

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

KHILJI & CO.
Chartered
Accountants

TAX MEMORANDUM 2018



Plot 2, Mezzanine Floor, Khumrail 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 MEMORANDUM 2018

AN UNBIASED COMMENTARY

FINANCE ACT 2018

This document has been prepared according to communicate our understanding of Finance Act 2018. Although the highest standards of Professional Competence and Care has been followed regarding the showing of facts & figures in this Budget Commentary. However, Khilji & Co, (Chartered Accountants) does not assume any responsibility as to the correctness, alteration or change of these fact & figures. Moreover, Khilji & Co, Chartered Accountants should not be held responsible for any action taken / not taken on the basis of information contained in this document. The information provided in this document should only be used in conjunction with professional opinion from tax/ legal advisor and checked for updated position of law. This document as a whole or its any part should not be reproduced in any form without prior written approval from Khilji & Co. This document is distributed free of cost to our clients only. We humbly request our readers to please provide us the most valuable comments to make this more informative and useful. It has always been a pleasure to be of service to our clients.

For and on behalf of Editorial Group
Hussain Mehmood



TAX MEMORANDUM FINANCE ACT 2018

Khilji & Co (Chartered Accountants) is pleased to present this tax memorandum, which is primarily aimed to help in understanding the impact of the Budget changes that are brought by Finance Act 2018 relating to Income Tax, Sales Tax Laws, Federal Excise Duty and Customs Duty. This memorandum gives a brief overview of Pakistan economy and significant amendments made by the Finance Act 2018. All changes made through the Finance Act 2018 are effective July 1, 2018 unless otherwise stated.

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 memorandum can also be accessed on our website

Special thanks to Team KCO for getting this done. Congratulations Mr. Asim Habib, Mr. Abdul Hafeez, Mr. Saif ud din, Mr. Hussain Mehmood, Mr. Kaleem Majeed, Mr. Shafaat Ali, Mr. Mohsin Alizai and all students & support staff.

Sharif ud din Khilji
August 1, 2018

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1. HIGHLIGHTS

Income Tax

1. Taxation of offshore digital services provided by non-resident persons
2. AJK and Pakistan filer status aligned
3. Taxation of bonus shares abolished
4. Scope definition of Permanent Establishment widened
5. Super tax to be reduced gradually
6. Taxation of undistributed reserves modified
7. Exemption in case of Gift limited to gift from relatives only
8. Limitations placed on adjustment of unabsorbed depreciation
9. Enhanced limit for tax credit on investment in shares/ life insurance
10. Enhanced time for investment in plant & machinery/ new industrial undertaking
11. Provisions introduced for taxation of composite contracts
12. Taxation of services rendered by PE now under minimum tax regime
13. Gain on disposal of assets outside Pakistan introduced
14. Anti-avoidance provisions strengthened
15. Concept of foreign controlled company by resident person introduced
16. Foreign remittances in excess of Rs. 10 million can now be questioned
17. Statement of foreign assets & liabilities by resident persons introduced
18. Commercial imports are now subject to minimum tax
19. Advance tax own estimate provisions made more stringent
20. Advance tax provisions extended to banking companies
21. Further enhancement of taxes on non-filers
22. Restrictions on non-filers on buying of vehicles & property
23. New regime for Immovable property introduced but not yet made effective
24. Mechanism of Alternate Dispute Resolution modified
25. Automatic stay on payment of 10% demand
26. Tax rates on individuals (salaried & non-salaried) reduced
27. Advance tax to be collected on foreign payments through debit/ credit cards
28. Companies to be allowed tax credit for tax deducted on share from AOP

Sales Tax

1. Power of Federal Govt restored for any amendment
2. Rate of further tax increased for un-registered person
3. No input credit on import of scrap of compressors
4. Mechanism of assessment giving effect to an order
5. Establishment of new Directorate General (Intelligence and Investigation), IR
6. Audit to be conducted once in three years
7. Mechanism of Alternate Dispute Resolution modified

8. Automatic stay on payment of 10% demand
9. Provisions validating the order even sustaining any omission, irregularity or deficiency
10. Modification in Fifth, Sixth & Eighth Schedule

Customs Act

1. The customs enforcement has been increased to 24 nautical miles in the sea
2. Local manufacturer included in the definition of person
3. Power of Federal Govt has been restored in Section 18 & 19
4. Power to Use Data Exchange Information For Determination of Custom Value
5. Voluntary payment for false statement/error be regarded as mitigating factor
6. Period for deciding refund claim fixed
7. Provisional release of good imported
8. Introduced penalties added for non-compliance to electronic notices
9. Collector been empowered to grant stay for thirty days
10. Licensing of Custom house agents
11. Introduction of Authorized Economic Operator Programme
12. Opportunity to public for comments before enforcing Rules
13. Levy and collection of regulatory duty validated
14. Modification in First Schedule
15. Insertion of new clause in Third Schedule
16. Modification in Fifth Schedule

Federal Excise Duty

1. The Power of Federal Govt for amendment is restored.
2. Rate of default surcharge modified to twelve percent
3. Assessment order giving effect to an Order
4. Functions and Jurisdiction of Directorate General under section 30
5. Mechanism of Alternate Dispute Resolution modified
6. Automatic stay on payment of 10% demand
7. Audit to be conducted once in three years
8. Provisions validating the order even sustaining any omission, irregularity or deficiency
9. Modification in Third & Fifth Schedule

2. AMENDMENTS IN INCOME TAX

Section 2(22B), 6, 101, 152 Fee for offshore Digital Services

The definition of “Fee for offshore Digital Services” is inserted.

Section 6 is also amended for levy tax on non-resident person for fee for offshore digital services availing current loopholes in tax legislation to avoid payment of tax in Pakistan by non-residents whereas residents are taxable.

Section 101 is also amended to bring this within the ambit of definition of Pakistan Source Income.

Section 152 is also amended by insertion of new sub-section whereby banking companies or financial institutions are required to deduct tax at the rate specified in Division IV of Part I of the First Schedule from the gross amount remitted outside Pakistan by any resident or a permanent establishment of a non-resident in Pakistan to a nonresident person on account of fee for offshore digital services.

Section 2(23A) Relief for taxpayers filing returns in AJ&K and Gilgit-Baltistan

The definition of “filer” has been expanded to include “or AJ&K Council Board of Revenue or Gilgit-Baltistan Council Board of Revenue” after the word “Board”.

Now the persons appearing on the Active Taxpayers List maintained by the Inland Revenue Department in AJ&K and the Gilgit-Baltistan Council Board of Revenue shall be treated as filers under the Income Tax Ordinance, 2001. The insertion is aimed at providing relief to taxpayers of these areas not appearing in “filer” list of FBR.

Section 2(29), 39, 236M & 236N Withholding tax on issuance of bonus shares to be withdrawn

In order to encourage capital formation and enable companies to issue bonus shares in lieu of dividends to improve their liquidity, withholding tax on issuance of bonus shares is withdrawn and receipt of bonus shares is made to be ousted from the definition of income under the Income Tax Ordinance, 2001. Accordingly, clause m of section 39, section 236M and 236N have been omitted.

Section 2(41) Permanent Establishment

The definition of “permanent establishment” is expanded, thus making amendment regarding execution of contract., by substituting paragraph (i), sub-clause (e) namely:-

“(i) has and habitually exercises an authority to conclude contracts on behalf of the other person or has and habitually plays the principal role leading to the conclusion of contracts that are routinely concluded without material modification by the person and these contracts are —

(a) in the name of the person; or

(b) for the transfer of the ownership of or for the granting of the right to use property owned by that enterprise or that the enterprise has the right to use; or

(c) for the provision of services by that person; or”

Further following technical explanations regarding meaning of a permanent establishment with respect to an independent agent have been added after paragraph (ii), namely: —

“Explanation. — For removal of doubt, it is clarified that an agent of independent status acting in the ordinary course of business does not include a person acting exclusively or almost exclusively on behalf of the person to which it is an associate; or”;

An amendment in the definition of permanent establishment to include cohesive business operation of a person and associates have been made by adding the following new sub-clause after sub-clause (f), namely: —

“(g) a fixed place of business that is used or maintained by a person if the person or an associate of a person carries on business at that place or at another place in Pakistan and—

(i) that place or other place constitutes a permanent establishment of the person or an associate of the person under this sub-clause; or

(ii) business carried on by the person or an associate of the person at the same place or at more than one place constitute complementary functions that are part of a cohesive business operation.

Explanation.- For the removal of doubt, it is clarified that —

(A) the term “cohesive business operation” includes an overall arrangement for the supply of goods, installation, construction, assembly, commission, guarantees or supervisory activities and all or principal activities are undertaken or performed either by the person or the associates of the person; and

(B) supply of goods include the goods imported in the name of the associate or any other person, whether or not the title to the goods passes outside Pakistan.”;

These amendments are to clarify and enhance the scope of definition of “Permanent Establishment (PE)” however these amendments cannot override the definition of PE provided in avoidance of double taxation treaties with different countries.

Section 4B Super tax for rehabilitation of temporarily displaced persons

Part I Division IIA Rate of Super Tax

Super tax introduced vide finance act 2015 is made to be extended however the rate of super tax is made to be reduced by 1% annually.

Section 5A, 8 Tax on Undistributed Profits

In order to create a balance between safeguarding the interest of shareholders as well as facilitating capital formation through retention of corporate profit earnings for future investments, the condition of distributing 40% of after tax profits is being reduced to 20% and the applicable tax rate on accounting profit in case of failure to distribute such dividend is being reduced from 7.5% to 5%. Further, distribution of bonus shares have been excluded from calculation of 20% retained earnings for application of tax on undistributed profits.

Section 8 is also amended to omit reference Section 5A hence excluding this from the ambit of final tax regime. However, there is some confusion as the amendment does not seem to be appropriately drafted as reference to 5A is appearing twice in section 8 while the made amendment does not identify if amendments seeks to omit both references. Further the notes on clauses issued with the finance Act mentions that the made amendment seeks to amend section 8 to provide adjustability of "super tax" which is apparently not the case here.

Section 18 Income from business

In order to make technical amendment on separate classes of income from business, following explanation has been added in sub-section (1), after clause (e), namely:-

"Explanation.— For the removal of doubt it is clarified that income subject to taxation under sections 5A, 5AA, 6, 7 and 7A shall not be chargeable to tax under this section.";

Section 37, 79 Capital Gains

No gain or loss is taken to arise on the disposal of an asset by reason of a gift of the asset under sections 37 and 79 of the Ordinance i.e. it is treated as a non-recognition event, therefore, no liability for capital gains tax arises. Such non-recognition is now restricted to gifts given to "relatives" of an individual as defined in section 85(5) of the Income Tax Ordinance, 2001.

Section 53 Exemptions and tax concessions in the Second Schedule

The power to issue exemption and concession through notification in the official gazette, is made to be transferred to the Federal Government.

Section 57, 59A Carry forward of business losses (Unabsorbed Depreciation)

Major change in tax computations regarding adjustment of unabsorbed depreciation have been made by limiting the adjustment. Depreciation can now be adjusted against 50% of balance income where:

- Balance income = current year BI reduced by brought forward business loss (other than b/f UAD)

However, if taxable income for the year is less than Rs. 10 million, unabsorbed depreciation can be adjusted against 100% of balance income.

The loss, however, can be carried forward for unlimited period until fully set off i.e. same position as earlier. Moreover, unabsorbed depreciation can now only be adjusted against business income whereas earlier it could be adjusted against other sources of income as well.

To understand the adjustment of depreciation under the new provisions, following working may be helpful:

Rs. (million)									
Business Income before dep	Dep for the year	Business Income after dep	Business loss b/f excluding dep	Balance income	50% of Balance income	UAD b/f	UAD c/f	Taxable profits	Business loss c/f excluding dep
100.00	(120.00)	(20.00)	-	-	-	-	(20.00)	-	-
60.00	(36.00)	24.00	-	24.00	12.00	(20.00)	(8.00)	12.00	-
80.00	(76.00)	4.00	-	4.00	-	(8.00)	(4.00)	-	-
(20.00)	(30.00)	(50.00)	-	-	-	(4.00)	(34.00)	-	(20.00)
80.00	(46.00)	34.00	(20.00)	14.00	7.00	(34.00)	(27.00)	7.00	-
(10.00)	(8.00)	(18.00)	-	-	-	(27.00)	(35.00)	-	(10.00)
80.00	(66.00)	14.00	(10.00)	4.00	2.00	(35.00)	(33.00)	2.00	-
100.00	(20.00)	80.00	-	80.00	40.00	(33.00)	-	47.00	-

Section 62 Tax credit for investment in shares and insurance

In order to incentivize investment in shares/sukuks the limit of 1.5 Million Rupees is increased to 2 Million Rupees.

Section 65B Tax credit for investment

In order to incentivize investment and setting up of industrial undertakings /manufacturing concerns such tax credits are extended for two more years up to 30th June, 2021.

Section 65D Tax credit for newly established industrial undertakings

The benefit of tax credit under section 65B is extended to 2021.

Section 65E Tax credit for industrial undertakings established before the first day of July, 2011

The benefit of tax credit under section 65E is extended to 2021.

Section 100A & Seventh Schedule Special provisions relating to banking business

Income, profits and gains and tax payable of banking business thereon is made to be computed subject to the limitations and provisions contained in Chapters VII and VIII hence arm's length principle and re-characterization provisions are now applicable on banking companies as well.

Section 100C Tax credit for certain persons

In order to promote microfinance banks, profit on debt derived by non-profit organizations from micro-finance banks has been included as income eligible for 100% credit under section 100C of the Income Tax Ordinance, 2001.

Section 101, 152 Imports under Composite Contracts

Section 101 is amended to bring off shore supply under a composite within the definition of Pakistan Source Income.

A related amendment in section 152 seeks that the person, who intends to make payment to a non-resident person without deduction of tax under section 152 where the supply is made in connection with the overall arrangement for the supply of goods, installation, construction, assembly, commission, guarantees or supervisory activities and all or principal activities are undertaken or performed either by the associates of the person supplying the goods or its permanent establishment, whether or not the title passes outside Pakistan and whether or not the goods are imported in the name of the associate or any other person or the supply is made by a resident person or a Pakistan permanent establishment of a nonresident person in connection

with the overall arrangement as referred to in sub-clause (i), shall furnish to the Commissioner a notice in writing.

Section 101A Gain on disposal of assets outside Pakistan

A new section 101A "Gain on disposal of assets outside Pakistan" is made to be inserted.

Accordingly, any gain from the disposal outside Pakistan of an asset located in Pakistan of a non-resident company shall be Pakistan-source.

Where the asset is any share or interest in a non-resident company, and the share or interest derives its value wholly or principally from the assets located in Pakistan and share or interest represent 10% or more of the share capital of the non-resident company are disposed or alienated, the asset shall be treated to be located in Pakistan provided that the fair market value of such assets exceeds 100,000,000/- Rupees and represents at least 50% of the value of all assets owned by the non-resident company.

Where a non-resident company holds such assets through a resident company, such resident company shall, for the purposes of determination of gain and tax thereon shall furnish to the Commissioner within sixty days of the transaction of disposal or alienation of the asset by the non-resident company, the prescribed information or documents, in a statement as may be prescribed provided that the Commissioner may, by notice in writing, require the resident company, to furnish information, documents and statement within a period of less than sixty days as specified in the notice.

The person acquiring the asset from the non-resident person shall deduct tax from the gross amount paid as consideration for the asset at the rate of 15% and shall be paid to the Commissioner within 15 days of the payment to the non-resident.

The resident company shall collect advance tax from the non-resident company within 30 days of the transaction of disposal or alienation of the asset by such non-resident company provided that where the tax has been deducted and paid by the person acquiring the asset from the non-resident person, the said tax shall be treated as tax collected and shall be allowed a tax credit for that tax in computing the tax.

Hence, tax to be deducted or to be collected shall be higher of 20% of fair market value less cost of acquisition of the asset or 10% of the fair market value of the asset.

Section 107 Agreements for the avoidance of double taxation and prevention of fiscal evasion

In Section 107, in sub-section (2), for the word "Where" the words "Subject to section 109, where" are inserted to make a corrective amendment hence the giving overriding effect to anti avoidance provisions under section 109.

Section 108 Transactions between associates

An amendment has been made for furnishing information to Board by associates.

Section 109 Re-characterization of income and deductions

In order to plug loopholes anti avoidance provisions are being further strengthened and by inserting the following new clause in sub-section (1), after clause (c), namely:-

"(d) ,from tax year 2018, disregard an entity or a corporate structure that does not have an economic or commercial substance or was created as part of the tax avoidance scheme."

Further, following new sub-section after sub-section (2) has also been inserted, namely:-

"(3) Reduction in a person's liability to tax as referred to in sub-section (2) means a reduction, avoidance or deferral of tax or increase in a refund of tax and includes a reduction, avoidance or deferral of tax that would have been payable under this Ordinance, but are not payable due to a tax treaty for the avoidance of double taxation as referred to in section 107."

Section 109A Controlled foreign company

In the wake of Panama and other off shore leak scandals, a new section on attributing and including income of a controlled foreign company in taxable income of a resident person has been made.

Accordingly, controlled foreign company means a non-resident company if more than 50% of the capital or voting rights of the non-resident company are held, directly or indirectly, by one or more persons resident in Pakistan or more than 40% of the capital or voting rights of the non-resident company are held, directly or indirectly, by a single resident person in Pakistan and tax paid, after taking into account any foreign tax credits available to the non-resident company, on the income derived or accrued, during a foreign tax year, by the non-resident company to any tax authority outside Pakistan is less than 60% of the tax payable on the said income under this Ordinance. Moreover, the non-resident company does not derive active business income and the shares of the company are not traded on any stock exchange recognized by law of the country or jurisdiction of which the non-resident company is resident for tax purpose.

Income of a controlled foreign company is an amount equal to the taxable income of that company determined in accordance with the provisions of this Ordinance as if that controlled foreign company is a resident taxpayer.

The amount of attributable income shall be treated as zero, if the capital or voting rights of the resident person is less than 10% and income of a controlled foreign company shall be treated as zero, if it is less than 10,000,000/- Rupees.

The income attributable to controlled foreign company and taxed in Pakistan under this section shall not be taxed again when the same income is received in Pakistan by the resident taxpayer."

Section 111 Unexplained income or assets

An amendment has been made in section 111(2) of the Income Tax Ordinance, 2001 whereby concealed income earned/arising from outside Pakistan may be taxed in the tax year prior to the year of discovery of such unexplained income or asset.

Moreover the immunity available to foreign remittances is now made to be limited to foreign remittances of Rs. Ten Million in a tax year.

Section 114, 116A, 118 Foreign Income and Assets Statement

Section 116A is made to be inserted which requires submission of foreign income and assets statement and empowers the Commissioner to seek such statement if required.

This section requires that every resident individual taxpayer having,

- (a) foreign income of US\$ 10,000 or above; or
- (b) foreign assets with value of US\$ 100,000 or more,

is now required to furnish Foreign Income and Assets Statement (FIAS) as part of wealth statement in prescribed form and manner.

The required particulars of FIAS include:

- (a) Taxpayer's total foreign assets and liabilities as on the last day of tax year;
- (b) Foreign assets transferred by the taxpayer to any other person during the tax year and consideration thereof; and
- (c) Complete particulars of foreign income and expenditures incurred for the purposes of deriving such foreign income.

Section 114 is also amended to require such person to file annual return of income. Moreover every resident person who is required to file a return of income is required to foreign income and assets statement.

Consequential amendments in section 118 have also been made.

Section 121 (3) Best judgment assessment

Through this amendment time limitation on making assessment under section 121 has been prescribed when notice is issued. Now where notice for furnishing a return of income under sub-section (4) of section 114 is issued in respect of one or more of the last ten completed tax years, an assessment order under section 121 shall only be issued within two years from the end of tax year in which such notice is issued.

Section 131 (5) Appeal to the Appellate Tribunal

Through this amendment, where recovery of tax has been stayed under section 131, such stay order shall cease to have effect on expiration of the said period of one hundred and eighty days following the date on which the stay order was made and the Commissioner shall proceed to recover the said tax.

This amendment seeks to nullify the impact of decision of Islamabad High Court whereby ATIR was declared to have powers to grant stay in excess of 180 days.

Section 134A Alternative Dispute Resolution

Section 134 is substituted for composition of ADRC. Further amendments have been made to prescribe that the aggrieved person and the Board shall withdraw the appeals pending before the Appellate Authority and the decisions of the Committee shall be binding on both. However if the Committee fails to decide within the prescribed period, the Board shall dissolve the committee, by an order in writing, and the matter shall be decided by the Appellate Authority, which issued the order of withdrawal under sub-section (2B) and the appeal shall be treated to be pending before such Appellate Authority as if the appeal has never been withdrawn.

Section 137 Due date for payment of tax

The new proviso added seeks to make an amendment on due date for payment of tax under sub-section (7) of section 147. It proposes that the due date for payment of tax payable under sub-section (7) of section 147 shall be the date specified in subsection (5) or sub-section (5A) or first proviso to sub-section (5B) of section 147 i.e. the date for payment of quarterly advance tax prescribed under section 147.

Recovery of tax from persons holding money on behalf of a taxpayer

[Section 140 (1)]

The amendment has reduced the percentage from twenty five percent to ten percent of payable tax on automatic stay under section 140.

Section 147 Advance tax paid by the taxpayer

In sub-section (4), amendment is made whereby if a taxpayer fails to provide turnover or the turnover for the quarter is not known, it shall be taken to be one-fourth of one hundred and ten percent of the turnover of the latest tax year for which a return has been filed.

In sub-section (4A), the made amendment has been made to include a banking company for the purpose of advance tax payment on estimate basis. Hence now banking companies are required to file own estimate.

In sub-section (6), the amendment has been made to exclude a banking company from submission of estimate before the last installment of advance tax is due i.e. the option to file own estimate in case of lower income estimate is not available to banking companies. This amendment appeared unnecessary in Finance Act, as Seventh Schedule already provided that banking companies cannot use option of own estimate, however through Finance Act, 2018 the corresponding changes have been made in the Rule 5 of the seventh schedule.

Further, another amendment require that estimate of the amount of tax payable shall contain turnover for the completed quarters of the relevant tax year, estimated turnover of the remaining quarters along with reasons for any decline in estimated turnover, documentary evidence of estimated expenses or deductions which may result in lower payment of advance tax and the computation of the estimated taxable income of the relevant tax year. If estimate of the amount of tax payable is not accompanied by such details, the Commissioner may reject the estimate after providing an opportunity of being heard to the taxpayer and the taxpayer shall pay advance tax according to the formula contained in sub-section (4) i.e. on the basis of turnover formula.

Section 148 (2A) & (8) Commercial Imports

The amendment in sub-section (2A) giving validity to the notification issued under omitted sub-section 2 has included the words "amended or" before rescinded by the Board, ensuring applicability to the amended notification.

An amendment in sub-section (8) is made whereby the tax collected on goods where goods are sold in the same condition as they were when imported shall be minimum tax. Previously such tax was final tax.

Consequently, clause 56B, Part IV, Second Schedule is also made to be withdrawn.

Section 152 Payments to non-residents against services

The newly inserted sub-section (2B) proposes that the tax deducted from payments made to permanent establishments shall be minimum tax and further seeks that provision of sub-clauses (i), (ii) and (iii) of clause (b) of sub-section (3) of section 153 shall mutatis mutandis apply.

Currently the tax deductible from services is minimum tax for resident persons but adjustable for PE therefore the amendments seek to bring them at par. However the provisions of avoidance double taxation treaty need to be considered for any possible conflict.

Section 153 (1) Payments for goods, services and contracts

The amendment seeks to increase the threshold limit of non-taxable supplies and services to seventy five thousand rupees and thirty thousand rupees respectively.

Amendments are made in sub-section 7 whereby AOPs and individuals will now become withholding agent in the subsequent tax year if their turnover crosses the prescribed limit in the previous tax year.

Further, the builders and property developers are also included in the definition of prescribed persons.

Section 165A Furnishing of information by banks

The amendment has made changes in the type of information required to be submitted by banks. Instead of online access to its central database, the banks are required to provide a list of persons containing tax deductions and other information. The threshold for deposits and payments made against credit card has also been enhanced for which information is required to be submitted by banks.

Section 168 Credit for tax collected or deducted

Through the made amendment, a company shall be allowed a tax credit, in respect of tax collected or deducted from the AOP, where the company is member of such AOP. Section 92 provides that where a company is member of an AOP, the tax shall be payable by company in respect of its share of AOP however law was silent as to tax collected or deducted from AOP in respect of company's share. The made amendment seeks to rectify the situation in this regard.

Moreover where in respect of an amount tax credit has been allowed to company under section (2A), no tax credit shall be allowed to AOP in respect of such amount.

Section 177 (11) & Clause 105, Part IV, Second Schedule Audit

Through the amendment in section 177, a foreign expert or specialist and a tax audit expert has been included in the list of members from which the board can appoint special audit panel.

Further, if a member appointed for special audit panel is not an officer of Inland Revenue in that case agreement of confidentiality must be entered into between the Board and the person.

The amendment in second schedule seeks to exclude from the application of Section 177 and 214C i-e audit, any person whose tax affairs has been audited in any of the preceding three tax years. However, the proviso gives power to Commissioner to select a person for audit u/s 177 with the approval of Board.

Section 182 Offences and penalties

The amendments seek to modify certain penalty clauses as follows:

S.No.	Offences	Penalties	Section of the Ordinance to which offence has reference
1A	Where any person fails to furnish a statement as required under section 115, 165, or 165A, 165A or 165B] within the due date.]	Such person shall pay a penalty of five thousand Rupees if the person had already paid tax required to be collected or deducted and to be reported in the statement within the due date and filed statement within ninety days from the due date for filing the statement and ten thousand Rupees otherwise Rs. 2500 for each day of default subject to a minimum penalty of ten thousand rupees.	115,165 and 165A and 165B
1AAA	Where any person fails to furnish a foreign assets and income statement within the due date.	Such persons shall pay a penalty of 2 percent of the foreign income or value of the foreign assets for each year of default.	116A

Section 182A, 214D Return not filed within due date

Section 214D, relating to automatic selection of person for tax audit in case of delayed return filing, is made to be omitted however a new section 182A is made to be inserted whereby it has been made that the person who fails to submit return within due date shall not be included in the active taxpayers' list for the year for which return was not filed within the due date, however these provisions are applicable from tax year 2018 and for first ATL to be issued on March 2019. Also the person shall not be allowed, for that tax year, to carry forward any loss under Part VIII of Chapter IV.

Section 216 (3) Disclosure of information by a public servant

Through this amendment National Database and Registration Authority is included in the list that may have access to any particulars disclosed.

Section 218 (1) & (2) Service of notices and other documents

Through this amendment, service of notice, order or requisition shall also be treated as properly served on the resident individual or any person if served electronically in the prescribed manner. This amendment to a largely computer illiterate society is highly unjustified.

Section 227 (1) Bar of suits in Civil Courts

Bar of suit in Civil Courts has been extended to any notices issued by any person under Income tax ordinance, 2001 and it has been clarified that Civil Court includes any court exercising power of the civil court.

Section 227(C) Restriction on purchase of certain assets

A new section is made to be inserted through which restrictions have been made on non-filers. Now non-filers will not be allowed to purchase property and new locally manufactured or imported vehicles.

Section 230F Directorate General of Immovable Property

A new section is made to be inserted for Directorate General of Immovable Property. The key points are as under:

- Compulsory acquisition of immovable property by Government in case of under declaration for avoidance of withholding tax, concealment of unexplained amount or avoidance of capital gain tax.
- Valuer or expert may be appointed for determination of fair value.
- No proceedings after expiration of six months from the end of the month, in which the instrument of transfer in respect of such property is registered, recorded or attested.
- Opportunity of being heard to be provided.
- If Fair Market Value (FMV) of property exceeds the declared consideration by more than fifty percent of such consideration then such property may be acquired after obtaining Board approval.
- Possession of immovable property to be transferred within thirty days of order of acquisition.
- Appeal may be preferred before Appellate Tribunal of Immovable Property within sixty days of service of copy of acquisition order. Appeal against order of Tribunal can be preferred before High Court by aggrieved party within sixty days of service of Tribunal order.
- The consideration to be paid by Government for such acquisition shall be equal to the declared amount of transfer plus 100% of the said declared amount. For example if FMV is 100 and it has been declared at Rs. 20 then Government can acquire by paying Rs. 40 for the property.

- Any connivance between the Directorate General, Valuer and buyer could lead to loss to the Government.
- For example FMV of property is Rs. 100 and is under declared at say, Rs.55. The valuer wrongly values it at Rs. 120 which will lead the Government to acquiring the property for Rs. 110 when actual FMV of such property is Rs. 100.
- The provisions of this section will be effective from the date as the Federal Government provides in the Official Gazette.
- From the said effective date
 - o the immunity under section 111(4)(c) shall cease to have effect.
 - o the rate of advance tax on purchase of immovable property shall be reduced to 1%
 - o Section 236C & Division X, Part IV, Second Schedule i.e. advance tax on seller of immovable property shall not apply
 - o Section 236W shall not apply.

Section 233A (2) Collection of Tax by a Stock Exchange Registered In Pakistan

The amendment seeks to make tax under section 233A adjustable, earlier it was final tax.

Section 236HA Tax on Sale of Certain Petroleum Products

The amendment seeks to insert new section whereby tax is required to be collected on ex-depot price on sale of petroleum products where no commission or discount is allowed to petrol pump operator or distributor. The tax so deducted will be final tax.

Section 236K, sub-section 3 Advance Tax on Purchase Or Transfer Of Immovable Property

The amendment seeks to insert new sub-section for payment of tax on installments basis where payment is received on installment basis.

Section 236Y Advance Tax on Persons Remitting Amounts Abroad Through Credit or Debit or Prepaid Cards

The amendment requires banking company to collect advance tax at the time of transfer of money outside Pakistan through credit card or debit card.

Section 241(2) Validation

The amendment seeks to add a new subsection validating the actions of Directorate General or Commissioner or other authority even if there has been any flaw in procedural requirements for establishment.

THE FIRST SCHEDULE

For changes in tax rates, please see our rate card.

Second Schedule:

Clause 39A, Part I, Second Schedule.

The amendment seeks to add following in exempt income of Armed Forces personnel:

- a) Kit allowance
- b) Ration allowance
- c) Special messing allowance
- d) SSG Allowance
- e) Northern Areas compensatory allowance
- f) Special pay for Northern areas
- g) Height allowance

Clause 57(3), Part I, Second Schedule.

The amendment seeks to add following in exempt income from funds and institutions:

- a) At serial number (xv): Khuber Pakhtumkhwa Retirement Benefits and Death Compensation Fund
- b) At serial number (xvi) Khyber Pakhtunkhwa General Provident Investment Fund

Clause 61, Part I, Second Schedule.

The amendment seeks to add following in exempt donation i-e deductible from total income to following more institutions, foundations, societies, boards, trusts and funds:

- a) At serial number (xlvi) Pakistan Sweet Home, Angels and Fairies Place
- b) At serial number (xlvii) Al-Shifa Trust Eye Hospital
- c) At serial number (xlviii) Aziz Tabbu Foundation
- d) At serial number (xlix) Sindh Institute of Urology and Transplantation, SIUT Trust and Society for the Welfare of SIUT.
- e) At serial number (l) Sharif Trust
- f) At serial number (li) The Kidney Centre Post Graduate Institute
- g) At serial number (lii) Pakistan Disables Foundation
- h) At serial number (liii) Sardar Trust Eye Hospital, Lahore

Clause 66, Part I, Second Schedule.

The amendment seeks to add following in exempt income derived from following:

- a) At serial number (xxxiv) Third Pakistan International Sukuk Company Limited
- b) At serial number (xlii) SAARC Energy Centre

c) At serial number (xliii)	Pakistan Bar Council
d) At serial number (xliv)	Pakistan Centre for Philanthropy
e) At serial number (xlv)	Pakistan Mortgage Refinance Company Limited
f) At serial number (xlvi)	Aziz Tabba Foundation
g) At serial number (l)	Al-Shifa Trust Eye Hospital
h) At serial number (li)	Saylani Welfare International Trust
i) At serial number (lii)	Shaukat Khanum Memorial Trust
j) At serial number (liii)	Layton Rahmatullah Benevolent Trust (LRBT)
i) At serial number (liv)	The Kidney Centre Post Graduate Training Institute
j) At serial number (lv)	Pakistan Disabled Foundation
k) At serial number (lvi)	Forman Christian College
l) At serial number ((lvii)	Habib University Foundation
m) At serial number (lviii)	Begum Akhtar Rukhsana Memorial Trust Hospital
n) At serial number (lix)	Al-khidmat Foundation
o) At serial number (lx)	Dawat e Islami Trust
p) At serial number (lxi)	Sardar Trust Eye Hospital, Lahore

Clause 72A, Part I, Second Schedule.

Likewise, the amendment seeks to exempt income of a Sukuk holder by adding the “Third Pakistan International Sukuk Company Limited”. The said insertion has already been incorporated vide SRO 924(1)/2016 dated September 30, 2016.

Clause 90A, Part I, Second Schedule.

The amendment seeks to add profit on debt derived from bonds issued by Pakistan Mortgage Refinance Company for a period of five years starting from July 1, 2018.

Clause 100, Part I, Second Schedule.

The amendment seeks to add a further condition of manufacturing or the first day of July, 1999 for exclusion of bonus shares for the purposes of determining the ninety percent profits distribution.

Clause 110C, Part I, Second Schedule.

The amendment seeks to add this new clause purporting to declare exempt any gain of transfer of a bond issued by Pakistan Mortgage Refinance Company to refinance the residential housing mortgage marked for a period of five years starting from July 1, 2018 and ending on June 30, 2023.

Clause 126BA, Part I, Second Schedule.

The amendment seeks to declare exempt the gains of a refinery:

- a) Set up between July 1, 2018 and June 30, 2023 having minimum production capacity of 100,000 barrels per day for next twenty years beginning in the month the Refinery is set up or commercial production whichever is later.
- b) Existing refinery, if:
 - i) existing production capacity is increased to 100,000 barrels per day
 - ii) Maintenance of separate accounts for additional capacity
 - iii) the refinery is deep conversion facility

Clause 133, Part I, Second Schedule.

The amendment seeks to extend the period of exemption of income from exports of computer software of IT or IT enables services which was ending on June 30, 2019 to June 30, 2025.

Clause 24AA, Part II, Second Schedule.

The amendment seeks to declare rate of 6% on payments of gross amount to M/S CR-NORINCO JV (Chinese contractor) out of commercial contract with Govt of Punjab on installation of E&M equipment for construction of Lahore Orange Metro Train Project.

**Clause 6, Part III, Second Schedule
Section 39(1)(c)**

The amendment seeks to add Shuhda Family Welfare Account for the purposes of reduction in tax liability u/s 39(1)(c) i-e profit on debt.

Clause 7, Part III, Second Schedule.

The amendment seeks to reduce tax of foreign film makers from making films in Pakistan by fifty percent to encourage the film making industry.

Clause 8, Part III, Second Schedule.

The amendment seeks to reduce tax of resident film making companies from film making by fifty percent to encourage the film making industry.

Clause 9, Part III, Second Schedule.

The amendment seeks to reduce tax on profits and gains derived from low cost housing projects by fifty percent to support this important sector subject to certain conditions.

Clause 1A, Part IV, Second Schedule.

The amendment seeks to increase the scope to include Third Pakistan international Sukuk Company Limited. Earlier the said insertion was made vide SRO 924(1)/2016 dated September 30, 2016.

Clause 11A, Part IV, Second Schedule.

The amendment made to increase the scope of above clause excluding from the application of provisions of Section 113 i-e minimum tax to include:

- a) "Third Pakistan international Sukuk Company Limited". Earlier the said insertion was made vide SRO 924(1)/2016 dated September 30, 2016.
- b) Adding serial number (xxx) "taxpayers qualifying for exemption under clause (126) of Part-1 of this schedule with effect from tax year 2014". The said clause exempts the income of a public sector university solely for educational purposes and not for profit.

Clause 11E, Part IV, Second Schedule.

The amendment seeks to exempt the following from withholding of tax on services u/s 153(1)(b) on re-gasification charges by Sui Northern Gas Pipelines Limited:

- a) Sui Southern Gas Company Limited
- b) Pakistan LNG Terminal Limited

Clause 12A, Part IV, Second Schedule.

The amendment seeks to exempt the withholding of tax on dividend u/s 150, paid to Transmission Line Projects under Transmission Line Policy 2015.

Clause 36A, Part IV, Second Schedule.

The amendment made seeks to increase the benefit of exemption from withholding tax of profit on debt/interest/yield u/s 151 to "Shuhda Family Welfare Account".

Clause 56, Part IV, Second Schedule.

Section 148

The amendment made seeks to substitute the "Bakri Trading Compnay Pakistan (Pvt) Ltd, Overseas Oil Trading Company (Pvt) Limited" with "Bakri Energy (Private) Limited", to be enjoying the benefit of exemption from withholding of tax on imports u/s 148.

Clause 56B, Part IV, Second Schedule. Omitted as discussed above.

Clause 57, Part IV, Second Schedule.

Section 113 & 153

The amendment made seeks to increase the period from 2019 to 2021 for application of rate of minimum tax at 0.5% for the companies operating Trading Houses on fulfilling certain conditions mentioned in the clause. However, there is no change in exemption available from application of provisions of section 153 relating to withholding.

Clause 60A, Part IV, Second Schedule.

Section 148

The amendment made to exempt the following from application of provision of Section 148 relating to withholding of income tax on import of plant, machinery & equipment including dumpers and special purposes motor vehicles imported for Sukkur-Multan section of Karachi-Peshawar Motorway project and Karakorum Highway (KKH) Phase-II of CPEC project to the following:

- a) M/s China State Construction Engineering Corporation Ltd. (M/s CSCEC); and
- b) M/s China Communication Construction Company (M/s CCCC)

The above exemption was contained in SRO 735(1)/2016.

**Clause 60AA, Part IV, Second Schedule.
Section 148**

The amendment made seeks to exempt from withholding provisions of section 148 the import of construction materials and goods up to maximum of Rs. 10,898 million to M/s CSCEC for construction of Sukkur-Multan motorway project.

**Clause 60B, Part IV, Second Schedule.
Section 148**

The amendment made seeks to exempt from the withholding of tax u/s 148 import of thirty-five armoured and security vehicles imported by or for Ministry of Foreign Affairs, Govt of Pakistan meant for security of visiting foreign dignitaries, if

- a) the vehicles imported under this clause shall only be used for the security purpose of foreign dignitaries and will be parked in Central Pool of Cars (CPC) in the Cabinet Division for further use as and when needed; and
- b) the importing Ministry at the time of import shall furnish an undertaking to the concerned Collector of Customs to the extent of customs-dues exempted under this clause on consignment to consignment basis binding themselves that the vehicles imported under this clause shall not be re-exported, sold or otherwise disposed of without prior approval of the Board and in the manner prescribed therefor.

The said exemption was earlier contained in SRO 899(1)/2016.

**Clause 60C, Part IV, Second Schedule.
Section 148**

The amendment made seeks to exempt from the withholding of tax u/s 148 import of equipment to be furnished and installed for Rail Based Mass Transit Projects in Lahore, Karachi, Peshawar and Quetta under CPEC.

Earlier the said exemption was contained in SRO 44(1)/2017 dated January 27, 2017.

**Clause 63, Part IV, Second Schedule.
Section 2(36)**

The amendment made seeks to include the name of "Lahore University of Management Sciences, Lahore in the clause 63 rendering to deemed to have approved by the Commissioner for the purposes of Section 2(36) i-e non-profit organization. However, this approval is subject to application of 2(36)(c) i-e power of Commissioner to grant approval for a specified period and require any documents deemed necessary by him/her.

**Clause 86, Part IV, Second Schedule.
Section 111**

The amendment made seeks to exclude the following from the application of provisions of Section 111:

- (i) investment made by an individual in a greenfield industrial undertaking directly or as an original allottee in the purchase of shares of a company establishing an industrial undertaking or capital contribution in an association of persons establishing an industrial undertaking;
- (ii) investment made by an association of persons in an industrial undertaking; and
- (iii) investment made by a company in an industrial undertaking –
if the said investment is made on or after the 1st day of January, 2014 and commercial production commences on or before the 30th day of June, 2019.

The concessions given in this clause shall also apply to investment made in -

- (i) construction industry in corporate sector;
- (ii) low cost housing construction in the corporate sector;
- (iii) livestock development projects in the corporate sector;
- (iv) new captive power plants; and
- (v) mining and quarrying in Thar coal, Balochistan and Khyber Pakhtunkhawa.

The concessions given in sub-clause (a) shall not apply to investment made in-

- (i) arms and ammunitions;
- (ii) explosives;
- (iii) fertilizers;
- (iv) sugar;
- (v) cigarettes;
- (vi) aerated beverages;
- (vii) cement;
- (viii) textile spinning units;
- (ix) flour mills
- (x) vegetable ghee; and
- (xi) cooking oil manufacturing;

The term green field industrial undertaking shall include expansion projects for the purposes of this clause;

Immunity under this clause shall not be available to proceeds of crime relating to offences under the following laws, namely:-

- (i) Control of Narcotics Substances Act, 1997;
- (ii) Anti Terrorism Act, 1997; and
- (iii) Anti-Money Laundering Act, 2010

Earlier this concession was provided vide SRO 1065(1)/2013 dated December 20, 2013.

Clause 94, Part IV, Second Schedule.

Section 153(3)(b)

The amendment made seeks to include "inspection, certification, testing and training services" in the category of services for which tax deductible on services will not be minimum tax u/s 153(3)(b) subject to conditions mentioned in the said section and clause 94.

The period of exemption has been extended to TY 2019. Accordingly, for TY 2019 the undertaking to be furnished for presenting the accounts to the Commissioner date has been changed to November 2018 from 2017.

Clause 95, Part IV, Second Schedule.

Section 147, 150A, 151, 152, 231A, 231AA, 236A & 236K

The amendment made seeks to include "the Third Pakistan International Sukuk Company Limited" for exemption from application of provisions of section 147, 150A, 151, 152, 231A, 231AA, 236A and 236K, as payer.

Clause 96, Part IV, Second Schedule.

Section 147, 150A, 151, 152, 231A, 231AA, 236A & 236K

The amendment made seeks to include "the Third Pakistan International Sukuk Company Limited" for exemption from application of provisions of section 147, 150A, 151, 152, 231A, 231AA, 236A and 236K, as recipient.

Clause 100, Part IV, Second Schedule.

Section 236U

The amendment made seeks to exclude from the application of Section 236U i-e collection of advance tax on insurance premiums from non-filer, the following by inserting this clause:

- a) Crop Loan Insurance Scheme (CLIS); and
- b) Livestock Insurance Scheme (LIS)

Clause 103, Part IV, Second Schedule.

Section 7B

The amendment made seeks to exclude from the application of Section 7B i-e tax on profit on debt to yield or profit on investment in Bahbood Savings Certificate or Pensioner's Benefit

Account, if the tax on the said yield or profit is paid at the rates specified in Division 1 of Part I of the First Schedule subject to clause 6 of Part III.

**Clause 104, Part IV, Second Schedule.
Section 5A**

The amendment made seeks to exclude from the application of Section 5A i-e tax on undistributed profits, any company where the restriction on distribution of dividend has been imposed under an agreement with Govt. of Pakistan.

SEVENTH SCHEDULE:

Rule 1, Seventh Schedule.

The amendment made seeks to add a condition by adding the words “subject to the provisions of Chapter VII and VIII” in the Rule to incorporate the effect of provisions relating to the “International” and “Anti-avoidance”

Rule 5, Seventh Schedule.

The amendment seeks to incorporate the corresponding changes in seventh schedule as the bar on estimate for banking companies has been incorporated in section 147, hence corresponding provisions restricted application of section 147(4A)(6) are deleted from here along with the restriction that the installments should be “equal”.

**Rule 7C, Seventh Schedule.
Section 4B**

The amendment made seeks to enhance the period of application of super tax u/s 4B from TY 2015 to TY 2020.

3. AMENDMENTS IN SALES TAX

Scope of Tax

[Section 3(1A)]

The amendment seeks to increase the rate of further tax for unregistered persons from 2% to 3% thereby increasing cost of business for unregistered persons.

Approval of Federal Minister abolished

[Section 3(2)(b), 3(3A), 3(5)], [Section 4(c)], [Section 7(3), 7(4)], [Section 7A(1), 7A(2)], [Section 8(b)], [Section 13(2a)], [Section 60], [Section 65], [Section 71]

The amendments in aforementioned sections abolish approval of the Federal Minister-in-charge and replace it with Federal Government.

Tax credit not allowed

[Section 8(b), 8(m)]

Through the amendments, no input tax shall be allowed on the import of scrap of compressors falling under PCT heading 7204.4940 thereby increasing import cost thereof.

Assessment giving effect to an order

[Section 11B] (New Section inserted)

The new inserted section seeks to provide issuance of appeal effect order similar to the provisions of section 124 in the Income Tax Ordinance, 2001.

Access to record, documents, etc

[Section 25(2)]

Through the amendment, the sales tax audit under Section 25 can only be conducted once in every three years thereby more reliance and confidence is placed on taxpayers.

Directorate General (Intelligence and Investigation) Inland Revenue

[Section 30A] (Section substituted)

Through the substitution, the boards is empowered to notify in the official gazette the functions and jurisdiction of the Directorate General and its officers, and confer the powers of authorities specified in Section 30 upon the Directorate General and its officers.

Default Surcharge

[Section 34 (1a)]

Through the made amendment, the rate of default surcharge has been fixed at 12% per annum instead of floating rate of KIBOR plus three per cent per annum.

Posting of Inland Revenue Officer

[Section 40B]

Through the amendment the powers of Chief Commissioner and commissioner regarding the posting of Inland Revenue Officer to the taxpayer's premises have been withdrawn.

Alternative dispute resolution

[Section 47A]

The amendments are same as introduced under Section 134A of Income Tax Ordinance, 2001 (discussed thereunder).

Recovery of arrears of tax

[Section 48]

The amendment seeks to provide that in order to avoid recovery against any demand created by any order, the taxpayer;

1. is required to deposit 10% of the demand; and
2. file appeal against the order.

Previously the taxpayer was required to deposit 25% of the demand created by any order.

Validation

[Section 74A]

The validation of notifications and orders of Federal Government under this section has been extended from 2017 to 2018.

Following subsection has been further inserted and numbered as sub-section (2)

Notwithstanding any omission, irregularity or deficiency in the establishment of or conferment of powers and functions on the Directorate General (Intelligence and Investigation), Inland Revenue and authorities specified in section 30A, all orders passed, notices issued and actions taken, before commencement of the Finance Act, 2018, in exercise or purported exercise of the powers and functions of the officers of Inland Revenue under this Act by the Director General (Intelligence and Investigation), Inland Revenue or the authorities specified in section 30A shall be deemed to have been validly passed, issued and taken under this Act.

Following Amendments have been made through SROs:

1. Enforced through SRO 775 (I)/2018, dated June 21, 2018, effective from 01.07.2018.

- a) Rule 58B - to provide exemption from sales tax on minimum value addition on import of following:
- i) LNG/RLNG; and
 - ii) Secondhand and worn clothing or footwear (PCT heading 6309.000)
- b) Rule 58H - following has been amended:
- i) the rate of sales tax for steel melter, steel re-roller has been increased to thirteen rupees per unit from ten and a half for both final & adjustable discharge of sales tax liability
 - ii) the rate of adjustable sales tax on remelttable iron and scrap steel has been increased from 8400 to 10,400 per metric ton in sub rule (2A) & (2B).
 - iii) sales tax rate for ship breakers has also been increased from eight thousand to nine thousand rupees.
- c) Rule 58Ha - for steel melters and re-rolling mills generating electricity from gas generators the formula figure has been increased to 3,088 from 2,494. Likewise the formula figure in sub-rule (3) has also been increased to 84,422 from 68,187.
- d) Rule 58I - the rate of sales tax have been increased as follows:

Sr. No	Persons	Previous Rate/ metric ton	Current Rate/ metric ton
1	By Steel melters, composite units of melting, re-rolling and MS cold drawing to registered re-rollers	9,247	11,247
2	By steel re-rollers, using ingots or billets of steel melters or composite units of melting, re-rolling and MS cold drawing to registered persons	10,612	12,937
4	By re-rollers, using ship-plates and re-rollable scrap as raw material, to registered persons	9,865	11,190
5	By re-rollers, to unregistered persons	1,365	1,690

- e) Rule 58K - the rates have been amended in the table as follows:

Sr. No	Persons	Previous Rate/ metric ton	Current Rate/ metric ton
3	Re-rollable scrap supplied by ship breakers	50,000	55,883
4	Respective heading in the table	US\$ 480	52,000

- f) Rule 58S – the “Household gas appliances, including cooking range, ovens, geysers and gas heaters” have been removed from list of specified goods with reference to extra sales tax, in respect of which application under rule 58S may be given.

2. Enforced through SRO 776(I)/2018, dated June 21, 2018, effective from 01.07.2018.

Through this SRO the import of potatoes during the period from May 5, 2014 to July 31, 2014 (both days inclusive) has been charged to zero-rated.

3. Enforced through SRO 777(I)/2018, dated June 21, 2018, effective from 01.07.2018.

Following amendments have been made through the above mentioned SRO:

- Rate of sales tax mentioned in SRO 1125(1)/2011 dated December 31, 2011 has been increased from 6% to 9% for following:
 - i) supplies of finished fabric to/by retailers or to end cosumers
 - ii) commercial import of fabric
 - iii) locally manufactured finished articles of “textile & textile made-ups” & “leather and artificial leather”
 - iv) imported finished goods of textile and leather sectors ready to use by general public
 - v) the supply thereof (above mentioned number iv)
- Scope mentioned in SRO 1125(1)/2011 at serial number 4 i-e “imported finished goods of five sectors mentioned in condition (i) below, ready for use by general public” has been extended to include artificial leather in addition to five sectors mentioned therein.
- A proviso has also been added after above mentioned serial number 4 specifying the following goods with PCT headings the benefit of reduced rate is available thereof:
 - a) Trunk, suit cases, brief cases, school satchels, travelling – bags, hand bags, shopping – bags, wallets, purses, sports bags [PCT 42.02]
 - b) Suit cases of composition leather [PCT 4202.1120]
 - c) School bags, trolley bags, lap top bags, etc. of composition leather [PCT 4202.1190]
 - d) Hand bags, with outer surface of composition leather [PCT 4202.2100]
 - e) Hand bags, with outer surface of sheeting of plastics or textile material [PCT 4202.2200]
 - f) Ladies bags [PCT 4202.9100]
 - g) Jackets, belts other apparel and clothing accessories of composition leather [PCT42.03]
 - h) Footwear with outer soles of rubber, leather or composition leather and uppers of leather [PCT 64.03]
 - i) Footwear with outer soles of rubber, leather or composition leather and uppers of textile [PCT 64.04]
 - j) Other footwear with upper of leather, composition leather, canvas or textile material [PCT 64.05]

- The serial number 5 has been renumbered as 4A i-e imported finished goods of carpets, sports and surgical sectors and supplies thereof.
 - The first proviso to the condition (x) of the said SRO has been deleted. The said proviso allows refund subject to conditions mentioned therein.
 - The “finished fabric” has been added in list of sectors mentioned in the condition (xiv) of the SRO 1125(1)/2011 by adding the words “including finished fabric” at the end of clause “e” mentioned therein.
 - A new condition has been added in the SRO 1125(1)/2011 numbered as “xv” allowing below mentioned items to enjoy reduced rate of 6% under the said SRO if registered persons are integrated with FBR’s online system and data is transmitted to the FBR central database in near real time from such date, mode and manner as may be prescribed by the Board:
 - a) Supplies of finished fabric to and by retailers; suppliers of finished fabric to end consumers; other suppliers of finished fabric
 - b) Locally manufactured finished articles of
 - i) textiles and textiles made-ups.
 - ii) leather and artificial leathersupplies to any person including retail sales.
- 4. Enforced through SRO 778(I)/2018, dated June 21, 2018, effective from 01.07.2018.**
SRO 962(1)/2015 dated September 30, 2015 withdrawn, the said SRO charges sales tax @ 20% on import and supplies of Furnace Oil (PCT heading 2710.1941)
- 5. Enforced through SRO 779(I)/2018, dated June 21, 2018, effective from 01.07.2018.**
Following SROs been rescind, since the effect of exemptions granted vide these SROs has been incorporated in relevant schedules:
- a) SRO 499(1)/2016 dated July 27, 2016 granting exemption from sales tax on import of equipment and machinery, if not locally manufactured, to China State Construction and Engineering Corporation Limited for Multan – Sukkur Motorway section and China Communication Construction Company for Thakot – Havellian Section.
 - b) SRO 721(1)/2016 dated August 8, 2016 whereby exemption granted vide SRO 499 was extended to “plant, machinery and equipment including dumpers and special purpose motor vehicles”.
 - c) SRO 42(1)/2017 dated January 26, 2017 whereby the exemption from sales tax granted to CR-NORINCO for import of equipment to be used in Orange Line Metro Train Project with specific conditions mentioned therein.
 - d) SRO 139(1)/2017 dated March 6, 2017 whereby the above mentioned SRO NO. 42(1)/2017 was amended so as to extending exemption from FED, and amending the particulars of SRO as to parties and contract.
 - e) SRO 47(1)/2018 dated January 23, 2018 whereby the exemption from sales tax and FED was granted to CSCECL extending scope to materials and goods to be consumed in Multan – Sukkur Motorway subject to condition, restriction and limitations mentioned in SRO 642(1)/2016 dated July 27, 2016.

6. Enforced through SRO 780(I)/2018, dated June 21, 2018, effective from 01.07.2018.

SRO 648(1)/2013 dated July 9, 2013 has been amended to reflect the increased rate of further tax and adding to the list of exemption serial number 11 granting exemption to supplies of foam products for household use.

7. Enforced through SRO 781(I)/2018, dated June 21, 2018, effective from 01.07.2018.

SRO 495(1)/2016 dated July 4, 2016 has been amended to reflect the inclusion of "IT services and IT enabled services" in the list of taxable services subject to five percent sales tax.

Following Amendments have been made in schedules to Sales Tax Act 1990**Zero rating**

Seeks to add following in Fifth Schedule for zero rating:

(xx)	Colors in sets (PCT heading 3213.1000).
(xxi)	Writing, drawing and marking inks (PCT heading. 3215.9010 and 3215.9090)
(xxii)	Erasers (PCT heading 4016.9210 and 4016.9290)
(xxiii)	Exercise books (PCT heading 4820.2000)
(xxiv)	Pencil sharpeners (PCT heading 8214.1000)
(xxv)	Geometry boxes (PCT heading 9017.2000)
(xxvi)	Pens, ball pens, markers and porous tipped pens (PCT heading 96.08)
(xxvii)	Pencils including color pencils (PCT heading 96.09)".;

Exemption

Seeks to add following in Sixth Schedule for exemption:

"137.	Paper weighing 60 g/m ² for printing of Holy Quran imported by Federal or Provincial Governments and Nashiran-e-Quran as per quota determined by IOCO	4802.5510
138.	Fish Feed	Respective Heading
139.	Fans for dairy farms	8414.5990
140.	Bovine semen	0511.1000
141.	Preparations for making animal feed	2309.9000
142.	Promotional and advertising material including technical literature, pamphlets, brochures and other give-aways of no commercial value, distributed free of cost by the exhibitors	9920(3)
143.	(i) Hearing aids (all types and kinds) (ii) Hearing	9937

	assessment equipment; (a) Audiometers (b) Tympanometer (c) ABR (d) Oto Acoustic Omission	
144.	Liquefied Natural Gas imported by fertilizer manufacturers for use as feed stock	2711.1100.;
145.	Plant, machinery, equipment including dumpers and special purpose motor vehicles, if not manufactured locally, imported by M/s China State Construction Engineering Corporation Limited (M/s CSCECL) for the construction of Karachi - Peshawar Motorway (Sukkur - Multan Section) and M/s China Communication Construction Company (M/s CCCC) for the construction of Karakorum Highway (KKH) Phase-II (Thakot - Havellian Section) subject to the following conditions: (i) that the exemption under this Notification shall only be available to contractors named above; (ii) that the equipment and construction machinery imported under this Notification shall only be used for the construction of the respective allocated projects; (iii) that the importer shall furnish an indemnity bond, in the prescribed manner and format as set out in Annex-A, at the time of import to the extent of customs-duties exempted under this Notification on consignment to consignment basis; (iv) that the Ministry of Communications shall certify in the prescribed manner and format as set out in Annex-B that the imported equipment and construction machinery are bonafide requirement for construction of Sukkur - Multan Section (392.0 km) of Karachi - Peshawar Motorway or for the construction of Karakorum Highway(KKH) Phase-II - Thakot to Havellian Section (118.057 km) as the case may be; (v) for the clearance of imported goods through Pakistan Customs Computerized System the authorized officer of the Ministry shall furnish all relevant information, as set out in Annex- B, online against a specific user ID and password obtained under section 155D of the Customs Act, 1969 (IV of 1969). In Collectorates or Customs stations where the Pakistan Customs Computerized System is not operational, the Director Reforms and Automation or any other person authorized by the Collector in this behalf shall enter the requisite information in the Pakistan Customs Computerized System on daily basis, whereas entry of the data obtained from the customs stations which have not yet been computerized shall be made on weekly basis; (vi) that the equipment and construction machinery,	Respective heading

	<p>imported under this Notification, shall not be re-exported, sold or otherwise disposed of without prior approval of the FBR. In case goods are sold or otherwise disposed of with prior approval of FBR the same shall be subject to payment of duties as may be prescribed by the FBR; (vii) in case the equipment and construction machinery, imported under this Notification, is sold or otherwise disposed of without prior approval of the FBR in terms of para (vi) above, the same shall be subject to payment of statutory rates of customs duties as were applicable at the time of import; (viii) notwithstanding the condition at para (vi) and (vii) above, equipment and construction machinery, imported under this Notification, may be surrendered at any time to the Collector of Customs having jurisdiction, without payment of any sales tax, or further disposal as may be prescribed by the FBR; (ix) the indemnity bond submitted in terms of para (iii) above by the importer shall be discharged on the fulfillment of conditions stipulated at para (vi) or (vii) or (viii) above, as the case may be; and (x) that violation of any of the above mentioned conditions shall render the goods liable to payable of statutory rate of sales tax leviable on the date of clearance of goods in addition to any other penal action under relevant provisions of the law.</p>	
146.	<p>Equipment imported by M/s China Railway Corporation to be furnished and installed in Lahore Orange Line Metro Train Project subject to the following conditions: (a) that the equipment imported under this Notification shall only be used in the aforesaid Project; (b) that the importer shall furnish an indemnity bond, in the prescribed manner and format as set out in Annex-C to this Notification, at the time of import to the extent of sales tax exempted under this Notification on consignment to consignment basis; (c) that the Punjab Mass Transit Authority, established under the Punjab Mass Transit Authority Act, 2015 (ACT XXXIII of 2015), hereinafter referred as the Regulatory Authority, shall certify in the prescribed manner and format as set out in Annex-D to this Notification that the imported equipment is bona fide requirement of the Project under the Contract No. PMA-CR-NORINCO- OL, dated 20.04.2015, hereafter referred as the contract, signed between the Regulatory Authority and CR-NORINCO; (d) in the event a dispute arises whether</p>	Respective heading

	<p>any item is entitled to exemption under this serial number, the item shall be immediately released by the Customs Department against a corporate guarantee, valid for a period of six months, submitted by the importer. A certificate from the Regulatory Authority duly verified by the Transport and Communication Section of the Ministry of Planning, Development and Reform, that the item is covered under this serial number shall be given due consideration by the Customs Department towards finally resolving the dispute; (e) for the clearance of imported equipment through Pakistan Customs Computerized System the authorized officer of the Regulatory Authority shall furnish all relevant information, as set out in Annex-D to this serial number, online against a specific user ID and password obtained under section 155D of the Customs Act, 1969 (IV of 1969). In Collectorates or Customs stations where the Pakistan Customs Computerized System is not operational, the Director Reforms and Automation or any other person authorized by the Collector in this behalf shall enter the requisite information in the Pakistan Customs Computerized System on daily basis, whereas entry of the data obtained from the customs stations which have not yet been computerized shall be made on weekly basis; (f) that the equipment, imported under this Notification, shall not be re-exported, sold or otherwise disposed of without prior approval of the Federal Board of Revenue (FBR). In case goods are sold or otherwise disposed of with prior approval of FBR the same shall be subject to payment of sales tax as may be prescribed by the FBR; (g) in case the equipment, imported under this Notification, is sold or otherwise disposed of without prior approval of the FBR in terms of condition (f), the same shall be subject to payment of statutory rates of sales tax as were applicable at the time of import; (h) notwithstanding the condition (f) and (g), equipment imported under this serial number may be surrendered at any time to the Collector of Customs having jurisdiction, without payment of any sales tax, for further disposal as may be prescribed by the FBR; (i) the indemnity bond submitted in terms of condition (b) above shall stand discharged on submission of a certificate from the Regulatory Authority to the effect that the equipment has been installed or consumed in the said Project. In case the equipment is not consumed or installed in the project the</p>	
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	indemnity bond shall be discharged on fulfillment of conditions stipulated at (f) or (g) or (h), as the case may be; and (j) that violation of any of the above conditions shall render the goods liable to payment of statutory rate of sales tax leviable on the date of clearance of goods in addition to any other penal action under relevant provisions of the law. Explanation. For the purpose of this provision, "equipment" shall mean machinery, apparatus, materials and all things to be provided under the contract for incorporation in the works relating to Lahore Orange Line Metro Train Project.";	
147.	Goods supplied to German Development Agency (<i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i>) GIZ	Respective heading
148.	Imported construction materials and goods imported by M/s China State Construction Engineering Corporation Limited (M/s CSCECL), whether or not locally manufactured, for construction of Karachi-Peshawar Motorway (Sukkur-Multan Section) subject to fulfilment of same conditions, limitations and restrictions as are specified under S. No. 145 of this table, provided that total incidence of exemptions of all duties and taxes in respect of construction materials and goods imported for the project shall not exceed ten thousand eight hundred ninety-eight million rupees including the benefit of exemption from duties and taxes availed before 30 th June, 2018 under the provisions of the Sales Tax Act, 1990, the Customs Act, 1969, the Federal Excise Act, 2005 and the Income Tax Ordinance, 2001 and Notifications issued thereunder;	Respective heading
149.	Micro Feeder equipment	8437.8000

*The prescribed forms of Annexure – A to D are also been issued vide Finance Act, 2018.

Insertions in Table 2

"23.	Mach Boxes.	Respective headings
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Insertions in Table 3

"17.	Machinery, equipment, raw materials, components and other capital goods for use in building, fittings, repairing or refitting of ships, boats or floating structures imported by Karachi Shipyard and Engineering Works Limited.	Respective Heading	Nil
18.	The following parts for assembling and manufacturing of personal computers and laptops:		If imported by manufacturers and assemblers of computers and laptops, registered with and certified by Engineering Development Board in accordance with quota determined by IOCO
	(i) Bare PCBs	8534.0000	
	(ii) Power Amplifier	8542.3300	
	(iii) Microprocessor/Controllers	85.42	
	(iv) Equipment for SMT Manufacturing	8486.2000	
	(v) Laptop batteries	8506.5000	
	(vi) Adopters	8504.4020	
	(vii) Cooling fans	8414.5190	
	(viii) Heat sink	7616.9920	
	(ix) Hard Disk SSD	8471.7020	
	(x) RAM/ROMS	8471.7060 and 8471.7090	
	(xi) System on Chip/FPGA-IC	85.42	
	(xii) LCD/LED Screen	8528.7211	
	(xiii) Motherboards	8534.0000	
	(xiv) power supply	84.73	
	(xv) Optical Drives	8471.7040	
	(xvi) External Ports	8536.2090	
	(xvii) Network cards	8517.6990	
	(xviii) Graphic cards	8471.5000	
	(xix) wireless cards	8517.6970	
	(xx) micro phone	8518.3000	
	(xxi) Trackpad	8471.6020	
19.	Plant and machinery, except the items	9917(2)	Nil"; and

	listed under Chapter 87 of the Pakistan Customs Tariff, imported for setting up of a Special Economic Zone (SEZ) by zone developers and for installation in that zone by zone enterprises, on one time basis as prescribed in the SEZ Act, 2012 and rules thereunder subject to such conditions, limitations and restrictions as a FBR may impose from time to time.		
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Eighth Schedule

- Seeks to substitute the figures "8701.9220 and 8701.9320" for the figures 8701.9020" in column (3) against serial number 25 in column (1) in Table-1 of the Eighth Schedule.
- Intends reduced rate from 7% to 5% for certain agricultural equipment at serial # 26 to 30 (Column 4)
- Certain items from reduced rate mentioned at serial # 33, 35 - 42 & 49 been omitted. While for serial # 43 (natural gas) whereas rate of natural gas reduced from 10% to 5%
- Following are new additions to Eighth Schedule:

"50.	LNG/RLNG	2711.1100	12%	Import thereof
51.	RLNG	2711.2100	12%	Import thereof
52.	Fertilizers (all types)	Respective heading	2%	Nil
53.	The following cinematographic equipment imported during the period commencing on the 1st day of July, 2018 and ending on the 30th day of June, 2023.		5%	Subject to same limitations and conditions as are specified in Part-1 of Fifth Schedule to the Customs Act, 1969 for availing 3% concessionary rate of customs duty on the import of these equipment";
	(i) Projector	9007.2000		
	(ii) Parts and	9007.9200		

	accessories for projector			
	(iii) Other instruments and apparatus for cinema	9032.8990		
	(iv) Screen	9010.6000		
	(v) Cinematographic parts and accessories	9010.9000		
	(vi) 3D Glasses	9004.9000		
	(vii) Digital Loud Speakers	8518.2200		
	(viii) Digital Processor	8519.8190		
	(ix) Sub-woofer and Surround Speakers	8518.2990		
	(x) Amplifiers	8518.5000		
	(xi) Audio rack and termination board	7326.9090 8537.1090		
	(xii) Music Distribution System	8519.8990		
	(xiii) Seats	9401.7100		
	(xiv) Recliners	9401.7900		
	(xv) Wall Panels and metal profiles	7308.9090		
	(xvi) Step Lights	9405.4090		
	(xvii) Illuminated Signs	9405.6000		
	(xviii) Dry Walls	6809.1100		
	(xix) Ready Gips	3214.9090		
54.	lithium iron phosphate battery (Li-Fe-PO ₄)	8506.5000	12%	Nil
55	Fish babies/seedings	Respective headings	5%	Nil
56	Potassium	Respective	17% along with	Import and

	Chlorate (KClO ₃)	headings	rupees 40 per kilogram	supply thereof. Provided that rate of rupees 40 per kilogram shall not apply on imports made by and supplies made to organizations under the control of Ministry of Defense Production.
57	Rock phosphate	Respective headings	10%	If imported by fertilizer manufacturers for use in the manufacturing of fertilizers."

Made Insertions in Table-2 of the Eighth Schedule.

"9	Capital goods otherwise not exempted, for Transmission Line Projects.	Respective heading	The concession will be available in respect of those Transmission Line Projects which are being executed under Standard Implementation Agreement under Policy Framework for Private Sector Transmission Line Projects, 2015 and Projects Specific Transmission Services Agreement. Provided that sales tax charged under this provision shall be non-adjustable and non-refundable."
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4. AMENDMENTS IN CUSTOM DUTY

Pakistan Customs-Waters

[Section 2(p), (pa)]

The amendment seeks to extend the customs enforcement activities in the sea up to 24 nautical miles and to give special reference to local manufacturer in the definition of 'person'.

Reconstitution of Powers of FBR

[Section 18, 19]

The amendment seeks to restore the following powers of Federal Government.

1. Powers for levy of regulatory duty from the purview of obligations relating to multilateral agreements.
2. Exemption of custom duties and to extend the validity of certain notifications till 2019.

Power to Use Data Exchange Information For Determination of Custom Value

[Section 25AA]

A new section 25AA is inserted for the purpose of assessment and valuation to provide legal cover for utilizing any data obtained through mutual assistance agreements.

False Statement, Error, etc..

[Section 32]

A new proviso has been inserted to meet the requirements of Trade Facilitation Agreement, where voluntarily payment is considered a mitigating factor for establishing a penalty.

Refund

[Section 33(3A)]

A new sub section (3A) of section 33 has been inserted to fix time limitation for deciding of refund claim. Refund claim under this section shall be disposed of within the period not exceeding 180 days and may be further extended up to 90 days.

Arrival of Conveyance

[Section 42(2)(a)]

The section 42 has been amended to incorporate the maintaining of accurate and complete information of passenger including crew in advance to prevent attempts of money laundering and currency smuggling.

Power to Refuse Port Clearance to Vessels or Permission For Departure To Other Conveyance [Section 55]

The amendment is made in section 55 with a view to make the shipping agents responsible for the dues charged and collected by them in connection with the discharge and delivery of goods.

Provisional Release of Imported Goods [Section 83B]

The amendment is made to insert a new section in compliance with requirements under Trade Facilitation Agreement, which provides for release of imported goods on furnishing of bank guarantee or pay order against the amount of any penalty or fine imposed on such goods..

Frustrated Cargo [Section 138]

The section has been amended to allow the export of goods brought into a customs-station, where the consignee has dishonored his commitments.

Punishment for Offences. [Section 156]

The clause 12A of the section 156 has been amended to bring non-compliance of electronic notices under 155M at par with section 26, and to enable the Board to regulate the imposition of penalties and to create specific penalty for failure to entertain a delay.

It is also made to insert the following new clause:

S.No.	Offences	Penalties	Section of this Act to Which Offence has Reference
	(1)	(2)	(3)
63 (i)	If any goods which are loaded for transshipment, are pilfered, replaced <i>en-route</i> or failed to reach the port of destination, or any person transships goods not allowed to be transshipped:	such goods and the conveyance illegally carrying these goods shall be liable to confiscation and any person including the custodian and the bonded carrier shall be liable to a penalty not exceeding ten times the value of the goods and he shall further be liable, upon conviction by a Special Judge, to	121

		imprisonment for a term not exceeding seven years;	
(ii)	If any person contravenes any rule relating to transshipment other than mentioned in clause (i),	such person including the custodian and the inland carrier shall be liable to penalty not exceeding five hundred thousand rupees or three times the amount of duties and taxes involved.	121”;

Vesting of Confiscated Property in the Federal Government

[Section 182]

The section 182 has been amended to empower an officer or person authorized by the Collector or Director to take and hold possession of confiscated goods.

Procedure in Appeal

[Section 193A (2A)]

A new sub section (2A) of section 193A has been inserted to empower Collector (Appeals) to grant a stay against recovery of duty/taxes for a period not exceeding 30 days.

Orders of Appellate Tribunal

[Section 194B (3)]

The amendment in section 194B has been made to replace the word ‘Controller’ with ‘Director’ in consequence to the re-designation of the post after insertion of Section 3D.

After this amendment the Appellate Tribunal shall send the copy of each order to Director Customs.

Customs-House Agents To Be Licensed

[Section 207]

Amendment is made in section 207 of the Act, to give special reference to Shipping Agents and for providing legal cover to the Shipping Rules.

Authorized Economic Operator Programme

[Section 212A]

A new section 212A is inserted to introduce Authorized Economic Operator (AEO) programme to meet the obligations of the Trade Facilitation Agreement.

Power to Make Rules

[Section 219]

A new sub-section has been inserted to provide an opportunity to the public for offering comments before entry into force of any rules to comply with the requirements of Trade Facilitation Agreement.

Validation

[Section 221A]

A new sub-section has been inserted to validate the levy and collection of regulatory duty, already collected before the decision of the Honorable Sindh High Court.

LEVY OF EXEMPTION FROM AND REPAYMENT OF CUSTOMS-DUTIES

Chapter V, First Schedule

The Act seeks to substitute First Schedule to the Custom Act, 1969 (IV of 1969) however made substitutions are not yet released.

Third Schedule

A new item has been inserted as 22C in the Third Schedule of Customs Act, 1969 that matters pertaining to Authorized Economic Operator (AEO) programme, including criteria for granting status of AEO to an applicant, suspension and revocation of the AEO status; and the extent of benefits under AEO programme.

Fifth Schedule

The Act seeks to substitute Fifth Schedule (Inserted in Finance Act 2014) to the Custom Act, 1969 however made substitutions are not yet released.

5. AMENDMENTS IN FEDERAL EXCISE

Approval of Federal Minister

[Section 3 (1) (c) (4)], [Section 16]

The approval of Federal Minister is replaced with Federal Government in the aforementioned sections.

Default Surcharge

[Section 8]

The amendment seeks to amend the section 8 to pay the default surcharge on due duty at the rate of twelve percent.

Assessment Giving Effect to an Order

[Section 14B]

The newly inserted amendment provides for issuance of appeal effect order similar to section 124 of Income Tax Ordinance, 2001 (see commentary there).

Functions and Jurisdiction of the Directorate General

[Section 29 (2) (aa)]

The Act inserted a new clause (aa) after clause (a) in sub section (2) of section 29 to empower the functions and jurisdiction of the Directorate General and its officers and the power of authorities specified in section 30.

Deposit, Pending Appeal of Duty Demanded or Penalty Levied

[Section 37 (3)]

The Act seeks to amend the proviso of section 37 to restrict the Commissioner or Officer Inland Revenue to recover the amount of tax due to taxpayer, if the taxpayer has paid the 25 percent of the amount and the appeal has filed by the taxpayer, the limit of 25 percent has been reduced to 10 percent.

Alternate Dispute Resolution

[Section 38]

The mechanism of ADR is made to be changed by bringing in similar changes as made for Income Tax Ordinance, 2001.

Access to Records and Posting of Exercise Staff etc

[Section 45 (2)]

The Act omitted the words “or Chief Commissioner” in sub-section (2) of section 45.

The Act omitted the proviso in sub-section (2) of section 45 in which there is a reason to believe that a registered person is involved in evasion of duty.

Audit

[Section 46 (9)]

A new sub section (9) has been inserted in which the audit of a registered person shall be conducted only once in a three years.

Validation

[Section 47C]

There has been inserted a new sub-section to section 47C in which all the orders passed , issued notices and actions taken by the Officer Inland Revenue, Director General (Intelligence & Investigation) and the authorities specified in clause (a) of sub-section (2) of section 29 of this act shall be treated Valid.

First Schedule

The following new clauses have been inserted:

TABLE 1
(EXCISABLE GOODS)

S.No.	Description of Goods	Heading/sub-heading Number	New Rate of Duty
9	Locally produced cigarettes if their on pack printed retail price exceeds four thousand five hundred rupees per thousand cigarettes.	24.02	Rupees three thousand nine hundred and seventy per thousand cigarettes
10	Locally produced cigarettes if their on pack printed retail price exceeds two thousand nine hundred and twenty-five rupees per thousand cigarettes but does not exceed four thousand five hundred rupees per thousand	24.02	Rupees one thousand seven hundred and seventy six per thousand cigarettes

	cigarettes		
10a	Locally produced cigarettes if their on pack printed retail price does not exceed two thousand nine hundred and twenty-five rupees per thousand cigarettes.	24.02	Rupees eight hundred and fifty four per thousand cigarettes”;

The Act seeks to substitute the words “one rupee and fifty paisa per kilogram” for the words “one rupee and twenty five paisa per kilogram” in column (4) against serial number 13 of Table-I in the First Schedule.

First Schedule Table II **[3(a)(i)]**

The Act has reduced the amount from “two thousand and five hundred rupees” to “two thousand rupees” for passengers travelling by air within the territorial jurisdiction of Pakistan on long routes.

Third Schedule [Conditional Exemptions]

The Act seeks to add new serial numbers 22 and 23 and entries relating thereto in second and third column after serial number 21 in first column in Table-1 in the Third Schedule. These relate to CPEC projects.

In Table-II, after serial number 13 in column (1) and the entries relating thereto in columns (2) and (3), the following new serial number and the entries relating thereto shall be added, namely:-

“14	Commission paid by State Bank of Pakistan and its subsidiaries to National Bank of Pakistan or any other banking company for handling banking services of Federal Or Provincial Governments as State Bank of Pakistan’s agents	Respective heading”.
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Mobile handset levy.- (1) There shall be levied a Mobile handset levy, at the rates specified in column (3) of the Table below, on smart phones of different categories as specified in column (2) of the said Table, namely:-

S.No	Category of smart phone	Rate of levy per Set in rupees
(1)	(2)	(3)
1.	Where Import value of handset (including duties and taxes) does not exceed Rs.10,000/-	Nil
2.	Where Import value of handset (including duties and taxes) exceeds Rs.10,000 but does not exceed Rs.40,000 /-	1000
3.	Where Import value of handset (including duties and taxes) exceeds Rs.40,000 but does not exceed Rs.80,000 /-	3000
4.	Where Import value of handset (including duties and taxes) exceeds Rs.80,000	5000

2) The Federal Board of Revenue shall collect levy on mobile handsets in prescribed manner.

6. AMENDMENT OF PETROLEUM PRODUCT (PETROLEUM LEVY) ORDINANCE, 1961

The petroleum levy rates have been substituted as under:

S.No	Particulars	Unit	Old rate per unite	New rate per unit
1.	High Speed Diesel Oil	Litre	8	30
2.	Motor Gasoline	Litre	10	30
3.	Superior Kerosine Oil	Litre	6	30
4.	Light Diesel Oil	Litre	3	30
5.	HOBC	Litre	14	30
6.	E-10 Gasoline	Litre	9	30
7.	LPG (produced/ extracted in Pakistan)	Metric ton	11,486	20,000

7. INCOME TAX WITHHOLDING RATES (RATE CARD)

Changes made vide latest notifications are identified in RED

Section 101A Gain in disposal of assets outside Pakistan

Person acquiring asset from Non-resident Company	10% of the FMV of the asset
Resident Company from Non-resident	Higher of 20% of FMV less cost of acquisition; or 10% of FMV of the asset. (Note: the credit for tax deducted as above will be available)

Section 148 Imports

Description	Filer	N/Filer
Industrial undertaking importing remelt-able steel for own use	1.00%	1.50%
Person importing potassium fertilizers		
person importing urea		
Manufactured covered under SRO 1125(I)/2011		
Persons importing gold		
Persons importing cotton		
Persons importing LNG		
Person importing pulses	2.00%	3.00%
Commercial importer covered under SRO 1125(I)/2011	3.00%	4.50%
Persons importing coal	4.00%	6.00%
Ship breakers on import of ship	4.50%	6.50%
Industrial undertaking not covered above	5.50%	8.00%
Companies not covered above	5.50%	8.00%
Persons (individuals & AOPs) not covered above	6.00%	9.00%
Tax collected is minimum tax for:		
Goods imported and sold in same condition (rate 5%)		
Edible oil		
Packing material		
Plastic raw material imported by industrial undertaking under PCT 39.01 to 39.12		

Section 149 Salary

(salaried and non-salaried)

0-400,000	0%
400,000-800,000	Rs.1,000
*800,000-1,200,000	Rs.2,000

1,200,000-2,400,000	5% of the amount above 1,200,000
2,400,000-4,800,000	60,000 + 10% of the amount above 2,400,000
Above 4,800,000	300,000 + 15% of the amount above 4,800,000

**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

Rate of tax for Companies:

2018	30%
2019	29%
2020	28%
2021	27%
2022	26%
2023 & onwards	25%

Rate of Super tax:

	Banking Company	Person, other than Banking Company, having income equal to or exceeding Rs. 500 million
2018	0%	3%
2019	4%	2%
2020	3%	1%
2021	2%	0%

Section 150 & 236S (dividend & dividend in specie)

Power Company Privatized by WAPDA	7.50%	7.50%
Company set up for Power generation	7.50%	7.50%
Company supplying coal exclusively for power generation	7.50%	7.50%
Persons other than above and below	15.00%	20.00%
Where stock fund pays dividend to ind, AOP or CO. (where div is less than capital gains)	12.50%	12.50%
Where stock fund pays dividend to ind, AOP or CO. (where div is more than capital gains)	15.00%	15.00%
Where money market fund, income fund or REIT scheme or any other fund pays div to AOP	12.50%	15.00%
Where money market fund, income fund or REIT scheme or	15.00%	25.00%

any other fund pays div to Co.		
Dividend received by an Individual from a Rental REIT scheme	7.50%	7.50%
Dividend received from money market mutual Fund by a person is less than Rs. 2,500,000	10%	10%

Section 151 Profit on Debt

If profit on debt does not exceed Rs.500,000	10.00%	10.00%
If profit on debt exceeds Rs. 500,000	10.00%	17.50%

Section 7B (charging section for individual & AOP)

If profit on debt does not exceed Rs.5,000,000	10.00%	N.A.
If profit on debt exceeds Rs. 5,000,000 but does not exceed Rs. 25,000,000	12.50%	N.A.
If profit on debt exceeds Rs.25,000,000	15.00%	N.A.

Section 152 Payment to Non-resident

Royalty or Fee for technical services paid to non-resident	15.00%	15.00%
Payment for construction/advertisement contracts	7.00%	13.00%
Fee for offshore digital services	5.00%	5.00%
Insurance premium or reinsurance premium	5.00%	5.00%
Amount other than above	20.00%	20.00%
Payment to PE of a non-resident company for sale of goods	4.00%	7.00%
Payment to PE of a non-resident non-company for sale of goods	4.50%	7.75%
Payment to PE of a non-resident for transport services	2.00%	2.00%
Payment to PE of a non-resident company for other services	8.00%	14.00%
Payment to PE of a non-resident non-company for other services	10.00%	17.50%
Payment to PE of a non-resident person for contracts	7.00%	12.00%
Payment to PE of a non-resident sportsperson	10.00%	13.00%

Section 153 Payment for goods and services

For sale of rice, cotton seed or edible oils	1.50%	1.50%
For sale of other goods by company	4.00%	8.00%
For sale of FMCG (Fast moving consumer Goods) goods by a distributor company	2.00%	2.00%
For sale of FMCG (Fast moving consumer Goods) goods by a distributor non-company	2.50%	2.50%
For sale of other goods by non-company	4.50%	9.00%
For transport services	2.00%	2.00%
For other service provided by Companies	8.00%	14.50%
For other service provided by non-Companies	10.00%	17.50%

For advertisement services of print and electronic media by a company	1.50%	12.00%
For advertisement services of print and electronic media by a non-company	1.50%	15.00%
Exporter making payment for stitching, dying, printing, embroidery, washing, weaving and Sizing	1.00%	1.00%
For execution of contracts by Companies	7.00%	14.00%
For execution of contracts by Non-Companies	7.50%	15.00%
For Payments to sportsperson	10.00%	10.00%

Section 154 Exports

Upon realization of foreign exchange proceeds from export of goods	1.00%	1.00%
Upon realization of foreign exchange proceeds from commission	5.00%	5.00%

Section 155 Rent

For Individuals and AOPs where annual rent is less than or equal to 200,000	0.00%	
For Individuals and AOPs where annual rent is more than 200,000 but less than 600,000	5% of the amount above 200,000	
For Individuals and AOPs where annual rent is more than 600,000 but less than 1,000,000	20,000 + 10% of the amount above 600,000	
For Individuals and AOPs where annual rent is more than 1,000,000 but less than 2,000,000	60,000 + 15% of the amount above 1,000,000	
For Individuals and AOPs where annual rent is more than 2,000,000	210,000 + 20% of the amount above 2,000,000	
For Companies	15 %	17.5 %

Section 156 Prizes and Winnings

Winnings from prize bond or cross word puzzle	15.00%	25.00%
Winnings from raffle, lottery, prize on quiz prize offered for sale promotion	20.00%	20.00%

Section 156-A Petroleum Products

Petroleum Products	12.00%	17.50%
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Section 231-A & 231-AA Cash Withdrawals

Cash withdrawal from bank	0.30%	0.60%
Cash banking transactions	0.30%	0.60%

Section 231-B Purchase of Car/Jeep

<i>Advance tax on purchase of private motor car/jeep (as per relevant Division)</i>

(Sec 227C restricts purchase/registration of motor vehicles to non-filers).

Engine capacity upto 850CC	7,500	10,000
Engine capacity more than 851CC and less than 1,000CC	15,000	25,000
Engine capacity more than 1,001CC and less than 1,300CC	25,000	40,000
Engine capacity more than 1,301CC and less than 1,600CC	50,000	100,000
Engine capacity more than 1,601CC and less than 1,800CC	75,000	150,000
Engine capacity more than 1,801CC and less than 2,000CC	100,000	200,000
Engine capacity more than 2,001CC and less than 2,500CC	150,000	300,000
Engine capacity more than 2,501CC and less than 3,000CC	200,000	400,000
Engine capacity more than 3,000CC	250,000	450,000

Advance tax on transfer of private motor car/jeep:

Engine capacity upto 850CC	-	5,000
Engine capacity more than 851CC and less than 1,000CC	5,000	15,000
Engine capacity more than 1,001CC and less than 1,300CC	7,500	25,000
Engine capacity more than 1,301CC and less than 1,600CC	12,500	65,000
Engine capacity more than 1,601CC and less than 1,800CC	18,750	100,000
Engine capacity more than 1,801CC and less than 2,000CC	25,000	135,000
Engine capacity more than 2,001CC and less than 2,500CC	37,500	200,000
Engine capacity more than 2,501CC and less than 3,000CC	50,000	270,000
Engine capacity more than 3,000CC	50,000	270,000
Advance tax on lease of motor vehicle to be collected by Bank or leasing company	0	3 %

Section 233

In case commission is paid to advertising agent	10.00%	15.00%
In case commission is paid to life insurance agent receiving annual commission of less than 500,000	8.00%	16.00%
In all other cases	12.00%	15.00%

Section 233 AA

Tax to be deducted by NCCPL on profit/mark-up/interest	10.00%	10.00%
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Section 234

For goods transport vehicle	Rs. 2.5/kg	Rs. 4/kg
For goods transport vehicle of 8120 KG or more and after ten years in Pakistan	Rs. 1,200/ Annu m	Rs. 1,200/ Annu m
Passenger transport vehicle plying for hire (four or more but less than ten passengers)	50/seat/ann um	100/seat/an num

Passenger transport vehicle plying for hire (ten or more but less than twenty passengers)	100/seat/annum	200/seat/annum
Passenger transport vehicle plying for hire (more than twenty passengers)	300/seat/annum	500/seat/annum
For Private motor cars with engine capacity of upto 1000CC	800	1,200
For Private motor cars with engine capacity of 1001-1199CC	1,500	4,000
For Private motor cars with engine capacity of 1200-1299CC	1,750	5,000
For Private motor cars with engine capacity of 1300-1499CC	2,500	7,500
For Private motor cars with engine capacity of 1500-1599CC	3,750	12,000
For Private motor cars with engine capacity of 1600-1999CC	4,500	15,000
For Private motor cars with engine capacity of 2000CC and above	10,000	30,000
For Lumpsum collection on private motor cars:		
For Private motor cars with engine capacity of upto 1000CC	10,000	10,000
For Private motor cars with engine capacity of 1001-1199CC	18,000	36,000
For Private motor cars with engine capacity of 1200-1299CC	20,000	40,000
For Private motor cars with engine capacity of 1300-1499CC	30,000	60,000
For Private motor cars with engine capacity of 1500-1599CC	45,000	90,000
For Private motor cars with engine capacity of 1600-1999CC	60,000	120,000
For Private motor cars with engine capacity of 2000CC and above	120,000	240,000

Section 234 A

CNG Stations	4.00%	6.00%
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Section 235 Advance Tax on Electricity Bill

Where gross monthly bill is less than Rs. 400	0
Where gross monthly bill is more than Rs. 400 less than Rs. 600	80
Where gross monthly bill is more than Rs. 600 less than Rs. 800	100
Where gross monthly bill is more than Rs. 800 less than Rs. 1,000	160
Where gross monthly bill is more than Rs. 1,000 less than Rs. 1,500	300
Where gross monthly bill is more than Rs. 1,500 less than Rs. 3,000	350
Where gross monthly bill is more than Rs. 3,000 less than Rs. 4,500	450
Where gross monthly bill is more than Rs. 4,500 less than Rs. 6,000	500
Where gross monthly bill is more than Rs. 6,000 less than Rs. 10,000	650
Where gross monthly bill is more than Rs. 10,000 less than Rs. 15,000	1,000
Where gross monthly bill is more than Rs. 15,000 less than Rs. 20,000	1,500
Where gross monthly bill is more than Rs. 20,000	12% for commercial/5% for industrial

Section 235 A

Advance tax on domestic electricity bill exceeding 100,000/month	7.50%	7.50%
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Section 236 Telephone Subscribers and Internet

For Mobile phone and/or internet subscribers	12.50%	12.50%
For other subscribers where monthly bill is more than 1,000	10% of amount above 1,000	

Section 236-A Auction Sales

Advance tax at the time of sale by auction	10.00%	15.00%
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Section 236-B Domestic Air Tickets

Advance tax on domestic air tickets	5.00%	5.00%
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Section 236-C Sale of Property

Advance tax at the time of sale or transfer of immovable property - Not applicable after notification under section 230F	1.00%	2.00%
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Section 236-D Functions and Gathering

Advance Tax on functions and gatherings	5.00%	5.00%
Proviso: Advance tax on functions and gathering (Marriage)	5.00% of the bill ad valorem or Rs.20,000 per function whichever is higher in Major Cities	5.00% of the bill ad valorem or Rs.10,000 per function whichever is higher in remaining Cities

Section 236-F

Advance Tax on Cable TV operator License fee/Renewal	Tax on license (Rs.)	Tax on Renewal (Rs.)
License Category H	7,500	10,000
License Category H-I	10,000	15,000
License Category H-II	25,000	30,000
License Category R	5,000	12,000
License Category B	5,000	35,000
License Category B-1	30,000	45,000
License Category B-2	40,000	60,000
License Category B-3	50,000	75,000
License Category B-4	75,000	100,000
License Category B-5	87,500	150,000
License Category B-6	175,000	200,000
License Category B-7	262,500	300,000
License Category B-8	437,500	500,000
License Category B-9	700,000	800,000

License Category B-10	875,500	900,000
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Section 236-G Distributors

Advance tax on sale to distributors, dealers or wholesalers (fertilizers)	0.70%	1.40%
Advance tax on sale to distributors, dealers or wholesalers (other than fertilizers)	0.10%	0.20%

Section 236-H Retailers

Retailers (electronics)	1.00%	1.00%
Retailers (others)	0.50%	1.00%

Section 236-HA

Advance Tax on Sale of certain Petroleum Products	0.5% of ex-depot sale price	1% of ex-depot sale price
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Section 236-I Educational Fees

Advance tax on educational fees	5.00%	5.00%
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Section 236-J (dealers, arhatis etc.)

Category A	10,000	10,000
Category B	7,500	7,500
Category C	5,000	5,000
Others	5,000	5,000

Section 236-K Purchase of Property

Advance tax at the time of Purchase or transfer of immovable property of value upto 4 Million.	0.00%	0%
Advance tax at the time of Purchase or transfer of immovable property of value above 4 Million.	2.00%	4%

*From effective date of Section 230F, the rate for above headings will be 1%.

** Non-filer cannot purchase immovable property of exceeding Rs. 5 million & motor vehicle (Sec 227C)

Section 236-L International Air Tickets

Advance tax on international air tickets First/Executive class	Rs. 16,000/person
Advance tax on international air tickets others excluding economy	Rs. 12,000/person

Section 236-P Banking Transactions

Advance tax on banking transaction other than cash (subject to	0.00%	0.40%
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Government notification)		
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Section 236-Q Equipment Rental

Advance tax on payment to resident for use of machinery and equipment	10.00%	10.00%
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Section 236-R Remittances Abroad

Advance tax on remittance of educational expenses abroad	5.00%	5.00%
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Section 236-U Insurance Premium

Advance tax on Insurance premium (General insurance)	0.00%	4.00%
Life insurance exceeding 0.2 million premium per annum	0.00%	1.00%
Others	0.00%	0.00%

Section 236-V Extraction of Minerals

Advance tax on value of minerals extracted	0.00%	5.00%
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Section 236-W Minimum Property Value

Transfer of immovable property (applied at difference of declared amount and amount notified by FBR) - Not applicable after notification under section 230F	3.00% (effective after section 230F @ 1.00%)	3.00% (effective after section 230F @ 1.00%)
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Section 236-Y

Advance tax on amount remitted abroad through credit ,debit or prepaid cards	1% of gross amount remitted abroad	3% of gross amount remitted abroad
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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.

Since, we are a developing organization therefore, as part of our strategy for continuous improvement we would appreciate feedback on the document.

**Plot 2, Mezzanine Floor, Khumrail 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**