 490(I)/2004 as it stands today. FBR is expected to further amend SRO 490(I)/2004 to the extent of duplicate entries referred above.

EXTENSION OF POWERS OF THE TAX OFFICER / FBR
[Section 50B]

- Board and its officers have been proposed to be empowered to monitor production, sale of taxable goods and stock position without obtaining warrants from Magistrate. The amendment seeks to undo the decisions of the Appellate Tribunal on this matter.

- Electronic scrutiny of data filed through returns or otherwise available with the Board has been introduced. It has been proposed that an advance notice of deficiencies would be provided to registered persons before any legal or penal actions.

FIFTH SCHEDULE

Under SRO 549(I)/ 2008 and SRO 670(I)/2013, certain goods were subject to tax at zero rate. Same concessions have been allowed to continue under the Fifth Schedule. Both these SROs have been withdrawn through SRO 573(I)/2014 dated June 26, 2014 with effect from June 26, 2014.

Zero rating for Stationery, Dairy and Bicycle Industries

Stationery, Dairy and Bicycle industries are eligible for zero-rating. Previously, such zero-rating was prescribed under SRO 670(I)/2013 dated July 18, 2013. This SRO has now been incorporated as part of statute by an entry in the Fifth Schedule to the Act. Such items have also been included in the Sixth Schedule representing goods exempt from tax.

Zero rating facility shall be available subject to compliance with the conditions, limitations and restrictions as specified in the Sales Tax Special Procedure Rules, 2007 amended through SRO 608(I)/2014 dated July 2, 2014. In case such conditions, limitations and restrictions are not complied with, the exemption regime shall become applicable which would disentitle the claim for tax refund on input tax borne by such persons.

Salient features of amendments made in the Sales Tax Special Procedure Rules, 2007 through SRO 608(I)/2014 dated July 2, 2014 are as under:

- (i) These are applicable to manufacturers of Dairy products, Stationery and Bicycles.
- (ii) Zero rating of goods shall be subject to input-output ratios, to be determined in a prescribed manner, and approved by the Commissioner.

- (iii) Input goods approved by the Commissioner will be supplied to registered persons at zero rate. Input tax paid, if any, will be refundable as per provisions of the Act.
- (iv) Provision of information to Commissioner and maintenance of records is also prescribed.

SIXTH SCHEDULE AND EIGHTH SCHEDULE

New Exemptions

Sixth Schedule provides exemption from sales tax. Following new entries have been inserted in the said Schedule.

S. No.	Description	HS Code
	IMPORTS OR SUPPLIES	
1.	In serial No 24 of the Schedule	Crude palm oil 1511.1000
2.	In serial No 59 of the Schedule	Cochlear implants systems – hearing aids 99.37
3.	Serial No 109 of the Schedule	Goods imported temporarily subject to certain conditions Respective headings
4.	Serial No 113 of the Schedule	High efficiency irrigation equipment 8413.7010, 8424.8100, 8424.2010, 8481.1000, 8481.3000, 9026.2000, 9032.8990
5.	Serial No 114 of the Schedule	Green House Farming and other related equipment 8430.3100, 8430.3900, 9406.0010
6.	Serial No 115 of the Schedule	Plant, machinery and equipment for fruit processing and preservation units in Gilgit-Baltistan, Makran and Malakand Divisions upto June 30, 2019 subject to conditions applicable under Customs Act, 1969. Respective headings
7.	Serial No 116 of the Schedule	Plant, machinery and equipment imported for setting up industries in FATA upto June 30, 2019 subject to conditions applicable under Customs Act, 1969. Respective headings

Abolition of notifications for exemptions and reduced rates and insertion of the respective provisions in the Act

Exemptions/reduced rates previously allowed under Sixth Schedule, SRO 551(I)/2008, SRO 575(I)/2006, SRO 501(I)/2013, SRO 727(I)/2011 and 69(I)/2006, other than the following, are proposed to be continued under Sixth Schedule:

S. No	Description	HS Code	Applicable sales tax rate	Comments
1.	Retailers whose annual turnover from supplies in any tax period during the last 12 months ending any tax period does not exceed Rs 5 million	Respective headings	See section 3(9) of the ST Act	Previously exempted under item 3 of Sixth Schedule.
2.	Oilseeds meant for sowing, subject to certain conditions	Respective headings	5% reduced rate under Eight Schedule	Previously item 10 of SRO 551(I)/2008
3.	Cinematographic film exposed and developed	3706.1000, 3706.9000	17% standard rate	Previously item 19 of SRO 551(I)/2008
4.	Platinum	7110.1100, 7110.1900	17% standard rate	Previously item 20 of SRO 551(I)/2008
5.	Palladium	7110.2100 7110.2900	17% standard rate	Previously item 21 of SRO 551(I)/2008
6.	Diamonds	7102.2100, 7102.2900, 7102.3900	17% standard rate	Previously item 22 of SRO 551(I)/2008
7.	Precious stones	7103.1000, 7103.9100, 7103.9900	17% standard rate	Previously item 23 of SRO 551(I)/2008
8.	Synthetic or reconstructed stones, precious or semi-precious	7104.1000, 7104.2000, 7104.9000	17% standard rate	Previously item 24 of SRO 551(I)/2008
9.	Re-meltable scrap	72.04	17% standard rate	Previously item 31 of SRO 551(I)/2008
10.	Raw cotton and ginned cotton	Respective headings	5% reduced rate only at import stage under Eighth Schedule.	Previously both import and supply were exempt vide item 33 of SRO 551(I)/2008

S. No	Description	HS Code	Applicable sales tax rate	Comments
11.	Soya bean meal	2304.0000	5% reduced rate under Eighth Schedule.	Previously exempt vide item 15 of SRO 501(I)/2013
12.	Oil cake and other solid residues, whether or not ground or in the form of pellets	2306.1000	5% reduced rate under Eighth Schedule.	Previously exempt vide item 16 of SRO 501(I)/2013
13.	Directly reduced iron	72.03	5% reduced rate under Eighth Schedule.	Previously exempt vide item 21 of SRO 501(I)/2013
14.	Purpose build taxis, subject to certain conditions	8703.3226, 8703.3227	17% standard rate	Previously exempt vide item 25 of SRO 501(I)/2013
15.	Machinery and equipment for development of grain handling and storage facilities	Respective headings	5% reduced rate under Eighth Schedule subject to conditions.	Previously exempt vide item 2 of SRO 575(I)/2006
16.	Cool chain machinery and equipment	Respective headings	5% reduced rate under Eighth Schedule subject to conditions.	Previously exempt vide item 3 of SRO 575(I)/2006.
17.	Certain items imported by call centre, business processing outsourcing facilities approved by telecommunication authority	Various	5% reduced rate under Eighth Schedule subject to conditions.	Previously exempt vide item 4 of SRO 575(I)/2006.
18.	Machinery, equipment and other items required by hotels, recreational services related projects etc approved by Tourism Ministry	Respective headings	17% standard rate	Previously exempt vide items 8 of SRO 575(I)/2006.
19.	Machinery, equipment and capital goods, specialized vehicles, spares, chemicals and consumables etc meant for mineral exploration phase	Respective headings	5% reduced rate under Eighth Schedule subject to conditions.	Previously exempt vide item 9 of SRO 575(I)/2006.

S. No	Description	HS Code	Applicable sales tax rate	Comments
20.	Complete plants for relocated industries	Respective headings	5% reduced rate under Eighth Schedule subject to conditions.	Previously exempt vide item 15 of SRO 575(I)/2006.
21.	Machinery, equipment and other capital goods etc for certain service sectors	Respective headings	17% standard rate	Previously exempt vide item 16 of SRO 575(I)/2006.
22.	Machinery, equipment and capital goods imported for establishing wholesale / retail chain stores	Respective headings	17% standard rate	Previously exempt vide item 17 of SRO 575(I)/2006.
23.	Machinery, equipment and capital goods for oil refining, petrochemical, etc.	Respective headings	5% reduced rate under Eighth Schedule subject to conditions.	Previously exempt vide item 20 of SRO 575(I)/2006.
24.	Air handling units	Respective headings	17% standard rate	Previously exempt vide item 24 of SRO 575(I)/2006.
25.	Certain Valves, tubes, fans etc items imported by manufacturing sectors	Respective headings	17% standard rate	Previously exempt vide item 25 of SRO 575(I)/2006.
26.	Proprietary formwork systems for building structures subject to certain conditions	7308.4000, 3917.2390, 3926.9099, 7308.4000, 7308.9090, 7318.1590, 7318.1690, 7318.1900, 7318.2290, 8205.2000, 8205.5900, 8425.4900	5% reduced rate under Eighth Schedule subject to conditions.	Previously exempt vide item 30 of SRO 575(I)/2006.
27.	Heat ventilation air conditioner	8415.8200	17% standard rate	Previously exempt vide item 32 of SRO 575(I)/2006.
28.	Certain machinery and equipment related to broadcasting	Various	17% standard rate	Previously exempt vide item 33 of SRO 575(I)/2006.
29.	Machinery and equipment imported by surgical industry	8460.0000	17% standard rate	Previously exempt vide item 37 of SRO 575(I)/2006.
30.	Machinery and equipment imported by cutlery industry	Various	17% standard rate	Previously exempt vide item 38 of SRO 575(I)/2006.

S. No	Description	HS Code	Applicable sales tax rate	Comments
31.	Import of plant and machinery not manufactured locally and having no compatible local substitute subject to certain conditions	Respective headings	5% reduced rate under Eighth Schedule subject to conditions.	Previously exempt vide SRO 727(I)/2011.
32.	Import of rapeseed, sunflower seed and canola seed by solvent extraction industries.	Respective headings	16% reduced rate under SRO 571(I)/2014 dated June 26, 2014.	Previously subject to reduced rate of 14% covered under SRO 69(I)/2006.

SRO 551 (I)/ 2008 dated June 11, 2008, SRO 727 (I)/ 2011 dated August 1, 2011 and SRO 501 (I)/ 2013 dated June 12, 2013 have consequently been withdrawn through SRO 573(I)/2014 dated June 26, 2014 with effect from June 26, 2014. Also, SRO 575(I)/2006 dated June 5, 2006 has been withdrawn through SRO 564 (I)/2014 dated June 26, 2014 whereas amendment in SRO 69(I)/2006 dated January 28, 2006 has been made through SRO 571(I)/2014 dated June 26, 2014, both having effect from June 26, 2014.

SALES TAX ON CELLULAR MOBILE PHONES & SIM CARDS **[Ninth Schedule]**

Specific provisions for levy of sales tax on cellular mobiles were laid down in SRO 460(I)/2013 dated May 30, 2013. Such provisions have now been made part of the law by way of Ninth Schedule to the Act.

In addition to the same, the concept of payment of sales tax at fixed amount on registration of IMEI number by the CMO has been newly introduced in the amended provisions of the Ninth Schedule to the Act.

The amended position now appears to be a fixed sales tax of Rs. 150, Rs. 250 and Rs. 500 by the importer for the different categories of mobile phones, a fixed tax of Rs. 250 on registration of IMEI number by the CMO and Rs. 250 on sale of SIM card by the CMO. There is a view that sale of SIM card does not represent 'supply of goods' covered under the Sales Tax Act, 1990.

SPECIAL SALES TAX REGIME FOR EXPORT ORIENTED SECTORS

SRO 1125(I)/2011 dated December 31, 2011 provides special sales tax regime for export oriented sectors. As a result of amendment made in the above referred SRO through SRO 420(I)/2014 dated June 4, 2014 followed by an amendment through SRO 575(I)/2014 dated June 26, 2014, sales tax at the standard rate of 17% (previously 5%) shall be payable on the import and supply of articles of leather and textile etc., ready for use by the general public.

REDUCTION IN TAX RATES ON IMPORT & LOCAL SUPPLY OF TRACTORS

Through SRO 572(I)/2014 dated June 26, 2014, the rate of sales tax on import and local supply of agricultural tractors has been reduced from 16% to 10%.

FEDERAL EXCISE DUTY

HIGHEST RETAIL PRICE

[Section 12]

Presently, manufacturers of goods subject to duty on retail price basis are required to pay duty at the highest retail price where more than one retail price is fixed by the manufacturers for any particular brand or variety of such goods.

Through the Finance Act, 2014, FBR has been authorised to specify zones or areas only for the purposes of determining highest retail price for any brand or variety of goods. This seems to be a positive amendment aimed at resolving the long outstanding grievance of such manufacturers with regard to payment of duty on highest retail price without taking into account geo-economic factors.

REVISION IN SCOPE AND RATE OF DUTY

Locally Produced Cigarettes

[S. Nos. 9 & 10 in Table I of the First Schedule]

The rates of FED on cigarettes were enhanced w.e.f. June 4, 2014 through SRO 422(I)/2014 dated June 4, 2014:

Description of goods	Revised rate
Locally produced cigarettes if their on-pack printed retail price exceeds Rs. 2,706 per 1,000 cigarettes.	Rs. 2,632 per 1,000 cigarettes.
Locally produced cigarettes if their on-pack printed retail price does not exceed Rs. 2,706 per 1,000 cigarettes.	Rs. 1,085 per 1,000 cigarettes.

SRO 422(I)/2014 dated June 4, 2014 has now been rescinded vide SRO 574(I)/2014 dated July 1, 2014 as the same rates have now been incorporated in First Schedule to the Act.

For the purpose of levy, collection and payment of above duty, cigarette manufacturers are not allowed to reduce price from the level adopted on the day of announcement of the latest Budget. Further, manufacturers and importers are restricted from fixing the price of a new cigarette brand variant, of the same existing brand family, at a price below the lowest actual price of existing variant in the same brand family on the day of announcement of the Budget for the current financial year, which for the purposes of the forthcoming financial year would be June 3, 2014.

Further, price of any new brand introduced in the market shall not be less than 95% of the price at which the highest number of excise duty paid on cigarettes were sold in the previous fiscal year.

Cement

[S. Nos. 13 in Table I of the First Schedule]

The duty on Portland cement, aluminous cement, super sulphate cement, whether or not coloured or in the form of clinkers (PCT heading 25.23) has been levied at 5% of the retail price, as defined under the Act. Prior to the Finance Act, 2014, the rate of duty was Rs. 400 per metric ton.

Motor Vehicles

[S. Nos. 55 in Table I of the First Schedule]

In order to promote the local industry, it appears that the government intends to withdraw duty on the locally manufactured motor vehicles having cylinder capacity of 1800cc or above.

However, the amendment does not seem to be in line with the above intention as the current draft leaves the phrase 'other motor vehicles' intact.

Domestic Travel by Air

[S. Nos. 3(a) in Table II of the First Schedule]

Prior to the Finance Act, 2014, duty on travel by air, embarking on journey within the territorial jurisdiction of Pakistan, was levied @ 16% of the charges plus Rs. 60 per ticket.

Through the Finance Act, 2014, the rate of duty has been enhanced as under:

<i>Description of route</i>	<i>Revised rate in Rupees</i>
Long routes (journeys exceeding 500 kilometers)	2,500
Short routes (remaining journeys other than socio-economic routes)	1,250
Socio-economic routes (journeys along the Balochistan coastal belt)	500

International Travel by Air

[S. Nos. 3(b) in Table II of the First Schedule]

Duty on travel by air, embarking on international journey from Pakistan, has been enhanced as under, with effect from July 1, 2014:

- For economy and economy plus – Rs. 5,000 (previously Rs. 3,840)
- For club, business and first class – Rs. 10,000 (previously Rs. 6,840)

Such duty is payable at the time of issue of tickets under the rules.

Telecommunication Services

[S. Nos. 6 in Table II of the First Schedule]

The rate of duty on telecommunication services has been reduced from 19.5 % to 18.5% of the charges.

Further, telecommunication services which are subject to provincial sales tax and where such tax is being collected by the respective province through its own board or authority are excluded from the purview of duty.

CHARTERED FLIGHTS

[S. Nos. 15 in Table II of the First Schedule]

Duty at the rate of 16% has been levied on chartered flights (PCT heading 98.03). Earlier, no duty was payable on such flights.

This amendment appears to have been made to clarify the status of charge of duty on chartered flights which were earlier laid down only in the Rules, and not in the First Schedule to the Act.

SALES TAX AND DUTY ON AERATED BEVERAGES

Through SRO 569(I)/2014 dated June 26, 2014, Production Capacity (Aerated Waters) Rules, 2013 have been repealed with effect from July 1, 2014. As a result, aerated waters manufacturers are now subject to FED on beverages concentrate @ 50% of its value whereas FED @ 9% and sales tax @ 17% will be chargeable on aerated waters.

This would end the ongoing litigation on capacity tax, the imposition of which was constitutionally challenged by some beverage companies.

Transitional issues such as the treatment of duties / sales tax paid on input goods not allowed earlier as a result of ceiling prescribed under the capacity regime and existing stocks on which capacity tax was paid and which is to be sold after June 30, 2014, are to be settled.

CUSTOMS DUTY

ABOLITION OF SROs AND INSERTION IN THE RESPECTIVE PROVISIONS OF THE CUSTOMS ACT, 1969

Fifth Schedule has been enacted to Customs Act, 1969. This schedule prescribes concessionary duty rates on various goods which were earlier applicable under various notifications.

POWER OF CUSTOMS AUTHORITIES TO COLLECT TAXES **[Sections 32, 80 & 81]**

Customs authorities have now been empowered to collect taxes, in addition to duty, which were short collected or erroneously refunded. The amendment has been made in view of certain judgments of the courts where the recovery of taxes was held to be beyond jurisdiction of customs authorities.

NARCOTICS AND NARCOTIC SUBSTANCES **[Section 185B]**

Cases involving narcotics and narcotic substances are now to be tried in Special Courts created under the Control of Narcotics Substances Act, 1997 (Act).

VALUE OF IMPORTED AND EXPORTED GOODS **[Section 18(1A)]**

Certain amendments have been introduced in the provisions relating to valuation of imported goods in respect of transaction value of identical goods.

IMPOSITION OF REGULATORY DUTY

Through SRO 568(I)/2014 dated June 26, 2014, the Federal Government has imposed regulatory duty @ 5% on import of certain specified goods.



OTHER LAWS

INCOME SUPPORT LEVY

Income Support Levy was introduced by way of Income Support Levy Act, 2013 in the Finance Act, 2013 on ownership of certain movable assets.

The matter was challenged at various judicial forums. Through the Finance Act, 2014, Income Support Levy Act, 2013 has been repealed.

GAS INFRASTRUCTURE DEVELOPMENT CESS (GIDC)

Through the Finance Act, 2014, the GIDC rates have been increased for Industrial sector including Fertilizer – Fuel Stock, CNG sector and Captive Power Producers.

A comparative analysis of the GIDC rates is as under:

S. No.	Sector	Maximum rate of cess (Rs. / MMBTU)	
		Previous	Revised
(1)	(2)	(3)	(4)
1.	Fertilizer – Feed Stock	300	300
2.	Industrial including Fertilizer – Fuel Stock	100	150
3.	Compressed Natural Gas (CNG)		
	- Region-I: KPK, Balochistan & Potohar region (Rawalpindi, Islamabad & Gujarkhan)	263.56	300
	- Region-II: Sindh & Punjab (excluding Potohar region)	200	300
4.	Captive Power	100	200
5.	WAPDA / KESC / GENCOs	100	100
6.	Independent Power Plants (IPPs)	100	100