# Significant Tax Amendments 2017-18
# Federal Finance Act and Provincial Finance Acts of Sindh, Punjab, and Khyber Pakhtunkhwa

TOLA ASSOCIATES
TAX & CORPORATE ADVISORS



408, Continental Trade Centre, Khayaban-e-Iqbal, Block 8, Clifton, Karachi
Telephone: +92 21 3567 1909 | Facsimile: +92 21 3521 0626 | eMail: connect@tolaassociates.com | web: www.tolaassociates.com

# PRESIDENT'S MESSAGE

This commentary on Federal Finance Act 2017 and respective Finance Acts of Provinces (except Baluchistan) gives an overview of the important changes which have been introduced. This is the inaugural Tax Memorandum of "Tola Associates". We have been presenting our commentary on the Finance Bill and Act under the name of Naveed Zafar Ashfaq Jaffery & Co Chartered Accountants.

The instant commentary contains comments on the changes introduced for tax year 2017-18; in the Income Tax Ordinance, 2001; the Sales Tax Act, 1990; the Federal Excise Act, 2005; Sindh Sales Tax on Services Act, 2011; Punjab Sales Tax on Services Act, 2012; Khyber Pakhtukhwa Finance act, 2013; and rules made and notifications issued under these Acts and Ordinances.

The amendments proposed through these laws are intended to be effective from July 01, 2017, unless otherwise indicated.

This Tax Memorandum is intended to provide general guidance to our clients and other readers on the important changes proposed to be brought through the Acts and notifications and should not be construed as an expert advice relating to a particular matter. For assessing the impact of proposed changes, reference should be made to the appropriate wording to the relevant law, notifications issued thereunder and judgment given by the Courts.

This Memorandum has been prepared exclusively for the use of our staff, clients and intended readers based on public information available with us till the time of giving it for printing. This Memorandum should not be published or printed in any manner without seeking a written consent from us.

It should be noted that the instant commentary is our interpretation of the changes proposed in the Acts and notifications. Our comments in this commentary should not be construed as definite and should, therefore, be used only as a guidance.

Warm Regards
For & on behalf of
**Tola Associates**

Ashfaq Tola - FCA
President

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## 1. Amendment in definition of Consumer Goods - S. 2(22A)

Durable goods have been excluded from the definition of Consumer goods vide FA 2017.

## 2. Introduction of Definitions – S.2

### Liason Office- S.2 (30C)

A new clause (30C) "Liason Office" has been inserted in the act, which has been defined as a place of business that shall be acting for the principal, head office or any entity of which it is the part and its activities do not result in driving income in Pakistan, and it also manages to meet its office expenses from the remittances received outside Pakistan through normal banking channels.

**Explanation:**

i) a place of business engaged in pursuing following activities shall not be considered as Liason Office
   - commercial activities,
   - trading or industrial activities or
   - engaged in negotiation and conclusion of contracts

ii) the activities shall be considered to be commercial activities, if these includes:
   - providing after sales services for goods or services; or
   - marketing or promoting pharmaceutical and medical products or services;

Subject to clause (i), a place of business engaged in undertaking below activities shall qualify to be treated as Liason Office;

- an exploratory or preparatory nature,
- Exploring the possibility of joint collaboration and export promotion,
- promoting those products which have not be supplied or sold in Pakistan,
- Promoting technical and financial collaboration between principal taxpayers, and
- Provision of proficient advices and assistance

### National Clearing Company of Pakistan (NCCPL)—(35AA)

NCCPL is a significant institution of Pakistan's Capital Marketing which is engaged in providing capital and settlement services to Pakistan Stock Exchange. Previously the definition did not cover the Subsidiary of NCCPL as NCCPL. The FA 2017 has introduced subsidiary of NCCPL in the definition of NCCPL.

### Online Marketing-(38B)

A new clause (38B) "Online Marketplace" has been inserted in the ITO through FA 2017 that shall be acting as facilitator in transactions taken place between the buyer and seller respectively. It's an information technology platform which shall be operated by e-commerce entity through electronic network. The rate of tax on activities of online marketplace under S.113 has been set at 0.5% and the rate of tax to be deducted from payment against commission, other than tax on payment to an advertising agent as commission u/s 233, to online marketplace shall be 5%.

## 3. Continuation of Super Tax (S. 4B)

A super tax was levied, for tax year 2016, vide Finance Act 2015 ("FA-15") for every banking company and every other company whose taxable profits exceeded Rs.500 million. The super tax was charged in the backdrop of Military operation 'Zarb-e-Azb' for rehabilitation of Temporarily Displaced Persons ("TDPs"). The tax was levied at 4% for Banking Companies and at 3% for others. The tax was continued for tax year 2016 also.

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Finance Act 2017 ("FA-17") further continues the super tax for tax year 2017. The matter is sub-judice.

## 4. Undistributed Reserves (S. 5A)

It has been introduced that tax at 7.5% would be applied on accounting profit before tax, on every public company other than a scheduled bank or a modaraba, that derives profit for a tax year but does not distribute at least 40% of its after tax profits within six months of the end of the tax year through cash or bonus shares.

## 5. Tax on return on investment in Sukuks – (S.5AA)

FA 2017 includes Sukuks issued by a Company within the ambit of this section. The rate of tax to be imposed on return on investment in sukuks issued from a special purpose vehicle or Company is tabulated below:

| Sukuk Holder | Rate | Return on Investment |
|---|---|---|
| Company | 25% | Any Amount |
| Individual or AOP | 12.5% | More than One Million |
| Individual and AOP | 10% | Less than One Million |

## 6. Abolition of Fixed Tax Regime for Builders and Developers (S. 7C and 7D)

FA-16 introduced a separate tax slab for builders and Developers at the following rates, which was a full and final discharge of their tax liability:

| TAX RATES FOR BUILDERS | | | | | |
|---|---|---|---|---|---|
| (A) For Karachi, Lahore & Islamabad | | (B) For Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbotabad, Quetta | | (C) For Urban Areas not specified in A&B | |
| Commercial Buildings | Rs. 210/Sq. ft | Commercial Buildings | Rs. 210/Sq. ft | Commercial Buildings | Rs. 210/Sq. ft |
| Residential Buildings & Offices | | Residential Buildings & Offices | | Residential Buildings & Offices | |
| Area/Sq. ft | Rate/Sq. ft | Area/Sq. ft | Rate/Sq. ft | Area/Sq. ft | Rate/Sq. ft |
| Up to 750 | Rs.20 | Up to 750 | Rs. 15 | Up to 750 | Rs. 10 |
| 751 to 1500 | Rs.40 | 751 to 1500 | Rs. 35 | 751 to 1500 | Rs. 25 |
| 1501 & More | Rs.70 | 1501 & More | Rs. 55 | 1501 & More | Rs. 35 |

| TAX RATES FOR DEVELOPERS | | | | | |
|---|---|---|---|---|---|
| (A) For Karachi, Lahore & Islamabad | | (B) For Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbotabad, Quetta | | (C) For Urban Areas not specified in A&B | |
| Commercial Plots | Rs. 210/Sq. yd | Commercial Plots | Rs. 210/Sq. yd | Commercial Plots | Rs. 210/Sq. yd |
| Residential Plots | | Residential Plots | | Residential Plots | |
| Area/Sq. yd | Rate/Sq. yd | Area/Sq. yd | Rate/Sq. yd | Area/Sq. yd | Rate/Sq. yd |
| Up to 120 | Rs.20 | Up to 120 | Rs. 15 | Up to 120 | Rs. 10 |
| 121 to 200 | Rs.40 | 121 to 200 | Rs. 35 | 121 to 200 | Rs. 25 |
| 201 & More | Rs.70 | 201 & More | Rs. 55 | 201 & More | Rs. 35 |

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It has been aimed that, from TY 2018 onwards, builders and Developers may be taxed under normal tax regime instead of fixed tax regime introduced vide FA 2016.

The new amendment shall only apply on projects undertaken for construction and sale of residential and commercial buildings initiated and approved:

a) during tax year 2017 only;
b) for which payment of prescribed taxes has been made by the developer/builder during tax year 2017; and
c) the Chief Commissioner has issued online schedule of advance tax installments to be paid by the developer.

We believe that the scheme of FTR should have been continued for another for consistency.

## 7. Limit of interest free loans from Employer exceeded - S. 13(7)

Previously, for interest free loans in form employer to employee in excess of Rs. 500,000, profit at benchmark rate of 10% is included in the salary income of employee. The limit of Rs. 500,000 has been increased to Rs. 1 million vide FA 2017.

## 8. Limit of sales promotion expense expanded – S. 21(o)

Previously, expenses on account of sales promotion or advertisement are allowed as deductible expenses upto 5% of turnover of a pharmaceutical company. This cap has now been increased upto 10% vide FA 2017.

## 9. Depreciation on Jointly owned assets under Musharika – S. 22(15)

FA 17 inaugurates an amendment, whereby, an asset jointly owned by a tax payer and an Islamic Financial Institution ("IFI") licensed by the State Bank of Pakistan or Securities and Exchange Commission of Pakistan, as the case may be, pursuant to an arrangement of Musharika financing or Diminishing Musharika Financing or Ijara, shall be treated to be owned by the taxpayer.

This has the effect that the whole asset shall be treated to be owned by the taxpayer for the purpose of claiming depreciation. This amendment has been introduced to neutralize tax advantage commercial banks used to have over IFIs.

The amendment was recommended by subcommittee formed by the Honorable Finance Minister which was headed by President, Tola Associates.

## 10. Exemption and Tax Concession – S. 53

Earlier, Federal Government was empowered to make amendments like adding or omitting clauses or conditions, making any changes in clauses or conditions in the Second Schedule in respect of national security, national disaster, national food security, protection of national economic interest, arising out of abnormal fluctuations in international commodities prices, removal of anomalies in taxes and etc. Now through FA 2017 the same power has now been delegated to the Board after getting prior approval of Federal Minister in-charge to make the above amendments as the government thinks fit.

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Moreover, after the commencement of FA 2015 any notifications issued under sub-section (2) of the afore-mentioned section shall be considered, if not earlier rescinded, as rescinded once the Financial Year gets expired. The FA 2017 has allowed all notifications, not rescinded earlier, to be effective from 1st July, 2016 to 30th July, 2018. And notification issued on or after 1st July 2016 shall continue to be effective till 30th July, 2018 provided that the same are not rescinded earlier.

## 11. Tax Credit for Investment in Shares and Insurance-S.62

Previously, a resident person other than a company shall be entitled to a tax credit in respect of:

- Cost of acquiring new shares offered to the public by a Public listed company provided the resident person is an original allottee or the shares acquired from the privatization commission of Pakistan; or
- Life insurance premium paid on a policy to a life insurance company registered under the Insurance Ordinance, 2000 provided the resident person is deriving salary income or income from business.

The FA 2017 has also allowed above tax credit in respect of cost of acquiring in the tax year, sukuks offered to a public company listed and traded on stock exchange in Pakistan, provided the resident person is the original allottee of sukuks.

## 12. Deductible Allowance for Education Expense – S. 64AB renumbered as 60D

FA 2016 introduced a tax credit for educational expenses incurred by an individual for his children may be allowed provided the person's taxable income does not exceed Rupees one million. The limit of tax credit was actual payment, 25% of taxable income or Rs. 60,000 per children, whichever is lower.

The above limit of Rs. 1,000,000/- has now been increased to Rs. 1,500,000/- vide FA 2017.

## 13. Tax Credit on Health Insurance – S. 62A

FA-16 introduced tax credit for premium paid on health Insurance policy. The tax credit was set to be lower of actual payment of premium, 5% of Taxable income or Rs. 100,000. This limit of Rs. 100,000 has now been increased to Rs. 150,000 vide FA 2017.

## 14. Tax Credit for Purchases from Registered Person – 65A

FA 2009 inserted section 65A, wherein, every manufacturer registered under Sales Tax Act, 1990 ("STA"), is entitled to a tax credit of 2.5% of tax payable in a tax year if 90 % or more of his sales are made to persons registered under STA during the said tax year.

FA-16 extended the above tax credit to 3% from 2.5% of tax payable and allowed additional tax credit of 0.5% to the said registered manufacturer if 90% or more of his purchases are made from persons registered under STA during the said tax year.

FA 2017 omits the above tax credit. This will credit discouragement to buy goods from Sales Tax Registered Persons.

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## 15. Tax Credit for enlistment – 65C

Section 65C was first inserted vide FA 2010 and a tax credit of 5% tax payable was allowed for companies which enlist in a registered stock exchange in Pakistan during subject tax year. Later, vide FA 2011 and FA 2015, the tax credit was increased to 15% and 20% respectively. The said credit was allowed for only one year, i.e. the year in which the company is enlisted.

FA 16 extended the above credit of 20% for two years instead of only one year. Now, FA 2017 allows to further extend the benefit for following three tax year in addition to tax year of enlistment. However, the tax credit for the last two years will be allowed only upto 10%.

## 16. Dividend from Non-Resident Company – S. 94(3)

Section 94(3) of ITO provides that dividend from a non-resident company to a resident person shall be taxable under the head "Income from business" or "Income from other sources". FA 17 omits subsection (3) of section 94 of ITO. This will have the effect that dividend, whether received from resident or non-resident company, will be taxable under section 5 of ITO, i.e. Tax on Dividends.

## 17. Profits and Gains of Sui Gas Field – S. 100(2)

FA 17 amends section 100(2) of ITO to bring the profit and gains derived from sui gas field within the purview of Fifth Schedule, i.e. Rules for the computation of the profits and gains from the exploration and extraction Mineral Deposits. Currently, as per subsection (2) section 100 of ITO, production of natural gas has been excluded from the purview of Fifth Schedule.

## 18. Tax Credit for Non-Profit organizations – S. 100C

Previously, to avail tax credit of 100%, a non-profit organization was required to fulfill following conditions, namely:

a) return has been filed;
b) tax required to be deducted or collected has been deducted or collected and paid; and
c) withholding tax statements for the immediately preceding tax year have been filed.

FA 2017 inaugurates to add another condition as (d), i.e. the administrative and management expenditure does not exceed 15% of the total receipts. However, the said condition shall not apply to non-profit organization if it has commenced the charitable and welfare activities for the first time within last three (03) years and its total receipts during the tax year are less than One Hundred Million.

FA 17 also introduces to tax surplus funds at the rate of 10%.

## 19. Minimum Tax Rate – S. 113

Section 113 was inserted by FA 2009. It was earlier omitted by FA 2008. As per section 113, Minimum tax @ 1% of turnover (turnover tax) is charged in case of a company and in case of an Individual or AOP (with specified turnover limit of Rs.10 million). FA 2017 increases turnover tax rate from 1% to 1.25% to encourage proper declaration of Revenues and expenses, so that the taxpayer falls under normal tax liability instead of minimum tax liability.

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## 20. Requirement of return filing by widows, orphans and disabled – S. 115

Previously, Section 114 of ITO required following persons, among others, to file return of income who:

i. owns immoveable property with a land area of five hundred square yards or more located in a rating area;
ii. owns a flat having covered area of two thousand square feet or more located in a rating area
iii. owns a motor vehicle having engine capacity above 1000CC.

## 21. Extension in time for furnishing return of income – S. 119

Section 119 of ITO empowers Commissioner to grant extension in time for filing of return or other documents. Now FA 2017 empowers Chief Commissioner also to grant such extension if the same is not granted by the Commissioner.

## 22. Power of Best Judgment Assessment – S. 121

As per section 121 of ITO, the Commissioner is empowered to make a best Judgment Assessment on the basis of available information in certain circumstances. FA 2017 widens the power of Commissioner of Best Judgment Assessment in the event of failure by the taxpayer to comply with the notices of Commissioner to file return of Income.

## 23. Provisional Assessment – S. 122C

As per section 121 of ITO, the Commissioner is empowered to make a provisional Assessment on the basis of available information in the event of failure by the taxpayer to comply with the notices of Commissioner to file return of Income.

FA 2017 omits the section as the provisions of this section are going to be embedded in section 121 of ITO as discussed in previous paragraphs.

Another impact of this omission will be eligibility of taxpayer to file an appeal as currently no appeal may be filed against an order under section 122C.

## 24. Advance Tax – S. 147

Under section 147, an individual or AOP having latest assessed income of Rs. 500,000 or more and every company AOP is required to pay advance tax on quarterly basis. FA 2017 enhances this limit of Rs. 500,000 to Rs. 1,000,000/-.

## 25. Import of Fertilizer and Plastic Raw Material – S. 148

Previously, as per section 148 of ITO, income tax deducted at import stage was final tax except following:

a) raw material, plant, machinery, equipment and parts by an industrial undertaking for its own use;
b) fertilizer by manufacturer of fertilizer;
c) motor vehicles in CBU condition by manufacturer of motor vehicles;
d) large import houses (with certain conditions); and
e) a foreign produced film imported for the purposes of screening and viewing

FA 2017 omits clause (b) above. This has the effect that tax deducted on import of fertilizer shall be a final tax.

The FA 2017 has also made the tax paid at import stage on import of plastic raw material by industrial undertaking and the tax so collected in this respect shall be minimum tax. The rate of tax for industrial undertaking, being a filer, for its own use shall be 1.75% and for commercial importer the rate of tax, being a filer, shall be 4.5% respectively.

### 26. Option to revise statement of withholding tax – S. 165

FA 2017 amends section 165 of ITO and to provide an option to the filers of the withholding tax statements to revise the statement within 60 days of filing of the same in the event of any error or omission.

### 27. Brokerage and Commission on Advertisement – S. 233

The FA 2017 inserts sub-section (2A) in section 233, whereby the principle is required to deduct income tax at the rate of 10% (15% for non-filer) upon its payment to an advertising agent as its commission on the following amount:

$$\frac{A \times 15}{85}$$

Where A= amount paid or to be paid to electronic or print media for advertising services (excluding commission) on which tax is deductible under section 153(1)(b).

The tax so deducted shall be the final tax.

### 28. Collection of Tax by Stock Exchange – S. 233A

Previously, advance tax was collected by PSX on sale and purchase of share in lieu of Commission by its members at the rates of 0.02% of the values of sales or purchase, as the case may be, which was adjustable. FA 2017 has introduced to make this collection of advance tax as a final tax liability.

### 29. Advance Tax on Electricity consumption by a CNG station – S. 234A and S. 235

Previously, advance tax collected on consumption of electricity by industrial or commercial user was adjustable. FA 2017 has introduced that advance tax on electricity consumption by CNG station may be made final tax liability of income of CNG stations in addition to 4% final advance tax liability on gas consumption.

FA 2017 increases the rate of advance tax from 4% to 6% for non-filers.

### 30. Advance Tax on Electricity consumption by a CNG station – S. 234A and S. 235

Previously, advance tax collected on consumption of electricity by a non-corporate industrial or commercial consumer was adjustable over and above the billed amount of Rs. 30,000 per month. FA 2017 changes this limit upto billed amount of Rs. 360,000 per annum, i.e. tax collected on the billed amount of less than Rs. 360,000 shall be minimum tax liability and no adjustment of such tax collected shall be available.

### 31. Advance Tax on Sale or Transfer of Immovable property – S. 236C

Previously, advance tax collected at 1% (2% for filers) of the gross value on sale or transfer of immovable property was adjustable. FA 2017 has introduced that in the event of purchase and sale of an immovable property in the same tax year, the tax so collected shall be minimum tax.

## 32. Advance Tax on Tobacco – S. 236X

FA 2017 inaugurates to insert a new section, whereby, Pakistan Tobacco Board or its contractors, at the time of collecting cess on tobacco, directly or indirectly, shall collect advance tax at the rate of five percent of the purchase value of tobacco from every person purchasing tobacco including manufacturers of cigarettes. The tax so collected will be adjustable.

## 33. Tax Rates on Capital Gains – Sch. I, Div. VII, Part I

The rate of tax on capital gains is tabulated below:

| Current Rates | | | | | | Proposed Rates | |
|---|---|---|---|---|---|---|---|
| S. No. | Period | Tax Year 2015 | Tax Year 2016 | Tax Year 2017 | | Tax Year 2018 and onwards | |
| | | | | Filer | Non-Filer | Filer | Non-Filer |
| 1 | Where holding period of a security is less than twelve months | 12.5% | 15% | 15% | 18% | | |
| 2 | Where holding period of a security is twelve months or more but less than twenty-four months | 10% | 12.5% | 12.5% | 16% | 15% | 20% |
| 3 | Where holding period of a security is twenty-four months or more but the security was acquired on or after 1st July, 2013 | 0% | 7.5% | 7.5% | 11% | | |
| 4 | Where the security was acquired before 1st July, 2013 | 0% | 0% | 0% | 0% | 0% | 0% |

## 34. Advance Tax on Dividend – Sch. I, Part III, Div. I

The rate of advance tax to be deducted under S. 150 and 236S is tabulated below:

| Recipients of Dividend | TY 2017 | TY 2018 |
|---|---|---|
| Shareholders of a:<br>• Power project privatized by WAPDA<br>• Company setup for power generation<br>• Company supplying coal exclusively to power generation projects | 7.5% | 7.5% |
| In Other Cases | 12.5% (20% For NF) | 15% (20% For NF) |
| Dividend Received by Company, Individual or AOP from Stock Fund.<br>• If the Dividend Receipts are Less than Capital Gains<br>• If the Dividend Receipts are Less than Capital Gains | 12.5%<br>10% | 12.5%<br>12.5% |
| Dividend received from money market mutual fund<br>• received by Company<br>• received by Individual or AOP;<br>o Dividend received > 2.5 M<br>o Dividend received <= 2.5 M | 25%<br>10% (15% for NF) | 25%<br>12.5% (15% for NF)<br>10% (15% if NF) |
| Dividend from a collective investment scheme, REIT scheme etc.<br>• Received by a company<br>• Received by Individual or AOP | 25%<br>10% (15% if NF) | 25%<br>12.5% (15% if NF) |

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## 35. Tax Rates on Dividend Income – S. I, Part I, Div. III

The rate of Dividend tax imposed under S. 5 on dividend received is tabulated below:

| Recipients of Dividend | TY 2017 | TY 2018 |
|---|---|---|
| Shareholders of a:<br>• Power project privatized by WAPDA<br>• Company setup for power generation<br>• Company supplying coal exclusively to power generation projects | 7.5% | 7.5% |
| In Other Cases | 12.5% | 15% |
| Dividend Received by Company, Individual or AOP from Stock Fund.<br>• If the Dividend Receipts are Less than Capital Gains<br>• If the Dividend Receipts are More than Capital Gains | 12.5%<br>10% | 12.5%<br>12.5% |
| Dividend received from Mutual Funds<br>o Dividend received > 2.5 M<br>o Dividend received <= 2.5M | 10% | 12.5%<br>10% |
| Dividend from a collective investment scheme, REIT scheme etc.<br>• Received by a company<br>• Received by Individual or AOP | 25%<br>10% (15% if NF) | 25%<br>12.5% (15% if NF) |

## 36. Tax Rates on Profit on Debt – Sch. I, Div. IIIA, Part I

The rates of tax on profit on debt is tabulated below:

| Prior to FA 2017 | |
|---|---|
| **Profit on Debt** | **Rate of Tax** |
| Where profit on debt does not exceed Rs.25,000,000 | 10% |
| Where profit on debt exceeds Rs.25,000,000 but does not exceed Rs.50,000,000 | Rs.2,500,000 + 12.5% of the amount exceeding Rs 25,000,000 |
| Where profit on debt exceeds Rs.50,000,000 | Rs. 5,625,000 + 15% of the amount exceeding Rs.50,000,000" |

| As per FA 2017 | |
|---|---|
| **Profit on Debt** | **Rate of Tax** |
| Where profit on debt does not exceed Rs.5,000,000 | 10% |
| Where profit on debt exceeds Rs.5,000,000 but does not exceed Rs.25,000,000 | 12.5% |
| Where profit on debt exceeds Rs.25,000,000 | 15% |

## 37. Advance Tax Rates on income from property – Sch. I, Div. V, Part III

Previously, advance tax was charged at 15% of gross amount of rent in case the owner was a company. FA 2017 increases this rate to 17.5% in case the company is a non-filer.

## 38. Advance Tax Rates on Prizes and Winnings – Sch. I, Div. VI, Part III

Previously, advance tax was collected at 15% of gross amount of prizes and winnings in case of filer and 20% in case of non-filer. FA 2017 increases this rate to 25% in case of non-filer.

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## 39. Advance Tax Rates on Petroleum Products – Sch. I, Div. VIA, Part III

Previously, advance tax was collected from the amount of commission at 12% for filers and at 15% FOR non-filers. FA 2017 increases the rate for non-filers to 17.5%.

## 40. Advance Tax Rates on telephone and internet user – Sch. I, Div. V, Part IV

Previously, in case of subscriber of internet, mobile telephone and prepaid internet of telephone or telephone card, advance tax at 14% is collected. This rate has now been reduced to 12.5% vide FA 2017.

## 41. Advance Tax on Motor Vehicles – Sch. I, Div. VII, Part IV

FA 2017 reduces advance tax amounts from Rs. 10,000; Rs. 20,000 and Rs. 30,000 to Rs. 7,500; Rs. 15,000 and 25,000 for categories upto 850cc; 1000cc and 1300cc, respectively for filers.

## 42. Advance Tax on Sale by Auction – Sch. I, Div. VIII, Part IV

FA 2017 introduces advance tax on sales by auction at 15% for non-filers. Currently this rate is 10% irrespective of status of filer or non-filer.

## 43. Advance Tax on Sale to Retailers – Sch. I, Div. XV, Part IV

Previously, advance tax on sales to retailers by distributors and/or wholesalers was collected at 0.5% of the gross amount of sales. FA 2017 introduces following rates:

| Category of sale | Rate of Tax | |
|---|---|---|
| | Filer | Non-Filer |
| Electronics | 1% | 1% |
| Others | 0.5% | |

## 44. Advance Tax on Insurance Premium – Sch. I, Div. XXV, Part IV

Previously advance tax was collected from non filers on insurance premium as under:

| Type of Premium | Current rate |
|---|---|
| General Insurance Premium | 4% |
| Life insurance premium if exceeding Rs. 0.2 million per annum | 1% |
| Others | 0% |

FA 2017 allows to extend the above limit of Rs. 0.2 million to Rs. 0.3 million.

## 45. Advance Tax on Payment to Non Residents – S. 152

The rates of advance taxes on payments to Non-Residents are as under:

| Particulars | Filer | Non Filer |
|---|---|---|
| Royalty or fee for technical services | 7% | 13% |
| Insurance Premium or reinsurance premium | 5% | 5% |

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| Particulars | Filer | Non Filer |
|---|---|---|
| Gross amount of Sale of Goods (Company) | 4% | 7% |
| Gross amount of Sale of Goods (other than Company) | 4.5% | 7.75% |
| Gross amount of services rendered/provided other than transport (Company) | 8% | 14% |
| Gross amount of services rendered/provided other than transport (other than Company) | 10% | 17.5% |
| Gross amount of execution of contract | 7% | 13% |

## 46. Advance Tax on Payments to residents – S. 153

The rates of advance taxes on payments are as under:

| Section | Nature of Payment | Filer | Non-Filer |
|---|---|---|---|
| 153 | Sale of Rice, Cotton, Seed or Edible Oil | 1.5% | 1.5% |
| 153(1)(a) | Sale of goods:<br>• Company<br>• Other than Company | <br>4%<br>4.5% | <br>7%<br>7.75% |
| 153(1)(ab) | Supply made by distributor of fast moving consumer goods<br>• Company<br>• Other than Company | <br>2%<br>2.5% | <br>-<br>- |
| 153(1)(b) | For transport services | 2% | 2% |
| 153(1)(b) | For other services<br>• Company<br>• Other than Company | <br>8%<br>10% | <br>14.5%<br>17.5% |
| 153(1)(b) | For Electric & Print Media for advertising service<br>• Company<br>• Other than Company | <br>1.5%<br>1.5% | <br>12%<br>15% |
| 153(1)(c) | For Execution of Contracts<br>• Company<br>• Other than Company<br>• Sports person | <br>7%<br>7.5%<br>10% | <br>12%<br>12.5%<br>10% |

## 47. Exemptions under Second Schedule to ITO

Following exemptions have been introduced in Second Schedule to ITO:

- Any income derived by a political party registered under the Political Parties Order, 2002 with the Election Commission of Pakistan.

- Profit and gains derived by a start–up for the tax year in which the startup is certified by the Pakistan Software Export Board and the following two tax years. A definition of 'startup has been introduced vide FA 2017. Following are the major prerequisites of startup:

a. Commenced business after July 01, 2012;
b. Engaged or intends to offer technology driven products or services to any sector of the economy;
c. Registered with or certified with Pakistan Software Export Board; and
d. Turnover must be less than Rs. 100 million in each of last five tax years

FA defines the definition of the term "Startup" as any business of a person or class of person which qualifies to meet the conditions specified by Federal Government by notification in the official Gazette.

FA 2017 introduces exemption from section 113 and 153 of ITO. However, the exemption from section 113 will be of no use without exemption from alternate corporate tax.

## Budget 2017-18 - Amendments in Income Tax

- Quota of raw material has been introduced to be increased from 110% of previous years consumption to 125%, with respect to exemption from Income Tax on Import under section 148.

- Under the list of services exempted from section 153(b), the "car rental services" and "services rendered by Pakistan Stock Exchange Limited" has been introduced to be added and also, the exemption has been introduced to be extended for Tax Year 2018.

- Cash Withdrawals from branchless banking (easy paisa, omni etc.) have been allowed to be exempted from section 231A, i.e. deduction of 0.3% (0.6% for non-filers) on cash withdrawals if exceeds Rs. 50,000.

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# Budget 2017-18 - Income Tax Rate Card 2017-18

## Tax Rate for Salary Income – S. 12

| S.No. | Taxable Income | Rate of tax |
|---|---|---|
| 1 | Where the taxable income does not exceed Rs.400,000 | 0% |
| 2 | Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000 | 2% of the amount exceeding Rs.400,000 |
| 3 | Where the taxable income exceeds Rs.500,000 but does not exceed Rs.750,000 | Rs.2,000+5% of the amount exceeding Rs.500,000 |
| 4 | Where the taxable income exceeds Rs.750,000 but does not exceed Rs.1,400,000 | Rs.14,500+10% of the amount exceeding Rs.750,000 |
| 5 | Where the taxable income exceeds Rs.1,400,000 but does not exceed Rs.1,500,000 | Rs.79,500+12.5% of the amount exceeding Rs.1,400,000 |
| 6 | Where the taxable income exceeds Rs.1,500,000 but does not exceed Rs.1,800,000 | Rs.92,000+15% of the amount exceeding Rs.1,500,000 |
| 7 | Where the taxable income exceeds Rs.1,800,000 but does not exceed Rs.2,500,000 | Rs.137,000+17.5% of the amount exceeding Rs.1,800,000 |
| 8 | Where the taxable income exceeds Rs.2,500,000 but does not exceed Rs.3,000,000 | Rs.259,500+20% of the amount exceeding Rs.2,500,000 |
| 9 | Where the taxable income exceeds Rs.3,000,000 but does not exceed Rs.3,500,000 | Rs.359,500+22.5% of the amount exceeding Rs.3,000,000 |
| 10 | Where the taxable income exceeds Rs.3,500,000 but does not exceed Rs.4,000,000 | Rs.472,000+25% of the amount exceeding Rs.3,500,000 |
| 11 | Where the taxable income exceeds Rs.4,000,000 but does not exceed Rs.7,000,000 | Rs.597,000+27.5% of the amount exceeding Rs.4,000,000 |
| 12 | Where the taxable income exceeds Rs.7,000,000 | Rs.1,422,000+30% of the amount exceeding Rs.7,000,000 |

Where the income of an individual chargeable under the head?salary exceeds fifty percent of his taxable income, the rates of tax to be applied shall be 'salary tax rates'

## Tax Rate for Business Individual & AOP – S.18

| S.No. | Taxable Income | Rate of tax |
|---|---|---|
| 1 | Where the taxable income does not exceed Rs.400,000 | 0% |
| 2 | Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000 | 7% of the amount exceeding Rs.400,000 |
| 3 | Where the taxable income exceeds Rs.500,000 but does not exceed Rs.750,000 | Rs.7,000+10% of the amount exceeding Rs.500,000 |
| 4 | Where the taxable income exceeds Rs.750,000 but does not exceed Rs.1,500,000 | Rs.32,000+15% of the amount exceeding Rs.750,000 |
| 5 | Where the taxable income exceeds Rs.1,500,000 but does not exceed Rs.2,500,000 | Rs.144,500+20% of the amount exceeding Rs.1,500,000 |
| 6 | Where the taxable income exceeds Rs.2,500,000 but does not exceed Rs.4,000,000 | Rs.344,500+25% of the amount exceeding Rs.2,500,000 |
| 7 | Where the taxable income exceeds Rs.4,000,000 but does not exceed Rs.6,000,000 | Rs.719,400+30% of the amount exceeding Rs.4,000,000 |
| 8 | Where the taxable income exceeds Rs.6,000,000 | Rs.1,319,500+35% of the amount exceeding Rs.6,000,000 |

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# Budget 2017-18 - Income Tax Rate Card 2017-18

## Rates of Tax for Companies — Section 18

Corporate / Company tax rate = 30%
Banking Company = 35%
Small company as defined in section 2, tax rate = 25%

## Rates of Super Tax — Section 4B

| Particulars | Rate |
|---|---|
| Banking Company | 4% of Income |
| Person other than a banking company having income equal to or exceeding Rs. 500 Million | 3% of Income |

## Rates of Tax on Dividend

Tax rates for Dividend income is as follows;

| S. No. | Dividend By | Rate (Filer) | Rate (Non-Filer) |
|---|---|---|---|
| a) | In case of dividend declared or distributed by purchaser of a power project privatized by WAPDA or on shares of a Company set up for power generation or on shares of a Company, supplying coal exclusively to power generation. | 7.5% | 7.5% |
| b) | In all other cases | 15% | 20% |

| | | | | |
|---|---|---|---|---|
| | Dividend received by a (individual, Company or AOP) | 12.5% for stock fund | 15%, if dividend receipts are less than capital gains | |
| | | Persons | Filer | Non-Filer |
| | Dividend Received by Money market fund, income funds or REIT scheme or any other fund | Individual<br>Company<br>AOP | 12.5%<br>25%<br>12.5% | 15%<br>25%<br>15% |

## Profit on Debt – S.7B

| As per FA 2017 | |
|---|---|
| **Profit on Debt** | **Rate of Tax** |
| Where profit on debt does not exceed Rs.5,000,000 | 10% |
| Where profit on debt exceeds Rs.5,000,000 but does not exceed Rs.25,000,000 | 12.5% |
| Where profit on debt exceeds Rs.25,000,000 | 15% |

## Advance tax on Income from Property

In case of Individual or AOP.

| Sr. | Particulars | Rate |
|---|---|---|
| 1 | Upto Rs. 200,000 | 0% |
| 2 | Rs. 200,001 to Rs. 600,000 | 5% of the gross amount exceeding Rs. 200,000 |
| 3 | Rs. 600,001 to Rs. 1,000,000 | 20,000 + 10% of the gross amount exceeding Rs. 600,000 |
| 4 | Rs. 1,000,001 to Rs. 2,000,000 | 60,000 + 15% of the gross amount exceeding Rs. 1,000,000 |
| 5 | More than Rs. 2,000,000 | 210,000 + 20% of the gross amount exceeding Rs. 2,000,000 |

The rate of tax to be deducted under section 155 in the case of companies shall be 15% (17.5% if Non-Filer) of the gross amount of rent.

## Capital Gain-S.37

Capital gain income derived on immovable property (land) if it is derived within two years is liable to be taxed under this sub section [(1A) of section 37] shall be as follows:

# Budget 2017-18 - Income Tax Rate Card 2017-18

| S. No. | Period | Rate of tax |
|---|---|---|
| 1 | Where holding period of Immovable property is up to five years | 10% |
| 2 | Where holding period o Immovable property is More than five years | 0% |

## Tax Rates on Capital Gains – Sch. I, Div. VII, Part I

| Current Rates | | | | | | For Tax Year 2017-18 | |
|---|---|---|---|---|---|---|---|
| S. No. | Period | Tax Year 2015 | Tax Year 2016 | Tax Year 2017 | | Tax Year 2018 and onwards | |
| | | | | Filer | Non-Filer | Filer | Non-Filer |
| 1 | Where holding period of a security is less than twelve months | 12.5% | 15% | 15% | 18% | 15% | 20% |
| 2 | Where holding period of a security is twelve months or more but less than twenty-four months | 10% | 12.5% | 12.5% | 16% | | |
| 3 | Where holding period of a security is twenty-four months or more but the security was acquired on or after 1st July, 2013 | 0% | 7.5% | 7.5% | 11% | | |
| 4 | Where the security was acquired before 1st July, 2013 | 0% | 0% | 0% | 0% | 0% | 0% |

| S.No. | Person(s) | Minimum Tax as percentage of the person's turnover for the year |
|---|---|---|
| (1) | (2) | (3) |
| 1. | (a) Oil marketing companies, Oil refineries, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited ( for the cases where annual turnover exceeds rupees one billion.);<br>(b) Pakistan International Airlines Corporation; and<br>(c) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production.<br>(d) Dealers of distributors and fertilizers. | 0.5% |
| 2. | (a) Distributors of pharmaceutical products and cigarettes;<br>(b) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990;<br>(c) Rice mills and dealers; and<br>(d) Flour mills. | 0.2% |
| 3. | Motorcycle dealers registered under the Sales Tax Act, 1990 | 0.25% |
| 4. | In all other cases. | 1.25% |
| 5. | Online Marketplace | 0.5% |

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# Budget 2017-18 - Income Tax Rate Card 2017-18

## Imports –S.148

| S. No. | Persons | Filer | Non Filer |
|---|---|---|---|
| i) 1 | ii) Industrial undertaking importing remeltable steel (PCT Heading 72.04) and directly reduced iron for its own use<br>iii) Persons importing potassic fertilizers in pursuance of Economic Coordination Committee of the cabinet's decision No. ECC 155/12/2004 dated the 9 2004;<br>iv) Persons importing urea; and<br>v) Manufacturers covere under Notification No. S.R.O. 1125(I)/2011 dated the 31December, 2011 dated the 31, 2011.<br>vi) Persons importing gold vii) Persons importing cotton<br>viii) Designated buyer of LNG on behalf of Government of Pakistan, to import LNG | 1% of import value as increased by customs-duty, sales tax and federal excise duty | 1.5% of import value as increased by customs-duty, sales tax and federal excise duty |
| 2 | Persons importing pulses | 2% of import as increased by customs-duty, sales tax and federal excise duty | 3% of import as increased by customs-duty, sales tax and federal excise duty |
| 3 | Commercial importers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31 December, 2011. | 3% of import value as increased by customs-duty, sales tax and federal excise duty | 4.5% of import value as increased by customs-duty, sales tax and federal excise duty |
| 4 | Ship breakers on import of ships | 4.5% | 6.5% |
| 5 | Industrial undertakings not covered under S. Nos. 1 to 4 | 5.5% | 8% |
| 6 | Companies not covered under S. Nos. 1 to 5 | 5.5% | 8% |
| 7 | Persons not covered under S. Nos. 1 to 6 | 6% | 9% |
| 8 | Industrial undertaking importing plastic raw material for its use | 1.75% | 9% |
| 9 | Commercial importer importing plastic raw material | 4.5% | 9% |

## Deduction of Tax at Source
## Profit on debt

| Profit on Debt | Filer | Non Filer |
|---|---|---|
| Less than 500,000 | 10% | 10% |
| Greater than 500,000 | 10% | 17.5% |

## Advance Tax on Payment to Non-Resident – S.152

The rates of advance taxes on payments to Non-Residents are as under:

| Particulars | Filer | Non Filer |
|---|---|---|
| Royalty or fee for technical services | 7% | 13% |
| Insurance Premium or reinsurance premium | 5% | 5% |

| Particulars | Filer | Non Filer |
|---|---|---|
| Gross amount of Sale of Goods (Company) | 4% | 7% |
| Gross amount of Sale of Goods (other than Company) | 4.5% | 7.75% |
| Gross amount of services rendered/provided other than transport (Company) | 8% | 14% |
| Gross amount of services rendered/provided other than transport (other than Company) | 10% | 17.5% |
| Gross amount of execution of contract | 7% | 13% |

## Advance tax on Payment to Resident – S.153

The rates of advance taxes on payments to resident are as under:

## Budget 2017-18 - Income Tax Rate Card 2017-18

| Section | Nature of Payment | Filer | Non-Filer |
|---|---|---|---|
| 153 | Sale of Rice, Cotton, Seed or Edible Oil | 1.5% | 1.5% |
| 153(1)(a) | Sale of goods:<br>• Company<br>• Other than Company | <br>4%<br>4.5% | <br>7%<br>7.75% |
| 153(1)(ab) | Supply made by distributor of fast moving consumer goods<br>• Company<br>• Other than Company | <br>2%<br>2.5% | <br>-<br>- |
| 153(1)(b) | For transport services | 2% | 2% |
| 153(1)(b) | For other services<br>• Company<br>• Other than Company | <br>8%<br>10% | <br>14.5%<br>17.5% |
| 153(1)(b) | For Electric & Print Media for advertising service<br>• Company<br>• Other than Company | <br>1.5%<br>1.5% | <br>12%<br>15% |
| 153(1)(c) | For Execution of Contracts<br>• Company<br>• Other than Company<br>• Sports person | <br>7%<br>7.5%<br>10% | <br>12%<br>12.5%<br>10% |

### Exports – S.154

| S. No. | Particulars | Rate |
|---|---|---|
| 1. | Export proceeds | 1% |
| 2. | Indenting Commission | 5% |

### Prizes & Winning – S.156

| S. No. | Particulars | Filer | Non Filer |
|---|---|---|---|
| 1. | Prize bond or cross word puzzle | 15% | 25% |
| 2. | Raffle, Lottery, prize on winning a quiz, Prize offered by companies for promotion of Sales | 20% | 20% |

### Petroleum Products

| Taxable amount | Filer | Non-Filer |
|---|---|---|
| Commission or Discount allowed on Petroleum Products | 12% | 17.5% |

### Cash Withdrawal from Bank – S.231A

| Taxable amount | Filer | Non-Filer |
|---|---|---|
| If Amount of Cash Withdrawn exceeds 50,000 | 0.3% | 0.6% |

### Advance Tax on certain transaction with Bank – S.231AA

| Particulars | Filer | Non-Filer |
|---|---|---|
| Sale against cash of any instrument including D.D, P.O, CDR, STDR, SDR, RTC or any other instrument of bearer nature | 0.3% | 0.6% |
| Sale against cheque of any instrument including D.D, P.O, CDR, STDR, SDR, RTC or any other instrument of bearer nature | - | 0.6% |
| Inter bank / Intra Bank transfer | - | 0.6% |

# Budget 2017-18 - Income Tax Rate Card 2017-18

## Advance Tax on Private Motor Vehicles – S.231B

| S. No. | Engine Capacity | Tax for filer | Tax for Non-filer |
|---|---|---|---|
| (1) | (2) | (3) | (4) |
| 1 | Upto 850cc | Rs. 7,500 | Rs. 10,000 |
| 2 | 851 to 1000cc | Rs. 15,000 | Rs. 25,000 |
| 3 | 1001 to 1300cc | Rs. 25,000 | Rs. 40,000 |
| 4 | 1301cc to 1600cc | Rs. 50,000 | Rs. 100,000 |
| 5 | 1600cc to 1800cc | Rs. 75,000 | Rs. 150,000 |
| 6 | 1801cc to 2000cc | Rs. 100,000 | Rs. 200,000 |
| 7 | 2001cc to 2500cc | Rs. 150,000 | Rs. 300,000 |
| 8 | 2501cc to 3000cc | Rs. 200,000 | Rs. 400,000 |
| 9 | Above 3000cc | Rs. 250,000 | Rs. 450,000 |

Rates at the time of transfer of registration/ ownership;

| S. No. | Engine Capacity | Tax for filer | Tax for Non-filer |
|---|---|---|---|
| (1) | (2) | (3) | (4) |
| 1 | Upto 850cc | - | 5,000 |
| 2 | 851 to 1000cc | Rs.5,000 | 15,000 |
| 3 | 1001 to 1300cc | Rs.7,500 | 25,000 |
| 4 | 1301cc to 1600cc | Rs.12,500 | 65,000 |
| 5 | 1600cc to 1800cc | Rs.18,750 | 100,000 |
| 6 | 1801cc to 2000cc | Rs.25,000 | 135,000 |
| 7 | 2001cc to 2500cc | Rs.37,500 | 200,000 |
| 8 | 2501cc to 3000cc | Rs.50,000 | 270,000 |
| 9 | Above 3000cc | Rs.62,500 | 300,000 |

## Commission and Brokerage - S. 233

| S.No. | Particulars | Filer | Non-Filer |
|---|---|---|---|
| 1 | Brokerage and Commission (Advertising Agents) | 10% | 15% |
| 2 | Brokerage and Commission (Life insurance agents where commission received is less than 0.5 million per annum) | 8% | 16% |
| 3 | Person not covered in 1 and 2 above | 12% | 15% |

## Rates for Collection of Tax by a Stock Exchange registered in Pakistan - S. 233A

| Sr. | Details | Rate |
|---|---|---|
| 1. | In case of purchase of shares as per clause (a) of sub- section (1) of section 233A | 0.02% of the purchase value |
| 2. | In case of sale of shares as per clause (b) of subsection (1) of section 233A. | 0.02% of sale value"; |

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# Budget 2017-18 - Income Tax Rate Card 2017-18

### Tax on Motor Vehicle – S.234

| S. No. | Engine Capacity | Tax for filer | Tax for Non-filer |
|---|---|---|---|
| (1) | (2) | (3) | (4) |
| 1. | Upto 1000cc | Rs. 800 | Rs. 1,200 |
| 2. | 1001cc to 1199cc | Rs. 1,500 | Rs. 4,000 |
| 3. | 1200cc to 1299cc | Rs. 1,750 | Rs. 5,000 |
| 4. | 1300cc to 1499cc | Rs. 2,500 | Rs. 7,500 |
| 5. | 1500cc to 1599cc | Rs. 3,750 | Rs. 12,000 |
| s6. | 1600cc to 1999cc | Rs. 4,500 | Rs.15,000 |
| 7. | Above 2000cc | Rs. 10,000 | Rs. 30,000 |

Where motor vehicle tax is collected in lump sum, rates are as follows;

| S. No. | Engine Capacity | Tax for filer | Tax for Non-filer |
|---|---|---|---|
| (1) | (2) | (3) | (4) |
| 1. | Upto 1000cc | Rs. 10,000 | Rs. 10,000 |
| 2. | 1001cc to 1199cc | Rs. 18,000 | Rs. 36,000 |
| 3. | 1200cc to 1299cc | Rs. 20,000 | Rs. 40,000 |
| 4. | 1300cc to 1499cc | Rs. 30,000 | Rs. 60,000 |
| 5. | 1500cc to 1599cc | Rs. 45,000 | Rs. 90,000 |
| 6. | 1600cc to 1999cc | Rs. 60,000 | Rs.120,000 |
| 7. | Above 2000cc | Rs.120,000 | Rs.240,000 |

### CNG Station – S.234A

| S. No. | Particulars | Filer | Non-Filer |
|---|---|---|---|
| 1 | On amount of gas electricity bill | 4% | 6% |

### Electricity Consumption – S.235

| Monthly bill | Tax amount (Rs.) | Monthly bill | Tax amount (Rs.) |
|---|---|---|---|
| • Upto Rs. 400 | Nil | • Rs. 3,001 to 4,500 | 450 |
| • Rs. 401 to 600 | 80 | • Rs. 4,501 to 6,000 | 500 |
| • Rs. 601 to 800 | 100 | • Rs. 6,000 to 10,000 | 650 |
| • Rs. 801 to 1,000 | 160 | • Rs. 10,001 to 15,000 | 1,000 |
| • Rs. 1,001 to 1,500 | 300 | • Rs. 15,001 to 20,000 | 1,500 |
| • Rs. 1,501 to 3,000 | 350 | | |
| Commercial (where the amount of monthly bill exceeds Rs. 20,000) | | | 12% |
| Industrial (where the amount of monthly bill exceeds Rs. 20,000) | | | 5% |

### Domestic Electricity Consumption – S.235A

| Monthly Bill amount | Rate |
|---|---|
| Rs. 75,000 or more | 7.5% of the amount of monthly bill |
| Less than Rs. 75,000 | 0% of the amount of monthly bill |

# Budget 2017-18 - Income Tax Rate Card 2017-18

## Telephone & Internet Users – S.236

| Monthly Bill amount | Rate |
|---|---|
| On subscriber of Internet, mobile telephone and prepaid internet or telephone card | 12.5% of the amount of bill |
| Telephone subscriber | 10% of the amount exceeding 1000 |

## Advance Tax at the time of sale by auction – S.236A

| Taxable Amount | Filer | Non-Filer |
|---|---|---|
| Gross sale price of property or goods sold by auction | 10% | 15% |

## Advance Tax on Sale of Transfer of Immovable Property –S.236C

FA 2017 introduces to make the tax collected on sale or purchase of immovable property as minimum tax.

| Taxable Amount | Filer | Non-Filer |
|---|---|---|
| Consideration received | 1% | 2% |

## Advance Tax on functions and gatherings –S.236D

| Particulars | Rate |
|---|---|
| On bill amount for arranging or holding a function in a marriage hall, marquee, hotel, restaurants, commercial lawn, club, a community place or any other place used for such purpose providing food , services or other facility. | 5% |

## Advance Tax on Sales to Distributors, Dealers & Wholesalers - S.236G

| Particulars | Filer | Non-Filer |
|---|---|---|
| Fertilizer | 0.7% | 1.4% |
| Other than Fertilizers | 0.1% | 0.2% |

## Advance Tax on Sales to Retailers or Wholesalers –S.236H

| Category of Sale | Rate of Tax | |
|---|---|---|
| | Filer | Non-Filer |
| Electronics | 1% | 1% |
| Others | 0.5% | |

## Collection of Advance Tax on Educational Institutions - S.236I

| Taxable Amount | Rate |
|---|---|
| Fee paid to educational institutions* | 5% |

## Advance Tax on Purchase or Transfer of Immovable Property - S.236k

| Particulars | Filer | Non-Filer |
|---|---|---|
| On registering or attesting the transfer of immovable property (provided property value exceeds 3 million) | 2% | 4% |

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# Budget 2017-18 - Income Tax Rate Card 2017-18

### Advance Tax on International Airport Tickets - S.236L

| Particulars | Amount of Tax |
|---|---|
| Air Tickets: | |
| • First/Executive Class | Rs.16,000 per person |
| • Others excluding Economy | Rs.12,000 per person |
| • Economy | NIL |

### Advance Tax on Banking Transaction otherwise through Cash - S.236P

| Particulars | Filer | Non-Filer |
|---|---|---|
| If Banking Transactions exceeds Rs. 50,000 in a day | - | 0.6% |

### Payment to a resident person for right to use machinery and equipment - S.236Q

| Particular | Tax Rate |
|---|---|
| Amount for use or right to use of equipment | 10% |

### Collection of Advance Tax on educational related expenses remitted abroad – S.236R

| Particular | Tax Rate |
|---|---|
| The amount of education related expenses remitted abroad | 5% |

### Advance Tax on Insurance Premium – S.236U

| Sr. | Type of Premium | Tax Rate (Non-filer) |
|---|---|---|
| 1. | General insurance premium | 4% |
| 2. | Life insurance premium if exceeding Rs 0.2 million per annum | 1% |
| 3. | Others | 0% |

### Advance Tax on extraction of minerals – S.236V

| Particular | Filer | Tax Rate (Non-Filer) |
|---|---|---|
| On the value of minerals | 0% | 5% |

### Advance Tax on Tobacco – S.236X

| Particular | Tax Rate |
|---|---|
| Purchase Value of Tobacco | 5% |

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# Budget 2017-18 - Amendments in Federal Sales Tax

## 1. Scope of Sales Tax Act Widened

Introduced Amendment widened the scope of Sales Tax in FATA and PATA. The purpose of this said Amendment is to check illicit movement of supplies from tax exempted areas. However, goods imported and used in FATA and PATA will remain exempt from levy of Sales Tax.

## 2. Powers of Federal Government devolved into FBR

The powers of Federal Government to levy Sales Tax at varied rates as enunciated in the following sections of Sales Tax Act, 1990 ("STA") have been devolved to Board ("FBR") with the approval of Minister Incharge i.e. Finance Minister:

| Sections | Description |
|---|---|
| 3 (2b), 3 (3A), 3 (5) | Scope of Tax |
| 4 (c) | Zero Rated |
| 7 (3), 7 (4), 7A (1) | Determination of Tax Liability |
| 8 (1b) | Tax Credit not allowed |
| 13(2a) | Exemption |
| 60 | Powers to deliver certain goods without payment of tax |
| 65 | Exemption of tax not levied or short levied as a result of general practice |
| 71 | Special procedure |

In the light of recent apex court judgment a protracted procedure is required to be followed if such notification is issued by the Federal Government. To short circuit the lengthy process this power is introduced to be delegated to FBR but with the approval of Finance Minister. However, validation of all previous notifications issued by Federal Government has been given in the introduced amendments.

Similar amendment has also been introduced for ITO.

## 3. Tenure of SROs not rescinded extended

Sunset clause was introduced in Finance Act, 2016; whereby all SROs issued after July 01, 2015; stand rescinded maximum by the close of financial year. Through introduced amendment life of all such un-rescinded SROs (including those issued on or after July 01, 2016) has been enhanced till June 30, 3018.

Almost 77 SROs including 3 SROs issued on or after July 01, 2016 will get an extended life.

This has also been applied on ITO and FEA.

## 4. Addition of Hierarchy

Two additional categories District Taxation Officer and Assistant Director Audit is introduced to strengthen the enforcement of Sales Tax functions.

## 5. Penalties on Cigarette Sales

Consequent to decision to monitor manufacture and import of cigarette, electronically (trace and track) befitting penalties both of imprisonment and fines have been inserted. In future more sectors will be monitored through trace and track mechanism.

## 6. Automatic Stay of Recovery Demand

In line with the amendment made in ITO last year, a replicating amendment has been introduced in STA whereby in the event of pending decision of appeal under section 45B; on payment 25% of demand; no recovery shall be made.

## Budget 2017-18 - Amendments in Federal Sales Tax

### 7. Electronic Servicing of notice added

An amendment has been introduced to make service of notice through email and/or e-folder of registered person legitimized under section 56 of STA.

### 8. Validation of Notifications and orders issued before commitment of Finance Act, 2017

To avert any litigation consequent to paradigm shift of powers to issue notification retrospective application may result in further complication.

### 9. Changes in 3rd Schedule

Following two basic amendments have been introduced:

1. Substitution of PCT of Ice Cream; and
2. Deletion of Serial 32 i.e. Fertilizer

### 10. Amendment in Eight Schedule

Following items have been added at the given amount or rate:

| S. No. | Items | Rate/Amount |
|---|---|---|
| 1. | DAP | Rs. 100 per 50 kg bag |
| 2. | NP (22-20) | Rs. 168 per 50 kg bag |
| 3. | NP (18-18) | Rs. 165 per 50 kg bag |
| 4. | NPK-I | Rs. 251 per 50 kg bag |
| 5. | NPK-II | Rs. 222 per 50 kg bag |
| 6. | NPK-III | Rs. 341 per 50 kg bag |
| 7. | SSP | Rs. 31 per 50 kg bag |
| 8. | CAN | Rs. 98 per 50 kg bag |
| 9. | Natural gas | 10% |
| 10. | Phosphoric acid | 5% |
| | **Following machinery for poultry sector** | |
| | (i)Machinery for preparing feeding stuff | 7% |
| | (ii)Poultry incubators and brooders | 7% |
| | (iii)Insulated sandwich panels | 7% |
| | (iv) Poultry sheds | 7% |
| | (v)Evaporative air cooling system | 7% |
| | (vi) Evaporative cooling pad | 7% |
| 11. | Multimedia projectors | 10% |
| 12. | Locally produced coal | Rs. 425 per metric tonne or 17% ad valorem, whichever is higher |

# Budget 2017-18 - Amendments in Federal Sales Tax

## 11. Amendment in 9th Schedule

Sales Tax on first two categories has been introduced at a uniform rate of Rs. 650 per mobile instead of Rs. 300 and Rs. 1,000 on low and medium categories respectively. However, for category 3, Sales Tax remains at Rs. 1500/- per cell phone.

Following Sales Tax SROs have been issued to make amendments in Sales Tax Rules and other notifications:

## 12. 583(I)/2017 dated: 01/07/2017 – Amendments in Sales Tax Special Procedure Rules, 2007

### I. Retailers - Rule 5

Previously, as per sub rule (1) of Rule 5, Retailers were divided into two categories as under:

A. Specified retailers which are:

a) a retailer operating as a unit of a notional or international chain of stores;
b) a retailer operating in an air-conditioned shopping mall, plaza or centre, excluding kiosks;
c) a retailer whose cumulative electricity bill during the immediately preceding 12 month exceeds Rs. 600,000; 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 [section 73 is not applicable on wholesaler-cum-retailer where he receives cash from the retailers].

B. Retailers other than specified retailers

**Specified retailers**

The specified retailers were required to be registered and all the provisions were applicable in the normal manner including charge of sales tax, filling of monthly return, input tax adjustment / apportionment, debit / credit note, audit and so on.

The retailer making supplies of finished goods of the five sectors specified in SRO 1125 dated 31.12.2011 was required to pay sales tax at the rates prescribed in the said Notification.

**Retailers other than specified retailers**

Retailers other than specified retailers were not required to be registered and they had to pay sales tax with their monthly electric bills as under:

- 5% where the monthly bill does not exceed Rs. 20,000; and
- 7.5% where the monthly bill exceeds Rs. 20,000.

The above sales tax was the final discharge of their sales tax liability and they are not allowed to claim input tax adjustment. Monthly sales tax return was not required to be filed and they were not subject to audit.

Finance Act, 2017 embedded the above specified retailers as the definition of Tier-1 retailers in STA and made taxability of such retailers a part of STA by introducing sub section 9A of section 3 of STA. The amendment introduced in Rule 5 of the Rules is nothing but an extension of amendment made vide FA 2017.

# Budget 2017-18 - Amendments in Federal Sales Tax

**II. Steel-Melters, Re-rollers and ship breakers – Rule 58H**

Earlier, sale tax was charged at Rs. 9 per unit of electricity consumed by Steel-Melters, Re-rollers and Ship Breakers. This rate has been increased to Rs. 10.5 per unit of electricity consumed. A proviso has also been introduced making payment of sales tax at Rs. 10.5 per unit of electricity consumed as a full and final discharge of sales tax liability.

Adjustable sales tax, which is charged at 5,600 per MT on importers, is increased to Rs. 8,400 in the case of an importer who does not pay sales tax on the basis of electricity consumption.

Sales Tax on local supplies of re-meltable iron and steel scraps has been increased from Rs. 5,600 to 8,400 per MT. Whereas, sales tax at import stage on Ship breakers has been increased from Rs. 8,000 to Rs. 8,500 per MT.

**III. Extra Tax on Specified goods – Rule 58T**

A proviso has been added in after sub-rule (1) of Rule 58T, whereby, liability of extra tax, on supplies of lubricating oils made to registered oil marketing companies ("OMCs") and those made by OMCs to registered manufacturers for in-house consumption, have been abolished.

**13. 584(I)/2017 dated: 01/07/2017 – Amendments in SRO 1125(I)/2011**

- Imported raw and ginned cotton have been excluded from purview of the SRO.
- Earlier, commercial imports of goods, which are specified in Table I of the notification, usable as industrial inputs were subjected to sales tax and Value addition tax at 0% at import stage. Now commercial import of finished fabric has been excluded from such zero rating and commercial import of fabric has been subjected to 6% of sales tax plus 2% VAT at import stage.
- Sales tax on supplies of finished fabric, usable as industrial input, to and by retailers; to end consumers; and other supplies of finished fabric has been increased from 5% to 6%.
- Sales tax on supplies of locally manufactured finished articles of:
    - Textile and textile made ups
    - Leather and artificial leather

Has been increased from 5% to 6%. Carpets has also been included in textile and textile made ups.

A comparison of old and new tax rates is provided hereunder:

# Budget 2017-18 - Amendments in Federal Sales Tax

| S. No. | Description of Goods | Sales Tax Rates | |
|---|---|---|---|
| | | Old | New |
| **1.** | **Goods usable as industrial inputs, specified in Table I,** | | |
| i | Import for in-house consumption by registered manufacturers of the five sectors | 0% | 0% |
| ii | Commercial imports (finished fabric excluded wef 15/07/2017) | 0% + 0% VAT | 0% + 0% VAT |
| iii | Supplies to registered or unregistered persons of the said five sectors excluding **finished Fabric** | 0% | 0% |
| iv | Supplies to persons outside the said five sectors | 17% | 17% |
| v | Import by, or supply to, registered manufacturers, whether or not of the said five sectors, for the manufacture of goods specified in Table-I or Table-II | 0% | 0% |
| vi | Supplies of **Finished Fabric** to Manufacturers of Five Sectors | 0% | 0% |
| vii | Supplies of **Finished Fabric** to and by retailers and to end consumers | 5% | 6% |
| viii | Commercial import of fabric | 0% + 0% VAT | 6% + 2% VAT |
| **2.** | **Processed goods, including fabrics** | | |
| | Processing of goods owned by other persons, by registered manufacturers of the five sectors | 0% | 0% |
| **3.** | **Locally manufactured finished articles of (a) textiles and textile made-ups (including carpets wef 15/07/2017) (b) leather and artificial leather** | | |
| | Supplies to any person, including retail sales | 5% | 6% |
| **4.** | **Imported finished goods ready for use by the general public** | | |
| | Import | 17% + 2% VAT | 17% + 2% VAT |
| | Supply thereof | 17% | 17% |

- Furthermore, supply of goods covered under the notification to unregistered persons are subjected to further tax of one percent, whereas, supply of finished articles to unregistered persons are subjected to 2% further tax.

The above changes shall take effect from July 15th, 2017.

### 14. 585(I)/2017 dated: 01/07/2017 – Amendment in SRO 648(I)/2013 (Exemption from Further Tax)

SRO 648 specifies the list of goods on which further tax is not applicable. SRO 585 made following additions to the list:

- Fertilizers.
- Supplies by steel melters, re-rollers and ship breakers operating under chapter XI of Sales Tax Special Procedure Rules, 2007.
- Supplies covered under fifth schedule to the Sales Tax Act, 1990.

### 15. 586(I)/2017 dated: 01/07/2017 – Amendment in Sales Tax Special Procedure (Withholding) Rules, 2007 (“STWR”)

SRO 586 has amended STWR which has the effect that sales tax shall not be withheld from payments on account of provision of goods or services by active tax payers. However, this exemption is not available on payments on account of advertisement services.

# Budget 2017-18 - Amendments in Federal Sales Tax

## 16. 587(I)/2017 dated: 01/07/2017 – Reduced rates on Hybrid Electrical Vehicles ("HEVs")

SRO 587 has introduced reduced rates of sales tax on local supply of HEVs falling under PCT heading 87.03 as under:

- Upto 1800 CC – 50% of the standard rates i.e. (17% x 50%) 8.5%
- 1801 CC to 2500 CC – 75% of the standard rates i.e. (17% x 75%) 12.75%

## 17. 588(I)/2017 dated: 01/07/2017 – Amendment in SRO 445

SRO 445 of 2004 excludes the following transactions and arrangements from the definition of Supply for the purposes of clause 33 of section 2 of the Sales Tax Act and hence, these are not subject to Sales Tax.

(a) Forward transactions of Commodities at the National Commodity Exchange Limited and

(b) Goods delivered under Murabaha financing arrangements to or by approved Bank or Financial Institution.

Now, SRO 588(I)/2017 also excludes the following financing arrangements by approved Bank and Financial Institution from the definition of Supply for the purposes of clause 33 of section 2 of the Sales Tax Act, therefore, these will also be not taxable:

- Musawamah;
- Bai Muajjal;
- Bai Salam;
- Istisna;
- Tijarah; and
- Istijrar.

However, goods delivered under Murabaha financing arrangements to approved Bank or Financial Institution have been included in the definition of Supply for the purposes of clause 33 of section 2 of the Sales Tax Act, therefore, the same will be taxable.

## 18. 589(I)/2017 dated: 01/07/2017 – Amendments in SRO 595(I)/2016

Services provided by marriage halls and lawns, by whatever name called, including pandal and shamiana services and caterers, have been introduced to be taxed at reduced rate of 5% under Islamabad Capital territory (Tax on Services) Ordinance, 2001, subject to condition that no input tax adjustment or refund shall be admissible.

## 19. 590(I)/2017 dated: 01/07/2017 – Exemption of Export of IT and IT Enabled Services from Islamabad

SRO 590 has exempted whole of Sales Tax on export of IT and IT enabled Services falling under Islamabad Capital territory (Tax on Services) Ordinance, 2001.

## 20. 592(I)/2017 dated: 01/07/2017 – Amendment in SRO 549(I)/2006

SRO 549 provides that input tax shall not be allowed to be adjusted in case of taxable supplies of locally produced coal. SRO 592 now provides that this provision shall not be applied to registered persons making taxable supplies of locally produced coal where value of supply exceeds Rs. 5,000 per MT.

# Budget 2017-18 - Amendments in Federal Excise Act, 2005

## 1. Increase in rates of excise duty on Cigarette.

Previously, FED is charged on locally produced cigarettes at the rates given in 1st Schedule.

FA 17 introduces to increase the existing rates as under:

| As per FA 2017 | | | |
|---|---|---|---|
| S# | Description of Goods | Heading/ subheading Number | Rate of Duty |
| 1 | Locally produced cigarettes if their on-pack printed retail price exceeds four thousand five hundred rupees per thousand cigarettes | 24.02 | 3,740 per thousand cigarette |
| 2 | Locally produced cigarettes if their on-pack printed retail price exceeds two thousand nine hundred and twenty five rupees but does not exceed four thousand five hundred rupees per thousand cigarettes | 24.02 | 1,670 per thousand cigarette |
| 3 | Locally produced cigarettes if their on-pack printed retail price does not exceeds two thousand nine hundred and twenty five rupees per thousand cigarettes | 24.02 | 800 per thousand cigarette |

## 2. Increase in rates of excise duty on Cement.

Previously, the rates of excise duty on cement were one rupee per kilogram.

The FA 17 increases the rates of excise duty on cement to one rupee and twenty five paisa per kilogram.

## 3. Levy of excise duty on Telecommunication services.

Previously, excise duty at the rate of eighteen and half percent was chargeable on Telecommunication Services.

The FA 17 reduces the rates of excise duty on Telecommunication services to seventeen percent.

# Budget 2017-18 - Amendments in Sindh Sales Tax

## 1. Definition of Franchise - S. 2(46)

Previously, the definition of the term "Franchise" included the authority or right granted by the Franchiser to Franchisee to do business in respect of goods or to provide services against a consideration or fee for the purpose to Levy of Sales Tax. The Finance Act 2017 amends and extends the definition of the term "Franchise" by including those franchise agreements into the ambit of Sindh Sales Tax on Services which involves such Franchise services without any consideration or fee, and probably will raise great deal of questions and arguments in near future as to how can value of services, which have been rendered without consideration or fees or one may say for free, be deemed to be taxable.

However, it is pertinent to note that a provision to Rule 36(2) of Sales Tax on Services Rule, 2011 is very clear on the point that where there is no formal agreement between the Franchiser and Franchisee, the assessment of value for SST on franchise service is to be made @ 10% of the turnover.

## 2. Definition of Place of Business - S. 2(64)

Previously, the definition of the term "place of business" included a person, carrying out an economic activity needed to occupy a space in Sindh but the Legislatures vide Finance Act 2017 broadens the scope of definition by including those person carrying out an economic activity through virtual presence, website, web-portal, websites or any other form of e-commerce.

It is pertinent to note that the change is likely to give rise to chaos on the area of interpretation of the term "Person" as it has broaden the definition of person in some manner by including those service provider, who are providing services though above mentioned channels without being physically present.

## 3. Definition of Programme - S. 2(67B)

The Finance Act 2017 changes the definition of the term "Programme" by enhancing the scope of definition of the subject term by including, any audio or visual matter, re-recorded or subjected to any post-production process like dubbing, coloring, subtitling or captioning in its previous definition.

## 4. Person liable to pay tax - S. 9(1)

Previously, sub-section (1) of Section 9 of SSTAS burdened the liability on registered person providing services to pay tax on taxable services. The Finance Act 2017 makes the Service Provider and Service Recipient jointly and severally liable where the recipient of services, being a withholding agent, fails to make payment of tax within 180 days from the date of invoice and such service provider also fails to make payment of tax within the prescribed due date.

## 5. Restriction on claiming Input Tax

The Finance Act 2017, through new sub-clause (jj) in sub-section (1) of Section 15A excludes registered person providing services, from claiming input tax paid on acquiring goods and services liable to sales tax at specific rate or at fixed rate or at such other rate not based on values or at a lesser rate than 13% ad valorem.

It may be observed that the similar clause appears to be in existent under the Rules 2011 being sub-rule (ii) of Rule 22A. It may be summed up from the above, that the introduced amendment has been made with intention to make it a part of the main legislation.

The Act 2017 further introduces that the telecommunication service provider pooling the sales tax @ 19.5% will be able to claim input tax adjustment on goods and services at the rate not exceeding 17%.

# Budget 2017-18 - Amendments in Sindh Sales Tax

### 6. Input tax adjustment on Capital Goods - S. 15B

Previously, registered person could claim or adjust input tax on capital goods and fixed assets EXCLUSIVELY USED in providing or rendering of taxable services under Section 15A of the Act.

The Finance Act 2017, without prejudice to provision S. 15A,inserts new section 15B in SSTAS,hence allowing the registered service provider to claim input tax paid on acquisition of capital goods, machinery and fixed assets as are classified under Chapter 84 and 85 of First Schedule to Customs Act 1969 in twelve (12) equal monthly installments.

It is to remind that such provision was also available in Federal Sales Tax Act, 1990 which remained in field till 2011 as being withdrawn.

### 7. Assessment of Tax-Recovery-not levied short levied - S. 23 & 47

The Finance Act 2017 increases the time limit from 120 days to 180 days from the date of issuance of show cause notice for passing an assessment order under section 23 and 47 of the Act or with such extended period as the competent officer may for reason to be recorded in writing fixes the same. Meaning thereby,the time period for passing an order has now been extended from 6 months to 8 months.

### 8. Short paid amountRecoverable without serving show-cause notice - S. 47A

The Finance Act 2017 inserts new section 47A whereby extending the powers of the relevant authority with an intention to recover the short paid amount of tax or default surcharge without issuing any show-cause notice, as being pre-requisite before initiating any proceedings. It is relevant to note that the introduced change has bypassed the principle settled over the time by the Apex Court which will likely give rise to multiple proceedings in respect of the same and will similarly results into tax demands by the tax authorities, directly or indirectly, without making proper assessment under the 23 of the Act.

### 9. Monitoring, Tracking & Offences and Penalties - S. 43

The Finance Act 2017 insertsnew section 54B in SSTAS in relation to monitoring or tracking by electronic or other means. The authority or power in this connection has been vested with the Board to invent and implement electronic system for monitoring and tracking the transactions performed by the registered person. However, the penalties, with respect to the same, have also been set forth, at the rate of Rs. 10,000 or an amount equivalent to tax involved whichever is higher or in terms of imprisonment (as discussed in section 43 of the act) against those who happens to refuse or denies the compliance of the new provision.

### 10. Appeal

The Finance Act 2017 inserts new section 25A, pertaining to remedy for de-registration, within the ambit of Section 57 of SSTAS. Previously, there was no recourse or remedy available for persons who get de-registered by the Board. However, the introduced section deems to allow the aggrieved person to approach and file the appeal before Commissioner (Appeals).

### 11. Automatic Stay against Recovery Tax - S. 66

The Finance Act 2017 inserts new provision in clause (f) in sub-section (1) of Section 66 by introducing a scope of automatic stay in favor of the person whose proceedings are pending before Commissioner (Appeals) for adjudication by depositing 25% of the disputed amount into SRB.

# Budget 2017-18 - Amendments in Sindh Sales Tax

It is pertinent to note that introduced change seems to have been driven from the principle laid down by the superior courts in the following cases reported as 2007 YLR 2017, 2012 YLR 1136. The referred citations are just an example and there are also other case laws available on this point.

### 12. Condonation of Time Limit - S.81

The Finance Act 2017 adds an explanation in Section 81 of the Act, thereby allowing the Registered Person as well as officials of Revenue Authority to apply for condonation of time limits.

The added explanation in Section 81 may be interpreted as a Shield for the Revenue Authorities which will protect them from getting their notices/show-cause notices dismissed on the sole ground of expiry of time limitation and as a result, a leniency will likely be spread among the officers to issue the Notices as and when they willing.

### 13. Issuance of License made subject to Registration in SRB —S.72A

The Finance Act 2017 inserts new Section 27A in SSTAS, empowering the Board,after obtaining prior approval of Government by issuing notification in Official Gazette, to allow any competent authority to issue or renew license or permission for engaging into an economic activity.

Further, the Board may alsorestrict such competent authority from issuing or renewing such license or permission to person unless submitting evidence of its registration under section 24 or 24A or 24B of the Act.

**AMENDMENTS INTRODUCED VIDE NOTIFICATIONS**

### 14. SRB Withholding Rules:

The amendment provides that in case no sales tax has been mentioned by the registered service provider on invoice issued by him, the whole of sales tax shall be withheld at the applicable rates. The same treatment was followed earlier in case of unregistered service providers.

### 15. Exemption on life insurance services

Exemption on life insurance services under tariff heading 9813.1500 (other than related reinsurance services), which were exempted upto June, 2017 (subject to certain conditions), are made exempted upto June 2018.

### 16. Amendment in rates

Following amended rates has been introduced:

1. Travel agents - 10% to 8%
2. Tour Operators - 10% to 8%
3. Renting of immovable property services - 8% to 3%
4. Telecommunication services - have been omitted from reduced rates. This means that SRB shall be charged at 19.5% in normal manner.
5. Reduced rate of 3% has been introduced for indenting services
6. Reduced rate of 3% has been introduced for call center services

### 17. Amendments in Rules

1. Period to claim input tax has been extended from 4 months to six months
2. Earlier, with respect to labour and manpower Supply Services, reimbursement amount was excluded from value of services for the purpose of Sindh Sales Tax. Now the provision has been omitted and the sales tax shall be charged on gross amount charged for the services provided.

# Budget 2017-18 - Amendments in Punjab Sales Tax

### 1. Definition - Due Date - S. 2(17)

Previously, due date in relation to furnishing the Sales Tax Return was 15th of the month following the end of the tax period. The Finance Act 2017 introduces to amend the definition of the term "due date" by introducing different dates for submission of different annexures of tax return. The introduced amendment infers the idea of sales tax real time invoice verification through which input tax adjustment will be allowed to service recipients subject to declaration of invoices by service providers in the return.

### 2. Definition- Place of Business - S. 2(30)

Previously, the definition of the term "place of business" included a person, carrying out an economic activity needed to occupy a space in Punjab but the Legislatures vide Finance Act 2017 intends to broaden the scope of definition by including those persons carrying out an economic activity through virtual presence, website, web-portal, websites or any other form of e-commerce.

It is pertinent to note that the introduced change is likely to give rise to chaos on the area of interpretation of the term "Person" as it has broadened the definition of person in some manner by including those service providers, who are providing services through above mentioned channels without being physically present in Punjab.

### 3. Liability of a Registered Person - S. 11A

The Finance Act 2017 inserts a new section 11A in the Act, making the Service Provider and Service Recipient jointly and severally liable where the recipient of services, being a withholding agent, fails to make payment of tax within 180 days from the date of invoice and such service provider also fails to make payment of tax within the prescribed due date.

### 4. Collection of Tax - S. 14A

The Finance Act 2017 inserts new section 14A in the Act, empowering the Revenue Authority to dictate the Special Procedure Rule in relation to assigning the responsibilities for collection of tax upon any party, person or class of person (hereinafter referred to as Collecting Agent) and not necessarily service provider or recipient. The said collecting agent shall then be liable to pay the tax so collected to the relevant authority.

### 5. Input Tax Adjustment & Deduction - S. 16

The Finance Act 2017 allows the registered person to claim adjustment, reduction, refund of tax under federal or provincial laws upon furnishing of tax invoices or goods declaration bearing the name of the Registered Person and its National Tax Number. The requirement for provision of documents appears to be intended to justify the legality of the input tax so claimed for adjustment, deduction or refund by the registered person.

### 6. Input Tax Adjustment on Capital Goods - S. 16C

The Finance Act 2017 inserts new section 16C in PSTAS which allows the registered service provider to claim input tax paid on acquisition of capital goods, machinery and fixed assets in twelve (12) equal monthly installments.

It is to remind that such provision was also available in Federal Sales Tax Act, 1990 which remained in field till 2011 as being withdrawn.

### 7. Time Limitation for Assessment - S. 24

Previously, assessment for recovery of tax not paid or short paid could be made within five (05) years from the conclusion of that particular tax year. However, the Finance Act 2017 introduces to extend

# Budget 2017-18 - Amendments in Punjab Sales Tax

the time period to eight (08) years. Therefore, giving a leverage to the Authority to initiate its proceeding without making any change in section 32 (Retention and production of records and documents) which certainly will lead to multiple proceedings as section 32 requires the person to maintain the records and documents for a period of six (06) Years only.

## 8. Appointment of Authorities - S. 39

Previously, there was no designation of "Enforcement Officer" and "Risk Compliance Officer" in the Act. However the Finance Act 2017 adds the afore-mentioned designations, without elaborating their key roles, in Section 39 who shall be subordinate to Deputy Commissioner or Assistant Commissioner.

## 9. Offences and Penalties - S. 48(10)

Previously, any person involved in obstructing any officer of the Authority in performing its official duties was held to be liable to pay Rs. 25,000 or 100% of the tax payable (whichever is higher). However, the Finance Act 2017 introduces to increase the amount of penalty to Rs. 100,000 or 100% of the tax payable (whichever is higher) for committing the above-mentioned offence.

## 10. Recovery of Arrears of Tax - S. 70

The Finance Act 2017 amends section 70, whereby empowering the officer to recover the amount of tax defaulted, from the person (third person) who owes any amount of money to the defaulter (taxpayer) in question under legally enforceable relation but not limited to Purchase Contracts, Contracts with banking companies, lease contracts, loan agreements, employment contracts, life insurance contracts. Furthermore, an automatic stay shall be granted in favor of the person/taxpayer whose proceedings are pending for adjudication before Commissioner (Appeals) upon its payment of 25% of the disputed amount before the relevant authority.

## 11. Power to restrain certain authorities - S. 76A

The Finance Act 2017 inserts new Section 76A in PSTAS, thereby empowering the Authority, after obtaining prior approval of Government by issuing notification in Official Gazette, to allow any competent authority to issue or renew license or permission for engaging into an economic activity Further, the Board may also restrain such competent authority from issuing or renewing such license or permission to person unless submitting sufficient evidence of its registration under the Act.

## 12. Service of Orders and Decisions - S. 78

The Finance Act 2017 amended in section 78 with respect to service of notices or show cause notices through electronic means. Service of notices through this new channel will held the notice to have been validly served.

## 13. Condonation of Time Limit - S. 84

The Finance Act 2017 adds an explanation in Section 84 of the Act, thereby allowing the Registered Person as well as officials of Punjab Revenue Authority to apply for condonation of time limits.

The added explanation in Section 84 may be interpreted as a Shield for the Revenue Authorities which will protect them from getting their notices/show-cause notices dismissed on the sole ground of expiry of time limitation and as a result, a leniency will likely be spread among the officers to issue the Notices as and when they willing.

# Budget 2017-18 - Amendments in Punjab Sales Tax

## 14. Amendment in Second Schedule

### a) Telecommunication Services - Serial No.06

The Finance Act 2017 introduces an exemption for students who are using internet services valued at not more than Rs. 1500/per student. Such exemption is limited to students only.

### b) Construction Services - Serial No. 14

The Finance Act 2017 reduces the tax rate on construction service, without allowance of any input tax adjustment, carried out in respect of federal/provincial civil works projects including those of cantonment board and funded through the Foreign Loans launched during July 1, 2016 at the rate of One Percent, and at the rate of Zero Percent for the projects launched prior to July 01, 2016.

### c) Execution of Contract

Previously, there was an exemption on contractual execution of work where total value of the same does not exceed Rs. 50 Million. The Finance Act 2017 withdraws such exemption and makes the contractual execution of work taxable, disregarding value of contract.

# Budget 2017-18 - Amendments in Khyber Pakhtunkhwa Sales Tax

## 1. Amendment in Second Schedule

The FA 2017 enhances the scope of services connected to travel facilities by introducing "Ride Hailing Services" in the First Schedule of The Khyber Pakthunkhwa Finance Act 2013 under the head of services.

TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

www.tolaassociates.com

**Islamabad**
Office # S-04, 2nd Floor
AKLASC Plaza, G-10 Markaz
Islamabad 44000, Pakistan
Telephone: +92 51 835 1551
Facsimile: +92 51 835 1552

**Lahore**
202-E, 2nd Floor Sadiq Plaza
69-The Mall Road Lahore, Pakistan
Telephone: +92 42 3628 0403
Facsimile: +92 42 3628 0402

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