



Narrative on Amended Finance Bill, 2012

Introduction

An Amended Finance Bill, 2012 has been introduced whereby certain provisions in the proposed Original Finance Bill have been proposed to be changed further in respect with provisions related to **INCOME TAX LAW**.

A narrative has been prepared on the Amended Finance Bill 2012 for the purpose of general guidance of our valued clients. The narrative on Amended Finance Bill can also be accessed on our web site www.shekhamufti.com

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S. No.	Table of Contents	Page
A-	Amendment in Salary Taxation	3
B-	Minimum Tax	4
C-	1% Tax on Distributors	4
D-	Tax on Immovable Property	4-5
E-	Tax Credit on Investment in Plant & Machinery	5
F-	Limit on Motor Vehicle for Normal Depreciation	5
G-	Minimum Tax on Retailers	5
H-	Withholding from Nonresidents	5

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AMENDED FINANCE BILL 2012

The Amended Finance Bill 2012 has been proposed. Important amendments to the Finance Bill are being narrated as under;

A) AMENDMENT IN SALARY TAXATION;

The Salary Slabs have been increased from five (05) to six (06). Tax relief granted to the salaried persons in the Original Bill has been reduced in the Amended Bill as under;

S. No.	Salary Slab as per Original Finance Bill	Tax as per Original Finance Bill	Salary Slab as per Amended Finance Bill	Tax as per Amended Finance Bill	Comments
1	Up to 400,000	NIL	Up to 400,000	NIL	Same
2	400,001 to 750,000	5% of the amount exceeding 400,000	400,001 to 750,000	5% of the amount exceeding 400,000	Same
3	750,001 to 1,500,000	17,500 plus 10 % of the amount exceeding 750,000	750,001 to 1,500,000	17,500 plus 10 % of the amount exceeding 750,000	Same
4	1,500,001 to 2,500,000	92,500 plus 15 % of the amount exceeding 1,500,000	1,500,001 to 2,000,000	95,000 plus 15 % of the amount exceeding 1,500,000	Change
5	2,500,001 and above	242,500 plus 20 % of the amount exceeding 2,500,000	2,000,001 to 2,500,000	175,000 plus 17.5 % of the amount exceeding 2,000,000	Change
6	Nil	Nil	2,500,001 and above	420,000 plus 20 % of the amount exceeding 2,500,000	New

There is a clear flaw in the table of Salary tax. We understand that in slab No. 4 the tax should be 92,500/- instead of 95,000/-, in Slab No. 5 the tax should be 167,500/- instead of 175,000/- and in Slab No. 6 the tax should be 255,000/- instead of 420,000/- as mentioned in amended Finance Bill.

The comparison of Salary tax between Last Year and Original Bill can be seen in following table;

Slab	Original Bill			
	Salary Income	Last Year Tax	Tax As per Original Finance Bill	Tax Saving
1	Up to 400,000	6,000	Nil	6,000
2	750,000	45,000	17,500	27,500
3	1,500,000	179,500	92,500	87,000
4	2,000,000	293,000	167,500	125,500
5	2,500,000	400,000	242,500	157,500
6	4,800,000	960,000	702,500	257,500

The comparison of Salary tax between Last Year and the Amended Bill should be as follows;

Slab	Amended Bill			
	Salary Income	Last Year Tax	Tax As per Amended Finance Bill	Tax Saving
1	Up to 400,000	6,000	Nil	6,000
2	750,000	45,000	17,500	27,500
3	1,500,000	179,500	92,500	87,000
4	2,000,000	293,000	167,500	125,500
5	2,500,000	400,000	255,000	145,000
6	4,800,000	960,000	715,000	245,000

B) MINIMUM TAX

Under Section 113, the rate of minimum tax has now been proposed to be reduced from 1% to 0.5% of turnover. This is effective from July 01, 2012.

We understand that with this reduction in rate, the concession of minimum tax given earlier to varied classes of tax payers under various clauses of Part III of the 2nd Schedule shall get evenly reduced to a lesser percentage (%), until 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%

C) 1% TAX ON DISTRIBUTORS

Under the proposed Section 153A the rate of tax on gross sales has now been proposed to be reduced from 1 % to 0.5%. This 0.5% tax will be paid by every distributor, dealer and wholesaler on their every single purchase made from their principals. The principals will collect this 0.5%

income tax on every single sale they made. However, only those principals who are Manufacturers have been made responsible for this 0.5% collection. The Commercial Importers are not required to.

No mechanism has been prescribed. It appears that this 0.5% will be charged on the gross amount of sales including 16% Sales Tax. It further appears that this 0.5% will have to be grossed up in the invoice value and hence an invoice of Rupees 100/- will have now to be made for 100.50/-. This would just be like in cases of telephone and electricity bills. It has also not been clarified that the withholding of 3.5% which will be made from the payment to the manufacturers will consist of this 0.5% or not.

Notably this 0.5% income tax is to be collected from all the distributors, dealers and wholesalers whether they are already registered with Sales Tax or not or whether they already have the NTN or not or that whether they are already being assessed in different RTOs or LTUs or not.

We understand that since the apparent objective of this new clause is to bring the new distributors, dealers and wholesalers in the tax net which are still outside it, the proposed provisions should be made applicable only to those distributors who do not have any NTN and not to the one who already have.

D) TAX ON IMMOVABLE PROPERTY

Under the new proposed Section 236 C it has been proposed that advance income tax shall be collected @ 0.5% by the property registrar at

the time of registering the property or attesting the transfer of property. This 0.5% income tax will be collected from seller/transferor of the property and will be calculated on the amount of sales consideration. This is advance income tax and will be allowed against the final capital gain tax of either 5% or 10%.

It is critical to mention that this collection of income tax shall invariably be made from all and every without any exception. This would mean that whether the companies or firms are selling any business property or whether an individual is making any sale of his personal property to whom the new law was actually meant for will both be subjected to this 0.5% income tax in advance.

One needs to be cognizant of the fact that Business property is subject to tax depreciation and is therefore excluded from the definition of Capital Asset being depreciable assets and therefore any gain thereupon will be business gain and not capital gain and therefore we understand that the withholding should not be made applicable to them.

We further understand that Builders and Developers are outside the ambit of capital gain tax as sale and purchase of immovable property in their case is already chargeable to tax as 'business income' instead of capital gain. However they have also not been exempted from this 0.5% withholding on their sale.

Needless to mention this withholding will apply to all kind of Immoveable Property as to whether that is Agricultural, Industrial, Commercial or Residential. Further the withholding will be made whether it is a case of sale of self-occupied House, vacant house, Land, garden, orchard, Shop, Warehouse, Flat, apartment or a Building, etc.

Lastly it is important to mention that withholding shall evenly be made in cases of losses.

E) TAX CREDIT ON INVESTMENT IN PLANT & MACHINERY

Under Section 65B, the Extension and Expansion have been proposed to be included with BMR of Plant & Machinery so as to allow the same for tax credit @ 20%. However a prime condition is that the investment is to be made absolutely from new Share Capital.

F) LIMIT ON MOTOR VEHICLE FOR NORMAL DEPRECIATION

Under Section 22(13)(a), the limit on cost of a passenger transport vehicle (not a commercial vehicle), has been proposed to be increased from Rupees 1.5 million to Rupees 2.5 million.

G) MINIMUM TAX ON RETAILERS

Under Section 113A, the rate of minimum tax has now been proposed back to be increased from 0.5% to 1 %.

H) WITHHOLDING FROM NONRESIDENTS

Under Section 152, the anomaly between the proposed 1st schedule and proposed 152 (2A) has now been proposed to be removed.

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