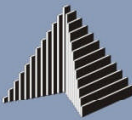




# BUDGET BRIEF 2008-09



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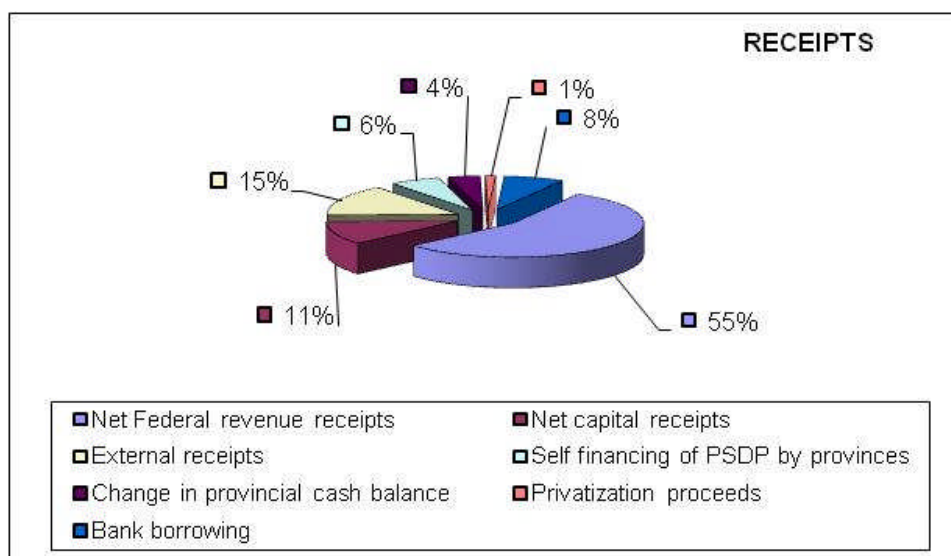


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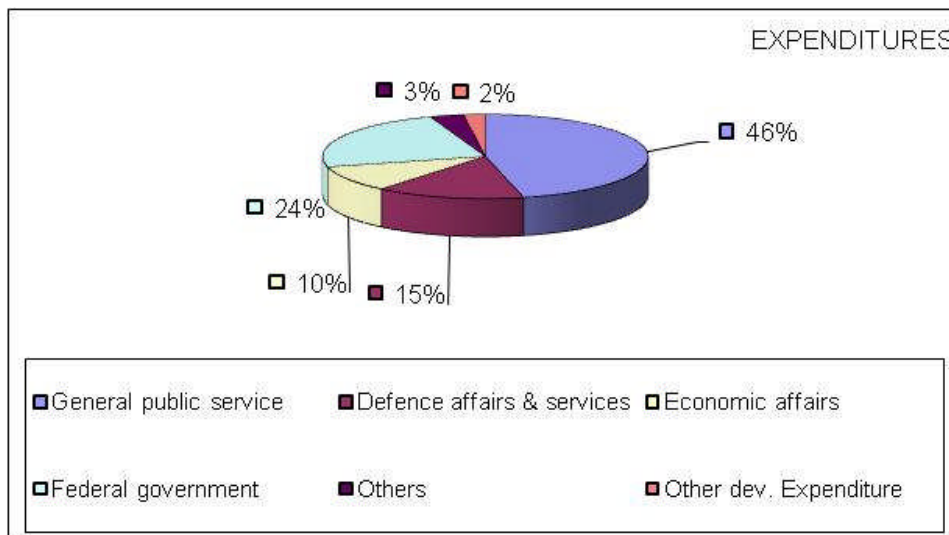
**COMPARATIVE BUDGETARY POSITION  
2008-09 AND 2007-08**

| RECEIPTS                            | 2008-09          | Revised                     | Var. %      |
|-------------------------------------|------------------|-----------------------------|-------------|
|                                     |                  | 2007-08<br>(Rs. In Billion) |             |
| <b>Tax revenue</b>                  | <b>1,251.400</b> | <b>1,005.600</b>            | 24.44       |
| <b>Non-tax revenue</b>              | <b>427.800</b>   | <b>393.300</b>              | 8.77        |
| <b>Gross revenue receipts</b>       | 1679.200         | 1398.900                    | 20.04       |
| Less provincial share in taxes      | 568.300          | 457.200                     | 24.30       |
| Net Federal revenue receipts        | 1110.900         | 941.700                     | 17.97       |
| Net capital receipts                | 221.300          | 142.800                     | 54.97       |
| External receipts                   | 300.200          | 275.400                     | 9.01        |
| Self financing of PSDP by provinces | 124.400          | 129.700                     | (4.09)      |
| Change in provincial cash balance   | 78.900           | 32.600                      | 142.02      |
| Privatization proceeds              | 25.100           | 1.700                       | 1,376.47    |
| Bank borrowing                      | 149.000          | 424.100                     | (64.87)     |
|                                     | <b>2,009.800</b> | <b>1,948.000</b>            | <b>3.17</b> |



**COMPARATIVE BUDGETARY POSITION  
2008-09 AND 2007-08**

| EXPENDITURES                   | Revised          |                  | Var. %       |
|--------------------------------|------------------|------------------|--------------|
|                                | 2008-09          | 2007-08          |              |
| <b>Current Expenditure</b>     |                  |                  |              |
| General public service         | 929.500          | 881.700          | 5.42         |
| Defence affairs & services     | 296.100          | 277.200          | 6.82         |
| Economic affairs               | 201.100          | 293.400          | (31.46)      |
|                                | <b>1,426.700</b> | <b>1,452.300</b> |              |
| <b>Development Expenditure</b> |                  |                  |              |
| Federal government             | 472.700          | 395.100          | 19.64        |
| Others                         | 66.500           | 63.900           | 4.07         |
|                                | <b>539.200</b>   | <b>459.000</b>   | <b>17.47</b> |
| <b>Other dev. Expenditure</b>  | <b>43.900</b>    | <b>36.700</b>    |              |
|                                | <b>2,009.800</b> | <b>1,948.000</b> | <b>3.17</b>  |



## HIGHLIGHTS OF BUDGET 2008-09

### INCOME TAX

1. The basic limit of exemption from income tax in respect of salaried person is proposed to be increased from Rs.150,000 to Rs.180,000. In the case of a women salaried taxpayer the basic exemption limit is proposed to be increased from Rs.200,000 to Rs.240,000.
2. The concept of marginal tax relief for the salaried persons is being introduced to cater for the negative impact of taxation under the present flat tax rate system. The marginal increase in salary income is proposed to be taxed at the rates not exceeding 20% to 50% allowing sufficient relief in tax payable.
3. Minimum tax payable on the declared turnover @ 0.5% is being proposed to be withdrawn.
4. First Year Allowance in the shape of accelerated depreciation @ 90% is proposed to be allowed to the industrial undertakings established in the specified rural and undeveloped areas.
5. The value of accommodation provided to the salaried persons in small cities is proposed to be taken at 30% instead of 45% of the minimum time scale of the employees for the purpose of taxation.
6. Inter corporate dividend exemption from tax is proposed to be extended to the companies eligible for group taxation under section 59B.
7. Exemption available to capital gain is proposed to be extended till 30<sup>th</sup> June 2010 without any change in the withholding tax and CVT regime.
8. To encourage amalgamation of banking companies, modarabas and insurance companies the facility of carry forward of "accumulated loss" is proposed to be allowed for a period of six years in the case of amalgamated or amalgamating companies.
9. In the case of bank no CVT is proposed to be charged on General Power of Attorney unless it is used into force the mortgage of property offered as collateral against a loan.
10. In the case of a small company if turnover exceeds Rs.250 million, the income attributable to the turnover exceeding the said limit, is proposed to be charged to tax at progressive slab rate of 25%, 30% and 35%, so that the company is able to progress still retaining its status of a "small company".
11. A scheme for waiver of additional tax and penalty etc. is proposed to be introduced where the taxpayer is able to pay the principal amount of tax within a certain period.
12. At present gross rental income from property is chargeable to tax at a flat rate of 5%. It is proposed that no tax may be charged on income upto Rs.150,000 and tax income from this source on progressive rates of 5%, 10 and 15%. However, in the case of a company basic exemption of Rs.150,000 would not be available.
13. Withholding tax rate of 5% and 1% is applicable in respect of commercial and manufacturer importers respectively. It is proposed to apply a uniform rate of 2% for both the categories of importers u/s 148.
14. In order to encourage and promote investment in the business and industries, scheme of investment tax is being introduced, allowing immunity from probe in respect of any moveable and immoveable assets on the value of which tax @ 2% is paid.
15. The rates of advance tax, collected at the time of renewal of registration of private motor cars, are proposed to be rationalized by making about 30% to 40% Increase in WHT rates.
16. Withholding tax on monthly telephone bills exceeding Rs.1000 is proposed to be collected @ 10%.
17. Association of person and individuals having annual turnover of Rs.50 million respectively are proposed to be made withholding tax agents u/s 153 for the purpose of tax deduction on payments relating to on sale of goods, services rendered and execution of contracts.
18. Profit transferred by a branch of foreign company out of Pakistan are proposed to be treated as

- dividend and chargeable to tax @ 10% as final tax.
19. The limit of donations eligible for tax credit in the case of individual/association of persons and companies presently admissible @ 30% and 15% respectively are proposed to be reduced to 10% of the taxable income.
  20. Withholding tax on cash withdrawal from banks collected @ 0.2% is proposed to be collected @ 0.3%.
  21. The builder would be required to pay tax @ Rs.50 per sq. ft. of the covered area of a unit and developer of open plots would be subjected to tax @ Rs.100 per sq. yard of the plot.
  22. Cooperative society or a finance society would be treated at par with the company for the purpose of taxation.
  23. Payments made to media companies out side Pakistan are proposed to be subjected to WHT @ 10%, to be treated as final tax.
  24. Any payment made through a foreign currency account and exchange companies proposed to be included in the payments requiring deduction of WHT unless the CIT has allowed otherwise as provided under section 152 of Income Tax Ordinance, 2001.
  25. WHT on purchase of locally manufactured motor car or jeep is proposed to be collected by a motor vehicle registration authority at fixed rates depending on the engine capacity.
  26. Thin capitalization rule is proposed to be made applicable to branches of foreign companies operating in Pakistan.
  27. The discrimination in tax rates applicable to exporters is being removed by withdrawal of provisions allowing deduction of tax at a rate lesser than 1%.
  28. The tax collected from the members of stock exchange on sale and purchase of shares is proposed to be made a minimum tax on income of such members/ brokers.
  29. Filing of wealth statement by a salaried taxpayer whose income is more than Rs.500,000 even if he is not required to file a return of income is mandatory.
  30. Section 153(6A) is being amended to clearly state the intention of legislature that tax deducted in the case of non-corporate taxpayers on supply of manufactured goods shall be a final tax. Sub-section (6B) is proposed to be deleted.
  31. Exemption is provided from deduction of tax on supplies made by PE of non-resident E&P companies.
  32. In order to ensure quick disposal of cases remanded back by the ITAT to the CIT (A) for making a fresh order, a limitation of six months is being provided in the law.
  33. The limit for payment of salary to be paid by an employer through cheque or transfer to employee's account is being increased from Rs.10,000 to Rs.15,000.
  34. The provisions of 7th Schedule allowing deduction on account of non-performing loans as per prudential regulation issued by the SBP are proposed to be deleted and would be allowed under sections 29 and 29A of the Income Tax Ordinance, 2001.

#### **SALES TAX & FEDERAL EXCISE**

1. Exemption of sales tax on import and local supply of fertilizers and pesticides is aimed at providing fertilizers and pesticides at cheaper prices to the farmers.
2. Exemption of energy saver lamps is aimed at providing these items at cheaper prices and save the electricity to cope with the energy crises.
3. Exemption of crop insurance from the levy of 5% FED.
4. Zero rating of molasses for the manufacturing of acetic acid.
5. Zero-rating of caustic soda flakes/solid, cotton linter and sequins.

6. Compensation for AJK Government enabling them to pay refunds to the registered persons of AJK buying taxable goods from Pakistan.
7. Sales tax refund to foreign nationals visiting Pakistan on trade fairs on reciprocal basis
8. Exemption of sales tax on medical equipment, apparatus, reagents, disposables, spares and donations supplied to operating hospitals of 50 beds or more
9. General amnesty from payment of past liability to persons opting to get themselves registered under the Sales Tax Act, 1990
10. Permission to M/s SNGPL to deduct input tax in respect of natural gas supplies made in AJK
11. The rate of sales tax has been increased from 15% to 16% to meet revenue requirements.
12. Enhancement of rate of FED from 15% to 16% on goods and services which are subject to FED in VAT mode
13. Proposal to increase rate of excise duty on telecommunication services to 21%
14. Cement is subject to federal excise duty @ Rs. 750/- per tonne since July, 2003. Being a fixed rate, it does not indexes inflation. It has been enhanced to Rs. 900/- per tonne.
15. Levy of 5% FED on the import and local supply of motorcars
16. Enhancement of rate of FED from 5% to 10% on banking, insurance and franchise services
17. Levy of FED on all telecommunication services
18. Enhancement of sales tax from 15% to 16% on Provincial services
19. Collection of fixed tax @ 0.75% at import and manufacturing stage in lieu of tax payable by dealers of electric goods
20. Section 10 regulates the excess input tax over the output tax but there is no mention of carry forward of excess input tax. Section 10 is being amended to incorporate the carry forward amount for excess input tax.
21. Enhancement of rate of default surcharge from 1% to 1.5% per month.
22. Time to adjudicate the cases under Sales Tax Act, 1990 and Federal Excise Act, 2005 has been increased from 90 to 120 days.
23. Enhancement of monetary ceiling of single member of Appellate Tribunal from Rs. 1.5 million to Rs. 10 million.
24. Addition of royalty and technical fee in franchise services
25. Exemption of supplies to Export Processing Zones
26. Exclusion of biscuits, confectionary, snacks, electric bulbs and tube lights from Third Schedule to the Sales Tax Act, 1990.
27. Charge of duty on the services coming from abroad and terminating in Pakistan.

## CUSTOMS

1. The local industry producing water dispensers, hooks & eyes, aluminum alloy, electric irons, mini choppers, vacuum cleaners, central heating gas boilers, mini ovens, gas heaters, gas stoves/cooking ranges with ovens, air handling equipments, central heating equipments, UPS, Chlorinated paraffin, chrysotile cement pipes, sheets & fittings and perforated steel products have been provided inputs at 0%, 5% and 10% rates of duty.
2. Fully dedicated CNG buses exempted of from duty.
3. Pharmaceutical industry given specified active ingredients, chemicals and packing materials at 5% duty.

4. Eighteen medicines used for cancer/heart treatment etc. exempted from customs duty.
5. Bitumen, JP4&JP8 exempted from duty. Duty rate on base oil for lubricating oils reduced from 20% to 10%.
6. Rice seeds, energy saving lamps, dredgers, specified solar energy equipments exempted from customs duty.
7. Power plants imported by WAPDA on temporary basis exempted from customs duty.
8. Reduction of duty on calcium carbide from 15% to 5%, PTA from 15% TO 7.5%, PSF 6.5% to 4.5%, Caustic soda from Rs.5000/MT to Rs.4000/MT, Printing screens from 15% to 10%, nickel not alloyed from 5% to 0%, Textile buckram from 25% to 10%.
9. Manufacturers have been allowed to import samples duty free as per specified conditions in chapter 99 of PCT.
10. Seized/confiscated vehicles as on 31<sup>st</sup> May, 2008 may be released against payment of leviable duty/taxes and 30% redemption fine.
11. Duty rates on non-essential & luxury items have been increased. Hence, duty rate on dairy products, fruits, chewing gum, chocolate, processed food, fruit juices, aerate waters, ceramic products, air-conditioners/refrigerators, electric fans, toasters, micro wave ovens, televisions, furniture and lighting equipment etc increased from 25% to 35%. Duty rates on cosmetics increased from 20 -25% to 35%.
12. Duty rate on electric ovens/ cooking ranges etc. increased from 20% to 30%.
13. Customs duty @ Rs. 500/ per set levied on import of mobile phone.
14. Customs duty on betel leaves increased from Rs.150/kg to Rs. 200/kg.
15. Duty rate increased on sulphonic acid from 10% to 15%.
16. Duty rate increased on CKD/SKD of sewing machines from 5% to 20%
17. A uniform rate of 30% specified for import of special purpose motor vehicles.
18. Increase in duty rates on import of cars/jeeps above 1800cc from 90% to 100%. Fixed duty/tax rates on old and used cars/jeeps increased by 10%.
19. Manufacturers and particularly soap manufacturers based in AJ&K have been extended concessionary duty regime in line with SRO 565(I)/2006, as available to Pakistan based manufacturers.
20. Specified industries/projects have been de-linked from the local manufacturing condition for import of required machinery, equipments and raw materials etc.

## INCOME TAX ORDINANCE, 2001 SIGNIFICANT AMENDMENTS

**1. Asset Management Company  
Sec. 2(5B)**

The bill proposes substitute the definition of “asset management company”, earlier it means a company registered under Assets Management Companies Rules, 1995 after its substitution an asset management company as defined the under the Non-Banking Finance Companies and Notified Entities Regulations, 2007.

**2. Dividend  
Sec. 2(19)**

The bill proposes to enlarge the definition of term dividend and treat after tax profits of a branch of foreign company operating in Pakistan as dividend. This will be treated as dividend in the case when that branch repatriates its funds to foreign company.

**3. Electronic Transaction Terms  
Sec. 2(19B, 19C, 19D, 19E)**

The bill proposes to introduce various terms as used in electronic transaction Ordinance, 2002 and define various terms of electronic record keeping, electronic devices/ resources and telecommunication system.

**4. Deductions not allowed-Salary payment limit  
Sec. 21(m)**

The bill proposes to enhance the limit for payment of salary through banking channel from Rs. 10,000 to Rs. 15,000. This would put a bit ease on routine work on payers.

**5. First Year Allowance  
Sec. 23A**

The bill propose to allow first year allowance on Plant, machinery and equipment installed by any industrial undertaking owned and managed by company set up in specified rural and under developed areas. The federal government may notify specified areas.

**6. Exemption and Tax provisions in other laws.  
Sec. 54**

The bill proposes to delete the proviso which provides exemption or reduction provided in any other law and in force on the commencement of Income Tax Ordinance, 2001 unless it is specifically given in the 2<sup>nd</sup> Schedule to the Income Tax Ordinance 2001.

**7. Set off of business loss consequent to amalgamation  
Sec. 57A**

The bill proposes to allow set off/carried forward of losses of amalgamating NBFC, modarba or insurance company for six years. This will encourage mergers and amalgamations in view of limits of capital prescribed by NBFC, modarba and Insurance Laws.

**8. Charitable donations  
Sec. 61**

The bill proposes to reduce the limit of taxable income for the purpose of claiming tax credit in case of donations, from 30% to 10% for individual and AOPs' and from 15% to 10% for a company.

**9. Geographical source of income  
Sec. 101(13A)**

The bill proposes to insert a new section to tax premium payments made on account of insurance or reinsurance to non-resident person. Now payment made on account of insurance or reinsurance to non-resident person would attract presumptive tax regime. The bill also proposes to make relevant changes in section 152.

**10. Minimum tax on the income of certain person—turnover tax  
Sec. 113**

The bill proposes to delete the turnover tax, the tax managers fulfilled a long awaited demand of Companies. The bill also proposes resultant changes with respect to turnover in the relevant sections.

**11. Taxation of builders and developers  
Sec. 113C**

The bill proposes a new tax on builders and land developers. Now builders have to pay Rs. 50 per sq. ft on covered constructed area and developers have to pay Rs. 100 per sq. yard on the area of land developed. This tax would constitute minimum tax on income of such person.

**12. Persons not required to furnish a return of income.  
Sec. 115**

The bill proposes to treat annual statement of deductions of tax filed by the employers as return of the taxpayer. Filing of wealth statement is mandatory by a person whose annual income exceeds Rs. 500,000/- even if he is not required to file a return of total income.

**13. Investment Tax on Income  
Sec. 120A**

The bill propose to introduce a new tax named as Investment Tax on income, which is infact a tax on undisclosed assets or a sort of Amnesty Scheme. The Finance Ministers in his speech announce 2% as the tax rate, however Finance Bill proposed that tax will be charged according to scheme and rules. The rules will be issued later.

**14. Assessment giving effect to an order  
Sec. 124**

The bill proposes to provide limitation period of one year after the receipt of order in the financial year also on Commissioner (Appeals), for making a fresh order.

**15. Decision in Appeal  
Sec. 129**

The bill proposes to increase the period of decision by Commissioner (Appeals) from three months to four months after filing of appeal, if the notice is served on Commissioner (Appeals) before 30 days of expiration of four months.

**16. Alternative Dispute Resolution  
Sec. 134A**

The bill proposes to insert a new sub section empowering the Chairman to entertain and decide an application for correcting any error in order or decision of the Board in Alternates Dispute Resolution cases.

**17. Due date for payment of tax  
Sec. 137**

The bill proposes to reduce the period of payment of tax from thirty days to fifteen days. This will create a bit harsh time and also against principles of natural justice.

**18. Tax arrears settlement incentive scheme  
Sec. 146B**

The bill proposes to insert new section for a waiver of additional tax and penalty for settlement of arrears in the case the tax payer pays outstanding principle amount of tax and to empower the Board to make rules for the implementation of scheme.

**19. Payments for goods and services  
Sec. 153**

The bill proposes to make small company liable of withholding provisions on purchases of goods and services. Resultantly small company proposed to be included in list of prescribed persons. Moreover Association of persons having turnover of Rs.50 million or above and Individuals having turnover of Rs. 25 million or above are to be included in list of prescribed persons.

The bill proposes to exclude company engaged in manufacturing from Presumptive tax regime.

The bill also proposes to add definition of "manufacturer". "manufacturer" for the purpose of this section means, a person who is engaged in production or manufacturing of goods, which includes-

- (a) any process in which an article singly or in combination with other articles, material, components, is either converted into another distinct article or produce is so changed, transferred, or reshaped that it becomes capable of being put to use differently or distinctly; or
- (b) a process of assembling, mixing, cutting, packing, repacking or preparation of goods in any other manner.

**20. Payments to non-resident media persons  
Sec. 153A**

The bill proposes to insert a new sub section to tax payments to non resident media persons at a rate of 10%. This would be treated under presumptive tax regime.

**21. Income from property  
Sec. 155**

The bill proposes to omit provision for allowing credit of tax deducted under section 155 on property income. Earlier tax deductions under various withholding provisions were allowed to be deducted for arriving at net payable. Thus making rental income as net source of government receipts. This would also help government to know the exact quantum of rental income.

**22. Exemption or lower rate certificate  
Sec. 159**

The bill proposes to empower the Board to allow exemption from withholding tax and amend the rates. Earlier this power was available with Federal Government.

**23. Records  
Sec. 174**

The bill proposes to empower the Commissioner to require installation of electronic tax register by any person for the purpose of storing and accessing information regarding any transaction that has a bearing on the tax liability of such person.

**24. Taxpayers' registration  
Sec. 181**

The bill proposes to introduce new scheme for taxpayers' registration. This is a step towards a common identification number to be used for Direct and Indirect Taxes.

**25. Penalty for concealment of income.  
Sec. 184**

The bill proposes to insert a new sub-section providing consequent relief in the amount of penalty on reduction of concealed income in appeal.

**26. Prosecution for failure to maintain records.  
Sec. 193**

The bill proposes to prescribe the limit of fine upto Rs. 50,000/- for failure to maintain prescribed records.

**27. Purchase of motor cars and jeeps  
Sec. 231B**

The bill proposes to provide withholding tax collection on purchase of new motor car/jeep on first registration. It is provided that this tax is not applicable in case the owner is the Federal Government/ Provincial Government/ Foreign Diplomat or diplomatic mission in Pakistan.

**28. Electricity consumption  
Sec. 235**

The bill proposes to allow adjustment of withholding tax collected on electric bills exceeding Rs. 20,000/- per month.

**FIRST SCHEDULE AMENDMENTS**

**29. Rates of Tax for Individuals and Association of Persons**

| Taxable Income        | Rate of Tax (%) | Taxable Income           | Rate of Tax (%) |
|-----------------------|-----------------|--------------------------|-----------------|
| Upto Rs.100,000       | Nil             | Rs. 300,001 - 400,000    | 7.50            |
| Rs. 100,001 - 110,000 | 0.50            | Rs. 400,001 - 500,000    | 10.00           |
| Rs. 110,001 - 125,000 | 1.00            | Rs. 500,001 - 600,000    | 12.50           |
| Rs. 125,001 - 150,000 | 2.00            | Rs. 600,001 - 800,000    | 15.00           |
| Rs. 150,001 - 175,000 | 3.00            | Rs. 800,001 - 1,000,000  | 17.50           |
| Rs. 175,001 - 200,000 | 4.00            | Rs.1,000,001 - 1,300,000 | 21.00           |
| Rs. 200,001 - 300,000 | 5.00            | Over Rs.1,300,000        | 25.00           |

Provided that where income of a woman taxpayer is covered by this clause, no tax shall be charged if the taxable income does not exceed Rs.125,000/-

**30. Rates of Tax for salaried individual**

| Taxable Income         | Rate of Tax (%) | Taxable Income            | Rate of Tax (%) |
|------------------------|-----------------|---------------------------|-----------------|
| Upto Rs.180,000        | Nil             |                           |                 |
| Rs. 180,001- 250,000   | 0.50            | Rs. 1,050,001 - 1,200,000 | 10.00           |
| Rs. 250,001- 350,000   | 0.75            | Rs. 1,200,001 - 1,450,000 | 11.00           |
| Rs. 350,001- 400,000   | 1.50            | Rs. 1,450,001 - 1,700,000 | 12.50           |
| Rs. 400,001- 450,000   | 2.50            | Rs. 1,700,001 - 1,950,000 | 14.00           |
| Rs. 450,001- 550,000   | 3.50            | Rs. 1,950,001 - 2,250,000 | 15.00           |
| Rs. 550,001- 650,000   | 4.50            | Rs. 2,250,001 - 2,850,000 | 16.00           |
| Rs. 650,001- 750,000   | 6.00            | Rs. 2,850,001 - 3,550,000 | 17.50           |
| Rs. 750,001- 900,000   | 7.50            | Rs. 3,550,001 - 4,550,000 | 18.50           |
| Rs. 900,001- 1,050,000 | 9.00            | Rs. 4,550,001 - 8,650,000 | 19.00           |
|                        |                 | Over Rs.8,650,000         | 20.00           |

Provided that where income of a woman taxpayer is covered by this clause, no tax shall be charged if the taxable income does not exceed Rs.240,000/-:

Provided further that where the total income of a taxpayer marginally exceeds the maximum limit of a slab in the table, the marginal relief will be as follows –

| Total income does not exceed | Increase in tax not to exceed tax payable on |
|------------------------------|--|
| Rs.500,000                   | 20%  |
| Rs.1,050,000                 | 30%  |
| Rs.2,000,000                 | 40%  |
| Rs.4,450,000                 | 50%  |
| Over Rs.4,450,000            | 60%  |

**31. Rate of Tax on certain persons**

The rate of tax to be paid under sub-section (1) of section 113A shall be 0.50% of the turnover.

**32. Rate of Tax on Builders and Developers**

Rate of payment of tax under sub-section (1) of section 113C, shall be,-

- (a) In the case of a builder Rs.50 per sq. ft. on covered constructed area; and
- (b) In the case of a developer Rs.100 per sq. yard on the area of land developed.

**33. Rates of Tax for Companies**

For public, private and banking companies for the tax year 2009 rate remained unchanged at 35%.

For Small company tax shall be payable at the rate of 20%. Provided where the turnover exceeds the prescribed limit of Rs.250 million, tax shall be payable at the following rates, namely:-

| Income attributable to turnover                             | Rate of Tax   |
|---|---|
| upto 250 million  | 20 %  |
| Exceeding Rs. 250 million but not exceeding Rs. 350 million | 25 % of the income on the amount exceeding Rs.250 million plus tax as in (i) above  |
| Exceeding Rs. 350 million but not exceeding Rs. 500 million | 30 % of the income on the amount exceeding Rs.350 million plus tax as in (ii) above |
| Exceeding Rs. 500 million                                   | 35% of the income on the amount exceeding Rs.500 million plus tax as in (iii) above |

**34. Rate of Dividend Tax**

The rate of tax imposed under section 5 on dividend received from a company shall be 10%.

**35. Rate of Tax on Certain Payments to Non-residents**

The rate of tax imposed under section 6 on payments to non-residents shall be 15% of the gross amount of the royalty or fee for technical services.

**36. Rate of Tax on Shipping or Air Transport Income of a Non-resident Person**

The rate of tax imposed under section 7 shall be –

- (a) In the case of shipping income, 8% of the gross amount received or receivable; or.
- (b) In the case of air transport income, 3% of the gross amount received or receivable.

**37. Income from Property**

- (a) The rate of tax to be paid under section 15, in the case of individual and association of persons, shall be-

| S.No. | Gross amount of rent                  | Rate of tax   |
|-------|---------------------------------------|---|
| 1.    | Upto Rs.150,000.                      | Nil   |
| 2.    | From Rs. 150,001/- to Rs. 400,000/-   | 5 % of the amount exceeding Rs.150,000                        |
| 3.    | From Rs. 400,001/- to Rs. 1,000,000/- | Rs. 12,500/- plus 10 % of the amount exceeding Rs.400,000/-   |
| 4.    | Over Rs. 1,000,000/-                  | Rs. 72,500/- plus 15 % of the amount exceeding Rs.1,000,000/- |

(b) The rate of tax to be paid under section 15, in the case of company, shall be-

| S.No. | Gross amount of rent                  | Rate of tax   |
|-------|---------------------------------------|---|
| 1.    | Upto Rs.400,000.                      | 5 %   |
| 2.    | From Rs. 400,001/- to Rs. 1,000,000/- | Rs. 20,000/- plus 10 % of the amount exceeding Rs.400,000/-   |
| 3.    | Over Rs. 1,000,000/-                  | Rs. 80,000/- plus 15 % of the amount exceeding Rs.1,000,000/- |

**38. Rate of tax deduction at source at import**

The rate of advance tax to be collected by the Collector of Customs under section 148 shall be 2 % of the value of the goods.

**39. Profit on Debt**

The rate of tax to be deducted under section 151 shall be 10% of the yield or profit paid.

**40. Payments to non-residents**

The rate of tax to be deducted from a payment referred to in sub-section (1A) of section 152 shall be 6% of the gross amount payable.

The rate of tax to be deducted from payments referred to in sub-section (1AA) of section 152, shall be 5% of the gross amount paid.

The rate of tax to be deducted under sub-section (2) of section 152 shall be 30% of the gross amount paid.

**41. Payments for Goods or Services**

The rate of tax to be deducted from a payment referred to in clause (a) of sub-section (1) of section 153 shall be –

- (a) In the case of the sale of rice, cotton seed or edible oils, 1.5 % of the gross amount payable;
- (b) In the case of the sale of any other goods, 3.5% of the gross amount payable.

The rate of tax to be deducted from a payment referred to in clause 1 (b) of sub-section (1) of section 153 shall be—

- (a) In the case of transport services, 2% of the gross amount payable; or.
- (b) In any other case, 6% of the gross amount payable.

The rate of tax to be deducted from a payment referred to in clause 2 (c) of sub-section (1) of section 153 shall be 6% of the gross amount payable.

**42. Payments to non-resident media persons**

The rate of tax to be deducted under section 153A, shall be 10% of the gross amount paid.

**43. Exports**

The rate of tax to be deducted under sub-section (1), (3), (3A) or 4 (3B) of section 154 shall be 1% of the proceeds of the export.

The rate of tax to be deducted under sub-section (2) of section 154 shall be 5 %.

The rate of tax to be deducted under sub-section (1A) of section 153 shall be 0.5%.

**44. Income from Property**

- (a) The rate of tax to be deducted under section 155, in the case of an individual and association of persons, shall be-

| S.No. | Gross amount of rent                  | Rate of tax   |
|-------|---------------------------------------|---|
| 1.    | Upto Rs.150,000.                      | Nil   |
| 2.    | From Rs. 150,001/- to Rs. 500,000/-   | 5 % of the amount exceeding Rs.150,000                        |
| 3.    | From Rs. 500,001/- to Rs. 1,300,000/- | Rs. 17,500/- plus 10 % of the amount exceeding Rs.500,000/-   |
| 4.    | Over Rs. 1,300,000/-                  | Rs. 97,500/- plus 15 % of the amount exceeding Rs.1,300,000/- |

- (b) The rate of tax to be deducted under section 155, in the case of a company, shall be-

| S.No. | Gross amount of rent                  | Rate of tax   |
|-------|---------------------------------------|---|
| 1.    | Upto Rs.400,000.                      | 5 %   |
| 2.    | From Rs. 400,001/- to Rs. 1,000,000/- | Rs. 20,000/- plus 10 % of the amount exceeding Rs.400,000/-   |
| 3.    | Over Rs. 1,000,000/-                  | Rs. 80,000/- plus 15 % of the amount exceeding Rs.1,000,000/- |

**45. Prizes and Winnings**

The rate of tax to be deducted under section 156 on a prize on prize bond shall be 10% of the gross amount paid.

The rate of tax to be deducted under section 156 on winnings from a raffle, lottery, prize on winning a quiz, prize offered by companies for promotion of sale, or cross-word puzzle shall be 20% of the gross amount paid.

**46. Petroleum Products**

Rate of collection of tax under section 156A shall be 10% of the amount of payment.

**47. CNG Stations**

The rate of tax to be collected under section 234A in the case of a Compressed Natural Gas (CNG)

station shall be four per cent of the gas consumption charges.

**48. Brokerage and Commission**

The rate of collection under sub-section (1) of section 233 shall be 10% of the amount of the payment

**49. Rates for Collection of Tax by a Stock Exchange Registered in Pakistan**

- (a) In case of purchase of shares, 0.01% of purchase value.
- (b) In case of sale of shares, 0.01% of sale value.
- (c) In case of trading of shares, 0.01% of traded value.
- (d) In case of financing of carry over trades 10% of the (Badla) charge

**50. Tax on Motor Vehicles**

|                   |             |
|-------------------|-------------|
| Upto 1000 cc      | Rs. 500/-   |
| 1001 cc - 1199 cc | Rs. 750/-   |
| 1200 cc – 1299 cc | Rs. 1,000/- |
| 1300 cc – 1599 cc | Rs. 2,000/- |
| 1600 cc – 1999 cc | Rs. 3,000/- |
| Over 1999 cc      | Rs. 5,000/- |

**51. Electricity Consumption**

Rate of collection of tax under section 235 where the amount of electricity bill is ,

| Sr. # | Amount of Bill           | Advance Tax        |
|-------|--------------------------|--------------------|
| 1     | Upto Rs. 400             | Rs. 60             |
| 2     | Rs. 401 to Rs. 600       | Rs. 80             |
| 3     | Rs. 601 to Rs. 800       | Rs. 100            |
| 4     | Rs. 801 to Rs. 1,000     | Rs. 160            |
| 5     | Rs. 1,001 to Rs. 1,500   | Rs. 300            |
| 6     | Rs. 1,501 to Rs. 3,000   | Rs. 350            |
| 7     | Rs. 3,001 to Rs. 4,500   | Rs. 450            |
| 8     | Rs. 4,501 to Rs. 6,000   | Rs. 500            |
| 9     | Rs. 6,001 to Rs. 10,000  | Rs. 650            |
| 10    | Rs. 10,001 to Rs. 15,000 | Rs. 1,000          |
| 11    | Rs. 15,001 to Rs. 20,000 | Rs. 1,500          |
| 12    | Rs. 20,001 to Rs. 600    | At the rate of 10% |

**52. Telephone users**

Rates of collection of tax under section 236,--

| Sr. # | Amount of Bill   | Advance Tax        |
|-------|--|--------------------|
| 1     | Upto Rs. 1,000 (other than mobile phone subscriber)                      | NIL                |
| 2     | Over Rs. 1,000 (other than mobile phone subscriber)                      | At the rate of 10% |
| 3     | Mobile phone and pre-paid bill or sales price of pre-paid telephone card | At the rate of 10% |

**53. Cash Withdrawal From a Bank**

The Rate of tax deduction u/s 231A shall be 0.3 % of the cash amount withdrawn earlier it was 0.2%.

**54. Purchase of Motor Cars**

The rate of payment of tax under section 231B shall be as follows:-

| Engine Capacity  | Amount of Final Tax |
|------------------|---------------------|
| Upto 850cc       | Rs.10,000           |
| 851cc to 1000cc  | Rs.14,000           |
| 1001cc to 1300cc | Rs.22,500           |
| 1301cc to 1600cc | Rs.30,000           |
| 1601cc to 1800cc | Rs.35,000           |
| 1801cc to 2000cc | Rs.40,000           |
| Above 2000cc     | Rs.50,000           |

**55. WITHHOLDING CHART**

| Type of Payment  | Rate %   |           | Whether under final tax regime   |
|--|----------|-----------|--|
|  | Existing | Proposed  |  |
| <b>Collection of tax at imports</b><br>- Value of goods inclusive of customs duty and sales tax  | 5        | 2         | Yes, except in case of industrial undertaking importing goods as raw materials, plant and machinery and equipment for its own use. |
| <b>Profit on debt</b><br>- Yield on a National Savings Deposit Certificate including a Defence Savings Certificate under the National Savings Scheme   | 10       | No change | Yes  |
| - Profit on a debt, being an account or deposit maintained with a banking company or a financial institution;  | 10       | No change | Yes  |
| - Profit on any bond, certificate, debenture, security or instrument of any kind (excluding loan agreement between a borrower and a banking company or a development finance institution) issued by a banking company, a financial institution, company as defined in the Companies Ordinance, 1984 and a body corporate formed by or under any law for the time being in force, to any person other than a financial institution. | 10       | No change | Yes  |
| - Profit on any security issued by the Federal Government, a Provincial government or a local authority to any person other than a financial institution   | 10       | No change | No   |

|  |                              |                                   |     |
|--|------------------------------|-----------------------------------|-----|
| <b>Goods and services</b>  |                              |                                   |     |
| - Sale of rice, cotton seed or edible oils   | 1.5                          | No change                         | Yes |
| - Sale of any other goods  | 3.5                          |                                   | Yes |
| - For passenger transport services   | 2                            |                                   | Yes |
| - For other services   | 6                            |                                   | Yes |
| - Execution of a contract  | 6                            |                                   | Yes |
| <b>CNG Station</b>   | 6                            | No change                         | Yes |
| <b>Exports</b>   |                              |                                   |     |
| - Export proceeds  | 1 % of<br>Export<br>proceeds | No change                         | Yes |
| - Proceeds from sale of goods to an exporter under an inland back-to-back letter of credit or any other arrangement            |                              |                                   | Yes |
| - Export of goods by an industrial undertaking located in an Export Processing Zone  |                              |                                   | Yes |
| <b>Income from property</b>  |                              |                                   |     |
| Annual rent of immovable property including rent of furniture and fixtures and amounts for services relating to such property. | 5                            | As described in Para 37 and 44    | Yes |
| <b>Prizes and winnings</b>   |                              |                                   |     |
| - Amount of prize bond winning   | 10                           | No change                         | Yes |
| - Amount of raffle/lottery winning, cross-word puzzle or prize on winning a quiz offered by companies for promotion of sales   | 20                           | No change                         | Yes |
| <b>Telephone users</b>   |                              |                                   |     |
| Telephone subscriber (other than mobile phone)   | Various                      | 10 % of Amount exceeding Rs.1,000 | No  |
| - Amount of bill of mobile telephone or sale price of prepaid telephone card   | 10                           | No change                         | No  |
| <b>Cash withdrawal</b>   |                              |                                   |     |
| Amount exceeding Rs.25,000/-   | 0.2 of the amount withdrawn  | 0.3 of the amount withdrawn       | No  |
| <b>Commission or discount allowed on sale of petroleum products by a petrol pump operator</b>                                  |                              |                                   |     |
| Amount of commission or discount   | 10                           | No change                         | Yes |
| <b>Commission income of indenting commission agents, advertising agents and yarn agents</b>                                    |                              |                                   |     |
| Amount of payment  | 10                           | No change                         | Yes |
| <b>Commission income of others</b>   |                              |                                   |     |
| Amount of payment  | 10                           | No change                         | Yes |

|  |                             |           |             |
|--|-----------------------------|-----------|-------------|
| <b>Collection of tax by stock exchange</b> |                             |           |             |
| Purchase of shares                         | 0.01 of purchase value      | No change | Minimum tax |
| Sale of shares                             | 0.01 of sale value          | No change | Minimum tax |
| Trading of shares                          | 0.01 of traded value        | No change | Minimum tax |
| Financing of COT                           | 10 of the carry over charge | No change | No          |

**THE SECOND SCHEDULE**

**PART I, EXEMPTIONS FROM TOTAL INCOME**

**56. Clauses proposed to be deleted**

| Clause No. | Description  |
|------------|--|
| 2          | Salary of health professionals at Shaukat Khanum Memorial Hospital   |
| 6          | Non-resident employees of British Council  |
| 21         | Annuity issued by State Life Insurance Corporation or Life Insurance companies   |
| (57)(3)(x) | Exemption to receipt from voluntary pension system   |
| 62         | Donation to Liaquat National Hospital  |
| 63A        | Donation to the President's Relief Fund for Earthquake Victims 2005  |
| 63B        | Donation for 2nd session of the World Islamic Economic Forum, 2006   |
| 72(3)      | Profit on debt on a registered foreign industrial loan   |
| 77         | Profit to non-residents under Islamic mode o financing   |
| 98         | Only Income of Pakistan Cricket Board exemption withdrawn  |
| 82         | Profit on Special US Dollar Bonds issued under the Special US Dollar Bonds Rules, 1998   |
| 83         | Profit on debt from Pak rupee accounts or certificates of deposit created by conversion of a foreign currency account or deposit held on 28 May 1998 with a bank authorized under the Foreign Currency Accounts Scheme of SBP. |
| 132A       | Payments for the supply of plant, equipment and machinery to Hub Power Company Limited by a non-resident   |
| 133A       | Income derived by an individual from transfer of his membership rights or shares of a stock exchange in Pakistan along with a room in the Stock Exchange to a company between 01 July 2005 and 30 June 2008                    |
| 138        | Income arising to the purchaser of Kot Addu Power Station from owning and operating the power station  |

**57. Receipts from superannuation funds  
Clause (25)**

The Bill seeks to correct the clause 25 as existing clause contains duplicate provisions allowing exemption from tax to payments on account of gratuity payments which is already covered under Clause 13

**58. Deduction on account of donation to certain institutions  
Clause (61)**

Under the existing clause, donations paid to certain specified institutions are available as an allowable deduction in accordance with the following limits:

- a) in the case of an individual or association of persons, thirty percent of the taxable income of the person for the year; and
- b) in the case of a company, fifteen percent of the taxable income of the person for the year. The Bill seeks to limit the deduction in both the above cases to 10% of the taxable income for the year.

**59. Pension  
Clause (66)**

Following exemptions are extended to:

- a) Pension of a former President of Pakistan and his widow under the President Pension Act, 1974.
- b) State Bank of Pakistan and State Bank of Pakistan Banking Services Corporation.

**60. Exemption to inter-corporate dividend  
Clause (103A)**

The Bill seeks to extend the exemption to dividends received by companies forming groups who are entitled to "Group Relief" under Section 59B of the Ordinance.

**61. Exemption to Capital gain extended  
Clause (110)**

Exemption available to capital gain is proposed to be extended till 30<sup>th</sup> June 2010 without any change in the withholding tax and CVT regime.

**PART II**

**REDUCTION IN TAX RATES**

**62. Clauses proposed to be deleted**

| Clause No.      | Description   |
|-----------------|---|
| 6               | Profit on Special US Dollar Bonds purchased out of any incremental deposits made in the existing foreign currency accounts on or after 16 December 1999, or out of new accounts opened on or after the said date, liable to deduction of tax under section 151(1) (c) @ 10% |
| 9, 13, 13A, 13B | These clauses specify reduced rate of 1% for tax collection under section 148 of the Ordinance at the import stage  |

|           |  |
|-----------|--|
| 13G       | Reduced rate of tax collection under section 148 of 1% proposed to be withdrawn in respect of capital goods, cement, coal, sugar and condemned ships for the purpose of breaking |
| 13H       | Reduced rate of 2% under section 148 for certain specified items   |
| 14 and 15 | Reduced rate of 0.75% under section 154 on account of exports of specified items   |
| 16        | Reduced rate of tax on dividend to a non-resident company at 7.5%  |

**63. Income of Fauji Foundation and Army Welfare Trust  
Clause (10)**

The Bill seeks to withdraw the availability of reduced rate of tax to such institutions which was 20% on taxable income from business.

**64. Purchase of locally produced edible oil  
Clause (13C)**

The rate of income tax on purchase of locally produced edible oil is provided @ 2% of the purchase price earlier it was 1%.

**65. Sale of rice to Utility Stores Corporation by Rice Exporters Association of Pakistan  
Clause (13H)**

Rice Exporters Association of Pakistan is proposed to be allowed the facility of reduced withholding tax rate of 1% in respect of amounts payable for supply of rice to Utility Stores Corporation.

**PART III**

**REDUCTION IN TAX LIABILITY**

**66. Reduction in the rate of turnover tax for cigarette distributors  
Clause (3)**

The reduction of minimum tax by 80% is also proposed to be deleted in line with deletion of section 113.

**67. Yield of Bahbood Savings Certificates or Pensioners Benefit Account  
Clause (5)**

The tax payable under clause (a) of sub-section (1) of section 151, in respect of any amount paid as yield or profit on investment in Bahbood Savings Certificate or Pensioners Benefit Account shall not exceed 10% of such profit.

**PART IV**

**EXEMPTION FROM SPECIFIC PROVISIONS**

**68. Clauses proposed to be deleted**

| Clause No. | Description of Clause  |
|------------|--|
| 3A         | Benefit derived by way of waiver of profit on debt or the debt itself under the State Bank of Pakistan, BPD Circular No.29 of 2002 dated 15 October 2002 to the extent not set off against the losses under Part VIII of Chapter III of the Ordinance  |
| 11         | Minimum tax on certain specified persons   |
| 16         | Minimum tax on Aga Khan Development Network  |
| 19         | Minimum tax on non residents in respect of their receipts from Pak rupees denominated Government and corporate securities and listed redeemable capital, listed on a registered stock exchange, where the investments are made exclusively from foreign exchange remitted into Pakistan through a Special Convertible Rupee Account maintained with a bank in Pakistan |
| 36         | Withholding provisions of Section 151(1) (c) to any amount paid as interest or profit on Special US Dollar Bonds issued under the Special US Dollar Bonds Rules, 1998  |
| 41A        | Option to manufacturers to elect for final tax regime  |
| 42A        | Withholding tax for supply of relief goods to earth quake victims  |
| 43A        | Imports of petroleum products by certain persons including permanent establishments (PEs) of Exploration and Production (E&P) companies from application of withholding tax at import stage under Section 148  |
| 56         | Exemption from tax collection under Section 148 in respect of specified items, however, such exemption is proposed to be applicable to the import to goods classified under Pakistan Customs Tariff falling under Chapters 27, 52.01, 86 and 93  |
| 57         | Exemption from inter alia, minimum tax under section 113 to Trading Houses   |
| 58         | Applicability of Section 205 to telecom companies  |

**69. Income of Manufacturers of Iron and Steel products to be taxed under normal tax regime Clause (46A)**

The tax withheld from sale of such goods under Section 153 of the Ordinance would now be considered as advance tax.

**70. Exemption from applicability of withholding tax provisions of Section 235 to certain industries.**

Clause (66)

- a) carpets;
- b) leather and articles thereof including artificial leather footwear;
- c) surgical goods;

- d) sports goods; and
- e) textile and articles thereof

**THIRD SCHEDULE**

**71. First year allowance**

The bill seeks to propose a rate of 90% for first year allowance in respect of eligible depreciable assets.

## SALES TAX ACT 1990, SIGNIFICANT AMENDMENTS

### 1. **Arrear** **Sec. 2(2A)**

The Finance Bill seeks to substitute the meaning of expression "Arrear", whereby in relation to a person, the Sales Tax due and payable under the Act and not paid on the due date shall constitute arrear on the next day.

Under the earlier definition, assessment, adjudication and demand of sales tax under the Act was pre-requisite to constitute arrears.

The effect of substitution of definition is that the recovery measures for arrears of sales tax u/s 48 read with rules framed there under could be initiated irrespective of assessment, adjudication or demand of sales tax under the Act on the day following the due date.

### 2. **Associates (Associated person)** **Sec. 2(3)**

The Finance bill seeks to substitute the meaning of 'Associated person' whereby a comprehensive meaning has been assigned and its scope has been enlarged in line with the other fiscal and corporate statutes.

Associates (Associated person) means;

- (i) subject to sub-clause (ii), where two persons associate and the relationship between the two is such that one may reasonably be expected to act in accordance with the intentions of the other, or both persons may reasonably be expected to act in accordance with the intentions of a third person;
- (ii) two persons shall not be associates solely by reason of the fact that one person is an employee of the other or both persons are employees of a third person;
- (iii) without limiting the generality of sub-clause (i) and subject to sub-clause (iv), the following shall be treated as associates, namely: –
  - (a) an individual and a relative of the individual;
  - (b) members of an association of persons;
  - (c) a member of an association of persons and the association, where the member, either alone or together with an associate or associates under another application of this section, controls fifty per cent or more of the rights to income or capital of the association;
  - (d) a trust and any person who benefits or may benefit under the trust;
  - (e) a shareholder in a company and the company, where the shareholder, either alone or together with an associate or associates under another application of this section, controls either directly or through one or more interposed persons –
    - i. fifty per cent or more of the voting power in the company;
    - ii. fifty per cent or more of the rights to dividends; or
    - iii. fifty per cent or more of the rights to capital; and
  - (f) two companies, where a person, either alone or together with an associate or associates under another application of this section, controls either directly or through one or more interposed persons –

- i. fifty per cent or more of the voting power in both companies;
- ii. fifty per cent or more of the rights to dividends in both companies; or
- iii. fifty per cent or more of the rights to capital in both companies.
- iv. Two persons shall not be associates under clause (a) or (b) of sub-clause (iii) where the Collector is satisfied that neither person may reasonably be expected to act in accordance with the intentions of the other.
- v. In this clause, "relative" in relation to an individual, means –
  - (a) an ancestor, a descendant of any of the grandparents, or an adopted child, of the individual, or of a spouse of the individual; or
  - (b) a spouse of the individual or of any person specified in clause (a).";

This definition is essential to protect and safeguard the revenue of the State and to value the supply transactions between the associates.

**3. Association of Persons  
Sec. 2(3A)**

The Finance bill seeks to insert a new sub section 3A in section 2 where the expression "Association of persons" has been defined to include a firm, any artificial juridical person and any body of persons formed under a foreign law, but does not include a company.

All the entities other than company and individual fall within this definition.

**4. Board  
Sec. 2(4)**

The Finance bill seeks to substitute the definition of "Board" to harmonize with the Federal Board of Revenue Act, 2007 and Repealed Central Board of Revenue Act, 1924.

**5. Company  
Sec. 2(5AA)**

The Finance bill seeks to define the expression "Company" in line with the definition given in the Income tax Ordinance, 2001.

Whereby "Company" means-

- (a) a company as defined in the Companies Ordinance, 1984 (XL VII of 1984);
- (b) a body corporate formed by or under any law in force in Pakistan;
- (c) a modaraba;
- (d) a body incorporated by or under the law of a country outside Pakistan relating to incorporation of companies;
- (e) a trust, a co-operative society or a finance society or any other society established or constituted by or under any law for the time being in force; or
- (f) a foreign association, whether incorporated or not, which the Board has, by general or special order, declared to be a company for the purposes of the Income Tax Ordinance 2001 (XLIX of 2001);

**6. Default Surcharge  
Sec. 2(6B)**

The Finance bill seeks to substitute and redefine the term "Default surcharge" by shifting the meaning from payability to chargeability.

Under the proposed definition "Default surcharge" means default surcharge **levied** u/s 34 whereas under the old definition the default surcharge was to mean surcharge **payable** by the defaulter u/s 34 of the Act.

**7. Due Date  
Sec.2(9)**

The Finance bill seeks to withdraw the power vested with Federal Govt. to determine the due date through notification in official gazette and conferred upon the Board.

**8. Firm  
Sec.2(11A)**

The Finance bill seeks to insert a new sub section 11A of section 2 whereby the expression "Firm" been defined as the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

The definition is in align with the Partnership Act, 1932.

**9. Importer  
Sec. 2(13)**

The Finance bill seeks to amend sub section 13 of section 2 of the Act whereby, the scope of "importer" has been enlarged.

Under the existing definition the term importer means any person who lawfully imports any goods into Pakistan whereas, under the proposed definition the word "lawfully" has been omitted meaning thereby that the person importing goods lawfully as well as unlawfully into Pakistan shall fall within the meaning of term "importer".

**10. Input  
Sec. 2(14)**

The Finance bill seeks to substitute the sub section 14 of section 2 whereby the term "input" has been redefined, comprehended, consolidated, easy understandable and rationalize.

"Input tax", in relation to a registered person, means-

- (a) tax levied under this Act on supply of goods to the person;
- (b) tax levied under this Act on the import of goods by the person;
- (c) in relation to goods or services acquired by the person, tax levied under the Federal Excise Act, 2005 in sales tax mode as a duty of excise on the manufacture or production of the goods, or the rendering or providing of the services; and
- (d) Provincial sales tax levied on services rendered or provided to the person;

**11. Output**  
**Sec. 2(20)**

The Finance bill seeks to substitute the sub section 20 of section 2 whereby the term “output” has been redefined, comprehended, consolidated, easy understandable, rationalize and harmonize with the new substituted input definition.

“Output tax”, in relation to a registered person, means-

- (a) tax levied under this Act on a supply of goods, made by the person;
- (b) tax levied under the Federal Excise Act, 2005 in sales tax mode as a duty of excise on the manufacture or production of the goods, or the rendering or providing of the services, by the person;
- (c) Provincial sales tax levied on services rendered or provided by the person;”

**12. Person**  
**Sec. 2(21)**

The Finance bill seeks to substitute sub section 21 of section 2 whereby the term “person” has been redefined and scope is enlarged and definition seems to be in consonance with the person defined in Income tax ordinance, 2001.

“ Person” means,—

- (a) an individual;
- (b) a company or association of persons incorporated, formed, organized or established in Pakistan or elsewhere;
- (c) the Federal Government;
- (d) a Provincial Government;
- (e) a local authority in Pakistan; or
- (f) a foreign government, a political subdivision of a foreign government, or public international organization;”;

**13. Provincial Sales Tax**  
**Sec. 2(22A)**

The Finance bill seeks to add a new sub section 22A in section 2 whereby the expression

“Provincial sales tax” has been defined under:

- (a) the Balochistan Sales Tax Ordinance, 2000 (I of 2000);
- (b) Islamabad Capital Territory (Tax on Services) Ordinance, 2001 (XLII of 2001);
- (c) the Punjab Sales Tax Ordinance , 2000 (Pb. Ord. II of 2000);
- (d) the North West Frontier Province Sales Tax Ordinance, 2000 (III of 2000); and
- (e) the Sindh Sales Tax Ordinance, 2000 (VIII of 2000).

**14. Retail Tax**  
**Sec. 2(28A), 3AA, 26A, 32A**

The Finance bill seeks to omit sub section 28A of section 2 being redundant as the section 3AA, 26A, 32A and related sales tax rules have been abolished and retailer is governed under Special Procedure Rules.

**15. Sales Tax**  
**Sec. 2(29A)**

The Finance bill seeks to insert new sub section (29A) of section 2 of the Act, whereby the expression "sales tax" means

- (a) the tax, additional tax, or default surcharge levied under this Act;
- (b) a fine, penalty or fee imposed or charged under this Act; and
- (c) any other sum payable under the provisions of this Act or the rules made thereunder;"

**16. Supply**  
**Sec. 2(33)**

The Finance Bill seeks to substitute sub section 33 of section 2 of the Act, whereby the term "supply" has been redefined as sales, or other transfer of right to dispose of goods as owner including such sale or transfer under a hire purchase agreement.

The proposed definition is in consonance with constitutional mandate and entry and also in line with the ordinary meaning considered in business, trade and accounting practices.

Supply constitutes an integral part for levy and charge of sales tax under section 3 of the Act and due to substitution of definition, the scope of charge of sales tax has been restricted to the extent of sale of goods where the right of ownership has been transferred against consideration including the hire purchase transactions. In other words, passing of property in the goods to the buyers at present or in future is integral condition to constitute supply and for levy and charge of valid and lawful sales tax. Therefore, self consumption, putting to business or non business use of goods, drawing by the proprietor, bailment of goods, pledge, mortgage, lease etc. excluded from the purview of supply.

Whereas, before amendment self consumption or putting to private, business or non business use of goods, auction, disposal of goods to satisfy debt or possession of taxable goods before a person cease to be a registered person were included in the definition of supply.

However, the Federal Govt. has been empowered to specify such other transactions which shall or shall not constitute supply through notification in the official gazette. It is cardinal principle of law that delegated authority cannot go beyond the meaning and scope given in the parent statute, therefore, the Federal Govt. shall exercise the power of classifying the transaction whether it is a supply or not keeping in view the meaning and connotation assigned in the earlier part of this section i.e, transfer of right of reward and risk associated with the ownership of goods to the buyer is the precedent condition to constitute supply.

**17. Tax**  
**Sec. 2(34)**

The Bill seeks to substitute and redefine the expression "tax" as sales tax unless the context require otherwise.

**18. Taxable Activity  
Sec. 2(35)**

The Bill seeks to substitute sub-section 35 of section 2 whereby the expression "taxable activity" has been redefined keeping in view the new definition of "supply" and it has been confined to economic activity and the private, personal and non business activity has been excluded from the ambit of taxable activity.

The new definition is very comprehensive and in consonance with trade and accounting practices and removes the ambiguity and doubts of the old definition

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"Taxable activity", means any economic activity carried on by a person whether or not for profit, and includes-

- (a) an activity carried on in the form of a business, trade or manufacture;
- (b) an activity that involves the supply of goods, the rendering or providing of services or both to another person;
- (c) a one-off adventure or concern in the nature of a trade; and
- (d) anything done or undertaken during the commencement or termination of the economic activity,

but does not include-

- (a) the activities of an employee providing services in that capacity to an employer;
- (b) an activity carried on by an individual as a private recreational pursuit or hobby; and
- (c) an activity carried on by a person other than an individual which, if carried on by an individual, would fall within clause (b).";

**19. Time of Supply.  
Sec. 2(44)**

The Bill seeks to substitute sub-section 44 of section 2 whereby the term "time of supply" has been redefined with few alterations and additions and in consonance with the new definition of "supply" and in relation to rendering of services.

"Time of supply," in relation to,-

- (a) a supply of goods, other than under hire purchase agreement, means the time at which the goods are delivered or made available to the recipient of the supply;
- (b) a supply of goods under a hire purchase agreement, means the time at which the agreement is entered into; and
- (c) services, means the time at which the services are rendered or provided;";

**20. Trust  
Sec. 2(44A)**

The Bill seeks to insert sub-section 44A of section 2 whereby the term "trust" has been defined as an obligation annexed to the ownership of property and arising out of the confidence reposed in and accepted by the owner, or declared and accepted by the owner for the benefit of another, or of another and the owner, and includes a unit trust.

**21. Unit Trust  
Sec. 2(44AA)**

The Bill seeks to insert sub-section 44AA of section 2 whereby the term "unit trust" has been defined as any trust under which beneficial interests are divided into units such that the entitlements of the beneficiaries to income or capital are determined by the number of units held.

**22. Wholesaler  
Sec. 2(47)**

The Bill seeks to amend sub section 47 of section 2 by omitting the phrase "and" from the definition of Wholesaler. The omission is to harmonize with the definition of retailer and remove the overlapping between the definition of wholesaler and retailer.

**23. Scope of Tax  
Sec. 3**

The Bill seeks to increase the sales tax rate from 15% to 16%.

The proposed amendment is a revenue measure and will increase the quantum of revenue of exchequer and will support in achieving their revenue targets.

The proposed increase will affect the liquidity of the importers, manufactures, retailers and wholesalers and ultimately the burden will be shifted on the shoulders of the consumers. The proposed amendment will increase the prices of the relevant goods and ultimately will add to inflation in the country.

The bill also seeks to abolish redundant sub section 4 of section 3 regarding power of Federal Govt. to levy and collect withholding tax on textile and other goods.

**24. Determination of Tax Liability  
Sec. 7**

The Bill seeks to substitute the proviso to sub section 1 of section 7 whereby the registered person is permitted to claim input tax, not claimed in the relevant monthly return, in any of the 6 succeeding tax periods.

Under the existing proviso, non claimed input tax was allowed to be claimed through revised sales tax return by specifying reason of such delayed claim in 12 preceding tax periods or it was allowed to be claimed in the normal return of next succeeding tax period only.

Now the option of claim of input tax through revised return in the relevant month in 12 preceding tax periods has been abolished. However, claim of such input in succeeding periods has been enhanced from 1 month to 6 months. The condition of showing reason for delayed claim of input tax has also been extinguished.

**25. Tax Credit Not Allowed  
Sec. 8**

The Bill seeks to extend the scope of section 8 to services in addition to the goods regarding disallowing input tax if the stipulated conditions are not fulfilled in sub section 1(a), (b) and (ca).

**26. Adjustable Input Tax**  
**Sec. 8B**

The Bill seeks to remove the bar of start of production of new unit for claim of input tax on the acquisition of fixed assets in twelve equal monthly installments. The amendment is also to extend the benefit of claim of input tax on the purchase and installation of additional service machinery, equipments and fixed assets which itself does not constitute new unit and cannot start production independently.

**27. Refund of Input Tax**  
**Sec. 10**

The Bill seeks to substitute first proviso to sub section 1 of section 10 whereby the excess input tax against supply other than zero rated or export has been allowed/ permitted to be carried forward to the next tax period and shall be treated as input of that tax period. Such excess input tax shall also be refunded in accordance with the conditions and restrictions and in the manner and procedure as notified by the FBR in the official gazette.

**28. Assessment of Tax**  
**Sec. 11**

The Bill seeks to alter sub section 4 of section 11 whereby, time limit of 5 year has been fixed to issue show cause notice to the person for invoking section 11 of the Act.

The period of 90 days specified for passing of orders from the date of issuance of show cause notice has been extended to 120 days. In addition to this, the power of the Collector to extend this period by further 90 days has been enhanced to 120 days subject to passing order and recording reason in writing.

The limitation period is a matter of procedure and the procedural law, if it does not affect the right of the subject or create a new liability or attach new disqualification, would apply retrospectively and also to pending cases. However, the extension of limitation period cannot revive the expired cases.

**29. Exemption**  
**Sec. 13**

The Bill seeks to amend sub section 2 (a) of section 13 whereby the power of Federal Govt. to grant exemption has been extended to import as well earlier it was available to taxable supplies of any goods or classes of goods.

**30. Access to Record, Documents, Etc.**  
**Sec. 25**

The Bill seeks to insert second proviso to sub section 2 of section 25 whereby, the sales tax officer is authorized to re audit the record of registered person if the same had been audited earlier by the office of the Auditor General of Pakistan (AGP) and the bar of audit once in a year has been lifted in case of audit conducted by AGP.

**31. Return**  
**Sec. 26**

The Bill seeks to extend the period for revision of return form 90 days to 120 days under sub section 3 of section 26.

**32. Appointment of Officer  
Sec. 30**

The Bill seeks to add a new clause "f" in section 30 whereby Senior Auditor of Sales Tax has been added in the list of sales tax officers.

**33. Penalty  
Sec. 33**

The Bill seeks to abolish entry 20 of section 33 whereby penalty of Rs. 25,000/- relating to non furnishing of summary of sales and purchase invoices under section 26(5) and notification was leviable.

**34. Default Surcharge  
Sec. 34**

The Bill seeks to amend sub section 1(a) of section 34 whereby; uniform default rate of 1.5% per month has been substituted instead of 1% per month for first six months and 1.5% per month for succeeding period and consequently sub section 1(b) is omitted.

**35. Recovery of Tax Not Levied or Short Levied or Erroneously Refunded  
Sec. 36**

The Bill seeks to alter proviso to sub section 3 of section 36 whereby, the period of 90 days specified for passing of orders from the date of issuance of show cause notice has been extended to 120 days. In addition to this, the power of the Collector to extend this period by further 90 days has been enhanced to 120 days subject to passing of order and recording reason in writing.

The limitation period is a matter of procedure and the procedural law, if it not does not affect the right of the subject or create a new liability or attach new disqualification, would apply retrospectively and also to pending cases. However, the extension of limitation period cannot revive the expired cases.

**36. Power of Board and Collector to Call for Record  
Sec. 45A**

The Bill seeks to amend sub section 2 of section 45A whereby the bar of sub section 2 of section 45A is also extended to the revisional proceedings to be exercised by the Collector under sub section 4 of section 45A. In case the appeal is pending under section 45B before the Collector of Sales Tax Appeals or section 46 before the Appellate Tribunal the board or the Collector is bared to exercise revisional powers under this section.

**37. Appeals to Appellate Tribunal  
Sec. 46**

The Bill seeks to substitute sub section 1 of section 46 whereby, the order passed by the Collector of Sales tax through adjudication or under any other provision under the Act or rules framed there under were made appealable.

The period of 6 months specified in sub section 7 of section 46 for passing order of Appellate Tribunal from the date of filing of appeal has been extended to 8 months.

The pecuniary power of Chairman or any member of Tribunal authorized by the Chairman sitting singly to dispose of the case involving tax limit of Rs. 1,500,000/- has been increase to Rs. 10,000,000/- and the ceiling of fine or penalty case up to Rs. 1,500,000/- has also been extended to Rs. 10,000,000/-.

**38. Alternative Dispute Resolution  
Sec. 47A**

The Finance bill seeks The Bill seeks to insert new sub section 4A in section 47A whereby overriding power are conferred upon the Chairman to rectify any order or decision passed on the recommendation of ADR. The aggrieved person is required to file application for redressal of his grievances.

This power could be exercised subject to reason recorded in writing and on being satisfied that there is an error in the impugned order or decision.

The Chairman may pass such an order which is just and equitable as he deems fit.

This amendment is in line with amended made in section 38 of the Federal Excise Act, 2005 and Customs Act, 1969.

**39. Power to make Rules  
Sec. 50**

The Bill seeks to insert sub section 2 of section 50 whereby the Board is empowered to collect, arrange and publish at any appropriate intervals all the rules framed under this section or any other provision of the Act along with the general orders, department instructions and rulings etc., and also empowered to sell these to public at reasonable prices.

**40. Representatives  
Sec. 58A**

The Bill seeks to insert section 58A where the term "Representative" has been defined and list of representatives provided. The proposed amendment is in para-materia and identical to section 172 of the Income Tax ordinance, 2001.

Representatives.– (1) For the purpose of this Act and subject to sub-sections (2) and (3), "representative" in respect of a registered person, means –

- (a) where the person is an individual under a legal disability, the guardian or manager who receives or is entitled to receive income on behalf, or for the benefit of the individual;
- (b) where the person is a company (other than a trust, a Provincial Government, or local authority in Pakistan), a director or a manager or secretary or agent or accountant or any similar officer of the company;
- (c) where the person is a trust declared by a duly executed instrument in writing whether testamentary or otherwise, any trustee of the trust;
- (d) where the person is a Provincial Government, or local authority in Pakistan, any individual responsible for accounting for the receipt and payment of money or funds on behalf of the Provincial Government or local authority;
- (e) where the person is an association of persons, a director or a manager or secretary or agent or accountant or any similar officer of the association or, in the case of a firm, any partner in the firm;
- (f) where the person is the Federal Government, any individual responsible for accounting for the receipt and payment of moneys or funds on behalf of the Federal Government; or

- (g) where the person is a public international organization, or a foreign government or political sub-division of a foreign government, any individual responsible for accounting for the receipt and payment of moneys or funds in Pakistan on behalf of the organization, government, or political sub-division of the government.
- (2) Where the Court of Wards, the Administrator General, the Official Trustee, or any receiver or manager appointed by, or under, any order of a Court receives or is entitled to receive income on behalf, or for the benefit of any person, such Court of Wards, Administrator General, Official Trustee, receiver, or manager shall be the representative of the person for the purposes of this Act.
- (3) Subject to sub-section (4), where a person is a non-resident person, the representative of the persons for the purpose of this Act for a tax year shall be any person in Pakistan:—
  - (a) who is employed by, or on behalf of, the non-resident person;
  - (b) who has any business connection with the non-resident person;
  - (c) from or through whom the non-resident person is in receipt of any income, whether directly or indirectly;
  - (d) who holds, or controls the receipt or disposal of any money belonging to the non-resident person;
  - (e) who is the trustee of the non-resident person; or
  - (f) who is declared by the Collector by an order in writing to be the representative of the non-resident person.
- (4) No person shall be declared as the representative of a non-resident person unless the person has been given an opportunity by the Collector of being heard.

**41. Liability and Obligation of Representative  
Sec. 58B**

The Bill seeks to insert section 58B whereby the liability and obligation of “Representative” has been described. The proposed section is also para-materia and identical to section 173 of the Income Tax Ordinance, 2001. The proposed liabilities and obligations and related matters of representative are as under:

- (1) Every representative of a person shall be responsible for performing any duties or obligations imposed by or under this Act on the person, including the payment of tax.
- (2) Subject to section 58 and sub-section (5) of this section, any tax that, by virtue of sub-section (1), is payable by a representative of a registered person shall be recoverable from the representative only to the extent of any assets of the registered person that are in the possession or under the control of the representative.
- (3) Every representative of a registered person who pays any tax owing by the registered person shall be entitled to recover the amount so paid from the registered person or to retain the amount so paid out of any moneys of the registered person that are in the representative’s possession or under the representative’s control.
- (4) Any representative, or any person who apprehends that he may be assessed as a representative, may retain out of any money payable by him to the person on whose behalf he is liable to pay tax (hereinafter in this section referred to as the “principal”), a sum equal to his estimated liability under this Act, and in the event of disagreement between the principal and such a representative or a person as to the amount to be so retained, such representative or person may obtain from the Collector a certificate stating the amount to be so retained pending final determination of the tax liability, and the certificate so obtained shall be his authority for retaining that amount.

- (5) Every representative shall be personally liable for the payment of any tax due by the representative in a representative capacity if, while the amount remains unpaid, the representative—
- alienates, charges or disposes of any moneys received or accrued in respect of which the tax is payable; or
  - disposes of or parts with any moneys or funds belonging to the registered person that is in the possession of the representative or which comes to the representative after the tax is payable, if such tax could legally have been paid from or out of such moneys or funds.
- (6) Nothing in this section shall relieve any person from performing any duties imposed by or under this Act on the person which the representative of the person has failed to perform.

**42. Repayment of Tax to persons registered in AJ& K  
Sec. 61A**

The Bill seeks to enact section 66A in the Act, whereby the person registered in AJ&K and engaged in making zero rated supply shall be entitled to repayment of whole or part of the input tax paid on any goods acquired in or imported into Pakistan subject to conditions, limitations and restrictions imposed by the Board.

**43. Issuance of Duplicate of Sales Tax Documents  
Sec. 69**

The Bill seeks to substitute the section 69 of the Act whereby, the scope of issuance of attested duplicate of sales tax documents as available with the department or has been filed under the Act or rules framed there under has been broadened.

The registered person may obtain attested copy of such documents by applying and making a payment of Rs. 100/- (earlier Rs. 10/-) to the officer of Sales tax not below the rank of Asst. Collector.

**44. Third Schedule**

The Bill seeks to omit the following entries from the Third Schedule on which tax was levied on the basis of retail price in terms of sub clause (a) of sub section 2 of section 3 and these entries after the omission will subject to special procedure rules except energy saving lamps which has been granted exemption under new entry 41A of Sixth Schedule.

| SR.# | DESCRIPTION   | HEADING No's                     |
|------|---|----------------------------------|
| 12   | Biscuits  | 1905.3100 and 1905.3200          |
| 13   | Confectionery   | Respective sub headings of 17.04 |
| 19   | Electric bulbs including energy saving lamps and fluorescent tube lights. | 85.39                            |
| 20   | Snacks including potato chips sold in retail packing                      | 19.05 and 20.05                  |

**45. Sixth schedule  
Table 1**

The Bill seeks to make following amendments, substitutions, omissions and additions in Table 1 of the Sixth Schedule regarding exemption from levy of sales tax to supply of goods or import of goods read with section 13(1) of the Act.

| SR. NO. | DESCRIPTION  |   | HEADING No's   |
|---------|--|---|--|
|         | EXISTING   | PROPOSED  | AMENDMENTS   |
| 13.     | Edible vegetables including roots and tubers, whether fresh, frozen or otherwise preserved (e.g. in cold storage) but excluding those bottled, canned <b>or packaged.</b>  | Edible vegetables including roots and tubers, whether fresh, frozen or otherwise preserved (e.g. in cold storage) but excluding those bottled, canned;.               | No change  |
| 15.     | Edible fruits excluding imported fruits (except fruits imported from Afghanistan) whether fresh, frozen or otherwise preserved but excluding those bottled, canned <b>or packaged.</b>   | Edible fruits excluding imported fruits (except fruits imported from Afghanistan) whether fresh, frozen or otherwise preserved but excluding those bottled, canned ;. | No change  |
| 24      | Edible oils and vegetable ghee, including cooking oil, on which Federal Excise Duty is charged, levied by a registered manufacturer or importer as if it were a tax payable under section 3 of the Act.<br>Explanation: exemption of this entry shall not be available to distributor, wholesaler or retailers | No Change   | New heading 1517.1000 inserted and others remained unchanged.                |
| 32      | Newspapers, journals, periodicals, <b>etc.</b> but excluding directories   | Newspapers, journals, periodicals but excluding directories   | No Change  |
| 35      | Building blocks of cement  | Building blocks of cement including readymade mix concrete blocks   | No change  |
| 41A     | <b>New Entry</b>   | Energy saving lamps   | 8539.3910  |
| 52A     | <b>New Entry</b>   | Goods supplied to hospital run by the federal or Provincial Govt. or charitable operating hospitals of 50 beds or more  | Respective heading   |
| 59      | No Change  | No Change   | 99.24, <b>99.25</b> and <b>99.38</b>   |
| 69      | Tractors, bulldozers and combined harvesters; and CKD kits thereof imported by recognized local manufacturers as per their approved deletion programme subject to the  | No change   | 8701.9010, 8701.9020, <b>8701.9090</b> , 8429.1900 and 8433.5100 substituted |

|    |  |   |                    |
|----|--|---|--------------------|
|    | same conditions as are envisaged for the purposes of exemption under the Customs Act, 1969 (IV of 1969). |   |                    |
| 71 | <b>New Entry</b>   | Goods and services purchased by non-resident entrepreneurs and traders visiting Pakistan to participate in trade fairs and exhibitions subject to reciprocity and such conditions and restrictions as may be specified by the Board | Respective heading |

**46. Amendment in Sales Tax Rules, 2006.**  
***SRO 530(I)/2008, 11-06-2008***

Significant amendments of Sales Tax Rules 2006 have been made as under:

- a. Cancellation of multiple registrations
- b. New procedure and prescribed Form of filing of Sales Tax Return combined with Federal Excise Duty.
- c. Manufacturer cum exporter fulfilling certain conditions can file refund claim electronically.
- d. Procedure for processing of refund claim in LTU reenacted and refund of input be allowed within three days on filing of required documents and fulfillment of certain conditions.

**47. Sales Tax Special Procedures Rules, 2007.**  
***SRO. 525(I)/2008***

In pursuant to SRO 525(I)/ 2008 dated 11-06-2008 significant amendment has been made in Sales Tax Special Procedures Rules, 2007 which are as under:

- (a) In Chapter 1 Rule 2 dealing with definition the new expression "Stevedore" has been defined.
- (b)
  - (i) In **Chapter 3 special rules dealing with payment of sales tax by retailers** sub rule 3 and 5 has been substituted, whereby these rules shall be applied to the registered person including jewelers who make supply from retail outlet to the final consumer and such person shall be deemed to be retailer of supplies for the purpose of these rules. These rules shall not apply to the dealers of motor cycles and specified electric goods who pay sales tax under chapter 8 and 13 of these rules. Sale rate applicable to the retailer has been substituted as under.

| Sr. No. | Quarterly turnover                                    | Sales tax rate  |
|---------|---|---|
| 1       | Upto Rs. 1.25 million                                 | NIL   |
| 2       | More than Rs. 1.25 million and up to Rs. 2.50 million | 0.5% of turnover which is in excess of Rs. 1.25 million                   |
| 3       | More than Rs. 2.5 million                             | Rs. 6,250/- plus 0.75% of turnover which is in excess of Rs. 2.50 million |

- (ii) All the supplies of the retailer including exempt supplies, zero rated supplies and goods subject to retail price tax shall constitute turnover for the purpose of the above charge of tax.
  - (iii) Retailer's supply on which tax has been deducted under the Income Tax Ordinance, 2001 shall be subject to tax u/s 3 of the Act and not under these rules and such supply shall be entitled to deduction of input tax paid on the purchase of such goods. Jewelers shall be entitled to exclude the value of gold and silver used in the jewelry supplied for the determination of the value or turnover subject to the condition provided there under.
  - (iv) Retailer of mild steel products shall be subject to tax u/s 3 of the Act on a value addition of not less than Rs. 1680/- per ton.
  - (v) The retailers who have paid due amount of sales tax during the year 2007-08 shall continue to operate under this Chapter for the next two years.
- (c) **In Chapter IV dealing with collection and payment of sales tax on natural gas**, the sales tax rate collectable from CNG stations by the natural gas transmission companies has been increased from 24% to 25%. The increase in rate is due to increase in normal sales tax rate u/s 3(1) of the Act from 15% to 16% and the remaining 9% included in this rate due to value addition by the CNG stations shall remain unchanged.

The gas distribution companies may deduct input tax paid by them on purchase of natural gas as is subsequently supplied by them in Azad Jammu and Kashmir from the output tax.

- (d) **In Chapter X dealing with importers**, rules 58A, 58B, 58C, 58D and 58E has been substituted, significant substitutions are as under:
- (i) These rules shall apply to all the importers as chargeable to tax u/s 3 or under any notification.
  - (ii) In addition to the sales tax of 16%, value addition tax @ 2% shall be collected on imports at the time of collecting of import duties, except the value addition tax shall not be charged on the import by the manufacturer for in house consumption.
  - (iii) The value addition tax form part of input tax and adjustable and able to carry forward but cannot be refunded. However, the remaining amount is refundable and claim can be filed in the prescribed manner. Importer not claiming such excess paid tax as refund shall not be subject to audit except with the permission of Board.
  - (iv) Stock of commercial importer out of import on June 30, 2008 on which value addition tax has been paid is required to be disposed of before July 1, 2008, in case the actual tax is higher than the tax collected at import stage that is required to be paid in the return as arrear of tax.
  - (v) Importers are required to file monthly return earlier commercial importers were required to file quarterly returns.

(e) **In Chapter XI dealing with steel melters, re-rollers and ship breakers**

- (i) the rate of sales tax on the electricity unit has been increased from Rs. 4.75 to Rs. 6 per electricity unit consumed for the steel melter, re-rollers having single electricity meter.
- (ii) For ship breaker the rate of sales tax has been increased from Rs. 3,500/- to Rs. 4,545/- per metric tone of re-rollable scrap supplies.
- (iii) Sales tax rate for steel melter and re-roller operating on self electric generation basis on the basis of use of gas has been increased from Rs. 1,562 to Rs. 1,972/- under sub rule 1 and from Rs. 30,850/- to Rs. 38,964/- under sub rule 2.
- (iv) Under sub rule 1 of Rule 58I the rate has been changed from Rs. 4,100/- to Rs. 5,180/- and in sub rule downstream steel industry has been substituted with the word registered person and the rate has been increased from Rs. 4,717 to Rs. 5,960/-. In sub rule 3, rate has been increase from Rs. 5,460/- to Rs. 6,900/- and after sub rule 3 a new rule 3A has been inserted whereby the re-roller using the ship plates and re-rollable scrap shall issue sales tax invoice showing sales tax of Rs. 5,325/- per metric ton. Similar amendment of rate has been made in other sub rules.

(f) **In Chapter XII, dealing with special procedure for payment of tax by manufacturers of biscuits, confectionaries and snacks has been substituted with payment of sales tax by wholesale cum retail outlets.**

These rules shall apply to the chain of wholesale cum retail outlets engaged in bulk imports and supply of consumer goods on wholesale basis to the retailers and retail basis to the consumers and maintain record electronically. Sale rate and determination of tax shall be in accordance with section 3 and section 7 and 8 of the Act. They are required to file return and payment of tax and maintenance of record according to sales tax rules 2006 and section 22 and 23 of the Act. Where supply is made by them to diplomats or diplomatic mission it shall be charged at zero rate subject to the terms and conditions mentioned therein. These retailers shall not be subject to extra tax at 0.75%. These retailers are immune from the application of section 73 of the Act for receipt of money in cash against supplies made.

(g) **A new Chapter XIII has been inserted dealing with special procedure for payment of extra sales tax on the specified electric home appliances**

including, TV sets, refrigerators, freezers, air conditioners, electric ovens, micro wave ovens, washing machines, spin dryers and DVD/CD players of all types shall charge extra tax at the rate of 0.75% by the manufacturer and importer in addition to general sales tax u/s 3 at the rate of 16%. Extra sales tax so collected shall be reported in the column of other supplies and shall form part of output tax. This extra tax shall be separately mentioned in the invoice. This extra sales tax shall be charged by the registered person even they are subject to value addition sales tax at import stage. The specified electric goods on which extra tax is paid shall be exempt from sales tax on subsequent supplies including those as made by retailer. The retailer covering under Chapter II are entitled to deduct value of supply subject to extra tax for the purpose of payment of tax from the turnover under that chapter and shall pay sales tax according to the procedure of that chapter. Where a registered person other than retailer deal in specified electric goods as well as other goods on which extra tax is not chargeable he will discharge his obligation according to section 3 and shall be entitled to input tax only in respect of taxable supplies on such other goods. A registered person who is engaged exclusively in the purchase and sale of specified electric goods and purchase the same on the payment of extra sales tax shall file quarterly return as per Rule 7.

**48. Amnesty from sales tax, default surcharge and penalties to the unregistered person  
SRO. 524(I)/2007**

In pursuant to the above SRO amnesty is granted from the amount of sales tax, default surcharge and penalty payable in respect of taxable supplies made prior to June 11, 2008 to the unregistered person who was liable to be registered under the Sales tax, 1990 subject to the condition that such person apply for registration during the period from 01-06-2008 to 31-07-2008 and thereafter file sales tax

return and pay sales tax due regularly. This amnesty shall not be applicable to the registered person against whom a case of tax fraud or evasion has already been framed.

**49. Other significant SRO's**

| SRO #                   | DEALING WITH  |
|-------------------------|---|
| 529(I)/2008, 11-06-2008 | Exclusion of persons from the application of section 8B of sales tax for adjustment of input tax upto 90%. It includes, electric companies, energy sector, petroleum companies, fertilizer manufacturers, manufacturing consuming raw material subject to 18.5% or 21%, wholesaler cum retailers operating under special rules, Commercial importers subject to 2% value addition and import exceed 50% of the value of purchases in a tax period, person subject to zero rate supplies |
| 532(I)/2008, 11-06-2008 | The value of supply of locally produced coal has been fixed at Rs. 1000/- per ton earlier it was Rs. 670/- per metric ton.  |
| 535(I)/2008, 11-06-2008 | Import and supply of 24 categories of fertilizers have been exempted from levy of sales tax, to promote agricultural sector.  |
| 536(I)/2008, 11-06-2008 | Import and supply of 76 categories of pesticides have been exempted from levy of sales tax, to promote agricultural sector.   |
| 537(I)/2008, 11-06-2008 | Amending the SRO 644(I)/2007, 27-06-2007 and increasing the rate of sales tax from 20% to 21% and 17% to 18% on specified items.  |
| 538(I)/2008, 11-06-2008 | Amendment in SRO 509(I)/2007  |
| 539(I)/2008, 11-06-2008 | Granting exemption to goods imported for the purpose of manufacturing of dextrose and saline infusion giving sets.  |
| 540(I)/2008, 11-06-2008 | Amending the SRO 863(I)/2007, 24-08-2007 by adding the new entry of Acetic acid.  |
| 542(I)/2008, 11-06-2008 | Granting exemption to import and supply of cellular telephone hand held sets to the extent that the effect of sales tax shall be Rs. 500/- per set, subject to conditions mentioned therein.  |
| 543(I)/2008, 11-06-2008 | Application of sub section 2A, 3, 5AA, 6A, 8, 9A, 19 and 21 of section 2, section 50A and 52A of Sales Tax shall applicable mutatis mutandis in the like matter for the purpose of Excise duty  |
| 544(I)/2008, 11-06-2008 | Amendment of SRO.550(I)/2006 dated 05-06-2006 by adding new paragraph stating that an airline shall file return for carriage of goods by air by the day specified in sub-rule (9) of rule 41A of the Federal Excise Rules, 2005.  |
| 547(I)/2008, 11-06-2008 | Appointment of Director Generals, Collectors, Additional Collectors, Cost Accountants, Deputy Collector, Assistant Collectors, Superintendents, Senior Auditors, Deputy Superintendents, Auditors and Inspectors of Sales Tax and Federal Excise under the Sales tax Act, 1990 and Federal Excise Act, 2005 along with their areas, cases and jurisdictions.  |
| 549(I)/2008, 11-06-2008 | Supply of 7 items shall be chargeable to tax @ Zero % subject to the terms and conditions mentioned in the SRO, the goods include, goods exempt u/s 13 if exported, supply of cotton seed, oil cake and other solid residuals, different kinds of plant and machinery and equipments, compost (non chemical fertilizer) if locally produced and supplied, raw material components, parts of tractors and used in the plant and machinery which is chargeable to                         |

|                         |   |
|-------------------------|---|
|                         | tax @0%.  |
| 551(I)/2008, 11-06-2008 | Goods exempt form whole sales tax, includes import of raw material component to be used in goods manufactured for international tender, CNG kits, cylinders and valves for CNG Kits if supplied for automotive vehicles, import of raw and picked hides and skins used in the goods to be exported, machinery and equipment and material to be used in the EP Zones or for making exports, ship of specific weight, import of canola seed, import and supply of substances registered as drugs, supply of fresh liquid and dried milk, import and supply of dried milk without addition of sugar, import of oil seed meant for sowing, import and supply of pharmaceutical products, import and supply of commercial catalogues, import of Halal edible offal of bovine animals, import and supply of branded iodized salt. |

**50. Rescinded SRO's**

| Rescinded SRO's   | Rescinded by SRO #      | Subject   |
|---|-------------------------|---|
| 645(I)/2007, 27-06-2007   | 523(I)/2008 11-06-2008  | Minimum value addition on commercial import @ 2%  |
|   | 526(I)/2008 11-06-2008  | Refund of Sales Tax Rule 2006 and processing of refund claim of Large Tax payer Units Rules 2007. |
| 543(I)/2006, 05-06-2006   | 527(I)/2008 11-06-2008  |   |
| 559(I)/2006, 05-06-2006   | 528(I)/2008 11-06-2008  | Furnishing of summary of purchases and sales by specified industries being redundant.             |
| 544(I)/2006, 05-06-2006   | 531(I)/2008 11-06-2008  | Minimum value of taxable supply of locally produced coal  |
| 645(I)/ 2006, 21-06-2006  | 533(I)/2008, 11-06-2008 | Fixed value addition at 15% on import of pesticides   |
| 609(I)/ 2004, 16-07-2004  | 534(I)/2008, 11-06-2008 | Value of fertilizer fixed u/s 2(46) being redundant   |
| 541(I)/2006, 05-06-2006   | 541(I)/2008, 11-06-2008 |   |
| 410(I)/2008, 29-04-2008   | 545(I)/2008, 11-06-2008 | Federal Excise duty on air tickets rescinded  |
| 727(I)/2003 ,14-07-2003<br>556(I)/2006 ,05-062006<br>29(I)/2007 ,10-01-2007<br>993(I)/2007 01-10-2007<br>995(I)/2007 , 01-10-2007<br>996(I)/2007 , 01-10-2007<br>1069(I)/2007 01-10-2007<br>1197(I)/2007, 08-12-2007<br>66(I)/2008 , 22-01-2008<br>100(I)/2008 01-02-2008<br>220(I)/2008 04-03-2008<br>222(I)/2008 04-03-2008 | 548(I)/2008, 11-06-2008 |   |

|   |                         |  |
|---|-------------------------|--|
| 343 (I)/2002, 15-06-2002<br>515 (I)/2005, 06-06-2005<br>527(I)/2005, 06-06-2005<br>530(I)/2005, 06-06-2005<br>531(I)/2005, 06-06-2005<br>537(I)/2005, 06-06-2005<br>548(I)/2006, 05-06-2006<br>551(I)/2006, 05-06-2006<br>1204(I)/2006, 30-11-2006<br>1270(I)/2006, 27-12-2006<br>462(I)/2007, 09-06-2007 | 550(I)/2008, 11-06-2008 |  |
|---|-------------------------|--|

|  |                                |  |
|--|--------------------------------|--|
| <p>608(I)/1997 8th August, 1997;<br/>         614(I)/2000 9th February, 2000;<br/>         675(I)/2000 28th September,<br/>         2000;<br/>         714(I)/2000 30th September,<br/>         2000;<br/>         90(I)/2001 10th February, 2001;<br/>         91(I)/2001 10th February, 2001;<br/>         392(I)/2001 18th June, 2001;<br/>         395(I)/2001 18th June, 2001;<br/>         456(I)/2001 20th June, 2001;<br/>         207(I)/2002 5th April, 2002;<br/>         474(I)/2002 30th July, 2002;<br/>         555(I)/2002 23rd August, 2002;<br/>         267(I)/2003 19th March, 2003;<br/>         345(I)/2003 22nd March, 2003;<br/>         455(I)/2003 29th May, 2003;<br/>         591(I)/2003 18th June, 2003;<br/>         874(I)/2003 4th September,<br/>         2003;<br/>         875(I)/2003 4th September,<br/>         2003;<br/>         890(I)/2003 5th September,<br/>         2003;<br/>         1024(I)/2003 7th November,<br/>         2003;<br/>         16(I)/2004 9th January, 2004;<br/>         217(I)/2004 17th April, 2004<br/>         218(I)/2004 17th April, 2004;<br/>         234(I)/2004 21st April, 2004;<br/>         750(I)/2004 2nd September,<br/>         2004;<br/>         845(I)/2004 2nd October, 2004;<br/>         991(I)/2004 21st December,<br/>         2004;<br/>         993(I)/2004 20th December,<br/>         2004;<br/>         30(I)/2005 8th January, 2005;<br/>         673(I)/2005 2nd July, 2005;<br/>         1035(I)/2005 13th October,<br/>         2005;<br/>         501(I)/2006 31st May, 2006;<br/>         552(I)/2006 5th June, 2006;<br/>         758(I)/2006 24th July, 2006;<br/>         800(I)/2006 7th August, 2006;<br/>         953(I)/2006 7th September,<br/>         2006;<br/>         1205(I)/2006 30th November,<br/>         2006;<br/>         135(I)/2008 12th February,<br/>         2008;<br/>         193(I)/2008 1st March, 2008;<br/>         275(I)/2008 12th March, 2008<br/>         471(I)/2008 19th May, 2008</p> | <p>552(I)/2008, 11-06-2008</p> |  |
|--|--------------------------------|--|

## FEDERAL EXCISE ACT, 2005 SIGNIFICANT AMENDMENTS

### 1. **Duty Due** **Sec. 2(9a)**

The Finance Bill seeks to substitute the definition of "Duty due" whereby duty due means in respect of clearance made or services provided or rendered during a month and shall be paid at the time of filing of return.

Earlier the duty due was defined only with respect to clearance made during a month and was liable to be paid on the last day of that month. In the new definition the services provided or rendered has been brought within its ambit.

Time for payment of duty has been shifted from last day of the month to the time of filing of return.

### 2. **Franchise** **Sec. 2(12a)**

The Finance bill seeks to insert a new sub section 12a in section 2 whereby, expression "Franchise" has been defined as an arrangement under which the franchisee is contractually or otherwise granted any right to produce, manufacture, sell or trade in or do any other business activity in respect of goods or to provide service or to undertake any process identified with franchiser against a fee or consideration including royalty or technical fee, whether or not a trade mark, service mark, trade name, logo, brand name or any such representation or symbol, as the case may be, is involved.

Duty was imposed on the franchise at the rate of 5% through SRO 561(I)/2006 dated 15-06-2006 and special rule 43 was inserted for that purposes. In order to understand the expression the "Franchise" the definition is inserted by the Bill.

### 3. **Duty specified in First Schedule to be Levied** **Sec. 3**

The Finance bill seeks to amend sub section 1(d) of section 3 whereby, the services from abroad were brought within the duty net.

Sub section 5 of section 3 was amended whereby the recipient of services in Pakistan was held liable to pay the duty levied on the services rendered by a person outside Pakistan.

### 4. **Filing of Return and Payment of Duty** **Sec. 4**

The Finance bill seeks to extend the period of 90 days specified for filing of revised return to 120 days. This amendment is in line with the time extended for filing of revised return in section 26 of the Sales Tax Act.

Bill also seeks to add new sub section 8 of section 4 to recognize the filing of composite return prescribed for the purpose of Sales tax and duty chargeable under this Act as a valid return for the purpose of this section except where otherwise directed by the Board.

### 5. **Application of Provision of Sales tax Act, 1990** **Sec. 7(2)**

The Finance bill seeks to incorporate new sub section 2 in section 7 whereby the Federal Govt. is empowered to declare that the certain provisions of Sales Tax Act, 1990 shall be applicable in respect

of duty leviable under the Federal Excise Act, 2005. These matters include levy and exemption of Sales tax registration, book keeping, invoice requirements, returns, offences, penalties, appeal and recovery of arrears. The Federal Govt. is also empowered to make alterations and modifications in the related provisions as may be necessary and desirable to adapt them to the circumstances related to the duty. The referred power shall be exercised by the Federal Govt. through the notification in the official gazette.

**6. Default Surcharge**  
**Sec. 8**

The Finance bill seeks to substitute section 8 whereby, uniform default rate of 1.5% per month has been substituted instead of 1% per month for first six months and 1.5% per month for succeeding period prescribed earlier.

The default period shall be calculated from the date following the date on which the duty was payable to the preceding day on which the duty is actually paid. In case of inadmissible adjustment or refund of duty or drawback the period of default shall be calculated from the date of such adjustment, refund of duty or draw back is received.

Default surcharge has been extended to inadmissible refund and draw backs in line with the section 34 of the Sales tax Act, 1990.

**7. Determination of Value for the Purpose of Duty**  
**Sec.12**

The Finance bill seeks to substitute sub section 1 of section 12 whereby, the goods on which the duty was levied on the basis of their value the section 2(46) of the Sales tax Act, 1990 has been made applicable for the purpose of determination of value of such goods excluding the amount of duty payable thereon.

Under the existing provision duty was to be assessed and paid on wholesale cash price of such goods and where such price was not available, on the basis of whole sale price of the identical or similar goods. The wholesale cash price is that on which goods are capable to be sold to the general body of retail traders and if there is no such body to the general body of consumers on the day of its sale without any deduction except the amount of duty and sales tax payable thereon.

Now section 2(46) of the Sales tax Act, 1990 has been made part of the Federal Excise Act, 2005 for the purpose of determination of value of the goods which are chargeable to excise duty on the basis of their value.

**8. Recovery of unpaid duty or of erroneously refunded duty or arrears of duty etc.**  
**Sec.14**

The Bill seeks to amend sub section 1 of section 14 whereby, the non or short payment of duty or erroneous payment of refund attributable to collusion or deliberate act has been brought within its scope. The period for issuance of notice has been fixed for five years with respect to this new amendment.

Bill also seeks to make an amendment in the explanation to sub section 4 of section 14 to include drawback of duty in the folder of refund.

**9. Offences, Penalties, Fines and Allied matters**  
**Sec. 19**

The Finance bill seeks to amend sub section 1 of section 19 of the Act whereby, the penalty has been imposed at Rs. 5,000/- for non filing of return and in case of non or short payment of duty penalty has been stipulated at Rs. 10,000/- or 5% of the duty involved whichever is higher.

Earlier penalty was uniform at Rs. 10,000/- for each of the offence/ defaults i.e., non filing of return and non or short payment of duty.

Bill also seeks to insert a proviso to sub section 1 of section 19 whereby the person who failed to file the return within due date is entitled to file return within 15 days after the due date with penalty of Rs 100/- for each day of default.

Bill also seeks to amend sub section 5 of section 19 whereby the words "services" has been added along with goods to rationalize the provision and extend the penal provision for inadmissible refund in respect of services.

**10. Power of Adjudication**  
**Sec. 31**

The Finance bill seeks to enhance the period of 90 days specified for passing of orders from the date of issuance of show cause notice to 120 days. In addition to this, the power of the Federal Excise officer to extend this period by further 90 days has been enhanced to 120 days subject to reason recorded in writing of such extension.

The limitation period is a matter of procedure and the procedural law, if it does not affect the right of the subject or create a new liability or attach new disqualification, would apply retrospectively. However, the extension of limitation period cannot revive the expired cases.

**11. Appeal to the Collector (Appeals)**  
**Sec. 33**

The Finance bill seeks to amend the proviso to sub section 2 of section 33 whereby the period provided for disposal of appeal at 90 days has been extended to 120. In addition to this, the power of the Collector (Appeals) to extend this period by further 90 days has been enhanced to 120 days subject to reason recorded in writing of such extension.

**12. Power of the Board or Collector to pass certain Orders**  
**Sec. 35**

The Finance bill seeks to amend sub section 3 of section 35 whereby, the period of 2 years provided for exercise of revisioal jurisdiction by the Board or Collector has been extended to 5 years.

**13. Power to Rectify Mistake in and Order**  
**Sec. 36**

The Finance bill seeks to amend section 36 whereby the period provided for rectification at 3 years from the date of relevant order is extended to 5 years. This amendment is in align with the provision in Sales Tax Act, 1990.

**14. Alternative Dispute Resolution**  
**Sec. 38**

The Finance bill seeks The Bill seeks to insert new sub section 4A in section 38 whereby overriding power are conferred upon the Chairman to rectify any order or decision on the application furnished by

the aggrieved person for redressal of his grievances by passing just and equitable order as he deems fit.

This power could be exercised subject to reason recorded in writing and on being satisfied that there is an error in the impugned order or decision.

This amendment is in line with amended made in section 47A of the Sales tax Act, 1990 and Custom Act, 1969.

**15. Issuance of Duplicate of Federal Excise Document  
Sec. 43A**

The Bill seeks to insert a new section 43A in the Act whereby, the scope of issuance of attested duplicate of Federal Excise documents as available with the department or has been filed under the Act or rules framed there under has been broadened.

The registered person may obtain duplicate documents by applying and making payment of Rs. 100/- for each document.

**16. First Schedule  
Table 1(Excisable goods)**

The Bill seeks to make certain amendments, omissions, and additions in Table 1 of the First Schedule.

The rate of duty at 15% wherever mentioned has been substituted with 16%. The word "indigenous" against entry No. 6 has been omitted.

In case of different kinds of cement specified in entry 13 rate has been changed from Rs. 750/- per metric tonne to Rs. 900/- per metric tonne.

The following new entries of goods have been made for levy of duty in the first schedule.

| SR. NO. | DESCRIPTION  |              | Rate of Duty  |
|---------|--|--------------|---|
|         |  | HEADING No's |   |
| 9       | Locally produced cigarettes if their retail price exceeds sixteen rupees per ten cigarettes  | 24.02        | Sixty-three per cent of the retail price.   |
| 10      | Locally produced cigarettes if their retail price exceeds seven rupees and forty three paisas per ten cigarettes but does not exceed sixteen rupees per ten cigarettes                                   | 24.02        | Three rupees and seventeen paisas per ten cigarettes plus sixty-nine per cent per incremental rupee or part thereof |
| 11      | Locally produced cigarettes if their retail price does not exceed seven rupees and forty three paisas per ten cigarettes.  | 24.02        | Three rupees and seventeen paisas per ten cigarettes  |
| 49      | Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 87.02), including station wagons and racing cars of cylinder capacity exceeding 850cc | 87.03        | Five percent ad val.  |

The bill seek to place a restriction at the end of this table with respect to cigarette mentioned in entry no. 9, 10, 11 regarding levy, collection and payment of duty that no cigarette manufacturers shall reduce price from the level adopted on the day of announcement of Budget 2008-09.

**17. First Schedule**  
**Table 2 (Excisable services)**

The Bill seeks to make certain amendments and additions in Table 2 with regard to excisable services of the First Schedule.

Rate of duty with respect to advertisement on closed circuit TV (Serial # 1), advertisement on cable TV network (Serial # 2), inland carriage of goods by air (Serial # 4), shipping agent (Serial # 5) has been enhanced form 15% to 16%.

The scope of insurance services rendered by re-insurer in entry no. 7 has been restricted to the extent of direct insurance services and the rate in case of insurance services has been increased form 5% of gross premium to 10%.

In entry no. 8 relating to non fund services provided by banking companies or non banking financial companies rate of duty has been increased form 5% to 10%.

In entry no. 11 relating to franchise service rate of duty has been increased form 5% to 10%.

Scope and rate of duty with respect to facility for travel and communication services mentioned in entry no.3 and 6 has been substituted as under.

| SR. NO. | DESCRIPTION  |              | Rate of Duty  |
|---------|--|--------------|---|
|         |  | HEADING No's |   |
| 3       | <b>“Facilities for travel</b>  | <b>98.03</b> | Sixteen per cent of the charges plus rupees twenty per ticket |
|         | (a) Services provided or rendered in respect of travel by air of the passenger within the territorial jurisdiction of Pakistan         | 9803.1000    |   |
|         | (b) Services provided or rendered in respect of travel by air of the passengers embarking on international journey to or from Pakistan | 9803.1100    |   |
|         | (i) Passengers embarking to or from SAARC region, UAE (Middle East), Saudi Arabia, Africa, Afghanistan                                 |              |   |
|         | (ii) Passengers embarking to or from Europe, Far East, China, USA, Canada, Australia, South America others                             |              |   |
| 6       | Telecommunication services   | 98.12        | Twenty- one per cent off the charges                          |

**18. Third Schedule  
Exemptions, Table 1 (Goods)**

The Bill seeks to make certain curative adjustments whereby, the entry no. 3A and 3B relating to life insurance and health insurance respectively being services has been shifted to exempt service in Table 2 of Third schedule.

Bill seeks to extend the exemption confined to National Retrocarbon (Pvt.) Ltd., Pipri, Karachi to the duly registered manufacturers with respect to import of carbon black oil as a raw material for the manufacturing of carbon black. Accordingly entry no. 11 has been amended.

The bill also seeks to insert a new entry no. 16 whereby, the goods for further manufacture of goods in the Export Processing Zone under the respective heading shall be exempt.

**19. Third Schedule  
Exemptions, Table 2 (Services)**

The Bill seeks to insert the following new entries relating to exempt service in this table.

- 4 Life Insurance 9813.1500 (Shifted from Table 1)
- 5 Health insurance 9813.1600 (Shifted from Table 1)
- 6 Crop Insurance 9813.1600 (New Entry)

**20. Other significant SRO's**

| SRO #                          | SUBJECT   |
|--------------------------------|---|
| <b>544(I)/2008, 11-06-2008</b> | Amendment of SRO.550(I)/2006 dated 05-06-2006 by adding new paragraph stating that an airline shall file return for carriage of goods by air by the day specified in sub-rule (9) of rule 41A of the Federal Excise Rules, 2005.  |
| <b>S.R.O. 546(I)/2008</b>      | <b>Amendments made in the Federal Excise Rules, 2005</b> by amending Rule 2 the term challan, Collector, Collectorate and Form has been defined. In Rule 41A relating to special procedure for collection of excise duty on the service provided by the air craft operator new sub rule 11a is inserted, whereby the Collector of Federal Excise is empowered to call the copy of passenger manifest on the prescribed manner. The manner and collection of payment under Rule 41-B has been omitted and the bar of claim of input tax under Rule 41H has been lifted. In addition to this Rule 41C,41D, 41E, 41F and 41 G relating to penalty, passenger not to the board, submission of passenger manifest, refund and monthly return and record respectively have been omitted. Rule 43A dealing with duty on franchise fee the amendment according to the meaning assigned to the franchise in section 2 has been made. Sub rule 7 is also inserted whereby the bank is authorized to deduct the Federal Excise Duty on the Franchise Fee if duty is not paid by the registered person subject to certain terms and conditions specified therein. |

**21. Rescinded SRO's**

| Rescinded SRO's         | Rescinded by SRO #      | Subject                                      |
|-------------------------|-------------------------|--|
| 410(I)/2008, 29-04-2008 | 545(I)/2008, 11-06-2008 | Federal Excise duty on air tickets rescinded |

## CUSTOMS ACT, 1969 SIGNIFICANT AMENDMENTS

**1. Directorate General of Post Clearance Audit (PCA)  
Sec. 3DD**

The Finance Bill seeks to insert a new section 3DD to constitute a Directorate General of Post Clearance Audit in order to conduct Post Clearance Audit. The Directorate shall consist of Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and other officers as notified by the Board.

**2. Power to deliver certain goods with-out payment of duty and to repay duty on certain goods.-  
Sec. 21**

The Finance bill seeks to withdraw the power vested with the Board to make the payment of any amount to the importer or local buyer of any goods in order to compensate any commitment given to that person for levy of zero or any lower rate of customs duty on the import or local procurement of any goods;

**3. Cancellation of registration of registered users  
Sec. 155F**

The Finance bill seeks to add a proviso in sub section 1 to section 155F enabling the Collector of custom in exceptional circumstances to suspend the use of unique user identifier of any person on receipt of any complaint or information about violation of the provision of the Act in relation to Custom Computerized System.

**4. Punishment for offences  
Sec. 156**

The Finance bill seeks to amend entry 43 of section 156 in the table to penalize any other person in addition to the owner having custody of the specified goods at the rate specified therein.

**5. Power of Adjudication  
Sec. 179**

The Finance bill seeks to enhance the period of 90 days specified for passing of orders from the date of issuance of show cause notice to 120 days. In addition to this, the power of the Collector to extend this period by further 90 days has been enhanced to 120 days subject to reason recorded in writing.

This amendment is align with amendment made in Sales tax Act, 1990 as well as In Federal Excise Act, 2005.

The limitation period is a matter of procedure and the procedural law, if it does not affect the right of the subject or create a new liability or attach new disqualification, would apply retrospectively. However, the extension of limitation period cannot revive the expired cases.

**6. Procedure of Appellate Tribunal  
Sec. 194C**

The Finance bill seeks to enhance the pecuniary power of deciding the case by single bench of Appellate Tribunal from Rs. 5,000,000/- to Rs. 10,000,000/- provided in sub section 4 of section 194C of the Act.

**7. Alternative Dispute Resolution  
Sec. 195C**

The Finance bill seeks The Bill seeks to insert new sub section 4A in section 195C whereby overriding power are conferred upon the Chairman to rectify any order or decision passed on the recommendation of ADR. The aggrieved person is required to file application for redressal of his grievances.

This power could be exercised subject to reason recorded in writing and on being satisfied that there is an error in the impugned order or decision.

The Chairman may pass such an order which is just and equitable as he deems fit.

This amendment is in line with amended made in section 47A of the Sales tax Act, 1990 and Federal Excise Act, 2005.

**8. Significant changes in Custom Duty Rates**

- i. Duty rates on non-essential & luxury items have been increased. Hence, duty rate on dairy products, fruits, chewing gum, chocolate, processed food, fruit juices, aerated waters, ceramic products, air-conditioners/refrigerators, electric fans, toasters, micro wave ovens, televisions, furniture and lighting equipment etc increased from 25% to 35%. Duty rates on cosmetics increased from 20 -25% to 35%. Duty rate on electric ovens/ cooking ranges etc. increased from 20% to 30%.
- ii. Customs duty @ Rs. 500/ per set levied on import of mobile phone.
- iii. Customs duty on betel leaves increased from Rs.150/kg to Rs. 200/kg.
- iv. Duty rate increased on sulphonic acid from 10% to 15%.
- v. Duty rate increased on CKD/SKD of sewing machines from 5% to 20%
- vi. A uniform rate of 30% specified for import of special purpose motor vehicles.
- vii. Increase in duty rates on import of cars/jeeps above 1800cc from 90% to 100%. Fixed duty/tax rates on old and used cars/jeeps increased by 10%.

**9. Significant Custom Duty Exemption and Concessions**

- i. The local industry producing water dispensers, hooks & eyes, aluminum alloy, electric irons, mini choppers, vacuum cleaners, central heating gas boilers, mini ovens, gas heaters, gas stoves/cooking ranges with ovens, air handling equipments, central heating equipments, UPS, Chlorinated paraffin, chrysotile cement pipes, sheets & fittings and perforated steel products have been provided inputs at 0%, 5% and 10% rates of duty.
- ii. Fully dedicated CNG buses exempted of from duty.
- iii. Pharmaceutical industry given specified active ingredients, chemicals and packing materials at 5% duty.
- iv. Eighteen medicines used for cancer/heart treatment etc. exempted from customs duty.
- v. Bitumen, JP4&JP8 exempted from duty. Duty rate on base oil for lubricating oils reduced from 20% to 10%.
- vi. Rice seeds, energy saving lamps, dredgers, specified solar energy equipments exempted from customs duty.
- vii. Power plants imported by WAPDA on temporary basis exempted from customs duty.

- viii. Reduction of duty on calcium carbide from 15% to 5%, PTA from 15% TO 7.5%, PSF 6.5% to 4.5%, Caustic soda from Rs.5000/MT to Rs.4000/MT, Printing screens from 15% to 10%, nickel not alloyed from 5% to 0%, Textile buckram from 25% to 10%.
- ix. Manufacturers have been allowed to import samples duty free as per specified conditions in chapter 99 of PCT.
- x. Seized/confiscated vehicles as on 31<sup>st</sup> May, 2008 may be released against payment of leviabale duty/taxes and 30% redemption fine.
- xi. Manufacturers and particularly soap manufacturers based in AJ&K have been extended concessionary duty regime in line with SRO 565(I)/2006, as available to Pakistan based manufacturers.
- xii. Specified industries/projects have been de-linked from the local manufacturing condition for import of required machinery, equipments and raw materials etc.
- xiii. Tariff based system (TBS) for auto sector has further been improved.
- xiv. Release of held up indemnity bonds is eased out

## COMPANIES ORDINANCE, 1984 SIGNIFICANT AMENDMENTS

### 1. **Annual General Meeting** **Sec. 158**

The Finance Bill seeks to amend sub section 1 of section 158 to increase the period for holding of Annual General Meeting from 3 month to 4 month.

Bill also seek to amend sub section 4(a) to increase the minimum penalty on the listed company for non compliance of this section from Rs. 20,000/- to Rs. 50,000/- and maximum penalty from Rs. 50,000/- to Rs/ 500,000/-.

Bill also seek to amend sub section 4(b) relating to penalty on other companies to increase maximum penalty from Rs. 10,000/- to Rs. 100,000/-

### 2. **Ineligibility of certain persons to become Director** **Sec. 187**

The Finance bill seeks to amend clause (j) of section 187 to extend the bar of becoming director of the listed company to the officer of a corporate brokerage houses and clarify that clause (j) shall not apply where the company is a stock exchange by inserting the second proviso to clause (j).

### 3. **Bar on appointment of managing Agent, Sole purchase, sale agent etc.** **Sec. 206**

The Finance bill seeks to amend sub section 2 of section 206 and extend the exception of the section to the NBFC's licensed to undertake asset management services in relation to an investment company registered with the Commission and venture capital company in relation to a fund registered with the Commission by inserting new clauses (d) and (e) in sub section 2..

### 4. **Investment in Associated Company and Undertaking** **Sec. 208**

The Finance bill seeks to amend sub section 2A of section 208 empowering the Commission to make regulations with respect to investments by companies in their associated companies.

### 5. **Annual Accounts and Balance Sheet** **Sec. 233**

The Finance bill seeks to amend sub section 1 of section 233 to increase the time of lying financial statement before the Company in subsequent Annual General Meeting from 3 months to 4 months. Bill also seeks to amend sub section 4 of section 233 empowering the Commission to specify the form and manner of sending annual accounts and balance-sheet to the members.

### 6. **Period for Payment of Dividend** **Sec. 251**

The Bill seeks to amend section 251 to omit the period specified for payment of dividend by listed company in 45 days and by other company in 30 days from the date of declaration of dividend and empower the Commission to specify the time for payment of dividend.

### 7. **Consequential amendment in Sec. 282G,J,K and M**

The Finance bill seeks to make consequential amendments as a result of amendments made to section 282B in by Finance Act 2007 by inserting the word "regulation" after the word "rule".

## OTHER STATUTES SIGNIFICANT AMENDMENTS

### AMENDMENT OF PAKISTAN PENAL CODE, 1860 & CODE OF CRIMINAL PROCEDURE, 1898

**Section 489G** The Bill seeks to convert amendments promulgated through an Ordinance into an Act as the former has expired after 120 days.

### PETROLEUM PRODUCTS (DEVELOPMENT SURCHARGE) ORDINANCE, 1961

**Section 2(4C)** The Bill seeks to bring the persons engaged in the licensed activities concerning Compressed Natural Gas (CNG) and Liquefied Petroleum Gas (LPG) within the ambit of this Ordinance.

**Section 2(5)** The Bill seeks to include CNG and LPG in the definition of petroleum products

**Section 3(1A)** The Bill seeks to levy development surcharge on the licensees of CNG and LPG businesses.

### PROVINCIAL EMPLOYEES' SOCIAL SECURITY ORDINANCE, 1965

**Section 2.** At present the persons employed on wages exceeding five thousand rupees per mensem are exempted from purview of the Law. With the enhancement of Minimum Wages all workers will be out from the scheme. By this amendment employees appointed on monthly wages upto Rs. 10,000 will be included in the scheme and such employees as well as their dependents will be provided medical care and other benefits provided by the Ordinance.

**Section 20(1)** Since by increase of minimum wages to the tune of Rs. 6000, the wage limit for coverage under the social security scheme is increased from Rs. 5000 to Rs. 10,000, to give relief to the employers and reduce their cost of compliance, the contribution has been reduced from 7% to 6% of the wages.

**Section 20A (1)** To rationalize the amount of contribution with respect to the enhancement of wage limit for computation and reduction in percentage for 7% to 6%.

### PROVINCIAL EMPLOYEES' SOCIAL SECURITY ORDINANCE, 1965 (W.P. ORDINANCE NO.X OF 1965)

The Bill seeks to include all workers drawing wages upto Rs.10,000/- per month under the Social Security Ordinance.

The Bill also seeks to reduce rate of contribution from 7% to 6% under the Social Security Ordinance, 1965.

### WEST PAKISTAN INDUSTRIAL AND COMMERCIAL EMPLOYMENT (STANDING ORDERS) ORDINANCE, 1968 (W.P. ORDINANCE NO.VI OF 1968)

The Bill seeks to pay subsistence allowance equal to the wages of the workers.

### SECURITIES AND EXCHANGE ORDINANCE, 1969

**Section 2(1)(cd)** The Bill seeks to extend the scope of the definition of Commodity Futures Contracts to include transactions of contracts that are cash settled at the outset.

**Section 15A** The Bill seeks to extend the scope of definition of insider trading.

**Section 15B** The Bill seeks to broaden the definition of insider information.

**Section 15C** The Bill seeks to clarify and provide a broader view as to the persons that may be involved in the offense of insider trading.

**Section 15D** The Bill seeks to define the responsibilities of listed companies with respect to the offense of insider trading.

**Section 15E** The Bill seeks to increase the amount of penalty which the Commission may impose and debar such person from auditing listed company up to three years for contravening the provisions of the Ordinance.

**Section 15F** The Bill seeks to empower the Commission to make regulations to regulate persons who produce or disseminate research concerning listed securities.

**Section 21** The Bill seeks to extend the scope of the Commission's power in conducting enquiry especially those of insider trading.

**Section 32E** The Bill seeks to remove the difficulties faced in demutualization of the stock exchanges through rules made under the Ordinance.

#### **MINIMUM WAGES FOR UNSKILLED WORKERS ORDINANCE 1969 (W.P.ORDINANCE NO.XX OF 1969)**

The Bill seeks to enhance the minimum wages of the downtrodden workers from Rs.4600/- per month of Rs.6000/- per month.

#### **WORKERS WELFARE FUND ORDINANCE 1971 (ORDINANCE NO.XXXVI OF 1971)**

The Bill seeks to include workers of commercial and services sector in the schemes under the Workers Welfare Fund.

The Bill also seeks to eradicate the conflict between section 2(1) and section 4(1) of the law.

#### **EMPLOYEES' OLD-AGE-BENEFITS ACT, 1976 (XIV OF 1976)**

The Bill seeks to include the employees of all such establishments, which have five or more employees in the pension scheme.

The Bill also seeks to reduce rate of contribution payable by the employer from 6% to 5% under the Employees' Old-age Benefits Act, 1976.

The Bill also seeks to include employees of Banks and Banking Companies in the pension scheme under the Act.

The Bill also seeks to increase minimum pension from Rs.1500/- per month to Rs.2000/- per month.

The Bill also seeks to give 15% increase to all existing pensioners.

#### **MODARABA COMPANIES AND MODARABA (FLOATATION AND CONTROL) ORDINANCE, 1980**

**Section 18A** The Bill seeks to empower the registrar to issue direction in the public interest, etc.

**Section 41A** The Bill seeks to empower the Commission to make regulations for the purposes of this Ordinance.

**Section 41B** The Bill seeks to empower the Commission to issue directives, circulars, codes, guidelines, etc for the purposes of this Ordinance.

**AMENDMENTS IN SECTION 7 OF THE FINANCE ACT, 1989 (CVT)**

The Bill seeks to defer levy of CVT on power of attorney in the case of a bank till the said property is transferred to the bank.

The Bill also seeks to amend the existing definition of “urban area” for the purpose of CVT.

“urban area” means area falling within the limits of–

- i. the Islamabad Capital Territory;
- ii. a Cantonment Board;
- iii. the rating areas as defined under the Urban Immovable Property Act, 1958 (W.P V of 1958) as in force in Punjab, NWFP, Sindh and Balochistan except where the rate under section 117 of the respective Provincial Local Government Ordinance, 2001 is zero;
- iv. in addition to (iii) up to forty kilometres from the outer limits of the Cantonment Boards in Karachi and up to forty kilometres from the notified rated areas of Karachi City District;
- v. in addition to (iii) up to thirty kilometres from the outer limits of the Cantonment Boards in Lahore and Faisalabad and up to thirty kilometres from the notified rated areas of Lahore and Faisalabad City District;
- vi. in addition to (iii) in all cases other than Karachi, Lahore and Faisalabad up to ten kilometres from the outer limits of the Cantonment Boards and up to ten kilometres from the notified rated areas; and
- vii. such areas the Federal Board of Revenue may, from time to time, by notification in the official Gazette, specify.”.

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN ACT, 1997**

**Section 7**

(a) The Bill seeks to clarify that the term of the Commissioner is three years from the date of appointment.

(b) The Bill seeks to standardize of age limit of Chairman and Commissioners for various regulatory authorities/ agencies and commissions in Pakistan as directed by Cabinet Division.

**Section 12**

(a) The Bill seeks to bring the number of members of the Policy Board to the position as it was prior to Finance Act, 2007.

(b) Consequential amendment as stated above. Moreover, to ensure independence of the Commission Clause (ia) inserted through Finance Act 2007 is being omitted.

(c) Consequential amendment as stated above.

**Section 20(4)**

(a) The Bill seeks to empower the Commission to provide remedies to the investor for any loss inflicted by the persons involved in the brokerage business for violations of securities laws, rules, regulations, directives, codes, etc.

(b) The Bill seeks to clarify that the Commission's powers.

- (c) The creation of Panel and its periodic revision will promote more professional work and expand the number of auditors available for specialized audit work.
- (d) Consequential amendment for insertion of new sub-clause (w).
- (e) Consequential amendment for insertion of new sub-clause (w).
- (f) The Bill seeks to give the Commission the mandate for regulating pension business include Occupation Saving Schemes

**Section 32** The Bill seeks to clarify the scope of the powers of the Commission.

**Section 32A** The Bill seeks to give powers to the Commission for the effective execution of its orders. The Commission, at the moment, is facing serious problems while executing any of its orders.

**Section 33(1)(c)** The Bill seeks to clarify that Commission under various laws being administered by it, orders the proceeding in various matters that are not necessarily be initiated before the courts of laws. Therefore, restriction on the right of appeal as in the court of law should apply in this case too.

#### REPEAL OF KHUSHHALI BANK ORDINANCE, 2000

The Bill seeks to repeal the Khushhali Bank Ordinance 2000 to ensure that all Microfinance Banks including Khushhali Bank, are licensed and operate under the same legal and regulatory framework..

#### INSURANCE ORDINANCE, 2000

**Section 11(3)(a)** The Bill seeks to increase the supervision fee.

**Section 66(4)** The Bill seeks to empower the Commission to make rules for the purposes of this section.

**Section 94** The Bill seeks to ensure that only companies which wish to engage in insurance broking of direct insurance business are required to obtain licence under 2000 Ordinance.

**Section 102** Same as above.

#### LISTED COMPANIES (SUBSTANTIAL ACQUISITION OF VOTING SHARES AND TAKE-OVERS) ORDINANCE, 2002

**Section 2(1)(i)** The Bill seeks to empower the Commission to make regulations under the Ordinance.

**Section 2(1)(j)** The Bill seeks to make consequential amendments as a result of amendment in section 3.

#### **Section 3**

(a) The Bill seeks to clarify that the exemption from the Takeovers Ordinance does not extend to allotment of voting shares under section 86(7) of the Companies Ordinance, to transfer of voting shares between relatives without consideration, acquisition of voting shares by CFS Financiers acting as financiers, transfer of voting shares from sponsors of a holding company to the holding company and acquisition of voting shares by a strategic investor in a demutualised stock exchange.

(b) The Bill seeks to clarify when disclosures will be required under the Ordinance.

**Section 12** The Bill seeks to empower the Commission to decide for what quantity of voting shares will the public offer be made by an acquirer, including a strategic investor in a demutualized stock exchange.

**Section 13(5)** The Bill seeks to clarify that whether the acquirer is a local or foreign company the directors will be responsible to make the disclosures as required under the section.

**Section 15** The Bill seeks to clarify the ambiguity in the section and defines the obligations of the manager to the offer both before and after the public announcement.

**Section 26(3)** The Bill seeks to increase the amount of penalty for violation of the Ordinance or failing to furnish documents or refusing to comply with the directions of the Commission.

**Section 29A** The Bill seeks to empower the Commission to make regulations for the purposes of the Ordinance.

**Section 29B** The Bill seeks to ensure that the Commission has the power to issue directives, codes, guidelines, circulars, notifications under the Ordinance.

**With compliments from**

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