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# Fazal Mahmood & Company

## Chartered Accountants

### BUDGET HIGHLIGHTS

### 2017-2018

Presence in over 46 Countries

Website: [www.fmc.com.pk](http://www.fmc.com.pk) / [www.jhi.com](http://www.jhi.com)

Contact: +92-42-37426771-3 / 0300-8455383

Fax: +92-42-37426774

**Contents**

**Income Tax.....3**

**Sales Tax.....13**

**Federal Excise Duty.....16**

**Customs .....18**

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This Budget Commentary and Brief is correct to the best of our knowledge and belief at the time of its publication. It is intended to provide only a general outline of the proposals announced in the Federal Budget. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. The Firm does not accept any responsibility for any loss arising from any action taken or not taken by anyone using this publication.

# Income Tax

### ***Ø Rate of minimum tax Section 113***

#### **Amendment:**

in section 113, in sub-section (1), in clause (e), for the words "one per cent" the expression "the percentage as specified in column (3) of the table in Division IX of Part-I of the First Schedule" shall be inserted;

#### **Comments:**

The Bill proposes to enhance the general rate of minimum tax from 1% to 1.25%.

### ***Ø Super tax for rehabilitation of displaced persons Section 4B***

#### **Amendment:**

In section 4B, in sub-section (1), for the expression "and 2016" the expression "to 2017" shall be substituted;

#### **Comments:**

The Bill proposes to extend Super Tax for a further period of one year to the tax year 2017. The Scheme of taxation for levy of super tax for the tax year 2017 remains the same as applicable for tax year 2016.

### ***Ø Reduction in Tax Rate for Companies Division II, Part I of the First Schedule***

Continuing with the policy of reducing corporate tax rates, the tax rate has been reduced further from 31% to 30% for the Tax Year 2018.

### ***Ø Tax on undistributed profits of public companies Section 5A***

#### **Amendment:**

5A. Tax on undistributed profits.- (1) Subject to this Ordinance, for tax year 2017 and onwards, a tax shall be imposed at the rate of ten percent, on every public company other than a scheduled bank or a modaraba, that derives profit for a tax year but does not distribute at least forty percent of its after tax profits within six months of the end of the tax year through cash or bonus shares: Provided that for tax year 2017, bonus shares or cash dividends may be distributed before the due date mentioned in sub-section (2) of section 118, for filing of a return.

(2) The provisions of sub-section (1) shall not apply to- (a) a company qualifying for exemption under clause (132) of Part I of the Second Schedule; and (b) a company in which not less than fifty percent shares are held by the Government."

Comments:

The Bill proposes to revamp and substitute this section. Under the proposed section, a public company (other than a scheduled bank, a modaraba or an IPP exempt under clause (132), Part I of the second Schedule a Government owned public company) deriving profit for a tax year which does not distribute 40% of its after tax profits either through cash dividend or bonus shares, shall be subject to tax at 10% on its undistributed profits for the tax year 2017 and onwards.

**Ø Tax credit for manufacturers Section 65A**

The Bill proposes to omit the tax credit available at 3% of tax payable for a tax year for manufacturers making ninety percent of their supply to a person registered under the Sales Tax Act, 1990.

**Ø Tax credit for enlistment Section 65C**

Amendment:

In section 65C, in sub-section (1), for the words and full stop “tax year.” the words and colon “three tax years:” shall be substituted and thereafter the following proviso shall be added, namely:— “Provided that the tax credit for the last two years shall be ten per cent of the tax payable.”;

Comments:

The Bill proposes to enhance the period of claiming tax credit available for a company opting for enlistment on a Stock Exchange for four years including the tax year in which the Company is enlisted on the Stock Exchange in the following manner:

Period	Rate of Tax
Year of enlistment	20% of Tax Payable
Subsequent two years	10% of Tax Payable

**Ø Exemption on cash withdrawal by branchless banking agents Section 231A**

Amendment:

“(101) The provisions of section 231A shall not apply in respect of cash withdrawal made from a “Branchless Banking (BB) Agent Account” utilized to render branchless banking services to customers.

Comments:

At present, tax @ 0.3% and 0.6% is deducted upon aggregate cash withdrawals exceeding Rs.50,000 per day from filers and non-filers respectively. The Bill proposes to grant exemption

to branchless banking agent accounts from withholding tax on cash withdrawals made for the purpose of making payments to their respective customers.

***Ø Collection of tax by a stock exchange registered in Pakistan Section 233A***

***Amendment:***

in section 233A, for sub section (2), the following shall be substituted, namely:– “(2) The tax collected under sub-section (1) shall be final tax.”;

***Comments:***

The Bill seeks to bring tax collected from members of stock exchange on sales/purchases of shares under the final tax regime. Previously, such tax was adjustable.

***Ø Advance tax on tobacco Section 236X***

The Bill proposes collection of tax from purchaser of tobacco including cigarette manufacturers at five percent of the purchase value.

***Ø Tax on import of fertilizers Section 148***

Currently, tax collected under section 148 on import of fertilizers by manufacturer of fertilizer is an adjustable tax. The Bill seeks to bring the above tax under the ambit of Final Tax.

***Ø Deduction of tax on services Section 153***

Any service fee / charges retained by an agent or a third person from collections made on behalf of a service provider is proposed to be subject to collection of tax under section 153. Accordingly, it is proposed that the service provider shall collect tax from the agent or a third person on the amount of service fee / charges so retained.

***Ø Limit on claim of sales promotion, advertisement and publicity expenses by pharmaceutical manufacturers Section 21***

The Finance Act, 2016 restricted the claim of expenditure by pharmaceutical manufacturer in respect of sales promotion, advertisement and publicity up to a maximum of 5% of turnover. The Bill proposes to enhance this limit to 10% of the turnover.

***Ø Deductible allowance on education expenses Section 60D***

In order to claim a deductible allowance in respect of education fee, the Bill proposes to enhance the limit of income of an individual from one million to one and a half million.

### ***Ø Loans to employees Section 13***

Under the present law, the value of perquisites in the form of loan to employees by the employer was not chargeable under the head salary if the amount of loan is less than five hundred thousand rupees. The Bill proposes to enhance the limit to one million rupees.

### ***Ø Tax credit for investment in health insurance Section 62A***

The Bill proposes to enhance the eligible limit for tax credit on investment in health insurance from one hundred thousand to one hundred and fifty thousand rupees.

### ***Ø Advance tax on private motor vehicle Section 231B***

Under the present law, advance tax is to be collected from non-filers @ 3% of the value of the motor vehicle where the vehicle is being leased by a leasing company, scheduled bank, and investment bank, Development Financial Institution or a Modaraba. The Bill seeks to include non-banking financial institution in this list and leasing under Islamic mode of financing to cover vehicles being leased under shariah compliant or conventional mode, either through Ijara or otherwise. It is further proposed that such tax will not be collected in case of vehicle leased under the Prime Minister's Youth Business Loan Scheme.

### ***Ø Advance tax paid by individual taxpayer Section 147***

#### **Amendment:**

In section 147, in sub-sections (2) and (4B), for the words "five hundred thousand", the words "one million" shall be substituted;

#### **Comments:**

The Bill proposes to enhance the limit of latest assessed taxable income of an individual from five hundred thousand rupees to one million rupees for the purpose of payment of advance tax.

### ***Ø Persons not required to furnish a return of income Section 115***

The Bill proposes to enhance the list of exclusions for a widow, an orphan below the age of 25 years, a disabled person and incase of ownership of immovable property, a non-resident person from furnishing of return of income solely by reason that he/she;

- owns immovable property with a land area of 500 square yards or more, or a flat having covered area of 2000 square feet or more, located in a rating area; or
- owns a motor vehicle having engine capacity above 1000cc.

### **Ø Tax credit for not for profit organizations Section 100C**

#### **Amendment:**

in section 100C, —

(a) in sub-section (1), after clause (c), the following new clause shall be added, namely:- “(d) the administrative and management expenditure does not exceed 15% of the total receipts.”; and (b) after section (1), the following new sections shall be inserted, namely:- “(1A) Notwithstanding anything contained in sub-section (1), surplus funds of non-profit organization shall be taxed at a rate of ten percent. (1B) For the purpose of sub-section (1A), surplus funds mean funds or monies: (i) not spent on charitable and welfare activities during the tax year; (ii) received during the tax year as donations, voluntary contributions, subscriptions and other incomes; (iii) or more than twenty five percent of the total receipts of the non-profit organization received during the tax year; (iv) are not part of restricted funds:

Explanation: For the purpose of this subsection, “restricted funds” mean any fund received by the organization but could not be spent and treated as revenue during the year due to any obligation placed by the donor.”

#### **Comments:**

The Bill proposes to add further condition for a nonprofit organization to claim 100% tax credit. Through this amendment, the administrative and management expenditure of the NPO must not exceed 15% of the total receipts. The Bill also proposes to impose tax at the rate of 10% on surplus funds of a non-profit organization.

### **Ø Electricity Consumption Sections 235 and 235A**

The Bill proposes to add an explanation to require advance tax collection on the amount of electricity consumption bill inclusive of sales tax and other incidental charges.

### **Ø Statements Section 165**

#### **Amendment:**

In section 165, after sub-section (2), the following new sub-section shall be inserted, namely: “(2A) Any person who, having furnished statement under sub-section (1) or sub-section (2), discovers any omission or wrong statement therein, may file a revised statement within sixty days of filing of statement under sub-section (1) or sub-section (2), as the case may be.”;

#### **Comments:**

The bill seeks to introduce the provision to revise the withholding tax statements within sixty days of statements filed under section 165. Under the current law, there was no such provision to revise withholding tax statements in case of any error or omission.



## **Ø Advance tax on sale or transfer of immovable property Section 236C**

### **Amendment:**

in section 236C,—

(a) in sub-section (1), after the word “registering”, wherever occurring, the comma and word “, recording” shall be inserted; (b) after sub-section (1), amended as aforesaid, the following Explanation shall be added, namely:- “Explanation,—For the removal of doubt, it is clarified that the person responsible for registering, recording or attesting transfer includes person responsible for registering, recording or attesting transfer for local authority, housing authority, housing society, co-operative society and registrar of properties.”; and (c) in sub-section (2), for the full stop at the end, a colon shall be substituted and thereafter the following new proviso shall be inserted namely:— “Provided further that immovable property referred to in subsection (1) is acquired and disposed of within the same tax year, the tax collected under this section shall be minimum tax.”;

### **Comments:**

Currently, advance tax collected under section 236C on sale or transfer of immovable property is an adjustable tax. The Bill proposes to bring the above tax under the ambit of minimum tax if the property is acquired and disposed of within the same tax year.

## THE FIRST SCHEDULE

### PART I

## **Ø Capital gain on disposal of securities Section 37A**

The Bill proposes to introduce rates of tax on capital gain on disposal of securities under section 37A at 15% for filers and 20% for non-filers, irrespective of the holding period of the securities.

## **Ø Dividend income Section 5**

The Bill proposes to enhance the rate of tax on dividend, which are summarized as under -

Type of Dividend	Existing	Proposed
Dividend other than dividend declared by power projects	12.5%	15%
Dividend from Stock Fund and Mutual Fund	10%	12.5%

**Ø Profit on debt Section 7B**

Existing		Proposed	
Amount	Rates	Amount	Rate
Does not exceed Rs.25,000,000	10%	Does not exceed Rs.5,000,000	10%
Exceeds 25,000,000 but not exceed 50,000,000	2,500,000 + 12.5% of the amount exceeding Rs.25,000,000	Exceeds 5,000,000 but not exceed 25,000,000	12.5%
Profit on debt exceeds Rs.50,000,000	Rs.5,625,000 + 15% of the amount exceeding Rs.50,000,000	Profit on debt exceeds Rs.25,000,000	15%

**Ø Payment to non-residents Section 152**

In case of non-filers the rate of tax proposed to be deducted from payments under section 152 of the Ordinance are as under-

Nature of Payment	Existing	Proposed
Payment for execution of specified contract	12%	13%
Payment for supplies of goods in case of company	6%	7%
Payment for supplies of goods other than company	6.5%	7.75%
Payment for services rendered (other than transport) in case of company	12%	14%
Payment for services rendered (other than transport) in other cases	15%	17.5%
Payment for execution of Contract	12%	13%

**Ø Payment on account of fast moving consumer goods Section 153**

The Bill proposes to reduce withholding tax rates in respect of payments on account of fast moving consumer goods from 3% to 2% in case of companies and from 3.5% to 2.5% in case of payment to other than companies.

### **Ø Payment on account of goods and services - Section 153**

In case of non-filers the rate of tax proposed to be deducted from payments under section 153 of the Ordinance are as under-

<b>Rate of Tax (For Non-Filers)</b>				
<b>Type</b>	<b>Corporate</b>		<b>Non Corporate</b>	
	<b>Existing</b>	<b>Proposed</b>	<b>Existing</b>	<b>Proposed</b>
<b>In case of sale of goods</b>	6%	7%	6.5%	7.75%
<b>In case of rendering or providing services (other than transport services)</b>	12%	14.5%	15%	17.5%
<b>In case of execution of contract</b>	10%	12%	10%	12.5%

### **Ø Payment of rent Section 155**

The Bill proposes to introduce enhanced withholding tax rate of 17.5% on property income earned by companies which are non-filer. Further, there is no change in the rate for filers

### **Ø Prizes and winnings Section 156**

The Bill proposes to enhance the rate of withholding of tax on prize and winnings in case of non-filer from existing rate of 20% to 25%.

## **PART IV**

### **Ø Advance tax on telephone and internet users Section 236**

The Bill proposed to reduce the rate of collection of tax under section 236 of the Ordinance from 14% to 12.5% in case of subscriber of internet, mobile telephone and pre-paid internet or telephone card.

## **THE SECOND SCHEDULE**

### **Ø Exemption for Start-up**

The Bill proposes to introduce a new clause where a resident person being an individual, AOP or Company (incorporated or registered in Pakistan on or after 01 July 2012), is engaged in or intends to offer technology driven products or services and is -

- Registered and certified by the Pakistan Software Export Board (PSEB)
- Has a turnover of less than one hundred million in each of the last five tax years

Their profit and gains shall be exempt for the tax year in which it is certified by the PSEB and the following two tax years.

Exempt from the application of provisions of minimum tax under section 113 of the Ordinance

Exempt from the application of the provisions of section 153 of the Ordinance where the startup is the recipient of payment

***Ø Concession of exemption from payment of tax under Section 148 Clause (72B), Part IV***

The bill proposes to increase the quota for the purpose of exemption of tax to be paid at import stage, in respect of raw material to the extent of 125% instead of the existing quota of 110% of the quantity of raw material imported and consumed during the previous tax year.

***Ø Minimum tax on service sector companies Clause (94), Part IV***

Amendment:

in clause (94),— (a) for the figure “2017”, occurring for the first time, the figure “2018” shall be substituted; (b) after the words “car rental services”, the words “and services rendered by Pakistan Stock Exchange Limited” shall be inserted; (c) in the first proviso, for the expression “tax year 2016 or 2017, as the case may be” the expression “any of the tax years 2016 to 2018” shall be substituted; and (d) in the second proviso for the figures “2017” and “2016”, the figures “2018” and “2017” shall be respectively substituted;

Comments:

Pakistan Stock Exchange has been included in the list of companies for which tax deductible from payments against services rendered under section 153 of the Ordinance would no longer treated as minimum tax and would be adjustable against the final tax liability. The period for application of clause 94 has been extended to 30 June 2018. Moreover, the last date to furnish irrevocable undertaking for tax year 2018 being extended to November 2017.

# Sales Tax

### ***Ø Sales Tax on Retailer Section 3(9A)***

Tax on Tier-1 Retailers which was earlier introduced through the Sales Tax Special Procedures Rules, 2007 which has not been appreciated by the Court and has taken off is now proposed to be reintroduced through the Sales Tax Act, 1990 (the ST Act).

### ***Ø Further tax Sections 3(1A) and 4***

Further tax at the rate of two percent is sought to be extended to zero rated supplies. However, since the further tax has conceptually been applicable to persons who are required to get registration under the ST Act but failed to do so, hence it is expected that supplies made to diplomats, privileged persons duty free shops and other similar categories like goods exported would be excluded through notification.

### ***Ø Recovery of tax Section 48***

On payment of 25% of the disputed demand, the remaining demand is stayed, if the appeal is pending before the Commissioner Inland Revenue (Appeals).

### ***Ø Sales tax withholding***

Special procedures

No sales tax withholding is applicable on supplies made by a registered person to another registered person except provision of advertisement services.

### ***Ø Extra tax***

Special procedures

Extra amount of sales tax at the rate of two percent is proposed to be withdrawn on supply of lubricating oil.

### ***Ø Sales tax on steel sectors***

Special procedures

Rate of sales tax on steel-melters and re-rollers is sought to be increased to Rs.10.5 per electricity unit consumed.

### ***Ø Sales tax on import of cell phones***

Ninth Schedule

A merged rate of Rs.650 per set on import and supply of locally manufactured low and medium price cellular and satellite phones has been proposed to be introduced.

### **Ø Change in rates of tax**

#### **Eighth Schedule**

Fertilizers are currently subject to tax on retail price at the standard rate of 17%. The Bill proposes to tax fertilizers at the reduced fixed amounts of tax. Supply of natural gas to urea manufacturer is proposed to be tax at the rate of 10%. Similarly import of phosphoric acid by fertilizers manufacturer is proposed to be tax at the rate of 5%.The Bill proposes a reduced tax rate of 7% on the import or supply of machinery for poultry sector.

### **Ø Exemptions**

#### **Sixth Schedule**

The Bill proposes following exemption:

- Vehicles imported by China Overseas Ports Holding Company Limited and its operating companies for 23 years for construction, development and operations of Gwadar Port and Free Zone Area.
- Goods received as gift or donation from a foreign government or organization by the Federal or Provincial Governments.
- Sunflower and canola hybrid seeds meant for sowing.
- Combined Harvesters up to five years old.
- Single cylinder agriculture diesel engines and CKD kits thereof.

# Federal Excise Duty



***Ø Penalty on Cigarettes Manufactures - Section 19***

It is proposed to extend the canvas of default and penalty thereon with respect to manufacturing of counterfeited cigarettes by including violations in respect of affixing tax stamps, banderoles, stickers, labels or barcodes on the pack of cigarettes.

***Ø Recovery of Duty Section 37***

Recovery of duty demanded or penalty levied is stayed till the decision of appeal by the Commissioner (Appeals), subject to payment of 25% of the duty demanded or penalty levied.

***Ø Service of Notice Section 47***

Electronic submissions of documents/records or response to the letters/notices issued by the authorities are legally recognized.

***Ø Change in Rate of Duty***

First Schedule

The rate of FED on cigarettes is proposed to be collected according to three tier structure instead of existing two tier structure. FED on cement and ancillary products classified under tariff heading 25.23 is proposed to be increased from Rs.1/KG to Rs.1.25/KG.

FED on Telecommunication services is proposed to be reduced from 18.5% to 17%.

Islamabad Capital Territory (Tax on Services) Ordinance, 2001

***Ø It is proposed to exempt export of IT services.***

# Customs

### ***Ø Harmonization of HS Codes***

Pakistan Customs HS Codes are to be harmonized with World Customs Organization (WCO) HS Version 2017 and relevant changes are proposed to be made in schedules, notifications etc.

### ***Ø New Directorate***

A new Directorate General of China Pakistan Economic Corridor is proposed to be established.

### ***Ø Exemption and Reduction in Rates of Duty***

Exemption and substantial reduction in customs duty and regulatory duty is proposed for poultry items, ostriches, aluminum waste, raw skin hides, stamping foils, sheets for veneering, pre-fabricated modular clean rooms panels and non-woven fabric imported by pharma industry.

For the protection of local industry, it is proposed to enhance duty on import of synthetic filament yarn, aluminum beverages cans, and reduce duty on uncoated polyester and aluminum wire and raw material for the manufacturing of baby diapers.

The condition of “local manufacturing” was not applicable on import of solar panels and related components till 30 June 2017. It is proposed to extend the period till 30 June 2018.

It is proposed to reduce duty to 3% on import of coal by IPPs.

### ***Ø Change in rates of regulatory duty***

Regulatory duty on 565 items is proposed to be levied/ increased ranging from 5% to 15%.

Exemption of customs duty is proposed on import of telecom equipment; instead regulatory duty of 9% is proposed to be levied.