

BUDGET HIGHLIGHT

2014-15

Junaidy Shoaib Asad

Chartered Accountants

An independent Member of **Morison International**

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TABLE OF CONTENT

	PAGE NO.
BUDGET BRIEF 2014-15	1
INCOME TAX	2
SALES TAX	11
FEDERAL EXCISE DUTY	12

BUDGET BRIEF 2014

The Finance Minister announced ambitious Rs 4.2 trillion budgeted revenue for the fiscal year 2014-15 with a deficit of Rs 1.9 trillion. Federal Board of Revenue has been given an ominous responsibility to collect Rs 2.8 trillion. Given the history of tax collection by government machinery FBR is most likely to miss the target. The deficit is expected to be met through domestic non bank debt, domestic debts from bank, foreign debt & surplus from provinces to the tune of to Rs 4.84 billion, Rs 227 billion, Rs 869 billion & Rs 289 billion respectively.

There has been an emphasis on collection of tax through the withholding tax regime. One would therefore be justified in arguing the rationale for huge men power at the disposal of FBR who is barely contributing towards tax collection. The concept of alternate corporate tax at 17%, of accounting income is in fact a mechanism of tax collection under presumptive tax regime with no right of refund and adjustment is allowable in next following 10 years. Thereafter any unadjusted amount would be lapsed. The concept would hurt honest tax payer and unduly increase the cost of doing business.

Increase in gas infrastructure development cess for natural gas consumption by power producer is proposed to be increased to Rs. 300/MMBTU as against current rate of Rs. 100/MMBTU and CNG for industrial consumers to Rs. 300/MMBTU is likely to add to inflation and will have serious impact on consumers. Impact of proposed changes like these and others, which have been briefly discussed the later part of these highlights, are certain to create uneasiness. The way forward looks apprehensive.

INCOME TAX

1. The Bill proposes to introduce the concept of filer and non filer. According to the definition filer means taxpayer whose name appears in active taxpayer list or who is holder of a taxpayer card. Non filers are required to pay extra income tax at withholding stage as compared to filer of return of total income. Following are comparative rates for filer and non-filer.

S.No	Section	Description	Rate of Tax	
			Filer	Non – Filer
1.	Section 150	Advance tax on Dividend	10%	15%
2.	Section 151	Profit on Debt		
		upto 500,000	10%	10%
		Exceeding 500,000	10%	15%
3.	Section 231A	Cash withdrawal from bank	0.3%	0.5%
4.	Section 231B	Purchase of new locally manufactured motor Car and Jeep, tax shall be at the following rate:		
		upto 850cc	10,000	10,000
		851cc to 1000cc	20,000	25,000
		1001cc to 1300cc	30,000	40,000
		1301cc to 1600cc	50,000	100,000
		1601cc to 1800cc	75,000	150,000
		1801cc to 2000cc	100,000	200,000
		2001cc to 2500cc	150,000	300,000
		2501cc to 3000cc	200,000	400,000
		Above 3000cc	250,000	450,000
5.	Section 234	Motor Vehicle Tax		
		Other private motor cars:		
		upto 1000cc	1000	1,000
		1001cc to 1199cc	1,800	3,600
		1200cc to 1299cc	2,000	4,000
		1300cc to 1499cc	3,000	6,000
		1500cc to 1599cc	4,500	9,000
		1500cc to 1999cc	6,000	12,000
		2000cc & above	12,000	24,000
		Motor Vehicle tax is collected in lumpsum:		
		upto 1000cc	10,000	10,000
		1001cc to 1199cc	18,000	36,000
		1200cc to 1299cc	20,000	40,000
		1300cc to 1499cc	30,000	60,000
		1500cc to 1599cc	45,000	90,000
		1500cc to 1999cc	60,000	120,000
		2000cc & above	120,000	240,000
6.	236D	Advance tax on sale and transfer of immovable property	0.5%	1%

7.	236K	Registering or attesting transfer of any immovable property shall collect from the purchaser or transferee advance tax on the following :		
		Value of immovable property is upto Rs. 3,000,000	0%	0%
		Value of property is more than Rs. 3,000,000	1%	2%
8.	236L	Advance tax on international air ticket:		
		Economy	0%	0%
		First / Business / Club Class	3%	6%

2. The Bill proposes to bring bonus shares issued by the company in the ambit of tax by amending the definition of income under section 2(29) of the Ordinance. Thus the bonus shares are now income of the recipient under the Ordinance. The company issuing bonus shares will collect advance tax @ 5 percent on the basis of day end price of the first day of book closure. The company will be responsible for collection of tax and will liable to pay tax in case of default by taxpayer. Tax deducted at source shall be final tax for taxpayer. Income from bonus issue will be taxable under the head of "other Income"
3. Incomes of mutual funds are exempt from tax provided ninety percent of accounting income as reduces by realized and unrealized capital gain is distributed to the unit holders. The bill now proposes to exclude distribution by way of bonus units for claim of exemption by mutual funds on the distribution of ninety of profit. Recently tax authorities have issued notices to mutual funds and rejected their claim of exemption on account of distribution by way bonus certificates. It seems that the above controversy would be settled for tax year 2014.
4. The Bills proposes to include definition of Stock Fund. As per clause 61(A) stock fund means fund where the investable funds are invested by way of equity shares to the extent of more than 70 percent of investment. Through this amendment rate of dividends for stock funds and other funds has been bifurcated. Rate of tax on dividends on mutual funds are as follows:

Person	Stock Fund	Money market Fund, Income Fund or any other fund
Individual	10%	10%
Company	10%	25%
AOP	10%	10%

Further in case of Stock fund if the dividend receipts are less than capital gain, rate of withholding will then be 12.5 percent.

5. Gain on sale of securities where holding period is more than 12 months are currently exempt from capital gain tax. The bill now proposes to tax securities where holding period ranges from 12 to 24 months. Proposed rate of tax on such securities from tax 2015 is 10 percent. Further bill proposes to change the rate of tax to 12.5 percent in case of securities where holding period is less than 12 month.

6. The Bill proposes to include debt securities in the definition of "Securities" under section 37A(3) of the Ordinance. Now debt securities will be taxable as capital gain and taxable at the rate applicable to equity securities.
7. Non-profit Organization, trust and welfare organization are exempt from tax by specific exemption under second schedule to the Ordinance. The Bill now proposes the concept of 100 percent tax credit to Non-profit Organization, trust and welfare organization subject to the following conditions:
 - Return has been filed
 - Tax required to be deducted of collected has been deducted or collected.
 - Withholding tax statements for the immediately preceding tax year have been filed.
8. The Bill proposes the concept of Alternate Corporate Tax from tax year 2014 and onwards. According the proposed provision of law accounting income other than exempt income, income under Presumptive Tax Regime and income subject to tax credit under section 65D and 65E will be calculated at the rate of 17 percent as Alternate Corporate tax. Tax payable by the Companies shall be higher of tax payable under the Ordinance including minimum tax or Alternate Corporate tax. Excess amount of tax not wholly adjusted shall be carried to next year subject to the condition no amount will be carried forward to more than 10 years.
9. The Bill proposes withholding tax at the rate of 20 percent on account directors fee for attending board meeting. This tax is adjustable against final tax liability of directors.
10. The Bill proposes to collect advance from purchaser of property at the following rates:

Description	Filer	Non-Filer
Registering or attesting transfer of any immovable property shall collect from the purchaser or transferee advance tax on the following :		
Value of immovable property is upto Rs. 3,000,000	0%	0%
Value of property is more than Rs. 3,000,000	1%	2%

This tax is adjustable against final tax liability of purchaser.

11. The Bill proposes the scheme of compulsory registration in case of commercial and industrial connection of electricity and Gas.
12. The Bill proposes to insert new section whereby advance tax to be collected at the rate of 7.5 percent on consumption of electricity in monthly bills exceed Rs 100,000 and more.
13. The Bill proposes to include clause 18A to Part 1 of Second Schedule. Through this amendments rate of tax is to be reduced to 20 percent for a company setting up an industrial undertaking between 01 July 2104 to June 2017 for a period of five years provided that 50 percent of the cost of project including working capital is through owner equity foreign direct investment.
14. The Bill proposes to insert clause 56B to Part IV to the Second Schedule to the Ordinance. According to proposed amendment Commercial Importer, traders of goods, contractual income,

service income, prize bonds and commission income which fall under presumptive tax regime (PTR) shall be required to file account and other documents in order to avail facility of PTR.

15. The Bill proposes to reduce the initial depreciation of building from 25 percent to 10 percent.
16. The Bill proposes to reduce the advance tax on mobile phone from 15 to 14 percent.
17. The Bill repealed the Income Support Levy Act of 2013.

FIRST SCHEDULE

Following are rates of tax prescribed under First Schedule to the Ordinance.

The rate of Dividend

S.No	Description	Rates
1.	Declared or distributed by purchaser of power project privatized by WAPDA or shares of a company set up for power generation or on shares of a company, supplying coal exclusively to power generation projects;	7.5%
2.	Company other than above	10%
3.	Stock Fund	10%
4.	Mutual Fund	25%

Capital Gain on disposal of Securities

S.No	Period	Tax Year	Rate of Tax
1.	Where holding period of a security is less than six months.	2011	10%
		2012	10%
		2013	10%
		2014	10%
2.	Where holding period of a security is more than six months but less than twelve months.	2011	7.5%
		2012	8%
		2013	8%
		2014	8%
TAX YEAR 2015			
3.	Where holding period of a security is less than twelve months.		12.5%
4.	Where holding period of a security is twelve months or more but less than twenty-four months.		10%
5.	Where holding period of a security is twenty-four months or more.		0%

Capital Gain on disposal of Immovable Property

S.No	Period	Rate of Tax
1.	Where holding period of Immovable property is up to one year.	10%
2.	Where holding period of Immovable property is more than one year but not more than two year.	5%
3.	Where holding period of Immovable property is more than two years.	0%

Minimum Tax

S.No	Person	Rate
1.	<ul style="list-style-type: none"> ▪ 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.	0.5%
2.	Pakistan International Airlines Corporation	0.5%
3.	Poultry industry including poultry breeding, broiler production, egg production and poultry feed production.	0.5%
4.	Distributors of <ul style="list-style-type: none"> ▪ pharmaceutical products ▪ fertilizers ▪ Cigarettes 	0.2%
5.	Petroleum agents and distributors who are registered under the Sales Tax Act, 1990	0.2%
6.	Rice mills and dealers	0.2%
7.	Flour mills.	0.2%
8.	Motorcycle dealers registered under the Sales Tax Act, 1990	0.25%
9.	In all other cases.	1%

Advance tax on Imports

S.No	Person	Rate
1.	<ul style="list-style-type: none"> ▪ Industrial undertaking importing remelttablesteel (PCT Heading 72.04) and directly reduced iron for its own use; ▪ Persons importing potassic fertilizers in pursuance of Economic Coordination Committee of the cabinet's decision No. ECC-155/12/2004 dated the 9thDecember, 2004; ▪ Persons importing urea; and ▪ Manufacturers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31st December, 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 107 Federal excise duty
3.	Commercial importers covered under Notification No. S.R.O. 1125(I)/2011 dated the 31 st 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%

BUDGET HIGHLIGHT 2014-15

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%

Profit on Debt

S.No	Description	Filer	Non Filer
2.	Is equal to or less than Rs. 500,000	10%	10%
	Exceeding Rs. 500,000	10%	15%

Payment for goods, services and contracts

S.No	Description	2014-15		2013-14	
		Company	Other than company	Company	Other than company
1.	Sale of goods	4%	4.5%	3.5%	4%
2.	Services	8%	10%	6%	7%
3.	Contracts other than supply of goods and rendering of services	7%	7.5%	6%	6.5%
4.	Contract with sportsmen	-	10%	-	-

Exports

S.No	Description	Rate
1.	Authorized dealer in foreign exchange shall deduct tax on realization of foreign exchange proceeds on account of sale of goods by an exporter	1%
2.	Banking company shall deduct tax on realization of foreign exchange proceeds on account of goods to an exporter under an inland back-to-back letter of credit or any other arrangement	1%
3.	Export Processing Zone Authority shall collect tax at the time of export of goods by an industrial undertaking located in Zone	1%
4.	Every direct exporter and an export house registered under DTRE at the time of payment for a firm contract to an indirect exporter	1%
5.	The Collector of customs at the time of clearing of goods exported shall collect tax from the gross value of such good	1%
6.	Authorized dealer in foreign exchange shall deduct tax on realization of foreign exchange proceeds on account of commission due to an indenting agent	5%
7.	For rendering or providing of services	1%

Petroleum Products:

The rate of collection of tax under section 156A shall be 12% of the amount of payment.

Brokerage and Commission

S.No	Description	Rate
1.	Advertising Agent	7.5%
2.	All other Cases	12%

Tax on Motor Vehicle

S.No	Description	Filer	Non Filer
1.	Other private motor cars:		
	upto 1000cc	1000	1,000
	1001cc to 1199cc	1,800	3,600
	1200cc to 1299cc	2,000	4,000
	1300cc to 1499cc	3,000	6,000
	1500cc to 1599cc	4,500	9,000
	1500cc to 1999cc	6,000	12,000
	2000cc & above	12,000	24,000
2.	Motor Vehicle tax is collected in lumpsum:		
	upto 1000cc	10,000	10,000
	1001cc to 1199cc	18,000	36,000
	1200cc to 1299cc	20,000	40,000
	1300cc to 1499cc	30,000	60,000
	1500cc to 1599cc	45,000	90,000
	1500cc to 1999cc	60,000	120,000
	2000cc & above	120,000	240,000

Telephone Users:

S.No	Description	Rate
1.	In case of a telephone subscriber (other than mobile phone subscriber) where the amount of monthly bill exceeds Rs.1,000	10% of exceeding amount of bill
2.	In case of subscriber of mobile telephone and prepaid telephone card	14% of the amount of bill or sales price of prepaid telephone card [for sale of units through[electronic medium] or whatever forum]

Cash Withdrawal on bank

S.No	Description	Filer	Non Filer
1.	On amount of cash withdrawn	0.3%	0.5%

Advance tax on purchase of Locally Manufactured Motor Cars and Jeeps

S.No	Description	Filer	Non Filer
1.	Upto 850cc	10,000	10,000
	851cc to 1000cc	20,000	25,000
	1001cc to 1300cc	30,000	40,000
	1301cc to 1600cc	50,000	100,000

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

Advance Tax on Sale or Transfer of Immovable Property

S.No	Description	Filer	Non Filer
1.	On gross amount of consideration received	0.5%	1%

Advance tax on functions and gathering

The rate of tax to be collected under each sub-section (1) and (2) of section 236D shall be 5%.

Advance tax on purchase of Immovable Property

S.No	Description	Filer	Non Filer
1.	Value of immovable property is upto Rs. 3,000,000	0%	0%
	Value of property is more than Rs. 3,000,000	1%	2%

Provided that the rate of tax for Non-Filer shall be 1% upto the date appointed by the Board through notification in official gazette.

Advance tax on domestic electricity consumption

S.No	Description	Rate
1.	If the amount of monthly bill is less than Rs.100,000	0%
	If the amount of monthly bill is Rs.100,000 or more	7.5%

Advance tax on international air ticket

S.No	Description	Filer	Non Filer
1.	Advance tax on international air ticket:		
	Economy	0%	0%
	First / Business / Club Class	3%	6%

SALES TAX

1. The Bill proposes to authorize Board to determine the highest retail price for any brand or variety of goods for specific zone or area.
2. The Bill proposes to amend Section 3 regarding Scope of tax. Through proposed amendment benefit available through SRO incorporated in the law. Following amendment proposed in the section
 - Eight Schedule for tax at the rate of 5 percent.
 - Ninth Schedule for Mobile Phones.
 - Supply of Gas to CNG Station at the rate of 17 percent charged and collected by Gas Transmission and Distribution Companies.
 - Retailer are required to pay sales tax, with monthly electricity bills, at the rate of 5 percent where monthly bills does not exceed Rs 20,000 and 7.5 percent where monthly bill exceeds Rs 20,000.
3. The Bill proposes to amend section 7of the Act. Through proposed amendment certain restrictions are incorporated in Law. Following restriction are proposed for allowability of input tax:
 - Goods and Services not related to taxable supplies
 - Goods and Services acquired for personal and non business consumption.
 - Goods used in immovable property.
 - Vehicles falling under Chapter 87 of the Custom Act.
4. The Bill proposes to insert new section for Electronic scrutiny and Intimation. The purpose of this section is to implement computerized system for scrutiny, analysis and cross matching of return.
5. The Bill proposes to amend that further tax collected by the seller of goods shall be deposited separately without adjustment of any input tax.

FEDERAL EXCISE DUTY

1. The Bill proposes to enhance the duty on locally produced cigarettes.
2. The Bill proposes to enhance from Rs 400 per ton to 5 percent on retail price.
3. The proposes to increase duty on International Air travel from 3,840 to 5,000 on economy class and 6,840 to 10,000 on business class. Chartered Flights are taxable at the rate of 16 percent.
4. Telecom Services which are now Provincial matter is now excluded from the list of Services taxable under the Act. In case of Islamabad and Baluchistan rate of duty reduces from 19.5 to 18.5.
5. Duty on Aerated Beverages are now proposes to 9 percent of retail price as against the duty of capacity tax imposed last year.
6. Imported Vehicles above 1800 CC falls under the ambit of FED at the rate of 10 percent.

CONTACT US.

JSA KARACHI

Partner

Farrukh V. Junaidy – Senior
Partner
farrukh.junaidy@jsa.com.pk

Naveed Alam – Partner
naveed.alam@jsa.com.pk

Address

909, Business & Finance
Center, Opps, State Bank of
Pakistan, Karachi-74000,
Pakistan

Tel : +92 21-32466041-2
Fax : +92 21-32467849

JSA LAHORE

Partner

Asad Feroze
asad.feroze@jsa.com.pk

Shoaib Waseem
shoaib.waseem@jsa.com.pk

Address

Room # 9A,
Third Floor
Imtiaz Plaza
Shahra-e-Quaid-e-Azam
Lahore

Tel : +92 041-36360253
+92 041-36369408

JSA ISLAMABAD

Partner

Rukhsar Ahmed
rukhsar.ahmed@jsa.com.pk

Address

#77 A, St, 45,
F-10/4
Islamabad

Tel : +92 051-8356316-7