

Highlights on the Finance Supplementary (Amendment) Bill, 2018

September, 2018

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This document summarizes significant changes proposed to be brought to statute vide the Finance Supplementary (Amendment) Bill, 2018 (the Bill) relating to Income Tax, Sales Tax, Federal Excise Duty and Customs.

Effective date of applicability of these changes will be July 1, 2018, unless otherwise mentioned.

Nothing contained in this document shall be construed as our advice in general or on a given case, accordingly, for ascertaining any effect of these changes in general or particular, 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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September 18, 2018

SECTION I PROPOSAL SNAPSHOT

Income Tax

Relief measures

1. Cases of late filing of returns automatically selected for audits where cases were already selected for audit may avail an immunity from audit by paying 25% more tax or, where no tax was payable, pay 2% of turnover, or for no turnover cases, by paying late filing penalty by December 31, 2018;
2. Restriction imposed on non-filers for purchasing motor vehicles and immoveable property (valuing above Rs. 5 Million) to be lifted;
3. Income derived by Dams Fund to be exempt from tax, minimum tax and collection of withholding taxes;
4. Reliefs and concessions on contribution to Dams Fund:
 - (i) Contributions to be considered as deduction from taxable income for computation of tax payable;
 - (ii) Immunity from section 111 regarding unexplained income and assets;
 - (iii) No advance tax collection under section 236P on banking transactions (other than cash withdrawal) by non-filers for contributions to Fund.

Revenue measures

1. Increase in tax rates for individuals in higher income brackets;
2. Effective from the date of enactment of supplementary amendment Act, the earlier rate of 0.6% to be made applicable instead of prevailing rate of 0.4% on banking transactions other than cash withdrawals by non-filers.

Other measure

No more tax exemptions on various allowances and perquisites of Provincial Governors and Federal Ministers.

Sales Tax & Federal Excise

Sales Tax

Relief Measures

1. Imports and supplies of various items for healthcare to be exempt from sales tax in the following categories:
 - (i) Angioplasty products;
 - (ii) Angiography products;
 - (iii) Cardiac electrophysiology products;
 - (iv) Cardiac surgery products; and
 - (v) Peripheral interventions equipment & other equipment.
2. Exemption on import of parts and components for LED Bulbs and local supply of LED or SMD lights and bulbs.

Federal Excise Duty

Revenue Measure

Increase in FED on cigarettes and subjecting un-manufactured tobacco to FED.

Customs

Relief Measures

1. Reduction in the rate of duty through a newly inserted Table C in Part VII to Fifth Schedule on various chemicals and industrial raw materials;
2. Exemption of custom duty in respect of import of parts and components for manufacture of LED Bulbs.

SECTION 2 INCOME TAX

1. INDIVIDUALS & ASSOCIATION OF PERSONS (AOPs) [Division I Part I of First Schedule]

Rate of tax for salaried individuals

It has been sought to enact the following rates for taxation of salaried individuals:

Taxable Income (Rs.)				Rate of Tax
From	To			
Up to 400,000				0%
400,001	800,000	1,000		
800,001	1,200,000	2,000		
1,200,001*	2,500,000	Rupees	NIL	5% of the amount exceeding Rs. 1,200,000
2,500,001	4,000,000		65,000	PLUS 15% of the amount exceeding Rs. 2,500,000
4,000,001	8,000,000		290,000	PLUS 20% of the amount exceeding Rs. 4,000,000
Above 8,000,000			1,090,000	25% of the amount exceeding Rs. 8,000,000

* Minimum tax payable for this slab is Rs. 2,000.

Rate of tax for non-salaried individuals

The new rates for taxation of non-salaried individuals have been proposed as under:

Taxable Income (Rs.)				Rate of Tax
From	To			
Up to 400,000				0%
400,001	800,000	1,000		
800,001	1,200,000	2,000		
1,200,001*	2,400,000	Rupees	NIL	5% of the amount exceeding Rs. 1,200,000
2,400,001	3,000,000		60,000	PLUS 15% of the amount exceeding Rs. 2,400,000
3,000,001	4,000,000		150,000	PLUS 20% of the amount exceeding Rs. 3,000,000
4,000,001	5,000,000		350,000	PLUS 25% of the amount exceeding Rs. 4,000,000
Above 5,000,000			600,000	29% of the amount exceeding Rs. 4,800,000

* Minimum tax payable for this slab is Rs. 2,000.

2. CLOSURE OF AUDIT

[Section 214E]

It has been proposed to insert a new section 214E that notwithstanding the omission of section 214D, audit of income tax affairs of a taxpayer under sub-section (2) of section 214D shall be deemed to have been concluded, if:

- (i) taxpayer has been selected for audit under the omitted section 214D;
- (ii) notice for amendment of assessment under section 122 has not been issued;
- (iii) the taxpayer has revised return voluntarily, by December 31, 2018, along with payment of 25% higher tax than the tax paid with return on the basis of taxable income and where no tax is payable, 2% of the turnover and where no turnover is declared, penalty for late filing of return has been paid voluntarily.

However, the condition of 25% higher tax or 2% of the turnover shall not apply, if the taxable income of the taxpayer includes only salary income or income subject to final taxation.

It has also been sought to clarify that only audit initiated as a result of automatic selection under the omitted section 214D shall stand abated under the proposed section 214E and audit initiated or to be initiated on the basis of definite information or otherwise as per provisions of section 177 or 214C shall be conducted independently.

3. RESTRICTION ON PURCHASE OF CERTAIN ASSETS **[Section 227C]**

A newly inserted section 227C placed restriction on non-filers for purchase motor vehicles and a monetary ceiling of Rs. 5 Million was also placed on the value of immoveable property for this purpose. The Bill now seeks to withdraw these restrictions.

4. COLLECTION OR DEDUCTION OF WITHHOLDING TAX

Advance tax on banking transactions otherwise than through cash

[Section 236P & Div XXI Part IV First Schedule]

The Finance Act 2018 reduced the rate for collection of advance tax on banking transactions other than cash withdrawals by non-filers from 0.6% to 0.4%. The Bill now seeks to revert to the earlier rate of 0.6% effective from the date of enactment of supplementary amendment Act.

5. EXEMPTIONS FROM TOTAL INCOME **[Second Schedule Part I]**

Exemptions proposed to be granted

a. Contribution to Dams Fund **[Clause (61)(liv)]**

Contributions to 'Supreme Court of Pakistan – Diamer Bhasha & Mohmand Dams – Fund' proposed to be considered as deduction from income for computation of tax payable.

b. Income derived by Dams Fund **[Clause (66)(lxii)]**

It has been sought to exempt any income derived by 'Supreme Court of Pakistan – Diamer Bhasha & Mohmand Dams – Fund'.

Exemptions proposed to be withdrawn

a. Perquisites & entertainment allowance for Provincial Governors **[Clause (51) & (52)]**

The President of Pakistan, Provincial Governors and the Chiefs of Staff, Pakistan Armed Forces are entitled to tax exemptions on:

- (i) occupying free of rent as a place of residence any premises provided by the Government; and
- (ii) free conveyance provided and the sumptuary (entertainment) allowance, which is also being allowed tax free to the Corps Commanders.

The Bill now seeks withdraw these exemptions only for Provincial Governors.

b. Perquisites & allowances for Federal Ministers **[Clause (53)]**

Tax exemptions on rent-free accommodation, house-rent allowance, free conveyance and sumptuary allowance for Ministers of Federal Government are all proposed to be withdrawn.

6. EXEMPTIONS FROM SPECIFIC PROVISIONS

[Second Schedule Part IV]

Exemption proposed to be granted

Exemptions on contributions to Dams Fund

[Clause (107) & (109)]

It has been proposed to immune any contributions to 'Supreme Court of Pakistan – Diamer Bhasha & Mohmand Dams – Fund' from the provisions of:

- a. Taxation for unexplained income and assets under section 111 of the Income Tax Ordinance, 2001 (the Ordinance); and
- b. Advance tax for non-filers on banking transactions otherwise than through cash under section 236P of the Ordinance.

Exemptions to Dams Fund

[Clause (107) & (109)]

The Bill seeks to immune the 'Supreme Court of Pakistan – Diamer Bhasha & Mohmand Dams – Fund' from collection of the following taxes:

- a. Minimum tax under section 113;
- b. Tax on profit on debt under section 151;
- c. Advance tax on cash withdrawal from banks under section 231A;
- d. Advance tax banking instruments under section 231AA; and
- c. Advance tax for non-filers on banking transactions otherwise than through cash under section 236P.

SECTION 3 SALES TAX & FEDERAL EXCISE DUTY

1. SALES TAX ACT, 1990

Exemptions

[Sixth Schedule]

[Table 1 – Imports or Supplies]

It has been proposed to exempt the following items:

Sr.	Description	PCT Code
112	<p>A. ANGIOPLASTY PRODUCTS</p> <p>7. Optical Coherence Technology (OCT) System</p> <p>8. OCT Catheters</p> <p>9. Intravascular Ultrasound (IVUS)</p> <p>10. Fractional Flow Reserve (FFR/IFR) System</p> <p>11. IVUS/ FFR / IFR Catheters and wires</p> <p>12. Support Micro Catheters (Straight and Angled)</p> <p>13. Drug Coated Angioplasty Balloon</p> <p>14. Coronary and Peripheral Micro Coils</p> <p>15. Thrombectomy Device</p> <p>16. Thrombus Aspiration Catheters</p> <p>17. Covered Stents (Coronary/Peripheral)</p> <p>18. Vessel Closure Devices</p> <p>19. Embolic Protection Devices</p> <p>20. Renal Stents</p> <p>21. Vena-cava Filters</p> <p>22. Coronary and Peripheral Snares</p> <p>23. Atherectomy Devices</p> <p>24. IABP Consoles & Catheters</p> <p>25. Intracardiac Echocardiography Machine & Catheters</p>	Respective headings
	<p>B. ANGIOGRAPHY PRODUCTS</p> <p>7. Wrist Bands for Radial Vessel Closure</p>	Respective headings
	<p>H. CARDIAC ELECTROPHYSIOLOGY PRODUCTS</p> <p>4. Excimer Laser System with Accessories</p> <p>5. Laser Sheath, Occlusion Balloons, Dilator Sheaths (Rotation & Manual)</p> <p>6. Intra Cardiac Echocardiography (ICE) System and Accessories</p> <p>7. Lead Locking Devices and Accessory Kit</p> <p>8. Remote EP Monitoring Device and Accessories</p> <p>9. Ablation catheters</p> <p>10. 3-D Cardiac Mapping System</p> <p>11. Cryoballoon System and Accessories</p>	Respective headings
	<p>J. CARDIAC SURGERY PRODUCTS</p> <p>6. High-Flow, Low-Profile Percutaneous Heart Pump PHP Console and Catheters</p> <p>7. Tandem Heart / Tandem Lung and Accessories</p> <p>8. Ventricular Assist Device System.</p> <p style="padding-left: 20px;">(a) Heart Mate-II</p> <p style="padding-left: 20px;">(b) Heart Mate-III</p> <p style="padding-left: 20px;">(c) Centri Meg LEOV</p> <p>9. Beating Heart Surgery stabilizers & Coronary Shunts</p> <p>10. Minimally invasive surgery equipment & Instruments</p> <p>11. RF Ablation equipment for AF (Surgical)</p> <p>12. Heart Lung Machines</p>	Respective headings

Sr.	Description	PCT Code
	K. EQUIPMENT	Respective headings
	5. Left Ventricular Assist Device / System (LVAD) and Catheters	
	6. MitraClip Transcatheter Mitral Valve System	
	7. MitraClip Guide Catheter, Clip and Delivery System	
	8. Patent Foramen Ovale (PFO) Closure Device	
	9. Left Atrial Appendage (LAA) Occluder	
	10. Transcatheter Aortic / Heart Valve System (TAVI/TAVR)	
	11. Cerebral Retrievable Stents	
	12. Aortic Stent Grafts	
	13. Embolization Coils, Delivery System, Filling Coil	
	14. Abdominal Aortic Aneurysm (EVAR) System and Accessories/ thoracic EVAR/ extension	
	15. Insertable Cardiac Monitor (ICM)	
	16. Carotid Stents	
	17. Vascular Clips	
	18. MRI Compatible Cardiac Monitor, Infusion Pump, Anesthesia Machine with Accessories	
	L. PERIPHERAL INTERVENTIONS EQUIPMENT	Respective headings
	Disposables and other equipment for peripheral interventions including stents (including carotid and wall stents), balloons, sheaths, catheters, guide wires, filter wires coils, needles, valves (including rotating homeostatic valves), connecting cables, inflation devices adapters Drug Eluting Peripheral Stents.	

[Table 2 – Local Supplies Only]

It has been proposed to exempt the following items:

Sr.	Description	PCT Code
24.	LED or SMD lights and bulbs meant for conservation of energy	8539.5010 8539.5020 9405.1030 9405.4020

[Table 3 – Plant, Machinery, etc.]

It has been proposed to exempt/ clarify by including parts and components for manufacturing LED Bulbs in the list of exempt items (Annexure to Table 3), which is currently included as parts and components for LED Lights.

Eighth Schedule

The bill seeks to propose following changes in the Eighth Schedule of the Sales Tax Act 1990:

Sr.	Existing				Proposed			
	Description	PCT Code	Sales Tax Rate	Condition	Description	PCT Code	Sales Tax Rate	Condition
51.	RLNG	2711.2100	12%	Supply thereof	LNG/RLNG	2711.1100 & 2710.2100	12%	If supplied to gas transmission and distribution companies
56.	Potassium Chlorate (KCLO3)	Respective headings	17% along-with Rs.40 per kg	Import & supply thereof (Rate of Rs. 40 per kg does not apply on imports made by and supplies made to organizations under the control of Ministry of Defense Production)	Potassium Chlorate (KCLO3)	Respective headings	17% along-with Rs.65 per kg	Import & supply thereof (Rate of Rs. 65 per kg does not apply on imports made by and supplies made to organizations under the control of Ministry of Defense Production)

2. FEDERAL EXCISE ACT, 2005

Definition

Un-manufactured tobacco

[Section 2(24A)]

The Bill seeks to insert definition of un-manufactured tobacco which is useable to manufacture cigarettes as manufactured by Green Leaf Threshing Units after processing and conversion of tobacco green leaf.

Offences, penalties, fines and allied matters

[Section 19]

The Federal Excise Act, 2005 (the Act) provides a penalty of confiscation and destruction of machinery, equipment, instruments or devices used in manufacture or production of cigarettes in the manner contrary to the Act or evasion of excise duty on cigarettes or manufacturing or production of counterfeited cigarettes in addition to other penal actions. The Bill now seeks to apply the above penal provisions in case of un-manufactured tobacco.

Confiscation & seizure of cigarettes or beverages

[Section 26 & 27]

The Act provides for confiscation and seizure of counterfeit cigarettes & beverages and in case of cigarettes & beverages on which duty has not been paid in addition to conveyance used for such cigarettes & beverages. It is now proposed to make these provisions applicable in case of un-manufactured tobacco.

Excisable goods

[Table I to First Schedule to the Act]

The bill seeks to enhance duty on following goods, as under:

Sr.	Description of goods	Heading/ sub- heading Number	Rate of FED	
			Existing	Proposed
7.	Unmanufactured tobacco	24.01	Rs. 10/ Kg	Rs. 300/ Kg
9.	Locally produced cigarettes if their on-pack printed retail price exceeds Rs. 4,500 per 1,000 cigarettes	24.02	Rs. 3,970/ 1,000 Cigarettes	Rs. 4,500/ 1,000 Cigarettes
10.	Locally produced cigarettes if their on-pack printed retail price exceeds Rs. 2,925 per 1,000 cigarettes but does not exceed Rs. 4,500 per 1,000 cigarettes	24.02	Rs. 1,776/ 1,000 Cigarettes	Rs. 1,840/ 1,000 Cigarettes
10a	Locally produced cigarettes if their on-pack printed retail price does not exceed Rs. 2,925 rupees per 1,000 cigarettes	24.02	Rs. 854/ 1,000 Cigarettes	Rs. 1,250/ 1,000 Cigarettes
55	Imported Motor cars, SUVs and other motor vehicles of cylinder capacity of 1800cc or above, principally designed for the transport of persons (other than those headings 87.02), including station wagons and racing cars of cylinder capacity of 1800cc or above	87.03	10% Ad. Val.	20% Ad. Val.

Conditional exemption

[Sr. 16 of Table I to Third Schedule to the Act]

The Bill seeks to collect duty at on un-manufactured tobacco produced during a process to manufacture cigarettes in addition to the existing levy on cigarettes.

SECTION 4 CUSTOMS ACT, 1969

Fifth Schedule

[Part I – Imports of Plant, Machinery, Equipment and Apparatus, including Capital Goods for various industries/sectors]

Customs duty is collected at 0% on import of parts and components for manufacture of LED lights by manufacturers registered under the Sales Tax Act, 1990, subject to annual quota determination by the Input Output Co-efficient Organization (IOCO). The Bill now seeks to include this concession on parts for manufacture of LED Bulbs as well.

[Part III – Raw Materials/ Inputs for Poultry and Textile Sector; Other Goods]

The bill seeks to propose following changes:

Sr.	Proposed Amendment
96.	PCT Code for Coils of Aluminum Alloys has been updated from previous 7606.9220 to 7606.9290
107.	Paper dimension for printing of Holy Quran proposed to be changed from 20X36 inches or 20X30 inches sheets to 23X36 inches or 20X30 inches sheets
108.	Both single and multimode optical fiber now to be allowed for concession instead of previous limitation to multimode only.

[Table C, Part VII – Miscellaneous]

The bill seeks to insert new table C in Part VII of the Fifth Schedule of the Customs Act, 1969:

Sr.	Description	PCT Code	CD (%)	Condition	Sr.	Description	PCT Code	CD (%)	Condition
1	Tallow	1502.1000	5	NIL	21	With a basis of amylaceous substances	3809.1000	11	NIL
2	Other	2835.3900	5	NIL	22	Of a kind used in the paper or like industries	3809.9200	11	NIL
3	Acetone	2914.1100	11	NIL	23	Compound plasticizers for rubber or plastics	3812.2000	11	NIL
4	Ethyl acetate	2915.3100	16	NIL	24	Non refractory mortars and concretes	3824.5000	16	NIL
5	n-Butyl acetate	2915.3300	16	NIL	25	Reinforced only with metal	4010.1100	11	NIL
6	Sec-Butyl acetate	2915.3930	16	NIL	26	Reinforced only with textile materials	4010.1200	11	NIL
7	Oxalic acid	2917.1110	5	NIL	27	Containing 85 or more by weight of cotton	5207.1000	8	NIL
8	Citric acid	2918.1400	5	NIL	28	Other	5207.9000	8	NIL
9	Other	3203.0090	11	NIL	29	Of aluminum alloys	7606.1200	5	NIL
10	Other	3204.1590	11	NIL	30	Aluminum lids for cans of carbonated soft drinks	8309.9010	5	NIL
11	Dyes, sulphur	3204.1910	11	NIL	31	Of plastics, not covered with textile material	9606.2100	16	NIL
12	Dyes, synthetic	3204.1990	11	NIL	32	Button blanks	9606.3020	16	NIL
13	Other	3206.2090	11	NIL	33	Fitted with chain scoops of base metal	9607.1100	16	NIL
14	Ultramarine and preparations based thereon	3206.4100	11	NIL	34	Other	9607.1900	16	NIL
15	Lithopone	3206.4210	11	NIL					
16	Pigments and preparations based on cadmium compounds	3206.4920	11	NIL					
17	Greases	3403.1910	16	NIL					
18	Other	3403.1990	16	NIL					
19	Other	3403.9990	16	NIL					
20	Activated carbon	3802.1000	5	NIL					