Budget Speech 2019-20

PART II

Mr. Speaker,

Now I shall present part II of the speech which comprises of tax proposals.

This year Pakistan witnessed the crippling effects of faulty tax policies introduced by the previous Governments, which were devoid of the mandate of people of Pakistan. The outgoing Government provided excessive tax relief and at the same time shriveled the effective tax base by 23.6%. During the last five years, the Governments' skewed approach of achieving revenue targets by arbitrarily altering the tax rate only and failure to recognize the importance of enhancing the tax base in order to establish a more efficient, equitable and robust tax system has led to calamitous results.

The consequence Mr. Speaker; today out of a population of 220 million people only 1.9 million are filers of income tax return, and out of these only 183 thousand paid tax with their annual returns. Equally alarming are numbers of sales tax filers which are 141 thousand, out of which only 43 thousand are paid taxes with their returns. Pakistan's tax to GDP ratio is 12% which is amongst the lowest not only in the region but also in the world whereas the current expenditure layout necessitates a tax to GDP ratio should be 20%.

It is in this backdrop that this government has chosen a tax reform agenda which has mandated tough choices, which are proposed to be made not only to ensure macroeconomic stability but also national integrity for future generations.

Mr. Speaker,

To start with I shall briefly put forth before the august house the broad principles of the proposed taxation measures for FY 2019-20 which are embodied in the Medium Term Policy Framework envisioned by this government. The framework is pivoted around bridging the tax gap in revenue collection and actual potential in medium term. Pakistan's tax expenditure has been estimated at Rs. 972.4 for fiscal year 2018-2019. This expenditure is a consequence of the multiple tax exemptions and concessions provided to various sectors of economy. Where these exemptions and concessions serve as an incentive on one hand, at the same time they tend to distort market competition and result in forfeiture of a large quantum of tax revenue. Besides enhanced revenue generation, an allied outcome of scaling down these exemptions and concessions would be the broadening of tax net. Two pronged efforts are proposed to be made to minimize the tax gap: (1) phasing out tax exemptions and concessions (2) gradual uniformity in VAT rate and review of special procedures. Our focus shall be to ensure effective and harassment free taxpayer compliance. IT based interface between taxpayer and tax collector shall be introduced to minimize point of contacts between the two by employing virtual platforms. This would reduce the trust deficit between the taxpayer and the tax department and also minimize the cost of tax compliance. Steps are proposed to be taken to reduce the quotient of regression in our tax system by taxation of real income instead of presumptive taxation and by eliminating unnecessary withholding taxes, a natural corollary of which would be visible in Pakistan's ranking on the Ease of Doing Business Index. Documentation of economy shall be the main thrust in upcoming years to broaden the tax base by the extensive use of data analytics of the data bases existing with government organizations and by generating pre populated returns.

The Government introduced a reform package by promulgating the Assets Declaration Ordinance, 2019 to allow the non-documented economy's inclusion into the taxation system and serve the purposes of economic revival and growth by encouraging a tax compliant country.

Mr. Speaker,

Now I shall place before the House relief and tax measures that are proposed to be introduced in the current Budget starting with the Customs Duty.

Customs

(1) In the past, due to lower revenues from domestic taxes, customs tariffs were harshly used to enhance revenues from imports. At present, Pakistan has the highest average customs tariffs and import stage revenues in the region. While the revenues from imports increased steeply, costs of

imported raw materials and intermediary goods also increased, negatively impacting competitiveness of both domestic and export industries. The government strongly believes that customs tariffs rationalization is a key requirement to boost exports and domestic manufacturing. For this purpose, duty on more than 1600 tariff lines, being raw materials and intermediaries in principle, is being exempted in this budget. This measure will cause a revenue loss of around Rs. 20 billion but much higher gains are expected in return from industrial growth. The government is finalizing a customs tariff reforms plan which will be implemented in phased manner.

(2) Textile sector is important, and government's policy is to support this sector with exemption of duty on various accessories and parts of textile machinery. Similarly, duty on Elastomeric yarn and non-woven fabric is to be reduced.

(3) Paper plays a very important role in country's education sector as its prices affect overall cost of education. Basic raw material for paper production i.e. wood pulp and paper scrap, may be exempted from customs duty and duty on different types of paper may be reduced from 20% to 16%. This will reduce prices of paper and books in the country and encourage printing industry. Special considerations are being given for Quran publication.

(4) To promote non-traditional exports, duty on some of the inputs of wooden furniture and razor manufacturing may also be reduced, from 3% to 0% on wood and from 11% to 3% on wooden veneering panels to save local forests and to encourage furniture manufacturers. Decrease in duty from 11% to 5% on steel strip for razor exporters is also being proposed.

(5) To reduce input costs of domestic home appliance industry, printing plate industry, solar panel assemblers and chemical industry, duties on their inputs like parts/components of home appliance, aluminum plates, metal surface agents and Ascetic acid may also be reduced. In order to encourage investment in large scale manufacturing, exemption of duty is also being proposed on import of plant & machinery for setting up Hydrocracker plants for oil refining.

(6) Prohibitive regulatory duties to save forex reserves succeeded in creating import compression but some of these items shifted to transit trade and were smuggled back. It is proposed that duty

structure on tyres, varnishes and food preparations for food industry may be rationalized to discourage their shifting to smuggling and realize the lost revenues on this account.

(7) Increasing costs of living has made the life of common man very difficult. To reduce cost of medicines for general public, 19 items of raw materials and essential items of medicinal use are being proposed to be exempted from 3% import duties. Similarly, medicines for rare diseases like Wilson's disease and Cystinosis disease are proposed to be exempted from import duties. Hemodialyzer is used in hydrolysis equipment for patients suffering from kidney failure. It is proposed that its raw materials and components may be allowed duty free import for local manufacturers.

(8) To promote exports different export facilitation schemes are being simplified and automated to minimize human interaction and expedite processing in a transparent manner. It is pertinent to mention that during first eleven (11) months of the current fiscal year, duty free concessions worth more than Rs. 124 billion were allowed on the imports of inputs and raw materials by the prospective exporters under different Export Facilitation Schemes. In order to further reduce time lag for exporters, their input/ output ratios are being proposed to be accepted provisionally subject to final determination, without causing any delay in fulfilling export orders.

(9) One administrative tier is being reduced by making the Additional Collector as regulatory authority of certain export facilitation schemes. At present, plant, machinery and equipment, brought duty free under different export facilitation schemes, cannot be disposed off without payment of duty/taxes before ten (10) years of their import. In order to encourage exporters to upgrade to new machinery and technology, it is being proposed that this period may be reduced to five (5) years. For disposal before five years, the option to pay duty and taxes at different depreciated rates is also being proposed.

(10) Money laundering is a menace and source of bad publicity and economic cost, a completely new regime is being proposed to curb the practice of trade-based money laundering. A new separate Directorate of Cross Border Currency Movement has also been established for focused enforcement against money laundering and currency smuggling to reflect Pakistan’s commitment towards fulfilling FATF’s action plan. In order to further strengthen drive against

smuggling in the border areas, separate preventive collectorates have been established in Karachi, Peshawar and Quetta.

(11) Pakistan customs, like other modern customs administrations, has been using risk management system to expeditiously clear cargo through an automated system. In order to provide a more comprehensive legal cover to the use of risk management as a tool throughout customs controls, detailed legal provisions are being proposed to be added in the Customs Act.

(12) The government has to take some tough decisions to meet its expenditures. Realizing the fact that any increase in duty and taxes at import stage is passed on to the consumer, effort has been made to keep revenue measures from import stage at a bare minimum. It is being proposed that the rate of additional customs duty may be enhanced from existing rate of 2% to 4% and 7% on tariff slabs of 16% and 20%, respectively, which in principle, are finished products, including luxury items. Presently, LNG is exempted from customs duty. Since LNG has replaced Furnace oil which was subjected to 7% customs duty, it is being proposed to levy 5% customs duty on the import of LNG.

Sales Tax

Mr. Speaker,

In the interest of poor people at large the Government has not adopted the easier option of collecting revenue by increasing the general sales tax rate of 17%.

RELIEF MEASURES

Fixed Sales Tax on Brick Kilns

Presently, brick kilns are being taxed at standard rate of 17%. It is proposed to decrease the rate of sales tax from 17% to a fixed rate based on location. The industry pertains to rural area, where it is difficult to fulfil the requirement of documentation. Therefore, this measure shall ensure improved compliance at a lower cost.

Reduced Rate of Sales Tax on Food Supplied By Restaurants and Bakeries

Food related inputs such as meat, vegetables, flour etc are difficult to document and resultantly require increased cost of enforcement. Therefore, in order to encourage compliance at a minimal cost of enforcement for the tax authorities, it is proposed to reduce the sales tax rate from 17% to 7.5% against which input tax adjustment will not be allowed.

Reduction of Rate of Sales Tax on Concentrated Milk (Powder)

Presently, the sales tax regime on various forms of milk powder is not uniform. Similar products are subject to varied tax rates. Therefore in order to remove this anomaly it is proposed to tax both milk and cream, concentrated, and unsweetened / unflavoured at 10% instead of current 17%.

Removal Of Bar On Export of PMC and PVC to Afghanistan

Removal of bar on export of PMC and PVC is proposed by zero rating export of these items to Afghanistan and Central Asian Republics. This measure would encourage local manufacturing of the aforementioned materials in the country and at the same time shall also promote exports.

Reforming Extra Tax Regime

Currently extra tax of 2%, in addition to standard sales tax, is payable on many items such as electric and gas appliances, foam, confectionary, arms and ammunition, lubricants, batteries, auto parts, tyres / tubes etc. In order to realise full revenue potential it is proposed that these items (auto parts and arms & ammunition) be moved to Third Schedule (retail price taxation) of the Sales Tax Act, 1990. In respect of two remaining items i.e. auto parts and arms & ammunitions, it is proposed to withdraw extra tax on the same to reduce the cost of production of local industry.

Expansion of Exemption to Tribal Areas

After the merger of FATA and PATA exemptions were extended for five years in respect of supplies to promote economic activity. It is proposed to extend exemption to tax on import of industrial raw materials and plant and machinery also. Additionally, exemption is also proposed for supply of electricity to all residential and commercial consumers and to industries set before 31-5-2018 excluding steel and ghee sector in these areas.

Withdrawal of 3% value Addition on Import of Mobile Phones

Currently commercial imports are subject to 3% value addition tax which has unnecessarily increased the tax burden. Therefore, it is proposed that 3% value addition tax on import of mobile phones maybe withdrawn. This measure would also ensure rationalization of tax on import of mobiles.

Reforming 3% Value Addition Tax – Petroleum Products

Exclusion of VAT is only available on those products imported by OMCs where prices are regulated. It is proposed that exclusion be provided to all Petroleum products like furnace oil, imported by the OMCs.

Simplification of Law and Reduction in Rules and Procedures

Through the years the Sales Tax law has become a complex phenomenon by insertion of multi tiered taxation and subordinate legislation. After thorough study the Special Procedures Rules are being abolished and made part of the Sales Tax Act. All redundant SROs are also being rescinded

REVENUE MEASURES

Streamlining SRO 1125(I)/2011 Regime

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

- SRO 1125 be rescinded, thus restoring standard rate of 17%
- The rate of sales tax on local supplies of finished articles of textile and leather and finished fabric may be raised to 17%. However, retailers opting for real time reporting shall be given a relaxation of rate which shall then be charges @ 15%.

- Zero-rating of utilities be withdrawn.
- Refund of sales tax to these sectors be automated, thus ensuring that the sales tax paid on inputs is immediately refunded. Refund Payment Orders (RPOs) shall be immediately sent to SBP for payment.
- Ginned cotton which is presently exempt is proposed to be subjected to reduced rate of 10%

Restoration of Normal Regime for Steel Sector

Currently sales tax from steel sector is collected through electricity bills at Rs. 13 per KWH. Imported scrap used in making billets is subject to sales tax at Rs. 5,600 / MT which is adjustable. For ship-breakers, ships imported for breaking are exempt from payment of sales tax. However, for ship-plates obtained from breaking of ship, sales tax is payable at Rs. 9300 per MT. Further, steel industry set up in tribal areas is exempt from payment of sales tax and steel units in other areas are not able to compete with them. In order to do away with this complex regime and realise the actual revenue potential of this sector, it is proposed:

1. The special procedure may be scrapped and these items be brought in normal tax regime.
2. Billets, ingots, bars, ship plates and other long profiles may be subjected to FED at 17% in sales tax mode in lieu of sales tax for the reason that there is no exemption from FED for tribal areas.
3. Minimum benchmarks are also being set of electricity consumption and production.

Increase in Fixed Value of Gas Supplied To CNG Dealers

Since the deregulation of CNG prices by OGRA, CNG prices have risen. However, tax rates have not be rationalised proportionately. Therefore it is proposed that but government the value for the CNG dealers may be increase in respect of Region I from Rs 64.80 per kg to Rs 74.04 per kg and in respect of Region II from Rs 57.69 per kg to Rs 69.57 per kg.

Change in the Retailers Regime

Retailers have been divided in tiers to pay sales tax .Tier-I retailers: Standard regime or 2% turnover. Tier-II taxed through electricity. Turnover tax is proposed to be abolished .Tier-I retailers shall be linked with FBR's online system. Incentive to buyers to buy from integrated and demand invoices shall be refund of sales tax up to 5% of the tax amount. Shop with size of 1000 sq ft or more will also be included in Tier-I retailers.

Increase in Rate of Tax on Sugar

Presently Sugar is subject to sales tax at 8%. This sector has huge economic potential but the tax collection from this sector is Rs 18 billion which is much lower than its actual potential. To minimize this tax gap and to harmonize its rate with other items, it is proposed that the sales tax rate on sugar may be enhanced to 17 %. However, to provide partial relief to the consumer from this rate enhancement, it is proposed that the sugar may be excluded from the items on which further tax at 3% is payable if supplied to unregistered persons. The price increase as a result of this measure is expected @ Rs. 3.60 per kg.

Review of Exemptions under Sixth Schedule

Following exemptions is proposed to be moved to be withdrawn, thus subjecting these items to 17%, if sold in **retail packing** with **brand name** as the consumers of these goods can bear the burden of taxes:

> Sausages,Meat and similar products of prepared frozen or meat offal including poultry, meat and fish.,fat filled milk, in liquid or powdered form and Cereals and flours , other than those of wheat and meslin, falling in PCT Chapter 11

Exemption of Cottage Industry

Exemption to cottage industry is being grossly misused it is proposed to redefine it to include:

- Not having an industrial gas/electricity connection
- Located in residential area
- Employing not more than 10 labourers working
- Annual turnover is not more than Rs. 2 million

Insertion of Gold, Silver, Diamond and Jewellery in Eighth Schedule to the Sales Tax Act, 1990 – Reduced Rate

Based on international best practices and to broaden the tax net, it is proposed to introduce reduced rate/minimal tax rate on gold, silver, diamond and jewellery.

Special procedure for Marble Industry

Rate of tax is Rs 1.25 per unit of electricity. It is proposed to introduce normal regime in this sector.

Provisions to Be Added in the ICT Law

It is proposed that services which have been made liable for tax in the provincial laws and are found absent in the ICT law may be inserted accordingly. Secondly, services which are already liable for FED shall not be inserted in ICT Law to avoid double jeopardy.

MEASURES FOR EASE OF DOING BUSINESS

Section 58 of Sales Tax Act, 1990 – Enabling Directors etc to Recover Paid Dues

This measure shall enable the director or a shareholder to recover the tax paid from the Company also.

Simplification of sales tax registration – Ease of Doing Business

Sales tax registration procedure is being simplified so that contact between the tax collectors and tax payers is almost eliminated and verification be made through NADRA

Decreasing the Legislative Burden of Federal Government Cabinet

On the instructions of the Cabinet Division substantive powers shall remain with Federal Government. Proposals have been prepared to replace the words “Federal Govt” with that of “the Board” or “the Board with the approval of Minister-in-charge” in relation to procedural matters.

De-registration and Blacklisting

Rules related to deregistration are being amended to facilitate the taxpayers. Now during the process of deregistration return filing will not be compulsory.

FEDERAL EXCISE

REVENUE MEASURES

Mr. Speaker,

Following measures are proposed for Federal Excise Duty:

Increase in FED on Aerated Waters

In order to harmonize the rates of taxes of different items, rate of FED on aerated waters is proposed to be increased from 11.5% to 14%.

Restoration of Normal Procedure for / Increase in Fed on Ghee/Cooking Oil

Vegetable ghee and cooking oil are subject to FED only. Manufacturers only pay Rs1 per kg on value addition and Rs .40 per kg on value addition of edible oilseeds imported. Collection of taxes is very less as compared to its actual potential: Rs. 466 million for their value addition and Rs 42 billion at import stage despite the fact that 27% of edible oil production is local.

It is proposed to increase rate of FED to 17% on edible oils / ghee / cooking oil and do away with Rs. 1 / kg tax in lieu of value addition tax and do away with concessional rates on edible seeds. Ghee cooking / oil which is sold in retail packing under a brand name is proposed to be subject to sales tax at 17% of retail price. It is proposed to restore normal FED regime in sales tax mode under which industry pays FED on actual value addition.

FED on Packaged Non-aerated Sugary / Flavoured Juices, Syrups & Squashes

In view of the health hazards FED proposed to be introduced at rate of 5% of RP.

Increase in Federal Excise Duty on Cement

Cement is chargeable to federal excise duty @ 1.5 per kg. It is proposed to increase federal excise duty on cement to Rs. 2 per kg.

FED on LNG

Increase in FED on import of LNG from Rs. 17.18 per 100 cu. m to Rs. 10 per MMBTU as for local gas

FED on Cars

Through Finance Supplementary Second Amendment Act 2019 FED on cars 1700 cc and above was introduced @10%. Now it is proposed to enlarge the scope of FED and following slabs are being introduced as Cars from 0 to 1000cc at 2.5%, Cars from 1001cc to 2000cc at 5% and Cars from 2001cc and above at 7.5 %

Increase in FED on Cigarettes

FED on cigarettes is levied on fixed rate basis. The rates need to be increased each year to account for increase in prices. FED is proposed to be increased. Traditionally cigarettes are taxed in two slabs but during 2017 a third tier was introduced to attract low priced illicit market which did not yield desired results. The upper slab will be taxed from Rs 4500 per 1000 sticks to Rs 5200 per 1000 sticks. For lower slab the existing two slabs will be merged to Rs 1650 per 1000 sticks

The proposal is to collect Rs 147 billion compared to estimated Rs. 114 billion for 2018-19.

Income Tax

Mr. Speaker,

International best practices reveal that taxes are the outcome of documentation of economic transactions. The primary theme of this budget is to improve documentation of economy and collect taxes from the people who can afford it instead of collecting taxes from withholding and presumptive tax regime. As you shall observe from various amendments proposed in the law through this Finance Bill, instead of promoting semi legalized culture of evasion of taxes due by being categorized as non-filers it is being ensured that all persons who are legally required to file return on income should file return of income and pay taxes on taxable income under the law. This is a major and substantial change in the taxation paradigm of this country. We firmly believe that all persons who are required to pay taxes should file return and pay the due taxes. Nevertheless at the same time we do not want to over burden the tax filers. We are introducing very simple automated non-personal basis of filing the return of income. These two complimentary steps will remove primary aberrations in our taxation regime.

Furthermore the corporate rate for companies is not proposed to be increased despite acute budget pressure so as to promote corporatization. It has also been ensured, that in a gradual manner the rate of tax on disposable income in the hands of businessmen undertaking business within the corporate sector be equal to those undertaking business in non-corporate sector.

RELIEF MEASURES/ EASE OF DOING BUSINESS

Issuance of Refund Bonds

In order to facilitate the cash flow constraints of business concerns due to stuck up income tax refunds, an income tax refund bonds may be issued by FBR Refund Settlement Company Limited. FBR will issue a promissory note to FBR Refund Settlement Company Limited incorporating details of refund claimants and the amount of refund payable to each claimant. A similar model has been applied for Sales Tax Refunds in this financial year which has successfully addressed the concerns of business community.

Placement on ATL after Due Date of Filing of Return

Previous Government has introduced a provision in law which prohibits placing a person's name on the active taxpayers' list if the return is not filed within the due date. Hence, a person who files a return after the due date would still be treated as a non-filer and subjected to higher tax rates which was an injustice and a major hardship case for a person who has filed the return yet taxed as a non-filer. In order to ease the continuation of filing tax returns even after due date, the condition of not placing name on ATL be done away with.

Withdrawal of Restriction on Purchase of Property

Previous Government has imposed a restriction on registration or transfers of property exceeding rupees five million in the name of a non-filer. It has been observed that the provision of placing restriction on purchase of property has not achieved the desired goal of increasing filers and rather such restriction has been legally challenged in Courts of law on the point of jurisdiction. Therefore, restrictions placed on purchase of immovable property may be withdrawn.

Tax Credit for Persons Employing Fresh Graduates

Keeping in view the Government's policy to create opportunities of employment for fresh graduates a new tax credit for persons employing freshly qualified graduates is proposed to be introduced. Persons employing fresh qualified graduates from universities or institutions recognized by the Higher Education Commission would be given a tax credit equal to the amount of annual salary paid to such graduates. The tax credit shall be deducted from the tax payable by such persons. This tax credit would be in addition to the expenditure claimed by businesses on payment of salary to their employees. Persons, who have graduated after 01 July, 2017 would be treated as fresh graduates for claim of tax credit.

REVENUE MEASURES

Increase in Tax Rates for Salaried and Non-Salaried Persons

Tax rates for both salaried and non-salaried persons were drastically reduced in the Finance Act, 2018. Previously, the threshold of taxable income was Rs.400, 000. Through the Finance Act, 2018, the threshold was substantially increased three-fold to Rs.1, 200,000 which has resulted in huge shortfall of approximately Rs.80 Billion in revenue collection. The threshold of taxable income is generally a proportion of the per capita income of a country and such significant increase is unprecedented. It is therefore proposed that the threshold of taxable income may be revised and fixed at Rs.600, 000 for salaried persons and Rs.400, 000 for non-salaried persons.

In the case of salaried individuals deriving income exceeding Rs.600, 000 it is proposed to introduce eleven taxable slabs with progressive tax rates ranging from 5% to 35% .For non-salaried persons deriving income exceeding Rs.400, 000 it is proposed to introduce eight taxable slabs of income with tax rates ranging from 5% to 35%.

Freezing Tax Rates for Companies at 29%

The tax rate for companies was 35% prior to the Finance Act, 2014. The tax rates were reduced from 35% to 30% with one percent decrease every year from the tax year 2014 to the tax year 2018. The tax rate for companies was further intended to be reduced from 30% in tax year 2018 to 25% in tax year 2023 with one percent decrease every year. At present, the tax rate is 29%. As the tax rates have already been substantially reduced from 35% to 29% in the last six years and considering the prevailing economic conditions, it is proposed that the tax rate for companies may be fixed at 29% for the next two years.

Receipt of Gift to Be Treated As Income

One of the common methods employed to reconcile wealth acquired through undisclosed sources of income is to explain the source of investment in the form of receipt of gift. In this regard , data analysis has shown that amount of gift as shown in Income Tax Returns exceeds Rs.256 Billion .In order to plug this loophole it is proposed that receipt of gift may be included in the definition of income from other sources. However receipt of gifts from relatives is proposed to be excluded from the purview of this measure.

Depreciation and Brought Forward Losses Not To Be Allowed While Computing Income for Super Tax

Super tax was introduced through the Finance Act, 2015. It is imposed on all banking companies and all other persons deriving income equal to or exceeding Rs.500 million. Brought forward depreciation and business losses are excluded while computing income for calculating liability of super tax. However, such losses are not excluded in the case of banking, insurance, oil and mineral exploration companies. In order to ensure similar tax treatment, it is proposed that same treatment be applied for the aforesaid sectors.

Reduction of Tax Credit and Its Withdrawal after Tax Year 2019

Presently Industrial undertakings investing any amount in purchase of machinery for extension, expansion, balancing, modernizing & replacement are allowed tax credit equal to ten percent of the purchase price of machinery. This facility of tax credit was introduced through the Finance Act, 2010 and was available up to 30th day of June, 2015. Although the facility has already consumed its utility yet it has been extended further till 2021 by the previous Government. Analysis of data indicates that this tax credit has been claimed by well established companies which would have invested even without this tax incentive. It is therefore proposed that the said tax credit may be allowed to those companies which purchase and install plant & machinery up to 30th June, 2019.Further,for the tax year 2019, it is proposed that the tax credit may be reduced from 10% to 5% of the purchase value of machinery. The facility is proposed to be discontinued after that. However, brought forward adjustment of the credit shall continue and initial depreciation shall also be available.

Withholding Tax on Domestic Royalty

Withholding tax is deducted on any payment of royalty to a non-resident person. However, there is no such withholding tax in case of payment of royalty to a resident person. Now there is a growth in local entities which are also deriving income from royalty but the true potential of such persons cannot be gauged. In order to provide a level playing field it is proposed that withholding tax at the rate of 15% of the gross amount of royalty may be deducted from resident persons.

Streamlining Tax Regime for Real Estate Sector

- At present capital gain on immovable properties is separately taxed on the basis of holding period of property. It is proposed that income from capital gains may also be taxed under normal tax regime at normal tax rates. It is therefore proposed that;

    1. Income from capital gains on open plots is proposed to be taxed at 100% where the open plot is sold within one year and for period up to ten years. Income from capital gains on constructed property is also proposed to be taxed on similar lines when sold within period of five years.
    2. In case a property is sold within one year it shall be taxed as normal income
    3. Tax shall be charged on 3/4rth of the income if the same property is sold after one year.

- At present if a purchaser of an immovable property pay 3% tax on the difference between the DC value and FBR value of property than he is not required to explain the source of investment on the said differential amount. This is a permanent tool for whitening of undeclared money which is against the international tax norms. Therefore it is proposed to withdraw the tax at the rate of 3% on differential amount.

- FBR had introduced valuation tables of immovable properties in major cities. The rates notified by the Board are still considerably lower than actual market value. It is therefore intended that FBR rates of immovable properties would be taken closer to or about 85% of actual market value. As the increase in FBR values of immovable property is going to increase the incidence of tax on genuine buyers and sellers, it is proposed that rate of withholding tax on purchase of immovable property may be reduced from 2% to 1%.

- At present, withholding tax on purchase of property is attracted only if the value of property is more than four million rupees. There is a tendency to avoid this tax by breaking the transaction into amounts less than rupees four million whereas the actual value of property is more than four million. In order to stop the misuse of this threshold, the withholding tax on purchase is proposed to be collected irrespective of the value of property.

Taxation, Assessment and Filing of Returns of Persons Not Appearing On the Active Taxpayers List

The concept of making the cost of doing business higher for non-filers were first introduced through the Finance Act, 2014 and separate and higher rates for non-filers were prescribed. However, it was misconstrued that a non-filer may still choose to not file income tax return and thereby forego the higher tax collected. Although the measure was meant to increase the number of filers yet over time the focus shifted to raising additional revenue from this measure. Further, persons who were not required to file their return or who had just started their business were also required to file return to save them from higher tax collection.

In order to remove the misperception that non-filers can go scot free by just paying higher tax and also to remove certain anomalies, the concept of "non-filer" is proposed to be done away with. Instead, a new scheme which focuses on persons whose names are not appearing on the active taxpayers' list [ATL] is proposed to be introduced. The scheme is a major paradigm shift from the erstwhile non-filer higher tax regime in that it not just penalizes those not appearing on the ATL but also introduces an effective mechanism for enforcing returns from such persons. In this regard, a new schedule titled "The Tenth Schedule" is proposed to be introduced in law which envisages the entire path to be adopted by the Inland Revenue Department to enforce returns from persons who undergo financial transactions yet choose not to file their returns of income.

Changing Final Tax into Minimum Tax Regime for Certain Persons

Persons involved in certain transactions are not required to pay tax on their actual profit. Instead, the tax collected or deducted on these transactions is treated as their final tax liability. As the tax deducted is final tax, such persons are saved from scrutiny of audit. At present, final tax regime is available for commercial importers, exporters, commercial suppliers of goods, contractors, persons earning income from prizes and winnings, sellers of petroleum products, persons deriving brokerage or commission income and persons earning income from CNG stations. In order to tap the actual tax potential, the tax collected or deducted from these transactions is proposed to be treated as minimum tax except for exporters, prizes and winnings and sellers of petroleum products. This is a step towards gradual phasing out of Final Tax Regime.

Tax Rates for Persons Earning Dividend Income

Dividend income is separately taxed and it is not made part of income under normal tax regime. The general rate of dividend income is 15% which is quite low considering that no expenses are incurred in deriving dividend income. Presently dividend income is taxed at lower rates because of the fact that companies have already suffered full rate taxation. However, there are companies which are either exempt or don’t pay any tax because of tax credits and allowances available to them.

Therefore it is proposed that the dividend income from such companies may be taxed at 25% as opposed to the general rate.

Withdrawal of Initial Depreciation on Buildings

Buildings have a normal useful life exceeding approximately thirty years. However, depreciation in buildings is allowed at the rate of 10 percent every year and in the first year, initial depreciation is also allowed at 15 percent. In this way, 25 percent of the total cost of building is claimed as depreciation in first year which is totally against the actual useful life of buildings. It is therefore proposed that initial depreciation allowance on buildings may be withdrawn being in consistent with the total life of buildings.

Taxation of Income from Profit on Debt

At present, income from profit on debt is separately taxed at the rate of 10%, 12.5% and 15% for profit on debt up to five million, between five to twenty five million and exceeding 25 million respectively. The rate is proposed to be revised as 15%, 17.5% and 20% in respective thresholds of profit.

The rate of withholding on profit on debt is also proposed to be enhanced from 10% to 15%. Further, the separate rates mentioned above would be applicable for profit on debt up to Rs.36 million and for amounts exceeding Rs. 36 million the profit on debt will be made part of the total income and taxed at normal rates.

Measures To Avoid Profit Shifting through Dealer

It has been observed that manufacturers tend to appoint their associates as commission agents/dealers to whom they shift their profit margin in the form of excess commission to avoid their actual tax liability. It is therefore proposed that any amount of commission paid in excess of 0.2 percent of the gross amount of supplies shall be disallowed unless the dealer is registered under the Sales Tax Act, 1990.

Reduction in Limit for Not Explaining Source of Investment through Foreign Remittance from Rs.10 Million to Rs.5 Million

Through the Finance Act, 2018, a limit of Rs.10 million was imposed so that source of unexplained investment up to Rs.10 million could not be probed in case of foreign remittance. As the average workers remittance size is quite low, it is proposed that the threshold may be reduced from Rs.10 million to Rs.5 million for explaining the source of investment through foreign remittance.

Plugging Loopholes in Taxation of Banking and Insurance Companies

Reforms in the present tax regime of banking and insurance sectors are being proposed. This will enable the government to tax the real income of these sectors.

PROCEDURAL MEASURES

Purchase of Property through Banking Instrument

In order to capture the actual value of a real-estate purchase or sale transaction, it is proposed that persons purchasing immovable property of fair market value greater than rupees five million in the case of immovable property and one million or more in the case of movable property may be required to purchase through a banking instrument other than a bearer cheque and a penalty at the rate of five percent of FBR value of immovable property is proposed for violation of this requirement. Further in case of violation of this condition no depreciation allowance shall be available and purchase price for capital gain purpose shall also be treated as zero.

Prosecution for Non-Filing of Return

Process for prosecution is proposed to be made easier. It is also proposed that the moment prosecution is filed with the special judge, arrest of the person shall be possible.

Simplified Tax Regime for Certain Sectors

In order to broaden the tax base there is a need to simplify procedures regarding determination of tax payable and filing of return by certain sectors of economy. A new enabling section is therefore proposed to be introduced in the Income Tax Ordinance, 2001 which would empower the Federal Government to prescribe special procedures for scope and payment of tax, record keeping, filing of returns and assessment in respect of small businesses, construction business, medical practitioners, hospitals, educational institutions and any other sector specified by the Federal Government.

Approval of Trusts and Welfare Institutions for Claiming 100% Tax Credit

Non-profit organizations, trusts and welfare institutions are allowed hundred percent tax credit subject to fulfillment of certain conditions. NPOs which are recognized by the Commissioner under the law are allowed 100% tax credit. While condition of recognition of NPOs exists, there is no such requirement for trusts and welfare institutions. In order to ensure similar treatment and appraisal, it is proposed that trusts and welfare institutions may also be required to obtain recognition to avail the facility of 100% tax credit.

Obtaining Data of Comparables from Independent Chartered Accountant

Transfer pricing is a common method employed by associated companies to evade income tax by not declaring transactions on their true market value. In order to ascertain the actual market price in such situations, a comprehensive data of comparables is required. As such data is not readily available; it is proposed to empower the commissioner to obtain such data from an independent chartered accountant firm.

Recovery of Tax of AOP from Member of AOP

Under the existing law, tax payable by a member of association of persons can be recovered from the association itself. On the contrary, tax payable by an association of persons cannot be recovered from its member. In order to ensure recovery of tax, it is proposed that where any tax payable by an association of persons, the same may be recovered from any person who is a member of the association.

Separation of Audit and Assessment Functions

It is proposed that the process of completion of audit and issuance of audit report may be separated from assessment of income on the basis of audit. By separating audit and assessment provisions in law, it is intended that functions of audit and assessment shall be performed by separate and independent officers to ensure impartial treatment to the taxpayers.

Business License for Persons Engaged In Business

At present, only taxpayers are required to register with the Board for tax purposes. Persons deriving business income below taxable threshold are not required to register. In order to create a verifiable database, it is proposed that every person deriving business income, even if below the tax threshold, be required to obtain business license from the Board through NADRA's e-sahulat centers. Business license per se would not make the licensee liable to file return.

Thank you