



COMMENTS ON FINANCE SUPPLEMENTARY (AMENDMENT) BILL 2018

Supplementary
Bill 2018



Finance Act 2018



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Prologue:

Minister for Finance, Revenue and Economic Affairs, Mr. Asad Umar presented Mini Budget for the balance Fiscal Year 2018-19 in the National Assembly today.

The amendments have been proposed in Income Tax Ordinance, 2001, Sales Tax Act, 1991, Federal Excise Act, 2005 and Customs Act, 1969 vide Finance Supplementary (Amendment) Bill, 2018 (“FSB 2018”). Earlier, amendments were also introduced vide Finance Act, 2018 (“FA 2018”) in these laws.

Mr. Asad Umar, while increasing tax rate for high earning individuals, claimed that only 70,000 individuals would be affected by such increase. The maximum additional revenues, as per our calculations would be hardly Rs. 17 billion to Rs. 18 billion.

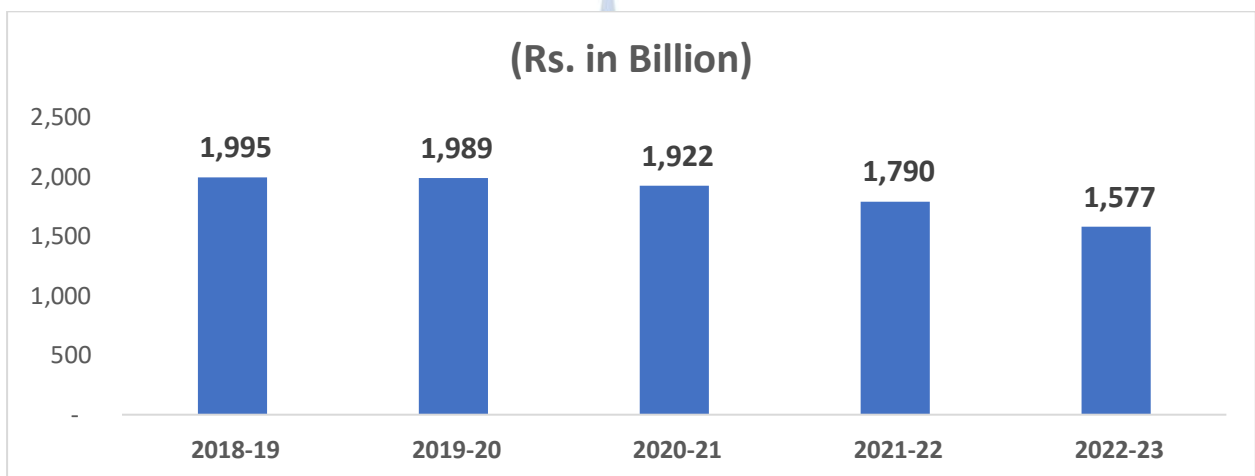
Reduction in Public Sector Development Programmed (“PSDP”) will trigger higher inflationary levels and would act as anti-growth. If the target of 6% growth in GDP is not achieved, the Government will not be able to generate enough employment opportunities to meet regular employment demand, let alone its tall claim of 1 crore employment opportunities.

Recent increase in gas tariff compounded with reduction in PSDP will also add to higher inflation and consequent increase in the discount rate. As per the calculations as of June 2018, cost of 1% increase in discount rate is Rs. 127 billion, resulting in additional budget deficit of 0.35% of GDP. The comparison between old and new rates are provided hereunder:

Old & New Gas Prices			
(In rupees)			
PKR/MMBTU	Old	New	Change
Domestic (1 st Slab)	110.0	121.0	10.0%
Domestic (2 nd Slab)	110.0	127.0	15.5%
Domestic (3 rd Slab)	220.0	264.0	20.0%
Domestic (4 th Slab)	220.0	275.0	25.0%
Domestic (5 th Slab)	600.0	780.0	30.0%
Domestic (6 th Slab)	600.0	1,460.0	143.3%
Domestic (7 th Slab)	600.0	1,460.0	143.3%
Commercial	700.0	980.0	40.0%
Ice Factories	700.0	980.0	40.0%
Industrial	600.0	780.0	30.0%
Captive Power	600.0	780.0	30.0%
CNG Stations	700.0	980.0	40.0%
Cement Factories	750.0	975.0	30.0%
Fertilizer (Feed-Stock)	123.0	185.0	50.4%
Fertilizer (Fuel-Stock)	600.0	780.0	30.0%
Power Stations	400.0	629.0	57.3%
IPPS	400.0	629.0	57.3%

To increase the tax revenues and tax net, drastic tax reforms are required as suggested by Tax Reform Commission (“TRC”), initiated by undersigned, headed by Mr. Masoud Naqvi and actively participated by 24 members specially Mr. Abid Shaban, Advocate. The efforts and recommendations of TRC were also applauded by the World Bank. I am much grateful to Mr. Asad Umer for acknowledging recommendations of TRC and I hope that Implementation of TRC recommendations will continue at a fast pace.

Lastly, as per our projections, if the current government continues to follow its estimated revenues and expenditures, its total deficit for five years will be Rs. 9,273 billion. The same was Rs. 6,018 billion and Rs. 9,016 for PPP and PMLN tenure, respectively.



Warm Regards

Ashfaq Yousuf Tola – FCA
President
TOLA ASSOCIATES

Dated: September 18, 2018

INCOME TAX ORDINANCE, 2001

1. Closure of Audit - Late filing of Return – Section 182A, 214D, 214E

Vide FA 2018, a new section 182A was inserted, whereby, in case of late filing of return, the person would not be added in the active tax payers' list even after filing of the return. Moreover, losses for that year shall also not be allowed to be carried forward.

The bill also deleted section 214D, whereby, cases of late filers were automatically selected for audit owing to audit incapacity of FBR. However, a clarification was required with respect to pending cases under section 214D.

FSB 2018 has proposed to introduce the required clarification through a new section 214E with respect to pending cases selected under omitted section 214D.

The proposed section 214E provides that an audit selected under section 214D shall be deemed to be concluded if following conditions are fulfilled:

- i. The tax payer was selected for audit under section 214D,
- ii. Notice under section 122 has not been issued,
- iii. The taxpayer has voluntarily revised return by 31st day of December 2018 along with the payment of 25% higher tax than the tax paid with return or, where no tax is payable, 2% of turnover or, where no turnover is declared, penalty under section 182 has been paid voluntarily.

Conditions of 25% higher tax or 2% of the turnover shall not apply in case the income comprises of only salary or covered under FTR.

2. Removal of restriction on purchase of certain assets – Section 227C

FA 2018 imposed restriction on non-filer on first registration of new motor vehicles. The restriction was also imposed on transfer of immovable property valuing more than Rs. 5 million in the name of a non-filer.

FSB 2018 proposes to omit section 227C and remove restrictions imposed vide FA 2018. The restriction was much effective in increasing the tax net as more and more individuals were registering themselves with FBR and were filing their returns to become filer and to be able to perform the transactions.

This is proposed amendment has far reaching impact and promulgation of this section helped curbing the speculative business in real estate and automobile sectors. This amendment will affect broadening the tax base.

3. Income Tax Rates for Individuals – Division I, Part I, First Schedule

FA 2018 introduced reduced income tax rates for individuals. As a result of such reductions in tax rates (from 30% in case of salaried and 35% in case of others to 15%), tax liabilities of individuals were slashed in more than half in comparison with tax liabilities of tax year 2018. A tabular comparison is provided hereunder:

As per Finance Act 2018-19

S. No	Taxable Income	Tax
(In rupees)		
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.800,000	Rs 1,000
3	Where the taxable income exceeds Rs.800,000 but does	Rs 2,000

	not exceed Rs.1,200,000	
4	Where the taxable income exceeds Rs.1,200,000 but does not exceed Rs.2,400,000	5% of the amount exceeding 1,200,000
5	Where the taxable income exceeds Rs.2,400,000 but does not exceed Rs.4,800,000	Rs. 60,000 plus 10% of the amount exceeding 2,400,000
6	Where the taxable income exceeds Rs.4,800,000	Rs. 300,000 plus 15% of the amount exceeding 4,800,000

As per Finance supplementary (Amendment) Bill 2018:

The rates of tax imposed on the taxable income of salaried individual as per Division I Part I First Schedule

As per Finance Supplementary (Amended) Bill 2018-19

S. No	Taxable Income	Tax
(In rupees)		
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.800,000	Rs 1,000
3	Where the taxable income exceeds Rs.800,000 but does not exceed Rs.1,200,000	Rs 2,000
4	Where the taxable income exceeds Rs.1,200,000 but does not exceed Rs.2,500,000	5% of the amount exceeding 1,200,000
5	Where the taxable income exceeds Rs.2,500,000 but does not exceed Rs.4,000,000	Rs. 65,000 plus 15% of the amount exceeding 2,500,000
6	Where the taxable income exceeds Rs.4,000,000 but	Rs. 290,000 plus 20% of

	does not exceed Rs. 8,000,000	the amount exceeding 4,000,000
7	Where the taxable income exceeds Rs.8,000,000	Rs. 1,090,000 plus 25% of the amount exceeding 8,000,000

The rates of tax imposed on the taxable income of Business (other than salary) individual as per Division I Part I First Schedule

As per Finance Supplementary (Amended) Bill 2018-19

S. No	Taxable Income	Tax
(In rupees)		
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.800,000	Rs 1,000
3	Where the taxable income exceeds Rs.800,000 but does not exceed Rs.1,200,000	Rs 2,000
4	Where the taxable income exceeds Rs.1,200,000 but does not exceed Rs.2,400,000	5% of the amount exceeding 1,200,000
5	Where the taxable income exceeds Rs.2,400,000 but does not exceed Rs.3,000,000	Rs. 60,000 plus 15% of the amount exceeding 2,400,000
6	Where the taxable income exceeds Rs.3,000,000 but does not exceed Rs.4,000,000	Rs. 150,000 plus 20% of the amount exceeding 3,000,000
7	Where the taxable income exceeds Rs.4,000,000 but does	Rs. 350,000 plus 25% of the amount

	not exceed Rs.5,000,000	exceeding 4,000,000
8	Where the taxable income exceeds Rs.5,000,000	Rs. 600,000 plus 29% of the amount exceeding 5,000,000

Impact of change in rate of tax for “salaried individuals and other than salaried individuals”:

Through Finance supplementary (amended) Bill 2018 rates for salaried and other than salaried individuals have been proposed to be amended. The tax rate for the salaried and other than salaried individuals are unchanged up to taxable income of Rs. 200,000/- per month. However, the individuals earning monthly taxable income more than Rs. 200,000/- will be charged as per revised tax slab.

Taxable Income	As per Finance Act 2018 (tax liability)	As per Finance supplementary (amended) bill 2018	
	Salary & Business	Salary	Other than salary
Rs. 400,000	-	-	-
Rs. 400,000 to 800,000	1,000	1,000	1,000
Rs. 800,000 to 1200,000	2,000	2,000	2,000
Rs. 2400,000	60,000	60,000	60,000
Rs.3,000,000	120,000	140,000	150,000
Rs. 4,000,000	220,000	290,000	350,000
Rs. 5,000,000	330,000	490,000	600,000
Rs. 6,000,000	480,000	690,000	890,000
Rs. 8000,000	780,000	1,090,000	1,470,000
Rs. 10,000,000	1,080,000	1,590,000	2,050,000

In our opinion, these proposed amendments will create Chaos and trigger litigations.

4. Advance Tax on Banking Transactions other than cash – 236P, Division XXI, Part IV, First Schedule

Finance Act 2015 introduced section 236P to charge advance tax at 0.40% on all banking transactions by non-filers if transactions in a day exceeds Rs. 50,000. The instruments include demand draft, pay order, special deposit receipt, cash deposit receipt, short term deposit receipt, call deposit receipt, rupee traveler’s cheque or any other instrument of such nature.

FSB 2018 proposes to increase the tax rate from 0.40% to 0.60%.

5. Withdrawal of Exemptions to Provincial Governors – Clause (51), (52), Part I, Second Schedule

FSB 2018 proposes to withdraw exemptions from tax on following perquisites available to provincial governors:

- Free Government Premises provided by Government; and
- Free conveyance allowance.

As per recommendation of TRC all such exemptions for President, Prime Minister, Judges of Higher Courts, Defense Personnel and Government Employees are also required to be withdrawn.

6. Withdrawal of Exemptions to Ministers of Federal Government – Clause (53), Part I, Second Schedule

FSB 2018 proposes to withdraw exemptions from tax on following perquisites available to Federal Ministers:

- Rent free accommodation;
- House rent allowance in lieu of rent-free accommodation;
- Free conveyance; and
- Sumptuary allowance.

7. Exemptions to “Supreme Court of Pakistan – Diamer Bhasha & Mohmand Dams – Fund” (SC Fund) – clauses (61), (66), Part I; Clauses (107), (108), (109) Part IV, Second Schedule

FSB 2018 proposes following exemptions to SC Fund:

- Any amount paid as donation to SC Fund shall be exempted from income tax and shall be deducted from Income of payee;
- Any income derived by SC Fund shall be exempt from Income Tax;
- The provisions of Section 111 relating to unexplained income shall not apply in respect of contributions paid to SC Fund;
- The provisions of section 113 (minimum tax), and provisions relating to deduction at source on profit on debt, cash withdrawal and banking transactions (sections 151, 231A, 231AA and 236P) shall not apply to SC Fund; and
- The provisions relating to deduction at source in case of banking transactions shall not apply at the time of transfer of any sum to SC Fund.

The above exemptions, specially exemption from provisions of section 111 will contribute extensively in expedient collection of donations in SC Fund.

SALES TAX ACT, 1990

Sixth Schedule

Following items relating to the field of Medicine are proposed to be exempted under Section 13 of The Sales Tax Act, 1990 and the same are added in the Sixth Schedule to the Sales Tax Act, 1990 from sales tax.

S#	Description
1.	Optical Coherence Technology (OCT) System
2.	OCT Catheters
3.	Intravascular Ultrasound (IVUS)
4.	Fractional Flow Reserve (FFR/IFR) System
5.	IVUS/FFR/IFR Catheters and wires

6.	Support Micro Catheters (Straight and angled)
7.	Drug Coated Angioplasty Balloon
8.	Coronary and Peripheral Micro Coils
9.	Thrombectomy Device
10.	Thrombus Aspiration Catheters
11.	Covered Stents (Coronary/ Peripheral)
12.	Vessel Closure Devices
13.	Embolic Protection Devices
14.	Renal Stents
15.	Vena-cava Filters
16.	Coronary and Peripheral Snares
17.	Atherectomy Devices
18.	IABP Consoles and Catheters
19.	Intracardiac Echocardiography Machine and Catheters
20.	Excimer Laser System with Accessories
21.	Laser Sheath, Occlusion Balloons, Dilator Sheaths (Rotation and Manual)
22.	Intra Cardiac Echocardiography (ICE) Systems and Accessories
23.	Lead Locking Devices and Accessory Kit
24.	Remote EP Monitoring Devices and Accessories.
25.	Albian Catheters
26.	3-D Cardiac Mapping System.
27.	Cryoballoon Systems and Accessories.
28.	High-Flow, Low Profile Percutaneous Heart Pump PHP Console and Catheters
29.	Tandem Heart/ Tandem Lung and Accessories.
30.	Ventricular Assist Device System (a) Heart Mate -11 (b) Heart Mate -III Centry Meg LEOV.
31.	Beating Heart Surgery stabilizers & Coronary Shunts.
32.	Minimally invasive Surgery equipment & Instruments
33.	RF Ablation equipment for AF (Surgical)
34.	Heart Lung Machines
35.	Left ventricular Assist Device/System (LVAD) and Catheters
36.	Mitrcclip Transcatheter Mitral Valve System
37.	Mitraclip Guide Catheter, Clip and Delivery System

38.	Patent Foramen Ovale (PFO) Closure Device.
39.	Left Atrial Appendage (LAA) Occulcer
40.	Transcatheter Aortic/ Heart Valve System (TAVI/TAVR).
41.	Cerebral Retrievable Stents
42.	Aortic Stent Grafts.
43.	Embolization Coils, Delivery System, Filling Coil.
44.	Abdominal Aortic Aneurysm (EVAR)/ extension.
45.	Insertable Cardiac Monitor
46.	Cartoid Stents
47.	MRI Compatible Cardiac Monitor, Infusion Pump, Anesthesia Machine with Accessories.

In entry L after the word adaptors at the end the words “Drug Eluting Peripheral Stents” will be inserted.

In Table – 2 the following entry shall be inserted

24.	LED or SMD lights and bulbs meant for conservation of energy.	8539.5010, 8539.5020, 9405.1030, 9405.4020
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8TH SCHEDULE

The Supplementary Bill has proposed that the RLNG of supplied to gas transmission companies then the same would be chargeable at reduced rate of 12%.

S#	Description	Tariff Heading	Condition	Existing Tax Rate	Proposed Tax Rate
51	RLNG	2711.1100 and 2710.2100	If supplied to gas transmission and distribution companies.	17%	12%

FEDERAL EXCISE ACT, 2005

It is proposed that the existing clause (24A) shall be renumbered as 24B and before clause 24B the following shall be inserted.

(24A) “un manufactured tobacco” means tobacco useable for manufacture of cigarettes as manufactured by Green Leaf Threshing Units after processing and conversion of tobacco green leaf.

The first Schedule Table-1 the rates of cigarettes have been enhanced

Tier	Existing Rate of FED	Proposed Rate of FED	Percentage change in rate of Cigarettes
(In rupees)			
Tier-1	3,964	4,500	12%
Tier-2	1,770	1,840	4%
Tier-2	848	1,250	50%

CUSTOMS ACT, 1969

FIFTH SCHEDULE

In Fifth Schedule, in Part-VII (Miscellaneous), after “Table-B”, a new “Table-C” is proposed to be added. Following is a comparison of duties applicable on important items. It is worthwhile to mentioned that these items represent Industrial raw material which likely to cause inflationary pressures on consumer prices in near future:

S#	Description	Existing Duty Rate	Proposed Duty Rate	Proposed Conditions
(3)	Acetone (PCT heading 2914.1100)	Nil	11%	Nil
(4)	Ethyl acetate (PCT heading 2915.3100)	Nil	16%	Nil
(5)	n-Butyl acetate (PCT heading 2915.3300)	Nil	16%	Nil
(6)	Oxalic acid (PCT heading 2917.1110)	Nil	5%	Nil
(8)	Citric acid (PCT heading 2918.1400)	Nil	5%	Nil
(11)	Dyes Sulphur (PCT heading 3204.1910)	Nil	11%	Nil

(12)	Dyes, synthetic (PCT heading 3204.1990)	Nil	11%	Nil
(16)	Pigments and preparations based on cadmium compounds (PCT heading 3206.4920)	Nil	11%	Nil
(17)	Greases (PCT heading 3403.1910)	Nil	16%	Nil
(29)	Of aluminum alloys (PCT heading 7606.1200)	Nil	5%	Nil
(31)	Of plastic, not covered with textile material (PCT heading 9606.2100)	Nil	16%	Nil

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