

SALIENT FEATURES

Broad Principles of Taxation Proposals

The proposals for the budget 2015-16 are mainly based on the following principles:-

- i. Least burden on poor and middle class
- ii. Second phase of withdrawal of exemptions to further eliminate discriminatory tax exemptions and concessions.
- iii. Expand the scheme of differential taxation for filers and non-filers for penalizing non-compliance without adding any further burden on the compliant.
- iv. Customs tariff be rationalized to reduce both the number of slabs and the maximum duty rate.
- v. Reviewing tax laws and procedures to cut down on discretion.
- vi. Removal of sectoral distortions in domestic taxes.
- vii. Measures for broadening of the tax base and documentation of economy.
- viii. Increasing the share of the direct taxes.

Special Relief Packages:

To act as a catalyst for higher growth in the economy

Agriculture Package

Why Agricultural Sector

Rural economy is base on Agriculture which has the shortest gestation period.

- a. **Tax Holiday for Agricultural Delivery Chain:** Income Tax Holiday for 3 years is being introduced for new industrial undertakings engaged in (i) setting up and operating cold chain facilities, and (ii) setting up and operating warehousing facilities for storage of agriculture produce.
- b. **The exemption for 4 year for Halal' Meat Production Companies** which set up 'halal' meat production plant and obtain 'halal' certification by 31st December 2016
- c. **Relief to Rice Mills:** In order to provide relief to Rice Mills suffering from low global demand, exemption from minimum tax for the Tax Year 2015 is being granted.
- d. **Exemption on Supply of Fish:** Exemption from withholding tax on supply of agricultural produce is to be extended to supply of fish.
- e. **Import and Local Supply of Agricultural Machinery and Equipment:** In order to promote farm mechanization and enhance productivity non-adjustable sales tax at reduced rate of 7%, instead of existing rate of 17% is being imposed.

- f. Import of Agricultural Machinery:** At present Customs duty, Sales Tax and withholding tax on import of agricultural machinery in aggregate ranges from 28% to 43%. Customs Duty, Sales Tax and Withholding Income Tax are being cumulatively reduced to 9% as under:
- i. Customs duty from existing rate of 5-20% to 2%;
 - ii. Sales Tax from 17% to non-adjustable Sales Tax at 7%; and
 - iii. WHT from 6% to 0%
- g. Interest Free Loans for Solar Tube Wells:** In order to facilitate the small growers and to reduce heavy expenditure incurred on diesel/electricity tube wells interest free loans of upto Rs.1 Million for setting up new solar tube wells or replacing the existing tube wells with solar tube wells shall be provided .

Package for Construction/Housing sectors

Why housing sector

Construction sector has a ripple effect and impacts 16 other sectors

- a. Housing Credit:** Mark-up on housing loans obtained by individuals from banks and other institutional lenders for construction or buying a house to be allowed as a deduction against income up to 50% of taxable income or Rs. 1 million.
- b. Suspension of Minimum Tax on Builders:** The minimum tax on builders leviable for the business of construction and sale of residential and other buildings is being suspended for a period of three years.
- c. Real Estate Investment Trust (REIT) Development Schemes:**

- i. Capital Gains of any person who sells a property to a REIT development scheme formed for the development of housing sector will be exempt from Income Tax up to 30.6.2018.
 - ii. If a development REIT Scheme for the development of housing sector is set up by 30.6.2018, for the first three years the rate of Income tax chargeable on dividend income of such REIT shall be reduced by 50%.
- d. Bricks and crushed stone:** Supply of bricks and crushed stone will be exempted from Sales Tax for three years up to 30.6.2018.
- e. Reduction in customs duty on import of Construction Machinery:** On import of construction machinery in used condition by the Construction Companies registered with Pakistan Engineering Council and SECP, the Customs Duty is reduced to 10%.

Incentive Package for Manufacturing:

- a. **Employment Credit to Manufacturers:** If a company, being a manufacturer, set up during next three years and employs more than 50 employees duly registered with Social Security and Employees Old Age Benefit Institution an employment tax credit equal to 1% of the income tax payable for every 50 employees shall be provided to the company, subject to a maximum of 10%.
- b. **Exemption to Greenfield Projects:** On demand of various investors and business community, this exemption is being extended up to 30th June, 2017.
- c. **Domestic Production of Solar and Wind Energy Equipment Manufacturing:** Exemption from income tax for 5 years is being granted

to industrial undertaking engaged in the manufacturing of equipment, plant and items required to produce solar and wind energy.

Incentives for Aviation Sector

- a. **Exemption from Customs Duty and Sales Tax:** It is proposed that Customs Duty, sales tax and withholding tax in respect of various items used in Aviation Sector may be reduced to zero subject to certain conditions:
- b. **Remote Area Routes:** Infrastructure connectivity with major economic hubs is key to economic development of a region. Some areas of the country having great economic potential are however located far from existing major economic routes. In order to open up remote areas through aviation links it is proposed that air routes in Gilgit Baltistan, Makran Coastal belt, Azad Jammu and Kashmir, Chitral and FATA be exempted from payment of FED and withholding tax.

Relief Measures for Khyber Pakhtunkhwa

In order to revive the economy of Khyber Pakhtunkhwa and to provide relief to the people, the following measures are being taken:

- a) Five years Income Tax holiday on all new manufacturing units set up in KP between 1-7-2015 and 30-6-2018.
- b) Exports of perishable goods namely fruits, vegetables, dairy products and meat shall be allowed against Pak currency instead of dollars w.e.f. 1-7-2015.

- c) Quota for ghee and vegetable oil under DTRE for export to Afghanistan and Central Asia is being enhanced from 1000 Metric Ton per 90 days to 1000 Metric Ton per month.
- d) The legacy issues regarding minimum tax payable on turnover under the previous KP package available for tax years 2010 to 2012 shall be resolved.

Review of concessionary regime (SROs):

- Concessionary regime under various SROs and Schedules are being reviewed. Minimally utilized concessions are being withdrawn. Socially sensitive concessions retained. Remaining concessions either withdrawn or continued on enhanced rates. Total impact of these measures is Rs. 132 B.

Customs Tariff Reforms:

- Maximum general tariff rate of 25% reduced to 20%.
- Substitution of 1% duty slab with 2% customs duty.

Legislative changes:

- To curb the menace of under invoicing, specific penal provision introduced for ensuring compliance of mandatory condition of invoice and packing list.

SALES TAX & FEDERAL EXCISE

The budgetary measures pertaining to Sales Tax & Federal Excise are primarily aimed at:

1. Rationalization of sales tax on steel sector melters, re-rollers and , ship breakers
2. The rate of further tax for supplies to unregistered persons is being enhanced to 2%.
3. Increase in the rate of sales tax on mobile phones to Rs. 300, 500 and 1000, from Rs. 150, 250 and 500, respectively, depending on features in the mobile set.
4. Restricting zero-rating on dairy products to milk only baby formula.
5. Enhancement of rates of Federal Excise Duty on locally produced cigarettes. Average tax incidence to increase from 58% to 63%
6. The rate of Federal Excise Duty on aerated waters is being enhanced from 9% to 12% of retail price.
7. Certain services to be added in the Islamabad Capital Territory in order to align the taxation regime on services with that being followed by the provinces.
8. Exemption of sales tax on local supply of raw hides and skins to be granted as under the existing provisions of law.
9. Sales Tax Rules regarding temporary registration are being introduced to facilitate the importers-cum-manufacturers.

10. The electronic monitoring system is proposed to be introduced to monitor the production of specified sectors i.e. cigarettes, beverages, cement, fertilizer and sugar; and also to monitor the sales of restaurants etc.
11. The limit of utility bills for cottage industry is being enhanced from 700,000 to 800,000 rupees for the promotion of cottage industry.
12. Sales tax exemption on appliances for colostomy, colostomy / urosotomy bags and tubular daylight devices is being granted.
13. Input tax adjustment on Pre-fabricated buildings being allowed.
14. The provisions of temporary registration being inserted in the Sales Tax Rules, 2006, whereby a manufacturer shall be able to import machinery etc. without having to wait for completion of procedural formalities
15. The refund on monthly basis to be allowed to persons making reduced rate supplies under SRO 1125(I)/2011 dated 31.12.2011.

INCOME TAX BUDGETARY MEASURES

Relief Measures

- **Reduction in Tax Rate for Companies:** Continuing with the policy of reducing corporate tax rates, the rate is being further reduced to 32% for Tax Year 2016.
- **Exemption to Electricity Transmission Projects** for a period of 10 years, provided that the project is set up by June, 2018.
- **Tax Credit for new investment in shares:** To encourage saving and investment in new companies quoted on stock exchange the limit for individual investors is being enhanced to 1.5 million.
- **Tax Credit for Enlistment:** At present, a 15% tax credit is available to a company, if it opts for enlistment in any registered stock exchange in Pakistan. To encourage enlisting of companies on stock exchange, the credit is being enhanced to 20%.
- **Reduction in Withholding Tax On Token Tax and Transfer of Vehicles.**
- **Expanding the Scope of Small Company:** The limit of capital at Rs 25 million for qualifying as a small company is proposed to be enhanced to Rs 50 million.
- **Relief to Small Taxpayers:** Salaried taxpayers earning taxable income from Rs 400,000 to Rs 500,000 are chargeable to tax at a rate of 5%. To provide relief to this class the rate of tax is proposed to be reduced to 2%. Non-Salaried individual taxpayers and Association of Persons earning

taxable income from Rs 400,000 to Rs 500,000 are chargeable to tax at a rate of 10 %. To provide relief to these taxpayers the rate of tax is proposed to be reduced to 7%.

- **Option to Exporters to Opt Out of the Final Tax Regime**

Revenue Measures

- **Change in Rate of Tax and Taxable Holding Period for Securities:** The rates for capital gains tax on securities are being fixed as under:
Held upto a period of 24 months: 15%
Held upto a period from 12 months to 24 months: 12.5%
Held upto a period from 2 years to 4 years: 7.5%
- **Increasing Cost of Non-Compliance with Tax Laws:** The scope of the distinction between a compliant and non-compliant taxpayer by prescribing higher withholding tax rates for those not filing income tax returns.
- **Adjustable advance income tax on banking instruments and other modes of transfer for Non-Filers:** Adjustable advance income tax at the rate of 0.6% of the amount of transaction is proposed to be collected on all banking instruments and other modes of transfer of funds through banks *in the case of persons who do not file Income Tax returns.*
- **Rationalizing Tax Rates for Various Sources of Banking Companies:** Presently, tax rate of 35% is applicable to banking companies from all sources except income from dividend and income from capital gains. Rate differential for different sources is proposed to be removed.
- **Taxation of Dividend:** The present rate of tax of 10% on dividend income is on the lower side as compared to most other countries. It is proposed that the rate be increased to 12.5%. Consequently, in case of non-filers

the rate of tax is proposed to be increased from 15% to 17.5% of which 5% shall continue to be adjustable. For Mutual Funds the existing rate of 10% shall continue.

- **Domestic Electricity Consumption:** Due to substantial reduction in electricity prices it is proposed that the threshold of deduction of withholding tax on electricity consumption be reduced from Rs 100,000 to Rs. 75,000.
- **Renting Out Machinery and Certain Equipments:** At present there is no withholding tax on either use or right to use of commercial, industrial and scientific equipment or on renting out of machinery. It is proposed that a 10% withholding tax be imposed on renting out machinery and for use or right to use commercial, scientific or industrial equipment, in case of residents also, and be treated as final tax liability.
- Holders of Mutual Funds and dividend be subjected to same tax rates.
- **Taxation for Not Distributing Dividend:** In order to encourage public listed companies to distribute dividend which would encourage investment in stock markets, it is proposed that in the case of a listed company other than a scheduled bank or a modaraba, which does not distribute cash dividends within six months of the end of the said income year or distributes dividends to such an extent that its reserves, after such distribution, are in excess of hundred percent of its paid up capital, the excess amount may be taxed at the rate of 10%.
- **Revenue for Rehabilitation of Temporarily Displaced Persons:** To meet enhanced revenue needs for the rehabilitation of Temporarily Displaced Persons, it is proposed to levy a one-time tax on the affluent and rich individuals, association of persons and companies earning

income above Rs. 500 million in tax year 2015 at a rate of 4% of income for banking companies and 3% of income for all others.

- **Payments in respect of advertisement expenses to print/electronic media:** It is proposed that exemption from withholding tax on payments to electronic and print media in respect of the advertising services may be withdrawn.
- **Reduced rate for cash withdrawals by exchange companies:** It is proposed that on cash withdrawals by exchange companies may be subject to withholding tax at a reduced rate of 0.15% instead of being exempt.
- **Rate of tax on commission to advertising agencies:** Withholding tax at the rate of 12% as is applicable to commission agents, however, tax on commission of advertising agencies is withheld at a reduced rate of 7.5%. It is proposed that this rate be increased to 10%.

Annex-I**Aggregate of revenue effect from taxation measures:****(Rs. In Millions)**

S.No.	Tax Description	Revenue Effect		Net effect
		(+)	(-)	
1	Customs Duties	56,600	14,650	41,950
2	Sales Tax & Federal Excise	58,060	4,060	54,000
3	Income tax	152,750	10,500	142,250
	Sub total:	267,410	29,210	
	Total Net Revenue Impact			238,200
	Revenue through Administrative measures			15,000
	Grant Total			253,200

Target FY: 2014-15 and FY: 2015-16

Rs. Billion

Tax Head	2014-15	2015-16
Direct Taxes	1109.0	1347.9
Sales Tax	1082.0	1250.3
Federal excise Duty	159.0	206.4
Customs	159.0	299.1
Total	2605.0	3103.7