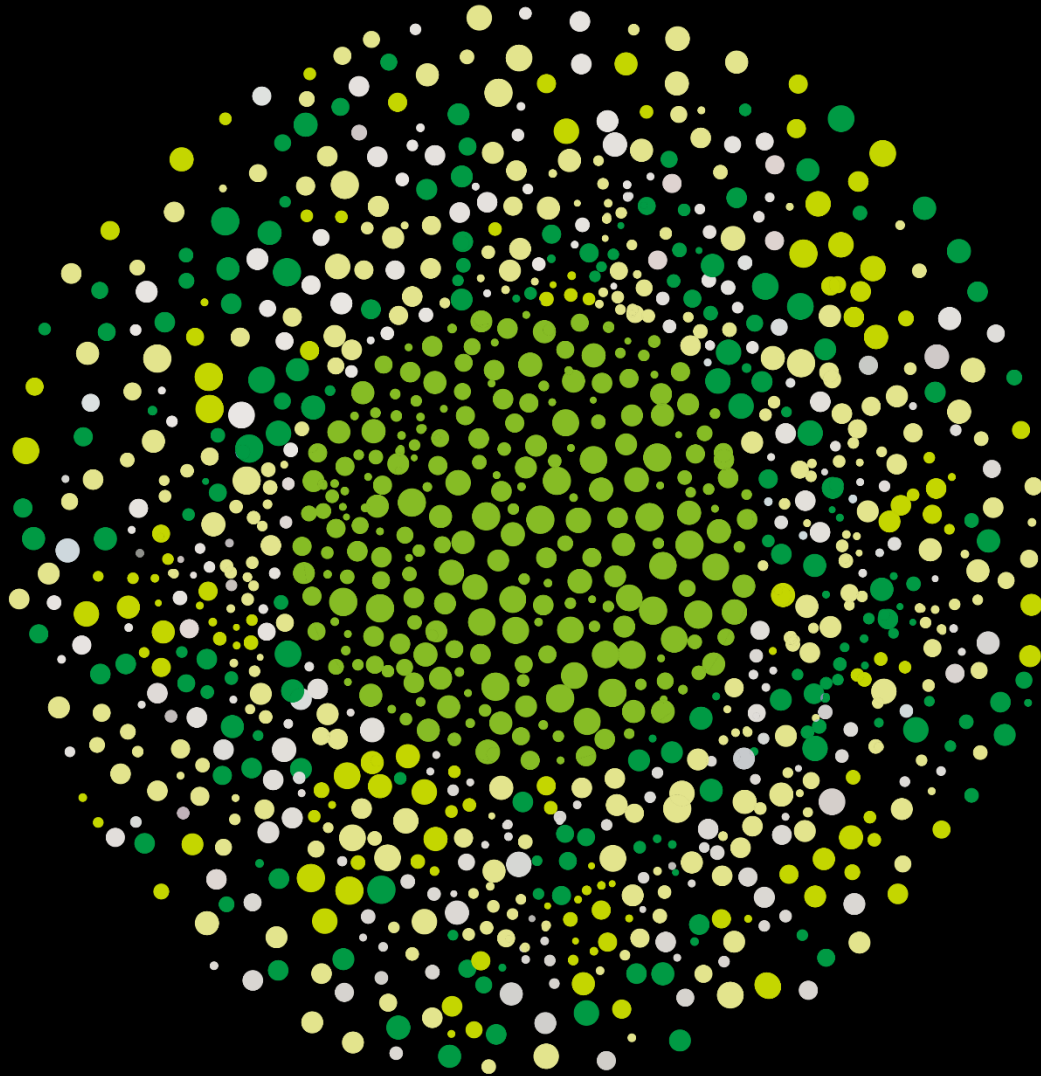


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## **Budget 2017-18**

Highlights

# Highlights of Important Fiscal Proposals

## Income tax

- Corporate tax rate for companies other than banking companies is further reduced from 31% to 30%, for Tax Year 2018 and onwards.
- Withholding tax rate for mobile phone subscribers under section 236 to be reduced from 14% to 12.5%.
- Concept of "start-up" is being introduced to promote Information technology industry. Definition of "start-up" is also introduced. Tax exemption is proposed in respect of profits earned by start-up for a period of 3 years. Moreover, exemption from levy of minimum tax under section 113 as well as withholding tax under section 153 (as recipient) is also proposed.
- Asaan Mobile Account Scheme is to be introduced for providing withholding tax exemption on cash withdrawal of amount exceeding Rs.50,000 per day under section 231A, made through "Branchless Banking Agent Account".
- The quantitative limit for import of raw material by an industrial undertaking for its own use, without collection of tax at import stage on the basis of exemption certificate, is enhanced from 110% to 125% of the quantity imported and consumed in previous tax year.
- Threshold under section 147 of latest assessed taxable income for payment of advance tax by an individual is enhanced from Rs. 500,000 to Rs.1,000,000.
- Limit of taxable income for individuals for entitlement to deductible allowance in respect of tuition fee paid by them under section 64AB (now 60D) is increased from Rs.1,000,000 to Rs. 1,500,000.
- Threshold for collection of advance tax by insurance companies on premium paid by non-filers in respect of life insurance under section 236U is being enhanced from Rs. 200,000 to Rs. 300,000 per annum.
- Limit for tax credit in respect of payment of health insurance premium or contribution paid by a resident person (filer) other than a company deriving income from salary or business, is enhanced from Rs.100,000 to 150,000.
- Income tax rates for collection of advance tax by registering authority on registration of motor vehicles under section 231B are reduced, whilst rates for non-filers are to remain the same.
- Threshold for treating interest free or concessional loan by an employer to an employee as salary / perquisite under section 13(7) is enhanced from Rs. 500,000 to Rs. 1,000,000.
- Tax credit for the year of enlistment is extended to three years subsequent to the year of enlistment. However the tax credit for last two years is proposed to be restricted to 10% as against 20% for the first two years.
- Minimum tax on services rendered by Pakistan Stock Exchange Limited under section 153(1)(b) is reduced from 8% to 2%.
- Limit of allowable expenditure in respect of sales promotion, advertisement and publicity by a pharmaceutical company under section 21(o) is being enhanced from 5% of turnover to 10% of turnover.

- Depreciation claim is allowed under section 22 on assets jointly owned by a taxpayer and an Islamic financial institution, pursuant to an arrangement of Musharika financing. Thus effectively as consequence of proposed amendment, financing availed by the customer of Islamic financial institution under a Musharika Financing or diminishing Musharika financing shall now be treated at par with the financing obtained from conventional financial institution for the purpose of computation of income tax liability.
- Fixed tax of Rs. 5,000 per haji for Hajj group operators introduced through the Finance Act, 2016 is extended for Tax Year 2017 as well.
- Income tax exemption is proposed in respect of income generated by all political parties which are registered with the Election Commission of Pakistan under the Political Parties Order, 2002.
- Income of following non-profit/charitable organizations is exempted:
  1. Gulab Devi Chest Hospital
  2. Pakistan Poverty Alleviation Fund
  3. National Academy of Performing Arts
  4. Asian Infrastructure Investment Bank.
- The condition of distribution of dividend of 50% of paid up capital for availing benefit of tax exemption on undistributed reserves is abolished.
- Concept of provisional assessment under section 122C in case a person fails to furnish return of income for any tax year after receiving notice under section 114(4) is abolished.
- A new provision is proposed to be introduced under section 165, to enable taxpayers to revise their

withholding tax statements within 60 days of filing of the same.

- Chief Commissioner is empowered to grant extension in filing of income tax or wealth tax statements, if the same is rejected by the Commissioner.
- Rates of withholding tax on sale / supply of fast moving consumer goods are reduced from 3% and 3.5% to 2% and 2.5% for companies and non-companies, respectively.
- Tax rate on dividend income is increased from 12.5% to 15%.
- Tax rate on dividend received from mutual funds is increased from 10% to 12.5%. No change in tax rate is being made in respect of dividend declared or distributed by purchaser of power projects privatized by WAPDA, shares of a company set up for power generation and the company supplying coal to power generation projects.
- The Bill proposes to substitute tax rates in respect of profit on debt received by an individual or an association of persons as given below:

Existing		Proposed	
Existing slabs	Existing tax rate	Proposed slabs	Proposed tax rates
Upto Rs. 25 million	10%	Upto Rs. 5 million	10%
More than Rs. 25 million and upto Rs. 50 million	Rs. 2,500,000 + 12.5% of the amount exceeding Rs. 25 million	More than Rs. 5 million and upto Rs. 25 million	12.5%
Exceeding Rs. 50 million	Rs. 5,625,000 + 15% of the amount exceeding Rs. 50 million	Exceeding Rs. 25 million	15%

- Applicable tax rates, based on holding period, on capital gains arising on disposal of securities are proposed to be simplified and flat rates of tax of 15% and 20% are being introduced for filers and non-filers, respectively. No change is proposed in case of future commodity contracts entered into by members of Pakistan Mercantile Exchange.
- Tax credit, as given in section 65A of 3% of tax payable as is available to manufacturers who make 90% of the sales to sales tax registered persons is withdrawn.
- Rate of minimum tax as envisaged under the provisions of section 113 is proposed to be enhanced from 1% to 1.25% of turnover.
- Applicable fixed tax regime for Builders and Land Developers on the basis of unit area is replaced with normal tax regime.
- Tax collected at import stage on import of fertilizer by manufacturer of fertilizer is brought into final tax regime.
- Super tax is proposed to be extended to Tax Year 2017.
- Applicable advance tax of 0.02% on purchase and sale of shares by stock exchange broker is brought into final tax regime.
- Pakistan Tobacco Board is being entrusted with collection of withholding tax on purchase of tobacco by manufacturers of cigarettes at the rate of 5% of the purchase value of tobacco, at the time of collecting cess.
- Advance tax for the sale of electronics is enhanced and also higher tax withholding rate for non-filers is introduced, as per below:

Category of sale	Existing Rate	Revised Rate	
		Filer	Non-filer
Electronics	0.5%	1%	1%
Others	0.5%	0.5%	1%

- Scope of withholding tax on sale of electronic goods, cigarettes etc. to dealers, distributors and wholesalers by manufacturers or commercial importers is extended to batteries.
- In case of non-filer rate of collection of tax under section 236A of the Ordinance on gross sale price of any property or goods sold by auction is increased to 15% from existing 10% rate.
- **Payment to non-residents:**

Withholding tax rate enhanced for following payments to non-filer non-residents under section 152:

Description	Non-filer	
	Existing Rate	Proposed Rate
Payment for execution of contracts as given in section 152(1A) of the Ordinance	12%	13%
<b>Sale of goods as given in section 152(2A) of the Ordinance:</b>		
- In case of company	6%	7%
- Other than a company	6.5%	7.75%
<b>Rendering of services other than transport services:</b>		
- In case of company	12%	14%
- Other than a company	15%	17.5%
Execution of contract other than sportspersons	12%	13%

- Commissioner is now empowered to issue exemption or reduced rate certificates to non-resident persons having Permanent Establishment in Pakistan, in case where the payment is being made for execution of following contracts:
  - A contract or sub contract under construction, assembly or installation project.
  - Any other contract for the construction services or services rendered relating thereto.
  - A contract for advertisement services rendered by TV Satellite Channels.

Provided the non-resident has not opted for final tax regime.

- Withholding tax rates as given in section 153 of the Ordinance on payments to non-filers are increased as under:

Nature of payment	Rates for non-filers	
	Existing	Proposed
<b>Sales of goods:</b>		
- In case of a company	6%	7%
- Other than a company	6.5%	7.75%
<b>Rendering of services other than transport services, advertising services by print and electronic media:</b>		
- In case of a company	12%	14.5%
- Other than a company	15%	17.5%

Nature of payment	Rates for non-filers	
	Existing	Proposed
<b>Execution of contract other than contract signed by a sportsperson:</b>		
- In case of a company	10%	12%
- Other than a company	10%	12.5%

- Increase in rates of tax for non-filers under various sections:

Nature of payment	Rates for non-filers	
	Existing	Proposed
<b>Income from property:</b> Withholding tax rate under section 155 of the Ordinance on income from property in case of non-filer company.	15%	17.5%
<b>Prizes and winnings:</b> The rate of tax to be deducted under section 156 of the Ordinance on a prize on prize bond or cross-word puzzle from non-filers.	20%	25%

Nature of payment	Rates for non-filers	
	Existing	Proposed
<b>Payment to petrol pump operators:</b> The rate of tax collection under section 156A of the Ordinance from the amount of discount or commission allowed / given to the non-filer petrol pump operators.	15%	17.5%
<b>Advance tax on gas sales of CNG stations:</b> Tax collection rate from non-filer CNG stations under section 234A of the Ordinance.	4%	6%

## Sales tax

- Zero-rated supplies would be charged with further tax of 2% on supplies to persons other than the registered persons.
- Payment of sales tax by Tier-1 retailers which is presently provided in the special procedures, is proposed to be part of the Act.
- Sales tax is also chargeable on imports destined for non-tariff areas.
- The Bill proposes to impose penalties on persons manufacturing, transporting and distributing non-duty paid/counterfeit cigarettes including confiscation of vehicles and seizure of the premises.
- Automatic stay against recovery of sales tax demand will be available till decision by the Commissioner Inland Revenue (Appeals) on payment of 25% of the sales tax demand.
- Notices sent to the companies through electronic medium are proposed to be treated as proper service along with other prescribed modes.
- According to Salient Features issued along with the Budget documents, extra tax on lubricating oil is exempted enabling the industrial consumers to claim input tax adjustment thereon. As per Salient Features, requirement of withholding tax is being withdrawn on supplies from registered persons to other registered persons with the exception of advertisement services.
- Sales tax on import of six types of poultry machinery is proposed to be reduced to 7%.
- Combined harvesters up to five years old are proposed to be exempt from Sales tax.

- Agricultural diesel engines (from 3 to 36 HP) are proposed to be exempt from Sales Tax.
- Sales tax on import of sunflower and canola hybrid seeds meant for sowing is proposed to be exempted from sales tax
- As per Salient Features, subsidy on fertilizer is proposed to be substituted with specific reduced rates. Sales tax on urea fertilizer shall remain unchanged at 5% ad valorem.
- Exemption from sales tax is proposed on import of multimedia projectors by educational institutions.
- Sales tax on gifts and donations received from foreign governments and organizations to the Federal and Provincial Governments and public sector organizations is proposed to be exempted.
- Existing reduction in sales tax at 25% on import of hybrid electric vehicles will now be available to vehicles having engine capacity from 1801cc to 2500cc, no reduction in sales tax is applicable to vehicles over 2500cc capacity. The proposed revised reduction of sales tax at 50% to hybrid vehicles having engine capacity upto 1800cc and 25% reduction to hybrid vehicle ranging from 1801cc to 2500cc will also be available on local supply besides imports.
- Premises to fight growth stunting are proposed to be exempt from sales tax.
- The Bill proposes to exempt sales tax on vehicles for construction and development of Gwadar Port and Gwadar Free Zone. Scope of exemption already provided to materials and equipment is being clarified by extending the exemption to plant, machinery, equipment, appliances and accessories.
- Exemption from sales tax is proposed to be aligned with exemption under s Act, 1969 on items for renewable sources of energy. Similarly, exemption from sales tax to items for conservation of energy is proposed to be provided.
- Exemption on parts and components for manufacturing LED lights is to be aligned on the pattern of exemption available under the s Act, 1969.
- Sales tax rates of Rs.300 and Rs.1,000 chargeable on mobile phones, depending upon category of mobile phone set, are proposed to be merged at Rs.650 per set.
- Rate of sales tax for steel sector is proposed to be increased from Rs.9 to Rs.10.5 per unit of electricity and corresponding increase shall be made in ship breaking and other allied industry.
- Sales tax rate on retail sales of five export oriented sectors is proposed to be increased from 5% to 6%.
- Sales tax is proposed to be levied on commercial import of fabrics at 6% thus excluding it from category of zero-rated supplies under SRO 1125(I)/2011.
- Minimum Sales tax at Rs.425 per metric ton is proposed to be levied on locally produced coal.
- As per the salient features issued, exemption from sales tax is proposed on export of IT services under the Islamabad Capital Territory (Tax on Services) Ordinance, 2001. Similarly, it is mentioned that certain services will have similar reduced tax rate and chargeability on turnover without allowing adjustment of input

tax, as is applied on identical services under the provincial sales tax laws.

## Federal excise duty

- The Bill proposes to allow stay on balance FED recovery till the decision by the Commissioner Appeals, if 25% of demand of duty is paid.
- Notice sent to companies through electronic medium via email or placing it on e-folder would be treated as proper service of notice.
- FED on telecommunication services in the Federal Capital Territory is proposed to be reduced from 18.5% to 17%.
- Duty on cement is proposed to be increased from Rs.1 per kg to Rs.1.25 kg.
- Previously FED was charged on cigarettes on the basis of specific rates in two tiers. Now the Bill has proposed to introduce the new tier to control the declining revenue and control of threat of illegal low priced cigarettes of inferior quality.
- Stringent penalties are proposed to be imposed on manufacturer of counterfeit cigarettes, including the manufacture or production of counterfeited tax stamps, banderoles, stickers, labels or barcodes, or is engaged in the manufacturing or production of cigarettes packs without affixing, or affixing counterfeited, tax stamps, banderoles, stickers, labels or barcodes
- Plant, machinery, equipment, appliances and accessories is proposed to be included in scope of material and equipment on which exemption is granted, if imported by or supplied to China Overseas Ports Holding Company Limited (COPHCL) and its operating companies for construction and operation of Gwadar Port and development of Free Zone for Gwadar Port.

- Exemption from sales tax and Federal Excise Duty is proposed on vehicles imported by China Overseas Ports Holding Company Limited and its operating companies for a period of 23 years for construction, development and operations of Gwadar Port and Free Zone Area subject to certain limitations and conditions.

## Customs duty

- The Bill also proposes to levy/ increase of Regulatory Duty on 565 non-essential items by various rates ranging from 5% to 15%.
- The Bill proposes a reduction of customs duty from 11% to 3% and removal of regulatory duty of 5% on grandparent and parent stock of chicken.
- Reduction from 11% to 3% has been proposed in duty on import of hatching eggs.
- Reduction from 10% to 5% has been proposed in Regulatory Duty chargeable on aluminum waste or scrap.
- Reduction is proposed on regulatory duty from 10% to 5% on aluminum waste or aluminum scrap.
- The Bill proposes to provide exemption from Customs Duty of 3% on raw skins and hides.
- The Bill proposes relief from Customs Duty of 16% on stamping foils.
- A reduction from 16% to 11% has been proposed in Customs Duty chargeable on sheets of veneering rom.
- A reduction from 20% to 3% has been proposed in Customs Duty chargeable on pre-fabricated modular clean rooms panels.



- The Bill proposes to provide for relief from Customs Duty of 3% on import of ostriches.
  - A reduction from 16% to 5% has been proposed in Customs Duty chargeable on fabric (nonwoven) for pharmaceutical industry.
  - The Bill proposes to levy Regulatory Duty of 5% on import of synthetic filament yarn of polyester.
  - The Bill proposes increase in Customs Duty on aluminum beverage cans from 11% to 20%.
  - Reduction of Customs Duty from 20% to 11% on uncoated polyester film and aluminum wire for the manufacturers of metalized yarn.
  - A reduction is proposed in Customs Duty from 20% to 16% and from 16% to 11% on raw materials for manufacturers of baby diapers.
  - Customs Duty on Bituminous coal with other coal to equalize at the rate of 5%. Imports by power projects in IPPs Mode to pay Customs Duty at 3% on Bituminous coal and other coal.
  - Separate PCT codes are created for compressors of vehicles at 35% Customs Duty and for electric cigarettes at 20% Customs Duty.
  - Regulatory Duty of 10% on animal protein meals is proposed to be levied.
  - The Bill proposes to charge Regulatory Duty at the rate of Rs. 250 per set on mobile phones instead of charging Customs Duty at same rate.
  - Customs Duty at the rate of 11% and 16% on the telecom equipment to be exempted in place of levy Regulatory Duty at the uniform rate of 9%.
  - Regulatory Duty on betel nuts is proposed to be increased from 10% to 25% whereas betel leaves to bear levy of Regulatory Duty at the rate of Rs.200 per Kg.
- Hybrid Electric Vehicles having engine capacity of over 2500cc will not be allowed any exemption from Customs Duty.
- The Bill proposes to adopt HS version 2017 in Customs law to revamp coding in Pakistan Customs Tariff, Fifth Schedule to the s Act and SROs /Notifications.
- The Bill proposes to allow exemption from Customs Duty on import of combined harvester-threshers up to 5 years old. Further Bill also propose to levy Regulatory Duty at the rate of 10% and 20% on combined harvester-threshers five to ten years and more than ten years respectively.
  - Additional duty is proposed on cylinder head for motorcycles.
  - The Bill also proposes to extend the relief of concessionary rate of 11% on Set top boxes, TV broadcast transmitter and Reception apparatus etc. till June 30, 2018.
  - The Bill proposes the extension of concession on 11 more components of trailers.
  - The Bill proposes to expand the scope of exemption on import/ donation by allowing imports and donation of Federal, Provincial, AJ&K, Gilgit-Baltistan Governments, NDMA, PDMA and Govt. emergency/rescue services.
  - The Bill proposes to extend the relief available on import of solar panel and related components with the condition of 'local manufacturing', till June 30, 2018.
  - The Bill proposes to exempt surcharge in excess of 0.25% for cargo in-bonded at Karachi for upcountry Bonds.

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