

## **SALIENT FEATURES FOR THE BUDGET 2009-10**

### **INCOME TAX**

#### **RELIEF MEASURES:**

- The basic limit of exemption from income tax in respect of salaried persons is proposed to be increased from Rs.1,80,000 to Rs.2,00,000. In the case of women salaries taxpayers, this limit is proposed to be increased from Rs.2,40,000 to Rs.2,60,000.
- Presently senior citizens are allowed 50% relief in tax liability provided the taxable income, in a tax year, does not exceed Rs.5,00,000/-. In view of inflationary trend, it is proposed to enhance limit of taxable income to Rs.7,50,000.
- In view of the less margin of profit available to cigarettes and pharmaceutical products distributors, withholding tax rate in respect of such taxpayer is being reduced from 3.5% to 1%.
- At present, the taxpayers are entitled to compensation @ 6% for the late payment of refunds. Considering the prevailing interest rates on bank loans the rate of compensation is being increased to 10% per annum.
- Presently, receipts form accumulated balance of voluntary pension scheme is exempt up to 25% of the available balance. In order to promote the voluntary pension schemes and allow relief to pensioner class the said limit is proposed to be enhanced to 50%.
- Under the existing provisions of the Income Tax Ordinance, a person is entitled to tax credit on interest payment of housing loans up to 45% of the taxable income or Rs.5,00,000/- whichever is low. The said limits are proposed to be enhanced to 50% and Rs.7,00,000/- respectively.

- Presently, tax collected on monthly electricity bills in respect of non-corporate Commercial and Industrial consumers is treated as final tax. An amendment has been proposed in section 235 of the Income Tax Ordinance by virtue of which the tax deducted on the monthly electricity bills exceeding Rs.30,000/- will be adjustable which consequently could be refunded.
- Last year amendment was made in the seventh schedule to the Income Tax Ordinance whereby the banks were deprived of the facility to claim deduction on account of provisions of non-performing loans. This facility is being restored. However, the same is proposed to be restricted to 1% of the total advances made by the bank in a tax year.

#### **Revenue Measures:**

- Before amendment made through Finance Act, 2008 withholding tax on imports was collected @ 5% which was reduced to 2%. The benefit of reduction in tax rate could not be passed on to end users therefore, the rate is proposed to be enhanced to 4% across the board.
- Presently, advance tax is payable in four quarterly installments on the basis of last assessed income. It is proposed that far working out the advance tax liability the sales should also be taken in to account.
- Last year the provision regarding payment of minimum tax on declared turnover by the companies showing losses for one or other reasons was deleted mainly for the reason that the revenue collection was insignificant. Subsequently, it was found that actual collection from this source was much higher, however due to misclassification, the same could not be reported properly. In view of huge revenue loss the provision is being revived.

- Presently, the indenting commission is being taxed @ 1% of the gross receipts whereas the general rate for commission and brokerage is 10%. In view of the gross disparity in the rate it is proposed to be enhanced to 5%.
- The scope of advance tax collection on purchase of new locally manufactured motorcar/jeep is proposed to be extended to all types of motor vehicles.
- In order to raise funds for the rehabilitation of internally displaced persons (IDPs) of Swat, Dir & Bunir it is proposed to charge 5% tax on tax payable by individuals and AOPs whose taxable income exceeds one million rupees.
- In order to support IDPs in their habilitation a new tax is being proposed to be charged on bonus income of corporate executives @ 30% of the bonus. This is a one time levy and payable for tax year 2009 only.
- At present, additional tax is chargeable @ 12% per annum on late payment of tax. The rate being low as compared to prevailing interest rate on bank loan gives temptation for delaying payment of tax. It is therefore, proposed to increase the rate of additional tax to 15% per annum.
- At present, depreciation on passenger transport vehicles is allowed on total cost which has encouraged the purchase of luxury vehicles mainly used for personal purposes at the cost of revenue. It is, therefore, proposed to restrict the value of such vehicle to Rs.1.5 million for the purpose of depreciation.
- Presently the large trading houses are exempt from payment of withholding tax on imports as well as sales of goods. The facility of exemption of tax at import stage is being withdrawn. However, the tax so collected will be adjustable against final tax liability.

- The exemption regime provided under the second schedule to the Income Tax Ordinance has been reviewed to delete the redundant and unjustified exemptions as per detail given in the Finance Bill.
- It has been noticed that the facility of tax exemption available to educational institution is being grossly misused by private universities and medical colleges etc. It is therefore proposed that such facility would only be available to those institutions which have been approved by the concerned Director General of LTU/RTO for this purpose.
  - At present no tax is collected on export of goods made without form “E” because in this case export proceeds are received in cash. An amendment has been proposed in section 154 whereby the Collectorate of Customs shall collect tax @ 1% at the time of clearing goods for export made without form “E”. Presently such exports are mainly allowed to Afghanistan through land routes.

#### **TECHNICAL MEASURES:**

- In order to avoid false claims of tax payments and make possible speedy verification of tax paid for issuance of refund, it is proposed that the taxpayer would be required to furnish copies of challan or other equivalent document in support of claims of tax payments.
- At present, the taxpayers are allowed to file revised return any time within five years of the filing of original return. It is proposed to disallow filing of revised return in cases, where the department has initiated proceedings for amendment of assessment order.
- An amendment has been proposed in section 124 of the Income Tax Ordinance, 2001 by virtue of which the taxpayers would be provided the facility of filing appeal against the reassessment order.

- In order to safeguard the interest of revenue it has been proposed that in certain cases where departmental appeals are pending in courts the Commissioner will be empowered to withhold refunds.
- In the cases of taxpayers having special tax year calculation of additional tax for delayed payment of advance tax will be made from the first day of the last quarter of the relevant tax year instead of 1<sup>st</sup> April as allowed in case of taxpayers having normal tax year.
- Presently the taxpayers are allowed to rework out the cost of an asset, purchased against a loan in foreign currency, for the purpose of depreciation. An amendment has been proposed to restrict the revaluation of the asset only in the year of occurrence of exchange fluctuation and not in previous years.
- An amendment has been proposed in section 115 of the Income Tax Ordinance to provide for filing of revised statement by the tax payer on account of any omission or wrong statement of particulars of income.
- The motor vehicle registration authorities are being empowered to collect advance tax payable on purchase of a new locally manufactured motor vehicle at the time of registration of such vehicle.
- It is being made mandatory that the taxpayers who are required to file wealth statement shall also file wealth statement reconciliation giving necessary details and documents in support thereof.
- An amendment has been proposed in section 177 of the Income Tax Ordinance 2001 to empower the Commissioner of Income Tax to delegate powers to a chartered accountant firm for conducting audit of a taxpayer.

- Harmonization of different tax laws namely Income Tax, Sales Tax, Customs and Federal Excise Duty is one of the objectives of the ongoing Tax Reforms. In this connection necessary amendments are being made in the Income Tax Ordinance, 2001 to make it harmonized with other tax laws. These amendments mainly relate to appellate proceedings, appeal fees, fine, penalties and appointment of Special Judges.

### **MEASURES FOR BROADENING OF TAX BASE:**

- In order to broaden the tax base and promote documentation of economy, importers, exporters and service providers are being required to file normal return of income instead of simple statement. Further tax deducted/collected from such taxpayers would be treated as minimum instead of final tax.
- It is proposed that obtaining of NTN may be made mandatory for purchase of property, obtaining commercial and industrial gas/electricity connection and opening of a bank account. All NTN holders are also proposed to file returns necessarily.
- In order to ensure filing of income tax returns by all persons having reasonable resources and income, it is proposed that any person owning immovable property with a land area having 500 sq. yards, flat having covered area 2000 sq.ft or owns a motor vehicle having engine capacity of 1000CC or more shall file return of income.
- Taxation Officers are being empowered to pass best judgment assessment orders in the cases of the taxpayers who failed to furnish statutory statement as required under section 115 of the Income Tax Ordinance, 2001.
- To accelerate the pace of documentation of the economy and broadening of tax base the manufacturer are being incentivized by allowing tax credit at 2.5% of

the tax payable if they are able to make at least 90% of their sales to sales tax registered persons.

- The real estate sector is known to be the most under taxed sector of the economy which usually attracts black economy. In order to curb the speculative tendency and discourage non productive investment the rate of CVT on transfer of immoveable property is being enhanced from 2% to 4%.

# **SALIENT FEATURES**

## **CUSTOMS BUDGETARY MEASURES 2009-10**

### **Policy Objectives:**

- Industrial incentives for growth and expansion.
- Boosting the export oriented sectors.
- Discouraging import of non-essential and luxury items.
- Minimizing the cost of doing business.
- Amendments in Customs Act, Rules and Procedures for further simplification.

### **1. Relief Measures:**

- a. Concession/exemption on pharmaceutical raw materials, lifesaving drugs and cancer diagnostic.
- b. Exemption from customs duty on colostomy bags (PCT 3926.9050).
- c. Reduction of duty on mobile phones from Rs. 500/set to Rs.250/set and removal of RD @ Rs. 250/set.
- d. Exemption of duty on Betain (PCT 2923.9010) for poultry industry.
- e. Exemption from duty on calf milk replacer (CMR) from existing 20% duty rate.
- f. Exemption from duty on premix of micro nutrients (cattle feed premix) from 20% duty rate for dairy development.
- g. Reduction of duty from 10% to 5% on raw materials for manufacturing pre-fabricated steel buildings.
- h. Continuation of exemption of duty on import of Agricultural tractors.
- i. Reduction of duty on import of Kits for 4-stroke auto-rickshaws from 32.5% to 20%
- j. Extension in scope of exempted relief goods falling under chapter 99 of Customs Tariff.

### **2. Protection to local industry:**

- a. Increase in duty on hydrogen peroxide from 5% to 10% to protect local manufacturer.
- b. Increase in duty on Isobutyl Acetate from 5% to 20% to protect local manufacturer.
- c. Increase in duty on Welded stainless steel pipes from 5% to 15% to protect local manufacturer.
- d. Increase of duty on multi system airconditioners of capacity 5 tones and above from 10% to 35% plus regulatory duty @ 15%.
- e. Reduction in concessionary rate by 5% on import of pharmaceutical packing materials (PVC rigid film and aluminum foil)
- f. Incentive for manufacturing of LPG,CNG dispensers and energy efficient door and windows.
- g. Reduction of duty from 10% to 5% on CRC black plate for manufacture of tin plate.
- h. Reduction of duty on raw materials of transformers and control panels.
- i. Exemption from duty on import of linear alkyl benzene from 5%.
- j. Increase of duty on import of Spark Plugs and Wire Condensers from 5% to 10%.



- k. Increase in duty on plastic sanitary ware from 20% to 25%. Continuation of 5% CD rate on SKD kits for LCD/Plasma TVs manufacturers for further period of one year.
- l. Increase in scope of exemptions on import of solar equipments.
- m. Exemption on steel tubes for manufacturing of CNG cylinders
- n. Increase of duty on tufted carpets from 10% to 15% to avoid misdeclaration with other types of carpets.
- o. Rationalization of duty on silicon sealant
- p. Exemption on inputs for manufacturing parts/components for engineering sector.
- q. Increase in duty on conductors falling under PCT code 8544.6000 from 20% to 25%.
- r. Partial waiver of exemption of RD for manufacturers of sack Kraft paper bags.
- s. Inclusion of condition "Not manufactured locally" in SRO 656(I)/06 for OEMS.
- t. Freezing duty structure on cars/Jeeps and LCVs for a period of one year.

**3. Tariff rationalization:**

- a. Regulatory duty @ 10% on Pigment thickener is merged in Tariff.
- b. Rationalization of duty on unglazed ceramic tiles to bring duty incidence at par with that on glazed tiles.
- c. Rationalization of duty on Spin finish oil to check misdeclaration.
- d. Rationalization of duty on LED panels to check misdeclaration.
- e. Rationalization of duty rate on carbon black of rubber grade and other.
- f. Uniform rate of duty on Cameras of PCT 8525.8000 to avoid misdeclaration.
- g. Rationalization of duty on rolling coating printing ink.
- h. Rationalization of duty on printed aluminum foil to avoid misdeclaration.
- i. Increase in duty on residue oil (PCT Code 2713.9090) from 10% to 15%.
- j. Rationalization of duty rate on import of cinematographic films from 5%ad.val. to 5% ad.val. plus Rs.5 per meter.
- k. Improvement in Tariff Based System for vehicles :
  - i. Customs Duty on CBU motorcycles is proposed to be reduced from 70% to 65%;
  - ii. Customs Duty on non-localized components and sub-assemblies of motorcycles is proposed to be reduced from 20% to 15%;
  - iii. Additional Duty of 32.5% is proposed to be increased on four localized parts of motorcycles to protect local vendor industry;
  - iv. Customs Duty on five non localized components used in the manufacture of 'Trailers' is proposed to be reduced from 15% to 5% to promote local manufacturing of Trailers;
  - v. Tyres have been included in TBS on statutory rate of duty
- l. Change in description of PCT codes 3824.9094 and 7228.3010.
- m. Correction of PCT Codes of Polyamides based paints and CNG buses.
- n. Creation of separate PCT code for cryogenic tanks and secondary quality steel sheets falling under PCT code 7210.5000.

**4. Miscellaneous:**

- a. Continuation of regulatory duty on luxury/non-essential goods.
- b. No change in duty structure on cars/jeeps and LCVs for a period of one year.

**5. Administrative Improvement Measures:**

Streamlining of Customs Valuation System.

**6. Legal changes:**

Following amendments have been proposed in the Customs Act, 1969.

- a. Definition of “document” is being amended to include certificate of country of origin, Vessel Information Report (VIR), Carrier Declaration Information.
- b. Definition of KIBOR (Karachi Inter Bank Offered Rate) is being added for purpose of the Act and surcharge rates have been prescribed as KIBOR plus three per cent per annum in Sections 21A, 83, 86 and 202A.
- c. Due to increase in prices of gold and other precious items, the limit for taking cognizance under the smuggling related provisions is being enhanced from Rs.50,000 to Rs.200,000.
- d. A proviso is being added to section 15 so that offences relating to goods imported or exported in violation of intellectual property rights shall be adjudicated by appropriate officers of customs.
- e. Section 25A is being amended to empower Director Custom Valuation to determine customs value on his own motion to control under invoicing more effectively.
- f. Section 25D is being amended to prescribe time limit of 30 days for filing of review application against determination of customs value with Director General Customs Valuation.
- g. Section 32 is being amended to curb the tendency of deliberate wrong self-assessment and less payment of revenue through computerized clearance system.
- h. Section 32A is being amended by inserting words “any matter of customs including assessment, classification” to make it more comprehensive in order to curb the tendency of deliberate wrong self-assessment and less payment of revenue.
- i. Section 33 is being amended so that no refund shall be allowed if sanctioning authority is satisfied that incidence of customs duty and other levies has been passed to the buyer or consumer.
- j. Section 139 is being amended so that if a passenger avails the facility of green channel for clearance of his baggage, it should be taken as declaration made by him that no dutiable or contraband goods are being cleared through green channel.
- k. Section 155F is being amended to empower Collector to immediately suspend Unique User Identifier on information of misuse of the same. However, the Collector

of Customs shall, after giving opportunity of hearing, pass an order confirming suspension or otherwise the use of Unique User Identifier.

- l. Section 179 is being amended so that Principal Appraiser and Superintendent of Customs are empowered to adjudicate petty cases not exceeding Rs.50,000. Moreover, the time limit for finalization of adjudication shall commence from the date of issuance of show cause notice and period of adjournments by the party etc shall be excluded for computation of time limit.
- m. Section 194B is being amended that Appellate Tribunal shall not pass stay order for suspending recovery of duty and taxes without providing opportunity of hearing to respondents and such stay shall not exceed 180 days.
- n. Section 195 is being amended to enhance the period of reopening of cases from two to three years.
- o. Section 211 is being amended so that the retention of record is to be linked to final decision in any proceedings including proceeding for assessment, appeal, revision, reference, petition and any proceeding before an Alternative Dispute Resolution Committee.

## **SALIENT FEATURES**

### **SALES TAX & FEDERAL EXCISE BUDGETARY MEASURES (FY 2009-10)**

- The budgetary measures of Sales Tax & Federal Excise are primarily aimed at:
  - To bring Sales Tax & Federal Excise Laws in conformity with each other in order to make them simple and easy to follow.
  - Enhance the Sales Tax & Federal Excise revenue by bringing more items in the tax net.
  - Enhancing the tax incidence on cigarette i.e, an injurious to health item.

#### **BRIEF POINTS ON MAJOR BUDGETARY MEASURES:**

#### **RELIEF MEASURES**

- Zero-rating of wheel chairs for special people.
  - Zero-rating of Sales Tax on import and local supply of wheel chairs is aimed at providing wheel chairs to special people at cheaper prices.

Enforced through S.R.O. 472(I)/2009 dated 13.06.2009, effective from the 14<sup>th</sup> June, 2009.
- Exemption of Lysine Sulphate.
  - Exemption of Sales Tax on import and local supply of Lysine Sulphate is aimed at providing cheaper raw materials for poultry feed which will result into decrease in prices of poultry products.

Enforced through SRO. 477(I)/2009 dated 13.06.2009, effective from the 1<sup>st</sup> July, 2009.
- Reduction of Federal Excise Duty on cement from Rs. 900 / PMT to Rs. 700/ PMT.

- Reduction of Federal Excise Duty on cement is aimed at providing cement at cheaper rate which will encourage construction activities in the country.

Enforced through amendment in Table I of First Schedule to the Federal Excise Act, 2005, effective from the 14<sup>th</sup> June, 2009.

- Withdrawal of 5% Federal Excise Duty on motor cars.

- Withdrawal of 5% Federal Excise Duty on motor cars is aimed at providing motor cars at lower rate which will boost their demand and stabilize the local auto mobile industry.

Enforced through SRO. 474(I)/2009 dated 13.06.2009, effective from the 14<sup>th</sup> June, 2009.

- Reduction of Federal Excise Duty on telecommunication services.

- Reduction of Federal Excise Duty on telecommunication services from 21% to 19 % is aimed at reducing the cost of the service.

Enforced through amendment in Table II First Schedule to the Federal Excise Act, 2005, effective from the 1<sup>st</sup> July, 2009.

- Reduction of activation charges of cellular phones.

- Reduction of activation charges of cellular phones from Rs. 500 to Rs. 250 is aimed at reducing the cost of new connection of mobile phones.

Enforced through SRO. 476(I)/2008 dated 13.06.2009, effective from the 1<sup>st</sup> July, 2009.

## **REVENUE MEASURES**

- Withdrawal of Exemption on import of ware potatoes and onion.
  - Withdrawal of Exemption on import of ware potatoes and onion is aimed at providing protection to local growers of potatoe and onion.

Enforced through amendment in Sixth Schedule to Sales Tax Act, 1990, effective from the 14<sup>th</sup> June, 2009.

- Enhancement of Federal Excise Duty on Cigarette.
  - Enhancement of rate of Federal Excise Duty on locally produced Cigarette in different slabs is aimed at brining tax rate on this item near international level, increasing revenue and discouraging cigarette smoking.

Enforced through amendment in Table I of First Schedule to the Federal Excise Act, 2005, effective from the 14<sup>th</sup> June, 2009.

- Levy of FED on advertisement in newspapers, periodicals, hoarding boards, pole signs, sign board and shop boards.
  - To generate additional revenue for meeting dire national needs the scope of FED on advertisement has been increased.

Enforced through amendment in Table II of First Schedule to the Federal Excise Act, 2005, effective from the 1<sup>st</sup> July, 2009.

- Enhancement of FED on short message services.
  - Levy of twenty paisa per SMS in addition to the rate specified for telecommunication services is aimed at meeting revenue requirements.

Enforced through amendment in Table II of First Schedule to the Federal Excise Act, 2005, effective from the 1<sup>st</sup> July, 2009.

- Enhancement of rate of FED on insurance services from 10% to 16%.
  - The rate of FED on insurance services from 10% to 16% in VAT mode is aimed at widening tax net.

Enforced through amendment in Table II of First Schedule to the Federal Excise Act, 2005, effective from the 1<sup>st</sup> July, 2009.

- Levy of FED on fund services provided by banks.
  - The FED @ 16% in VAT mode has been levied on fund / non-fund services provided by banking companies and non-banking financial companies to widen the tax net.

Enforced through amendment in Table II of First Schedule to the Federal Excise Act, 2005, effective from the 1<sup>st</sup> July, 2009.

- Levy of FED on services provided by the port and terminal operators including wharfage in respect of imports.
  - The FED @ 16% at VAT mode has been levied on services provided by the port and terminal operators including wharfage in respect of imports to widen tax net.

Enforced through amendment in Table II of First Schedule to the Federal Excise Act, 2005, effective from the 1<sup>st</sup> July, 2009.

- Levy of FED on services provided by stock broker.
  - The FED @ 16% in VAT mode has been levied on services provided by stock brokers is aimed at widening the tax net.

Enforced through amendment in Table II of First Schedule to the Federal Excise Act, 2005, effective from the 1<sup>st</sup> July, 2009.

## **STREAMLINING MEASURES**

- Introduction of KIBOR plus three percent per month as default surcharge.

- In order to keep the rate of default surcharge higher than the interest rates of banks to avoid short filing by the taxpayers, KIBOR (Karachi Inter Bank Offered Rates) plus three percent has been introduced.

Enforced through amendment in Sales Tax Act, 1990 and Federal Excise Act, 2005, effective from the 1<sup>st</sup> July, 2009.

- Reduction in the period by which the Collector / Federal Excise Officer can extend the time limit for adjudication of cases under Sales Tax Act, 1990 and Federal Excise Act, 2005 respectively.

- The time limit which the Collector can extend in adjudication of Sales Tax cases has been reduced from 120 to 60 days and which can be extended by Federal Excise Officer in Federal Excise cases has been reduced from 90 to 60 days.

Enforced through amendment in section 11 and 36 of Sales Tax Act, 1990 and section 31 of Federal Excise Act, 2005, effective from the 1<sup>st</sup> July, 2009.

- Introduction of penalty / imprisonment for violation of section 40B of the Sales Tax Act, 1990.

- The penalty / imprisonment for violation of section 40B has been introduced to make enforcement more effective.

Enforced through amendment in section 33 of Sales Tax Act, 1990, effective from the 1<sup>st</sup> July, 2009.

- Redefining the time period regarding reopening of any decision or order by the Board or Collector to three years.

- The time period for reopening the cases under Sales Tax Act, 1990 and Federal Excise Act, 2005 is being changed to three years.



Enforced through amendment in section 45A of Sales Tax Act, 1990 and section 35 of Federal Excise Act, 2005, effective from the 1<sup>st</sup> July, 2009.

- Regularization of the system of Alternate Dispute Resolution.
  - The system of ADRC has been streamlined by prescribing a period of 180 days for submission of recommendation and period of 45 days for passing of orders by the Board.

Enforced through amendments in section 47A of Sales Tax Act, 1990 and section 38 of Federal Excise Act, 2005, effective from the 1<sup>st</sup> July, 2009.

- Introduction of KIBOR as the rate of amount payable in addition to refund in case of delay in payment of refund of Sales Tax & Federal Excise Duty.
  - The KIBOR has also been made the basis for calculation of compensation in cases when payment of refunds is delayed.

Enforced through amendments in section 67 of Sales Tax Act, 1990 and introduction of section 44A of Federal Excise Act, 2005, effective from the 1<sup>st</sup> July, 2009.

- Harmonization of provisions regarding appeals to Appellate Tribunal under Sales Tax Act, 1990 and Federal Excise Act, 2005 with Customs Act, 1969.
  - The provisions regarding the appeals to Appellate Tribunal in Sales Tax Act, 1990 and Federal Excise Act, 2005 have been harmonized and brought in conformity with Customs Act, 1969 to have uniformity in all the three laws.

Enforced through amendments in section 46 of Sales Tax Act, 1990 and section 34 of Federal Excise Act, 2005, effective from the 1<sup>st</sup> July, 2009.