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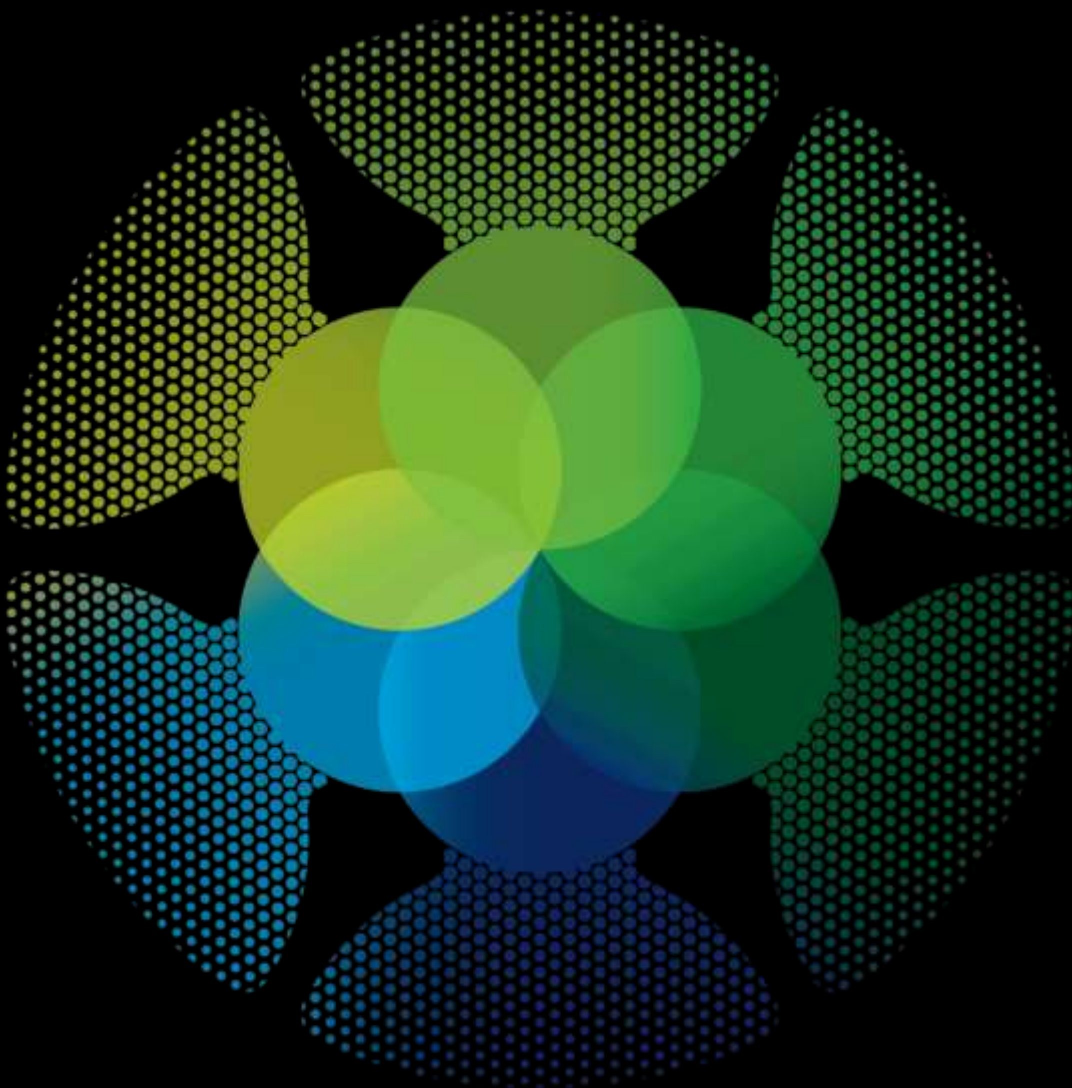

Budget 2018-19

Highlights

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Tax

Highlights of Important Fiscal Proposals

Income tax

1. Corporate tax rate for companies is gradually reduced to 25% till tax year 2023 as tabulated below:

Tax year	Rate
2019	29%
2020	28%
2021	27%
2022	26%
2023 and onwards	25%

2. Individual tax rate slabs have been revised in line with tax reforms package. Maximum rate of tax for individuals (both salaried and non-salaried) is reduced to 15%.

3. The limit of investment in shares, Sukuks our life insurance premium has been enhanced from Rs.1.5 million to Rs.2 million for claiming tax credit under section 62.

4. For association of persons the maximum tax rate of 35% for the highest slab is reduced to 30%.

5. Super tax to be abolished in phased manner. It is to be reduced by 1 percent every year.

6. Decision of ADRC shall be binding on both FBR and the tax payer subject to withdrawal of appeals by the tax payer as well as the FBR. Retired High Court judges and tax professionals to be included in the ADRC.

7. Withholding tax at 5% on issuance of bonus shares is abolished.

8. Tax on undistributed profits is reduced from 7.5 % to 5%. The said rate is applicable where every public company, other than scheduled bank or a modaraba, that drives profit for at tax year does not distribute atleast 40% of its after tax profits within six months of the end of the tax year through cash or bonus shares. The condition of distributing 40% of after tax profits is reduced to 20%.

9. Commissioner to select a case for audit only once in 3 years, unless prior approval is obtained from the Board in exceptional circumstances.

10. Automatic selection for audit under section 214D for late filing of return has been abolished.

11. Late filer of income tax return not to be included in the Active Taxpayers' List for the year and shall not be allowed to carry forward any tax losses.

12. Time limitation to avail tax credits under sections 65B, 65D and 65E has been extended to the year ending on June 30, 2021.

13. Minimum threshold of tax deduction Rs. 10,000 on account of payment for services and Rs. 25,000 for goods is increased to Rs. 30,000 and Rs. 75,000 respectively.

14. The condition for getting stay of income tax demand by paying 25 % of the total tax demand during pendency of appeal before Commissioner (Appeals) is relaxed. Now stay can be obtained by paying 10% of the tax demand.

15. Facility of reduced rate of minimum tax at 0.5% for large trading houses is extended to the year ending on June 30, 2021.

16. Persons appearing on the Active Taxpayers List maintained by the AJK and Gilgit-Baltistan to be treated as filers under the Income Tax Ordinance, 2001 for Pakistan tax purposes.

17. Exemption approvals to be sought from Federal Government.

18. Tax collection rate for non-filers on non-cash transactions in excess of Rs.50,000 per day is reduced from 0.6% to 0.4%.

19. Tax rate on dividend paid by a rental REIT Scheme in the case of filer is reduced from 12.5% to 7.5%.

20. Profit on debt derived by non-profit organizations from micro-finance banks to qualify as income eligible for 100% tax credit under section 100C.

21. Tax collected by the Stock Exchange at 0.02% on the amount of commission earned by its members is to be treated as adjustable.

22. Set off of brought forward depreciation losses is now limited to the extent of 50% of the business income for a tax year where the taxable income is Rs.10 million or above.

23. Banks issuing credit / debit cards to collect 1% advance tax from filers and 3% advance tax from non-filers in respect of credit / debit card transactions resulting in outward flow of remittances from Pakistan.

24. Commercial importers to compute taxable income as tax collected at import stage from commercial importers is now treated as minimum tax.

25. Tax deductible on services rendered by a permanent establishment of a non-resident person to be treated as minimum tax to bring it at par with a similar payment made to a resident person.

26. Non-filer is not permitted to purchase new motor vehicle manufactured in Pakistan or an imported vehicle. Non filer is not permitted to purchase immovable property.

27. Service of notice through electronic means to be considered as valid.

28. A company, being member of an association of persons, is now able to claim credit of tax deducted in the name of association of persons in the same proportion as the share of the company in the profits of such association of persons.

29. Tax rate on import of coal by manufacturers and commercial importers is reduced to 4% for filers and 6% for non-filers.

30. In order to encourage non-profit/charitable institutions, the bill proposes to include the following organizations within the scope of exemptions:

    a. SAARC Energy Centre.
    b. Pakistan Bar Council.
    c. Pakistan Centre for Philanthropy.
    d. Pakistan Mortgage Refinance Company Limited.
    e. Aziz Tabba Foundation.
    f. Al-Shifa Trust Eye Hospital.
    g. Saylani Welfare International Trust.
    h. Shaukat Khanum Memorial Trust.
    i. Layton Rahmatullah Benevolent Trust (LRBT).
    j. The Kidney Centre Post Graduate Training Institute.
    k. Pakistan Disabled Foundation.
    l. Forman Christian College.

31. Donation to following non-profit/charitable institutions is an

admissible deduction in the hands of donor:

a. Pakistan Sweet Home, Angels and Fairies Place.
b. Al-Shifa Trust Eye Hospital.
c. Aziz Tabba Foundation.
d. Sindh Institute of Urology and Transplantation,
e. SIUT Trust and Society for the Welfare of SIUT.
f. Sharif Trust.
g. The Kidney Centre Post Graduate Institute.
h. Pakistan Disabled Foundation.”

32. Salient Features, provides for the following reforms to be introduced in real estate sector later:

a) Property transactions shall be recorded at the value declared by the buyer and the seller.

b) Property rates notified by FBR (for the purpose of collection of taxes on sale purchase of property) and DC rates are to be abolished.

c) At the Federal level, a 1% adjustable advance tax from the purchaser on the declared value shall be collected and this tax shall replace the existing withholding tax on sellers and purchasers of property.

d) Non-filers shall not be permitted to purchase property having declared value exceeding Rs. 4 million.

e) Provinces shall be requested to abolish the provincial rates for the collection of stamp duty (commonly known as DC rates) and to collect a total of one percent tax under stamp duty and capital value tax on the value declared by the buyer and the seller of property.

f) In order to deter under-declaration and consequent loss of revenue, FBR shall have the right to purchase any property within six months of registration by paying a certain amount over and above the declared value which may be 100 % in the fiscal year 2018-19, 75 % in the fiscal year 2019-20 and 50 % in the fiscal year 2020-21 and thereafter.

33. A number of new concepts have been introduced in the Income Tax Ordinance, 2001 in line with the international best practices to implement the Base Erosion Profit Shifting (BEPS) Action Points.

35. Profits and gains derived by a refinery set up between the 1st day of July, 2018 and the 30th day of June, 2023 having minimum production capacity of 100,000 barrels per day for a period of twenty years beginning in the month in which the refinery is set up or commercial production is commenced, whichever is later.

Exemptions shall also be available to existing refineries, subject to following conditions:

(i) existing production capacity is enhanced by at least 100,000 barrels per day;

(ii) separate accounts are maintained for income arising from aforesaid additional production capacity; and

(iii) the refinery is a deep conversion refinery.

36. Offshore digital services received from a non-resident person are taxed at 5%

Sales tax

- Rate of further tax on supplies to unregistered persons to increase from 2% to 3%.
- Like income tax law, specific provisions are introduced for passing appeal effect order in the light of appeal decisions given by appeal forums and superior courts. Such order is to be issued within one year of the end of the financial year in which the respective appellate order is served upon.
- Audit of the records maintained by a registered person under the Act can be conducted only once in every 3 years.
- Applicable rate of default surcharge is changed from KIBOR+3% to fixed rate of 12%.
- Powers of the Chief Commissioner to post an inland revenue officer to monitor production, sales and stock of a registered person, are withdrawn and to be vested only with the Board.
- Mechanism of resolution of disputes through Alternative Dispute Resolution Committee (ADRC) is substantially changed. The revamped law requires withdrawal of appeal pending before any appellate authority for enabling ADRC to proceed. Moreover, decision of the ADRC will be binding upon the Board and the aggrieved person.
- Amount of tax to be paid for availing automatic stay against recovery of sales tax demand till decision by the Commissioner Inland Revenue (Appeals) is reduced to 10% from 25% of the sales tax demand.
- Certain exempted stationary items are moved back to the Schedule of zero rating.
- Input tax on import of scrap of compressors is to be disallowed.
- Exemption is proposed on import of paper of specific weight for printing of Holy Quran, by Federal/Provincial Governments and registered Nashiran-e-Quran.
- Import and supply of promotional advertising material including technical literature, pamphlets etc. of no commercial value for the purpose of free of cost distribution by exhibitors, is proposed to be exempted.
- Import of LNG by fertilizer manufacturers for use as feed stock, is proposed to be exempted.
- Imports of plant, machinery and equipment including Dumpers and SPMVs by certain Chinese Construction entities for construction of Karachi- Peshawar Motorway and Karakoram Highway, is proposed to be exempted subject to certain conditions.
- Imports of equipment by China Railway Corporation for furnishing and installation in Lahore Orange Line Metro Train Project, is to be exempted, subject to certain conditions.
- Import of certain computer parts and accessories is proposed to be exempted if imported by certified registered manufacturers and assemblers of computers and laptops from Engineering Development Board.
- Import of plant and machinery (excluding items listed in Chapter 87 of the Pakistan Customs Tariff) for setting up Special Economic Zone

(SEZ), is proposed to be exempted on one time basis subject to the conditions and limitations as may be specified by the Board.

- Nonadjustable/nonrefundable sales tax at the rate of 5% is proposed on import of capital goods used for transmission line projects.
- Reduced rate of 7% on certain agricultural items/equipment is proposed to be further reduced to 5%.
- Sales tax rate on supply of all fertilizers has been proposed to be reduced to 3% and rate on supply of natural gas to fertilizer plants is to be reduced from 10% to 5%.
- Reduced rate of 12% is proposed on import of LNG by PSO and Pakistan LNG Limited and on supply of RLNG by these companies to SNGPL.
- Reduced rate of 12% is proposed on import of Lithium Iron Phosphate batteries.
- Sales tax on supply of fans to dairy Farms, preparations for animal feed etc. is proposed to be exempted. Also, fish feed which is currently taxable at reduced rate of 10% is to be exempted.
- Import of machinery, equipment, raw material etc. by Karachi Shipyard Engineering Works Limited is to be exempted.
- The reduced rate of 5% is proposed on imports of cinematographic equipment for a period of 5 years subject to fulfillment of the conditions specified in Part I of Fifth Schedule to the Customs Act, 1969.
- Reduced rate of 6% is to be provided on import of artificial leather in the similar way as has already been provided in case of leather articles.
- As per Salient Features of the Budget Documents, import of second hand worn clothing and footwear is to be excluded from applicability of 3% Value Addition Tax (VAT) on commercial imports.

Changes to be introduced through Notifications (as stated in Salient Features Document)

- 3% VAT on import of LNG is proposed to be abolished.
- The rate of further tax on local supply finished fabric to unregistered persons, is to be reduced to 1%.
- Exemption from applicability of extra tax/further tax @ 2% is proposed for manufacturers of foam in Pakistan.
- Sales tax exemption on imports of hearing aids of all types has been proposed to be granted.
- The current applicable sales tax rate of 20% on import and supplies of furnace oil is to be reduced to normal rate of 17%, through rescission of SRO.962(1)/2015.
- Input tax adjustment on packing materials to five zero rated sectors, to be restored.
- Sales tax rate on import and supply of finished articles of leather and textile is to be increased from 6% to 9%, except in case of branded outlets integrated through electronic fiscal devices with FBR online system for which the applicable rate shall remain 6%.
- Fixed rate of sales tax for steel sector on the basis of units of electricity consumed has been proposed to be increased from Rs.10.5/unit to Rs.13/unit.

Federal excise duty

- Existing duty rates on locally produced cigarettes is proposed to be increased.

- Rate of default surcharge is proposed to change from KIBOR+3% to fixed rate of 12%.

- In line with the sales tax law, specific provisions are introduced for passing appeal effect order based on appeal decision. Such order is to be issued within one year of the end of the financial year in which the respective appellate order is served.

- The amount of duty to be paid for availing automatic stay against recovery of duty demanded till decision by the Commissioner Inland Revenue (Appeals), is reduced to 10% from 25% of the duty demanded.

- Similar to proposed amendment in sales tax law, disputes through Alternative Dispute Resolution Committee (ADRC) is substantially changed in Federal Excise law as well. The revamped law requires withdrawal of appeal pending before any appellate authority for enabling ADRC to proceed. Moreover, decision of the ADRC will be binding upon the Board and the aggrieved person.

- Audit of the records maintained by a registered person under the Act can be conducted only once in every 3 years.

- The Bill proposes exemption from FED on commission paid by State Bank of Pakistan and its subsidiaries to Banking Companies for handling banking services of Federal and Provincial Governments.

- Health Levy on tobacco has been proposed @ Rs.10/kg which shall be collected by Pakistan Tobacco Board from purchasers including manufacturers of tobacco.

- Mobile Handset levy on handsets with import value ranging from Rs.10,000 to Rs.80,000 or more, has been proposed in slabs ranging from Rs.1,000 to Rs.5,000 respectively.

Changes to be introduced through Notifications (as stated in Salient Features Document)

- FED on cement to be increased from Rs.1.25/kg to Rs.1.50/kg.

Islamabad capital territory (ICT)

- As per the salient features issued, the scope of ICT law is proposed to be enhanced by including certain services not already covered within its scope.

Customs duty

(Highlights are compiled based on Customs' Salient Feature document)

- Additional Customs Duty to increase from 1% to 2%.

- Customs Duty is withdrawn on 104 items and reduced on 28 items useable as raw materials / inputs for enhancing exports.

- Customs Duty on import of bovine semen is exempted in order to support dairy farming. Further, duty is reduced from 10% to 5% on preparations for making animal feed. Import of fans for corporate dairy farmers is also proposed to be allowed at concessionary rate of 3%.

- A reduced rate of 5% is proposed for Customs Duty on input materials from their existing higher rates applicable on Optical fiber, Cable filing compound, Polybutylene, Fiber reinforced plastic and Water blocking/ swellable tape. Proposed reduction in duties is allowed to encourage local manufacturing of Optical Fiber Cables which will also be allowed a reduction in regulatory duty from 20% to 10%.

- For supporting cinema industry a reduced rate of 3% of Customs Duty will apply on import of specified equipment used in said industry.
- For poultry sector, reduction in Customs Duty rate at 5% is allowed from existing rate of 10% on import of growth promoters premix, vitamin premix, Vitamin B12 and Vitamin H2.
- A reduction in Customs Duty from 5% to 3% on import of coal and 30% to 10% on import of Fire fighting vehicles is proposed.
- Exemption is allowed on import of papers weighing 60 g/m2 for printing and preservation of Holy Quran by Federal or Provincial Governments or Nashir-e-Quran registered with the government.
- Exemption of 3% Customs Duty is proposed on tanned hides in wet state.
- The Bill proposes to exempt 3% of Custom Duty on Micro Feeder Equipment used for food fortification and 5% of Custom Duty on Tasigna, an anti-cancer medicines.
- Duty to reduce at 18% from existing 20% on Multi-ply and Aluminum foil for Liquid Food Packaging Industry.
- Reduced duty rate of 10% to apply in place of existing 20% rate on finished rooms (Pre-fabricated structures) for setting-up new hotels/motels for supporting tourism business
- Duty applicable at 11% on acrylic tow is proposed to be withdrawn.
- A reduction in Custom Duty from 20% to 16% is proposed on Acetic Acid, film of ethylene for Liquid Food Packaging Industry and Carbon Black (rubber grade).
- Relief measures also include reduction in duty rate to 25% as well as exemption of 15% regulatory duty, on Electric Vehicles besides reducing duty rates from 50% to 10% on kits of Electric Vehicles.
- The Bill proposes to exempt 16% of Custom Duty on charging stations for electric vehicles.
- A reduction in Customs Duty rate from 16% to 11% is proposed on plasters.
- A reduction in Custom Duty from 10% to 5% is proposed on silicon electrical steel sheets for manufacturing transformers.
- The Bill proposes to allow exemption of 5% Customs Duty on import of specified LED parts and components for manufacturer of LED lights. 2% Regulatory Duty will be levied on import of LED bulb & Tubes, Energy saving bulbs & Tube.
- The Bill proposes to withdraw Customs Duty on Hydrogen Bromide (11%) and Palladium-on-carbon (3%) used by PTA industry.
- The Bill proposes a reduction of Customs Duty from 16% to 8% on Coils of aluminum alloys used in manufacturing Aluminum beverages cans.
- The Bill proposes to levy fix duty/taxes of US$ 5,000 on import of vintage or classic cars and jeeps.

- Import of solar panels to enjoy duty exemption till June 30, 2019 even when not meeting requirement of 'local manufacturing'.

- Custom Duty is to be increased on double-sided tape from 3% to 11%, on rickshaw tyres from 11% to 20%, on aluminum auto parts scrap from 30% to 35% and on Di-octyl Terephthalate (DOTP) from 3% to 20%.

- Duty on Soya bean oil to increase respectively from Rs.9050/MT & Rs.10200/MT to Rs.12000/MT and Rs. 13,200/MT on account of tariff rationalization measure.

- The Bill proposes reduction in Custom Duty from 11% to 3% on corrective glasses and from 11% to 8% on Lithium iron phosphate battery (LiFePO4).

- Regulatory Duty is to be levied at the rate of 30% on export of waste & scrap of cooper.

- 5% Regulatory Duty is proposed on Medium Density Fiber. However, Custom Duty is reduced from 16% to 11% on the said item.

- Regulatory Duty at 10% is levied on CKD/SKD kits of specified home appliances.

- Regulatory Duty to be levied at the rate of Rs. 175 per set on CKD/SKD kits of mobile phone.

- It is proposed to review regulatory duty on non-essential and luxury items.

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