

**MOORE STEPHENS**

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**Budget & Tax  
Memorandum 2013**

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## Introduction

The Federal Budget for the year 2013 - 2014 has proposed considerable amendments in the Income Tax, Sales Tax, Customs and Federal Excise Laws which have been made applicable from 13 June 2013 unless otherwise indicated. We have prepared a budget and tax memorandum on the proposed amendments for the purpose of general guidance of our valued clients.

The proposals introduced in the Bill have to be approved by the National Assembly before they become effective. The budget and tax memorandum is focused on the important amendments in concise format and carries our interpretation and comments and therefore should not be presumed as a specific professional advice.

The budget and tax memorandum can also be accessed on our web site [www.shekhamufti.com](http://www.shekhamufti.com)

14 June 2013

**1- CHANGES IN TAXATION OF SALARY INCOME****a) Salary Rates Increased**  
(1st Schedule)

The numbers of Salary Slabs have been proposed to be increased from 6 to 12 and Salary tax rates have been proposed to be increased from 20% to 30%. The exemption limit for annual income of Rupees 400,000/- both for male and female employees, however, has remained the same.

The proposed Slab is under;

S. No.	Existing		Proposed	
	Salary Slab as per Finance Act 2013	Tax as per Finance Act 2013	Salary Slab as per New Finance Bill	Tax as per New Finance Bill
1	Up to 400,000	NIL	Up to 400,000	NIL
2	400,001 to 750,000	5% of the amount exceeding 400,000	400,001 to 500,000	5% of the amount exceeding 400,000/-
3	750,001 to 1,500,000	17,500 plus 10 % of the amount exceeding 750,000	500,001 to 800,000	5,000/- plus 7.5 % of the amount exceeding 500,000/-
4	1,500,001 to 2,000,000	95,000 plus 15 % of the amount exceeding 1,500,000	800,001 to 1,300,000	27,500/- plus 10 % of the amount exceeding 800,000/-
5	2,000,001 to 2,500,000	175,000 plus 17.5 % of the amount exceeding 2,000,000	1,300,001 to 1,800,000	77,500/- plus 12.5 % of the amount exceeding 1,300,000/-
6	2,500,001 and above	420,000 plus 20 % of the amount exceeding 2,500,000	1,800,001 to 2,200,000	140,000/- plus 15 % of the amount exceeding 1,800,000/-
7	Up to 400,000	NIL	2,200,001 to 2,600,000	200,000/- plus 17.5 % of the amount exceeding 2,200,000/-
8	-	-	2,600,001 to 3,000,000	270,000/- plus 20 % of the amount exceeding 2,600,000/-
9	-	-	3,000,001 to 3,500,000	350,000/- plus 22.5 % of the amount exceeding 3,000,000/-
10	-	-	3,500,001 to 4,000,000	462,500/- plus 25 % of the amount exceeding 3,500,000/-
11	-	-	4,000,001 to 7,000,000	587,500/- plus 27.5 % of the amount exceeding 4,000,000/-
12	-	-	7,000,001 and above	1,412,500/- plus 30 % of the amount exceeding 7,000,000/-

**Comparison of Income Tax on Salary**

The comparison of income tax on salaries between existing and proposed is being tabulated as under;

S. No.	Salary Income	Comparison			Excess Tax
		Existing Tax	Proposed Tax	Tax Saving	
1	Up to 400,000	Nil	Nil	Nil	Nil
2	500,000	5,000	5000	Nil	Nil
3	800,000	22,500	27,500	Nil	5,000
4	1,300,000	72,500	77,500	Nil	5,000
5	1,800,000	140,000	140,000	Nil	Nil
6	2,200,000	210,000	200,000	10,000	-
7	2,600,000	312,500	270,000	42,500	-
8	3,000,000	512,500	350,000	162,500	-
9	3,500,000	620,000	462,500	157,500	-
10	4,000,000	720,000	587,500	132,500	-
11	7,000,000	1,320,000	1,412,500	Nil	92,500
12	7,500,000	1,420,000	1,562,500	Nil	142,500

**b) Marginal Relief ;**  
(Section 149 and 1st Schedule)

The concept of Marginal relief was available to Salaried Individual to relieve the increase in tax heavier than the increase in income as follows;

S. No.	Total Income Slabs	Given Percentage of increase in income
1	Up to Rupees 550,000	20%
2	Rupees 550,001 to 1,050,000	30%
3	Rupees 1,050,001 to 2,250,000	40%
4	Rupees 2,000,001 to 4,550,000	50%
5	Rupees 4,550,001 and above	60%

Now the concept of Marginal Relief has been proposed to be withdrawn.

**c) Taxation deduction from Salary**  
(Section 149)

Every employer deducts tax at the time of payment of salary to an employee at

average rate of tax of the employee which is computed at per the applicable slab and the employer could adjust income tax withheld under the following heads and could also give the tax credits under the following heads to its employees against the monthly deduction.

- **Tax deductions**

- Cash Withdrawals from Bank; **231(A)**
- Motor Vehicle Tax ; **234**
- Land Lines Phones/Mobile Phones;  
**236**
- Purchase of Car; **231 B**
- Bank Transactions; **231 AA**
- Air Tickets; **236 B**
- Any other heads

- **Tax Rebate**

- Donations; **61**
- Shares Investment & Mutual Funds or Life Insurance Premium ; **62**
- Voluntary Pension Scheme; **63**
- Home Loans ; **64**

In a very surprise move, it is proposed to do away with the adjustment of any kind by the employer at all and to deduct the tax from salary at full.

FBR has remained apprehensive of flagrant misuse of the tax rebate allowed in case of investment in mutual funds units wherein the holding period of 2 years were reportedly not been followed. However, instead of clamping the misuse on the part of defaulters, the easy way out has been chosen and the punishment has been meted to all the taxpayers, genuine and bonafide as well, and to all kind rebates and credits which is highly unwarranted. In our view it tantamount to take away the

vested right of taxpayer and is proposed amendment is prone to become highly contentious.

It remains important to mention that adjustment were being allowed since the year 2004 and had become an established mechanism between the employer and employee which has now been proposed to be scrapped right to the ground. If this amendment is brought in, the employee will be left with no other choice except to claim the rebate at the time of filing of his tax return and resultantly will land in with undesirable refunds.

On a different note the amendment is also discouraging for investment in share/funds/ VPS.

Another change proposed is by replacing the term "employer" with phraseology "person responsible for". We understand that despite this substitution there will not be effected the contractual relationship of employer and employee which is sine qua non in the transaction of payment of Salary.

#### **d) Air Tickets to Employees**

*(2nd schedule, Part I, Clause 53A (i) )*

Exemption on free /concessional passage to employees of transporters including Airlines has now been proposed to be withdrawn. Consequently the provision of tickets to employees will now be added to the Salary income at the market value of tickets and will be taxed at full.

## INCOME TAX ORDINANCE, 2001

**e) Flying Allowance & Submarine Allowance***(2nd schedule, Part III, Clause 1)*

The flying allowances to pilots, flight engineers, navigators of PAF, Pakistani Airlines or CAA, Junior Commissioned Officers or other ranks of PAF has now been proposed to be withdrawn.

Simultaneously the Submarine Allowances is proposed to be withdrawn and will therefore be taxed at full.

**2- CHANGES IN PERSONAL TAXATION****a) Setting off losses against salary***(Section 56(1))*

Any salaried person sustaining loss under any other head of income could set off his salary income and thus could save himself from the trouble of paying tax.

It has now been proposed to take away this facility on salary income and thereby making the salary income to be taxed at the full rates despite there would be available any loss for adjustment.

**b) Unpaid Agricultural Income Tax in concealed income***(Section 111(1))*

It has been proposed that taxpayer's agricultural income will be accepted only if it has been paid tax under the respective provincial agricultural Income Tax law. If the taxpayer has not paid income tax under the relevant provincial law the same will not be considered as proper explanation and will be taken as his concealed income and will be liable for

penalty @ 100% of the tax.

The amendment proposed to be brought in is certainly a bold step towards curbing the illicit tax planning on the part of defrauded and noncompliant taxpayer.

What however needs to be tested on the legal footing that as to how a nonpayment of tax in one law will lead of to the charge of concealment/fraud and 100% penalty in the other.

Apart from the malafide intention, there could be some genuine reasons for nonpayment of agriculture Income Tax in the province. There could be some assessment of tax pending or appeal being subjudice in any court. Rules therefore will have to introduce to cater the need for rectification in assessment.

**c) Filing of Income Tax Return***(Section 114)*

All commercial / Industrial electricity consumer with an annual bill of rupees 500,000/- will have to file their tax return.

It has further been proposed that any person who is registered with any chamber of commerce or business association or any market committee or any professional body including Pakistan Engineering Council, Pakistan Medical and Dental Council, Pakistan Bar Council or any Provincial Bar Council, ICAP, ICMA, shall also file tax return.

It is also proposed that the commissioner should not be able to allow extension in time for filing of tax return for more than thirty days but to be authorized him for every shorter extension than 30 days.

## INCOME TAX ORDINANCE, 2001

The revision of income tax returns has been proposed to be accepted only if a written approval by the Commissioner has been taken. It appears that any company, AOP or individuals will not be able to revise tax return without the written approval by the commissioner.

**d) Person not to file Income Tax Return**  
(Section 115)

Salaried individuals with no other source of income were not required to e-file their return of income if their employer has filed the Annual Statement of Salary. However, such person becomes obliged to do the same if his taxable salary income crosses Rupees 500,000/- per annum.

Now this threshold has been proposed to be withdrawn which will imply that every salaried individual with a taxable salary will have to file income Tax Return inevitably.

**e) Filing of Wealth Statement & Wealth Reconciliation Statement**  
(Section 116)

All the individuals and member of an association of person (AOP) are liable to file wealth statement and its reconciliation only where their taxable income and share in profit is Rupees 100,000/- or more. Now the threshold has been proposed to be withdrawn. Consequently all individuals filing tax return will have to file wealth statement and wealth reconciliation statement as well.

All persons falling under Final Tax Regime are now required to file wealth statement and its Reconciliation irrespective of their tax is more than or not more 35000/- Rupees.

**f) Due date of Filing of Return for Salaried Individuals**

(Section 118)

It is proposed that the all salaried individual will file Tax Return in any case whether their employer has filed the annual Salary Statement or not.

Moreover, as the income limit of due (01) million has been withdrawn every taxpayer who files tax return will also file his wealth statement and wealth Reconciliation Statement.

It is proposed that the mandatory requirement for e filing of income tax return wealth statement for salaried individuals with taxable salary of rupees 500,000/- or more has remained the same.

The due date for filing of income tax return for salaried individual has now been reintroduced to be or on before the August 31. All other individuals will follow the same old September 30 deadline for filing.

**g) Taxpayer's NTN**  
(Section 181,)

It has been proposed in case of individual to allow his computerized National Identity Card in place of his National Tax Number. Further it has been proposed that every person who derives income from business chargeable to tax should display his National Tax Number in his business premises.

## INCOME TAX ORDINANCE, 2001

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### h) Taxable Limit for Business Individuals and Firms (1st Schedule)

The maximum income limit for tax exemption has remained unchanged to Rupees 400,000/- per annum in case of both male and female business Individuals.

The number of income slab for business individuals and firms and the slab rates of income tax, however, have been increased from 5 slabs to 7 slabs and from 25% to 35% respectively.

S. No	Existing		New	
	Taxable Income as per Finance Act 2013	Taxable Income as per Finance Act 2013	Taxable Income as per New Finance Bill	Taxable Income as per New Finance Bill
1	Up to 400,000	NIL	Up to 400,000	NIL
2	400,001 to 750,000	10% of the amount exceeding 400,000/-	400,001 to 750,000	10% of the amount exceeding 400,000/-
3	750,001 to 1,500,000	35,000/- plus 15 % of the amount exceeding 750,000/-	750,001 to 1,500,000	35,000/- plus 15 % of the amount exceeding 750,000/-
4	1,500,001 to 2,500,000	147,500/- plus 20 % of the amount exceeding 1,500,000/-	1,500,001 to 2,500,000	147,500/- plus 20 % of the amount exceeding 1,500,000/-
5	2,500,001 and above	347,500/- plus 25 % of the amount exceeding 2,500,000/-	2,500,001 to 4,000,000	347,500/- plus 25 % of the amount exceeding 2,500,000/-
6			4,000,001 to 6,000,000	722,500/- plus 30 % of the amount exceeding 4,000,000/-
7			6,000,001 and above	1,322,500/- plus 35 % of the amount exceeding 6,000,000/-

### Comparison of Income Tax Liability on Business Individuals and Firms (1st Schedule)

The comparison of income tax between the existing and proposed rates is tabulated as under;

S. No.	Business Income	Comparison			Excess Tax
		Existing	Proposed	Tax Saving	
1	Up to 400,000	Nil	Nil	Nil	Nil
2	750,000	35,000	35,000	Nil	Nil
3	1,500,000	147,500	147,500	Nil	Nil
4	2,500,000	347,500	347,500	Nil	Nil
5	4,000,000	722,500	722,500	Nil	Nil
6	6,000,000	1,222,500	1,322,500	Nil	100,000
7	6,500,000	1,347,500	1,497,500	Nil	150,000



**3- CHANGES IN TAXATION OF PROPERTY INCOME****a)- Tax rates on Rent Income;**  
(Section 15, 155 & 1st Schedule)

Property income has been enjoying the lower rate of income tax @10% for the last 4 Tax Years. The lean period for renters has now been proposed to be changed. A new slab of income tax on rent has been proposed which takes the tax rate as high as 17.5% for individuals and for companies as well.

The proposed slab for **Individuals and AOP** is as under;

S.No.	Existing		Proposed	
	Slab of Rent	Tax	Slab of Rent	Tax
1	Up to 150,000	NIL	Up to 150,000	NIL
2	150,001 to 400,000	5 percent of the amount over Rs.150,000	150,001 to 400,000	5 percent of the amount over Rs.150,000
3	400,001 to 1,000,000	Rs. 12,500 plus 7.5 % of the amount over Rs.400,000	400,001 to 1,000,000	Rs. 12,500 plus 7.5 % of the amount over Rs.400,000
4	1,000,001 and above	Rs. 57,500 plus 10 % of the amount over Rs. 1,000,000	1,000,001 to 2,000,000	Rs. 57,500 plus 10 % of the amount over Rs. 1,000,000
5			2,000,001 to 3,000,000	Rs. 157,500 plus 12.5 % of the amount over Rs. 2,000,000
6			3,000,001 to 4,000,000	Rs. 282,500 plus 15 % of the amount over Rs. 3,000,000
7			4,000,001 and above	Rs. 432,500 plus 17.5 % of the amount over Rs. 4,000,000

The comparison of income tax for Individuals and AOP is tabulated as under;

S. No.	Comparison				
	Rental Income	Existing Tax	Proposed Tax	Tax Saving	Excess Tax
1	Up to 150,000	Nil	Nil	Nil	Nil
2	400,000	12,500	12,500	Nil	Nil
3	1,000,000	57,500	57,500	Nil	Nil
4	2,000,000	157,500	157,500	Nil	Nil
5	3,000,000	257,500	282,500	Nil	25,000
6	4,000,000	357,500	432,500	Nil	75,000
7	4,500,000	407,500	520,000	Nil	112,500

The new proposed Slab for **Companies** is as under;

S.No.	Existing		New	
	Slab of Rent	Tax	Slab of Rent	Tax
1	Up to 400,000	5 percent of the amount	Up to 400,000	5 percent of the amount
2	400,001 to 1,000,000	Rs. 20,500 plus 7.5 % of the amount over Rs. 400,000	400,001 to 1,000,000	Rs. 20,500 plus 7.5 % of the amount over Rs. 400,000
3	1,000,001 and above	Rs. 65,000 plus 10 % of the amount over Rs. 1,000,000	1,000,001 and 2,000,000	Rs. 65,000 plus 10 % of the amount over Rs. 1,000,000
4	NIL	NIL	2,000,001 and 3,000,000	Rs. 165,000 plus 12.5 % of the amount over Rs. 2,000,000
5	NIL	NIL	3,000,001 and 4,000,001	Rs. 290,000 plus 15 % of the amount over Rs. 3,000,000
6	NIL	NIL	4,000,001 and above	Rs. 440,000 plus 17.5 % of the amount over Rs. 4,000,000

The comparison of income tax for Companies is tabulated as under;

S. No.	Comparison				Excess Tax
	Rent Income	Existing Tax	Proposed Tax	Tax Saving	
1	150,000	7,500	7,500	Nil	Nil
2	400,000	20,000	20,000	Nil	Nil
3	1,000,000	65,000	65,000	Nil	Nil
4	2,000,000	165,000	165,000	Nil	Nil
5	3,000,000	265,000	290,000	Nil	25,000
6	4,000,000	365,000	440,000	Nil	75,000
7	4,500,000	415,000	527,500	Nil	112,500

**b)- Withholding Agent for Rent;**  
(Section 155(3))

It is proposed that private educational institutions, boutiques, beauty parlours, hospitals and clinics or maternity homes shall now deduct tax on payment of their rent.

Besides the above, an individual and AOP will also withheld income tax on rent if their annual rent exceed Rupees 1,500,000/-. This remains indifferent to the fact that whether rent is being paid for a residential house or otherwise or whether the Individual is even a Salaried individual or otherwise.

We are of the view that litmus test of the aforesaid proposed amendment lies in the practical difficulties of ensuring the collection and deposit of rent tax by the new group of withholding agents.

**4- CHANGES IN TAXATION OF CAPITAL GAIN ON IMMOVABLE PROPERTY**  
[Section 37(1A)]

Minimum Tax on Builders and Land Developers; (Section 113A & 11B)

Existing Sections 113A and 113B have been proposed to be substituted. The new 113A and 113B cater for minimum tax on Builders and Land Developers. It has been proposed that Builders will pay not less than Rupees 25/- for every square foot they sell to their customers. The per square foot rate of Rupees 25/- shall remain the same for all types and kinds of building property, whether it may be;

- 1- Residential
- 2- Commercial
- 3- Industrial or
- 4- Agricultural

The timing of payment of 25/- Rupees per square foot tax seems to be the time of filing the tax return.

A critical point to be noted here that this 25/- Rupees per Square foot tax will be minimum tax on the business income of the builders, whilst at the same time the withholding collection of 0.5% of income tax by the Property registrar under Section 236C, at the time of transfer of property remains advance tax, which will be adjusted against the total tax liability of 5% or 10%, as the case may be.

Similar provision has been proposed for Land Developers as well with the only distinction that the rate of minimum income tax in their case will be 150/- Rupees per Square Yards. The provision of 113A and 113B are proposed to be applied equally to individual, AOP and Companies taxpayers.

**5- CHANGES IN TAXATION OF COMPANIES****a). Dividend Income***(Section 8)*

Dividend income is currently subject to corporate rate of tax of 35% after allocating expenses. It is now proposed that the tax withholding made on dividend either @ 7.5% or 10%, as the case may be, will be final tax and no further tax will be payable by the companies.

**b). Group Taxation / Group Relief***(Sections 59AA and 59B)*

Editorial corrections are made in the taxation of group of companies and group relief so as to make them compliant with the "group designation rules and regulations" of the Securities and Exchange Commission of Pakistan.

**c). Corporate rate of tax**

Corporate rate of tax for companies other than Banks, is proposed to be reduced to 34% from current 35% for Tax Year 2014 alone. It is proposed to be further reduced in subsequent years as announced in the budget speech however related amendments are not being tabled in the instant finance bill.

**d). Specie Dividend***(Clause 103B, Part I, 2nd Schedule)*

Currently Specie dividend in shares is exempt from taxation unless disposed of by the recipients. The same is proposed to be withdrawn. Resultantly specie dividend will be subjected to tax @ 10%, however the corresponding valuation procedures / rules are still to be ruled out otherwise this will trigger valuation differences.

**e). Tax withholding rates**

Tax withholding rates as currently

applicable to the corporate tax payers remains intact. However to stimulate the corporatization these have been marginally increased for the non-corporate taxpayers. The same is exhibited in withholding tax card as given in the succeeding pages.

**f). Company Definition elaborated***(Section 80)*

The definition of the Company is being extended to include the non-profit organizations (NPOs). It is pertinent to mention that NPOs can either be registered under any the following laws;

- Trusts Act, 1882.
- The Societies Registration Act, 1860
- Cooperative Societies Act, 1925
- The Voluntary Social Welfare Agencies (Registration and Control) Ordinance, 1961
- Non Profit Company under Section 42 of the Companies Ordinance, 1984

As Trusts, Societies and Cooperative Societies are already covered under the definition of Companies, therefore to cater NPOs as registered under other laws, NPOs is being specifically included in the definition of Companies.

**6- CHANGES IN TAXATION OF DISTRIBUTORS, DEALERS AND WHOLESALERS**

The Finance Act 2012 imposed 0.5% tax on dealers, distributor and wholesalers which was to be collected by all of the manufacturers at the time of sales. This levy resulted in hue and cry at various forums and industries, which ultimately resulted in the suspension of the levy till June 30, 2013.

In the instant Bill this levy is proposed to be reintroduced with certain amendments, which are discussed as under:

**a). Tax Rate**

Tax @ 0.1% is to be collected from the Distributors, Dealers and Wholesalers at the time of sales instead of 0.5% earlier.

**b). Nature of tax**

It is pertinent to mention that the tax so collected is adjustable against the eventual annual tax liability of the Distributors, Dealers and Wholesalers for the year in which the tax so collected.

**c). Withholding Agents**

Earlier only manufacturers were required to collect the above tax while in the instant bill 'Commercial Importers' are also prescribed as withholding agents to collect 0.1% tax.

**d). Industry Specific**

Exhaustive list of industries is provided in the Finance Bill which, only, will be subjected to 0.1% tax collection. The same is under:

- Electronics,
- Sugar,
- Cement,

- Iron and Steel Products,
- Fertilizers,
- Motorcycles,
- Pesticides,
- Cigarettes
- Glass,
- Textile,
- Beverages, and
- Paints or Foam Sector.

**e). Value of Sales**

0.1% tax is to be calculated on the gross amount of sales. It appears that gross amount of sales includes sales tax therein. However it is not clear as to whether discount shown on the invoices is to be deducted or added back to the sales value.

**7- CHANGES IN TAXATION OF RETAILERS**

Non Corporate taxpayers being individuals and AOPS working in retail sector are being hard hit by the revenue measures as proposed in the Finance bill. The comfort zone being enjoyed by the non-corporate retailers for last many years by discharging their tax liabilities at the rates from 0.5% to 1% of the turnover is proposed to be ended. Accordingly Non corporate retailers are proposed to be in line with the taxation as that of corporate retailers. The major amendments proposed are being deliberated upon in the following paragraphs.

**a). Final Tax Regime withdrawn**

*(Sections 113A and 113B)*

Non corporate retailers are currently subjected to final tax @ 1% of the turnover provided that the turnover does not exceed Rupees Five (05) Million in a year with no question as to the revenues / expenses asked by the tax regulators. Similarly in cases of turnover exceeding Rupees 5 Million are subjected to final tax (0.5% to 0.75%) which forms part of the single stage sales tax. These provisions are proposed to be withdrawn for the Tax Year 2014 onwards.

Consequently non-corporate retailers are proposed to be liable for normal taxation that is income less expenses, which will be at par with the corporate retailers.

Kindly note that tax withholding suffered @ 3.5% on supply of goods continue to fall under Final Tax regime and therefore will not be available for adjustment at the time of filing of the return.

**b). Maintenance of Books of Accounts**

Once the Final taxation is being withdrawn the non-corporate retailers are now required to maintain the books of accounts and accordingly offer the profit for the taxation under normal tax regime. This will be burdensome for the small retailers with the additional requirement of maintenance of the books of accounts which seems to be inviting agitation from small retailers.

**c). Advance tax on sales to retailers**

*(Section 236H)*

It is the first time that non – corporate retailers are proposed to be subjected to the tax collection @ 0.5% which will be adjustable against the eventual annual tax as computed on their taxable profits.

**d). Withholding Agents**

Following persons are prescribed as withholding agents in the case of sales to the retailers:

- Manufacturers,
- Distributors,
- Dealers,
- Wholesalers, and
- Commercial Importers.

**e). Value of Sales**

Like in the case of sales to Distributors, Dealers and Wholesalers the above tax is to be calculated on the gross amount of sales. It appears that gross amount of sales includes sales tax therein. However it is not clear as to whether discount shown on the invoices is to be deducted or added back to the sales value.

**f). Industry Specific**

Similar to the case of Distributors, Dealers and Wholesalers exhaustive list of industries is being provided in the Finance Bill which, only, will be subjected to 0.5% tax collection.

**8- CHANGES IN TAXATION OF TRANSPORT BUSINESS**

The major change effecting the taxation of transportation business is the treatment of tax collected along with the Motor vehicle Tax (MVT) as adjustable which currently is considered as Final discharge of tax liability in case of Owned Vehicles. Tax implications for both Corporate and non-corporate taxpayers are being discussed as under:

- Corporates are currently entitled for exemption of 2% withholding taxes on transportation services as tax collected along with MVT is Final and no further tax is payable.
- The above amendment will discourage the investment in purchase of Vehicles as tax collected along with MVT is final for OWNED vehicles while in case of rented / hired Vehicle the tax so paid is adjustable.
- For transporters working in the legal status of an individual and AOP (Non-Corporate Transporters) the above amendment is welcoming as currently they are being doubly hit as follows:
  - 2% tax deduction suffered on transportation Services; Minimum Tax; and
  - Tax collected along with the MVT; Final Tax in case of owned Vehicles.
- As tax collected along with the MVT is proposed to be adjustable therefore

non-corporate transporters may claim the refund in case tax suffered (along with the MVT and 2% withholding on transportation services is more than actual tax on the taxable income.

**Private Motor Vehicles**

- The second amendment is in the case of Private Cars where lump sum payment of tax along with lump sum payment of MVT is introduced. Tax of 10 years can be paid in lump sum along with lump sum payment of MVT.

**9- CHANGES IN TAXATION OF MEDIA BUSINESS;**

**a) Foreign Films, TV Plays and Serials;  
(236E)**

The new Section 236E has been proposed, whereby any person responsible for Censoring or Certifying any Foreign produced Film, a TV Serial or a Play for the purpose of screening and viewing shall collect advance tax at a given rate as follows;

Serial No.	Nature	Rate of Tax
1	Foreign-Produced Film	Rupees. 1,000,000/-
2	Foreign-Produced TV Drama Serial	Rupees. 100,000/- Per Episode
3	Foreign-Produced TV Play (Single Episode)	Rupees. 100,000/-

The income tax collected as above will be

advance income tax and will be available for adjustment against the overall tax liability at the time of filing of Tax Return. It appears that tax will be collected invariably from all the TV Channels and from Cinema Houses as well.

What needs the attention is that “person” referred here as “responsible” for censoring or certifying does not practically exist. Meaning thereby the collection of advance tax under Section 236E cannot be put into effect unless the “person responsible for” comes into existence in the first place.

What further needs a clarity that as to whether Animations for children will also be covered under the preview of this Section. Lastly it also needs to be thrashed out that once the advance tax has been paid on an episode, it will not have to be paid again on its repeat telecast.

It remains a mystery that as to what the phraseology “Foreign-Produced Films” stands for. Will it also include films and Dramas made, produced and shot outside Pakistan by Pakistan Production Houses or it is strictly for those Foreign Films which are made by Foreign Producers and produced outside Pakistan.

**b) Tax on TV Cable Operator, Radio and TV Channels;**  
(236F)

It has been proposed to make Pakistan Electronic Media Regulatory Authority [PEMRA] a withholding / collecting agent to collect the advance tax from the Cable TV Operators and other Electronic Media at the time of issuance and renewal of

their licenses.

It has been proposed to collect the advance tax as per the slabs set out for Cable TV Operator, Radio channels, Other Channel as mentioned in PEMRA Rules 2009, Satellite TV Station and TV Channel with mere Landing Rights, separately as under.

i) Rate on Cable Television Operator

Sr.#	License Category as Provided In PEMRA Rules 2009	Tax On License Fee	Tax On Renewal
1	H	Rs.7,500	Rs.10,000
2	H-I	Rs.10,000	Rs.15,000
3	H-II	Rs.25,000	Rs.30,000
4	R	Rs.5,000	Rs.30,000
5	B	Rs.5,000	Rs.40,000
6	B-1	Rs.30,000	Rs.50,000
7	B-2	Rs.40,000	Rs.60,000
8	B-3	Rs.50,000	Rs.75,000
9	B-4	Rs.75,000	Rs.100,000
10	B-5	Rs.87,500	Rs.150,000
11	B-6	Rs.175,000	Rs.200,000
12	B-7	Rs.262,500	Rs.300,000
13	B-8	Rs.437,500	Rs.500,000
14	B-9	Rs.700,000	Rs.800,000
15	B-10	Rs.875,000	Rs.900,000

i) Rate on Distribution Services

Sr.#	Type of Channel As Provided in PEMRA Rules 2009	Tax On Issuance License	Tax On Renewal
1	IPTV	Rs.100,000	Rs.1,000,000
2	FM Radio	Rs.100,000	Rs.100,000
3	MMDS	Rs.200,000	Rs.100,000
4	Mobile TV	Rs.100,000	Rs.50,000

**10- CHANGES IN TAXATION OF EDUCATION BUSINESS;****a). Exemption to Universities***(Clause 92 of Part-I of 2nd Schedule)*

Universities in Pakistan, which work on “Non for Profit” business, currently enjoy unconditional tax exemption on all their sources of income without any time limits. With a mere stroke of pen the whole of the privilege of exemption, in its complete entirety, has been proposed to be done away with.

If this amendment is approved and implemented, it would simply imply that the Universities and all the business management Schools in Pakistan despite their legal status either by virtue of their legislation or by virtue of their “Not for Profit” philosophy will have to pay income tax like any other regular private limited company.

It would be recalled that this is not the 1st time it has been attempted to infringe the right of exemption of the ‘NPO’ Universities. Back in 2010, the Federal Board of Revenue proposed to bring charges in Clause 92 and making the exemption certificate by the then DG (Directorate General) or a condition for exemption but the attempt proved to be very feeble to get passed through even to the Finance Act, 2010.

Now this time the Federal Board of Revenue has inflicted severely and has proposed to do away with exemption completely. The rationale behind this proposed withdrawal of exemption needs to be explained appropriately as the stakeholders have never ever been taken into confidence before the presentation of

Sr.#	Satellite TV Station	Tax On Issuance License	Tax On Renewal
1	News on Current	Rs.1,000,000	Rs.2,000,000
2	Sports	Rs.1,000,000	Rs.1,000,000
3	Regional Language	Rs.700,000	Rs.700,000
4	Health or Agro	Rs.300,000	Rs.300,000
5	Education	Rs.300,000	Rs.300,000
6	Entertainment	Rs.1,000,000	Rs.1,000,000
7	Specialized Subject Station	Rs.500,000	Rs.200,000

Sr.#	Landing Rights Per Channel	Tax On Issuance License	Tax On Renewal
1	News/Current Affairs	Rs.1,000,000	Rs.5,000,000
2	Sports	Rs.500,000	Rs.2,500,000
3	Educational	Rs.200,000	Rs.1,000,000
4	Entertainment	Rs.200,000	Rs.2,000,000
5	Children	Rs.350,000	Rs.1,500,000

A mere perusal of the above tables reveal that amount of advance tax is abnormally exorbitant and have been proposed without any reference or rationale. It is necessary that differentiation is exercised between the sizes of operations of channels and that whether they broadcast from Pakistan or from outside Pakistan and therefore one single flat rate cannot be charged invariably at the same levels from all TV Channels.

It will therefore be on the sound footing to involve the stakeholders in the finalization of this Budget Proposal.



the Bill and have, therefore, completely been taken back with the sudden amendment and have factually been stripped off the privilege. It has, however, remained a apprehension in certain quarters in the FBR that Universities are misusing the exemption; details of which, however, are not known. This, however, does not carry much weight because Universities, despite their current exemption, are still required to obtain an 'NPO' certificate under Section 2(36) of the Ordinance failing which they will have to pay 0.5% minimum tax on their turnover. This annual exercise of applying for and granting of the 'NPO' certificate remains effective tool to contain any intended misuse, if there was any, but depriving the one with its exemption completely does not justify the ill action at all.

**b) Universities, Colleges and Schools; Collecting Agents**

*(Section 236 I)*

As a next stunt on the education business, the Federal Board of Revenue has made all the Universities, Colleges and Schools, the withholding/ collecting agents for 5% income tax on their bill of fee where exceeding 200,000/- Rupees in a year. This will mean that where the monthly fee is more than 16,667/- Rupees the 5% income tax will apply. The definition of fee has very intelligently been catered for the purpose of 5% which only excludes refundable.

There have been repeated attempts by the Federal Board of Revenue to extract information from the Institutions about the rich parents who are but paying heavy fees and not filing the tax returns. It appears that failure and repeated failures

on the part of institutions has prompted Federal Board of Revenue to finally subjugate these institutions as its withholding/ collecting agents.

The apparent objective, therefore, of this new clause is to bring in the new registration which is still outside the tax net. We, therefore, understand that where parents provide their National Tax Number (NTN) to the School management the exemption should be granted. Moreover, the MBA or other master level, or doctorate level program funded by companies and Government Institution should also exempted from the provision of this Section.

**c) Full time teachers Rebate**

*(Clause 2 of P-III of 2nd Schedule)*

Full time teachers and researcher are currently enjoying 75% tax rebate against tax payable on Salaries.

The Bill has proposed to clamp the above facility as reportedly been suspected of misuse even by non-full time teachers and researchers. Resultantly, the full time teachers and professors and researchers will now be subjected to full tax on their salary.

We understand that this will cause hardship to the genuine teachers and researchers and, therefore, instead of taking back the Rebate, the misuse of the same should be put to check and monitoring via Monitoring of withholding of taxes.

**11- CHANGES IN MINIMUM TAXATION;****a) Minimum Tax***(Section 113)*

The rate of minimum tax has again been proposed to be increased from 0.5% of turnover to 1% of turnover. Last time this attempt was made in Finance Act, 2010 which proved to be very contentions between the taxpayers and the Federal Board of Revenue and finally had to be taken back in the Finance Act, 2012. The increase of minimum tax which is imposed on the turnover is not less than a manifestation of failure of the Federal Board of Revenue itself, to collect income tax on income.

It cannot be ruled out that the increase in minimum tax rate will be felt offended by various quarters of industry and trade with specific reference to money changers, freight forwarders as they will have to suffer with even higher cost of tax.

We understand that the reduction in minimum tax as granted under Part-III of the 2nd Schedule shall continue to be available still these are explicitly taken back. Those clauses are as follows;

1. Clause 7; Cigarettes Distributors; reduced by 80% = 0.1%
2. Clause 8; Distributors of Pharma products; reduced by 80% = 0.1%
3. Clause 8; Distributors of Fertilizers; reduced by 80% = 0.1%
4. Clause 8; Distributors of Consumer Goods; reduced by 80% = 0.1%
5. Clause 9; Oil Marketing Companies, Oil Refineries; No change; 0.5%
6. Clause 9; SSGC & SNGPL; No change; 0.5%
7. Clause 10; Flour mills; reduced by 80% = 0.1%

8. Clause 12; PIA; reduced by 50% = 0.25%
9. Clause 13; Distributors and Agents of Petrol; reduced by 80% = 0.1%
10. Clause 13; Rice Mills and Rice Dealers; reduced by 80% = 0.1%
11. Clause 14; Poultry Industry; reduced by 80% = 0.1%

**b) Minimum tax adjustable for Individual and AOPs***(Section 113(2)(c))*

It has been proposed to remove the discrimination between corporate and non-corporate taxpayers by making available to all, the facility of carry forward of unadjusted minimum tax for five (05) Tax Years.

**c) Minimum Tax for small distributors***(Clause 7 of Part-III of 2nd Schedule)*

Current 80% reduction in minimum tax is restricted to the distributors of cigarettes in corporate sector only. Being discriminatory to small taxpayers the reduced rate of minimum tax is proposed to be extended to the individuals and AOPs distributors as well.

**12- CHANGES IN INCOME TAX EXEMPTIONS****a) Import of Raw Material by Manufacturers**

*(Clause 72B of Part-IV of 2nd Schedule)*

The Exemption on import of raw material by manufacturers has been proposed to be restored after a period of six (06) years. This is certainly a welcome change and will give relief to the cash flows of the manufacturers against which they currently find no respite.

However as akin to our policy making habits, the way the exemption clause has been brought in has raised many questions and requires serious clarity on the part of the Federal Board of Revenue.

It has been proposed that the exemption will be given on the condition if the taxpayer has made the full payment of income tax of the current tax year for which the exemption is being applied for. This is highly impractical. Moreover, this liability of income tax of the current year is to be determined on the basis of higher of the tax liabilities of the last two Tax Years.

Upfront payment of whole of the income tax liability for the full year against the tax withholding which is to be made over next 365 days is a condition which is impossible to meet and one fails to comprehend the hidden wisdom lies within it.

Secondly the nexus of current year tax liability with the last year tax liability has left an unanswerable question that as to whether the amount of last year tax liability is referred to or the "tax to turnover ratio" is intended to.

If the amount of last year tax liability is intended that it would be unfair to ask a taxpayer to pay for full tax, which was calculated on all the sources of income, against the withholding from imports only. This is against the natural rule of law. Only tax on imports paid in last years should be asked to paid for the exemption on imports. Moreover, the amount of last year tax liability will have no relevance to the determination of current year tax liability.

On the other hand the tax to turnover ratio is meant for in the proposed amendment then asking for payment on the basis of higher of the last two (02) Tax Years is a clear departure from the norms envisioned under Section 147 of the Ordinance.

In our view the criteria for exemption on Raw Material imports should be brought in line with the criteria for exemption on Sales of Goods.

The idea for exemption of a part of year, say six (06) months or a quarter should be brought in coupled with the provision of reduced rate on imports as well.

**b) Companies in Special Economic Zone**

*(Clause 126E of Part-I of 2nd Schedule)*

The Bill has proposed to enhance the existing tax holiday of five (05) years to ten (10) years for business enterprises in Special Economic Zones. In order to calculate the period of ten (10) years, the starting date shall be reckoned from the date of certificate of commencement of commercial operation given by the Zone Developer to the Company.

**c) Import of Cars***(Clause 28 of Part-II of 2nd Schedule)*

Import of Hybrid cars has been proposed to be given exemption and concession vis a vis their engine capacity. Hybrid Car with upto 1200CC engine has been exempted. While the tax on Car up to 1800CC and up to 2500CC engines have been reduced by 50% and 25%, respectively.

**d) Withholding of National Saving Certificates***(Clause 59 of Part-IV of 2nd Schedule)*

The Bill has proposed to withdraw the withholding exemption on Term Finance Certificates, Defence Saving Certificates, Special Saving Certificates, Post Office Saving Accounts and Directorate of National Savings.

**13- CHANGES IN INCOME TAX PENALTIES***(Section 182)*

There have been proposed certain changes in the Penalty Provisions in respect with the following offences;

- Failure to file Income Tax Return
- Failure to file Wealth Statement & Wealth Reconciliation Statement
- Failure to file Withholding Statement
- Failure to comply Showcause Notice for information under Section 176
- Failure to comply Showcause Notice of Income Tax Audit

We have prepared a table of Penalties comprising of the existing and the proposed provision for a comprehensive overview;

Entry No.	Section References	Offences	Penalties
1	114	Failure to file the Tax Return within due date	0.1% of tax payable per day subject to a minimum penalty of Rs. 20,000/- and maximum of 50% of tax payable
1A	115, 165 or 165A	Failure to file the Monthly & Annually Withholding Statement and Statement under Section 115 within due date	Penalty of Rs. 2,500/- per day subject to minimum penalty of Rs. 50,000/- per Statement.
1AA	116	Failure to furnish the Wealth Statement or Wealth Reconciliation Statement	Penalty of Rs. 100 per day
2	174	Failure to raise Invoices or Receipts	Higher of Rs. 5,000/- OR 3% of tax amount
3	181	Failure to Registration with FBR (NTN)	Rs. 5,000/-
4	181	Failure to update the changes in particulars of Registration	Rs. 5,000/-
5	137	Failure to deposit tax with in due date failer part	Initially 5%, 2nd default 25% and 3rd and subsequent default 50% of tax amount
6	137	Repeats wrong calculation in the return for more than one year whereby amount of tax is paid less than actual tax	Higher of Rs. 5,000/- OR 3% of tax amount
7	174 and Chapter VII of the Rules	Failure to maintain records	Higher of Rs. 10,000/- OR 5% of tax amount on Income
8	177	(a) Failure to provide record on 1st Notice	Rs. 25,000/-
		(b) Failure to provide record on 2nd Notice	Rs. 50,000/-
		(c) Failure to provide record on 3rd Notice	Rs. 100,000/-
9	176	Failure to provide information under Section 176	Rs. 25,000/- on first default and Rs. 50,000/- for each subsequent default
10	114, 115, 116, 174, 176 and 177	Omission or submission wrong in Statement / Return / any documents provide to Income Tax Authority in writing / orally / electronically	Higher of Rs. 25,000/- OR 100% of tax amount shortfall; exceptions apply in case of assessment order U/S 120
12	20 and 111	Concealment of income or wrong claim of expenditure	Higher of Rs. 25,000/- or 100% of tax
13	209 and 210	Obstructs in the official duties of any Authorized authority	Rs. 25,000/-

14	General	Any Contravention under the Ordinance for which no penalty has been defined	Higher of Rs. 5,000/- OR 3% of tax amount involved
15	148, 149, 150, 151, 152, 153, 153A, 154, 155, 156, 156A, 156B, 158, 160, 231A, 231B, 233, 233A, 234, 234A, 235, 236 and 236A	Fails to collect or deduct tax as required and fails to pay the collected tax	Higher of Rs. 25,000/- OR 10% of tax amount
16	181C	Fails to display NTN Certificate at the Business Place	Penalty of Rs. 5,000/-

(Changes are highlighted with **RED BOLD** Color)

The Federal Board of Revenue has always been apprehensive of the fact that the monetary thresholds of Penalties are too low and have therefore, been proven to a feeble attempt on their part to compel an offended taxpayer to comply to their notices.

Therefore, the Penalties are to be increased to such level which could be used as deterrence against any non-compliance. This, perhaps, has very much been learned from the Penal Provisions under the Sales Tax Law which also cast serious Penalties on non-compliant taxpayers.

If the proposed increase in Penalties are approved and implemented, the offended and non-compliant taxpayers will sure witness sharp increase in terms financial cost of non-compliance.

However, the fundamental principle, that no penalty shall be imposed on any person unless given a chance of being heard, remains intact.

#### 14- OTHER IMPORTANT CHANGES;

##### **a. Revision of return** (Section 114(6))

The right of revision of return of income is consistently been narrowed down for last couple of years and now it is proposed that prior approval of Commissioner in writing is must for the revision of the return. This appears to be in line with the corresponding provision under the sales tax laws for revision of the returns.

##### **b. Investment Tax on income** (Section 120A)

Tax amnesty schemes are usually being announced in every year so as to promote the disclosure of the income which was never being subjected to tax earlier. This created unhealthy tax practices wherein the true taxpayers are being discouraged as minimal taxes are offered for the whitening of the non-taxable incomes. In the Finance Bill a bold step is taken by deleting the said provision altogether which is very welcoming.

##### **c. Provisional Assessment** (Section 122c)

Currently in cases where return of income is not filed even after serving the notices for the filing of the return, the tax Commissioner has the power to make the assessment provisionally which will be considered final after the expiry of 60

days. This period of sixty days is proposed to be reduced to 45 days.

**d. Tribunal Member**  
(Section 130)

The Finance Bill has proposed that an Officer Inland Revenue Services and a graduate in law with experience of fifteen (15) years in BS-17 and above can be appointed as a Judicial Member of the Appellate Tribunal. This proves to be the contentious. Moreover no corresponding changes have been proposed in the appointment Rules of 1998 for Members of the Tribunal.

**e. Tax Audits; Powers to the Commissioner**  
(Sections 177 and 214C)

A taxpayer can be selected for the Audit either via computer balloting as carried out by the FBR almost every year or by the Commissioner Inland Revenue at his own. It becomes a matter of interpretation as to whether the Commissioner can carry out the cases for audit whether or not the case is initially selected for the Audit through computer balloting. This matter was challenged in the higher Courts as well. Moreover the Computer balloting as and when carried out is being challenged in the higher courts for the missing provisions of the law. In order to remove the ambiguity and unnecessary litigation it is now being clarified that Selection of cases for Audit whether by the Commissioners at his own or through Computer Balloting are independent to each other.

**f. First year Initial Allowance**  
(Section 23)

In order to encourage the investment in Plant and Machinery and immediate tax savings to the tax payers for the capital expenditures, accelerated depreciation of 50% is allowed in case of additions to the Plant & Machinery which is now proposed to be reduced to 25%.

## 15- CHANGES IN WITHHOLDING PROVISIONS

## Withholding Tax Chart - Tax Year 2014

S.No	Sections	Nature of Payments / Transaction	Provision of the Section	Tax Rates	New Tax Rate	Withholding/ Collection by	Withholding/Collection from
1.	148	Imports	I. Industrial undertaking II. All other cases of Companies III. Other than Industrial Undertakings & Companies	5% in all cases	No change  No change  5.5%	Collector of Customs	Importer of Goods
2.	149	Salary	Salary Income	As per Slab (covered in Salary Taxation)		Person responsible for	Employee
3.	152(2A)		(i) Goods (ii) Services. (iii) Contract	3.5% 6%(2% transports) 6%	No change	Every Prescribed Person Under Section 153(7)	PE of Non resident
4.	153  153(1)(a)	Payments to residents	- Sale of rice, cotton, seed, edible oil - Sale of other goods in case of 'Companies' - Sale of Other goods in other cases (non-Corporate)	1.5% 3.5% 3.5%	No change  No change  4%	Federal / Provincial Govt. Company, NPO, Foreign Contractor Or Consultant, etc.  Individual / AOP having Turnover Of 50(M) or above.  Person registered under Sales Tax Act, 1990.	Resident Person
5.	153(1)(b)		- Transport Services - Other Services in case of 'Company' - Other Services in other cases (non-corporate)	2% 6% 6%	No change  No change  7%		
6.	153(1)(C)		- Execution of Contract in case of 'Companies' - Execution of Contracts in other cases (non-Corporate)	6% 6%	No change  6.5%		
8.	153A	Payment to Traders and Distributors	Suspended till 30-06-2013	0.5% of the gross Sales	Omission proposed	Every manufacture	Distributors, Dealers & Wholesalers
9.	155	Income from property	Rent of immovable property including rent of furniture and fixtures and services etc.	As per slab.	As per revised slab (covered under taxation of property income)	Federal /Provincial Govt., Company; local authority, NPO, etc.	Recipient of rent
10.	156	Prizes and winnings	- Prize or cross word puzzle - Winning from a raffle, lottery, prize on winning a quiz, prize offered by companies	10% 20%	15%  No change	Every person	Recipient of prize or winnings

## Withholding Tax Chart - Tax Year 2014

S.No	Sections	Nature of Payments / Transaction	Provision of the Section	Tax Rates	New Tax Rate	Withholding/ Collection by	Withholding/Collection from
11.	231A	Cash Withdrawal from a Bank	Cash withdrawal exceeding Rs. 50,000/- in a day	0.2%	<b>0.3%</b>	Every Banking Company	Persons withdrawing cash, except for Federal / Provincial (FG/ PG) Foreign diplomat/ Diplomatic mission or Person who produces Exemption certificate
12.	231B	Purchase of Motor car	<p>Up to 850cc 851cc to 1000cc 1301cc to 1600cc 1601cc to 1800cc 1801cc to 2000cc Above 2000cc</p> <p>Up to 850cc 851cc to 1000cc 1001 to 1300cc 1301cc to 1600cc 1601cc to 1800cc 1801cc to 2000cc Above 2000cc</p>	<p>Rs7,500 Rs, 10500 Rs, 16875 Rs, 22500 Rs, 25000 Rs, 50,000</p>	<p>Rs 10,000 Rs 20,000 Rs 30,000 Rs 50,000 Rs 75,000 Rs 100,000 Rs 150,000</p>	Motor vehicle registration authority	<b>Persons</b> registering new locally manufactured motor vehicle, other than the following: a. Federal Government b. Provincial Government c. Local Government d. Foreign Mission in Pakistan
13.	233AA	Collection of tax by NCCPL	Advance Tax on margin financing through Stock Exchanges registered in Pakistan.	10% of carryover charge	<b>10%</b>	NCCPL	
14.	234	Tax on Motor Vehicle	From plying or hiring of goods transport; Reduced rate for good transport vehicle with laden weight of 8120 Kg or more after a period ten years from the date of first registration of the vehicle in Pakistan [ Para (1A) or Div III part –IV of 1 <sup>st</sup> schedule] Passenger transport annum	Rs. 5 per kg of the laden weight Rs, 1200 per annum		Person collecting motor vehicle tax	Owner of motor vehicle excluding:
				Rs, 25 to Rs, 500 per seat per annum  Rs 750 to 8000 per annum [paragraph (1), Div, III part IV of First SCH]			
15.	236A	Advance Tax at the time of sale by auction	Sale by auction	5%	<b>10%</b>	Every person	Purchaser of any property lessee of the right to collect tolls, fees or other levies.



## Withholding Tax Chart - Tax Year 2014

S.No	Sections	Nature of Payments / Transaction	Provision of the Section	Tax Rates	New Tax Rate	Withholding/ Collection by	Withholding/Collection from
16.	236D	Advance tax on functions and gathering	Every prescribed person shall collect advance tax on total amount of the bill from a person arranging or holding a function in marriage hall, marquee, hotel, restaurant, commercial lawn, club, a community place or any other place used for such purpose.	NIL	10%	Prescribed person	Who arrange or holding function
17.	236E	Advance tax on foreign-produced films, TV plays and serials	Any person responsible for censoring or certifying a foreign-produced film, a TV drama serial or a play, for screening and viewing, shall, at the time of censoring or certifying, collect advance tax.	(a) Foreign-produced film (b) Foreign-produced TV drama serial	Rs. 1,000,000/- Rs. 100,000/-per episode		
				(c) Foreign-produced TV play (single episode)	Rs. 100,000		
18.	236F	Advance tax on cable operators and other electronic media	Pakistan Electronic Media Regulatory Authority, at the time of issuance of license to: - Cable operator - Radio Services - TV, Satellite Channels	Covered under (changes in taxation of Media Business)			
19.	236G	Advance Tax on Sales to distributors, dealers and wholesalers	Every manufacturer or commercial importer of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector, at the time of sale to distributors, dealers and wholesalers, shall collect advance tax.	NIL	0.1% (Covered under Taxation of Distributors, Dealers and Wholesalers).		
20.	236H.	Advance tax on sales to retailers	Every manufacturer, distributor, dealer, wholesaler or commercial importer of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector, at the time of sale to retailers, shall collect advance tax.	NIL	0.5% (Covered under Taxation of Retailers)		

## Withholding Tax Chart - Tax Year 2014

S.No	Sections	Nature of Payments / Transaction	Provision of the Section	Tax Rates	New Tax Rate	Withholding/ Collection by	Withholding/Collection from
21.	236I  236I(2)  236I(3)	Collection of advance tax by educational institutions	The tax shall be collected on amount of fee paid to an educational institution  The person preparing fee voucher or challan shall charge advance tax.  Advance tax under this section shall not be collected from a person where annual fee does not exceed two hundred thousand rupees.		5% (Covered under Taxation of Education Business)		
22.	236J	Advance tax on dealers, commission agents and <i>arhatis etc.</i>	Every market committee shall collect advance tax from dealers, commission agents or <i>arhatis</i> , etc.	The rate of collection of tax under section 236J shall be as follows:-  <b>Group</b> Group or Class A:  Group or Class B:  Group or Class C:  Any other category:	<b>Amount of tax (Per Annum)</b> Rs. 10,000  Rs. 7,500  Rs. 5,000  Rs. 5,000"		

**16- LEVY ON MOVEABLE ASSETS*****New Tax on Wealth***

As was very much suspected that the Wealth Tax would be reintroduced in one way or another, a separate piece of legislation has been proposed in the Bill for the purpose. The title for the same, however, has very discretely been chosen in an attempt to dispel away any such impression; the Income Support Levy Act, 2013, has been proposed to be introduced to impose 0.5% asset tax on net moveable wealth exceeding 1 Million Rupees. This will remain applicable to both

Salaried Individuals and Non-Salaried Individuals.

***a) Effective Date and Payment Date***

It has been proposed that this tax (levy) should be imposed right from the current Tax Year 2013. If this get approved and implemented every individual filing Income Tax Return and Wealth Statement will have to pay this 0.5% on his net moveable wealth this August and September.

***b) New Definitions***

The concept of Net Moveable Wealth has very carefully been brought in. It says that the Net Moveable Wealth will be the total Wealth, net of Liabilities related to moveable assets only and where it cannot be established that a liability is or is not related to any specific moveable or Immovable assets then the said liability will be prorated between moveable and immovable assets at the given date of the Wealth Statement.

***c) Assessment of Levy and Default Surcharge***

The payment of Levy appears to be covered under self-assessment scheme. The power of assessment has been given to the assessing officer as well to determine the correct amount of levy. In case of non-payment and or short payment, default surcharge @ 16% will be payable.

**CREST, Supply Chain, Inadmissible Input Tax**

*Section 2(5AC), 2(33A) & 8(1)(caa)  
Definition of 'CREST' and 'Supply Chain'  
applicable since 1 July 2013. The related  
input tax disallowance becomes effective  
from 13 June 2013.*

In order to address the growing menace of misreporting, non-reporting, mismatching, etc. in buyers and sellers tax returns, the FBR had introduced Computerized Risk-Based Evaluation of Sales Tax (CREST) software to confirm buyers' tax credit against seller's output tax payment.

After submission of sales tax returns by the taxpayers, the FBR system generates an internal report on the forgoing areas. Such reporting is followed by issuance of a discrepancy report, which appears in the e-Folder of relevant taxpayer with specific details of the concerns identified by CREST.

Recently, departmental queries on account of discrepancy reports generated by CREST were challenged before Lahore High Court on the grounds that the law does not recognize CREST. On this account, the petitions were accepted by the Court. Thereafter, in order to provide due legal cover to CREST, a specific definition has now been proposed by insertion of clause (5AC) of section 2 of the Sales Tax Act 1990 (the Act). CREST has been defined to mean the computerized program for analyzing and cross-matching of sales tax returns.

A related amendment has also been made by inserting a specific definition of term 'supply chain' in section 2(33A) of the Act to mean the series of transactions

between buyers and sellers from the stage of first purchase or import to the stage of final supply.

The bill also proposes that purchases, in respect of which a discrepancy is indicated by CREST or input tax of which is not verifiable in the supply chain, will not be eligible for input tax credit. This disallowance has been made by inserting section 8(1)(caa) in the Act.

A combined reading of the foregoing 3 amendments suggests that CREST will analyze and cross match tax returns of supply chain involved in any particular transaction. If such verification is not possible, the related input tax will be disallowed. On the contrary, we understand that supply chain involves transactions among multiple buyers and sellers, which cannot be evaluated, analyzed and crossed matched by CREST. Accordingly, denial of input tax of a legitimate business transaction cannot and should not be made on the basis of eventualities, starting from the stage of the first purchase or import till the stage of final supply, which are mostly beyond the control of both buyer and seller.

The proposed section 8(1)(caa) also does not addresses the following key issues emanating therefrom:

- a) Rationale of tax disallowance
- b) The specific person in the supply chain whose input tax could be disallowed in the circumstances
- c) How can a mere indication of a discrepancy, which often arise due to timing differences envisaged in section 7(1) of the Act and it is reconcilable, can lead to denial of input tax credit ?
- d) What if the supply chain breaks

between registered and un-registered parties ?

- e) The term 'verifiable' is not explained in section 8(1)(caa)

In the wake of allied confusion, coupled with lack of clarity on many fronts, it is likely that lot of disputes and resultant litigation will arise if the proposed amendments are put in place. Resultantly, the taxpayers may be deprived of legitimate input tax credit.

### **Provincial Sales Tax**

*Section 2(22A) - Effective from 01 July 2013*

The definition of the term 'provincial sales tax' has been changed to mean tax levied under provincial laws or laws relating to Islamabad Capital Territory, which are declared by the Federal Government through notification in the official Gazette. Todate, no such notification has been issued by the Government.

Since enactment of Sindh Sales Tax on Services Act, 2011 followed by legislation of identical statute by Punjab Assembly in Year 2012, the focal issue which perplexed the federal sales taxpayer has been the admissibility of Sindh / Punjab Sales Tax against his output tax liability under the Act. In numerous cases, the FBR denied refund of Sindh / Punjab Sales Tax to its taxpayers on one pretext or the other; the latest being presumed absence of data link between SRB and FBR. Such excuses were astonishing especially in the backdrop that in the past, both SRB and FBR had authorized PRAL to grant data access of FBR to SRB and that of SRB to FBR. However, in the wake of increasing refunds being piled up at FBR, a taxpayer challenged deferral of

refunds before the Federal Tax Ombudsman (FTO). Such complaint was accepted by the FTO in view of cardinal definition of under Section 2(22A) read with Section 2(14)(d) of the Act whereby provincial sales tax suffered by the taxpayer classifies as his input tax and adjustable against his monthly tax liabilities under section 7 of the Act.

In an apparent attempt to disregard and refute the recommendations proposed by FTO, the definition of the term 'provincial sales tax' has been changed. In other words, now the Federal Government will determine which of the provincial sales taxes are eligible as input tax credit / refunds against the output tax liabilities under the Act.

It is, however, notable that the Federal Government has not issued any such notification declaring Sindh / Punjab Sales Tax as eligible input tax. Thus, the sales tax suffered by a federal taxpayer on account of Sindh / Punjab Sales Tax is likely to become his cost instead of an admissible tax credit. If the Federal Government does not acknowledge Sindh / Punjab's sales tax as admissible against federal output tax, we apprehend that both the Sindh Revenue Board and Punjab Revenue Authority may also introduce identical legislation in their respective statutes whereby sales tax suffered by service providers based in Sindh and Punjab may also be deprived of tax credit paid by them on acquisition / import of goods taxable under the Act. Needless to mention, such an eventuality is likely to create uproar and disputes among the provincial and federal tax authorities and the businesses will suffer.

**Time of Supply:**

*Section 2(44) - Effective from 01 July 2013*

An amendment has been proposed in section 2(44)(a) of the Act whereby time of supply in relation to a supply of goods, other than under hire purchase agreement, would be the earlier of the time when the goods are delivered, made available to the recipient of supply or when any payment is received by the supplier in respect of that supply. A proviso has also been proposed at the end of the section whereby in respect of sub-clause (a), (b) or (c), where any part payment is received for the supply in a tax period, it shall be accounted for in the return for that tax period. On the other hand, in respect of exempt supply, it shall be accounted for in the return for the tax period during which the exemption is withdrawn from such supply.

We understand taxation of advances has been a corner of intense litigation between the taxpayers and the tax department for a very long time. Initially, the Lahore High Court held that mere receipt of money in the absence of clear specification of associated supply is an act of bailment and sales tax is not payable unless the associated supplies are made by the supplier. Later on, the apex court reversed the High Court's dictum by holding that the date of receipt of consideration in advance is the date of sale for the purpose of payment of sales tax.

Realizing the apparent hardship cause to the taxpayer and by aligning the time of supply with accounting policies adopted under the International Accounting Standards, the legislature removed this major anomaly by virtue of Finance Act 2007 by removing taxation on advances. It

is surprising to note that the government has once again resorted to same impractical and cumbersome tactics for revenue generation.

On the practical side of the proposed amendment, we reckon severe implications are likely to arise, such as the following:

- a) In line with accounting policy for revenue recognition, invoices are not issued till the delivery of goods is made. Under the proposed amendment, the supplier will be liable to pay sales tax at the time of receipt of advance payments without delivering the goods and associated invoice. Hence, he is likely to face problem when he reports his sales invoice in Annex-C of sales tax returns where, at present, no option is available to knock off his output tax liability against payment of tax made earlier.
- b) The supplier's reporting of sales tax at the time of receipt of advance and buyer's reporting of tax invoice at the time of issuance of invoice may trigger CREST discrepancies for the parties.
- c) At all times, the accounting data would need to be reconciled with tax declarations.
- d) In cases where invoices are not issued at the time of receipt of advances, adjustment / reporting issues may be cropped in when the advance is returned back to the buyer.
- e) Treatment of Sales Tax Withholding Tax Rules 2007 could also ignite compliance issues at the time when advances are paid to the supplier for

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potential supplies in future.

## Rate of Sales Tax

Section 3 - Effective from 13 June 2013

As a major revenue measure, the standard rate of sales tax has been enhanced from 16% to 17%. In this regard, in section 3 of the Act, for the word "sixteen", wherever occurring, the word "seventeen" has been substituted.

We understand tax managers of Government of Pakistan have been quite inconsistent in fixing and maintaining rate of sales tax in the country. The following table depicts pattern of sales tax ever since the enactment of the Act:

PERIOD		RATE
From	To	
1.11.1990	13.6.1993	12.5%
14.6.1993	30.6.1996	15%
1.7.1996	15.4.1997	18%
16.4.1997	30.11.1998	12.5%
1.12.1998	30.06.2008	15%
1.07.2008	30.06.2010	16%
1.07.2010	30.06.2011	17%
1.07.2011	12.06.2013	16%
13.06.2013	To date	17%

The effective meaning of such change would be that besides goods assessed to sales tax on the basis of value thereof, goods charged to tax on the basis of retail price, higher / lower rate of tax, imports, electronic goods liable to extra tax under Section 3(6) of the Act, fixed rates of taxes and capacity will also attract sales tax @ 17%.

As a result of such taxation measures, all imports and sales made w.e.f. 13 June 2013 will be liable to sales tax @ 17%.

## Further Tax

Section 3(1A) - Effective from 13 June 2013

Prior to July 2004, sales made by registered suppliers to unregistered sectors were liable to further tax @ 3% in addition to standard sales tax. In Finance Act 2004, such further tax was abolished amid strong criticism from the industry, rampant corruption and misuse of such provision. History of further tax is as under:

From	To	Rate
12.06.1998	29.06.1999	1%
30.06.1999	18.06.2000	3%
19.06.2000	17.06.2000	1.5%
18.06.2001	11.06.2004	3%
12.06.2013	To date	2%

Incidentally, exact nine years back on 12 June 2004, while delivering his budget speech on the floor of National Assembly, the then Finance Minister of Pakistan announced withdrawal of Further Tax as follows:

*"In order to remove a major trade distorting measure, it is proposed to abolish further tax, as it was an important factor in giving rise to "flying invoices" which subsequently contributed to inadmissible refund payments. Though, this levy contributes approximately Rs. 9 Billion annually, its removal will encourage growth in textiles, steel, chemical, cement, beverages and a wide range of consumer items which would be freed from this additional burden. Moreover, it will directly contribute in reducing inadmissible refund claims and payments."*

It is surprising to note that instead of devising desired and modern tools for expansion of tax base and generation of revenue, the government has once again opened the doors for malpractices and has stepped back from its position taken in Year 2004.

Further tax has again been restored in the statute by re-inserting sub-section (1A) in section 3 of the Act. The amendment prescribes that further tax @ 2% shall be charged, levied and paid in cases where taxable supplies are made to a person who has not obtained registration number in addition to standard rate of sales tax of 17%. The actual effect of the proposed measure could be that sales made to everyone who doesn't bear registration number will carry an incidence of 19% sales tax. Going by such understanding, end consumers might also have to bear 19% sales tax since end users also do not bear any registration number.

To avoid litigation that persisted in the past, it has been specifically prescribed that further tax @ 2% shall also be levied when retail priced items falling under Section 3(2) of the Act read with 3rd Schedule of the Act, fixed taxed goods or electronic goods attracting extra amount of tax under Section 3(5) of the Act are sold to unregistered persons.

Further, the Federal Government has been empowered to specify the taxable supply in respect of which further tax @ 2% shall not be charged, levied and paid. Any such notification has not been issued till to date. It is pertinent to mention that previously further tax was exempt in the following cases whereas no such concession has been prescribed in the present statute:

- Sales are made by retailers
- Sales are made to a WHT agent, exempt otherwise from income tax
- On supply of electrical energy, natural gas, petroleum gas, POL products, vegetable ghee/cooking oil and fertilizer

We understand levy of further tax may ignite issues for service providers registered with SRB and PRA who may be categorized as unregistered persons since they do not hold registration number issued by FBR. Thus, acquisition of goods by such service providers will carry tax incidence of 19%. The provincial sales tax laws on both Sindh and Punjab have put in very subjective criteria for claim of input tax in their respective statutes. Therefore, a great chunk of sales tax paid under the Act may need to be absorbed by such service providers as their cost.

#### **Tax on production capacity**

*Section 3(1B) - Effective from 13 June 2013*

Through another amendment, a new sub-section (1B) has been inserted in section 3 whereby the Board may, by notification in the official Gazette, in lieu of levying and collecting standard tax @ 17%, levy and collect tax on the production capacity of plants, machinery, undertaking, establishments or installations producing or manufacturing such goods; or on fixed basis, as it may deem fit, from any person who is in a position to collect such tax due to the nature of the business.

Apparently, sub-section (1B) aims to target those taxpayers who are perceived to be paying sales tax less than their production capacity. It is not out of place to mention that anciently, the above provision existed under Central Excise Act, 1944 which was later on copied in Federal Excise Act, 2005. It appears that due to heavy budgetary targets, the government desires to introduce excise regime in the Sales Tax Laws which, we



feel, will only distort the present state of law and multiply its problems.

### **Extra Tax**

*Section 3(5) - Effective from 13 June 2013*

Section 3(5) of the Act, has also been amended, whereby for the words “such extra amount of tax” the words “tax at such extra rate or amount” have been substituted.

### **De-registration, Blacklisting and Suspension of Registration**

*Section 21(3) - Effective from 01 July 2013*

By virtue of amendments made in Section 21(3) of the Act, it has been proposed that once any taxpayer is black listed, the refund or input tax credit claimed against sales tax invoices issued by him, shall be rejected, notwithstanding, whether such invoices were issued prior or after such blacklisting and whether the registered buyer has paid of such invoices through banking channel envisaged under section 73 of the Act.

It is pertinent to mention that in numerous cases, the courts had dropped charges of denial of input tax for buyers who purchased goods by complying section 73 of the Act. In order to negate such benefits awarded by the courts, an identical attempt was made to amend Section 21 in Year 2011. However, the business community strongly reacted over the move to disallow prior periods input tax without any time limitation and on arbitrarily grounds. Therefore, it was specifically spelled out that no blacklisting of supplier will not hurt the buyer if he has performed his due role under section 73 of the Act. The current planned move by the

government on similar lines is again likely to attract criticism from the business community thereby forcing the government to give-up the proposition.

*Section 21(4) - Effective from 01 July 2013*

Sub-section (4) has been added in Section 21 of the Act whereby the Board, Commissioner or any officer authorized by the Board may block the refunds or input tax adjustments of any person suspected to be engaged in issuing fake or flying invoices, claiming fraudulent input tax or refunds, does not physically exist or conduct actual business, or is committing any other fraudulent activity.

We understand the terms “committing any other fraudulent activity” is quite subjective and may be used as a tool for harassment and unwarranted blockage of taxpayers’ refunds or adjustments. Therefore, we suggest that no refunds or tax adjustments may be blocked or deferred unless the taxpayer is proved to have issued fake or flying invoices, claimed fraudulent input tax or refunds, did not physically exist or did not conduct actual business. In no case, any subjective or grey area should be left open for tax officers’ manipulation or want of unnecessary interpretational issues.

### **Records**

*Section 22 - Effective from 01 July 2013*

A new clause (ea) has been inserted in Section 22 of the Act whereby record relating to gate passes, inward or outward, and transport receipts will need to be maintained by the taxpayer for 5 years’ time from the relevant date.

**Access to Records***Section 25 - Effective from 01 July 2013*

The bill proposes an explanation in the end of Section 25 of the Act whereby for the purpose of Sections 25, 38, 38A, 38B and 45A and for removal of doubt, it has been declared that the powers of the Board, Commissioner or officer of Inland Revenue under these sections are independent of the powers of the Board under section 72B and nothing contained in section 72B restricts the powers of the Board, Commissioner or officer of Inland Revenue to have access to premises, stocks, accounts, records, etc. under said sections or to conduct audit under said sections.

We reckon that such an explanation aims to dilute the effect of the beneficial judgment of Lahore High Court in Writ Petition No. 393/2012 wherein the Honorable Lahore High Court had pronounced a historical judgment regarding interpretation of audit provisions in the Act and Federal Excise Act 2005 (FED 2005) and powers of tax departments to conduct audits thereunder. Answering the question as to whether Commissioner Inland Revenue is entitled to select a taxpayer for audit of tax records under Section 25(2) of the Act and Section 46(1) of FED 2005, especially in the wake of simultaneous and identical amendments brought in all tax laws whereby Section 72B and Section 42B have been introduced in the Act and FED 2005 respectively vesting FBR with the powers to select a taxpayer for audit via computer balloting, the LHC pronounced that Section 25(2) of the Act and Section 46(1) of FED 2005 are to be read down and shall provide the machinery provision to conduct audit after the taxpayer is

selected for audit of its tax affairs by FBR through computer ballot which may be random or parametric under Section 72B and 42B of the Act and FED 2005 respectively. Accordingly, the LHC declared all audit notices issued by Commissioner IRS under Section 25 and Section 46 of the Act and FED 2005 as unconstitutional, illegal, without lawful authority and thus were set aside.

**Posting of Inland Revenue Officer***Section 40B - Effective from 13 June 2013*

Presently, the Board may post an officer of Inland Revenue to the premises of registered person to monitor production, sale of taxable goods and the stock position.

Besides the Board, the Bill proposes to empower the Chief Commissioner to appoint such officers for monitoring the business activities of registered person.

Monitoring or tracking by electronic or other means

*Section 40C - Effective from 01 July 2013*

The Bill proposes to insert a separate provision of Section 40C for monitoring or tracking by electronic or other means. The Section states that subject to such conditions, restrictions and procedures, as it may deem fit to impose or specify, the Board may, by notification in the official Gazette, specify any registered person or class of registered persons or any good or class of goods in respect of which monitoring or tracking of production, sales, clearances, stocks or any other related activity may be implemented through electronic or other means as may be prescribed.

Further, from such date as may be prescribed by the Board, no taxable goods shall be removed or sold by the manufacturer or any other person without affixing tax stamp, banderole, stickers, labels, etc. in any such form, style and manner as may be prescribed by the Board in this behalf.

A perusal of the foregoing provision suggests that perhaps techniques and practices that were in vogue under the supervised excise regime are being brought back again in sales tax laws.

### Appeals

*Section 45B - Effective from 01 July 2013*

Prior to Finance Act 2006, the Commissioner (Appeals) was specifically empowered to grant stay to the taxpayers against departmental drive for recovery of adjudged / impugned taxes. In Year 2006, such powers available to Commissioner (Appeals) under Section 45B(4) were withdrawn. However, despite such amendment, Superior Courts had held that Commissioner (Appeals) possess inherent powers to grant stay against recovery in a matter sub judice before him.

Thus, in order to implement Courts' orders in the statute, a sub section (1A) is being inserted in Section 45B whereby if the Commissioner (Appeals) is of the opinion that the recovery of tax levied under the Act shall cause undue hardship to the taxpayer, he may stay the recovery of such tax for a period not exceeding thirty days in aggregate subject to the condition that an opportunity of being heard is awarded to the Respondent Commissioner or officer of Inland Revenue.

We understand that in the larger interest of justice and fair play and keeping in view the judicial practices followed in superior courts, the taxpayer may be granted stay if the Commissioner is satisfied that prima facie, the taxpayer deserves relief from recovery proceedings, irrespective of whether the Respondents are heard or not.

### Rectification of mistake

*Section 57 - Effective from 01 July 2013*

Previously, only a clerical or arithmetical error in any assessment order could have been rectified by an Officer of IRS. There was also no provision binding the Officer IRS to pass the rectified order.

The scope of Section 57 has been enlarged whereby it is clarified that the application for rectification may be made by the taxpayers on its own motion. After the proposed amendment, the application made by the taxpayers would stand rectified if no order is passed by the Officer IRS by the end of the next financial year after the date of application. Further, the Officer IRS is also required to provide an opportunity to the taxpayers before passing any rectified order.

In order to align the provision of Section 57 with that of Income Tax Ordinance 2001, the scope of Section 57 has been extended till the Office of Commissioner (Appeals) and Appellate Tribunal Inland Revenue.

**Reward to Inland Revenue officers and officials***Section 72C - Effective from 01 July 2013*

In order to encourage tax officials to detect and report cases of tax concealment or evasion, it has been proposed to award cash rewards to such officers by insertion of Section 72C in the Act.

The proposed provision calls for payment of cash award only after realization of partial or entire taxes involved in such detected cases.

**Intimation as to business bank account by way of submission of a prescribed form***Section 73 - Effective from 01 July 2013*

Section 73 of the Act requires a registered person to intimate details of his 'business bank account' to Commissioner IRS to avail benefits of the provision.

An explanation has been proposed in Section 73 whereby it has been clarified that such intimation may only be effective when made via 'Form STR I' already notified to FBR or by 'change of particulars' in registration database of FBR. This would mean that manual intimation in this regard will not be entertained by tax authorities.

**Third Schedule***Retail Price Goods - Effective from 13 June 2013*

In addition to the 17 items attracting sales tax @ their retail price, 15 specific items have been made subject to sales tax on the basis of retail price with immediate effect:

Serial No.	Description
22	Finished or made-up articles of textile and leather, including garments, footwear, and bed ware, sold in retail packing
23	Household electrical goods, including air conditioners, refrigerators, deep freezers, televisions, recorders and players, electric bulbs, tube-lights, fans, electric irons, washing machines and telephone sets
24	Household gas appliances, including cooking range, ovens, geysers and gas heaters
25	Foam or spring mattresses, and other foam products for household use
26	Auto parts and accessories sold in retail packing
27	Lubricating oils, brake fluid, transmission fluid, and other vehicular fluids and maintenance products in retail packing
28	Tyres and tubes
29	Storage batteries
30	Arms and ammunition
31	Paints, distempers, enamels, pigments, colors, varnishes, gums, resins, dyes, glazes, thinners, blacks, cellulose lacquers and polishes sold in retail packing
32	Fertilizers
33	Cement sold in retail packing
34	Tiles sold in retail packing
35	Biscuits, confectionary, chocolates, toffees and candies
36	Other goods and products sold in retail packing

It may be noted that at Serial 36, all other goods and products sold in retail packing have been made subject to retail price mechanism. Further, the term 'retail packing' has also not been specified which might also create business issues with tax department treating all packaging covered under retail packing. We feel such step to be unjust and extension of distorted VAT regime which will not only create confusion and hardship but also compromise the cause of documentation just to secure more revenue for the government.

We also understand that in view of larger undocumented sector engaged in the electronic goods' business, the Government had imposed an 'extra tax' of 0.75% in terms of Chapter XIII of Sales Tax Special Procedure Rules 2007 for collection of sales tax from the remaining

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supply chain. Such extra tax is charged by manufacturer of television sets, refrigerators, freezers, air conditioners, electric ovens, microwave ovens, washing machines, spin dryers and DVD / CD players of all types at the time of sale thereof. Since further tax has also been introduced in the statute for unregistered persons, the extra tax needs to be withdrawn.

With the insertion of quite a few items in the 3rd Schedule to the Act, there would emerge immediate issues with respect to printing or embossing of retail price and sales tax on existing stock of goods.

**Sixth Schedule**

*Withdrawal of Exemptions - Effective from 13 June 2013*

Serial No.	Description	PCT Heading
25	Milk preparations obtained by replacing one or more of the constituents of milk by another substance, whether or not packed for retail sale	1901.1000, 1901.9020 and 1901.9090
12	Supplies against International tender *	Respective headings

\* **SRO 506(I)/2013 dated 13 June 2013:** In the past, supplies against international tenders were zero rated in terms of 5th Schedule to the Act. Subsequently, vide Finance Act 2012, an Entry No. 12 was inserted in Table II in 6th Schedule and such zero rating was withdrawn. Instead, tax exemption was granted to all such supplies. However, tax exemption created utmost discomfort for smooth execution of international tenders as due to exempt nature at supply stage, the suppliers were suffering the related sales tax paid on their purchase / import stage. To remove such an anomaly, exemption on supplies against international tender has been

withdrawn. Accordingly, such tenders have become subject to 17% sales tax across the board.

With the withdrawal of tax benefits to supplies against international tenders, Chapter VIIA of Sales Tax Rules 2006 laying out the procedure in respect of supplies against international tenders is also proposed to be deleted with effect from 1 July 2013.

**SALES TAX RULES, 2006*****Jurisdiction of Taxpayers***

*S.R.O 506(I)/2013 - Effective from 01 July 2013*

Prior to amendment in Rule 5 of the Sales Tax Rules 2005 (the rules), jurisdiction over the case of a corporate person rested in the jurisdiction of Regional Tax Office (RTO) or Large Taxpayers Unit (LTU) where the registered office of the taxpayer was located. In the case of a non-corporate person, it was determined with reference to the place where the business; and in cases where both business premises and manufacturing unit were located in different areas, the jurisdiction was determined with reference to the place of manufacturing unit.

The amendment sets out a revised and uniform basis for determination of place of jurisdiction as follows:

Particulars	Jurisdiction
Corporate or non corporate persons with single manufacturing unit or business place	Place where the manufacturing unit or place of business is located
Corporate or non corporate persons having multiple manufacturing units	The Federal Board of Revenue will determine the jurisdiction

The aforesaid amendment would cause

problems to those taxpayers having manufacturing facility or business premises at a different location from its registered office as most of the records required to be maintained under the Act are usually kept at registered office. Therefore, such taxpayers will face problems in making effective correspondences with the concerned tax department.

Furthermore, the place of jurisdiction in case of person having manufacturing / business place at different location from his head office, shall stand automatically transferred on July 1, 2013 to the RTO or LTU in whose jurisdiction his manufacturing unit or business premises is actually located. In case of multiple manufacturing units or business premises, the FBR may decide the place of jurisdiction.

We understand that parallel amendments are also required to be made in the Income Tax Ordinance, 2001 in order to avoid different jurisdictions of registered taxpayers for income tax and sales tax.

#### **Sales Tax Special Procedure Withholding Rules, 2007**

*SRO 505(I)/2013 - Effective from 12 June 2013*

The Federal Government has made substantial change in the Sales Tax Special Procedure Withholding Rules, 2007 [STWH 2007]. Consequently, the following withholding agents notified in clause (a) to (f) of Rule 1(2) of STWH 2007 are required to withhold sales tax @ 17% on purchase of taxable goods from unregistered persons:

- a) Federal & Provincial Governments departments

- b) Autonomous bodies
- c) Public sectors organization
- d) Companies registered under the Companies Ordinance, 1984 \*
- e) Recipient of advertisement services registered for sales tax
- f) Person registered as exporters

\* Through the Finance Bill 2013, non-profit organization, body corporate and trust are proposed to be separately defined as 'company'. Therefore, they will also be treated as "Withholding agent" for withholding of sales tax under STWH 2007.

The foregoing amendment in STWH 2007 is identical to the earlier amendment brought into in the Year 2009 through SRO 603(I)/2009 dated 25 June 2009. Through such amendment, all withholding agents were required to deduct sales tax on the value of supplies on purchase from an unregistered person. Through SRO 603, input tax adjustment on sales tax so deducted from unregistered persons was also allowed to withholding agent.

After considering the practical problems in implementations of aforesaid amendment from different quarters, SRO 603 was substituted through SRO 864(I)/2009 dated 01 October 2009 and the requirement to withhold sales tax from an unregistered person was restricted to Federal Government, Government departments, autonomous bodies and public sector organizations.

Consequent to current amendment, withholding of sales tax will also be made from the person who is otherwise not required to obtain registration under the Act. This creates an apparent conflict or

ambiguity with main statute which does not penalize any person to obtain registration who does not exceed minimum threshold for registration or who is legally outside the tax net. Further, collection of withholding sales tax from persons who are not required to get registered would nullify his exemption, otherwise granted under the 6th Schedule.

Unlike SRO 603, the proposed amendment does not offer the benefit of input tax adjustment of withheld tax to the withholding tax agent. Problems may also arise in reporting sales tax withholding in sales tax returns, as usually sales tax invoice is not issued by unregistered person making taxable supply.

In line with FBR's clarification dated 17 August 2009, the application of sales tax withholding from unregistered person may become effective after the issuance of the SRO and not from any prior date. Hence, withholding of sales tax on purchases from unregistered persons would affect invoices issued on and after the issuance of SRO 505(I)/2013 dated 12 June 2013.

### **Sales by Retailers**

*Effective from 13 June 2013*

In terms of Rule 5(3) of the Special Procedure for Payment of Sales Tax by Retailer, supplies made by retailers to person who deducts income tax at sources under the Income Tax Ordinance 2001, are subject to sales tax @ 17%. Section 153 of the Income Tax Ordinance, 2001 has been amended to broaden the definition of 'prescribed person' by including person registered under the Act for the purpose of withholding of income tax.

With the aforesaid amendment in the Income Tax Ordinance 2001, supplies made by retailers to person which are registered under the Act would also be subject to sales tax @17%. This is a positive step towards broadening of tax base.

### **Extra Tax on Certain Industrial, Commercial Users & Non Active Taxpayers**

*SRO 509(I)/2013 & SRO 510(I)/2013 - Effective from 13 June 2013*

The Federal Government has imposed extra tax @ 5% of the total amount billed (excluding federal taxes) issued to industrial and commercial consumers of electricity and natural gas having monthly bill exceeding Rs. 15,000, which have not obtained sales tax registration number under the Act. Further, registered person not appearing in the Active List of taxpayers would also be subject to such an extra tax.

The SRO would mean that any person who has not obtained registration under the Act and Non Active Taxpayers would have to bear 24% sales tax (i.e., 17% standard rate + 2% further tax + 5% extra tax) on their electric and gas bills. In order to define the procedural aspects of extra tax @ 5%, a new Chapter IVA has also been inserted in the Sales Tax Special Procedure Rules 2007. The steps taken by the Federal Government appears to be very harsh to those persons who are not liable to be registered under the Act due to following reasons:

- Manufacturers, being cottage industry, paying utility bills less than Rs. 700,000 pa;

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- Retailers having annual turnover not exceeding Rs. 5 million;
- Service provider registered under the Provincial Sales Tax Laws or otherwise but having no nexus with the Act; and
- Suppliers of goods specifically exempt under the Act, etc.

A perusal of the Chapter IVA also deduces the following:

- a) Persons not appearing in the Active Taxpayers' List would also pay extra 5% sales tax.
- b) Registered consumers, who did not provide their registration number to utility companies, may also be exposed.
- c) Registered consumers having electricity bill not in their name may also be exposed.
- d) The amount of extra tax is required to be shown separately on the electricity or gas bills.
- e) Input tax adjustment of extra tax is not admissible.

### **Zero Rating & Exemptions Notifications**

*Effective Date 13 June 2013*

In line with the fiscal measures to achieve higher revenue targets, the Federal Government has withdrawn various notifications of zero rating / exemptions earlier issued under Section 4 & 13 of the Act and Section 16 of the Federal Excise Act, 2005. The details are as under:

S. No	SRO Reference	Detail of zero rating / exemption withdrawn	Reference
1.	646(I)/2005 dated 30 June 2005	Zero rating on supply of Hydrogen, Nitrogen & Helium by M/s. BOC Pakistan Limited to M/s. Pakistan PTA Limited	
2.	172(I)/2006 dated 24 February 2006	Goods imported by member of Pakistan Film Producer Association (PFPA) in relation to production and display of films	
3.	863(I)/2007 dated 24 August 2007	Conditional zero rating was earlier provided on raw materials, sub-components, components, assemblies and sub-assemblies purchased or imported locally for the production of stationary items, milk, cream, butter etc. and other food items.  Further S.R.O 549 has also been amended accordingly to delete zero rating on supply of same items.  However, all above items, have been notified as exempt goods (import & supplies) through SRO 501(I)/2013 dated 12 June 2013 with the exception of acetic acid which is now taxable at standard rate.	<b>Note 1</b>
4.	S.R.O 164(I)/2010 dated 10 March 2010	Supply of electricity by Peshawar Electric Supply Company or any other registered electric supply company to manufacturing units located in the districts of Hangu, Bannu, Tank, Kohat, Chitral, Charsadda, Peshawar, Dera Ismail Khan, Batgram, Lakki Marwat, Sawabi, Nowshera and Mardan (with exclusion to sugar, cement, beverages & cigrattes) was exempt	

#### **Note 1**

This step has been taken to disallow input tax adjustments or refunds incurred by supplier of aforesaid items. The purchase of raw material of the items notified in the rescinded S.R.O 863(I)/2007 dated 24



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August 2007 were exempt from sales tax and its subsequent supplies were also zero rated through S.R.O 549(I) of 2008 dated 11 June 2008. Amendment are made in both the above notification and the zero rating on purchase of raw materials and its subsequent supplies thereof has been done away with. Hence, the supplier of aforesaid products would not be able to file refund claim on purchase of taxable goods and services which would force these supplier of these industries to absorb sales tax paid on purchase of goods and services into their cost which would eventually increase the cost of these products.

**Note 2**

The taxpayers of these areas were facing problems as the raw material and other input required for the manufacture of these areas were not subject to lower rate of sales tax and acquired or procured at the applicable standard rate prevailing under the Act. On the other side, the supplies were subject to sales tax @ 50% of sales tax chargeable under the Act. This has caused excess of input sales tax over the output sales tax and the benefits which were principally envisaged through the notification were not achieved resulting in accumulation of carry forward input tax or refunds. This practical hassle has been considered and lower rate of sales tax on goods produced in the specified areas are no more applicable.

**EXEMPTION OF GOODS EARLIER TAXABLE AT 0%**

*SRO 501(I)/2013- Effective dated 13 June 2013*

Zero rating on many items has been withdrawn and notified as exempt goods. This has been done by deletion of various

entries from SRO 863(I)/2007 dated 24 August 2007 & SRO 549(I)/2008 dated 11 June 2008.

In terms of Serial No.11 of SRO 549(I)/2008, Cotton Seed Oil was zero rated, if supplied to registered manufacturers of vegetable ghee & cooking oil. However, in terms of SRO 213(I)/2013 dated 15 March 2013, supply of Cotton Seed Oil to registered or unregistered persons is subject to sales tax @ 2%. Therefore, the apparent anomaly between the SRO 549 & SRO 213 has been addressed and now the supply of Cotton Seed Oil would be subject to tax @ 2%.

Details of all other goods are as under:

Description of goods	PCT Heading	Redundant/ Amending SRO
Uncooked poultry meat	2.07	SRO 863 & SRO 549
Milk and Cream	04.01 & 04.02	---do---
Flavored Milk	0402.9900 and 22.02	---do---
Yogurt	403.1000	---do---
Whey	04.04	---do---
Butter	0405.1000	---do---
Desi ghee	0405.9000	---do---
Cheese	0406.1010	---do---
Processed cheese not grated or powdered	0406.3000	SRO 549
Cotton seed	1207.2000	---do---
Frozen, prepared or preserved sausages and similar products of poultry meat or meat offal	1601.0000	---do---
Meat and similar products of prepared frozen or preserved meat or meat offal of all types including poultry meat and fish	1602.3200, 1602.3900, 1602.5000, 1604.1100, 1604.1200, 1604.1300, 1604.1400, 1604.1500, 1604.1600, 1604.1900, 1604.2010, 1604.2020, 1604.2090, 1604.3000	---do---
Preparations for infant use, put up for retail sale	1901.1000	SRO 863 & SRO 549
Fat filled milk	1901.9090	---do---
Soyabean meal	2304.0000	---do---
Oil cake and other solid residues, whether or not ground or in the form of pellets	2306.1000	---do---
Colours in sets (Poster colours)	3213.1000	SRO 863 & SRO 549

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Writing, drawing and marking inks	3215.9010 3215.9090	and	---do---
Erasers	4016.9210 4016.9290	and	---do---
Exercise books	4820.2000		---do---
Directly reduced iron	72.03		SRO 549
Pencil sharpeners	8214.1000		SRO 863 & SRO 549
Energy saver lamps	8539.3910		SRO 549

**Amendments in SRO 1125(I)/2011**

*SRO 504(I)/2013 – Effective from 13 June 2013*

The Federal Government has once again amended SRO 1125(I)/2011 dated 31 December 2011 in order to exclude the supply of finished products of five sectors namely leather, textile, carpets, sport goods and surgical goods sectors from the purview of SRO 1125(I)/2011. The entire finished products of aforesaid sectors are now taxed under the Retail Price Regime of the Act.

The supplies of leather, textile, carpets, sports goods and surgical goods are now subject to sales tax @ 17% on value of supply. Therefore, if finished clothing of textile is provided to manufacturer, wholesaler or retailer, the same is subject to sales tax 17% instead of reduced rate of 2%. Likewise, retailers dealing in finished goods earlier charging sales tax @ 2% under Clause VII of the SRO 154(I)/2013, are also now excluded from the 2% sales tax regime and consequently falling under Chapter II, Sales Tax Special Procedure for Payment of Sales Tax 2007. However, manufacturer-cum-retailer, making sales from his retail outlets is required to charge sales tax @ 17% on supply of finished goods from his retail outlets.

Imported goods in finished form sold in same state by the importer are also excluded from SRO 1125(I)/2011 and subject to tax under standard rate. The supply chain not involved in sales of

finished products would continue to enjoy benefits of SRO 1125(I)/2011.

Supply of 'shoe adhesive' falling under the Tariff Heading 3506.9110 and 'master batches' falling under the PCT Heading 3206.4900 have also been brought out the reduced rate regime and now subject to sales tax @ 17%. Furthermore, consequent to insertion of Sub Section 1A in Section 3 of the Act, further tax @ 2% may also be required to be charged by registered taxpayers in addition to standard 17% tax.

**Further Duty**

*Section 3(3A) - Effective from 13 June 2013*

The Finance Bill proposes to levy and collect further duty @ 2%, in addition to the duty chargeable under various provisions of section 3 of the Federal Excise Act 2005 (FED 2005) on specified excisable goods and services to be supplied to a person who has not obtained registration number. Such goods or services have not yet been notified by the Federal Government.

With introduction of further duty regime in case of excisable goods or services, it appears that the legislature has failed to understand that excise duty once charged and paid by registered manufacturer, importer and services provider is not chargeable on subsequent stage. Accordingly, recipient of such supplies or services, are not required to obtain excise registration as is applicable in the case under sales tax laws. Accordingly, we feel that the concept of further duty is ultra vires, goes beyond the scope and negates the very concept of excise laws.

**Maintenance of Records**

*Section 17[1(da)] - Effective from 01 July 2013*

See Sales Tax

**Appeals**

*Section 33[1(A)] - Effective from 01 July 2013*

See Sales Tax

**Powers of Board or the Commissioner to Pass Certain Orders**

*Section 35(3) - Effective from 01 July 2013*

See Sales Tax

**Reward to Inland Revenue Officers and Officials**

*Section 42C – Effective from 01 July 2013*

See Sales Tax

**Access to Records & Posting of Excise Staff, etc.**

*Section 45(2) – Effective from 01 July 2013*

See Sales Tax

**Monitoring or tracking by electronic or other means**

*Section 45A – Effective from 01 July 2013*

**First Schedule Table I****Increase of FED Rates**

*S. No. 4, 5, 6 - Effective from 01 July 2013*

The Finance Bill proposes to increase rate of FED upon aerated waters, falling under PCT Heading 2201.1020, PCT Heading 2202.1010 & Respective Headings, from 6% to 9% ad val. The proposed change being a revenue measure may result in increase of prices owing to related products to be supplied by manufacturers of beverage companies.

**Levy of FED on Cigarettes**

*S. No. 9, 10 & 11 - Effective from 13 June 2013*

The three tier structure of chargeability of FED on cigarettes is being replaced by a two tier specific rate structure.

## FEDERAL EXCISE ACT, 2005

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S. No.	OLD REGIME		NEW REGIME	
	Description of Goods	FED	Description of Goods	FED
9.	Locally produced cigarettes, if their retail price exceeds Rs. 22.86 per ten cigarettes	65% of the retail price	Locally produced cigarettes if their on pack printed retail price exceeds Rs. 2286 per thousand cigarettes	2325 per thousand cigarettes
10.	Locally produced cigarettes if their retail price exceeds Rs. 13.36 per ten cigarettes but does not exceed Rs. 22.86 per ten cigarettes	Rs. 7.20 per ten cigarettes plus 70% per incremental rupee or part thereof	Locally produced cigarettes if their on pack printed retail price does not exceed Rs. 2286 per thousand cigarettes	880 per thousand cigarettes
11.	Locally produced cigarettes if their retail price did not exceed Rs. 13.36 per ten cigarettes	Rs. 7.02 per 10 cigarettes	OMITTED	

**Levy of FED on imported Oil Seed & Locally Produced Oil***SRO 507(I)/2013 – Effective from 12 June 2013**SRO 508(I)/ 2013 – Effective from 12 June 2013**S. No. 54 – Effective from 13 June 2013*

Presently, import of oil seeds such as soybean, rapeseed, sunflower and canola is subject to sales tax @ 6% & 14% ad val. respectively if imported by oil extracting units by virtue of SRO 313(I)/2006 dated March 31 2006 & SRO 69(I)/2006 dated 28 January 2006 respectively. On the other hand, the locally procured oils [soft oils] are also subject to sales tax @16% ad val. at local supply stage.

Through Finance Act, 2013, it is proposed to levy fixed FED @Rs.0.40/kg on import of oil seeds. In this regard, FBR has issued following two notifications for levying FED.

SRO & Date	Description
507(I)/2013, dated 12 June 2013	Levy of fixed amount of FED of Rs.1/kg on locally produced oil purchased by a manufacturer of ghee and cooking oil in lieu of FED payable at production or manufacturing stage of vegetable ghee or cooking oil
508(I)/2013, dated 12 June 2013	Levy of fixed amount of FED of Rs.0.40/kg on oil seed at import stage in lieu of FED payable at production or manufacturing stage of vegetable ghee or cooking oil

The aforesaid fixed levy of FED in addition to sales tax on import and supply stage upon imported oil seeds and locally produced oil will be full and final liability of importer / manufacturer of ghee and cooking oil / oil extracting unit upto manufacturing stage which does not involve any payment of sales tax / FED at supply stage by such registered person(s).

It seems that the legislature through aforesaid budgetary changes has made an effort to harmonize regime with respect to supplies of ghee and cooking oil exempt from levy of FED for manufacturer / supplier of ghee and cooking oil which has been manufactured and produced form locally produced oil or imported ones.

**Levy of FED on imported Motor Vehicles***S. No. 55 – Effective from 13 June 2013*

FED at the rate of 10% ad val. is being proposed to be levied on import motor vehicles of cylinder capacity of 1800cc or

above.

**First Schedule-Table II**

*S. No. 7 & 8 – Effective from 13 June 2013*

The Finance Bill proposes to omit S. No. 7 of Table-II of the First Schedule and the same has been merged / clubbed at S. No. 8, Table-II of the First Schedule thereof. The amended S. No. 8 pertains to services provided by banking companies, insurance companies, cooperative financing societies, modarbas, musharka, leasing companies, foreign exchange dealers, non-banking financial institutions and assets management companies. It is notable to mention that assets management companies fall under PCT Heading 98.13 and disclosure thereof at S. No. 8 of the Schedule is of mere clarificatory nature.

**Withdrawal of Exemption**

**Third Schedule-Table I**

*S. No. 5,7&8 – Effective from 13 June 2013*

Exemption of FED on following goods have been proposed as withdrawn while omitting S, No. 5, 7 & 8 of Schedule:

- Hydraulic cement imported or purchased by petroleum or energy sector companies

Withdrawal of FED upon hydraulic cement will lead to equity and cement of all types will be subject to FED. However, omission of terms lube oil and transformer oil from Schedule was necessitated as both were declared as non-excisable commodities through Finance Act, 2012.

- Lubricating oil supplied to Pakistan Navy for consumption in its vehicles.

- Transformer oil if used in the manufacture of transformers supplied against international tender

**Third Schedule-Table II**

*S. No. 8*

Exemption of FED on Assets Management Companies is withdrawn with immediate effect, i.e. 13 June 2013. Assets Management Companies were declared to be exempt from FED through Finance Act, 2012. However, such sector enjoyed immunity from FED for a year only.

**Duty Drawback**

*SRO 503(I)/2013 – Effective from 12 June 2013*

Amendment has been made SRO 993(I)/2006, dated 21 September 2006 through SRO 503 whereby effort has been made to curtail documentary requirement with respect to duty drawback claim pertaining to ghee and cooking oil.

## FEDERAL EXCISE ACT, 2005

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Chartered Accountants

**Rescinded SROs***Effective from 12 June 2013*

SRO Ref:	Description
S.R.O 160(I)/2010 dated 10 March 2010; S.R.O 161(I)/2010 dated 10 March 2010;	These SROs were superfluous which provided exemption from default surcharge and penalty to the various districts of Khyber Pakhtunkhwa and Tribal areas if the principal amount was paid till 30 June 2010. Hence, withdrawn by Federal Government.
S.R.O 162(I)/2010 dated 10 March 2010	Federal Excise Duty exempted on goods produced in the areas of Bajaur Agency, Mohmand Agency, Orakzai Agency, North Waziristan Agency and South Waziristan Agency has been done away with. Now all the goods produced in these areas are subject to Federal Excise Duty at applicable rate or value.
S.R.O 163(I)/2010 dated 10 March 2010	Federal Excise Duty exempted or at fifty percent of the leviable rate on goods produced in the areas of Hangu, Bannu, Tank, Kohat, Peshawar, Chitral, Charsadda, Dera Ismail Khan, Batgram, Lakki Marwat, Sawabi and Mardan has also been withdrawn. Now all the goods produced in these areas are subject to Federal Excise Duty at applicable rate or value.
S.R.O 200(I)/2011 dated 14 March 2011	Exemption from Federal Excise Duty on goods produced in Non Tariff areas is withdrawn.

**Goods Declaration***Section 2 (la) – Effective from 01 July 2013*

The scope of definition has been extended through proposed amendment in the Section 2(la) which provides the legal coverage for filing of transshipment goods declaration in customs computerized clearance system.

**Input Output Co-efficient Organization***Section 3DDD – Effective from 01 July 2013*

Input Output Co-efficient Organization (IOCO) has been performing prescribed functions since long.

A new Section has been proposed whereby the department of IOCO will work as a separate Directorate consisting of Director General, Directors, Additional Directors, Deputy Directors, Assistant Directors and other Officers, as may be appointed by the Board.

**Provisional Assessment***Section 81 – Effective from 01 July 2013*

At times, goods are cleared provisionally by the customs authorities against securities i.e., post-dated cheque. However, customs authorities face problems to recover the tax / duty amount from the importer after final determination of the value of goods on the basis of post-dated cheque (PDC) secured at the time of provisional assessment.

The proposed deletion of the word “post-dated cheque” made from Section 81 is aimed to remove the enforcement issues in the encashment of PDCs. Henceforth, PDC will not be secured in the

case of provisional assessment and clearance of goods.

**Pakistan Customs Service***Section 202B – Effective from 01 July 2013*

The amendment proposes to re-name the nomenclature from ‘Pakistan Custom Service’ to ‘Customs Service of Pakistan’ to align it with nomenclature for Police Service of Pakistan and Foreign Service of Pakistan.

**Fist Schedule to the Customs Act 1969***Addition in Customs Tariff – Effective from 13 June 2013*

To bring harmony with the World Customs Organization (WCO), the following new PCT Codes have been inserted in the Customs Tariff:

PCT	Description	Custom Duty
39.03	Polymers of styrene, in primary forms.	
3903.9000	Other	5%
8418.6930	Water dispenser	30%
8418.6990	Other	25%
8517.1230	Satellite mobile phone, whether or not functional on cellular networks	25%
8539.3920	Energy saving tube	0%
8543.7020	Infrared insect killer	25%
87.03	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 87.02), including station wagons and racing cars.	
8703.2194	Components for the assembly / manufacture of Mini Van, in any kit form	55%
8703.2195	Mini vans (CBU)	55%
8703.2230	Components for the assembly / manufacture of mini van, in any kit form	60%
8703.2240	Mini vans (CBU)	60%
8703.2322	Components for the assembly / manufacture of sport utility vehicles 4X4, in any kit form	100%
8703.2323	Sport utility vehicles (SUVs 4x4)	100%
8703.9010	Components for the assembly/ manufacture of electric vehicles, in any kit form	50%

PCT	Description	Custom Duty
8703.9020	Electric vehicles	50%
8703.9090	Other	100%
8704.3120	Components for the assembly / manufacture of mini cargo van, in any kit form	60%
8704.3130	Mini cargo van (CBU)	60%
8704.3140	Components for the assembly / manufacture of 3-wheeler cargo loader, in any kit form	60%
8704.3150	3-Wheeler cargo loader (CBU)	60%
8711.9020	Components for the assembly / manufacture of electric bikes, in any kit form	65%
8711.9030	Electric bikes (CBU)	65%

***Increase in Customs Duty***  
*Effective from 13 June 2013*

In order to discourage the usage of betel nuts and betel leaves, the duty rates have been increased:

PCT	Description	Rate of Custom Duty	
		Previous	Current
0802.8000	Areca nuts	5%	10%
1404.9020	Betel leaves	Rs.200/kg	Rs.300/Kg

***Reduction in Customs Duty***  
*Effective from 13 June 2013*

In order to encourage the imports of the following goods, the rate of custom duty has been reduced:

PCT	Description	Rate of Custom Duty	
		Previous	Current
39.03	Polymers of styrene, in primary forms. Polystyrene:		
3926.1000	Office or school supplies	25%	20%
4411.1200	Of a thickness not exceeding 5 mm	20%	15%
4411.1300	Of a thickness exceeding 5 mm but not exceeding 9 mm	20%	15%
4411.1400	Of a thickness exceeding 9 mm	20%	15%
4411.9200	Of a density exceeding 0.8 g/cm <sup>2</sup>	20%	15%
4411.9310	Not mechanically worked or surface covered	20%	15%
4411.9390	Other	20%	15%
4411.9400	Of a density not exceeding 0.5 g/cm <sup>2</sup>	20%	15%
8421.2100	For filtering or purifying water	25%	15%
8517.1210	Cellular mobile phone	Rs. 500/set	Rs.250/set

PCT	Description	Rate of Custom Duty	
		Previous	Current
87.03	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 87.02), including station wagons and racing cars.		
	Components for the assembly / manufacture of vehicles, in any kit form, excluding those of heading 8711.9030	70%	65%
8711.9010			
8711.9090	Other	70%	65%

**AMENDMENT IN THE EXISTING CUSTOMS NOTIFICATIONS**

***Conditional Exemption on Custom Duty for manufacturer or Assembler***  
*SRO 496(I)/2013 - Effective from 13 June 2013*

Previously, exemption from custom duty on import stage was allowed to the importer having suitable in-house facility or the importer in possession of a firm contract for the manufacture of specified goods with any other registered manufacturer having suitable in-house facility. Now, an amendment has been announced by the FBR vide SRO 496(I)/2013 dated 12 June 2013 whereby such facility is not available to importer having facility of assembling or manufacturing under firm contract for auto rickshaw PCT Heading 8703.2115, 3 wheeler cargo-loader PCT Heading 8704.3150 and vehicles of PCT Heading 87.11.

Further, the criteria for minimum in-house assembly / manufacturing facility required for assemblers / manufacturers of vehicles prescribed in Annexure - A to the SRO 656(I)/2006 has been revised.



**General Concession on Customs Duty  
Withdrawn***SRO 497(I)/2013 - Effective from 13 June 2013*

Conditional exemption of customs duty on the following goods which were allowed under SRO 567(I)/2006 dated 05 June 2006 have been withdrawn with effect from 13 June 2013 vide SRO 497(I)/2013 dated 12 June 2013. Now, the same have been charged on prescribed rate mentioned in the First Schedule to the Customs Act 1969:

HS Code	Description	Rate of duty	Conditions of Imports.
3808.9160	Preparations put up in retail packing for agriculture	0%	Nil
4804.1900	Uncoated Kraft paper and paper board in rolls or sheets	5%	If certified by Pakistan Horticulture Board for export only.
4804.1900	Virgin craft liner	0%	
4804.1900	Virgin white top craft	0%	
4805.1100	Semi – chemical fluting paper	0%	
7219.9090	Flat rolled products of stainless steel, of a width of 600 mm or more.	0%	
7226.1900	Silicon electrical steel sheet	0%	Nil
8528.7211	LCD Panels in CBU form	20%	20% rate shall be effective till 09.03.2009.
8528.7212	Plasma display panels in CBU form	20%	

Further, the criteria for availing the benefits of concessionary rate duty at

import stage have been revised for pharmaceutical sector. Now, concessionary duty for excipients / chemicals listed in Heading “B” of Table III in SRO 567(1)/2006 shall only be available to the pharmaceutical sector, as per the requirements determined by the Drug Regulatory Authority and concessionary duty for packing material and raw materials for packing material listed in Heading “D” of Table III in SRO 567(1)/2006 shall now only be available to the pharmaceutical sector as per the requirements determined by the Directorate General of IOCO.

**Conditional Exemption / Concession  
for Plant & Machinery***SRO 498(I)/2013 - Effective from 13 June 2013*

Exemption / Concessionary rate of customs duty and sales tax on import of specified agricultural machinery will now apply only where such machinery is used for agriculture sector.

Tourism Departments of Provincial Governments, Gilgit-Baltistan, FATA and Department of Tourist Services of the Capital Administration and Development Division (for allowing concessionary rate of 5 per cent of customs duty and 100 per cent exemption from sales tax) have now been assigned to the Directorate of IOCO.

Further, the certification in order to claim exemption / concession in customs duty and sales tax on import by Alternate Energy Development Board (AEDB) Islamabad, is now no longer required.

**CONCESSIONARY REGIME FOR  
HYBRID ELECTRIC VEHICLES***SRO 499(I)/2013 – Effective from 13 June  
2013*

In supersession of Notification SRO 607(I)/2012 dated 02 June 2012, Import of Hybrid Electric Vehicles (HEVs) falling under the PCT Heading 87.03 was allowed exemption of 25 per cent of applicable rates of customs duty, sales tax and income tax, without any reference to engine capacity. The exemption limit has now been increased as follows:

S. No.	Engine Capacity	Extent of exemption in leviable duty and taxes
1	Upto 1200 CC	100%
2	From 1201 CC to 1800 CC	50%
3	From 1801 CC to 2500 CC	25%

Depreciation in the duties and taxes, in case of old and used HEVs, admissible at the rate of 2 per cent per month (subject to a maximum of 60 per cent) has been withdrawn.



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