

SALIENT FEATURES **BUDGET 2016-17**

Board Principles of Taxation Proposals

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

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

CUSTOMS DUTY

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

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

| S.No | Measure | Existing CD % | Proposed CD % |
|-------------|--|----------------------|----------------------|
| 5 | Reduction in CD on White Spirits | 10 | 3 |
| 6 | Reduction in CD on Stamping Foil | 20 | 16 |
| 7 | Reduction of CD on Fatty Alcohol Ethoxylate | 15 | 5 |
| 9 | Reduction in CD on CFC Free Gases | 15 | 11 |
| 8 | Reduction in CD rate for Aluminum Sheet in Coil | 20 | 11 |
| 9 | Reduction in CD on Thermostats of Deep-freezers | 20 | 3 |
| 10 | Rationalization of CD on Betel nuts and Betel Leaves | 10 Rs.300/kg | 20 Rs.600/kg |
| 11 | Rationalization of CD on Almonds | 10 | 20 |
| 12 | Rationalization of CD Frozen fish | 10 | 20 |
| 13 | Increase of CD on Medium Density Fiber board | 15 | 20 |
| 14 | Increase of CD on Cement Clinker | 2 | 11 |
| 15 | Increase in CD on Semi Printed/Printed Security Paper | 5 | 16 |
| 16 | Increase in CD on Live Chicken stock and Eggs of chicken | 5 | 11 |
| 17 | Increase in CD on Birds eggs(not in shell) | 5 | 16 |
| 18 | Removal of RD from Bead Wire for tyres Manufacturers | RD 10 | 0 |
| 19 | Removal of RD from Carbon Steel Strips used by Razor blade manufacturers | RD 17.5 | 0 |
| 20 | Levy of RD on Powdered Milk | 20 | 20+25RD |
| 21 | Levy of RD on Whey Powder | 20 | 20+25RD |

SALES TAX & FEDERAL EXCISE DUTY

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

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

Enforcement through SRO, effective from 01.07.2016.

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

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

Enforcement through SRO, effective from 01.07.2016.

7. FED at 16% is leviable on services such as Advertisement on CCTV / Cable TV, Shipping Agents, Banking Companies, Insurance Companies, Cooperative

Financing Societies, Modarbas, Musharikas, Franchise Services, Stevedores, Stock Brokers, Forex Dealers etc. Provinces and various Chambers of Commerce & Industry have demanded withdrawal of FED on such services as provinces are already charging sales tax on these services. FED on these services on which provinces are collecting sales tax is being withdrawn.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

10. Exemption from sales tax and Federal Excise Duty to businesses to be established in Gwadar Free Zone. Exemption for a period of 23 years from sales

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

14. Enhancement of Federal Excise Duty on Cement. Cement is currently chargeable to Federal Excise Duty @ 5% of the retail price. It is proposed to

replace the current regime with fixed rate basis and to charge FED on cement on fixed rate basis @ Rs. 1/ kg.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

15. (a) Levy of sales tax on sugar at reduced rate of 8%. Sugar is currently chargeable to Federal Excise Duty @ 8%. It is proposed to replace this Federal Excise Duty with levy of sales tax at reduced sales tax rate of 8%.
- (b) Levy of sales tax on urea at reduced rate of 5%, in order to promote agriculture and alleviate the conditions of farmers.

Enforced through Finance Bill, 2016, effective from 01.07.2016.

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

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

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

22. Marble Cutting and Polishing Industry. Marble Industry is mostly unregistered and is not paying sales tax. This sector has electricity as a major input. In order to bring this sector in the ambit of sales tax, it is proposed to charge sales tax @

Rs. 1.25 per KWH of electricity consumed. The proposed tax shall be in addition to standard sales tax @ 17% on supply of electricity as well as extra tax @ 5%.

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

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

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

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

Enforced through Finance Bill, 2016, effective from 01.07.2016.

INCOME TAX

Relief Measures

- **Reduction in Tax Rate for Companies:** Continuing with the policy of reducing corporate tax rates, the rate has been reduced to 31% for Tax Year 2017.
- **Exemptions under Gwadar Port Concession Agreement:** For operation and development of Gwadar Port and Gwadar Free Zone exemptions and concessions in accordance with the decisions of ECC and concession agreement are proposed to be granted to concession holder (China Overseas Ports Holding Company Limited) and its operating companies, businesses to be established in the Free Zone and contractors and sub-contractors of the concession holder in accordance with concession agreement.
- **Exemption on Investment in Greenfield Industrial Undertakings:** Period of exemption to investment in Green Field Industrial undertakings is being extended from 2017 to 30th June, 2019.
- **Tax Credit for Employment Generation:** At present, 1% tax credit for a period of ten years is available for every 50 employees employed by an industrial undertaking to be set up by June 2018. In order to reduce unemployment and encourage new industry, the credit is being enhanced to 2% and the date for setting up of industrial undertaking is being extended to June 2019.
- **Tax Credit for making sales to registered persons:** At present 2.5% tax credit is available to a manufacturer registered under Sales Tax who is making over

90% sales to Registered Sales Tax Persons. To encourage documentation, the credit is being increased to 3%.

- **Tax Credit for Balancing, Modernization and Replacement (BMR):** At present, tax credit on BMR of the plant and machinery is allowable on plant and machinery purchased and installed up to June, 2016. Period for installation of plant and machinery is being extended to June, 2019.
- **Tax Credit for Enlistment:** At present 20% tax credit on tax payable for enlistment in stock exchange is available for 1 year. In order to encourage enlistment of companies on stock exchange tax credit is being extended to 2 years instead of one year.
- **Tax Credit for Establishing new industry and expansion of existing plant:** At present, 100% tax credit on tax payable is allowed if 100% fresh equity is raised through issuance of new shares. This tax credit is allowable for five years from commercial production. It is proposed to reduce the condition of 100% fresh equity to 70% equity and tax credit would be allowed proportionately on owned new equity and not on borrowed amount. Period of tax credit is also being extended to June, 2019.
- **Extending exemption to export of IT services:** Exemption to export of IT Services is going to expire in June, 2016. IT sector is passing through infancy stage in the country and requires support. It is proposed that the exemption may be extended till June, 2019. The taxpayers shall be allowed to retain 20% of the proceeds outside the country for meeting expenses, and shall remit 80% to Pakistan through Banking Channel.

- **Enhancing limit of interest on House Building Loan:** At present, an individual is allowed deductible allowance for profit on debt on the loan upto 1 Million for construction of a new house or acquisition of house. In order to provide relief to low income group, loan amount is being increased from 1 Million to 2 Million.
- **Employers' Annual Contribution in Provident Funds:** At Present, employer is allowed to contribute in Provident Fund upto 1/10th of salary of an employee or Rs. 100,000 whichever is lower. Any amount exceeding this limit is treated as income of the employee. On demand of taxpayers, the limit of Rs. 100,000 on employer's contribution is proposed to be enhanced to Rs. 150,000.
- **Tax Credit on Health Insurance:** At present, tax credit is available on the payment of life insurance premium up to 1.5 M. A new tax credit @ 5% of tax payable or Rs. 0.1 M whichever less is proposed to be allowed on payment of premium of health insurance.
- **Reduction in Tax Rate on Commission of Life Insurance Agents:** At present, Commission paid to life insurance agents is taxed at the rate of 12% for filers. The rate of tax is being reduced to 8% for filer on commission received up to Rs. 0.5 M.
- **Relief on Education Expenses:** In order to provide relief for education expenses which are unbearable for low income groups, individual having taxable income less than Rs. 1 million is being given tax relief equal to 5% of school fee upto Rs. 60,000 per child per annum.

Revenue Measures

- **Advance Tax for Alternate Corporate Tax (ACT):** Advance tax is paid on the basis of tax calculated on income or minimum tax on turnover and is required to be deposited in four installments. However, advance tax is not calculated on the basis of Alternate Corporate Tax (ACT). Taxpayers under existing law have to pay entire tax at the time of filing of return. It is proposed that Alternate Corporate Tax may also be made the basis for payment of advance tax.
- **Rationalizing Rates For Capital Gain Tax On Immovable Property:** It is proposed to extend the holding period for taxation of capital gain on sale of immovable property from two years to five years to be charged at uniform rate of tax of 10%.
- **Taxation of Property Income on Gross Basis:** In order to simplify taxation of property income in the case of individuals and associations of persons, it is proposed that for such persons the property income may not be clubbed with income under other heads and may be taxed as a separate block of income. Accordingly separate rates of tax have been proposed.
- **Persons registered with Provincial Sales Tax Authorities:** At present a large number of service providers are filing sales tax returns with the Provincial authorities but are not filing Income Tax returns. In order to encourage filing of Income Tax returns, it is proposed that an advance tax at 3% of turnover of non-filer service providers be collected by provincial ST authorities along with their sales tax returns.

- **Rationalizing Minimum Tax:** At present, Companies declaring Gross Loss are exempt from payment of Minimum Tax at the rate of 1% of turnover. However, this exemption is not available to Individuals and AOPs. In order to maintain neutrality and to stop misuse of the provision, it is proposed that Minimum tax may be charged on companies declaring gross loss.
- **Extending the Scope of Minimum Tax:** At present, minimum tax on turnover is paid by individuals and AOPs having turnover exceeding fifty million rupees. A large number of Individuals and AOPs having turnover below Rs. Fifty million are filing returns yet they are not paying any tax. It is proposed that minimum tax @ 1% of turnover may be made payable by Individuals and AOPs having turnover exceeding ten million rupees.
- **Taxation of Builders & Land Developers:** At present tax collection from Builders and Land Developers does not match with the level of investment and profits accruing in construction sector. After discussion with ABAD, final tax is being imposed on builders/ land developers on the basis of per unit area.
- **Withholding Tax on Mining:** In order to expand the tax base, It is proposed that a withholding tax at the rate of 5% of the value of minerals be collected from non-filers by the departments of provincial governments responsible for issuing licenses for extraction of minerals and collection of royalty on the extracted minerals.
- **Extending the leviability of Super Tax for year:** Super Tax was levied for the Tax Year 2015 to meet revenue needs for certain unforeseen expenditure by the Government. Since the circumstances still persist, it is being extended for Tax Year 2016.

- **Increasing Cost of Non-Compliance with Tax Laws:** Continuing with the policy of differential taxation for filer and non-filer, various sections are included with higher withholding tax rates for those not filing income tax returns.
- **Rate of tax on Securities:** In order to encourage capital markets, it is proposed to maintain the existing tax rate for filers only. However, the tax rates for non-filers are being increased.
- **Rationalization of Withholding Tax on Commercial Electricity Bills:** Traders are not properly contributing in tax collection therefore it is proposed to increase the adjustable Withholding Tax on commercial electricity bills exceeding Rs. 20,000 per month to 12 percent. No increase is however proposed on industrial and residential electricity bills.