ISHTIAQ RANA & Co.
CHARTERED ACCOUNTANTS

BUDGET BRIEF

2015-2016

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1. PREFACE

BRIEF REPORT ON FINANCE BILL 2015

Strictly for circulation to clients
and staff of Ishtiaq Rana & Co

ISHTIAQ RANA & CO (Chartered Accountants) is pleased to present comments & summary on this year's budget. This commentary view will help our clients and users to understand the amendments in Income Tax, Sales Tax, and Customs Duty & Federal Excise Duty through Finance Bill 2015. These comments will also reflect our understanding of the legislation.

This memorandum is correct to the best of our knowledge and belief at the time of going to press. Changes of consequential, administrative, procedural or editorial in nature have either been excluded from these comments or dealt with briefly. It is intended as a general guide and therefore is not a substitute for specific professional advice which should be sort before any action is taken.

The proposals introduced in the Bill have to be approved by the National Assembly before they become effective. They should, therefore, not generally be acted upon without obtaining appropriate advice. This should not be published or reproduced in any manner without the Firm's Consent

Finally we would like to extend our heartiest gratitude to our associates for their valuable contributions in this regard **Mr. Mushtaq Ahmad Rana L.L.B (Advocate High Court), Mr. Ahmad Salman Naz FCA, Mr. AU Khan and Mr. Khalid Zafar (Advocate High Court)**. Further we would also record our warm appreciation for the excellent teamwork displayed by our staff.

LAHORE:

June 07, 2015

ISHTIAQ AHMAD RANA, FCA
ISHTIAQ RANA & CO
Chartered Accountants

2. BUDGET SYNOPSIS

BUDGET ANALYSIS AT A GLANCE

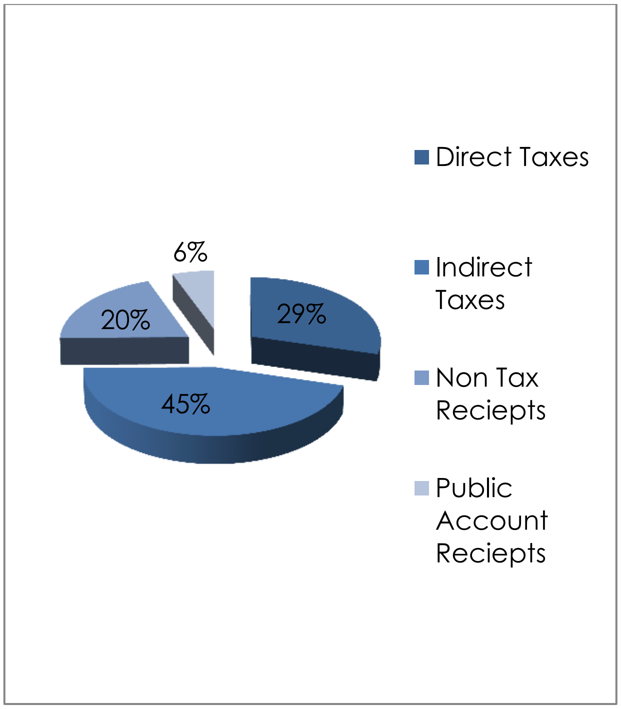
The proposed finance bill 2015 presented by the Federal Government comprises of PKR. The overall composition is as follows:

PARTICULARS	Amount Rupees (Billions)	%
REVENUE		
Direct Tax	1,347	29.49%
Indirect Tax	2,071	45.35%
Total Tax Revenue	3,418	74.84%
Non Tax Receipts	895	19.60%
	4,313	**94.44%**
Public Account Receipts	254	5.56%
	4,567	100%
LESS: Share Of Provinces	(1,849)	-40.49%
Net Revenue	2,718	59.51%
EXPENDITURES		
Development Expenditures	969	21.14%
Current Expenditures	3,615	78.86%
	4,584	100%
Deficit	(1,866)	-40.71%
Deficit Funded By		
Capital Receipts	485	25.99%
Domestic Debt - Banks	283	15.17%
External Debt	751	40.25%
Privatization Proceeds	50	2.68%
Surplus from Provinces	297	15.92%
Deficit	1,866	100.00%

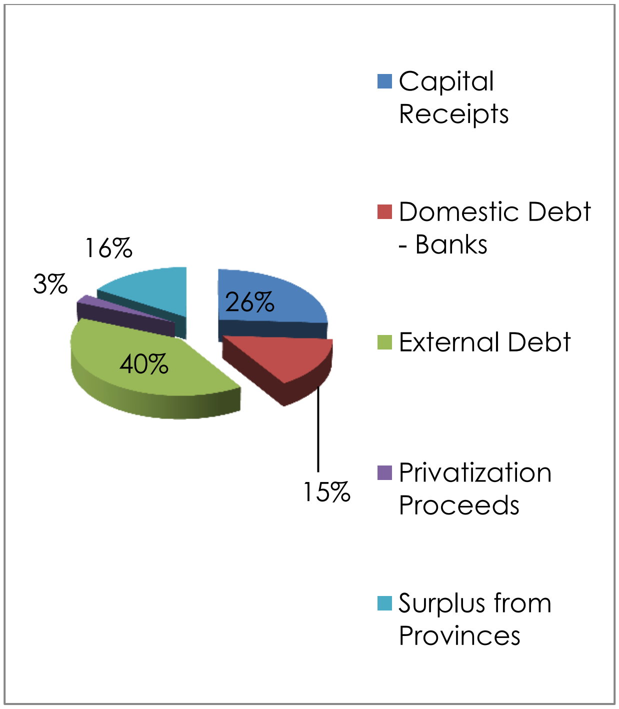
REVENUE

PARTICULARS	AMOUNT (RUPEES IN BILLION)	% OF TOTAL RECIEPTS
REVENUE COLLECTION		
Direct Taxes	1,347	20.94%
Indirect Taxes	2,071	32.19%
Non Tax Receipts	895	13.91%
Public Account Receipts	254	3.95%
	4,567	**70.99%**
Deficit Funded By		
Capital Receipts	485	7.539%
Domestic Debt - Banks	283	4.399%
External Debt	751	11.674%
Privatization Proceeds	50	0.777%
Surplus from Provinces	297	4.617%
	1,866	**29.01%**
TOTAL RECIEPTS	**6,433**	**100.00%**
PROVINCIAL SHARE	**(1,849)**	**28.742%**
AVAILABLE FOR EXPENDITURES	**4,584**	

REVENUE



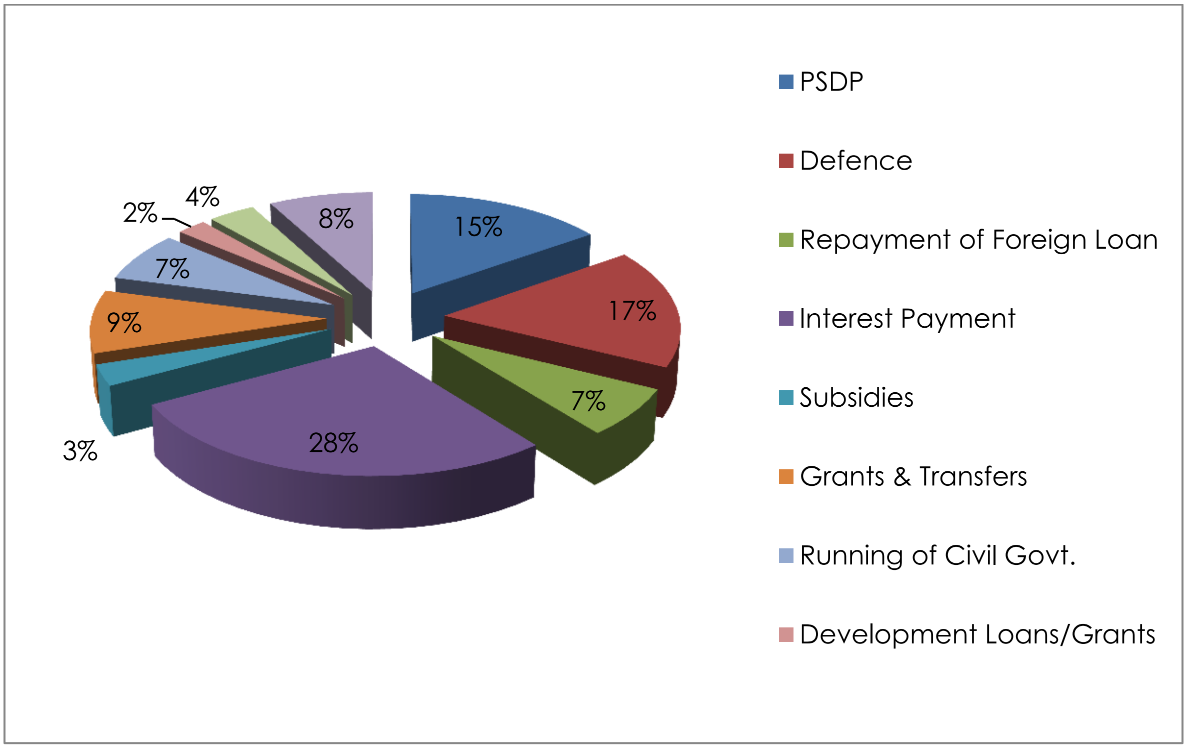
DEFICIT



1 EXPENDITURES

Detail of Federal Government proposed spending allocated in the Finance Bill 2015 is listed below:

PARTICULARS	AMOUNT Rupees (Billion)	% OF TOTAL BUDGET
PSDP	700	15.27%
Defence	781	17.04%
Repayment of Foreign Loan	316	6.89%
Interest Payment	1,280	27.92%
Subsidies	138	3.01%
Grants & Transfers	410	8.94%
Running of Civil Govt.	326	7.11%
Development Loans/Grants	105	2.29%
Other Development Expenditure	164	3.58%
Other Expenditures	364	7.94%
TOTAL EXPENDITURES	**4,584**	**100%**



3. COMMENTS ON BUDGET

1) Being the backbone of the economy due considerations have been given to agricultural sector. These includes following measures.
    a) Three (03) years tax holiday has been given to industrial undertakings setting and operating cold chain facilities and warehousing facilities for storage of agricultural products.
    b) Tax holiday for 4 years for companies which set up Halal meat production by 31 December 2016
    c) Rice mills suffering from global demand have been granted exemption from minimum tax for the tax year 2015.
    d) Supply of fish is exempt from withholding tax.
    e) Rate of sales tax on import of agricultural machinery has been reduced from 17% to 7%.
    f) Interest free loans up to 1,000,000 will be provided for purchase and installation of solar tube well system in agricultural areas,
2) Keeping in view the shelter needs Government has also taken special measure for the improvement of Construction and Housing Sector. These measures are discussed below.
    a) Limit of amount paid as interest on loan for construction of houses has been increased from 750,000 to 1,000,000
    b) Minimum tax leviable on builders is suspended for 3 years.
    c) Supply of bricks and crushed stone is exempt from sales tax for 3 years.
    d) Duties on import of used construction machinery is reduced to 10% for companies registered with SECP and Pakistan Engineering Council.
3) This budget also incorporates certain benefits to manufacturers as are discussed below.
    a) A manufacturer who sets up during next 3 years and employs people who are registered with social security, a tax credit of 1% will be given for employment of each 50 employees up to maximum credit of 10%.
    b) Tax exemption to green field projects has been extended to 30 June 2017.
    c) Tax exemption of a period of 5 years granted to local producer of solar and wind energy machinery.
4) Following actions taken for improvement of aviation sector.
    a) Duties and taxes on certain items used in aviation are subject to zero rate

   b) Remote areas having economic potential are exempt from payment of FED and withholding Tax,

5) Special attention has been devoted for KPK to promote it.
   a) 5 years tax holiday for new manufacturing units set up during 1 July 2015 to 30 June 2018
   b) Export of perishable goods through Pak Rupee instead of Dollar.
   c) Export quota of Ghee and Vegetable oil has increased.
6) Concessionary SRO's has been withdrawn.

1. BUDGET HIGHLIGHTS

1. INCOME TAX

1) Super tax is proposed to be imposed for Tax Year 2015 for rehabilitation of displaced persons. This tax is to be paid by banking companies at the rate of 4% of income and by all other taxpayers at 3% of income; the latter being required to pay only if income is equal to or in excess of Rs. 500 million.
2) Rate of tax for companies has been reduced from 33% to 32%.
3) Tax exemption for a period of 10 years is allowed for setting new electricity transmission projects by June, 2018.
4) Limit of investment in new shares for individual investors has been extended from Rs. 1 Million to 1.5 Million.
5) Tax credit of 20% of tax liability is allowed for the companies that opt for enlistment on any stock exchange of the country.
6) Limit of paid up share capital has been increased from 25 million to 50 million for small company.
7) A new income slab has been included for salaried individuals where their income exceeding 400,000 to 500,000 will be taxed at the rate of 2%, whereas this income slab will be taxed at the rate of 7% for non-salaried individuals and AOP's
8) Adjustable Tax at the rate of 0.6% will be deducted by bank for all banking transactions of non-filers.
9) Advance tax on dividend has been increased from 10% to 12.5% for filers and for non-filers it has been increased from 15% to 17.5%.
10) For collection of advance tax on electricity bills, threshold of annual electricity bills has been reduced from 100,000 to 75,000.
11) 10% advance tax shall be withheld from amount being paid as right to use any machinery or other commercial, industrial or scientific equipment's.
12) In case undistributed reserves of a listed company increase from its paid up capital, tax equal to 10% of such exceeding amount will be charged on that listed company.

13) One time super tax has been proposed to be imposed on banking companies at the rate of 4% and 3% on other companies whose income exceeds 500 million for rehabilitation of IDP's.
14) Withholding tax exemption for payment of advertising services to electronic & print media has been withdrawn.
15) Rate of withholding tax on commission on advertising services is proposed to be increased from 7.5% to 10%.

2. SALES TAX

16) Rate of further tax on supplies to non-register persons is proposed to increase from 1% to 2%.
17) Amount of sales tax on import and registration of IMEI No. of mobiles has been doubled.
18) Limit of utility bills for cottage industry is proposed to increase from 700,000 to 800,000.
19) Input tax adjustment on pre-fabricating building is proposed to be allowed.
20) Provisions of temporary registration allowed to facilitate manufacturers to import machinery.

3. FEDERAL EXCISE DUTY

- ✓ Rate of Federal Excise Duty is proposed to be increased from 58% to 63% on locally produced Cigarettes Provisions of temporary registration allowed to facilitate manufacturers to import machinery.
- ✓ Rate of FED is proposed to increase from 9% to 12% on aerated water.

2. INCOME TAX

DEFINITIONS **SECTION 2**

Consumer Goods **SECTION 2(13AA)**

Means goods that are consumed by the end consumer rather than used in the production of another good

Developmental REIT Scheme **SECTION 2 (17 D)**

Means Developmental REIT Scheme as defined under the Real Estate Investment Trust Regulations, 2015.

Fast Moving Consumer Goods **SECTION 2 (22 A)**

Means consumer goods which are supplied in retail marketing as per daily demand of a consumer.

Imputable Income **SECTION 2 (28 A)**

In relation to an amount subject to final tax means the income which would have resulted in the same tax, had this amount not been subject to final tax.

PMEX **SECTION 2 (42 A)**

Means Pakistan Mercantile Exchange Limited a futures commodity exchange company incorporated under the Companies Ordinance, 1984 (XLVII of 1984) and is licensed and regulated by the Securities and Exchange Commission of Pakistan.

Rental REIT Scheme **SECTION 2 (47 C)**

Means a Rental REIT Scheme as defined under the Real Estate Investment Trust Regulations, 2015.

Small Company **SECTION 2 (59 A)**

"Small Company" means a company registered on or after the first day of July, 2005, under the Companies Ordinance, 1984 (XLVII) of 1984, which,—

i. has paid up capital plus undistributed reserves not exceeding fifty million rupees;

ia. has employees not exceeding two hundred and fifty any time during the year;

ii. has annual turnover not exceeding two hundred and fifty million rupees; and

iii. is not formed by the splitting up or the reconstitution of company already in existence;]

Super tax for rehabilitation of temporarily displaced persons SECTION 4 (4B)

1) A super tax shall be imposed for rehabilitation of temporarily displaced persons, for tax year 2015, at the rates specified in Division IIA of Part I of the First Schedule, on income of every person specified in the said Division.

2) For the purposes of this section, "**income**" shall be the sum of the following:-

   i. profit on debt, dividend, capital gains, brokerage and commission;
   ii. taxable income under section (9) of this Ordinance;
   iii. imputable income as defined in clause (28A) of section 2 and
   iv. income computed under Fourth, Fifth, Seventh and Eighth Schedule

3) The super tax payable under sub-section (1) shall be paid, collected and deposited on the date and in the manner as specified in sub-section(1) of section 137 and all provisions of Chapter X of the Ordinance shall apply.

4) Where the super tax is not paid by a person liable to pay it, the Commissioner shall by an order in writing, determine the Super tax payable, and shall serve upon the person, a notice of demand specifying the super tax payable and within the time specified under section 137 of the Ordinance.

5) Where the super tax is not paid by a person liable to pay it, the Commissioner shall recover the super tax payable under sub-section (1) and the provisions of Part IV, X, XI and XII of Chapter X and Part I of Chapter XI of the Ordinance shall, so far as may be, apply to the collection of super tax as these apply to the collection of tax under the Ordinance.

6) The Board may, by notification in the official Gazette, make rules for carrying out the purposes of this section."

Tax on undistributed reserves. - SECTION 5 (5 A)

1) Subject to this Ordinance, a tax shall be imposed at the rate of ten percent, on every public company other than a scheduled bank or a Modarba, that derives profits for a tax year but does not distribute cash dividends within six months of the end of the said tax 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, so much of its reserves as exceed hundred per cent of its paid up capital shall be treated as income of the said company:

   Provided that for tax year 2015, cash dividends may be distributed before the due date mentioned in sub-section (2) of section 118, for filing of return for tax year 2015.

2) The provisions of sub-section (1) shall not apply to a company in which not less than fifty percent shares are held by the Government.
3) For the purpose of this section, 'reserve' includes amounts set-aside out of revenue or other surpluses excluding capital reserves, share premium reserves and reserves required to be created under any law, rules or regulations.

Tax on shipping of a resident person **SECTION 7 A**

1) In the case of any resident person engaged in the business of shipping, a presumptive income tax shall be charged in the following manner, namely:

a) ships and all floating crafts including tugs, dredgers, survey vessels and other specialized craft purchased or bare-boat chartered and flying Pakistan flag shall pay tonnage tax of an amount equivalent to one US $ per gross registered tonnage per annum; and

b) ships, vessels and all floating crafts including tugs, dredgers, survey vessels and other specialized craft not registered in Pakistan and hired under any charter other than bare-boat charter shall pay tonnage tax of an amount equivalent to fifteen US cents per ton of gross registered tonnage per chartered voyage provided that such tax shall not exceed one US $ per ton of gross registered tonnage per annum:

Explanation. - For the purpose of this section, the expression "equivalent amount" means the rupee equivalent of a US dollar according to the exchange rate prevalent on the first day of December in the case of a company and the first day of September in other cases in the relevant assessment year.

2) The provisions of this section shall not be applicable after 30th June, 2020.

Tax on profit on debt **SECTION 7 B**

1) Subject to this Ordinance, a tax shall be imposed, at the rate specified in Division IIIA of Part I of the First Schedule, on every person who receives a profit on debt from any person mentioned in clause (a) to (d) of sub-section (1) of section 151.
2) The tax imposed under sub-section (1) on a person who receives a profit on debt shall be computed by applying the relevant rate of tax to the gross amount of the profit on debt.
3) This section shall not apply to a profit on debt that is exempt from tax under this Ordinance.

Capital Gains **SECTION 37A**

The capital gain arising on or after the first day of July 2010, from disposal of securities [, other than a gain that is exempt from tax under this Ordinance], shall be chargeable to tax at the rates specified in Division VII of Part I of the First Schedule:

Deductible allowance for profit on debt. **SECTION 64A.**

1) Every individual shall be entitled to a deductible allowance for the amount of any profit or share in rent and share in appreciation for value of house paid by the individual in a tax year on a loan by a scheduled bank or non-banking finance institution regulated by the Securities and Exchange Commission of Pakistan or advanced by Government or the Local Government, Provincial Government or a statutory body or a public company listed on a registered stock exchange in Pakistan where the individual utilizes the loan for the construction of a new house or the acquisition of a house.
2) The amount of an individual's deductible allowance allowed under sub-section (1) for a tax year shall not exceed fifty percent of taxable income or one million rupees, whichever is lower.
3) Any allowance or part of an allowance under this section for a tax year that is not able to be deducted for the year shall not be carried forward to a subsequent tax year.

Tax credit for employment generation by manufacturers. **SECTION 64B.**

1) Where a taxpayer being a company formed for establishing and operating a new manufacturing unit sets up a new manufacturing unit between 1st day of July, 2015 and 30th of June, 2018, it shall be given a tax credit for a period of ten years.

2) The tax credit under sub-section (1) for a tax year shall be equal to one percent of the tax payable for every fifty employees registered with The Employees Old Age Benefits Institution and the Employees Social Security Institutions of Provincial Governments during the tax year, subject to a maximum of ten percent of the tax payable.

3) Tax credit under this section shall be admissible where

   a) the company is incorporated and manufacturing unit is setup between the first day of July, 2015 and 30th day of June, both days inclusive;
   b) employs more than fifty employees in a tax year registered with The Employees Old Age Benefits Institution and the Employees Social Security Institutions of Provincial Governments;
   c) manufacturing unit is managed by a company formed for operating the said manufacturing unit and registered under the Companies Ordinance, 1984 (XLVII of 1984) and having its registered office in Pakistan; and
   d) the manufacturing unit is not established by the splitting up or reconstruction or reconstitution of an undertaking already in existence or by transfer of machinery or plant from an undertaking established in Pakistan at any time before 1st July 2015.

4) Where any credit is allowed under this section and subsequently it is discovered, on the basis of documents or otherwise, by the Commissioner that any of the conditions specified in this section were not fulfilled, the credit originally allowed shall be deemed to have been wrongly allowed and the Commissioner may, notwithstanding anything contained in this Ordinance, re-compute the tax payable by the taxpayer for the relevant year and the provisions of this Ordinance shall, so far as may be, apply accordingly.

5) For the purposes of this section a manufacturing unit shall be treated to have been setup on the date on which the manufacturing unit is ready to go into production, whether trial production or commercial production.

Enlistment **SECTION 65 (C)**

Where a taxpayer being a company opts for enlistment in any registered stock exchange in Pakistan, a tax credit equal to [twenty] percent of the tax payable shall be allowed for the tax year in which the said company is enlisted.]

TAX CREDIT ON INVESTMENT IN SHARES & LIFE INSURANCE PREMIUM

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

AGREEMENTS FOR AVOIDANCE OF DOUBLE TAXATION AND PREVENTION OF FISCAL EVASION

- The Bill seeks to empower the Federal Government to enter into bilateral or multilateral agreements with Governments of foreign countries or tax jurisdictions for avoidance of double taxation and prevention of fiscal evasion and exchange of information including automatic exchange of information with respect to taxes imposed under this Ordinance or under corresponding law enforced in other country.

- The Bill also seeks to empower the Federal Board of Revenue to obtain and collect information when solicited by another country under a tax treaty, information exchange agreement, multilateral convention, inter-governmental agreement or similar arrangement or mechanism.

- Similarly corresponding amendments have also been proposed in section 176(1)(a) empowering the Commissioner to require any person whether or not liable under the Ordinance to furnish to the Commissioner or an authorized officer any information relevant to tax leviable under this Ordinance or to fulfill any obligation under an agreement with a foreign government or tax jurisdiction.

- The amendments appear to have been proposed in the wake of recent legislations like FATCA.

Minimum tax on land developers. **SECTION 113 (B)**

Minimum tax on land developers were introduced through Finance Act, 2013. Federal Government was supposed to prescribe the rates for such taxation. Since no rate has so far been prescribed therefore land developers were not subject to minimum tax. Now, a minimum tax is proposed at the rate of 2% of value of land notified by the authorities for stamp duty.

Due date for payment of tax: **SECTION 114 (6)**

Where any tax is payable under an assessment order or an amended assessment order or any other order issued by the Commissioner under this Ordinance, a notice shall be served upon the taxpayer in the prescribed form specifying the amount payable and thereupon the sum so specified shall be paid within **[thirty**] days from the date of service of the notice:]

Advance tax paid by the taxpayer **SECTION 147 (4)**

Presently taxpayers, other than banks are not mandatorily required to discharge advance tax liability to the extent of 90% of the tax payable based on an estimate before the last instalment is due. This envisages a possibility of not discharging the advance tax liability in line with the income earned during that period. It is now proposed that advance tax to the extent of 50% of the estimate higher than the latest assessed basis is paid by the due date of second instalment for that particular year. The regime now introduced is in line with that applicable for banking companies in Seventh Schedule.

Furthermore, the rate of default surcharge for any short payment of advance tax is proposed to be reduced from 18% to 12% per annum

Payments for goods, services and contracts **SECTION 152 (4a)**

The provisions of sub-section (4) shall not apply to a person who irrevocably opts not to be subject to final taxation:

Provided that this option shall be exercised at the time of filing of return under section 114:

Provided further that the tax deducted under this sub-section shall be minimum tax."

Failure to pay tax collected or deducted **SECTION 159 (1B)**

Where at the time of recovery of tax under sub-section (1) it is established that the tax that was to be deducted from the payment made to a person or collected from a person has meanwhile been paid by that person, no recovery shall be made from the person who had failed to collect or deduct the tax but the said person shall be liable to pay[default surcharge]at the rate of **twelve** per cent per annum from the date he failed to collect or deduct the tax to the date the tax was paid

Furnishing of information **SECTION 165 (B)**

After section **165A**, the following new section shall be inserted, namely

Furnishing of information by financial institutions including banks.

1. Notwithstanding anything contained in any law for the time being in force including but not limited to the Banking Companies Ordinance, 1962 (LVII of 1962), the Protection of Economic Reforms Act, 1992 (XII of 1992), the Foreign Exchange Regulation Act, 1947 (VII of 1947) and any regulations made under the State Bank of Pakistan Act, 1956 (XXXIII of 1956), on the subject every financial institution shall make arrangements to provide information regarding non-resident Persons to the Board in the prescribed form and manner for the purpose of automatic exchange of information under bilateral agreement or multilateral convention.
2. Subject to section 216, all information received under this section shall be used only for tax and related purposes and kept confidential."

Additional payment for delayed refunds **SECTION 171 (1)**

Where a refund due to a taxpayer is not paid within three months of the date on which it becomes due, the Commissioner shall pay to the taxpayer a further amount by way of compensation at the rate of KIBOR PLUS 0.5% per annum of the amount of the refund computed for the period commencing at the end of the three month period and ending on the date on which it was paid

Default surcharge **SECTION 205**

The rate of Default surcharge is changed from 18% to 12%

FORMATION OF PANEL FOR SPECIAL AUDIT

A new concept of formation of panel for conducting special audit has been introduced. Under these provisions, a panel comprising of two or more persons will be empowered to conduct an audit including a forensic audit of income tax affairs of a taxpayer. The Panel shall consist of an Officer of Inland Revenue or a Firm of Chartered Accountant or Cost and Management Accountant or any other person as directed by the FBR.

The procedure prescribed for the conduct of special audit envisages that member of the Panel other than Officer of the Inland Revenue shall effectively provide the support function for that audit. The legal and procedural aspects for conducting such audit shall be undertaken by the member of the panel being the Officer of Inland Revenue.

SELECTION OF RETAILERS FOR AUDIT

A new system for the selection of audit for Retailers has been purposed in the finance bill 2015 and the following elements are proposed

Retailers, who are registered under Sales Tax Special Procedure Rules, 2007 shall be subject to compulsory and automatic selection for audit of their income tax affairs under section 177 of the Ordinance unless:

a) Name of the person appears in the sales tax active taxpayers list

b) Complete return of income has been filed within the due date;

c) Tax payable as per return has been paid;

d) 2% tax on turnover under section 113 (Minimum Tax) has been paid by a person registered as retailer who files a return below taxable limit and who in the preceding tax year had either not filed the return or had declared income below taxable limit; and

e) 25% higher than last year's tax liability has been paid.

f) This regime has been introduced apparently to cater for the cases where compliance to the sales tax laws were not made on account of the perceived actions for income tax purposes on the basis of returns filed under the sales tax law. Now an effective immunity from audit is available irrespective of the amounts declared for sales tax purposes if the income tax is paid in excess of 25% of last year's tax liability. This is the introduction of another form of presumptive income tax.

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

Reward to whistleblowers SECTION 227 (B)

A new concept for broadening the tax base and for the accountability of the non-taxpayers have been introduced through the finance bill with a term of **whistleblowers**

in cases of concealment or evasion of income tax, fraud, corruption or misconduct providing credible information leading to such detection of tax.

The Board may, by notification in the official Gazette, prescribe the procedure in this behalf and also specify the apportionment of reward sanctioned under this section for whistleblowers.

The claim for reward by the whistleblower shall be rejected if

a) the information provided is of no value;
b) the Board already had the information;
c) the information was available in public records; or (d) no collection of taxes is made from the information provided from which the Board can pay the reward.
d) For the purpose of this section, "whistleblower" means a person who reports concealment or evasion of income tax leading to detection or collection of taxes, fraud, corruption or misconduct, to the competent authority having power to take action against the person or an income tax authority committing fraud, corruption, misconduct, or involved in concealment or evasion of taxes."

Collection of advance tax by educational institutions **SECTION 236**

The Bill proposes to exclude non-residents from withholding tax under this section who:

i. furnishes copy of passport as an evidence to the educational institution that during previous tax year, his stay in Pakistan was less than one hundred eighty three days;
ii. furnishes a certificate that he has no Pakistan source income; and
iii. the fee is remitted directly from abroad through normal banking channels to the bank account of the educational institution.

Advance tax on banking transactions **SECTION 236 (P)**

The Bill proposes to require every banking company to withhold tax at the rate of 0.6 percent of the value of following transactions from a non-filer where the sum of total payments exceeds Rs. 50,000 in a day:

i. At the time of sale of any instrument including demand draft, pay order, special deposit receipt, cash deposit receipt, short term deposit receipt, call deposit receipt, rupee traveler's cheque or any other instrument of such nature.
ii. At the time of transfer of any sum through cheque or clearing, interbank or intra bank transfers through cheques, online transfer, telegraphic transfer, mail transfer, direct debit, payments through internet, payments through mobile phones, account to account funds transfer, third party account to account funds transfers, real time account to account funds transfer, real time third party account to account fund transfer

The aforesaid withholding tax is proposed to be adjustable. Further, this section is proposed to be not applicable on Pakistan real time inter-bank settlement mechanism (PRISM) or payments made for Federal, Provincial or Local Government taxes.

Payment to residents for use of machinery and equipment **SECTION 236 (Q)**

The Bill proposes to introduce withholding tax at the rate of 10 percent from payment in full or part by prescribed persons (as defined under section 153(7)) to resident persons on account of:

(i) use or right to use industrial, commercial and scientific equipment; and

(ii) rent of machinery.

The said withholding tax is proposed to be final tax on income of resident persons deriving income from aforementioned payments.

Collection of advance tax on education related Expenses remitted abroad **SECTION 236 (R)**

The Bill proposes that every banking company, financial institutions, foreign exchange companies or any other person to withhold tax at the rate of 5 percent of total education related expenses remitted outside Pakistan.
For the purpose of this section, the term "education related expenses" is proposed to be defined as including tuition fee, boarding and lodging expenses, any payment for distant learning to any institution or university in a foreign country and any other expense related or attributable to foreign education.
This withholding tax is proposed to be adjustable in the hands of the person remitting the aforesaid expenses

Dividend in specie **SECTION 236 (S) & (T)**

The Bill proposes withholding tax on dividend in specie at the rate of 10% of gross amount of dividend in specie for filers and 17.5% for non-filers.

Withholding tax by Pakistan Mercantile Exchange Limited – Section 236T

The Bill proposes that Pakistan Mercantile Exchange Limited (PMEX) shall collect advance tax from its members at the rate of 0.1 percent of the amounts of the following transactions:

i. on purchase of futures commodity contracts;
ii. on sale of future commodity contracts;
iii. on purchase of futures commodity contracts in lieu of tax on the commission earned by such members; and
iv. on sale of futures commodity contracts in lieu of tax on the commission earned by such members.

The tax so collected shall be minimum tax on the income of members.

1. FIRST SCHEDULE RATE OF TAXES

I. RATE OF TAX FOR INDIVIDUALS & AOP EXCEPT SALARIED TAXPAYERS

Tax rates for the individuals & AOP are proposed to be 7% of the income exceeding 400,000 but does not exceed Rs. 500,000. Otherwise no change has been introduced in Finance Act 2015 compared to Finance Act 2014.

No	Taxable income	Tax Rates for 2015	Tax rates for 2016
1	Below 400,000	0%	0%
2	Taxable income exceeds 400,000 but does not exceeds 500,000	NA	7% of amount exceeding 400.000
3	Where the taxable income exceeds Rs 500,000 but does not exceed Rs 750,000	NA	Rs 7,000 + 10% of the amount exceeding Rs500,000
4	Taxable income exceeds 400,000 but does not exceeds 750,000	10% of amount exceeding 400,000	NA
5	Where the taxable income exceeds Rs 750,000 but does not exceed Rs 1,500,000	Rs 35,000 + 15%of the amount exceeding Rs750,000	Rs 32,000 + 15%of the amount exceeding Rs 750,000
6	Where the taxable income exceeds Rs 1,500,000 but does not exceed Rs 2,500,000	Rs 147,500 +20% of the amount exceeding Rs1,500,000	Rs 144,500 +20% of the amount exceeding Rs1,500,000
7	Where the taxable income exceeds Rs 2,500,000 but does not exceed Rs 4,000,000	Rs 347,500 +25% of the amount exceeding Rs2,500,000	Rs 344,500 +25% of the amount exceeding Rs2,500,000
8	Where the taxable income exceeds Rs 4,000,000 but does not exceed Rs 6,000,000	Rs 722,500 +30% of the amount exceeding Rs 4,000,000	Rs 719,500 +30% of the amount exceeding Rs4,000,000
9	Where the taxable income exceeds Rs 6,000,000	Rs 1,322,500 +35% of the amount exceeding Rs 6,000,000	Rs 1,319,500 +35% of the amount exceeding Rs6,000,000

II. RATE OF TAX FOR SALARIED TAXPAYERS

- ✓ Tax rates for the individuals & AOP are proposed to be 2% of the income exceeding 400,000 but does not exceed Rs. 500,000. Otherwise no change has been introduced in Finance Act 2015 compared to Finance Act 2014.

No	Taxable income	Tax Rates for 2015	Tax rates for 2016
1	Below 400,000	0%	0%
2	Taxable income exceeds 400,000 but does not exceeds 500,000	NA	2% of amount exceeding 400.000
3	Where the taxable income exceeds Rs 500,000 but does not exceed Rs 750,000	NA	Rs 2,000 + 5%of the amount exceeding Rs500,000
4	Taxable income exceeds 400,000 but does not exceeds 750,000	5% of amount exceeding 400.000	NA
5	Where the taxable income exceeds Rs 750,000 but does not exceed Rs 1,400,000	Rs 17,500 + 10%of the amount exceeding Rs750,000	Rs 14,500 + 10%of the amount exceeding Rs 750,000
6	Where the taxable income exceeds Rs 1,400,000 but does not exceed Rs 1,500,000	Rs 82,500 + 12.5%of the amount exceeding Rs 1,400,000	Rs 79,500 + 12.5%of the amount exceeding Rs 1,400,000
7	Where the taxable income exceeds Rs 1,500,000 but does not exceed Rs 1,800,000	Rs 95,000 + 15% of the amount exceeding Rs 1,500,000	Rs 92,000 + 15% of the amount exceeding Rs 1,500,000
8	Where the taxable income exceeds Rs 1,800,000 but does not exceed Rs 2,500,000	Rs 140,000 +17.5% of the amount exceedingRs1,800,000	Rs 137,000 +17.5% of the amount exceeding Rs 1,800,000
9	Where the taxable income exceeds Rs 2,500,000 but does not exceed Rs 3,000,000	Rs 262,500 + 20%of the amount exceeding Rs2,500,000	Rs 259,500 + 20%of the amount exceeding Rs 2,500,000
10	Where the taxable income exceeds Rs 3,000,000 but does not exceedRs3,500,000	Rs 362,500 +22.5% of the amount exceeding Rs 3,000,000	Rs 359,500 +22.5% of the amount exceeding Rs 3,000,000
11	Where the taxable income exceeds Rs 3,500,000 but does not exceed Rs 4,000,000	Rs 475,000 + 25%of the amount exceeding Rs 3,500,000	Rs 472,000 + 25% of the amount exceeding Rs 3,500,000
12	Where the taxable income exceeds Rs 4,000,000 but does not exceed Rs 7,000,000	Rs 600,000 +27.5% of the amount exceeding Rs 4,000,000	Rs 597,000 +27.5% of the amount exceeding Rs 4,000,000
13	Where the taxable income exceeds Rs 7,000,000	Rs 1,425,000 +30% of the amount exceeding Rs 7,000,000	Rs 1,422,000 +30% of the amount exceeding Rs 7,000,000

III. TAX RATES FOR COMPANIES

The proposed rate in the finance bill 2015 for companies is mentioned as under.

Tax Year	Banking Company	Public Company other than a banking Company	Private Company other than a banking Company
2016	35%	32%	32%
2015	35%	33%	33%

I. SUPER TAX RATES

PERSON	BANKING COMPANY	OTHER THAN BANKING COMPANY INCOME EQUAL TO/ EXCEEDING 500 MILLION
RATE	4%	3%

IV. RATE OF TAX ON DIVIDEND

Tax rate imposed u/s 5 on dividend received from a company proposed to be increased from 10% to 12.5% and rate has been increased from 15% to 17.5% for non filers.

V. RATE OF TAX ON PROFIT ON DEBT

S.No.	Profit On Debt	Rate
1	Where profit on debt does not exceed Rs 25,000,000	10%
2	Where profit on debt exceeds Rs 25,000,000 but does not exceed Rs 50,000,000	2,500,000 + 12.5% of the amount exceeding Rs 25,000,000
3	Where profit on debt exceeds Rs 50,000,000	Rs 5,625,000 + 15% of the amount exceeding Rs 50,000,000

VI. RATE OF TAX ON CAPITAL GAINS ON SECURITIES

S No.	Period	Rate
1	Where holding period of a security is less than twelve months	15%
2	Where holding period of a security is twelve months or more but less than twenty four months	12.5%
3	Where holding period of a security is twenty four months or more but less than four years	7.5%

VII. WITHOLDING TAX RATES

Following are the rates for withholding tax for the tax year 2016 that are proposed by Finance Act 2015.

I. IMPORTS

S. No.	PERSONS	Filer	Non-Filer
1	i) Industrial undertaking importing remeltable steel (PCT Heading 72.04) and directly reduced iron for its own use	1% of import value as increased by duties	1.5% of the Import value as increased by duties
2	Persons importing pulses	2% of import value as increased by duties	3% of import value as increased by duties
3	Commercial importers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31 December, 2011.	3% of import value as increased by duties	4.5% of import value as increased by duties
4	Ship breakers on import of ships	4.5%	6.5%
5	Industrial undertakings not covered under S. Nos. 1 to 4	5.5%	8%
6	Companies not covered under S. Nos. 1 to 5	5.5%	8%
7	Persons not covered under S. Nos. 1 to 6	6%	9%

II. OTHER WITHOLDING PROVISIONS

Section	Nature of Payment	Filer	Non Filer
151	Yield or profit	10%	17.5%
152	i. Payment for Contract for		
	Construction of advertising services.	6%	
	ii. Reinsurance premium		
	iii. Advertising services relaying from	5%	
	outside Pakistan		
	iv. Payment for goods.	10%	
	a. Company		
	b. Other Persons	4%	6%
	v. Payment for Services	4.5%	6.5%
	a. Transport Services		
	b. Other Services	2%	
	i. Company		
	ii. Other Persons	8%	12%
	vi. Payment for Contracts	10%	15%
	a. Sports Person		
	b. Company	10%	
	c. Other Person	7%	10%
		7.5%	10%
153	Sale of Goods inclusive of sales tax		
	-Rice, Cotton, Cotton seeds Edible Oil	1.5%	
	-Other Goods		
	Company		
	Other Persons	4%	6%
		4.5%	6.5%
	Rendering Services		
	-Transportation Services		
	-Other Services	2%	
	Company		
	Other Persons	8%	12%
	Payment for Contracts	10%	15%
	Sports Person		
	Company	10%	
	Other Person	7%	10%
		7.5%	10%
154	Export Proceeds		
	Commission due to indenting commission	1%	
	agent	5%	
155	Rent of Property Payable to:		
	Company	15%	
	Individual/AOP		
	Amount does not exceeds 150,000	0%	
	Amount exceeds 150,000 but does not exceeds 1,000,000	10% of amount exceeding 150,000	

Section	Nature of Payment	Filer	Non Filer
	Amount exceeds 1,000,000	85,000 + 15% of amount exceeding 1,000,000	
156	Prize Bonds Raffle, lottery Prize on winning a quiz, prize offered by companies for sale promotion, cross world puzzled.	15% 20%	
156A	Petroleum products	12%	
233	Brokerage or Commission - advertising agents - Others	 10% 12%	 15% 15%
233A	On Sale and purchase of shares	0.01%	
234	Goods transport vehicles with various registered laden weight Passenger transport vehicles plying for hire (Per Person) with seating Capacity 4 to 9 10 to 19 20 or above Private motor cars with engine Capacity Upto 1000 1001 to 1199 1201 to 1299 1300 to 1499 1500 to 1599 1600 to 1999 2000 or above	Rs. 2.5/KG 50/Seat 100/Seat 300/Seat 800 1,500 1,750 2,500 3,750 4,500 10,000	Rs. 4/KG 100/Seat 200/Seat 500/Seat 1,200 4,000 5,000 7,500 12,000 15,000 30,000
231A	Cash withdrawal from Bank	0.3%	0.6%

3. SALES TAX

1. ACTIVE TAXPAYER — SECTION 2 (1)

Concept of active tax payer has been introduced; FBR will make rules related to restrictions and limitations which will be imposed on active and non- active taxpayers

All the persons registered under Sales Tax will be considered as active tax payers except the following:

a) Who is blacklisted or whose registration is suspended or is blocked in terms of section 21;
b) Who fails to file the return by the due date for two consecutive tax periods;
c) Who fails to file an Income Tax return under section114 or statement under section 115,), by the due date;
d) Who fails to file two consecutive monthly or an annual withholding tax statement under section 165.

2. COTTAGE INDUSTRY — SECTION 2 (5AB)

In the definition of "Cottage Industry" the amount of utility bills has been increased from **Rs. 700,000 to Rs. 800,000**

"cottage industry" means a manufacturer whose annual turnover from taxable supplies made in any tax period during the last twelve months ending any tax period does not exceed five million rupees or whose annual utility (electricity, gas and telephone) bills during the last twelve months ending any tax period do not exceed [**eight**] hundred thousand rupees.

3. RETAILER — SECTION 2 (28)

As per the amendments, it is proposed that now if a person wants to be registered as retailer then his total turnover per annum shall not be taken into account for the purposes of registration under section 14.

4. FURTHER TAX — SECTION 3

The rate of further tax has been increased from 1% to 2%, which means that supply of taxable goods to non-registered person will now be taxed at 19%. (i.e. 17% sales tax rate and 2% further tax)

5. TAX CREDIT NOT ALLOWED — SECTION 8 (1h)

The following amendments have been made with respect to admissibility of input tax.
Input tax is proposed to be claimed in the following cases

a. Input tax paid in respect **of pre-fabricated buildings**, previously it was not allowed

b. Services in respect of which input tax adjustment is barred under the respective provincial sales tax law;
c. Import or purchase of agricultural machinery or equipment subject to sales tax at the rate of 7% under Eighth Schedule to this Act; and
d. From the date to be notified by the Board, such goods and services which, at the time of filing of return by the buyer, have not been declared by the supplier in his return.

6. **JOINT AND SEVERAL LIABILITY SECTION 8A**

Where any taxable supply is received by a registered person and tax paid related to such goods is unpaid the buyer and seller will jointly and severely liable, now it is proposed that the burden of proof will lie with the department.

7. **Prize schemes to promote tax culture SECTION 56C**

Prize scheme is proposed to be introduced by FBR to encourage the general public to make purchases only from registered persons issuing tax invoices such provision already exists in many other jurisdictions.

4. CUSTOMS DUTY

1. Transshipment of Goods

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

2. Offences and Penalties

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

3. Withdrawal of Exemption and Concessions

Last year, the Government announced a policy to withdraw concessionary SROs in three phases (years). For that purpose, Fifth Schedule to the Customs Act, 1969 was introduced through Finance Act, 2014, and SROs 575(I)/2006 and 567(I)/2006 were consolidated therein with certain changes. The framework for review of SROs, as announced, is based on following:
1) Minimally utilized concessions are being withdrawn;
2) Socially sensitive concessions are retained; and
3) Remaining concessions are either withdrawn or continued at enhanced rates.

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

Sr No	Detail of Items	Existing Concessionary Rates now withdrawn
1	Business Processes Outsourcing / Call Center Entities	15%
2	Relocated Industries	10%
3	Proprietary Formwork system for building / structures of 100 ft and above	10%
4	Petroleum oils and oils obtained from bituminous minerals, crude, motor sprit, furnace oil	0%
5	Soya bean meal, Concentrated Coccidiostats and Certain Medicaments	5%
6	Hi-speed diesel	7.5%
7	Certain poly items	4% / 8.5%
8	Certain textile products (of / or relating to yarn	9% / 7%

4. Reduction in Custom Duty Rate

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

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

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

Sector	Concession
Agricultural	Reduction in customs duty on import of agricultural machinery from 5 – 20% to 2%.
Construction	Reduction in customs duty to 10%, on import of construction machinery in used condition, by the construction companies registered with Pakistan Engineering Council and SECP.
Aviation	Customs duty on various items used in aviation sector reduced to 0%, subject to certain conditions.

5. Increase in Custom Duty Rate

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

1. Goods subject to duty at the rate of 1% under the First Schedule will now be subject to duty at the rate of 2%.
2. Duty on following goods has been increased by virtue of amendment in First Schedule:

PCT Code	Old Rate	New Rate
2701.1200	1%	5%
2701.1900	1%	5%
2710.1941	1%	5%
3206.4990	10%	15%
3903.1990	5%	10%
3903.9000	5%	10%
8482.1000	5%	10%
8517.6990	10%	15%

3. Following new entries have been introduced in the First Schedule, subject to duty at more than 20%:

PCT Code	Rate
4016.9950	35%
7318.2220	35%
7320.1030	35%
8302.3020	35%
8483.1013	35%

4. Concessionary rate under the Fifth Schedule is increased for the following:

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

6. Other Changes/ Announcements

I. Under the Fifth Schedule, import of plant, machinery and equipment for setting-up industries in FATA was subject to customs duty at 10%. The said concession is now restricted to imports made during July 1, 2014 till June 30, 2019.

II. Following general conditions prescribed in Part I of the Fifth Schedule are now not applicable:

a) Valid contracts or letter of credit for import of machinery and equipment for setting up of a new industrial unit; and

b) The total C&F value of such imports should have been US $ 50 million or above.

5. FEDERAL EXCISE DUTY

1. Aerated Water

Rate of FED is proposed to be increased from 9% to 12% on aerated water.

2. Locally produced Cigarettes

Following changes haves been incorporated through Finance Bill 2015 in rate of FED on locally produced Cigarettes

S No.	Item Detail	FED under finance Act 2014	FED under finance Act 2015
1	Locally produced cigarettes if their on-pack printed retail price exceeds rupees three thousand three hundred and fifty per thousand cigarettes	Rupees Two thousand Six Hundred and thirty Two per thousand cigarettes	Rupees three thousand and thirty per thousand cigarettes
2	Locally produced cigarettes if their on pack printed retail price does not exceed rupees three thousand three hundred and fifty per thousand cigarettes	Rupees one thousand and Eighty Five per thousand cigarettes	Rupees one thousand three hundred and twenty per thousand cigarettes

3. Filter Rods for Cigarettes

FED will be charged on filter rods at the rate of Rs 0.75 per filter rod.

4. Travel by Air on Socio Economic Routes

FED is proposed to be exempt on travel by air on socio economic routes currently it was charged Rs. 500 per passenger.

5. **Socio economic routes** are proposed to be redefined as the shortest part of journeys starting from or ending at an airport located in Makran coastal region, FATA, Azad Jammu and Kashmir, Gilgit-Baltistan or Chitral.