

Highlights On Finance Bill 2010

Highlights on the Finance Bill, 2010

This document summarizes significant changes proposed to be brought to statute vide the Finance Bill, 2010 (Bill) relating to Income Tax, Sales Tax, Customs, Federal Excise Duty and Petroleum Development Levy.

Effective date of applicability of these changes will be July 1, 2010, unless otherwise mentioned.

For ascertaining any effect of these changes in a particular case, the wordings in the Bill should carefully be examined, taking into consideration the applicable laws and regulations, and precise advice should be sought before taking any decision based on, or acting up on any of the contents hereof.

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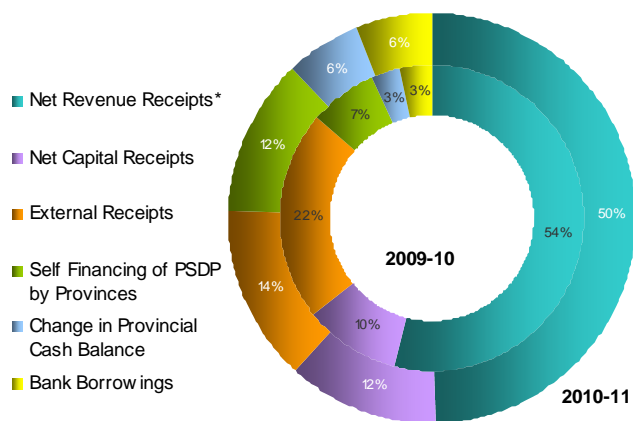
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June 06, 2010

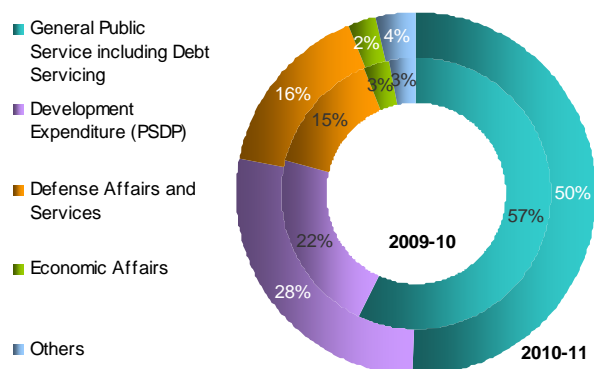
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SECTION I BUDGET AT A GLANCE

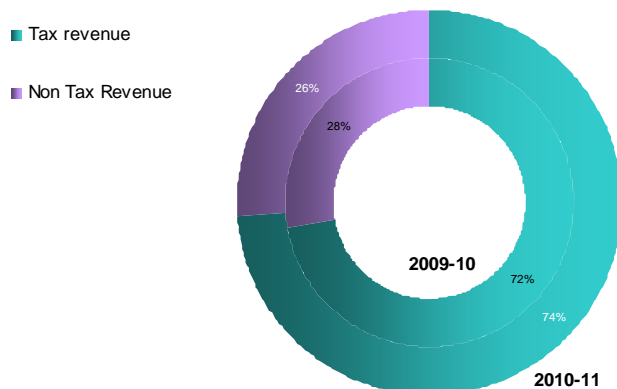
| | 2010-11 | 2009-10 | Change |
|-------------------------------------|-------------------|--------------|------------|
| | Rupees in Billion | | % |
| SOURCES OF FUNDS | | | |
| Net Revenue Receipts | 1,377 | 1,397 | (1.4) |
| Net Capital Receipts | 325 | 260 | (25.0) |
| External Receipts | 387 | 578 | (33.0) |
| Self Financing of PSDP by Provinces | 342 | 184 | 85.9 |
| Change in Provincial Cash Balance | 167 | 78 | 114.1 |
| Bank Borrowings | 166 | 89 | 86.5 |
| Total | 2,764 | 2,586 | 6.9 |



| | 2010-11 | 2009-10 | Change |
|---|-------------------|--------------|------------|
| | Rupees in Billion | | % |
| APPLICATION OF FUNDS | | | |
| General Public Service including Debt Servicing | 1,388 | 1,472 | (5.7) |
| Development Expenditure (PSDP) | 766 | 568 | 34.9 |
| Defense Affairs and Services | 442 | 378 | 16.9 |
| Economic Affairs | 67 | 81 | (17.3) |
| Others | 101 | 87 | 16.1 |
| Total | 2,764 | 2,586 | 6.9 |



| | 2010-11 | 2009-10 | Change |
|---------------------------------|-------------------|--------------|--------------|
| | Rupees in Billion | | % |
| NET REVENUE RECEIPTS | | | |
| Direct Taxes | 1,779 | 1,483 | 19.9 |
| Indirect Taxes | 632 | 569 | 11.1 |
| Gross Revenue Receipts | 2,411 | 2,052 | 17.5 |
| Less: Provincial Share in Taxes | 1,034 | 655 | 57.9 |
| Total | 1,377 | 1,397 | (1.4) |



SECTION 2 OVERVIEW OF THE ECONOMY

After two difficult years, Pakistan's economy has started to stabilize with a modest growth of 4.1 % in the current year as compared to a meager 1.2 % the year before. It is critical that this opportunity to bring the economy back on track is not lost given that the durability of the economic turnaround is not assured due to serious challenges still to be faced by the country. Various sectors of the economy still show signs of weakness and unemployment still looms large.

While the global economy is still not out of the woods resulting in uncertain prospects of demand for Pakistan's exports; internally the country has to deal with energy and water shortage and security situation urgently. In the long term, the economic managers of the country also have to take measures for increasing savings, investments and productivity in the country.

Following is an overview of Pakistan economy during the fiscal year 2009-10:

- Although the GDP grew modestly, total investment remained almost unchanged while the inflation declined significantly.
- Trade Deficit and Current Account Deficit declined substantially and the Foreign Currency Reserves increased to US\$ 15 billion and the value of Rupee stabilized against the US \$.
- Although the country continued to borrow locally and internationally, it was still able to reduce the debt to GDP ratio and Credit Rating of the country was also increased to B- from CCC+.
- The Capital market also indicated economic recovery with KSE – 100 Index increasing by 38 %.

Summary of key performance indicators are as follows:

| Description | 2007-8 Growth % | 2008-09 Growth % | 2009-10 P Growth % |
|--|--------------------|---------------------|-----------------------|
| Gross Domestic Product (GDP) | 3.7 | 1.2 | 4.1 |
| Total Investment | 15.6 | 6.9 | 0.7 |
| Consumer Price Index (CPI) | 12.0 | 20.8 | 11.5 |
| Trade Deficit | 54.2 | -15.7 | -18.3 |
| Current Account Deficit | 104.7 | -33.3 | -65.9 |
| Total Public Debt to GDP Ratio | 58.4 | 57.1 | 55.6 M |
| Foreign Exchange Reserves – US\$ billion | 11.4 | 12.4 | 15.0 A |
| Depreciation in Rupee Value against US\$ | 11.1 | 20.4 | 4.2 M |
| International Credit Rating – S&P | | CCC+ | B- |
| KSE – 100 Index | -10.7 | -41.3 | 38.6 |

P = Provisional; M = March 2010; A = April 2010

GROWTH

- Despite severe challenges, the economy has shown resilience during the year and a decent growth rate is expected as compared to a nominal growth rate last year. Contribution to the overall growth rate by the Services Sector is 59%, by the Industrial Sector is 30% and only 11% is contributed by the Agricultural Sector.
- In terms of composition of GDP Growth Rate, consumption expenditure continued to account for a dominant share in growth, accounting for 96% of GDP growth in the outgoing year, out of which 81% is attributed to private consumption expenditure while 15% is due to general government consumption expenditure. Approximately 4% of the Growth can be attributed to Net Exports while only 1% of Growth can be attributed to investment.
- The reasons for a better growth include sustained aggregate demand in the economy (due to substantial transfers to the rural sector via the crop support price policies and higher worker remittances), larger-than-expected cotton output and improvement in external demand for Pakistan's exports, mainly textiles.

| Description | 2007-8 Growth % | 2008-09 Growth % | 2009-10 P Growth % |
|------------------------------|--------------------|---------------------|-----------------------|
| Gross Domestic Product (GDP) | 3.7 | 1.2 | 4.1 |
| Agriculture | 1.0 | 4.0 | 2.0 |
| Manufacturing | 4.8 | (3.7) | 5.2 |
| Services Sector | 6.0 | 1.6 | 4.6 |

P = Provisional

INVESTMENT & SAVING

- Growth Rate of Total Investment decreased for the second year in a row to a negligible 0.7% in the outgoing year. Gross Fixed Capital Formation (GFCF) is estimated to decline by a nominal 0.6% percentage due to decline in Private Investment during the year. The bulk of decline has occurred in Electricity & Gas, Large Scale Manufacturing, Transport & Communication and Finance & Insurance Sectors. The decline in Private Sector Investment has been almost neutralized by the Public Sector Investment.
- In line with a sharp decline in global flows of Foreign Direct Investment (FDI), the FDI in Pakistan again decreased in the current year. The decline in FDI was mostly in Telecommunications and Financial Services.

| Description | 2007-8 Growth % | 2008-09 Growth % | 2009-10 P Growth % |
|--|--------------------|---------------------|-----------------------|
| Total Investment | 15.6 | 6.9 | 0.7 |
| Fixed Investment | 15.4 | 5.5 | (0.6) |
| Public Investment | 18.6 | 3.9 | 7.2 |
| Private Investment | 15.3 | 5.3 | (3.5) |
| Foreign Direct Investment – US\$ Million | 5,410 | 3,720 | 1,773 A |

P = Provisional

A = April 2010

COMMODITY PRODUCING SECTOR

- Overall the Commodity Producing Sector, after decrease in growth rates for two consecutive years, has shown signs of recovery due to strong growth in the Manufacturing Sector and Construction Sector while the Agricultural Sector has shown nominal growth.
- The Agricultural Sector continues to play a central role in Pakistan's economy, being second largest sector accounting for over 21 % of GDP and the largest employer absorbing 45 % of the country's labour force with 62 % of the total population living in rural areas are directly or indirectly linked with agriculture for their livelihood. The agricultural sector has been suffering from declining growth rate since the last three decades. Productivity remains low with yield gaps rising as compared to other countries. Livestock subsector being the largest contributor to overall agriculture (53.2 %) grew by 4.1 % as against 3.5 % last year.
- Manufacturing is third largest sector of the economy, accounting for 18.5 % of the GDP, 13% of total employment and 16.2 % of fixed investment. Large Scale Manufacturing is the largest sub-sector with 66 % of the sectoral share. Pervasive mis-declaration, under-invoicing of imports and misuse of Afghan Transit Trade (ATT) are continuously hurting the sector, resulting in decline of share of Manufacturing sector in new fixed investments from 23.0 % in 2000 to 16.2 % in the current year. Free Trade Agreement (FTA) with China is also a challenge for the sector given China's global dominance of manufactured products. During the current year, Autos and allied products, electronic goods, pharmaceuticals, leather goods and fertilizers performed better resulting in overall growth in the sector.

| Description | 2007-8 Growth % | 2008-09 Growth % | 2009-10 P Growth % |
|----------------------------|--------------------|---------------------|-----------------------|
| Commodity Producing Sector | 1.3 | 0.8 | 3.6 |
| Agriculture | 1.0 | 4.0 | 2.0 |
| Major Crops | (6.4) | 7.3 | (0.2) |
| Manufacturing | 4.8 | (3.7) | 5.2 |
| Large Scale Manufacturing | 4.0 | (8.2) | 4.4 M |
| Construction | (5.5) | (11.2) | 15.3 |

P = Provisional

A = April 2010

- The Automotive Industry showed recovery in all sub-sectors except light commercial vehicles (LCVs) after recording massive downturn last year. Growth in passenger cars and trucks and busses have shown strong figures however the highest figures of 2008 could not be surpassed which was fuelled by credit.
- The Fertilizer Industry has witnessed positive trend in production of around 4.1 %. Although the subsidy on phosphatic and potassic fertilizers was eliminated by the end of 2008, however the Government initiated new subsidy schemes for potassic fertilizers, imported urea while the indirect subsidy to the sector continues by selling feedstock gas at approximately 50% lower rates. Production capacity of the fertilizer sector is expected to increase with the planned start of commercial production of Fatima Fertilizer, new urea plant of Engro Chemical and Suraj Fertilizer.
- Cement sector performed reasonably well (51% capacity utilization) during the year due to strong local demand as a result of reduction of local cement prices, reduction on other material prices and reduction of FED on cement in the last budget. Cement exports also performed well during the year to Afghanistan, India, Africa and Middle East.
- Sugar Industry also performed at par as compared to last year with production of 3.1 million tons of sugar.
- Although the demand of steel products is around 5-6 mtpy, Pakistan Steel has not been able to arrange import of basic raw materials including iron ores and coal, hence only 43% capacity has been utilized.

SERVICES SECTOR

- Services Sector being the largest sector of the economy contributes more than 60 % of the GDP, showed increased growth rate in the current year after two years of declining growth rate. It accounts for 59 % of overall growth in the economy for the year followed by Industry and Agriculture. The share of Services in the GDP growth has been consistently more than 50% since the last five years with 85% contribution in 2007-08.

| Description | 2007-8 Growth % | 2008-09 Growth % | 2009-10 P Growth % |
|------------------------------------|--------------------|---------------------|-----------------------|
| Services Sector | 6.0 | 1.6 | 4.6 |
| Transport, Storage & Communication | 3.8 | 2.7 | 4.5 |
| Wholesale & Retail Trade | 5.3 | (1.4) | 5.1 |
| Finance & Insurance | 11.1 | (7.0) | (3.6) |
| Public Administration & Defence | 1.2 | 3.6 | 7.5 |

P = Provisional

- NHA completed 23 development projects costing Rs. 41 billion while 30 new projects covering a length of almost 1,000 Km have been launched. NHA has been able to increase the toll revenue by 36% during the year.
- Performance of the Pakistan Railways is continuing to be dismal with passenger traffic decreasing by 7.15 % and freight traffic decreasing by 13.1 % during the year. Railways has not been able to fully repair the railway track destroyed in the riots in December 2007 and availability of locomotives for freight traffic has been constrained due to non procurement of spares as a result of financial constraint.

- The year 2009 was the worst for the airline industry, wherein passenger demand in the world declined by 3.5% while demand for Asian Pacific carriers declined by 5.6%. During the year PIA increased its capacity by 1.7% while its passenger traffic declined by 0.2% and seat factor decreased by 1.3 pp mainly due to weak domestic traffic. During the year, PIA's revenues increased by Rs. 94.6 billion, while its losses were reduced by Rs. 30.3 billion.
- Traffic handled on both the Karachi Port Trust (KPT) and Port Qasim Authority (PQA) showed sustained growth in the total volume of cargo handled. KPT and PQA are developing various projects through private sector through Public Private Partnerships.

CAPITAL MARKETS

- The current year saw a recovery phase in the capital market with the benchmark KSE-100 index rising by 38.6% since the start of the fiscal year, while as compared to the low level attained in Jan 2009 after the floor imposition, the index is up 107%.
- Although the stock market has observed a decent foreign portfolio investment during the year, however volumes traded are low as compared to the period prior to 2008. Corporate profitability of listed companies have also reduced reflecting the impact of a difficult operating environment which includes disturbed law and order situation, balance of payment crises, rupee depreciation, energy crises and inter corporate debt issue in the energy sector. Some of the relevant statistics related to the Karachi Stock Exchange are as follows:

| Description | 2007-8 Growth % | 2008-09 Growth % | 2009-10 P Growth % |
|--------------------------------------|--------------------|---------------------|-----------------------|
| KSE – 100 Index | (10.7) | (41.3) | 38.6 M |
| Aggregate Market Capitalization | 17.0 | (43.0) | 32.8 |
| Paid up Capital | 11.9 | 10.6 | 14.3 M |
| Turnover of Shares | 17.2 | (55.5) | 17.3 M |
| Profit before Taxation – Rs. Billion | 301 | 255 | - |
| New Capital Issued – Rs. Billion | 105.4 | 101.4 | 252.8 |

P = Provisional M = March 2010

INFLATION

- Although Inflation rate has declined significantly as compared to the last year, however inflationary pressure has intensified in the recent months again. Reasons for inflation include increase in commodity prices in the world and the region, increase in energy prices (electricity, petroleum products, gas and CNG), weakening of the Rupee, increase in domestic procurement price of wheat and increase in demand pressure (due to increase in worker remittances & unprecedented government-run commodity procurement program). Various inflations indices over the last three years are as following:
- It is expected that increase in international commodity prices would be interrupted and the collapsing of multiple higher rates of GST (in a range of 16% to 25% on different goods) into a single, lower rate of 15% under VAT would have a disinflationary impact on prices.

| Description | 2007-8 | 2008-09 | 2008-09 July - April | 2009-10 P July – April |
|-----------------------------|--------|---------|-------------------------|---------------------------|
| CPI (Consumer Price Index) | 12.00 | 20.77 | 22.35 | 11.49 |
| Food Inflation | 17.5 | | 26.6 | 12.0 |
| Non-food Inflation | 7.9 | | 19.0 | 11.0 |
| SPI (Sensitive Price Index) | 16.81 | 23.41 | 26.33 | 12.96 |
| WPI (Wholesale Price Index) | 16.64 | 18.19 | 21.44 | 11.26 |

P = Provisional

BALANCE OF PAYMENTS & RESERVES

- The Trade Deficit has improved over the last two years due to fall in import expenditure as a result of decline in international prices and increase in exports. The current account deficit has also decreased substantially over the last two years due to improvement in Trade Deficit, increase in workers' remittances, reduction in repatriation of dividends and interest on debt.

- The foreign currency reserve situation also improved due to lower current account deficit and higher remittances. Improvement in reserves brought relative stability in the exchange rate.
- It is expected that the current account situation would further improve in the future owing to expected decrease in international commodity prices. Some of the relevant statistics related to balance of payments and foreign exchange reserves are as follows:

| Description | 2007-8 Growth % | 2008-09 Growth % | 2009-10 P Growth % |
|--|--------------------|---------------------|-----------------------|
| Current Account Deficit | 104.7 | (33.3) | (65.9) |
| Trade Deficit | 54.2 | (15.7) | (18.3) |
| Exports | 18.2 | (6.4) | 2.1 |
| Imports | 31.2 | (10.3) | (6.3) |
| Workers Remittances | 17.4 | 21.1 | 15.0 |
| Foreign Direct Investment (FDI) | 5,410 | 3,720 | 1,773 A |
| Foreign Exchange Reserves – US\$ billion | 11.4 | 12.4 | 15.0 A |

P = Provisional A = April 2010

PUBLIC DEBT

- Although the Total Public Debt (TPD) of the country has been ever increasing, it is interesting to note that in comparison to last year, the increase in the TPD during the current year has been mostly through domestic sources. A relatively stable exchange rate, appreciation of the dollar against other major currencies and limited access to multilateral and bilateral debt has necessitated the shift in financing mix.
- Despite the persistent increase in the Public Debt, the TPD to GDP ratio has been decreasing slightly due to increase in the GDP. Similarly the ratio of interest payment to the GDP has also decreased.
- Although the Guarantees issued during the year were below the legal upper limit of 2% of the GDP, total outstanding guarantees are Rs. 642.1 billion at April 2010 which is around 4.4% of the GDP.

| Description | 2007-08 % | 2008-09 % | 2009-10 P % |
|--|--------------|--------------|----------------|
| Domestic Currency Debt – Growth | 25.5 | 17.8 | 16.3 M |
| Foreign Currency Debt – Growth | 26.4 | 26.3 | 7.4 M |
| Foreign Currency Debt to Total Public Debt Ratio | 45.2 | 46.9 | 44.9 M |
| Total Public Debt to GDP Ratio | 58.4 | 57.1 | 55.6 M |
| Depreciation in the Value of Rupee against US\$ | 11.1 | 20.4 | 4.2 M |
| Interest Payment as a ratio of GDP | 4.3 | 4.2 | 4.4 P |
| International Credit Rating – S&P | - | CCC+ | B- |
| New Guarantees issued as a percentage of GDP | 1.4 | 2.2 | 1.2 A |

P = Provisional M = March 2010 A = April 2010

ENERGY SECTOR

- Energy sector issues continued to severely constrain the economy in the current year. It is estimated that the cumulative effect of the energy crises on the economy is estimated to be more than 2 percent of GDP during 2009-10.
- Sharp increase in international oil prices in 2009 put upward pressure on the cost structure of power generation and transportation sector. Lower accumulation of water reserves in dams resulted in lower availability of hydel resources for generation, which coupled with a higher than normal shortage of gas, skewed the “fuel mix” of the electricity generation sector towards fuel oil. As a result of change in fuel mix coupled with high fuel prices resulting in substantial increase in the cost of power generation, whereas the electricity tariff was not allowed to increase correspondingly.
- The imbalance between the cost of generation and distribution, and the final tariff, is the root cause of the circular debt issue, which has spread from electricity distribution companies to the electricity generation companies, to the oil marketing companies, to the refineries and finally to the oil exploration & production companies. The net effect is a declining effective utilization of available generation capacity in the system.
- Total Primary Energy supply and per capital energy supply have decreased second year consecutively while consumption of all energy sources increased during the current year due to revival in the macroeconomic activity, excluding electricity whose consumption declined mainly due to circular debt

problem. The Government has taken up Rs. 214 billion (June 2009), Rs. 216 billion (June 2009) and Rs. 120 billion (May 2010) of the circular debt.

| Description | 2007-8 Growth % | 2008-09 Growth % | 2009-10 P Growth % |
|--------------------------------|--------------------|---------------------|-----------------------|
| Total Primary Energy Supply | 3.78 | (0.58) | (0.64) |
| Total Per Capita Energy Supply | 2.86 | (2.27) | (3.09) |
| Oil Consumption | 7.32 | (0.94) | 8.11 M |
| Gas Consumption | 4.36 | (0.45) | 2.98 M |
| Electricity Consumption | 0.95 | (4.13) | (1.73) |
| Coal Consumption | 28.08 | (17.02) | 9.99 M |

- Major consumers of Oil are Power and Transportation Sectors, major consumers of Gas are Household, Industrial, Power and Fertilizer Sectors, major consumers of Power are household, Industrial and Agricultural Sectors while major consumers of Coal are Brick Kiln and Cement sectors.
- Increase in Oil consumption is mainly due to increase in consumption in the Power Sector supported by the Transport Sector. Increase in Gas consumption is due to increase in consumption in almost all the sectors including Household, Commercial and Fertilizer sectors while due to switch over to coal, the cement sector's consumption of Gas decreased more than 70% in the current year. Overview of consumption of Oil, Gas, Power and Coal by different sectors of the country for the current year is provided in the table below.

| Description | Oil % | Natural Gas % | Power % | Coal % |
|---------------------|------------|------------------|------------|------------|
| Household | 0.49 | 19.24 | 45.50 | - |
| Commercial | - | 2.98 | 7.56 | - |
| Industrial | 5.38 | 25.65 | 26.95 | - |
| Transport | 47.21 | 7.42 | - | - |
| Power | 45.00 | 27.60 | - | 1.47 |
| Agricultural | 0.32 | - | 13.22 | - |
| Fertilizer | - | 16.94 | - | - |
| Cement | - | 0.17 | - | 39.59 |
| Brick Kiln | - | - | - | 58.94 |
| Others / Government | 1.60 | - | 6.77 | - |
| Total | 100 | 100 | 100 | 100 |

BANKING & FINANCE SECTOR

- Due to the slightly improved industrial and business activity, banks cautiously restarted lending to the private sector following an easing in classification of bad loans. The trend decline in private sector credit, visible for twelve consecutive months, reversed from October 2009 onwards representing recovery in aggregate demand in the economy as well as increase in private sector participation in commodity finance (particularly for cotton, rice and sugarcane).
- Despite the recovery in some macroeconomic indicators, private sector credit off-take is not growing fast because of high interest rates. However, average lending rate on entire stock on bank loans stood at 13.4 percent in March 2010 as compared to 14.4 percent in March 2009, thus it is still high.
- The net bank credit availed by the government for budgetary support as well as financing its commodity operations amounted to Rs. 286.4 billion during July - April 2010 (out of which Rs. 195.7 billion were from Scheduled Banks), against Rs. 239.5 billion during the same period last year.
- Islamic banking is rapidly transforming into a viable alternate form of financing. The overall deposits of IBIs at the end of December 2009 stood at Rs.282.6 billion and reflected a share of 5.9 % in banks deposits as compared to 1.26 % only in 2004. On the other hand, the total assets of Islamic banks reached to Rs. 366.3 billions and reflected a share of 5.6 % in banking assets till end-December 2009.
- NDA of the banking system registered a decline by 5.1 % during July – April 2010 compared to 7.6 % during the same period last year. The slow pace of NDA of the banking system was due to the contraction in domestic demand.

- Credit to private sector grew by Rs. 82.7 billion during July-March 2009-10, a growth rate of 5.3% as compared to 2.2% in the comparable period of last year.
- Credit to the manufacturing sector increased by 7.7% to Rs. 95 billion during July-March 2009-10. The main contribution to the increase came from the textile sector where Rs. 32.9 billion credit has been provided during the period as compared to only Rs. 1.4 billion over the previous period.
- The gross disbursement to agriculture sector grew by 9.5% and stood at Rs.166.3 billion in July-March 2009-10 as compared with 9.6 % growth in the same period last year.
- Insurance sector's asset base grew by 10.6 % in 2009 to Rs. 377.5 billion as compared to 5.5 % growth in 2008.

TAXATION

- Total Taxation exemptions have increased by 23%, while exemptions related to Income Tax, Sales Tax and Custom Duties have increased by 14%, 56% and 19% respectively. Almost half of the exemptions are in the Custom Duties while 31% relate to the Income Tax and the remaining to the Sales Tax.
- Capital Gains exemptions comprise of 47 % of the Income Tax exemptions, while 43 % exemptions related to Sector and enterprise specific exemptions.
- Key exemptions of Sales Tax are fertilizer (32%), tractors (23 %) and pharmaceutical products (14 %).
- Custom exemptions are mainly given on raw materials and components; plant, machinery and equipment imported by high tech, priority and value added industries; import for energy sector projects; and exemptions to exploration and production companies. Some of these exemptions are due to international contractual obligations.

| Description | Rs. Billion | | |
|---------------|-------------|--------------|--------------|
| | 2007-8 | 2008-09 | 2009-10 |
| Income Tax | 27.6 | 40.8 | 46.5 |
| Sales Tax | 17.6 | 17.5 | 27.4 |
| Custom Duties | 41.4 | 61.3 | 73.2 |
| Total | 86.6 | 119.6 | 147.1 |

TRANSPORT & COMMUNICATION

- NHA completed 23 development projects costing Rs. 41 billion while 30 new projects covering a length of almost 1,000 Km has been launched. NHA has been able to increase the toll revenue by 36% during the year.
- Performance of the Pakistan Railways is continuing to be dismal with passenger traffic decreasing by 7.15 % and freight traffic decreasing by 13.1 % during the year. Railways has not been able to fully repair the railway track destroyed in the riots in December 2007 and availability of locomotives for freight traffic has been constrained due to non procurement of spares as a result of financial constraint.
- The year 2009 was the worst for the airline industry, wherein passenger demand in the world declined by 3.5% while demand for Asian Pacific carriers declined by 5.6%. During the year PIA increased its capacity by 1.7% while its passenger traffic declined by 0.2% and seat factor decreased by 1.3 pp mainly due to weak domestic traffic. During the year, PIA's revenues increased by Rs. 94.6 billion, while its losses were reduced by Rs. 30.3 billion.
- Traffic handled on both the Karachi Port Trust (KPT) and Port Qasim Authority (PQA) showed sustained growth in the total volume of cargo handled in the current year. Average annual growth has been around 13% over the five years. To meet growing requirements for capacity enhancements, PQA is implementing an ambitious development plan which is based on facilitating public private partnerships in port development.
- After many years of high growth rates, the Telecommunication Industry has stabilized and posted a decent 2.43% growth in the last two quarters of 2009 despite a difficult year, while the Teledensity has reached 62.4%. Cellular subsector leads with 94% share of the telecommunication industry.

GENERAL

- The trend of investment on Education in terms of GDP has been 2.47 % and 2.10 % in the years 2007-08 and 2008-09 respectively whereas it is estimated to be 2.05 % during the 2009-10.
- The total outlay on health during 2009-10 is estimated at Rs.79 billion which shows an increase of 7 % over last year and works out to be 0.54 % of GDP.
- Pakistan has a labour force of 53.72 million people that includes 11.81 million of women labour. The total number of people employed stands at 50.79 million with unemployment at 5.45 %.

SECTION 3 SALIENT FEATURES

Income Tax

1. It has been sought to **rationalize the rates of income tax as well as the number of slabs for salaried person**, whereby the **maximum rate of tax shall be 20%**, applicable on income exceeding Rs.4.55 million.
2. The **basic limit of exemption from income tax in respect of both i.e salaried and business individuals** is proposed to be increased to Rs. 300,000 from Rs.200,000 and Rs.100,000 respectively.
3. The filing of wealth statements by the tax payers under FTR cases has been proposed to be made mandatory for tax payers with yearly tax amounting to Rs.35,000..
4. The bill seeks to withdraw **exemption on capital gains** of stocks/ securities by proposing a tax rate of **10% in respect of securities held for six months or less, 7.5% in respect of securities held for more than six months** while excluding the gains on securities held for a period **exceeding 12 months**.
5. As a measure of incentive to a company, a tax credit of 10% for the tax year of its incurrence in respect of BMR costs has been proposed that shall be admissible any time between Tax Year 2011 – 2015.
6. The bill seeks to propose a **uniform tax rate of 25 per cent** on the **taxable income of AOP's as well as small companies** as measure to strengthen the drive for documentation of the economy.
7. The **rate for collection of tax for commercial importers is proposed to be enhanced** from existing 4% to 5% of the value of imports.
8. It has been sought to reduce the rate of **withholding tax to 20%** on payment to **non-residents** from the existing rate of **30%**.
9. It has been sought to provide a **tax credit of 5%** of tax payable to a company in the tax year of its enlistment on any stock exchange in Pakistan.
10. It has been proposed that quarterly advance tax payments to be made **by 25th of the last month** for first three quarters & 15th June of the last quarter as compared to the 15th of every month after the end of quarter previously.
11. The withholding **tax deduction of 10%** on income from **Government Securities** has been proposed to be brought under the purview of **Final Tax**.
12. The bill seeks to include an individual with turnover of Rs.50 M or above in the definition of prescribed persons with a view to align the definition with the applicable minimum tax provisions.
13. It has been proposed to broaden the purview of **banking transactions** by including the **demand drafts, pay orders, telegraphic transfers, transactions exceeding the threshold of Rs.25,000 in a single day** chargeable to withholding tax at the rate of 0.3%.
14. Advance tax at **5% on sale price** has been proposed on **air tickets for domestic travel**.
15. It is proposed to **enhance the Minimum Turnover Tax**, applicable on loss making companies from the existing rate of **0.5 percent to 1 percent**.

Sales Tax & Federal Excise

1. The bill seeks to increase the rate of sales tax from existing 16% to 17%.
2. It has been proposed to levy FED on natural gas & other petroleum gases at the rate of Rs.10 per MMBTU.
3. It has been proposed to levy FED on airconditioners and deepfreezers at the rate of 10%.

SECTION 4 INCOME TAX

1. INDIVIDUALS

[First Schedule Part I Div I]

It has been proposed that the **basic limit of exemption from income tax** in respect of both i.e salaried and non salaried is proposed to be increased to Rs. 300,000 from Rs.200,000 and Rs.100,000 respectively.

It is further sought to enhance the **rates of tax [Annexure-I enclosed]** in respect of high-bracket salaried individuals.

The bill seeks to enhance the income threshold in respect of senior citizens to Rs.1 M from the existing Rs.0.75 M to be eligible for the senior citizen's relief at the 50% of tax liability.

Value of Perquisite

[Section 13]

With reference to a loan facility available to an employee wherein profit/ interest is chargeable at the benchmark rate or the difference between benchmark rate & actual rate, it has been proposed to insert a new proviso wherein the said basis of chargeability shall not apply due to waiver of interest by such employee on his account with the employer.

2. FILING OF RETURNS

Wealth Statement

[Section 116(4)]

It has been suggested that every person (other than company) filing statement under final tax regime (FTR) and having paid tax to the tune of Rs.35,000 or more for the tax year, shall be required to file wealth statement along with its reconciliation.

Method furnishing returns and other documents

[Section 118(3)]

The bill seeks to propose the following timelines for filings of:

| Description | Due date |
|--|--|
| Return of income in case of salaried person through e-portal | On or before 31 st August next following the end of tax year to which return/ annual statement relates; |
| Annual statement of deduction of income tax from salary filed by employer | |
| Statement in respect of a person not required to furnish a return (FTR) | |
| Return of income for any person (other than the company & salaried individual) | On or before 30th September next following the end of tax year to which return relates; |

3. BUSINESS INCOME

Unexplained income or assets

[Section 111]

The bill seeks to propose inclusion of an amount credited/ investment made/ expenditure incurred in the person's income in the year to which such amount relates, if its source is not adequately explained and the non-applicability of the said provision to any amount relating to a period of preceding five tax/ assessment years is sought to be withdrawn.

Minimum Tax

[Section 113]

The application of minimum tax has been proposed for Association of Persons (AOP) and individuals based on the criteria of turnover equating or exceeding Rs.50 M for the Tax Years 2007 & 2009 and onwards respectively.

It has also been suggested that a rate of one (1%) percent shall be chargeable as minimum tax.

Capital Gain on Sales of Securities

[Section 37 & 37(A)]

It has been sought to withdraw exemption available on capital gains (excluding gain applicable on banking companies) from sale of shares of public companies including the vouchers of Pakistan Telecommunication Corporation, Modaraba Certificates or any instrument of redeemable capital.

The exemption on capital gain shall be available if the same are held for a period of more than one year.

Tax credit for investment

[Section 65(B)]

The bill seeks to allow a tax credit to the company equal to ten (10%) of the tax payable in the tax year in which the costs are incurred for investing in the purchase of a plant and machinery for the purposes of balancing, modernization and replacement (BMR) with respect to an industrial undertaking owned by the company and the said credit to be allowed only if said activities are made between July 2010 and June 2015.

1. ADVANCE TAX AND WITHHOLDING TAX

The bill seeks to enhance rate of tax on the taxable income of **small companies from the existing 20% to 25 %**.
[First Schedule Part I Div II]

The rate for collection of **tax at import stage** is proposed to be enhanced from existing **4% to 5%** of the value of imports.
[First Schedule Part II]

It has been sought to reduce the rate of **withholding tax on electricity consumption** from existing 10% to 5% on the amount of bill payable.
[First Schedule Part IV Div IV]

It has been proposed to reduce the rate of **withholding tax to 20% on payment to non-residents** from the existing rate of 30%.
[First Schedule Part III Div II]

The bill seeks to reduce the rate of withholding tax to 10% on **cross word puzzle** on from the existing rate of 20%.
[First Schedule PART III Div VI]

The bill seeks to abolish the existing slab-rates in respect of advance tax deductible on **goods transport vehicle** by proposing a tax **rate of Rs. 1 per kilogram** of laden weight capacity. **[First Schedule PART IV]**

Tax credit for enlistment

[Section 65(C)]

It has been sought to allow a credit of five (5%) of tax payable, to a company opting for enlistment in any registered stock exchange in Pakistan, in the year of enlistment.

Deceased Individual

[Section 87(2A)]

The bill seeks to propose creation of a first charge on the estate of the deceased that shall be applied to settle the liability, by the legal representative, to the extent of the deceased estate.

Estate in bankruptcy

[Section 138(B)]

It is proposed that any tax liability incurred by an estate of the bankrupt person shall be deemed to be a current expenditure in the operations of the estate having preference over other creditors, at the time of settlement.

Advance Tax

[Section 147]

The bill seeks to make certain amendments by bringing the capital gains and the income of association of persons (AOP) under the purview of advance tax while enhancing the exemption limit of income available to individuals to Rs.500,000 from existing Rs.200,000, exceeding which advance tax payments are mandatory.

It is proposed to change the timelines for quarterly advance tax payments in respect of AOPs and Companies shall be as under:

| Quarter | Ending in | Due Date |
|-----------------|-----------|---|
| 1 st | September | On or before 25 th September |
| 2 nd | December | On or before 25 th December |
| 3 rd | March | On or before 25 th March |
| 4 th | June | On or before 15 th June |

It is further suggested that the advance tax in respect of Capital gains shall be payable at the following rates, by the tax payer within 7 days after closure of each quarter:

| Holding period | Rate |
|--|------|
| Securities held for a period of less than 6 months | 2% |
| Security held for a period of more than 6 months & less than 12 months | 1.5% |

Profit on Debt

[Section 151]

The bill seeks to propose that the withholding tax on profit on debt from debt instruments, Government securities including treasury bills and Pakistan Investment Bonds shall be the final tax.

Payment for goods and services

[Section 153]

With a view to keep parity with respect to applicability of minimum tax provisions, an individual having turnover of Rs.50 M or above in the tax year 2009 or in any subsequent tax years has been proposed to be included in the definition of prescribed persons.

Income from property

[Section 155]

The bill seeks to exclude the tax chargeable on property income from the purview of final tax.

Statements

[Section 165]

The bill seeks to propose a changeover by restricting the filing of withholding statements (**including mandatory filings where no tax is deducted**) on quarterly basis as per the following schedule while abolishing the requirements of filing monthly/ annual withholding statements:

| Quarter | Ending in | Due Date |
|-----------------|-----------|---------------------------------------|
| 1 st | September | On or before 20 th October |
| 2 nd | December | On or before 20 th January |
| 3 rd | March | On or before 20 th April |
| 4 th | June | On or before 20 th July |

Records

[Section 174]

The bill seeks to enhance the period to six years, for maintenance of records in the prescribed form, from the existing period of five years, after the end of tax year to which it relates. It is further sought that incase of any pending proceedings (including proceeding for assessment, amended assessment, appeal, revision, reference, petition/ prosecution and any proceedings before alternative Dispute Resolution Committee) before any authority or court, the records to be maintained till final decision of the proceedings.

Audit

[Section 177]

The bill seeks to empower the commissioner to call for, or take into possession, any records/ documents including books of accounts, whether in electronic form or otherwise, for conducting audit of the income tax affairs of the person provided that the commissioner shall not call for records or documents of the tax payer

after expiry of six years from the end of the tax year to which they relate. It is further sought that if a person fails to produce the records required to be maintained for audit under the provisions of this Ordinance, the commissioner shall pass the best judgment assessment as deemed appropriate.

Active Tax Payer List [Section 181(A)]

The bill seeks to propose maintenance of an active tax payers list to be regulated as prescribed by the Board.

Selection for Audit by the Board [Section 214(C)]

It has been proposed that persons or class of persons for audit of income tax affairs shall be selected through computer balloting whether random or parametric, as deemed appropriate by the Board and the audit to be conducted in accordance with the existing provisions under this Ordinance.

Advance tax on transactions in Bank [Section 231AA]

The bill seeks to include banking instruments like demand draft, pay order, telegraphic transfer, on-line transfer, CDR, STDR and RTC if the sum of total payments for such transactions in day exceeds Rs.25,000 under the purview of withholding tax at the rate of 0.3 %, with the exception of the following:

- withdrawals made by the Federal/ Provincial Government;
- withdrawals made by foreign diplomat/ diplomatic mission;
- a person furnishing certificate from commission certifying that the income is exempt in the relevant tax year.

Collection of tax by a stock exchange registered in Pakistan [Section 233A]

The bill seeks to propose a changeover wherein withholding tax deductions on members commission and sale by investor have been excluded from the purview of minimum tax and accordingly adjustable.

Telephone user [Section 236]

With respect to telecommunication sector, it has been proposed to provide legal cover to the advance tax deductions on the sale of units (electronic recharge) already being collected at the time of selling of the units.

Advance tax on purchase of air tickets [Section 236(B)]

It has been proposed to levy advance tax at the rate of 5% on sale of gross amount of domestic air tickets.

4. EXEMPTIONS FROM TOTAL INCOME [Second Schedule Part I]

Exemptions allowed

1. The bill seeks to provide exemption for profit on debt payable to non-resident in respect of foreign loan as is utilized for industrial investment in Pakistan, the agreement for which was concluded on or after 01 Feb,1991 and the same is duly registered with the State Bank of Pakistan. [Clause 72]
2. The bill proposes to allow exemptions for a period of two years ending June 30, 2011 to universities/ other educational institution established under the most/moderate affected areas of Khyber Pakhtunkhwa, FATA and PATA. [Clause 92A]
3. The bill seeks to allow exemption on profits & gains derived by a taxpayer located in the most affected areas of Khyber Pakhtunkhwa, FATA & PATA for a period of two years except manufactures & suppliers of cement, sugar, beverages and cigarettes. [Clause 126F]

Omissions (withdrawals) proposed

1. The bill seeks to withdraw exemption to Investment Corporation of Pakistan (ICP). [Clause102]
2. The bill seeks to withdraw exemption on capital gains from Modaraba certificates any instrument of redeemable capital listed on any stock exchange, share of public company and Pakistan

telecommunication Corporation Vouches issued by the Government of Pakistan upto the tax year of June 30, 2010. **[Clause 110]**

3. It is proposed to withdraw exemption on transfer of capital assets from the existing stock exchange to the newly corporatizes stock exchange. **[Clause 110A]**

5. REDUCTION IN TAX RATES **[Second Schedule Part II]**

Exemption granted

It has been sought to reduce the tax rate to 1% to large distribution houses who fulfils the criteria of a large import houses as mentioned in section 148, for large import houses. **[Clause 24A]**

6. REDUCTION IN TAX LIABILITY **Second Schedule Part III]**

Exemption granted

1. The bill seeks to clarify that reduction in tax liability by 50% for senior citizens would only apply to non-PTR cases. **[Clause 1A]**
2. The bill seeks to raise income limit from Rs.750,000 to Rs.1,000,000/- for 50% reduction in tax liability for senior citizens. **[Clause 1A]**

7. EXEMPTION FROM SPECIFIC PROVISIONS **[Second Schedule Part IV]**

Exemption granted

1. The bill seeks to provide exemption from penal provisions/ default surcharge to business located in most/ moderately affected areas of Khyber Pakhtunkhwa FATA/PATA provided that principal amount of tax due is paid by June 30, 2010. Exemption under sec 235 for commercial & industrial consumers till June 30, 2011 has also been provided in the said area. Exemption of provision of section 154 has also been provided to exporters based in above areas till June 30, 2011. Exemption from provision of section 148 on import of plant and machinery for establishment of business in above mentioned areas has also been provided up to June 30, 2011. However, it has been sought that the above exemptions would not be available to manufacturers of cement, sugar, cigarette and beverages. **[Clause10]**
2. The bill seeks to withdraw exemption from industrial importers of edible oil industry. **[Clause 52]**
3. The bill seeks to exempt income of a foreign expert whose services have been acquired with prior approval of Ministry of Textile Industry. **[Clause 72]**

8. Third Schedule

It is proposed to insert a new clause for allowing 100% depreciation on ramp to be built (not exceeding Rs.250,000) to provide access to persons with disabilities.

9. Fifth Schedule **[Rule 4A]**

The Bill seeks to insert a new rule to allow decommissioning cost with effect from Tax Year 2010 as deduction over the period of ten years or life of the development and production or mining lease whichever is less. Where commercial production has already commenced prior to July 01, 2010, the decommissioning cost shall be allowed from tax year 2010 over a period of 10 years or remaining life of development and production or mining lease, whichever is less. The development cost shall be certified by a Chartered Accountant or a Cost Accountant.

10. Seventh Schedule

[Clause 1(2)]

The Bill seeks to allow a provision for advances and off-balance sheet items at 5% of total advances for Consumers and Small & Medium Enterprises (SME) as defined by the Prudential Regulations issued by State Bank of Pakistan.

11. Transitional Provision

[Clause 8A]

The Bill seeks to insert new clause to provide that where provision for irrecoverable/doubtful advances with respect to tax year 2008 or earlier was not claimed or allowed as admissible deduction, the amount actually written off against such provision for irrecoverable advances shall be allowed as deductions in the tax year of actual write off.

The Bill seek to provide that amount written back in Tax year 2009 or thereafter out of provision for irrecoverable/doubtful advances accounted for in tax year 2008 or earlier shall be excluded in computing total income of such tax year provided that such provision for irrecoverable/doubtful advances was not claimed or allowed as admissible deduction.

The Bill seeks to provide that the provisions of Seventh Schedule shall not apply to assets given or acquired on finance lease by a banking company up to tax year 2008. The income and deduction with respect to these assets shall be dealt with other relevant provision of Ordinance as if Seventh Schedule has not come into force. The un-absorbed depreciation in respect of these assets shall be allowed to be set off against their lease rental income.

SECTION 5 SALES TAX & FEDERAL EXCISE

1. SALES TAX ACT, 1990

Scope of tax **[Section 3]**

The bill seeks to enhance the rate of sales tax to 17% from 16%.

Retention of record and documents for six years. **[Section 24]**

The bill seeks to enhance the period of maintaining records from five to six years or till such time the proceedings including proceedings for assessment, appeal revision, petition and any proceedings before an Alternative Dispute Resolution Committee.

Access to Record, documents, etc. **[Section 25]**

The bill seeks to empower the Commissioner or Officer Inland Revenue authorized by the Commissioner to obtain information and conduct audit once in a year & may also authorize Assistant Commissioner to conduct enquiry/ investigative audit if having reasons to believe of registered person's involvement in tax fraud or tax evasion, through sufficient evidence, despite the fact if the same have already been audited by the Auditor General of Pakistan.

Transactions between Associates **[Section 25AA]**

It has been sought to empower the Commissioner or Officer Inland Revenue to determine transfer price of taxable supplies in respect of transaction between associates for the purpose of ascertaining the fair market value of such supplies in an arm's length transaction.

Delegation of Powers **[Section 32]**

The bill seeks to enhance the scope of empowerment by vesting additional powers to officials as under:

| Officials | Delegating Power to |
|--|---|
| i) Commissioner Inland Revenue | Additional or Deputy Commissioner Inland Revenue can exercise any powers of the Commissioner Inland Revenue |
| ii) Additional Commissioner Inland Revenue | Deputy or Assistant Commissioner Inland Revenue can exercise any powers of an Additional Commissioner Inland Revenue. |
| iii) Deputy Commissioner Inland Revenue | Assistant Commissioner Inland Revenue to exercise any of the power of Deputy Commissioner Inland Revenue |
| iv) Assistant Commissioner Inland Revenue | Officer of Inland Revenue exercise any of the powers of an Assistant Commissioner Inland Revenue |

Appeals **[Section 45B]**

| | Period for filing an appeal / appeal fee | Appellant | Powers | Decision in Appeal |
|--|---|---|---|---|
| Appeal to Commissioner Inland Revenue (Appeals) | Within 30 days of the date of receipt of the order. Accompanied by a fee of Rs. 1,000 | Any person, other than the Sales Tax Department against the order pass by the Officer of Inland Revenue (OIR) | The Commissioner Appeal after hearing both parties pass an order (<u>confirming, varying, altering, setting aside or annulling</u>), as he thinks fit | within 120 days from the date of filing the appeal, may be extended for further 60 days for reasons to be recorded in writing |

Appeals to Appellate Tribunal

[Section 46]

The bill seeks to propose a change where all appeals and proceedings pending before the Customs, Excise and Sales Tax Appellate Tribunal shall be transferred to the Appellate Tribunal under the Income Tax Ordinance 2001.

Service of orders, decisions

[Section 56]

It has been sought that a notice, order or requisition required to be served on a resident individual, shall be deemed to be served if:

- personally served on the individual;
- to representative in the case of an individual under a legal disability or a non-resident individual;
- sent by register post or courier service; or
- to the individual's usual or last known address in Pakistan

Where, business stands discontinued any notice order or requisition required to be served under this Act, on the person discontinuing the business may be served on the person personally or on any individual who was the person's representative at the time of discontinuance.

Sales Tax Notifications (SROs)

| | |
|-------------------------------|--|
| S.R.O. 395(I)/2010 | To amend SRO. 644(I)/2007 dated the 27 th June, 2007 to the effect of enhancing the rate of sales tax from 21% & 18.5% to 22% & 19.5% respectively on various goods. |
| S.R.O. 396(I)/2010 | To amend SRO. 313(I)/2006, dated the 31 th March, 2006, to the effect of enhancing the levy of sales tax from 6% to 7% on import of soya been seed by solvent extraction industries subject to the condition that no refund of input tax shall be admissible: |
| S.R.O. 397(I)/2010 | To amend SRO. 69(I)/2006 dated 28 th January, 2006 to the effect of enhancing the rate of sales tax to 15% from existing 14% of the value of import of rapeseed by solvent extraction industries with effect from 28 th January 2006. |
| S.R.O. 398(I)/2010 | To amend Sales Tax Special Procedure Rules 2007 relating to supply of natural gas to CNG Stations by the gas transmission companies to the effect of enhancing the rate from 25% to 26%. |

FEDERAL EXCISE ACT, 2005

Records

[Section 17]

The Bill seeks to enhance the period of maintaining records from five to six years or till such time the proceedings including proceedings for assessment, appeal revision, petition and any proceedings before an Alternative Dispute Resolution Committee.

Reference to the high court

[Section 34A]

The Bill seeks to insert a new section to file an appeal before High Court by the aggrieved person or commissioner within 90 days from the communication of order of the Appellate Tribunal.

Selection for the audit by the Board

[Section 42B]

The Bill seek to insert a new section to empower Board to select persons or class of persons for audit of records or documents through computer ballot either on random or parametric basis.

Enhancements and fresh levies

The Bill seeks to amend Table 1 of First Schedule to enhance FED on following items:

| Description of goods | Proposed FED | Existing FED |
|--|--|--|
| Cigars, cheroots, cigarillos and cigarettes, of tobacco substitutes | Sixty five per cent of retail price | Sixty Four per cent of retail price |
| Locally produced cigarettes if their retail price exceeds nineteen rupees and fifty paisa per ten cigarettes | Sixty five per cent of the retail price | Sixty Four per cent of the retail price |
| Locally produced cigarettes if their retail price exceeds Ten rupees] per ten cigarettes but does not exceed nineteen rupees and fifty paisa per ten cigarettes | Five rupees and twenty-five paisa per ten cigarettes plus seventy per cent per incremental rupee or part thereof | Four rupees and seventy Five paisas per ten cigarettes plus seventy per cent per incremental rupee or part thereof |
| Locally produced cigarettes if their retail price does not exceed Ten rupees per ten cigarettes | Five rupees and seventy five paisas per ten cigarettes | Four rupees and seventy five paisas per ten cigarettes |
| Cigarettes manufactured by a manufacturer who remains engaged on and after the 10th June, 1994, either directly or through any other arrangement, in the manufacture of any brand of cigarette in non-tariff areas | Sixty five percent of retail price | Sixty Four percent of retail price |
| Natural Gas in gaseous state | Ten rupees per Million British Thermal Units (MMBTu) | Five rupees and nine paisa per Million British Thermal Units (MMBTu) |
| Other petroleum Gases in gaseous state | Ten rupees per Million British Thermal Units (MMBTu) | Five rupees and nine paisa per Million British Thermal Units (MMBTu) |

The Bill seeks to levy FED on the following items:

| Description of goods | Proposed rate of duty |
|----------------------------|-----------------------|
| Filter rods for cigarettes | Re 1 per filter rod |
| Air conditioners | 10% ad valorem |
| Deep Freezers | 10% ad valorem |

SRO 399(i)/2010

Federal Excise Duty paid on flavours and concentrate is allowed for adjustment

SECTION 6 CUSTOMS

1. CUSTOMS ACT, 1969

Definitions

The Bill seeks to omit “Excise and Sales Tax” to re-designate “Customs, Excise and Sales Tax Appellate Tribunal” as “Customs Appellate Tribunal”. **[Section 2 (aaa)]**

The Bill seeks to increase limit for taking cognizance under smuggling related provisions from Rs 50,000 to Rs 150,000. **[Section 2 (s)(ii)]**

Value of imported and exported goods **[Section 25(15)(b)]**

The Bill seeks to replace “export duty” with “regulatory duty” in the valuation formula for determining the value of goods to be exported.

Power to determine the customs value **[Section 25A(3)]**

The Bill seeks to add a new proviso to Section 25A to clarify that the value determined under this section shall be applicable until and unless such value is revised or rescinded by the competent authority.

Review of the value determined **[Section 25D]**

The Bill seeks to substitute Section 25D to clarify that a review application shall be filed before Director General of valuation within thirty days from the date of determination of customs value by Collector of Customs under Section 25A or Director of valuation.

Allowing mutilation or scrapping of certain goods **[Section 27A]**

The Bill seeks to substitute Section 27A to restrict the permission for mutilation or scrapping of certain goods notified by the Board.

False statement, error etc **[Section 32(5)(e)]**

The Bill seeks to add a new proviso to include the “date of detection on post clearance audit” in case of clearance of goods through the Customs Computerized System on self assessment or electronic assessment.

Fiscal Fraud **[Section 32A(1)(c)]**

The Bill seeks to insert “payment of revenue through self assessment” to curb the tendency of deliberate wrong self assessment on the part of importers.

Declaration and assessment for home consumption or warehousing **[Section 79(1)]**

The Bill seeks to substitute first proviso of section 79(1) to restrict the facility of filing declaration after examining the goods by owner to only in case of used goods against permission to such examination granted by an officer of custom not below the rank of an Additional Collector.

Provisional determination of liability

[Section 81(2)(i)]

The Bill proposes to reduce the time of finalization of provisional assessment from six to three months.

It is further proposed that a new proviso shall be inserted to exclude the period during which proceedings are adjourned on account of stay order or for want of clarification from the Board or time taken through adjournment by the importer from the time period fixed for finalization of provisional assessment.

Provisional determination of liability

[Section 81(5)]

The Bill proposes to insert new clause to issue an order by an appropriate officer for adjustment, refund or recovery of amount secured.

Punishment for offences

[Section 156(1)]

Serial No 1, Column 2

The Bill proposes to enhance the amount of general penalty from Rs 25,000 to Rs 50,000.

Serial No 64, Column 2

The Bill seeks to enhance the of amount of penalty form an amount not exceeding Rs 25,000 to not less than twice of the value of offending goods besides the confiscation of goods for violation of section 128 and 129 of The Customs Act, 1969.

Appeals to the Appellate Tribunal

[Section 194A(1)]

The Bill proposes to insert new clause to file an appeal before Special Bench of Appellate Tribunal consisting of one technical member and one judicial member against a review order passed by the Director General Customs valuation under Section 25D.

2. CUSTOMS NOTIFICATIONS

Following is the summary of proposed amendments:

Enhancement and fresh levies

[SRO 392(I)2010]

Custom duty has been levied/ enhanced on the following items imported by the manufacturers:

| PCT Code | Description | Proposed Custom Duty | Existing Custom Duty | Manufacturers |
|-----------|--|----------------------|----------------------|------------------|
| 7210.3090 | Electro galvanized Steel Sheets in Coil form | 5% | 0% | Washing machines |
| 7411.1090 | Copper Tubes in Coils | 5% | 0% | Evaporators |
| 7608.2000 | Aluminum Tubes in Coils | 5% | 0% | Evaporators |

Withdrawals, exemptions & reductions

Custom duty on import of crude palm oil is proposed to be reduced from Rs 9,000/MT to Rs 8,000/MT.

Following imported items has been proposed for exemption:

| PCT | Description | Proposed Custom Duty | Existing Custom Duty |
|-----------|---|----------------------|----------------------|
| 0102.9010 | Buffaloes | 0% | 5% |
| 0102.9020 | Bulls | 0% | 5% |
| 0102.9030 | Oxen | 0% | 5% |
| 0102.9090 | Other(Pure breeding animals) | 0% | 5% |
| 5004.0000 | Silk yarn (other than yarn spun from silk waste) not put up for retail sale | 0% | 5% |
| 8702.9020 | Fully dedicated CNG buses (CBU) | 0% | 15% |
| 8702.9030 | Fully dedicated LPG buses (CBU) | 0% | 15% |
| 3701.1000 | Photographic plates & films for X-ray | 0% | 5% |

Reduction of custom duty on the following pharmaceutical ingredient & drugs to 5% from existing 10%:
[SRO 391(I)2010]

- Protacine (Proglumet, Dimaleate) (PCT 2933.5990)
- Celecoxib (PCT 2935.0090)
- Sodium Casinate (PCT 3501.9000)
- Activated Glucuronate (PCT 3824.9099)
- Tasigna (Nilotinib)

Custom duty on raw materials, sub-components, components, sub-assemblies, assemblies of the following is reduced:
[SRO 392(I)2010]

| PCT Code | Description | Proposed Custom Duty | Existing Custom Duty | Manufacturer |
|-----------|---|----------------------|----------------------|------------------------|
| 3823.1990 | Coconut Acid Oil | 10% ad val | 15% | Laundry Soap |
| 8541.1000 | Diode | 0% | 5% | Energy Saver Lamps |
| 8541.2900 | Resister | 0% | 5% | |
| 8533.1000 | Torridal | 0% | 5% | |
| 8505.1900 | Ferrite Core with Bobbin | 0% | 5% | |
| 7209.1810 | Tin Mill Black Plate (of secondary quality) | 15% ad val | 20% | Electrolytic Tin Plate |
| 2833.1100 | Sodium Sulphate | 10% ad val | 15% | Glass & Detergent |
| 8208.9090 | Shavings/Fleshing/Splitting Blades | 15% ad val | 15% | Leather & Tanning |
| 3212.1000 | Stamping Foil | 0% | 20% | |

The raw material of glass manufacturing, leather and tanning industry and Detergent Industry has been exempted from custom duty.

Custom Duty on crude oil imported from Malaysia has been reduced to Rs. 6,800/MT from Rs. 7,650/MT.
[SRO 393(I)2010]

Custom duty on the import of plant, machinery, equipment & apparatus including capital goods has been reduced/exempted in respect of following:
[SRO 394 (I)2010]

| PCT Code | Description | Proposed Custom Duty | Existing Custom Duty | Condition Precedent |
|-----------|--|----------------------|----------------------|--|
| 8437.8000 | Rice whitener, rice polisher, rice flow meter and magnetic separator | 0% | 5% | Nil |
| 8421.3990 | Milk Filters | 0% | 25% | Nil |
| 8413.1100 | LPG Dispensers imported by a Company having LPG license | 5% | 10% | Only approved models or brands as approved by OGRA and notified by FBR shall be entitled to this exemptions. The importer shall also furnish quality certificate of the original manufacturer duly witnessed by the designated third party inspector as notified by the authorized government agency regarding safety standards as laid down in LPG (Production & Distribution Rules,2001) |
| 8705.9000 | Road sweeping lorries | 5% | 30% | Nil |
| 8504.4020 | Solar Chargers for charging electronic devices | 5% | 10% | Nil |
| 8413.8190 | Wind water pump | 5% | 20% | Nil |

Other measures

It is proposed to rationalize duty on various PCTs of glucose, shoe adhesives, ceramic colours and screening plant to avoid mis-declarations:

| Item | PCT | Description | Proposed Custom Duty | Existing Custom Duty |
|-----------------|-----------|---|----------------------|----------------------|
| Glucose | 1702.3000 | Glucose and glucose syrup, not containing fructose or containing in the dry state less than 20 % by weight of fructose | 20% | 25% |
| | 1702.4000 | Glucose and glucose syrup, containing in the dry state at least 20 % but less than 50 % by weight of fructose, excluding invert sugar | 20% | 15% |
| | 1702.6000 | Other fructose and fructose syrup, containing in the dry state more than 50 % by weight of fructose, excluding invert sugar | 20% | 15% |
| Adhesives | 3506.9110 | Shoe adhesives | 15% | 10% |
| | 3506.9190 | Other | 15% | 20% |
| Ceramic Colours | 3207.1020 | Ceramic Colours | 5% | 0% |
| | 3207.1090 | Other | 5% | 10% |
| Screening Plant | 8474.1020 | Screening Plant | 5% | 15% |
| | 8474.2090 | Other | 5% | 5% |

SECTION 7 PETROLEUM PRODUCTS (SURCHARGE)

ORDINANCE 196 I

The Bill seeks to propose that every company and licensee shall pay the petroleum levy on rates specified in Fifth Schedule on such petroleum products, produced by a refinery or purchased by a company for resale. **[Section 3 (1)]**

The Bill seeks to insert a new proviso to clarify that every company and licensee shall pay the petroleum levy in such manner as may be prescribed by the Federal Government. **[Section 3 (1)]**

Validation

[Section 9]

The Bill seeks to insert a new section to clarify that petroleum levy levied and collected from a company during the period from March 01, 2010 to June 30, 2010 shall be deemed to have been validly and lawfully levied and collected and shall not be refunded and it is proposed that Petroleum Levy not been paid, collected or realized during period as referred above shall be recoverable.

The Fifth Schedule

The Bill seeks to substitute The Fifth Schedule with the following rates of Petroleum Levy:

| Petroleum Products | Petroleum Levy Rate (Rs per Liter) |
|------------------------------|---|
| High Speed Diesel Oil (HSDO) | 8 |
| Motor Gasoline 87 ROM | 10 |
| SKO | 6 |
| Light Diesel Oil (LDO) | 3 |
| HOBC | 14 |
| E-10 Gasoline | 6 |

| | | |
|--------------|---------------------|--|
| ANN-I | RATES OF TAX | [First Schedule & Corresponding Sections] |
|--------------|---------------------|--|

INDIVIDUALS (Salaried and Non-salaried)

[First Schedule Part I Div I]

| Salaried individuals | | | Non-salaried individuals | | |
|--------------------------------|-----------------|--------------------|--------------------------------|-----------------|--------------------|
| <i>Taxable Income (Rupees)</i> | | <i>Rate of Tax</i> | <i>Taxable Income (Rupees)</i> | | <i>Rate of Tax</i> |
| From | To | | From | To | |
| | Up to 300,000 | 0% | | Up to 300,000 | 0% |
| 300,001 | 350,000 | 0.75% | 300,001 | 400,000 | 7.50% |
| 350,001 | 400,000 | 1.50% | 400,001 | 500,000 | 10.00% |
| 400,001 | 450,000 | 2.50% | 500,001 | 600,000 | 12.50% |
| 450,001 | 550,000 | 3.50% | 600,001 | 800,000 | 15.00% |
| 550,001 | 650,000 | 4.50% | 800,001 | 1,000,000 | 17.50% |
| 650,001 | 750,000 | 6.00% | 1,000,001 | 1,300,000 | 21.00% |
| 750,001 | 900,000 | 7.50% | | Above 1,300,000 | 25.00% |
| 900,001 | 1,050,000 | 9.00% | | | |
| 1,050,001 | 1,200,000 | 10.00% | | | |
| 1,200,001 | 1,450,000 | 11.00% | | | |
| 1,450,001 | 1,700,000 | 12.50% | | | |
| 1,700,001 | 1,950,000 | 14.00% | | | |
| 1,950,001 | 2,250,000 | 15.00% | | | |
| 2,250,001 | 2,850,000 | 16.00% | | | |
| 2,850,001 | 3,550,000 | 17.50% | | | |
| 3,550,001 | 4,550,000 | 18.50% | | | |
| | Above 4,550,000 | 20.00% | | | |

Treatment of marginal limits

| Taxable Income (Rupees) | Total Tax Liability | |
|-------------------------|--|--------------------------------------|
| | Tax Liability on the Maximum Amount of the Previous Slab | Tax Liability on the Marginal Amount |
| Up to 0.55 M | | 20% |
| Up to 1.05 M | | 30% |
| Up to 2.25 M | As per Respective Slab Rates | 40% |
| Up to 4.55 M | | 50% |
| Above 4.55 M | | 60% |

Capital Gain

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|------|------|-------|------|-------|-------|
| Where holding period of a security is less than six months. | 10% | 10% | 12.5% | 15% | 17.5% | 17.5% |
| Where holding period of a security is more than six months but less than twelve months. | 7.5% | 8% | 8.5% | 9% | 9.5% | 10% |

| ANN-II | APPLICABLE RATES FOR WITHHOLDING/ ADVANCE/ FINAL INCOME TAX | [First Schedule & Corresponding Sections] | |
|--|---|---|---|
| | Nature of Payment | Tax Rate | |
| | | Advance/ Final/ Minimum Tax | |
| Cases of residents & permanent establishment of non-residents | Dividend paid to: - Companies under group relief scheme - Power Companies (dividends distributed by power generation companies & purchaser of power projects privatised by Wapda) - Other cases | Exempt 7.50% 10% | Final Tax (except for the fact that Advance tax in the case of companies) |
| | Imports (General) Import of Raw Material by Industrial undertaking for its own use. [C1. (9A), Part II, Second Schedule] Import of all fiber, yarns and fabrics and goods covered by the Zero Rating regime of Sale Tax – [C1. (9), Part II, Second Schedule] | 5% 3% 1% | Final Tax (except- Adv.Tax in the case of) - An industrial undertaking importing goods as Raw material or plant & machinery for own use; - fertilizer imported by the manufacturer of fertilizer - import of motor vehicles in CBU condition by the manufacturer of motor vehicles |
| | Import of potassic fertilizer [C1. (13E) & Urea Fertilizer [C1. (23), Part - II of 2nd Schedule & items mentioned in Cl. (13G), Part II of 2nd Schedule | | Minimum Tax (In case of Import of edible oil packing material) |
| | Profit on debt paid to: - Individuals - Companies and AOPs | 10% | Final Tax (except for the fact that Advance Tax for Companies) |
| | Profit on debt from Debt instruments, Government securities including Treasury Bills and Pakistan Investment Bonds | 10% | Final Tax |
| | Payments for goods other than imported goods in case of: - sale of rice, cotton seed, edible oil, - sale of any other goods (general) - Rice sold by Rice Exporters Association of Pakistan to Utility Stores Corporation. - Sale by distributors of cigarettes and pharmaceutical products | 1.50% 3.50% 1.00% | Final Tax (except - Adv.Tax in case of listed companies and companies engaged in manufacturing) Final Tax |
| | Payments for services - Transports Services - All others (except advertisement services by owner of Newspaper & magazines.) | 2% 6% | Minimum Tax |
| | Payment on account of execution of contract | 6% | Final Tax(except-Adv.Tax in case of listed companies) |
| | Exporter/ Export House - Services rendered for stitching, dyeing, printing, embroidery, washing & weaving | 0.50% | Final Tax |
| | Exports - exporter of goods on realization of proceeds on export of goods [Exemption to cooking oil or vegetable ghee exported to Afghanistan if tax u/s 148 is paid.] | 1% | Final Tax |
| | Indenting commission On realization of proceeds on account of commission to:- - non-export indenting agent | 5% | |
| | - Export indenting agent /export buying house. - an exporter on sale of goods under inland back to back LC or any other arrangement as may be prescribed by FBR. | 1% | Final Tax |
| | Export of goods located in EPZ Payment for a firm contract (direct exporter or export registered under DTRE rules 2001) | | |
| | Rental of property income | various as per slabs | Advance Tax |
| | Purchase of Air Domestic Tickets | 5% | Advance Tax |

| ANN-II | APPLICABLE RATES FOR WITHHOLDING/ ADVANCE/ FINAL INCOME TAX | [First Schedule & Corresponding Sections] |
|-------------------------------|--|---|
| | Nature of Payment | Tax Rate |
| | Advance/ Final/ Minimum Tax | |
| | Prizes and winnings: - Prize on prize bonds and cross-word puzzle | 10% |
| | - Winnings from a raffle, lottery, prize on winning a quiz or prizes related to companies' sales promotion schemes | 20% |
| | Petrol Pump Operators | 10% on Commission |
| | Withdrawal of balance under pension fund - Withdrawal before retirement age - Withdrawal, if in excess of 25% of accumulated balance at or after the retirement age. | Avg. rate of tax of last 3 preceding year or rate applicable for the year, whichever is lower |
| | Cash withdrawals/ transactions with bank cash withdrawals/ transactions if exceeds Rs. 25,000/- a day. | 0.3% of the amount |
| | Tax on purchase of locally manufactured Motor Vehicles - Except (Federal Govt, Provincial Govt, Local Govt, Foreign Diplomatic Mission in Pakistan, a person having exemption certificate from CIT) | Various rates based on engine capacity |
| | Tax on motor vehicle (to be collected with motor vehicle tax) | Various rates |
| | Brokerage and commission - General (including resident agent) | 10% |
| | - In case of advertising agent | 5% |
| | Collection of tax by stock brokers - on purchase/sale of shares in lieu of the commission earned by its members. | 0.01% |
| | - from its members in respect of trading of shares | 10% |
| | - from its members in respect of financing of carryover trade in shares business | 10% |
| | CNG Station - on the amount of gas bill of a CNG station | 4% |
| | Tax on electricity Bills | Various rates |
| | Telephone Bills - General | Bill upto Rs.1,000 is exempt & Bill exceeding Rs.1,000, taxable @ 10% |
| | - Mobile phone Bills and prepaid telephone cards | 10% |
| | Sale by auction (goods/ property) | 5% |
| Cases of non-residents | Payment for profit on debt to a nonresident having no PE in Pakistan. | 10% |
| | Any other receipt | 20% of the gross amount or reduce rate under DTA |
| | Dividends (including repatriation of profits by branches) | 10% |
| | Contracts | 6% |
| | Royalties/Fee for Technical Services to non-residents other than their PEs in Pak | 15% of the gross amount or reduced rate under DTA |
| | Shipping income of non-residents | 8% |
| | Air transport income of non-residents | 3% |
| | Insurance - Any payment of insurance premium or re-insurance premium of a non-resident | 5% |
| | Payments to non-resident media persons | 10% |

| | |
|---------------------|---------------------------------------|
| ANNEXURE III | PENALTIES UNDER THE INCOME TAX |
|---------------------|---------------------------------------|

| Contraventions & Offences | | Penalties | | | | |
|--|---|--|---|-----|---|--|
| Description | Sec | Existing | | Sec | Proposed | |
| Where any person fails to furnish a return of income or a statement as required under Sec. 115 or wealth statement or wealth reconciliation statement. | 114, 115, 116 & | 1/10 th of 1% of tax payable each day of default subject to minimum of Rs.500/- and maximum of 25% of tax payable of that year | | 182 | 0.1% of tax payable each day of default subject to minimum of Rs. 5,000/- and a maximum of 25% of tax payable of that year | |
| Where any person fails to furnish statement under section 165 within the due date. | 165 | | | | | Penalty of Rs. 2000/- and Rs. 200/- for each day of default |
| Any person who fails to deposit the amount of tax due or any part thereof in the time or manner laid down under this Ordinance or rules made there-under | 137 | 5% of the amount of tax on first default, 25% additional on second default, 25% additional on second default, & 50% additional on 4 th & subsequent default | | 183 | 5% of the amount of tax on first default, 25% additional on second default & 50% additional on 3 rd default & subsequent default | |
| Where a person has concealed income or furnished inaccurate particulars of income, including but not limited to the suppression of any income or amount chargeable to tax, further to add that claiming of any deduction for any expenditure not actually incurred or any act referred to in sub-sec.(1) of sec. 111 in the course of any proceeding before the Income Tax Authorities or Appellate Tribunal | 20, 111 & Gen. | Penalty equal to the amount of tax sought to be evaded through concealment of income or furnishing inaccurate particulars of income. | | 184 | Higher of Rs. 25,000/ or the amount of tax evaded. No penalty shall be payable on mere disallowance of exemption from tax or amount declared by a person mere disallowance any expenditure declared to be deductible unless proved the person claim it knowingly it is wrong | |
| Any person who fails to maintain records required under this Ordinance or the rules made there-under | 174 | 1 st failure | Rs.2,000/- | 185 | Higher of Rs. 10,000/- or 5% of the amount of Tax Involved | |
| | | 2 nd failure | Rs.5,000/- | | | |
| | | Subsequent | Rs.10,000/- | | | |
| If a person fails to furnish the information required or to comply with any other term of the notice | 176 | 1 st failure | Rs.2,000/- | 186 | 1 st failure | Rs.5,000/- |
| | | 2 nd failure | Rs.5,000/- | | Subsequent | Rs.10,000/- |
| | | Subsequent | Rs.10,000/- | | | |
| Any person who | Makes false, misleading statements either in writing or orally or electronically to an Inland Revenue Authority including statement, certificate, declaration, notification, return, objection or including books of account made, prepared, given filed or furnished under this Ordinance; | 114, 115, 116, 174, 176 | 200% of the short fall of tax in case of willful misstatement, otherwise 25% of short fall of tax | | 187 | Higher of Rs. 25,000/- or 100% of the amount of tax shortfall except in the case of an assessment order u/s. 120 no penalty shall be imposed to the extent of shortfall occurring before providing an opportunity of being heard to the taxpayer |
| | Furnished or files a false or misleading information or document or statement to an Income Tax Authorities either in writing or orally or electronically; | | | | | |
| | Omits from a statement made or information furnished to an Income Tax Authority any matter or thing without which the statement or the information is false or misleading in a material particular | | | | | |

| ANNEXURE III | | PENALTIES UNDER THE INCOME TAX | | |
|--|--|--|------------|--|
| Contraventions & Offences | | Penalties | | |
| Description | Sec | Existing | Sec | Proposed |
| Any person who obstruct any Income Tax Authorities in the performance of his official duties | | | 189 | Rs. 25,000/- |
| Any person who | fails to issue cash memo or invoice or receipt when required under this Ordinance or the rules made there under | 174 Ch. VII | | Higher of Rs. 5,000 or 3% of the amount of Tax involved |
| | repeats erroneous calculation in the return for more than one year whereby amount of tax less than the actual tax payable under this Ordinance is paid | 137 | | |
| | Contravenes any of the provision of this Ordinance for which no penalty has specifically, been provided in this section | Gen | | |
| If a person fails to | apply for registration under this Ordinance but fails to make an application for registration | 181 | | Rs. 5000/- |
| | Notify the changes of material nature in the particulars of registration | | | |
| Any person who denies or obstructs the access of the Commissioner or any officer authorized by the Commissioner to the premises, place, accounts, documents, computers or stocks | 175 & 177 | Punishable with a fine or imprisonment for a term not exceeding one year (Sec.196) | | Higher of Rs. 25,000/- or 100% of the amount of tax involved |
| If a person fails to produce record or document on receipt of notice | 177 | | | First notice Rs. 5000/-, Second notice Rs. 10,000/-, Third notice Rs. 50,000/- |
| Any person who fails to collect / deduct tax or pay the tax so collected / deducted under any provision | 148- 160, 231A - 236A | | | Higher of Rs. 25,000/- or 10% of the amount of tax |

| ANNEXURE IV | | PENALTIES UNDER THE SALES TAX | | | |
|--------------|--|--|--|---|--|
| Sec | Contravention or Offence | | Penalty | Relaxation/ Exception | |
| 26 | Failure to | Furnish a return within the due date | Rs. 5,000 | If return is filed after 15 days of the due date, penalty of Rs. 100/ day of default | |
| 23 | | Issue an invoice when required under this Act. | Higher of Rs. 5,000 or 3% of the amount of tax | None | |
| 73 | | Make payment in the manner prescribed under section 73 of the Act | | | |
| 71 & Gen | | Fulfill any of the conditions, limitations or restrictions prescribed in a Notification issued under any of the provisions of this Act | | | |
| Gen | Contravention of any of the provision of the Act for which no penalty has specifically been provided under section 33 of the Act | | | | |
| 3, 7 & 23 | Un-authorized issues an invoice in which an amount of tax is specified | | Higher of Rs. 10,000 or 5% of the amount of tax | None | |
| 14 | Failure to notify the changes of material nature in the particulars of registration of taxable activity. | | Rs. 5,000 | None | |
| 3, 6, 7 & 48 | Failure to deposit the amount of tax due or any part thereof in the time or manner laid down under the Act or rules or orders made there-under. | Payment made within 15 days from the due date | Rs. 500/ day of default | None | |
| | | Payment made within 60 days of payment notice | Higher of Rs. 10,000 or 5% of the amount tax | None | |
| | | Tax due remains unpaid even after the expiry of 60 days of issuance of payment notice | Further exposure for imprisonment for a term up to 3 years or with fine up to the amount of tax involved or with both | Further exposure is subject to conviction by a Special Judge | |
| 7 | Erroneous calculation in the return, due to which amount of tax less than the actual tax due is paid | First event during a year | No penalty | - N/A - | |
| 7 & 26 | | Repetition of error | Higher of Rs. 5,000 or 3% of the amount of tax | | |
| 14 | Failure to | Apply for registration when it was required | Before making taxable supplies | Higher of Rs. 10,000 or 5% of the amount tax | Further exposure is subject to conviction by a Special Judge |
| | | | Within sixty days of the commencement of taxable activity | Further exposure for imprisonment for a term up to 3 years or with fine up to the amount of tax involved or with both | |
| 22 & 24 | | Maintain records required under the Act or the rules made there-under | Higher of Rs. 10,000 or 5% of the amount tax | None | |
| 25 | Failure to produce records without any reasonable cause | On receipt of 1 st notice | Rs. 5,000 | None | |
| | | On receipt of 2 nd notice | Rs. 10,000 | | |
| | | On receipt of 3 rd notice | Rs. 50,000 | | |
| 26 | Failure to furnish information required by the Board through a notification under section 26(5) | | Rs. 10,000 | | |
| 2(37) & Gen | Submission of a false or forged document to any officer of sales tax | | Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 5 years or with fine up to the amount of tax involved or with both | Further exposure is subject to conviction by a Special Judge | |
| | Destruction, alteration, mutilation or falsification of records including a sales tax invoice | | | | |
| | Intentional making of false statement/ declaration/ representation/ personification or gives any false information or issuing or using a document which is forged or false | | | | |

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| ANNEXURE IV | PENALTIES UNDER THE SALES TAX |
|--------------------|--------------------------------------|

| Sec | Contravention or Offence | Penalty | Relaxation/ Exception |
|---|--|--|--|
| 25, 38 & 38A | Denial/ obstruction in the access to the business premises, registered office or to any other place where records are kept | Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 3 years or with fine up to the amount of tax involved or with both | Further exposure is subject to conviction by a Special Judge |
| | Refusal of access to the stocks, accounts or records or fails to present the same when required under section 25, 38 or 38A | | |
| 2(37) | Committing, causing or attempting to commit tax fraud, or abetting or conniving in commissioning of tax fraud | Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 5 years or with fine up to the amount of tax involved or with both | Further exposure is subject to conviction by a Special Judge |
| 48 | Violation of any embargo placed on removal of goods in connection with recovery of tax | Higher of Rs. 25,000 or 10% of the amount of tax PLUS further exposure for imprisonment for a term up to 1 year or with fine up to the amount of tax involved or with both | Further exposure is subject to conviction by a Special Judge |
| 31 & Gen | Obstructing the authorized officer in the performance of his official duties | Higher of Rs. 25,000 or 100% of the amount of tax | None |
| Gen | Authorized officer of Sales Tax, who acts/ omits/ attempts to act/ omit in a manner causing loss to the sales tax revenue or otherwise abets or connives in any such act | Exposure for imprisonment for a term up to 3 years or with fine up to the amount of tax involved or with both | Exposure is subject to conviction by a Special Judge |
| Gen | Repetition of an offence for which a penalty is provided under the Act | Twice the amount of related penalty | None |
| 50A | Intentional | Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 1 year or with fine up to the amount of tax involved or with both | Further exposure is subject to conviction by a Special Judge |
| | access or attempt to gain access to the computerized system without lawful authority | | |
| | and dishonest damage or impairment of the computerized system | | |
| | and dishonest damage or impairment to any duplicate tape/ disc/ other medium on which any information obtained from the computerized system is kept or stored | | |
| | Unauthorized | | |
| | use or disclosure or publish or otherwise dissemination of information obtained from the computerized system | | |
| use of unique user identifier of any other registered user to authenticate a transmission of information to the computerized system | | | |
| | Falsification of any record or information stored in the computerized system | | |
| | Failure to comply with or contravention of any of the conditions prescribed for security of unique user identifier | | |



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