

SALIENT FEATURES FOR THE BUDGET 2010-11

SALIENT FEATURES

INCOME TAX

RELIEF MEASURES

1. In order to provide relief to large number of taxpayers deriving their incomes from *Salary* and *business*, the limit of *Basic Exemption* is proposed to be enhanced from Rs.200,000/- to Rs.300,000/- in respect of Salaried taxpayers, while in the respect of Non-Salaried taxpayers it has been proposed to enhanced from Rs.100,000/- to Rs.300,000/-.
2. For welfare of industrial & commercial consumers of electricity, the *maximum* rate of advance tax deductible under section 235 on monthly electricity bills is proposed to be reduced from **10%** to **5%**, on the amount of the bills payable by them;
3. The Senior Citizens of the age of 60 years or more, are proposed to be eligible for relief of 50% of tax on their income, if their income does not exceed **Rs.100,000/-** as compared to previous maximum limit of Rs.75,000/-. However this relief shall not be available on income subject to Presumptive Tax Regime.
4. In pursuance of Prime Minister's Relief Package to rehabilitate the economy of Khyber Paktunkhwa, FATA and PATA, some amendments are proposed to be introduced in the Income Tax Law. These measures provide following reliefs to industrial and commercial taxpayers hailing from ***most*** and ***moderately affected areas***, as prescribed:
 - a) Waiver of entire amount of default surcharge & penalty till 30th June 2010;
 - b) Exemption from advance tax on electricity for tax years 2010 and 2011;
 - c) Exemption from withholding tax on exports;
 - d) Recovery of outstanding income tax arrears through easy installments;
 - e) Enhancement of income tax exemption limit from Rs.0.1 million to Rs.0.3 million;
 - f) Annual Audit with the approval of FBR; and
 - g) Exemption from advance tax on import of plant and machinery upto 30th June 2011;

However these concessions shall not be available to manufacturers and suppliers of cement, sugar, beverages and cigarettes.

5. For the wellbeing of disabled persons, 100% depreciation expense can be claimed on Ramp built to provide access to disabled persons, is proposed through a new provision to be inserted in the law.
6. In order to provide relief to employees, exemption from taxation of perquisites on waiver of employees obligation to pay or repay, and amount owed to employer, is proposed.
7. In order to facilitate the withholding agents, instead of *e-filing* monthly, quarterly and annual withholding tax statements, the *e-filing of **only quarterly*** withholding tax statements is proposed;

TAX INCENTIVES FOR FOREIGN AND DOMESTIC INVESTMENTS

1. For the wellbeing of listed company a Tax credit for *BMR costs* incurred by such a company is proposed to be provided @ **10%** for the tax year of its incurrence. This concession has been proposed to be admissible for the tax years 2011 to 2015;
2. With the purpose to encourage enlistment of corporate sector, a **5%** tax credit is proposed to be allowed to a company in the tax year of its enlistment.
3. In order to align with rest of the scheme, 10% withholding tax deductible on Government Securities is proposed to be a FINAL tax.
4. Withholding tax deductible on debt instruments is proposed to be a FINAL tax, in order to relieve the non-resident taxpayers of statutory requirement for filing income tax return.
5. For providing incentive to foreign lenders for tax-free repatriation of profits earned on foreign industrial loans, Clause 72(iii) of Part-IV of Second Schedule to the Income Tax Ordinance 2001 is proposed to be re-instated.
6. The maximum rate of withholding tax deductible on payments made to non-resident taxpayers who are not subject to Avoidance of Double Taxation Treaties

(other than payments made on account of royalty and fee for technical services) is proposed to be @ **20%** instead of 30%;

7. Honoring wide demand, the rate of withholding tax deductible @ 20% on cross-word puzzles is proposed to be reduced to a rate of **10%**;

REVENUE MEASURES

1. In order to strengthen the drive for documentation, a uniform tax rate for small companies as well as AOPs is proposed @ **25%** of their taxable income.
2. Advance tax deductible on imports made by *commercial importers* is proposed to be enhanced to @**5%** being a FINAL tax.
3. Tax on capital gains accruing on account of holdings of stocks/shares/securities for *six-months or less* is proposed @ **10%**, while holdings of stocks/shares/securities *exceeding six-months* is proposed @ **7.5%**. However no tax has been proposed on such capital gains arising held for a period exceeding 12 months.
4. In order to rationalize and simplify slab-rates provided in respect of advance tax deductible on *goods transport vehicles* under Item (1) of Division-III of Part-IV of Second Schedule to the Income Tax Ordinance 2001 are proposed to be abolished, and tax is proposed @ **Re.1 per kilogram** of the laden weight capacity of *goods transport vehicle*. No change has been proposed in the rate of tax on goods forwarding contracts, which remain taxable at the existing rate of 2%.
5. In order to bring clarity on advance tax deductible on Cash Withdrawals from Banks, various *banking transactions including* modes like withdrawals through *Demand Draft, Pay Order, Online Transfer, Telegraphic Transfer, TDR, CDR, STDR and RTC*, are proposed to be subject to 0.3% deduction of the advance tax, if such transactions exceed threshold of Rs.25,000/- in a single day. The advance tax is adjustable.
6. *Turnover Tax on Loss Making Companies* is proposed to be enhanced to @ **1%**.
7. Withholding tax on gross value of Inland Air Ticket has been proposed @ **5%**. Under the scheme the Inland Air-Ticketing persons shall withholding the tax, which will be adjustable against the tax liability of the purchaser of such ticket;

TECHNICAL MEASURES

1. Section 4 of the Income Tax Ordinance 2001 is proposed to be amended to include a reference regarding tax credit on account of share of profits received by a company from an AOP.

2. In order to bring clarity, expression ‘*CD*’ appearing in Division-V of Part-IV of First Schedule to the Income Tax Ordinance 2001 is proposed to be replaced by ‘*any electronic medium*’.
3. The mandatory requirement of Filing of Wealth Statement by the Taxpayers in FTR cases with yearly tax amounting to Rs.35, 000/- is proposed to be included in section 116 of the Income Tax Ordinance 2001.
4. For enforcing checks on non-compliant taxpayers, and to encourage compliant-taxpayers, a new section 181A is proposed to be inserted in the Ordinance.
5. In order to streamline accounting of Advance Tax payments, certain amendments are proposed in section 147 of the Ordinance, so that quarterly advance tax payments are paid by **25th of last month**, as compared to earlier requirement of such payments by *15th of every month after the end of a quarter*.
6. Through an editorial amendment, the reference of ‘*minimum tax*’ on importer of edible oil and packing materials under section 148, is proposed to be incorporated in provisions referring to final tax on the income of an importer.
7. For the purposes of clarity, through an editorial amendment the reference of sub-section (1AA) of section 152 is proposed to be inserted in sub-section (2) of section 152.
8. In order to rationalize the definition of ‘*Prescribed Persons*’ as given in sub-section (9) of section 153, *an individual with turnover of Rs.50 millions or above* is proposed to be added.
9. In order to perceive better audit of withholding taxes, the withholding agents shall be required to e-file quarterly statements even in the cases where no-tax was deducted. For the purpose of alignment and uniformity, the words ‘*a person collecting tax*’ are proposed to be replaced with the words ‘*a withholding agent*’ in sub-section (2) of section 165.
10. Editorial amendments in Section 236A of the Ordinance are proposed in order to bring clarity and remove confusion about the charge of advance tax on public auction of all kind of property including confiscated or attached goods.

11. On merger of Investment Corporation of Pakistan with Industrial Development Bank, the exemption available to ICP on dividend received from any other company is proposed to be withdrawn.
12. Exemption under clause (52) of Part-IV of the Second Schedule to the Income Tax Ordinance 2001 available to Vanaspati Ghee or Oil is proposed to be withdrawn, in view of demise of SRO. 593(I) 1991 Dated 30th June 1991.

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CUSTOMS BUDGETARY MEASURES 2010-11

Policy Objectives:

- Relief to general public
- Minimizing the cost of doing business.
- Industrial incentives for growth and expansion.
- Boosting the export oriented sectors.
- Amendments in legal provisions to make them more transparent and simple.

1. Relief Measures:

- a. Reduction of customs duty on crude palm oil from Rs.9,000/MT to Rs.8,000/MT to decrease cost of vegetable ghee and oil.
- b. Exemption of customs duty on import of photographic plates and film for X-ray to lower cost of medical diagnoses for general public.
- c. Reduction of duty to 5% on pharmaceutical raw materials and drugs to provide relief to common man.
- d. Reduction of duty on equipment for dedicated use of renewable energy to encourage use of renewable energy resources.
- e. Reduction of duty on raw materials for laundry soap and detergent to provide relief to general public.
- f. Concession of customs duty on import of Road Sweeping Lorries to increase efficiency of municipal and local governments.
- g. Exemption of customs duty on import of fully dedicated LPG buses and dispensing equipment to encourage use of cheaper environment friendly fuel.

2. Incentive to Local Industry:

- h. Exemption of customs duty on import of raw materials/components for energy saving lamps to support its local manufacturers.
- i. Exemption of customs duty and sales tax on rice processing machinery to boost value addition and export of rice.
- j. Reduction of duty on raw materials of leather industry to encourage leather exports.
- k. Reduction of duty on raw materials of glass industry to make them more competitive.
- l. Reduction of duty on secondary quality tin mill black plate for manufacturers of tin plate to reduce their manufacturing cost.
- m. Exemption of duty on milk filters to support dairy industry .

3. Tariff rationalization:

- n. Exemption of duty on other than pure bred breeding animals to bring their duty at par with pure bred breeding animals.
- o. Rationalization of duty on glucose and glucose syrup to avoid misdeclaration.
- p. Rationalization of duty on prepared industrial colours to rationalize their duty structure.
- q. Inclusion of LED T.V. in industry specific concessionary regime to encourage their local manufacturing.
- r. Levy of 5% concessionary duty on copper & aluminum tubes and electro galvanized steel sheets if imported by manufacturers of evaporators and washing machines.
- s. Exemption of duty on silk yarn spun from other than silk waste to rationalize tariff.
- t. Rationalization of duty on two PCTs of adhesives.

4. Miscellaneous:

- u. Creation of separate PCT code for auto parts scrap in pressed bundles to streamline its clearance process.
- v. Correction of PCT code for asphalt paver.
- w. Correction in description of PCT codes 6813.2010 & 6813.8110.
- x. Rationalization of PCT code 3920.6300 with Pak-China FTA.

5. Legal Changes in Customs Act, 1969

- a. Keeping in view the change in rate of exchange of US \$ vis-à-vis Pak rupees and increase in prices of gold and other items the limit for taking cognizance under the smuggling related provisions is being enhanced from Rs.50,000/- to Rs.150,000/-.
- b. The valuation formula for the goods to be exported is being simplified by including regulatory duty instead of export duty in section 25 in sub-section (15)(b).
- c. The customs value determined under section 25A shall be applicable until and unless revised or superseded or rescinded by the competent authority.
- d. Section 25D is being elaborated by inserting the words “under section 25A” in order to clarify that review application before Director General Valuation shall lie in cases of the values determined by Director Valuation or Collector of Customs under section 25A. For filing a review application

under section 25D, the time period of 30 days from the date of determination of customs value is being fixed.

- e. Section 32 is being amended so that cognizance could be taken in cases where revenue is paid through self assessment in order to curb the tendency of mis-declaration and less payment of revenue through computerized clearance system.
- f. Section 32A is being amended by inserting words and comma "payment of revenue through self-assessment," to curb the tendency of deliberate wrong self-assessments on the part of the importers.
- g. Proviso to sub-section (1) of section 79 is being amended in order to restrict the facility of filing of goods declaration after examining the goods by the importer to only in case of used goods. Besides, the permission for filing of goods declaration after examination of goods can now only be granted by the Additional Collector.
- h. Section 81, sub-section (2) is being amended in order to finalize the cases of provisional assessment within three months.
- i. Section 81, sub-section (4) is being amended in order to streamline procedure for passing an order after final determination of provisional assessment.
- j. Section 156, sub-section (1), is being amended to enhance the general penalty to the extent of Rs.50,000/-.
- k. Section 156, sub-section (1), clause (64) is being amended to enhance the penalty to the extent of not less than twice the value of the offending goods besides the confiscation of goods for violation of section 128 and 129 of Customs Act, 1969. This penalty will create a deterrence vis-à-vis the smuggling of transit trade goods.
- l. In section 194A, sub-section (1), a new clause (e) is being added which would enable any person or an officer of Customs to file an appeal before the Appellate Tribunal in cases of review order passed by the Director General Customs Valuation under section 25D provided the appeal is heard by the double bench of the Appellate Tribunal.

SALIENT FEATURES FOR THE BUDGET 2010-11

SALES TAX & FEDERAL EXCISE BUDGETARY MEASURES (FY 2010-11)

- The budgetary measures pertaining to Sales Tax & Federal Excise are primarily aimed at:
 - Enhancing the federal excise and sales tax revenues without inducing any additional burden on the common man and poor segments of society.
 - Distributing the burden of extra taxation measures on all sectors of the economy.
 - Enhancing tax incidence on cigarettes which are injurious to health.

BRIEF POINTS ON MAJOR FISCAL

MEASURES: RELIEF MEASURES

- Withdrawal of restriction on adjustment of Federal Excise Duty paid on beverage concentrate.
 - Withdrawal of restriction on adjustment of FED paid on beverage concentrate is aimed at attracting new investment in beverage industry and reducing the prices of aerated waters in the country.

Enforced through SRO 399(I)/2010 dated 05.06.2010, effective from the 1st July, 2010.

REVENUE MEASURES

- Increase in the rate of sales tax from 16% to 17%.
 - Increase in the rate of sales tax from 16% to 17% is aimed at distributing the burden of extra tax measures on all

sectors of the economy.

Enforced through amendment in Section 3 of the Sales Tax Act,

1990, effective from the 1st July, 2010 and Notifications Nos. SRO

395 to 398(I)/2010, dated 05.06.2010.

- Increase in rate of Federal Excise Duty on Natural Gas from Rs. 5.09 per

MMBTu to Rs. 10/- per MMBTu.

- Enhancement of rate of Federal Excise Duty on Natural Gas is aimed at implementation of the NFC recommendations.

Enforced through amendment in Table I of First Schedule to the

Federal Excise Act, 2005, effective from the 1st July, 2010.

- Upward revision of Federal Excise duty structure on cigarettes.

- Enhancement of rate of Federal Excise Duty on locally produced Cigarettes in different slabs is aimed at bringing tax incidence on cigarettes up to the international standards and discouraging smoking.

Enforced through amendment in Table I of First Schedule to the

Federal Excise Act, 2005, effective from the 6th June, 2010.

- Levy of Federal Excise Duty @ Rs. 1/- per filter rod of cigarettes.

- Levy of Federal Excise Duty @ Rs. 1/- per filter rod for cigarettes is aimed at realization of revenue on sale of filter rods to unregistered and illicit manufacturers of cigarettes.

Enforced through amendment in Table I of First Schedule to

the

Federal Excise Act, 2005, effective from the 6th June, 2010.

- Levy of 10% Federal Excise Duty on electricity intensive home appliances

- Levy of Federal Excise Duty on electricity intensive home appliances is aimed at reducing the consumption of electricity and generation of some extra revenue.

Enforced through amendment in Table I of First Schedule to the

Federal Excise Act, 2005, effective from the 6th June, 2010.