ASC

Tax in Budget - 2017

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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 our clients which are limited liability companies (LLCs), non-governmental organizations (NGOs), association of persons (AOPs) and individuals both salaried and non-salaried (INDs).

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 on their businesses and work.

The information presented in this document has been taken from the Federal Budget and Finance Bill, 2017, as presented in the National Assembly on May 26, 2017. It contains proposed amendments, which will become operative once the Finance Bill is formally passed in National Assembly and become Finance Act, 2017. 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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Changes in Income Tax Law – ASC Clients' Perspective only.

1. Super tax for rehabilitation of temporarily displaced persons.
[Section 4B]

It is proposed through slight amendment in section 4B to extend the scope of super tax for rehabilitation of temporarily displaced persons for another year i.e. Tax Year 2017, which was initially for two years TY 2015 & 2016.

2. Tax on undistributed profits.
[Section 5A]

It is proposed through substitution of section 5A, that public companies are to declare at least 40% of the after tax profit as dividend or bonus shares otherwise their undistributed profit for current year will be taxed @ 10%.

3. Tax on builders & developers
[Section 7C & 7D]

Sub section 4 of section 7C & 7D are proposed to be amended, to withdraw fixed tax regime for builders & developers introduced last year, they will be assessed under normal tax regime for all projects except the projects which are approved by Chief Commissioner in 2017.

4. Value of perquisites.
[Section 13(7)]

It is proposed through an amendment to section 13 to enhance the limit for treating concessional interest related to interest free or concessional loan by an employer to an employee as salary / perquisite from Rs. 500,000 to Rs. 1,000,000.

5. Deductions not allowed.
[Section 21(o)]

It is proposed through amendment in section 21 to enhance the rate of allowable expenditure in respect of sales promotion, advertisement and publicity by a pharmaceutical company from 5% of turnover to 10% of turnover.

6. Deductible allowance for education expenses.
[Section 60D]

It is proposed through the replacement of section 64AB with section 60D to enhance the limit of taxable income for individuals for entitlement to a deductible allowance in respect of tuition fee paid by them from Rs. 1,000,000 to Rs. 1,500,000.

The deductible allowance shall not exceed the lesser of:

- 5% of tuition fee
- 25% of taxable income
- No of children x Rs. 60,000

The unadjusted allowance cannot be carried forward.

This deductible allowance is proposed to be allowed to either father or mother on furnishing of NTN and the name of the educational institution.

7. Tax credit for investment in health insurance
[Section 62A]

It is proposed through an amendment of section 62A, to change the formula for calculating the tax credit for investment in health insurance available only to filer resident individual by increasing the amount from Rs. 100,000 to Rs. 150,000.

The revised formula for this tax credit would be as follows:

$$(A/B) \times C$$

A is the amount of tax assessed to the person for the tax year before allowance of tax credit under this section;

B is the person's taxable income for the tax year; and

C is the lesser of —

(a) the total premium by person paid in the year;

(b) 5% of person's taxable income for the year; &

(c) Rs. 150,000.

8. Tax credit to a person registered under the Sales Tax Act, 1990.

[Section 65A]

It is proposed through a deletion of section 65A, to withdraw the tax credit of 3% of tax payable available to the manufacturers registered for sales tax if their sales to persons registered under the Sales Tax Act, 1990 was 90% or more.

9. Tax credit for enlistment

[Section 65C]

It is proposed through an amendment in the section 65C, to extend the tax credit of 20% of the tax payable available to companies opting for enlistment in any stock exchange in Pakistan from two years to four years but the extent of tax credit in last two extended years will only be 10% of the tax payable.

10. Tax credit for certain persons.

[Section 100C]

It is proposed through changes in section 100C, to add fourth condition of administrative and management expenditure with the existing three conditions for the 100% tax credit of tax payable by NPOs, trusts or welfare institutions. The revised conditions to avail this tax credit will be as follows:

(a) return has been filed;

(b) tax required to be deducted or collected has been deducted or collected and paid;

(c) withholding tax statements for the immediately preceding tax year have been filed; and

(d) administrative & management expenditure does not exceed 15% of the total receipts.

It is further proposed to levy tax on surplus funds @ 10%. Surplus funds are defined as receipts in excess of 25% of total receipts which is not spent on welfare and charitable activities during the tax year and are not part of restricted funds.

11. Minimum tax on the income of certain persons.

[Section 113 & Division IX of Part I of the First Schedule]

It is proposed through an amendment in section 113, to enhance the rate of minimum tax paid by individuals, AoPs as well as companies from 1% to 1.25% of the turnover.

12. Persons not required to furnish a return of income

[Section 115]

It is proposed through an amendment in section 115, to exempt certain persons from filing of income tax return just because they own immovable property, flat or motor vehicle. These exempt persons include widow, orphan under the age of 25 years, disabled person and non-resident person.

13. Extension of time for furnishing returns and other documents.

[Section 119]

It is proposed through an amendment in section 119, to empower Chief Commissioner to grant extension or further extension in filing of returns / statements for fifteen days or more in exceptional circumstances, where the extension or further extension is refused by the Commissioner.

14. Best judgement assessment.

[Section 121]

It is proposed through an amendment in section 121, to pass best judgement assessment in cases of non-filing of income tax return in response to notice issued under section 114 for filing of income tax return.

15. Provisional assessment

[Section 122C]

It is proposed through the deletion of section 122C, to remove the provisions related to provisional assessment of taxpayer by the tax authorities. Now only best judgement assessment can be passed based on the criteria given in section 121.

16. Advance tax paid by the taxpayer.

[Section 147]

It is proposed through amendment of section 147, to enhance the income limit from Rs. 500,000 to Rs. 1,000,000 for payment of advance tax. Individuals will only be required to pay advance tax if the latest assessed business income under normal tax regime is Rs. 1,000,000 or more.

17. Payments for goods, services and contracts.

[Section 153]

It is proposed through an amendment to section 153, to clarify that the amount withheld as service charges or fee by the agent or any third party while making payment to the recipient will be subject to withholding tax and the recipient will collect tax along with the payment received.

18. Statements.

[Section 165 (2A)]

It is proposed through an amendment to section 165, to enable withholding tax agent to file revised statements within 60 days of the filing due to omissions or filing of wrong statements.

19. Directorate General of Broadening of Tax Base.

[Section 230D]

It is proposed through insertion of a new section 230D, to form and run a Directorate General of Broadening of Tax Base by the Federal Board of Revenue to broaden the tax base in the country.

20. Directorate General of Transfer Pricing.

[Section 230E]

It is proposed through insertion of a new section 230E, to form and run a Directorate General of Transfer Pricing by the Federal Board of Revenue to conduct Transfer Pricing Audit (TRA). TRA will be conducted for determination of transfer price at arm’s length in transactions between associates.

21. CNG Stations.

[Section 234A]

It is proposed through amendment in section 234A, to make the tax deducted on electricity bills, a final tax. And it will be collected on amount inclusive of sales tax and all incidental charges. Now the withholding tax on gas bills as well as electricity bills will be final tax if there is any other deduction of tax, the same will be refundable to them.

22. Advance tax on tobacco.

[Section 236X]

It is proposed through insertion of a new section 236X, to require Pakistan Tobacco Board to collect 5% (of the value of tobacco) adjustable tax at the time of collecting cess on tobacco from person purchasing the tobacco.

TAX RATE CARD FOR SALARIED PERSONS TAX YEAR 2018

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: -

S N	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.

TAX RATE CARD FOR NON-SALARIED / BUSINESS INDIVIDUALS & ASSOCIATION OF PERSONS (AOPs) TAX YEAR 2018

Non-Salaried / Business Individual & Association of Persons (AOPs) have to pay taxes on their income, the rates of tax are follows: -

S N	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.

TAX RATE CARD FOR SMALL COMPANIES TAX YEAR 2018

The Small Companies has to pay tax at the rate of 25%.

TAX RATE CARD FOR OTHER COMPANIES TAX YEAR 2018

The Companies other than banking companies has to pay tax on its taxable income at the rate of 30%, whereas the banking companies have to pay 35%.

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