

**GOVERNMENT OF PAKISTAN
REVENUE DIVISION
FEDERAL BOARD OF REVENUE**

C.No. 4(18)R&S/2015

Islamabad, the 24th July, 2015

**Circular No.2 of 2015
(Income Tax)**

SUBJECT: **FINANCE ACT, 2015 – EXPLANATION REGARDING IMPORTANT AMENDMENTS MADE IN THE INCOME TAX ORDINANCE, 2001.**

Important amendments made in the Income Tax Ordinance, 2001 through Finance Act 2015, are explained as under:-

1. Super Tax for Rehabilitation of Temporarily Displaced Persons. [section 2(28A and 4B, Fourth, Fifth, Seventh and Eighth Schedule]

Through Finance Act, 2015 a new section 4B has been introduced in the Ordinance according to which super tax has been imposed for tax year 2015 on the income of individuals, association of persons and companies who are earning income of Rs 500 million or above in tax year 2015. For banking companies super tax has been imposed irrespective of the quantum of income. Super tax shall be charged at the rate of 4% for banking companies and at a rate of 3% for persons other than banking companies.

For the purpose of super tax, income of the person has specifically been defined which includes all sources of income and shall be the sum total of the following;

- (i) Income from profit on debt, dividend, capital gains, brokerage and commission;
- (ii) Taxable income under section 9 of this Ordinance which shall be the income of a person under all heads of income i.e. income under the head salary, income from property, income from business, income from capital gains and income from other sources for the year if not included in clause (i).
- (iii) Imputable income as defined in clause (28A) of section 2 which in relation to amount subject to final tax means income which results in the same tax if the said amount is not subjected to final tax excluding the amount specified in clause (i); and
- (iv) Income computed under special procedures for computation of profits and gains of insurance business under Fourth Schedule, computation of profits and gains for exploration and production of petroleum under Fifth Schedule, computation of profits

and gains of a banking company under the Seventh Schedule and computation of capital gains on listed securities under Eighth Schedule.

It may be pointed out that under section 4, tax is levied on taxable income only, whereas super tax is levied not only on taxable income but includes other amounts as referred above. Therefore taxable income for the purpose of section 4 and income for the purpose of section 4B are not the same. Moreover, super tax is a one time levy on income as defined in section 4B for tax year 2015. Since super tax is payable for tax year 2015 only on the specified income, the concept of carry forward of any loss to succeeding tax year or brought forward of any loss of previous tax year is not applicable because income or loss can neither be calculated for previous tax year nor for subsequent tax year for the purpose of section 4B. Therefore, for calculating the super tax, carry forward business losses shall not be set off against the income as defined in section 4B.

It may also be noted that for taxpayers whose income is computed under special procedures for computation of profits and gains of insurance business under Fourth Schedule, computation of profits and gains for exploration and production of petroleum under Fifth Schedule, computation of profits and gains of a banking company under the Seventh Schedule and computation of capital gains on listed securities under Eighth Schedule clauses (i), (ii) and (iii) shall not apply and their income shall be worked out as per rules provided in the respective Schedules.

The super tax being one time levy, shall be paid along with return filed for tax year 2015 as per provisions of section 137 and chapter X of the Ordinance. In case a person who is liable to pay super tax does not pay the said tax along with return for tax year 2015, the Commissioner shall pass an order for determination of the said tax liability and all the recovery provisions mentioned in the Ordinance shall apply accordingly.

In case the person is earning income under Final Tax Regime (FTR) the imputable income shall be worked out for the purpose of levy of super tax, which has been defined in clause (28A) of section 2.

Example 1

Head of income	Company other than Banking Co.			AOP			Individual		
	Receipts (Rs)	Tax deducted (Rs)	Income for Super Tax (Rs)	Receipts (Rs)	Tax deducted (Rs)	Income for Super Tax (Rs)	Receipts (Rs)	Tax deducted (Rs)	Income for Super Tax (Rs)
Commission	500 (m)	60 (m) @ 12%	500(m)	500 (m)	60(m) @ 12%	500 (m)	500 (m)	60 (m) @ 12%	500 (m)
Contracts	200 (m)	14 (m) @ 7%	14*100/32 = 43.75 (m)	200 (m)	15(m) @ 7.5%	45.087(m) Tax Imputable Income 1.3195 6	200 (m)	15(m) @ 7.5%	45.087(m) Tax Imputable Income 1.3195 6

						<u>13.680</u> 15	<u>39.087</u> 45.087			<u>13.680</u> 15	<u>39.087</u> 45.087
Profit on debt	30 (m)		30 (m)	30 (m)	3(m) @ 10%	30 (m)	30 (m)	3 (m) @ 10%	30 (m)		
Dividend	20(m)	2.5(m) @ 12.5%	20(m)	20 (m)	5 (m) @ 12.5%	20 (m)	20 (m)	5 (m) @ 12.5%	20 (m)		
Business income	1000 (m)		150 (m)	1000 (m)		150(m)	1000 (m)		150(m)		
Capital gain	53 (m)		53 (m)	53 (m)		53 (m)	53 (m)		53 (m)		
Services	30 (m)	2.4 (m) @ 8%	included in Business income		3 (m) @ 10%	included in Business income			included in Business income		
Salary income			-			-	20(m)		20(m)		
Total income for super tax			796.75 (m)			798.087 (m)			818.087(m)		
Super tax @ 3%			23.9 (m)			23.94(m)			24.54(m)		

2. Tax on undistributed reserves [Section 5A]

Through Finance Act, 2015 a new section 5A has been introduced whereby in order to persuade the public companies to distribute dividend among their shareholders and to encourage investment in stock market, tax at the rate of ten percent has been imposed on every public company except scheduled bank or a modaraba that derives profits in a tax year but does not distribute cash dividend within six months of the end of the tax year or where the said company distributes dividend in such a way that after distribution of the dividend, the company's reserves are in excess of hundred percent of its paid up capital. The said amount of reserves in excess of its paid up capital shall be treated as income of the company and will be taxed at the rate of ten percent.

For tax year 2015 the public companies are required to distribute their cash dividends before the due date of filing of the return as mentioned in sub-section (2) of section 118 of the Ordinance.

Section 5A, however, does not apply to:

- (a) A public company which distributes profit equal to either forty percent of its after tax profits or fifty percent of its paid up capital, whichever is less, within six months of the end of the tax year;
- (b) Company qualifying exemption under clause (132) part I of the Second Schedule;
- (c) Companies where the Government owns fifty percent or more shares;
- (d) a scheduled bank; and
- (e) a modaraba.

"Reserves", for the purposes of section 5A of the Income Tax Ordinance, 2001, is defined as to include amounts set-aside out of revenue or other surpluses excluding capital reserves, share premium reserves and reserves required to be created under any law, rules or regulations. Consequently, if due to any legal restrictions on distribution of any particular income, profit or gain, which cannot be distributed and has to be set apart or placed in a reserve, such a reserve, like the one created in pursuance of section 248 of the Companies Ordinance, 1984 would be treated as a "reserve required to be created under the law."

3. **New Withholding Tax Provisions Applicable To Banking Companies**
[Sections 236P, 236R, 231A and 231AA]

(i) **Section 236P**

Banking instruments and channels are used to acquire assets and incur major expenditures using untaxed money. Unreported business transactions are also conducted through these means. In order to bring non-compliant taxpayers into tax net and to document transactions of untaxed amounts through banking channels, a new section 236P has been introduced in the Income Tax Ordinance, 2001 through Finance Act, 2015, requiring every banking company to deduct tax @ 0.6% from non-filers,

- a. at the time of sale of any instrument, whether against cash or otherwise, including demand draft, pay order, special deposit receipt, cash deposit receipt, short term deposit receipt, call deposit receipt, rupee traveller's cheque or any other instrument of such nature; and
- b. at the time of transfer of any sum through cheque or clearing, interbank or intra bank transfers through cheques, online transfer, telegraphic transfer, mail transfer, direct debit, payments through internet, payments through mobile phones, account to account funds transfer, third party account to account funds transfers, real time account to account funds transfer, real time third party account to account fund transfer, automated teller machine (ATM) transfers, or any other mode of electronic or paper based funds transfer.

However, through Income Tax Laws (Amendment) Ordinance, 2015, the rate has been reduced from 0.6% to 0.3% w.e.f. July 11, 2015. This reduced rate will remain effective until 30.09.2015. Rate of deduction of tax under this section shall remain 0.6% from 01.07.2015 to 10.07.2015. Rate of deduction of tax under this section shall be 0.6% from 01.07.2015 to 10.07.2015 and from 01-10-2015 onwards.

The bank account from where transfer is being made (through cheque, online or online banking or any other mode) shall be debited by the amount equivalent to 0.6% of payment, at the time the transfer is made.

This provision which comes into force w.e.f. July 01, 2015 shall not be applicable to PRISM transactions or transfers for tax payments. *However, if an amount is transferred from an account of a customer of Bank A to an account of a customer of Bank B through PRISM, section 236P shall only be inapplicable for the customer of Bank A, if the said customer of Bank A is maintaining a settlement account in PRISM i.e. a PRISM Participant's account only.* Transfer of Zakat from a bank account shall also not attract provisions of this section, being in the nature of government levy. Similarly, no tax shall be deductible where the value of sale of instruments or amount being transferred is Rs.50,000/- or less in a single day. This threshold is to be considered separately for sub-section (1) and sub-section (2) of section 236P.

Certain other queries by banks and other taxpayers are being received in respect of section 236P, for which a detailed circular shall be issued shortly in this regard.

(ii) Other Provisions relating to Banks

An amendment in section 231A has also been made whereby rate for non-filers has been increased from 0.5% to 0.6%. Similarly for section 231AA rates have been revised and for filers the rate is 0.3% and for non-filers it is 0.6%.

By virtue of another amendment, a new section 236R of the Income Tax Ordinance, 2001 has also been introduced in the Income Tax Ordinance, 2001 requiring every banking company, financial institution, foreign exchange company or any other person responsible for remitting foreign currency abroad to collect advance income tax from the payer of education related expenses, at the rate of 5% of the amount being remitted abroad.

**4. Progressive Tax Regime for profit on debt in case of non-corporate taxpayers
[Section 7B, Section 151, Division IIIA of Part I of the First Schedule]**

Prior to the Finance Act, 2015, tax deductible on profit on debt under section 151 was final tax for non-corporate taxpayers. However, the tax deductible at a higher rate in the case of non-filers was adjustable. For companies, tax deductible under section 151 was adjustable against total tax liability after inclusion of income from profit on debt in total income which is subject to corporate tax rate as provided in Division II of Part I of the First Schedule.

Through Finance Act, 2015, there is no change in taxation for corporate taxpayers. For non-corporate taxpayers, tax deductible under section 151 is adjustable against tax liability which is to be computed through a newly introduced charging section 7B. Gross

amount received from profit on debt is now chargeable to tax as per three progressive tax slabs, the rates of which are given in Division IIIA of Part I of the First Schedule. The rate of tax is 10% where the gross amount of profit on debt is up to Rs.25 million. For amounts exceeding Rs.25 million and up to 50 million, the tax liability is Rs 2.5 million plus 12.5% of the amount exceeding Rs 25 million. Where the gross amount exceeds Rs.50 million, the tax liability is 5.625 million plus 15% of the amount exceeding Rs.50 million. The rationale for introducing progressive tax rates is that prior to Finance Act, 2015, non-corporate taxpayers earning very high income from profit on debt were subjected to 10% final tax whereas the maximum slab rate for non-corporate tax payers earning taxable incomes was 30% or 35%. In order to reduce the gap, progressive tax rates have been introduced.

The withholding agents shall continue to deduct tax at the rates given in Division IA of Part III of the First Schedule which is 10% of the yield or profit for filers. For non-filers the rate of tax has been enhanced from 15% to 17.5% of the yield or profit. Hence, while the withholding agents shall deduct tax at the rates given in Division IA of Part III of the First Schedule, the tax liability shall be computed by the non-corporate taxpayer as per section 7B read with Division IIIA of Part I of the First Schedule. The balance liability or the difference between tax deducted and tax liability as per section 7B shall be paid at the time of filing of return under sub-section (1) of section 137 of the ITO, 2001 after adjusting tax paid under section 147.

5. 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) Extension in the holding period for taxability
- b) Rationalization of tax rates

Prior to Finance Act, 2015, securities were subject to tax if these were held for a period of less than 24 months. Through Finance Act, 2015, securities held for a period upto four years have also been made taxable under the Ordinance. Securities held for a period of more than 2 years and upto four years shall now be taxed at a rate of 7.5% instead of 0%. However, securities held for a period of more than four years shall continue to be taxed at a rate of 0%. Also the words “held for a period of less than a year” have been omitted from section 37A.

Secondly, through Finance Act, 2015, the rates have been revised and for securities held upto one year, capital gains tax has been increased to 15% from 12.5%, and for securities held between 12 and 24 months, the rate has been increased to 12.5% from 10%.

6. Tax rates and rules for the computation of the profits and gains of banking company
[Relevant Provisions: Seventh Schedule]

The tax rates of banking companies have been amended and taxation of net income from dividend (other than from its assets management company), net income from capital gains on sale of shares of listed companies held for 12 months or more, dividend received from its assets management company and dividend received from Money Market Funds and Income Funds as a separate block of income at the rate of 10%, 12.50%, 20% and 25% stands withdrawn from tax year 2015. Accordingly income from dividend and capital gains will be chargeable to tax at the standard rate of 35% from tax year 2015. Consequently, the provisions relating to attribution of expenses, inserted by the Finance Act 2014, have also been omitted. One-time super tax at the rate of 4% is also payable by banking companies for tax year 2015.

7. Capital Gains Tax Rates on Redemption of Securities by Mutual Funds or Collective Investment Schemes
[Relevant provisions: Division VII of Part I of First Schedule]

Upto 30.06.2015, Mutual funds or Collective Investment Schemes were required to deduct Capital Gains Tax as per rates available in Division VII of Part I of First Schedule on redemption of securities. Through Finance Act, 2015, rate of capital gains tax deduction, on redemption, shall be as follows:

Category	Rate
Individual and association of persons	10% for stock funds 10% for other funds
Company	10% for stock funds 25% for other funds

However, in case of a stock fund the rate of tax deduction shall be 12.5% if dividend receipts of the fund are less than capital gains and further no deduction shall be made if holding period of securities is more than four years.

8. Automatic Selection for Audit
[Relevant Sections: New Section 214D]

Through Finance Act 2015, a new section 214D has been introduced which provides for automatic selection of cases for audit that do not fulfill certain conditions. Under the provisions

of Section 214D, any person falling under the following categories shall be automatically selected for audit for a taxpayer:

- (a) Return is not filed within the time specified in section 118. This time shall include any extension in time by the Board or, up to thirty days, by the Commissioner.
- (b) The tax payable for the tax year is not paid by the due date for furnishing the return of income for that year.

The audit proceedings shall be conducted according to the procedure given in Section 177. The audit proceedings shall be initiated after the expiry of ninety days from the date as mentioned in sub-section. During this period of ninety days, a person can avoid automatic selection for audit by filing return and fulfilling the following requirements:

- (a) If the taxpayer has declared taxable income in the immediately preceding tax year, then the tax paid on the basis of taxable income for the tax year is twenty five percent higher than the tax paid during immediately preceding tax year;
- (b) If the person has not filed return of income tax, then tax at the rate of two percent of the turnover or the tax payable under Part I of the First Schedule, whichever is higher, has been paid along with the return.
- (c) If the taxpayer has filed return and has declared income below taxable limit in the immediately preceding tax year, then
 - i. turnover declared for the tax year is not less than the turnover declared for the immediately preceding tax year; and
 - ii. tax at the rate of two percent of the turnover or the tax payable under Part I of the First Schedule, whichever is higher, has been paid along with the return.

However, fulfilling of these requirements shall only exempt the person from automatic selection of audit under section 214D. The case can still be selected for audit under section 214C. Similarly, the case shall still be liable to penalty under section 182 or default surcharge under section 205 for late filing of return or late payment of tax.

A person who is registered as retailer under rule (4) of Sales Tax Special Procedure Rules, 2007 and remains on the sales tax active taxpayers' list throughout the tax year shall also be exempt from automatic selection under section 214D, from the date notified by the Board.

9. Alternative Corporate Tax [Section 113C]

Through Finance Act, 2014, a new concept of Alternative Corporate Tax (ACT) was introduced which is applicable to companies only whereby it was required by a company to pay

the higher of the ACT or the Corporate Tax. Corporate Tax was defined in section 113C 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 subject to certain exclusions. ACT was defined to mean the tax at a rate of seventeen per cent of a sum equal to accounting income less certain amounts, as specified in sub-section (8) including 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 was not applicable to taxpayers chargeable to tax under Fourth, Fifth and Seventh Schedules to the Ordinance.

Through Finance Act, 2015, section 113C has been redrafted and instead of taking the approach of excluding certain taxes from the definition of Corporate Tax, the definition has been made exhaustive by including only intended taxes payable. The amendment is made for the reason that every time a new tax is introduced or an existing tax is made final, presumptive or minimum which is not intended to be included in ACT, corresponding amendment would have been required in this section as well. Moreover, consequent amendments in sub-section (8) have also been made. An Explanation has also been inserted which further clarifies that taxes paid or payable other than payable under Division II of Part I of the First Schedule shall remain payable in accordance with the mode or manner prescribed under the respective provisions of this Ordinance.

Secondly, in addition to tax credit under 65B which is allowed against Alternative Corporate Tax, tax credit under section 64B shall also be allowed.

10. Increasing Cost of Doing Business for Non-filers

[Relevant Sections: Section 2(23A), 2(35C), 148, 150, 151, 152, 153, 231A, 231AA, 233, 234, 236G, 236P and First Schedule]

Through Finance Act, 2014, a distinction was created between a filer and a non-filer aimed at making “cost of doing business for non-compliant/non-filers, higher than compliant taxpayers/ filers”. Consequently, law was 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. Continuing with the same policy, for the following transactions, withholding tax rates in case of non-filers have further been increased:-

	<u>Transactions</u>	<u>Section</u>	<u>Rates for Non-Filers</u>	
			<u>Existing</u>	<u>New</u>
(i)	<u>Deduction of tax on dividend</u>	<u>150</u>	15%	17.5%
(ii)	<u>Deduction of tax on profit on debt (exceeding Rs.500,000/- Rate for profit on debt which is less than Rs.500,000/- shall be 10%).</u>	<u>151</u>	15%	17.5%
(iii)	<u>Imports</u>	<u>148</u>	Refer to Para 16	
(iv)	<u>Payments to non-residents</u>	<u>152</u>	Refer to Para 23	
(v)	<u>Payments for goods, services and contracts</u>	<u>153</u>	Refer to Para 24	
(vi)	<u>Deduction of tax on cash withdrawal</u>	<u>231A</u>	0.5%	0.6%
(vii)	<u>Advance tax on transactions in bank</u>	<u>231AA</u>	0.3%	0.6%
(viii)	<u>Advance tax on banking transactions otherwise than through cash</u>	<u>236P</u>	-	0.6% (0.3% upto 30 th Sep, 15)
(ix)	<u>Brokerage and commission</u>	<u>233</u>	10%	15%
(x)	<u>Sale to distributors / dealers / wholesalers</u> – Fertilizers	<u>236G</u>	0.4%	1.4%
(xi)	<u>Rates for motor vehicles</u>	<u>234</u>	Refer to Para 20	

11. Revision of rate to advance tax be collected by manufacturers of fertilizer from fertilizer dealers, distributors, wholesalers and retailers:
[Relevant sections: 236G, 236H, Division XIV of Part IV of First Schedule]

Section 236G provides for collection of advance income tax by manufacturer or commercial importer at the time of sale to distributors, dealers and wholesalers in certain sectors

including fertilizers. Section 236H provides for collection of advance income tax by manufacturer, distributor, dealer, wholesaler or commercial importer at the time of sale to retailers and every distributor or dealer to another wholesaler in certain sectors including fertilizers.

The term “dealer” is not defined in Income Tax Ordinance 2001. However, the Punjab Fertilizers (Control) Order, 1973 defines “dealer” as under:

“dealer” means a person or an association of persons carrying on the business of selling any brand of fertilizer whether wholesale or retail;

Since the dealer as defined above, includes both wholesaler and retailer, this was leading to some confusion in application of section 236G and 236H of Income Tax Ordinance 2001. In order to remove this ambiguity, and make the two laws consistent with each other, through Finance Act 2015, section 236H has been amended so that now the advance tax on sale of fertilizer by manufacturer to dealers, which includes both wholesalers and retailers, shall now be collected under Section 236G.

In this regard, the interpretation by certain fertilizer manufacturers that retailers have been excluded from collection of advance tax under both section 236G and 236H is not correct. The rate of advance tax to be collected under section 236G, which is provided in Division XIV of Part IV of First Schedule, has been revised and from 1st July 2015, the rate of advance income tax to be collected by manufacturer or commercial importer at the time of sale to distributors, wholesalers and dealers (including both wholesalers and retailers) on sale of fertilizer is 0.7% in case of filers and 1.4% in case of non-filers of income tax return.

12. Capital gains [Section 37A]

Previously, sub-section (1) of section 37 provided for capital gains from disposal of securities held for a period of less than a year (other than securities subject to Eighth Schedule for which separate periods were provided). Through the Finance Act, 2015, the words, “held for a period of less than a year” have been deleted. Now the capital gains from disposal of securities, even other than securities subject to Eighth Schedule are chargeable to tax as per holding period and rates provided in Division VII, Part-I of the First Schedule.

13. Powers to issue Notifications by Federal Government and Board [Section 53, 148 and 159]

Federal Government and Board has the power to issue notifications to amend rates in the First and Second Schedule to the Ordinance under sections 159 and 53 respectively. Amendments in Second Schedule relates to exemptions from tax and other provisions of the Ordinance. Under section 148(2), Board has the power to exempt withholding tax on imports. The powers of the Federal Government under section 53 to grant exemptions and tax concessions through Second Schedule have been curtailed. Now exemptions and tax concessions by the

Federal Government can only be given “pursuant to the approval of the Economic Coordination Committee of Cabinet, whenever circumstances exist to take immediate action for the purposes of national security, natural disaster, national food security in emergency situations, protection of national economic interests in situations arising out of abnormal fluctuation in international commodity prices, removal of anomalies in taxes, development of backward areas and implementation of bilateral and multilateral agreements”. A new sub-section (4) has also been inserted whereby any notification issued after July 1, 2015 shall be rescinded on the expiry of the financial year in which it is issued. This means that if not incorporated in the subsequent Finance Act any notification issued even with the approval of Economic Coordination Committee of Cabinet shall be automatically rescinded.

The Finance Act has also deleted sections 148(2) and 159(3), (4) and (5) of the Ordinance. The SROs already in force prior to omission of this section have been saved by way of special provisions i.e. section 148(2A) and 159(6). Accordingly any notification issued under the said sub-sections and for the time being in force shall remain in force, unless rescinded by the Board through notification in the official gazette.

14. Administration and Collection charges under section 15A

Previously, 6% of the rent chargeable to tax was allowed as deduction for computing the income under the head "Income from Property" on account of expenditure on collecting rent. Through, Finance Act, 2015, any expenditure including administration and collection charges wholly and exclusively incurred for deriving rent chargeable to tax under the head, “Income from Property” upto 6% of the rent chargeable will be allowed as deduction for computing the income under the head "Income from Property".

15. Payment of advance tax under section 147(4A)

Prior to the Finance Act, 2015, a taxpayer whose advance tax liability was likely to be more than the amount the taxpayer was required to pay under sub-section (4) of section 147, could furnish an estimate of the higher amount payable under sub-section (4A) **at any time before the last installment was due** and thereafter pay such amount by the due date of the last installment. Through the Finance Act, 2015, sub-section (4A) of section 147 has been substituted so that now a taxpayer whose advance tax liability is likely to be more than the amount the taxpayer is required to pay under sub-section (4) of section 147 shall estimate the tax payable for the relevant tax year **at any time before the second installment of the relevant tax year of that taxpayer is due**. The taxpayer shall also pay fifty percent of the tax payable on the basis of higher estimate by the due date of the second quarter of the relevant tax year after making adjustment of the amount, if any, already paid under sub-section (4). The remaining fifty percent shall be paid in two equal installments by the due date of the third and fourth quarter of the relevant tax year.

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

Through Finance Act, 2015 advance income tax on persons importing gold, cotton and designated buyers of LNG on behalf of the government of Pakistan to import LNG has been revised. Besides, separate rates of tax for non-filers which were introduced through SRO 136(1)/2015 dated 13th February, 2015 have been made part of the Finance Act, 2015 and accordingly the said SRO is no more operative after July 1, 2015. The amended rates of tax to be collected by the Collector of Customs under section 148 are as under:

S.No	Persons	Rate	
		Filer	Non-Filer
1.	<p>(i) Industrial undertaking importing remeltable steel (PCT Heading 72.04) and directly reduced iron for its own use;</p> <p>(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;</p> <p>(iii) Persons importing urea;</p> <p>(iv) Manufacturers covered under notification No. S.R.O. 1125(I)/2011 dated the 31st December, 2011 and importing items covered under S.R.O. 1125(I)/2011 dated the 31st December, 2011</p> <p>(v) Persons importing Gold; and</p> <p>(vi) Persons importing Cotton</p> <p>(vii) Designated buyers of LNG on behalf of the government of Pakistan to import LNG</p>	<p>1% of the import value as increased by customs-duty, sales tax and federal excise duty</p>	<p>1.5% of the import value as increased by customs duty, sales tax and federal excise duty</p>
2.	Persons importing pulses	2% of the import value as increased by customs-duty, sales tax and	3% of the import value as increased By customs

		federal excise duty	duty, Sales tax and federal excise duty
3.	Commercial importers covered under notification No. S.R.O. 1125(I)/2011 dated the 31 st December, 2011 and importing items covered under S.R.O. 1125(I)/2011 dated the 31 st December, 2011.	3% of the import value as increased by customs-duty, sales tax and federal excise duty	4.5% of the import value as increased by customs duty, sales tax and federal excise duty
4.	Ship breakers on import of ships	4.5%	6.5%
5.	Industrial undertakings not covered under S. Nos. 1 to 4	5.5%	8%
6.	Companies not covered under S. Nos. 1 to 5	5.5%	8%
7.	Persons not covered under S.Nos. 1 to 6	6%	9%

17. Audit Panels

[Relevant sections 121, 176, 177, 207, 210 and 211]

A new concept of audit by special audit panels has been introduced by inserting sub-sections (11) to (17) in section 177 of the Ordinance. The Board is empowered to appoint special audit panels comprising an officer or officers of Inland Revenue, a firm of chartered accountants, a firm of cost accountants or any other person as appointed by the Board. The special audit panel shall be headed by an officer of Inland Revenue. The powers of sections 175 and 176 of the Ordinance shall only be exercised by an officer or officers of Inland Revenue in the panel and who are authorized to exercise such powers by the Commissioner. The proceedings of the panel shall continue even in the absence of a member but not in the absence of the chairman. Functions performed by the members of the panel for conducting audit shall be considered as being performed by the panel. The purpose for collaborative audit is to utilize the expertise of chartered accountants,

cost and management accountants and other sector specialists in conducting audit. Hence, the participation of experts would strengthen audit in its essence, the procedure and legal aspects are to be steered by officers of Inland Revenue. Corresponding changes have also been made in sections 121, 176, 207, 210 and 211.

18. Requirement of approval of the Commissioner for revision of return

Clause (ba) of sub-section (6) of section 114, envisages approval of the Commissioner in writing for revision of return. Through the Finance Act, 2015 it has been provided that such approval shall not be required if the return is revised within 60 days of filing of the original return. In cases where approval of Commissioner is required for revision and no such order has been made within sixty days, approval shall be deemed to have been granted and the condition specified in clause (ba) of sub-section (6) of section 114 shall not apply.

19. Further conditional stay of 30 days against recovery by the Commissioner(A)

As per sub-section (1A) of section 128 of the ITO, 2001, CIT(A) may stay recovery of tax for a period not exceeding 30 days in aggregate subject to conditions mentioned in this sub-section. Now, a new sub-section (1AA) has been inserted which authorizes the Commissioner (Appeals) to grant further stay for a period of thirty days against recovery after affording opportunity of being heard to the Commissioner against whose order the appeal has been made. Hence, the Commissioner (Appeals) may, subject to conditions mentioned in sub-sections (1A) and (1AA), grant stay of recovery for a total period of sixty days. However, further stay of thirty days is conditional to passing of the appellate order within the further stay period of thirty days.

20. Amendments in Withholding Taxes Collected on Transactions Related to Private Vehicles, Goods Transport Vehicles and Passenger Transport Vehicles: [Relevant Sections: 231B, 234, Division III of Part IV and Division VII of Part IV of the First Schedule]

Through Finance Act 2015, the following major changes have been made in the 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 for private motor vehicles has been revised.
- b. The rate of advance income tax collected at the time of transfer of private motor vehicles has been revised.

- c. Types of private motor vehicles in respect of which tax is collectable have been specified to remove ambiguity.
- d. The date of first registration, for the purpose of collection of tax under section 231B, in various scenarios has been specified.
- e. The rate of advance income tax collected at the time of payment of Motor Vehicle Tax for Goods Transport vehicles has been revised and separate rates for filers and non-filers of Income Tax Return have been introduced.
- f. The rate of advance income tax collected at the time of payment of Motor Vehicle Tax for Passenger Transport vehicles has been revised and separate rates for filers and non-filers of Income Tax Return have been introduced.

Each of these changes is explained below in detail:

a. Revision of rate of advance income tax collected at the time of payment of Motor Vehicle Tax for private motor vehicles:

The rates of advance tax collected along with motor vehicle tax have been revised. The rates of advance income tax for filers have been reduced and the rate of tax for non-filers has been enhanced. The revised rates are as under;

S. No	Engine capacity	For Filers	For Non-Filer
1.	Upto 1000 cc	800	1,200
2.	1001cc to 1199 cc	1,500	4,000
3.	1200cc to 1299 cc	1,750	5,000
4.	1300cc to 1499cc	2,500	7,500
5.	1500cc to 1599cc	3,750	12,000
6.	1600cc to 1999cc	4,500	15,000
7	2000cc and above	10,000	30,000

The rate of advance income tax in case of lump sum payment has not been revised and it remains the same as before.

b. Revision of rate of advance income tax collected at the time of transfer of private motor vehicles.

The rate of advance income tax on transfer of registration of private motor vehicles to be collected by the Motor Vehicle Registration Authority under sub-section (2) of section 231B have been reduced by Finance Act 2015. The tax is collectable up to five years from first registration in Pakistan and tax rate is reduced by 10% for each year after the first year. The rate of advance income tax on transfer of motor vehicles, worked out for the five years, are as under:

Engine capacity	Rate of tax for first year		Rate of tax for 2 nd year		Rate of tax for 3 rd year		Rate of tax for 4 th year		Rate of tax for 5 th year	
	Filer	Non-Filer	Filer	Non-Filer	Filer	Non-Filer	Filer	Non-Filer	Filer	Non-Filer
Up to 850 cc	-	5,000	-	4500	-	4000	-	3500	-	3000
850cc Rs. 10,000	5,000	15,000	4500	13500	4,000	12000	3500	10500	3000	9000
1001cc to 1300cc	7,500	25,000	6750	22500	6000	20000	5250	17500	4500	15000
1301cc to 1600cc	12,500	65,000	11250	58500	10000	52000	8750	45500	7500	39000
1601cc to 1800cc	18,750	100000	16875	90000	15000	80000	13125	70000	11250	60000
1801cc to 2000cc	25,000	135,000	22500	121500	20000	108000	17500	94500	15000	81000
2001cc to 2500cc	37,500	200000	33750	180000	30000	160000	26250	140000	22500	120000
2501cc to 3000cc	50,000	270,000	45000	243000	40000	216000	35000	189000	30000	162000
Above 3000cc	62,500	300,000	56250	270000	50000	240000	43750	210000	37500	180000

c. Types of private motor vehicles in respect of which tax is collectable:

Previously, at different places in Income Tax Ordinance 2001, the vehicles to be subject to collection of advance tax under section 231B and 234 were variously specified. This led to some confusion. In order to remove ambiguity it has been specified that, wherever tax is collectable in respect of private motor vehicles, it shall include car, jeep, van, sports utility vehicle, pick-up trucks for private use, caravan automobile, limousine, wagon and any other automobile used for private purpose.

d. Definition of ‘date of first registration’:

In order to remove any ambiguity regarding the date of registration of motor vehicle for the purpose of collection of tax under section 231B, the expression “the date of first registration”, has been defined through Finance Act 2015 as under;

- a. The date of issuance of broad arrow number in case a vehicle is acquired from armed forces of Pakistan.
- b. The date of registration by the Ministry of Foreign Affairs in case the vehicle is acquired from a foreign diplomat of a diplomatic mission in Pakistan.
- c. The last day of the year of manufacture in case of acquisition of an unregistered vehicle for a Federal or a Provincial Government.
- d. In all other cases the date of first registration by the Excise and Taxation Department.

e. Revised rates for goods transport vehicles.

Through Finance Act 2015, the rates of advance income tax to be collected under section 234 with Motor Vehicle Tax for all goods transport vehicles have been increased, and separate rates for filers and non-filers have been specified as under;

Category	Tax rate for Filer	Tax rate for Non filer
Goods transport vehicles	Rs 2.50 / Kg of laden weight	Rs 4/ Kg of laden weight

f. Revised rates for passenger transport vehicles.

Through Finance Act 2015, the rates of advance income tax to be collected under section 234 with Motor Vehicle Tax for goods transport vehicles have been enhanced and separate rates for filers and non-filers have been specified as under;

S.No	Capacity	Rate of tax per seat per annum	
		Filer	Non Filer
1	Four or more persons but less than ten persons	50	100
2.	Ten or more persons but less than twenty persons	100	200
3.	Twenty or more persons	300	500

21. Withholding tax on payment to residents for use of machinery and other equipments [Section 236Q and Division XXIII of Part IV of First Schedule]

A new section 236Q has been introduced. Persons making payment in full or part or by way of advance to a resident person for the use or right to use industrial, commercial or scientific equipment or on account of rent of machinery shall deduct 10% of the gross amount from the payment. The tax deducted or deductible shall be final tax on the income of such resident person. However, certain exclusions have also been provided in sub-section (5) and thus there shall be no deduction under this section pertaining to payment for the following:-

- (a) Agricultural machinery
- (b) Machinery leased by a leasing company, an investment bank or a modarba or a scheduled bank or a development finance institution in respect of assets owned by the leasing company or an investment bank or a modarba or a scheduled bank or a development finance institution.

22. Advance tax collected by Pakistan Mercantile Exchange Limited [Section 2(42A), 236T and Division XXII of Part IV of First Schedule]

Pakistan Mercantile Exchange Limited (PMEX) has been defined by inserting a new clause (42A) in section 2 of the ITO, 2001. It is defined as a futures commodity exchange company incorporated under the Companies Ordinance, 1984 and is licensed and regulated by the Securities and Exchange Commission of Pakistan. Section 236T has been introduced for PMEX to collect advance tax at the rate of 0.05% from its members on sale and purchase of futures commodity contracts. The tax collected by PMEX from its members shall be adjustable.

23. Amendments relating to section 152 [Section 152, Division II of Part III of First Schedule and clause (46) of Part IV of Second Schedule]

Through Finance Act, 2015 the rates of advance income tax on payment to Permanent Establishment of a non resident in Pakistan for sales of goods, for rendering and providing of services and for execution of contracts as per provisions of sub-section (2A) of section 152 have been revised and in addition separate rates of tax for companies & others, sportspersons and non-filers have also been provided. However, the rates in respect of transport services have not been changed which shall continue to be 2 percent of the gross amount payable. The amended rates of deduction of tax by the prescribed persons are as under;

		Filer	Non-Filer
For sale of goods referred to in clause (a) of section 152(2A)	Companies	4%	6%
	Other cases	4.5%	6.5%
For rendering or providing of services other than transport services referred to in clause (b) of section 152(2A)	Companies	8%	12%
	Other cases	10%	15%
On execution of contracts referred to in clause (c) of section 152(2A)	Sports persons	10%	10%
	Companies	7%	10%
	Other cases	7.5%	10%

Moreover, the Commissioner has been empowered to issue exemption certificate or reduced rate of deduction certificate to the Permanent Establishment of a non-resident in respect of deduction of tax by the prescribed person from the payment to him for sale of goods, rendering of or providing of services and execution of contracts.

Another amendment relating to section 152 is in clause (46) of Part IV of Second Schedule. Through the Finance Act, 2012, the provisions with respect to tax deductions from

payments to Permanent Establishment of non-resident were transposed from section 153 to section 152(2A). However, inadvertently, the reference to section 152(2A) in clause (46) of Part IV of Second Schedule was not made. Through, Finance Act, 2015, amendment in the said clause has been made to remove the lacuna in respect of exemption to Permanent Establishment of Non-resident Petroleum Exploration and Production (E&P) Companies for supply of its petroleum products and reference of section 152 (2A) in the clause has been corrected.

24. Rates of tax deduction under section 153

Through Finance Act, 2015 the rates of advance income tax on payments made for sale of goods, for rendering and providing of services and for execution of contracts referred to in section (1) of section 153 have been revised in respect of non filers. Exemption available to print and electronic media from deduction of tax under this section has also been done away with which was available under clause (16A) of Part IV of Second Schedule. Besides, separate rates of tax for services for non-filers which were introduced through SRO 136(1)/2015 dated 13th February, 2015 have been made part of the Finance Act, 2015 and accordingly the said SRO is no more operative after July 1, 2015. However the rates for payments made in the case of sales of rice, cotton seed or edible oil have remained unchanged which are to tax taxed @ 1.5% of the amount payable. Similarly the rates in respect of transport services have not been changed and is to be taxed @ 2 percent of the gross amount. The amended rates of deduction of tax under this section are as under;

		Filer	Non-Filer
For sale of goods referred to in clause (a) of section 153(1) other than sale of rice, cotton seed or edible oil.	Companies	4%	6%
	Others	4.5%	6.5%
For rendering or providing of services other than transport services referred to in clause (b) of section 153(1)	Companies	8%	12%
	Others	10%	15%
Electronic & print media for advertizing services	Companies	1%	12%
	Others	1%	15%
On execution of contracts referred to in clause (c) of section 153(1)	Sports persons	10%	10%
	Companies	7%	10%
	Other cases	7.5%	10%

Moreover, through Finance Act, 2014, tax deducted from payments on account of contract signed by a sportsperson was made a final tax. Through Finance Act, 2015, the same has been made effective from tax year 2013.

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

Through Finance Act, 2014, a new section 235A was introduced which provided collection of advance tax @ 7.5% on the amount of electricity bill of a domestic consumer if the monthly electricity bill exceeded Rs.100,000. This threshold of Rs 100,000 has been reduced to Rs 75,000 through Finance Act, 2015.

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

Section 236L, introduced through Finance Act, 2014, provided for collection of advance tax on air tickets of classes other than economy for journeys originating from Pakistan as a percentage of the gross amount of international air tickets. To properly monitor withholding tax under this section, through Finance Act, 2015, the rates have been amended and instead of applying rate on gross amount of international air ticket, fixed amount per air ticket has been prescribed which is Rs 16,000 in case of First Class and Rs 12,000 in case of Business/Club class i.e. other than economy.

27. Rate of Dividend Tax [Section 5 and 150 and Division III, Part I of the First Schedule]

Prior to the Finance Act, 2015, tax on dividends was charged to tax @ 10% of the amount of dividend under section 5 of the ITO, 2001. Now, the tax on dividends has been enhanced to 12.5% under section 5. In the case of dividend received by a person from a mutual fund, tax shall be charged under section 5 @ 10% of the gross amount of dividend.

The withholding rate under section 150 on dividends was 10% for filers and 15% for non-filers prior to the Finance Act, 2015. Now, the withholding tax rate under section 150 has also been enhanced to 12.5% for filers and 17.5% for non-filers. In case of mutual funds and collective investment schemes no change in rates has been made.

Further, prior to Finance Act, 2015, there was no withholding tax on specie dividend received by a person. By introducing a new section 236S, every person making payment of dividend-in-specie shall collect tax on the gross amount of dividend-in-specie paid @ 12.5% for filers and 17.5% for non-filers.

It is clarified that there has been no change in tax charged under section 5 and withholding tax under section 150 and both tax rates still remain at 7.5% in cases of dividends declared or distributed by purchaser of a power project privatized by WAPDA or on shares of a company, supplying coal exclusively to power generation projects.

28. International Agreements

(a) Agreements for the avoidance of double taxation and prevention of fiscal evasion (Section 107).

The previous sub-section (1) of section 107 only covered entering into bilateral avoidance of double taxation and the prevention of fiscal evasion agreements (ADTAs). The substituted sub-section not only cover bilateral agreements but also multilateral agreements as Pakistan is going to join Multilateral Convention on Mutual Administrative Assistance in Tax Matters (Multilateral Convention). The scope of this section has been further broadened by including agreements on exchange of information also apart from ADTAs.

Two more sub-sections (1A) and (1B) have also been inserted in order to empower FBR to collect such information which is required by the treaty partners and also keeping such information confidential.

(b) Furnishing of information by financial institutions including banks. (Section 165B).

In this age of globalization, the world is moving towards Automatic Exchange of information under the Global Forum on Transparency and Exchange of Information for Tax Purposes having more than 120 members including Pakistan and Multilateral Convention on Mutual Administrative Assistance in Tax Matters (Multilateral Convention).

Each member would exchange information automatically with all other members on reciprocal basis under the Multilateral Convention. The financial institutions would transmit information electronically on annual basis regarding nonresident persons to FBR and after due diligence such information would be electronically transmitted to the respective jurisdiction (country). Pakistan would also obtain similar information regarding its resident taxpayers from foreign jurisdictions which would be crossed matched with its declared version and tax the undeclared and untaxed.

(c) Notice to obtain information or evidence. (Section 176).

Clause (a) of subsection (1) of section 176 has been substituted in order to empower the Commissioner to obtain any information which is required by the treaty partners and is not necessarily relevant to any tax leviable under the Income tax ordinance 2001. This is part of our obligations to provide information to our treaty partners under the bilateral and multilateral agreements in this regard.

29. CNIC To be Used As NTN for Individuals.

Through Finance Act, 2015 a new sub-section (4) has been inserted in section 181 of the Ordinance, whereby Computerized National Identity Cards (CNICs) issued by the National Database and Registration Authority in respect of the individuals shall be used as their NTNs from tax year 2015 and onwards.

30. Suspension of Minimum Tax on Builders u/s 113A.

Through Finance Act, 2013 Minimum Tax was levied on persons deriving income from the business of construction and sale of residential, commercial and other buildings at the rates to be notified by the Federal Government through official gazette. Now through Finance Act, 2015 a new sub-section (3) has been added in section 113A of the Ordinance whereby the operation of this section has been suspended for a period of three years till 30th June, 2018.

31. Due date for payment of tax u/s 137

As per provisions of sub-section (2) of section 137 of the Ordinance the tax payer was required to pay the tax payable determined as a result of an assessment order or an amended assessment order within fifteen days from the service of the notice. Through Finance Act, 2015 the time allowed for payment of the tax liability has been extended for further fifteen days. Now the taxpayer is required to pay the tax payable within thirty days from the date of service of the demand notice.

However, the time allowed for payment of tax liability created as a result of provisional assessment order passed u/s 122 C of the Ordinance has been reduced from sixty days to forty five days. Besides, amendment has also been made in the proviso to above referred sub-section whereby the taxpayer may pay the tax payable as a result of provisional assessment order prior to the expiry of the forty five days instead of sixty days.

32. Option To Opt Out Of Final Tax Regime For Exporters u/s 154

As per provisions of section 154 of the Ordinance, the tax withheld on export proceeds by an exporter is final tax on their income. Through Finance Act, 2015 a new sub-section (5) has been added in section 154 of the Ordinance whereby the exporters have been given an option from tax year 2015 and onwards to opt out of the final tax regime and file their returns of income under normal tax regime. However, the tax payer shall exercise the said option every year at the time of filing of their return of income every year. Furthermore, the tax deducted under this section on export proceeds shall be treated as minimum tax liability of the taxpayer on export income. Income from sales, other than exports, will be taxed in normal manner as before.

33. Additional payment for delayed refunds.

As per provisions of section 171 of the Ordinance where the refund due is not paid to the taxpayer within three months of the date on which it becomes due the Commissioner is required to pay to the taxpayer a further amount as compensation at the rate of fifteen percent per annum of the amount of the refund. Now through Finance Act, 2015 the rate of compensation has been amended to KIBOR plus 0.5% of the refund due to the taxpayer.

34. Rate of default surcharge

Rate of default surcharge under section 205 and 161(1B) has been reduced from 18% to 12% for failure to pay any tax.

35. Internet users [section 236]

Most of the expenditure on internet usage is subject to withholding tax @14% in telephone bills and prepaid cards. However, internet usage other than telephone bills and prepaid cards has not been subjected to withholding tax.

Through Finance Act, 2015 clause (d) and (e) have been added in sub-section (1) of section 236 whereby internet bills of a subscriber and prepaid cards have been subjected to withholding tax. Now the person preparing internet bills/ issuing or selling prepaid internet cards shall charge adjustable advance income tax @14% of the amount of internet bill or sale price of internet prepaid cards or sale of units through any electronic medium or whatever form.

36. Withdrawal of Exemptions

(i) Withholding tax on imports under Chapter 27 of Pakistan Customs Tariff.

Previously, under clause (56) of Part IV of Second Schedule, exemption from collection of tax at import stage under section 148 was available in respect of goods classified in Chapters 27, 86 and 99 of Pakistan Customs Tariff. This exemption was available to every person, even commercial importer, for the import of goods specified in the said chapters. Through Finance Act, 2015, exemption of goods specified in chapter 27 and under PCT heading 9918 (in Chapter 99) have been withdrawn. Exemption from collection of tax at import stage under section 148 is now available for import of specified items by specified entities are now covered under newly inserted sub-clause (ia) which are as under:

a) Imports of items

- Petroleum oils and oils obtained from Bituminous mineral crude (PCT code 2709.000);

- Furnace Oil (PCT code 2710.1941);
- High Speed Diesel Oil (PCT code 2710.1931);
- Motor Spirit (PCT code 2710.1210);
- J.P.1 (PCT code 2710.1912); and
- Base Oil for lubricating oil (PCT code 2710.1993).
- light diesel oil (PCT Code 2710.1921); and
- super kerosene oil.

b) Persons eligible for exemption

- Pakistan State Oil Company Limited;
- Shell Pakistan Limited;
- Attock Petroleum Limited;
- Byco Petroleum Pakistan Limited;
- Admore Gas (Private) Limited;
- Chevron Pakistan Limited;
- Total-PARCO Pakistan (Private) Limited;
- Hascol Petroleum Limited;
- Bakri Trading Company Pakistan (Private) Limited;
- Overseas Oil Trading Company (Private) Limited;
- Gas and Oil Pakistan (Private) Limited; and
- Oil refineries.

Moreover, exemption in respect goods under PCT heading 9918 (in Chapter 99) has also been withdrawn.

(ii) Withholding tax on Cash Withdrawals in respect of Exchange Companies

Under clause (61A) of Part IV of Second Schedule, exemption from collection of tax under section 231A on account of cash withdrawals from the bank account available to exchange companies duly licensed and authorized by the State Bank of Pakistan has been withdrawn and instead, under clause (28B) of Part II of the Second Schedule, a reduced rate 0.15% is applicable subject to the condition that such bank accounts are exclusively dedicated for its authorized business related transactions and certificate is issued by the concerned Commissioner Inland Revenue for a financial year mentioning details and particulars of its Bank Account being used entirely for business transactions.

(iii) Inter-corporate Dividend and Inter-corporate Profit-on-debt

Under clause (103A) of Part I of Second Schedule and under clauses (11B) and (11C) of Part IV of Second Schedule, exemption available on income derived from inter-corporate

dividend and exemption from withholding under section 150 and 151 have been withdrawn for those companies who do not file group returns.

(iv) Exemption to Print and Electronic Media

Exemption from deduction of tax under section 153(1)(b) available to electronic and print media in respect of the advertising services has also been withdrawn.

37. Relief Measures

a. Reduction in tax rates for companies, individuals and Association of persons.

(i) Reduction in tax rates for companies.

In order to promote corporatization, the government has introduced a policy of reducing corporate income tax rate by 1% annually from 35% to 30%. Accordingly the rate was reduced to 33% through Finance Act, 2014 and now through Finance Act, 2015, in continuation of the said policy, the tax rates for companies other than banking companies has further been reduced to 32% for tax year 2016, 31% for tax year 2017 and 30 % from Tax year 2018 onwards.

(ii) Reduction of tax rates for salaried/non-salaried Individuals and AOPs.

To provide relief to non salaried individuals and AOPs particularly those earning income the tax rates have been reduced from 10% to 7% through Finance Act, 2015 and for salaried individual earning between 400,000 to 500,000 tax rates have been reduced 5% to 2%. This relief will be available to all salaried and non salaried individuals and AOPs who are earning more than 500000. The revised tax slabs for non salaried individuals and AOPs are as under;

Tax rates for Non salaried individuals and AOPs

TABLE

S.No	Taxable Income	Rate of tax
(1)	(2)	(3)
1.	Where the taxable income does not exceed Rs 400,000	0%
2.	Where the taxable income exceeds Rs 400,000 but does not exceed Rs 500,000	7% of the amount exceeding Rs 400,000

3.	Where the taxable income exceeds Rs 500,000 but does not exceed Rs 750,000	Rs 7,000 + 10% of the amount exceeding Rs 500,000
4.	Where the taxable income exceeds Rs 750,000 but does not exceed Rs 1,500,000	Rs 32,000 + 15% of the amount exceeding Rs 750,000
5.	Where the taxable income exceeds Rs 1,500,000 but does not exceed Rs 2,500,000	Rs 144,500 + 20% of the amount exceeding Rs 1,500,000
6.	Where the taxable income exceeds Rs 2,500,000 but does not exceed Rs 4,000,000	Rs 344,500 + 25% of the amount exceeding Rs 2,500,000
7.	Where the taxable income exceeds Rs 4,000,000 but does not exceed Rs 6,000,000	Rs 719,500 + 30% of the amount exceeding Rs 4,000,000
8.	Where the taxable income exceeds Rs 6,000,000	Rs 1,319,500 + 35% of the amount exceeding Rs 6,000,000”

Tax rates for salaried individuals.

“TABLE

S.No	Taxable Income	Rate of tax
(1)	(2)	(3)
1.	Where the taxable income does not exceed Rs 400,000	0%
2.	Where the taxable income exceeds Rs 400,000 but does not exceed Rs 500,000	2% of the amount exceeding Rs 400,000
3.	Where the taxable income exceeds Rs 500,000 but does not exceed Rs 750,000	Rs 2,000 + 5% of the amount exceeding Rs 500,000
4.	Where the taxable income exceeds Rs 750,000 but does not exceed Rs 1,400,000	Rs 14,500 + 10% of the amount exceeding Rs 750,000

5.	Where the taxable income exceeds Rs 1,400,000 but does not exceed Rs 1,500,000	Rs 79,500 + 12.5% of the amount exceeding Rs 1,400,000
6.	Where the taxable income exceeds Rs 1,500,000 but does not exceed Rs 1,800,000	Rs 92,000 + 15% of the amount exceeding Rs 1,500,000
7.	Where the taxable income exceeds Rs 1,800,000 but does not exceed Rs 2,500,000	Rs 137,000 + 17.5% of the amount exceeding Rs 1,800,000
8.	Where the taxable income exceeds Rs 2,500,000 but does not exceed Rs 3,000,000	Rs 259,500 + 20% of the amount exceeding Rs 2,500,000
9.	Where the taxable income exceeds Rs 3,000,000 but does not exceed Rs 3,500,000	Rs 359,500 + 22.5% of the amount exceeding Rs 3,000,000
10.	Where the taxable income exceeds Rs 3,500,000 but does not exceed Rs 4,000,000	Rs 472,000 + 25% of the amount exceeding Rs 3,500,000
11.	Where the taxable income exceeds Rs 4,000,000 but does not exceed Rs 7,000,000	Rs 597,000 + 27.5% of the amount exceeding Rs 4,000,000
12.	Where the taxable income exceeds Rs 7,000,000	Rs 1,422,000 + 30% of the amount exceeding Rs 7,000,000

b. Tax credit for employment generation by manufacturers. [section 64B]

For encouragement of establishing new manufacturing units, a tax credit for ten years has been provided through Finance Act, 2015 by inserting a new section 64B. According to the provisions of this section, where a company is formed for establishing and operating new manufacturing unit set up between tax year 2016 to tax year 2018 (1st July 2015 to 30th June, 2018), it shall be given a tax credit of one percent of tax payable for every fifty employees from the date on which the manufacturing unit is ready to go into production (trial or commercial) subject to the fulfillment of the following conditions;

- a) The employees shall be registered with the Employees Old Age Benefits Institution (EOBI) or Employees Social Security Institutions (ESSI) of the Provincial Governments during the tax year.
- b) The said tax credit is allowed up to maximum of 10% of the tax payable.
- c) The manufacturing unit shall be managed by a company formed for operating the said manufacturing unit and should be registered under the Companies Ordinance, 1984 and have registered office in Pakistan.
- d) The manufacturing unit is not established by the splitting up or reconstruction or reconstitution of an existing undertaking or transfer of plant and machinery of an existing undertaking before 1st July 2015.

Where at any subsequent stage it is discovered that the tax credit allowed under this section was availed without fulfillment of any one of the above conditions, the Commissioner shall re-compute the tax payable by the taxpayer on the basis of tax credit wrongly allowed under this section and shall be recovered under the relevant provisions of the Ordinance.

c. Extension of period for Tax credit for investments. [section 65B]

Before Finance Act 2015, if a taxpayer, being a company, invests any amount in the purchase of plant and machinery, for the purposes mentioned in section 65B, tax credit shall apply if the plant and machinery is purchased and installed at any time between the first day of July, 2010, and the 30th day of June, 2015. In Finance Act 2015, this facility has been extended to 30th June 2016.

d. Extension of period for investments from provisions of section 111. [clause 86]

Before Finance Act 2015, The provisions of section 111 shall not apply to investments mentioned in clause 86 if the said investment is made on or after the 1st day of January, 2014, and commercial production commences on or before the 30th day of June, 2016. In Finance Act 2015, this facility of commencement of commercial production has been extended to 30th June 2017.

e. Tax credit for enlistment. [section 65C]

Before Finance Act, 2015 a tax credit @15% of the tax payable was available to a company if it opts for enlistment in any registered stock exchange in Pakistan. To encourage the enlisting of companies on stock exchange now the said tax credit has been enhanced to 20% of the tax payable.

f. Expanding the scope of small company. [section 2(59A)]

Small companies are subjected to tax at reduced rate of 25% as an incentive for corporatization. To make the concession more meaningful and enhance the scope of small companies now the limit of paid up capital plus undistributed reserves has been increased from twenty-five million rupees to fifty million rupees.

g. Option to opt out of the final tax regime for exporters. [section 154]

The tax withheld on the export proceeds realized by the exporters is final tax on their income. Through Finance Act, 2015 exporters have been allowed to exercise the option of opting out of final tax regime at the time of filing of return under section 114 of the Ordinance and tax withheld shall be treated as minimum tax in such cases.

h. Suspension of Minimum Tax on builders [section 113A]

Through Finance Act, 2013 Minimum Tax on builders was levied for the business of construction and sale of residential, commercial and other buildings. Now the operation of this section has been suspended for a period of three years till 30th June, 2018.

i. Encouraging real estate investment trust (REIT) development schemes. [clause 99A of Part I of Second Schedule and sub-paragraph (b) of Division III of First Schedule.]

Prior to Finance Act, 2015 exemption from tax on gain accruing to a person on sale of immovable property to a REIT scheme was available up to thirtieth June, 2015. Now the said exemption on profit and gains has been extended up to thirtieth June, 2020 for a person selling the immovable property to a Developmental REIT Scheme with the object of development and construction of residential buildings.

In addition to above exemption, the tax rate dividend received by a person has been reduced by fifty percent for three years i.e. up to thirtieth June, 2021 if the dividend is received from such Developmental REIT Scheme with the object of development and construction of residential buildings which are being set up by thirtieth June, 2018.

j. Tax exemption to solar and wind energy plant and equipment manufacturing [clause (126I) of Part I of the Second Schedule and sub-clause (xxiv) of clause (11A) of Part III of Second Schedule.]

Presently, commercial imports in respect of items for dedicated use for renewable sources of energy such as solar and wind are exempt from withholding tax on import. However, no exemption was available for domestic manufacturers of solar and wind energy plants and equipments.

Through Finance Act, 2015 tax exemption for a period of five years (from 1st July, 2015 to 30th June, 2020) has been allowed to a taxpayer deriving profit and gains from an industrial undertaking engaged in manufacturing of plant, machinery, equipment and items with dedicated use for generation of renewable energy from solar and wind which are set up by 31st December, 2016.

Besides the above manufacturing units have also been granted exemption of minimum tax under section 113 of the Ordinance.

k. Tax holiday for agricultural cold chain and warehousing.[clause 126J of Part I of the Second Schedule and sub-clause (xxiii) of clause (11A) of Part III of Second Schedule.]

In order to give incentives to the agriculture sector tax exemption for three years has been granted to the taxpayer deriving profit and gains from industrial undertakings which are set up between 1st July, 2015 to 30th June, 2016 and are engaged in operating warehousing or cold chain facilities for the purpose of storage of agriculture produce. The tax exemption period will start from the month in which industrial undertaking is set up or commercial operations are commenced whichever is later.

Besides, the above manufacturing units have also been granted exemption of minimum tax under section 113 of the Ordinance.

l. Tax holiday for establishing and operating a halal meat production unit. (clause 126K)

In order to encourage new investments in halal meat production for competing in globally growing halal meat market and to increase the use of modern and state-of-art machinery and equipment, tax exemption for a period of four years has been granted to a taxpayer deriving

profit and gains from the industrial undertakings, set up between 1st July, 2015 to 30th June, 2017 which are engaged in operating halal meat production and have obtained halal certification. The exemption from tax will start from the month in which industrial undertaking is set up or commercial operations are commenced whichever is later.

Besides the above manufacturing units have also been granted exemption of minimum tax under section 113 and withholding tax on exports under sub section (1) of section 154 of the Ordinance.

m. Income tax holiday for new manufacturing units set up in Khyber Pakhtunkhwa and Balochistan. [clause (126L) of Part I of the Second Schedule and sub-clause (xxv) of clause (11A) of Part III of Second Schedule.]

In order to encourage setting up new manufacturing units in the provinces of Khyber Pakhtunkhwa and Balochistan a five years income tax holiday has been allowed to a taxpayer deriving profit and gains derived from new manufacturing units set up in the province between 1st July, 2015 to 30th June, 2018 beginning with the month in which the industrial undertaking is set up or commercial production is started, whichever is later.

The said exemption is strictly allowed to those manufacturing units which are setup between the above mentioned dates and which are not established by splitting up or reconstruction or reconstitution of existing undertakings or by transfer of machinery or plant from an undertaking established before 1st July, 2015 in Pakistan.

Besides the above manufacturing units excluding manufacturers and suppliers of cement, sugar, beverages and cigarettes have also been granted exemption of minimum tax under section 113 of the Ordinance.

n. Exemption to electricity transmission projects. [clause (126M) of Part I of the Second Schedule.]

In order to attract the private sector investment in Transmission Line Projects, Income Tax holiday for ten years has been allowed to a taxpayer deriving profit and gains from Transmission Line Projects set up in the province between 1st July, 2015 to 30th June, 2018.

However, for claiming the tax exemption, the taxpayer company should fulfill the followings conditions;

- i. The projects shall be owned and managed by a company formed for operating the said project.
 - ii. The Company shall be registered under the companies Ordinance, 1984.
 - iii. It shall have its registered office in Pakistan.
 - iv. The Company is not established by splitting up or reconstruction or reconstitution of an already existing business or by transfer to a new business of any machinery or plant used is a business which was being carried on in Pakistan at any time before the commencement of the new business.
 - v. The Federal Government or a Provincial Government or a Local Government should not own fifty percent or more shares in the said company.
 - vi. The Company should not be controlled by Federal Government or a Provincial Government or a Local Government.
- o. Tax exemption to industrial undertaking engaged in manufacturing of cellular phones (126N)**

All profits and gains derived by a taxpayer has been exempted from tax for a period of five years, from the month of commencement of commercial production if it is an industrial undertaking, duly certified by the Pakistan Telecommunication Authority, engaged in the manufacturing of cellular mobile phones. This facility is available if the industrial undertaking has been set up and commercial production has commenced between the first day of July, 2015 and the thirtieth day of June, 2017 and the industrial undertaking is not formed by the splitting up, or the reconstruction or reconstitution, of a business already in existence or by transfer to a new business of any machinery or plant used in a business which was being carried on in Pakistan.

p. Tax exemption to LNG terminal operators (clause 141)

Tax exemption on profit and gains derived by LNG Terminal Operators and Terminal Owners for a period of five years is available beginning from the date when commercial operations are commenced.

q. Tax exemption to income from social security contribution of social security institutions of provinces (clause 142)

Income from social security contributions derived by Balochistan Employees' Social Security Institution, Employees' Social Security Institution Khyber Pakhtunkhwa, Punjab Employees' Social Security Institution and Sindh Employees' Social Security Institution will

be exempt. However, it has been clarified that all incomes other than social security contributions shall not be exempt.

r. Relief to rice mills. [sub-clause (xxi) of clause (11A) of Part III of Second Schedule.]

Due to low demand in international market rice market has suffered losses. In order to provide relief rice mills have been granted exemption from payment of minimum tax for tax year 2015 through Finance Act, 2015.

s. Tax exemption on import of agricultural machinery. [clause (91) Part IV of the Second Schedule]

In order to provide incentive to the agriculture sector, tax exemption has been granted on import of agriculture machinery through Finance Act, 2015. The details of equipments and PCT code on which exemption has been allowed is mentioned in clause (91) Part IV of the Second Schedule.

t. Exemption from withholding tax on aircrafts and its machinery on remote area air routes. [section 236B]

In order to open up remote areas through aviation links, the air routes of Baluchistan Coastal belt, Azad Jammu and Kashmir, FATA, Gilgat-Baltistan and Chitral, have been granted exemption from payment of withholding tax on air tickets through Finance Act, 2015.

u. Exemption from withholding tax under section 148 on aircrafts and its machinery [section 236B]

Aircrafts and its machinery mentioned in the Finance Act 2015 with PCT headings have been exempted from WHT under section 148.

v. Exemption to certain agricultural machinery from withholding tax under section 148 (clause 91)

Agricultural machinery like Tillage and seed bed preparation equipment, Seeding or planting equipment, Irrigation, drainage and agro-chemical application equipment, Harvesting, threshing and storage equipment, Post-harvest handling and processing & miscellaneous machinery have been exempted from WHT under section 148. (PCT heading mentioned in the Finance Act 2015).

w. **Exemption to International Finance Corporation from WHT from provisions of section 100B (clause 67A)**

Exemption has been granted to International Finance Corporation established under the International Finance Corporation Act, 1956 (XXVIII of 1956) from application of the provisions of section 100B and Eighth Schedule on the transactions carried on upto 30th day of June, 2015, on any Stock Exchange of Pakistan.


x. **Trading Houses under Clause (57) of Part IV of Second Schedule**

Under clause (57) of Part IV of Second Schedule, companies operating Trading Houses are exempt from application of minimum Tax under section 113 for the first ten years and deduction of tax under section 153 as a recipient (and not as withholding agent) on fulfillment of conditions mentioned in the said clause. However, such companies in addition to trading activities are also engaged in in-house preparation and processing of food and allied items for sale to customers which tantamount to activities beyond the scope of Trading Houses. Accordingly, an explanation has been added that such activities will not disqualify from the exemption provided that sale of such items does not exceed two per cent of the total sales.

y. **Reduction in rates for highest slab in case of professional firms prohibited from incorporation.**

Association of Persons (AOP) of professionals prohibited from incorporating by any law or rules of the body regulating the profession, the maximum rate has been reduced to 32% from 35%. This amendment is effective from tax year 2016.

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


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