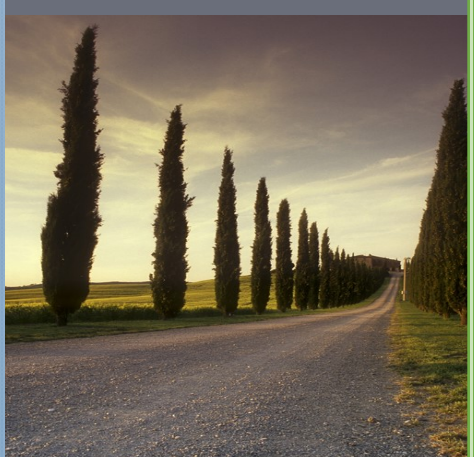
IN THE NAME OF ALLAH ALMIGHTY, THE MOST MERCIFUL, MOST BENEFICENT

KHILJI & CO.
Chartered Accountants

TAX BRIEFING 2018



Plot 2, Mezzanine Floor, Khumrial Plaza, I&T Center Street 22, Sector G-8/4, Islamabad.
Tel: +92 51 2253303-6, Fax +92 51 2253307, Email: sharif.khilji@khilji.net.pk, Website: www.khilji.net.pk

TAX BRIEFING 2018

COMMENTARY

FINANCE SUPPLEMENTARY (AMENDMENT) BILL 2018

Plot 2, Mezzanine Floor, Khumrial Plaza, I&T Center Street 22, Sector G-8/4, Islamabad.
Tel: +92 51 2253303-6, Fax +92 51 2253307, Email: sharif.khilji@khilji.net.pk, Website: www.khilji.net.pk

KHILJI & CO.
Chartered Accountants

TAX BRIEFING

FINANCE SUPPLEMENTARY

(AMENDMENT) BILL 2018

Khilji & Co (Chartered Accountants) is pleased to present this tax briefing, which is primarily aimed to help in understanding the impact of the changes that are proposed by Finance Supplementary (Amendment) Bill 2018 (hereinafter referred to "FSA 2018") relating to Income Tax, Sales Tax Laws, Federal Excise Duty and Customs Duty.

It is suggested that changes should not generally be acted upon without first obtaining appropriate professional advice.

This has always been a pleasure to be of service to our clients.

This briefing can also be accessed on our website

Special thanks to Team KCO for getting this done in time.

Sharif ud din Khilji, FCA
September 18, 2018.

TABLE OF CONTENTS

1. AMENDMENTS IN INCOME TAX

Section 214E – Closure of Audit

Section 214D provided for automatic selection of persons for tax audit in case of late filing of tax returns. However, this section created an extra workload for FBR and because of large number of late filers, it was not possible for FBR to conduct audit of every such person. Accordingly, section 214D was abolished by Finance Act 2018.

The FSA 2018 has gone one step ahead by introduction of section 214E which provides for closure of all such previous audits under section 214D if the following conditions are satisfied:

1. taxpayer has been selected for audit under sub-section (1) of the omitted section 214D;
2. Notice under section 122 has not been issued;
3. The taxpayer has revised return voluntarily, by thirty first day of December, 2018, along with payment of 25% higher tax than the tax paid with return on the basis of taxable income and where no tax is payable 2% of the turnover and where no turnover is declared penalty under entry at Serial No. 1 of sub section (1) of section 182 has been paid voluntarily.

A proviso has however been added which provides that the condition of 25% higher tax or 2% of the turnover shall not apply to following persons:

1. If the taxable income of the taxpayer includes only:
   a. salary income; or
   b. income subject to final taxation under sub-section (1) of section 169 or
   c. income subject to taxation under
      i. section 5 (dividend),
      ii. section 5AA (tax on undistributed reserves),
      iii. section 6 (certain payments to non-resident person),
      iv. section 7 (shipping or air transport income of non-resident person
      v. section 7A (shipping income of resident person), or
      vi. section 7B (profit on debt).

An explanation has been added to section 214E to clarify that this section does not provide for closure of audit in case of selection under section 177 or section 214C.

Section 227C Restriction on purchase of certain assets

Section 227C was inserted by Finance Act 2018 whereby non-filers were restricted from purchase of property exceeding Rs. 50 million and new locally manufactured or imported vehicles. This section is proposed to be abolished on the basis that this section was adversely affecting non-resident person who otherwise are not required to file return but in order to purchase property or vehicle in Pakistan would have to file tax return.

The purpose of providing exemption to non-resident persons from the application of this section could have been achieved by adding a suitable proviso to the section as the proposed abolishment of this section does not appear to give a good message to the filers and people who believe in compliance with legal provisions.

Rate of tax on individuals

Prior to Finance Act 2018, separate rates were provided in the law for salaries & non-salaried individuals while the individuals having salary income in excess of fifty percent of taxable income were treated as salaried individual. Moreover, the rates of tax for non-salaried individual and Association of Persons were also same before Finance Act 2018 except that AOPs prohibited from incorporating a company were provided reduced rate of income tax in the last slab.

Finance Act 2018 introduced uniform but highly reduced rates of income tax for salaried & non-salaried individuals hence providing them relief while separate slab rates (reduced as compared to previous rates but still higher in comparison to new rates for individuals) were introduced for AOPs.

FSA 2018 astonishingly proposes to make changes resulting in reintroduction of different slab rates of taxation for salaried & non-salaried individuals. The resultant changes in tax liabilities is summarized as under:

- The change in rates is effective from July 01, 2018 hence the employers will be required to adjust the short deduction of tax relating to July and August in subsequent months.
- No change in tax liability salaried and non-salaried person having annual income up to Rs. 2,400,000.
- Tax liability is reduced for salaried individuals having income between Rs. 2,400,000 to Rs.2,500,000.
- Tax liability is increased for all salaried individuals having income in excess of Rs.2,500,000 and non-salaried individuals having income in excess of Rs.2,400,000.
- The tax liability of non-salaried individuals is higher than AOPs (just by a minor amount) in some cases as can be observed from below table showing tax liability under new proposed slabs for various income levels of salaried, non-salaried individuals & AOPs:

All figures in PKR	Salaried Individual	Business Individual	AOP
Taxable Income	Tax Liability		
400,000	-	-	-
600,000	1,000	1,000	10,000
800,000	1,000	1,000	20,000
1,000,000	2,000	2,000	30,000
1,200,000	2,000	2,000	40,000
1,240,000	2,000	2,000	44,000
2,000,000	40,000	40,000	120,000
2,400,000	60,000	60,000	160,000
2,500,000	65,000	75,000	175,000
2,800,000	110,000	120,000	220,000
3,000,000	140,000	150,000	250,000
3,600,000	230,000	270,000	340,000
4,000,000	290,000	350,000	420,000
4,500,000	390,000	475,000	520,000
4,800,000	450,000	550,000	580,000
5,000,000	490,000	600,000	630,000
5,500,000	590,000	745,000	755,000
6,000,000	690,000	890,000	880,000
6,500,000	790,000	1,035,000	1,030,000
7,000,000	890,000	1,180,000	1,180,000
8,000,000	1,090,000	1,470,000	1,480,000
9,000,000	1,340,000	1,760,000	1,780,000
10,000,000	1,590,000	2,050,000	2,080,000

The slab rates proposed are reproduced hereunder while slab rates for AOPs are also given hereunder for ease of reference:

(Non-salaried)

0-400,000	0%
400,001-800,000	Rs.1,000
*800,001-1,200,000	Rs.2,000
1,200,001-2,400,000	5% of the amount above 1,200,000
2,400,001-3,000,000	60,000 + 15% of the amount above 2,400,000
3,000,001-4,000,000	150,000 + 20% of the amount above 3,000,000
4,000,001-5,000,000	350,000 + 25% of the amount above 4,000,000
Above 5,000,000	600,000 + 29% of the amount above 5,000,000

where taxable income exceeds Rs. Eight hundred thousand, the min tax payable shall be Rs. 2000.

(Salaried)

0-400,000	0%
400,001-800,000	Rs.1,000
*800,001-1,200,000	Rs.2,000
1,200,001-2,500,000	5% of the amount above 1,200,000
2,500,001-4,000,000	65,000 + 15% of the amount above 2,500,000
4,000,001-8,000,000	290,000 + 20% of the amount above 4,000,000
Above 8,000,000	1,090,000 + 25% of the amount above 8,000,000

**where taxable income exceeds Rs. Eight hundred thousand, the min tax payable shall be Rs. 2000.*

Rate of tax for AOP's

0-400,000	0%
400,000-1,200,000	5% of the amount above 400,000
1,200,000-2,400,000	40,000 + 10% of the amount above 1,200,000
2,400,000-3,600,000	160,000 + 15% of the amount above 2,400,000
3,600,000-4,800,000	340,000 + 20% of the amount above 3,600,000
4,800,000-6,000,000	580,000 + 25% of the amount above 4,800,000
Above 6,000,000	880,000 + 30% of the amount above 6,000,000

Second Schedule Exemptions

- Exemptions available to Provincial Governors are proposed to be withdrawn in respect of rent-free accommodation, free conveyance and sumptuary (entertainment) allowance.
- Similar exemptions available to Ministers in respect of rent-free accommodation, house rent allowance, free conveyance and sumptuary allowance are proposed to be withdrawn.
- Exemption from income tax, withholding tax & minimum tax are proposed to be provided to Supreme Court of Pakistan - Diamer Bhasha & Mohmand Dams – Fund by introducing a number of clauses in Second Schedule.
- The donations given to aforementioned Dam funds will be deductible from taxable income while FBR will also not ask for source of such donations.

2. AMENDMENTS IN SALES TAX

Sixth Schedule

- Exemption from sales tax is proposed on import & supply of a number of Angioplasty products, Angiography products, cardiac electro physiology products, cardiac surgery products, other cardiac equipment and peripheral interventions equipment by including these products & equipment under serial # 112 of Sixth Schedule. For complete list please see annexed FSA 2018.

- Exemption is proposed for local supply of LED or SMD lights and bulbs meant for conservation of energy

- Conditional exemption under serial # 15A of Table 3 to Sixth Schedule is proposed to be extended to LED bulbs

- LNG/ RLNG is now subject to reduced rate of 12% with the condition of supply to gas transmission and distribution companies

- Rate on Potassium chlorate is proposed to be enhanced by Rs. 25 per kilogram.

3. AMENDMENTS IN CUSTOM DUTY

- Zero rating of custom duty extended to LED bulbs
- Reduced (5%) rate of customs duty provided for single optical fibre
- Reduced for custom duty provided for a number of items. For complete list, please see annexed FSA 2018.

-

4. AMENDMENTS IN FEDERAL EXCISE

Unmanufactured Tobacco
[Section 2 (24A), section 19, section 26, section 27, First Schedule]

- Definition of unmanufactured tobacco is proposed to be introduced as follows:
  Quote un-manufactured tobacco" means tobacco useable for manufacture of cigarettes as manufactured by Green Leaf Threshing Units after processing and conversion of tobacco green leaf". **Unquote**
- Section 19 is proposed to be modified to provide confiscation of equipment used for unmanufactured tobacco in violation of law
- Section 26 is proposed to be modified to extend power of seizure provided therein to unmanufactured tobacco
- Section 27 is proposed to be modified to extend power of confiscation therein to unmanufactured tobacco
- Serial # 7 of First Schedule is proposed to be modified to increase rate of FED from Rs. 10 per Kg to Rs. 300 per Kg.
- Conditional exemption available under serial # 16 of Third Schedule is proposed to be withdrawn.

Locally Produced Cigarettes.
[First Schedule]

- Rate of FED increased from Rs. 3,970 per 1,000 cigarettes to Rs.4,500 per 1,000 cigarettes where on pack retail printed price exceeds Rs. 4,500 per 1,000 cigarettes.
- Rate of FED increased from Rs. 1,766 per 1,000 cigarettes to Rs.1,840 per 1,000 cigarettes where on pack retail printed price exceeds Rs. 2,925 per 1,000 cigarettes but do not exceed Rs. 4,500 per 1,000 cigarettes.
- Rate of FED increased from Rs. 854 per 1,000 cigarettes to Rs.1,250 per 1,000 cigarettes where on pack retail printed price does not exceed Rs. 2,925 per 1,000 cigarettes

Imported Vehicles with cylinder capacity of 1800 cc or above
[First Schedule – serial # 55]

- Rate of FED increased from 10% to 20%.

THANKING NOTE

Lastly, it is matter of true privilege for Khilji & Co, Chartered Accountants, to thank all its team members for their contributions during preparation of this document. It was really helpful to have all inputs. KCO considers itself extremely fortunate to have this highly capable, dedicated and exemplary team.

It has been a monumental effort for all team members contributing through their services and expertise to make this document possible in such a short span of time. We hope and believe that this document would assist our clients and team members in better understanding and evaluation of the Budget proposals.

We always strive to improve our quality of services and feedback on this document would be of great help in achieving this goal.

Plot 2, Mezzanine Floor, Khumrial Plaza, I&T Center Street 22, Sector G-8/4, Islamabad.
Tel: +92 51 2253303-6, Fax +92 51 2253307, Email: sharif.khilji@khilji.net.pk,
Website: www.khilji.net.pk