GOVERNMENT OF PAKISTAN
REVENUE DIVISION
FEDERAL BOARD OF REVENUE
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C.No. 4(62)ITP/2014 Islamabad, the 17th July, 2014

Circular No.2 of 2014
(Income Tax)

SUBJECT: **FINANCE ACT, 2014 – EXPLANATION REGARDING IMPORTANT AMENDMENTS MADE IN THE INCOME TAX ORDINANCE, 2001.**

Important amendments made in the Income Tax Ordinance, 2001 through Finance Act 2014, are explained as under:-

1. Amendments in Mutual Funds Taxation Regime

[Relevant sections: clause (61A) of Section 2, clause (99) of Part I of Second Schedule, Division I of Part III of First Schedule]

The income of Mutual Funds is exempt from income tax under clause (99) of Part I of Second Schedule to the Income Tax Ordinance, 2001, subject to the condition that ninety per cent of their income is distributed to the unit holders. However, income distributed i.e. dividend income, is not exempt in the hands of the unit holders (except those specifically provided under the law). Mutual Funds are, therefore, required to deduct withholding tax at the time of distribution of dividend income.

To avoid the legal obligation to withhold tax on dividend income, open-ended Mutual Funds, had recently adopted a practice of issuing bonus units instead of cash dividend. No tax was deducted on the said issuance and when the said units were disposed of by the unit holders, even capital gains tax was not paid because of FIFO and cost staggering rules.

Through Finance Act, 2014 the said anomaly has been removed by amending clause (99), and from now onwards, to claim exemption under the said clause, bonus shares, bonus units or certificates shall not be considered for the purpose of computing ninety per cent distribution of income. In other words, to claim exemption, ninety per cent of the income must be distributed in the form of cash dividend.

Another amendment in taxation regime of mutual funds relate to tax deduction on dividend income distributed by them to the unit holders. At present, taxpayers can earn income from bank deposits, Government Securities, capital gains, dividend etc. either directly or through mutual funds. However, if earned through mutual funds, its class or character changes to

dividend income for all categories, despite the fact that mutual funds are only pass-through entities. As a result, the rate as applicable to dividend is applied on the income distributed instead of respective rates for different heads/classes of income. For example if a company invests directly in government securities, it will be taxed at a rate of 33% on interest income earned. However, if the same investment is routed through mutual funds, the company will be taxed at a rate of 10% on the same income characterized as dividend income distributed by the mutual funds. In order to bring tax neutrality in tax system and to discourage such tax avoidance tools, the rates for dividend income distributed by mutual funds have been amended accordingly. From tax year 2014 and onwards, in case of companies the rate of tax deduction for dividends distributed by mutual funds other than stock funds shall be 25%. Stock Funds have also been defined through Finance Act, 2014 as collective investment scheme or mutual fund where investible funds are invested by way of equity shares in companies to the extent of 70 percent of the investment. For Stock Funds the rate shall be 10%(if dividend receipts are more than capital gains receipts) or 12.5% (if receipts from capital gains are more than dividend received) For individuals, since the rate of dividend and interest income is both 10%, the rate of 25% applicable to companies shall not apply. However, in case of stock funds where capital gains receipts are higher than dividend receipts, the rate shall be 12.5% for individuals as well.

2. <u>Taxation of Bonus Shares</u>

[Relevant sections: clause (29) of Section 2, Section 39(1)(m), Section 236M and 236N]

Prior to Finance Act, 2014, clause (29) of section 2 excluded bonus shares from the definition of income. Finance Act, 2014, through legal fiction, has deemed issuance of bonus shares as income of the shareholder of the company, receiving bonus shares, by excluding the words "but does not include, in case of a shareholder of a company, the amount representing the face value of any bonus share or the amount of any bonus declared, issued or paid by the company to the shareholders with a view to increasing its paid up share capital" from section 2(29). The income deemed has been included under the head "Income from other Sources" under section 39(1)(m) of the Ordinance.

Two separate sections, namely 236M and 236N have been introduced which deal with bonus shares issued by companies quoted on stock exchange and those not quoted on stock exchange respectively. Companies issuing bonus shares have been made responsible for collecting tax on the said deemed income, which is 5 percent of the value of bonus shares. Tax collected by the companies shall be a final tax on the income of the shareholder of the company arising from issuance of bonus shares.

Companies quoted on stock exchange, issuing bonus shares to the shareholders of the company, shall withhold bonus shares, at the rate of five per cent of the bonus shares to be issued. These bonus shares withheld shall only be issued to the shareholder if the company

collects, within fifteen days, from the shareholder tax equal to five per cent of the value of the total bonus shares issued to the shareholder determined on the basis of the day-end price on the first day of closure of books. In case of default, either on the part of the company or the shareholder, the company shall deposit the bonus shares withheld in Central Depository Company of Pakistan Limited or any other entity as may be prescribed. These bonus shares shall be disposed of in the mode and manner as may be prescribed and the proceeds thereof shall be paid to the Commissioner by way of credit to the Federal Government.

Companies not quoted on stock exchange, issuing bonus shares to the shareholders of the company, shall deposit tax, within fifteen days of the closure of books, at the rate of five per cent of the value of the bonus shares on the first day of closure of books. The company shall be entitled to collect and recover the tax deposited under sub-section (1), from the shareholder, on whose behalf the tax has been deposited, before the issuance of bonus shares. If a shareholder neither makes payment of tax to the company nor collects its bonus shares, within three months of the date of issuance of bonus shares, the company may proceed to dispose of its bonus shares to the extent it has paid tax on its behalf.

The proceeds of the bonus shares disposed of and paid under sections 236M and 236N, shall be treated to have been paid on behalf of the shareholder.

3. Capital Gains on Disposal of Securities

[Relevant sections: Section 37A, Section 100B, Division VII of Part I of First Schedule]

A number of amendments have been made in the regime of capital gains taxation on disposal of securities, namely.-

a) Inclusion of Debt Securities in the definition of Security
b) Extension in the holding period for taxability
c) Rationalization of tax rates
d) Bringing Foreign Institutional Investors into tax net

By including debt securities in the definition of security in section 37A, the gain/loss on disposal of debt securities shall be computed, collected and paid into national exchequer using the NCCPL's mechanism as laid down in the Eight Schedule to the Ordinance, unless opted out with the approval of the Commissioner. However, companies shall not be subjected to this regime[section 100B(2)(d)] and will continue to be taxed as in the past with the rates applicable to companies and not the rates as amended in Division VII of Part I of First Schedule. Individuals, on the other hand, trading debt securities shall be subject to mechanism as laid down in the Eight Schedule to the Ordinance.

Secondly, securities were subject to tax if these were held for a period of less than 12 months. Through Finance Act, 2014, securities held for a period between 12 and 24 months have

also been made taxable under the Ordinance, at a rate of 10%. However, securities held for a period of more than 24 months shall continue to be taxed at 0%.

Third, previously the rates of tax for securities held upto 6 months and 12 months stood increased to 17.5% and 9.5% respectively for tax year 2015 and onwards. In order to ensure continued buoyancy prevailing, at present, in the stock markets and to save the capital markets from withdrawal of investments, capital gains tax rates have been rationalized. Through Finance Act, 2014, the rates have been revised and for securities held upto one year, capital gains tax shall be 12.5%, and for securities held between 12 and 24 months, the rate shall be 10%.

Lastly, as Eight Schedule was not applicable to Foreign Institutional Investors investing in Stock Exchange and NCCPL was not required to collect tax from them in view of section 100B(2)(d), it was expected that Foreign Institutional Investors will file their returns to declare their gains. However, since no Return was being filed, nor was it possible to enforce their returns, Foreign Institutional Investors have been brought into tax net by amending section 100B and tax shall now be collected using NCCPL's mechanism as laid down in the Eight Schedule to the Ordinance.

4. **Alternative Corporate Tax [Section 113C]**

Through Finance Act, 2014, a new concept of Alternative Corporate Tax(ACT) has been introduced. As the name suggests, it shall only be applicable to companies. A company shall be required to pay the higher of the ACT or the Corporate Tax. Corporate Tax has been defined in the section to mean total tax payable by the company, including on account of minimum tax and final taxes payable, under any of the provisions of this Ordinance but not including those mentioned in section 8, under section 161, 162 and any amount charged or paid on account of default surcharge or penalty and the tax payable under this section. ACT has been defined to mean the tax at a rate of seventeen per cent of a sum equal to accounting income less the amounts, as specified in sub-section (8), which include exempt income, income chargeable under section 65D, 65E, 100C, income subject to tax under section 37A, income subject to final tax chargeable under sub-section (7) of section 148, section 150, sub-section (3) of section 153, sub-section (4) of section 154, section 156 and sub-section (3) of section 233 and income subject to clause (18A), Part II of the Second Schedule to the Ordinance. Similarly, ACT shall not apply to taxpayers chargeable to tax in accordance with the provisions contained in the Fourth, Fifth and Seventh Schedules to this Ordinance.

Accounting income has also been defined to mean the accounting profit before tax for the tax year, as disclosed in the financial statements, or as adjusted under sub-section (7) or (11) excluding share from the associate recognized under equity method of accounting.

If ACT is greater than the Corporate Tax, the excess shall be carried forward to the following tax year and shall be adjusted against taxable income (not including accounting

income) for that year. However, the excess cannot be carried forward beyond 10 tax years. An Explanation has also been added in this new section, whereby the right to carry forward minimum tax under section 113 has been allowed.

Example I

If Corporate Tax excluding minimum tax under section 113 = Rs 100

Minimum tax under section 113 = Rs 140

Alternative Corporate Tax = Rs 200

then

Corporate Tax under section 113C = Rs 140

Excess amount of ACT over Corporate Tax is Rs 60 which can be carried forward for ten tax years and Rs 40 can be carried forward under section 113(2)(c) for five succeeding tax years.

Example II

Total Receipts	200
Total Expenses	50
Accounting Income as per accounts	150
Taxable Income	25

Break up of total receipts

Export Sales	20
Contract Receipts	30
Business Receipts	130
Dividend Receipts	10
Exempt Income	10

Computation of Accounting Income for calculating ACT

a.	Total Receipts in the accounts		200
b.	Less amounts covered under section 113C(8):-		
	Export Sales	20	
	Contract Receipts	30	
	Dividend Receipts	10	
	Exempt income	10	
		70	

c. Receipts pertaining to accounting income for section 113C (a-b) =200-70) = 130

Less: apportionment of expenses as per section 100C(7)

Percentage of receipts of accounting income u/s 113C	65%
d. 65% of total expenses	32.5
Accounting income for ACT= (c-d) = (130-32.5)	**97.5**

Computation of total tax liability

A. Tax liability under ACT@17% of 97.5 16.575

B. Corporate Tax @ 34% of 25 8.5

As A is higher, A or tax liability under ACT will apply

C. Final tax liability:-

Export sales @1%	0.2
Contract Receipts @ 6%	1.8
Dividend receipts @105	1
Total final tax payable	3

Total tax payable (A+C) = (16.575+3) = **19.575**

Example III

Taxable income for the year	200
Brought Forward losses	(300)
Taxable Income/loss after BF losses	(100)
Accounting Income as per section 113C	250
Computation of tax liability	
A. Corporate tax @ 34% on taxable income	0
B. Tax liability under ACT @ 17% of 250	42.5
Total tax liability (higher of **A** or **B**)	**42.5**

5. Increasing Cost for Non-Compliant persons---Concept of Filer and Non-filer

[Relevant Sections: Section 2(23A), 2(35C), 150, 151, 181A, 231A, 231B, 236C, 236G, 236K]

One of the principles which formed basis for Income Tax proposals for Finance Act 2014, is to make "cost of doing business for non-compliant/non-filers, higher than compliant taxpayers/ filers". In other words law has been amended to the effect that non-compliant/non-filers will have to pay higher tax at the time of collection or deduction of tax by collecting or withholding agents/prescribed persons, as the case may be. Additional tax in case of non-filers shall be collected or withheld in respect of the following transactions:-

	Transactions	**Section**	**Rates** Filer	Non-filer
(i)	Deduction of tax on dividend	150	10%	15%
(ii)	Deduction of tax on profit on debt (exceeding Rs.500,000/- Rate for	151	10%	15%

	profit on debt which is less than Rs.500,000/- shall be 10%).			
(iii)	Deduction of tax on cash withdrawal	231A	0.3%	0.5%
(iv)	Sale of immovable property	236C	0.5%	1%
(v)	Sale to distributors / dealers / wholesalers	236G		
	– Fertilizers		0.2%	0.4%
	– Others		0.1%	0.2%
(vi)	Purchase of immovable property (where purchase price is more than Rs. 30,00,000/-)	236K	1%	2%
(vii)	Rates for motor vehicles	231B and 234	Refer to Para 15	

To explain who is to be considered as "filer" and who as "Non-filer", two new clauses i.e 2(23A) and 2(35C) have been inserted in Income Tax Ordinance, 2001 which define filer as a taxpayer whose name appears in the active taxpayers list issued by the Board from time to time or is holder of a taxpayer's card. Rules for inclusion of the name in ATL are also being issued. A non-filer is a person who is not a filer.

6. Capital gains [Section 37]

Previously, sub-section (1A) of section 37 provided for taxability of immovable property held for a period up to two years. Through the Finance Act, 2014, the words, "held for a period upto two years," have been deleted. Now the capital gain on immovable property is chargeable to tax under sub-section (1A) of section 37 as per rates provided in Division VIII, Part-I of the First Schedule. This Division provides that the rate of tax is 10% where holding period is up to one year and 5% where holding period is more than one year but less than two years. Rate of tax for property held for a period more than two years is 0%.

7. Taxation Of AOP in Which One Member is A Company [Section 92 and 88A]

Prior to the Finance Act, 2014, an association of persons having a company among its members, was taxed in the hands of the AOP and its members were exempt from tax. The share of profit received by the company was treated separately u/s 88A. By introducing a proviso to

section 92 through the Finance Act, 2014, it has been provided that if a company is a member of an AOP, its share shall be excluded for the purpose of computing total income of the AOP. The share of the company shall be taxed separately, in the hands of company, as per rates applicable to a company.

Consequently, section 88A has also been omitted. Prior to the Finance Act, 2014, as per section 88A, the share of profits derived by a company from an AOP, was added in the taxable income of the company but the company was allowed a tax credit for its share of profits from the AOP. As the share of company is now to be taxed in the hands of the company and it is not to be included in the total income of the AOP, hence, there is no need for section 88A which stands omitted through the Finance Act, 2014.

8. 100% Tax credit in respect of non-profit organizations, trust, welfare institutions.
[Relevant Sections: Section 100C and 159 and Clauses (58), (58A), (59) and (60) of Part-I of 2nd Schedule]

Previously specified income of certain non-profit organizations, trust, welfare institutions, etc. was exempt from tax under clauses (58), (58A), (59) and (60) of Part-I of 2nd Schedule, subject to conditions and restrictions specified therein as per following details:

Reference	To whom available	Nature of income exempt
Clause (58)	A trust administered under a scheme approved by the Federal Government in this behalf and established in Pakistan exclusively for the purposes of carrying out such activities as are for the benefit and welfare of— (i) ex-servicemen and serving personnel, including civilian employees of the Armed Forces, and their dependents; or (ii) ex-employees and serving personnel of the Federal Government or a Provincial Government and their dependents, where the said trust is administered by a committee nominated by the Federal Government or, as the case may be, a Provincial Government.	Donations, voluntary contributions, subscriptions, house property, investments in the securities of the Federal Government and so much of the income chargeable under the head "Income from business" as is expended in Pakistan for the purposes of carrying out welfare activities.
	A trust or welfare institution or non-	

	profit organization approved by Chief Commissioner of Income Tax for the purposes of this sub-clause.	
Clause (58A)	A university or other educational institution being run by a non-profit organization existing solely for educational purposes and not for purposes of profit.	Any income
Clause (59)	Held under trust or other legal obligations wholly, or in part only, for religious or charitable purposes and is actually applied or finally set apart for application thereto	Income from investments in securities of the Federal Government, profit on debt from scheduled banks, grant received from Federal Government or Provincial Government or District Governments, foreign grants and house property.
Clause (60)	Religious or charitable institution, excluding private religious trust which does not ensure for the benefit of the public	Any income derived from voluntary contributions applicable solely to religious or charitable purposes of the institution:

Now all the above exemptions have been **withdrawn** and **replaced** with tax credit equal to the amount of tax payable on such income. It is also clarified that approval already obtained in respect of non-profit organizations, trusts and welfare institutions under the omitted sub-clause (3) of clause (58), shall continue to be valid for sub-section (2)(c) of section 100C. However, the tax credit admissible shall be subject to fulfilling the following conditions:

(a) Return has been filed;
(b) Tax required to be deducted or collected has been deducted or collected and paid; and
(c) Withholding tax statements for the immediately preceding tax year have been filed.

This concept of providing such concessions in case of NPOs is a preferable method and will promote strong documentation and compliance of tax laws by NPOs/NGOs.

Previously income of the foregoing trust, welfare institutions, non-profit organizations, religious and charitable institutions, universities, etc. was exempt from tax and they were entitled to get exemption certificate from collection and deduction of tax (withholding tax) from them. Since the exemption has been withdrawn and replaced with 100% tax credit, a corresponding amendment has also been made in section 159 for grant of exemption certificate from collection and deduction of tax (withholding tax) from them in eligible cases.

It may be mentioned that the exemption in the past or 100% tax credit under section 100C, introduced through Finance Act, 2014, is in respect of ***specified*** incomes only. For example income under section 37 or 37A(except securities of the Federal Government), was neither exempt under the previous regime nor tax credit is available under newly introduced section

100C. Moreover, business income was also not totally exempt and exemption for business income was restricted to an amount which bears to the income under the said head the same proportion as the said amount bears to the aggregate of the incomes from the specified sources of income. Under the newly introduced section 100C, tax credit(there is a typo error in proviso to clause (a) of sub-section (2) where instead of tax credit the word "exemption" appears) is also restricted to the same amount. For simplification, following example may be considered for an NPO.

Donations/voluntary payments/subscription	Rs 100
Income from Federal Government Securities	Rs 50
Income from property	Rs 30
Business Income	Rs 30
Income from trading of shares u/s 37A	Rs 55
Capital Gains from sale of immovable property	Rs 35
TOTAL	Rs 300

Business income subject to 100% tax credit = 30 x 30/300= 3
Business income subject to normal tax = 27(30-3)
Income u/s 37A and Capital Gains shall be subject to normal rates applicable.

NPO will be required to pay tax on Rs 117 (27+55+35) and Rs 183 will be subject to 100% tax credit if the conditions as specified in section 100C are fulfilled.

9. Minimum tax on turnover [Section 113]

Prior to the Finance Act, 2014, the rate of minimum tax under section 113 was provided in clause (b) of sub-section (2) of Section 113. Reduced rates for certain classes of persons also existed in the Second Schedule. Now, for convenience and easy referencing the rates of minimum tax have been clubbed in Division IX of Part I of the First Schedule as under:-

S. No.	Person(s)	Minimum Tax as percentage of the person's turnover for the year
(1)	(2)	(3)
1.	(a) Oil marketing companies, Oil refineries, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds rupees one billion); (b) Pakistani Airlines; and (c) Poultry industry including poultry breeding, broiler production, egg	0.5%

	production and poultry feed production.	
2.	(a) Distributors of pharmaceutical products, consumer goods including fast moving consumer goods, fertilizers and cigarettes; (b) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990; (c) Rice mills and dealers; and (d) Flour Mills.	0.2%
3.	Motorcycle dealers registered under the Sales Tax Act, 1990	0.25%
4.	In all other cases.	1%

10. Return of Income [Section 114]

Through the Finance Act, 2013, persons registered with any trade or professional association were required to file a return irrespective of the status of a person being a resident or a non-resident. This included persons registered with any chamber of commerce and industry or any trade or business association or any market committee or any professional body including Pakistan Engineering Council, Pakistan Medical and Dental Council, Pakistan Bar Council or any Provincial Bar Council, Institute of Chartered Accountants of Pakistan or Institute of Cost and Management Accountants of Pakistan. These provisions were causing hardship in certain cases such as where members are residing abroad and do not have any Pakistan-source income. Through the Finance Act, 2014, the obligation to file return by persons who are members of such associations is restricted to resident persons only.

11. Tax on import of ships by ship breakers [Section 148]

Tax collected at the time of import of ships by the ship breakers has been made final tax by introducing a new sub-section (8) in section 148. The rate of tax is 4.5%. As this tax is final, the ship breakers have been exempted under clause (9AA), Part IV of the Second Schedule from the provisions of clause (a) of sub-section (1) of section 153 as recipient of payment in respect of supplies made by the ship breakers from breaking of ships. It is also clarified that the above concession is in respect of business of ship-breaking only and is restricted to supplies of ship-

breaking business only and if a taxpayer is conducting other business e.g. having composite units of re-rolling or steel melting, clause (9AA) shall not be applicable.

12. Tax rates on import [Section 148 read with Part II of the First Schedule]

Prior to the Finance Act, 2014, the rates of advance tax to be collected by the Collector of Customs under section 148 were provided in Part II of the First Schedule. Simultaneously, reduced rates for certain classes of persons also existed in the Second Schedule. Now, all the rates for collection of tax under section 148 have been clubbed, by substituting Part II of the First Schedule as under:-

S.No.	Persons	Rate
(1)	(2)	(3)
1.	(i) Industrial undertaking importing remeltable steel (PCT Heading 72.04) and directly reduced iron for its own use; (ii) Persons importing potassic fertilizers in pursuance of Economic Coordination Committee of the cabinet's decision No. ECC-155/12/2004 dated the 9th December, 2004; (iii)Persons importing urea; and (iv)Manufacturers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31st December, 2011.	1% of import value as increased by customs-duty, sales tax and federal excise duty
2.	Persons importing pulses	2% of import value as increased by customs-duty, sales tax and federal excise duty
3.	Commercial importers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31st December, 2011	3% of import value as increased by customs-duty, sales tax and federal excise duty
4.	Ship breakers on import of ships	4.5%
5.	Industrial undertakings not covered under S. Nos. 1 to 4	5.5%
6.	Companies not covered under S. Nos. 1 to 5	5.5%
7.	Persons not covered under S. Nos. 1 to 6	6%

13. Tax deduction on director's fee [Section 149]

Directors' Fee is included in the definition of salary but tax is not being deducted as per average rate of tax on the estimated income of the salaried individual. Average rate of tax deduction as per section 149 on Director's fee cannot be determined by the person paying the fee, since in most cases the person responsible for paying director's fee is not the same person as the person responsible for paying salary. The person paying the fee is not aware of the bracket in which the income of the Director falls. As substantial amounts are generally paid as director's fee, the rate of tax deduction is generally much lower than the average rate of tax on which tax was required to be deducted. Through the Finance Act, 2014, the rate of tax deduction for directorship fee, fee for attending board meeting or such fee by whatever name called shall be 20% of the gross amount payable. The tax deducted shall be adjustable against income under the head salary.

14. Dividend and Profit on debt for non-filers [Section 150, 151 read with Division I and IA, Part III of the First Schedule]

As per Paragraph (b), Division III, Part I of the First Schedule, the rate of tax on dividend is 10%. However, through the Finance Act, 2014, the rate of advance tax to be deducted under section 150 is 15% for non-filers. This means that in the case of non-filers, advance tax shall be deducted @ 15% but the rate of tax on dividend, at the time of filing of return shall be 10%. The additional 5% tax for a non-filer shall be adjustable against the total income for the year, at the time of filing of return.

Regarding profit on debt, as per sub-section (3) of section 151, the rate of tax deductible on profit on debt was final for a taxpayer other than a company. Through the Finance Act, 2014, a proviso has been added after sub-section (3) making tax deductible for a filer as final tax @ 10% of yield or profit, and 15% for a non-filer with yield or profit exceeding Rs.500,000. However, in order to attract the non-filer to file return, the additional 5% tax for a non-filer shall be adjustable against the total income for the year.

In case a joint account is held in a bank by more than one person, joint account holders as an entity shall be treated as filer if at least one person in the joint account is a filer. Similarly, in case an account is held in a bank in the name of a minor, the minor shall deemed to be filer if the parent, guardian or any person who has made deposits in the minor's account is filer.

15. Amendments in Withholding Taxes Collected on Transaction Related to Private Motor Vehicles

[Relevant Sections: 231B, 234, clause (3) and (4) of Division III of Part IV and Division VII of Part IV of the First Schedule]

There have been changes in following five major areas in advance Income Tax collected on transactions related to motor vehicles;

- **a.** The rate of advance income tax collected at the time of payment of Motor Vehicle Tax has been revised.
- **b.** Collection of advance income tax on sale of locally manufactured motor vehicles has been introduced.
- **c.** Collection of advance income tax on registration of private motor vehicles has been revamped.
- **d.** Collection of advance income tax on transfer of private motor vehicles has been introduced.
- **e.** In each of the above cases separate rate of tax have also been provided for filers and non-filers as explained earlier.

The changes in each area are explained below in detail:

a. Revision of rate of Advance Tax to be collected with payment of private Motor Vehicle Tax:

The rates of advance income tax collected at the time of collection of motor vehicle tax were last revised in 2008. In order to account for inflation, the rates of tax collected from private motor cars under this section have been revised through Finance Act 2014. In addition, separate rates of tax have been provided for filers and non-filers.

The revised rates for collection of advance income tax to be collected from private motor cars along with motor vehicle tax are as follows:

S No.	Engine capacity	for filers	for non-filer
1.	Upto 1000cc	Rs. 1,000	Rs.1,000
2.	1001cc to 1199cc	Rs. 1,800	Rs. 3,600
3.	1200cc to 1299cc	Rs. 2,000	Rs.4,000
4.	1300cc to 1499cc	Rs. 3,000	Rs.6,000
5.	1500cc to 1599cc	Rs. 4,500	Rs.9,000

6.	1600cc to 1999cc	Rs. 6,000	Rs.12,000
7.	2000cc and above	Rs. 12,000	Rs.24,000

The revised rates for collection of advance income tax where motor vehicle tax is collected in lump-sum are as follows:

S No.	Engine capacity	for filers	for non-filer
1.	Upto 1000cc	Rs. 10,000	Rs.10,000
2.	1001cc to 1199cc	Rs. 18,000	Rs. 36,000
3.	1200cc to 1299cc	Rs. 20,000	Rs.40,000
4.	1300cc to 1499cc	Rs. 30,000	Rs.6,0000
5.	1500cc to 1599cc	Rs. 45,000	Rs.90,000
6.	1600cc to 1999cc	Rs. 60,000	Rs.120,000
7.	2000cc and above	Rs. 120,000	Rs.240,000

b. Collection of advance income tax on sale of locally manufactured motor vehicles:

Under Sub-section (3) of Section 231B, as amended by the Finance Act 2014, advance income tax shall be collected by manufacturers from buyers on sale of motor vehicles. This is a new provision and previously advance income tax was not collected on sale of motor vehicles. The tax collected is adjustable against the income tax liability of the person paying the tax.

Separate rates of tax have been provided for filers and non-filers. The rates of advance income tax on sale of private motor vehicles are as follows:

Engine Capacity	Amount of tax for filer	Amount of tax for non-filer
Up to 850cc	Rs. 10,000	Rs. 10,000
851cc to 1000cc	Rs. 20,000	Rs. 25,000
1001cc to 1300cc	Rs. 30,000	Rs. 40,000

1301cc to 1600cc	Rs. 50,000	Rs. 100,000
1601cc to 1800cc	Rs. 75,000	Rs. 150,000
1801cc to 2000cc	Rs.100,000	Rs. 200,000
2001cc to 2500cc	Rs.150,000	Rs. 300,000
2501cc to 3000cc	Rs.200,000	Rs. 400,000
Above 3000cc	Rs.250,000	Rs. 450,000

This advance income tax shall not be collected from the Federal Government, a Provincial Government, a Local Government, a foreign diplomat or a diplomatic mission in Pakistan.

c. Collection of advance income tax on registration of private motor vehicles

Previously under section 231B, advance Income tax was collected on registration of new locally manufactured motor vehicles. Several changes have been made to this provision through Finance Act 2014.

Under Sub-section (1) of Section 231B, the condition of new locally manufactured vehicle has been omitted and now tax is collectable from both locally manufactured and imported private vehicles when first registered in Pakistan.

However, the tax shall not be collected if the person, in whose name vehicle is being registered, provides evidence that advance income tax has been collected from the same person in respect of same vehicle:

i. In the case of locally manufactured vehicle by the manufacturer of the vehicle under section 231B, or
ii. In the case of imported vehicle, on import of the vehicle, under section 148.

If the, person in whose name the vehicle is being registered is not the same as the person who purchased the vehicle from manufacturer or imported it, and paid tax at that stage, then the tax will be collected on registration of the vehicle.

The rates of tax under this section on registration have also been revised. In addition, separate rates of tax have been provided for filers and non-filers. The rates of advance income tax to be collected on registration of private motor vehicles are as follows:

Engine Capacity	Amount of tax for filer	Amount of tax for non-filer
Up to 850cc	Rs. 10,000	Rs. 10,000
851cc to 1000cc	Rs. 20,000	Rs. 25,000
1001cc to 1300cc	Rs. 30,000	Rs. 40,000
1301cc to 1600cc	Rs. 50,000	Rs. 100,000
1601cc to 1800cc	Rs. 75,000	Rs. 150,000
1801cc to 2000cc	Rs.100,000	Rs. 200,000
2001cc to 2500cc	Rs.150,000	Rs. 300,000
2501cc to 3000cc	Rs.200,000	Rs. 400,000
Above 3000cc	Rs.250,000	Rs. 450,000

This advance income tax shall not be collected from the Federal Government, a Provincial Government, a Local Government, a foreign diplomat or a diplomatic mission in Pakistan.

d. Collection of advance income tax on transfer of private motor vehicles:

Under Sub-section (2) of Section 231B, as amended by the Finance Act 2014, advance income tax shall be collected on transfer of private motor vehicles from person in whose name vehicle is being transferred. This is a new provision and previously advance income tax was not collected on transfer of motor vehicles. The tax collected is adjustable against the income tax liability of the person paying the tax.

In case a vehicle has been sold many times without being registered equal number of times in the name of persons buying the vehicle, the person approaching the Motor Vehicle Authority for registration of vehicle in his name would not be required to pay tax under sub-section (2) of section 231B pertaining to all the persons who had previously bought the vehicle without registration. Advance tax under section 231B(2) is to be collected by the motor vehicle authority for a single transfer of registration from such a person applying for transfer in his name. However, for the number of times the vehicle was sold without being registered, if the motor vehicle authority has to register all those persons for the period in which the vehicle was owned by them but not got registered, the motor vehicle authority has to collect tax under section 231B from the persons who did not get the vehicle registered in their name but bought the same.

The motor vehicle authority shall not collect tax u/s 231B of these persons in the buying chain from the final person who approaches the Motor Vehicle Authority for registration in his name, if those persons are available. However, if the intermediary buyers are not traceable or could not be found, the tax is to be collected from the final person, who is entitled to recover the same from the intermediary buyers.

The tax shall be collected for up to five years from first registration in Pakistan. The rates of tax for the first year have been provided in the schedule and the rates shall be reduced by 10% for each year after the first year. Separate rates of tax have been provided for filers and non-filers. The rates of advance income tax on transfer of motor vehicles, worked out for the five years, are as follows:

Engine Capacity	Rate of Tax for First Year		Rate of Tax for Second Year		Rate of Tax for Third Year		Rate of Tax for Fourth Year		Rate of Tax for Fifth Year	
	Filer	Non-Filer	Filer	Non-Filer	Filer	Non-Filer	Filer	Non-Filer	Filer	Non-Filer
Up to 850cc	10,000	10,000	9,000	9,000	8,000	8,000	7,000	7,000	6,000	6,000
851cc to 1000cc	20,000	25,000	18,000	22,500	16,000	20,000	14,000	17,500	12,000	15,000
1001cc to 1300cc	30,000	40,000	27,000	36,000	24,000	32,000	21,000	28,000	18,000	24,000
1301cc to 1600cc	50,000	100,000	45,000	90,000	40,000	80,000	35,000	70,000	30,000	60,000
1601cc to 1800cc	75,000	150,000	67,500	135,000	60,000	120,000	52,500	105,000	45,000	90,000
1801cc to 2000cc	100,000	200,000	90,000	180,000	80,000	160,000	70,000	140,000	60,000	120,000
2001cc to 2500cc	150,000	300,000	135,000	270,000	120,000	240,000	105,000	210,000	90,000	180,000
2501cc to 3000cc	200,000	400,000	180,000	360,000	160,000	320,000	140,000	280,000	120,000	240,000
Above 3000cc	250,000	450,000	225,000	405,000	200,000	360,000	175,000	315,000	150,000	270,000

This advance income tax shall not be collected from the Federal Government, a Provincial Government, a Local Government, a foreign diplomat or a diplomatic mission in Pakistan.

16. Rationalization of rates of tax deduction [Section 153,156A & 233]

Through an amendment, contracts signed by sports persons have been included in clause (c) of sub-section (1) of section 153 and a new sub-paragraph (iii) has been added in paragraph (3) in Division III, Part III of the First Schedule according to which the rate of tax is 10% of the gross amount payable in the case of sportspersons.

The rate of tax to be deducted on sale of goods under clause (a) of sub-section (1) of section 153 has been increased from 3.5% to 4% of the gross amount payable in the case of companies, and from 4% to 4.5% in case of other taxpayers.

The rate of tax to be deducted for rendering of services under clause (b) of sub-section (1) of section 153 has been increased from 6% to 8% of the gross amount payable in the case of companies, and from 8% to 10% in case of other taxpayers.

The rate of tax to be deducted on execution of a contract other than a contract by sportspersons under clause (c) of sub-section (1) of section 153 has been increased from 6% to 7% of the gross amount payable in the case of companies, and from 6.5% to 7.5% in case of other taxpayers.

The rate of tax to be deducted by an exporter or an export house making payment for getting services of stitching, dying, printing, embroidery, washing, sizing and weaving has been increased to 1% from 0.5%.

The rate of tax to be deducted on commission paid by a person selling petroleum products to a petrol pump operator has been increased from 10% to 12% of the amount of payment.

Prior to the Finance Act, 2014, the rate of tax on brokerage and commission was 10% and it was 5% in the case of advertising agents. The rates have been rationalized by substituting Division II, Part II of the First Schedule to provide rate of 7.5% in the case of advertising agents and 12% in all other cases.

17. Exemption certificate for persons subject to hundred percent tax credit under section 100C [Section 159]

Prior to the Finance Act, 2014, persons subject to hundred percent tax credit were exempt from tax, and to avoid deduction of tax at source, such persons were able to obtain exemption certificate u/s 159 if required. Due to change in the tax regime from exemption to hundred percent tax credit, a new clause (c) has been inserted in sub-section (1) of section 159 to enable such persons to apply to the Commissioner for exemption from deduction or collection of tax under Division II or III of Chapter X or Chapter XII.

It is also clarified that as NPOs, welfare institutions and trusts are subject to hundred per cent tax credit in respect of specified incomes only, such as donations, voluntary contributions, house property, income from Government Securities etc., Exemption Certificate is to be issued in respect of these specified incomes only. Exemption Certificate regarding withholding taxes in respect of amounts which are taxable and not subject to 100% tax credit is not to be issued.

It is further clarified that a certificate can only be issued subject to the condition that return has been filed for the immediately preceding year and withholding statements have also been filed and tax has also been paid.

18. Advance tax on domestic electricity consumption [Section 235A]

Through the Finance Act, 2014, a new section 235A has been introduced which provides from collection of advance tax @ 10% on the amount of electricity bill of a domestic consumer if the monthly electricity bill exceeds Rs.100,000. This tax shall be adjustable against the tax liability of the consumer. The prescribed person under this section for collecting tax shall be the person preparing the electricity bill in the manner electricity consumption charges are charged. The prescribed person/withholding agent under this section shall be required to file withholding statements under section 165.

19. Tax on steel melters, re-rollers etc [Section 235B]

A new section 235B has been introduced through the Finance Act, 2014 which provides that tax @ Rupee 1 per unit of electricity consumed shall be collected from steel melter, steel re-roller and composite steel units, registered for the purpose of Chapter XI of Sales Tax Special Procedure Rules, 2007. The prescribed person, under this section for collecting tax, shall be the person preparing the electricity bill in the manner electricity consumption charges are charged. The prescribed person/withholding agent under this section shall be required to file withholding statements under section 165. This tax shall be deemed to be the tax in lieu of tax required to be deducted under sub-section (1) of section 153 on payment for purchase of local scrap. This tax shall not be adjustable and no person shall be entitled to claim the credit of tax collected under this section. Accordingly, a new clause (9A) has been inserted in Part IV of the Second Schedule absolving steel melter, steel re-roller and composite steel units from deducting tax under clause (a) of sub-section (1) of section 153 on purchase of scrap *"**provided that tax is collected in accordance with section 235B**"*. The proviso has been inserted to indicate that the exemption from non-deduction of tax is conditional to the requirement that tax is collected under section 235B. Hence, such persons will have the option to either absolve themselves of their responsibility as a withholding agent from deducting tax on purchase of scarp and in lieu of deduction pay Re.1 per unit of electricity consumed or to fulfill their responsibility as a

withholding agent and deduct tax under section 153(1)(a) on purchase of scrap. Persons who do not wish to pay tax under section 235B and instead would opt to fulfill their liability as a withholding agent under section 153(1)(a) on purchase of scrap may furnish option to the Commissioner and obtain exemption from collection of tax under section 235B. However, such option exercised shall be exercised once in a financial year and it shall be irrevocable.

20. Advance tax on purchase of domestic air ticket [Section 236B]

Prior to the Finance Act, 2014, the prescribed person for collecting advance tax on purchase of domestic air ticket was the person preparing the air ticket. The prescribed person has now been changed, and the airline issuing the air ticket shall now be the prescribed person for collecting this tax. The mode, manner and time of collection under this section shall be separately prescribed in the rules.

21. Advance Tax on purchase or transfer of immovable property [Section 236K]

Through the Finance Act, 2014, a new section 236K has been introduced according to which the purchaser of immovable property shall pay advance tax @ 1% of the value of the property if the purchaser is a filer, and 2% of the value of the property if the purchaser is a non-filer. However, there is no tax if the value of immovable property is less than or equal to three million rupees. The prescribed person for collecting this withholding tax shall be any person responsible for registering or attesting transfer of any immovable property and the tax shall be collected at the time of registration or at the time of attestation of transfer, whichever is earlier. The prescribed person/withholding agent under this section shall be required to file withholding statements under section 165. The advance tax collected under this section shall be adjustable against the tax liability of the purchaser at the time of filing of return. However, no tax under this section shall be collected in case of the Federal Government, a Provincial Government, a Local Government, a foreign diplomatic mission, or a scheme introduced by the Federal Government, or a Provincial Government or any Authority established under a Federal or Provincial law for expatriate Pakistanis.

It is also clarified that since in the case of inheritance, the property is neither purchased nor any consideration is paid, withholding tax under this section shall not be applicable. However, in case of gifts, as its genuineness cannot be determined at that stage withholding tax

shall be paid on the value notified by the provincial governments, the taxpayer may claim refund, in case of genuine gift, after filing the return.

22. Advance tax on purchase of international air ticket [Section 236L]

Section 236L has been introduced through the Finance Act, 2014 which provides for collection of advance tax on air tickets of classes other than economy for journeys originating from Pakistan. Every airline issuing tickets for journey originating from Pakistan shall be the prescribed withholding agent for this section. Advance tax shall be collected in the manner air ticket charges are collected or charged. The prescribed person/withholding agent under this section shall be required to file withholding statements under section 165. The advance tax collected under this section shall be adjustable against the tax liability of the passenger at the time of filing of return. The mode, manner and time of collection under this section shall be separately prescribed in the rules.

23. Rate of Dividend Tax [Division III, Part I of the First Schedule]

Prior to the Finance Act, 2014, the rate of dividend tax under section 5 was provided in Division III, Part I of the First Schedule. Simultaneously, reduced rates for certain classes of persons also existed in the Second Schedule. Now, all the rates for tax on dividend have been consolidated at one place, by substituting Division III, Part I of the First Schedule as under:-

S.No.	Persons	Rate
(1)	(2)	(3)
1.	(i) Dividends declared or distributed by purchaser of a power project privatized by WAPDA; (ii) Dividend declared on shares of a company set up for power generation; and (iii)Dividend declared on shares of a company supplying coal exclusively to power generation projects.	7.5%
2.	Dividend received by a person from a stock fund for tax year 2015 and onwards (if dividend receipts are less than capital gains).	12.5%
3.	Dividend received by a company from a collective investment scheme or a mutual	25%

	fund, other than a stock fund, for tax year 2015 and onwards.	
4.	In all other cases	10%

24. Relief Measures

a. Fifty percent reduction in tax liability for disabled persons

Fifty percent reduction in tax liability is available for a taxpayer of the age not less than sixty years on the first day of that tax year if the taxable income, other than income on which tax deduction is final, does not exceed one million rupees. A similar reduction has been provided to the disabled persons through the Finance Act, 2014 which provides that persons holding a National Database Registration Authority's Computerized National Identity Card for disabled persons, the tax liability shall be reduced by fifty percent if the taxable income of the disabled person in a tax year other than income on which the deduction of tax is final, does not exceed one million rupees.

b. Tax rate for companies reduced to 33%

Prior to Finance Act, 2013, the rate of tax for companies, other than banking companies, was 35%. However, through the Finance Act, 2013, the Government committed to reduce the same to 30% in 5 years, by reducing 1% every year. In line with the commitment, the rate of tax for Tax Year 2014 was reduced to 34% through Finance Act, 2013 and now, through the Finance Act, 2014, the rate of tax for companies, other than banking companies, has further been reduced to 33% for the Tax Year 2015.

c. Collection of tax under section 236 reduced to 14%

Prior to the Finance Act, 2014, the rate of collection of tax under section 236 was 15% in the case of subscribers of mobile or sale of telephone and prepaid telephone cards or bill price of pre-paid sale of units through any electronic telephone card, medium or whatever form. The rate has been reduced to 14% through the Finance Act, 2014.

d. **Collection of tax under section 236D reduced to 5%**

Section 236D was introduced through the Finance Act, 2013 as per which 10% advance tax was collected on the total amount of bill from a person holding or arranging a function or a gathering. Although, the tax collected was adjustable against the tax liability of the year, the rate of 10 percent was perceived higher in certain categories of

functions and accordingly the rate has been reduced to 5% through the Finance Act, 2014.

e. Exemption to public sector universities

Clause (92), Part-I of the Second Schedule was omitted vide the Finance Act, 2013. This clause provided exemption for any income of any university or other educational institution established solely for educational purposes and not for the purposes of profit. However, clause (58A) was inserted through the Finance Act, 2013 which provided exemption to income of a university or other educational institution being run by a non-profit organization existing solely for educational purposes and not for the purposes of profit. Due to this change many public sector universities which are established solely for educational purposes were denied exemption because these were not run by a non-profit organization. In order to give the benefit of exemption, any income of a public sector university, established solely for educational purposes, and not for the purposes of profit, has been granted exemption from income tax with effect from 01 July, 2013. Clause (58A), Part I of the Second Schedule has been omitted through the Finance Act, 2014.

f. Exemption to fruit processing industrial undertakings

In order to encourage processing of locally grown fruits, profits and gains derived by a taxpayer from fruit processing or preservation units set up in Balochistan Province, Malakand Division, Gilgit Baltistan and FATA have been exempted from income tax if the industrial undertaking for food processing is set up between 01 July, 2014 to 30 June, 2017, both days inclusive. The exemption shall be available for a period of five years beginning with the month in which the industrial undertaking is set up or commercial production is commenced, whichever is later.

g. Exemption to coal mining projects in Sindh

In order to encourage investment in coal mining for providing the raw material for power generation, a new clause (132B) has been introduced in Part-I of the Second Schedule according to which profits and gains, derived by a taxpayer from a coal mining

project in Sindh supplying coal exclusively to power generation projects, are exempt from income tax.

h. Reduced rate of 20% for foreign direct investment

In order to attract foreign direct investment, tax rate for a company setting up an industrial undertaking other than a banking company shall be 20% if fifty percent of the cost of the project including working capital is financed through owner's equity through foreign direct investment i.e. foreign remittance through normal banking channels. This is subject to the condition that industrial undertaking is set up between 01 July, 2014 to 30 June, 2017. The reduced rate of 20% shall be available for a period of five years beginning from the month in which the industrial undertaking is set up or commercial production is commenced, whichever is later.

It may be emphasized that the above clarifications are only meant for ease of understanding. For proper understanding and interpretation of the law, the relevant provisions of the Finance Act and notifications may be consulted. In case of any difficulty, guidance/instructions may be sought from the Board.

(Shabih ul Aijaz)
Secretary (Income Tax Policy)