BUDGET MEMORANDUM
2016-2017

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For Circulation to clients and staff

FOREWORD

The federal cabinet approved the budget for the fiscal year 2016-17 (FY2016-17), with a total outlay of Rs4.915 trillion, which is 13.4 per cent higher than the revised 2015-16 outlay of Rs4.3trillion

While presenting the budget for fiscal year 2016-17, finance Minister Ishaq Dar said a growth rate target of 5.7pc had been set for the upcoming year, which he said is budgeted to reach 7pc by the end of present government's tenure in 2017-18.

The budget has set positive tone for upcoming year. It targets a deficit of 3.8 percent of GDP. The target on inflation is in the single digit whilst the target on GDP growth is set at 5.7 percent. The budget allocates 1.051 trillion for Public Sector Development Programs. The culture of issuing SROs has been conditioned after the approval of parliament approval. The establishments of an EXIM Bank, setting customs duty top slab at 20 percent, zero duty on aviation industry and tax exemption for industries in Khyber Pakhtunkhwa are perceived as instrumental in the growth of overall economy.
Some main elements of the budget strategy are as follows:

- Reduction of fiscal deficit: The government is targeting fiscal deficit at 3.8% of GDP compared to 4.3% in 2015-16.
- Raising Tax Revenues: The proposed reduction in deficit will be achieved through a combination of better tax collection and tight expenditure controls.
- Energy focused: It is planned to bring 7,000 MW on stream besides setting up 3,600 MW LNG-based projects. By December 2016 the government aims to bring 10,600 MW in the system. Beyond December 2017, other projects such as Dasu, Diamer Bhashah, Karachi Civil Nuclear Energy and many other projects will also be completed.
- Exports Promotion: Additional measures announced to incentivize exports and taking other measures to ease the cost of doing business and improving the overall regulatory regime to facilitate exporters.
- Investment to GDP ratio: Government has projected this ratio to rise to 16.5% during 2015-16.
- Income support program (BISP): The program is an effort to provide relief to the poor and weak segments of the society as a matter of our responsibility and their right.
- Development and promotion of ICT Sector: A number of initiatives were announced in the last budget for the development of promotion information and communication technology (ICT). These initiatives have been operationalized with different features like Rural telephony & E-Services (RTEs) Program, Broadband program, Optic fiber cable program and Construction of cross-border optic fiber system between China and Pakistan.

The critics of the budget fear that the average life expectancy of our budgets is around three months after which they foresee that revisions might be made. The critics are of the view that the power sector will hinder the projected targets and goals.

The revenue targets and the achievement of the overall objectives of the budget is a question that is largely dependent on good governance, prudent and tight monetary, fiscal policies.

The provisions of the Finance Bill 2016 are generally applicable from July 01, 2016, unless otherwise specified.

These comments should be read in conjunction with respective sections of the relevant statutes and are meant for the exclusive use of our clients, staff and associates as a general guidance. It should neither be regarded as comprehensive nor sufficient for decision making, nor should be used in place of professional advice. For any specific application, understanding a reference to us in writing is essential. The proposals introduced in the bill have to be approved by the national assembly before they become effective. Rafaqat Mansha Mohsin Dossani Masoom & Co, its partners and staff members do not take any responsibilities for any action on the basis of these clarifications.

Partners & Staff
RMDM & Co,
Chartered Accountants
June 06, 2016

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COMPARATIVE BUDGETARY POSITION
2014-15& 2015-16

KEY ECONOMIC INDICATORS

Economic Survey 2015-16

Pakistan's economy continues to maintain its growth momentum for the third year in a row, with real GDP growing at 4.71 percent in financial year 2016 which is the highest in eight years. GDP posted a reasonable growth over last year despite a major setback in agriculture growth on account of massive decline in cotton production. However, the loss to some extent is compensated by remarkable growth in industrial and services sector as both these sectors crossed their target growth, while other key macroeconomic indicators (like inflation, fiscal and current account balance) recorded improvement.

Particularly, the external section has become more stable on account of robust growth in workers' remittances; continued flows from International Financial Institutions; and a sharp decline in global oil prices.
The country's foreign exchange reserves have reached all time high (over US$ 21 billion) in May 2016, which can finance over 5 months of the country's import bill. This improvement in the external sector was critical in maintaining the exchange rate stability during the year.

Based on the above positivities, the economy is now all set to move towards high growth trajectory with single digit inflation at 6 percent. The foreign currency reserves which has reached to highest level is projected to rise even more. The fiscal deficit has also been projected to be brought down. The external sector will continue to remain stable on the back of improvement in trade balance, higher remittances, continuous flows from International Financial Institutions, and stable exchange rate.

	FY 15 – 16	*FY 14 – 15*
GDP growth rate	4.71%	4.04%
Per capita income - US$	1,561	1,517
FDI (July – April) US$ million	1,016	964
Inflation	2.79%	4.53%
Public debt (PKR billion)		
- **Domestic**	13,399	12,199
- **Foreign**	5,769	5,182
	19,168	17,381
Budget deficit - %age of GDP	3.4%	3.8%

Source: Economic Survey of Pakistan 2015-2016

BUDGET AT A GLANCE

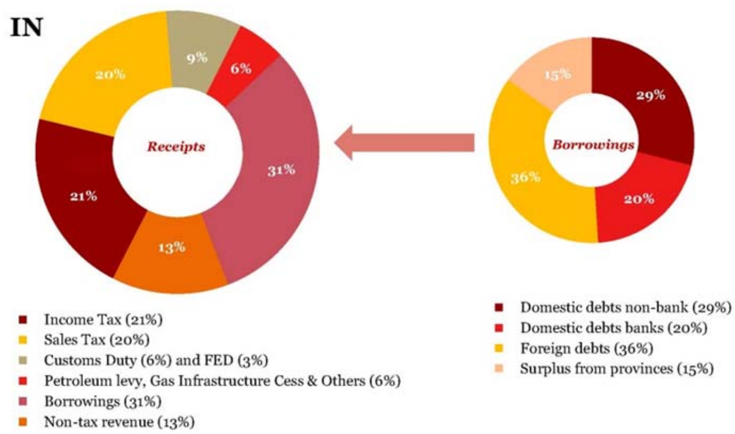
Budget Financials:

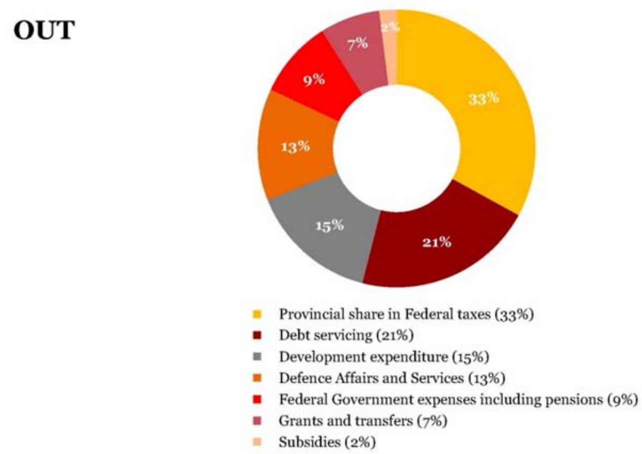
Budget Financials

The following table sets out the Key Budget Financials:

	2016-2017		2015-2016 (Revised)	
	Rs in Billion	%	Rs in Billion	%
Tax revenue	3,956		3,420	
Non-tax revenue	959		913	
Gross revenue receipts	4,915		4,333	
Public account receipt – net	171		156	
Total receipts	5,086	100	4,489	100
Less: Provincial share in Federal taxes	(2,136)	(42)	(1,852)	(40)
Net revenue receipts	2,950	58	2,637	60
Expenditure				
- Current expenditure	4,031	79	3,714	83
- Development expenditure	1,051	21	879	20
	5,082	100	4,593	103
Deficit	**(2,132)**	**(42)**	**(1,956)**	**(43)**
- Domestic debts non-bank	470		547	
- Domestic debts banks	453		199	
- Foreign debt	820		860	
- Privatization proceeds	50		13	
- Surplus from provinces	339		337	
	(2,132)		**(1,956)**	

WHERE FROM THE RUPEES COMES IN AND WHERE IT GOES OUT:



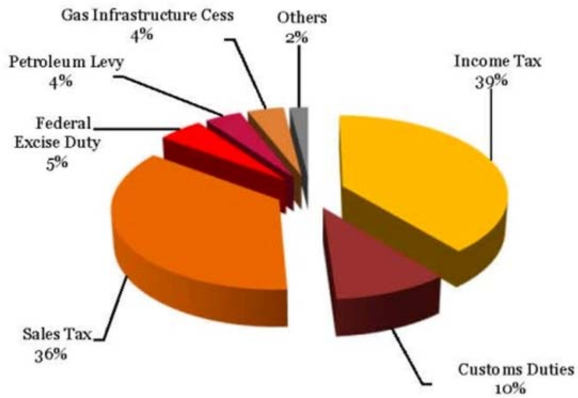


BREAK-UP OF TAX REVENUE

There is no substantial change in the ratio of direct and indirect taxes.

A substantial and incremental shift is required to decrease disparity in income and reduce the burden of indirect taxes on common man.

	FY 15 – 16 Rs in Billion	FY 14 – 15 (Revised) Rs in Billion
Direct Taxes:		
• Income Tax	1,539	1,308
• Workers' Welfare Fund	17	14
	1,556	1,322
Indirect Taxes:		
• Customs Duty	413	349
• Sales Tax	1,437	1,230
• Federal Excise Duty	213	201
• Petroleum Levy	150	135
• Gas Infrastructure Cess	145	145
• Natural Gas Surcharge	35	32
• Others	7	6
	2,400	2,098
	3,956	3,420



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SALIENT FEATURES

INCOME TAX
Relief Measures

Reduction in Tax Rate for Companies:

Continuing with the policy of reducing corporate tax rates, the rate is proposed to be reduced to 31% for Tax Year 2017.

Exemptions under Gwadar Port Concession Agreement:

For operation and development of Gwadar Port and Gwadar Free Zone exemptions and concessions in accordance with the decisions of ECC and concession agreement are proposed to be granted to concession holder (China Overseas Ports Holding Company Limited), and its operating companies, businesses to be established in the Free Zone and contractors and sub-contractors of the concession holder in accordance with concession agreement.

Exemption on Investment in Greenfield Industrial Undertakings:

Period of exemption to investment in Green Field Industrial undertakings is being extended from 2017 to 30th June, 2019.

Tax Credit for Employment Generation:

At present, 1% tax credit for a period of ten years is available for every 50 employees employed by an industrial undertaking to be set up by June 2018. In order to reduce unemployment and encourage new industry, the credit is being enhanced to 2% and the date for setting up of industrial undertaking is being extended to June 2019.

Tax Credit for making sales to registered persons:

At present 2.5% tax credit is available to a manufacturer registered under Sales Tax who is making over 90% sales to Registered Sales Tax Persons. To encourage documentation, the credit is being increased to 3%.

Tax Credit for Balancing, Modernization and Replacement (BMR):

At present, tax credit on BMR of the plant and machinery is allowable on plant and machinery purchased and installed up to June, 2016. Period for installation of plant and machinery is being extended to June, 2019.

Tax Credit for Enlistment:

At present 20% tax credit on tax payable for enlistment in stock exchange is available for 1 year. In order to encourage enlistment of companies on stock exchange tax credit is being extended to 2 years instead of one year.

Tax Credit for Establishing new industry and expansion of existing plant:

At present, 100% tax credit on tax payable is allowed if 100% fresh equity is raised through issuance of new shares. This tax credit is allowable for five years from commercial production. It is proposed to reduce the condition of 100% fresh equity to 70% equity and tax credit would be allowed proportionately on owned new equity and not on borrowed amount. Period of tax credit is also being extended to June, 2019.

Extending exemption to export of IT services:

Exemption to export of IT Services is going to expire in June, 2016. IT sector is passing through infancy stage in the country and requires support. It is proposed that the exemption may be extended till June, 2019. The taxpayers shall be allowed to retain 20% of the proceeds outside the country for meeting expenses, and shall remit 80% to Pakistan through Banking Channel.

Enhancing limit of interest on House Building Loan:

At present, an individual is allowed deductable allowance for profit on debt on the loan up to 1 Million for construction of a new house or acquisition of house. In order to provide relief to low income group, loan amount is being increased from 1 Million to 2 Million.

Employers' Annual Contribution in Provident Funds:

At Present, employer is allowed to contribute in Provident Fund upto 1/10th of salary of an employee or Rs. 100,000 whichever is lower. Any amount exceeding this limit is treated as income of the employee. On demand of taxpayers, the limit of Rs. 100,000 on employer's contribution is proposed to be enhanced to Rs. 150,000.

Tax Credit on Health Insurance:

At present, tax credit is available on the payment of life insurance premium up to 1.5 M. A new tax credit @ 5% of tax payable or Rs. 0.1 M whichever less is proposed to be allowed on payment of premium of health insurance.

Reduction in Tax Rate on Commission of Life Insurance Agents:

At present, Commission paid to life insurance agents is taxed at the rate of 12% for filers.
The rate of tax is being reduced to 8% for filer on commission received up to Rs. 0.5 M.

Relief on Education Expenses:

In order to provide relief for education expenses which are unbearable for low income groups, individual having taxable income less than Rs. 1 million is being given tax relief equal to 5% of school fee upto Rs. 60,000 per child per annum.

Revenue Measures

Advance Tax for Alternate Corporate Tax (ACT):

Advance tax is paid on the basis of tax calculated on income or minimum tax on turnover and is required to be deposited in four installments. However, advance tax is not calculated on the basis of Alternate Corporate Tax (ACT). Taxpayers under existing law have to pay entire tax at the time of filing of return. It is proposed that Alternate Corporate Tax may also be made the basis for payment of advance tax.

Rationalizing Rates For Capital Gain Tax On Immovable Property:

It is proposed to extend the holding period for taxation of capital gain on sale of immovable property from two years to five years to be charged at uniform rate of tax of 10%.

Taxation of Property Income on Gross Basis:

In order to simplify taxation of property income in the case of individuals and associations of persons, it is proposed that for such persons the property income may not be clubbed with income under other heads and may be taxed as a separate block of income.
Accordingly separate rates of tax have been proposed.

Persons registered with Provincial Sales Tax Authorities:

At present a large number of service providers are filing sales tax returns with the Provincial authorities but are not filing Income Tax returns. In order to encourage filing of Income Tax returns, it is proposed that an advance tax at 3% of turnover of non-filer service providers be collected by provincial ST authorities along with their sales tax returns.

Rationalizing Minimum Tax:

At present, Companies declaring Gross Loss are exempt from payment of Minimum Tax at the rate of 1% of turnover. However, this exemption is not available to Individuals and AOPs. In order to maintain neutrality and to stop misuse of the provision, it is proposed that Minimum tax may be charged on companies declaring gross loss.

Extending the Scope of Minimum Tax:

At present, minimum tax on turnover is paid by individuals and AOPs having turnover exceeding fifty million rupees. A large number of Individuals and AOPs having turnover below Rs. Fifty million are filing returns yet they are not paying any tax. It is proposed that minimum tax @ 1% of turnover may be made payable by Individuals and AOPs having turnover exceeding ten million rupees.

Taxation of Builders & Land Developers:

At present tax collection from Builders and Land Developers does not match with the level of investment and profits accruing in construction sector. After discussion with ABAD, final tax is being imposed on builders/ land developers on the basis of per unit area.

Withholding Tax on Mining:

In order to expand the tax base, It is proposed that a withholding tax at the rate of 5% of the value of minerals be collected from non-filers by the departments of provincial governments responsible for issuing licenses for extraction of minerals and collection of royalty on the extracted minerals.

Extending the liability of Super Tax for year:

Super Tax was levied for the
Tax Year 2015 to meet revenue needs for certain unforeseen expenditure by the Government. Since the circumstances still persist, it is being extended for Tax Year 2016.

Increasing Cost of Non-Compliance with Tax Laws:

Continuing with the policy of differential taxation for filer and non-filer, various sections are included with higher withholding tax rates for those not filing income tax returns.

Rate of tax on Securities:

In order to encourage capital markets, it is proposed to maintain the existing tax rate for filers only. However, the tax rates for non-filers are being increased.

Rationalization of Withholding Tax on Commercial Electricity Bills:

Traders are not properly contributing in tax collection therefore it is proposed to increase the adjustable Withholding Tax on commercial electricity bills exceeding Rs. 20,000 per month to 12 percent. No increase is however proposed on industrial and residential electricity bills.

Board Principles of Taxation Proposals

The proposals for the budget 2016-17 are mainly based on the following principles:-

i. Least burden on poor and middle class.
ii. Third phase of withdrawal of exemptions to further eliminate discriminatory tax exemptions and concessions.

iii. Expand the scheme of differential taxation for filers and non-filers for penalizing non-compliance without adding any further burden on the compliant.

iv. Customs tariff be rationalized to reduce the number of slabs.

v. Measures for broadening of tax base and documentation of economy.

vi. Increasing the share of the direct taxes.

SALES TAX & FEDERAL EXCISE DUTY:

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

1. Zero-rating of export oriented sectors. Five export-oriented sectors are subject to reduced rates i.e. 3% and 5% under SRO 1125(I)/2011, dated 31.12.2011. In order to facilitate the exporters and provide for a No-Tax, No-Refund Regime, the items as specified in the said SRO and the purchase of energy i.e. electricity, gas, furnace oil and coal by the five export-oriented, are to be subjected to zero rate of sales tax. The retail sales of locally manufactured finished goods of these sectors are to be subjected to sales tax @ 5%.

Enforcement through SRO, effective from 01.07.2016:

2. Exemption of sales tax on pesticides. Ministry of National Food Security and Research has proposed exemption from sales tax on Pesticides. Keeping in view importance of pesticides for the agriculture sector, pesticides and their ingredients are being granted exemption from sales tax.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

3. Exemption of sales tax on Premixes for Growth Stunting. Ministry of National Health Services has proposed exemption from sales tax on the import of vitamins, premixes, minerals and micronutrients (food grade) to combat growth stunting. These items are being granted exemption from sales tax.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

4. Exemption of sales tax on import of Laptops and PCs. Ministry of Information Technology has proposed exemption of sales tax on laptops and personal computers with a view to promoting Information & Communication Technology (ICTs). Exemption from sales tax to Laptops and Personal Computers is being granted. This step will also promote genuine imports and will render informal and illegal imports as uncompetitive.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

5. Increase in turnover threshold for cottage industry. Cottage industry is exempted from payment of sales tax. Turnover threshold prescribed for cottage industry is Rs. 5 million. This low turnover threshold causes undue hardships and registration requirements for small manufactures who make minimal contributions to revenues. Turnover threshold for cottage industry is being raised to Rs. 10 million.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

6. Exclusion of Secondhand and Worn Clothing from further tax levy. Sales tax is currently levied @ 5% on the import stage, @ 3% as value addition tax and 2% as further tax under section 3(1A) on second hand and worn clothing, which results in cumulative impact of sales tax at 10%. In order to provide relief to the low income segment, using second hand worn clothing, exemption from further tax is being provided.

Enforcement through SRO, effective from 01.07.2016:

7. FED at 16% is leviable on services such as Advertisement on CCTV / Cable TV, Shipping Agents, Banking Companies, Insurance Companies, Cooperative, Financing Societies, Modarbas, Musharikas, Franchise Services, Stevedores, Stock Brokers, Forex Dealers etc. Provinces and

various Chambers of Commerce & Industry have demanded withdrawal of FED on such services as provinces are already charging sales tax on these services. FED on these services on which provinces are collecting sales tax is being withdrawn.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

8. Exemption to Dump Trucks for Thar Coal Field. Exemption to coal mining machinery, equipment, spares, etc. for Thar Coal Field as provided in the Sixth

Schedule to the Sales Tax Act, 1990 includes vehicles for site use i.e. single or double cabin pick-ups. Dump trucks, although being vehicles for site use, are not covered under the said provision. Exemption from sales tax is, therefore, being granted to dump trucks.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

9. Exemption from sales tax and Federal Excise Duty to Concession Holder of Gwadar Port Authority and its operating companies, their contractors and subcontractors for development of Gwadar Port and Gwadar Free Zone. Exemption from sales tax and Federal Excise Duty for a period of 40 years on the import and supply of materials, equipment, ship bunker oils brought and sold to ships calling on/visiting Gwadar Port, for the development of Gwadar Port and Free Zone for Gwadar Port is being granted.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

10. Exemption from sales tax and Federal Excise Duty to businesses to be established in Gwadar Free Zone. Exemption for a period of 23 years from sales tax and Federal Excise Duty is being granted to businesses to be established in Gwadar Free Zone. This exemption shall be available to sales/supplies within the Gwadar Free Zone. However, sales/ supplies outside the free zone and into the territory of Pakistan shall be subjected to applicable rates of sales tax and Federal Excise Duty.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

11. Exemption to machinery and equipment for the development of grain handling and storage facilities is available under the Sales Tax Act, 1990. It is proposed to include silos in the said exemption.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

12. Abolition of zero-rated status of stationery items. Stationery items are exempt from sales tax under the Sixth Schedule to the Sales Tax Act, 1990 as well as zero-rated under the Fifth Schedule thereof. It is proposed to withdraw zero rating on stationery items and their inputs.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

13. Abolition of zero-rated status of Milk. Milk, fat-filled milk and preparations for infant use have been enjoying zero-rating facility on supplies for many years. It is proposed to withdraw zero-rating on milk and fat filled milk. Zero-rating on preparations for infant use proposed to be retained.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

14. Enhancement of Federal Excise Duty on Cement. Cement is currently chargeable to Federal Excise Duty @ 5% of the retail price. It is proposed to replace the current regime with fixed rate basis and to charge FED on cement on fixed rate basis @ Rs. 1/ kg.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

15. (a) Levy of sales tax on sugar at reduced rate of 8%. Sugar is currently chargeable to

Federal Excise Duty @ 8%. It is proposed to replace this Federal Excise Duty with levy of sales tax at reduced sales tax rate of 8%.
(b) Levy of sales tax on urea at reduced rate of 5%, in order to promote agriculture and alleviate the conditions of farmers.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

16. Increase in the rate of sales tax on import of Mobile Phones. Mobile Phones are currently charged to sales tax under three categories i.e. Rs. 300, Rs. 500 and Rs. 1,000, based on their features. The proposed new slabs are Rs. 300, 1000 and 1500, respectively.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

17. Enhancement of rates of Federal Excise Duty on cigarettes. The rates of FED on cigarettes are proposed to be increased on a bi-annual basis as under:

Retail Price Proposed Rate with immediate effect upto 30.11.2016 (Rs. Per thousand cigarettes) Proposed Rate with effect from 1st December, 2016 (Rs. Per thousand cigarettes)

Retail price threshold 4,000 4,400
For cigarettes with retail price equal to or above threshold 3,436 3,705
For cigarettes with retail price below threshold 1,534 1,649

Enforced through Finance Bill, 2016, effective from 01.07.2016:

18. Enhancement of Federal Excise Duty on Aerated Waters. The current rate of Federal Excise Duty on aerated waters is 10.5%. It is proposed to enhance the FED rate to 11.5% of retail price.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

19. Introduction of optional regime for Tier-1 Retailers. Tier-1 retailers are obliged to pay sales tax at standard rate after input tax adjustment. It is proposed to provide an option to these retailers to pay sales tax at fixed rate of 2% of their total turnover without any input tax adjustments.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

20. Inclusion of mineral/bottled water in the Third Schedule to the Sales Tax Act, 1990. Mineral water is charged to sales tax at 17% of value of supply. It is proposed to include mineral water in the Third Schedule so that the tax is charged on the basis of retail price.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

21. Enhancement of rate of sales tax on certain ingredients of poultry feed. Poultry feed and its certain ingredients are exempt from sales tax whereas certain other ingredients are subject to sales tax @ 5% ad valorem. It is proposed to increase the rate of sales tax on the latter category from 5% to 10%.

Enforced through Finance Bill, 2016, effective from 01.07.2016:

22. Marble Cutting and Polishing Industry. Marble Industry is mostly unregistered and is not paying sales tax. This sector has electricity as a major input. In order to bring this sector in the ambit of sales tax, it is proposed to charge sales tax @ Rs. 1.25 per KWH of electricity consumed. The proposed tax shall be in addition to standard sales tax @ 17% on supply of electricity as well as extra tax @ 5%.

Enforced through amendment in the Sales Tax Special Procedure Rules, 2007, effective from 01.07.2016:

23. Enhancement of fixed rate basis on steel sector, ship breakers and steel melters. Sales tax on steel sector, including ship-breaking sector, is collected on fixed rate basis. Sales tax from steel melters and re rollers is collected on the basis of electricity consumption whereas ship-breakers are paying sales tax on the basis of LDT of ships imported for breaking. These rates are proposed to be revised upwards.

Enforced through amendment in the Sales Tax Special Procedure Rules, 2007, effective from 01.07.2016:

24. Rationalization of exemption available to plant, machinery, equipment, etc. for production of Bio-Diesel. Exemption to plant, machinery, equipment and specific items used in production of bio-diesel is available under the Sales Tax Act, 1990.

To preclude the possibility of misuse, it is proposed to exclude "specific items" from this exemption.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

CUSTOMS DUTY

- Tariff slabs reduced from existing 5 to 4 by merging 2% slab and 5% slab in new3% slab.
- 10% and 15% slabs substitute with 11% and 16% slabs respectively.
- Concessions of CD for Dairy, Livestock & Poultry Sectors from 5% to 2%.
- Concessions of CD for Fish Farming, fish feed pellet (floating type) machinesfrom 5% to 2%, fish / shrimp feed 10% & 20% to 0%.
- Exemption from CD on import of Premixes to prevent growth stunting (from 5 – 20to 0%).
- Expansion in scope of exemption on Renewable Energy Technologies.
- Expansion in scope of exemption for Charitable non-profit making Institutions Operating Hospitals.
- Relief on Cool Chain Machinery.
- Extension in relief on import of Solar Panels till June, 2017.
- Exemption from CD and taxes on disposal of old & used ambulances imported byEdhi Foundation.
- Implementation of automotive development policy (ADP) 2016-2021.

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SIGNIFICANT AMENDMENTS IN INCOME TAX ORDINANCE 2001

SUPER TAX FOR REHABILITATION OFTEMPORARILY DISPLACED PERSONS

Section 4B

This concept has been introduced in finance act 2015 and super tax has been levied for tax year 2015 on the income of individuals, association of persons and companies who are earning income of Rs 500 million or above for tax year 2015.

Finance bill 2016 has proposed the super tax applicable also for tax year 2016 to meet revenue needs for certain unforeseen expenditure by the Government.

Finance bill 2016 has also proposed to insert the words "other than depreciation and business losses" after the words income for the levy of super tax and this effect will increase the Government revenue as adjustment of depreciation and losses has been disallowed before charging of super tax.

TAX ON BUILDERS:

Section 7C

Finance bill has proposed to introduce new section for levying tax on builders on the basis of per unit area as it was thought that at present level of investment does not match with the profits accruing in construction sector and the bill ibid has proposed to rationalize the same sector by imposing same tax.

Finance bill 2016 has also proposed to levy the same on the businesses initiated and approved after the 1st July, 2016.

TAX ON DEVELOPERS:

Section 7D

Finance bill 2016 proposed to introduce a new section for levying tax on land developers on the basis of per unit area as it was thought that at present level of investment in the same field does not match with the profits accruing in land development sector and the bill ibid has proposed to rationalize the same sector by imposing tax.

Finance bill 2016 has also proposed to levy the same on the businesses initiated and approved after the 1st July, 2016

GENERAL PROVISIONS RELATING TO TAXES IMPOSED UNDER SECTION 5, [5A, 6, 7, 7A, 7B, 7C AND 7D]

Section 8

Finance bill 2016 proposed that the tax imposed under section 7C and 7D to be treated as final taxes.

INCOME FROM PROPERTY:

Section 15

Finance bill 2016 has simplified taxation of property income in the case of individuals and associations of persons, it is proposed that for such persons the property income may not be clubbed with income under other heads and may be taxed as separated block of income. Before this proposal the same were taxed as a part of business income or salary income depends on the source of income of a person however accordingly separate rates of tax have been proposed and the basic exemption limit has also been proposed to increase from Rs. 150,000/- to Rs. 200,000/-.

DEDUCTIONS IN COMPUTING INCOME CHARGEABLE UNDER HEAD "INCOME FROM PROPERTY":

Section 15A

Finance bill 2016 proposes the taxation of property income on gross basis for Individuals and Association of persons and every allowances and charges given before to the same may now only be allowed to companies only.

DEDUCTION NOT ALLOWED:

Section 21

Before finance bill 2016 section 21(c) read as “any salary, rent, brokerage or commission, profit on debt, payment to non-resident, payment for services or fee paid by the person from which the person is required to deduct tax and failed to deduct tax, the deduction regarding the same expense shall not allowed.

Finance bill 2016 has proposed to remove the specified expenses and added the general clause that “any expenditure”. With the introduction of the same any expenses on which tax is required to be deducted and failed to deduct shall be disallowed.

Finance bill 2016 has also proposed that the tax recovered under section 161 or 162 shall be considered as tax paid and the provision of section 21(c) may not be attracted if the same tax has been recovered coercively.

Section 21(o)

Finance bill 2016 has proposed to insert new clause read as under:

(o) any expenditure in respect of sales promotion, advertisement and publicity in excess of five percent of turnover incurred by pharmaceutical manufacturers:.

With the introduction of the same, expenditures of pharmaceutical manufacturers on sales promotion, advertisement and publicity is restricted up to the five (5%) percent of its turnover. Any excess will be added back to their income.

GROUP RELIEF:

Section 59B

Finance bill 2016 proposes to restrict the group relief up to the percentage share capital held by the holding company of its subsidiary company by way of introducing a formula.

This will reduce the amount of loss a subsidiary can adjust against the income of holding company.

TAX CREDIT FOR INVESTMENT IN HEALTH INSURANCE:

Section 62A

Finance bill 2016 proposes to introduce new section through which tax credit will be allowed on payment of health insurance.
This insertion is positive via which a taxpayer having business income or salary can reduce its tax liability by contributing premium in health insurance policy. Credit will be allowed an average rate of 5% of person taxable income or Rs. 0.1M whichever is lesser is allowed.

DEDUCTIBLE ALLOWANCE FOR PROFIT ON DEBT:

Section 64A

At present, an individual is allowed deductible allowance for profit on debt on the loan up to 1 million for construction of a new house or acquisition of house.

The bill proposes to provide relief to low income group, loan amount is being increased from 1 Million to 2 Million.

TAX CREDIT FOR EMPLOYMENT GENERATION BY MANUFACTURERS:

Section 64B

The finance bill 2016 proposes to increase the time period for getting credit under this section by one year till 2019 and the tax credit has been increased from one percent to two percent for every 50 employees.

The proposed change will promote the generation of employment in order to get the tax credit under the same section.

TAX CREDIT TO A PERSON REGISTERED UNDER THE SALES TAX ACT, 1990:

Section 65A

The bill proposes to increase the tax credit under this section from 2.5% to 3% in order to attract more manufacturers to supply their goods to registered persons up to 90% of their total supplies and also to encourage documentation.

TAX CREDIT FOR NEWLY ESTABLISHED INDUSTRIAL UNDERTAKINGS:

Section 65D

At present the same clause allows 100% tax credit on tax payable if 100% fresh equity is raised through issuance of new shares. This credit is allowable for five years from commercial production.

The bill proposes to reduce the condition of 100% fresh equity to 70% equity and tax credit would be allowed proportionately on owned new equity and not on borrowed amount. Period of tax credit is also being extended to June, 2019.

TAX CREDIT FOR INDUSTRIAL UNDERTAKINGS ESTABLISHED BEFORE THE FIRST DAY OF JULY, 2011:

Section 65E

At present, 100% tax credit on tax payable is allowed if 100% fresh equity is raised and the same is invested in the purchase and installation of plant and machinery for an industrial undertaking.
The bill proposed to reduce the condition of 100% fresh equity to 70% equity and tax credit would be allowed proportionately on owned new equity and not on borrowed amount. Period of tax credit is also proposed to be extended to June, 2019 and condition for continuation of the same business for at least five (5) years has also been introduced in order not to cut out the given credit.

AGREEMENTS FOR THE AVOIDANCE OF DOUBLE TAXATION AND PREVENTION OF FISCAL EVASION:

Section 107

These provisions are proposed to be substituted to enable the Federal Government to enter into a tax treaty or tax information and exchange agreement or multilateral convention or inter government agreement or similar agreement or mechanism for the avoidance of taxation or exchange of information for prevention of fiscal evasion.

This extension of eligibility has been made to enable the Federal Government to enter into arrangements with organizations, such as OECD, etc. in the matters of exchange of information relating to double taxation and prevention of fiscal evasion in addition to arrangements and agreements with other Governments.

Under the present apparatus of international tax arrangements, all the Governments should have mechanisms for collating and exchanging information with other Governments and supranational bodies, etc.

Another important change has been proposed in this section whereby the information obtained through the aforesaid agreements or treaties shall remain confidential. Previously, such confidentiality was not applicable in case the information was required for certain specified purposes as laid down in section 216(3) which inter alia include SECP, SBP, Civil Courts, etc.

The rationale of removing the right of using such information as is presently contained in provision need to be examined as after the proposed amendment there could be restriction of the use of information by the relevant respective authorities in Pakistan.

TRANSACTIONS BETWEEN ASSOCIATES:

Section 108

Specific documents and information are now proposed to be maintained in respect of transactions with associates and such information shall be furnished to the Commissioner within thirty days if required during the course of any proceedings under the Ordinance. This is an important amendment as this section is applicable both to resident and non-resident associates of the taxpayers. Furthermore, it is important that the information to be prescribed is in line with the internationally acceptable norms (such as those prescribed by OECD) especially in the case of non-resident associates.

MINIMUM TAX:

Section 113

Currently, an individual and AOP having turnover of Rs. 50 million or above is liable to minimum tax at the rate of 1% of turnover. The Finance Bill proposes to reduce this threshold to Rs. 10 million. Accordingly, an individual or AOP having turnover of Rs. 10 million or more for tax year 2017 or in any subsequent tax year shall be liable to minimum tax at the rate of 1% of turnover.

The Finance Bill also seeks to omit the proviso that minimum tax shall not apply in case of a company which has declared gross loss before setting off of depreciation and other inadmissible expenses. The effect of this proposal is that a company shall be liable to minimum tax irrespective of declaring gross loss before setting off of depreciation etc.

Further, an explanation has been proposed to be inserted to provide that tax payable or paid under final tax regime and super tax under section 4B shall not be considered as tax payable or paid for the purpose of minimum tax.

REVISION OF RETURN:

Section 114(6)

Currently, a taxpayer is required to obtain approval from the Commissioner before revision if return is revised after sixty days of filing of return.

The Finance Bill proposes to allow revision of return considered as deemed assessment order under section 120 without approval of the Commissioner where the taxable income is more than or the loss is less than the loss declared in the original return.

PROVISIONAL ASSESSMENT:

Section 122C

The Commissioner is empowered to make provisional assessment based on his best judgment if the taxpayer does not file return of income despite calling of the same by the Commissioner. Such a provisional assessment is considered as final if the taxpayer does not file return and other required documents within forty five days from the service of the provisional order.

The Finance Bill seeks to provide that provisional assessment shall not be treated as final assessment if:

- In case of individuals and AOPs, the return of income along with wealth statement and wealth reconciliation are filed within 45 days. Further, such individual and AOP shall present its accounts and documents for tax audit of that tax year.

- In case of companies, return of income tax along with audited accounts or final accounts, as the case may be, for the relevant tax year are filed by the company electronically during the said period of forty-five days. Further, such company shall present its accounts and documents for conducting audit of its income tax affairs for that tax year.

ADVANCE TAX:

Section 147

The Finance bill proposes to insert an explanation for the purpose of removal of doubt that Alternative Corporate Tax (ACT) under section 113C is to be considered for the purpose of calculation of advance tax.

PAYMENT FOR FOREIGN PRODUCED COMMERCIALS:

Section 152A

Finance Act, 2016 proposed insertion of new section, dealing with the deduction of taxes at the time any payments by any person to a non-resident for ***foreign produced commercial*** for purpose of advertisements on any electronic media @ 20% of gross amount, which will be consider as final tax liability of the non-resident person.

PAYMENTS FOR GOODS, SERVICES AND CONTRACTS:

Section 153

The proposed insertion of new clause viz. clause (e) by Finance Act, 2016, culminating in creation of final tax liability for the taxes deduction of at the time any payments to any person rendering advertising services on electronic and print media.

FURNISHING OF INFORMATION BY FINANCIAL INSTITUTIONS INCLUDING BANKS:

Section 165B

Section 165B obligates the financial institutions and banks to provide information to the Board in prescribed form and manner. Sub-section (2) provides the utilization of information obtained subject to the restrictions on disclosures by a public servant provided in section 216.

TAX COLLECTED OR DEDUCTED AS A FINAL TAX:

Section 169

The Finance Bill seeks to provide that excess withholding tax deducted or collected as final tax from non-filers can be claimed as refundable in their return of income.

REFUNDS:

Section 170

Currently, the taxpayer claiming the refund is required to file refund application within 2 years of the later of date of filing of return or the assessment order, as the case may be.
Finance Act, 2016 has proposed the extension of time period for filing refund application, direct relief extend towards the tax payer.

PENALTY:

Section 182

The Finance Bill proposes to provide penalty of Rs. 2,500 for each day of default subject to a minimum of Rs. 10,000 for non-furnishing of information by financial institutions and banks under section 165B.

PROSECUTION FOR UNAUTHORIZED DISCLOSURE OF INFORMATION BY A PUBLIC SERVANT:

Section 198

Finance Act, 2016 proposes prosecution of public servant for disclosure of any information under sub-section 1B of section 107 of Income Tax Ordinance. A restriction is proposed to be placed on dissemination of such information so obtained.

ADVANCE TAX ON PRIVATE MOTOR VEHICLE:

Section 231B

Every motor vehicle registering authority is liable to collect advance tax at the time of registration of motor vehicle at the specified rates. The Finance Bill proposes to insert a proviso whereby tax collection is not required under this section if the date of first registration of the vehicle is more than five years.

The Finance Bill also seeks to insert new sub-section (1A) requiring every leasing company / scheduled bank / investment bank / Development Financial Institution / modaraba to collect advance tax at the rate of 3 percent of the value of motor vehicle from a 'non-filer' at the time of leasing.

BROKERAGE AND COMMISSION:

Section 233

New insertion	Existing	Proposed	
		Filer	Non filer
Life insurance agents where commission is less than Rs. 500,000 per annum	0	8	16

COLLECTION OF TAX BY A STOCK EXCHANGE REGISTERED IN PAKISTAN:

Section 233A

S. No	Nature	Existing rate	Proposed rate
1	Purchase of shares	0.01	0.02
2	Sale of shares	0.01	0.02

ELECTRICITY CONSUMPTION:

Section 235

Category	Existing rate	Proposed rate
Commercial consumers of electricity with monthly bill exceeding Rs. 20,000	10	12

ADVANCE TAX ON SALE OR TRANSFER OF IMMOVABLE PROPERTY:

Section 236C

Existing		Proposed	
Filer	Non filer	Filer	Non filer
0.5	1	1	2

Further, the Finance Bill proposes to insert a new subsection (3) in section 236C whereby tax collection is not required under this section if the immovable property is held for a period exceeding 5 years

ADVANCE TAX ON PURCHASE OR TRANSFER OF IMMOVABLE PROPERTY:

Section 236K

Advance tax on purchase of immovable property of more than Rs.3 million			
Existing		Proposed	
Filer	Non Filer	Filer	Non Filer
1	2	2	4

COLLECTION OF TAX BY PAKISTAN MERCANTILE EXCHANGE LIMITED (PMEX)

Section 236T

The Finance Bill seeks to withdraw the collection of tax by Pakistan Mercantile Exchange Limited on purchase / sales of future commodity contracts under section 236T. The said section was inserted through Finance Act, 2015.

(NEW INSERTION)

ADVANCE TAX ON INSURANCE PREMIUM:

Section 236U

The Finance Bill proposes to insert a new section 236U for collection of tax on insurance premium by “non-filer” as per the following Table.

S. No	Type of premium	Rate
1	General Insurance	4%
2	Life Insurance exceeding Rs. 200,000 per annum	1%
3	Others	0%

ADVANCE TAX ON EXTRACTION OF MINERALS:

Section 236V

The Finance Bill proposes to insert a new section 236V for collection of tax on extraction of minerals as per the following Table:

Filer	Non Filer
0%	5%

ADVANCE TAX FROM PROVINCIAL SALES TAX REGISTERED PERSON:

Section 236W

The Finance Bill proposes to insert new section 236W whereby provincial revenue authorities shall be made responsible for collection of tax at 3% of the turnover from a provincial sales tax registered person who is non-filer for income tax purposes. The tax collected by provincial authorities shall be adjustable.

SECOND SCHEDULE- EXEMPTIONS:

PART I

The Finance Bill proposes to insert, withdraw and modify certain exemptions in Part I of the Second Schedule, as listed below:

NEW EXEMPTIONS:

Exemptions to entities working at Gwadar - Clauses (126A) to (126AD)

- Income derived by following companies from Gwadar port operations starting from 6 February 2007 for a period of 23 years [Clause (126A)]:
  – China Overseas Port Holding Company Limited (already existed);
  – China Overseas Port Holding Company Pakistan (Private) Limited;
  – Gwadar International Terminal Limited;
  – Gwadar Marine Services Limited; and
  – Gwadar Free Zone Company Limited.
  - Profit and gains derived by a taxpayer from business set up in Gwadar Free Zone for a period of 23 years from 1 July 2016 - Clause (126AA);
  - Profit on debt derived under a financing agreement with China Overseas Port Holding Company Limited by any foreign lender or local bank having more than 75 per cent shareholding of the Government or State Bank of Pakistan - Clause (126AB)
  - Income derived by contractors and sub-contractors of the following companies from Gwadar Port operations for a period of 20 years with effect from 1 July 2016 [Clause (126AC)]:

  – China Overseas Port Holding Company Limited;
  – China Overseas Port Holding Company Pakistan (Private) Limited;

- Gwadar International Terminal Limited;
- Gwadar Marine Services Limited; and
- Gwadar Free Zone Company Limited.
  - Dividend received by China Overseas Port Holding Company Limited and China Overseas Port Holding Company Pakistan (Private) Limited - Clause (126AD)

EXEMPTION WITHDRAWL

Micro Finance Banks – Clause (66)(xviii)

Exemption to income of Micro Finance Banks had already expired on 30 June 2012, hence deleted.

Inter-corporate dividend for Group Relief - Clause (103A):

Exemption to inter-corporate dividend to group companies entitled to group relief under section 59B is proposed to be withdrawn. Exemption to 100% owned group shall continue, subject to fulfilment of specified conditions.

EXEMPTION MODIFIED

Sports Boards - Clause (98)

Exemption to sports boards has been restricted to sports boards or organisations established by Government only.

IT related services - Clause (133)

Exemption to income from export of computer software or IT services or IT enabled services expiring on 30 June 2016 proposed to extend to 30 June 2019 subject to the condition that 80 per cent of export proceeds is brought into Pakistan in foreign exchange through normal banking channels.

PART II

The Finance Bill proposes to modify and withdraw certain clauses in Part II of the Second Schedule for reduction in tax rates:

Services rendered and construction contracts executed outside Pakistan - Clause (3)

Currently income from services rendered and construction contracts executed outside Pakistan istaxable @ 1 per cent of the gross receipts.

The Finance Bill proposes to enhance the tax rate equal to 50 per cent of tax rates applicable to resident person in respect of services rendered and execution of contacts respectively.

Pakistan Cricket Board - Clause (3B)

Income derived by Pakistan Cricket Board from sources outside Pakistan is proposed to be taxed at 4 per cent of gross receipts.

Pakistan Cricket Board may opt to pay tax at 4 per cent of gross receipts from tax year 2010 and onwards subject to the following conditions:

- withdrawal of appeals, references and petitions; and
- payment of outstanding tax liabilities upto tax year 2015 by 30 June 2016.

PART IV

The Finance Bill seeks to insert, withdraw and modify following clauses in Part IV of the Second Schedule providing for exemption from specific provisions.

NEW EXEMPTION:

Exemption from minimum tax under section 113

The Finance Bill proposes to exempt following entities from application of section 113 regarding minimum tax under clause (11A):

i) China Overseas Port Holding Company Limited, China Overseas Port Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited; and Gwadar Free Zone Company Limited for 23 years from 6 February 2007. [sub-clause (xxvi)]

ii) Companies qualifying for exemption under clause (126M) of Part-I of Second Schedule in respect of profits and gains derived from a transmission line project. [sub-clause (xxvii)]

Exemption from withholding tax on dividend – Clause (38AA)

The Finance Bill proposes to exempt withholding tax on dividend under section 150 to China Overseas Port Holding Company Limited, China Overseas Port Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited for 23 years.

MODIFICATIONS:

Extension in concession to Hajj Group Operators - Clause (72A)

The Finance Bill seeks to extend concession, from applicability of clause (l) of section 21 (expenditure for a transaction under single account head which in aggregate exceed Rs. 50,000), section 113 (minimum tax), section 152 (payment to non-resident) as available to Hajj Group Operators upon payment of specified amount per hajji, for tax year 2016.

Audit of industrial undertaking obtaining exemption certificate on imports - Clause (72B)

The Finance Bill seeks to empower the tax authorities for selection and to conduct audit of the industrial undertaking who obtained withholding tax exemption certificate under section 148 on imports.

Furthermore, exemption on imports shall be applicable to the extent of 110 per cent of quantity of raw material imported and consumed during the previous tax year. This condition has already been specified in SRO 717(I) of 2014.

If taxpayer fails to present accounts or documents, the certificate issued shall be cancelled and tax not collected shall be recovered.

Investments in industrial undertakings - Clause (86)

Provisions of section 111 (Unexplained income or assets) are not applicable in case investment in industrial undertakings is made on or after 1 January 2014 and commercial production commences on or before 30 June 2017. This date is now proposed to be extended from 2017 to 2019.

Minimum tax on specified service sector - Clause (94)

The Finance Bill seeks to extend the benefit of reduced rate of 2% upto 30 June 2017. Further, for tax year 2017, a company is required to file the undertaking by November 2016.

Further, “IT services and IT enabled services” as defined in clause (133) is also proposed to be included as specified service sector to obtain benefit of Clause (94).

EXEMPTIONS WITHDRAWN

Withholding tax on Inter-corporate dividend and profit on debt for Group Relief - Clauses (11B) and (11C)

Exemption from withholding tax on inter-corporate dividend and profit on debt to group companies, entitled to group relief under section 59B is proposed to be withdrawn. 100% owned group entitled for group taxation under section 59AA shall continue to have this exemption.

Minimum tax on trading houses - Clause (57)

Exemption from minimum tax under section 113 for trading houses is proposed to be withdrawn.

Further, reduced rate of minimum tax under section 113 for trading houses at 0.5 per cent is proposed to be applicable upto tax year 2019.

Filing of wealth statement - Clause (82)

A person whose taxable income is less than one million rupees was not required to file wealth statement for tax year 2014. Since the said exemption was not extended to tax year 2015 it became superfluous, therefore, proposed to be withdrawn.

FOURTH SCHEDULE - TAXATION REGIME OF INSURANCE ENTITIES:

Insurance Companies Rule (6B)

Rule 6B of Fourth Schedule provides for reduced rate of tax on capital gain, whereas the courts have held that dividend is also taxable at reduced rate provided for the purpose of section 5 of the Ordinance.

The Finance Bill now seeks to substitute Rule (6B) to provide that tax on capital gains and dividend are to be taxed at corporate rate of tax.

SIXTH SCHEDULE - RETIREMENT FUNDS:

Enhancement of limit of employer annual contribution to provident fund Rule (3)

The Finance Bill seeks to enhance non-taxable limit of employer annual contribution to provident fund, for the purpose of salary income, from Rs. 100,000 to Rs. 150,000.

SEVENTH SCHEDULE - TAXATION REGIME OF BANKING COMPANIES:

Super tax on banking companies [Rule (7C) and section 4B]

The Bill proposes to extend levy of super tax under section 4B for rehabilitation of temporarily displaced persons at the rate of 4% on banking companies to tax year 2016.

EIGHTH SCHEDULE – RULES FOR CAPITAL GAINS:

Tax collection on mutual fund and commodity contract by NCCPL – Rule 1, Sub-rules (IA) and (IBCapital gains on units of open ended mutual funds are currently subject to withholding tax under Division VII Part I to the First Schedule which is now proposed to be omitted.

The Finance Bill now proposes to insert sub-rules (IA) and (IB) to empower NCCPL to compute and determine tax from capital gains in case of units of open ended mutual funds and future commodity contracts on Pakistan Mercantile Exchange.

Information provided to NCCPL – Rule 1, Sub-rules (3A)

The Finance Bill proposes to bind the Asset Management companies, Pakistan Mercantile Exchange or any other person to furnish information required by NCCPL.

A proviso has been proposed to be inserted in sub-rule (3) which provided that if such information was not provided then NCCPL shall forward the case to the Commissioner for enforcement. It appears that such proviso should be included in sub-rule (3A).

AMENDMENTS IN FIRST SCHEDULE

PART-I

- **DIVISION VIA: INCOME FROM PROPERTY:**

  Property income for all cases is currently subject to tax on net-income basis. It is now proposed that in the case of individuals and Association of Persons (AOP), tax shall be payable on the basis of 'gross rent' instead of 'net income'. A scheduler rate has been prescribed for the same. The 'income from property' so taxed shall not be clubbed with any other head of income.

Following tax rates have been prescribed for chargeability and withholding on annual gross rentals derived by individuals and AOPs exceeding Rs. 200,000 under section 15:

Rent Slabs	Rates of Tax
Where the gross amount of rent does not exceed Rs. 200,000.	Nil
Where the gross amount of rent exceeds Rs. 200,000 but does not exceed Rs. 600,000.	5 per cent of the gross amount exceeding Rs. 200,000.
Where the gross amount of rent exceeds Rs. 600,000 but does not exceed Rs. 1,000,000.	Rs. 20,000 plus 10 per cent of the gross amount exceeding Rs. 600,000.
Where the gross amount of rent exceeds Rs.1,000,000 but does not exceed Rs.2,000,000.	Rs.60,000 plus 15 per cent of the gross amount exceeding Rs.1,000,000.
Where the gross amount of rent exceeds Rs.2,000,000.	Rs.210,000 plus 20 per cent of the gross amount exceeding Rs.2,000,000";

- **DIVISION VII: CAPITAL GAINS**

  It is proposed is Finance Bill 2016 separate rates of tax on capital gains from disposal of securities have also been proposed to include separate rates for Filers and Non-Filers and putting more tax burden on Non-Filer.

  The following are the new rates to be paid under section 37 A

Period	Tax Year 2017	
	Filer	Non-Filer
Where holding period of a security is less than twelve months	15%	18%
Where holding period of a security is twelve months or more but less than twenty-four months	12.5%	16%
Where holding period of a security is twenty-four months or more but the security was acquired on or after 1st July, 2012	7.5%	11%
Where the security was acquired before 1st July, 2012	0%	0%
Future commodity contracts entered into by the members of Pakistan Mercantile Exchange	5%	5%

- **DIVISION VIII: CAPITAL GAINS ON DISPOSAL OF IMMOVABLE PROPERTY:**

  The rate of tax to be paid under sub-section (1A) of section 37 shall be as follows;

Period	Rate of Tax
Where holding period of Immovable property is up to five years	10%
Where holding period of immovable property is more than five years.	0%

- **DIVISION VIIIA: TAX ON BUILDERS:**

  The rate of tax under section 7C shall be as follows:

(A) Karachi, Lahore and Islamabad		(B) Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta		(C) Urban Areas not specified in A and B	
For commercial buildings					
Rs. 210/ Sq Ft		Rs. 210/ Sq Ft		Rs. 210/ Sq Ft	
For residential buildings					
Area in Sq. ft	Rate/ Sq. Ft	Area in Sq. Ft	Rate/ Sq. Ft	Area in Sq. Ft	Rate/ Sq. Ft
Up to750	Rs. 20	Up to750	Rs. 15	Up to 750	Rs. 10
751 to 1500	Rs. 40	751 to 1500	Rs. 35	751 to 1500	Rs. 25
1501 & more	Rs. 70	1501 and more	Rs. 55	1501 and more	Rs. 35

- **DIVISION VIIIB: TAX ON DEVELOPERS**

  The rate of tax under section 7D shall be as follows:

(A) Karachi, Lahore and Islamabad	(B) Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta	(C) Urban Areas not specified in A and B
For commercial Plots		
Rs. 210/ Sq Yd	Rs. 210/ Sq Yd	Rs. 210/ Sq Yd

For Residential Plots

PART III

- **DIVISION I: ADVANCE TAX ON DIVIDENDS:**

  It is proposed in the Finance Bill 2016 that the rate of tax on dividends from Mutual Funds have now to include separate rates for Filers and Non-Filers and putting more tax burden on Non-Filer.

  It is also to be proposed that for the non-filers, the rate of advance tax to be deducted shall be 20% under section 150 and 236S.

  The proposed rate of tax to be deducted by a collective investment scheme RIET Scheme or mutual fund shall be;

- **DIVISION III: PAYMENTS FOR GOODS OR SERVICES:**

  It is proposed in the Finance Bill 2016 that the rate of tax to be deducted from a payment referred to in clause (a) of sub-section (1) of section 153 that in the case of the supplies made by the distributors of fast moving consumer goods, 3% of the gross amount payable, if the supplier is a company and 3.5% if the supplier is other than a company.

It is also proposed that tax to be deducted from payments under clause (b) of sub-section (1) of section 153 in respect of persons making payments to electronic and print media for advertising services, in case of a filer, 1.5% of the gross amount payable.

- **DIVISION V: DEDUCTION OF TAX FROM PROPERTY INCOME:**

The rate of tax to be deducted under section 155, in the case of individual and association of persons, shall be Rs. 600,000

- **DIVISION VI: PRIZES AND WINNINGS:**

It is proposed in the Finance Bill 2016 that the rate of tax to be deducted under section 156 on a prize on prize bond or cross-word puzzle shall be 15% of the gross amount paid for filers and 20% of the gross amount paid for non-filers.

PART IV

- **DIVISION II: BROKERAGE AND COMMISSION:**

It is proposed in the Finance Bill the rate of collection under sub-section (1) of section 233 shall be following table separating the rates of Filer and Non-Filer and burdening the Non-Filer more.

The rate of tax to be deducted under section 233 shall be;

- **DIVISION IIA: RATES FOR COLLECTION OF TAX BY A STOCK EXCHANGE REGISTERED IN PAKISTAN:**

It is proposed in the Finance Bill 2016 that following rate shall prevail for collection of tax by Stock Exchange

i. in case of purchase of shares as per clause (a) of sub-section (1) of section 233A, 0.02% of purchase value;

ii. in case of sale of shares as per clause (b) of subsection (1) of section 233A, 0.02% of sale value.

- **DIVISION IV: COLLECTION OF TAX ON COMMERCIALELECTRICITY CONSUMPTION:**

It is proposed in the Finance Bill 2016 that the rate of tax collection for commercial consumers on electricity bill exceeding Rs. 20,000 is to be increased from 10% to 12%.

- **DIVISION X: ADVANCE TAX ON TRANSFER OF IMMOVABLE PROPERTY:**

It is proposed in the Finance Bill the rate of collection under section 236C shall be following rates separating the rates of Filer and Non-Filer and burdening the Non-Filer more.

The rate of tax to be collected under section 236C shall be 1% of the gross amount of the consideration received for filers and 2% of the gross amount of the consideration received for non-filers.

- **DIVISION XVIII: ADVANCE TAX ON PURCHASE OF IMMOVABLE PROPERTY:**

It is proposed in the Finance Bill the rate of collection under section 236K shall be following rates separating the rates of Filer and Non-Filer and burdening the Non-Filer more.

The rate of tax to be collected, where the value of Immovable property is more than 3 million, under section 236K shall be 2% of the gross amount of the consideration received for filers and 4% of the gross amount of the consideration received for non-filers.

- **DIVISION XXII: RATE OF COLLECTION OF TAX BY PAKISTAN MERCANTILE EXCHANGE LIMITED:**

  It is proposed in the Finance Bill 2016 that no separate tax rates are proposed for Filers and Non-Filers deriving capital gain from settlement of future commodity contracts.

- **DIVISION XXV: ADVANCE TAX ON INSURANCE PREMIUM:**

  As per new provision inserted in the proposed Finance Bill 2016, namely 236U, the rate of tax to be collected from non-filers under section shall be as under;

- **DIVISION XXIV: ADVANCE TAX ON EXTRACTION OF MINERALS:**

  As per new provision inserted in the proposed Finance Bill 2016, namely 236V, the rate of tax to be collected from non-filers under section shall be 5% and from filer shall be 0%

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AMENDMENTS OF THE SALES TAX ACT, 1990

DEFINITIONS COTTAGE INDUSTRIES:

Clause 5AB

The Bill proposed to amend the definition of cottage industry, previously the definition was that "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 bills during the last twelve months ending any tax period do not exceed eight hundred thousand."

The Bill proposed to increase the turnover from taxable supplies for cottage industries from five million to ten millions to promote the business of cottage industries. The low turnover threshold was causing undue hardships and registration requirements for small manufacturers who make minimal contributions to revenues.

DUE DATE:

Clause 9

The Bill proposed to omit the word 26AA in clause 9, which was about Retail tax return. 26AA was inserted by the Finance Act, 1997, that every registered retailer making taxable supplies shall furnish not later than due date a true and correct return in the prescribed form to the designated branch of the specified branch specified by the board. 26AA was omitted by Finance Act, 2008. As the same was still appearing in the due date definition so they proposed to omit it. Furthermore new substitution has been made that Different dates may be specified for furnishing of different parts or annexures of the return, through this proposal the Board may specify different dates for furnishing of different parts or annexures of the return. Due date for payment is to be notified.

INPUT TAX

Clause 14

The Bill proposed to amend the definition of input tax and omit the clause (d) which was that "the provincial sales tax levied on services rendered or provided to the person". Service providers were in the definition of input tax and they were able to claim their paid input tax, now due to proposed changes they will not be allowed to claim the same.

<u>Section 6:</u> Time and Manner of Payment

The Bill proposed to substitute the way of payment of tax, the board may specify the date for payment. Due date for payment of tax is to be notified.

DETERMINATION OF TAX LIABILITY:

Section 7

The Bill proposed to make addition in sub section (2), in clause (i), that a registered person will not be entitled to deduct input tax from output tax if the supplier has not declared such supply in his return or he has not paid amount of tax due as indicated in his return. And also specify that the Board may notify the date in this respect. The supplier needs to file his return and pay the amount of tax due, if not then will not be allowed to deduct input tax against the output.

TAX CREDIT NOT ALLOWED:

Section 8

The Bill proposed to make addition in sub section 1, in clause (l) that the registered person will not be allowed a tax credit of such goods and services, at the time of filling of return by the buyer, have not been declared by the supplier in his return or he has not paid amount of tax due as indicated in his return. The return is required to contain such goods and services and the amount of tax due is required to be paid before taking tax credit.

ASSESSMENT OF TAX AND RECOVERY OF TAX NOT LEVIED OR SHORT LEVIED OR ERRONEOUSLY REFUNDED:

Section 4A: (New Insertion)

Before the finance bill 2016 no powers were available with the assessing officer to recover the amount from the person who failed to withheld sales tax as prescribed in sales tax special procedure rules 2007

The assessing officer is proposed to be provided with powers under section 11 that he can recover the amount in default from persons. Person is required to withhold the sales tax required to be withheld and also to pay the same in the prescribed manner.

EXEMPTIONS:

Section 13

The Bill proposed to empower the Federal Government to allow exemptions on sales tax in relation to international financial institutions and foreign government owned financial institutes.

RETURNS:

Section 26

The Bill proposed to omit sub section 2, which is that "if there is a change in the rate of tax during a tax period, a separate return in respect of each portion of tax period showing the application of different rates of tax shall be furnished".

Requirement for separate return in case of change in rate of tax during a tax period is proposed to be withdrawn. Due to which not more than one return of tax for the whole year is required to be submitted, it will not be submitted separately due to change in rates.

DIRECTORATE GENERAL OF INPUT OUTPUT CO-EFFICIENT ORGANIZATION:

Section 30DD (New Insertion)

"The Directorate General of input output coefficient organization (IOCO) inland revenue shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officer as the board may, by notification in the Official Gazette, appoint".

SALES OF TAXABLE ACTIVITY OR TRANSFER OF OWNERSHIP:

Section 49

The Bill proposed to amend the section 49 that in case of sale or transfer of ownership of a taxable activity or pert thereof to another registered person as an ongoing concern, the taxable goods or part thereof shall be transferred to the new through zero rated invoice and the sales tax chargeable thereon shall be accounted for and paid by the registered person to whom such taxable activity or part thereof is transferred. A 'zero-rated invoice' shall be issued by the transferor to the transferee on sale of taxable activity or transfer of ownership of such activity as an ongoing concern to another registered person.

DISCLOSURE OF INFORMATION BY PUBLIC SERVANT:

Section 56B

The Bill proposed to substitute section 56B as;

(1). Any information acquired under any provision of this act shall be confidential and no public servant shall disclose any such information, except as provided under section 216 of the income tax Ordinance, 2001(XLIX of 2001).

(2). Notwithstanding anything contained in sub section (1) and the freedom of information ordinance, 2002 (XCVI of 2002), any information received or supplied in pursuance of bilateral or multilateral agreements with government of foreign countries for exchange of information under section 56A shall be confidential.

Disclosure of information received or supplied in pursuance of bilateral or multilateral agreements with foreign governments is proposed to be confidential notwithstanding the status of the Freedom of Information Ordinance, 2002.

THIRD SCHEDULE:

The Bill proposed to include Mineral/ bottled water in the third schedule on which tax is to be levied on retail price.

FIFTH SCHEDULE:

The Bill proposed to omit followings from the list of fifth schedule;

Colours in sets (PCT heading 3213.1000)

Writing, drawing and marking inks (PCT heading. 3215.9010 and 3215.9090)
Erasers (PCT heading 4016.9210 and 4016.9290)

Exercise books (PCT heading 4820.2000)
Pencil sharpeners (PCT heading 8214.1000)
Geometry boxes (PCT heading 9017.2000)

Pens, ball pens, markers and porous tipped pens (PCT heading 96.08)

Pencils including colour pencils (PCT heading 96.09)

Milk 1 (PCT heading 04.01 2)

Bicycles (PCT heading 87.12).

- **AMENDMENTS AND INSERTIONS IN THE SIXTH SCHEDULE:**

  Sixth Schedule contains import and supplies of good that are outside the scope of sale tax and therefore not subject to sales tax.

INSERTION/AMENDMENTSIN THE TABLE-1 OF THE SIXTH SCHEDULE:

- **Incentives For Gwadar Free Zone Under Sixth Schedule:**

  Exemption shall be given to imports and supplies from sale tax and FED to China Overseas Ports Holding Company Limited (COPHCL), its operating companies, their contractors and sub-contractors. These exemptions from sales tax and FED shall be for 40 years w.e.f July 1, 2016 on the imports and supplies of material, equipment, ship bunkers oils bought and sold to ships calling on/visiting Gawadar Port subject to following conditions;

  i. This exemption only to COPHCL and its operating companies.
  ii. Exemption can be claimed only to material and equipment for construction of Gawadar Port.
  iii. Supplies should be made by registered person.
  iv. Monthly statements shall be file in respect of supplies made by the registered person.
  v. Original copy of the monthly statement shall be retained by the registered person, duplicate by the operating company and triplicate by the Collector of Sale Tax.

As per new serial number, namely 100B, it is proposed to give exemption to the supplies made by businesses established in Gawadar Free Zone. This exemption shall be for the period of 23 years w.e.f. July 1, 2016 from sale tax and FED and only available to sales/supplies within Gawadar Free Zone and shall not be given to sales/supplies outside the Zone.

It is proposed in the Finance Bill 2016 to exempt the following Imports and Supplies.

Description	PCT Heading
Premixes for growth stunting	Respective heading subject to condition imposed
Laptops computers, notebooks	8471.3010
Personal computers	8471.3020
Pesticides and their ingredients	38.03

- **AMENDMENTS IN THE TABLE-3 OF THE SIXTH SCHEDULE:**

Finance Bill 2016 proposed the insertion of the word “and dump trucks” after the words “pickup trucks” in column (2) of serial number 4 in Table-3.Dump trucks, although being used at site, were not covered under the said provision.

➢ **AMENDMENTS IN EIGHTH SCHEDULE:**

Imports and supplies of ingredients of poultry and cattle feed are proposed to be increased and taxed at 10% under Eighth Schedule.

Following items are proposed to be omitted under Eighth Schedule subject to reduce rate of 10%

Description	PCT Heading
Other items of meat	2301.2090
Shrimp meal	2301.2010
Betafin	2923.9000

Following items are proposed to be inserted under Eighth Schedule subject to reduce rate of 10%.

Description	PCT Heading
Meat and Bone Meal	2301.1000
Sulphates of Zinc	2833.2940
Betaine	2923.9010

Imports and supplies of Plant, equipment machinery used in production of bio-diesel shall be taxed at rate of 5% and is proposed to omit specific items relating to these equipment

Supplies relating to Pesticides and their active ingredients registered by the Departments of Plant and Protection under Agriculture Pesticides Ordinance, 1971 are proposed to be omitted under Eighth Schedule.

Following items are proposed to be inserted under Eighth Schedule subject to reduce rate as given below;

Description	PCT Heading	Rate
White Crystalline Sugar	1701.9910 and 1701.9920	8%

➢ **AMENDMENTS IN THE NINTH SCHEDULE**

Finance Bill 2016 proposed to increase sale tax on imports or local supply to Rs. 1000 and sale tax chargeable at time of registration to be increase to Rs. 1000 of Medium Priced Cellular Mobiles Phones or Satellite phones having cameras of 2.1 to 10 megapixel, having screen size of 2.6 to 4.2 inches and having microprocessor less than 2 GHZ.

Finance Bill 2016 also proposed to increase sale tax on imports or local supply and sale tax chargeable at time of registration to Rs. 1500 of Smart phones having higher specifications.

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FEDERAL EXCISE

SIGNIFICANT AMENDMENTS

Definition

DUE DATE:

Section 2(8a)

The term 'due date' is defined in Federal Excise Act with reference to filing of return under Section 4 of Federal Excise Act, which is 15th day of the month following the end of tax period or such other date as the Board may, by notification in the official Gazette, specify.

Now, the Bill proposes to prescribe multiple due dates for furnishing of different parts or annexures of the return. This insertion is being proposed to align the definition with the new scheme of e-filing of returns, where the sellers and buyers will be required to file their respective returns or annexures of sales and purchases on different due dates.

FILING OF RETURN:

Section 4(3)

The Bill proposes to omit sub-section (3) of Section 4, which provides that separate date-wise returns are required to be filed whenever any change in FED occurs during the tax period.

In past, the registered persons were required to file separate returns on change in FED rate till the time FBR did not launch its e-filing portal for returns. As the e-filing of return is compulsory for every registered person, Section 4(3) is being omitted due to its redundancy

ADJUSTMENT OF DUTIES OF EXCISE:

Section 6(2A)

Presently, input FED can be adjusted against output FED provided the taxpayer holds valid proof for payment of the price of goods purchased by him.

The Bill proposes to insert a sub-section to allow adjustment of FED only if the supplier of input goods and services has declared such supply in his return and has paid the amount of duty due as indicated in his return.

The proposed insertion in Section 6 interalia covers the input tax on services, which should not be a subject matter of section 6. The input tax on services may have nexus with section 7, but not with Section 6, which entirely deals with adjustment of input FED against output FED in relation to excisable goods only

EXEMPTIONS:

Section 16

The Federal Government pursuant to the approval of the Economic Coordination Committee of Cabinet, whenever circumstances exist to take immediate action for specified purposes or implementation of bilateral or multilateral agreements exempt any goods from duty leviable through notification.
In order to expand the scope of this section it is proposed to include any international financial institution or foreign government owned financial institution operating under a memorandum of understanding, an agreement or any other arrangement with the Government of Pakistan.

OFFENCES AND PENALTIES:

Section 19

The Bill proposes a penalty at the rate of Rs. 5,000 or 3% of duty involved, whichever is higher, in case of non-compliance of the Federal Excise Act or allied rules, for which no specific penalty is provided.

DISCLOSURE OF INFORMATION BY PUBLIC SERVANT:

Section 47B

The provision of Section 47B bars the public servant to disclose any confidential information in specified matters. The Bill seeks to substitute Section 47B mainly to give an overriding effect over the provisions of the Freedom of Information Ordinance, 2002, apart from other changes of clarificatory nature

RATES OF FED ENHANCED:

Table I of First Schedule

Entry No.	Description of goods	Existing FED Rate	Proposed FED Rate
4,5 and 6	Aerated waters	10.5% of retail price	11.5% of retail price
9a	For the period from 01-07-2016 to 30-112016, locally produced cigarettes if their on-pack printed retail price exceeds Rs.4,000 (existing Rs.3,600) per 1,000 cigarettes	Rs. 3,155 per 1,000 cigarettes (as notified vide SRO 1181(1)/2015 dated 30 November 2015	Rs. 3,436 * per 1,000 cigarettes
9b	For the period from 01-12-2016 onwards, locally produced cigarettes if their on pack printed retail price exceeds Rs.4,000 per 1,000 cigarettes	-	Rs. 3,705 per 1,000 cigarettes
10a	For the period from 01-07-2016 to 30-112016, locally Produced cigarettes if their on-pack printed retail price does not exceed Rs.4,000 (existing Rs.3,600) per 1,000 cigarettes	Rs. 1,420 per 1,000 cigarettes (as notified vide SRO 1181(1)/2015 dated 30 November 2015	Rs. 1,534 * per 1,000 cigarettes
10b	For the period from 01-12-2016 onwards, locally produced cigarettes if their on pack printed retail price does not exceeds Rs.4,000 per 1,000 cigarettes	-	Rs. 1,649 per 1,000 cigarettes
13	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers	5% of the retail price	1 Rs per Kg

*Note: The proposed rates on locally produced cigarettes as per entries 9a and 10a have been notified to become applicable w.e.f. 4 June 2016 vide SRO 473(1)/2016 dated 3 June 2016.

FED ON SPECIFIED SERVICES ABOLISHED:

Table II of First Schedule

The Bill proposes to insert a Note that FED shall not apply on the following services, provided in the Provinces, where Provincial sales tax has been levied:

- Advertisement on closed circuit T.V;
- Advertisements on cable T.V. network;
- Advertisement in newspapers and periodicals (excluding classified advertisements), and on hoarding boards, pole signs and sign boards;
- Shipping agents;
- Services provided or rendered by banking companies, insurance companies, cooperative financing societies, modarabas, musharikas, leasing companies, foreign exchange dealers, nonbanking financial institutions, asset management companies and other persons dealing in any such services;
- Franchise services; and
- Services provided or rendered by stockbrokers

INTRODUCTION OF FED EXEMPTION:

Table I of the third schedule

Entry No.	Description of goods
19	Materials and equipment for construction and operation of Gwadar Port and development of Free Zone for Gwadar Port as imported by or supplied to China Overseas Ports Holding Company Limited (COPHCL) and its operating companies namely (i) China Overseas Ports Holding Company Pakistan (Private) Limited, (ii) Gwadar International Terminals Limited, (iii) Gwadar Marine Services Limited and (iv) Gwadar Free Zone Company Limited, their contractors and sub-contractors; and Ship Bunker Oils bought and sold to the ships calling on/visiting Gwadar Port, having Concession Agreement with the Gwadar Port Authority, for a period of forty years, subject to the conditions and procedure as specified under S. No. 100A of Table1 of Sixth Schedule to the Sales Tax Act, 1990.
20	Supplies made by the businesses to be established in the Gwadar Free Zone for a period of twentythree years within the Gwadar Free Zone, subject to the condition that the sales and supplies outside the Gwadar Free Zone and into the territory of Pakistan shall be subjected to Federal Excise Duty

FED REPLACED BY SALES TAX:

Entry No. 53 of Table-I of the First Schedule and Entry No. 3 of the Second Schedule

The Bill seeks to omit entries relating to White Crystalline Sugar from First and Second Schedules.
Through proposed amendments in Sales Tax Act, sales tax @ 8% will be attracted on White Crystalline Sugar.

WITHDRAWAL OF FED EXEMPTION:

Table-I of the Third Schedule

Entry No.	Description of goods
18	White Cement

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ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001: (ICTO)

The provisions of Federal Sales Tax Act relating to the following powers of Federal Government are proposed to apply to ICTO:

- Specifying a higher or lower rate of tax, subject to such conditions and restrictions.
- Levy and collect such amount of tax as it may deem fit on any services or class of services in lieu of sales tax.
- Allow exemptions under section 13 of the Federal Sales Tax Act.
- Notify any person or class of person as withholding agent for the purpose of deduction and deposit of sales tax.

Zero rating facility available under Federal Sales Tax Act to diplomats shall apply to ICTO.

Exemptions available under Federal Sales Tax Act to grants in aid shall apply to ICTO.

Tax levied under ICTO shall not apply to regulatory and licensing services rendered or provided by an organization established under a Federal statute.

FISCAL RESPONSIBILITY AND DEBT LIMITATION ACT, 2005:

Background

The approval and implementation of Fiscal Responsibility and Debt Limitation Act, 2005 was meant to provide for elimination of revenue deficit and reduction of public debt to a prudent level by effective public debt management. The implementation of the said Act was an effort by the Government to create strong institutional mechanism to restore fiscal discipline and to introduce greater transparency in fiscal operations.

The targets for maintaining fiscal responsibility and debt limitations as prescribed under the law could not be met. Accordingly, it appears that the proposed Finance Bill provides for revised and manageable targets for achieving financial discipline. This Act is effectively an oversight on the functions of the Federal Government with respect to the management of fiscal deficit and resultant public debt.

PROPOSED AMENDMENTS:

ThroughtheFinanceBill2016, it is proposed that the Act shall provide for reduction of Federal fiscal deficit and ratio of public debt to gross domestic product to a prudent level by effective public debt management. The term ‘Federal fiscal deficit’ is proposed to mean the difference between total net revenue receipts and total expenditure of the Federal Government. Whereas, the term ‘total net revenue’ is proposed to mean a sum of tax revenues, non-tax revenues and surcharges of the Government minus transfer of provincial share. The total public debt is proposed to define as the debt of the Government serviced out of the Consolidated Fund and debts owed to the International Monetary Fund.

Through the Finance Bill 2016, the targets relating to reduction in fiscal deficit and debt to GDP ratio are proposed to be revised. A brief summary of the old targets and the proposed new targets are tabulated below:

	New targets	Old targets
Reduction of fiscal/ revenue deficit	4%ofGDPduringt he 3years(from financial year2017-18)and maintaining it at a maximumof3.5% of the GDP thereafter	Reduce to Nil by June30, 2008 and thereafter maintaining are venue surplus
Debt to GDP	Public debt shall be reducedto60%oft	Public debt should not exceed60%

	he estimated GDP, within aperiodof2financial years(from financial year2016-17);and Public debt shall be reduced by 0.5% every year within a period of 5financial years(from 2018-19to2022-23) and a reduction of 0.75%everyyear(from 2023-24to2032-33)to reduce the total public deficitto50%ofthe estimated GDP and thereafter maintaining itto50%orlessof estimated GDP	of the estimated GDPbyJune 30, 2013and thereafter maintaining below60%of the GDP; and Public debt be reduced by not lessthan2.5 %of the estimated GDP from financial years 2003to2013
Public welfare	Existing targets for public welfare are proposed to be deleted and no targets for public welfare have been proposed	Social and poverty alleviation related expenditures should not be reduced below 4.5%ofthe estimated GDP and budgetary allocation for education and health will be doubled from existing level in terms of percentage of GDP.

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CUSTOMS

SIGNIFICANT AMENDMENTS

Changes in Customs Duty slab rates First Schedule

- A new customs duty slab of 3% is proposed to be introduced by merging two slabs of customs duty having rates of 2% and 5%
- Generally, 10% and 15% slabs rate of customs duty are proposed to be substituted with 11% and 16% slabs rate respectively

REDUCTION IN CUSTOMS DUTY:

Description	Existing	Proposed
(F) Dairy, Livestock and Poultry, machinery	5%	2%
Active Pharmaceutical Ingredients		
Moxifloxacin	5%	3%
Alfacalcidole	5%	3%
Acid Hypophosphorous	5%	3%
Dextro-Methorph Hbr	5%	3%
Sodium Benzoate	5%	3%
Sodium Valproate	5%	3%
Diphenhydramine	5%	3%
Alprazolam	5%	3%
Fluconazole	5%	3%
Famotidine	5%	3%
Lactulose	5%	3%
Hydrcortisone Acetate Micronised	5%	3%
Clotrimazole	5%	3%
Ferrous Sulphate	5%	3%
Artemether	5%	3%
Lumefantrine	5%	3%

DUTY CONCESSIONS UNDER AUTOMOTIVE DEVELOPMENT POLICY 2016-21:

S. No	Description	PCT Code	Customs Duty
1	Agricultural Tractors, having an engine capacity exceeding 35 HP but not exceeding 100 HP	8701.9020	15%
2	Agricultural Tractors (other than mentioned at S. No. 1 above)	8701.9090	10%
3	Fully dedicated LNG buses (CBU)	8702.9030	1%
4	Fully dedicated LPG buses (CBU)	8702.9040	1%
5	Fully dedicated CNG buses (CBU)	8702.9050	1%
6	Hybrid Electric Vehicle (HEV) (CBU)	8702.9060	1%
7	Hybrid Electric Vehicle (HEV) (CBU)	8704.2214 8704.2294 8704.2340 8704.3240	1%
8	Trailers	87.16	15%

INTRODUCTION OF ZERO RATING CUSTOMS DUTY:

Fifth schedule

- Fish and shrimp feed
- Fish for breeding in commercial fish farms
- Import of machinery and equipment for textile sector, not locally manufactured.
- Water quality testing kits

EXEMPTION OF CUSTOMS DUTY ON DISPOSAL OF OLD AND USED AMBULANCES BY EDHI FOUNDATION:

First Schedule (9912)

It is proposed that the ambulances already imported or to be imported by Edhi Foundation may be disposed of after expiry of seven years from the date of importation without payment duty and taxes leviable at the time of import with the prior approval of FBR.

GENERAL POWER TO EXEMPT FROM CUSTOMS DUTIES:

Section 19

The Federal Government pursuant to the approval of the Economic Coordination Committee of Cabinet, whenever circumstances exist to take immediate action for specified purposes or implementation of bilateral or multilateral agreements exempt any goods from customs duty imported into or exported from Pakistan through notification.

In order to expand the scope of this section it is proposed to include any international financial institution or foreign government owned financial institution operating under a memorandum of understanding, an agreement or any other arrangement with the Government of Pakistan.

CONFIDENTIALITY OF INFORMATION:

Section 155H

Under this section, all trade information gathered by Customs during clearance of goods shall be confidential and shall not be used except for specified purposes.

The Bill proposes to include confidential information in relation to sharing of data contents under a memorandum of understanding, bilateral, regional, multilateral agreements or conventions as well as public disclosure of valuation data without disclosing name and address of the importer or exporter or their suppliers.

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