S.U.Khan Associates
Corporate & Legal Consultants

FEDERAL BUDGET 2019-20

Key Insights

Federal Budget 2019-20

This memorandum gives an economic overview of Pakistan, highlights of budget proposals and explanatory notes of the significant amendments proposed through Finance Bill, 2019 in the Income Tax Ordinance 2001, Sales Tax Act 1990, Federal Excise Act 2005 and Customs Act 1969.

The amendments proposed in the Finance Bill, 2019 will take effect from July 01, 2019 unless stated otherwise, subject to approval by the National Assembly and Presidential assent. The memorandum is aimed at providing just in time general guidance with the objective of keeping our clients posted with the changes proposed in the aforementioned laws.

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The memorandum can also be accessed on our website: **www.sukhan.com.pk**

Islamabad
June 13, 2019

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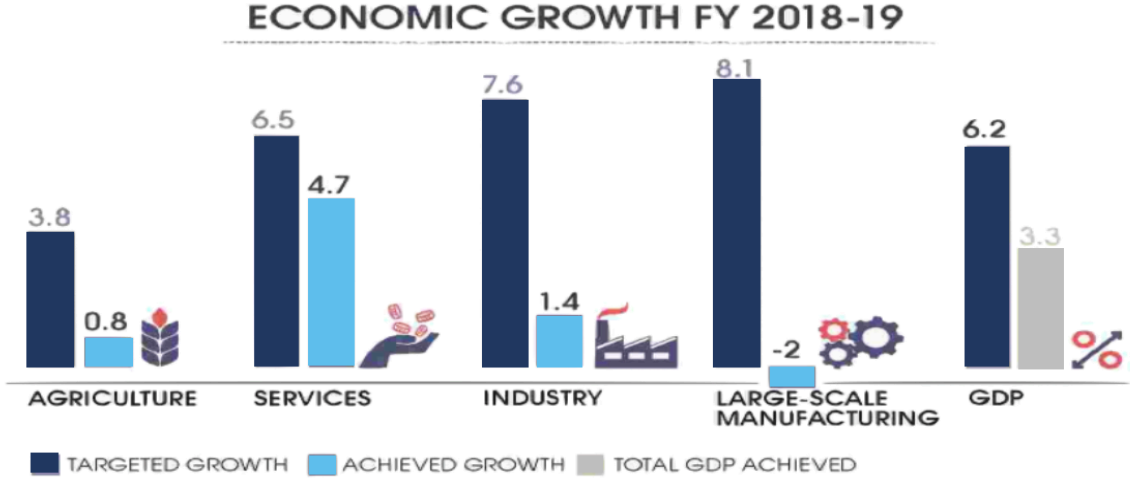
OVERVIEW OF THE PAKISTAN's ECONOMY

Pakistan's economy has experienced frequent boom and bust cycles. Typically, each cycle comprised of 3-4 years of relatively higher growth followed by a macroeconomic crisis which necessitated the stabilization programs. The inability to achieve sustained and rapid economic growth is due to structural issues which require effective monetary and fiscal measures to achieve macroeconomic stability.

The outgoing five-year plan has seen an average growth of 4.7 percent against the target of 5.4 percent. This growth can be characterized as a consumption led growth. The unplanned borrowing from different sources increased both private and public consumption resulting in higher debt repayment liabilities, which created severe macroeconomic imbalances. The investment did not pick up as higher demand was met primarily through imports leading to enormous rise in external imbalances. Due to low growth in revenues and the unplanned and unproductive expenditures, the fiscal deficit widened. The persistence of large fiscal and current account deficits and associated buildup of public and external debt became the major source of macroeconomic imbalance.

As a short-term measure to get a breathing space, the government secured $ 9.2 billion from friendly countries to build up buffers and to ensure timely repayment of previous loans. The government has also taken some overdue tough decisions i.e. increase in energy tariffs to stop further accumulation of circular debt, reduction in imports through regulatory duties and withdrawal of some of the tax relaxations given in the last budget in order to arrest the deterioration in primary balance. Recently, staff level agreement has been negotiated with the IMF to avail Extended Fund Facility for achieving macroeconomic stability. The staff level agreement will now be placed before the IMF Board for its approval.

The outgoing fiscal year 2018-19 witnessed a muted growth of 3.29 percent against the ambitious target of 6.2 percent. The target was based upon sectoral growth projections for agriculture, industry, and services at 3.8 percent, 7.6 percent and 6.5 percent respectively. The actual sectoral growth turned out to be 0.85 percent for agriculture, 1.4 percent for industry and 4.7 percent for services.



The growth in industrial sector has been achieved at 1.40 percent. The mining and quarrying sector has witnessed a negative growth of 1.96 percent mainly due to reduction in production of natural gas (-1.98 percent) and coal (-25.4 percent). The large-scale manufacturing sector, from July 2017 to February 2018 shows a decline of 2.06 percent. Major decline has been observed in Textile (-0.27 percent), Food, Beverage & Tobacco (-1.55 percent), Coke & Petroleum Products (-5.50 percent), Pharmaceuticals (-8.67 percent), Chemicals (-3.92 percent), Non-Metallic Mineral Products (-3.87 percent), Automobiles (-6.11 percent) and Iron & Steel products (-10.26). On the other hand, the substantial growth in Large-Scale Manufacturing (LSM) has been observed in Electronics (34.63 percent) Engineering Products (8.63 percent) and Wood Products (17.84 percent). Electricity and gas sub sector has grown by 40.54 percent, whereas the construction activity has declined by 7.57 percent.

The total investment as a percentage of GDP was recorded at 15.4 percent against the target of 17.2 percent. The fixed investment as percentage of GDP remained 13.8 percent against the target of 15.6 percent, while public and private investment remained at 4.0 and 9.8 percent against the target of 4.8 and 10.8 percent respectively. The National Savings remained at 10.7 percent of GDP against the target of 13.1 percent. The consumption growth was recorded at 11.9 percent compared to 10.2 percent growth recorded last year. As percentage of GDP, it increased to 94.8 percent compared to last year's figure of 94.2 percent.

On the demand side, the exports declined by 1.9 percent despite exchange rate depreciation, while imports declined by 4.9 percent. This helped in reducing the trade deficit by 7.3 percent during July-April FY 2019 while it had shown an expansion of 24.3 percent during the corresponding period of last year. The workers' remittances played a major role in containing current account deficit to 4.03 percent of GDP.

The LSM sector which posted a negative growth this year is likely to rebound on the back of expected growth in agriculture sector along with government initiatives in the construction sector, SMEs sector and tourism and automobile sector. Both, agriculture and LSM sector growth is likely to have a good impact on services sector on account of goods transport services linked to agriculture and wholesale trade.

The overview of performance of economy during the outgoing year 2018-19 does not give a rosy picture. Although, almost all the economic indicators show a gloomy situation, yet it is not discouraging if acknowledging the weakness makes the economic managers realistic to steer the economy out of the mess. In this background some unpleasant and unpopular decisions had to be made which would be reflecting from the budgetary measures proposed for the budget 2019-20 discussed herein this memorandum.

INCOME TAX ORDINANCE, 2001

1. Punitive measures for late Filers Rationalized

Currently, law does not allow placing of names of late filers on the Active Taxpayers' List (ATL). The condition of not placing name on ATL is proposed to be abolished. Instead, such a person would be penalized by withholding any refund due to a late-filer in the tax year in which the return was filed late without incurring any liability of compensation for delayed refund. A nominal tax has also been proposed for placing the name of such late filer in the ATL:

S. No.	Person	Tax rate
1.	Company	Rs. 20,000
2.	Association of persons	Rs. 10,000
3.	Non-salaried individuals	Rs. 3,000
4.	Salaried individuals	Rs. 1,000

2. Payment of refunds through promissory notes:

A mechanism has been proposed for the payment of income tax refunds through promissory notes. The promissory notes (bonds) would be issued to tax refund claimants by a newly formed company called the "FBR Refund Settlement Company Limited". The bonds are to have a maturity period of three years and shall bear annual simple profit at 10%. On maturity of the bond, the company shall return the bond to the Board and the Board shall make payment of amount due under bonds along with profit due to the bond holders.

3. Tax credit for persons employing fresh graduates:

In order to create opportunities of employment for fresh graduates, a new tax credit for persons employing freshly qualified graduates is being introduced. Persons employing fresh qualified graduates, having graduated after 1st July 2017, from universities or institutions recognized by the Higher Education Commission would be given a tax credit equal to the amount of annual salary paid to such graduates provided such headcount is not more than 15% of the total numbers of employees. In case the tax credit cannot be fully allowed for a tax year, persons claiming such credit would be allowed to carry forward un-adjusted credit to a maximum period of five years.

4. Gift to be treated as income:

At present gift is not taxed in the hands of the recipient. Receipt of gift is employed to reconcile wealth acquired through undisclosed sources of income. Therefore, it is proposed to include a new clause in Section 39 "Income from Other Sources", whereby any amount or fair market value of any property received without consideration or received as gift, other than gift received from grandparents, parents, spouse, real brother, real sister, son or a daughter has been brought under the ambit of aforementioned head of income.

5. Enhancing the rate of minimum turnover tax:

Presently minimum tax on turnover is charged at the rate of 1.25% of the turnover if taxable income is less than 1.25% of turnover. For certain sectors have reduced rates of minimum tax at 0.2%, 0.25% & 0.5% of turnover. The aforesaid rates of minimum tax are proposed to be

enhanced from 1.25% to 1.5%, from 0.20% to 0.25%, from 0.25% to 0.3% and from 0.5% to 0.75% respectively.

6. **Abolishing tax credit for investment in Balancing, Modernizing, Replacement:**
Presently a corporate industrial undertaking investing in purchase of plant & machinery for extension, expansion, balancing, modernizing & replacement are allowed tax credit equal to 10% of the purchase price of machinery. Further, for the tax year 2019, the tax credit is being proposed to be reduced from 10% to 5% of the purchase value of machinery. However, industrial undertakings which have already claimed this tax credit but could not fully adjust the credit against tax payable would still be entitled to carry forward the unabsorbed available credit of prior years.

7. **Introduction of scheme for Updating Active Taxpayer's List (ATL):**
A separate Schedule is being introduced to specifically provide a legal framework for punitive measures for persons not appearing on ATL and to ensure filing of return by such persons. The main attributes of this scheme are as under: -

- Persons whose names are not appearing on the ATL will be subjected to hundred percent increased rate of tax.

- The withholding agents will clearly specify the names, CNIC or any other identification of such persons in the withholding statement so that legal provisions to enforce filling of return can come into effect.

- Where a withholding agent is of the opinion that hundred percent increased tax is not required to be collected on the basis that the person was not required to file return, the withholding agent shall furnish an intimation to the Commissioner setting out the basis on which the person is not required to file return. The Commissioner shall accept or reject the contention on the basis of existing law. In case the Commissioner fails to respond within thirty days, permission shall be deemed to be granted to not deduct tax at hundred percent increased rate.

- Where the person's tax has been deducted or collected at hundred percent increased rate and the person fails to file return of income for the year for which tax was deducted, the Commissioner shall make a provisional assessment within sixty days of the due date for filing of return by imputing income so that tax on imputed income is equal to the hundred percent increased tax deducted or collected from such person and the imputed income shall be treated as concealed income.

- The provisional assessment shall be of no effect if the person files return within forty-five days of completion of provisional assessment and the provisions of the Ordinance shall apply accordingly. Where return is not filed within forty-five days of provisional assessment, it shall be treated as final assessment and the Commissioner shall initiate penalty proceedings for concealment of income.

8. Increase in tax rates for services:

It is proposed to increase following tax rates on Services:

Category of Services	Existing Tax Rates	Proposed Tax Rates
Freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited, inspection, certification, testing and training services	2%	4%
Transport services	2%	4%

9. Withholding tax on royalty to a resident person:

A withholding tax at the rate of 15% on the gross amount of royalty is proposed to be introduced on the resident person.

10. Revising the threshold of taxable income:

The threshold of taxable income is proposed to be revised and fixed at Rs. 600,000 for salaried persons and Rs. 400,000 for non-salaried persons. Presently the tax rates for salaried persons are applicable to persons having 50% or more of their total income from salary.

It is proposed that tax rates for salaried persons are to be applicable to persons having 75% or more of their total income from salary. Therefore, such persons whose salary income do not exceed 75% of taxable income, the rates applicable to non-salaried individuals would apply. In the case of salaried individuals deriving income exceeding Rs. 600,000, enhanced tax rates have also been proposed as:

Tax Rates for Salaried Individuals:

Following tax rates are proposed to be introduced for salaried individuals:

S. No	Taxable Income	Rate of Tax
1.	Where taxable income does not exceed Rs. 600,000	0%
2.	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	5% of the amount exceeding Rs. 600,000
3.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,800,000	Rs. 30,000 plus 10% of the amount exceeding Rs. 1,200,000
4.	Where taxable income exceeds Rs. 1,800,000 but does not exceed Rs. 2,500,000	Rs. 90,000 plus 15% of the amount exceeding Rs. 1,800,000

5.	Where taxable income exceeds Rs. 2,500,000 but does not exceed Rs. 3,500,000	Rs. 195,000 plus 17.5% of the amount exceeding Rs. 2,500,000
6.	Where taxable income exceeds Rs. 3,500,000 but does not exceed Rs. 5,000,000	Rs. 370,000 plus 20% of the amount exceeding Rs. 3,500,000
7.	Where taxable income exceeds Rs. 5,000,000 but does not exceed Rs. 8,000,000	Rs. 670,000 plus 22.5% of the amount exceeding Rs. 5,000,000
8.	Where taxable income exceeds Rs. 8,000,000 but does not exceed Rs. 12,000,000	Rs. 1,345,000 plus 25% of the amount exceeding Rs. 8,000,000
9.	Where taxable income exceeds Rs. 12,000,000 but does not exceed Rs. 30,000,000	Rs. 2,345,000 plus 27.5% of the amount exceeding Rs. 12,000,000
10.	Where taxable income exceeds Rs. 30,000,000 but does not exceed Rs.50,000,000	Rs. 7,295,000 plus 30% of the amount exceeding Rs. 30,000,000
11.	Where taxable income exceeds Rs. 50,000,000 but does not exceed Rs.75,000,000	Rs. 13,295,000 plus 32.5% of the amount exceeding Rs. 50,000,000
12.	Where taxable income exceeds Rs.75,000,000	Rs. 21,420,000 plus 35% of the amount exceeding Rs. 75,000,000

Tax Rates for Non-Salaried Individuals and AOP s Revised:

For non-salaried persons deriving income exceeding Rs.400,000, eight taxable slabs of income with tax rates ranging from 5% to 35% are being introduced as given below:

S. No	Taxable Income	Rate of Tax
1.	Where taxable income does not exceed Rs. 400,000	0%
2.	Where taxable income exceeds Rs. 400,000 but does not exceed Rs. 600,000	5% of the amount exceeding Rs. 400,000
3.	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	Rs. 10,000 plus 10% of the amount exceeding Rs. 600,000
4.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 70,000 plus 15% of the amount exceeding Rs. 1,200,000
5.	Where taxable income exceeds Rs 2,400,000 but does not exceed Rs 3,000,000	Rs. 250,000 plus 20% of amount exceeding Rs. 2,400,000
6.	Where taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000	Rs. 370,000 plus 25% of the amount exceeding Rs. 3,000,000
7.	Where taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 6,000,000	Rs. 620,000 plus 30% of the amount exceeding Rs. 4,000,000
8.	Where taxable income exceeds Rs. 6,000,000	Rs. 1,220,000 plus 35% of the amount exceeding Rs. 6,000,000

11. Increase in Tax Slabs of Income from Property:

Three additional brackets of income between four to six million, six to eight million and exceeding eight million are being proposed as new tax slabs for Income form Property:

S. No	Gross Amount of Rent	Rate of Tax
1	Where the gross amount of rent does not exceed Rs.200,000	NIL
2	Where the gross amount of rent exceeds Rs.200,000 but does not exceed Rs.600,000	5 per cent of the gross amount exceeding Rs.200,000
3	Where the gross amount of rent exceeds Rs.600,000 but does not exceed Rs.1,000,000	Rs.20,000 plus 10 per cent of the gross amount exceeding Rs.600,000
4	Where the gross amount of rent exceeds Rs.1,000,000 but does not exceed Rs.2,000,000	Rs.60,000 plus 15 per cent of the gross amount exceeding Rs.1,000,000
5	Where the gross amount of rent exceeds Rs.2,000,000 but does not exceed Rs.4,000,000	Rs.210,000 plus 20 per cent of the gross amount exceeding Rs.2,000,000
6	Where the gross amount of rent exceeds Rs. 4,000,000 but does not exceed Rs.6,000,000	Rs.610,000 plus 25 per cent of the gross amount exceeding Rs.4,000,000
7	Where the gross amount of rent exceeds Rs.6,000,000 but does not exceed Rs.8,000,000	Rs.1,110,000 plus 30 per cent of the gross amount exceeding Rs.6,000,000
8	Where the gross amount of rent exceeds Rs.8,000,000	Rs. 1,710,000 plus 35 percent of the gross amount exceeding Rs.8,000,000.

12. Corporate Tax Rate:

The tax rate for companies has been fixed at 29% in order to recover and maintain the tax base to ensure revenue.

13. Taxation of Capital Gains on immoveable properties:

The bill proposes to abolish separate tax rates of capital gain of immovable property and has proposed to tax the gains under normal tax slabs. However, the gains of open plot held for more than 10 years has been proposed to be exempt, whereas, gains on open plot for holding period between 1 year to 10 year has been proposed to be exempted up to 25%. Similar exemption is available for constructed property, however, the holding period for constructed property is 5 years instead of 10 years.

14. Computation of income for Super tax:

Presently brought forward depreciation and business losses are excluded while computing income for calculating liability of super tax. However, such losses are not excluded in the case of banking, insurance, oil and mineral exploration companies. In order to ensure similar tax treatment, brought forward business and depreciation losses have been excluded from income computed to calculate super tax in the case of the abovementioned sectors.

15. Tax on Dividend income:

Increasing the tax on dividend income has been proposed which can be seen from the following table:

Type of Company	Current	Proposed
Power Generation Companies	7.5%	15%
Companies with Tax benefits or Tax Credits	15%	25%
Mutual Fund	10%-12.5%	15%
Stock Fund	12.5%	15%
REIT Scheme	50% reduce form Normal Rate	15%

16. Rate of Tax for Profit on Debt:

Rate of tax proposed for profit on debt is 15%, 17.5% and 20% for income up to Rs. 5million, Rs 25million and Rs. 36million, respectively. Income exceeding Rs. 36 million will be charge tax under normal tax regime.

17. Abolishing initial allowance on buildings:

Presently initial allowance at the rate of 15% is allowed in the case of buildings. The said initial allowance on buildings is being abolished.

18. Payment through Banking Channel on account of Purchase of Assets Prescribed:

The persons purchasing immovable property of fair market value greater than Rs. 5 million and in the case of any other asset Rs. 1 million or more, would now be required to make payment through a crossed banking instrument so that transaction can be clearly identified from one bank account to another. Upon failure to do so, the deductions in respect of depreciation and amortization shall not be allowed. Moreover, the amount of purchase shall not be treated as cost for calculation of any gain on sale of such asset and a penalty at the rate of 5% of the FBR value of the asset is proposed to be imposed for violation of this requirement.

19. Measures to avoid profit shifting to dealer:

A new provision has been introduced to combat profit shifting by manufacturers, in the form of excess commission to commission agents/dealers, to avoid their actual tax liability. Now any amount of commission paid in excess of 0.2 percent of the gross amount of supplies shall be disallowed unless the dealer is registered under the Sales Tax Act, 1990 and also appearing in the active taxpayers list of income tax. Further, where the excess commission is being paid to a dealer who is an associate, 75% of margin paid to dealer is to be treated as income of the supplier.

20. Transition from Final Tax Regime to Minimum Tax Regime:

The bill proposes to convert following tax deductions/types of income into minimum tax regime which currently are in Final Tax Regime:

- Tax deducted on commercial imports at import stage
- Tax deducted at the time of import of ships by ship breakers

- Tax deducted on profit on debt
- Tax deducted from payments to non-resident persons
- Tax deducted on account of supply of goods by a trading private company
- Tax deducted on account of execution of contract

21. Useful life of intangible Asset:

It is proposed that where the useful life of intangible asset is not ascertainable, the expenditure regarding intangibles be amortized over a period of 25 years. Further, it has also been proposed that where the useful life of the intangible is ascertainable, the expenditure regarding the intangible assets be amortized over the actual number of years for which such intangible assets is to be used.

22. Enhancing withholding tax rate on dealers, commission agents & arhatis:

Presently every market committee is required to collect advance tax from dealers, commission agents and arhatis at the time of issuance or renewal of licenses. Now the tax rates are being increase as follows:

Classes	Tax Slabs
Class A	Rs 10,000 to Rs 100,000
Class B	Rs 7,500 to 75,000
Class C	Rs 5,000 to Rs. 50,000

23. Taxation of the Real Estate Sector:

Following Changes are proposed for Real Estate Taxation:

i. The FBR rates of immovable properties would be taken closer to or about 85% of actual market value. In addition, 3% tax for not explaining the source of investment is being withdrawn.

ii. The rate of withholding tax on purchase of immovable property is being proposed to reduce from 2% to 1%.

iii. The threshold of four million rupees is being abolished and withholding tax on purchase is to be collected irrespective of the value of property.

iv. The withholding tax on the sale of property shall be collected if the holding period of property is less than five years.

v. Non-filer shall be free to purchase any property irrespective of its value. There was a threshold of Rs. 5 million for purchasing a property by a non-filer

24. Threshold Increased for Foreign Remittance:

The threshold for investment through foreign remittance for explaining the source has been reduced from Rs. 10 million to Rs. 5 million.

SALES TAX ACT, 1990

1. Zero Rating of Inputs of Five Export Oriented Sectors:

SRO 1125(I)/2011 provides for zero-rate of sales tax on inputs and products of five export-oriented sectors i.e. textile, leather, carpets, sports goods and surgical goods. The objective was to resolve delay in refund payments. However, zero rating has created loophole and the benefit is being availed by unintended beneficiaries / non-exporters. Reduced rates for finished goods are also harming revenues. Huge misuse of SRO on import of fabric and processed fabrics has been reported. To streamline and prevent revenue leakage SRO 1125 is being rescinded.

- SRO 1125 be rescinded, thus restoring standard rate of 17% on items covered under SRO.
- The rate of sales tax on local supplies of finished articles of textile and leather and finished fabric may be raised from current 6% for integrated businesses, and 9% for others, to 15% and 17%, respectively.
- Zero-rating of utilities (gas, electricity and fuels) allowed to these export-oriented sectors through various sales tax general orders be withdrawn.
- Refund of sales tax to these sectors be automated, thus ensuring that the sales tax paid on inputs is immediately refunded. Refund Payment Orders (RPOs) shall be immediately sent to SBP for payment as soon as these are generated.
- Ginned cotton which is presently exempt is proposed to be subjected to reduced rate of 10%.

In addition to above, it is also proposed to rescind notification No. SRO. 769 (I)/2009, which grants zero-rating on import and supply of polyethylene and polypropylene for manufacture of mono filament yarn and net cloth, being similar in nature to SRO 1125, and that granting zero-rating to local supplies is to be discouraged.

2. Abolishment of special procedure regime for steel sector:

Special procedure for steel melters has proposed to be withdrawn. At present steel sector is paying fixed sales tax at the rate of Rs 13 per KWH. Ship plates obtained from breaking of ships has been charged sales tax of Rs 9,300 per MT is payable. Imported adjustable scrape used in making billets is subject to sales tax at Rs 5,600 per MT. It is proposed that steel sector be brought under normal Sales Tax Regime with minimum benchmark of electricity consumption for manufacturer.

3. Abolishment of special procedure regime for marble industry:

The sales tax is payable by marble industry under special procedure whereby sales tax was charged at Rs. 1.25 per unit of electricity consumed. In view of low yield of this tax, it is proposed that special procedure may be done away with and standard regime of 17% be restored.

4. **Amendments to SRO 190(I)/2002:**

SRO 190(I)/2002 does not allow zero rated export of PVC and PMC to Afghanistan and Central Asian Republics. It is proposed to delete entries relating to PVC and PMC materials from the SRO 190(I)/2002, and thus allowing zero-rating on export of these items to Afghanistan and Central Asian Republics.

5. **Withdrawal of 3% value addition tax on petroleum products and mobile phones:**

3% value addition sales tax is payable on all commercial imports. One of the exclusions from this levy is available to those petroleum products imported by oil marketing companies, whose prices are regulated. This exclusion does not cover furnace oil, which is being proposed now. Secondly, it is proposed to exclude mobile cellular phones and satellite phones from purview of 3% value addition. This 3% regime is also proposed to be transferred from the Sales Tax Special Procedures Rules, 2007, to the new Twelfth Schedule to the Sales Tax Act.

6. **Fixed sales tax on brick kilns:**

Brick kilns are proposed to be taxed at fixed rate such as:

- Category A Rs 12,500 pm;
- Category B Rs 10,000 pm; and
- Category C Rs 7,500 pm.

Categories are based upon geographic regions mentioned in Tenth Schedule.

7. **Reduction of sales tax on food supplied by restaurants, bakeries, caterers etc.:**

Reduction of sales tax from 17% to 7.5% is proposed on food supplied by Restaurants, Bakeries, Caterers etc. with no input tax adjustment.

8. **Reduction of sales tax on concentrated milk (powder):**

The sales tax regime on various forms of milk is uneven. Milk and cream, concentrated, and unsweetened / unflavored is subject to a higher rate. While the sweetened are enjoying exemption. It is proposed to rationalize both categories with imposition of tax at a rate of 10%.

9. **Withdrawal of extra tax regime:**

Extra tax regime is being done away with and items on which extra tax was applied are proposed to be moved to Third Schedule of the Sales Tax Act, 1990.

10. **Additions in the third schedule of Sales Tax Act:**

Following items are proposed to be included in third schedule, which means that 17% sales tax on such items will be charged on minimum retail price fixed by the manufacturer or importer of such goods:

Household electrical goods, including air conditioners, refrigerators, deep freezers, televisions, recorders and players, electric bulbs, tube-lights, fans, electric irons, washing machines and telephone sets.
Household gas appliances, including cooking range, ovens, geysers and gas heaters.
Foam or spring mattresses and other foam products for household use.

Arms and ammunitions
Paints, distempers, enamels, pigments, colors, varnishes, gums, resins, dyes, glazes, thinners, blacks, cellulose lacquers and polishes sold in retail packing
Lubricating oils, brake fluids, transmission fluid, and other vehicular fluids and maintenance products.
Storage batteries excluding those sold to automotive OEMs

11. Exclusion of government bodies from purview of extra tax and further tax:

Further tax at 3% is chargeable on all supplies made to unregistered persons under section 3 (1A) of the Sales Tax Act, 1990 and under SRO 509(I)/2013, 5% extra tax is chargeable on electricity and gas bills from all unregistered industrial and commercial consumers whose monthly bill exceeds Rs. 15,000. It is proposed that Government / semi-government and statutory regulatory authorities may be excluded from purview of both these taxes.

12. Restoration of normal procedure regime:

For restoration of normal procedure on ghee/cooking oil, the notifications providing for Rs. 1/ kg and Rs. 0.40/ kg rates are proposed to be rescinded.

13. Increasing fixed value of sales tax on CNG dealers:

Since the CNG tariffs have risen, so for realizing due sales tax from this sector, it is proposed to re-notify the value for sales tax on supply from gas distribution company to CNG dealers.

14. Changes in the Retailer's Regime:

To rationalize tax for retailers and to capture its full potential and document its sales, following proposals are made:

i. Turnover tax option may be withdrawn.
ii. For tier-1 retailer, it may be made mandatory to integrate their points of sales (POSs) with FBR's Computerized System so that the sales are reported in real time.
iii. Retail shops having an area in excess of 1000 square feet may be included in Tier-1
iv. In order to encourage customers to demand invoices from retailers, enabling provisions are proposed to be inserted in section 3 whereby FBR may allow cash back of up to 5% of the sales tax charged on invoices to the customers.

15. Increasing Sales Tax on Sugar:

Sugar is subject to sales tax at 8%. In order to generate much need revenue, it is proposed that the sales tax rate on sugar may be enhanced to 17%.

16. Redefining of cottage industry:

It is proposed to redefine Cottage industry as a manufacturing concern, which fulfils each of following condition, namely:

(a) does not have an industrial gas or electricity connection;
(b) is located in a residential area;
(c) does not have a total labor force of more than ten workers; and
(d) annual turnover from all supplies does not exceed two million rupees.

This amendment would include almost 90% of the manufacturers under sales tax registration requirement which are currently exempt from sales tax.

17. Exemptions under sixth schedule are made taxable:

Items presently in Sixth Schedule which are exempted now will be subject to 10% if sold in retail packing and with a brand name like Frozen Sausages, preserved meat, fat filled milk and cereals other than those of wheat and meslin.

18. Insertion of gold, silver, diamond and jewellery in eighth schedule to the sales tax act, 1990 at reduced rate:

It is proposed to introduce reduced rate/minimal tax rate of 1% plus 2% value addition on unworked gold and silver. Presently, jewellery is taxed on the basis of making charges only. Based on regional models, it is proposed that gold in jewellery may be taxed at 1.5%, diamond at 0.5% and making charges at 3%, with input adjustment available only in respect of gold.

19. The scope of ICT sales tax on services to be expanded:

It is proposed that services which have been subjected to sales tax by the provinces and are not included in the Schedule to ICT (Tax on Services) Ordinance, 2001, may be included in the Schedule and subjected to sales tax at standard rate of 16% under the said Ordinance. For clarity, it is mentioned that the services which are already being taxed under the Federal Excise Act, 2005, are not included in the services to be added to ICT law.

20. Expansion in scope of exemption allowed in respect of tribal areas:

To settle the post FATA/PATA merger scenario and to extend tax exemptions SRO 1212(I)/2018 is being rescinded and exemptions are being incorporated in it in the Sixth Schedule to the Sales Tax Act, 1990. Further, exemption from sales tax on imports of plant, machinery, equipment for installation in tribal areas, and of industrial inputs by the industries located in the tribal areas, is also proposed.

21. Simplification of law and reduction in number of rules / instruments dealing with sales tax:

Presently sales tax law comprises of multi-tiered legislation and sub-ordinate legislation which makes it difficult for taxpayers to comprehend and follow law and also for the sales tax collectors to implement the same. Hence, all the special procedures and redundant SROs are being abolished.

22. Transposition of SROs to the Sales Tax Act, 1990:

In order to minimize SRO regime, some of the existing SROs are proposed to be transposed to the Sales Tax Act, 1990. These SROs, are consequently proposed to be rescinded.

23. Simplification of sales tax registration – Ease of doing business

It is proposed to issue sales tax registration, through an automated interface without any physical contact with the tax officers. Biometric verification shall be done within a month of registration through NADRA e-Sahulat centers.

FEDERAL EXCISE ACT, 2005

1. **Withdrawal of exemption of fed on internet services and foreign satellite bandwidth service:**
   Telecom services provided in Islamabad Capital Territory are subject to Federal Excise Duty (FED) under the Federal Excise Act, 2005. However, internet services are presently exempt from payment of FED under Third Schedule to the Federal Excise Act, 2005. Similarly, bandwidth services are also exempted from payment of FED. In order to protect local services providers, it is proposed to withdraw exemption on services provided by foreign satellites and maintain exemption only on terrestrial bandwidth services.

2. **Allowing zero-rating on supply of tobacco to exporters:**
   In order to facilitate the exporters of unmanufactured tobacco, it is proposed that the FED shall be charged at zero per cent on unmanufactured tobacco as supplied to a registered person / trader who intends to export the same subject to furnishing of necessary security.

3. **Increase in FED on cigarettes:**
   FED on cigarettes is levied on fixed rate basis. It is proposed to enhance the rates and redefine the thresholds by abolishing the third tier introduced earlier.

4. **Increase in scope of FED on cars:**
   Through Finance Supplementary (Second Amendment) Act, 2019, FED on locally manufactured / assembled cars of 1700 cc and above was introduced @10%. Now, in order to rationalize this levy, it is proposed to enlarge the scope of FED and following slabs are being proposed:

   - Cars from 0 to 1000cc @ 2.5%
   - Cars from 1001cc to 2000cc @ 5%
   - Cars from 2001cc and above @ 7.5 %

5. **Increase in FED on aerated waters:**
   FED on aerated waters is proposed to be increased from 11.5% to 14%.

6. **FED on packaged non-aerated sugary / flavored juices, syrups & squashes:**
   It is proposed that non-aerated packaged sugary drinks, such as juices, syrups and squashes may be subjected to FED at 5% of retail price.

7. **Increase in FED on cement:**
   Cement is chargeable to federal excise duty @ 1.5 per kg. It is now proposed to increase federal excise duty on cement to Rs. 2 per kg.

8. **Increase in rate of FED on LNG:**
   Presently, FED is payable at Rs. 17.18 per 100 cubic meters. The rate is substantially lower and generates only Rs. 2 to 3 million annually. Accordingly, it is proposed to increase FED on LNG from Rs. 17.18 per 100 cu. m to Rs. 10 per MMBTU bringing it to same level as for local gas.

CUSTOMS ACT, 1969

1. Increase in additional customs duty:

It is proposed to increase additional customs duty from 2 to 4 percent on 500 items covered under 16 percent customs tariff slab and raised additional customs duty from 2 to 7 percent on 2,400 tariff lines covered under 20 percent and above customs tariff slab. As per Federal Board of Revenue (FBR) officials the increase of additional customs duty from 2 to 4 percent and from 2 to 7 percent would generate revenue to the tune of Rs 25 billion to Rs 30 billion.

2. Introduction of a new custom duty slab of zero percent:

Around 1,650 customs tariff lines have been shifted to the duty rate of zero percent. The facility would be available on the import of raw materials (not manufactured locally) to incentivize local industry. This includes minerals, Ores, Mineral fuels, Organic and In-organic chemicals, Pharmaceutical products, Fertilizers, Tanning and dyeing extracts, essential oils and resinoids, organic surface agents, photographic and cinematographic items, plastics and articles thereof, rubber and articles thereof, raw hides and skins, wood and articles of wood thereof, pulp of wood or fibrous cellulosic material and articles of paper pulp, Cotton and other vegetable textile fibres, impregnated or coated textile fabric and textile articles, precious or semi-precious metals or stones and articles thereof, inputs of the iron and steel sector, copper, nickel and other base metals, tools of base metals, machinery and mechanical appliances, electrical equipment and parts.

The budget proposals also encompass Customs Duty (CD) relaxation on raw material for hemodialyzers used by kidney patients, Preparations for Metal Surfaces as input for Solar Panels, Foundation Cloth and Hydrocracker Industry for oil refining.

3. Reduction in Customs Duties:

To make the industrial value chains more competitive, it is suggested to reduce CD on Writing & Printing Papers, Glass Board for LED Panel manufacturing, input goods for paper based Liquid Food Packaging Industry, Acetic Acid, Nonwoven fabrics, Raw Material for Manufacturing of Pre-Sensitized Printing Plates, Base Oil as input for Coning Oil, White Oil and other Textile Oils, Wooden Sheets for Veneering, Oxalic Acid, Raw Material for Paper Sizing Agents, Raw Material of Powder Coating Industry and Bobbins & Spools of Paperboard. Moreover, the federal government has also proposed to rationalize tariff structures of Home Appliance Sector, SIM card manufacturing industry and Aluminium Beverage Cans & Inputs thereof.

4. Relief Measures:

To standardize printing and preservation of Holy Quran, the Finance Bill proposes for duty free import of good quality Art paper. Other suggested relief measures include exemption of CD on 18 medicinal inputs / items, exemption of CD on Modular/ Particle Free Operation Theatre, exemption of CD on Medicines for certain rare diseases and reduction in duty on pre-fabricated structures for hotels to promote tourism industry.

5. Regulatory Duty:

The Finance Bill has proposed for reduction in regulatory duties on Mobile Phones, smuggling prone items and other industrial inputs and on Tyres.

6. Revenue Measures:

In order to achieve the revenue target for the next fiscal year, the rate of Additional Customs Duty is proposed to be increased for non-essential items as well as withdrawal of exemption on import of LNG.

- On import of LNG 7% customs duty is leviable. It has been proposed to reduce the same to 5% as LNG has taken the place of Furnace Oil.
- Customs duty has been proposed to be exempted for parts and equipment of textile machinery. Similarly, customs duty on import of flexible yarn and unwoven cloth is proposed to be reduced.
- Basic raw material of paper industry has been proposed to be exempted from payment of customs duty, at the same time duty of 20% on paper has been proposed to be reduced to 16% to reduce prices of paper and books in the country.
- Import duty of 3% on import of wood has been proposed to be exempted to encourage furniture industry and at the same time save local forests reserves which are depleting day-by-day.
- Customs duty of 11% on import of artificial panels of wood is proposed to be reduced to 3% which would also help to save our forests.
- Customs duty leviable @ 3% on the import of 19 basic inputs of pharma industry has been proposed to be exempted to reduce prices of the medicines.

7. Introduction of Risk Management System:

To manage risk and ensure compliance, risk management system is introduced to apply controls for identifying, analysing, evaluating, monitoring, reviewing and treating the risk associated with pre-arrival, customs clearance processes and post clearance of goods.

8. Amendment in Sections 18D, 30, 30A, 31 and 155A:

To empower FBR with the approval of Federal Minister-in-charge to levy fee and service charges and to specify for any class of imported or exported goods, any other date for determination of duty than those given in the section and to determine the date for application of all or specific provisions of the Customs Act, 1969 related to the Customs computerized system on any customs station instead of the Federal Government.

9. Introduction of a new section on Mis-declaration of value for illegal transfer of funds abroad:

To control illegal transfer of funds across borders, a section has been added for issuance of notices in case any person overstates the value of imported goods or understates the value of exported goods or vice versa.

10. Introduction of pre-audit before disposal of refund claim under Section 33:

Amendment in section 33 to empower the FBR to allow sanction of refund subject to pre-audit and to define the pecuniary limit of the various refund sanctioning authorities, through issuance of notification.

11. Reduction in timelines for filing of Goods Declaration and Increase in amount of penalty for not filing goods declaration:

The time prescribed for filing of GDs by persons importing goods, whether for consumption or warehousing has been reduced from 15 days to 10 days. The penalty for failure to file the goods declaration within prescribed period is set at Rs. 5,000 per day for the first 5 days of default and Rs. 10,000 per day after 5 days.

12. Reduction in timelines of uncleared goods:

Uncleared goods can now be placed in auction after 15 days of their arrival at a customs station and such time can only be extended up to 5 days.

13. Amount of penalty for making false or erroneous statements is increased:

Amendment is made in section 156 to segregate the penalty imposed for violation of section 32 (for making a false or erroneous statement) in proportion to the severity of the offences mentioned under the respective sub-sections. The limit of penalty is also increased upto 200,000 rupees.

14. Introduction of criminal proceedings against authorities and officers of customs:

Rules will prescribe for initiating criminal proceedings against custom authorities or officers who willfully and deliberately commits or omits an act which results in personal benefits and undue advantage to the authority or the person or taxpayer or both.

15. The appointments of Judges under Section 185, transfer of cases and appointments for Appellate Tribunal will be made by Prime Minister instead of Federal Government:

Amendment in sections 185, 185D, 194 to empower Prime Minister instead of Federal Government to appoint Special Judge Customs and to transfer cases from the jurisdiction of one Special Judge Customs to another in consultations with the Chief Justice of the concerned High Court and judicial members, technical members, chairman and to determine terms and conditions of their appointment.

16. Alternate Dispute Resolution:

More detailed procedures for Alternate Dispute Resolution (ADR) has been proposed to align the provisions related to ADR with similar provisions in other taxing statutes. The applicant (or aggrieved party) may itself nominate a person from a panel notified by the Board to be appointed in committee for ADR. It is proposed that the after constitution of committee, the appeal before any court or appellate authority will be withdrawn. The decision of the committee will be binding on the Collector and the aggrieved person. In case of dissolution of committee, the appellate authority shall decide the appeal.

Links:

1. **The First Schedule**
   https://www.fbr.gov.pk/Budget2019-20/CustomsSchedules/Changes%20in%20Pakistan%20Customs%20Tariff.docx.pdf
2. **The Second Schedule**
   https://www.fbr.gov.pk/Budget2019-20/CustomsSchedules/Fifth%20Schedule%20to%20the%20Customs%20Act.docx.pdf

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