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FINANCE ACT CHANGES FEDERAL & PROVINCIAL LAWS

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Agenda Income Tax

- Overview of following major concepts and changes introduced by Finance Act 2017:
 - Changes in withholding tax including salary taxation
 - Changes in advance tax obligations
 - Changes in tax credits
 - Changes in minimum tax liability under section 113
 - Start-up exemption
 - Continuity of exemption from minimum tax for certain service sectors
 - Super Tax

Agenda Sales Tax

- Overview of following major changes in Federal Sales tax law
 - Taxation of retailers
 - Taxation of non-tariff area goods
 - Further tax @ 2%
 - Stay against coercive measures
 - Changes in Sales tax withholding obligations
- Overview of changes in Sindh Sales tax law
- Overview of changes under Punjab Sales tax law
- Overview of changes in KPK Sales tax law
- Overview of changes in Islamabad sales tax law

Changes in Withholding Obligations

- Section 149 - Salary
- Section 150 – Dividend
- Section 152 – Payment to Non-resident
- Section 153 – sales, services & contracts
- Section 155 – Rent
- Section 156 – Prizes & Winnings
- Section 156A – Petroleum Products
- Section 233 – Brokerage & Commission
- Section 236A - Sale of goods by auction

Salary Taxation-1

- No change in applicable Tax Rates
- All types of cash & in kind benefits included in the definition of salary
- Exemption is only given to special allowance paid to meet official expenses such as TADA etc.

Salary Taxation-2

- Medical Reimbursements/ insurance is fully exempt if in accordance with terms of employment (TOE).
- Medical allowance exempt up to 10% of basic salary with the condition that there should be no medical facility in TOE.

Salary Taxation-3

- Salary in excess of Rs. 15,000 per month should be paid in cash.
- In case of vehicle provided for personal or official & personal use, 10% or 5% of cost of vehicle to be added in salary

Salary Taxation-4

- **Deductions Tax Credits**
- Employees can claim following deductions from income:
 - Zakat
 - Donation to institutions mentioned in clause 61, part I, Second Schedule
 - Profit on debt paid on construction of house subject to limitations
- Employees are eligible for following tax credits subject to conditions prescribed in the law:
 - Donations to approved charitable organizations
 - Investment in shares
 - Life insurance premium
 - Health insurance premium
 - Voluntary pension scheme payments
 - Tax deducted at source

Dividend

- Tax rate increased from 12% to **15%** for filers
- No change in tax rate for non-filers which is still 20%
- For changes in tax rates on dividend by money market funds & stock funds – please see our rate card

Non-Resident Person 1

- **Construction services & related services/ Advertisement services by TV Satellite channels**
- Payment for construction services are now subject to **13%** (previously 12%) withholding tax rate for non-filers while rate of filers is unchanged i.e. 7% of gross payment
- Facility of exemption certificate is now also made available to such non-resident person who do not opt for FTR
- FTR can now be opted by such non-resident persons anytime as compared to previous law when they were required to opt within 3 months of commencement of financial year
- Previously FTR option was irrevocable for next two years but now there is no such provision

NON-RESIDENT PERSON 2

Payments to PE		Filer	Non-filer
Sale of goods (except sale by importer of goods in same condition)	Co	4%	7%
	Others	4.5%	7.75%
Services (Other than transport services – 2%)	Co.	8%	14%
	Others	10%	17.5%
Contract other than sale of goods or services	Co	7%	12%
Contract other than sale of goods or services	Others	7%	12%

RESIDENT PERSONS

Payment Nature		Filer	Non-filer
Sale of goods Other than FMCG	Co	4%	7%
	Others	4.5%	7.75%
FMCG	Company	2%	2%
	Others	2.5%	2.5%
Services (Other than transport services – 2%)	Co.	8%	14.5%
	Others	10%	17.5%
Contract other than sale of goods or services	Co	7%	12%
Contract other than sale of goods or services	Others	7.5%	12.5%

Services Fee retained – Section 153

- Proviso added to section 153
- The service charges retained by agents are now deemed paid by the service provider rather than recipient of services and the service provider is now responsible to collect tax under section 153(1)(b) for services rendered by agent
- This has mainly been done due to decision of Supreme Court in respect of PTV who was receiving license fee through DISCOS. The DISCOS were retaining their service fee but PTV was not deducting any withholding tax and Supreme Court held in favor of PTV.

Rent – Section 155

- No change in rate of withholding tax where landlord is a person other than company
- In case of company:
 - Filer – No change of rate i.e. 15% withholding tax rate still intact
 - Non-Filer – Rate of tax increase to 17.5%, previously there was no separate rate for non-filer.

Advertising Agents – Section 233

- The old FBR circular providing 85:15 bifurcation between advertising services & commission now introduced properly in law
- Federal Government, a Provincial Government, a Local Government, a company or an association of persons constituted by, or under any law being Principal required to deduct tax from
 - Advertising services under section 153(1)(b) – 1.5% (non-filer company 12%, non-filer other than company 15%)
 - From Commission use Formula = $A * 15 / 85$
 - Where A = amount payable to electronic & print media for advertising services other than commission

Other Important WHT Sections

- Prizes & Winnings – Rate of non-filer increased to **25% (previously 20%)** for prize bond & cross word puzzle
- Petroleum Products – Commission rate increased to **17.5% (previous 15%)** for non-filers
- Sale of goods by auction – collect **15%** tax from non-filer (previously 10%)

Advance Tax Provisions

- Advance tax was required to be collected from non-salaried individual (NRI only) on quarterly basis having income in excess of Rs.500,000. Now the limit is enhanced to **Rs. 1,000,000**
- Rates of tax on motor vehicles (up to 1300 CC) decreased for filers
- Advance tax on commercial bills now to be collected on basis of **GROSS** amount of bill
- For mobile & internet – rate decreased from **14% to 12.5%**
- Tax collected on sale of immovable property @ 1% (2% for non-filer) is now **minimum tax if purchased & sold during same tax year**

Changes in Tax Credits

- Tax credit for health insurance – limit enhanced from **Rs. 100,000 to Rs.150,000**
- 3% Tax credit against tax payable, where more than 90% sales were to registered persons, has been withdrawn
- Enlistment tax credit – A company who gets listed in a tax year can claim 20% tax credit in the year of listing and also in following year. Now 10% tax credit can be claimed in each of the next two years (total 3 years after listing year)

Changes in Minimum Tax Liability

- Rate increased from 1% to 1.25%
- No other change i.e. it can still be carried forward for next five years
- Minimum tax liability not applicable for non-resident companies

Minimum tax exemption – clause 94

- Tax @ 8% deducted on services is minimum tax for corporate sector except for following sectors if they pay tax @ 2% of their overall turnover:
 - freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services, car rental services
 - Pakistan Stock Exchange Limited
 - Pakistan Mercantile Exchange Limited
 - Building Maintenance Services.

Start up Exemption

- Three years exemption provided to start up from the year they get themselves certified from PSEB
- **Definition of Start up**
- a business of a resident individual, AOP or a company that commenced on or after first day of July, 2012 and the person is engaged in or intends to offer technology driven products or services to any sector of the economy provided that the person is registered with and duly certified by the Pakistan Software Export Board (PSEB) and has turnover of less than one hundred million in each of the last five tax years; or
- any business of a person or class of persons, subject to the conditions as the Federal Government may, by notification in the official Gazette, specify

SUPER TAX

- Section 2(28A) “Imputable Income” in relation to an amount subject to final tax means the income which would have resulted in the same tax, had this amount not been subjected to final tax.
- For levy of super tax, following income are added:
 - i. Profit on debt, dividend, capital gain, brokerage and commission;
 - ii. All NTR taxable income other than (i); and
 - iii. Imputable income excluding (i)
 - iv. Income computed under 4th, 5th, 7th & 8th schedule
- B/f losses not adjustable
- Super tax paid along with return as follows:

Person	Rate of super tax
Banking company	4% of the income
Person other than banking company, having income equal to or exceeding Rs.500 million	3% of the income

Super tax example

	Company other than Banking Co.			AOP			Individual		
Head of income	Receipts (Rs)	Tax deducted (Rs)	Income for Super Tax (Rs)	Receipts (Rs)	Tax deducted (Rs)	Income for Super Tax (Rs)	Receipts (Rs)	Tax deducted (Rs)	Income for Super Tax (Rs)
Commission	500 (m)	60 (m) @12%	500(m)	500 (m)	60(m) @12%	500 (m)	500 (m)	60 (m) @12%	500 (m)
Contracts	200 (m)	14 (m) @ 7%	14*100/32 = 43.75 (m)	200 (m)	15(m) @ 7.5%	45.087(m) Tax Imputable Income 1.3195 6	200 (m)	15(m) @ 7.5%	45.087(m) Tax Imputable Income 1.3195 6
						<u>13.680 39.087</u> 15 45.087			<u>13.680 39.087</u> 15 45.087
Profit on debt	30 (m)		30 (m)	30 (m)	3(m) @ 10%	30 (m)	30 (m)	3 (m) @ 10%	30 (m)
Dividend	20(m)	2.5(m) @12.5%	20(m)	20 (m)	5 (m) @12.5%	20 (m)	20 (m)	5 (m) @12.5%	20 (m)
Business income	1000 (m)		150 (m)	1000 (m)		150(m)	1000 (m)		150(m)
Capital gain	53 (m)		53 (m)	53 (m)		53 (m)	53 (m)		53 (m)
Services	30 (m)	2.4 (m) @ 8%	included in Business income		3 (m) @ 10%	included in Business income			included in Business income
Salary income			-			-	20(m)		20(m)
Total income for super tax			796.75 (m)			798.087 (m)			818.087(m)
Super tax @ 3%			23.9 (m)			23.94(m)			24.54(m)

Federal Sales Tax – Tier 1 Retailers 1

- Due to Court order, this concept is now moved from special procedure to new law
- Tier 1 retailers are defined as:
 - a retailer operating as a unit of a national or international chain of stores;
 - a retailer operating in an air-conditioned shopping mall, plaza or center, excluding kiosks;
 - a retailer whose cumulative electricity bill during the immediately preceding twelve consecutive months exceeds Rupees six hundred thousand; and
 - a wholesaler-cum-retailer, engaged in bulk import and supply of consumer goods on wholesale basis to the retailers as well as on retail basis to the general body of the consumers

Federal Sales Tax – Non-Tariff Goods

- As per Court decision goods imported for consumption in non-tariff areas did not require specific exemption
- To negate this decision specific provision has been made in the law whereby now goods imported are subjected to sales tax irrespective of their final destination

Federal Sales Tax – Further Tax

- Further tax @ 2% is applicable on supplies to persons required to be registered but not registered.
- This further tax was not applicable on zero rated supplies however now it has been extended to zero rated supplies as well.
- A recent notification has excluded zero rated goods mentioned in fifth schedule from levy of further tax.

Federal Sales Tax – Stay

- Last year in the income tax law, automatic stay till decision by CIR(Appeals) was introduced subject to 25% payment of tax demand by taxpayer.
- Same has now been provided under Sales Tax Act 1990 as well.
- Same has also been introduced in the Federal Excises Act 2005

Basic concept of sales tax withholding: What, How and Why?

- Every **prescribed** person who procures taxable goods/ services from registered or unregistered persons is required to withhold sales tax from the payment to be made to the supplier of goods or services, as the case may be.

Prescribed Withholding Agent – Federal

- Federal and provincial government departments;
- Autonomous bodies;
- Public sector organizations;
- Companies as defined in ITO 2001 which is registered for sales tax, FED or income tax;
- Recipient of service of advertisement, who are registered for sales tax; and
- Person registered as exporters

Rates card – ICT Withholding rules

Withholding Agent	Withheld from	Rate
All withholding agents except recipient of advertisement services	All Registered person except wholesaler, dealer (including petroleum dealers) or distributors	1/5 th of sales tax
All withholding agents	Registered wholesaler, dealer or distributors	1/10 th of sales tax
FTN Holders	Unregistered person	Applicable rate of sales tax (currently 17%)
Other than FTN holders	Unregistered person	1% of value of taxable supplies
Recipient of adv. Services	Person rendering adv services	Applicable rate of sales tax (currently 17%)

Payment of STWH-Federal

- In case of a person registered under STA 1990, deposit the amount of sales tax withheld along with the return filed for the month in which the purchases are made
- In case of a person not registered for STA 1990, he shall pay STWH at the time of payment.

Other responsibilities-Federal

- Indicate in an advertisement that sales tax will be withheld as per rules
- If registered, file data through sales tax return
- If unregistered, file STWH return prescribed in the rules
- Issue STWH certificate to the supplier duly specifying name and registration no. of supplier, description of goods and amount of sales tax deducted.

Exclusions-Federal

Following supplies & services if made by **REGISTERED PERSON**

- Electrical energy,
- Natural gas
- POL products supplied by E&P companies, oil refineries, oil marketing companies and dealers of motor spirit and high speed diesel
- Steel sector under special procedure rules
- Vegetable ghee and cooking oil
- Telecommunication services
- Third schedule goods
- Supplies by commercial importers who have paid value addition tax on imports
- Supplies made by an active taxpayer as defined in the Sales Tax Act 1990 to another registered person with the exception of advertisement services

Sindh Sales Tax - Important Changes 1

Definition of Place of Business

- Modified to include economic activity in Sindh through virtual presence, website, web portal or any other form of E-commerce

Joint & Severe liability

- Where the recipient fails to make payment of tax to service provider within 180 days and service provider does not pay tax to Govt, both are jointly & severally liable.

Input tax credit not allowed

- Goods & services subject to reduced rate or such rate as is not based on value of goods – input tax credit not allowed – this provision was previously available in rule 22A
- Telecommunication service providers paying sales tax @ 19.5% can claim sales tax paid on goods & services @ 17% however other persons cannot claim sales tax more than the rate of 13% (except 19% for telecom services) i.e. the applicable rate in Sindh.

Sindh Sales Tax - Important Changes 2

Input tax on capital goods, machinery & fixed assets

- For only those assets not prohibited by section 15A
- Input tax claimable in 12 equal monthly installments.

Assessment

- Time for issuance of assessment order increased from 120 days to 180 days

Automatic stay

- Automatic stay upon 25% payment made available till decision of Commissioner (Appeals)

Restriction on Issue of licenses

- SRB may restrict issuance of license by regulatory authorities to service providers who do not get themselves registered with SRB

Sindh Sales Tax - Important Changes 3

Changes in reduced rate regime

- Travel services – reduced from 10% to 8%
- Tour Operator services – reduced from 10% to 8%
- Renting of immovable property – reduced from 8% to 3%
- Telecommunication services – excluded and now chargeable @ 19.5%
- Indenting services against which foreign exchange is received through normal banking channel – included in reduced rate services @ 3%

Sindh Sales Tax - Important Changes 4

Changes in reduced rate regime

- Call center services against which foreign exchange is received through normal banking channel – included in reduced rate services @ 3%
- Option for normal rate withdrawn from franchise & intellectual property services – now rate = 10%
- Exemption in excess of 2% of sales tax on construction, building contractor & similar services provided if procured by Departments of Government of Sindh under new development schemes.

Prescribed Withholding Agent – SRB

- Offices and departments of Fed Govt, Prov govt and Local or district Govt.;
- Autonomous bodies:
- Public sector organizations including public corporation, State owned enterprises and regulatory bodies and authorities;
- Organizations which are funded, fully or partially, out of the budget grants of the Federal Govt. or Provincial Govt.
- Companies as defined in clause (28) of section 2 of the Act; (same as ITO 2001)
- FBR or SRB registered persons or above persons who receive or procure following “specific services:
 - Advertisement services other than ad in newspapers & periodicals
 - Renting of immovable property services
 - Services of auto-auctioneers
 - Intercity transportation or carriage of goods by road other than through pipeline or conduit or through specialized car carriers or through the fleet of logistic companies owning not less than 25 goods transport vehicles
 - Advertising agents who issue release orders or book advertisement space in relation to advertisement services
- SRB registered persons receiving taxable services from unregistered person

STWH Rate Card – SRB

- From registered person other than specified services: One-fifth of amount of sales tax
- From Registered persons not issuing sales tax invoice: Full amount of sales tax worked on the basis of gross value of services
- From unregistered persons: Full amount of sales tax worked on the basis of gross value of services
- For Specified services received from registered person or non-resident person based outside Pakistan: full amount of sales tax as per invoice or using tax fraction formula, as the case may be.

When to pay – SRB

- Registered Person with SRB, earlier of:
 - With return for month in which input tax is claimed
 - Date of payment to supplier
 - Within four months from the date of invoice
- Other WH Agents, earlier of:
 - 15th of the following 2nd month in which invoice issued
 - Date of payment to supplier

Other responsibilities – SRB

- Indicate in advertisement that sales tax will be withheld – specific form provided in rules
- Issue certificate of STWH as per specified format
- A registered person shall ensure that he or it allows withholding of sales tax to only such of his service recipients as are withholding agents otherwise registered person shall be liable to pay the tax along with default surcharge.

PRA – Important changes 1

- Annexure C is now required to be filed by 10th of every month
- Activities performed through ecommerce or virtual presence including web portals shall now be treated as place of business for levy of the Punjab sales tax on the activities carried out through e-commerce, web-portals etc.
- Joint & severe liability of recipient & service provider for failing to pay in 180 days – same as SRB

PRA – Important changes 2

- Input tax on fixed assets claimable in 12 months
- Automatic stay on 25% demand payment
- 0% & 1% sales tax on construction projects (Government Civil Works) – from notification transferred to law
- 5% tax on other construction projects
- Exemption limit of Rs. 50 million on contractual services withdrawn

KPRA – Important changes

- No particular changes as per Finance bill
- An interesting notification was issued for differentiating between “contractual services” & “construction services” chargeable to tax @ 15% & 5% respectively
- Construction services – where material is provided by client
- Contractual services – where material is also provided by service provider

ICT – Important changes

- No particular changes as per Finance bill
- Subsequent notifications issued whereby
 - Services provided or rendered by marriage halls and lawns, by whatever name called, including "pandal" and "shamiana" services and caterers would now be subjected to reduced sales tax of 5% within the Islamabad Capital Territory from 1 July 2017. No input tax credit allowed
 - The FBR has exempted whole of sales tax on Export of IT services and IT-enabled services as per the Islamabad Capital Territory (Tax on Services) Ordinance, 2001 from 1 July 2017.

THANK

YOU