

Comment on changes through



Finance Supplementary (Amendment) Bill 2018

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THE FINANCE SUPPLEMENTARY (AMENDMENT) BILL 2018

This Memorandum summarizes changes proposed through the Finance Supplementary (Amendment) Bill 2018 covering changes in the Income Tax Ordinance, 2001, Sales Tax Act, 1990, Federal Excise Act, 2005 and Customs Act, 1969. The amendments related to the income tax are intended to be effective from July 01, 2018 except for increase in withholding tax rate under section 236P of the Income Tax Ordinance, 2001. However other proposed changes shall be effective on the next day of assent given to these proposals by the President of Islamic Republic of Pakistan including related to section 236P of the Income Tax Ordinance, 2001.

This Memorandum is intended to provide general guidance to the readers on the important changes proposed through the Bill and should not be considered as a substitute for specific advice relating to a particular enactment. For considering the precise effect of a proposed change, reference should be made to the appropriate wordings in the relevant statutes and the notifications issued where relevant.

The Memorandum has been prepared exclusively for the use of our clients and staff, based on information available with us till the release of this Memorandum. Printing of this Memorandum, in any manner, is strictly prohibited without seeking a written permission from the firm.

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September 19, 2018

SUMMARY OF CHANGES IN THE INCOME TAX ORDINANCE, 2001

Income Tax Ordinance, 2001

1) Proposed changes related to individual taxation

- Separate rates are proposed at varying level of income for individuals and other than salaried class of taxpayers which were consolidated through the Finance Act, 2018.
- Maximum tax rate for individuals other than salaried persons increased to 29% on income above Rs. 5,000,000 which was earlier reduced to 15% on income above Rs. 4,800,000 through the Finance Act, 2018. The revised tax rate table is given in Exhibit 'A'.
- Maximum rate for salaried class of taxpayers increased to 25% on income above Rs. 8,000,000 which was earlier reduced to 15% on income above Rs. 4,800,000 through the Finance Act, 2018. The revised table is given in Exhibit 'B'.
- Progressive taxation concept is followed in these proposals which can be seen with the following comparisons:

Individuals other than salaried class of taxpayers

Sr. No.	Taxable income Rs.	Tax Liability			Comparison from prior to FA, 2018 Rs.	Increase vs. Existing Rs.
		Prior to FA, 2018 Rs.	Existing Rs.	Proposed Rs.		
1	2,500,000	344,500	70,000	75,000	269,500	5,000
2	3,000,000	469,500	120,000	150,000	319,500	30,000
3	3,500,000	594,500	170,000	250,000	344,500	80,000
4	4,000,000	719,500	220,000	350,000	369,500	130,000
5	4,800,000	959,500	300,000	550,000	409,500	250,000
6	7,000,000	1,669,500	630,000	1,180,000	489,500	550,000
7	10,000,000	2,719,500	1,080,000	2,050,000	669,500	970,000
8	12,000,000	3,419,500	1,380,000	2,630,000	789,500	1,250,000

SUMMARY OF CHANGES IN THE INCOME TAX ORDINANCE, 2001

For salaried class of taxpayers

Sr. No.	Salary income	Tax Liability			Comparison from prior to FA, 2018	Increase vs. Existing
		Prior to FA, 2018	Existing	Proposed		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1	2,500,000	259,500	70,000	65,000	194,500	(5,000)
2	3,000,000	359,500	120,000	140,000	219,500	20,000
3	3,500,000	472,000	170,000	215,000	257,000	45,000
4	4,000,000	597,000	220,000	290,000	307,000	70,000
5	4,800,000	817,000	300,000	450,000	367,000	150,000
6	7,000,000	1,422,000	630,000	890,000	532,000	260,000
7	10,000,000	2,322,000	1,080,000	1,590,000	732,000	510,000
8	12,000,000	2,922,000	1,380,000	2,090,000	832,000	710,000

2) Proposed changes in connection with audit under sections 214D and 214E - Closure of audit on late filing of return.

- It is proposed that audit proceedings will stand dropped in respect of the taxpayers selected for audit under section 214D on account of late filing of returns on meeting the following conditions:
 - (i) Where notice u/s 122 has not been issued;
 - (ii) Taxpayer revised it's return of income voluntarily before December 31, 2018; and
 - (iii) After payment of:
 - a) 25% higher tax than the tax paid along with return on the basis of taxable income; or
 - b) In case no tax is payable 2% of the turnover; or
 - c) Where no turnover is declared prescribed penalty under section 182(1) has been paid voluntarily
- A proviso is also proposed to be inserted in the section to exclude the condition of payment of 25% higher tax or 2% of the turnover in case of:
 - a) salaried individuals;
 - b) where income is subject to final tax under section 169;
 - c) where income is subject to tax:
 - o under section 5 – Dividend;
 - o section 5AA - Return on investment on Sukuk;
 - o section 6 - Royalty or fee for technical services;
 - o section 7 - Shipping & air transport income of a non-resident; or
 - o section 7B - Profit on debt.

SUMMARY OF CHANGES IN THE INCOME TAX ORDINANCE, 2001

3) **Proposed changes related to existing restrictions on non-filers relaxed**

- Existing restrictions on purchase of new locally manufactured or imported vehicles and purchase of immovable property exceeding Rs. 5,000,000 for non-filers are proposed to be withdrawn.
- The rate of advance tax is proposed to be enhanced on banking transactions otherwise through cash for non-filers to 0.6% which was reduced to 0.4% through the Finance Act, 2018.

4) **Proposal to withdraw tax exemptions in respect of facilities provided to the Provincial Governors and the Federal Ministers in respect of:**

- Free of rent as a place of residence;
- Free conveyance;
- Entertainment allowances; and
- Perquisites and allowances provided.

5) **Proposed changes to promote construction of DAMs**

- It is proposed that the amounts paid to the Supreme Court of Pakistan – Diamer Basha and Mohmand Dams Fund are to be deductible from taxable income up to 30% of taxable income in case of individuals and AOPs and 20% of the taxable income in case of companies;
- Any income of the Supreme Court of Pakistan – Diamer Basha and Mohmand Dams Fund is proposed to be exempt from tax including relief from the minimum tax under section 113 and withholding tax provisions;
- Provisions of section 111 relating to un-explained income or assets are proposed to be in-applicable in case of any contribution made to the Supreme Court of Pakistan – Diamer Basha and Mohmand Dams Fund;
- The advance tax on banking transactions under the provisions of section 231A, 231AA and 236P shall not apply in respect of Supreme Court of Pakistan Fund;
- No tax will be deducted on profit on debt under section 151 of the Income Tax Ordinance, 2001 on funds generated for the purpose of DAMs. Advance tax under section 236P will also not be applicable on banking transactions of the fund; and
- No tax under section 236P will apply on transfer by non-filer of contribution to the Supreme Court of Pakistan Fund.

SUMMARY OF CHANGES IN THE SALES TAX ACT, 1990

Significant amendment to the Sales Tax Act, 1990

SIXTH SCHEDULE

The following significant amendments are proposed to the Sixth Schedule to the Sales Tax Act, 1990

Table I

Exemptions are proposed on import as well as local supply of following items falling in the category of equipment for cardiac surgery, endo-surgery, oncology, urology etc.

Entry A- ANGIOPLASTY PRODUCTS

7. Optical Coherence Technology (OCT) System
8. OCT Catheters
9. Intravascular Ultrasound (IVUS)
10. Fractional Flow Reserve (FFR/IFR) System
11. IVUS / FFR / IFR Catheters and wires
12. Support Micro Catheters (Straight and Angled)
13. Drug Coated Angioplasty Balloon
14. Coronary and Peripheral Micro Coils
15. Thrombectomy Device
16. Thrombus Aspiration Catheters
17. Covered Stents (Coronary/Peripheral)
18. Vessel Closure Devices
19. Embolic Protection Devices
20. Renal Stents
21. Vena-cava Filters
22. Coronary and Peripheral Snares
23. Athrectomy Devices
24. IABP Consoles & Catheters
25. Intracardiac Echocardiography Machine & Catheters

Entry B- ANGIOGRAPHY PRODUCTS

7. Wrist Bands for Radial Vessel Closure

Entry H- CARDIAC ELECTRO-PHYSIOLOGY PRODUCTS

4. Excimer Laser System with Accessories
5. Laser Sheath, Occlusion Balloons, Dilator Sheaths (Rotation & Manual)
6. Intra Cardiac Echocardiography (ICE) System and Accessories
7. Lead Locking Devices and Accessory Kit
8. Remote EP Monitoring Device and Accessories
9. Ablation catheters
10. 3-D Cardiac Mapping System
11. Cryoballoon System and Accessories

SUMMARY OF CHANGES IN THE SALES TAX ACT, 1990

Entry J- CARDIAC SURGERY PRODUCTS

- 6. High-Flow, Low-Profile Percutaneous Heart Pump PHP Console and Catheters.
- 7. Tandem Heart/ Tandem Lung and Accessories.
- 8. Ventricular Assist Device System.
 - (a) Heart Mate-II
 - (b) Heart Mate-III
 - (c) Centri Meg LEOV
- 9. Beating Heart Surgery stabilizers & Coronary Shunts
- 10. Minimally invasive surgery equipment & Instruments
- 11. RF Ablation equipment for AF (Surgical)
- 12. Heart Lung Machines

Entry K- EQUIPMENT

- 5. Left Ventricular Assist Device / System (LVAD) and Catheters
- 6. MitraClip Transcatheter Mitra! 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 /HeartValve System (TAVI/TAVR)
- 11. Cerebral Retrievable Stents
- 12. Aortic Stent Grafts
- 13. Embolization Coils, Delivery System, Filling Coil Abdominal Aortic Aneurysm (EVAR)System and Accessories/thoracic EVAR/ extension
- 14. Insertable Cardiac Monitor (ICM)
- 15. Carotid Stents
- 16. Vascular Clips
- 17. MRI Compatible Cardiac Monitor, Infusion Pump, Anesthesia Machine with Accessories

Entry L- PERIPHERAL INTERVENTIONS EQUIPMENT

Drug Eluting Peripheral Stents

Table II

Exemption from sales tax is also proposed on local supply of LED or SMD lights by insertion of following entry.

24 .	LED or SMD lights and bulbs meant for conservation of energy.	8539.5010; 8539.5020; 9405.1030;and 9405.4020.
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SUMMARY OF CHANGES IN THE SALES TAX ACT, 1990

Table III

Exemption is proposed to parts and components for manufacturing of LED bulbs subject to specified conditions

EIGHTH SCHEDULE

Entry No. 51. Supply of LNG/ RLNG

The bill seeks to replace the existing entry no. 51 in the Table I of Eighth Schedule with following entry

51. LNG/RLNG	2711.1100 2710.2100	and	12%	If supplied to gas transmission and distribution companies
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The proposed insertion reduces rate of 12% will only be available when LNG/ RLNG is supplied to gas transmission and distribution companies. Presently, this reduced rate was available unconditionally on the supply of RLNG only. Accordingly when RLNG will be supplied to any other person, the same will be subject to 17% general sales tax rate. This is a major revenue measure and will have significant impact on masses.

Entry NO. 56 Potassium Chlorate

The bill also proposes to enhance the rate of sales tax on Potassium Chlorate from 17%+ Rs. 40 per Kg to 17%+ Rs.65 per Kg.

SUMMARY OF CHANGES IN THE CUSTOMS ACT, 1969

Significant amendments to the Customs Act, 1969 (IV of 1969).-

The bill proposes to insert the following new table in Part VII to the Fifth Schedule to the Customs Act 1969 prescribing duty rates from 5% to 16% on import of various industrial raw materials

"Table-C

Sr. No.	Description	PCT Code	Customs duty % (Proposed)	Customs duty % (Existing)	Condition
(1)	Tallow	1502.1000	5	11	Nil
(2)	Other	2835.3900	5	11	Nil
(3)	Acetone	2914.1100	11	16	Nil
(4)	Ethyl acetate	2915.3100	16	20	Nil
(5)	n-Butyl acetate	2915.3300	16	20	Nil
(6)	sec-Butyl acetate	2915.3930	16	20	Nil
(7)	Oxalic acid	2917.1110	5	11	Nil
(8)	Citric acid	2918.1400	5	11	Nil
(9)	Other	3203.0090	11	16	Nil
(10)	Other	3204.1590	11	16	Nil
(11)	Dyes, sulphur	3204.1910	11	16	Nil
(12)	Dyes, synthetic	3204.1990	11	16	Nil
(13)	Other	3206.2090	11	16	Nil
(14)	Ultramarine and preparations based thereon	3206.4100	11	16	Nil
(15)	Lithopone	3206.4210	11	16	Nil
(16)	Pigments and reparations based on cadmium compounds	3206.4920	11	16	Nil
(17)	Greases	3403.1910	16	20	Nil
(18)	Other	3403.1990	16	20	Nil
(19)	Other	3403.9990	16	20	Nil
(20)	Activated carbon	3802.1000	5	11	Nil
(21)	With a basis of amylaceous substances	3809.1000	11	16	Nil
(22)	Of a kind used in the paper or like industries	3809.9200	11	16	Nil
(23)	Compound plasticizers for rubber or plastics	3812.2000	11	16	Nil
(24)	Non refractory mortars and concretes	3824.5000	16	20	Nil
(25)	Reinforced only with metal	4010.1100	11	16	Nil

SUMMARY OF CHANGES IN THE CUSTOMS ACT, 1969

(26)	Reinforced only with textile materials	4010.1200	11	16	Nil
(27)	Containing 85 or more by weight of Cotton	5207.1000	8	11	Nil
(28)	Other	5207.9000	8	11	Nil
(29)	Of aluminium alloys	7606.1200	5	11	Nil
(30)	Aluminium lids for cans of carbonated soft drinks	8309.9010	5	11	Nil
(31)	Of plastics, not covered with textile material	9606.2100	16	20	Nil
(32)	Button blanks	9606.3020	16	20	Nil
(33)	Fitted with chain scoops of base metal	9607.1100	16	20	Nil
(34)	Other	9607.1900	16	20	Nil."

SUMMARY OF CHANGES IN THE FEDERAL EXCISE ACT, 2005

Significant amendment to the Federal Excise Act, 2005

The bill seeks to make following amendments to the Federal Excise Act, 2005.-

Section 2 (24A), 19, 26, and 27	Un-manufactured tobacco
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The bill seeks to insert new definition namely Un-manufactured tobacco which is proposed to prescribe tobacco useable for manufacture of cigarettes as manufactured by Green Leaf Threshing Units after processing and conversion of tobacco green leaf. Earlier the First Schedule to the Act did prescribe excise duty on unmanufactured Tobacco but no specific definition was given.

The bill also seeks to apply all the provisions in the FED Act, 2005 to unmanufactured Tobacco as are applicable for levy and collection on manufactured cigarettes, including provisions relating to penalty, seizure and confiscation.

First Schedule,

Table I

Un-manufactured tobacco

The bill seeks to enhance the rate of excise duty on un-manufactured tobacco from Rs. 10 per Kg. to Rs. 300 per Kg.

Cigarette

The bill also replaces of existing slab structure for levy of excise duty on cigarettes. The proposed slab is as under:

S.No	Description of Goods	Heading /subheading Number	Rate of Duty	
			Existing	Proposed
9.	Locally produced cigarettes if their on- pack printed retail price exceeds four thousand five hundred rupees per thousand cigarettes	24.02	Rupees three thousand nine hundred and seventy per thousand cigarettes	Rupees four thousand five hundred per thousand cigarettes
10.	Locally produced cigarettes if their on- pack printed retail price exceeds two thousand nine hundred and twenty-five rupees per thousand cigarettes but does not exceed four thousand five hundred rupees per thousand cigarettes	24.02	Rupees one thousand seven hundred and seventy six per thousand cigarettes	Rupees one thousand eight hundred and forty per thousand cigarettes

SUMMARY OF CHANGES IN THE FEDERAL EXCISE ACT, 2005

10a.	Locally produced cigarettes if their on- pack printed retail price does not exceed two thousand nine hundred and twenty-five rupees per thousand cigarettes.	24.02	Rupees eight hundred and fifty four per thousand cigarettes”	Rupees one thousand two hundred and fifty per thousand cigarettes”.
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Imported cars, SUVs and motor vehicles of 1800 cc or above

The bill proposes to enhance the rate of excise duty on motor vehicles of 1800cc or above from ten per cent to twenty per cent ad valorem.

Third Schedule,

Table I

Goods produced in-house

The bill also proposes to exclude un-manufactured tobacco from the exemption available in-house manufactured goods. Accordingly, the in-house production of tobacco useable for manufacture of cigarettes produced after processing and conversion of tobacco green leaf will also be subject to excise duty

Exhibit 'A'

Proposed tax rates for individual other than salaried persons

S. No.	Taxable income	Rate of tax
1	Where the taxable income does not exceed Rs.400,000	0%
2	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.800,000	Rs.1,000
3	Where the taxable income exceeds Rs.800,000 but does not exceed Rs.1,200,000	Rs.2,000
4	Where the taxable income exceeds Rs.1,200,000 but does not exceed Rs.2,400,000	5% of the amount exceeding Rs.1,200,000
5	Where the taxable income exceeds Rs.2,400,000 but does not exceed Rs.3,000,000	Rs.60,000 + 15% of the amount exceeding Rs.2,400,000
6	Where the taxable income exceeds Rs.3,000,000 but does not exceed Rs.4,000,000	Rs.150,000 + 20% of the amount exceeding Rs.3,000,000
7	Where the taxable income exceeds Rs.4,000,000 but does not exceed Rs.5,000,000	Rs.350,000 + 25% of the amount exceeding Rs.4,000,000
8	Where the taxable income exceeds Rs.5,000,000	Rs.600,000 + 29% of the amount exceeding Rs.5,000,000

Provided that where the taxable income exceeds eight hundred thousand rupees the minimum tax payable shall be two thousand rupees

Exhibit 'B'**Proposed tax rates for salaried taxpayers**

S. No.	Taxable income	Rate of tax
1	Where the taxable income does not exceed Rs.400,000	0%
2	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.800,000	Rs.1,000
3	Where the taxable income exceeds Rs.800,000 but does not exceed Rs.1,200,000	Rs.2,000
4	Where the taxable income exceeds Rs.1,200,000 but does not exceed Rs.2,500,000	5% of the amount exceeding Rs.1,200,000
5	Where the taxable income exceeds Rs.2,500,000 but does not exceed Rs.4,000,000	Rs.65,000 + 15% of the amount exceeding Rs.2,500,000
6	Where the taxable income exceeds Rs.4,000,000 but does not exceed Rs.8,000,000	Rs.290,000 + 20% of the amount exceeding Rs.4,000,000
7	Where the taxable income exceeds Rs.8,000,000	Rs.1,090,000 + 25% of the amount exceeding Rs.8,000,000

Provided that where the taxable income exceeds eight hundred thousand rupees the minimum tax payable shall be two thousand rupees

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