

OICCI Budget Proposals incorporated in the Finance Act 2015

We have noted that the following OICCI Taxation Proposals submitted to the FBR, have been fully or partially included in the Federal Budget 2015-16 proposals:

1. Corporate Tax Rates

Corporate tax rate further reduced by 1%, to 32%, and assurances have again been given for further reductions by 1% each year to eventually bring it to 30% by 2017-18. (However, the reduced corporate tax rate is not applicable to the banking sector, which will continue to be taxed at 35%)

2. Providing Relief To Salaried Individual

Rate of tax on salaried tax payers earning taxable income in excess of PKR 400,000 but less than PKR 500,000 proposed to be reduced from 5% to 2%.

3. Rate of tax of non-salaried individual tax payers and Association of Persons reduced from 10% to 7% in respect of the above amount

4. Some sectors given exemption/relief under section 113, Minimum Tax Regime

- Minimum tax imposed on builders has been suspended for three years till June 30, 2018.
- Exemption also given for 3 years to new industrial undertakings engaged in setting up and operating cold chain facilities, and setting up and operating warehousing facilities for storage of agriculture produce.
- Exemption to companies who setup halal meat production plant and obtain halal meat certification by December 31, 2016 will be eligible for exemption from minimum tax under section 113.
- Exemption for a period of 10 years energy transmission line project, provided it is setup after July 1, 2015.
- Exemption of profit and gains derived by LNG Terminal Operators and Terminal Owners for a period of 5 years after commencement of commercial operations. They are also eligible for exemption from minimum tax under section 113.

5. Advance Tax under Section 147:

Rate of default surcharge for failure to pay tax collected or deducted has been reduced from 18% to 12%.

6. Withholding Taxes

- Commissioner empowered to issue reduced/nil withholding tax certificate to a permanent establishment of a non-resident person.
- Withholding tax rate of 10% is proposed on payment to resident persons, on account of renting out of machinery and for use or right to use commercial, scientific or industrial equipment and it will be treated as final tax liability.

7. Toll manufacturing service

Toll manufacturing service has been added in the definition of 'supply' confirming chargeability of Federal sales tax on such service. This may address the issue of current double taxation of toll manufacturing services both in Federation and provinces.

8. Enlistment credit

Tax credit for enlistment on any registered stock exchange is being enhanced from 15% to 20% for the year of enlistment.

9. Tax broadening measures

Measures for broadening of tax base include introduction of different advance tax / sales tax slabs for tax filers and non-tax filers, thus putting pressure on the non-filer to become a part of the tax net. The Finance Bill also includes proposals to increase cost of doing business for non-filers of income tax.

- a) Computerized National Identity Card of an individual to be used as National Tax Number for tax year 2015 and onwards.
- b) In case of non-filers, adjustable advance tax is proposed to be collected on all banking instruments and all modes of transfer of funds through banks at the rate of 0.6% of the amount of transaction. This tax collection is not applicable to Pakistan “Real-time Interbank Settlement Mechanism” transactions and payments made for Federal, Provincial or Local Government taxes or where transaction in a day is equal to or less than PKR 50,000.
- c) The Bill proposes to empower the Federal Government to enter into bilateral or multilateral agreements with provincial governments or with governments of foreign countries for the exchange of information including electronic exchange of information.
- d) Rate of further Sales tax on supplies to persons who have not obtained registration has been increased from 1% to 2%. Rationale of such enhancement appears to further penalize the unregistered business entities.
- e) FBR has been empowered to prescribe prize schemes to encourage the general public to make purchases only from registered persons issuing tax invoices
- f) Award will be granted to Whistleblowers providing information for detection of cases involving concealment or evasion of duties and taxes. Amendments made on the following tax laws for this purpose:
 - (i) Income Tax Ordinance, 2001
 - (ii) Sales Tax Act, 1960 and
 - (iii) Federal Excise Act, 2005

10. Incentive for new FDI

- a) Tax exemption proposed for Electricity Transmission Projects, for a period of 10 years that are set up before June 2018.
- b) Exemption for 5 years in respect of profits and gains derived by an industrial undertaking engaged in the manufacturing of equipment, plant and items required to produce solar and wind energy.

11. Tax Credit for industrial undertaking established before July 1, 2011 (Section 65E)

Tax credit for investment in purchase and installation of plant and machinery for an industrial undertaking established before July 1, 2011, with 100% new equity raised through issuance of new shares, has been enhanced from 4 to 5 years.

12. Tax Credit for Employment Generation

A tax credit has been introduced for companies to encourage employment generation. Under this provision, any company engaged in manufacturing formed between July 1, 2015 to June 30, 2018 shall be allowed a tax credit of 1% of tax payable for every 50 employees registered with EOBI and social security schemes. The maximum tax credit shall, however, not exceed 10% of the tax payable.

POST BUDGET: OICCI MEASURES ADDRESSED IN THE FEDERAL BUDGET 2015-2016

The following matters which were taken up by OICCI immediately after the announcement of the Federal Budget, were, inter alia, incorporated in the Finance Act 2015 passed by Parliament.

1. Tax credit period under section 65B has been extended up June 30, 2016

2. Tax on undistributed reserves under section 5A.

The proposals included in the Budget to impose a 10% tax reserves in excess of 100% of the paid-up capital of every public company other than a scheduled bank or a modaraba, has now been substantially changed and this will not be applicable on:

- a) any public company which distributes profit equal to either forty per cent of its after tax profits or fifty per cent of its paid up capital, whichever is less, within six months of the end of the tax year;
- b) any company qualifying for exemption under clause (132) of Part I of the Second Schedule; and
- c) any company in which not less than fifty percent shares are held by the Government.

3. Reduction of Corporate tax rate by 1% each year to eventually bring it to 30% by 2017-18 has now been made part of the law.

OICCI RECOMMENDATIONS INCORPORATED IN THE PROVINCIAL BUDGETS 2015-2016

Sindh Sales Tax on Services

Reduction in general rate of Sales Tax: In the Sindh Finance Bill, 2015 existing general sales rate has been reduced from 15% to 14% for all services.

Reduction in sales tax rate on telecommunication services from 19.5% to 18%,

However, for Services taxable at reduced sales tax rate the rate has been increased from 5% to 6%);

Punjab Sales Tax on Services

Tax Broadening Measures

Whistle blowers: A new concept of 'whistle blower' is proposed to be introduced in the Sales Tax Act. This will empower the PRA to reward persons, in addition to its officers, who provide information regarding concealment or evasion of tax or tax fraud.

Continuity of sales tax exemption on internet services: The notification dated May 28, 2015, imposing 19.5% tax on all kinds of internet usage for users whose monthly bill exceeds Rs 1,500 or if the broadband speed is