

BUDGET

PAKISTAN BUDGET CHEMISTRY 2016-17

TAXPERTS

سنة الله

{ INDEX }

HEADINGS	SECTIONS	PAGES
SALIENT FEATURES		1-9
SALES TAX COMMENTS		
COTTAGE INDUSTRY	SECTION 2(5AB)	10
DUE DATE	SECTION 2(9)	10
INPUT TAX	SECTION 2(14)(c)(d)	10
TIME AND MANNER OF PAYMENT	SECTION 6(2)	10
DETERMIANTION OF TAX LIABILTY	SECTION 7(2)(i)	11
TAX CREDIT NOT ALLOWED	SECTION 8(1)(i)	11
ASSESSMENT OF TAX AND RECOVERY	SECTION 11(4)	11
EXEMPTION	SECTION 13(2)(a)	11
RETURN	SECTION 16(2)	11
DIRECTORATE OF POST CLEARANCE AUDIT	SECTION 30DD	11
OFFENCES AND PENALTIES	SECTION 33	12
SALES OF TAXABLE ACTIVITY	SECTION 39(2)	12
SERVICES OF ORDER, DECISION, ETC	SECTION 56(b)	12
THIRD SCHEDULE		12-13
FIFTH SCHEDULE		13
SIXTH SCHEDULE		13
EIGHT SCHEDULE	TABLE 1	13-14
EIGHT SCHEDULE	TABLE 2	14
NINTH SCHEDULE		14
FEDERAL EXCISE DUTY		
DUE DATE	SECTION 2(8a)	15
DATE PAYMENT OF DUTY	SECTION 4(2)(3)	15
ADJUSTMENT OF DUTIES OF EXCISE	SECTION 6(2)	15
EXEMPTION	SECTION 16(2)	15
OFFENCES, PENALTIES, FINES	SECTION 19(13)	15
DISCLOSURE OF INFORMATION	SECTION 47B	15
FIRST SCHEDULE	TABLE 1	16
FIRST SCHEDULE	TABLE 2	16-17
SECOND SCHEDULE		17
THIRD SCHEDULE		17

SALIENT FEATURES OF THE BUDGET

Board Principles of Taxation Proposals

The proposals for the budget 2016-17 are mainly based on the following principles:-

- Least burden on poor and middle class.
- Third phase of withdrawal of exemptions to further eliminate discriminatory tax exemptions and concessions.
- Expand the scheme of differential taxation for filers and non-filers for penalizing non-compliance without adding any further burden on the compliant.
- Customs tariff be rationalized to reduce the number of slabs.
- Measures for broadening of tax base and documentation of economy.
- Increasing the share of the direct taxes.

CUSTOMS DUTY

- Tariff slabs reduced from existing 5 to 4 by merging 2% slab and 5% slab in new 3% slab.
- 10% and 15% slabs substitute with 11% and 16% slabs respectively.
- Concessions of CD for Dairy, Livestock & Poultry Sectors from 5% to 2%.
- Concessions of CD for Fish Farming, fish feed pellet (floating type) machines from 5% to 2%, fish / shrimp feed 10% & 20% to 0%.
- Exemption from CD on import of Premixes to prevent growth stunting (from 5 – 20 to 0%).
- Expansion in scope of exemption on Renewable Energy Technologies.
- Expansion in scope of exemption for Charitable non-profit making Institutions Operating Hospitals.
- Relief on Cool Chain Machinery.
- Extension in relief on import of Solar Panels till June, 2017.
- Exemption from CD and taxes on disposal of old & used ambulances imported by Edhi Foundation.
- Implementation of automotive development policy (ADP) 2016-2021.

S.No	Measure	Existing CD %	Proposed CD %
1	Exemption from CD on Water Quality Testing Kits	20	0
2	Concessions of CD on local manufacturing of LED Lights	20	5
3	Exemption from CD on Linear Akyl Benzene	2	0
4	Reduction in CD on raw material of PVC Resin	5	3
5	Reduction in CD on White Spirits	10	3

6	Reduction in CD on Stamping Foil	20	16
7	Reduction of CD on Fatty Alcohol Ethoxylate	15	5
8	Reduction in CD on CFC Free Gases	15	11
9	Reduction in CD rate for Aluminum Sheet in Coil	20	11
10	Reduction in CD on Thermostats of Deep-freezers	20	3
11	Rationalization of CD on Betel nuts and Betel Leaves	10 Rs.300/kg	20 Rs.600/kg
12	Rationalization of CD on Almonds	10	20
13	Rationalization of CD Frozen fish	10	20
14	Increase of CD on Medium Density Fiber board	15	20
15	Increase of CD on Cement Clinker	2	11
16	Increase in CD on Semi Printed/Printed Security Paper	5	16
17	Increase in CD on Live Chicken stock and Eggs of chicken	5	11
18	Increase in CD on Birds eggs(not in shell)	5	16
19	Removal of RD from Bead Wire for tyres Manufacturers	RD 10	0
20	Removal of RD from Carbon Steel Strips used by Razor blade manufacturers	RD 17.5	0
21	Levy of RD on Powdered Milk	20	20+25RD
22	Levy of RD on Whey Powder	20	20+25RD

SALES TAX & FEDERAL EXCISE DUTY

The budgetary measures pertaining to Sales Tax & Federal Excise are primarily aimed at:

1. Zero-rating of export oriented sectors. Five export-oriented sectors are subject to reduced rates i.e. 3% and 5% under SRO 1125(I)/2011, dated 31.12.2011. In order to facilitate the exporters and provide for a No-Tax, No-Refund Regime, the items as specified in the said SRO and the purchase of energy i.e. electricity, gas, furnace oil and coal by the five export-oriented, are to be subjected to zerorate of sales tax. The retail sales of locally manufactured finished goods of these sectors are to be subjected to sales tax @ 5%.

Enforcement through SRO, effective from 01.07.2016.

2. Exemption of sales tax on pesticides. Ministry of National Food Security and Research has proposed exemption from sales tax on Pesticides. Keeping in view importance of pesticides for the agriculture sector, pesticides and their ingredients are being granted exemption from sales tax.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

3. Exemption of sales tax on Premises for Growth Stunting. Ministry of National Health Services has proposed exemption from sales tax on the import of vitamins, premises, minerals and micronutrients (food grade) to combat growth stunting. These items are being granted exemption from sales tax.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

4. Exemption of sales tax on import of Laptops and PCs. Ministry of Information Technology has proposed exemption of sales tax on laptops and personal computers with a view to promoting Information & Communication Technology (ICTs). Exemption from sales tax to Laptops and Personal Computers is being granted. This step will also promote genuine imports and will render informal and illegal imports as uncompetitive.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

5. Increase in turnover threshold for cottage industry. Cottage industry is exempted from payment of sales tax. Turnover threshold prescribed for cottage industry is Rs. 5 million. This low turnover threshold causes undue hardships and registration requirements for small manufactures who make minimal contributions to revenues. Turnover threshold for cottage industry is being raised to Rs. 10 million.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

6. Exclusion of Secondhand and Worn Clothing from further tax levy. Sales tax is currently levied @ 5% on the import stage, @ 3% as value addition tax and 2% as further tax under section 3(1A) on second hand and worn clothing, which results in cumulative impact of sales tax at 10%. In order to provide relief to the low income segment, using second hand worn clothing, exemption from further tax is being provided.

Enforcement through SRO, effective from 01.07.2016.

7. FED at 16% is leviable on services such as Advertisement on CCTV / Cable TV, Shipping Agents, Banking Companies, Insurance Companies, Cooperative Financing Societies, Modarbas, Musharikas, Franchise Services, Stevedores, Stock Brokers, Forex Dealers etc. Provinces and various Chambers of Commerce & Industry have demanded withdrawal of FED on such services as provinces are already charging sales tax on these services. FED on these services on which provinces are collecting sales tax is being withdrawn.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

8. Exemption to Dump Trucks for Thar Coal Field. Exemption to coal mining machinery, equipment, spares, etc. for Thar Coal Field as provided in the Sixth Schedule to the Sales Tax Act, 1990 includes vehicles for site use i.e. single or double cabin pick-ups. Dump trucks, although being vehicles for site use, are not covered under the said provision. Exemption from sales tax is, therefore, being granted to dump trucks.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

9. Exemption from sales tax and Federal Excise Duty to Concession Holder of Gwadar Port Authority and its operating companies, their contractors and subcontractors for development of Gwadar Port and Gwadar Free Zone. Exemption from sales tax and Federal Excise Duty for a period of 40 years on the import and supply of materials, equipment, ship bunker oils brought and sold to ships calling on/visiting Gwadar Port, for the development of Gwadar Port and FreeZone for Gwadar Port is being granted.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

10. Exemption from sales tax and Federal Excise Duty to businesses to be established in Gwadar Free Zone. Exemption for a period of 23 years from sales tax and Federal Excise Duty is being granted to businesses to be established in Gwadar Free Zone. This exemption shall be available to sales/supplies within the Gwadar Free Zone. However, sales/ supplies outside the free zone and into the territory of Pakistan shall be subjected to applicable rates of sales tax and Federal Excise Duty.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

11. Exemption to machinery and equipment for the development of grain handling and storage facilities is available under the Sales Tax Act, 1990. It is proposed to include silos in the said exemption.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

12. Abolition of zero-rated status of stationery items. Stationery items are exempt from sales tax under the Sixth Schedule to the Sales Tax Act, 1990 as well as zero-rated under the Fifth Schedule thereof. It is proposed to withdraw zero-rating on stationery items and their inputs.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

13. Abolition of zero-rated status of Milk. Milk, fat-filled milk and preparations for infant use have been enjoying zero-rating facility on supplies for many years. It is proposed to withdraw zero-rating on milk and fat filled milk. Zero-rating on preparations for infant use proposed to be retained.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

14. Enhancement of Federal Excise Duty on Cement. Cement is currently chargeable to Federal Excise Duty @ 5% of the retail price. It is proposed to replace the current regime with fixed rate basis and to charge FED on cement on fixed rate basis @ Rs. 1/ kg.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

15. (a) Levy of sales tax on sugar at reduced rate of 8%. Sugar is currently chargeable to Federal Excise Duty @ 8%. It is proposed to replace this Federal Excise Duty with levy of sales tax at reduced sales tax rate of 8%.

(b) Levy of sales tax on urea at reduced rate of 5%, in order to promote agriculture and alleviate the conditions of farmers.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

16. Increase in the rate of sales tax on import of Mobile Phones. Mobile Phones are currently charged to sales tax under three categories i.e. Rs. 300, Rs. 500 and Rs. 1,000, based on their features. The proposed new slabs are Rs. 300, 1000 and 1500, respectively.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

17. Enhancement of rates of Federal Excise Duty on cigarettes. The rates of FED on cigarettes are proposed to be increased on a bi-annual basis as under:

Retail Price	Proposed Rate with immediate effect upto 30.11.2016 (Rs. Per thousand cigarettes)	Proposed Rate with effect from 1st December, 2016 (Rs. Per thousand cigarettes)
Retail price threshold	4,000	4,400
For cigarettes with retail price equal to or above threshold	3,436	3,705
For cigarettes with retail price below threshold	1,534	1,649

Enforced through Finance Bill, 2016, effective from 01.07.2016.

18. Enhancement of Federal Excise Duty on Aerated Waters. The current rate of Federal Excise Duty on aerated waters is 10.5%. It is proposed to enhance the FED rate to 11.5% of retail price.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

19. Introduction of optional regime for Tier-1 Retailers. Tier-1 retailers are obliged to pay sales tax at standard rate after input tax adjustment. It is proposed to provide an option to these retailers to pay sales tax at fixed rate of 2% of their total turnover without any input tax adjustments.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

20. Inclusion of mineral/bottled water in the Third Schedule to the Sales Tax Act, 1990. Mineral water is charged to sales tax at 17% of value of supply. It is proposed to include mineral water in the Third Schedule so that the tax is charged on the basis of retail price.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

21. Enhancement of rate of sales tax on certain ingredients of poultry feed. Poultry feed and its certain ingredients are exempt from sales tax whereas certain other ingredients are subject to sales tax @ 5% ad valorem. It is proposed to increase the rate of sales tax on the latter category from 5% to 10%.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

22. Marble Cutting and Polishing Industry. Marble Industry is mostly unregistered and is not paying sales tax. This sector has electricity as a major input. In order to bring this sector in the ambit of sales tax, it is proposed to charge sales tax @ Rs. 1.25 per KWH of electricity consumed. The proposed tax shall be in addition to standard sales tax @ 17% on supply of electricity as well as extra tax @ 5%.

Enforced through amendment in the Sales Tax Special Procedure Rules, 2007, effective from 01.07.2016.

23. Enhancement of fixed rate basis on steel sector, ship breakers and steel melters. Sales tax on steel sector, including ship-breaking sector, is collected on fixed rate basis. Sales tax from steel melters and re-rollers is collected on the basis of electricity consumption whereas ship-breakers are paying sales tax on the basis of LDT of ships imported for breaking. These rates are proposed to be revised upwards.

Enforced through amendment in the Sales Tax Special Procedure Rules, 2007, effective from 01.07.2016.

24. Rationalization of exemption available to plant, machinery, equipment, etc. for production of Bio-Diesel. Exemption to plant, machinery, equipment and specific items used in production of bio-diesel is available under the Sales Tax Act, 1990. To preclude the possibility of misuse, it is proposed to exclude "specific items" from this exemption.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

INCOME TAX

Relief Measures

- **Reduction in Tax Rate for Companies:** Continuing with the policy of reducing corporate tax rates, the rate has been reduced to 31% for Tax Year 2017.
- **Exemptions under Gwadar Port Concession Agreement:** For operation and development of Gwadar Port and Gwadar Free Zone exemptions and concessions in

accordance with the decisions of ECC and concession agreement are proposed to be granted to concession holder (China Overseas Ports Holding Company Limited) and its operating companies, businesses to be established in the Free Zone and contractors and sub-contractors of the concession holder in accordance with concession agreement.

- **Exemption on Investment in Greenfield Industrial Undertakings:** Period of exemption to investment in Green Field Industrial undertakings is being extended from 2017 to 30th June, 2019.
- **Tax Credit for Employment Generation:** At present, 1% tax credit for a period of ten years is available for every 50 employees employed by an industrial undertaking to be set up by June 2018. In order to reduce unemployment and encourage new industry, the credit is being enhanced to 2% and the date for setting up of industrial undertaking is being extended to June 2019.
- **Tax Credit for making sales to registered persons:** At present 2.5% tax credit is available to a manufacturer registered under Sales Tax who is making over 90% sales to Registered Sales Tax Persons. To encourage documentation, the credit is being increased to 3%.
- **Tax Credit for Balancing, Modernization and Replacement (BMR):** At present, tax credit on BMR of the plant and machinery is allowable on plant and machinery purchased and installed up to June, 2016. Period for installation of plant and machinery is being extended to June, 2019.
- **Tax Credit for Enlistment:** At present 20% tax credit on tax payable for enlistment in stock exchange is available for 1 year. In order to encourage enlistment of companies on stock exchange tax credit is being extended to 2 years instead of one year.
- **Tax Credit for Establishing new industry and expansion of existing plant:** At present, 100% tax credit on tax payable is allowed if 100% fresh equity is raised through issuance of new shares. This tax credit is allowable for five years from commercial production. It is proposed to reduce the condition of 100% fresh equity to 70% equity and tax credit would be allowed proportionately on owned new equity and not on borrowed amount. Period of tax credit is also being extended to June, 2019.
- **Extending exemption to export of IT services:** Exemption to export of IT Services is going to expire in June, 2016. IT sector is passing through infancy stage in the country and requires support. It is proposed that the exemption may be extended till June, 2019. The taxpayers shall be allowed to retain 20% of the proceeds outside the country for meeting expenses, and shall remit 80% to Pakistan through Banking Channel.
- **Enhancing limit of interest on House Building Loan:** At present, an individual is allowed deductible allowance for profit on debt on the loan upto 1 Million for

construction of a new house or acquisition of house. In order to provide relief to low income group, loan amount is being increased from 1 Million to 2 Million.

- **Employers' Annual Contribution in Provident Funds:** At Present, employer is allowed to contribute in Provident Fund upto 1/10th of salary of an employee or Rs. 100,000 whichever is lower. Any amount exceeding this limit is treated as income of the employee. On demand of taxpayers, the limit of Rs. 100,000 on employer's contribution is proposed to be enhanced to Rs. 150,000.
- **Tax Credit on Health Insurance:** At present, tax credit is available on the payment of life insurance premium up to 1.5 M. A new tax credit @ 5% of tax payable or Rs. 0.1 M whichever less is proposed to be allowed on payment of premium of health insurance.
- **Reduction in Tax Rate on Commission of Life Insurance Agents:** At present, Commission paid to life insurance agents is taxed at the rate of 12% for filers. The rate of tax is being reduced to 8% for filer on commission received up to Rs. 0.5 M.
- **Relief on Education Expenses:** In order to provide relief for education expenses which are unbearable for low income groups, individual having taxable income less than Rs. 1 million is being given tax relief equal to 5% of school fee upto Rs. 60,000 per child per annum.

Revenue Measures

- **Advance Tax for Alternate Corporate Tax (ACT):** Advance tax is paid on the basis of tax calculated on income or minimum tax on turnover and is required to be deposited in four installments. However, advance tax is not calculated on the basis of Alternate Corporate Tax (ACT). Taxpayers under existing law have to pay entire tax at the time of filing of return. It is proposed that Alternate Corporate Tax may also be made the basis for payment of advance tax.
- **Rationalizing Rates For Capital Gain Tax On Immovable Property:** It is proposed to extend the holding period for taxation of capital gain on sale of immovable property from two years to five years to be charged at uniform rate of tax of 10%.
- **Taxation of Property Income on Gross Basis:** In order to simplify taxation of property income in the case of individuals and associations of persons, it is proposed that for such persons the property income may not be clubbed with income under other heads and may be taxed as a separate block of income. Accordingly separate rates of tax have been proposed.
- **Persons registered with Provincial Sales Tax Authorities:** At present a large number of service providers are filing sales tax returns with the Provincial authorities but are not filing Income Tax returns. In order to encourage filing of Income Tax returns, it is

proposed that an advance tax at 3% of turnover of nonfiler service providers be collected by provincial ST authorities along with their sales tax returns.

- **Rationalizing Minimum Tax:** At present, Companies declaring Gross Loss are exempt from payment of Minimum Tax at the rate of 1% of turnover. However, this exemption is not available to Individuals and AOPs. In order to maintain neutrality and to stop misuse of the provision, it is proposed that Minimum tax may be charged on companies declaring gross loss.
- **Extending the Scope of Minimum Tax:** At present, minimum tax on turnover is paid by individuals and AOPs having turnover exceeding fifty million rupees. A large number of Individuals and AOPs having turnover below Rs. Fifty million are filing returns yet they are not paying any tax. It is proposed that minimum tax @ 1% of turnover may be made payable by Individuals and AOPs having turnover exceeding ten million rupees.
- **Taxation of Builders & Land Developers:** At present tax collection from Builders and Land Developers does not match with the level of investment and profits accruing in construction sector. After discussion with ABAD, final tax is being imposed on builders/ land developers on the basis of per unit area.
- **Withholding Tax on Mining:** In order to expand the tax base, It is proposed that a withholding tax at the rate of 5% of the value of minerals be collected from nonfilers by the departments of provincial governments responsible for issuing licenses for extraction of minerals and collection of royalty on the extracted minerals.
- **Extending the leviability of Super Tax for year:** Super Tax was levied for the Tax Year 2015 to meet revenue needs for certain unforeseen expenditure by the Government. Since the circumstances still persist, it is being extended for Tax Year 2016.
- **Increasing Cost of Non-Compliance with Tax Laws:** Continuing with the policy of differential taxation for filer and non-filer, various sections are included with higher withholding tax rates for those not filing income tax returns.
- **Rate of tax on Securities:** In order to encourage capital markets, it is proposed to maintain the existing tax rate for filers only. However, the tax rates for nonfilers are being increased.
- **Rationalization of Withholding Tax on Commercial Electricity Bills:** Traders are not properly contributing in tax collection therefore it is proposed to increase the adjustable Withholding Tax on commercial electricity bills exceeding Rs. 20,000 per month to 12 percent. No increase is however proposed on industrial and residential electricity bills.

COTTAGE INDUSTRY**SECTION 2(5AB)**

The bill proposed threshold limit of “cottage industry” from existing turnover of Rs. 5 m to 10 m. The amendment is positive and it may give a significant sigh of relief to small industry. They may not be requires to registered with Sales Tax up-till having annual turnover of Rs. 10 m or having annual utility (electricity, gas and telephone) bills of eight hundred thousand rupees.

DUE DATE**SECTION 2(9)**

The bill proposed to omit due date for filing of annual sales tax return. It is important to note that requirement for filing of annual sales tax return is also proposed to be withdrawn. This is a positive move within an objective to simplify the law and may reduce unnecessary compliance.

Furthermore the provision for different due date for different parts of the sales tax return are introduced keeping new module of the sales tax return. According to the new module the registered persons would may requires to first report their sales / supplies in their return. These supplies will automatically up-loaded in buyers account and they will not require to report purchases at their end. The concept is excellent and it will not only result in reduction of crest discrepancies, reporting errors, it may also strengthen right of input claim and in case of any subsequent negative marking against the supplier such as non- active, blocked or black listed, the burden will entire shift at the part of supplier.

INPUT TAX**SECTION 2(14)(c)(d)**

The right to claim input tax adjustment on provincial sales tax is proposed to be withdrawn. This is one of the most important proposed amendments in this Finance Bill.

After 18th amendment the powers to collect and levy sales tax on services were delegated to provincial governments, who had made their own revenue collecting authorities.

Unfortunately, in the absence of harmony of taxation law between federal and provincial government, the controversies over jurisdiction and interpretation of law are increases day by day. The trust deficit between both Federal and provincial authorities are apparent.

The proposed amendment may have serious repercussion for both the Federal and provincial authorities. It may increase the misery to the taxpayer without any doubt.

TIME AND MANNER OF PAYMENT**SECTION 6(2)**

The time and manner for payment of sales tax against supplier is proposed to be amended keeping new module of sales tax return. The taxpayers are now requires to fill annex ‘C’ (sales and supplies part of the return) earlier than other part of the sales tax return. The appropriate amendment is proposed in this section.

DETERMINATION OF TAX LIABILITY**SECTION 7(2)(i)**

It is proposed to bar Input tax adjustment against which supplies / output are not reported in sales tax return. The effective date of this amendment is supposed to be notified by the board subsequently.

TAX CREDIT NOT ALLOWED**SECTION 8(1)(i)**

In line with amendment in section 7, restriction is also proposed to place for adjustment of input tax against the supplies which were not reported in the sales tax return.

**ASSESSMENT OF TAX AND RECOVERY OF TAX NOT
LEVIED OR SHORT-LEVIED OR ERRONEOUSLY REFUNDED****SECTION 11(4)**

It is proposed to add power for initiating legal proceeding for recovery of sales tax against short payment / non-payment of sales tax withholding. According this new proviso is proposed to be inserted in section 11. The board is forced to move this amendment after some adverse decision of the tax tribunals in the absence of any legal provision in the S.T.A. for recovery of short payment on account of sales tax withholding.

EXEMPTION**SECTION 13(2)(a)**

The provision for granting exemption to matters relating international financial institutions or foreign government owned financial institutions are proposed to be inserted under section 13.

RETURN**SECTION 26(2)**

Provisions for filing separate returns in case of change of rate in a tax period are proposed to be withdrawn. The provision was practically becomes redundant after introduction of electronic filing of sales tax return.

DIRECTORATE OF POST CLEARANCE AUDIT**SECTION 30DD**

“The bill proposed to notify Directorate General of Input Output Coefficient Organization (IOCO)-Inland Revenue in the S.T.A. 1990. This directorate shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may notify through a gazetted notification.”

OFFENCES AND PENALTIES**SECTION 33**

The provision to invoke penalty in case of no offence defined in the act is proposed to extend on rules as well. By virtue of the proposed amendment penalty of Rs. 5000/- or 3% of the tax can be levied in case of an offence neither defined in Act nor in rules.

SALES OF TAXABLE ACTIVITY OR TRANSFER OF OWNERSHIP**SECTION 49(2)**

The provision for transfer of taxable activity and transfer of ownership from one registered person to another registered person is proposed to be redefined. Now in case of sale or transfer of ownership of a taxable activity or part thereof to another registered person as an on-going concern, the taxable goods or part thereof shall be transferred to the new owner through a zero-rated invoice and the sales tax chargeable thereon shall be accounted for and paid by the registered person to whom such taxable activity or part thereof is transferred.

This is technically a very important amendment and tax payers are facing serious technical problem in cases for transfer of business. The FBR taking cognizance of this problem proposed appropriate amendment to simplify the transfer mechanism.

In our opinion proper rules are also expected to be notified by the board through subsequent amendment in sales tax rules 2006.

SERVICES OF ORDER, DECISION, ETC**SECTION 56(B)**

A new section 56-B is proposed to be inserted to create a legal obligation on public servant to keep the information under this act strictly confidential.

“56B. Disclosure of information by a public servant.— (1) Any information acquired under any provision of this Act shall be confidential and no public servant shall disclose any such information, except as provided under section 216 of the Income Tax Ordinance, 2001 (XLIX of 2001).

(2) Notwithstanding anything contained in sub-section (1) and the Freedom of Information Ordinance, 2002 (XCVI of 2002), any information received or supplied in pursuance of bilateral or multilateral agreements with government of foreign countries for exchange of information under section 56A shall be confidential.”;

THIRD SCHEDULE

It is proposed to charge sales at retail price on Mineral / bottled water sold in retail packing. Accordingly maximum amount of sales tax on retail price is now required to be collected on sale of bottled water. The suppliers are also required to print retail price on this product.

In our opinion this amendment is not justified. Specially keeping the fact that ensuring supply of pure drinking water is one of the core responsibility of the welfare state. At one end the state is failed to provide basic necessity of life and at the other end taxation measure is applied if the same is provided by the private sector.

FIFTH SCHEDULE

Sales Tax Zero rating is proposed to be withdrawn from following items:-

- Colors in set
- Writing, drawing and marking inks
- Erasers
- Exercise books
- Pencils sharpners
- Geometry boxes
- Pens, ball pens, markers and porous tipped pens
- Pencils including color pencils
- Milks and
- Fat filled Milk.

SIXTH SCHEDULE

TABLE 3

Sales Tax Exemption is proposed to be withdrawn from following items.

Sugar

Exemptions are granted to

- Premixes for growth stunting
- Laptops, computers, notebooks whether or not incorporating multimedia kit
- Personal Computers.

Dump truck used in site and imported for Thar Coal Field

EIGHT SCHEDULE

TABLE 1

Reduced rate of sales tax on ingredients of poultry and cattle feed is increased from 5% to 10%. Special items used with plant, machinery and equipment in production of bio diesel are excluded from the scope of reduced rate.

Scope of reduced rate @ 7% is extended to Solvent C-9. used in Pesticides and their active ingredients.

Sugar is proposed to be reduced rate of sales tax @ 8%. Earlier there was FED at same rate on Sugar.

Scope of reduced rate @ 5% is extended to import of silos used in agri based industry.

EIGHT SCHEDULE**TABLE 2****NINTH SCHEDULE**

Fixed rates of sales tax on mobile phones are increased from Rs. 500/- set to Rs. 1000/- per set on medium priced cellular mobile phones or satellite phones.

Fixed rates of sales tax are increased from Rs. 1000/- set to Rs. 1500/- per set on smart cellular mobile phones or satellite phones.

DUE DATE**SECTION 2(8a)**

The provision for different due date for different parts of the Federal Excise return are introduced since the board is introducing new module of the sales tax return where supplies part of the return may require to be filled earlier than other parts of the returns.

DATE PAYMENT OF DUTY**SECTION 4(2)(3)**

In line with the concept of different due dates for different part of the return, necessary amendment is also brought under Section 4(2) to consider the due date as prescribed in this respect in the relevant notification.

Requirement for filing separate returns in case for change of rate of duty during a tax period is withdrawn.

ADJUSTMENT OF DUTIES OF EXCISE**SECTION 6(2)**

In line with the new module of the return, it is proposed to allow adjustment of excise duty only if the supplier has declared such supply in his return.

EXEMPTION**SECTION 16(2)**

The provision for granting exemption to matters relating international financial institutions or foreign government owned financial institutions are proposed to be inserted under section 13.

OFFENCES, PENALTIES, FINES AND ALLIED MATTERS**SECTION 19(13)**

Any person who contravenes any provision of this Act or rules made thereunder for which no penalty has specifically been provided in this section shall be liable to pay a penalty of five thousand rupees or three percent of the amount of duty involved, whichever is higher.

DISCLOSURE OF INFORMATION BY A PUBLIC SERVANT**SECTION 47B**

Disclosure of information by a public servant.— (1) Any information acquired under any provision of this Act or in pursuance of a bilateral or multilateral agreement or tax information exchange agreement shall be confidential and no public servant shall disclose any such information, except as provided under section 216 of the Income Tax Ordinance, 2001 (XLIX of 2001).

(2) The provisions of section 216 of Income Tax Ordinance 2001 (XLIX of 2001) shall, mutatis mutandis, apply to this section.]

FIRST SCHEDULE

FED rate on Aerated water are proposed to be enhanced from 10.5% to 11.5% of retail price. New enhanced duty structure is proposed for for different category of cigarettes:

	Locally produced cigarettes if their on pack printed retail price exceed rupees three thousand nine hundred and sixty per thousand cigarettes	24.02	Rupees three thousand six hundred and five per thousand cigarettes
	Locally produced cigarettes if their on pack printed retail price not exceed rupees three thousand nine hundred and sixty per thousand cigarettes		Rupees one thousand six hundred and twenty per thousand cigarettes
	For the period from 01-07-2016 to 30-11-2016, locally produced cigarettes if their on-pack printed retail price does not exceed four thousand rupees per thousand cigarettes	24.02	Rupees one thousand five hundred and thirty-four per thousand cigarettes
	For the period from 01-12-2016 onwards, locally produced cigarettes if their on-pack printed retail price does not exceed four thousand four hundred rupees per thousand cigarettes		Rupees one thousand six hundred and forty-nine per thousand cigarettes”;

Rate of FE duty on Cement has been replaced from 5% on retail price to Rs. 1/per kg. This may result in incremental effective rate on cement.

FED on Sugar has been withdrawn and now Sugar is liable to sales tax under 8th Schedule.

FIRST SCHEDULE**TABLE II (SERVICES)**

It is proposed to withdraw F.E.D. on services of advertisement, Shipping agents, Banking , Insurance Franchise, & Stockbrokers mentioned in case sales tax in already levied on it by the provincial government.

This is one of the anomaly in the law and there was long litigation pending in the court as well. The S.H.C. in CP# 3184/2014 has just couple of days before this Finance Bills has held:-

- The court has declared levy of FED on these services after inception of provincial sales tax illegal and ultra vires.
- The court has also declared levy of Sindh sales tax on shipping and shipping related services ultra vires and illegal.

- The orders are effective prospective and taxpayers who had already paid these levies could not claim refund.
- The orders are retrospective for those taxpayers who has challenged these levy and made payment under protest.

SECOND SCHEDULE

in the Second Schedule, in column (1), serial number 3 and entries relating thereto in columns (2) and (3) shall be omitted;

THIRD SCHEDULE

- (a) serial number 18 and the entries relating thereto in columns (2) and (3) shall be omitted; and
- (b) after the omitted serial number 18, the following new serial number and corresponding entries relating thereto shall be added, namely:-

“19	Materials and equipment for construction and operation of Gawadar Port and development of Free Zone for Gawadar Port as imported by or supplied to China Overseas Ports Holding Company Limited (COPHCL) and its operating companies namely (i) China Overseas Ports Holding Company Pakistan (Private) Limited, (ii) Gwadar International Terminals Limited, (iii) Gwadar Marine Services Limited and (iv) Gwadar Free Zone Company Limited, their contractors and sub-contractors; and Ship Bunker Oils bought and sold to the ships calling on/visiting Gawadar Port, having Concession Agreement with the Gwadar Port Authority, for a period of forty years, subject to the conditions and procedure as specified under S.No. 100A of Table-1 of Sixth Schedule to the Sales Tax Act,1990.	Respective Headings
20	Supplies made by the businesses to be established in the Gwadar Free Zone for a period of twenty-three years within the Gwadar Free Zone, subject to the condition that the sales and supplies outside the Gwadar Free Zone and into the territory of Pakistan shall be subjected to Federal Excise Duty.	Respective Headings”.