

SALIENT FEATURES

CUSTOMS – BUDGET FY 2019-20

RELIEF MEASURES

1. To standardize printing and preservation of Holy Quran, import of good quality duty free Art paper is being allowed.
2. Exemption of CD on 18 medicinal inputs/items
3. Exemption of CD on Modular/ Particle Free Operation Theatre
4. Exemption of CD on Medicines for certain rare diseases
5. Incentive to promote tourism by reducing duty on pre-fabricated structures for hotels

INCENTIVIZING LOCAL INDUSTRY:

1. Exemption of CD on more than 1650 raw materials/industrial inputs
2. Reduction of CD on Writing & Printing Papers
3. Exemption of CD on Raw- materials of Paper Industry
4. Exemption of CD on import of Wood
5. Reduction of CD on Glass Board for LED Panel manufacturing
6. Reduction of CD on input goods for paper based Liquid Food Packaging Industry
7. Reduction of CD on Acetic Acid
8. Reduction of CD on Nonwoven fabrics
9. Exemption of CD on Machinery Parts / Accessories for Textile Sector

10. Exemption of CD on Elastomeric Yarn
11. Rationalization of CD on Aluminium Beverage Cans & Inputs thereof
12. Exemption of CD on raw material for hemodialyzers used by kidney patients
13. Tariff rationalization on Home Appliance Sector
14. Reduction of CD on Base Oil as input for Coning Oil, White Oil and other Textile Oils
15. Reduction of CD on Raw Material for Manufacturing of Pre-Sensitized Printing Plates
16. Exemption of CD on Preparations for Metal Surfaces as input for Solar Panels
17. Exemption of CD on Foundation Cloth
18. Reduction of Duty on Wooden Sheets for Veneering
19. Reduction of CD on Oxalic Acid
20. Reduction of CD on Raw Material of Powder Coating Industry
21. Reduction of CD on Raw Material for Paper Sizing Agents
22. Reduction of CD on Bobbins & Spools of Paperboard
23. Exemption of CD for Hydrocracker Industry for oil refining
24. Rationalization of tariff structure for SIM card manufacturing industry

REGULATORY DUTY:

1. Reduction of RD on Mobile Phones
2. Reduction of RD on smuggling prone items and other industrial inputs
3. Reduction of RD on Tyres

REVENUE MEASURES:

1. Increase in rate of Additional Customs Duty for non-essential items
2. Withdrawal of exemption on import of LNG

SALIENT FEATURES

SALES TAX & FEDERAL EXCISE BUDGETARY MEASURES (FY 2019-20)

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

RELIEF MEASURES

01. **Expansion in scope of exemption allowed in respect of Tribal Areas**

To settle the post FATA/PATA merger scenario and to extend tax exemptions SRO 1212(I)/2018 is being rescinded and exemptions are being incorporated in it in the Sixth Schedule to the Sales Tax Act, 1990. Further, exemption from sales tax on imports of plant, machinery, equipment for installation in tribal areas, and of industrial inputs by the industries located in the tribal areas, is also proposed.. Additionally, supplies of electricity to all residential and commercial consumers, and to industries which were set up and started their industrial production before 31st May, 2018, but excluding steel and ghee / cooking oil industries.

02. **Withdrawal of 3% Value Addition Tax on Petroleum Products and Mobile Phones**

3% value addition sales tax is payable on all commercial imports. One of the exclusions from this levy is available to those petroleum products imported by oil marketing companies, whose prices are regulated. This exclusion does not cover furnace oil, which is being proposed now.

Secondly, it is proposed to exclude mobile cellular phones and satellite phones from purview of 3% value addition. This 3% regime is also proposed to be transferred from the Sales Tax Special Procedures Rules, 2007, to the new Twelfth Schedule to the Act.

03. **FIXED SALES TAX ON BRICK KILNS**

Brick kiln are proposed to be taxed at fixed rate as under

- Category A Rs 12,500 pm
- Category B Rs 10,000 pm
- Category C Rs 7,500 pm

04. **REDUCED RATE OF SALES TAX ON FOOD SUPPLIED BY RESTAURANTS, BAKERIES, CATERERS ETC**

In view of the undocumented nature of this sector and very low input tax for adjustment because of exempt food related inputs such as meat, vegetables, flour etc, there is disincentive to pay sales tax at 17%. In order to encourage compliance, it is proposed to reduce the sales tax rate from 17% to 7.5% against which input tax adjustment will not be allowed.

05. **REDUCTION OF RATE OF SALES TAX ON CONCENTRATED MILK (POWDER)**

Presently, the sales tax regime on various forms of milk is uneven. Milk and cream, concentrated, and unsweetened / unflavoured is subject to a higher rate. While the sweetened on enjoying exemption. It is proposed to rationalize the same. Both the categories are proposed to be taxed @10%

06. **REMOVAL OF BAR ON EXPORT OF PMC AND PVC TO AFGHANISTAN**

It is proposed that the SRO 190(I)/2002 may be amended to delete entries relating to PVC and PMC materials, and thus allowing zero-rating on export of these items to Afghanistan and Central Asian Republics.

07. **WITHDRAWAL OF EXEMPTION OF FED ON INTERNET SERVICES AND FOREIGN SATELLITE BANDWIDTH SERVICE**

Telecom services provided in Islamabad Capital Territory are subject to FED under the Federal Excise Act, 2005. However, internet services are presently exempt from payment of FED under Third Schedule to the Federal Excise Act, 2005

Similarly, bandwidth services are also exempted from payment of FED. In order to protect local services providers, it is proposed to withdraw exemption on services provided by foreign satellites and maintain exemption only on terrestrial bandwidth services.

08. **REFORMING EXTRA TAX REGIME**

Extra tax regime is being done away with and items like electric and gas appliances, foam, confectionary, lubricants(in retail packing), batteries, tyres / tubes etc are being moved to Third Schedule (retail price taxation) of the Sales Tax Act, 1990, to realize full revenue potential thereon.

09. **ALLOWING ZERO-RATING ON SUPPLY OF TOBACCO TO EXPORTERS.**

In order to facilitate the exporters of unmanufactured tobacco, it is proposed that the FED shall be charged at zero per cent on unmanufactured tobacco as supplied to a registered person / trader who intends to export the same subject to furnishing of necessary security.

10. **EXCLUSION OF GOVERNMENT BODIES FROM PURVIEW OF EXTRA TAX AND FURTHER TAX**

Further tax at 3% is chargeable on all supplies made to unregistered persons under section 3 (1A) of the Sales Tax Act, 1990. Similarly, under SRO 509(I)/2013 dated 12.06.2013, 5% extra tax is chargeable on electricity and gas bills from all unregistered industrial and commercial consumers whose monthly bill exceeds Rs. 15,000. Since, such bodes are not the target of these taxes, it is proposed that Government / semi-government and statutory regulatory authorities may be excluded from purview of both these taxes.

REVENUE MEASURES

11. **STREAMLINING SRO 1125(I)/2011 REGIME**

SRO 1125(I)/2011 provides for zero-rate of sales tax on inputs and products of five export-oriented sectors i.e. textile, leather, carpets, sports goods and surgical goods. The objective was to resolve delay in refund payments. However, zero-

rating has created loophole and the benefit is being availed by unintended beneficiaries / non-exporters. Reduced rates for finished goods is also harming revenues. Huge misuse of SRO on import of fabric and processed fabrics has been reported. To streamline and prevent revenue leakage SRO 1125 is being rescinded.

- SRO 1125 be rescinded, thus restoring standard rate of 17% on items covered under SRO.
- The rate of sales tax on local supplies of finished articles of textile and leather and finished fabric may be raised from current 6% for integrated businesses, and 9% for others, to 15% and 17%, respectively.
- Zero-rating of utilities (gas, electricity and fuels) allowed to these export-oriented sectors through various sales tax general orders be withdrawn.
- Refund of sales tax to these sectors be automated, thus ensuring that the sales tax paid on inputs is immediately refunded. Refund Payment Orders (RPOs) shall be immediately sent to SBP for payment as soon as these are generated.
- Ginned cotton which is presently exempt is proposed to be subjected to reduced rate of 10%

In addition to above, it is also proposed to rescind notification No. SRO. 769 (I)/2009, dated 4th September, 2009, which grants zero-rating on import and supply of polyethylene and polypropylene for manufacture of mono filament yarn and net cloth, being similar in nature to SRO 1125, and that granting zero-rating to local supplies is to be discouraged.

12. **INCREASE IN FED ON AERATED WATERS**

In order to generate much need revenue, rate of FED on aerated waters is proposed to be increased from 11.5% to 14%.

13. **RESTORATION OF NORMAL REGIME FOR STEEL SECTOR**

Special Regime of taxation of the whole of the steel sector is being abolished. Sales tax on billets, ingots, bars, ship plates and other long profiles may be exempted at manufacturing and import stage, and in lieu thereof FED at 17% in sales tax mode may be imposed for the reason that there is no exemption of FED for tribal areas.

14. **RESTORATION OF NORMAL PROCEDURE FOR / INCREASE IN FED ON GHEE/COOKING OIL**

In order to do restore normal regime, in addition to measures included in the Finance Bill, the following notifications providing for Rs. 1/ kg and Rs. 0.40 per kg rates are proposed to be rescinded

Accordingly, it is proposed to increase rate of FED to 17% on edible oils / ghee / cooking oil

15. **INCREASE IN FIXED VALUE OF GAS SUPPLIED TO CNG DEALERS**

Since then CNG prices have been de-regulated and CNG prices have risen. Further gas tariff has also been raised. In order to realize due sales tax from this sector, it is proposed to re-notify the value for sales tax on supply from gas distribution company to CNG dealers

16. **INCREASE IN FED ON CIGARETTES**

FED on cigarettes is levied on fixed rate basis. It is proposed to enhance the rates and redefine the thresholds by abolishing the third tier introduced earlier

17. **CHANGE IN THE RETAILERS REGIME**

To rationalize tax on retailers and to capture its full potential and document its sales, following proposals are made:-

- (i) Turnover tax option may be withdrawn.

- (ii) For tier-1 retailer, it may be made mandatory to integrate their points of sales (POSs) with FBR's Computerized System so that the sales are reported in real time.
- (iii) Retail shops having an area in excess of 1000 square feet may be included in Tier-1
- (iv) In order to encourage customers to demand invoices from retailers, enabling provisions are proposed to be inserted in section 3 whereby FBR may allow cash back of up to 5% of the sales tax charged on invoices to the customers.

18. **INCREASE IN RATE OF TAX ON SUGAR**

Presently Sugar is subject to sales tax at 8%. In order to generate much need revenue, it is proposed that the sales tax rate on sugar may be enhanced to 17%.

19. **REVIEW OF EXEMPTIONS UNDER SIXTH SCHEDULE**

More items are being taken out of the Sixth Schedule and brought into the tax net if sold in retail packing and with a brand name like Frozen Sausages, meat if preserved, fat filled milk and cereals other than those of wheat and meslin

20. **ADDITION OF GOODS TO THIRD SCHEDULE OF THE SALES TAX ACT, 1990.**

After withdrawal of the extra tax regime, the finished articles like Foams and mattresses, Paints & varnishes, Electric and gas home appliances, Lubricating oils and Storage batteries will be placed in the Third Schedule

21. **EXEMPTION OF COTTAGE INDUSTRY**

Cottage industry is being redefined to include

- (a) does not have an industrial gas or electricity connection;
- (b) is located in a residential area;
- (c) does not have a total labour force of more than ten workers; and

(d) annual turnover from all supplies does not exceed two million rupees

22. **FED ON PACKAGED NON-AERATED SUGARY / FLAVOURED JUICES, SYRUPS & SQUASHES**

In order to generate revenue and also to provide level playing field for aerated water which are proposed to be subjected to higher FED at 14%, is proposed that the non-aerated packaged sugary drinks, such as juices, syrups and squashes may be subjected to FED at 5% of retail price.

24. **INCREASE IN FEDERAL EXCISE DUTY ON CEMENT**

Cement is chargeable to federal excise duty @ 1.5 per kg. It is now proposed to increase federal excise duty on cement to Rs. 2 per kg.

25. **INCREASE IN RATE OF FED ON LNG**

Presently, FED is payable at Rs. 17.18 per 100 cubic meters. The rate is substantially lower and generates only Rs. 2 to 3 million annually. Accordingly, it is proposed to increase FED on LNG from Rs. 17.18 per 100 cu. m to Rs. 10 per MMBTU bringing it to same level as for local gas

26. **INSERTION OF GOLD, SILVER, DIAMOND AND JEWELLERY IN EIGHTH SCHEDULE TO THE SALES TAX ACT, 1990 AT REDUCED RATE**

It is proposed to introduce reduced rate/minimal tax rate of 1% on gold and silver. Similarly, presently, jewellery is taxed on the basis of making charges only. Based on regional models, it is proposed that gold in jewellery may be taxed at 1.5%, diamond at 0.5% and making charges at 3%, with input adjustment available only in respect of gold.

27. **INCREASE IN SCOPE OF FED ON CARS**

Through Finance Supplementary (Second Amendment) Act, 2019, FED on locally manufactured / assembled cars of 1700 cc and above was introduced @10%. Now, in order to rationalize this levy, it is proposed to enlarge the scope of FED and following slabs are being proposed:

- Cars from 0 to 1000cc 2.5%

- Cars from 1001cc to 2000cc 5%
- Cars from 2001cc and above 7.5 %

28. **THE SCOPE OF ICT SALES TAX ON SERVICES TO BE EXPANDED**

It is proposed that services which have been subjected to sales tax by the provinces and are not included in the Schedule to ICT (Tax on Services) Ordinance, 2001, may be included in the Schedule and subjected to sales tax at standard rate of 16% under the said Ordinance. For clarity, it is mentioned that the services which are already being taxed under the Federal Excise Act, 2005, are not included in the services to be added to ICT law.

29. **SPECIAL PROCEDURE FOR MARBLE INDUSTRY**

Presently, sales tax is payable by marble industry under special procedure whereby sales tax is charged at Rs. 1.25 per unit of electricity consumed. In view of low yield of this tax, it is proposed that special procedure may be done away with and standard regime of 17% be restored.

STREAMLINING MEASURES

30. **SIMPLIFICATION OF LAW AND REDUCTION IN NUMBER OF RULES / INSTRUMENTS DEALING WITH SALES TAX**

Presently sales tax law comprises of multi-tiered legislation and sub-ordinate legislation which makes it difficult for taxpayers to comprehend and follow law and also for the sales tax collectors to implement the same. Hence, all the special procedures and redundant SROs are being abolished.

31. **TRANSPOSITION OF SROS TO THE SALES TAX ACT, 1990.**

In order to minimize SRO regime, some of the existing SROs are proposed to be transposed to the Sales Tax Act, 1990. These SROs, which are consequently proposed to be rescinded.

32. **RESCISSION OF SROS ISSUED BY FEDERAL GOVERNMENT.**

In view of various proposals presented in this summary, some existing notifications will become redundant, it is proposed to rescind these notifications

27. **SIMPLIFICATION OF SALES TAX REGISTRATION – EASE OF DOING BUSINESS**

It is proposed to issue sales tax registration, through an automated interface without any physical contact with the tax officers. Biometric verification shall be done within a month of registration through NADRA e-Sahulat centres.

33. **DECREASING THE LEGISLATIVE BURDEN OF FEDERAL GOVERNMENT / CABINET**

Cabinet Division has directed to propose amendments in the relevant statutes and Rules to replace the words “Federal Government” wherever possible. Accordingly, both ST & FED laws have been scrutinized. Substantive powers may remain with the Federal Government, whereas procedural powers are proposed to be assigned to the Board .

34. **LIMITING SCOPE OF FEDERAL GOVERNMENT’S POWER TO GRANT EXEMPTIONS AND ZERO-RATING**

It is also proposed to similarly restrict the powers of the Federal Government to grant zero-rating under section 4, which presently has no such restrictions attached. It is also proposed to omit provisions in section 4, which empower FBR to grant zero-rating on goods purchased by a person making reduced rate supplies.

35. **CHANGE IN PROVISIONS RELATING TO WITHHOLDING**

It is proposed to amend sub-section (7) of section 3, to provide that the rate or extent of withholding / deducting tax by the buyer be specified in the Tenth Schedule to the Act and the power to make rules be given to the Board.

36. **SECTION 58 OF STA 1990 – ENABLING DIRECTORS ETC TO RECOVER PAID DUES**

It is proposed to incorporate provisions enabling directors / partners to recover the paid amount from company, on the same pattern as already provided in Income Tax Ordinance, 2001.

SALIENT FEATURES

INCOME TAX

Relief Measures

- **Payment of refunds through promissory notes:**

Huge amounts claimed by taxpayers are stuck up in refunds causing a liquidity crunch for businesses. These refunds have accumulated over a long time. However, issuance of a substantial amount of refund would drastically reduce the net collection of taxes. In view of this a provision has been introduced wherein promissory notes would be issued to claimants at their option by a newly formed company called the FBR Refund Settlement Company Limited. The bonds are to have a maturity period of three years after which the company shall return the promissory note to the Board and the Board shall make payment of amount due under bonds along with profit due to the bond holders.

- **Rationalization of punitive measures for late filers:**

Presently law prohibits placing a person's name on the active taxpayers' list for the year if the return is not filed within the due date. Hence, a person who files a return of income after the due date would be subjected to higher tax rates meant for persons not appearing on ATL, for the ensuing year, creating a disincentive towards return filing. The condition of not placing name on ATL for the whole year is being abolished. Instead, such a person would be penalized by withholding any refund due to a late-filer in the tax year in which the return was filed late without incurring any liability of compensation for delayed refund. Further, a nominal tax for placement on ATL after the due date of filing of return has been imposed as under:-

| S. No. | Person | Tax rate |
|--------|--------------------------|------------|
| 1. | Company | Rs. 20,000 |
| 2. | Association of persons | Rs. 10,000 |
| 3. | Non-salaried individuals | Rs. 3,000 |
| 4. | Salaried individuals | Rs. 1,000 |

“;

- **Tax credit for persons employing fresh graduates:**

In order to create opportunities of employment for fresh graduates a new tax credit for persons employing freshly qualified graduates is being introduced. Persons employing fresh qualified graduates, having graduated after 1st July 2017, from universities or institutions recognized by the Higher Education Commission would be given a tax credit equal to the amount of annual salary paid to such graduates. The tax credit shall be deducted from the tax payable by such persons and would be in addition to the expenditure claimed by businesses on payment of salary to their employees. In case the tax credit cannot be fully allowed for a tax year, persons claiming such credit would be allowed to carry forward un-adjusted credit to a maximum period of five years. However, the credit will be allowed against salary of those fresh graduates which are not more than 15% of the total employees

- **Exemption for allowances of Armed Forces Personnel:**

Various allowances being given to Armed Forces Personnel i.e. internal security allowance and compensation in lieu of bearer allowance are being exempted from tax

Revenue Measures

- **Gift to be treated as income:**

At present gift is not taxed in the hands of the recipient. Receipt of gift is employed to reconcile wealth acquired through undisclosed sources of income. Therefore receipt of gift has been brought within the ambit of income under the head "income from other sources". Consequently any amount in cash or fair market value of any property including immovable property would be treated as gift. However, certain exclusions are also proposed to facilitate genuine gift transactions which are not meant to evade income tax.

- **Enhancing the rate of minimum turnover tax:**

Presently minimum tax on turnover is charged at the rate of 1.25% of the turnover if taxable income is less than 1.25% of turnover. Certain sectors have

reduced rate of minimum tax at 0.2%, 0.25% & 0.5% of turnover. The aforesaid rates of minimum tax are being enhanced from 1.25% to 1.5%, from 0.20% to 0.25%, from 0.25% to 0.3% and from 0.5% to 0.75% respectively.

- **Abolishing tax credit for investment in BMR:**

Presently a corporate industrial undertakings investing in purchase of plant & machinery for extension, expansion, balancing, modernizing & replacement are allowed tax credit equal to ten percent of the purchase price of machinery. This facility of tax credit was introduced through the Finance Act, 2010 with a sunset clause ending on 30th June 2015 which has been amended multiple times, resulting in extension of the facility up to tax year 2021. The said tax credit is being allowed to those companies which purchase and install plant & machinery up to 30th June, 2019. Further, for the tax year 2019, the tax credit is being reduced from 10% to 5% of the purchase value of machinery. However industrial undertakings which have already claimed this tax credit but could not fully adjust the credit against tax payable would still be entitled to carry forward the unabsorbed available credit of prior years.

- **Special provisions for persons not appearing on Active Taxpayer's List:**

Presently the law provides for the concept of a non-filer and stipulates higher withholding rates for the same which are adjustable at the time of filing of income tax return.

This tax regime has created a misconception that a non-filer can go scot free by choosing not to file income tax return. The measure was meant to increase the number of filers, however over time the focus shifted to raising additional revenue only. The measure has not achieved the desired results as the present regime does not provide for any legal framework to ensure filing of return by such non filers.

In order to remove the aforesaid misconception, the concept and the term of "non-filer" is being abolished from the statute, wherever occurring. In its stead a separate Schedule is being introduced to specifically provide a legal framework

for punitive measures for persons not appearing on ATL and to ensure filing of return by such persons. The main attributes of this scheme are as under:-

- Persons whose names are not appearing on the ATL will be subjected to hundred percent increased rate of tax.
- The withholding agents will clearly specify the names, CNIC or any other identification of such persons in the withholding statement so that legal provisions to enforce return can come into effect.
- Where a withholding agent is of the opinion that hundred percent increased tax is not required to be collected on the basis that the person was not required to file return, the withholding agent shall furnish an intimation to the Commissioner setting out the basis on which the person is not required to file return. The Commissioner shall accept or reject the contention on the basis of existing law. In case the Commissioner fails to respond within thirty days, permission shall be deemed to be granted to not deduct tax at hundred percent increased rate
- Where the person's tax has been deducted or collected at hundred percent increased rate and the person fails to file return of income for the year for which tax was deducted, the Commissioner shall make a provisional assessment within sixty days of the due date for filing of return by imputing income so that tax on imputed income is equal to the hundred percent increased tax deducted or collected from such person and the imputed income shall be treated as concealed income.
- The provisional assessment shall be of no effect if the person files return within forty five days of completion of provisional assessment and the provisions of the Ordinance shall apply accordingly. Where return is not filed within forty five days of provisional assessment, it shall be treated as final assessment and the Commissioner shall initiate penalty proceedings for concealment of income.
- **Additional slabs of income from property:**
At present there are five taxable slabs of income from property with the highest slab's rate being Rs. 200,000/- plus 20% of income exceeding Rs. 200,000.

Now the said slab is being limited from Rs 2000,000/- to 4,000,000/- and thereafter three additional brackets of income between four to six million, six to eight million and exceeding eight million are being added

- **Increase in tax rates for services:**

At present, the general rate of tax on services is eight percent but certain services have a reduced rate of 2% of turnover as given in clause (94) of Part IV of Second Schedule. The aforesaid clause (94) is being omitted and the tax rate for services therein having reduced rate of 2% of turnover, is being increased to 4% of the gross amount of turnover. Further the present rate of 2% for transport services is also being increased to 4%.

- **Withholding tax on royalty to a resident person:**

At present withholding tax is deducted on any payment of **royalty to a non-resident person**. However, there is no such withholding tax in case of payment of royalty to a resident person. Therefore a withholding tax at the rate of 15% of the gross amount of royalty to be deducted from resident persons is being introduced.

- **Revising the threshold of taxable income:**

Prior to Finance Act 2018, the threshold of taxable income for both salaried and non-salaried persons was Rs.400,000. Through the Finance Act, 2018, the threshold was increased to Rs.1,200,000. The threshold of taxable income is generally a proportion of the per capita income of a country. Such significant increase is unprecedented and distortionary, resulting in revenue loss also. Therefore it has been proposed that the threshold of taxable income may be revised and fixed at Rs.600,000 for salaried persons and Rs.400,000 for non-salaried persons.

- **Increase in tax rates for Salaried and Non Salaried persons:**

Presently the tax rates for salaried persons are applicable to persons having 50% or more of their total income from salary. Now these tax rates for salaried persons are to be applicable to persons having 75% or more of their total income from salary. Consequently for persons having salary income less than 75% of total income, the rates applicable to non-salaried individuals would apply. In the case of salaried individuals deriving income exceeding Rs.600,000, eleven taxable slabs with progressive tax rates ranging from 5% to 35% are being introduced as under:-

| S. No | Taxable Income | Rate of Tax |
|--------------|---|--|
| 1. | Where taxable income does not exceed Rs. 600,000 | 0% |
| 2. | Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000 | 5% of the amount exceeding Rs. 600,000 |
| 3. | Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,800,000 | Rs. 30,000 plus 10% of the amount exceeding Rs. 1,200,000 |
| 4. | Where taxable income exceeds Rs. 1,800,000 but does not exceed Rs. 2,500,000 | Rs. 90,000 plus 15% of the amount exceeding Rs. 1,800,000 |
| 5. | Where taxable income exceeds Rs. 2,500,000 but does not exceed Rs. 3,500,000 | Rs. 195,000 plus 17.5% of the amount exceeding Rs. 2,500,000 |
| 6. | Where taxable income exceeds Rs. 3,500,000 but does not exceed Rs. 5,000,000 | Rs. 370,000 plus 20% of the amount exceeding Rs. 3,500,000 |
| 7. | Where taxable income exceeds Rs. 5,000,000 but does not exceed Rs. 8,000,000 | Rs. 670,000 plus 22.5% of the amount exceeding Rs. 5,000,000 |
| 8. | Where taxable income exceeds Rs. 8,000,000 but does not exceed Rs. 12,000,000 | Rs. 1,345,000 plus 25% of the amount exceeding Rs. 8,000,000 |
| 9. | Where taxable income exceeds Rs. 12,000,000 but does not | Rs. 2,345,000 plus 27.5% of the amount |

| | | |
|-----|---|--|
| | exceed Rs.30,000,000 | exceeding Rs. 12,000,000 |
| 10. | Where taxable income exceeds Rs. 30,000,000 but does not exceed Rs.50,000,000 | Rs. 7,295,000 plus 30% of the amount exceeding Rs. 30,000,000 |
| 11. | Where taxable income exceeds Rs. 50,000,000 but does not exceed Rs.75,000,000 | Rs. 13,295,000 plus 32.5% of the amount exceeding Rs. 50,000,000 |
| 12. | Where taxable income exceeds Rs.75,000,000 | Rs. 21,420,000 plus 35% of the amount exceeding Rs. 75,000,000"; |

For non-salaried persons deriving income exceeding Rs.400,000, eight taxable slabs of income with tax rates ranging from 5% to 35% are being introduced in the following manner:-

| S. No | Taxable Income | Rate of Tax |
|--------------|--|---|
| 1. | Where taxable income does not exceed Rs. 400,000 | 0% |
| 2. | Where taxable income exceeds Rs. 400,000 but does not exceed Rs. 600,000 | 5% of the amount exceeding Rs. 600,000 |
| 3. | Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000 | Rs. 10,000 plus 10% of the amount exceeding Rs. 600,000 |
| 4. | Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000 | Rs. 70,000 plus 15% of the amount exceeding Rs. 1,200,000 |
| 5. | Where taxable income exceeds Rs 2,400,000 but does not exceed Rs 3,000,000 | Rs. 250,000 plus 20% of amount exceeding 2,400,000 |
| | Where taxable income exceeds Rs 3,000,000 but does not exceed Rs 4,000,000 | Rs. 370,000 plus 25% of the amount exceeding Rs 3,000,000 |
| 5. | Where taxable income exceeds Rs. 4,000,000 but does not | Rs. 620,000 plus 30% of the amount |

| | | |
|----|--|--|
| | exceed Rs. 6,000,000 | exceeding Rs. 4,000,000 |
| 6. | Where taxable income exceeds Rs. 6,000,000 | Rs. 1,220,000 plus 35% of the amount exceeding Rs. 6,000,000 |

- **Freezing of Corporate Tax Rate:**

The tax rate for companies has gradually been decreased from 35% in tax year 2013, to 30% in tax year 2018. Through the Finance Act, 2018, the tax rate for companies was further intended to be reduced from 30% in tax year 2018 to 25% in tax year 2023. At present, for tax year 2019 the tax rate is 29%. As the tax rates have already been reduced from 35% to 29% in the last six years, and the fact that Pakistan has the lowest corporate tax rate in the region, the tax rate for companies has been fixed at 29% in order to recover and maintain the tax base to ensure revenue.

- **Taxation of Capital Gains on immoveable properties:**

At present capital gain on immovable properties is subject to separate taxation on the basis of holding period of property. The tax rates are 10%, 7.5% and 5% for holding periods less than one year, between one to two years and between two to three years respectively. There is no tax if the property is held for more than three years. In order to check tax evasion and to ensure equal taxation of all incomes, income from capital gains is being brought under the normal tax regime and taxed at normal rates. However, to account for the time value of money, the gain on open plots would be reduced on the basis of net present value so that where the holding period is upto one year the full gain will be taxed. Where the holding period is between one to ten years, 75% of the gain shall be taxed and there will be no tax in case the holding period is more than ten years.

Similarly, gain on sale of constructed property is to be fully taxed where the holding period is upto one year and 75% of the gain will be taxed where the holding period is between one to five years. Where the holding period is above five years no gains shall be taxed

- **Taxation of the Real Estate Sector:**

In Pakistan the Real Estate sector is one of the biggest sources of money laundering and is used as a parking lot for untaxed as well as ill-gotten money. In view of this a wide range of steps have been taken to restructure the taxation of this sector. The various steps being taken are as under:-

- (i) At present, the Board has issued valuation tables of immovable properties in 21 major cities wherein such properties are valued at a value higher than the DC rates. The purchasers are also required to pay 3% tax on the difference between the DC value and FBR value of property to explain the source of investment to the extent of differential between FBR value and DC value. The rates notified by the Board are still considerably lower than actual market value. It is therefore intended that FBR rates of immovable properties would be taken closer to or about 85% of actual market value. In addition, 3% tax for not explaining the source of investment is being withdrawn.
- (ii) As the increase in FBR values of immovable property is going to increase the incidence of tax on genuine buyers and sellers, the rate of withholding tax on purchase of immovable property is being reduced from 2% to 1%.
- (iii) At present, withholding tax on purchase of property is attracted only if the value of property is more than four million rupees. The threshold of four million rupees is being abolished and withholding tax on purchase is to be collected irrespective of the value of property.
- (iv) At present, there is no withholding tax on sale of property if the property is held for a period of more than three years. Since capital gain is to be taxed under normal tax regime even beyond the period of three years, withholding tax on sale of property would be collected where the holding period is upto five years.

(v) Presently the law imposes restriction on registration or transfer of property having fair market value exceeding rupees five million in the name of a non-filer. The aforesaid restriction placed on purchase of immovable property is being withdrawn.

- **Transition from Final Tax Regime to Minimum Tax Regime:**

Income tax by its inherent nature is tax charged and levied on income. However presently persons involved in certain transactions are not required to pay tax on their actual profit. Instead, the tax collected or deducted on these transactions is treated as final tax liability. This regime is available persons to such as commercial importers, commercial suppliers of goods, contractors, persons deriving brokerage or commission income and persons earning income from CNG stations. The tax collected or deducted from the aforesaid persons shall now be treated as minimum tax liability except for exporters, persons winning prizes and sellers of petroleum products. This measure is designed as a first step for gradual phasing out of the final tax regime and transition to income based taxation for all persons.

- **Computation of income for Super tax :**

Presently brought forward depreciation and business losses are excluded while computing income for calculating liability of super tax. However, such losses are not excluded in the case of banking, insurance, oil and mineral exploration companies. In order to ensure similar tax treatment, brought forward business and depreciation losses have been excluded from income computed to calculate super tax in the case of the abovementioned sectors.

- **Tax on Dividend income:**

At present dividend income is not part of income under normal tax regime and is subject to separate taxation. The standard rate of tax on dividend income is 15%. The present tax rate of 7.5% on dividend received on shares of a company set up for power generation or on shares of a company supplying coal exclusively to power generation projects is being increased to 15%.

Further, tax rate of dividend is being charged at 25% for persons receiving dividend from companies which enjoy exemption of tax on income or where no tax is payable due to availability of tax credits or due to brought forward business or depreciation losses.

Presently the rate of tax on dividend received by a person from a mutual fund is 10% and 12.5%. Persons receiving dividend from stock fund is also taxed 12.5%. Furthermore dividend received by a person from a development REIT scheme is reduced by 50% of the normal rate. Now all these rates are being enhanced to 15%. For withholding tax on dividend also a standard rate of 15% is being applied for persons receiving income.

- **Abolishing initial allowance on buildings:**

Presently initial allowance at the rate of 15% is allowed in the case of buildings. The said initial allowance on buildings is being abolished.

- **Taxation of Profit on Debt**

Presently the profit on debt is taxed separately and is not part of the income in normal tax regime. The tax rates are 10%, 12.5% and 15% for slabs upto five million rupees, between five million to twenty five million rupees and above twenty five million rupees respectively. The rates are being revised wherein tax rates for profit on debt not exceeding Rs 5 million shall be increased from 10% to 15%, between Rs 5 and 25 million tax rates shall be increased from 12.5% to 17.5% and from 25 to 36 million tax rates are being increased from 15% to 20%.

The rate of advance withholding tax on payment of profit on debt is also being enhanced from 10% to 15%. Furthermore, the separate rates mentioned above would be applicable for profit on debt up to Rs.36 million and for amounts exceeding Rs. 36 million the profit on debt will be made part of the total income and taxed at normal rates.

- **Measures to avoid profit shifting to dealer**

A new provision has been introduced to combat profit shifting by manufacturers, in the form of excess commission to commission agents/dealers, to avoid their actual tax liability. Now any amount of commission paid in excess of 0.2 percent of the gross amount of supplies shall be disallowed unless the dealer is registered under the Sales Tax Act, 1990 and also appearing in the active taxpayers list of income tax. Further, where the excess commission is being paid to a dealer who is an associate, 75% of margin paid to dealer is to be treated as income of the supplier

- **Reduction in limit of foreign remittance as source of investment:**

Presently foreign remittance equivalent to Rs. 10 million as a source of investment can not be probed. Now the said threshold is being reduced from Rs.10 million to Rs.5 million for explaining the source of investment through foreign remittance.

- **Streamlining taxation of banking companies:**

Banks generally do not offer for taxation the provisions which were previously allowed but later on reversed. Therefore reversal of provisions already allowed is being made taxable by inserting an explanation in the Seventh Schedule.

Banks are also allowed to claim deduction in respect of provisions classified as "doubtful" and "loss". Now only deductions only in respect of provisions classified as "loss" are to be allowed.

Banks are earning substantial profits on account of incremental exposure to government securities. Therefore profit from such government securities as is in excess of twenty percent of total profit before tax is being taxed separately at the rate of 37.5%.

- **Useful life of intangibles:**

At present, expenditure regarding **intangibles** is amortized over the useful life of the intangible. However, where the intangible has a useful life exceeding ten

years, the expenditure is amortized over a maximum period of ten years. In this way, large Built-Operate-Transfer projects amortize their intangible expenditure over a period of ten years whereas their useful life is more than twenty years. Now amendment is being made in law wherein the expenditure regarding intangibles be amortized over a period of 25 years where the useful life is unascertainable. Further, it has also been proposed that where the useful life of the intangible is ascertainable the expenditure regarding the intangible be amortized over the actual number of years for which such intangible is to be used

- **Enhancing withholding tax rate on dealers, commission agents & arhatis:**
Presently every market committee is required to collect advance tax from dealers, commission agents and arhatis at the time of issuance or renewal of licenses. Now the tax rates are being increase for Class A from Rs 10,000 to Rs 100,000/-, for Class B from Rs 7,500 to 75,000/-, for Class C from Rs 5,000/- to Rs. 50,000 and for any other category from Rs 5,000/- To Rs. 50,000/-.

Procedural Measures

- **Purchase of assets through banking channel**
In order to ensure documentation of real estate transactions and also to ascertain the actual value of a transaction of purchase of asset, persons purchasing immovable property of fair market value greater than rupees five million and one million or more in the case of any other asset, would now be required to make payment for the said purchase through a crossed banking instrument so that transaction can be clearly identified from one bank account to another. In case of non-compliance, the deductions in respect of depreciation and amortization in respect of such assets shall not be allowed. Further, the amount of purchase shall not be treated as cost for calculation of any gain on sale of such asset. A penalty at the rate of five percent of FBR value of asset is being be imposed for violation of this requirement
- **Simplified tax regime for certain persons:**

The Federal government seeks to bring certain persons in the tax net by incentivizing such persons through simplified taxation and simplified procedures of record keeping, tax payment, return filing and assessment. The intended sectors are small businesses, construction businesses, medical practitioners, hospitals, educational institutions, and any other sector specified. Therefore an enabling provision has been introduced which authorizes the Federal Government, to notify the aforementioned special provisions in such cities or territories, as may be specified.

- **Streamlining of tax credits under section 100C:**

Presently, under section 100C, non-profit organizations, trusts and welfare institutions are allowed hundred percent tax credit subject to certain conditions. However, NPOs are only allowed this 100 % credit on the condition that they are recognized by the Commissioner according to a prescribed procedure whereas, there is no such requirement of recognition for trusts and welfare institutions. Now in order to ensure similar treatment and oversight, trusts and welfare institutions shall also be required to obtain recognition from Commissioner to avail the facility of 100% tax credit.

- **Independent evaluation of non-arm's length transactions between associates:**

Entering into non-arm's length transactions is a common method employed by associated companies to evade income tax by not declaring transactions on their true market value. In order to ascertain the actual market price in such situations, a comprehensive data of comparables is required. Since such data is not readily available, the Commissioner is being empowered to obtain such data from an independent chartered accountant or cost accountant.

- **Recovery of AOP's liability from member:**

Under the existing law, tax payable by a member of association of persons can be recovered from the association itself. On the contrary, tax payable by an

association of persons cannot be recovered from its member. Now where any tax payable by an association of persons cannot be recovered, the same would be recovered from any person who is a member of the association. The member would thereafter be allowed to recover the tax paid by him from the AOP.

- **Separation of Audit and Assessment:**

Presently when a taxpayer is selected for audit of its tax affairs, the Commissioner is required to obtain taxpayer's explanation on issues raised in audit and thereafter, amend the assessment, if need be. The assessment function of the said process is being separated from the audit function. The functions of audit and assessment shall be performed by separate and independent officers to ensure impartial treatment to the taxpayers.

- **Business Registration Scheme:**

At present, only taxpayers are required to register with the Board for tax purposes. Persons deriving business income who are otherwise not required to file return being below taxable threshold are not required to register. In order to create a verifiable database of all persons deriving business income, a new registration scheme is being introduced where every person deriving business income, even if below the tax threshold shall be required to register with the Board through NADRA's e-sahulat centres. Business registration per se would not make the registrant liable to file return. However, it would create a database which would be a source of detecting new taxpayers in the future.

- **Authority to amend the order of recovery from withholding agent:**

Where a tax is required to be collected or deducted by a withholding agent but fails to deduct or collect tax or deposit the same, tax is recoverable from the withholding agent through a recovery order. Such order to recover tax is at times erroneous or prejudicial to interest of revenue but there is no provision in law to amend such order. Therefore a provision to amend order of recovery has been introduced subject to the condition that such power shall not be exercised by an officer below the rank of Additional Commissioner Inland Revenue.

- **Amendment in the definition of resident individual**

Presently a resident individual for a tax year is defined as an individual who is present in Pakistan for a period of, or periods amounting in aggregate to, one hundred and eighty-three days or more in the tax year or is an employee or official of the Federal Government or a Provincial Government posted abroad in the tax year. Now the definition of resident is being amended to include an individual present in Pakistan for a period of, or periods amounting in aggregate to, ninety days or more in the tax year and who, in the four years preceding the tax year, has been in Pakistan for a period of, or periods amounting in aggregate to, three hundred and sixty-five days or more.

- **Automated Impersonal Tax Regime:**

A new provision is being introduced which authorizes the Board to design an Automated Impersonal Tax Regime and prescribe rules in respect of the same through a notification in the gazette. The purpose of this regime is to minimize the interaction between officials and taxpayers which are low risk and compliant.

- **Restricting the scope of power of the Federal Government to grant exemption:**

At present, the Federal Government has the power to grant exemption from any tax or reduce a tax rate or tax liability whenever circumstances exist to take immediate action for the purposes of national security, natural disaster, national food security in emergency situations, protection of national economic interests in situations arising out of abnormal fluctuation in international commodity prices, removal of anomalies in taxes, development of backward areas, implementation of bilateral and multilateral agreements or granting an exemption from any tax imposed under this Ordinance to any international financial institution or foreign Government owned financial institution. Now the aforesaid power to grant exemption is being limited to the extent of emergency situations only and that the power to grant exemption to remove anomaly in taxes and for development of backward areas is being withdrawn. Any exemption in the case of anomaly of

taxes and for development of backward areas would be granted through an Act of Parliament or through an Ordinance if the Parliament is not in session.

- **Proceedings against persons committing financial malpractices :**

In order to effectively check misuse of authority to gain financial benefit, a new enabling provision is being introduced to prescribe rules for initiating criminal proceedings against officers and officials of the Board who deliberately commit acts or fail to act for personal benefits. Similar action would also be taken against persons who offer bribes or other financial benefits to the tax employees.