

Finance Bill 2017

Presentation of

GCA Team

GC 
Consultants

Intended Users

The target audience for this GCA Budget video is “**ICAP students**” who will appear in following upcoming attempts:

Winter-17,

Spring-18,

Summer-18

&

Autumn-18 only.

Income Tax

- 1 - Company tax rate = 30% onwards.
- 2 - Super tax will be extended for tax year 2018.
- 3 - Tax credit on new listed company enlistment:
 - 1st & 2nd year : 20% of tax payable
 - 3rd & 4th year : 10% of tax payable

4 - Revised tax rates for dividend (non-filers)

5 - Minimum tax on turnover = 1.25%

6 - Revised tax rates for capital gain on disposal of securities.

7 - Revised deductible allowance for education expenditure:

Current	:	PKR 1,000,000
New	:	PKR 1,500,000

8 - Tax credit on sale to registered persons @ 3% of tax payable = Abolished.

9 - Tax collected at import stage on:

Fertilizers imported by the commercial importer	=	FTR
Fertilizer imported by manufacturer	=	NTR

10 - Concessional loan to employee limit:

Current limit : PKR 500,000

New limit : PKR 1,000,000.

10A - Tax credit for investment in health insurance:

Current limit : PKR 100,000

New limit : PKR 150,000

11 - Expenditure incurred on sales promotion of pharmaceutical companies:

Current limit : 5%.

New limit : 10%.

12 - Penalty for transfer pricing @ 1% of the value of transactions on failure to maintain prescribed documentation.

13 - Dividend from non-resident (section: 94(3))
Omitted.

=

14 - The concept of provisional assessment, which was introduced in 2010 has been **abolished**.

15 - WHT on prize bond & cross word puzzle: **non-filers**

Current rate	:	20%.
New rate	:	25%.

16 - Tax on undistributed reserves will be paid solely based on profit for the year.
50% of paid up capital requirement was abolished.

17 - Concept of startup business

- ✓ It shall be the business of resident individual, Association of Persons or Company)
- ✓ Annual turnover = less than Rs 100 Million in last five tax years
- ✓ Registered in Pakistan after July 1st, 2012.
- ✓ Engaged in technology driven products or services certified by Pakistan Software Export Board (PSEB).
- ✓ **Profits** = Exempted from tax, including minimum tax (section: 113), for a period of three tax years.
- ✓ **WHT** = Withholding tax will also not apply on payments received by such businesses (section: 153).

18 - Common reporting standards are now part of ITO, 2001.

19 - All NPOs are eligible for 100% tax credit provided (additional conditions):

- (i) The administrative expenses will not exceed 15% of total receipts;
- (ii) The surplus funds as defined in the said section will be taxed at 10%.

Surplus fund means amounts received during the year as donations, voluntary contributions, subscriptions and other incomes not spent on charitable and welfare activities during the year and not part of the restricted funds, if the unspent amount is more than 25% of the total receipts during the tax year.

20 - Builders and developers will now fall in NTR. Earlier they fall in FTR.

21 - Two new directorates:

- a) broadening of tax base
- b) transfer pricing

22 - Advance ruling option available to non-resident taxpayers having permanent establishment seeking advance ruling from the Board has been reinstated. This is the positive change and will help in limiting tax litigation with the non-residents. Normally nonresident taxpayer for smooth operations of their businesses prefer to seek advance rulings rather than entering into tax litigation at a later stage.

23 - Inland Revenue Officer cannot be appointed as a Judicial Member of the Appellate Tribunal

24- FBR clarified that where depreciable asset is **jointly held** by a taxpayer and Islamic Financial Institution under a Musharika or diminishing Musharika arrangement, such asset will be **deemed to be owned by the taxpayer** for the purpose of claiming depreciation.

25 - Process of exemptions and tax concessions can be initiated by the Federal Board of Revenue with the approval of the Minister Incharge subject to approval of Economic Coordination Committee.

26 - Chief Commissioner is now specifically empowered to grant extension for a further period of fifteen days unless there are exceptional circumstances justifying a longer extension.

27 - Withholding tax statements are now allowed to be revised within sixty days of filing on discovery of any omission or wrong statement. Currently there is no such provision.

28 - The calculation of default surcharge on delayed payment of advance tax in the case of companies having special tax year has been aligned with that of a company following a normal tax year i.e. from the first day of the fourth quarter of the respective tax year.

29 - Wealth statement cannot be revised after receipt of notice under section:122(9)

30 - Non-resident person to file option for FTR will now be entitled to claim exemption certificate if they don't opt for FTR regime.

- (i) contracts or sub-contract under construction, assembly or installation project in Pakistan;
- (ii) contract for construction or services rendered relating thereto;
- (iii) contract for advertisement services by T.V Satellite channels.

31 - Tax collected by registering authority on **transfer of immovable property** shall be the minimum tax on income of the seller if it is acquired and disposed of in the same tax year.

32 - **Exemption provided from total income** to following institution:

- a) Asian Infrastructure Investment Bank
- b) Gulab Devi Chest Hospital
- c) Pakistan Poverty Alleviation Fund
- d) National Academy of Performing Arts
- e) Profit on debt received by Japan International Cooperation Agency (JICA)

33 - **Specific exemptions** are also given to following:

- a) Import of specified petroleum products
- b) Hajj Group Operators
- c) Import of raw materials
- d) Minimum Tax on Service Sector Companies
- e) Cash Withdrawals from Branchless Banking Agent Account
- f) Advance tax on motor vehicle registration

34 - Collection of capital gains tax by NCCPL:

a) Quarterly statement of capital gains:

Existing : 30 days

New : 45 days

b) Pay amount collected + interest accrued thereon on yearly basis.

Existing payment date : July 31

New payment date : August 15

35 - Explanation is given on taxation of banking companies (7th schedule).

Adjustments made in the annual accounts of banking companies on account of application of IAS - 39 & 40 are excluded in arriving at taxable income. Nothing in this sub-rule shall be so construed as to allow a notional loss, or charge to tax any notional gain on any investment under any regulation or instruction unless all the events that determine such gain or loss have occurred and the gain or loss can be determined with reasonable accuracy.

36) Persons not required to furnish a return of income (Section-115)

A widow, an orphan below the age of 25 years, a disabled person and in case of ownership of immovable property, a non-resident person from furnishing of return of income solely by reason that he/she;

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

37) FTR for non-residents (section:152)

Tax deducted by non-resident is considered as Final Tax on income of non-resident person arising from a contract. Now, non-resident persons can opt for presumptive tax regime to section 152. However, the existing condition that the option, once exercised, remains applicable to three years is proposed to be omitted.

Conditional Exemption

Imports by industrial undertakings [Clause (72B)]

Finance Act 2016 placed a ceiling that the quantity of raw material imports by industrial undertakings to be exempted from tax under section 148.

Current ceiling = 110% of the quantity of raw material imported and consumed during the previous tax year.

New ceiling = 125% of the quantity of raw material imported and consumed during the previous tax year.



1) Advance tax paid by individual taxpayer (Section:147)

Current limit : PKR 500,000
New limit : PKR 1,000,000

2) Electricity Consumption (Sections 235 and 235A)

Current billing threshold : PKR 30,000 per month.
New billing threshold : PKR 360,000 per annum.

Advance tax collection on the amount of electricity consumption bill inclusive of sales tax and other incidental charges.

3) Advance tax on tobacco (*Section 236X*)

Purchaser of tobacco including cigarette manufacturers = 5% of the purchase value.

4) Capital gain on disposal of securities (*Section 37A*)

Filers : 15%

Non-Filers : 20%

Explanation : Irrespective of the holding period of the securities.

5) Payment of rent (*Section 155*)

Withholding tax rate = 17.5% on property income earned by companies which are non-filer.

There is no change in the rate for filers.

6) Payment on account of fast moving consumer goods (Section 153)

Companies	:	2%
Others	:	2.5%

7) Advance tax on telephone and internet users (Section 236)

12.5% in case of subscriber of internet, mobile telephone and pre-paid internet or telephone card.

8) Reward to whistle blowers:

Another condition to claim the reward by whistleblower is inserted that the information provided to the board for tax evasion must accompanied by the evidence.

9) Collection of Tax by Stock Exchange Registered in Pakistan

Commission income of members of the Stock Exchange = FTR

10) Advance Tax on Insurance Premium

Lower limit for collection of advance tax by insurance companies on life insurance premium from non-filers.

Current limit : PKR 0.2 million

New limit : PKR 0.3 million

Dividends received by resident persons from non-resident companies

- ▶ Currently chargeable to tax under the head “Income from Business” or “Income from Other Sources”, as the case may be, unless the dividend is exempt from tax.
- ▶ Now these dividends taxable under section 5 of the Ordinance.
- ▶ In simple terms, dividend received by resident persons from non-resident companies will be treated as FTR.

WHT Rates

Payment to Non-Residents

Section: 152

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

	Existing Rate		Proposed Rate	
	<i>Filers</i>	<i>Non-filers</i>	<i>Filers</i>	<i>Non-filers</i>
Royalty or fees for technical services	15.0%	15.0%	15.0%	15.0%
Execution of contracts	7.0%	12.0%	7.0%	13.0%
Insurance or re-insurance premium	5.0%	5.0%	5.0%	5.0%
Advertisement services to a non-resident media person relaying from outside Pakistan	10.0%	10.0%	10.0%	10.0%
Sales/ supply of goods				
- by PE of non-resident companies	4.0%	6.0%	4.0%	7.0%
- by PE other non-residents	4.5%	6.5%	4.5%	7.75%
Rendering of or providing transport services by PE of non-residents	2.0%	2.0%	2.0%	2.0%
Rendering of or providing services other than transport services				
- by PE of non-resident companies	8.0%	12.0%	8.0%	14.0%
- by PE of other non-residents	10.0%	15.0%	10.0%	17.5%
Execution of contracts other than a contract for the sale of goods or the rendering of or providing services				
- by PE of non-resident companies	7.0%	12.0%	7.0%	13.0%
- by a sportsperson	10.0%	10.0%	10.0%	10.0%
- by PE of other non-residents	7.0%	12.0%	7.0%	13.0%

Dividend Income Section: 5

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

Collective Investment Scheme, REIT Scheme & Mutual Funds

Person	Stock Fund				Money Market Fund, Income Fund, REIT scheme or Any Other Fund			
	<i>Filer</i>		<i>Non-filer</i>		<i>Filer</i>		<i>Non-filer</i>	
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed
Individual	10%	12.5%	10%	12.5%	10%	12.5%	15%	15%
Company	10%	12.5%	10%	12.5%	25%	25%	25%	25%
AOP	10%	12.5%	10%	12.5%	10%	12.5%	15%	15%

Profit on Debt Section: 7B

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

Payment on account of goods & services (Section: 153)

	Rate of tax			
	Corporate		Non-Corporate	
	Existing	Proposed	Existing	Proposed
In case of sale of goods	6%	7%	6.5%	7.75%
In case of rendering or providing services (other than transport services)	12%	14.5%	15%	17.5%
In case of execution of contract	10%	12%	10%	12.5%

Payment made on Account of	Type of Vendor	Existing Rates		Proposed Rates	
		Filers	Non-filers	Filers	Non-filers
Supply of goods (General Rate)	Companies	4.0%	6.0%	4.0%	7.0%
	Other cases	4.5%	6.5%	4.5%	7.75%
Supply by FMCG distributors	Companies	3.0%	3.0%	2.0%	2.0%
	Other cases	3.5%	3.5%	2.5%	2.5%
Supply of rice, cotton seed oil or edible oil	All types	1.5%	1.5%	1.5%	1.5%
Payment for services (General Rate)	Companies	8.0%	12.0%	8.0%	14.5%
	Other cases	10.0%	15.0%	10.0%	17.5%
Payments to electronic and print media for advertising services	Companies	1.5%	12.0%	1.5%	12.0%
	Other Cases	1.5%	15.0%	1.5%	15.0%
Payments for transport services	All types	2.0%	2.0%	2.0%	2.0%
Execution of contracts	Companies	7.0%	10.0%	7.0%	12.0%
	Sportsperson	10.0%	10.0%	10.0%	10.0%
	Other cases	7.5%	10.0%	7.5%	12.5%

Rate of Tax for Companies

• Companies other than banking companies for the tax year 2016	<i>For TY 2017 31%</i> <i>For TY2018 and onwards 30%</i>
• Banking Companies	35%
• Small Company	25%

Income from property

Tax Payer Status	Existing Rates	Proposed Rates
Filer	15.0%	15.0%
Non-filer	15.0%	17.5%

FTR

FTR Examples

<u>Particulars</u>	<u>Sections</u>
Dividend	150
INCOME OF RESIDENTS FROM SHIPS and all floating crafts including tugs, dredgers, survey vessels and other specialized craft purchased or bare-boat	7A
Import (General)	148
Profit on debt (other than company)	151
Royalty or fee for technical services	152
Insurance or re-insurance premium	152
Advertisement services to a non-resident media person relaying from outside Pakistan	152
Payment against foreign produced advertisement commercial to non-residents	152A

<u>Particulars</u>	<u>Sections</u>
Payments for supply of goods (other than listed companies and companies engaged in manufacturing)	153
Companies providing advertising services (electronic & print media services)	153
Non-company entities providing advertising services (electronic & print media services)	153
By export houses for services rendered for stitching, dying, printing, embroidery, washing, sizing & weaving	153
Payment on account of execution of contract (Other than companies)	153
Exports	154
Prizes and winnings	156
Petroleum products	156A
Brokerage and commissions	233
Collection of tax by stock exchanges in lieu of tax on commission	233A
CNG stations	234A

Particulars

Sections

Steel melters & re-rollers	235B
Sale of lease of the right to collect tolls	236A
Bonus shares (all companies)	236M & 236N
Rent or payment for right of use of machinery and equipment	236Q
Import of fertilizer by manufacturer of fertilizer	148

MINIMUM TAX

Minimum Tax Examples

- ✓ Companies providing transport services (Section: 153)
- ✓ Companies providing other services (Section: 153)
- ✓ Non-company entities providing transport services (Section: 153)
- ✓ Non-company entities providing other services (Section: 153)
- ✓ Import of packing material and edible oil (Section: 148)
- ✓ Exporters may opt at the time of filing of return that the tax collected to be treated as Minimum Tax (Section: 154)
- ✓ Electricity consumption - for Non-corporate tax payers up to Rs. 360,000 per annum. (Section: 235)



1 - Harsher penalties for persons involved in illicit manufacture and trade of 'cigarettes'

2 - Further tax will be extended to 'Zero rated' supplies.

3 - Reduced rate of 5% for technology related equipment extended for current year.

4 - Poultry related equipment has been proposed to be subject to reduced rate of tax @ 7%.

5 - For education institutions, rate of tax on import of multimedia projectors has been reduced to 10%.

6 - Supply of locally produced coal is proposed to be subject to tax at higher of 17% of value of supply or Rs 425 per metric tonne

6 - Rate of sales tax on steel-melters and re-rollers will be Rs.10.5 per electricity unit consumed.

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

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

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

10 - Change in tax rates:

Fertilizers are currently subject to tax on retail price at the standard rate of 17%. New reduced rates are as follows:

- ✓ Supply of natural gas to urea manufacturer = 10%
- ✓ Import of phosphoric acid by fertilizers manufacturer = 5%

Scope of Taxation (section:3)

Currently goods imported into Pakistan are subject to levy of Sales Tax. Now this includes the goods imported, irrespective of their final destination in territories of Pakistan.

Further tax at the rate of two percent of the value for the zero rated goods where taxable supplies are made to a person who has not obtained registration number.

Board with the approval of the Minister In charge of Federal Government to issue notification instead of Federal Government in respect of:

- a. exclude or include any taxable supply specified in the Third Schedule;
- b. liability to pay tax shall be of the person receiving the supply; and
- c. Normal levy and extra rate or amount not exceeding 17% of the value of such goods or class of goods and on such persons or class of persons.

Tier - 1 Retailers (section: 3(9A))

Tier-1 retailers are required to pay sales tax under normal regime which were previously governed through Special Procedure Rules, 2007.

Tier-1 retailers means

- (a) a retailer operating as a unit of a national or international chain of stores;
- (b) a retailer operating in an air-conditioned shopping mall, plaza or center, excluding kiosks;
- (c) a retailer whose cumulative electricity bill during the immediately preceding twelve consecutive months exceeds rupees six hundred thousand; and
- (d) a wholesaler-cum-retailer, engaged in bulk import and supply of consumer goods on wholesale basis to the retailers as well as on retail basis to the general body of the consumers.

Contd....

Tier-1 retailers, in lieu of net tax payable at the applicable rate shall, have an option to pay sales tax under the turnover regime at the rate of 2% of their total turnover, including turnover relating to exempt supplies, without adjustment of any input tax. The retailers opting to pay sales tax on the basis of total turnover, shall file an option to the Chief Commissioner of Regional Tax Office or Large Taxpayers Unit having jurisdiction and such option shall remain in force for the whole financial year.

Retailers making supplies of finished goods of the **five sectors** specified in Notification No. S.R.O.1125 (I)/2011, dated the 31st December, 2011 shall pay sales tax in respect of such supplies at the rates prescribed in the said Notification.

Further Tax on Zero Rated Supplies

The Honorable Courts had held that import of goods for non-tariff areas are not subject to taxation

Further tax at the rate of 2% of the value for the zero rated goods shall also to charge, levy and pay, where taxable supplies are made to a person who has not obtained registration number.

This amendment is also made to give legal cover as the Lahore High Court, Lahore has held in a judgment that charging of further tax on goods subject to zero rated is not applicable.

Tax credit not allowed (section:8)

Approval of the Minister In charge of Federal Government is required to issue notification for in respect of the admissibility of input tax credit on specified goods or services.

Previously vested with Federal Government

Exemption [Section 13]

Approval of the Minister-In-charge of Federal Government is required to issue notification to exempt any taxable supplies made or import or supply of any goods or class of goods, from the whole or any part of the tax, instead of Federal Government.

Board is required to place before the National Assembly all notifications issued under this section in a financial year instead of the Federal Government.

All notification issued including notifications issued on or after 1st July, 2016, shall remain in force till the 30th June, 2018, if not earlier rescinded.

► **Appointment of authorities**

New designations of “District Taxation Officer” “Assistant Director Audit”

► **Services of Orders, Decisions etc.**

Notices or orders sent electronically through email or to the e-folder maintained for the purpose of e-filing of Sales Tax-cum-Federal Excise returns by the Limited Companies, both public and private shall be treated as served. After, this amendment, sending of notices/orders in person is no more compulsory.

This amendment is made to give legal cover to the notices sent through email or to the e-folder of the taxpayers. Though, this is a good move by FBR as already been adopted in income tax in the era of information technology. However, there may be arises some issues due to ignorance of the taxpayers.

Recovery of Arrears of Tax:

- ▶ Commissioner IR shall not enforce for recovery of sales tax amount against any order, if the appeal is filed before the Commissioner (appeals) IR under section 45B & appeal is not decided, subject to the condition that twenty five percent (25%) of the amount of tax due has been paid by the taxpayer.
- ▶ This is a good measure to give some relief to the taxpayer against coercive measures for recovery to make it align with the provisions of Income Tax Ordinance, 2001, introduced last year.

Federal Excise Duty

General

Excise Duties are essentially levied to discourage consumption of undesirable items.

► **Recovery of Duty (Section 37)**

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

► **Service of Notice (Section 47)**

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

This amendment is made to give legal cover to the notices sent through email or to the e-folder of the taxpayers. Though, this is a good move by FBR as already been adopted in income tax in the era of information technology. However, there may arise some issues due to ignorance of the taxpayers.

► **Change in Rate of Duty (*First Schedule*)**

The rate of FED on cigarettes is proposed to be collected according to three tier structure instead of existing two tier structure.

FED on Telecommunication services (ICT only) = 17%.

Islamabad Capital Territory (Tax on Services) Ordinance, 2001

Only one
amendment

**Exempt export
of IT services.**

Provincial (Tax on Services) Act

<u>Province Sales Tax on Services</u>	<u>Sale Tax Rate</u>
Sindh	13%
KPK	15%
Punjab	16%
Islamabad	16%
Balochistan	15%

Thank you for watching the video.

Any suggestions/criticisms can be
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