SALIENT FEATURES

INCOME TAX BUDGETARY MEASURES 2014-15

Incentives for less developed areas, agriculture and investment

1. To help the locally grown fruits in Balochistan Province, Malakand Division, Gilgit-Baltistan and FATA reach the bigger markets and to promote investment, growth and employment in these areas, a five years income tax exemption is proposedfor persons setting up processing plants for locally grown fruits.

2. To encourage electricity generation from local coal, it is proposed to exempt the profits and gains of coal mining projects in Sindh supplying coal exclusively to power generation projects and also to tax their dividends at reduced rate of 7.5%.

3. The rate of capital gains tax was to increase from 10% to 17.5% with effect from 01.07.2014. In order to avoid a sharp increase in rate which might negatively affect markets, the rates have been rationalized, and the CGT rates are proposed to be 12.5% for securities held up to 12 months and 10% for securities held for a period which is between 12 to 24 months.

4. To attract, Foreign Direct Investment, generate employment and attract inflow of foreign exchange in Pakistan, the corporate tax rate is to be reduced to 20% if the investment is in a new industrial undertaking to be set up by 30.06.2017 and at least 50% of the project cost including working capital is through FDI in equity.

5. In order to promote corporatization and in accordance with the commitment made by government, the corporate tax rate is to be reduced by one per centto 33% for tax year 2015.

6. To encourage employment of the disabled persons and to provide relief to them it is proposed to reduce tax liability of such persons on income up to Rs. 1 million by 50%.

7. Income Support Levy Act was promulgated through the Finance Act, 2013. The aim was to provide resources for the economically distressed persons. However, this measure has caused some concerns among public. It is therefore proposed to repeal the Income Support Levy Act, 2013.

8. The non-resident companies investing in Pakistan generally create a joint venture with a local entity and the contract receipts of such joint ventures were taxed as final tax in the hands of the joint venture which constitutes an AOP. To facilitate, the non-residents, it is proposed that if one member of the joint venture is a company, it should be taxed separately at the applicable rate while the individuals should be taxed as an AOP separately.

9. For development of Gawadar coast, the concessions earlier granted to PSA Gwadar PTE Limited through agreement dated 06.02.2007 are proposed to be transferred to “China Overseas Ports Holding Company Limited” for the remaining period.

10. At present, the rate of advance income tax on functions and gatherings is 10%. It is creating hardship for the public and even for the middle class due to high rate. It is to be reducedto 5%.

11. On request of Sindh Government, Sindh Pension Fund is exempted from Income tax.

12. In view of hardship caused by steep increase in rates last year, it is proposed that the entire amount of flying allowance exceeding an amount equal to the basic salary be taxed at a concessional rate of 7.5%.

13. To facilitate the steel sector it is proposed that every steel melter, steel re-roller, composite unit of melting, re-rolling and MS cold shall pay tax at the rate of one rupee per unit of electricity consumed with electricity bill and they will be exempted from deduction of tax from their suppliers. They can opt out of this option.

14. Reduction in rate of tax withheld on mobile phone charges is reduced from 15% to 14%.

Increasing Cost of Doing Business for Non-compliant

1. It is proposed that Airlines may collect advance tax at the rate of3% on the sale of first class and club/executive class air tickets if the passenger is a compliant taxpayer, and 5% tax if the passenger is a non-compliant person.

2. To document and bring into tax net the real estate transactions it is proposed that an adjustable advance tax be collected on purchase of immovable property at the rate of tax is 1% for complaint taxpayers and 2% for non-compliant persons. However, properties with value less than 3 million and schemes introduced by the government for expatriate Pakistanis will be excluded.

3. For domestic electricity consumers, it is proposed to collect adjustable advance tax @ 7.5% on the monthly bill of above Rs.100,000.

4. In order to promote tax culture, discourage non-compliance with tax laws and address the concerns of citizens who pay due taxes regarding them having higher cost of business than tax evaders, certain measures have been introduced to increase the cost of non-compliance with the tax laws. Accordingly, it is proposed that an advance adjustable income tax, in addition to the tax collectable from return filers, be collected from persons who do not file income tax returns on certain transactions at rate of 5% for dividend income, 5% for interest income above Rs.500,000, 0.2% for cash withdrawals from banks and 0.5% in case of advance capital gain tax collected from seller of immovable property.

   Any person can avoid the payment of this advance tax by prior filing of return or can claim adjustment or refund of the advance tax deducted by filing return after the payment.

5. It is proposed that tax at the same rate be collected by the manufacturers of motor vehicles as is prescribed for registration of new locally manufactured private motor vehicle. If the person registering a motor vehicle for the first time is the same person who purchased the car locally or imported it, and paid tax at that stage, then the Excise and Taxation Departments will not collect the advance tax at the time of registration. In addition, currently the highest rate of tax is for vehicles above 200CC. It is also proposed that two higher slabs may be added for vehicle from 2501 to 3000cc and above 3000cc with higher rates of tax. For non-filers the rates will be double.

Removing Tax distortions and Inequities

1. In order to ensure deduction of tax on capital gains on debt securities, it is proposed that debt securities be included in the definition of

securities. However, companies shall be excluded from such deduction.

2. To discourage perpetual declaration of losses or very low income using tax avoidance means by companies, an alternate corporate tax @ 17% is proposed to be imposed on accounting income excluding the exempt income. The companies shall have to pay ACT or corporate tax whichever is higher. In order to facilitate companies that have genuinely low income for some period of time, the ACT paid is proposed to be carried forward up to 10 years.

3. Proportionate allocation of expenses against different sources of income in the case of banks is to be stipulated in law, as is already the case in non-banking businesses.

4. Considering that persons providing or rendering services usually enjoy high profit margins due to low costs, the existing rates deduction of tax on services at 6% and 7% for corporate and non-corporate taxpayers respectively, are to be rationalized and enhance to 8% in corporate cases and 10% in other cases.

5. Due to buildings having a long useful life, the rate of initial depreciation on buildings is proposed to be reduced to 10%.

6. It is proposed that Non-profit entities be granted a 100% tax credit instead of exemption.

7. To broaden the tax net it is proposed to make obtaining NTN a compulsory condition for obtaining commercial/industrial electricity and gas connections.

Removing Exemptions to special interest groups:

1. Commission agents are taxed under Final Tax regime at the rate of 10% on commission paid. For advertising agents, the rate of tax is 5%. It is proposed that 10% rate, as is applicable to other commission agents, be applied, to advertising agents as well.

2. Income of Foreign News Agencies is not exempt under the Ordinance. However, payments to these agencies are exempt from withholding tax. As agencies are not present in Pakistan, their agents do not file returns and income escapes assessment. It is proposed that, exemption from deduction of withholding tax be withdrawn.

3. There are certain distortions and inequities in the tax system and in such cases tax structure, rather than economic incentives, favours choice of one sector or manner of conducting business over the other. To remove such distortions in mutual fund industry it is proposed that Mutual Fund distribute dividend in cash only and that the rate of tax applicable to the dividend distributed by Mutual Fund be same as is applicable to class of income received by Mutual Fund. However, to encourage Mutual Funds the rate of tax on dividend distributed by Mutual Fund to companies in respect of interest income shall be 25% instead of 33% applicable to companies.

4. Dispute huge number of bonus shares issued, the amount of tax paid on account of capital gains on bonus shares is very small. In order to discourage tax avoidance in this area, it is proposed that bonus shares be treated as dividend and taxed deducted at the rate of 5% the ex-bonus price of the shares.

5. Currently, foreign institutional investors in stock exchanges are neither voluntarily paying due taxes on capital gains by filing returns nor are

they subject to deduction of tax like many other investors. To prevent loss of revenue, it is proposed to bring FIIs under the withholding tax regime.

6. In order to increase documentation of economy and to increase cost of non-documentation, it is proposed that rate of deduction of tax at source be enhanced in the case of commercial importers by 0.5%, resident and non-resident contractors by 1%, suppliers by 0.5%, payments made by exporters/export houses on account of services of stitching, dying, printing, embroidery, sizing, weaving by 0.5%, petrol pump operators by 2% and commission agents by 2%. However, they will have the option of filing returns and accounts in which case the current rates of tax deduction will be minimum tax rates for them. If chose not to file the return the tax deducted will be final tax.

7. Rates of adjustable advance income tax collected with Motor Vehicle Tax from private cars under section 234 were last revised in 2008. In order to account for inflation the rates are proposed to be revised and brought closer to the tax collected by provincial motor vehicle authorities.

8. It is proposed that advance income tax be collected by Excise and Taxation Departments on transfer of private motor vehicles for a period of 5 years. The rate of tax will be same as that for registration of a new motor vehicle and will be reduced by 10% in each of subsequent years.