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CHARTERED ACCOUNTANTS

BUDGET SYNOPSIS 2017 - 18

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INDEX

PREFACE

The budget for 2017-18 was announced by Federal Finance Minister on 26th May, 2017. The proposed changes are effective from 1st July unless an earlier date is given for effectiveness of a particular provision. Our comments on the budget provisions provide basic understanding of amendments expected to be brought about however, it is recommended that for giving detailed understanding our advice may be sought.

BUDGET OUTLAY

- The total outlay of budget 2017-18 is Rs 5,103.8 billion. This size is 4.3% higher than the size of budget estimates 2016-17
- The resource availability during 2017-18 has been estimated at Rs 4,713.7 billion against Rs 4,442 billion in the budget estimates of 2016-17
- The net revenue receipts for 2017-18 have been estimated at Rs 2,926 billion indicating an increase of 5.3% over the budget estimates of 2016-17
- The provincial share in federal taxes is estimated at Rs 2,384.2 billion during 2017- 18, which is 11.6% higher than the budget estimates for 2016-17
- The net capital receipts for 2017-18 have been estimated at Rs 552.5 billion against the budget estimates of Rs 453.6 billion in 2016-17 i.e. an increase of 21.8%
- The external receipts in 2017-18 are estimated at Rs 837.8 billion. This shows an increase of 2.2% over the budget estimates for 2016-17
- The overall expenditure during 2017-18 has been estimated at Rs 5,103.8 billion, out of which the current expenditure is Rs 3,763.7 billion and development expenditure is Rs 1,340.1 billion
- The share of current and development expenditure respectively in total budgetary outlay for 2017-18 is 73.7% and 26.3%
- The expenditure on General Public Services is estimated at Rs 2,553.6 billion which is 67.8% of the current expenditure
- The development expenditure outside PSDP has been estimated at Rs 152.2 billion in the budget 2017-18
- The size of Public Sector Development Programme (PSDP) for 2017-18 is Rs. 2,113 billion. Out of this, Rs 1,112 billion has been allocated to provinces. Federal PSDP has been estimated at Rs 1,001 billion, out of which Rs 377.9 billion for Federal Ministries / Divisions, Rs 380.6 billion for Corporations, Rs 30 billion for Prime Minister's SDGs Achievement Programme, Rs. 40 billion for Special Federal Development Programme, Rs 12.5 billion for Energy for All, Rs 12.5 billion for Clean Drinking Water for All, Rs 7.5 billion for Earthquake Reconstruction and Rehabilitation Authority (ERRA), Rs 5 billion for Special Provision for Competition of CPEC Projects, Rs 45 billion for Relief and Rehabilitation of IDPs, Rs 45 billion for Security Enhancement, Rs 20 billion for Prime Minister's Initiative and Rs 25 billion for Gas Infrastructure Development Cess
- To meet expenditure, bank borrowing has been estimated for 2017-18 at Rs 390.1 billion, which is significantly lower than revised estimates of 2016-17.

Source: Federal Budget 2017-18 – Press Brief

INCOME TAX

SCOPE OF TAX

- Applicable corporate tax rate for tax year 2018 shall be 30%
- Durable goods are proposed to be excluded from Fast Moving Consumer Goods (FMCG). Durable goods have however not being defined (Section 2(22A)).
- Concept of startups has been introduced for information, technology business offering technology driven products or services provided that business is registered and is duly certified by the Pakistan Software Export Board (PESB). Exemption from total income, exemption against minimum tax under section 113 and withholding of taxes under section 153 being recipient of payment shall be available to such startups (Section 2(62A))
- Application of section 4B "Super tax for rehabilitation of temporary displaced persons" is proposed to be extended for tax year 2017 (Section 4B)
- Rate of tax on dividend other than power sector and mutual funds are proposed to be increased from 12.5% to 15% whereas rate of tax on dividend from mutual fund is proposed to be increased from 10% to 12.5% (Section 5)
- The bill proposes to do away with threshold limit of 50% of paid up capital for distribution of dividend for tax year 2017. Further, dividend in the form of bonus shares is proposed to be counted as distribution for the purpose of (Section 5A) i.e. tax on undistributed reserves.
- Rate of tax for profit on debt for recipients other than companies has been proposed to be charged as follows (Section 7B)

S.No	Profit on Debt Slab		Rate of tax	
	Existing	Proposed	Existing Rates	Proposed Rates
1	Where profit on debt does not exceed Rs.25,000,000	Where profit on debt does not exceed Rs.5,000,000	10%	10%
2	Where profit on debt exceeds Rs.25,000,000 but does not exceed Rs.50,000,000	Where profit on debt exceeds Rs.5,000,000 but does not exceed Rs.25,000,000	2,500,000 + 12.5% of the amount exceeding Rs 25,000,000	12.5%
3	Where profit on debt exceeds Rs.50,000,000	Where profit on debt exceeds Rs.25,000,000	5,625,000 + 15% of the amount exceeding Rs 50,000,000	15%

- Application of fixed tax on builders and developers is proposed to be restricted to tax year 2017 if projects undertaken for development and sale of residential, commercial or other building and plots initiated and approved during tax year 2017. Thus, projects undertaken after 2017 will be taxable on net income basis. (Section 7C & 7D)

- Threshold for interest free loan from employer is proposed to be increased from 0.5 million to Rs 1 million (Section 13)
- Threshold for allowable expenditure on account of sale promotion, advertisement and publicity for pharmaceutical manufacturer is proposed to be increased from 5% to 10%. (Section 21)
- Ownership of the depreciable assets is proposed to be deemed as owned by the taxpayer where the asset is jointly owned by a taxpayer and an Islamic Financial Institution in arrangement of Musharika or Diminishing Musharika Financing (Section 22)
- Rates of tax for capital gain on disposal of securities has been proposed as follows (Section 37A)

S.NO.	Period	Tax Year 2018 and onwards	
		Filer	Non - Filer
1	Where holding period of a security is twenty-four months or more but the security was acquired on or after 1st July, 2013	15%	20%
2	Where the security was acquired before 1 st July, 2013	0%	0%
3	Future commodity contracts entered into by members of Pakistan Mercantile Exchange	5%	5%

- Threshold of taxable income for availing deductible allowance on account of education expenses has been proposed to be increased from Rs 1 million to 1.5 million. (Section 60D formerly 64AB)
- Threshold limit for investment in health insurance for availing tax credit is proposed to be increased from Rs. 100,000 to Rs. 150,000 (Section 62A)
- Tax credit available to manufacturer making sales not less than 90% to sales tax registered person has been proposed to be withdrawn. (Section 65A)
- Tax credit at the rate of 20% available to newly listed companies is proposed to be extended to subsequent three years after the year of enlistment. However, tax credit for last two years i.e. third and fourth tax years shall be restricted to 10%. (Section 65C)

- Threshold limit for administrative and management expenses has been proposed to be fixed upto 15% of total receipts in order to avail 100% tax credit by NPOs. (Section 100C)
- Tax at the rate of 10% has been proposed to be imposed on surplus fund by NPOs (Section 100C)
- Minimum tax on turnover is proposed to be increased from 1% to 1.25% (Section 113)
- Threshold for payment of quarterly installment of advance tax by business individual is proposed to be increased from Rs. 0.5 million to Rs. 1 million (Section 147)
- Import of fertilizer by manufacturer of fertilizer previously been taxed on net income basis is now proposed to be taxed as final tax. (Section 148)
- Tax collected by stock exchange from its members is proposed to be final tax instead of adjustable tax from tax year 2018 and onwards (Section 233A)
- Advance tax collected on sale or transfer of immovable property shall be minimum tax where property is acquired and disposed off within the same tax year (Section 236C)

GENERAL PROVISIONS

- Requirement for filing return of income is proposed to be withdrawn for widow, an orphan below the age of 25 year, and a disable person. (Section 115)
- Revision of wealth statement filed under section 116 is proposed to be allowed before receiving notice under section 122(9) of the Ordinance. Previously the taxpayer could amend the wealth statement before an assessment is made under section 122. (Section 116)
- Extension in time for filing return may be granted by the Chief Commissioner upon application by the taxpayer where the Commissioner has refused to grant the extension or further extension. Such extension would be allowed for maximum 15 days unless further extension is justified on the basis of exceptional circumstances. (Section 119)
- Provisional assessment by the Commissioner in the absence of return filed has been proposed to be withdrawn. (Section 122C)
- Revision of withholding statement filed under statement 165 are now proposed to be allowed within 60 days of filing (Section 165)
- EOBI can obtain information from FBR regarding salaries (Section 216)
- Directorate – General of transfer pricing has proposed to be established to conduct transfer pricing audit (Section 230E)
- Time period for furnishing quarterly statement of capital gain and tax computed thereon has been proposed to be increased from 30 to 45 days (Sub-Rule 6 of Rule 1, 8th Schedule)

- Time period for making payment of tax collected by NCCPL on behalf of the Board has been extended from 31st July to 15th August (Rule 4, 8th Schedule)

PENALTIES

- Penalty in case of failure to maintain record of transaction between associates is proposed to be imposed at Rs 10,000 or 5% of amount of tax whichever is higher. Further, non-maintenance of document and information as required under rule 108 would attract penalty @ 1% of the value of transaction for which record is not maintained (Section 182)
- Non-furnishing of information regarding transaction between associates will attract penalty of Rs. 25,000 for first default and Rs 50,000 for each subsequent default (Section 182)
- Failure to furnish information by financial institution or reporting entity to the Board shall attract penalty of Rs 2,000 for each day of default subject to minimum penalty of Rs. 25,000. (Section 182)

COLLECTION AND DEDUCTION OF ADVANCE TAX AT SOURCE

- Rate of advance tax on dividend is proposed to be increased from 12.5% to 15% whereas rate of tax on dividend from Stock Fund and Money Market Fund is proposed to be increased from 10% to 12.5% (Section 150)
- The withholding tax rate for a non-resident deriving income from contract is proposed to be increased from 12% to 13% where non-resident is a non-filer. Further, tax deducted shall be adjustable and shall be assessed on net income basis unless such non-resident opts for final tax regime (Section 152)
- Following withholding rates are proposed to be charged for payment made to non-filer non-resident. (Section 152)

		Existing rates	Proposed rates
Goods	Company	6%	7%
	Non-Company	6.5%	7.75%
Services	Company	12%	14%
	Non-Company	15%	17.5%
	Contract	12%	13%

- Withholding agent is required to collect tax from agent or any third person on account of payment for services where such agent / third person retains his services charges / fees (Section 153)
- Rate of collection of withholding tax on supply of goods and services to resident person is proposed to be amended as follows. (Section 153)
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	Existing		Proposed	
	Company	Non-Company	Company	Non-Company
Distribution of FMCG	3%	3.50%	2%	2.5%
Sale of goods (non-filers)	6%	6.50%	7%	7.75%
Services (non-filers)	12%	15%	14.5%	17.5%
Contract (non-filers)	10%	10%	12%	12.5%

- Rate of advance tax on rent for companies being non-filer is proposed @ 17.5% of gross amount of rent. (Section 155)
- Rate of advance tax on prizes and winnings is proposed to be increased from 20% to 25% (Section 156)
- Rate of collection of advance tax on sale of petroleum products to petrol pump operator in case of non-filer is imposed @ 17.5%. (Section 156A)
- Rate of collection of advance tax from non-filers CNG station is proposed @ 6% (Section 234A)
- Rate of advance tax collected on internet, mobile, telephone and prepaid card internet or telephone card is proposed to be reduced from 14% to 12.5% (Section 236)
- Rate of collection of advance tax on purchase, registration and transfer of motor vehicle having following engine capacity is proposed to be charged as follows (Section 231B)

		Existing		Proposed	
S.No	Engine Capacity	Filer	Non-Filer	Filer	Non-Filer
1	upto 850cc	Rs. 10,000	Rs. 10,000	Rs. 7,500	Rs. 10,000
2	851cc to 1000cc	Rs. 20,000	Rs. 25,000	Rs. 15,000	Rs. 25,000
3	1001cc to 1300cc	Rs. 30,000	Rs. 40,000	Rs. 25,000	Rs. 40,000

- Non-banking financial institution are included in the ambit of withholding agent for collecting advance tax at the rate of 3% of value of motor vehicle at the time of leasing. Further, leasing proposed to include shariah compliant or conventional mode leasing either through ijara or otherwise (Section 231B)
- Rate of collection of advance tax from non-filer from sale of property or goods by auction is proposed to be increased from 10% to 15% (Section 236A)
- Batteries are proposed to be included in certain specified products for collection of advance tax on sale to distributor/dealers/wholesaler and retailer at the prescribed rates respectively (Section 236G & 236H)
- Rate of collection of advance tax on sales to retailer by distributor, dealers or wholesaler in respect of certain products has been proposed to be amended as follows (Section 236H)

Category of sale	Existing Rate of tax	Proposed Rate of tax	
	Filer	Filer	Non-filer
Electronics	0.5%	1%	1%
Others	0.5%	0.5%	1%

- Advance tax on purchase of tobacco is proposed to be imposed at the rate of 5% however, such tax shall be adjustable. (Section 236X)
- Threshold limit for collection of advance tax at 1% from non-filer in respect of life insurance premium is proposed to be increased from Rs. 0.2 million to Rs. 0.3 million (Section 236U)

EXEMPTION FROM TAX / REDUCED RATES

- Income derived by following person is proposed to be exempted from tax. (Clause 66 Part I 2nd Schedule)
  - i. Asian Infrastructure Investment Bank.
  - ii. Gulab Devi Chest Hospital
  - iii. Pakistan Poverty Alleviation Fund
  - iv. National Academy of Performing Arts.
- Any profit on debt received by Japan International Cooperation Agency (JICA) from Islamabad Burhan Transmission Reinforcement Project (Phase I) is proposed to be exempt from tax (Clause 140A Part I 2nd Schedule)
- Any income derived by a political party registered under Political Parties Order, 2002 with the Election Commission of Pakistan is proposed to be exempt from tax. (Clause 143 Part I 2nd Schedule)
- Profit and gain derived by start-up business of information technology certified by the Pakistan Software Export Board (PSEB) is proposed to be exempted for the tax year in which the business starts up and the following two tax years. Exemption is also available from minimum tax under section 113 of the Ordinance. Further, payment received by such start-up shall be exempt from withholding under section 153 of the Ordinance. (Clause 144 Part I, clause 11A of Part IV and clause 43F of Part IV of 2nd Schedule)
- Exemption from withholding under section 148 has been proposed in respect of following (Clause 56 Part IV 2nd Schedule)

  i. Z&M Oils (Pvt) Ltd
  ii. Exceed Petroleum (Pvt) Ltd
  iii. Petrowell (Pvt) Ltd
  iv. Quality-1 Petroleum (Pvt) Ltd
  v. Horizon Oil Company (Pvt) Ltd
  vi. Outreach (Pvt) Ltd
  vii. Kepler Petroleum (Pvt) Ltd

- Fixed tax of Rs. 5,000 per Haji for Hajj group operator is proposed to be extended for tax year 2017 (Section 72A Part IV 2nd Schedule)

- Quota eligibility for import for availing exemption under section 148 is proposed to be increased from 110% to 125% of raw material imported and consumed during the previous tax year. (Clause 72B Part IV 2nd Schedule)

- Certain tillage and seed bed preparation equipment are proposed to be exempted from withholding at the time of imports under section 148 of the ordinance (Clause 91 Part IV 2nd Schedule)

- Reduced rate of 2% on certain service sector is proposed to be extended to tax year 2018 along-with requirement for audit and irrevocable undertaking for tax year 2018. Further, following services has proposed to be included for reduced rate. (Clause 94 Part IV 2nd Schedule)
  i. Car rental service
  ii. Service rendered by Pakistan Stock Exchange

- Advance tax on cash withdrawal is proposed to be exempt in respect of cash withdrawal from a "branchless banking (BB) agent account" utilized to render branchless banking services to customers (Clause 101 Part IV 2nd Schedule)

SALES TAX

SCOPE OF TAX

- "Tier- 1 Retailers" is define to mean following persons:
  a. A retailer operating as a unit of a national or international chain of stores
  b. A retailer operating in an air-conditioned shopping mall, plaza or center, excluding kiosks
  c. A retailer whose cumulative electricity bill during the immediately preceding twelve consecutive months exceeds rupees six hundred thousand; and
  d. A wholesaler-cum-retailer, engaged in bulk import and supply of consumer goods on wholesale basis to the retailers as well as on retail basis to the general body of consumers.

  Such retailers shall pay sales tax at the rate of 17% and shall be liable for filing monthly sales tax return. If such retailers are making supplies of finished goods of the five sectors specified in notification S.R.O 1125(I)/2011 they shall pay sales tax at the rates prescribed in said notification.

  Such retailers shall have an option to pay sales tax at the rate of 2% of their total turnover, including turnover of exempt supplies without adjustment of any input tax. To exercise such option, such retailers will have to file an option before the respective Chief Commissioner having jurisdiction by 15th of July and this option shall remain in force for the whole financial year.

- Sales tax has proposed to be charged on goods imported into Pakistan irrespective of their final destination in territories of Pakistan as specified in clause (2) of Article 1 of the Constitution of Islamic Republic of Pakistan

- Further tax at the rate of 2% is proposed to be imposed on zero rated goods falling under section 4 of the Act sold to unregistered persons.

- Fixed rate of sales tax for steel sector is proposed to be increased from Rs.9 per unit of electricity to Rs. 10.5 per unit of electricity.

- Sales tax on retail sales of five export oriented sectors is proposed to be enhanced from 5% to 6%.

- Fertilizers are proposed to be excluded from the Third Schedule to the Act therefore, the same shall be chargeable to sales tax on value addition basis

- Certain goods are proposed to be charged at reduced / specified rates which includes following:
  a. Imports of specific Poultry machines will be charged at the rate of 7%
  b. Some gases and locally manufactured coal are charged at specific rates
  c. Imports of hybrid cars shall be charged at reduced rates
  d. Sales tax Rs. 650 will be charged to low category and medium category cellular or satellite mobile phones

GENERAL PROVISIONS

- Stay against recovery proceedings has been proposed to be provided where taxpayer files an appeal under section 45B of the Act in respect of any order and has paid 25% of the amount of tax.

PENALTIES

- Penalties are proposed in respect of any person who manufactures, possesses, transports, distributes, stores or sells cigarette packs without, or with counterfeited, tax stamps, banderoles, stickers, labels or barcodes.

EXEMPTION FROM TAX

- Certain items of renewable energy sources, items for conversion of energy and parts and components for manufacturing of LED Lights specified in 6th Schedule have been aligned with items under the Custom Act, 1969

- Following items / goods are proposed to be exempted under the Sales Tax Act, 1990
    I. Sunflower and canola hybrid seeds meant for sowing
    II. Single cylinder agriculture diesel engines (compression-ignition internal combustion piston engines) of 3 to 36 HP, and CKD kits thereof
    III. multimedia projectors
    IV. gifts and donations received from foreign governments and organizations to the Federal and Provincial Governments and public sector organizations
    V. vehicles imported for development of Gwadar Port

- Exemption from sales tax withholding is proposed to be provided in respect of supplies from registered persons to other registered persons with the exception of advertisement services

FEDERAL EXCISE DUTY

SCOPE OF TAX

- Duty has proposed to be increased in respect of following goods:
    a. Cigarettes
    b. Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements.

- Duty on Telecommunication services has been proposed to be reduced from 18.5% to 17%

PENALTIES

- Provisions for penalty in respect of person engaged in the manufacture or production of cigarettes who evades duty of excise.

EXEMPTION FROM TAX

1. Exemption on Vehicles imported by China Overseas Ports Holding Company Limited (COPHCL) and its operating companies has been proposed