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Federal Budget 2015



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FEDERAL BUDGET 2015

This memorandum gives a brief overview of Pakistan economy and significant amendments proposed by the Finance Bill 2015. All changes proposed through the Finance Bill 2015 are effective July 1, 2015.

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

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KEY ECONOMIC INDICATORS

Economic Survey 2014-15

Economy has done better than last year.

Inflation has remained all time low in any year in this decade. Foreign exchange reserves improved substantially on account of increased home remittances, issue of Sukuk, decrease in import bill for oil, privatization proceeds and receipt of the tranche from the donors. These factors, inter alia, encouraged State Bank of Pakistan to bring discount rate at all time low of 7%, in the last 42 years.

On the other hand, manufacturing and agriculture sectors being principal employment generating sectors have not shown desired improvements. Exports have fallen even in value terms. Current year's expected goals in the private sector remained sluggish. Resource mobilization efforts do not seem to be in place in the manner that may lead to a respectable tax-to-GDP ratio of over 15%.

These trends would place pressure on employment creation and availability of funds with the Government for social services of education, health, law & order and infrastructure.

Foreign direct investment is expected in following years in infrastructure sector by way of China-Pakistan economic Corridor (CPEC).

In summary, macro-economic indicators are heading in positive direction, however, private sector's initiatives by way of contribution in the form of taxes and investments in manufacturing and agriculture sectors have to be accelerated, if national economic objectives of distributional equity, increase in level of employment and economic security cover is to be made available to the people.

	FY 14 – 15	FY 13 – 14
GDP growth rate	4.24%	4.03%
Per capita income - US\$	1,512	1,384
FDI (July – April) US\$ million	2,057	1,866
Inflation	4.8%	8.7%
Public debt (PKR billion)		
- Domestic	11,932	10,920
- Foreign	5,004	5,076
	16,936	15,996
Budget deficit - %age of GDP	3.8%	3.9%

Source: Economic Survey of Pakistan 2014-2015

BUDGET AT GLANCE

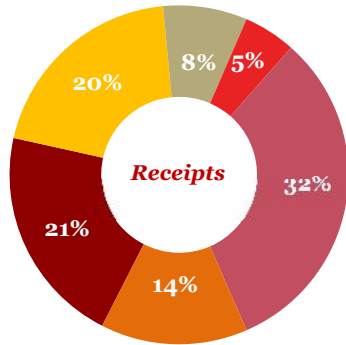
Budget Financials

The following table sets out the Key Budget Financials:

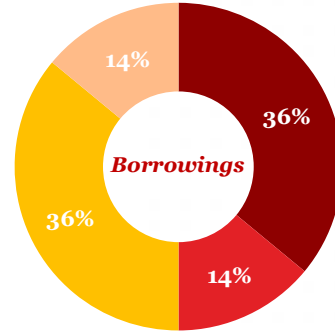
	2015-2016		2014-2015 (Revised)	
	Rs in Billion	%	Rs in Billion	%
Tax revenue	3,418		2,910	
Non-tax revenue	895		1,042	
Gross revenue receipts	4,313		3,952	
Public account receipt – net	254		288	
Total receipts	4,567	100	4,240	100
Less: Provincial share in Federal taxes	(1,849)	(40)	(1,575)	(37)
Net revenue receipts	2,718	60	2,665	63
Expenditure				
- Current expenditure	3,615	79	3,558	84
- Development expenditure	969	21	754	18
	4,584	100	4,312	102
Deficit	(1,866)	(40)	(1,647)	(39)
- Domestic debts non-bank	485		393	
- Domestic debts banks	283		402	
- Foreign debt	751		692	
- Privatization proceeds	50		18	
- Surplus from provinces	297		142	
	(1,866)		(1,647)	

WHERE FROM THE RUPEE COMES IN AND WHERE IT GOES OUT

IN

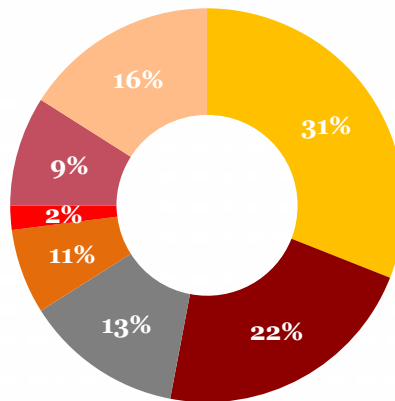


- Income Tax
- Sales Tax
- Customs Duty (5%) and FED (3%)
- Petroleum levy, Gas Infrastructure Cess & Others
- Borrowings
- Non-tax revenue



- Domestic debts non-bank
- Domestic debts banks
- Foreign debts
- Surplus from provinces

OUT



- Provincial share in Federal taxes
- Debt servicing
- Defence Affairs and Services
- Grants and transfers
- Subsidies
- Federal Government expenses including pensions
- Development expenditure

BREAK-UP OF TAX REVENUE

There is no substantial change in the ratio of direct and indirect taxes.

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

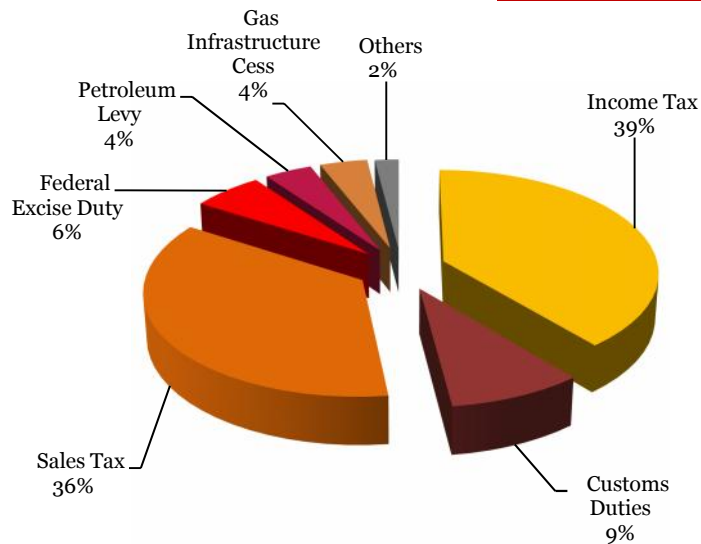
Direct Taxes:

- Income Tax
- Workers' Welfare Fund

Indirect Taxes:

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

FY 15 – 16	FY 14 – 15 (Revised)
Rs in Billion	Rs in Billion
1,327	1,092
20	16
1,347	1,108
299	255
1,250	1,082
206	159
135	126
145	145
30	30
6	5
2,071	1,802
3,418	2,910



EXECUTIVE SUMMARY ON TAX PROPOSALS

INCOME TAX

1. A one-time super tax for tax year 2015 has been proposed on (i) banking companies; and (ii) all other taxpayers having income of Rs 500 million or above at the rate of 3 and 4% respectively. This 'tax' is for the rehabilitation of temporary displaced persons. Incidence will also arise for cases where financial statements have already been finalized, such as banking companies.

2. Undistributed reserves of a public company (other than modaraba and a scheduled bank) have again been proposed to be taxed at the rate of 10% with effect from tax year 2015. All undistributed reserves so defined in the law shall be subject to this tax if the same are in excess of 100% of paid up capital.

3. The rate of tax on companies other than banking companies has been reduce to 32% for tax year 2016 in line with the announcement 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).

4. The rate of tax on dividends (other than from stock funds) has been increased from 10% to 12.5% for filers and from 15% to 17.5% for non-filers. Dividend from stock funds shall be taxable at the rate of 15% instead of 12.5%.

5. The rates for tax on capital gains have been revised upward. The holding period for taxable gains has been extended to 48 months.

6. All income of banking company shall now be taxable at the rate of 35%. Reduced rate for dividend income and capital gains have been abolished.

7. A 0.6% collection of tax has been introduced on almost all banking transactions undertaken by a non-filer.

8. A tax credit has been introduced for newly established manufacturing companies in relation to employment generation.

9. A new concept of audit by a panel consisting inter alia by a firm of Chartered Accountant has been introduced.

10. Royalties for the use or right of use of equipment etc. provided by residents will now be subject to final tax regime.

SALES TAX

1. The concept of active taxpayers has also been introduced for the purposes of sales tax.

2. Amendments not in line with the VAT principles have been introduced in relation to the admissibility of input tax in certain cases.

3. Sales tax regime in respect of certain items has been revamped. This process inter alia includes substitution of zero rating with exemption regime and / or introduction of a reduced rate. In particular in the 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 substituted with either exemption or reduced tax rate of 10%.

FEDERAL EXCISE DUTY

Federal Excise Duty on aerated beverages and locally produced cigarettes have been enhanced.

GENERAL

A new concept of 'whistleblower' has been introduced to reward the persons identifying concealment or evasion of taxes.

GAS INFRASTRUCTURE DEVELOPMENT CESS (GIDC)

An Act has been passed by the Parliament which has also received Presidential assent for the charge and recovery of GIDC by the Federal Government. In the aforesaid Act, special enabling provisions have been placed to recover GIDC levied in the earlier years through various statutes and rules which superior courts had held as ultra vires. The validity of the present legislation particularly in the context of retrospective application may be tested under the Constitutional provisions. Recoveries in respect of past years can only be made from certain specified consumers.

INCOME TAX

INTRODUCTION OF ONE-TIME SUPER TAX

A one-time super tax for tax year 2015 has been proposed 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, even if taxable under the special provisions of the Ordinance. In the cases subject to final regime, such income will represent 'imputable income' as newly defined under section 2(28A) of the Ordinance to mean the income which would have resulted in the same tax had the amount not been subjected to final tax.

One time super tax shall also be 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 Government of Pakistan.

The 'income' from profit on debt, dividends and brokerage and commission are susceptible to be included separately as well as under the imputable income basis. This matter needs to be clarified.

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. which follows special tax years already ended.

This effectively represents retrospective charge in the cases where financial statements have already been finalised. The right course to settle this aspect would be the recovery of super tax in such cases in the following tax year 2016.

TAX ON UNDISTRIBUTED RESERVES

Undistributed reserves of a public company (other than modaraba, scheduled bank and Government-owned companies) have again been proposed to be taxed with effect from tax year 2015. This effectively represents re-introduction of similar levy imposed under section 12(9A) of repealed Income Tax Ordinance, 1979 vide Finance Act 1999.

Such tax is proposed to be 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.

A special provision has been introduced that any cash distribution before the date of filing the return shall be considered as distribution for tax year 2015.

The term 'reserves' has been defined in a sub-section to this provision, however, in case this provision is to be retained, the term 'reserves' shall be required to be defined as the amount reflected in the financial statements prepared under the accounting framework.

This provision in essence levies a tax on entire undistributed accumulated reserves in excess of paid up capital. This tax is effectively chargeable on reserves that have arisen out of already taxed income. When the identical levy was introduced under the repealed 1979 Ordinance, similar issues were raised and consequently this tax was effectively related to income for the year and was not applicable where distribution for the year was lower of 40% of the profit for the year or 50% of the paid up capital. This is either an omission or a serious defect as under the earlier law the minimum threshold of distribution was introduced after realising the aforesaid issues.

This means that the similar mistake has been repeated which requires immediate redressal.

The economic rationale of this tax regime is to be examined in the context that all accumulated reserves in excess of 100% paid up capital will effectively be used in the payment of tax if there is no distribution which may arise for various reasons including non-availability of reserves in liquid form.

The other recourse of capitalisation of reserves by way of issue of bonus shares is also not available as the same are also taxable.

Further, this tax is also payable for tax year 2015 which includes cases having special tax year already ended. This effectively represents retrospective charge in the cases where financial statements have already been finalised. The preferred option would have been the commencement of this levy from tax year 2016.

REVISION IN TAX RATES

The rate of tax on companies other than banking companies shall be 32% for tax year 2016. This positive policy of reduction of the corporate tax rate is in line with the announcement 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). This step will enhance the confidence amongst the taxpayers for consistent application of policy statements.

The rate of tax on dividends (other than from stock funds) has been increased from 10% to 12.5% for filers and from 15% to 17.5% for non-filers. Dividend from stock funds shall be taxable at the rate of 15% instead of 12.5%.

The revised status of tax on Capital Gains on disposal of 'securities' under section 37A is proposed to be as under:

Holding period	Tax Year	
	2016	2015
Less than 12 months	15%	12.5%
12 months to less than 24 months	12.5%	10%
24 months to less than 48 months	7.5%	0%
More than 48 months	0%	0%

This amendment has effectively brought into tax net long term capital gains which arise on disposal of securities. This policy change represents departure of an understanding at the time of introduction of tax on capital gains that only short term trading gains were intended to be taxed under the Income Tax provisions. As identified earlier, a consistent policy regime is essential for bridging the trust gap between the taxpayers and policymakers.

Rate of tax on capital gains of insurance companies for tax year 2016 has been prescribed in line with similar income in the hands of other taxpayers as laid down for income covered under section 37A.

Adjustable withholding tax of 14% has also been introduced on internet services.

The tax slabs for salary income have been revised. The maximum rate of 30% has been retained, however, the slabs within that structure have been amended which has resulted in a very minor relief for lower brackets. Similar amendments have been made for non-salaried income.

Minimum tax on income of distributors or dealers in fertilizers business is proposed to be increased from 0.2% to 0.5%.

TAX REGIME OF BANKING COMPANIES

Dividend income and capital gains for banking companies are subject to tax under Seventh Schedule at the rate of 10% and 12.5% respectively. All other income of banking companies are taxable at the rate of 35%.

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 the reduction of tax rate from 35% to 30% over the period of 5 years (2014 to 2018) which is otherwise available to all other companies. It is now proposed that the tax regime for the banking companies will be revised and all incomes including dividend and capital gains shall also be taxable at the rate of 35%. In addition to this, as described earlier, one-time super tax at the rate of 4% shall also be payable by banking companies for tax year 2015.

The provisions relating to attribution of expenses have been omitted as now the whole income is taxable at a gross rate of 35%.

COLLECTION OF TAX ON BANKING TRANSACTIONS FROM NON FILERS

A unique regime for collection of tax on banking transactions has been introduced for persons who are non-filers for tax purposes. Under this regime almost all banking transactions inter alia including sale of instrument like demand draft, pay order, etc. and transfer of any sum through cheque and other similar manners or clearing interbank transfer through cheques shall be subject to collection of tax at the rate of 0.6% of the transaction amount. This provision will only be applicable where the sum total of payments for all transactions exceed Rs 50,000 in a day.

The amounts so collected are adjustable against the tax liability if the person files the return of income. On a practical side, the position appears to be that almost all banking transactions undertaken by all persons will be subject to this regime of collection of tax except those cases where the person's name is on the list of active taxpayers. Validity of this provision will be questioned by persons who are otherwise not taxable or are exempt under the Federal tax regime.

REAL ESTATE INVESTMENT TRUSTS (REIT)

The gain on disposal of immovable property to a REIT scheme is exempt from tax upto June 30, 2015. This period of exemption is proposed to be 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.

Furthermore, dividend income from Developmental REIT Scheme set up by June 30, 2018 shall be allowed a rebate of 50% for 3 years from June 30, 2018. The aforesaid concession is also required to be extended to the dividend income on REITs which are established or set up before the said date.

In line with mutual funds and Collective Investment Schemes, REIT Schemes have also been obliged to collect Capital Gains Tax on redemption of securities at the applicable rates.

TAX CREDIT FOR EMPLOYMENT GENERATION

A tax credit has been introduced for companies to encourage employment generation. Under this provision, any company engaged in manufacturing formed between July 1, 2015 to 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.

This is a positive step in relation to economic need for employment generation, therefore it is imperative that this regime should also be applicable to all persons including non-corporate taxpayers and persons engaged in activities other than manufacturing.

Equity demands that this provision should also be applicable to existing taxpayers generating new employments.

TAX ON PROFIT ON DEBT

The tax regime for profit on debt derived by resident taxpayers has been revamped. Henceforth, all profits on debt received from persons who are withholding tax agent for section 151 shall be taxed at the slab rates ranging from 10% to 15%. This effectively means that except for banking companies which are taxed under special provisions of Seventh Schedule, the gross amount of profit on debt shall be taxed at the newly prescribed rates. The taxability of profit on debt in the case of companies (other than banking companies) under this regime needs to be reviewed.

TAX EXEMPTIONS

Tax (including minimum tax) exemptions have been introduced for the following sectors and activities:

- Manufacture of plant and machinery for renewable energy resources;
- Operation of warehousing and cold chain facilities for agricultural produce;
- Operating Halal meat production;
- Any manufacturing unit set up in the Province of Khyber Pakhtunkhwa;
- Transmission line project; and
- LNG Terminal owner and operators.

AGREEMENTS FOR AVOIDANCE OF DOUBLE TAXATION AND PREVENTION OF FISCAL EVASION

Enabling provisions have been introduced to allow Government of Pakistan to enter into Agreements for Exchange of Information and such allied matters in addition to the existing powers to enter into Agreements for Avoidance of Double Taxation and Prevention of Fiscal Evasion with other countries.

This amendment will empower the government to obtain or render information in respect of transactions or activities undertaken in other countries or Pakistan respectively.

Furthermore, a new section 165B has been introduced to enable the banks and financial institutions to provide information in relation to non-resident persons to FBR that may be required to be furnished to any other country under the agreement referred above. It appears that the right of seeking information under this section is limited to that required by the other country.

These amendments have apparently been made to cater for reporting and other requirements introduced in various countries such as US FATCA regulations.

FORMATION OF PANEL FOR SPECIAL AUDIT

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 that arose when the process of audit by the firms of Accountants was introduced.

STAY BY THE COMMISSIONER (APPEALS)

Currently, the Commissioner (Appeals) is empowered to grant a stay of tax demand in an appeal before him for a period of 30 days only. Practical and legal difficulties are being faced under the present regime as in many cases, appeals are not decided within the said 30 days. In order to address this difficulty, a positive action has been undertaken whereby 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.

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.

This positive amendment should also be introduced in the parallel provisions laid down in Sales Tax and Federal Excise laws.

UPWARD ESTIMATE FOR ADVANCE TAX

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 envisages a possibility of not discharging the advance tax liability in line with the income earned during that period.

It is now proposed that advance tax to the extent of 50% of the estimate if higher than the latest assessed basis is paid by the due date of second instalment for that particular year. The regime now introduced is in line with that applicable for banking companies in Seventh Schedule.

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

As a policy measure, it is proposed that the discretionary powers of the Federal Government and FBR for granting concessions and exemptions will be eliminated. Now, such actions, if required, can only be undertaken in special cases by way of a decision of the Economic Coordination Committee of the Federal Cabinet.

Under sections 148(2) and 159(3), (4) and (5) of the Income Tax Ordinance, 2001 various SROs have been issued which provide concessions or exemptions on collection of advance tax on imports and other withholding tax provisions.

The Finance Bill proposes to omit sections 148(2) and 159(3), (4) and (5) of the Ordinance. The relevance of the SROs already in force prior to omission of this section will be ascertained on the basis of principle of prospective application of legal provision.

It is considered that retrospective application is not envisaged, however, in order to avoid unnecessary litigation and disputes at field levels, it is essential that the protection / savings for the substantive provision are introduced.

EXEMPTION CERTIFICATES TO NON-RESIDENTS

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 is proposed in section 152 to allow the Commissioner to issue exemption certificates in eligible cases of non-residents.

MINIMUM TAX ON SERVICES OF COMPANIES

A clarificatory as well as explanatory provision has been introduced in respect of minimum tax on services rendered or provided by a company. Accordingly, in essence there is no change in the law. The provisions contained in clause 79 of Part IV of the Second Schedule to the Ordinance are proposed to form part of the substantive provision of the law.

This alignment has been undertaken to address the matter raised by the Federal Tax Ombudsman. That authority had questioned the right of the Federal Government to allow concessions through a notification instead of an enactment by the Parliament. Accordingly, this provision has been proposed to take effect from tax year 2009 being the year in which the minimum tax provisions were originally introduced.

OPTION FOR NORMAL TAX REGIME FOR EXPORTERS

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 (inserted by Finance Act, 2012 and omitted by Finance Act, 2014) the exporters were entitled to opt out on a year to year basis from the presumptive tax regime subject to minimum payment of tax.

By way of expressed provision, a right of irrevocable option to be taxed under normal regime has been re-introduced. The new provision prescribes that the amount deducted at source shall be the minimum tax liability on income from such exports. This appears to a one time option as against the year to year basis prescribed under the earlier law. FBR is suggested to clarify the matter.

Since the tax deducted is being treated as minimum tax under this provision which is otherwise equal to minimum tax under section 113, therefore, for practical purposes, 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).

COMPUTERISED NATIONAL IDENTITY CARD (CNIC) NUMBER

As a policy measure, the Federal Government had shown its intention to replace the National Tax Number (NTN) with CNIC number which is required to be obtained by every Pakistani citizen.

Through this amendment, it is proposed that in the case of an individual, CNIC number shall replace NTN. The amendment appears to be in line with the aforesaid policy, however, it is important to note that CNIC is issued to all Pakistani Citizens irrespective of their tax status whereas all NTN holders are required to file a return of income. The policy measure appears to be in the right direction however substantive provisions need to be aligned in relation to the persons holding CNIC not required to comply with the tax filing and other requirements for NTN holders.

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. If the objective is limited to this aspect then through this amendment the process of obtaining NTN for filing of return is removed.

SELECTION OF RETAILERS FOR AUDIT

Retailers registered under the sales tax law shall be immune from selection of audit if certain conditions are fulfilled. Retailers, who are registered under Sales Tax Special Procedure Rules, 2007 shall not be subject to compulsory and automatic selection for audit of their income tax affairs under section 177 of the Ordinance if:

- (a) Name of the person appears in the sales tax active taxpayers list;
- (b) Complete return of income has been filed within the due date;
- (c) Tax payable as per return has been paid;
- (d) 2% tax on turnover under section 113 (Minimum Tax) has been paid by a person registered as retailer who files a return below taxable limit and who, in the preceding tax year, had either not filed the return or had declared income below taxable limit; and
- (e) 25% higher than last year's tax liability has been paid.

This regime has been introduced apparently to cater for the cases where compliance to the sales tax laws were not being made on account of the perceived actions for income tax purposes on the basis of returns filed under the sales tax law.

Now an effective immunity from audit is available irrespective of the amounts declared for sales tax purposes if the income tax is paid in excess of 25% of last year's tax liability. This is the introduction of another form of presumptive income tax and self-assessment scheme.

This regime shall be applicable from the date to be notified by the FBR.

PRESUMPTIVE TAX ON PAYMENTS TO RESIDENTS FOR CERTAIN ROYALTIES

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. 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.

This provision requires to be re-examined in relation to the activities undertaken by certain institutions who are earning income by way of consideration for the use of equipment, etc. Presumptive regime for such activities / transactions is not in line with the principle of taxation especially for companies where such activities are supposed to be taxed on net income basis instead of a final tax liability based on gross consideration received. The correct measure would have been the introduction of adjustable withholding regime if there is a perception of avoidance of tax on such considerations.

COLLECTION OF TAX ON REMITTANCE OF EDUCATION RELATED EXPENSES

In line with the tax collection regime for payments of education fees to local institutions in certain cases, a parallel regime is proposed to be introduced for tax collection at 5% on adjustable basis for remittance of education expenses abroad.

Under this provision, the banks, financial institutions etc. shall collect tax on payment of educational expenses abroad. This regime has presumably been introduced to collect tax from persons outside the normal tax regime remitting education fees abroad through banking channels. This provision is effectively applicable only where payments are to be made under Foreign Exchange Act 1947.

Notwithstanding the conceptual validity of the provision introduced, for practical purposes usually in the case of persons outside tax regime, payment on that account are generally routed through private foreign currency accounts where in practice, there is no enquiry for income tax purposes in respect of the purpose of remittance made abroad.

DIVIDEND IN SPECIE

Dividend in specie was not subject to withholding and the said matter has been decided by the higher courts in favour of taxpayers. It is now proposed that withholding tax provisions will be applicable on distribution

by way of dividend in specie. Withholding under this provision will be on the amount representing the value of asset released from the reserves as per the financial statements.

TAX COLLECTION BY PAKISTAN MERCANTILE EXCHANGE LIMITED

A special regime of taxation has been introduced for transactions undertaken by Pakistan Mercantile Exchange Limited.

RATE OF DEFAULT SURCHARGE & COMPENSATION

The rate of default surcharge in case of failure to pay tax deducted or collected has been reduced from 18% to 12%. Similarly, the rate of statutory compensation on delayed refund is proposed to be reduced from 15% to KIBOR plus 0.5%.

PAYMENT OF TAX ON DEMAND

A positive amendment has been made by reinstating the time period of 30 days instead of 15 days for payment of tax demand pursuant to an order.

MINIMUM TAX ON LAND DEVELOPERS

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 is proposed @ 2% of value of land notified by the authorities for stamp duty.

FILING OF REVISED RETURNS

The condition of obtaining prior approval from the Commissioner for filing a revised return is proposed to be dispensed with if the revised return is filed within 60 days of filing of the original return.

TAX ON RESIDENT SHIPPING COMPANIES

The presumptive tax regime for resident shipping companies has been revamped. At present, in case of a loss, the presumptive regime of tax was effectively not applicable. Now, such cases will also be subject to presumptive tax regime applicable to shipping companies.

MINIMUM TAX ON TRADING HOUSES

Large trading houses as defined under clause 57 of Part IV of the Second Schedule 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.

TAX CREDIT ON INVESTMENT IN SHARES & LIFE INSURANCE PREMIUM

The monetary threshold for claiming tax credit on investment in shares of public company and life insurance premium is enhanced from Rs 1 million to Rs 1.5 million.

TAX CREDIT ON ENLISTMENT OF COMPANIES

The tax credit on enlistment of companies is proposed to be enhanced from 15% to 20% of tax payable.

TAX DEDUCTION FOR PROFIT ON DEBT ON HOUSE BUILDING LOANS INSTEAD OF TAX CREDIT

A special provision has been introduced to allow deduction for profit on debt or share in appreciation of house by an individual on loan from a bank or other such institutions, obtained for the construction of a new house or acquisition of a house. At present, a tax credit is allowed on this account which is now proposed to be removed.

The maximum amount of deduction allowed under this provision shall be restricted to 50% of taxable income or Rs 1 million, whichever is lower.

INCOME FROM PROPERTY

An important amendment has been proposed in respect of income from property. 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. This amendment has principally brought the taxability of rental income in line with other heads of income.

SALES TAX

ACTIVE TAXPAYERS

The concept of 'Active Taxpayers' is proposed to be introduced in line with that applicable under the Income Tax provisions. In the case of Income tax, a non-active taxpayer / non-filer is inter alia subject to higher rate of withholding tax. In the case of sales tax, FBR will make rules for restrictions and limitations in respect of such persons which may inter alia include non-availability of input tax.

All registered persons are to be treated as active taxpayers except the following:

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

TOLL MANUFACTURING

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 has been proposed to reiterate 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. An amendment is proposed in the definition of supply 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

Supply of taxable goods to unregistered persons was subject to tax @ 18%. Such rate of 18% represents 17% being the standard sales tax and 1% as the amount of further tax. Now, the rate of tax on such supplies is proposed to be increased to 19% on account of enhancement of further tax to 2%.

INPUT TAX

Following regressive 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 absurdity of the aforesaid restrictions could lead to a challenge for the same under the Constitutional provisions.

Input tax paid in respect of prefabricated buildings are proposed to be allowed, previously this was not an allowable adjustment.

PRIZE SCHEME

It is proposed to introduce prize schemes 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 / invoice of sales tax is an eligible criteria.

COTTAGE INDUSTRY

Any person having utility bills of Rs 800,000 or more during the last 12 months instead of previous limit of Rs 700,000 has been excluded from the definition of cottage industry.

JOINT AND SEVERAL LIABILITY

In the context of joint and several liability related provision, onus to prove collusion for avoidance of payment of sales tax shall be on the department.

INPUT TAX ADJUSTMENT ON IMPORTED GOODS

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

FIFTH SCHEDULE – ZERO RATING

Supply of locally manufactured plant and machinery earlier zero rated under SRO 397(I)/2001 are proposed to continue 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 is proposed to be exempted:

Description	PCT Heading
Aircraft, whether imported or acquired on wet or dry lease	8802.2000, 8802.3000, 8802.4000
Maintenance kits for use in trainer aircrafts of PCT headings 8802.2000 and 8802.3000	Respective Headings
Spare parts for use in aircrafts, trainer aircrafts or simulators	Respective Headings
Machinery, equipment and tools for setting up maintenance, repair and overhaul (MRO) workshop by MRO company recognized by Aviation Division	Respective Headings
Operational tools, machinery, equipment and furniture and fixtures on one-time basis for setting up Greenfield airports by a company authorized by Aviation Division	Respective Headings
Aviation simulators imported by airline company recognized by Aviation Division	Respective Headings

Local supply of the following goods is proposed to be exempted:

Description	PCT Heading
Raw and pickled hides and skins, wet blue hides and skins	41.01, 41.02, 41.03, 4104.1000, 4105.1000, 4106.2100, 4106.3000, 4106.9000
Bricks (upto June 30, 2018)	6901.1000
Crushed stone (upto June 30, 2018)	2517.1000

Items exempted under SRO 880(I)/2007, SRO 408(I)/2012 and SRO 760(I)/2012 are proposed to continue to be exempted under Sixth Schedule.

Supplies of marble and granite by manufacturers exempted under SRO 76(I)/2008 are proposed to continue 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 now proposed to be exempted under Sixth Schedule.

Import and supply of equipment under PCT codes 3006.9100, 3926,9050 and 8539.3930 are proposed to be exempted under Sixth Schedule.

EIGHTH SCHEDULE

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

Description	PCT Heading
Tillage and seed bed preparation equipment	Certain PCT headings
Seeding or planting equipment	Certain PCT headings
Irrigation, drainage and agro-chemical application equipment	Certain PCT headings
Harvesting, threshing and storage equipment	Certain PCT headings
Post-harvest handling and processing & miscellaneous machinery	8437.1000 & 8433.4000

Following items are proposed to be subject to reduced rate of 10% instead of 5%:

Description	PCT Heading
Machinery and equipment for development of grain handling and storage facilities.	Respective heading
Complete plants for relocated industries.	Respective heading
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.	Respective heading

Following items subject to reduced rate of 5% are proposed to be omitted from the Eighth Schedule:

Description	PCT Heading
Following items imported by Call Centers, Business Processing Outsourcing facilities duly approved by Pakistan Telecommunication Authority. (1) Telephone sets/head sets. (2) Cat 5/Cat 6/Power cables (3) PABX Switch (4) Plasma TV (5) Dedicated telephone exchange system for call centres. (6) Other digital cell recorders	Various
Proprietary Formwork System for building/structures of a height of 100 ft and above and its various items/components consisting of the following, namely:- (1) Plastic tube. (2) Plastic tie slot filters/plugs, plastic cone. (3) Standard steel ply panels, Special sized steel ply panels, wedges, tube clamps (B-Type & 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. (4) Lifting Unit (Structure) (5) Bolts, tie bolts, anchor bolt assembly (fastener), anchor screw (fastener). (6) Nuts (7) Steel pins, tie wing nut (fastener). (8) Steel washers, water plate (fastener). (9) Adjustable base jack (thread rod with nut and steel plate), adjustable fork head (threaded rod with nut and steel channel).	Various

Import and supply of ingredients of poultry and cattle feed exempt under SRO 1007(I)/2005 are proposed to be taxed at 5% under Eighth Schedule.

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

- SRO 69(I)/2006 @ 16%
- SRO 313(I)/2006 @ 6%
- SRO 657(I)/2013 @ 5%
- SRO 572(I)/2014 @ 10%

NINTH SCHEDULE

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

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

Description	HS Code	Current Law			Proposed		
		5 th	6 th	8 th	5 th	6 th	8 th
Soyabean meal	2304.0000			Tax rate 5%			Tax rate 10%
Poultry feed and Cattle feed including their all ingredients except soyabean meal of PCT heading 2304.0000 and oil-cake of cottonseed falling under PCT heading 2306.1000.	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		Exempt			Proposed to be omitted	Tax rate 5%
Whey Flavored milk Butter Desi ghee Cheese Milk and cream, concentrated or containing added sugar or other sweetening matter Yogurt	04.04 0402.99 0405.1 0405.9 0406.101 0402.1000 04.03.1000	Zero rated subject to certain conditions specified in Chapter XIV of Sales Tax Special Procedure Rules, 2007 (STSPR)	Exempt if not covered under Fifth Schedule		Proposed to be omitted	Exempt if not sold in retail packing under brand name	Reduced rate of 10% if sold in retail packing under a brand name
Processed cheese not grated or powdered	0406.3		Exempt			Exempt if not sold in retail packing under brand name	
Cream	04.01 and 04.02	Zero rated subject to certain conditions specified in Chapter XIV of STSPR			Omitted		Reduced rate of 10% if sold in retail packing under a brand name
Directly reduced iron	72.03			Tax rate 5%			Proposed to be omitted
Incinerators of disposal of waste management, motorized sweepers and snow ploughs	8417.8000, 8430.2000 and 8479.8990		Exempt			Proposed to be omitted	Tax rate 5%

Description	HS Code	Current Law			Proposed		
		5 th	6 th	8 th	5 th	6 th	8 th
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.	99.18						
Plant, machinery, equipment and specific items used in production of bio-diesel	Respective Headings						
Reclaimed lead, if supplied to recognized manufacturer of lead batteries	Respective headings						
Waste papers	Respective headings						
Oilseeds meant for sowing.	Respective headings			Tax rate 5%			Tax rate 10%
Plant and machinery not manufactured locally and having no compatible local substitutes	Respective headings			Tax rate 5%			Tax rate 10%

FEDERAL EXCISE DUTY

AERATED BEVERAGES

The rate of duty is proposed to be enhanced from 9% to 12% of retail price with effect from July 1, 2015.

LOCALLY PRODUCED CIGARETTES

Description of and duty on the locally produced cigarettes (PCT heading 24.02) is proposed to be enhanced as under, with effect from July 1, 2015:

S. No.	Description of goods	Revised rate
9	Locally produced cigarettes if their on-pack printed retail price exceeds Rs 3,350 per 1,000 cigarettes	Rs 3,030 per 1,000 cigarettes.
10	Locally produced cigarettes if their on-pack printed retail price does not exceed Rs 3,350 per 1,000 cigarettes	Rs 1,320 per 1,000 cigarettes.

It appears that average tax incidence would increase from 58% to 63%.

FILTER ROD FOR CIGARETTES

It is proposed to charge duty on filter rod for cigarettes (PCT heading 5502.0090), with effect from July 1, 2015:

S. No.	Description of goods	Revised rate
56	Filter rod for cigarettes	Rs 0.75 per filter rod.

EXEMPTIONS

Travel by air on socio economic routes

It has been proposed to exempt excise duty on services provided or rendered in respect of travel by air of passengers on socio economic routes. Duty is currently payable at Rs 500 per passenger.

Socio economic routes are proposed to be 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 3rd 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 are proposed to be incorporated in Third Schedule to the Federal Excise Act, 2005 ('FE Act'):

- Services of air travel for Hajj passengers, diplomats and Supernumerary crew;
- White cement (PCT heading 25.23) ;
- Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars of cylinder capacity exceeding 850cc;
- 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; and
- Advertisement in newspapers and periodicals.

COMMON PROVISIONS RELATING TO FISCAL STATUTES

WHISTLEBLOWERS

A new concept of 'whistleblower' is proposed to be introduced in income tax, sales tax and federal excise duty laws. This will empower FBR to reward persons in addition to its officers who provide information regarding concealment or evasion of tax/duty, tax fraud, corruption or misconduct.

POWERS TO GRANT EXEMPTIONS BY FBR/ FEDERAL GOVERNMENT

As a positive policy measure, the discretionary powers of the Federal Government and the FBR to grant 'exemptions' from taxes and duties under all the four fiscal legislations have been proposed to be 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 taxes;
- development of backward areas; and
- implementation of bilateral and multilateral agreements.

This amendment was introduced recently through Presidential Ordinance. Through the Finance Bill, 2015 the contents of the Ordinance have been adopted in the respective taxing statutes.

Further, it has been proposed that exemptions to be granted by Federal Government under these provisions have to be placed before National Assembly (a requirement already there in the Income Tax Ordinance) and that 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 tax/duty, available under section 3(2)(b) of ST Act and section 3(4) of FE Act, have not been proposed to be made subject to above conditions.

The relevance of the SROs already in force prior to omission of relevant provisions will be ascertained on the basis of principle of prospective application of legal provision. It is considered that retrospective application is not envisaged, however, in order to avoid unnecessary litigation and disputes at field level, it is essential that the protection / savings for the substantive provision are introduced.

AGREEMENTS FOR EXCHANGE OF INFORMATION & DISCLOSURE OF INFORMATION

New provisions are proposed to be introduced in the income tax, sales tax and federal excise duty laws 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 all three levies.

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 ST Act and FE Act have been prescribed to be confidential notwithstanding other laws.

MONITORING & TRACKING OF GOODS

By virtue of certain amendments introduced through Finance Act, 2013, certain provisions were inserted in sales tax/excise duty law 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.

An amendment is proposed in these provisions whereby 'barcodes' could also be used as electronic identifiers and FBR to be empowered to prescribe vendors from which such identifiers could be procured at notified prices.

SPECIAL AUDIT PANELS

The provisions relating to conduct of special audit, as described earlier in income tax section of this memorandum has also been placed for sales tax and excise duty purposes.

POWERS OF BOARD OR COMMISSIONER TO REVIEW THE ORDER BY SUBORDINATE OFFICERS

Under the section 45A of ST Act and 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 is proposed in these legal provisions which will effectively enable the FBR to undertake revisionary powers even on the basis of application by the taxpayer in addition to the right of '*suo moto*' action.

Similar amendment is also required in provision relating to revisionary powers of the relevant Commissioner in both Statutes.

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001 (ICTO)

In 2001, certain services were subjected to Sales Tax in the four Provinces and Islamabad Capital Territory (ICT) through respective Ordinances. Since promulgation of ICTO, no addition / amendment to the list of services taxable in ICT was made although after the 18th amendment, the Provinces whilst reiterating their right to tax services, have expanded their list of taxable services. Furthermore, Sindh, Punjab and KPK have formed their own regulatory bodies to collect the taxes whereas FBR regulates the collection of sales tax on services rendered in Baluchistan and ICT.

In order to harmonise the tax regime on services on national basis, the list of services taxable in ICT has been enlarged. Now the services taxable under the ICTO are generally in line with the prevalent basis in the three other provinces.

CUSTOMS DUTY

TRANSHIPMENT OF GOODS

Under the Customs Act, 1969, transhipment of goods is allowed without payment of duty, if goods are transported to other station. It has now been clarified that assessment and payment of duties and other charges in case of transhipment of goods will be made at the port of destination. Some other procedural aspects have been clarified in this respect.

OFFENCES AND PENALTIES

A new penalty of Rs 50,000 is being introduced for a person contravening the requirement of placement of invoice and packing list inside the import container or consignment. Furthermore, offence relating to untrue declaration and illegal removal or concealment of goods during transit has also been penalised.

WITHDRAWAL OF EXEMPTIONS AND CONCESSIONS

Last year, the Government announced a policy to withdraw concessionary SROs in three phases (years). For that purpose, Fifth Schedule to the Customs Act, 1969 was introduced through Finance Act, 2014, and SROs 575(I)/2006 and 567(I)/2006 were consolidated therein with certain changes. The framework for review of SROs, as announced, is based on following:

- (i) Minimally utilized concessions are being withdrawn;
- (ii) Socially sensitive concessions are retained; and
- (iii) Remaining concessions are either withdrawn or continued at enhanced rates.

Through this Budget, being the second phase of implementation of aforesaid policy, some more SROs are expected to be withdrawn, which have not been notified so far. The concession in respect of following sectors has been withdrawn by virtue of amendment in the Fifth Schedule, resulting that regular rate is applicable thereon:

Sector / Goods	Existing concessionary rate (now withdrawn)
Business Processes Outsourcing / Call Center Entities	15%
Relocated Industries	10%
Proprietary Formwork system for building / structures of 100 ft and above	10%
Petroleum oils and oils obtained from bituminous minerals, crude, motor spirit, furnace oil	0%

Sector / Goods	Existing concessionary rate (now withdrawn)
Soyabean meal	5%
Hi-speed diesel	7.5%
Concentrated Coccidiostats	5%
Certain Medecaments	5%
Certain poly items	4% / 8.5%
Certain textile products (of / or relating to yarn	9% / 7%

REDUCTION IN CUSTOMS DUTY

By virtue of amendment in First Schedule, reduction in customs duty has been provided for the following, in addition to reduction in maximum tariff rate from 25% to 20% across the board.

PCT Code	Rate	
	Old	New
4011.1000	25%	15%
8517.6100	20%	10%
3402.1300	20%	15%
4011.2010	20%	15%
7605.2900	20%	15%
7606.9290	20%	15%
8517.6290	20%	15%
8529.1090	20%	15%

Reduction in customs duty in respect of following sectors has been provided by placing the same under the Fifth Schedule:

Sector	Concession
Agricultural	Reduction in customs duty on import of agricultural machinery from 5 – 20% to 2%.
Construction	Reduction in customs duty to 10%, on import of construction machinery in used condition, by the construction companies registered with Pakistan Engineering Council and SECP.

Sector	Concession
Aviation	Customs duty on various items used in aviation sector reduced to 0%, subject to certain conditions.

INCREASE IN CUSTOMS DUTY

As part of review / rationalization of customs duty, following major changes have been made:

- (i) Goods subject to duty at the rate of 1% under the First Schedule, will now be subject to duty at the rate of 2%.
- (ii) Concessionary rate under the Fifth Schedule is increased for the following:

Sector	Concessionary Rate	
	Old	New
Machinery Equipment and Other Capital goods for initial installation , BMR or expansion of Oil Refining petro chemical and petro chemical downstream products including fiber and heavy chemical industry	5%	10%
Machinery and Equipment by an industrial concern	10%	15%
Fresh and Dry Fruits from Afghanistan (Chapter 8)	5%	10%
Preparations of a kind used in animal feeding	5%	10%
Nucleic acids and their salts (Furazolidone)	5%	10%
Defence stores, excluding those of the National Logistic Cell	10%	15%