

SALIENT FEATURES

CUSTOMS BUDGETARY MEASURES 2008-09

Policy Objectives:

- Industrial incentives for growth and expansion.
- Discouraging import of non-essential and luxury items.
- Minimizing the cost of doing business.
- Cascading principle in tariff rates maintained as guiding principle (primary raw materials @ 0%-5%, secondary/components @ 5-10% and finished goods @ 20-35%).
- Amendments in Customs Act, Rules and Procedures for further simplification.

Relief Measures:

- The local industry producing water dispensers, hooks & eyes, aluminum alloy, electric irons, mini choppers, vacuum cleaners, central heating gas boilers, mini ovens, gas heaters, gas stoves/cooking ranges with ovens, air handling equipments, central heating equipments, UPS, Chlorinated paraffin, chrysotile cement pipes, sheets & fittings and perforated steel products have been provided inputs at 0%, 5% and 10% rates of duty.
- Fully dedicated CNG buses exempted of from duty.
- Pharmaceutical industry given specified active ingredients, chemicals and packing materials at 5% duty.
- Eighteen medicines used for cancer/heart treatment etc. exempted from customs duty.
- Bitumen, JP4&JP8 exempted from duty. Duty rate on base oil for lubricating oils reduced from 20% to 10%.
- Rice seeds, energy saving lamps, dredgers, specified solar energy equipments exempted from customs duty.
- Power plants imported by WAPDA on temporary basis exempted from customs duty.
- Reduction of duty on calcium carbide from 15% to 5%, PTA from 15% TO 7.5%, PSF 6.5% to 4.5%, Caustic soda from Rs.5000/MT to Rs.4000/MT, Printing screens from 15% to 10%, nickel not alloyed from 5% to 0%, Textile buckram from 25% to 10%.
- Manufacturers have been allowed to import samples duty free as per specified conditions in chapter 99 of PCT.
- Seized/confiscated vehicles as on 31st May, 2008 may be released against payment of leviable duty/taxes and 30% redemption fine.

Revenue measures:

- Duty rates on non-essential & luxury items have been increased. Hence, duty rate on dairy products, fruits, chewing gum, chocolate, processed food, fruit juices, aerated waters, ceramic products, air-conditioners/refrigerators, electric fans, toasters, micro wave ovens, televisions, furniture and lighting equipment etc increased from 25% to 35%. Duty rates on cosmetics increased from 20 -25% to 35%. Duty rate on electric ovens/ cooking ranges etc. increased from 20% to 30%.
- Customs duty @ Rs. 500/ per set levied on import of mobile phone.
- Customs duty on betel leaves increased from Rs.150/kg to Rs. 200/kg.
- Duty rate increased on sulphonic acid from 10% to 15%.
- Duty rate increased on CKD/SKD of sewing machines from 5% to 20%
- A uniform rate of 30% specified for import of special purpose motor vehicles.
- Increase in duty rates on import of cars/jeeps above 1800cc from 90% to 100%. Fixed duty/tax rates on old and used cars/jeeps increased by 10%.

Investment /trade facilitative measures:

- Manufacturers and particularly soap manufacturers based in AJ&K have been extended concessionary duty regime in line with SRO 565(I)/2006, as available to Pakistan based manufacturers.
- Specified industries/projects have been de-linked from the local manufacturing condition for import of required machinery, equipments and raw materials etc.
- Tariff based system (TBS) for auto sector has further been improved.
- Release of held up indemnity bonds is eased out.

Legal changes:

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

- Clause (ab) in section 21 of the Customs Act proposed to be omitted.
- A new section 3DD is proposed to be introduced in the Customs Act, 1969 for constituting a Directorate General of Post Clearance Audit (PCA)
- A proviso is proposed to be added to section 155F of the Customs Act for suspension of unique user identifier of any person.
- Section 156 is proposed to be amended to provide for penalizing the custodian of any goods for involvement in an offence under the Customs Act.
- Section 179 of the Customs Act is proposed to be amended for allowing adjudicating officers to decide cases within 120 days.
- Section 194C is proposed to be amended for enhancing the limit of single bench of the Appellate Tribunal from five to ten million rupees.
- A new sub-section 4A is proposed to be added in section 195C for redressal of grievances of an aggrieved person.

June 10, 2008

SALIENT FEATURES OF THE BUDGET 2008

INCOME TAX.

RELIEF MEASURES:

1. The basic limit of exemption from income tax in respect of salaried person is proposed to be increased from Rs.150,000 to Rs.180,000. In the case of a women salaried taxpayer the basic exemption limit is proposed to be increased from Rs.200,000 to Rs.240,000.
2. The concept of marginal tax relief for the salaried persons is being introduced to cater for the negative impact of taxation under the present flat tax rate system. The marginal increase in salary income is proposed to be taxed at the rates not exceeding 20% to 50% allowing sufficient relief in tax payable.
3. Minimum tax payable on the declared turnover @ 0.5% is being proposed to be withdrawn.
4. In future instead of tax holidays, First Year Allowance in the shape of accelerated depreciation @ 90% is proposed to be allowed to the industrial undertakings established in the specified rural and undeveloped areas.
5. The value of accommodation provided to the salaried persons in small cities is proposed to be taken at 30% instead of 45% of the minimum time scale of the employees for the purpose of taxation.
6. At present inter corporate dividend in respect of companies entitled to group relief under section 59AA is exempt from tax. The facility is proposed to be extended to the companies eligible for group taxation under section 59B.
7. Exemption available to capital gain on shares of listed companies upto the tax year ending 30th June 2008 is proposed to be extended to 30th June 2010 without any change in the withholding tax and CVT regime.
8. To encourage amalgamation of banking companies, modarabas and insurance companies the facility of carry forward of "accumulated loss" is proposed to be allowed for a period of six years in the case of amalgamated or amalgamating companies.
9. Rice Exporters Association of Pakistan (REAP) is proposed to be allowed the facility of reduced withholding tax rate of 1% in respect of payments payable for supply of rice to M/s Utility Stores Corporation.

10. Income derived by a project approved by Designated National Authority (DNA) from transfer/sale of CDM emissions credit i.e. Certified Emissions Reduction (CER) etc is being proposed to be exempt from income tax.
11. In the case of bank no CVT is proposed to be charged on General Power of Attorney unless it is used into force the mortgage of property offered as collateral against a loan.
12. In the case of a small company if turnover exceeds Rs.250 million, the income attributable to the turnover exceeding the said limit, is proposed to be charged to tax at progressive slab rate of 25%, 30% and 35%, so that the company is able to progress still retaining its status of a "small company".
13. Income shown as unrealized gains in the case of non life insurance companies would be excluded from the taxable income and not charged to tax.
14. Proportionate relief is proposed to be allowed in the amount of penalty imposed in tax evasion cases where the appellate authorities reduce the quantum of concealed income and tax charged thereon.
15. A scheme for waiver of additional tax and penalty etc. is proposed to be introduced where the taxpayer is able to pay the principal amount of tax within a certain period.

REVENUE MEASURES:

- 16 At present gross rental income from property is chargeable to tax at a flat rate of 5%. It is proposed that no tax may be charged on income upto Rs.150,000 and tax income from this source on progressive rates of 5%, 10 and 15%. However, in the case of a company basic exemption of Rs.150,000 would not be available.
- 17 At present withholding tax rate of 5% and 1% is applicable in respect of commercial and manufacturer importers respectively. It is proposed to apply a uniform rate of 2% for both the categories of importers.
- 18 Withholding tax collected on electricity bills is being rationalized to collect the same @ 10% on bill amount exceeding Rs.20,000 per month which would be adjustable. Withholding Tax on bill amount of Rs.2000 and below would be collected at the previous rates.
- 19 The pensioners, senior citizens and widows who are exempt from withholding tax in respect of profit from pensioners benefit scheme and

behbood fund would not be charged to tax at a rate not exceeding 10% of such profit.

20. Exemption from income tax available to Pakistan Cricket Board is proposed to be withdrawn.
21. In order to encourage and promote investment in the business and industries, scheme of investment tax is being introduced, allowing immunity from probe in respect of any moveable and immoveable assets on the value of which tax @ 2% is paid.
22. The rates of advance tax, collected at the time of renewal of registration of private motor cars, are proposed to be rationalized by making about 30% to 40% Increase in WHT rates.
23. Withholding tax on monthly telephone bills exceeding Rs.1000 is proposed to be collected @ 10%.
24. Association of person and individuals having annual turnover of Rs.50 million respectively are proposed to be made withholding tax agents for the purpose of tax deduction on payments relating to on sale of goods, services rendered and execution of contracts.
25. The existing exemption regime provided under the Second Schedule of the Income Tax Ordinance, has been reviewed to delete all redundant and unjustified exemptions.
26. Profit transferred by a branch of foreign company out of Pakistan are proposed to be treated as dividend and chargeable to tax @ 10% as final tax.
27. The limit of donations eligible for tax credit in the case of individual/association of persons and companies presently admissible @ 30% and 15% respectively are proposed to be reduced to 10% of the taxable income.
28. It has been proposed that reinsurance premium paid to overseas insurance companies may be subjected to withholding tax @ 5% which would be a final tax.
29. Withholding tax on cash withdrawal from banks presently collected @ 0.2% is proposed to be collected @ 0.3% on cash withdrawal.
30. A new taxation system is being introduced for builders and developers, whereby the builder would be required to pay tax @ Rs.50 per sq. ft. of the

covered area of a unit. The developer of open plots would be subjected to tax @ Rs.100 per sq. yard of the plot.

31. The facility of reduced tax rate to a cooperative society or a finance society is proposed to be withdrawn and would be treated at par with the company for the purpose of taxation.
32. Exemptions from income tax available under the other statutes are proposed to be withdrawn unless provided specifically under 2nd Schedule to the Income Tax Ordinance, 2001.
33. Payments made to media companies out side Pakistan are proposed to be subjected to WHT @ 10%, to be treated as final tax.
34. Any payment made through a foreign currency account and exchange companies proposed to be included in the payments requiring deduction of WHT unless the CIT has allowed otherwise as provided under section 152 of Income Tax Ordinance, 2001.
35. From the next financial year WHT on purchase of locally manufactured motor car or jeep is proposed to be collected by a motor vehicle registration authority at fixed rates depending on the engine capacity.
36. Thin capitalization rule is proposed to be made applicable to branches of foreign companies operating in Pakistan.
37. The discrimination in tax rates applicable to exporters is being removed by withdrawal of provisions allowing deduction of tax at a rate lesser than 1%.
38. The tax collected from the members of stock exchange on sale as well as purchase of shares in lieu of commission income and trading of share is proposed to be made a minimum tax on income of such members/ brokers.

TECHNICAL MEASURES:

39. The period of payment of tax due from a taxpayer is being reduced from 30 days to 15 days.
40. The provisions of section 115 of the Income Tax Ordinance, 2001 are proposed to be amended so as to ensure filing of wealth statement by a salaried taxpayer whose income is more than Rs.500,000 even if he is not required to file a return of income.
41. Sub-section (6A) of section 153 is being amended to clearly state the intention of legislature that tax deducted in the case of non-corporate

taxpayers on supply of manufactured goods shall be a final tax. Sub-section (6B) is proposed to be deleted.

42. To bring clarity in law, clause (46) of Part I of the 2nd Schedule to the Income Tax Ordinance, 2001 is being amended so that exemption is provided from deduction of tax on supplies made by PE of non-resident E&P companies.
43. To ensure correct recording of sale, Electronic Tax Register (ETR) are planned to be installed at selected wholesale and retail outlets with known high volume of business. For the purpose amendment is being proposed to be made in the Income Tax Law and Rules.
44. In order to ensure quick disposal of cases remanded back by the ITAT to the CIT (A) for making a fresh order, a limitation of six months is being provided in the law.
45. The limit for payment of salary to be paid by an employer through cheque or transfer to employee's account is being increased from Rs.10,000 to Rs.15,000.
46. A time limit of 90 days is being provided under the Income Tax Rules, 2002 for making an order by the FBR on receipt of recommendations from the Alternate Dispute Resolution Committee (ADRC).
47. In case of withdrawals from superannuation fund liable to WHT the deduction of tax is proposed to be made at the rate applicable to the year of withdrawal instead of average rate of the preceding three years.
48. In order to create linkages between voluntary and occupational savings schemes, the subscriber of a Recognized Provident Fund is proposed to be allowed to transfer funds to a voluntary pension fund scheme.
49. The provisions of 7th Schedule allowing deduction on account of non-performing loans as per prudential regulation issued by the SBP are proposed to be deleted. From the next financial year such deductions would be allowed under sections 29 and 29A of the Income Tax Ordinance, 2001.
50. A person making payment to a non-resident would not be required to give a notice to the CIT under section 152(5) of the Income Tax Ordinance, 2001, if no withholding or withholding of tax at a lesser rate is provided under the avoidance of double taxation treaty.
51. Enabling powers are proposed to be given to the FBR to allow exemption from Withholding taxes required under different provisions of the Ordinance.

52. The term “local authority” as used in section 49 and elsewhere in the Income Tax Ordinance is proposed to be substituted by the term “Local Government” to bring clarity in the law regarding exemption from income tax.
53. The definition of “Urban Area” as given under section 7 of the Finance Act, 1989 for the purpose of levy of CVT is being amended to bring it in consonance with the changes made as a result of devolution plan

SALIENT FEATURES

SALES TAX & FEDERAL EXCISE BUDGETARY MEASURES (FY 2008-09)

- The budgetary measures of Sales Tax and Federal Excise are primarily aimed at:
 - Providing impetus and a big powerful push to the agricultural sector by offering number of incentives.
 - Simplifying sales tax and Federal excise law and procedures to facilitate the trade and industry for easier collection of revenues.
 - To enhance the sales tax and Federal excise revenues so as to meet the financial crunch due to soaring prices of oil, failure of major cash crops and rising import bill.
 - Taxing the luxury items being used by the affluent class like motorcars, mobiles, telecommunication services, etc.
 - Prescribing mandatory e-filing of sales tax return to overcome problem of delayed refunds and collection of error free tax data.

BRIEF POINTS ON MAJOR BUDGETARY MEASURES:

RELIEF MEASURES

- **Exemption of fertilizers and pesticides:**
 - Exemption of sales tax on import and local supply of fertilizers and pesticides is aimed at providing fertilizers and pesticides at cheaper prices to the farmers.

Enforced through Notification SRO 535(I)/2008 and 536(I)/2008 both dated 11.06.2008, effective from the 11th June, 2008.

□ **Exemption of energy saver lamps:**

- Exemption of energy saver lamps is aimed at providing these items at cheaper prices and save the electricity to cope with the energy crises.

Enforced through amendment in the Sixth Schedule to the Sales Tax Act, 1990, effective from the 1st July, 2008.

□ **Exemption of crop insurance from the levy of 5% FED:**

- In order to encourage the farmers to get their crops insured, 5% FED on insurance premium has been exempted.

Enforced through amendment in Third Schedule to the Federal Excise Act, 2005, effective from the 1st July, 2008.

□ **Zero rating of molasses for the manufacturing of acetic acid**

- Acetic acid is used extensively in the textile industry which is zero rated. To save the manufacturers of acetic acid from the hassle of refunds, its raw materials including molasses has also been zero rated.

Enforced through amendment in the SRO 863(I)/2007 dated 24.08.2007, effective from the 11th June, 2008.

□ **Zero-rating of caustic soda flakes/solid, cotton linter and sequins**

- To further facilitate the export oriented zero-rated sectors caustic soda flakes/solid, cotton linter and sequins are being zero-rated.

Enforced through an amendment in Notification SRO 509(I)/2007, dated 9th June, 2007, effective from the 11th June, 2008.

□ **Compensation for AJK Government enabling them to pay refunds to the registered persons of AJK buying taxable goods from Pakistan**

- To enable AJK Government to pay refunds to their registered persons on purchase of taxable goods from Pakistan, a provision is being introduced in Sales Tax Law to pay sales tax refunds to persons registered in AJK.

Enforced through introducing a new section 61A in the Sales tax Act, 1990, effective from the 1st July, 2008.

- **Sales tax refund to foreign nationals visiting Pakistan on trade fairs on reciprocal basis**
 - Ambassador of Pakistan in Germany has requested that Sales Tax Law of Pakistan may be suitably amended to enable refund/exemption of sales tax relating to non-resident entrepreneurs/traders visiting Pakistan on business tours. In this way, their Pakistani counterparts will benefit while visiting abroad on reciprocal basis.

Enforced through suitable amendment in Sixth Schedule to the Sales Tax Act, 1990, effective from the 1st July, 2008.

- **Exemption of sales tax on medical equipment, apparatus, reagents, disposables, spares and donations supplied to operating hospitals of 50 beds or more**
 - In order to provide level playing field to the manufacturers of medical equipment, apparatus, reagents, disposables and spares, exemption of sales tax on these items is being granted on their supply to operating hospitals of 50 beds or more.

Enforced through suitable amendment in Sixth Schedule to the Sales Tax Act, 1990, effective from the 1st July, 2008.

- **General amnesty from payment of past liability to persons opting to get themselves registered under the Sales Tax Act, 1990**
 - In order to encourage unregistered persons to come forward for registration, it is being proposed that those willing for voluntary registration may be granted amnesty from payment of past dues. The same has been done by issuing an exemption notification in exercise of powers under section 13 (2) (a) of the Sales Tax Act, 1990.

Enforced through Notification SRO 524(I)/2008 dated 11th June, 2008, effective from 11th June, 2008.

- **Permission to M/s SNGPL to deduct input tax in respect of natural gas supplies made in AJK**
 - Sales Tax Special Procedure Rules, 2007 have been amended to allow adjustment as aforesaid.

Enforced through amendment in Sales Tax Special Procedure Rules, 2007, effective from 1st July, 2008.

REVENUE MEASURES

□ Enhancement of rate of sales tax from 15% to 16%

- The rate of sales tax has been increased from 15% to 16% to meet revenue requirements.

Enforced through amendment in section 3 of the Sales Tax Act, 1990, effective from the 1st July, 2008.

□ Enhancement of rate of FED from 15% to 16% on goods and services which are subject to FED in VAT mode

- As general rate of sales tax is being enhanced from 15% to 16%. Therefore, the same rate should be applied on the goods and services subject to FED in sales tax mode.

Enforced through amendment in Table-I & II of First Schedule to the Federal Excise Act, 2005, effective from the 1st July, 2008.

□ Proposal to increase rate of excise duty on telecommunication services to 21%

- To generate additional revenue for meeting dire national needs, rate of FED on telecommunication services is being enhanced to 21%.

Enforced through amendment in Table-II of the First Schedule to the Federal Excise Act, 2005, effective from the 1st July, 2008.

□ Rationalization of rate of FED on cement

- Cement is subject to federal excise duty @ Rs. 750/- per tonne since July, 2003. Being a fixed rate, it does not indexes inflation. It has been enhanced to Rs. 900/- per tonne.

Enforced through an amendment in Table-I of First Schedule to the Federal Excise Act, 2005, effective from the 1st July, 2008.

□ Levy of 5% FED on the import and local supply of motorcars

- To generate revenue from well to do people, FED @ 5% has been levied on import as well as locally manufactured cars having engine capacity exceeding 850cc.

Enforced through an amendment in Table-I of First Schedule to the Federal Excise Act, 2005, effective from the 1st July, 2008.

❑ **Enhancement of rate of FED from 5% to 10% on banking, insurance and franchise services**

- In order to meet the revenue requirements and to keep this levy in line with the rates prevalent in the neighboring countries, the rate of FED on these services has been increased from 5% to 10%.

Enforced through an amendment in Table-II of First Schedule to the Federal Excise Act, 2005, effective from the 1st July, 2008.

❑ **Levy of FED on all telecommunication services**

- In order to bring the remaining telecommunication services in the tax net, all telecommunication services has been being subjected to FED except those which are already exempt.

Enforced through an amendment in Serial No. 6 of the Table-II of the First Schedule to the Federal Excise Act, 2005, effective from the 1st July, 2008.

❑ **Enhancement of sales tax from 15% to 16% on Provincial services**

- Due to revenue crunch, rate of sales tax and FED has been increased from 15% to 16%. As sales tax on Provincial services is charged under the Sales Tax Act, 1990. Therefore, all provinces have been requested to increase the rate of sales tax on Provincial services from 15% to 16%.

To be enforced through legislation from the Provinces, effective from the 1st July, 2008

❑ **Collection of fixed tax @t 0.75% at import and manufacturing stage in lieu of tax payable by dealers of electric goods**

- Sales Tax Special Procedure Rules, 2007 have been amended giving a procedure for collection of fixed tax @ 0.75% of the value of goods at the import and manufacturing stage.

Enforced through amendment in Sales Tax Special Procedure Rules, 2007, effective from 11th June, 2008.

STREAMLINING MEASURES

❑ **Carry forward of excess input tax**

- Section 10 regulates the excess input tax over the output tax but there is no mention of carry forward of excess input tax. Section 10 is being amended to incorporate the carry forward amount for excess input tax.

Section 10 of the Sales Tax Act, 1990 is being amended, effective from 1st July, 2008.

□ **Enhancement of rate of 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, it has been enhanced from 1% to 1.5% per month.

Enforced through amendment in Sales Tax Act, 1990 and Federal Excise Act, 2005, effective from 1st July, 2008.

□ **Time limit for adjudication of cases under Sales Tax Act, 1990 and Federal Excise Act, 2005**

- Time to adjudicate the cases under Sales Tax Act, 1990 and Federal Excise Act, 2005 has been increased from 90 to 120 days.

Enforced through amendment in section 36 of the Sales Tax Act, 1990 and sub-section (3) of section 31 of the Federal Excise Act, 2005, effective from 1st July, 2008.

□ **Enhancement of monetary ceiling of single member of Appellate Tribunal**

- In order to clear pendency at the tribunal level and to make it a more effective forum, the monetary limit for single member bench is being proposed to be increased from Rs. 1.5 million to Rs. 10 million.

Enforced through amendment in clause (a) of sub-section (9) of section 46 of the Sales Tax Act, 1990, effective from 1st July, 2008.

□ **Addition of royalty and technical fee in franchise services**

- The definition of “franchise services” has been enlarged by including royalty and technical fee in it. Moreover, the definition of franchise has been shifted from Federal Excise Rules, 2005 to Federal Excise Act, 2005.

Enforced through amendment in section 2 of the Federal Excise Act, 2005, effective from 1st July, 2008.

□ **Exemption of supplies to Export Processing Zones**

- The supplies to Export Processing Zones were exempt from central excise duty vide SRO 333(I)/2002. However, the entry relating to supplies to EPZs could not be given in Third Schedule of the Act at the time of promulgation of Federal Excise Act, 2005. To remove this adequacy, a new entry has been inserted in Table-I of the Third Schedule of Federal Excise Act to exempt goods imported or purchased locally for use in further manufacture of goods in export processing zones.

Enforced through amendment in Third Schedule of Federal Excise Act, 2005, effective from 1st July, 2008.

□ **Exclusion of biscuits, confectionary, snacks, electric bulbs and tube lights from Third Schedule to the Sales Tax Act, 1990**

- Biscuits, confectionary and snacks have been excluded from the Third Schedule to the Sales Tax Act, 1990.

Enforced through amendment in Third Schedule to the Sales Tax Act, 1990, effective from 1st July, 2008.

□ **Liability of recipient of excisable services to pay duty**

- To charge duty on the services coming from abroad and terminating in Pakistan, an enabling provision has been made to charge duty from the recipient of services.

Enforced through amendment in sub-section (1) and (5) of section 3 of the Federal Excise Act, 2005, effective from 1st July, 2008.