
Tax in Budget 2015

Finance Bill 2015

Income Tax Changes only!

For the use of Clients & Staff Only.

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FOREWORD

Every year federal budget is presented in national assembly for the forthcoming fiscal year. Besides setting expected receipts and payments, budget also includes various fiscal measures to set direction for various fiscal targets which government wants to achieve.

Various amendments are made in fiscal laws including income tax law every year in furtherance of such objectives.

This document "**Tax in Budget**" aims to cover the proposed amendments in income tax law and its implications on limited liability companies (LLC), non-governmental organizations (NGO), association of persons (AOP) and individuals both salaried and non-salaried (IND).

We hope that the "**Tax in Budget**" will assist our clients and staff to understand the changes in income tax law i.e. Income Tax Ordinance 2001 & Income Tax Rules 2002 and implications of such changes.

The information presented in this document has been taken from the Federal Budget and Finance Bill, 2015, as presented in the National Assembly on June 05 2015. It contains proposed amendments, which will become operative once the Finance Bill is formally passed in National Assembly and become Finance Act, 2015. A separate document will be issued once the Finance Bill is passed in the National Assembly.

Views expressed herein should not be acted upon without obtaining professional advice, as the interpretation may differ in different circumstances.

In the end we want to thank our tax team for their contribution to compile this document.

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1. Proposed Amendment in sections of Income Tax Ordinance, 2001.

The following sections of Income Tax Ordinance, 2001 are proposed to be amended by the Finance Bill, 2015.

Section 2(13AA)	Consumer Goods
Section 2(17D)	Developmental REIT Scheme
Section 2(22A)	Fast Moving Consumer Goods
Section 2(28A)	Imputable Income
Section 2(29)	Income
Section 2(42A)	Pakistan Mercantile Exchange Limited (PMEX)
Section 2 (47A)	Real Estate Investment Trust (REIT) Scheme
Section 2 (47B)	Real Estate Investment Trust Management Company (REITMC)
Section 2(47C)	Rental REIT Scheme
Section 2(59A)	Small Company
Section 2(75)	Whistleblower
Section 4B	Super Tax for Rehabilitation of Temporarily Displaced Persons
Section 5A	Tax on Undistributed Reserves
Section 7A	Tax on Shipping of a Resident Person
Section 7B	Tax on Profit on Debt
Section 12 (2)(a)	Salary
Section 15A	Deductions in computing Income Chargeable under the head "Income from Property"
Section 37A	Capital Gain on Disposal of Securities
Section 53(2)	Exemptions and Tax Concessions in the Second Schedule
Section 62	Tax Credit for Investment in Shares and Insurance
Section 64	Profit on Debt
Section 64A	Deductible Allowance for Profit on Debt
Section 64B	Tax Credit for Employment Generation by Manufacturers
Section 65	Miscellaneous Provisions Relating to Tax Credits
Section 65C	Tax Credit for Enlistment
Section 65E	Tax Credit for Industrial Undertakings Established before the first day of July, 2011
Section 94	Principles of Taxation of Companies
Section 100C	Tax Credit for Certain Persons
Section 107	Agreement for the avoidance of double taxation and prevention of fiscal evasion
Section 113A	Minimum Tax on Builders
Section 113B	Minimum Tax on Land Developers
Section 114	Return of Income
Section 121	Best Judgment Assessment
Section 128	Procedure in Appeal
Section 137	Due Date for Payment of Tax
Section 147	Advance Tax Paid by the Taxpayer
Section 148A	Tax on Local Purchase of Cooking or Vegetable Ghee by certain Persons
Section 151	Profit on Debt
Section 152	Payments to Non-residents
Section 153	Payments for Goods, Services and Contracts
Section 154	Exports
Section 159	Exemption or Lower Rate Certificate
Section 161	Failure to Pay Tax Collected or Deducted
Section 165B	Furnishing of Information by Financial Institutions Including Banks.
Section 169	Tax Collected or Deducted as a Final Tax
Section 171	Additional Payment for Delayed Refunds
Section 176	Notice to Obtain Information or Evidence
Section 177	Audit
Section 181	Taxpayers' Registration
Section 182	Exemption from Penalty and Default Surcharge
Section 195	Prosecution for Making False or Misleading Statements
Section 205	Default Surcharge
Section 207	Income Tax Authorities
Section 210(1B)	Delegation
Section 211	Power or Function Exercised
Section 214D	Automatic Selection for Audit
Section 227B	Reward to Whistleblowers
Section 231A(2)	Cash Withdrawal from a Bank
Section 231AA	Advance Tax on Transactions in Bank
Section 231B	Purchase of Motor cars and Jeeps
Section 234	Tax on Motor Vehicles
Section 236	Telephone Users
Section 236B	Advance Tax on Purchase of Air Ticket
Section 236C	Advance Tax on Sale or Transfer of Immovable Property
Section 236H	Advance Tax on Sales to Retailers
Section 236K(3)	Advance Tax on Purchase or Transfer of Immovable Property
Section 236O	Advance Tax under this Chapter
Section 236P	Advance Tax on Banking Transactions otherwise than Through Cash
Section 236Q	Payment to Residents for Use of Machinery and Equipment
Section 236R	Collection of Advance Tax on Education Related Expenses Remitted Abroad
Section 236S	Dividend in Specie.
Section 236T	Collection of Tax by Pakistan Mercantile Exchange Limited (PMEX)

Summary of Significant Changes in Income Tax Law

1. Tax Rate in first slab for Salaried & Business Individual Reduced. **[Part I of First Schedule]**

The rate of tax for tax bracket of Rs. 400,000 to Rs. 500,000 has been proposed to be reduced from 5% to 2% for salaried persons and from 10% to 7% for non-salaried individual.

(Comparison chart of existing tax burden and reduced proposed tax liability for both salaried and non-salaried persons are given at the end of this document to facilitate our clients to assess the effect of the proposed change on their tax liability for Tax Year 2016).

(See also complete proposed Tax Rate Card for Tax Year 2016 both for salaried and non-salaried individual at the end of this document.)

2. Scope for Small Company status has been expanded. **[Section 2(59A)]**

The limit of share capital and reserves for qualifying as a small company has been proposed to be increased from Rs. 25 million to Rs. 50 million.

(See complete proposed Tax Rate Card for Tax Year 2016 for Small Company at the end of this document.)

3. Super Tax for Rehabilitation of Temporarily Displaced Persons - TDPs. **[Section 4B]**

A new section 4B is proposed to be added and one-time tax is proposed to be levied on rich individuals, AOPs and Companies earning income over Rs. 500 millions in the Tax Year 2015 at the rate of 4% of income for banking companies and 3% of income for all other companies, AOPs and Individuals.

4. Tax on undistributed reserves. **[Section 5A]**

It is proposed through insertion of a new section 5A, that if a public company other than a scheduled bank and modaraba does not distribute cash dividend within 6 months of the end of tax year, tax at the rate of 10% will be levied. And if a listed company's distributable reserves are in excess of 100% of share capital after the distribution of dividend, such an excess will be treated as income and tax will be levied thereon.

5. Tax on shipping business of a resident person. [Section 7A]

It is proposed through insertion of a new section 7A, in case of any person engaged in the business of shipping, a presumptive income tax shall be charged at the rate of 15 US cent to 1 USD per ton.

6. Tax on profit on debt. [Section 7B]

It is proposed through insertion of a new section 7B, that every person who receives a profit on debt shall have to pay tax on the profit received by him from certain persons identified in section 151. The tax rates of various slabs ranges from 10%, 12.5% and 15%, with the starting slab of Rs. 25 million having tax rate of 10%.

7. Deductible allowance for profit on debt. [Section 64A]

It is proposed through insertion of a new section 64A, that every individual shall be entitled to a deductible allowance equal to amount paid for profit on debt or share of rent and share in appreciation for value of house on a loan by a schedule bank or NFBI for the loan obtained for construction or purchase of house, provided that such allowance shall not exceed 50% of taxable income or 1 million rupees whichever is lower.

8. Tax credit for employment generation by manufacturers. [Section 64B]

It is proposed through insertion of a new section 64B, that every company which sets up a new manufacturing unit between July 01, 2015 and June 30, 2018, will be entitled to a tax credit for ten years at an amount of 1% of tax payable for every 50 employees registered with EOBI and fulfilling certain other conditions given in the proposed section.

9. Minimum Tax on Builders. **[Section 113A]**

It is proposed through insertion of a new sub section 3 to section 113A, that minimum tax on builders shall not be levied under this section till June 30, 2018.

10. Return of Income. **[Section 114]**

It is proposed through insertion of a new proviso to subsection 6 of section 114, that if the revised return is filed within 60 days of the filing of return, no approval of the Commissioner will be required to obtain for such a revision.

11. Procedure in Appeal. **[Section 128]**

It is proposed through insertion of a new sub section to section 128, that Commissioner (Appeals) may stay the recovery of tax for a further period of 30 days [in addition to existing period of 30 days], provided that the order on appeal shall be passed within the said period.

12. Tax on local purchase of cooking oil or vegetable ghee by certain persons. **[Section 148A]**

It is proposed through insertion of a new section 148A, on manufacturers of cooking oil or vegetable ghee a tax of 2% on the purchase of locally produced edible oil has to be charged which will be the final tax.

13. Payments for Goods, Services and Contracts. **[Section 153]**

It is proposed through changes in section 153, that for every company tax deducted under section 153 (1) (b) is adjustable now w.e.f Tax Year 2009, however, for persons other than company it will remain as minimum tax.

14. Exports.

[Section 154]

It is proposed through changes in section 154, that the tax under section 154 will not be considered as final if a person who irrevocably opts out from the final tax regime. This option will be exercised at the time of filing of return and the tax deducted under section 154 will be considered as minimum.

15. Furnishing of Information by Financial Institutions Including Banks.

[Section 165B]

It is proposed through insertion of a new section 165B, that every financial institution shall make arrangement to provide information regarding non-resident persons to the FBR in the prescribed form and manner for the purpose of automatic exchange of information under the bilateral/multilateral agreement convention.

16. Audit

[Section 177]

It is proposed through insertion of a new sub section 11 to section 177, that FBR may appoint special audit panel for the audit under section 177. Such panel is proposed to be having a Chairman [an Officer of Inland Revenue], and to comprise of two or more members from the following:

- (i) An Officer or Officers of Inland Revenue
- (ii) A firm of Chartered Accountants
- (iii) A firm of Cost and Management Accountants; or
- (iv) Any other person as directed by FBR

17. Taxpayer's Registration.

[Section 181]

It is proposed through insertion of a new sub section 4 to section 181, that from Tax Year 2015 and onwards Computerized National Identity Card (CNIC) of an individual shall be used as National Tax Number (NTN).

18. Exemption from Penalty and Default Surcharge. [Section 182]

It is proposed through changes in sub section 1 of section 182, that every person fail to furnish a statement shall be penalize a minimum penalty of Rs. 10,000 rather than Rs. 50,000. Whereas a person who fails to furnish a wealth statement or wealth reconciliation statement will be penalize at 0.1% of taxable amount per week or Rs. 20,000 whichever is higher instead of existing penalty of Rs. 100 per day of default.

19. Automatic selection for audit. [Section 214D]

It is proposed through insertion of a new section 214D, that the registered retailer who does not fulfill the following parameters shall be automatically selected for audit of income tax affairs for that tax year:

- Name of the tax payer appears in sales tax Active Taxpayers' List;
- Return on income under section 114 has been filed on time;
- Tax under section 137 has been paid;
- 2% tax on turnover under section 113 has been paid who files a return below taxable limit and who in the preceding tax year had either not filed return or had declared income below taxable limit; and
- Has paid 25% higher tax than previous tax year.

20. Reward to Whistleblowers. [Section 227B]

It is proposed through insertion of a new section 227B, to empower the FBR for sanctioning reward to whistleblowers in cases of concealment or evasion of income tax, fraud, corruption or misconduct providing credible information leading to such detection of tax.

21. Advance Tax on Transactions in Bank. [Section 231AA]

It is proposed through deletion of a proviso to section 231AA, that withholding tax will now be applicable in case of inter-bank or intra-bank transfer and also where payment is made through a crossed cheque for purchase of a financial instrument in addition to cash withdrawal.

22. Advance tax on banking transactions otherwise than through cash.

[Section 236P]

It is proposed through insertion of a new section 236P, that every banking company shall collect adjustable tax at the rate of 0.6% from non-filer at the time of sale of any instrument including DD, pay order, call deposit receipt, traveller's cheque or any other instrument.

23. Payment to residents for use of machinery and equipment.

[Section 236Q]

It is proposed through insertion of a new section 236Q, that every prescribed person under section 153 (7) making a payment to a resident person for use or right to use industrial, commercial & scientific equipment, & on account of rent of machinery shall deduct tax @ 10% and such tax shall be final tax on the income of such resident person.

24. Collection of advance tax on education related expenses remitted abroad.

[Section 236R]

It is proposed through insertion of a new section 236R, that there shall be advance tax collected at the rate of 5% on the amount of education related expenses remitted abroad.

25. Exemption on Profits and gains derived by a taxpayer, from manufacturing unit set between July 01, 2015 to June 30, 2018.

[Clause 126L Part I of Second Schedule]

It is proposed through insertion of a new clause 126L in Part I of Second Schedule to the ITO 2001, that the profit and gains derived by a taxpayer, from manufacturing unit set up between July 01, 2015 to June 30, 2018 will be exempt for a period of 5 years beginning with the month in which the industrial undertaking is set up or commercial production is commenced, whichever is later.

COMPARISON OF PROPOSED & EXISTING TAX RATES FOR SALARIED PERSONS

S N	MONTHLY SALARY (Rs)	ANNUAL SALARY (Rs)	TAX UNDER NEW SLAB (Rs)	TAX UNDER EXISTING SLAB (Rs)	RELIEF (Rs)	RELIEF %
1	25,000	300,000	-	-	-	-
2	30,000	360,000	-	-	-	-
3	35,000	420,000	400	1,000	600	60 %
4	40,000	480,000	1,600	4,000	2,400	60 %
5	45,000	540,000	4,000	7,000	3,000	43 %
6	50,000	600,000	7,000	10,000	3,000	30 %
7	55,000	660,000	10,000	13,000	3,000	23 %
8	60,000	720,000	13,000	16,000	3,000	19 %
9	65,000	780,000	17,500	20,500	3,000	15 %
10	70,000	840,000	23,500	26,500	3,000	11 %
11	75,000	900,000	29,500	32,500	3,000	9 %
12	80,000	960,000	35,500	38,500	3,000	8 %
13	90,000	1,080,000	47,500	50,500	3,000	6%
14	100,000	1,200,000	59,500	62,500	3,000	5 %
15	150,000	1,800,000	137,000	140,000	3,000	2%
16	200,000	2,400,000	242,000	245,000	3,000	1 %
17	250,000	3,000,000	359,500	362,500	3,000	1 %
18	300,000	3,600,000	497,000	500,000	3,000	1 %
19	400,000	4,800,000	817,000	820,000	3,000	-
20	500,000	6,000,000	1,147,000	1,150,000	3,000	-
21	600,000	7,200,000	1,482,000	1,485,000	3,000	-

COMPARISON OF PROPOSED & EXISTING TAX RATES FOR NON-SALARIED / BUSINESS INDIVIDUALS

S N	ANNUAL NET INCOME (Rs)	TAX UNDER NEW SLAB (Rs)	TAX UNDER EXISTING SLAB (Rs)	RELIEF (Rs)	RELIEF %
1	300,000	-	-	-	-
2	400,000	-	-	-	-
3	500,000	7,000	10,000	3,000	30 %
4	700,000	27,000	30,000	3,000	10 %
5	900,000	54,500	57,500	3,000	5 %
6	1,000,000	69,500	72,500	3,000	4 %
7	1,500,000	144,500	147,500	3,000	2 %
8	2,000,000	244,500	247,500	3,000	1 %
9	2,500,000	344,500	347,500	3,000	1 %
10	3,000,000	469,500	472,500	3,000	1 %

COMPARISON OF PROPOSED & EXISTING TAX RATES FOR ASSOCIATION OF PERSONS

S N	ANNUAL NET INCOME (Rs)	TAX UNDER NEW SLAB (Rs)	TAX UNDER EXISTING SLAB (Rs)	RELIEF (Rs)	RELIEF %
1	300,000	-	-	-	-
2	400,000	-	-	-	-
3	500,000	7,000	10,000	3,000	30 %
4	700,000	27,000	30,000	3,000	10 %
5	900,000	54,500	57,500	3,000	5 %
6	1,000,000	69,500	72,500	3,000	4 %
7	1,500,000	144,500	147,500	3,000	2 %
8	2,000,000	244,500	247,500	3,000	1 %
9	2,500,000	344,500	347,500	3,000	1 %
10	3,000,000	469,500	472,500	3,000	1 %

PROPOSED TAX RATE CARD FOR SALARIED PERSONS

Where the income of an individual chargeable under the head "salary" exceeds fifty percent of his taxable income, the rates of tax to be applied shall be as set out in the following table namely: -

SN	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.500,000.	2% of the amount exceeding Rs. 400,000.
3	Where the taxable income exceeds Rs.500,000 but does not exceed Rs.750,000.	Rs.2,000 + 5% of the amount exceeding Rs. 500,000.
4	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs.1,400,000.	Rs.14,500 + 10% of the amount exceeding Rs. 750,000.
5	Where the taxable income exceeds Rs. 1,400,000 but does not exceed Rs.1,500,000.	Rs.79,500 + 12.5% of the amount exceeding Rs. 1,400,000.
6	Where the taxable income exceeds Rs. 1,500,000 but does not exceed Rs.1,800,000.	Rs.92,000 + 15% of the amount exceeding Rs. 1,500,000.
7	Where the taxable income exceeds Rs. 1,800,000 but does not exceed Rs.2,500,000.	Rs.137,000 + 17.5% of the amount exceeding Rs. 1,800,000.
8	Where the taxable income exceeds Rs. 2,500,000 but does not exceed Rs.3,000,000.	Rs.259,500 + 20% of the amount exceeding Rs. 2,500,000.
9	Where the taxable income exceeds Rs. 3,000,000 but does not exceed Rs.3,500,000.	Rs.359,500 + 22.5% of the amount exceeding Rs. 3,000,000.
10	Where the taxable income exceeds Rs. 3,500,000 but does not exceed Rs.4,000,000.	Rs.472,000 + 25% of the amount exceeding Rs. 3,500,000.
11	Where the taxable income exceeds Rs. 4,000,000 but does not exceed Rs.7,000,000.	Rs.597,000 + 27.5% of the amount exceeding Rs. 4,000,000.
12	Where the taxable income exceeds Rs. 7,000,000	Rs.1,422,000 + 30% of the amount exceeding Rs. 7,000,000.

PROPOSED TAX RATE CARD FOR NON-SALARIED / BUSINESS INDIVIDUALS & ASSOCIATION OF PERSONS (AOPS)

Non-Salaried / Business Individual & Association of Persons (AOPs) have to pay taxes on their income, the rates of tax to be applied shall be as set out in the following table namely: -

SN	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.500,000.	7% of the amount exceeding Rs.400,000.
3	Where the taxable income exceeds Rs.500,000 but does not exceed Rs.750,000.	Rs.7,000 + 10% of the amount exceeding Rs.500,000.
4	Where the taxable income exceeds Rs.750,000 but does not exceed Rs.1,500,000.	Rs.32,000 + 15% of the amount exceeding Rs.750,000.
5	Where the taxable income exceeds Rs.1,500,000 but does not exceed Rs.2,500,000.	Rs.144,500 + 20% of the amount exceeding Rs.1,500,000.
6	Where the taxable income exceeds Rs.2,500,000 but does not exceed Rs.4,000,000.	Rs.344,500 + 25% of the amount exceeding Rs.2,500,000.
7	Where the taxable income exceeds Rs.4,000,000 but does not exceed Rs.6,000,000.	Rs.719,500 + 30% of the amount exceeding Rs.4,000,000.
8	Where the taxable income exceeds Rs.6,000,000	Rs.1,319,500 + 35% of the amount exceeding Rs.6,000,000.

PROPOSED TAX RATE CARD FOR SMALL COMPANIES - TAX YEAR 2016

The Small Companies has to pay tax on its taxable income at the rate of **25%**.

PROPOSED TAX RATE CARD FOR OTHER COMPANIES - TAX YEAR 2016

The Companies other than banking companies has to pay tax on its taxable income at the rate of **32%**, whereas the banking companies have to pay **35%**.

Views expressed in this document are for assistance of our CLIENTS & STAFF only & should not be acted upon without obtaining professional advice, as the interpretation may differ in different circumstances.

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