

MHC



Tax Handbook 2006

An Information Guide

Preface

This handbook attempts to cater to the needs of the various queries forthcoming by our clients. We have attempted to apprise them with a comprehensive explanation of the implications and effect that this Financial Bill has brought about. The handbook encompasses the amendments in the Income Tax Ordinance, Sales Tax Act, Customs Act, Federal Excises Act and various Labour Laws. The applicable amendments in the laws are effective from July 1, 2006 unless otherwise specified.

The commentary should be read in conjunction with the applicable sections of the respective Ordinances, Acts and Rules along with the text of the Finance Bill of 2006. This commentary attempts to provide with a general guideline and thus should not be considered as a conclusive and enforceable document. Professional advice should be sought before acting on any amendment in the Finance Bill or on our comments.

We hope that this handbook enhances your perception of Budget 2006. For your better understanding and convenience, we have also drafted a Tax Planning Guide appended to this handbook.

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Lahore

June 7, 2006

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Budget, 2006-2007

Budget, 2006-2007

Salient Features of the Budget 2006-07

The salient features of the budget 2006-07 are as follows:

- Total outlay of the Federal Budget 2006-2007 is Rs. 1315 billion. This is 19.7 percent higher than current year's (2005-06) budget estimates of Rs. 1098.5 billion and 6.7 percent higher than the revised estimates of current year (Rs. 1232.5 billion)
- Current expenditure is Rs. 880 billion which is up by 6.4 percent over budget estimate of current year's (2005-06) that is, Rs. 826.5 billion but 4.0 percent less than current year's revised estimates (Rs. 918.8 billion)
- Development expenditure is Rs. 435 billion, which is up by 59.9 percent. Of which, federal component stood at Rs. 320 billion which also include Rs. 50 billion for earthquake reconstruction and rehabilitation program. As compared with revised estimates of current year (Rs. 313.7 billion), this is up by 38.7 percent. The provincial component is Rs. 115 billion
- The share of current expenditure in total budgetary outlay is 66.9 percent as compared with 74.5 percent of current year (2005-06)
- The share of development expenditure in total budgetary outlay increased sharply to 33.1 percent as against 25.5 percent of current year (2005-06)
- Debt servicing is estimated at Rs. 295.8 billion which is lower by 3.0 percent over current year's revised estimates of Rs. 304.8 billion
- Defense budget is estimated at Rs. 250.2 billion or 2.8 percent of GDP as against revised estimates of Rs. 241.1 billion or 3.1 percent of GDP of current year (2005-06)
- Expenditure on running civil administration at Rs. 126.9 billion is 23.1 percent higher than current year's estimates of Rs. 103.1 billion on account of various relief measures provided by the government
- Out of the Federal PSDP of Rs. 270 billion (excluding earthquake-related spending), 44.3 percent (Rs. 119.5 billion) will be spent on physical infrastructure and 44.1 percent (Rs. 119.0 billion) on social sector. These two sectors account for 88.4 percent of the Federal PSDP (excluding earthquake-related spending)
- Within infrastructure development, water and power, including village electrification received Rs. 70.6 billion or 59.1 percent. This allocation is up by 44.4 percent from current year (2005-06)
- Allocation to communication (including NHA, Ports and Shipping and Railways) is Rs. 37.6 billion or 31.5 percent of infrastructure development
- Within social sector development, allocation to the health and population sectors amounted to Rs. 15.4 billion – which is up by 21.3 percent from current year (2005-06)
- Allocation to education including HEC has been increased to Rs. 22.9 billion – up by 52.7 percent
- Allocation to the Science & Technology is up by 95.3 percent (Rs. 4.4 billion vs. Rs. 2.3 billion)
- Tax collection by CBR is targeted at Rs. 835 billion – up by 18.6 percent against revised estimates of current year (Rs. 704 billion)
- Direct tax is estimated at Rs. 267.0 billion (18.7 % higher than current year) and indirect tax is targeted at Rs. 568.0 billion (18.6 % higher than current year)
- Fiscal deficit as percentage of GDP is targeted at 4.2 percent including earthquake related spending, and without earthquake spending it is targeted at 3.7 percent of GDP, mainly on account of unprecedented increase in the PSDP

Comparative Budgetary Position 2006-2007 & 2005-2006

Receipts

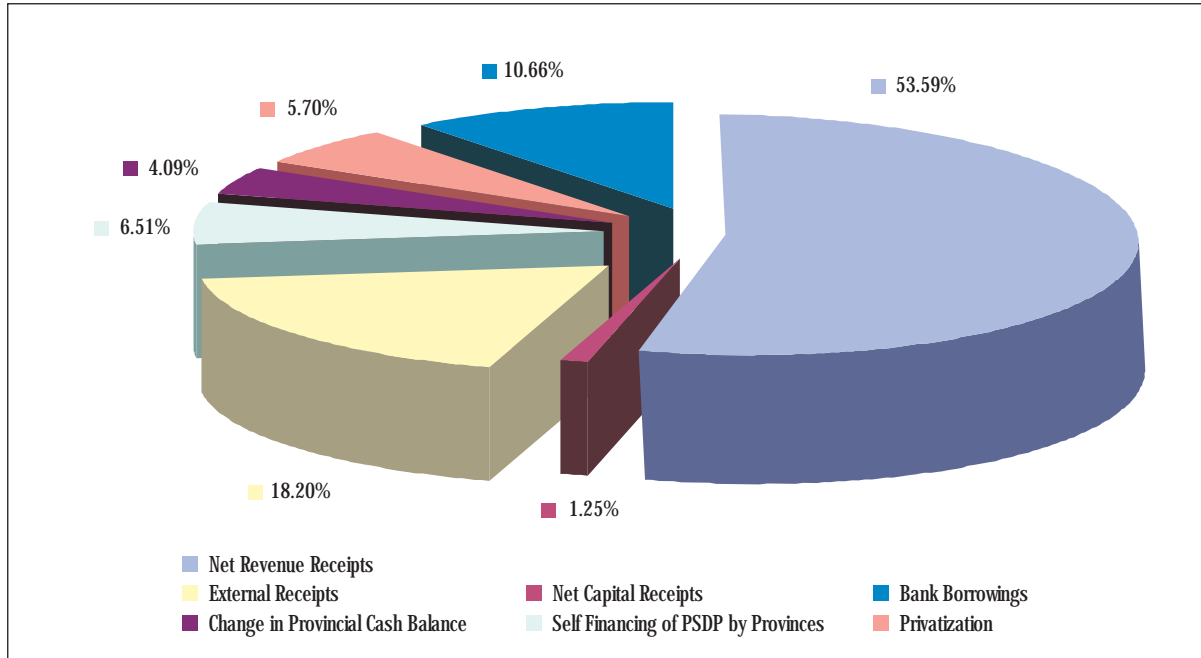
	<i>2006-2007</i>	<i>2005-2006</i>
	<i>(Rs in Billion)</i>	<i>(Rs in Billion)</i>
<i>Net Federal Revenue Receipts (A)</i>		
Tax Revenue (CBR)	840.92	690.00
Tax Revenue (Other than CBR)	-	42.64
Non Tax Revenue	241.89	194.76
Gross Revenue Receipts	1082.81	927.40
Less: Provincial share in taxes	378.26	284.32
	704.55	643.08
<i>Net Capital Receipt (B)</i>	16.39	50.56
<i>External Resources (C)</i>	239.31	212.37
<i>Self Financing of PSDP By Provinces (D)</i>	85.62	43.80
<i>Change in Provincial Cash Balance (E)</i>	53.82	30.65
<i>Privatisation Proceeds (F)</i>	75.00	20.00
<i>Bank Borrowing (G)</i>	140.09	98.04
TOTAL RESOURCES (A+B+C+D+E+F+G)	1314.78	1098.50

Budget, 2006-2007

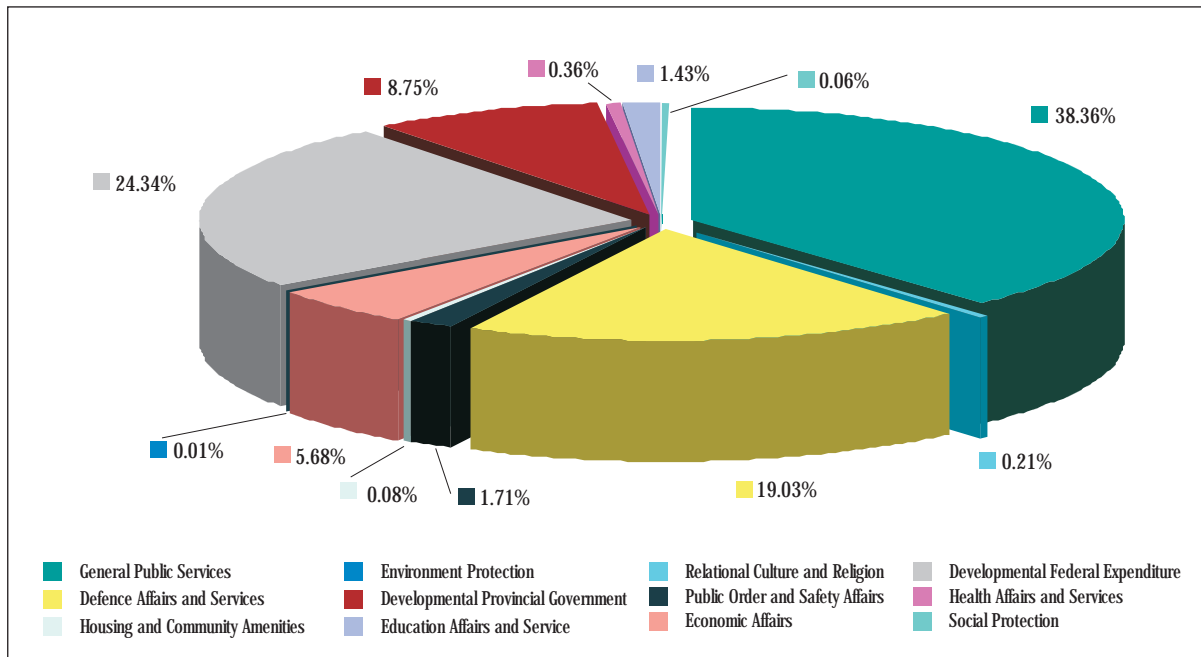
Expenditure

	<i>2006-2007</i>	<i>2005-2006</i>
<i>Current Expenditure</i>	<i>(Rs in Billion)</i>	<i>(Rs in Billion)</i>
General Public Services	504.29	503.11
Defence Affairs and Services	250.18	223.50
Public Order and Safety Affairs	22.46	18.72
Economic Affairs	74.66	56.45
Environment Protection	0.17	0.15
Housing and Community Amenities	1.04	0.86
Health Affairs and Services	4.73	4.13
Relational, Culture and Religion	2.74	2.31
Education Affairs and Services	18.78	16.65
Social Protection	0.73	0.62
	<u>879.78</u>	<u>826.50</u>
<i>Development Expenditure</i>		
Federal Government	320.00	68.00
Provincial Government	115.00	204.00
	435.00	272.00
	<u><u>1314.78</u></u>	<u><u>1098.50</u></u>

Breakup of Receipts
2006-2007



Breakup of Expenditures
2006-2007



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Commentary

The Finance Bill, 2006

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Finance Bill Highlights

Finance Bill Highlights

Income Tax Ordinance, 2001

- Approved employment pension or annuity scheme and approved income payment plan defined
- Maximum contribution limit of Rs. 500,000 to an approved pension fund withdrawn
- The concept of permanent establishment clarified
- Concept of Real Estate Investment Trust introduced as a stock security
- Real Estate Investment Trust Management Company defined
- Fixed tax on income from property @ 5%
- Perquisites to be allowable expenditure for the employers without any restriction of upper limit
- Mode of payment through banking channel for incurrence of expenditures broadened
- Withholding tax exempted to the Federal government, Provincial Government and Local Authority
- Period of residential status restated for 183 days
- PTR scope enlarged for non-corporate retailers
- Mandatory filing of tax returns for non-profit organizations and welfare institution
- Regional Commissioner empowered to revise the order of refusal of exemption certificate
- Advance tax liability exempted on commission and brokerage income
- Criteria of advance tax payment modified
- Withholding tax exemption on raw material imports by the manufacturer restricted to 75%
- PTR extended to services @ 6%
- Additional withholding tax for Non-NTN, Non-NIC holders @ 2%
- PTR extended to foreign exchange proceeds on account of indenting commission
- Withholding tax on certain premature payments from pension fund exempted
- Amendment in time-frame of filing of withholding tax monitoring statements
- Withholding tax scope on cash withdrawals increased from 0.1% to 0.2%
- Withholding tax on brokerage and commission extended to non-residents
- Rate of tax for non-salaried individuals and AOP rationalized
- Agriculture income shall be taxed at the same rates applicable to non-salaried persons
- Uniform rate of tax deduction on dividend for corporate sector @ 5%
- Single rate of tax deduction on profit on debt @ 10%
- Rearrangement of rate of tax deduction on payments to non-residents
- Uniform rate of tax deduction on brokerage and commission @ 10%
- Rates of collection of tax by Stock Exchange on shares trading increased
- Exemption on the pension income to the dependents or deceased persons
- Exemption to the income of Real Estate Investment Trust
- Pension Fund approved by SECP under the Voluntary Pension System Rules 2005 shall be exempt from tax
- The profit on debt arising on private loans and received by a non-resident person has been proposed to be exempt
- Exemption on subsidy income granted by the Federal Government on fulfilling of specific purpose of the Government
- Exemption extended on income of oil-fired power plants
- Exemption on income from exports of television programs
- Extension in the proceeds from sale of Stock Exchange room
- Extension the terminative date of exemption from June 30, 2007 to June 29, 2014
- Reduction in age limit for senior citizens for tax rebate from 65 to 60 years
- Anomaly on tax rebate to teachers and researchers removed
- Minimum tax exemption on certain items extended
- Exemption of withholding tax on payments made to Real Estate Investment Trust
- Exemption from minimum tax extended to large trading houses

Sales Tax Act, 1990

- Concept of Common Tax Payer Identification Number introduced to register the person under a single registration number
- Computerized systems defined to use the information technology in legal proceedings by Board
- e-intermediary defined as a person to file returns and other documents electronically on behalf of a registered person
- "Sales tax account" defined so as to reflect the transactions in the books of account
- Chargeability of sales tax on the finance and operating leases
- Board is empowered to fix the minimum value of taxable supply on imported goods
- Definition of wholesaler broadened as persons excluding Government departments who deduct income tax at source are required to charge sales tax
- No input tax refund or adjustment allowed in respect of transaction for which sales tax has not been deposited into the Government treasury
- Persons making and receiving taxable supply shall be jointly and separately liable for payment of unpaid amount of tax

- Excess of input tax over output tax shall be refunded within thirty days of filing of return
- Recovery of short payment of tax alongwith default surcharge without affording an opportunity of being heard
- Double entry sales tax account declared to be maintained mandatory
- Return can be furnished in an office other than the bank i.e, filing of returns in NIFT office electronically
- Board may require certain persons to furnish returns quarterly and annually besides monthly return
- Time period of ninety days for filing of revised return subject to the approval of Collector of Sales Tax
- Empowerment of Board to appoint firms of Chartered Accountants to audit the refund claims
- Further penalties imposed for non-compliances of various provisions of Law
- Department enabled to call third party information, document or record from any person, department, company or organization
- Search the premises of registered person by Sales Tax Officers without warrant withdrawn
- Precondition of deposition of 15% of the principal amount of tax before filing an appeal withdrawn
- Vesting the right of making an appeal before the Tribunal with the officers of Sales Tax Department not below the rank of Additional Collector
- Empowerment of Deputy Collector withdrawn and vested with Additional Collector and other Officer of Sales Tax Department with the approval of Collector to file an appeal before an appellate forum or the Court
- Matters that are pending before an Appellate Authority or the High Court shall be brought to the notice of Alternative Dispute Resolution Committee (ADRC)
- CBR is empowered to prescribe the use of computerized system for the purpose of registration, returns and other matters as being specified
- Return or any other document filed electronically by an e-intermediary on behalf of a registered person shall be deemed to have been filed by that registered person
- Zero rating tax expanded to dairy products, stationery items, trucks, dumpers, compost
- Single stage sales tax introduced for retailers
- Single stage sales tax on 30% value addition on imports of pesticides
- Commercial importers allowed to file sales tax return on quarterly basis
- Consolidated return for sales tax and excise as well as annual return for corporate sector introduced
- Scope of plant, machinery and equipment for sales tax zero rating identified

Federal Excise Act, 2005

- Time limit for filing of revised return prescribed
- Power to collect duty at a price higher than the minimum fixed price
- One time extension of time limit for adjudication of cases
- Collector (Appeals) restricted to remand back the cases
- Additional Collector empowered to file reference to High Court
- Appeal by Officer below rank of Collector clarified
- Matters to be brought to the notice of Alternative Dispute Resolution defined
- Monitoring of production through closed circuit TV and technical experts as at factory premises
- Levy of 15% excise duty on international air travel except for Hajj
- 5% excise duty applicable on the services of banks and financial institution in respect of opening of letter of credit, brokerage, credit card processing and renewal, foreign exchange dealings and issuance of bank guarantees
- Levying of 5% excise duty on commission and brokerage of foreign exchange dealers, exchange companies and money changers
- Excise duty of 5% shall be charged on the gross amount paid by the franchisee to franchiser for having the right to sell the products under his brand name or trade mark
- Cable T.V operators to pay Rs. 25 per connection per month as excise duty
- Retail price of cigarettes increased by 7%
- Excise duty on insurance services enhanced from 3% to 5%

Finance Bill Highlights

Customs Act, 1969

- Definitions of audit, documents and surcharge included
- Upper limit of additional custom duty upto 75% restricted
- Surcharge on deferment of custom duties not exceeding 15% per annum levied
- WTO customs valuation method enforced
- Obligation to furnish documents and information prescribed
- Audit procedures elaborated
- Time limit for filing of imported goods declaration specified
- Custom Authorities empowered to clear goods without formalities
- Time limit for clearance of imported goods and deposit of import duty reduced
- Legal coverage provided to electronic exchange of information and authentication
- Collector of Customs empowered for the correction of clerical errors
- Stipulated time period for appeal to High Court extended
- Levy of surcharge @ 1.5% per month of the total amount if any person fails to pay the arrears within the prescribed time
- Binding importers and exporters to maintain the records so as to cater the needs of post clearing audit
- Access to the premises and records by the Officers of Custom prescribed
- Scheme for import of old and used vehicles revised
- Baggage rules rationalized

Capital Value Tax (Finance Act, 1989)

- CVT on purchase of air tickets abolished
- Urban areas defined
- CVT imposed on the real estate transactions
- CVT on purchase value of shares enhanced from 0.1% to 0.2%

Labour Laws

Workers Welfare Fund Ordinance, 1971

- Total income specifically defined
- Threshold for applicability of tax enhanced from Rs. 100,000 to Rs. 500,000
- Penal interest for delayed payment enhanced from 8% to 12% p.a.
- Filing of appeal before Commissioner of Income Tax (Appeals) by an aggrieved industrial establishment introduced

Employees' Old-Age Benefit Act, 1976

- Precondition of applicability of EOBI enhanced from 10 to 20 persons employed
- Minimum pension to an insured person enhanced from Rs. 1,000 to Rs. 1,300 per month

Minimum Wages for Unskilled Workers Ordinance, 1969

- Minimum wage rate enhanced from Rs. 3,000 to Rs. 4,000 per month

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Income Tax Ordinance, 2001

Income Tax Ordinance, 2001

Pension Schemes

In the wake of formation of Pension Fund Scheme under the Voluntary Pension System Rules, 2005, the retirement benefit schemes were also incorporated in the Income Tax Ordinance, vide Finance Act, 2005. By virtue of the proposed insertions the phraseology of approval has been elaborated and approval under the Income Tax Ordinance has been made compulsory.

The following further definitions have been inserted in Section 2 on the pension schemes and certain amendments have also been sought in the provisions relating thereto:

Approved Employment Pension or Annuity Scheme *Section 2[3D]*

It means employment related retirement scheme wherein periodical payment is made to the employees like approved superannuation fund, public sector pension scheme and Employee Old-Age Benefit Scheme

Approved Income Payment Plan *Section 2[3E]*

It includes approved gratuity fund or recognized provident fund.

Maximum Contribution Limit Withdrawn *Section 2[13B]*

By virtue of the proposed omission the Bill seeks to withdraw the maximum contribution limit of Rs. 500,000 in a year to an approved pension fund.

Scope of Eligible Person Definition Widened *Section 2[19A]*

By virtue of the proposed omission the Bill seeks to remove the precondition of availing of more than one retirement fund. Furthermore, a proviso has also been proposed to be inserted to restrict the benefit of tax credit as envisaged in the provision of law relating to tax credit on retirement benefit plan.

Tax Credit on Retirement Benefit Plan Redefined *Section 63*

The Bill seeks to make editorial correction by inserting the word “eligible” as prefix to the person.

The Bill proposes to prescribe the threshold date for the additional contribution of 2% for each year for the eligible persons attaining the age of 41 years or more.

The Bill also proposes to set forth the precondition of availing tax credit whereby the members of the funds transfer their existing balance to individual pension account maintained in one or more than one pension management companies.

Permanent Establishment Clarified *Section 2[41]*

The Bill proposes to clarify the definition of Permanent Establishment (PE) with the following note:

- The PE should have a fixed place of business
- The operational time period threshold has been prescribed for the period of at least three months in aggregate in a year

Concept of Real Estate Investment Trust (REIT) Introduced *Section 2[47]*

By virtue of the proposed insertion the concept of Real Estate Investment Trust has been introduced whereby a closed-ended Unit Trust Fund would be managed by a management company for the purposes of investment in real estate and this unit trust fund would be approved and authorized by the SECP under the recently formulated Real State Investment Trust Rules 2006.

Real Estate Investment Trust Management Company Defined *Section 2[47B]*

The Bill seeks to include the definition and it means a company licensed by the SECP under the Real Estate Investment Trust Rules, 2006.

*Income from Property
Re-Characterized as a Fixed Tax*

Section 15[6], 115, 155, Div. IV, Part I of 1st Sch

By virtue of the proposed amendment the income tax charging procedure on the income from property has been simplified and has been subjected to final tax at the rate of 5% on the gross rental receipts and corresponding amendment has also been sought to eliminate the redundant provision relating to the admissible deductions to arrive at the taxable income.

The Bill proposes that the taxpayers deriving income from property are not required to file the return of income; however, they are obliged to file the statement in lieu of return likewise of taxpayers falling under the presumptive tax regime.

The Bill proposes that tax rate on the property income shall be 5% on the gross receipt even where the tax has not been withheld at source; however, the recipient is required to pay tax at 5% on the gross receipts voluntarily.

The Bill proposes to eliminate the withholding tax threshold of Rs. 300,000 for applicability of withholding tax in the wake of proposed amendments of extension of final tax liability to the income from property.

Threshold of Business Expenditure of Perquisites Removed

Section 21[K]

Presently the business expenditure incurred on the payment of perquisites to employees in case exceeds 50% of the net salary then the exceeding sum is not treated as allowable expenditure. The Bill seeks to eliminate the aforesaid provision of law by removing the upper limit restriction.

Mode of payment for Expenditures Broadened

Section 21[i]

In order to have check on expenditures verifiability the law prescribes that the payment exceeding Rs. 50,000 should be made through crossed cheque or bank draft.

The Bill seeks to further broaden the scope of “transaction through the banking channel” by including the following modes so as to facilitate taxpayers:

- Online transfer of payments that ought to be reflected in payer and payee account
- Payments through Credit Cards that are verifiable through bank statement

*Withholding Tax Exemption to the Federal
Government, Provincial Government and Local Authority*

Section 49[3]

By virtue of the insertion of new subsection the Bill seeks to extend exemption of withholding tax on payments received by the Federal Government, Provincial Government, and Local Authority.

Threshold of Investment in Shares Enhanced

Section 62

At present individual taxpayers are entitled to tax credit of 10% of their taxable income upto a maximum of Rs. 150,000 on purchase of new shares offered by a public listed company or shares sold by the privatization commission. The Bill proposes to raise the maximum limit of investment for tax credit to Rs. 200,000.

Period of Residential Status Restated

Section 82

The Bill proposes to substitute the period of 182 days with the period of 183 days for establishing the residential status in one year so as to bring it in line with the double taxation treaties as well as to cover leap year with 366 days.

PTR Scope Enlarged for Non-Corporate Retailers

Section 113B

By virtue of Finance Act 2005 a new Section was inserted, whereby individual or AOP retailers of textile fabrics and articles of apparel including ready made garments or fashion wear, leather goods including footwear, carpets, surgical goods and sports goods with turnover exceeding Rs. 5.0 million shall pay final tax liability at 1.0% of their turnover by filing a simplified statement. This tax shall form part of the single stage sales tax at the rate of 3% of the declared turnover.

The Bill proposes to extend this scheme to all the retailers irrespective of the type of goods that are being retailed.

Income Tax Ordinance, 2001

It not only simplifies the tax assessment procedures for retailers who will not be required to file detailed documents but will also encourage unregistered retailers to voluntarily enter the tax net to avail the simplified procedure of final tax liability of income tax at the rate of 1%.

*Mandatory Filing of Tax Returns by
Non-Profit Organizations and Welfare Institutions* *Section 114*

The Bill proposes to include the following taxpayers for filing of return of income compulsorily:

- Any non-profit organization as defined in Clause 36 of Section 2 and
- Any welfare institution approved under Clause 58 of Part I of the Second Schedule

*RCIT Empowered to Revise the
Order of Refusal of Exemption Certificate* *Section 122A*

The Bill proposes to introduce a new section wherein the RCIT has been empowered to revise the order of CIT regarding the issuance of exemption certificate.

Currently, there is no remedy in case the Commissioner of Income Tax passes an order to refuse the issuance of exemption certificate. This is a positive move to delegate the powers to RCIT to revise the order of his subordinate officer.

Alternative Dispute Resolution Committee Scope Clarified *Section 134A*

The Bill seeks to envision the scope of the ADRC and it has been sought that only those cases of hardship should be referred before the ADRC that are subjudice before the appellate authorities. Moreover, the appellate authorities have the right either to accede or reject the order of the ADRC.

*Advance Tax Liability Exempted
on Commission and Brokerage Income* *Section 147*

The Bill seeks to exempt certain categories of taxpayers from the compulsory payment of advance tax as under:

- Taxpayers deriving income from brokerage and commission
- Members of stock exchange deriving brokerage and commission on account of purchase and sales of shares

Criteria of Advance Tax Payment Modified *Section 147[4A]*

Presently the advance tax liability is discharged off by payment of tax in four equal installments based on the latest assessed tax liability. The Bill proposes to charge advance tax on the basis of current year estimate of income or the latest assessed income whichever is higher.

By virtue of the proposed insertion the taxpayer is required to estimate the taxpayable for the relevant tax year at any time before the last installment is due and shall deposit the amount of tax which is over and above the amount of advance tax already deposited for this tax year.

Withholding Tax Exemption on Raw Material Imports Restricted *Section 148[3]*

The Bill proposes to reduce exemption of withholding tax on imports of raw materials by the manufacturer to 75% from 100%.

Presumptive Tax Regime on Imports Restricted *Section 148[7]*

The Bill proposes to exclude the following items from the ambit of final discharge of tax with the intention to facilitate such taxpayers:

- Raw material, plant, machinery, equipment and parts by an industrial undertaking for its own use
- Fertilizer by manufacturer of fertilizer
- Cars in CBU condition by manufacturer of cars

The tax collected shall be treated as advance tax adjustable against the final tax liability of the taxpayer.

Income Tax Ordinance, 2001

Withholding Tax on Profit on Debt Declared to be Final Tax

Section 151, 168, 169

The Bill seeks to bring in the withholding tax on profits on debt under the ambit of final tax regime except the profit paid by the Federal Government, Provincial Government, Local Authority on any security other than the National Saving Schemes or Post Office saving accounts.

By virtue of the proposed amendment the tax deducted on profit on debt shall be treated as full and final tax liability.

Corresponding amendments have also been sought in the provisions relating to the non-adjustment of withholding tax as well as the provision of law dealing with the final liability of tax.

Withholding Tax Provisions on Payments to Non-Residents Clubbed

Section 152, 168, 169

The Bill seeks to consolidate the withholding tax provisions relating to non-residents under the single provision of law. The Bill seeks to make every person liable to withhold tax on making payments on account of:

- Construction, assembly, installation project contracts
- Contracts of supervisory activities
- Contract of advertisement with the TV Satellite Channel

Moreover, such withholding tax has also been proposed to be final tax liability. Corresponding amendments have also been sought in the provisions relating to the non-adjustment of withholding tax as well as the provision of law dealing with the final liability of tax.

Concessionary Withholding Tax Regime on Exports Regrouped

Section 153[IA]

The Bill seeks to regroup the concessionary withholding tax rates at the time of making payments to a resident person or permanent establishment in Pakistan of a non-resident person by every exporters or an export house for the rendering of or providing of services on account of stitching, dying, printing, embroidery, washing, sizing, weaving.

The withholding tax rate is same of the rates applicable to the direct exporter that ranges between 0.75% to 1.5%.

Furthermore, prescribed person definition has accordingly been sought to be amended with the inclusion of exporters and export houses.

Final Tax Regime Extended to Services

Section 153[6], 168, 169

The Bill seeks to enlarge the scope of this Section to include all type of services under final tax regime.

The tax deduction rate has also been increased from 5% to 6% on all services provided or rendered.

Corresponding amendments have also been sought in the provisions relating to the non-adjustment of withholding tax as well as the provision of law dealing with the final tax liability.

Additional Tax for Non-NTN, Non-NIC Holders

Section 153[8A]

The Bill seeks to penalize the taxpayers on non-furnishing of National Tax Number or National Identity Card Number for payment of withholding tax. The further tax would be applicable at the rate of 2% over and above the applicable tax rate e.g.

<i>Nature of Payment</i>	<i>Normal Tax Rate</i>	<i>Proposed Tax Rate (Non-furnishing of NTN/NIC)</i>
Supplies	3.5%	5.5%
Services	6%	8%

Income Tax Ordinance, 2001

Reduced Withholding Tax Rates Withdrawn

SRO 600[i]/91 dated July 2, 1991

The Bill seeks to withdraw the specified reduced withholding tax rates on raw hides and transportation of goods.

<i>Nature of Supply/Services</i>	<i>Present Rate</i>	<i>Proposed Rate</i>
Raw hides and skins	1%	3.5%
Transportation of goods through goods transport vehicles	2%	6%

PTR Extended to Foreign Exchange Proceeds on Indenting Commission

Section 154

On realization of foreign exchange proceeds on account of indenting commission the applicable tax rate is 5%, however, this is adjustable tax. The Bill proposes to extend the scope of final tax regime to export indenting commission.

Withholding Tax on Certain Premature Payments from Pension Fund Exempted

Section 156B[1][a][b]

The Bill proposes to exempt the withholding tax on premature payments out of pension fund on account of:

- Before Retirement Age:
 - On disability of the eligible person
 - Payment to the nominated survivor of the deceased person
- After Retirement Age:
 - The Bill also proposes to exempt the withholding tax on account of payment exceeding 25% of the accumulated balance whereby the survivor of the deceased person makes the investment with any other approved pension fund manager

Withholding Tax Monitoring Statements

Section 165

The Bill seeks to make amendment in time-frame of filing of withholding tax monitoring statements. Apart from the mandatory filing of annual statements the law may prescribe to call for monthly, quarterly or bi-annually statements.

The Bill also seeks to make procedural amendments:

- that the format of statements may be prescribed by the “Board”
- that the time of filing may be extended by the Commissioner of Income Tax
- that the CBR may be empowered to make rules for mandatory electronic filing of statements as well as determination of eligibility of the data of such statements and e-intermediaries etc.

Additional Tax Scope of Non-Payment of Advance Tax Widened

Section 205[1][b]

Presently the additional tax @ 12% is levied on non-payment of advance tax as well as on such amount of advance tax that falls short of the 80% of the amount of tax chargeable for the relevant tax year.

In an effort to lessen the shortfall of advance tax payment vis-à-vis actual tax liability the Bill proposes to oblige the taxpayers to pay advance tax more accurately and such payment should not less than be 90% of the actual liability otherwise penal provisions may be invoked.

Validity of CBR Circulars Redefined
Section 206[2]

The Bill proposes to redefine the validity of CBR Circulars and these are proposed to be applicable on all the Income Tax Authorities except the Commissioner of Income Tax Appeals.

Withholding Tax Scope on Cash Withdrawals Widened
Section 231A[1]

A new Section was inserted through Finance Act 2005 whereby every banking company shall at the time of making payment for cash withdrawal exceeding Rs. 25,000 deduct tax at the rate of 0.1% of the withdrawal amount. The tax deducted is treated as advance tax adjustable against the final tax liability of the person.

This amendment was aimed at increasing the tax net as well as likely to lead to non-documentation in the economy through increased use of cash transactions to avoid levy of such tax.

The Bill proposes to increase the tax deduction rate from 0.1% to 0.2% on the cash withdrawals. Moreover, it has been clarified that where cash withdrawals in aggregate exceed Rs. 25,000 in a day then withholding tax would be applicable thereon.

Withholding Tax on Brokerage and Commission Extended to Non-Residents
Section 233[1]

The Bill seeks to extend the scope of withholding tax falling under the category of brokerage and commission to the non-residents as well. This is a positive amendment as the non-residents in the absence of specification were being taxed at the rate of 30%.

First Schedule

Rate of Tax for Non-Salaried Individuals and AOP Rationalized
Division 1 of Part 1, Clause 1

The Bill proposes to rationalize and restructure the tax rates for non-salaried individuals and AOP, where taxable income exceeds Rs. 100,000 the tax rates would be applicable on the flat rate basis varying from 0.50% to 25%. However, the basic exemption limit for women has been proposed to be enhanced to Rs. 125,000.

<i>Income Brackets</i>	<i>Proposed Rates</i>
Where the taxable income Does not exceed Rs. 100,000	NIL
Exceeds Rs. 100,000 but does not exceed Rs. 110,000	0.50%
Exceeds Rs. 110,000 but does not exceed Rs. 125,000	1.00%
Exceeds Rs. 125,000 but does not exceed Rs. 150,000	2.00%
Exceeds Rs. 150,000 but does not exceed Rs. 175,000	3.00%
Exceeds Rs. 175,000 but does not exceed Rs. 200,000	4.00%
Exceeds Rs. 200,000 but does not exceed Rs. 300,000	5.00%
Exceeds Rs. 300,000 but does not exceed Rs. 400,000	7.50%
Exceeds Rs. 400,000 but does not exceed Rs. 500,000	10.00%
Exceeds Rs. 500,000 but does not exceed Rs. 600,000	12.50%
Exceeds Rs. 600,000 but does not exceed Rs. 800,000	15.00%
Exceeds Rs. 800,000 but does not exceed Rs. 10,00,000	17.50%
Exceeds Rs. 10,00,000 but does not exceed Rs. 13,00,000	21.00%
Exceeds Rs. 13,00,000	25.00%

Income Tax Ordinance, 2001

Rate of Tax for Salaried Individuals Rationalized

Division 1 of Part 1, Clause 1A

The Bill proposes to restructure the income slabs and tax rates for salaried individuals where taxable income exceeds Rs. 150,000 the tax rates would be applicable on the flat rate basis varying from 0.25% to 20%. However, the basic exemption limit for women has been proposed to be enhanced to Rs. 200,000.

<i>Income Brackets</i>	<i>Proposed Rates</i>
Where the taxable income Does not exceed Rs. 150,000	NIL
Exceeds Rs. 150,000 but does not exceed Rs. 200,000	0.25%
Exceeds Rs. 200,000 but does not exceed Rs. 250,000	0.50%
Exceeds Rs. 250,000 but does not exceed Rs. 300,000	0.75%
Exceeds Rs. 300,000 but does not exceed Rs. 350,000	1.50%
Exceeds Rs. 350,000 but does not exceed Rs. 400,000	2.50%
Exceeds Rs. 400,000 but does not exceed Rs. 500,000	3.50%
Exceeds Rs. 500,000 but does not exceed Rs. 600,000	4.50%
Exceeds Rs. 600,000 but does not exceed Rs. 700,000	6.00%
Exceeds Rs. 700,000 but does not exceed Rs. 850,000	7.50%
Exceeds Rs. 850,000 but does not exceed Rs. 950,000	9.00%
Exceeds Rs. 950,000 but does not exceed Rs. 1,050,000	10.00%
Exceeds Rs. 1,050,000 but does not exceed Rs. 12,00,000	11.00%
Exceeds Rs. 1,200,000 but does not exceed Rs. 15,00,000	12.50%
Exceeds Rs. 1,500,000 but does not exceed Rs. 17,00,000	14.00%
Exceeds Rs. 1,700,000 but does not exceed Rs. 20,00,000	15.00%
Exceeds Rs. 20,00,000 but does not exceed Rs. 3,150,000	16.00%
Exceeds Rs. 3,150,000 but does not exceed Rs. 3,700,000	17.50%
Exceeds Rs. 3,700,000 but does not exceed Rs. 4,450,000	18.50%
Exceeds Rs. 4,450,000 but does not exceed Rs. 8,400,000	19.00%
Exceeds Rs. 8,400,000	20.00%

Tax Rate for Agriculture Income Withdrawn

Division I of Part I, Clause 2

The Bill proposes to withdraw the separate tax rates for agriculture. Agriculture income shall be taxed at the same rates applicable to non-salaried persons.

Uniform Rate of Tax Deduction on Dividend for Corporate Sector

Division III of Part I, Clause A

The Bill proposes to reduce the withholding tax rate from 10% to 5% on dividend income received by other companies and it has been brought at par with the tax rate applicable for public limited companies and insurance companies. However, the withholding tax rates for individuals and AOP remains intact at the rate of 10%.

Single Rate of Tax Deduction on Profit on Debt

Division I of Part III

The Bill proposes to introduce the uniform tax rate @ 10% on the gross receipts of profit on debt irrespective of the nature of the investment scheme. Before substitution the withholding tax rates on certain Government Securities is at the rate of 20%, however, the Bill seeks to rationalize the high rate of tax and it has been brought at par with other investment schemes @ 10%.

Rate of Tax Deduction on Payments to Non-Residents

Division II of Part III

The Bill proposes to rearrange the rate of tax deduction on payments to non-residents to make it user friendly:

The rate of tax deduction under sub-section (1A) of Section 152 shall be:

- in the case of Contracts of construction, assembly, installation, supply of supervisory activities and Contract of Advertisement of Satellite Channels 6% of the amount of the payment
- in other cases 30%

Rate of Tax Deduction on Services Enhanced

Division III of Part III

The Bill proposes to enhance the withholding tax rate on payment on account of services from 5% to 6%.

<i>Nature of Services</i>	<i>Present Rate</i>	<i>Proposed Rate</i>
Transport Services	2%	6%
Other Services	5%	6%

Rate of Tax Deduction on Brokerage and Commission

Division II of Part IV

The Bill proposes to increase tax rate from 5% to 10% of tax deduction on the payment on account of brokerage and commission.

Rate of Collection of Tax by Stock Exchange

Division II A of Part IV

The Bill proposes to increase the tax rate on varied stock exchange transactions from 0.005% to the following new proposed rates:

<i>Nature of Transaction</i>	<i>Proposed Rate</i>
Purchase & Sale of Shares	0.01% of the amount
Trading of Shares	0.01% of the amount
Financing of Carry over Trade (Badla)	10% of carry over charges

Rate of Tax Deduction on Cash Withdrawals from Banks

Division VI of Part IV

The Bill proposes to enhance the withholding tax rate from 0.1% to 0.2% on cash withdrawal exceeding Rs. 25,000 in a day whether withdrawn in lumpsum or otherwise.

Second Schedule

Part I (Exemption from Total Income)

The Second Schedule relates to specific exemptions granted in respect of total income. This Bill proposes to exempt or extend exemption of the following sources of income.

Income of Seafarers from Pakistani Vessel

Clause 4

The Bill seeks to extend the exemption to the Pakistani seafarers working on the Pakistani vessels for 183 days or more during a tax year. Earlier on, this exemption was available only to the Pakistani Seafarers working on the foreign vessels.

Income Tax Ordinance, 2001

Pension Income to the Deceased Persons

Clause 9

The Bill seeks to extend exemption on the pension fund received by the dependants of the deceased person.

Exemption to the Income of REIT

Clause 57[2]

The income of a Real Estate Investment Trust approved by SECP if not less than 90% of the unit trust fund is distributed amongst the unit holders on redemption of redeemable capital shall be exempt from tax.

Pension Fund

Clause 57[3]

The 25% balance out of the total accumulated balance received by an eligible person on retirement or the disability or upon death by a dependent of the deceased from a Pension Fund approved by SECP under the Voluntary Pension System Rules 2005 shall be exempt from tax

Profit on Debt to Non-Resident Persons

Clause 72

The profit on debt arising on private loans and received by a non-resident person has been proposed to be exempt whereby it is used for the following purposes as well as it is approved by the SBP:

- Loan is being utilized on such project in Pakistan as may be approved by the Federal Government
- Loan against export letter of credit exclusively for export of goods manufactured or processed for exports in Pakistan
- Loan is utilized for industrial investment in Pakistan

Subsidy Income Granted by Federal Governments

Clause 102A

The Bill proposes to exempt the subsidy income granted by the Federal Government on fulfilling of specific purpose of the Government.

Income of Oil-Fired Power Plants

Clause 132

Presently profits and gains derived by oil-fired power plants are exempt from tax on power projects set-up in Pakistan on or after the July 01, 1988 and before October 22, 2002.

However, the proposed amendment infers that tax exemption on the income derived by the all oil-fired power projects from the first day of July, 2006 has been extended.

Scope of Exemption to IT Sector Extended

Clause 133

The Bill proposes to extend the scope of the exemption available to include IT sector to the export of television program produced locally.

Proceeds from Sale of Stock Exchange Room

Clause 133A

Currently the exemption is available to individuals on proceeds from transfer of membership rights or shares of stock exchange in Pakistan to a company at any time between the 1st day of July 2005 and 30th day of June 2006.

The Bill proposes to extend the scope of the exemption to individuals on sale of room of stock exchange. The period of exemption has also been extended until June 30, 2007.

Terminative Date of Exemption

Extended for Venture Capital Companies

Clause 101

The Bill proposes to extend the terminative date of exemption from June 30, 2007 to June 29, 2014 on the profit and gains derived by the capital venture company and capital venture fund registered under Venture Capital Companies and Fund Management Rules, 2000.

Tax Exemptions Withdrawn

The Bill seeks to withdraw the following exemptions:

- Clause 10: Pension granted to public servant due to injuries received in performance of duties
Clause 11: Pension granted to public servant invalidated from service due to disability
Clause 14: Pension granted to the personnel of Armed Forces of Pakistan in respect of injuries received in performance of duties
Clause 15: Pension granted to the personnel of Armed Forces of Pakistan invalidated from service due to disability
Clause 18: Pension granted to the families and dependents of public servants or members of Armed Forces who die during service
Clause 38: Utilities allowance upto 10% of basic salary
Clause 42, 43,44,45: Flying allowance received by pilots, flight engineers, navigators and junior commissioned officer employed by Pakistani airline, Civil aviation authority, Pakistan Air Force, Pakistan Army, Pakistan Navy
Clause 46: Submarine allowance payable to officers of Pakistan Navy
Clause 47: Value of rations issued in kind or cash allowance payable to members of Pakistan Armed Forces
Clause 48: Value of rent free quarters or cash allowance to members of Pakistan Armed Forces
Clause 49: Conservancy allowance to personnel to Pakistan Armed Forces
Clause 61: Amount paid as donation to Sindh Governor's Relief Fund, 1990 and Balochistan Governor's Relief Fund (xxi)(xxii)
Clause 63: Donations to President's Relief Fund for Tsunami Victims
Clause 120: Profits and gains derived by industrial undertakings involve in the business of fruit processing
Clause 137: Income of Fugro Geodetic Limited from execution of contract with GOP

*Part II (Reduction In Tax Rates)*Reduced Tax Rate 1% on Import of Certain Items

Clause 13G

The Bill proposes to allow reduce rate of 1% on the import value as increased by Custom Duty and Sales Tax subject to the SRO 575(i)/2006 dated 05.06.2006 under the Custom Act, 1969 for the following items:

- Capital goods
- News print
- Gold
- Silver
- Raw wood
- Buses
- Mobile telephone sets
- Call center equipment
- Disinfectants used in poultry business
- Live stock and packing material of dairy products
- Medical, surgical, dental or veterinary machinery/equipment
- Cement
- Coal
- Sugar
- Wheat
- Dump trucks
- Broadcasting equipments
- Trucks in CBU condition
- Medicines for chronic diseases
- Pre-fabricated structures for poultry farms
- Machinery/equipment required for fish farming
- Machinery and equipment for horticulture & floriculture business

Reduced Tax Rate 2% on Import of Certain Items

Clause 13H

The Bill proposes to allow reduced rate of tax at 2% on import of raw material for steel industry including re-meltable and re-rollable scrap, raw material for manufacture of poultry feed and stationery.

Reduced Withholding Tax on Services Rendered to Exporter

Clause 25

The Bill proposes to further reduce the withholding tax on services of sizing and weaving rendered or provided to an exporter or an export house from 0.75% to 1.50%.

Tax Reduction Withdrawn

The Finance Bill seeks to withdraw the following Clauses entitled to reduction in tax rates:

- Clause 11: Reduced rate of 5% for the period of three years constituting final discharge of tax liability in case of non-resident O&M contractor on payments for the operation and maintenance of private sector power projects.

Income Tax Ordinance, 2001

Clause 12: Reduced rate of 3% constituting final discharge of tax liability in case of consortium STFA Construction Company of Turkey and M/s JDN of Belgium made with the Ormara Naval Harbour Project Board on payments for the construction of a Naval Harbour at Ormara.

Part III (Reduction in Tax Liability)

Reduction in Age Limit for Senior Citizens for Tax Rebate

Clause 1A

Currently the income threshold for senior citizens aged 65 or more is upto Rs. 400,000 for availing tax reduction of 50% of tax payable. The Bill purposes to reduce the age limit for senior citizens from 65 to 60 years so as to avail the tax concession.

Anomaly on Tax Rebate to Teachers and Researchers Removed

Clause 2

The Bill proposes to remove anomaly and clarifies that recognition by Higher Education Commission, a Board or a University is not required for Government training and research institution to avail the tax rebate.

Part IV (Exemption from Specific Provisions)

Minimum Tax Exemption Extended

Clause 11

The Bill further seeks to extend the exemption from minimum tax to the following:

- Real Estate Investment Trust approved and authorized under the Real Estate Investment Trust Rules, 2006
- Morabaha bank or a financial institution approved by the State Bank of Pakistan or SECP for the purpose of Islamic Banking and Finance

Exemption of Withholding Tax on Payments Made to Real Estate Investment Trust

Clause 33

The Bill seeks to provide exemption from withholding tax on payments made to real estate investment trust approved and authorized under the Real Estate Investment Trust Rules, 2006 established and managed by a REIT management company licensed under the Real Estate Investment Rules, 2006 under the head profit on debt and brokerage and commission.

Exemption of Withholding Tax at Import Stage

Clause 56

The Bill seeks to provide exemption from withholding tax on import of Liquefied Petroleum Gas (LPG), Liquefied Natural Gas (LNG) and Radio Navigational Aid Apparatus imported for an airport on or after First January, 2006.

Exemptions Withdrawn

- Clause 56(xi): Sugar imported in pursuance of Economic Coordination Committee
Clause 56(xiii): Cement imported in pursuance of Economic Coordination Committee
Clause 56(xvi): Off-highway dump trucks and transit mixers

*Exemption from Minimum Tax Extended To Large Trading Houses**Clause 57*

By virtue of Finance Act 2005 a new clause was introduced so as to grant exemption from withholding tax on import and supply of goods to trading houses that fulfill the following conditions:

- Paid up capital exceeding Rs. 250 million
- Own fixed assets exceeding Rs. 300 million at the close of the tax year
- Maintain computerized record of imports and sale of goods
- Maintain a system for issuance of 100% cash receipt on sales
- Presents accounts for tax audit every year
- Registered with Sales Tax Department

The Bill further seeks to provide exemption from minimum tax on turnover of Large Trading Houses for the first ten years starting from the tax year in which the business operations commenced.

Third Schedule

Part I (Depreciation)

Enhanced Depreciation on Certain Plant and Machinery

The Bill proposes to enhance the depreciation @ 30% on such plant and machinery equipment that is used for the manufacture of IT products.

Income Tax Ordinance, 2001

Taxability of Salary Income

Gross Annual Salary		Basic Salary	Perquisites / Allowances		Taxable Salary		Annual Tax Liability		Net Tax	Increase/ (Decrease) % age	Average Tax Rate	
Per Month	Annual		House Rent Allowance	Utilities Allowance	Existing	Proposed	Existing	Proposed			Existing	Proposed
(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
15,000	180,000	120,000	48,000	12,000	120,000	180,000	700	450	(250)	(35.7)	0.6	0.3
20,000	240,000	160,000	64,000	16,000	160,000	240,000	2,100	1,200	(900)	(42.9)	1.3	0.5
25,000	300,000	200,000	80,000	20,000	200,000	300,000	3,500	2,250	(1,250)	(35.7)	1.8	0.8
40,000	480,000	320,000	128,000	32,000	320,000	480,000	17,900	16,800	(1,100)	(6.1)	5.6	3.5
70,000	840,000	560,000	224,000	56,000	560,000	840,000	67,500	63,000	(4,500)	(6.7)	12.1	7.5
100,000	1,200,000	800,000	320,000	80,000	850,000	1,200,000	147,500	132,000	(15,500)	(10.5)	17.4	11.0
125,000	1,500,000	1,000,000	400,000	100,000	1,130,000	1,500,000	231,500	187,500	(44,000)	(19.0)	20.5	12.5
150,000	1,800,000	1,200,000	480,000	120,000	1,410,000	1,800,000	315,500	270,000	(45,500)	(14.4)	22.4	15.0
200,000	2,400,000	1,600,000	640,000	160,000	1,970,000	2,400,000	483,500	384,000	(99,500)	(20.6)	24.5	16.0
300,000	3,600,000	2,400,000	960,000	240,000	3,090,000	3,600,000	819,500	630,000	(189,500)	(23.1)	26.5	17.5
500,000	6,000,000	4,000,000	1,600,000	400,000	5,330,000	6,000,000	1,491,500	1,140,000	(351,500)	(23.6)	28.0	19.0
625,000	7,500,000	5,000,000	2,000,000	500,000	6,730,000	7,500,000	1,911,500	1,425,000	(486,500)	(25.5)	28.4	19.0
725,000	8,700,000	5,800,000	2,320,000	580,000	7,850,000	8,700,000	2,247,500	1,740,000	(507,500)	(22.6)	28.6	20.0

Assumptions:

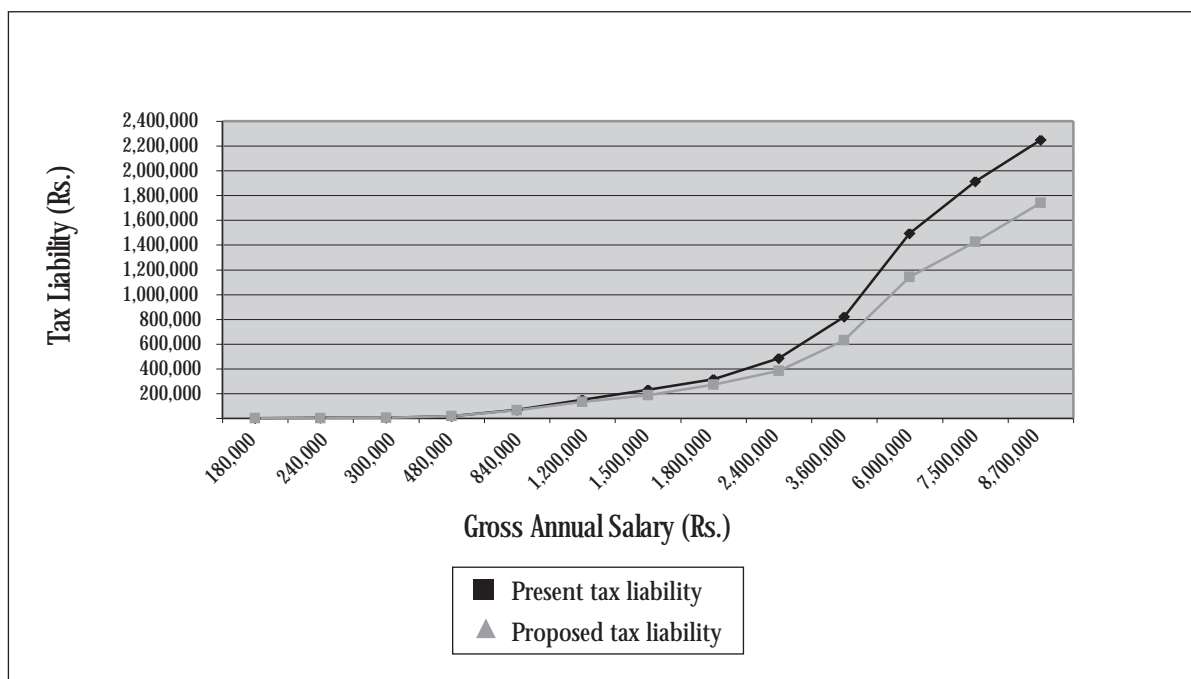
* Previously house rent allowance was exempted upto 45% of basic salary. Where taxable salary exceeded Rs. 600,000 the house rent allowance was restricted at Rs. 270,000.

** Utilities were exempt upto 10% of basic salary.

The Finance Bill 2006 has sought to withdraw exemption on all perquisites and allowances except medical allowance.

*** Proposed tax liability has been worked out on gross salary assuming the withdrawal of exemptions on allowances and perquisites.

Graphical Presentation



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Sales Tax Act, 1990

Sales Tax Act, 1990

Common Taxpayer Identification Number (CTIN)

Section 2[5]

The Bill seeks to include the definition of “CTIN” with the aim to register the taxpayer under a single registration number for all taxes and the same change has already been incorporated in other fiscal statutes.

Inclusion of Definition of Computerized Systems

Section 2[5AA]

The Bill seeks to include the definition of computerized systems which refers to information technology system to be used by the Board or any other office for legal compliance procedures.

e-intermediary Definition Included

Section 2[9A]

The Bill seeks to include the definition of e-intermediary which means a person appointed as e-intermediary to file returns and other documents electronically on behalf of a registered person.

Inclusion of Sales Tax Account

Section 2[29A]

The Bill seeks to include the definition of sales tax account which means an account reflecting sales tax transactions in the books of account.

Financial and Operating Leases Made Taxable

Section [2][33]

The Bill seeks to omit the phraseology of “excluding financial and operating lease” from the definition of “supply” with the aim to bring such financing arrangement under the chargeability of sales tax.

CBR Empowered to Fix the Value of Imported Goods

Section 2[46]

The Bill seeks to empower the Board to fix minimum value of taxable supply on imported goods for sales tax purposes.

Definition of “Wholesaler” Broadened

Section 2[47]

The Bill seeks to amend the definition of wholesaler making it in line with the Income Tax Ordinance 2001. The Bill proposes that persons, other than Government departments, who deduct income tax at source under the Income Tax Ordinance, 2001 shall also be required to charge sales tax.

Deposit of Sales Tax Declared Mandatory for Tax Credit

Section 8

The Bill proposes that no input tax adjustment or refund shall be allowed in respect of goods for which the sales tax has not been deposited into the Government treasury by the supplier.

This seems to be stringent precondition, however, with the proposed insertion the legislature has ensured to have check on the fake and flying invoices that may contravene the taxable supply regime.

Obligation on Unpaid Tax Liability

Section 8A

The Bill seeks to introduce a new provision of law wherein the persons involve in a supply chain are made liable jointly and separately where a registered person receiving a taxable supply from another registered person is aware of the fact that this supply or any previous or subsequent supply of the goods supplied would go unpaid, such person as well as the person making the taxable supply shall be jointly and separately liable for payment of such unpaid amount of tax.

This measure has been brought in to eliminate the missing trader fraud in order to avoid revenue leakages.

Refund Procedure Simplified

Section 10[2]

By virtue of the proposed omission the Bill seeks to eliminate the words “in connection with zero rated supply”. Now excess of input tax over output tax shall be refunded in respect of all kinds of supplies not later than thirty days of filing of return.

This is a positive move to facilitate the refund procedures.

*Recovery of Short Payment without Affording Opportunity**Section 11A*

By virtue of the proposed amendment the department has been empowered to recover short paid amount of tax with the return furnished along with the default surcharge without giving a show cause notice. The recovery may be proceeded stopping any movement of goods from his business premises and through attachment of business bank account.

However, for penalty imposition under Section 33 show cause notice would be served upon the registered person.

*Legislation Governing Exemptions Simplified**Section 13*

By the virtue of the Finance Bill 2005 voluntary registration was removed, therefore, in order to remove the anomaly, sub-section 4 of Section 13 is eliminated.

*Double Entry Sales Tax Account Declared Mandatory**Section 22[1][da]*

Double entry sales tax account is included in the list of the records required to be maintained by the registered person. The proposed amendment aims to facilitate the auditors in having better access to the record of the registered persons.

*Return can be Furnished in an Office other than Bank**Section 26[1]*

The Finance Bill 2006 proposes to add the words “any other office” after the word “bank” in Section 26, where the return can be furnished. This amendment aims to bring in line the Sales Tax Act 1990 to e-filing of returns, where the returns are filed with the office of NIFT.

*Furnishing of Quarterly and Annual Returns**Section 26[1] proviso*

The Bill seeks to empower the Board to require certain persons to furnish returns on quarterly and annually basis. Provided also that the return filed electronically on the web or any magnetic media or any other computer readable media as may be specified by the Board shall also be deemed to be a return for the purpose of sub-section (1) and the Board may, by notification in the official Gazette, make rules for determining eligibility of the data of such returns and e-intermediaries who will digitize the data of such returns and transmit the same electronically under their digital signatures.

The proposed amendment also intends to make the e-filing of returns compulsory for non-corporate sector as well.

*Time Period for Revised Returns Extended**Section 26[3]*

The proposed Bill seeks to specify the time limit for filing of revised return by a registered person within 90 days of the filing of return to correct any omission or wrong declaration made therein, subject to approval of the Collector of Sales Tax having jurisdiction.

*Outsourcing of Audit of Refund**Claims to Firms of Chartered Accountants**Section 32[A]*

The Finance Bill 2006 seeks to empower Board to appoint the firms of Chartered Accountants to conduct the audit of the refund claims in order to get the refund procedures expedited.

*New Penalties Imposed**Section 33*

The Bill seeks to impose the penalties for the following offences:

Sales Tax Act, 1990

<i>Offence</i>	<i>Penalty</i>	<i>Section of the Act to which Offence has Reference</i>
Failure to submit summary of sale and purchase invoices required under a notification issued under this Act.	Rs. 25,000	26 (5)
Repetition of an offence for which a penalty is provided under this Act.	Twice the amount of penalty provided under the Act for the said offence.	General
<p>Any person who:</p> <ul style="list-style-type: none"> ● knowingly and without lawful authority gains access to or attempts to gain access to the computerized system; or ● unauthorizedly uses or discloses or publishes or otherwise disseminates information obtained from the computerized system; or ● falsifies any record or information stored in the computerized system; or ● knowingly or dishonestly damages or impairs the computerized system; or ● knowingly or dishonestly damages or impairs any duplicate tape or disc or other medium on which any information obtained from the computerized system is kept or stored; or ● unauthorizedly uses unique user identifier of any other registered user to authenticate a transmission of information to the computerized system; or ● fails to comply with or contravenes any of the conditions prescribed for security of unique user identifier. 	<p>Higher of:</p> <ul style="list-style-type: none"> ● Rs. 25,000 or; ● 100 % of amount of tax involved <p>Such person shall, further be liable, upon conviction by the Special Judge, to imprisonment for a term which may extend to one year, or with fine which may extend to an amount equal to the loss of tax involved, or with both.</p>	50A

Department Enabled to Call for Third Party Information

Section 38B

By the virtue of inclusion of this Section, an officer, not below the rank of a Deputy Collector of Sales Tax is empowered to require in writing any information, record or document from any person, department, company or organization within the time specified in the notice issued by the Board or by the officer of Sales Tax. Such person, department, company or organization shall:

- produce for examination, such documents or records
- allow the officer of Sales Tax to take extracts from or make copies of such documents or records; and
- appear before the officer of Sales Tax and answer any question put to him concerning those documents and records

Which in the opinion of:

- Officer of Sales Tax, is relevant to an audit, inquiry or investigation made by him
- Board, is required for purposes of formulation of policy or administering the Customs, Sales Tax, Federal Excise or Income Tax

*Search without Warrant Withdrawn**Section 40A*

By the virtue of Finance Bill 2006, the powers of Sales Tax Officers to search the premises of the registered person without warrant is withdrawn.

*Time Frame for Pending Adjudication Prescribed**Section 45*

The proposed Finance Bill seeks to extend one-time limit for adjudication in all the cases pending as on June 30, 2006 shall be deemed always to have been extended up to December 31, 2006 from the date on which the time-limit prescribed in order to speedily dispose-off the cases wherein substantial revenue involved so as to safeguard Government's interest.

*Precondition of Tax Deposition for Appeal Filing Withdrawn**Section 45B*

The Bill seeks to omit sub-section 4 of Section 45B regarding the deposit of 15% of the principal amount of tax by the applicant, when making an appeal against an order relating to any tax demanded or any penalty imposed.

This precondition was harsh in nature and has been sought to be abolished to keep it in line with fiscal statutes.

*Right to Appeal Before the Appellate Tribunal**Section 46[1]*

The Bill seeks to vest the right of making appeal before the Appellate Tribunal with an Officer of Sales Tax Department, not below the rank of Additional Collector.

*Jurisdiction of Departmental Appeals Prescribed**Section 47[1], [7], [11]*

The Bill seeks to withdraw the right of the Deputy Collector to prefer an application before the High Court against an order passed by the Appellate Tribunal; such powers are now vested with the Additional Collector.

The Bill seeks to grant the power to Additional Collector authorized by the Collector to prefer an appeal before the Supreme Court of Pakistan where the amount of tax is reduced by the judgment of the High Court.

The Bill further proposes the reference or appeal by an officer lower in rank than the Collector with the approval of Collector before an appellate forum or the Court and same shall be deemed to have been filed by the Collector.

*Scope of Alternative Dispute Resolution Committee Clarified**Section 47A[1], [2]*

By the virtue of Finance Bill 2006, those matters shall not be brought to the notice of Alternative Dispute Resolution Committee (ADRC) which are not pending before an Appellate Authority or the High Court. The concept of ADRC was first introduced in the year 2002 and the proposed amendment seeks to synchronize it with other fiscal statutes.

By the virtue of Finance Bill 2006, an amendment is made in the constitution of ADRC by specifying the officer of department to be a person not below the rank of Additional Collector, whereas, Retired Judges, not below the district and session judge, are also included amongst the persons eligible to be included in notified panel.

*CBR Empowered to Prescribe Use of Computerized System**Section 50*

The Finance Bill seeks to prescribe the use of the computerized system for the purposes of this Act, including the receipt of applications for registration, returns and such other declarations or information required to be provided under this Act and the rules made thereunder, from such date and for such registered persons or class of persons as the Board may specify.

The Board may make rules for regulating the conduct and transaction of business in relation to the submission of returns or other information to the Board by the persons required to transmit or receive any information through the computerized system, including their authorization, suspension and cancellation of authorization and for security of the information transmitted or received through the computerized system.

Sales Tax Act, 1990

e-intermediaries Role Clarified

Section 52A

By the virtue of the Finance Bill 2006, the registered person may appoint a person to file return electronically or any other document electronically on his behalf. The return or any other document filed by an e-intermediary on behalf of a registered person shall be deemed to have been filed by that registered person.

Whereby an e-intermediary, knowingly or willfully submits a false or incorrect information, document or declaration with an intent to avoid payment of tax due or claiming a tax credit or a refund that is not due to the registered person, such intermediary shall be jointly and severally responsible for the recovery of the amount of tax short paid or the amount refunded in excess as a result of such incorrect or false information or document or declaration.

Third Schedule

(Supplies charged to tax at standard rate of the retail price)

The Finance Bill proposes to include the following items in the third schedule:

<i>Item No.</i>	<i>Description</i>
17	Toilet paper and tissue paper
18	Species sold in retail packing bearing brand names and trade marks
19	Electric bulbs including energy saving lamps and fluorescent tube lights
20	Snacks including potato chips sold in retail packing
21	Shoe polish and shoe cream

Sixth Schedule

(Exempt Supplies)

The Bill seeks to exclude the following items from the sixth schedule:

<i>Item No.</i>	<i>Description</i>
4	Fresh liquid and dried milk without addition of sugar and any other sweetening matter whether packed or not
5	Cream excluding those packaged and sold under brand name or trade mark
6	Plain yogurt excluding packaged or sold under trade mark or brand name
7	Whey excluding packaged or sold under brand names or trade marks
8	Butter not sold under brand names or trade marks
9	Desi Ghee derived from milk
10	Cheese excluding packaged or sold under brand names or trade marks
40	Computer hardware including laptops, note books, PCs main frame and other peripheral units and parts thereof

The Bill also proposes to substitute the serial number 43 namely "Aircraft of unladen weight-exceeding 8000 kgs. excluding those for recreational or pleasure purpose with the word "Aircrafts".

Notable Notifications

Zero-rating tax category expanded to dairy products and stationery items	<i>SRO 548(I)/2006 dated June 5, 2006</i>
Zero-rating tax regime extended on import and supply of trucks and dumpers g.v.w. of 5 tones and above	<i>SRO 548(I)/2006 dated June 5, 2006</i>
Zero-rating tax category expanded to compost (Non-chemical fertilizers)	<i>SRO 551(I)/2006 dated June 5, 2006</i>
Levying upfront single stage sales tax on 30% value addition on import of pesticides	<i>SRO 553(I)/2006 dated June 5, 2006</i>
Scope of levying single stage tax @3% for retailers having annual turnover of more than 5 million rupees per annum has been widened. This levy includes 2% sales tax and 1% income tax as final discharge of tax liability.	<i>SRO 560(I)/2006 dated June 5, 2006</i>
Allowing input tax adjustment to retailers and wholesalers-cum-retailers (Chain Stores) who opt to pay sales tax at standard rate	<i>SRO 560(I)/2006 dated June 5, 2006</i>
Allowing commercial importers to file sales tax return on quarterly basis	<i>SRO 560(I)/2006 dated June 5, 2006</i>
Introducing a consolidated return for sales tax and excise and prescribing annual return for corporate sector	<i>SRO 555(I)/2006 dated June 5, 2006</i>
Refund rules simplified	<i>SRO 555(I)/2006 dated June 5, 2006</i>
Identifying the scope of plant, machinery and equipment for sales tax zero-rating; however, SROs 527(1)/2005 & 530(1)/2005 would remain operative.	<i>SRO 575(I)/2006 dated June 5, 2006</i>

Customs Act, 1969

Customs Act, 1969

Definition of "Audit" Included

Section 2[bba]

The Finance Bill, 2006 seeks to define "Audit" to cater for the risk based computerized clearance system of customs, based on the concept of post clearance audit. "Audit" is defined as the examination of books, stocks and inventory relating to import, export or other business with the aim to ascertain the liability of a person on account of duties, taxes in compliance with the relevant laws and rules.

Definition of "Documents" Included

Section 2[KKa]

The Finance Bill, 2006 seeks to give inclusive definition of "documents" which includes:

- a goods declaration
- application for claim of refund
- duty drawback or repayment of duty
- import or export general manifest
- passenger manifest
- bill of lading
- airway bill
- commercial invoice and packing list
- similar other forms or documents used for customs clearance or making a declaration to Customs, and also includes data or information recorded, transmitted, or stored by means of a tape recorder or computer, a label, a book, map, plan, graph, or drawing; and a photograph, film, negative, tape, or other device in which one or more visual images are embodied

Definition of "Surcharge" Included

Section 2[z]

The Finance Bill, 2006 seeks to define the term "surcharge" which means an amount or charge required to be paid under Sections 21A, 83, 86, 98 and 202A.

Upper Limit of Additional Custom Duty Restricted

Section 18

The Bill proposes that the Federal Government may levy an additional custom duty up to 75% of the value of any goods, imported or exported, as specified in First Schedule. Additional custom duty is in addition to custom duty and regulatory duty. Additional custom duty is leviable from the day specified in the notification irrespective of the date on which the official Gazette in which such notification appears is published.

Surcharge on Deferment of Custom-Duties Levied

Section 21A[2]

The Bill proposes that where deferment of customs-duties is allowed by the Board, a surcharge not exceeding 15% per annum shall also be payable on the deferred amount from such date and in the manner as the Board may prescribe.

WTO Customs Valuation Method Enforced

Section 25A

By virtue of the proposed amendment Collector of Custom or Director of Custom Valuation, have been empowered for determining custom value of goods after sequentially following the WTO prescribed method of custom valuation.

Obligation to Furnish Documents and Information Prescribed

Section 26

By virtue of the Finance Bill 2006 Section 26 is amended to enlarge the scope of production and provision of documents, and information, new section states that, an appropriate Officer of the Custom, may require in writing any information, record or document from any person dealing with importation and exportation of the goods.

Audit Procedures Elaborated

Section 26A, B

The Bill seeks to empower the appropriate Officers of the Custom to conduct an audit for ascertaining the correctness of any declaration or document or statement for determining the liability of any person for duty, taxes, fees, surcharge, fines and penalties, or for ensuring compliance with all other laws administered by the customs.

Time Limit for Filing of Imported Goods Declaration Specified
Section 79[1]

By virtue of proposed Bill the owner of any imported goods shall make entry of such goods for home consumption or warehousing or for any other approved purposes, within ten days of the arrival of the goods and no goods declaration shall be filed prior to ten days of the expected time of arrival of the vessel.

Custom Authorities Empowered to Clear Goods Without Formalities
Section 81A

By virtue of proposed insertion Officers of Custom, not below the rank of Assistant Collector are empowered, that where certain conditions are required to be met before a person can import export or clear any goods, if any said officer is satisfied that such condition cannot be met before such import, export or clearance without detriment to that person, he may grant leave for such import, export or clearance on executing such bond, surety or security for meeting the requirement of that law after the import, export or clearance and shall upon fulfillment of the said condition within specified time, discharge the bond. Where such condition is not fulfilled within the time specified in the bond, the said officer shall be entitled to enforce the bond.

Time Limit for Clearance of Imported Goods and Deposit of Import Duty Reduced
Section 82

By virtue of proposed amendment the time limit for clearance of imported goods is reduced from thirty to twenty days, moreover time period of further extension is also reduced from twenty to fifteen days and the time limit for the deposit of import duty is reduced from thirty to seven days.

It is observed that one month time is excessive which results in congestion of ports so as to minimize the dwell-time of goods this provision is introduced.

Legal Coverage Provided to Electronic Exchange of Information and Authentication
Section 155Q

The Bill seeks to provide the legal coverage to the electronic exchange of information and authentication through the customs computerized system. New insertion states that, any declaration, documents or record, accounts, notice, order, payment, authentication, authorization or information required, delivered or provided by the Customs or any registered user shall be deemed to have been required, delivered, provided or done under this Act when communicated electronically through the customs computerized system.

Collector of Customs Empowered for the Correction of Clerical Errors
Section 155R

By virtue of proposed insertion Collector of Customs is empowered for the correction of clerical errors whereby Collector of Customs is satisfied that incorrect data has been electronically communicated to Customs due to any clerical error.

Punishments and Penalties
Section 156

By the virtue of proposed amendment entries relating to serial number 12 and 96 are substituted which read as follows:

<i>Serial No.</i>	<i>Offence</i>	<i>Penalty</i>	<i>Section to which Offence has Reference</i>
12	A person who contravenes any provisions of Section 26	Such person shall be liable to a penalty not exceeding one million rupees and upon conviction before a special judge, to imprisonment for a term not exceeding one year or both	26(1) & 26(4)
96	If any person commits an offence under Section 211	Such person shall be liable to a penalty not exceeding one million rupees	211

Customs Act, 1969

Whereas following entries inserted:

<i>Serial No.</i>	<i>Offence</i>	<i>Penalty</i>	<i>Section to which Offence has Reference</i>
12A	If any person contravenes the provisions of section 26A	Such person shall be liable to a penalty not exceeding one million rupees and upon conviction before a Special Judge, he shall further be liable to imprisonment for a term not exceeding one year or both	26A
12B	If any person contravenes the provisions of section 26B	Such person shall be liable to a penalty not exceeding one million rupees and upon conviction before a Special Judge, he shall further be liable to imprisonment for a term not exceeding one year or both	26B
47A	If the goods declaration is not filed within the prescribed period of ten days	The owner of such goods shall be liable to a penalty not exceeding one Hundred thousand rupees	79

Period for Appeal to High Court Extended

Section 196[1]

The proposed Bill seeks to extend the period for appeal to the High Court for 90 days instead of 30 days of the date upon which an aggrieved person or the collector is served with the notice of order of the Tribunal.

Appeal by the Officer Below the Rank of Collector

Section 196[10]

The proposed Bill seeks to explain that any reference or appeal with the approval of Collector by an Officer below the rank of Collector shall be deemed always to have been so preferred by the Collector.

Procedure for Sale of Goods

Section 201[1]

By virtue of the Finance Bill 2006 any goods other than confiscated goods to be sold under this Act shall be sold after due notice to the owner or to his agent or custodian of the goods by auction by tender or by private offer with the consent of the owner or his agent or custodian in writing or in any other manner.

Levy of Surcharge

Section 202[A]

The proposed Bill seeks to levy surcharge at the rate of 1.5% per month of the total amount of arrears if any person fails to pay the arrears within the prescribed time.

Maintenance of Record

Section 211

This Section binds importers and exporters to maintain records so as to cater the needs of post clearance audit. The proposed bill seeks to require all importers, exporters and claimants of duty drawback, refunds or any notified concessions, terminal operators, owners of the warehouses, customs agents and the licensed customs bonded carriers, carrying out business under this Act or any other law, directly or indirectly, relating to international trade, shall be required to maintain and keep records and correspondence concerning import and export transactions.

Access to the Premises and Records by the Officers of Customs

Section 211A

Presently, there is no provision empowering Officers of Custom to have access to premises and records of importers, availing the benefit of notified reduced rates of duties and taxes for import of raw material for manufacturing of finished goods, for verification purposes. This Section is introduced to prevent the misuse of the exemption and loss to the Government revenue.

By virtue of the proposed amendment the Bill seeks to propose that appropriate Officer may, at any time after giving a notice in writing, visit any business or manufacturing premises where any raw materials, components, assemblies or sub-assemblies etc., imported at a notified reduced rate of the duties and taxes are manufactured, processed or stored, and inspect the goods, stocks, documents or records, data etc., and also take stock of the goods imported, manufactured, processed or stored, and the quantity thereof.

Scheme for Import of Old and Used Vehicles Revised

Currently, vehicles up to three years old are allowed import under the Gift and Personal Baggage Schemes but there is no age limit for vehicles imported under the Transfer of Residence (TR) Scheme.

Besides this, agricultural tractors, bulldozers, laser land levelers and combined harvesters are also allowed under gift, baggage and TR schemes subject to the same conditions as applicable for import of vehicles. Resultantly, major chunk of the vehicles imported under TR is older than five years. Import of very old vehicles needs to be restricted as these have a higher maintenance cost and are also not environment friendly. The schemes therefore need to be reviewed.

A uniform policy regarding the age of old and used vehicles imported under these schemes has been adopted. Vehicles including agricultural tractors, bulldozers, laser land levelers and combined harvesters up to five years old have been allowed under all the three schemes.

Presently, importer of any old and used vehicle under either of the three schemes Baggage, Gift & Transfer of Residence (TR) is required to submit an application to Customs for issuance of import permission which is an un-necessary hassle and inconvenience. This has been replaced with the Goods Declaration (GD) under Section 79 of the Customs Act, 1969 which is required for any import transaction. This will cease the distinctive discriminatory treatment for import of vehicles.

Baggage Rules Rationalized

The baggage rules for overseas Pakistanis simplified and rationalized to make them transparent. Presently, baggage rules envisage different categories of passengers and allowances admissible to them on the basis of their stay abroad. It is intended to notify only three categories of passengers, i.e., routine, transfer of residence and foreign nationals/tourists. The duty free and dutiable allowances for each category have been clearly specified.

For the first time one-figure of duty and taxes payable on dutiable items of baggage has been introduced. This will eliminate the discretion of the officers and the passengers will know in advance the exact amount of their liability and it will also assist them to quantify their duty free allowances.

The allowances admissible under the rules have also been increased and items like jewelry, video camera have been included in the duty free allowances. Some of the common baggage items like washing machine, cooking range etc. are also allowed in the duty free allowances in case of passengers coming on transfer of residence. Additional allowances introduced for foreign exchange remittance card holders.

First Schedule

The First Schedule has been amended to change the rates of various items. To seek the exact effect of all the amendments reference should be made to amended First Schedule of Customs Tariff.

Tariff Structure on Auto Sector

<i>Auto Type</i>	<i>Existing Rate</i>	<i>Proposed Rate</i>
A. Cars:		
CBU		
Up to 1500 cc	50%	50%
1501-1800 cc	65%	65%
1800 cc (+)	75%	75%
F. Dumpers:		
CBU	5% / 60%	30%
Parts:		
Components for assembly by OEMs (Indigenized)	5% / 60%	35%
Components for assembly by OEMs (Non Indigenized)	20%	10%
Replacement parts (Indigenized)	35%	35%
Replacement parts (Non Indigenized)	35%	35%
G. Trailers:		
CBU	60%	30%
Parts:		
Components for assembly by OEMs (Indigenized)	60%	35%
Components for assembly by OEMs (Non Indigenized)	60%	10%
Replacement parts (Indigenized)	35%	35%
Replacement parts (Non Indigenized)	35%	35%
H. Agriculture Tractors:		
CBU	15%	15%

Federal Excise Act, 2005

Federal Excise Act, 2005

Filing of Return and Payment of Duty

Section 4

The Bill seeks to amend the Section to synchronize the excise law with the sales tax law. Under the proposed substitution of sub-section 1 & 2 every registered person after payment of the amount of duty due from him for the month shall furnish a true and correct return not later than the due date in such manner and form as may be prescribed by the Board by notification in the official Gazette.

“Duty due” has been defined through insertion of Section 2(9a) as duty in respect of clearances made during a month and shall be paid on the last day of that month. The duty shall be deposited in the designated branch of bank in the prescribed challan form.

“Due date” has been defined through insertion of Section 2(8a) as the 15th day of the month following the end of the month for furnishing the return of duty.

Time Limit for Filing of Revised Return Prescribed

Section 4[5]

Amendment is proposed to prescribe a time limit of 90 days for filing of revised return to correct any omission or wrong declaration subject to approval of the Collector of Federal Excise having jurisdiction.

Levy of Excise Duty

Section 3[1]

The Bill proposes to specify the rate of duty in the Section at 15% ad valorem to synchronize the rate excise duty with the rate specified in the First Schedule to the Act.

Disallowance of Duty Drawback

Section 5[3]

The powers to disallow drawbacks, refunds and adjustments are not explicitly provided in the Federal Excise Act, 2005. The Bill proposes to empower the Board to prohibit any drawback, refund or adjustment of duty on exportation of goods or any specified or class of goods to any specified foreign port or territory by notification in the official Gazette.

Power to Collect Duty at Price Higher than the Minimum Fixed Price

Section 12[5] proviso

Under this Section the Board is empowered to fix minimum price of goods for levy and collection of duty. The insertion of the new proviso provides for assessment of duty on a higher value where the goods are sold at a price higher than the minimum price fixed by the Board.

Issuance of Electronic Invoices

Section 18[5]

The Bill proposes to enable the Board to specify goods and services in respect of which sales invoices shall be issued electronically.

One Time Extension of Time Limit for Adjudication of Cases

Section 31[4]

The Bill seeks to add a new sub-section to extend the time limit on one time basis for all cases pending for adjudication as on June 30, 2006 to December 31, 2006.

Collector (Appeals) Restricted to Remand Back the Cases

Section 33[2]

A new sub-section is proposed to be inserted to expedite the disposal of appeals by Collector (Appeals). The Collector may pass the appeal order, after giving both the parties to the appeal an opportunity of being heard, as he considers fit confirming, varying, altering, setting aside or annulling the order appealed against. The subsection, however, restricts the Collector for remanding the case for de novo consideration.

Federal Excise Act, 2005

Additional Collector Empowered
to File Reference to High Court

Section 34[3]

The Bill proposes allow the rank of the Additional Collector to file reference to High Court against order of the Tribunal. Presently such powers are with the officer not below the rank of the Deputy Collector. Furthermore time limit of 30 days is prescribed for filling an application by the Additional Collector to the High Court for postponement of refund until disposal of the appeal by the Supreme Court filed by him against the duty reduction.

Appeal by Officer Below Rank of Collector Clarified

Section 34[13]

A new sub-section has been inserted to provide clarity that any appeal or reference filed by an officer lower than a rank of Collector and the reference or appeal is pending shall always be deemed as filed by the Collector.

Alternative Dispute Resolution

Section 38

The Bill seeks to improve the functioning of the ADRC and has sought to envisage that those matters shall not be brought to the notice of "Alternative Dispute Resolution Committee" which is not pending before an Appellate Authority or the High Court. The concept of ADRC was first introduced in the year 2005 the proposed amendment seeks to synchronize it with other fiscal statutes.

Monitoring of Production through Closed
Circuit TV and Technical Experts at Factory Premises

Section 45[3]

The Bill proposes to introduce a new sub-section to specify the procedures through notification in the official Gazette to monitor the production or manufacturing of goods through close circuit TVs installed and deputation of technical staff anywhere at the factory premises.

First Schedule

The Bill seeks to make the following amendments in the First Schedule:

- Excise duty on reclaimed oil is being reduced from Rs. 5 to Rs. 2 per litre
- Introducing uniform rate of excise duty of Rs. 2,000 for all grades of Asphalt/Bitumen
- Presently, domestic air travel is subjected to 15% excise duty; however, international air travel is exempt. The Bill has sought to levy 15% excise duty on international air travel, except the international air travel for Hajj
- 5% excise duty applicable on the services of banks and financial institution in respect of opening of letter of credit, brokerage, credit card processing and renewal, foreign exchange dealing and issuance of bank guarantees
- levying of 5% excise duty on commission and brokerage of foreign exchange dealers, exchange companies and money changers
- Excise duty 5% shall be charged on the gross amount paid by the franchisee to franchiser for having the right to sell products under his brand name or trademark
- Cable TV Operators to pay Rs. 25 per connection per month as excise duty
- Cigarettes are chargeable to excise duty on the basis of retail price and the retail price of cigarettes is being increased by 7%. Moreover, vide SRO 561(I)/2006 dated 05-06-2006 the cigarettes manufacturers have also been required to print their name on the cigarette packets
- The excise duty on insurance services enhanced from 3% to 5% and this duty is charged on the gross premium, however, life insurance is exempt from this levy
- Excise duty on lubricating oil will be levied on retail price
- Telecom sector services explicitly identified

(For the comprehensive list of items, reference should be made to the Schedule in the Act)

Capital Value Tax (Finance Act, 1989)

Capital Value Tax (Finance Act, 1989)

CVT on Purchase of Air Tickets Abolished

Section 7[1], [2]

The Bill seeks to abolish the CVT on purchase for foreign travel and the corresponding change has been sought to be made in sub-section (2) as 15% Federal Excise Duty has been imposed on air tickets.

Urban Area Defined

Section 7[1][e]

The Bill proposes to insert the definition of urban area and it means area falling within the limits of Islamabad Capital Territory, cantonment board or municipal body.

CVT Imposed on the Real Estate Transactions

Section 7[2][CA]

The Bill proposes to widen the scope of CVT and it has been sought to levy CVT on the real estate transactions of sale and purchase in the following manner:

<i>Nature of Transaction</i>	<i>Rate</i>
<ul style="list-style-type: none"> ● Immovable property (other than commercial) situated in urban area, measuring at least one kanal or 500 square yards which ever is less <ul style="list-style-type: none"> ● Where the value of immovable property is recorded ● Where the value of immovable property is not recorded ● Commercial immovable property of any size <ul style="list-style-type: none"> ● Where the value of immovable property is recorded ● Where the value of immovable property is not recorded 	<ul style="list-style-type: none"> 2% of the recorded value Rs. 50 per square yard of the land area 2% of the recorded value Rs. 50 per square yard of the land area

Rate of CVT on the Purchase Value of Shares Enhanced

Section 7[2][E]

Vide Finance Act, 2004 CVT was imposed on the purchase value of shares at a rate of 0.1% of the purchase value. The Finance Bill 2006 seeks to enhance the rate of tax from 0.1% to 0.2%.

Labour Laws

Labour Laws

Workers Welfare Fund Ordinance, 1971

“Total Income” Redefined

Section 2[i]

The proposed insertion seeks to redefine the term of total income in the following manner:

Where the return of income is required to be filed:

- The profit before taxation or provision for taxation as per accounts or the declared income as per the return of income, whichever, is higher

Where return of income is not required to be filed:

- The profit before taxation or provision for taxation as per accounts or four percent of the receipt as per the statement filed under Section 115 of the Income Tax Ordinance, whichever is higher

Applicability Threshold, Mode of Payment and Recovery Amended

Section 4[1]

The proposed substitution seeks to enhance the threshold of tax applicability from rupees one hundred thousand to rupees five hundred thousand.

The Bill also seeks to make compulsory to produce the evidence of payment along with the filing of return or statement

The penal interest of 8% p.a. for delayed payment has also been sought to be matched with the Income Tax Ordinance, 2001 i.e. 12% p.a.

The Bill seeks to confer the right of appeal to the aggrieved Industrial Establishment against the order of Taxation Officer before the Commissioner of Income Tax (Appeals).

Employees’ Old-Age Benefits Act, 1976

Criteria of Applicability of EOBI Changed

Section 1[4][i]

The Bill seeks to substitute the precondition of applicability of EOBI. Currently, EOBI is applicable whereby 10 or more than 10 persons are employed; however, the proposed amendment seeks to enhance this condition to 20 persons.

Minimum Pension of Insured Person Enhanced

Schedule [2]

The Bill seeks to enhance the minimum pension to an insured person from Rs. 1,000 to Rs. 1,300.

Minimum Wages for Unskilled Workers Ordinance, 1969

Minimum Wage Rate Enhanced

Schedule Column 2

By virtue of the proposed substitution the Bill seeks to enhance the minimum wage rate from Rs. 3,000 to Rs. 4,000.

Skyrocketed price-hike and persistent rise in inflation has forced the Government to enhance the minimum wage rate @ 33% substantially.

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MHC

Tax Planning Guide

For Corporations & Individuals

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Income Tax

Income Tax

Who is Required to File a Return of Income?

Following persons are required to furnish a return of income for a tax year:

- every company
- any other person whose taxable income for the year exceeds:
 - in case of non-salaried individual & AOP Rs. 100,000
 - in case of non-salaried woman Rs. 125,000
 - in case of salaried individual Rs. 150,000
 - in case of salaried woman Rs. 200,000
- any non-profit organization
- any welfare institution
- any person who
 - has been charged to tax in respect of any of the two preceding tax years
 - claims a loss carried forward under the Income Tax Ordinance for a tax year
 - owns immovable property with a land area of 250 sq. yards or more, or owns any flat located in areas falling within the municipal limits existing immediately before the commencement of Local Government laws in the provinces, or area in a Cantonment, or the Islamabad Capital Territory

The following are excluded from the last category:

- Widows
- Orphans below the age of 25 years
- Disabled Persons
- Non-resident Pakistanis in case of ownership of immovable property

What Year End Can Tax Payer Adopt?

<i>Class of Person</i>	<i>Tax Year Type</i>	<i>Year End</i>
Companies (including cotton textiles) Association of persons and Individuals	Normal Tax Year	July 01 to June 30
Sugar	Special Tax Year	October 01 to September 30
Person exporting rice	Special Tax Year	January 01 to December 31
Ginners, Rice huskers, Oil mills	Special Tax Year	September 01 to August 31
Shawl manufacturers	Special Tax Year	April 01 to March 31

The CBR is empowered to specify any special tax year through notification for a class of persons.

When to File the Return of Income?

<i>Status</i>	<i>Year End</i>	<i>Date of Filing</i>	<i>Tax Year</i>
Individual & AOP	June 30, 2007	September 30, 2007	2007
Company (including falling under PTR)	June 30, 2007	December 31, 2007	2007
Company	September 30, 2007	September 30, 2008	2007
Company	December 31, 2007	September 30, 2008	2007

Who is Required to Pay Advance Tax?

- Every business individual and AOP whose latest assessed taxable income excluding the presumptive tax income is more than Rs. 200,000
- Every company deriving income chargeable to tax

When to Pay Advance Tax?

<i>Period</i>	<i>Quarter Name</i>	<i>Payment Date</i>
1st of July to 30th September	September quarter	On or before the 15th of September
1st October to 31st December	December quarter	On or before the 15th day of December
1st January to 31st March	March quarter	On or before the 15th March
1st April to 30th June	June quarter	On or before the 15th of June

Rate of Tax for Non-Salaried Individuals and AOP

The Bill proposes to restructure the income slabs and tax rates for non-salaried individuals and AOP, where taxable income exceeds Rs. 100,000 the tax rates would be applicable on the flat rate basis varying from .50% to 25%. However, the basic exemption limit for women has been proposed to be enhanced to Rs. 125,000.

<i>Income Brackets</i>	<i>Rate</i>
Where the taxable income Does not exceed Rs. 100,000	NIL
Exceeds Rs. 100,000 but does not exceed Rs. 110,000	0.50%
Exceeds Rs. 110,000 but does not exceed Rs. 125,000	1.00%
Exceeds Rs. 125,000 but does not exceed Rs. 150,000	2.00%
Exceeds Rs. 150,000 but does not exceed Rs. 175,000	3.00%
Exceeds Rs. 175,000 but does not exceed Rs. 200,000	4.00%
Exceeds Rs. 200,000 but does not exceed Rs. 300,000	5.00%
Exceeds Rs. 300,000 but does not exceed Rs. 400,000	7.50%
Exceeds Rs. 400,000 but does not exceed Rs. 500,000	10.00%
Exceeds Rs. 500,000 but does not exceed Rs. 600,000	12.50%
Exceeds Rs. 600,000 but does not exceed Rs. 800,000	15.00%
Exceeds Rs. 800,000 but does not exceed Rs. 10,00,000	17.50%
Exceeds Rs. 10,00,000 but does not exceed Rs. 13,00,000	21.00%
Exceeds Rs. 13,00,000	25.00%

Income Tax

Rate of Tax for Salaried Individuals

The Bill proposes to restructure the income slabs and tax rates for salaried individuals where taxable income exceeds Rs. 150,000 the tax rates would be applicable on the flat rate basis varying from 0.25% to 20%. However, the basic exemption limit for women has been proposed to be enhanced to Rs. 200,000.

<i>Income Brackets</i>	<i>Rate</i>
Where the taxable income Does not exceed Rs. 150,000	NIL
Exceeds Rs. 150,000 but does not exceed Rs. 200,000	0.25%
Exceeds Rs. 200,000 but does not exceed Rs. 250,000	0.50%
Exceeds Rs. 250,000 but does not exceed Rs. 300,000	0.75%
Exceeds Rs. 300,000 but does not exceed Rs. 350,000	1.50%
Exceeds Rs. 350,000 but does not exceed Rs. 400,000	2.50%
Exceeds Rs. 400,000 but does not exceed Rs. 500,000	3.50%
Exceeds Rs. 500,000 but does not exceed Rs. 600,000	4.50%
Exceeds Rs. 600,000 but does not exceed Rs. 700,000	6.00%
Exceeds Rs. 700,000 but does not exceed Rs. 850,000	7.50%
Exceeds Rs. 850,000 but does not exceed Rs. 950,000	9.00%
Exceeds Rs. 950,000 but does not exceed Rs. 1,050,000	10.00%
Exceeds Rs. 1,050,000 but does not exceed Rs. 12,00,000	11.00%
Exceeds Rs. 1,200,000 but does not exceed Rs. 15,00,000	12.50%
Exceeds Rs. 1,500,000 but does not exceed Rs. 17,00,000	14.00%
Exceeds Rs. 1,700,000 but does not exceed Rs. 20,00,000	15.00%
Exceeds Rs. 20,00,000 but does not exceed Rs. 3,150,000	16.00%
Exceeds Rs. 3,150,000 but does not exceed Rs. 3,700,000	17.50%
Exceeds Rs. 3,700,000 but does not exceed Rs. 4,450,000	18.50%
Exceeds Rs. 4,450,000 but does not exceed Rs. 8,400,000	19.00%
Exceeds Rs. 8,400,000	20.00%

Special Rebates

To Senior Citizens

A rebate of 50% of the tax payable is to be allowed to senior citizen (a person who has attained the age of 60 years or above and his total income does not exceed Rs. 400,000).

To Teachers and Researchers

A further rebate of 75% is to be allowed to a full time teacher or a researcher, employed in a non profit education or research institution recognized by a Board of Education or Higher Education Commission including Government training and research institution.

Allowances and Tax Credit

<i>Section</i>	<i>Particulars</i>	<i>Tax Treatment</i>	<i>Maximum Limit</i>
60	Zakat	Direct deduction from income	N/A
61	*Charitable Donation	Average rate of tax	Lower of: Amount of donations or in case of individual or AOP 30% of taxable income in case of companies 15% of taxable income
62	Investment in Shares	Average rate of tax	Lower of: Total cost of Acquiring Shares or 10% of taxable income or Rs. 200,000 per annum
63	Approved Pension Fund Contribution	Average rate of tax	Lower of: Total contribution or premium paid by individual or 20% of taxable income or Rs. 500,000 per annum
64	Profit on Debt or Share of Mark up on House Loan	Average rate of tax	Lower of: Total profit paid or 40% of total income or Rs. 500,000 per annum

*Straight deduction allowed when donations are given to institutes specified in Clause 61 of Part 1 to the Second Schedule.

Tax Rates for Companies

<i>Tax Year</i>	<i>Banking Company</i>	<i>Public Company (Other than a banking company)</i>	<i>Private Company (Other than a banking company)</i>	<i>Small Company</i>
2006	38%	35%	37%	20%
2007	35%	35%	35%	20%

Companies listing during the year 2006 shall be entitled to a reduction in tax rates of 1% i.e., for tax year 2006 and 2007 rate may be 34%.

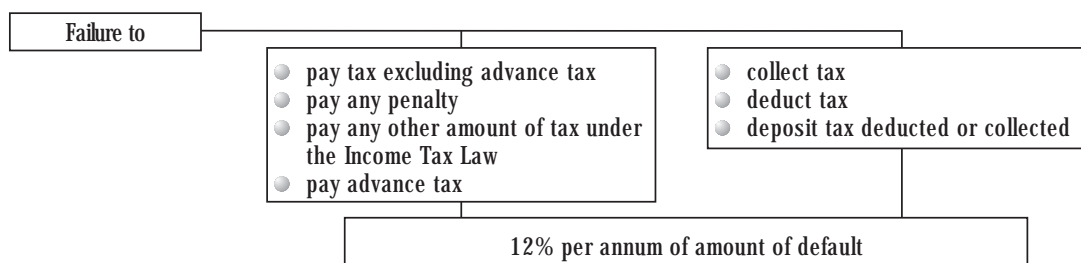
Minimum Tax

<i>Categories</i>	<i>Rates</i>
In case of resident companies (excluding small companies)	0.5% of turnover adjustable against tax payable of next 5 years
In case of Individual or AOP being retailers having turnover upto Rs. 5,000,000	0.75% of turnover as final tax
In case of Individual or AOP being retailers having turnover exceeding Rs. 5,000,000	1% of turnover as final tax

Penalties

<i>Default</i>	<i>Rate of Penalty</i>
Failure to file any return of income	0.1% of tax payable per day minimum Rs. 500 & maximum 25% of tax payable
Failure to pay any tax (Other than a penalty) <ul style="list-style-type: none"> ● In the case of first default ● In the case of second default additional penalty ● In the case of third default additional penalty ● In the case of fourth and subsequent default additional penalty 	5% of the amount of tax in default 20% of the amount of tax in default 25% of the amount of tax in default 50% of the amount of tax in default Total penalty in default shall not exceed 100% of such amount
Concealment of income or furnishing of inaccurate particulars of income	Amount equal to tax sought to be evaded by concealment or furnishing of inaccurate particulars
Failure to maintain records <ul style="list-style-type: none"> ● In the case of first default ● In the case of second default ● In the case of third and subsequent default 	Rs. 2,000 Rs. 5,000 Rs. 10,000
Non compliance of notice issued for filing of wealth statement or obtaining information or evidence: <ul style="list-style-type: none"> ● In the case of first default ● In the case of second default ● In the case of third and subsequent default 	Rs. 2,000 Rs. 5,000 Rs. 10,000
Making of false or misleading statement <ul style="list-style-type: none"> ● Statement or omission was made knowingly ● In other cases 	200% of tax short fall 25% of tax short fall
Failure to give notice of discontinuance of business Failure to give notice by liquidator of his appointment Penalty for obstruction	Not exceeding Rs. 10,000 Not exceeding Rs. 10,000 Not exceeding Rs. 10,000

Additional Tax



Withholding Agent

Following persons are liable to deduct tax at source :

- the Federal Government
- a company excluding small company
- an association of persons constituted under the law
- a foreign contractor or consultant or
- a consortium or joint venture
- an exporter or an export house
- a non-profit organisation

Deduction/Collection of Tax at Source

Section/ Subsection of I.Tax Ord.	Nature of Payment/Transaction	Standard Tax Rates	Adjustable/ Final Discharge	Exemption Limit	Persons Required To Deduct/Collect Tax	Statements of Tax Collected/Deducted
148	Imports: <ul style="list-style-type: none"> • Commercial imports • Plant machinery & equipment subject to 5% custom duty • Agricultural tractor • Edible oil • Fiber, yarn, fabric (Other than of cotton), capital goods, cement, coal, mobile phones, sugar, gold, silver, wheat, raw wood, medical surgical & dental equipments, certain medicines & vaccines and broadcasting equipments etc. 	6% Exempt 2% 3% 1%	Final except Imports for self use: <ul style="list-style-type: none"> • Raw material • Plant & machinery & parts Imports by same business-line manufacturer: <ul style="list-style-type: none"> • Fertilizers • Cars 	Nil	Customs Authorities	6 monthly within 15 days Annual within 2 months
149	Income from salary	Average rate of tax	Adjustable	Rs. 150,000/Rs. 200,000	Every Employer	Quarterly within 15 days Annual within 2 months
150	Dividend in case recipient: <ul style="list-style-type: none"> • Public company • Insurance company • Every resident company • Others 	5% 5% 10%	Final	Nil	Payer Company	6 monthly within 15 days Annual within 2 months
151	Profit on debt: <ul style="list-style-type: none"> • National Saving Deposit including DSC, under National Saving Scheme • Profit on TFCs • Profit on bank account or deposit • Profit on security • Profit on Post Office Saving Account • Profit on security issued by Federal Government, Provincial Government or Local Authority 	After Deduction of Zakat 10% 10% 10% 10% 10%	Final	Interest on investment up to Rs. 150,000 is exempt in case of National Saving Scheme and TFCs and where instalment is less than Rs. 1,000 per month	Payer of profit Bank / Financial Institution, Banking co., Finance Society Federal Government, Provincial Govt., Local Authority	Quarterly within 15 days Annual within 2 months
152	Payments to Non-Residents on account of: <ul style="list-style-type: none"> • Profit on debt, royalties, fees for technical services to a non-resident person • Execution of contract (other than for supply of goods & rendering of services) • Contracts for construction, assembly, installation projects, supervisory activities & advertisement services rendered by T.V Satellite Channels • Other payment to non-resident 	15% 6% 6% 30%	Final	Nil	Payer	Quarterly within 15 days Annual within 2 months
153	Payments to resident company or permanent establishment of non resident on account of: <ul style="list-style-type: none"> • Sale of goods: <ul style="list-style-type: none"> • Sale of rice, cotton seed, or edible oils • Sale of any other goods • Sale of edible oil to manufacturers of cooking & vegetable ghee mills • Rendering of services Execution of contract (other than for supply of goods & rendering of services) (Where NTM/CNIC is not available the rate will be increased by 2%)	1.5% 3.5% 1% 6% 6%	Final except for manufacturer-cum-supplier Final Final	Rs. 25,000 Rs. 10,000	Government, Company, a Registered AOP, Foreign Contractor or Consultant or a Consortium or Joint Venture and an exporter or export house	Quarterly within 15 days Annual within 2 months
154	Exports: <ul style="list-style-type: none"> • Listed in Part I of Seventh Schedule • Listed in Part II of Seventh Schedule • Listed in Part III of Seventh Schedule • Listed in Part IV of Seventh Schedule • Foreign exchange proceeds on account of indenting commission 	0.75% 1.0% 1.25% 1.5% 5%	Final	Nil	Authorised dealers in foreign exchange	Quarterly within 15 days Annual within 2 months

Income Tax

Section/ Subsection of I. Tax Ord.	Nature of Payment/Transaction	Standard Tax Rates	Adjustable/ Final Discharge	Exemption Limit	Persons Required To Deduct/Collect Tax	Statements of Tax Collected/Deducted
155	Income from Property	5%	Final	Nil	Federal Government, a Provincial Government, Local Authority, a Company, a Non-Profit organisation, or a Diplomatic Mission of a Foreign State.	Quarterly within 15 days Annual within 2 months
156	<ul style="list-style-type: none"> Prize on prize bond, winning from raffle, lottery or cross word puzzle Prize on winning of quiz & prize offered by companies for promotion of sales 	10% 20%	Final	Nil	Payer	Annual within 2 months
156A	Payments to petrol pump operators	10%	Final	Nil	Every person selling petroleum products	Quarterly within 15 days Annual within 2 months
156B	Payment on account of approved pension fund	Average rate of tax	Final	25% of accumulated balance	Pension Fund Manager	
231A	Cash withdrawal from a bank	0.2%	Adjustable	Rs. 25,000	Every banking company	Quarterly within 15 days Annual within 2 months
233	Brokerage and Commission	10%	Final	Nil	Payer	Quarterly within 15 days Annual within 2 months
233A	Collection of tax by a stock exchange registered in Pakistan on account of: <ul style="list-style-type: none"> Purchase of shares Sale of shares Trading of shares Financing of carry over trades (Badia) 	0.01% 0.01% 0.01% 10%	Final	Nil	Stock Exchange	Quarterly within 15 days Annual within 2 months
234	Transport Business Goods Transport Vehicles: <ul style="list-style-type: none"> Less than 2030 Kg 2030 Kg or more but less than 8120 Kg 8120 Kg or more but less than 15000 Kg 15000 Kg or more but less than 30000 Kg 30000 Kg or more but less than 45000 Kg 45000 Kg or more but less than 60000 Kg 60000 Kg or more In the case of passenger transport vehicle with seating capacity of: <ul style="list-style-type: none"> 4 or more person but less than 10 persons 10 or more person but less than 20 persons 20 person or more Other private motor car with engine capacity of: <ul style="list-style-type: none"> 1000 CC to 1199 CC 1200 CC to 1299 CC 1300 CC to 1599 CC 1600 CC to 1999 CC 2000 CC to above 	Rs. 1200 Rs. 7,200 Rs. 12,000 Rs. 18,000 Rs. 24,000 Rs. 30,000 Rs. 36,000 Rs. 25 per seat Rs. 60 per seat Rs. 100 per seat Rs. 500 Rs. 750 Rs. 1,500 Rs. 2,000 Rs. 3,000	Final	N/A	Person responsible for collection of motor vehicle tax	Quarterly within 15 days Annual within 2 months
235	Electricity Consumption: <ul style="list-style-type: none"> Does not exceed Rs. 400 Exceeds Rs. 400 but does not exceed Rs. 600 Exceeds Rs. 600 but does not exceed Rs. 800 Exceeds Rs. 800 but does not exceed Rs. 1,000 Exceeds Rs. 1,000 but does not exceed Rs. 1,500 Exceeds Rs. 1,500 but does not exceed Rs. 3,000 Exceeds Rs. 3,000 but does not exceed Rs. 4,500 Exceeds Rs. 4,500 but does not exceed Rs. 6,000 Exceeds Rs. 6,000 but does not exceed Rs. 10,000 Exceeds Rs. 10,000 but does not exceed Rs. 15,000 Exceeds Rs. 15,000 but does not exceed Rs. 20,000 Exceeds Rs. 20,000 	Rs. 60 Rs. 80 Rs. 100 Rs. 160 Rs. 300 Rs. 350 Rs. 450 Rs. 500 Rs. 650 Rs. 1,000 Rs. 1,500 Rs. 2,000	Adjustable	N/A	Person preparing electricity bills (WAPDA/KESC etc.)	Annual within 2 months
236	Telephone including mobile phone: <ul style="list-style-type: none"> Prepaid telephone cards Post-paid telephone bills 	10% 10%	Adjustable	Rs. 1,000	Person preparing phone and mobile bills	Quarterly within 15 days Annual within 2 months

NOTE: The SROs of Section 50 of the Repealed Ordinance has been saved in the Income Tax Ordinance, 2001 unless specifically withdrawn or amended.

Sales Tax

Sales Tax

Sales Tax Applicability

Sales Tax is applicable on the following:

- Manufacturers or producers
- Retailers
- Importers
- Exporters
- Wholesalers (including dealer)
- Distributors

Categories of Sales Tax

Sales tax has been classified into the following categories:

- Sales Tax
- Retail Tax

Payment of Tax

The sales tax return cum payment challan is to be deposited on the following dates:

<i>Categories</i>	<i>Type of Return</i>	<i>Filing of Return</i>
General Sales Tax	Monthly Return	within 15 days from the close of month
Retail Tax	Monthly Return	within 15 days from the close of month

Furnishing of Summary Statement

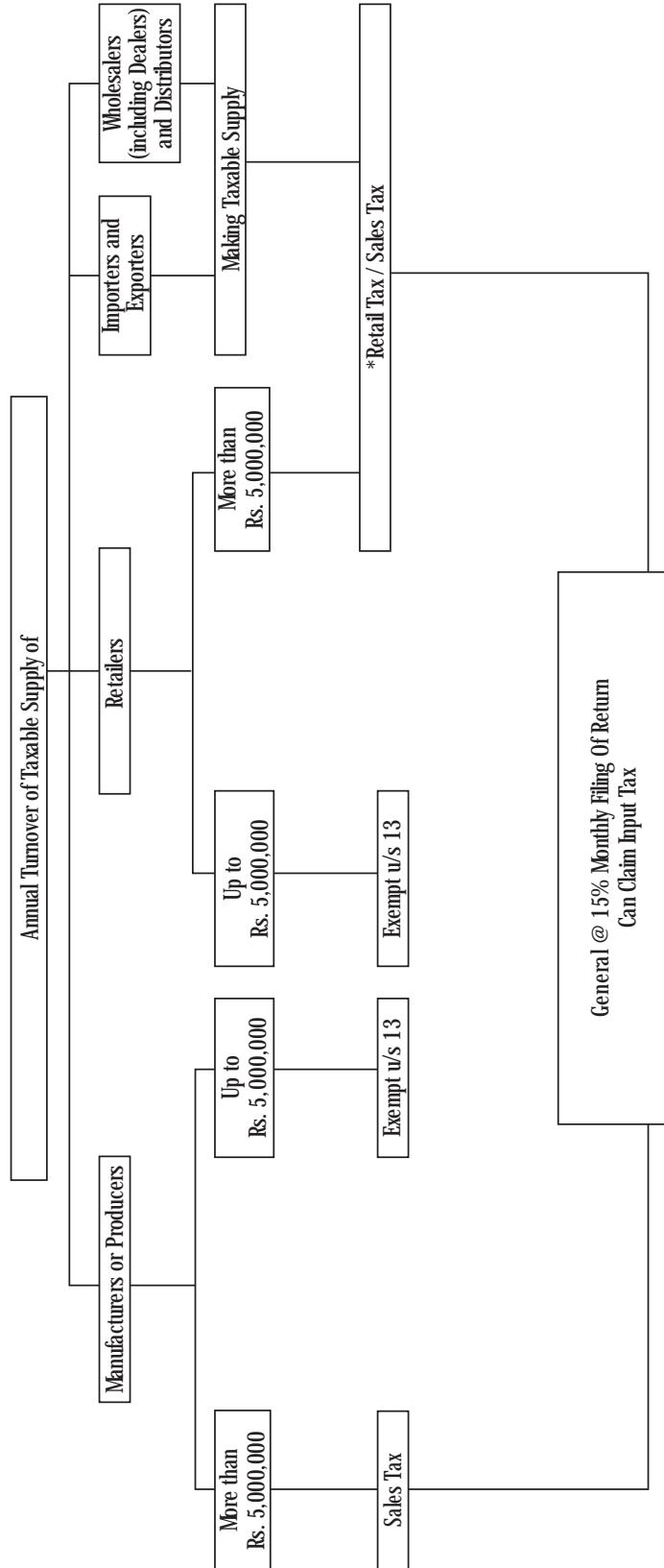
Currently SRO 525(I)/2005 required that all registered persons engaged in the import or supply of taxable goods, excluding the persons engaged in making specified zero-rated supply shall furnish a summary of their purchases and sales made during a tax period by the 15th of the month following the said tax period to the Collector of Sales Tax in the form as specified in the Sales Tax Rules, 2005.

By virtue of Finance Act, 2006 the Board issued a new SRO 559(I)/2006 dated June 5, 2006 which superseded the SRO 525(I)/2005 and required all registered persons engaged in the import or supply of taxable goods to furnish a summary of their purchases and sales during a tax period including debit and credit notes issued by the 15th of the month following the said tax period to the Collector of Sales Tax having jurisdiction in the form specified in the Sales Tax Rules, 2000. This shall not apply to the persons engaged in the manufacturing or supply of:

- cotton yarn, blended yarn or man-made yarn, textile fabrics, madeups, garments and articles of apparel
- leather and articles thereof, including footwear
- carpets of all sorts
- surgical goods
- sports goods
- milk, yogurt, cheese and flavoured milk
- pens, ball pens and pencils including colour pencils
- trucks with g.v.w. exceeding 5 tones
- compost (non-chemical fertilizer)

Sales Tax

Sales Tax Registration Threshold



* Individuals and AOPs being retailers of textile fabrics, leather garments, surgical goods and sports goods etc. having turnover of more than Rs. 5,000,000 shall be liable to pay Sales Tax @ 3% of turnover inclusive of 1% Income Tax.

** Under the 6th schedule for retailers, supplies include both taxable and exempt supplies.

Capital Value Tax (CVT)

Capital Value Tax

The rates of CVT applicable on the items are illustrated in the Chart below:

Motor Vehicles (Imported)

Excluding three wheelers and cars with engine capacity upto 800 CC and tractors for agricultural purposes not previously used in Pakistan.

New Motor Vehicles

Moveable Property		Rate of CVT	Collected by
Exceeding 800 c.c. but not	1000 c.c.	3.75%	Excise & Taxation Authority / Manufactures in Pakistan
1000 c.c.	1300 c.c.	5%	
1300 c.c.	1600 c.c.	6.25%	
1600 c.c. and above		7.50%	

Second hand used in Pakistan

Less than 5 years	1.50%	Excise & Taxation Authority
5 years to 10 years	0.50%	
10 years or more	Nil	

Certificates/Shares

Purchase	Rate of CVT	Collected by
Modaraba certificates or any instrument of redeemable capital or shares of a public company (listed on stock exchange in Pakistan by a resident person)	0.2% of purchase value	Member of Stock Exchange

CVT Imposed on the Real Estate Transactions

The Bill proposes to widen the scope of CVT and it has been sought to levy CVT on the real estate transactions of sale and purchase in the following manner:

Nature of Transaction	Rate
<ul style="list-style-type: none"> ● Immovable property (other than commercial) situated in urban area, measuring at least one kanal or 500 square yards which ever is less <ul style="list-style-type: none"> ● Where the value of immovable property is recorded ● Where the value of immovable property is not recorded ● Commercial immovable property of any size <ul style="list-style-type: none"> ● Where the value of immovable property is recorded ● Where the value of immovable property is not recorded 	<ul style="list-style-type: none"> 2% of the recorded value Rs. 50 per square yard of the land area 2% of the recorded value Rs. 50 per square yard of the land area

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