

FINANCE
SUPPLEMENTARY
(SECOND AMENDMENT) BILL, 2019
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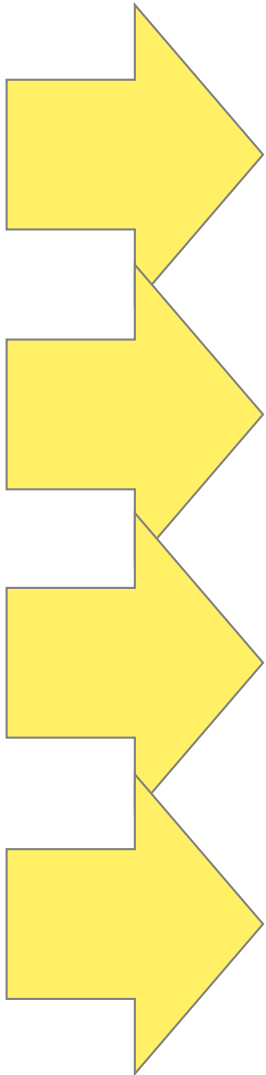


**The Institute of
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Supplementary Bill at a Glance



Much needed to provide a direction for the future course of economy

Adjustments in duty structure, other facilities for the import of raw materials and other for the promotion and sustenance of domestic industry

Aimed at expanding the business at the cost of reduction in collection of taxes which were hurting overall business friendly environment

A step in the right direction

Perception VS Reality

"This is not a budget, this is a corrective package aimed at addressing various sectors of the economy," the finance minister clarified at the start of his speech.

Govt reduced taxes to ensure ease of doing business: PM
January 23, 2019

Amended finance bill to reduce cost of doing business: PEW

Pakistan is ranked at 136 out of 190 countries in ease of doing business **'Doing Business 2019'** a report published by the World Bank

According to the report, due to multiplicity of taxes, people and companies made 47 tax payments every year which consumed 293.5 hours

Pakistan jumped 11 places to reach 136th among the 190 countries on Doing Business 2019

However, Pakistan's ranking in paying taxes is slipped from 172 to 173 according to Doing Business 2019

SIGNIFICANT CHANGES

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INCOME TAX



TAX AT IMPORT STAGE

Section 148(8)

- Finance Act, 2018 abolished the right to be taxed under presumptive regime for commercial importers
- Grave concerns shown by this sector – requiring the commercial importers to declare the financial results for comparison of tax on profits to the minimum tax on imports
- It is now proposed to restore presumptive tax regime for commercial importers

SMALL TRADERS AND SHOPKEEPERS

Section 99B

- Special procedure for scope and payment of tax, filing of return and assessment in respect of small traders and shopkeepers residing in specified cities will be introduced.
- Federal Government shall issue the respective rules as may be necessary

- ❑ Undistributed reserves were subjected to tax under section 12(9A) of the repealed Ordinance and then reintroduced in the 2001 Ordinance vide Finance Act 2015
- ❑ This section was then substituted vide Finance Act, 2017 - tax at the rate of 7.5% of the whole profits was imposed on every public company (with few exemptions), if distribution is less than 40% of after tax profits
- ❑ The Finance Act, 2018 reduced the tax rate from 7.5% to 5% and the limit of distribution of 40% of after tax profits to 20%.
- ❑ Proposed to be abolished from tax year 2020 and onwards

- ❑ The phase-wise reduction in Super Tax for Banking companies as introduced through Finance Act, 2018 has been reversed.
- ❑ The existing and proposed rates of Super Tax for respective years are as under:

Tax Year	Existing Rate	Proposed Rate
2018	0%	4%
2019	4%	4%
2020	3%	4%
2021	2%	4%

- ❑ Rate of Super Tax for Persons Other Than Banking Companies having taxable income of Rs. 500 million or more applicable for Tax Year 2020 has been changed from 1% to 0%. Previously, it was decreasing by 1% for each year.

REDUCTION ON TAX LIABILITY ON INTER CORPORATE DIVIDENDS

PART III – SECOND SCHEDULE

- ☐ Aimed to support group companies structure
- ☐ Bill seeks to exempt tax on dividend income for companies availing benefit of Group Relief under section 59B, subject to the following conditions:
 - i. If there is a surrender of losses in that Tax Year, and
 - ii. to the extent of percentage holding of parent company in the subsidiary company.
- ☐ This clause is proposed to be effective from 01 July 2019

- This section empowers the Commissioner to tax any concealed asset impounded by any department or agency of the Federal or the Provincial Government at any time
- It is proposed to introduce sub-section (1A) in section 123 whereby the above powers have been enhanced by also empowering the Commissioner to issue a provisional assessment order or a provisional amended assessment order in case of:
 - an “**offshore asset**” that is not declared earlier and is discovered by the Commissioner or any department or agency of the Federal or the Provincial Government

- Advance tax on cash withdrawal is proposed to be withdrawn for **“Filers”**
- Collection of advance tax on cash withdrawal from **‘Non-Filers’** would remain unchanged at 0.6 per cent
- Proposes to **exempt** collection of advance tax on cash withdrawals from a bank account maintained in Pak Rupees in which the deposits are made solely through remittances in foreign currency
- Also proposes to exonerate **“Filers”** from collection of advance tax at the time of:
 - (i) sale of any instrument, including DD, PO and other similar instruments of bearer nature; or
 - (ii) transfer of any sum exceeding 25,000 in a day

ADVANCE TAX ON FUNCTIONS AND GATHERINGS

Section 236D

- Proposed to absolve certain small functions and gatherings for the advance tax as provided under section 236D
- The proposed withholding collection rates shall be higher of 5% of the ad valorem bill or Rs. 5,000 per function

COLLECTION OF ADVANCE TAX AT THE TIME OF SALE BY AUCTION

Section 236A

- To promote sports and events like PSL, proposed to do away with the collection of tax at the time of sale of auction of franchise rights to participating teams
- This amendment if approved, will take effect from 01 July 2019

RESTRICTION ON PURCHASE OF CERTAIN ASSETS

SECTION 227C

- ❑ Through Finance Act, 2018 restrictions were imposed for non-filers from purchase of immovable property and motor vehicles
- ❑ These restrictions were relaxed through Finance Supplementary Act 2018 for purchase of motor cycles, rickshaw, agricultural tractor and any other motor vehicle having engine capacity of less than 200 cc
- ❑ Now proposed to extend the above relaxation for locally manufactured motor vehicle having engine capacity not exceeding 1,300 cc

- The rates of advance tax on motor vehicle registration is proposed to be enhanced for “**non-filers**” as per the following tabulation:

Sr. No	Engine Capacity	Existing Rate	Proposed Rate
1	up to 850cc	10,000	15,000
2	851cc to 1000cc	25,000	37,500
3	1001cc to 1300cc	40,000	60,000
4	1301cc to 1600cc	100,000	150,000
5	1601cc to 1800cc	150,000	225,000
6	1801cc to 2000cc	200,000	300,000
7	2001cc to 2500cc	300,000	450,000
8	2501cc to 3000cc	400,000	600,000
9	Above 3000cc	450,000	675,000

- Loss on disposal of listed and other securities which is not fully set-off against capital gains for the year is not allowed to be carried forward to subsequent tax year.
- Proposed that any unadjusted capital losses for TY 2019 and onwards can be carried forward for set-off against capital gains on listed securities up to a maximum of three TYs.

Withholding Tax Statements Sections 165 - Clause (81A) of Part IV of the Second Schedule

- ❑ Requirement to file monthly withholding statements has been replaced with “**bi-annual**” statements

Half year ending	Due Date
30 June	By 31 July next following
31 December	By 31 January next following

- ❑ Commissioner is however empowered to ask any taxpayer to file a withholding statement for any period

- ❑ The Banking Companies absolved from requirement of furnishing certain particulars of customers in relation to withholding tax statements in respect of cash withdrawals and profit on debt

- ❑ This in consequence of an earlier amendment in Rules whereby special statements were prescribed for the said withholding taxes

RATE OF INCOME TAX ON IMPORT OF MOBILE PHONES - Part II of the First Schedule

- The Bill has proposed the following rate of income tax, to be collected under section 148 on value of import of mobile phone by any person:

Sr. No	C&F Value of Mobile Phone (USD)	Tax (Rs.)
1.	Up to 30	70
2.	Exceeding 30 and up to 100	730
3.	Exceeding 100 and up to 200	930
4.	Exceeding 200 and up to 350	970
5.	Exceeding 350 and up to 500	3,000
6.	Exceeding 500	5,200

EXEMPTION TO MANUFACTURER OF PLANT, MACHINERY & EQUIPMENT FOR GENERATION OF ENERGY FROM SOLAR & WIND

Clause (126L) of Part I of the Second Schedule

- Currently, an exemption is available for a period of 5 years with respect to income generated by an industrial undertaking set up by 31 December 2016 being manufacturer of plant, machinery, equipment and items dedicated for **generation of renewable energy like solar and wind.**
- Proposed to extend the date of eligible companies formed for such purpose to those setup between **01 March 2019 to 30 June 2023**

ABOLISHING DIRECTORATE-GENERAL OF TRANSFER PRICING

SECTION 230E

- ❑ Finance Act, 2016 introduced the requirement for prescribed taxpayers to maintain transfer pricing documentation and fulfil Country-by-Country Reporting (CbCR) obligations
- ❑ Finance Act, 2017 had inserted section 230E, thereby creating the office of the Directorate-General of Transfer Pricing, which would deal with all transfer pricing and CbCR matters, including transfer pricing audits
- ❑ Supplementary Bill, 2019 proposes to omit section 230E. After that, such audits would be conducted by the taxation officer holding jurisdiction of the case.

SALES TAX



SALES TAX – REFUND THROUGH PROMISSORY NOTES

SECTION 67A

- ☐ Proposed to issue redeemable/negotiable promissory note for the due amount of Sales Tax refund.
- ☐ Persons entitled to get refund can opt for acquiring a sovereign negotiable instruments in the form of promissory notes
- ☐ Salient features of such instruments will be as under:
 - ☐ Three years maturity period carrying annual simple profit of 10%
 - ☐ Issued, registered and redeemed by promissory note office
 - ☐ Transferable and redeemable after or before the maturity period
 - ☐ Transferable by endorsement and delivery like a promissory note.
 - ☐ Traded freely in the country's secondary market
 - ☐ Accepted by banks as collateral
 - ☐ Not be subject to compulsory deduction of zakat

ST ON IMPORT/LOCAL SUPPLY OF MOBILE PHONES

Ninth Schedule - Section 3(3B)

Currently, sales tax on mobile phones is levied on basis of their specifications however, the Bill proposes to levy sales tax on the basis of import value.

Cellular mobile phones import value per set	ST on import or local supply (Rs.)	ST at the time of registration of IMEI numbers (Rs.)
Not exceeding US\$ 30	150	150
Exceeding US\$ 30 but not exceeding US\$ 100	1,470	1,470
Exceeding US\$ 100 but not exceeding US\$ 200	1,870	1,870
Exceeding US\$ 200 but not exceeding US\$ 350	1,930	1,930
Exceeding US\$ 350 but not exceeding US\$ 500	6,000	6,000
Exceeding US\$ 500	10,300	10,300

FEDERAL EXCISE DUTY



Increase of Duty on Imported Motor Vehicles

- For vehicles having cylinder capacity of 1800 cc but not exceeding 3000 cc, the duty is proposed to be increased from 20% to 25%.
- For vehicles having capacity of 3000 cc or above, the duty is proposed to be increased from 20% to 30%.

Levy on Locally Manufactured Motor Vehicles

- Excise duty of 10% has been proposed to be levied on locally manufactured or assembled motor cars, SUVs and other motor vehicles of cylinder capacity of 1800 cc or above

LEVY ON SMART PHONES

- Through the Finance Act 2018, a levy was imposed on smart phones valuing in excess of Rs. 10,000. Ranging from Rs. 1,000 to Rs. 5,000 depending on import values in Rupee terms
- Proposed to impose the levy on the basis of C&F value in terms of US Dollars instead of Rupees
- It is also proposed to abolish levy on smart phones up to USD 100 C&F value (earlier for Rs 10,000 including duties and taxes). While the maximum levy is enhanced to Rs 7,000 from Rs 5,000 as under:

Mobile phones – C&F value	Revised rate per set (PKR)
Above USD 100 & upto USD 200	500
Above USD 200 & upto USD 350	1,500
Above USD 350 & upto USD 500	3,500
Above USD 500	7,000

CUSTOMS DUTY



REDUCTION OF DUTY ON IMPORT OF INPUTS / RAW MATERIALS OF INDUSTRIAL SECTOR

FIFTH SCHEDULE

- Proposed to reduce customs duty on certain raw materials / inputs, if imported by specified industrial sectors, subject to certain prescribed conditions

S No.	Industrial Sector	Range of Customs Duty
1	Footwear	0% to 20%
2	Tanners	0% to 20%
3	Leather	0% to 20%
4	Gloves	0% to 20%
5	Furniture	0%
6	Ceramics	3%
7	Chemical Manufacturing	0%
8	PVC/Plastic	3%

CHANGES IN CUSTOMS DUTY

Zero Rating of Customs Duty on import of Newsprint paper

- Rate of duty on import of Newsprint paper in rolls or sheets is proposed to reduce at 0% against existing rate of 5%

Reduction of Duty on Plastic Molding Compound

- Currently, import of Polymers of ethylene, in primary forms and Polymers of propylene or of other olefins, in primary forms is subject to reduced rate of customs duty of 5%
- Proposed to further reduce the rate to 3%

Exemption of Duty to items for Ostomy Use

- The scope of exemption provided for Ostomy items is proposed to be extended



Thank You