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## COMMENTS ON FINANCE ACT, 2016

These comments summarise important changes introduced by the *Finance Act, 2016* in respect of *Income Tax, Federal Sales Tax and Islamabad Capital Territory (Tax on Services)*. For better understanding of the effect of changes in the Income Tax Ordinance, 2001 Sales Tax Act, 1990 and *Islamabad Capital Territory (Tax on Services)* Ordinance, 2001 we suggest, these should be read with reference to the main provisions of the law.

Amendments contained in the Finance Act, 2016 only to correct the mistakes of words, spellings etc., having no effect on the existing provisions and those of administrative nature with no fiscal or legal effect, have been ignored.

Unless otherwise indicated, all the changes are effective for the Tax Year 2017. For the purposes of collection or deduction of tax, changes take effect from July 01, 2016.

July 01, 2016

## COMMENTS ON FINANCE ACT, 2016

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## Salient Features

### Income Tax

- Super tax for rehabilitation of temporarily displaced persons will be payable for the Tax Year 2016 as well.
- No coercive measures will be taken by the commissioner to recover the tax demand, till the decision of first appeal, provided 25% of the disputed tax demand is deposited.
- Tax on profit and gains of builders and developers has been imposed on the basis of area of plot and building. No more liability of minimum tax.
- Individuals and Associations of persons will be liable to pay tax on gross (without deductions) property income exceeding Rs. 200,000 at slab rates of tax. However, profit, rent sharing etc. paid on housing loans will be deductible at increased limit of Rs. 2 million.
- For admissibility of expenses, tax is now required to be deducted from all types of payments attracting tax deduction, thus enlarging scope of this provision. Disallowance of amounts of raw materials and finished goods will not exceed 20% of their purchase value.
- On expiration of period of exemption of an entity, written down value of fixed assets will be taken at WDV i.e. cost minus all depreciation admissible under the law during the period of exemption.
- A resident person, other than a company, earning income from salary or business will be entitled to tax credit, in the prescribed manner, on premium etc. paid to a prescribed insurance company for “health insurance”.
- Tuition fee of children will now be deductible allowance at the prescribed limit. According to the prescribed formula, persons with higher taxable income will benefit more.
- Rate of tax credit available to Sales Tax Registered manufacturers increased from 2.5% to 3%.
- Tax credit for new and existing industrial undertakings revised downwards with modifications in conditions.
- For apportionment of joint expenses, deductions and allowances now also to be included as divisible amounts.
- Tax authorities have been empowered to disregard notified value of immovable property for stamps duty for determining its Fair Market Value according to the prescribed basis.
- Prescribed record of transactions with associates will be maintained.
- Upper limit of turnover reduced from Rs. 50 million to Rs. 10 million, for non-company persons, for payment of minimum tax. Companies declaring gross loss before set off of depreciation will also now pay minimum tax.
- Presentation of accounts and documents, for audit, made necessary for making the provisional assessment ineffective.
- In case the return of income is filed under the Final Tax Regime (“FTR”), difference of tax deducted from a non-filer at higher rate will be adjustable.
- Refund application could now be made within three years of the determination of refund.

- Advance tax will not be collected from seller of immovable property held for more than five years.
- Non-filers are required to pay tax on capital gains on disposal of securities at higher rates as compared to filers.
- Tax on capital gains arising on sale of immovable property within five years of acquisition will be taxed at 10%. However, capital gain on sale of immovable property to Rental REIT Scheme will be subject to tax at the rate of 5% upto June 30, 2019 irrespective of the period of ownership.
- Tax on dividend for non-filers raised from 17.5% to 20%.
- In case of supplies made by distributors of fast moving goods, rates of deduction of tax for companies and non-company persons reduced to 3% and 3.5% respectively.
- Exemption of income of organisations for games and sports, not established by the Government, has been withdrawn.
- Exemption of income from export of computer software etc. has been extended up to June 30, 2019 provided 80% of export proceeds are brought into Pakistan through normal banking channels.
- Exemption from application of prescribed provisions will be available to Haj Operators for the Tax Year 2016 as well if tax at Rs. 5,000 per Hajji is paid.
- Immunity to investment made in industrial undertakings as per clause (86) of Part-IV of Second Schedule extended upto June 30, 2019.
- Annual contribution by employer to an employee's provident fund account, without tax implication for employee, increased from Rs. 100,000 to Rs. 150,000.

### Federal Sales Tax

- Now the cottage industry with annual turnover upto Rs. 10 million (previously Rs. 5 million) will be exempt from charge to tax.
- Different dates, as to be prescribed, will be due dates of filing of various annexures of the return.
- Purchaser will be able to claim input tax only if supplies are declared by the supplier.
- No input tax will be available in respect of provincial sales tax paid.
- Tax Officer is empowered to recover tax not deducted or deposited alongwith default surcharge.
- On sale or transfer of ownership of an undertaking, payment of sales tax on goods transferred will be subject to zero rated tax.
- Tier – 1 retailers will have the option to either pay sales tax under the normal scheme or pay sales tax at 2% of turnover, including the exempt turnover, without claiming input tax.
- Laptops, personal computers will be exempt from levy of sales tax.

### Islamabad Capital Territory (Tax on services)

- Supply of services to diplomats, diplomatic missions, privileged persons will be zero rated.
- Exemption of services related to import or supply under grant-in-aid with approval of FBR and fulfilling other conditions.
- Regulatory and licencing services provided by organizations established by the Government will be exempt from tax.

## Income Tax

- 4B  
(1), (2) Super tax for rehabilitation of temporarily displaced persons  
This super tax was levied for the Tax Year 2015 only. Its applicability has been extended to the Tax Year 2016. Income for this purpose will be other than depreciation and Business losses.
- 7C Tax on builders
- Division VIII A of Part 1 of First Schedule, 113A Profit and gains of builders engaged in business of construction and sale of residential, commercial or other buildings will be subject to Final tax at the rates prescribed separately for commercial and residential areas, on the basis of constructed area. FBR is empowered to frame rules for this purpose.
- Consequent to insertion of above new section, section 113A providing for minimum tax on builders after June 30, 2018 has been omitted.
- 7D Tax on developers
- Division VIII B of Part 1 of First Schedule, 113B This new section provides that profit and gains of land developers will be subject to final taxation at the rates prescribed separately for commercial and residential plots, on the basis of land area. FBR is empowered to frame rules for this purpose.
- Consequent to above new section, section 113B providing for minimum tax at 2% of prescribed land value has been omitted.
- 8 General provisions relating to taxes imposed under sections 5, 5A, 6, 7, 7A and 7B
- The section has been amended to include new sections 7C and 7D to provide for final taxation thereunder.
- 15 Income from property
- (6)(7) Before these amendments, net property income was treated as normal taxable income. After the amendments, property income, exceeding Rs 200,000 will now be taxed separately at newly prescribed slab rates. Separate taxation will apply to individuals and Associations of persons.
- Division VIA of Part 1 of First Schedule However, deduction of profit on housing loan, share in rent etc will remain deductible allowance.
- 15A Deduction in computing income chargeable under the head "Income from Property".
- This section has been amended to restrict the application of this section only to a company. This is in line with the amendment made in section 15.

- 21 Deductions not allowed  
(C) proviso
- Before the amendment, only the payments made on account of salary rent, brokerage or commission, profit on debt, payments to non-residents and payment for services or fee without the deduction of tax were liable to be disallowed. After the amendments, scope of this clause has been extended to all payments from which tax is required to be deducted as per sections 148 to 156B and sections 231A to 236T. However, if the tax is paid by the payee, this clause will not apply.
- Disallowance in respect of purchase of raw material and finished goods will not exceed 20% of the cost.
- If the tax not deducted is recovered under sections 161 or 162, no disallowance will be made under this clause.
- O Newly added clause (0) restricts the expenditure incurred by pharmaceuticals manufacturers on sales promotion, advertisement and publicity to 5% of the turnover.
- 22 Depreciation
- Explanation Explanation has been added to clarify that where the business income was exempt from tax, all depreciation will be treated to have been allowed during the Tax Years of exemption. Consequently, the WDV so computed to be considered in the Tax Year immediately following the expiry of exemption period for allowing admissible depreciation thereon.
- 53 Exemptions and tax concessions in the Second Schedule
- (2) In the scope of Federal Government's powers to grant exemption etc, specific reference to matters/areas covered by all the four parts of Second Schedule has been made.
- 59 B Group relief
- (1), (1A) This section has been amended to restrict the surrender of loss of a Tax Year by a subsidiary company to the percentage of share capital held by its holding or subsidiary company.
- 62 A Tax credit for investment in health insurance
- This new section allows tax credit to a resident individual or association of persons on health insurance premium or contribution paid to insurance company registered by SECP. The entitled person should be deriving income from "salary" or "business".
- The admissible amount of premium or contribution will be lessor of total payment or 5% of taxable income or Rupees 100,000.

- 63 Contribution to an Approved Pension Fund
- (2) Relaxation of allowing 2% additional contribution for each year exceeding forty years of age will be available upto June 30, 2019. Now the total contribution for a year will not exceed 30% of taxable income of preceding tax year.
- 64A Deductible allowance for profit on debt
- (2) Presently, the deductible amount in respect of profit or share in rent etc is lessor of 50% of taxable income or Rs. 1 million. The limit of amount has been increased to Rs two million.
- 64AB Deductible amount for education expenses
- This new section provides for deductible allowance in respect of tuition fee paid as under:
- i) Individual person's taxable income is less than Rs. 1 million;
  - ii) Deductible amount will be lessor of:
    - a. 5% of the total tuition fee paid in the year; or
    - b. 25% of the taxable income; or
    - c. Amount computed by multiplying Rs. 60,000 with number of children receiving education;
  - iii) Unadjusted deductible allowance could not be carried forward;
  - iv) Deduction could be claimed by one of the parents on furnishing name and NTN of the educational institution; and
  - v) Deduction under this section will not be considered for deduction of tax from salary u/s 149.
- 64B Tax credit for employment generation by manufacturers
- (1) & (2) Tax credit under this section will now be available to companies set-up by June 30, 2019 (previously June 30, 2018). Rate of tax credit is increased from 1% to 2%.
- 65A Tax credit to a person registered under the Sales Tax Act, 1990
- (1) Rate of tax credit available under this section has been increased from 2.5% to 3%.
- 65B Tax credit for investment
- Benefit of tax credit under this section on investment made in extension, balancing, modernizing and replacement has been extended for 3 years i.e. up to June 30, 2019.
- 65C Tax credit for enlistment
- Tax credit for enlistment in stock exchange will now be available in the following year of enlistment as well.



65D

Tax credit for newly established industrial undertakings

Amendments made in this section have following affects:

- a) Tax credit will now be computed with reference to percentage of shares subscribed for cash.
- b) Period for incorporation of Company and setting up of industrial undertaking extended by 3 years to June 30, 2019.
- c) Condition of raising 100% equity through cash consideration has been brought down to 70%.
- d) New condition has been added whereby, to retain the benefit of tax credit, the business will have to be continued for five years after the tax credit has been allowed.

65E

Tax credit for industrial undertakings established before the first day of July, 2011.

Effects of amendments made are as under:

- i) Condition of raising 100% new equity with issuance of new shares has been reduced to at least 70%.
- ii) Tax credit will be allowed only in the ratio the new equity raised by issuing new shares for cash bears to the total equity;
- iii) Period for installation has been extended by three years to June 30, 2019; and
- iv) Tax credit allowed will be recouped in case the business is discontinued in five years after the year in which tax credit was allowed.

67

Apportionment of deductions

(1) & (2)

Before the amendment, only “expenditure” was divisible. Now the “deductions” and “allowances” have been included with “expenditure” for apportionment.

68

Fair market value (FMV)

(3), (4)

FMV of immoveable property will now be determined on the basis of valuation made by a panel of approved valuers of the State Bank of Pakistan.

107

Agreement for the avoidance of double taxation and prevention of fiscal evasion.

Amended provisions of this section broaden the powers and scope of agreements the Federal Government can enter into for avoidance of double taxation, tax information exchange, exchange of information for prevention of fiscal evasion etc.

108

Transactions between associates

(3)(4) & (5),

Newly inserted sub-sections and proviso have added following provisions:

proviso

- i) For transactions with associates, following record will be kept and maintained by the taxpayer:
  - a. Master file and a local file containing prescribed documents and information;
  - b. Prescribed country by country report;
  - c. Any other prescribed information and document; and
  - d. Files, documents, information and reports, as above, will be kept for the prescribed period.
- ii) In the course of proceedings, if required, documents and information will be provided within thirty days' time or within extended time. Extension could be allowed for not more than forty-five days except in exceptional circumstances.

113

Minimum tax on the income of certain persons

(1), proviso,  
Explanation

Amendments have introduced following changes in this section:

- a) With effect from the Tax Year 2017, upper limit of turnover for individuals and Associations of persons has been brought down from Rs. 50 million to Rs. 10 million for payment of minimum tax.
- b) Immunity to a company from payment of minimum tax if it declares gross loss etc, has been withdrawn; and
- c) Super tax for rehabilitation of temporarily displaced persons has been excluded from the scope of tax payable or paid "under this section.

113A, 113B

Minimum tax on builders and land developers

Due to provisions of taxation now provided for builders and land developers in newly inserted sections 7C and 7D, these sections, dealing with similar persons and matters, have been omitted.

114

Return of income

(5) proviso,  
(6), third  
proviso

Powers of the commissioner have been enlarged to call for return or returns of one or more of the last ten completed tax years returns in cases where no return has been filed for any of the last five completed tax years.

Note: This is in clash with the provision whereby record is not required to be maintained for more than certain number of years.

For revision of return, approval of Commissioner (CIR) will not be required in following circumstances:

- a) CIR has not made an order of approval of revision within sixty days from the date revision is sought or
- b) Revised taxable income is more or loss is less than the income or loss determined under section 120.

122C (2) 2 <sup>nd</sup> and 3 <sup>rd</sup> proviso	<p>Provisional assessment</p> <p>Additional condition has been attached that account and documents for audit will also be filed for making provisional assessment ineffective.</p> <p>Note: It is not clear as to how the accounts and documents to be presented and under which section audit will be conducted!</p>
134A  (2), (4) proviso	<p>Alternate Dispute Resolution (ADR)</p> <p>Now only an officer not below the rank of commissioner could be appointed a member of the ADR committee. The Board is to pass order within ninety days of receipt of committee's recommendations. In case it is not done within ninety days, recommendation will be treated as order passed by the Board.</p> <p>Recovery of tax from persons holding money on behalf of a taxpayer.</p>
140 (1) Proviso	<p>The commissioner will not issue notice of attachment of bank accounts etc in cases where appeal is pending before the commissioner (Appeals) provided 25% of the disputed demand is paid.</p>
147  (4) Explanation (4AA), (6A) (a)	<p>Advance tax paid by the taxpayer</p> <p>Minimum tax and Alternative Corporate Tax are now to be considered for the determination of instalments of advance tax payable.</p>
147A	<p>Advance tax from provincial sales tax registered persons</p> <p>This newly inserted section provides as under:</p> <ul style="list-style-type: none"> <li>- Every person who is non-filer on the 30<sup>th</sup> June of previous tax year and is a provincial sales tax registered person, shall pay advance tax at the rate of 3% of turnover declared for provincial sales tax purposes;</li> <li>- Advance tax will be payable at the time of filing monthly provincial sales tax return.</li> <li>- Payment under this section will be considered / adjusted for paying advance tax u/s 147; and</li> <li>- Advance tax due under this section will be considered as due under an assessment order.</li> </ul>
152  (2A) (i)	<p>Payments to non-residents</p> <p>Now the tax will not be deductible from the payment made for goods to a permanent establishment of a non-resident, being a commercial importer, who has paid tax u/s 148 in respect of such goods and the goods are supplied in the same condition they were imported.</p>

- 152A Payment for foreign produced commercials
- Payments made in any manner for foreign produced commercial for advertisement on any media will be subject to deduction of tax at source at 20%. The tax so deducted will be final tax of non-resident recipient.
- 153 Payments for goods, services and contracts
- (3)(e) Tax deducted with effect from July 1, 2016 from the payments made to electronic and print media for advertising service will be final tax.
- 165B Furnishing of information by financial institutions including banks
- (2) The information obtained will be used only for tax and related purpose and kept as confidential.
- 169 Tax collected or paid or deducted as a final tax
- (4) Where the tax deducted is in respect of final tax regime, the tax deducted from a non-filer in excess of final tax will be adjustable.
- 170 Refunds
- (2) Period for making application of refund has been increased from two to three years from the date of its becoming due.
- 182 Offences and penalties
- (1) 1A Not providing information by financial institution will henceforth attract penalty.
- 231A Cash withdrawal from a bank
- (1) As per the explanation added, limit of Rs 50,000 cash withdrawal per day, without deduction of tax, will apply to all the bank accounts.
- 231B Advance tax on private motor vehicles
- (1) proviso, Now no income tax will be collected at the time of collection of road tax after the expiry of five years from the prescribed date of first registration.
- (1A) At the time of leasing a motor vehicle to a non-filer, advance tax at 3% of the value of motor vehicle will be collected by the lessor institution.
- 236A Advance tax at the time of sale by auction
- (3) This new sub-section provides that tax collected on a lease of right to collect tolls, will be final tax.

- 236C Advance tax on sale or transfer of immoveable property
- (3) Due to exemption from tax of capital gain arising from sale of immoveable property after five years of its acquisition, advance tax will also be not collected if the immoveable property was held for more than five years.
- 236E Advance tax on foreign produced TV plays and serials
- This section has been omitted as the tax deduction is now provided under Division XIII of Part-IV of First Schedule.
- 236P Advance tax on banking transactions otherwise than through cash
- (3) Exemption limit of Rs 50,000 per day is explained to be aggregate withdrawal from all bank accounts.
- Explanation
- 236U Advance tax on insurance premium
- Division XXV of Part IV of First Schedule This newly inserted section provides as under:
- a) Insurance companies will collect advance tax from non-filers on general and life insurance premium as under:
    - a. On general insurance premium; and
    - b. On life insurance premium, if it exceeds Rs 200,000 per annum.
  - b) Advance tax will be collected on premium collected through agents as well; and
  - c) Advance tax collected will be adjustable.
- 236V Advance tax on extraction of minerals
- Division XXVI of Part-IV of the First Schedule This newly inserted section provides for collection of advance tax from non-filers as under:
- a) Advance tax will be collected at 5% of the value of mineral extracted, produced, despatched and carried away from the licensed or leased area of mines;
  - b) Advance tax will be collected by the relevant provincial authority;
  - c) Advance tax collected will be adjustable; and
  - d) Board has been empowered to prescribed the value of minerals.

## THE FIRST SCHEDULE

### PART – I

### RATES OF TAX

#### DIVISION VIA

#### INCOME FROM PROPERTY

In case of individuals and associations of persons, tax under section 15 will be paid at following rates:

S # (1)	Gross amount of rent (2)	Rate of tax (3)
1.	Where the gross amount of rent does not exceed Rs 200,000.	Nil
2.	Where the gross amount of rent exceeds Rs 200,000 but does not exceed Rs 600,000.	5 per cent of the gross amount exceeding Rs 200,000.
3.	Where the gross amount of rent exceeds Rs 600,000 but does not exceed Rs 1,000,000.	Rs 20,000 plus 10 per cent of the gross amount exceeding Rs 600,000
4.	Where the gross amount of rent exceeds Rs 1,000,000 but does not exceed Rs 2,000,000.	Rs 60,000 plus 15 per cent of the gross amount exceeding Rs 1,000,000.
5.	Where the gross amount of rent exceeds Rs 2,000,000.	Rs 210,000 plus 20 per cent of the gross amount exceeding Rs 2,000,000

## DIVISION VII CAPITAL GAINS ON DISPOSAL OF SECURITIES

After substitution, the rates will be as under:

S. No.	Period	Tax Year 2015	Tax Year 2016	Tax Year 2017 Filer	Non- Filer
(1)	(2)	(3)	(4)	(5)	(6)
1.	Where holding period of a security is less than twelve months	12.5%	15%	15%	18%
2.	Where holding period of a security is twelve months or more but less than twenty-four months	10%	12.5%	12.5%	16%
3.	Where holding period of a security is twenty-four months or more but the security was acquired on or after 1 <sup>st</sup> July, 2012	0%	7.5%	7.5%	11%
4.	Where the security was acquired	0%	0%	0%	0%

	before 1 <sup>st</sup> July, 2012				
5.	Future commodity contracts entered into by the members of Pakistan Mercantile Exchange	0%	0%	5%	5%

### DIVISION VIII CAPITAL GAINS ON DISPOSAL OF IMMOVEABLE PROPERTY

The new Table is as under:

S. No. (1)	Period (2)	Rate of tax (3)
1.	Where holding period of Immovable property is up to five years.	10%
2.	Where holding period of immovable property is more than five years.	0%

proviso Irrespective of the holding period, gain on sale of immoveable property to a Rental REIT Scheme will be taxed at the rate of 5% upto June 30, 2019.

### DIVISION VIIIA TAX ON BUILDERS

This newly inserted Division prescribes the rates of tax under section 7C as under:

(A) Karachi, Lahore and Islamabad	(B) Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta	(C) Urban Areas not specified in A and B
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For commercial Plots		Rs. 210/ Sq. Yd.		Rs. 210/ Sq. Yd.		Rs. 210/ Sq. Yd.	
For residential Plots		Rs. 210/ Sq. Yd.		Rs. 210/ Sq. Yd.		Rs. 210/ Sq. Yd.	
Area in Sq. Ft	Rate/ Sq. Ft	Area in Sq. Ft	Rate/ Sq. Ft	Area in Sq. Ft	Rate/ Sq. Ft	Area in Sq. Ft	Rate/ Sq. Ft
Up to 750	Rs. 20	Up to 750	Rs. 15	Up to 750	Rs. 10	Up to 750	Rs. 10
751 to 1,500	Rs. 40	751 to 1,500	Rs. 35	751 to 1,500	Rs. 25	751 to 1,500	Rs. 25
1,501 & more	Rs. 70	1,501 and more	Rs. 55	1,501 and more	Rs. 35	1,501 and more	Rs. 35

## DIVISION VIII B TAX ON DEVELOPERS

(A) Karachi, Lahore and Islamabad	(B) Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta	(C) Urban Areas not specified in A and B
For commercial Plots		
Rs. 210/ Sq. Yd.	Rs. 210/ Sq. Yd.	Rs. 210/ Sq. Yd.
For residential Plots		
Area in Sq. Yd.	Area in Sq. Yd.	Area in Sq. Yd.
Rate / Sq. Yd.	Rate / Sq. Yd.	Rate / Sq. Yd.
Up to 120	Up to 120	Up to 120
Rs. 20	Rs. 15	Rs. 10
121 to 200	121 to 200	121 to 200
Rs. 40	Rs. 35	Rs. 25
201 and more	201 and more	201 and more
Rs. 70	Rs. 55	Rs. 35”

## PART III DEDUCTION OF TAX AT SOURCE

### Division – I Advance tax on Dividend

Clause (c) Rate of deduction for non-filer has been increased from 17.5% to 20%.  
First proviso After substitution, the new Table is as under:

	“Person	Stock Fund	Money market fund, income fund or REIT scheme or any other fund
			Filer Non-Filer
(1)	(2)	(3)	(4)
Individual	10%	10%	15%
Company	10%	25%	25%
AOP	10%	10%	15%

### Division – II Payments to non-residents

(1) New rates for deduction of tax from payments for execution of contracts or sub-contracts for construction etc, advertisement services rendered by T.V. Satellite Channels will be:

For Filers	7%
For Non-Filers	12%



### Division – III Payments for Goods or Services

- Clause (1) In case of supply of goods of fast moving consumer's goods by distributors, the  
(ab) tax will be deducted at following reduced rates:
- |     |                                 |      |
|-----|---------------------------------|------|
| i)  | In case of a company            | 3%   |
| ii) | In case of other than a company | 3.5% |
- Clause (2)(ii) Tax deduction rate for filers in respect of payments made to electronic and print  
(c)(ii) media for advertising services increased from 1% to 1.5%.

### Division – V Income from Property

- Clause (a) After substitution, the Table of new rates of tax is as under:
- | S. # | <b>Gross amount of rent</b>   | Rate of tax   |
|------|---|---|
| (1)  | (2)   | (3)   |
| 1.   | Where the gross amount of rent does not exceed Rs 200,000.                            | Nil   |
| 2.   | Where the gross amount of rent exceeds Rs 200,000 but does not exceed Rs 600,000.     | 5 per cent of the gross amount exceeding Rs 200,000.                        |
| 3.   | Where the gross amount of rent exceeds Rs 600,000 but does not exceed Rs 1,000,000.   | Rs 20,000 plus 10 per cent of the gross amount exceeding Rs 600,000.        |
| 4.   | Where the gross amount of rent exceeds Rs 1,000,000 but does not exceed Rs 2,000,000. | Rs 60,000 plus 15 per cent of the gross amount exceeding Rs 1,000,000.      |
| 5.   | Where the gross amount of rent exceeds Rs 2,000,000.                                  | Rs 210,000 plus 20 per cent of the gross amount exceeding Rs 2,000,000; and |

### Division – VI Prizes and Winnings

- Paragraph (1) Rate for tax deduction from prize on prize bond or cross word puzzle will be 20%  
for non-filer.

**PART IV**  
**DEDUCTION OR COLLECTION OF ADVANCE TAX**  
**Division – II**  
**BROKERAGE AND COMMISSION**

After substitution, the new Table of rates is as under:

S. No.	Person	Rate applicable on the amount of payment.	
		Filer	Non-Filer
(1)	(2)	(3)	(4)
1.	Advertising Agents	10%	15%
2.	Life Insurance Agents where commission received is less than Rs.0.5 million per annum	8%	16%
3.	Persons not covered in 1 and 2 above	12%	15%

**Division – IIA**  
**RATES FOR COLLECTION OF TAX BY A STOCK EXCHANGE**  
**REGISTERED IN PAKISTAN**

Following new Table substitutes the existing Table of rates:

S. #	Description	Rate
(1)	(2)	(3)
1.	in case of purchase of shares as per clause (a) of sub-section (1) of section 233A.	0.02% of purchase value
2.	in case of sale of shares as per clause (b) of sub-section (1) of section 233A.	0.02% of sale value;

**Division – IV**  
**Electricity Consumption**

Rate for collection of tax on monthly bill of commercial consumer, exceeding Rs 20,000 increased from 10% to 12%.

**Division – X**  
**Advance tax on sale or transfer of immovable property**

Rates for collection of advance tax have been increased from 0.5% to 1% and from 1% to 2% for filers and non-filers respectively.

### Division – XIII

- (1) Amounts of tax collection from Cable Television operators have been reduced for categories R, B-1 and B-2.
- (3) This new paragraph provides for further collection of tax at the rate of 50% of permission or renewal fee from the TV channel on which foreign TV drama serial or play in any language, other than English, is screened or viewed.

### Division – XVIII

Advance tax on purchase of immovable property  
Rates for collection of tax increased from 1% to 2% and from 2% to 4% for filers and non-filers respectively.

### Division – XXV

#### ADVANCE TAX ON INSURANCE PREMIUM

This new Division prescribes rates for collecting tax from non-filers as under:

S. #	Type of Premium	Rate
(1)	(2)	(3)
1.	General insurance premium	4%
2.	Life insurance premium if exceeding Rs 0.2 million per annum	1%
3.	Others	0%

### Division – XXVI

#### ADVANCE TAX ON EXTRACTION OF MINERALS

This new Division prescribes rate of 5% for collection of tax u/s 236V from non-filers.

### THE SECOND SCHEDULE EXEMPTIONS AND TAX CONCESSIONS PART 1 EXEMPTIONS FROM TOTAL INCOME

- Clause (13), (iii) Maximum exempt amount of gratuity paid on retirement or death of an employee under the approved scheme has been increased from Rs. 200,000 to Rs. 300,000.
- (98) After amendment, now the income of those Boards and other organizations will be exempt which are established by the Government in Pakistan for controlling, regulating or encouraging major games and sports recognised by Government except Pakistan Cricket Board.

- (103A) Exemption of income from inter corporate dividend has been withdrawn from companies availing Group Relief under section 59B.
- (126A) After substitution, this clause now extends exemption of income to five Companies (previously one only) for 23 years with effect from February 6, 2007. Names of these Companies are as under:
- i) China Overseas Ports Holding Company Ltd;
  - ii) China Overseas Ports Holding Company Pakistan (Pvt) Ltd;
  - iii) Gwadar International Terminal Ltd;
  - iv) Gwadar Marine Services Ltd; and
  - v) Gwadar Free Zone Company Ltd.
- (126AA) This new clause exempts profit and gains derived from business setup in Gwadar Free Zone Area for twenty years with effect from July 1, 2016.
- (126AB) This new clause provides exemption to profit on debt derived by the following under a financing agreement with China Overseas Ports Holding Company Ltd, for a period of twenty-three years from July 1, 2016.
- a) Any foreign lender; or
  - b) Any local bank having more than 75% shareholding of the Government or State Bank of Pakistan.
- (126AC) This new clause exempts income of contractors and sub-contractors of five Companies stated in clause (126A), derived from Gwadar Port operations for twenty years from July 1, 2016.
- (126AD) This new clause exempts dividend income received by China Overseas Ports Holding Company Ltd from China Overseas Ports Holding Company Pakistan (Pvt) Ltd; Gwadar International Terminal Ltd; Gwadar Marine Services Ltd and Gwadar Free Zone Company Ltd.  
Dividend received by China Overseas Ports Holding Company Pakistan (Pvt) Ltd from Gwadar International Terminal Ltd; Gwadar Marine Services Ltd and Gwadar Free Zone Company Ltd.
- (133) Exemption of income from export of computer software or IT services or IT enabled services has been extended for three years to June 30, 2019. The exemption will be available if 80% of export proceeds are brought into Pakistan through normal banking channels.

## PART II REDUCTION IN TAX RATES

- (3) After the substitution of this clause, rates of taxation have been increased in respect of services rendered and construction contracts executed outside Pakistan. Against the existing tax rate of 1%, now the income will be subject to tax at 50% of the rates prescribed for services and contracts respectively.

(3B) Income of the Pakistan Cricket Board (PCB), derived from sources outside Pakistan will be taxable at the rate of 4% of such gross receipts.

PCB may opt to pay tax at the rate of 4% of gross receipts from the Tax Year 2010 and onwards. However, this option will be available if PCB withdraws all appeals, references etc presently pending. Also, that the tax liability upto the Tax Year 2015 is paid by June 30, 2016.

(18B) Rate of tax for listed company will be reduced by 2% if:

- a) it fulfils prescribed Shariah compliant criteria;
- b) it derives income from manufacturing activity only;
- c) it has declared taxable income for the last three consecutive tax years; and
- d) it has issued dividend for the last five consecutive tax years.

## PART IV EXEMPTION FROM SPECIFIC PROVISIONS

(11A), sub-clause(xxvi) By substituting this sub-clause, exemption from payment of minimum tax u/s 113 has also been extended to Gwadar Port related companies whose income has been exempted u/c (126A) of Part-1 of this Schedule.

sub-clause (xxvii) This new sub-clause exempts companies, whose profit and gains are derived from transmission line project, from the payment of minimum tax u/s 113 as well.

(11B) &(11C) By amending these clauses, exemptions from deduction of tax from inter – corporate dividend u/s 150 and inter-corporate profit on debt u/s 151 available to Group Companies entitled to group Relief u/s 59B have been withdrawn.

(38AA) This new clause allows exemption from deduction of tax from dividend payable to companies whose income from dividend is exempt u/s (126AD) of Part-I of this Schedule, for a period of 23 years.

(57) By amending this clause, companies operating trading houses have been subjected to minimum tax at the reduced rate of 0.50% upto the Tax Year 2019.

(59) (i) By omitting the sub-clause, deduction of tax will now be made from the payment of profit on debt made to a company on Term Finance Certificate issued after July 1, 1999.

(72A) Exemption from application of sections 21(l), 113 and 152 will not apply to Hajj Group Operators for the Tax Year 2016 if they pay tax at the rate of Rs 5,000 per Hajji.

(72B) To avail exemption from collection of tax on imports u/s 148 by an industrial Second, third and fourth provisos undertaking, further conditions of limit on import of raw materials and compulsory audit of latest Tax year have also been imposed.

(86) paragraph (a), sub-paragraph(iii) Exemption from application of section 111 (unexplained income or assets) for specified investors in specified industrial undertakings has been extended by two years to June 30, 2019.

(94) Exemption from minimum tax on services u/s 153(3)(b) to prescribed service companies has been extended to the Tax Year 2017 with other conditions remaining the same.

(98) Exemption from collection of tax u/s 148 has been allowed on import of ships and other floating crafts etc upto the year 2020 provided that ships etc will be used only for the purpose for which these are imported.

(99) Exemption from collection of tax u/s 148 has been extended to import or acquisition of air craft on wet or dry lease by Pakistan International Airlines Corporation with effect from March 19, 2015.

#### THE FOURTH SCHEDULE RULES FOR THE COMPUTATION OF THE PROFITS AND GAINS OF INSURANCE BUSINESS

Rule (6B) This amended Rule now provides that capital gains on disposal of shares and dividend of listed companies etc shall be included in income and taxed at the applicable corporate tax rate.

#### THE SIXTH SCHEDULE PART I RECOGNISED PROVIDENT FUNDS

Rule 3(3)(a) Presently, contribution made by employer to provident fund in excess of the lower of one-tenth of salary or Rs 100,000 was to be included in the income of employee. Limit of Rs 100,000 has been increased to Rs 150,000.

#### THE SEVENTH SCHEDULE RULES FOR THE COMPUTATION OF THE PROFITS AND GAINS OF A BANKING COMPANY AND TAX PAYABLE THEREON

Rule 7C Super tax for rehabilitation of temporarily displaced persons will be payable for the Tax Year 2016 as well.

#### THE EIGHT SCHEDULE RULES FOR THE COMPUTATION OF CAPITAL GAINS ON LISTED SECURITIES

Rule (1A) Capital gain arising on disposal of units of mutual fund (section 100B) will now be computed under this Schedule and tax thereon will be collected and deposited by NCCPL.

- (1B) Gain or loss on trading of future commodity contracts on the Pakistan Mercantile Exchange, subject to tax u/s 37A and to which section 100B applies, will be computed under this Schedule and tax thereon will be collected and deposited by NCCPL.
- (3) proviso New proviso provides that, if the CDCPL does not provides information to NCCPL, NCCPL will forward details to the Commissioner who will enforce the furnishing of information including penalty provisions.
- (3A) The new sub rule makes it obligatory for Asset Management Companies, Pakistan Mercantile Exchange and any other person to furnish information when required by NCCPL.

## SALES TAX ACT, 1990

### IMPORTANT CHANGES INTRODUCED BY THE FINANCE ACT, 2016

Section	
2	Definition
(5AB)	Upper limit of turnover for exemption from sales tax of cottage industry increased from Rs. 5 million to Rs. 10 million.
(9)	This clause is amended to now allow Board to prescribe different dates for filing return and various Annexures from July 1, 2016 instead of one date, in line with the new on line system of filing being introduced from July 1, 2016.
(14)	After the amendment, provincial sales tax on services has been excluded from the scope of input tax. Thus, the ultimate consumer will have to bear increased cost.
6	Time and manner of payment
(2)	Now the time and manner of tax payment will not be filing of return but other dates as may be prescribed.
7	Determination of tax liability
(2)(i) proviso	New proviso now imposes condition that input tax will not be available unless the supplier declares supply in his return and pays tax due.
8	Tax credit not allowed
(1)(l)	The credit for input tax will not be allowed if the supplier has not paid tax due on the basis of return.
11	Assessment of tax and recovery of tax not levied or short-levied or erroneously refunded.
(4A)	This new sub-section now empowers Department to recover from the buyer the amount of tax not deducted or not deposited.
13	Exemption
(2)(a)	Amendment in clause(a) expands the scope of exemption the Government can grant to include matters relating to international financial institutions or foreign government owned financial institutions.
33	Offences and penalties
Column (1) S. No. 19	Scope of penalty under this S. No. has been extended to default of any rule made under the Act.
47A	Alternate dispute resolution (ADR)



- (2), (4), proviso      Now only an officer of the rank of Commissioner or above could be appointed as a member of ADR committee. The Board will pass order within ninety days of receipt of committee's recommendations. In case it is not done within ninety days, recommendations will be treated as order passed by the Board.
- 49      Sale of taxable activity or transfer of ownership
- (2)      After substitution, this sub-section provides that in case of sale or transfer of ownership of a taxable activity or part thereof to another registered person as a going concern, goods will be transferred at zero rate and sales tax chargeable thereon will be paid by the transferee.

### THE THIRD SCHEDULE

Mineral / bottled water has been subjected to sales tax at 17% rate.

### THE FIFTH SCHEDULE

- S. No. 12      By amending this Schedule, all stationery items, milk and fat filled milk under this S. No. have been omitted, thus excluding them from zero rated supply. [These items are exempt under the Sixth Schedule]

### THE SIXTH SCHEDULE

#### Table – 1 (Imports or Supplies)

- S. No. 100A      This new S. No. exempts from sales tax goods and equipment, for construction and operation of Gwadar Port and development of Free Zone, imported by or supplied to the entities named therein and their contractors and sub-contractors, and ship bunker oil brought and sold to ships calling on / visiting Gwadar Port, having concession agreement with Gwadar Port, for forty years, subject to prescribed conditions and procedures.
- S. No. 100B      This new S. No. exempts from sales tax the supplies made by the business to be established in Gwadar Free Zone (GFZ) for twenty-three years, within the GFZ; supplies made outside the GFZ and in Pakistan will be subject to Federal Excise Duty.
- S. No. 130, 131, 132, 133      These new S. Nos exempt premises for growth stunting; Laptop computers etc; personal computers; pesticides and their active ingredients etc.

Table – 3

S. No. 4 Dump truck has been included in the exempt vehicles required for coal mining.

EIGHTH SCHEDULE

S. No. 15, 20, 32, 33 By amendments, reduced rates on certain items have been increased; respective headings of certain items substituted; addition of goods made by inserting new S. No. 32 and 33 i.e. sugar and urea.

NINTH SCHEDULE

S. No. 2

Category B Sales tax on import or local supply and on registration of IMEI number of medium priced cellular Mobile Phones or Satellite Phones increased from Rs 500 to Rs 1000 for each activity.

Category C Sales tax on import or local supply and on registration of IMEI number of Smart Cellular Mobile Phones or Satellite Phones increased from Rs 1,000 to Rs 1,500 for each activity.

S.R.O. 491(1)/2016 dated June 30, 2016

To facilitate the exporters and provide for a No-Tax, No-Refund Regime for five export oriented sectors, the items as specified in the SRO 1125(1)/2011 dated 31 December, 2011 and the purchase of energy i.e. electricity, gas, furnace oil and coal, have been subjected to zero rate of sales tax. The retail sales of locally manufactured finished goods of these sectors subjected to sales tax @ 5%.

## ISLAMABAD CAPITAL TERRITORY Tax on Services Ordinance, 2001

### Section

3 Scope of tax

(2A) This new sub-section provides that following provisions of Sales Tax Act, 1990 will apply mutandis to the services rendered or provided under this Ordinance;

- Power of the Federal Government to levy sales tax in addition of sales tax already chargeable. S 2(2)(b), (6) & (7)
- Zero rated supply to diplomats, diplomatic missions etc provided in S. No. 2, in column (1) and entries relating to the Fifth Schedule read with section 4.
- Power of the Federal Government to grant exemption subject to approval of ECCC – S.13(2), (3), (6) & (7).
- Exemption of goods imported or supplied under grant-in-aid with specific approval of FBR etc.

(2B) This new clause exempts from levy of sales tax on regulatory and licencing services rendered or provided by an organisation established by or under a Federal Law.

### THE SCHEDULE

S. No. 37 has been substituted to make following services subject to tax at the rate of 16%.

37. Valuation services, competency and eligibility testing services excluding education testing services provided or rendered under a bilateral or multilateral agreement signed by the Government of Pakistan.