

# TAXATION

## (Weekly Tax Journal)

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### ARTICLES

#### A budget of the rich, by the rich, for the rich

##### Budget 2013-14

##### We missed everything again

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Kind regards

**Mrs. Huzaima Bukhari**

*Editor*

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## A budget of the rich, by the rich, for the rich

by  
*Huzaima Bukhari & Dr. Ikramul Haq*

A friend has asked to outline as to what should be a budget for the people. Our answer is simple. The one that deals justly with all economic classes within the society. Such a budget is to deplore the idea that citizens should remain mired in poverty. It is to focus on welfare programmes. To help those lagging behind, enabling them to move up economically and socially. It is to resent the sight of rich families staying at the top and imposing on them high taxes in order to redistribute wealth and income in the society. On the contrary, all our budgets including the latest one announced by Ishaq Dar, have been designed for benefitting the rich. These can be called “budgets of the rich, by the rich, for the rich”.

“No relief for the poor” was the instant reaction of most of the Pakistanis after hearing the budget speech on the evening of June 12, 2013. Experts have aptly observed that “the tilt of the entire budgetary scheme is towards promoting interest of the rich.” Shahbaz Rana, a leading journalist covering economic matters, aptly concluded: “Due to uneven rates, the tax liabilities of the lowest income group having annual income of Rs. 400,000 to Rs. 500,000 will be increased by 22% when compared with the liabilities of this year.” The move by the government, he says, “is contrary to the claims of taxing the rich to overcome the economic crisis as it has increased the tax burden on the salaried class by a third, while the tax burden on the non-corporate business class – also known as association of persons – has grown three-fold”.

Dr. Kaiser Bengali, noted economist, has lamented that the new government has missed an opportunity to take necessary steps like reintroducing wealth tax in its first budget. “If the government desired to generate revenues in an equitable manner, it should have reintroduced wealth tax to target 700,000 families that have been identified by National Database and Registration Authority (NADRA) and the Federal Board of Revenue (FBR) which are affluent but avoiding taxes,” said Bengali, while speaking at a Press conference at the Karachi Press Club on June 14, 2013.

He said that Nawaz Sharif government won with a clear mandate at a time when “everybody knows that Pakistan is in serious economic crisis. As such, the country was prepared to accept a ‘harsh’ budget, but the government has attempted to present a populist budget – one that would have been presented if elections were round the corner”. He advised the government to amend the Constitution and bring all kinds of income, including agricultural income, within the federal ambit. He said that everyone should pay income tax in Pakistan, irrespective of the sector. He strongly criticised revenue leakages through the FBR and said that

“Statutory Regulatory Orders (SROs) are a major source of revenue loss, but this matter has been swept under the carpet by placing it with a committee to be headed by the chairman of FBR – the very organisation that has vested interest in the whole SRO business.”

Mr. Bengali said that “though the budget speech was eloquent regarding relief for the corporate sector, the most damaging part of revenue-generating exercise was the increase in general sales tax to 17% from 16%. This will hit the industry and may hamper job creation. The budget speech, he said, had a good share for the industry and corporate sector, but it did not mention labour issues.

One wonders if Mr. Ishaq Dar has tried to study the practices of the Nordic countries that have greater social mobility and economic justice. The countries provide for taxes on the rich to be utilised strictly for welfare systems. These countries deliberately try to help the children of the poor to do better than their parents. One might expect social mobility and economic flexibility to go together – in fact, to be two sides of the same coin. But to the extent that redistribution is an explanation, it implies the opposite: that social mobility is a product of high public spending, a bit like the low incidence of poverty or longer life expectancy (on both of which Europe also does better than America). But greater public spending tends to be associated with less economic flexibility – which is why Nordic countries have sought to limit the more arthritis-inducing features of their tax-and-spend programmes.

Yet redistributive fiscal policies alone cannot bring such results. If they could, Nordic countries would not do as well as they do (their welfare states are not appreciably more generous than Britain’s). The other part of the explanation seems to be their superior education systems. Education has long been recognised as the most important single trigger of social mobility – and all four Nordic countries do unusually well in the school-appraisal system developed by OECD. That in turn may explain why the bigger continental European countries, notably France, Germany, Italy, are not as mobile as the Nordic ones. With relatively poor education systems, they are bound to perform more like Britain. But that still makes them socially (if not economically) more flexible than the land of the free.

For Europe, the secrets of greater social mobility are, first, tough redistribution policies that particularly benefit those at the bottom; and, especially in Nordic countries, a more supple and less class-ridden education system, running from top to bottom. Our economic wizards could learn something from this but for them it is more important to go for the free-for-all economy. Education in Pakistan is not only very expensive and a flourishing business industry now but it is also pathetically poor in quality.

If we judge our policies in the perspective of Nordic states, it is more than obvious that Budget 2013-14 is totally oblivious of redistributive fiscal policies and social welfare programmes for social mobility. The Finance Minister in his budget speech noted that “incidentally, the three main subjects of human development, namely education, health and population welfare have been devolved to the provinces under the 18th Constitutional Amendment. However, the responsibility for higher education, regulatory responsibilities and international coordination remain with the federal government. I would like to mention the following. Initiatives that will be undertaken for the promotion of this sector:

- (a) A sizeable allocation of Rs.18 billion has been made for the Higher Education Commission, which will support development plans of different universities all over the country. It may be noted that on the current side also a hefty allocation of Rs.39 billion is made for HEC. Thus a combined outlay of Rs.57 billion will be made for higher education.
- (b) The enrollment in higher education will increase from 1.08 million students in 2012-13 to 1.23 million students in 24 2013-14, showing an increase of 14% in the population of students pursuing higher education.”

The honourable Minister forgot that in areas administered by the Federation, education is still his responsibility. He has proved that education is at the lowest level in our state policies. He ignored the command of Article 25A which says: “The State shall provide free and compulsory education to all children of the age of five to sixteen years in such manner as may be determined by law.” Can the worthy Finance Minister tell how much allocation is made to fulfill this Constitutional obligation for Federally Administered Tribal Areas (FATA), Islamabad and other areas falling under the control of the federal government?

Our education system is worthless. The federal and provincial governments must realise that it is not only spending more money on education that matters but how to use the entire system as an effective tool for social mobility. There is a complete lack of understanding of this perception on the part of our rulers and the result is that poor segments of society are condemned to remain mired in abject poverty and their children have no chance to move up as education is either not available to them or is of no practical use.

Budget 2013-2014 lacking the above perspective is yet another routine exercise of balancing the books (that too by window dressing). We need meaningful redistribution policies that specifically benefit those at the bottom. There is nothing in this budget towards achieving this goal. It is, as usual, just a routine disappointing document.

## **Budget 2013-14** **We missed everything again**

by  
*Huzaima Bukhari & Dr. Ikramul Haq*

**M**ajority of the Pakistanis were dejected after hearing the budget speech on the evening of June 12, 2013. Not because there was no relief for the poor as this was not expected by anybody from a government just installed and dealing with a ravaged economy but the real cause of disappointment was demonstration of lack of will to tax the rich—on the contrary increasing the brunt of indirect taxes manifold on the poor, and inflicting pain on the salaried class. The government failed to take any credible measures for revival of the ailing economy. The major taxation proposals show that the poor will have to face more miseries—regressive taxes are on increase. On the contrary, the rich and the mighty have again managed to escape personal taxation on their colossal income and wealth. The gigantic bureaucratic apparatus—epitome of bad governance—under pressure is given 10% pay raise but not a single step has been taken to curtail their monstrous wasteful expenditure and monetize all their perquisites and benefits received in kind.

The analyses done by independent economists and observers reveal that the government of Pakistan Muslim League Nawaz (PML-N), in its maiden budget has failed to meet the economic challenges of the day confirming the oft-repeated apprehensions that no home work was done nor was there any policy paper available—PML-N like its predecessor PPPP acted on the advice of bureaucracy. There is nothing innovative in the budget. It is in fact, the 66th bureaucrat-controlled budget and what do we get? Same old rhetoric about economic revival!

What should have budget 2013-14 been like? This question was never discussed by the elected government during its election campaign or within the party. Pakistani political parties have yet not learnt that they need to have select committees working on various matters so that once in power they can implement their well-thought-for, well-debated and well-researched policies. Since there was no such preparation on the part of PML-N, the annual budget, as usual was hastily made in the same old mould—bureaucratic-controlled and pro-rich. Nobody realised while preparing this important document that at this juncture of history, Pakistan needs class stability to avoid chaos, civic strife, lawlessness and religious obscurantism. The burgeoning debt servicing, increased military budget, high inflation, unjust tax system, wasteful expenses, industrial slow down, recession, and inefficiency and bad governance pose serious challenges to our economic survival. But, in the budget no serious effort is made to meet these challenges—the budget-makers were more interested to balance their books through foreign and domestic resources (some

purely imaginary or unrealistic). Somebody asked, what else could one expect from an accountant? But the question is where the stalwarts were? People like Sartaj Aziz and Hafiz A. Pasha, who are known economists.

Dr. Hafiz Pasha in his comments on the taxation proposals of the budget, published in an English newspaper, claimed that “virtually all sectors have been tapped.” We have serious reservations about this claim. The budget has failed to provide steps to bridge the tax gap of over Rs. 6000 billion. Tax potential of Pakistan is not less than Rs. 8 trillion. The simple calculation is: suppose we have 10 million individuals having annual taxable income of Rs 1.5 million (a very conservative estimate), total income tax collection from them comes to Rs. 3750 billion. If we add income tax from corporate bodies, other non-individual taxpayers and individuals having income between Rs. 400,000 to Rs. 1,000,000, the gross figure comes to Rs. 5000 billion. FBR collected only Rs. 716 billion as income tax in 2011-12. Similarly, due to rampant corruption in sales tax, federal excise and custom duties, the total collection is not more than 30% of actual potential. In fiscal year 2011-12, FBR collected Rs. 804.8 billion under the head sales tax, Rs 122.5 billion under federal excise duty and only Rs. 216.9 billion under custom duties. The total indirect collection of just Rs 1148.2 billion was pathetically low. It should have been at least Rs 3500 billion. Budget needed to outline measures to bridge the prevalent tax gap without imposing any new taxes or raising the tax rates. If it is still done, we can change the entire fiscal scene of Pakistan—instead of budget deficit we would have surplus funds.

In view of above, there was no need of increasing sales tax rate or federal excise or enhancing rates for salaried persons. The need was to shift FBR's management to an autonomous Board comprising professionals and establishing an independent tax appellate system so that tax obligations are judiciously imposed and collected rather than through arbitrariness and highhandedness and that too only from those who file returns. FBR has failed to force millions to file income tax and sales tax returns but keep on creating huge demands against the existing filers. This is the reason why people do not file returns as they say once you do so then you are under constant threat of being blackmailed by officials and in case you do not oblige, you are subjected to arbitrary orders. One may ask what FBR has done about the following pointed out by NADRA:

- There are 1.611 million people who frequently embark on international tours but do not pay a single penny as income tax.
- About 584,730 Pakistanis have multiple accounts in domestic and multinational banks, but do not possess NTN's.
- Over 56,000 people live in posh areas and more than 20,000 people own luxury cars, still pay no income tax.
- There are 66,736 individual consumers who pay large utility bills, but no income tax.

- More than 13,000 people have licenses of both prohibited and non-prohibited weapons, but they do not possess an NTN.
- There are 25,130 people who are engaged in lucrative professions like medicine, engineering, law and chartered accountancy, but they do not pay a single penny as income tax.
- Nearly three million people possess a National Tax Number (NTN), but only 1.4 million of them filed income tax returns last year.

Had FBR performed its functions, we could have easily collected Rs. 8000 billion without changing anything. Even economist like Dr. Hafiz A Pasha, who has been Chairman, Advisor Council of FBR, keeps on saying that our tax base is narrow. He, like many others thinks that only those who file returns are taxpayers. In fact, the total number of taxpayers is over 50 million—mobile users who pay 10% adjustable income and 19.5% sales tax. It is true that only 1.2 million out of these taxpayers filed income tax returns in 2012. Figure of 1.2 million is only that of **return filers** and **not** taxpayers. In the income tax realm, every account holder of a bank, who receives any amount of interest, is subjected to 10% withholding tax and is thus a taxpayer. It is worthwhile to note that in the case of individuals and association of persons, tax deducted at source is full and final discharge under section 169 of the Income Tax Ordinance, 2001. They are merely required to file a simple statement under section 115(4) of the Income Tax Ordinance, 2001 i.e. if they do not have any other source of income. Had FBR allotted all of them NTNs, it could proudly be said that there are over 50 million registered taxpayers in Pakistan.

The real issue is non-taxation of super-rich who owe billions to the national exchequer. What has prevented the FBR to take action against them? After receiving data from NADRA, why FBR instead of taking action against them was proposing an amnesty scheme? Why no action is taken against them till today?

The revenue target fixed for FBR at Rs. 2475 billion is pathetically low when the actual potential is not less than Rs. 8000 billion. The issue is that of enforcement of tax laws compelling all the people having income of Rs. 400,000 or more to file tax returns. Instead of doing this, Ishaq Dar has opted to propose more taxes<sup>6</sup> on the lower income sections of the population. Increase of 1% in sales tax rate and further 2% for supplies made to non-registered persons, 5% on top of the standard 16 percent on non-registered commercial and industrial consumers of electricity and gas, increase in federal excise duty on beverages and cigarettes, expansion in items which are chargeable to sales tax on retail prices, are all regressive tax measures. When FBR cannot enforce the existing laws, what is the guarantee that these new ones would be implemented? Obviously more corruption would follow as more people would want to evade taxes and tax officials would benefit more as they get their due share. The same would be the fate of withholding taxes on hotels, clubs,

marriage halls, restaurants, cable operators, margin and trade financing, motor vehicles (in lump sum), foreign-produced films and TV serials. Who will enforce these laws? In the name of audit of withholding agents more money will go into the pockets of these unscrupulous officials.

The earmarked income support levy on moveable assets is again a wrong measure. It would be like Surcharge in the 1980s and the export development surcharge/cess more recently, all proving disastrous. The assignment of taxes at the local bodied level is the answer but the governments are not ready to meet their Constitutional obligation clearly envisaged in Article 140A which says: **“Each Province shall, by law, establish a local government system and devolve political, administrative and financial responsibility and authority to the elected representatives of the local governments.”**

Shahid Hafeez Kardar, a leading economist and former finance minister of Punjab, very rightly observed: “In our case tax administration weaknesses with regard to enforcement arise because of an ineffective legal system and the lack of effective accountability of government employees. Greater publicity should be given to cases of tax evasion (only those upheld by courts or conceded to by taxpayers) in the hope that public shame would serve as one of the deterrents to tax evasion. Good governance in a structure of transparent taxation cannot be achieved with the same ease as computerization of the taxation system through purchase of equipment and supporting software. These essentials will continue to elude us as long as the governing political system nurtured and supported by the elite is financed by black money through institutionalized instruments and mechanisms for evading taxes. How does one overhaul such a system through the transformation of the political structure is a million-dollar question that defies easy answers as to the need for tax reform built around transparent and simpler systems of taxation. However, the reality is that there are no quick fixes. Exercises to simplify tax laws and to ensure effective enforcement can take several years, as the experience of even developed countries shows - for instance, it took Canada 10 years to implement the proposals of the Carter Commission.”

Our tragedy is that on the one hand we have too many taxes in the country (federal and provincial) and on the other the benefit of revenue collection is not reaching the down-trodden. The few rich are the real beneficiaries of every luxury that is available. Fiscal gap is increasing every year bringing more miseries for the common man of Pakistan. We have utterly failed to reform our tax system, a process initiated as early as 1990s.

In fact, the real malady has not been properly studied by anybody. There is something fundamentally wrong with Pakistan’s constitutional structure of distribution of taxing powers between the federation and the federating units. In all major federations—USA, Canada and India—the federating units have the exclusive right to levy tax on transactions of

goods and services within their geographical boundaries. In Pakistan, the Constituent Assembly took away this right of levying sales tax on goods from provinces in 1948—none of the provinces ever raised a voice for its reversal. In the 7<sup>th</sup> Award as well, all the four provinces conceded that forthcoming Value Added Tax (VAT) on goods should be levied by the Centre.

The Centre has always usurped the right of the provinces to levy tax on goods and services within their territorial jurisdiction. Assignment of taxes is a vital constitutional and political issue and it is high time that the newly-elected parliament pay due attention for solution of judicious distribution of taxation rights between the Centre and the federating units. The imbalances and unjust monopoly of taxes with Islamabad is a perpetual source of disharmony between the Centre and the provinces. It is not distribution under National Commission Award that matters but the question is why provinces are deprived of their right to levy taxes on goods within their territories. Why is the Centre imposing sales tax and federal excise on goods?

Federal highhandedness in tax matters has destroyed the financial and economic rights of provinces. The provinces should have the exclusive right to levy taxes on goods and services within their respective physical boundaries, but the Federal Government blatantly encroached upon their undisputed right by levying taxes on goods and services under the garb of presumptive taxes in Income Tax. Such taxes cannot be termed as **taxes on income** (which the federal government is empowered to levy under item 47 of the Federal List) but tax on goods and services. It is a great tragedy that this argument was not presented in the Supreme Court when the constitutionality of such provisions was challenged in 1991 and the debate merely revolved around academic discussions over the concept of income. If the Federal Government can treat tax on goods and services as tax on **income**, as held by the apex court *per incuriam* (a mistaken judgement) in Elahi Cotton case PLD 1997 SC 582, then what will be sanctity of division of fiscal powers provided in the Constitution of Pakistan between the Federation and the provinces.

Despite federal highhandedness in levying unjust taxes and denying the provinces their legitimate shares, the Centre has miserably failed to reduce the burgeoning fiscal deficit. Had provinces been allowed to generate their own resources, the present chaotic situation could have been averted. The federal government has the audacity to claim that provinces lack infrastructure to efficiently collect taxes—an attitude that is reflective of colonial legacy and proved wrong by the Sindh Revenue Board and Punjab Revenue Authority by collecting sales tax on services.

On the one hand the provinces have been denied autonomy and on the other, money that belonged to them—collected as federal taxes—is given to them as act of benevolence—it is adding insult to injury. This is a considered policy of control for maintaining hegemony over federating units. The provinces should have exclusive right to levy taxes on goods

and services generated within their boundaries. But they should surrender right to taxation on agricultural income tax to the federation. The National Parliament and provincial parliaments should forge a consensus on this issue.

The federal government has miserably failed to tap the real revenue potential, which is not less than Rs. 8 trillion. The failure of FBR on this account adversely and directly affects the provinces as they are wholly dependent on what the Centre collects and transfers to them from the divisible pool. Pakistan is thus, caught in a dilemma: Centre is unwilling to grant the provinces their legitimate taxation rights as well as collects too little to meet their overall financial demands. The size of cake—divisible pool—is so small that nothing substantial can be done for the welfare of the poor masses, no matter in which part of the country they live. The real issue of generating sufficient resources for the less privileged is still unattended.

Track record of the federal government shows remote possibility of collecting tax revenues of even Rs. 6 trillion in the next three years to give enough fiscal space both to the Centre and the provinces to come out of the present economic mess, thus providing some relief to the poor, trade and industry. Pakistan will remain in debt enslavement and more and more people will be pushed below the poverty line. If we want to come out of this crisis, there is an urgent need to reconsider the prevailing social contract between federation and the provinces. Provincial autonomy without taxation rights and equitable distribution of income and wealth is meaningless. We cannot come out of our perpetual economic and political crises unless the provinces are given true autonomy, ownership of all resources, generation of own revenues (through harmonised sales tax on goods and services within their respective geographical boundaries as is the case in Canada) and exclusive right to utilise self-generated funds for the welfare of their denizens.

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**The hands-on approach: Eliminate the middle-man aka the bureaucracy**

The association for clerks working in government departments is not happy. Teachers working in government schools, colleges and universities are not happy. The auto industry cannot be very happy either. Once the new energy policy comes out, I am quite sure the compressed natural gas (CNG) industry, the textile industry and related sectors will also be very unhappy.

But they need not worry, because they have time. The federal budget has been presented, but it has not been ratified yet. There is time for them to cajole, coax, threaten or maybe even try to bribe the Pakistan Muslim League – Nawaz (PML-N) regime into making changes in the final draft, before it is ratified by the parliament.

So it still boils down to the same thing. It is of course important to ensure that the measures that have been announced are rational, realistic and workable, but some things can already be predicted. For example, the government is serious and will succeed in auctioning the 3G licence, maybe even as soon as within this calendar year. The reason is simple. The telecom sector is one of the most vibrant right now and this is the time for them to make the greatest gains they can with regards to consumer growth.

The telecom sector is a huge tax generator, a leading provider of jobs and also one of the most proactive sectors as far as FDI is concerned. So bringing in 3G ensures that this sector becomes even bigger. Tax returns will grow as well as the size of the gross domestic product (GDP). The potential gains over the next five years are so high, they literally dwarf the initial gain of approximately Rs75 billion that the government expects from the auction.

But this is the easy part. A lot of the other things that the government needs to do are much harder. For example reforms. The government has already put into motion the replacement of the top hierarchy in the power sector with professional management. Finance Minister Ishaq Dar has also already hinted that there will be a phased increase in the power tariff, at a pace that will put minimum burden on the people. The finance minister has also hinted that the CNG sector cannot continue to eat into our gas reserves and captive power requirements will have to wait its turn.

Power reforms are very important, but just as important are reforms in another problem area for the government. The government has set a very high tax generation target of about Rs2.5 trillion. Even with the increase in sales tax, increase in tax on non-corporate entities and increase in some slabs of income tax, this will not be achieved.

Not until the government brings sweeping reforms in the Federal Board of Revenue and changes the SRO culture, and plugs the leaks in the system. An exercise similar to the revamp of the power sector needs to be launched here as well.

Actually it would not be a bad idea if the government minimised the role of the bureaucracy in general and its ministers employed a more hands-on approach, kind of like Shahbaz Sharif did in Punjab. In fact, this does seem to be the case, as was evident by the fact that Ishaq Dar read out most of the taxation proposals himself and cancelled the FBR tax briefing at the last minute. The message was quite clear, "I am in charge, you deal with me now." I think that is the way to go. But it will not be easy. Keep watching this space! – *Courtesy The Express Tribune*

### **PML-N's pro-business budget evokes mixed responses from multinationals**

The budget proposals made by Pakistan Muslim League – Nawaz's (PML-N) pro-business government seem to have received a mixed response from the multinational companies (MNCs) operating in Pakistan – the MNCs lauded tax measures that are aimed at broadening the tax net, but expressed concerns over specific measures.

"They [the government] didn't tax agricultural produce," said an official who wished not to be quoted. They should have brought new sectors in the tax net instead of taxing those already paying taxes, the official said.

Skeptic about the successful implementation of the proposed tax measures, the industry sources as well as analysts, *The Express Tribune* spoke to, termed the budget document as neutral and balance with a margin for improvement.

"We find the budget proposals well below our expectations," said Abdul Aleem, General Secretary of Overseas Investors Chamber of Commerce and Industry – an umbrella association for the MNCs

operating in the country. “The increase in sales tax and turnover tax will impact our members negatively,” he said.

According to the budget document, which was presented by the Finance Minister Ishaq Dar on Wednesday, the general sales tax will increase from 16% to 17% and the turnover tax will increase to from 0.5% to 1%.

The increase in the rate of turnover tax, Aleem said, will have a negative impact on MNCs especially on large chemical companies that are operating in a very competitive market and that, too, on a low profit margin. “The real impact will be more than 1% because of a multiplier effect,” he said.

On the side, Aleem appreciated the 1% reduction in the corporate tax rate, saying it was a positive move by the government – the corporate tax rate would be reduced from the current 35% to 30% over the next five years.

He pointed out another proposal, which he considered was mistake. “They have reduced the initial depreciation on new investment in manufacturing from 50% to 25%, which doesn’t make sense for a pro-business government that wants to incentivise new investment,” he said. Explaining, he said, higher initial depreciation helps improve MNCs cash flows and ensure quicker recovery for the money invested. This should be corrected, he said.

Although skeptical about the implementation, Aleem said the government has taken good steps towards broadening the tax net. If they can bring the fiscal deficit – currently hovering at 8.5% of the GDP – down to the proposed 6.3%, it will be encouraging, he said

Keeping in mind the current needs of the country, according to an MNC official, increasing power tariff will increase the cost of doing business but if one looks at the big picture, solving circular debt is more important. It will spur economic growth, he added.

Although there are concerns regarding implementation of these proposals, the official said, the MNCs are bullish about the budget.

By contrast, Deputy Head of Research at AKD Securities Ayub Ansari said he would not call it a positive budget and rather consider it a neutral budget because the proposed increase in GST and electricity costs is inflationary.

Ansari, however, said the consumer demand may not have any impact because most of consumer goods sold in the country are not discretionary – that is people have to buy these any way.

The analyst said that the budget may not have direct positive impact on MNCs but if these measures can spur economic growth, the industry will benefit. It is, therefore, a very balance budget under given circumstances, he said.

They have set some realistic targets and there is a sense of sincerity, it is initially a positive sign, Ansari said. – *Courtesy The Express Tribune*

### **GST increase believed to stoke up inflation**

Perhaps the most hated feature of the first budget presented by the Pakistan Muslim League-Nawaz government is the increase in general sales tax (GST) from 16% to 17% primarily because it is inflationary in nature.

While it is disturbing for the general public, economic experts also disapprove it, who argue that the government should go for increasing collection from direct taxes instead of keeping persistent focus on indirect taxes.

But how the single percentage point increase in GST can stoke up inflation?

“Even one percentage point increase in GST will leave its impact because both direct and indirect inflationary pressures are associated with it,” said Khurram Schehzad, Head of Research at Arif Habib Limited.

Apart from the direct increase in prices of general items, its indirect impact will mainly come from a rise in transportation cost because GST is also applicable to petroleum products, he added.

It is believed that the GST increase will bring additional revenue of Rs50-60 billion for the country. Though it is a big amount for a cash-starved government, experts are concerned that inadequate measures are being taken to increase direct taxes to force the rich to contribute their due share.

“GST rate is already too high and I don’t think there is any reason to raise it further,” Shehzad stressed. “Of all the increases in duties and taxes in the budget, the GST has the highest weightage.”

Pakistan heavily relies on indirect taxation, but it also has a big black economy and widely unchecked smuggling. There is no dearth of experts who believe that the country can increase revenues with a reduction in tax rates as high taxes discourage people from paying their share.

They suggest that the government should have slapped taxes on retailers, wholesalers and other sectors that are not paying any income tax. Taxing the already taxed people and sectors will fuel resentment among them.

“Everybody, whether he is earning Rs5,000 or Rs500,000 a month, has to pay GST at an equal rate. Since it is a ‘regressive’ tax, it is unreasonable,” Zia Abbas, a lecturer at the Applied Economics Research Centre (AERC) of the University of Karachi told. Those who earn more should pay more, that should be the way, he said.

With the rise in GST, the retailers will charge even higher tax, say 1.5% or 2%, in the absence of a mechanism to keep a check on such practices, he said, adding this will definitely trigger inflationary pressures.

Now, more people will think of ways to dodge taxes. Instead of increasing the GST, the government should tax agriculture income, real estate and stock trading – the areas that are still outside the net, he suggested.

“We all know that like the previous government, the present one will not slap taxes on influential sectors that enjoy considerable influence in power corridors,” said Zia. “It is all lip service, they (present government) will not tax the powerful sectors.” – *Courtesy The Express Tribune*

### **GST in effect raised to 19 percent, says Sattar**

Parliamentary leader of Muttahida Qaumi Movement, Dr Farooq Sattar Saturday claimed that the government has increased General Sales Tax from 16 to 19 percent and not from 16 to 17 percent in the first budget for the next fiscal year. Taking part in the debate on next fiscal year budget in the National Assembly, MQM leader said the government has imposed 2 percent GST on the unregistered persons, which would also be passed on to the consumers and result in massive inflation.

The cumulative effect of one percent increase in sales tax and 2 percent further sales tax is 3 percent having revenue impact of Rs 150 billion on consumers. The unregistered persons would also be

charged 2 percent sales tax which would be recovered from consumers. Therefore, consumers would have to pay 19 percent sales tax including 17 percent sales tax and 2 percent further tax.

He said the government has increased sales tax from 16 to 17 percent and imposed further tax @ 2 percent on supplies made to persons who have not obtained sales tax registration number. The supplier to the unregistered persons would charge 2 percent further tax from unregistered buyers. The total impact of one percent sales tax and 2 percent further tax comes to 3 percent.

Through the Finance Bill (2013-14), where taxable supplies are made to a person who has not obtained registration number, there shall be charged, levied and paid a further tax at the rate of two percent of the value in addition to the rate specified. Provided that the federal government may, by notification in the official gazette, specify the taxable supplies in respect of which the further tax shall not be charged, levied and paid, the Finance Bill added. –  
*Courtesy Business Recorder*

### **Director IOCO converted into Directorate General**

The Federal Board of Revenue has converted Director Input Output Co-efficient Organisation Karachi into Directorate General of Input Output Co-efficient Organisation (IOCO) to expand the functioning/work scope of the organisation across the country. Sources told here on Saturday that the Finance Bill (2013-14) has proposed amendment to the Customs Act, 1990 to include a new section.

After section 3DD, the following new section shall be inserted, namely:- “3DDD. Directorate General of Input Output Co-efficient Organisation.- The Director General of Input Output Co-Efficient Organisation (IOCO) shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may, by notification in the official Gazette, it added.

Sources said that following amendment to the Customs Act, 1969, the Directorate General IOCO would be in a position to establish regional office at Lahore and other parts of the country. The Board has already withdrawn powers of Collectors of Customs to deal with duty or tax remission under survey-based concessionary notifications, determination of input-output ratios, wastages and

fixation of rates for repayment or remission or duty drawback and handed it over to IOCO Karachi.

The Board had amended Customs Rules 2001 to curtail powers of Collectors of Customs through a notification. Under the past notification, the FBR has restrained the Collectors of Customs from exercising the powers to handle issues related to the survey-based concessionary notifications etc, sources said. Through the amended Customs Rules 2001, the FBR has created post of Director General IOCO, Director IOCO South and Director IOCO North. – *Courtesy Business Recorder*

### **Cabinet decision violated: SROs issued to collect extra amount of ST!**

Some major taxation measures have been introduced through the Statutory Regulatory Orders (SROs) by the PML-N government effective June 12, 2013 to collect extra amount of sales tax prior to budget (2013-14), in violation of the reported 11 June Cabinet decision to do away with SROs. Experts told on Saturday that the taxation measures included in the budget (2013-14) were to be enforced from three different dates.

The effective date of measures introduced through some SROs is June 12. The implementation date of budgetary measures like increase in sales tax rate from 16 to 17 percent is June 13. The enforcement and legal measures of the remaining proposals contained in the budget have been proposed to be implemented from July 1 subject to approval by the National Assembly.

The FBR is legally empowered to issue notifications throughout the year without waiting for the federal budget. The same has been done prior to budget (2013-14) to enforce certain taxation measures from June 12. The measures effective from June 13 have legal backing of the provisions of the Provisional Collection of Taxes Act, 1931. Under the said Act, the government has implemented new taxation measures from June 13.

SRO.505(1)/2013 dated June 12, 2013 require all sales tax withholding agents to withhold the full amount of sales tax on purchases made from unregistered persons. This measure is effective from June 12, 2013. Through a notification, the lower rate of 2 percent sales tax has been withdrawn on finished articles such as expensive, branded or imported garments, leather bags, shoes

and sports kits through amendment in SRO1125(1)/2011. This notification is effective from June 12, 2013.

The fiscal relief package has also been withdrawn from Khyber Pakhtunkhwa and Fata/Pata from June 12, 2013. Other measures have been made effective from June 13 like withdrawal of exemption on supplies made against international tenders. Sales tax has been charged on the basis of printed retail price of additional items from June 13.

The 2 percent 'further tax' on supplies to unregistered persons; additional sales tax on electricity and gas consumed by unregistered commercial and industrial consumers; substitution of zero-rating with exemption on items of SRO 549(1)/2008 and federal excise duty on oilseeds and locally produced oils has been enforced from June 13. The rationalisation of structure and rates of Federal Excise Duty on cigarettes has also been enforced from June 13, 2013. Similarly, federal excise duty @ 16 percent has been imposed on all financial services from June 13, 2013. – *Courtesy Business Recorder*

### **Collecting Income Support Levy: new wealth statement form to be issued**

The Federal Board of Revenue (FBR) has decided to issue a new Wealth Statement form for collection of 0.5 percent Income Support Levy on net moveable assets from all individual taxpayers. Sources told here on Saturday that the new income tax return for 2013 is yet to be issued. The FBR, sources said, would also issue a new wealth statement form to incorporate necessary legal changes for ensuring the collection of the Income Support Levy.

The Income Support Levy has to be declared on net moveable assets in the new wealth statement to be issued in July-September this year. Sources said that the net moveable wealth means the excess of aggregate value of moveable assets over aggregate value of liabilities related to annual wealth owed by that person. Net value of moveable assets exceeding Rs 1 million on the last date of tax year shall be liable to levy at the rate of 0.5 percent.

For the purpose of computation of the levy, net immovable assets mean all assets except immovable property, land, building, flat etc. A tax expert was of the view that individual taxpayers strongly that a "dead levy" under the name of wealth tax has again been

imposed under a new umbrella. Previously, wealth tax levy had been abolished via the Finance Act of 2003.

To enforce the levy across the board through an amendment in the Income Tax Ordinance, the FBR abolished the threshold or limit for filing of wealth statement. Now, every return filer has to file wealth statement irrespective of his annual income limit.

Earlier, there was a limit of Rs 1,000,000 of taxable income to file wealth statement. Section 116 of the Ordinance requiring an individual and a member of an AOA are also being proposed to be amended to ensure that all individuals and members of an AOP shall file their wealth statement along with their return of income for the tax year. Previously, they were required to file only if the income declared or the share of income from AOP was more than Rs 1,000,000.

Under the Income Support Levy Act, 2013, the rate of levy payable under this Act shall be 0.5 percent of the net moveable wealth exceeding one million rupees. A person who is liable to pay the Levy under this Act shall pay the Levy along with the wealth statement. – *Courtesy Business Recorder*

### **Sindh: Rs 617 billion: GST on services to remain at 16 percent**

The Sindh government on Monday unveiled Rs 617.213 billion budget for the fiscal year 2013-14, estimating a deficit of Rs 21.63 billion. Sindh Chief Minister Syed Qaim Ali Shah presented maiden budget of his government's second term in the office during the Sindh Assembly session, which Speaker Aga Siraj Khan Durrani chaired. The MQM legislators remained absent from the session.

The proposed budget is around 22 percent or Rs 112.49 billion higher than the current fiscal year's revised budget of Rs 504.721 billion. Total revenue receipts are estimated at Rs 595.575 billion, which are about Rs 107.36 billion higher than the overall revised revenue estimates of Rs 488.211 billion of the current fiscal year budget.

Overall, expenditure of the province has been estimated at Rs 617.212 billion for the year 2013-14 against the total receipts of Rs 595.575 billion, depicting a budget deficit of Rs 21.637 billion. The current revenue receipts estimated at Rs 529.195 billion include Estimated Revenue Receipts from Federal Divisible Pool for

Financial Year 2013-14 at Rs 332.9 billion, which is 5.9 percent higher than budget estimates of 2012-13. Receipts under Straight Transfers are estimated at Rs 67.1 billion, which is higher than the last year's budget estimates of Rs 59.3 billion.

Provincial own receipts are estimated at Rs 120.2 billion. The estimates for provincial own receipts include collection of Sales Tax on Services (Provincial) of Rs 42 billion. Provincial receipts also include Rs 49.37 billion of provisional receipts and Rs 28.812 billion of provincial non-tax receipts. Under the head of current capital and other receipts, the Sindh government has estimated at Rs 18.44 billion and Rs 44.937 billion, respectively.

On expenditure side, some Rs 355.973 billion has been allocated for current revenue expenditure for the year 2013-14 as compared to Rs 342.11 billion for the current fiscal year. In addition, current capital expenditure are estimated at Rs 31.302 billion for the next fiscal year up from Rs 19.333 billion of current fiscal year. The Sindh government has estimated a total development expenditure of Rs 229.937 billion including Rs 185 billion for the provincial Annual Development Programme (excluding Foreign Project Assistance {FAP} and Flood Emergency Reconstruction Project (FERP) and Rs 29.558 billion worth foreign project assistance including FERP and Rs 15.379 billion of federal grant.

The focus of this budget is the optimal utilisation of resources to achieve the government's objectives of socio-economic development, Qaim Ali Shah said, adding that "we have made a historically high allocation of Rs 185 billion for our Annual Development Programme." Budgetary rise in allocation for the ADP shows improvement in general public's life as the government plans to invest in healthcare, education, infrastructure and human resource development, he said.

**Jobs creation** The government plans to provide 150,000 jobs in the next five years in police, education, health and agriculture sectors, besides undertaking initiatives to alleviate poverty. "It is the prime responsibility of a government to create employment opportunities by boosting economic activity," said Qaim, adding that "the government has given employment to 200,000 persons during last five years."

**Waseela-e-Haq Sindh initiative** The Sindh government expects the total outlay of Rs 12 billion to continue supporting poor families in the province through providing interest-free loans. Qaim hopes the Sindh government will accumulate Rs 12 billion

from its own resources. The Sindh government had launched 'Waseela-e-Haq Sindh' in January 2012 which benefited 34,000 families through interest-free loan of Rs 300, 000 per family along with providing basic business/enterprise development related training.

**Poverty alleviation** The Sindh government has allocated Rs 2 billion in the next fiscal budget to start a provincial Benazir Income Support Programme to improve financial condition of "the poorest of the poor" through targeted subsidies. The programme will be used to make direct cash transfers to the poorest women through database of Benazir Income Support Programme. The government has also allocated Rs 1 billion in the next fiscal budget to build housing societies for the poor in the province.

The Sindh government has taken an initiative to provide 50,000 plots of 80 and 120 square yards to "the poorest of the poor in major urban centers of Sindh". The Sindh government has earmarked Rs 1 billion in the next fiscal budget to develop the proposed plots providing all civic amenities.

**Education** The Sindh government has increased the ADP for education sector to Rs 13.48 billion in the next fiscal budget from Rs 12 billion during the next financial year. The total allocation for education stands at Rs 118.74 billion for the fiscal year 2013-14.

**Sindh Education Reform Programme (SERP-II)** The Sindh government is extending SERP to its second phase, which it had initiated during its last term. The World Bank has agreed to provide an amount of \$400 million for a period of four years ending June 2017.

The Sindh government has reserved Rs 2.21 billion as grant for Sindh Education Foundation committed to enhance cover of quality education throughout the province.

**The allocations are:** Rs 1.25 billion for setting up of 23 English medium schools, Rs 500 million for ICT enabled education management system, establishment of 23 comprehensive schools in Sindh and promotion of engineering colleges at Khairpur and Larkana, setting up of law colleges in Hala, Dadu and Lyari, girls cadet college in Shaheed Benazirabad, Larkana and girls degree college in Naudero and cadet colleges in Dadu, Mithi and Khairpur.

**Healthcare** The Sindh government earmarked Rs 17 billion for healthcare sector in the next ADP increasing the budgetary allocation by 54 percent than that of the current fiscal year.

It also allocates Rs 500 million for developing a Health Management Information System in the next ADP. The allocation is aimed at preparing a universal data of patients containing history of diseases and treatments. The other major initiatives which the Sindh government plans for the next financial year 2013-14 include: setting up of Shaheed Benazir Bhutto Accident Emergency Ancillary Services Complex at Civil Hospital Karachi, at a cost of Rs 1.80 billion, pilot project for mobile 12 bedded health units and improvement of children hospital in Karachi at Rs 1.65 billion, provision of allied facilities for Jacobabad Institute of Medical Sciences at Rs 200 million, upgradation of THQ hospitals to the level of DHQ hospitals at Rs 500 million, expansion and improvement of DHQ hospitals (Badin, Shikarpur, Khairpur and Mithi) at Rs 900 million, prevention and control of Hepatitis in Sindh, establishment and improvement of medical colleges at Hyderabad, Karachi and Khairpur, improvement of Children Hospital in Karachi and establishment of Children Hospital in Sukkur at Rs 1 billion.

Qaim Ali Shah claims the government had increased budgetary allocation for healthcare to Rs 13.56 billion from Rs 11 billion after revising the allocation during the current fiscal year 2012-13.

**Youth development** The Sindh government has allocated Rs 1 billion for Shaheed Benazir Bhutto Youth Development Programme to address the issues of poverty and unemployment among youth through intensive human resource development, in the next financial year 2013-14.

The government also earmarked Rs 2 billion for revival of sick industries in smaller towns of the province. The scheme will be implemented through Sindh Bank to focus on providing credit to sick industrial units on subsidised terms for their revival.

In the coming five years, the government plans to train about 300,000 youth in collaboration with World Bank and Japan Social Development Fund. In this regard, the government has allocated Rs 1 billion in the next financial year 2013-14.

**Agriculture** For the next financial year 2013-14, the government has increased allocation to Rs 6.16 billion in the ADP to augment agriculture sector, from Rs 5.45 billion in the current fiscal year's budget.

**Irrigation** The government proposes Rs 12 billion in the next ADP for 2013-14 to develop irrigation projects including construction of Water Carrier from LBOD Spinal Drain to Nabisar, Sindh Flood Emergency Reconstruction Project for Bunds and Canals, Sindh Water Sector Improvement Project and Rehabilitation of LBOD and Kotri Drainage Network System including activation of Dhoras. Out of 213 ongoing schemes in irrigation sector, around 75 are expected to complete by June 2014.

**Livestock sector** Fully realising the importance of the livestock sector in the economic ascension of province, the ADP for next financial year is pitched at Rs 2.43 billion.

A new scheme was launched for the establishment of Cattle Colonies with District and Private Participation (Phase-I). This scheme is being implemented in three districts namely, Tharparkar, Umerkot and Khairpur at a cost of Rs 1441.45 million.

**Fisheries sector** The Government has allocated Rs 444.87 million for development of fisheries sector for 2013-14, keeping in view the importance of seafood export.

**Local government** The transfers to local governments are pitched at Rs 39.30 billion for FY 2013-14. Budgetary allocation has been kept as special packages for improvement of major cities in Sindh.

**Public health engineering** The government has earmarked Rs 3 billion for water supply and drainage schemes in different parts of the province, of which Rs 2 billion will be spent on making 12000 dysfunctional schemes operational through outsourcing.

Under Special Initiative Department, four major schemes for establishment of Drinking Water Hubs (2500 units) across the Sindh has been launched with a cost of Rs 14017.06 million. During the next FY 20 13-14, Rs 6176 million has been allocated for the scheme.

**Roads and highways** For the next financial year an amount of Rs 16.80 billion has been kept for development of road network. By end of next financial year 1000 km new road will be added to existing network. Also, 450 km will be improved during the next year.

Rural Road Construction Project: 500 kms of rural roads are being constructed with the assistance from Japan International Co-operation Agency. The cost of the project is Rs 8.8 billion. Work is

being carried out on 440 kms of road out of which 300 kms will be completed shortly. – *Courtesy Business Recorder*

### **One percent GST can be waived: Dar**

Finance Minister Ishaq Dar Monday said one percent increase in General Sales Tax could only be withdrawn, if the finance committee helps the government generate Rs 60 billion, as the country is already facing resource constraint. Speaking during the meeting of Senate Standing Committee on Finance with Nasreen Jalil in the chair to discuss and propose recommendations of the committee members on the Finance Bill, Dar said the government can withdraw one percent increase in GST provided the committee helps generate Rs 60 billion.

Responding to a proposal of a committee member that the government should save Rs 60 billion from the running expenditure of the armed forces, Dar said allocation of Rs 700 billion was demanded by the Ministry of Defence for the next fiscal year against which Rs 627 billion were granted. Dar said increase in GST would be applicable from July 1. The minister said that there is shortfall of Rs 47 billion in revised Federal Board of Revenue tax collection target for the current fiscal year.

In reply to a question about increase in Public Sector Development Programme (PSDP), the minister said increase in development expenditure would bring prosperity and contribute to the national growth. Dar also remarked the International Monetary Fund (IMF) policies are not growth friendly.

He said immediate cut in PSDP is not possible because it would further increase suffocation. About Rs 3 trillion through-forward of PSDP, he said it is being screened by the Planning Commission with the purpose to do away with low cost, low expenditure slow moving or dead projects. Dar promised that every province would get its share in the PSDP; however, Balochistan would be given priority.

Finance Minister said Benazir Income Support Programme (BISP) is being renamed because it is not one programme but a cluster of more than seven programmes. He said the allocation for the programme would be increased to Rs 100 billion by the next fiscal year and Rs 15 billion are expected through income levy envisaged under BISP. The income support programme is going to benefit about 3.5 million people across the country. The minister also

defended the decision of granting tax exemption to hybrid vehicles, saying that it would give impetus to the import of these vehicles.

Ishaq Dar said corruption can not be eliminated in a single day. He claimed that more than Rs 200 billion additional tax measures have been proposed in the budget. The Senate Standing Committee on Finance strongly opposed the government decision that the FBR would be given access to bank accounts. Some members said the FBR can not be trusted because it was recently alleged to have shared tax information of parliamentarians with media.

The committee members said the State Bank of Pakistan and the FBR need to put in place a proper security arrangement regarding protection of information and give assurance to parliamentarians, only then the proposal would be supported. The Senate Standing Committee has unanimously called upon the government to withdraw 2 percent tax imposed on 33 districts of Khyber Pakhtunkhwa, Fata and Pata which were exempted on ground of terrorism affected areas. – *Courtesy Business Recorder*

### **10 percent additional tax on banks: FBR opposed to Senate body's proposal**

Federal Board of Revenue Chairman Ansar Javed strongly opposed the proposal of the Senate Standing Committee on Finance to charge 10 percent additional tax from the banking sector. During review of the Finance Bill (2013-14) at Senate Standing Committee on Finance at Parliament House on Monday, committee members proposed 10 percent additional tax on banks.

Responding to the proposal, FBR Chairman said we have to tax the banking sector in line with the best international practices. At present, most of the smaller banks are in losses. All small banks are not making profits except bigger banks which are making profits.

The committee members asked the FBR Chairman to share the names of the smaller banks, which are making losses. Tax authorities informed the committee that the data would be made available to the committee. Referring to the international tax rates on banks, Ansar Javed said that there is no higher rate of taxes on banks across the globe. Moreover, banking sector is directly linked with the economy of the country. If we increase the tax rates on banks, it would have impact on the whole economy including the

profits rate of the banks. The banks loans are also necessary to run the economy of the country. The additional taxes on banks would also impact loans and hence overall economy.

Banks are subjected to 35 percent tax which would be gradually brought down on annual basis, FBR Chairman maintained. When asked about the exact tax structure vis-à-vis profits of banks, Ansar Javed promised the committee to share banking related data with the members on Tuesday (today). On the recommendation of Senator Ilyas Bilour, committee decided that it will submit final recommendation on the banks' tax rates on the basis of presentation to be made by the FBR Chairman on Tuesday (June 18). – *Courtesy Business Recorder*

### **Petrol, diesel two percent further tax does not apply to supplies: FBR**

The FBR has clarified here on Monday that the 2 percent further tax levied through the Finance Bill 2013 does not apply to supplies of petrol, diesel and similar products. According to FBR, therefore, oil refineries, petrol pumps, suppliers and dealers are not required to charge or collect any amount in the name of further tax on supply or sale of petrol, diesel or such products to unregistered persons, the FBR added. – *Courtesy Business Recorder*

### **Accountholders' information won't be shared with tax men: FBR chief**

Federal Board of Revenue Chairman Ansar Javed Monday assured the Senate Standing Committee on Finance that the bank accountholders' information would not be shared with tax officials in the field formations to avoid any misuse of the banking data.

Responding to severe criticism to the FBR's proposed powers to access bank's central database information by committee, the FBR Chairman explained that the accountholders information would be made part of the FBR's national data warehouse which would be confidential and would not be communicated to the field formations. It would be FBR's discretion to use this information at the Board level without sharing the data with the officers in the field formations. "The banks related information would not have trickle down affect as the same would not be shared with the field officers. This information would not be misused by the tax department", he assured.

There is need that the people should improve their credibility level on the FBR's revenue generation measures through accessing such kind of information or documentation of the economy and broadening of the tax base. In other countries, there is a trust on the tax administrations, providing such kind of banking information, Ansar Javed maintained.

The FBR has amended the Income Tax Ordinance 2001 and inserted section 165A whereby the banks would now be bound by law to provide information including online access to bank's central database containing details of its accountholders and all transactions made therein to the tax authorities.

He said that similar powers are also available to tax authorities in 30 countries. He referred to the OECD countries where tax administrations have the same powers to access banks database. The information would be utilized for profiling of the potential taxpayers with the help of third party data.

He said that the Board has been given access to the banks' database through Finance Bill (2013-14). The whole idea is to broaden the tax-base on the basis of accountholders information available with the banks. The FBR do not want to issue statutory notices but improve voluntary compliance with the help of third party information including banks data. The level of voluntary compliance would increase once the FBR has ample evidence under the national data warehouse.

At one stage, Chairperson of the committee while strongly criticising the proposed amendment said that the committee rejected the FBR's powers to access bank's central database. It will open doors of corruption and we reject the said proposal of the Finance Bill. Later, the committee decided that the final decision would be taken after FBR Chairman's presentation on the issue on Tuesday (June 18). – *Courtesy Business Recorder*

### **Punjab sets over Rs 2.018 billion agriculture income tax target**

The Punjab government has set target of Agricultural Income Tax (AIT) for the financial year 2013-14 at Rs 2,018.938 million as compared to budget estimates of 2012-13, which was Rs 720.522 million. 'Government is fully aware of the revenue potential of AIT and after thoroughly debating has taken important decision of enforcing income mode tax during the next financial year besides

amending the AIT Act to collect tax from those who declare agricultural income under their income tax returns to FBR,' said the White Paper issued by the Punjab Government regarding budget 2013-14.

According to the budget documents AIT is an important direct tax available to provinces under the AIT Act promulgated in 1997. It envisaged payment of fixed amount per acre of land. Major amendments were introduced to this act in 2001 and whereby holders of 25 acres of irrigated land (equivalent to 50 acre un-irrigated land) were required to submit their AIT return. –  
*Courtesy Business Recorder*

### **Opposition senators lash out at 'business friendly' budget**

Opposition legislators in the Upper House of Parliament on Tuesday staged a token walkout against decision of Federal Board of Revenue (FBR) regarding the collection of two percent GST by non-registered petrol stations.

PPPP Senator Raza Rabbani on a point of order said it is peculiar that FBR first issued a notification about non-registered companies leading to increase in prices of petroleum products and then informed in Supreme Court that the notification is taken back. He said it is not possible for the consumer to distinguish between unregistered companies and petrol stations, which are asked to pay two percent GST.

"The PML-N is running the government and it is not like a joke, they should give a clear statement about increase in GST implementation," he maintained.

Rabbani again raised the issue that the 1931 Act on provisional collection of taxes cannot override the 1973 constitution, which is a superior legislation. Chairman Senate Nayyar Hussain Bukhari said the matter of legality of the imposition of increased GST from June 13 will be decided by the House's Committee on Finance after which he will decide about the privilege motion of Raza Rabbani on collection of taxes before passage of Finance Bill, 2013.

Leader of the House Senator Raja Zafarul Haq said the matter of provisional collection of taxes is before the Supreme Court and every matter, even the constitutionality of the legislation done by the Parliament is ultimately decided by the Supreme Court. The Chairman Senate said FBR should look into the matter as to why consumers should suffer over this issue.

Continuing the debate on annual budget, MQM Senator Tahir Hussain Mashhadi said it is a privilege class budget and business oriented. Having economic background and heavy mandate, Finance Minister Ishaq Dar totally failed to present a people-friendly budget.

Power tariff has been increased which will further affect common people while agriculture sector has been exempted from tax. One percent increase in GST will bring 25 percent hike in general price level. He regretted that government failed to take action against terrorists who were targeting the innocent people.

PML-Q Senator Kamil Ali Agha said the budget speech is full of lies despite the tall claims of PML-N that they will speak the truth in the parliament. PML-F Senator Muzaffar Hussain Shah said energy crisis badly affected the country. The crisis may be due to mismanagement or corruption.

Muzaffar Ali Shah said the budget is the best possible given the difficult financial circumstances. Before the new government came in, he said every sector of the economy including agriculture and industry was suffering, economic growth was stunted and inflation was at 13 percent and all this was coupled with the phenomenon of terrorism.

He emphasised that focus should be on hydel, solar and wind power projects, adding not a single unit of electricity has been added to the national grid from the Thar coal reserves of 185 billion tones.

JUI Senator Hafiz Hamdullah said Islamic provisions should be followed in budget making and steps be taken to end interest based system of economy. He said interest is main component of the budget and Rs 1154 billion are allocated this year in budget for payment of interest on loans.

PPPP Senator Kazim Khan said “this is business oriented business for elite class.” ANP Senator Haji Adeel said Pakistan is confronting two main problems, energy shortage and terrorism. He said his party made great sacrifice in the war on terror and about a thousand workers were killed. – *Courtesy Daily Times*

### **FBR rules out any new scheme**

The Federal Board of Revenue (FBR) on Tuesday ruled out any fresh tax amnesty scheme for whitening black money and said that

four tax amnesty schemes announced in the country during last two decades have not produced any desired results.

During the Senate's Standing Committee on Finance meeting the FBR Chairman Ansar Javed while responding to demand for launching new tax amnesty scheme from Senator Kulsoom Parveen and other senators, informed that these types of tax amnesty schemes are sheer injustice with the taxpayers who have been paying taxes since the last 60 years. He informed that foreign remittances that came into the country through banking channels are free from any tax and any probe for source of investment.

The committee on finance recommended the government to withdraw raise in general sales tax (GST) from 16 percent to 17 percent to avoid increase in the prices of consumer goods and day to day commodities. The committee also proposed National Assembly to withdraw 2.0 percent further tax on the unregistered persons in the supply chain.

The FBR informed the committee that 2.0 percent 'further tax' would not be charged from the end-consumer or purchaser. FBR ST&FE Chief Dr Ashfaq Ahmad Tunio said that the end-consumer is not liable to pay 2.0 percent further tax. The purchasers of goods would not be subjected to additional taxation.

He said that the additional sales tax burden on the unregistered persons would force them to come into the sales tax net. The burden of sales tax would increase on supplies to the unregistered persons. However, if the supplies have been made to the registered persons, there is no increase in sales tax burden. This 2.0 percent further tax would force the unregistered persons to come into the tax net and pay the due amount of taxes.

He said that the government has made different attempts to increase the sales tax base during the past 20 years, but sales tax base is still narrow. The unregistered persons are not paying 16 percent sales tax as compared to the registered persons.

The FBR chairman informed that the CREST has detected sales tax discrepancies to the tune of Rs 20 billion. Out of this huge amount, the FBR has recovered around Rs 4.0 billion to Rs 5.0 billion with the help of verification of supply chain and cross verification of data through CREST.

The FBR chairman further said that all developers and builders including contractors of mega projects are contributing negligible amount of Rs 1.0 billion as income tax per annum. Through

Finance Bill 2013-14, minimum tax on developers and builders has been proposed to increase their contribution to taxes. Under proposed Section 113B in the Income Tax Ordinance, where a person derives income from the business of development and sale of residential, commercial or other plots, he shall pay minimum tax at the rate of Rs 50 per square yard as per the layout or site plan approved by the relevant regulatory authority.

Javed said that there is a huge mismatch between the share of construction sector in the gross domestic product (GDP) and their actual contribution to taxes. In such a situation, the FBR has made an effort to introduce some kind of minimum tax on builders. Keeping in view share of construction sector in the GDP, it is the right time that the sector should start paying taxes for making their due contribution in the national kitty.

Senator Sughra Imam asked the tax managers to ensure that the burden of minimum tax should not be passed on to the consumers. The construction is a booming industry and real estate tycoons are making huge profit. It is understandable that the FBR wanted to increase revenue collection from construction sector but the burden of the tax should not be passed on to the general public engaged in purchase of houses etc.

On the demand of the senators Sughra Imam, Haji Adeel, Kulsoom Parveen, and Osman Saifullah Khan, the committee recommended the government to change the status of Income Support Levy to Income Support Tax so that it could be deposited in federal divisible pool and distributed among federal and provincial governments as per their shares in the National Finance Commission Award. The senators termed the word 'levy' as illegal and extra constitutional and against the provincial astronomy.

The senator committee especially Senator Adeel proposed that prize bonds with high domination like Rs 40,000 bonds should be registered with the buyers names to eliminate the chance of its misuse for whitening of black money.

The FBR chairman informed the committee that increase in the tax rate on prize bonds prizes from 10 percent to 15 percent was mainly to discourage the investment in these instruments. This step is not to generate huge revenue, instead the government intends to encourage the public to invest this money in the market for business activity to generate additional economic activity and help create job opportunities in the private sector. In case the government generates additional financial resources from

revenues then there would be no more reliance on such types of instruments for resource mobilisation.

When Senator Khan inquired about the withdrawal of exemption on up to Rs 150,000 profit generated from the saving schemes, the FBR chairman informed that the government had allowed tax exemption on up to Rs 150,000 profit on national saving schemes and this facility was being misused by the CDNS. It has been reported to FBR that investment is distributed among all family members to avail tax exemption on up to Rs 150,000 profit on such schemes. At the same time deposits in banks have no such kind of exemption on their returns to depositors and this was a discrimination that has been removed through withdrawal of this exemption. He mentioned that profit rates on national saving schemes are still high than bank deposits and withdrawal of tax exemption would not impact the investment in these schemes.

The FBR chairman informed the committee that in last year's budget, the government had imposed 10 percent tax on Badla Financing at stock markets and in this year's budget the government has also imposed 10 percent tax on Margin Financing at stock markets to share the tax burden among all stakeholders.

Senator Adeel termed the tax incentives announced for hybrid cars imports as incentive for rich and strongly demanded withdrawal of these incentives. When tax authorities defended their stance, Adeel staged a walk out from the meeting, however, Senator Humayun Khan Mandokhel managed to get him back in the meeting. – *Courtesy Daily Times*

### **IHC declares amnesty scheme for smuggled vehicles illegal**

Declaring the amnesty scheme introduced by the previous government for smuggled vehicles as illegal, the Islamabad High Court on Wednesday ordered the Federal Board of Revenue to impound 50,000 vehicles.

The IHC ordered the FBR to announce bids for the vehicles after impounding them for auction. The court also declared the SRO issued on March 5 as void.

The FBR had begun the amnesty scheme for registration of smuggled vehicles. – *Courtesy International The News*

### **Huge revenue losses feared in fake transactions**

The national exchequer is likely to suffer huge revenue losses of two percent general sales tax (GST) per product sold by multinational and local companies - as their distributors are charging sales tax rate of 19 percent - rather than the official 17 percent GST - on supplies to retail outlets, retailers told the News.

This is done on fake invoices making the transaction illegal, they added.

The government in the Federal Budget 2013-14 had increased the sales tax rate to 17 percent from 16 percent, besides two percent further sales tax has been imposed on the supplies to unregistered buyers.

“The distributors of leading brands in consumer goods are issuing bills with 19 percent sales tax irrespective of the supplies made to registered or unregistered retailers,” Fareed Qureshi, general secretary, Karachi Retailers and Grocers Association, said.

However, he said that only a few dealers had segregated the general sales tax and the further tax for registered and unregistered persons.

The distribution companies are not issuing genuine invoices against the supplies but deducting 19 percent sales tax from the retailers. “It is feared that two percent further tax may not be deposited in the kitty,” he said.

Sales agents of several distribution companies said that the dealers are issuing cash bills with the deduction of 19 percent sales tax from the retailer, who is unregistered with the sales tax authorities and the invoice against the same bill was prepared in the name of those retailers who obtained registration number from the tax authorities.

Commenting on the post-budget scenario, Qureshi said that the sales have reduced by 75 percent due to confusion over 19 percent sales tax. “The two percent further tax is a penalty on retailers for not being in the tax net,” he said, adding: “We are not passing the additional tax burden on to the consumers.”

He advised all the association members to inform about those distributors, who are not issuing genuine invoices against supplies.

All the trade bodies and tax experts have criticised the further tax because it only cause revenue loss to the national exchequer and promote flying and fake invoices, he said.

Siraj Kassem Teli, former president of the Karachi Chamber of Commerce and Industry (KCCI), on Monday said that the method to broaden the tax base through implementation of further tax remained a failed practice in the past. “The revival of such practice only opens the doors of corruption and increases the incidents of fraudulent activities,” he said.

A few days back, the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) had also rejected the further tax and urged the Federal Board of Revenue (FBR) to find out different ways for bringing the taxpayers into the tax net. –  
*Courtesy International The News*

### **Budget debate: Opposition senators blast tax collectors’ move**

The opposition in the Senate assailed the government’s failure to rein in top officers of the Federal Board of Revenue for creating confusion on the collection of 2% General Sales Tax by non-registered petrol stations.

Senators from the opposition also staged a token walkout on Tuesday against the FBR, which is paving way for petrol station owners to charge 2% GST from the consumers. They termed this a serious blow to the poverty-stricken people, and said it would push more of the masses towards poverty.

Speaking on a point of order, the leader of the Pakistan Peoples Party in Senate, Mian Raza Rabbani, lashed out at the government for not taking action against the FBR.

“Are we a state or a rajwara (monarchy) ... the FBR baboos (officials) are doing everything and it seems the government is a silent spectator.”

Rabbani said it was strange to see the revenue board first issued a notification about unregistered companies leading to increase in the prices of petroleum products and then informed the Supreme Court the notification was withdrawn.

“It isn’t possible for consumers to identify unregistered companies and petrol stations which have been asked to pay 2% GST,” the senator maintained.

Following his speech, he walked out of the upper house of Parliament, followed by the rest of the senators from opposition, who also protested against the additional GST.

The Leader of the House in the Senate, Raja Zafarul Haq, said the matter of provisional collection of taxes was pending before the Supreme Court and its verdict in the matter would be implemented in letter and spirit.

Chairman Senate Nayyar Hussain Bokhari said the revenue authority should probe why consumers should bear the burden of such a move as it was not possible for them to know beforehand which petrol station was registered.

Taking part in the budget debate, the opposition senators said it failed to provide any relief to the poor and middle classes, adding the government also did not have any visionary policy which would give people hope of coming out of the vicious cycle of poverty.

Senator Saeed Ghani added the imposition of the additional 2% GST on unregistered petrol stations and companies would ultimately affect consumers.

Senator Tahir Hussain Mashhadi said despite having a financial wizard like Ishaq Dar as the Finance Minister and a sound economic team, the Pakistan Muslim League-Nawaz government had not spelt out any policies that would provide relief to the common man.

“The agriculture sector has been taxed as expected,” he said, adding that the budget for fiscal 2013-14 also did not have any incentives for overseas Pakistanis, who he said were the backbone of the country.

He lamented the soaring inflation rate that was hurting poor people who cannot afford to have three meals a day. – *Courtesy The Express Tribune*

### **Rabbani leads walkout against confusing FBR taxes**

Opposition Leader in the Upper House Mian Raza Rabbani on Tuesday accused the government of confusing the imposition of two percent additional general sales tax (GST) on petroleum products before the apex court, alleging that the Federal Board of Revenue (FBR) had issued notification in dead of the night but withdrew it in the morning before going to court.

At the outset of Senate proceedings, Rabbani on a point of order said he wanted to submit a privilege motion. He said FBR issued a notification at night for imposing two percent GST on non-registered petrol stations. However, he added, the FBR later

informed the Supreme Court on Tuesday that the notification had been withdrawn and also submitted a notification in the court.

He said it was impossible for the consumer to distinguish between unregistered companies which were asked to pay two percent GST and the registered petrol stations.

He objected to the government's claim that 1931 Act provided the government to collect taxes even before passage of finance bill from parliament.

He said the "1973 constitution overrides the 1931 Act which is a superior legislation which does not allow taxation before legislation".

Responding to the privilege motion raised by Rabbani, Senate Chairman Nayyar Hussain Bukhari said the matter of legality of the imposition of increased GST from June 13 would be decided by the House Committee on Finance, after which he would decide about the privilege motion of Raza Rabbani on collection of taxes before the passage of Finance Bill, 2013.

Leader of the House Senator Raja Zafarul Haq said the matter of provisional collection of taxes was before the Supreme Court and every matter, even the constitutionality of the legislation done by parliament, was to be ultimately decided by the court.

The Senate chairman said FBR should look into the matter as to why consumers should be affected and general public should be penalised, as it was impossible for them to know beforehand which petrol station was registered.

However, Rabbani did not agree to the chairman's ruling and opted to stage a token walkout from the House. However, the opposition Senators returned to the House after Senator Mushahidullah Khan went out and urged them to return. –  
*Courtesy Pakistan Today*

### **IMF delegation arrives today**

A delegation of the International Monetary Fund (IMF) will arrive in Islamabad today (Wednesday).

The delegation would hold talks with Finance Minister Ishaq Dar, officials of the Finance Ministry, the Planning Division and the Federal Board of Revenue (FBR). The IMF officials would discuss about the tax targets, reforms in tax system in Pakistan, IMF loans and interests.

It would be the very first visit of IMF high-level delegation to Pakistan and meeting with the newly elected PML-N government following the announcement of Federal Budget 2013-14.

As Ishaq Dar has already announced that the government can take more loans for pay off the old loans, however, the volume of new loans would not be increased.

Sources said that the cost of budget deficit of the next financial year has been indicated as Rs 2.9 billion dollars and for this purpose bailout would be sought from IMF. – *Courtesy Pakistan Today*

### **Builders paying negligible Rs one billion tax per annum: FBR chief**

Federal Board of Revenue (FBR) Chairman Ansar Javed Tuesday said all developers and builders including contractors of mega projects are contributing negligible amount of Rs 1 billion as income tax per annum. He informed the Senate Standing Committee on Finance on Tuesday that the builders and developers are undertaking mega projects and their accumulative contribution to revenue is around Rs 1 billion which is very low against their actual potential. These builders are making huge profit and earning huge income but paying very less amount of income tax.

Through Finance Bill (2013-14), minimum tax on developers/builders has been proposed to increase their contribution to taxes. Under proposed section 113B in the Income Tax Ordinance, where a person derives income from the business of development and sale of residential, commercial or other plots, he shall pay minimum tax at the rate of rupees fifty per square yard as per the layout or site plan approved by the relevant regulatory authority.

Ansar Javed said that there is a huge mismatch between the share of construction sector in the GDP and their actual contribution in taxes. In such a situation, the FBR has made an effort to introduce some kind of minimum tax on builders. Keeping in view share of construction sector in the GDP, it is the right time that the sector should start paying taxes for making their due contribution in the national kitty.

Dr Muhammad Iqbal Chief Tax Policy informed the committee that the huge profits earned by the developers is evident from the

fact that the market price of a constructed house has been increased from Rs 1 crore to Rs 5 crore, reflecting huge profits of construction firms etc.

He clarified that the burden of tax would not be borne by the purchaser of the house etc as the levy is adjustable. The minimum tax on developers/builders is a way of collecting income tax from them. The builder can adjust the tax at the time of return filing. If the developer or builder would add the minimum tax to the price of the constructed house etc, it would further increase his won income resulting in more payment of taxes.

Dr Muhammad Iqbal further stated that the developers and builders would not add the tax in the cost of the construction as they would not be able to claim credit in their income tax returns.

Senator Sughra Imam asked the tax managers to ensure that the burden of minimum tax should not be passed on to the consumers. The construction is a booming industry and real estate tycoons are making huge profit. It is understandable that the FBR wanted to increase revenue collection from construction sector but the burden of the tax should not be passed on the general public engaged in purchase of houses, etc. – *Courtesy Business Recorder*

### **ATT cargo volume reduced by 50 percent during 2012-13**

Member Customs Federal Board of Revenue (FBR) Mohammad Riaz said on Tuesday that the total number of commercial cargo under Afghan Transit Trade has been drastically reduced by 50 percent during 2012-13 as compared to the 2011-12 as a result of better management, monitoring and effective controls. Mohammad Riaz proudly shared data with the Senate Standing Committee on Finance that only 20,000 containers of commercial cargo passed through the Afghan Transit Trade facility to Afghanistan in 2012-13 as compared to 80,000 containers two years back.

The weakness in the transit trade has been removed and system has been improved. As a result of better control and management, the overall number of containers under the Afghan Transit Trade has shown major decrease from 80,000 containers to 20,000 containers in two years period.

FBR Member Customs further informed that the leakages in the system have been controlled to a great extent in consultation with their counterpart in Afghan customs authorities. There is a regular interaction between the Pakistani and Afghan customs

authorities to resolve issues relating to the financial securities and transit trade, etc. FBR Chief Customs Dr Muhammad Zubair Yousfani informed the committee about the tariff structure on local motorcycle industry and measures taken for protection of the local industry. – *Courtesy Business Recorder*

### **Increasing ST or imposition of it : NA proposed to suspend all SROs**

The Senate's Standing Committee on Finance on Wednesday unanimously proposed to the National Assembly to suspend operations of all the Statutory Regulatory Orders (SROs) issued for increasing sales tax rates or imposition of it till the parliament passes the Finance Bill, 2013-14.

During review of the Finance Bill, 2013-14, the committee members were unanimous to stop implementation of all SROs, which have imposed sales tax resulting in price hike of essential food items and products. Chairperson of the committee Nasreen Jalil said that till the parliament does not pass the Finance Bill, the applicability of the SROs should be suspended. The SROs issued before budget for increasing sales tax has raised the prices of consumer items used by the ordinary persons. The general public suffered due to applicability of the SROs from June 12, 2013 as even the budget has yet not been passed by the parliament, she added.

Some committee members opined that it is a question of legal interpretation of law to see the legality of the sales tax raise of 1.0 percent before passage of the Finance Bill. The increase in the sales tax rate from 16 to 17 percent needs to be seen within the context of Article 77 of the Constitution, Provisional Collection of Taxes Act 1931 and Section 3 and other sections of the Sales Tax Act, 1990.

FBR Income Tax Policy Chief Dr Muhammad Iqbal on Wednesday clarified the Senate's Standing Committee on Finance that the SRO dated June 12, 2013 to withdraw fiscal relief package of Khyber Pakhtunkhwa and Federally Administered Tribal Areas (FATA) and Provisionally Administered Tribal Areas (PATA) are not part of the Finance Bill, 2013-14.

He further highlighted that all budgetary measures and taxation have not been introduced through the SROs. The SRO to withdraw Area-Specific Exemption was separately issued on June 12 and

cannot be termed as part of the taxation measures introduced through the Finance Bill, 2013-14.

Dr Iqbal further conveyed to the committee that legally these SROs, which were not part of the finance bill, cannot be termed as budgetary measures of the FBR. The provisions of the Section 126F of the Income Tax Ordinance 2001 were time-bound and the remaining notifications of sales tax and federal excise duty were rescinded separately on June 12.

Referring to the Section 126F of the Income Tax Ordinance 2001, Chief Income Tax Policy said that the profits and gains were derived by a taxpayer located in the most affected and moderately affected areas of Khyber Pukhtunkhwa, FATA and PATA for a period of three years starting from the tax year 2010 provided that this concession shall not be available to the manufacturers and suppliers of cement, sugar, beverages and cigarettes, he added. – *Courtesy Daily Times*

### **FBR directed to issue list of items exempted from ST**

On the directive of finance minister, Federal Board of Revenue Chairman Ansar Javed has directed all Large Taxpayer Units (LTUs) and Regional Tax Offices (RTOs) to strictly monitor that no sales tax is collected on essential items exempted under section 13, read with Sixth Schedule of the Sales Tax Act 1990. Federal Minister for Finance, Revenue, Economic Affairs, Statistics and Privatization Mohammad Ishaq Dar has directed the FBR to issue list of those items that are exempted from sales tax.

Therefore, Chairman FBR has directed all LTUs and RTOs to strictly monitor that no sales tax is collected on essential items exempted under section 13, read with Sixth Schedule of the Sales Tax Act 1990 and has directed them to take proper action under the law against violators.

FBR also wants to inform the general public by all appropriate means that these essential items including vegetables, meat, milk, eggs, red chilies, fish, drugs, pulses, fruits, poultry, ginger, turmeric, cereals and products of milling industry, ice, poultry feed, butter, yogurt, butter, salt, potato, onions, bread, nan, chapatti, bun, rusk, and others continue to remain exempted from sales tax.

It was also clarified that the increase in the rate of sales tax from 16% to 17% under the declaration issued under the Provisional

Collection of Taxes Act, 1931 does not affect any of these items, which are exempted under the Sales Tax Act, 1990. – *Courtesy The Nation*

### **Raise in GST rate: CJP terms British-era law violative of fundamental rights**

The Supreme Court on Wednesday questioned the 'Declaration' proposed by the Federal Board of Revenue (FBR) through Finance Bill 2013 to raise General Sales Tax from 16 to 17 percent without approval of the Parliament. A three-judge bench led by Chief Justice Iftikhar Muhammad Chaudhry termed Provisional Collection of Taxes Act 1931 violative of fundamental rights, saying citizens' rights "cannot be exploited under Article 19 of the Constitution".

During the course of proceedings, the Chief Justice remarked that the Declaration required to be amended because "Article 70 clearly states that only Parliament is empowered to impose taxes. He added that the court would review the legality of the amended Declaration. Attorney General for Pakistan (AGP) Munir A. Malik told the bench that Federal Finance Secretary was in contact with the Finance Minister over the current matter.

According to the Chief Justice, interim tax cannot be imposed without the approval of Parliament. He further observed that while the government could not function without collecting taxes yet it was the executive's responsibility to follow the procedure. The Chief Justice inquired why notification relating to exempting items of daily use from the levy of GST was not issued by the concerned authority. To which, the AGP responded that the government had issued the relevant notification.

He also told the bench that the Federal Finance Minister had directed the FBR to inform the general public through all appropriate means about exemption of tax on essential items. The court was informed that as per Section 13, read with the sixth schedule under the Sales Tax 1990, such as vegetables, meat, milk, eggs, red chillies, fish, drugs, pulses, fruits, poultry, ginger turmeric, cereals and products of milling industry, ice, poultry feed, butter, sugarcane, yogurt, butter, infant milk preparations, salt potato, onions, bread, nan, chapatti, bun, rusk & others continue to remain exempted from Sales Tax and that the increase in the rate of Sales Tax from 16 to 17 percent under the Declaration issued under the Provisional Collection of Taxes Act 2013

1931, does not affect any of the items, which are exempted under the Sales Tax Act, 1990. The AGP submitted that the government was empowered to impose tax under the Provisional Collection of Taxes Act 1931. The Chief Justice queried the government's decision to burden the masses through enforcing a law legislated during the British rule.

“How is it possible to recover tax from an unregistered petrol pump given that as many as 90 percent of unregistered petrol pumps are collecting money from consumers but not depositing it in the national kitty,” the Chief Justice inquired from FBR counsel Shamim Rana. The Chief Justice further observed that an increase in petroleum prices had negatively impacted the price of essential commodities. The bench directed Rana to submit a comprehensive report on GST collection before it adjourned the hearing of case till June 20 (today). – *Courtesy Business Recorder*

### **Smuggled vehicles: amnesty scheme declared illegal**

The Islamabad High Court (IHC) on Wednesday declared the amnesty scheme for smuggled vehicles illegal. Hearing a petition filed by Khawaja Saad Salim against an amnesty scheme that legalises vehicles without paying due amount of government taxes, Justice Shaukat Aziz Siddiqui of IHC declared the scheme illegal and ordered the Federal Board of Revenue (FBR) to confiscate over 50,000 such vehicles and auction them.

The petitioners prayed that such schemes discouraged taxpayers and encouraged smuggling; hence, the court should declare the scheme illegal. A representative of the Federal Board of Revenue and Deputy Attorney General Tariq Jehangiri informed the court that the government collected Rs 10 billion through that scheme. They said that the aim of the scheme was to collect additional revenue.

They also informed the court that the Supreme Court while hearing the Balochistan law and order case had expressed its reservations about illegal vehicles, which prompted the FBR to launch an amnesty scheme. The Court declared the amnesty scheme for smuggled vehicle illegal. It also observed in its ruling that the Statutory Regulatory Order (SRO) issued by FBR on March 5, 2013 was illegal. – *Courtesy Business Recorder*

**Income tax Ordinance 2001: over 350 IR Audit Officers term amendment discriminatory**

Over 350 Inland Revenue Audit Officers have termed an amendment to the Income tax Ordinance 2001 through Finance Bill (2013-14) as highly discriminatory under which the Commissioner Inland Revenue cannot delegate his powers to IR Audit Officers for smoothly performing official duties/functions.

Sources told here on Wednesday that the Finance Bill (2013-14) has proposed a major administrative change through an amendment to the Income Tax Ordinance 2001. Through the said amendment, the designation of Inland Revenue Audit Officer (BS-17) being Officer of Inland Revenue [defined u/s 2(38 A) of the Income Tax Ordinance, 2001] has been deleted from the list of authorities, ie, Officers of Inland Revenue to whom the Commissioner Inland Revenue may delegate his powers for the smooth operation of official duties/functions. The proposed amendment is highly discriminatory and in violation of fundamental rights guaranteed under Articles 25 read with Articles 3 & 4 of the Constitution.

Details revealed that a meeting of Inland Revenue Audit Officers Association (IRA OA) was convened to discuss various amendments proposed in Finance Bill, 2013-14. The meeting was attended by office bearers of different RTOs/LTU namely Muhammad Afzal Khan (Vice President IRA OA), Directorate of Intelligence & Investigation IR, Lahore, Javaid Hussain Butt (Patron-in-Chief), Zafar Shirazi (President Lahore Chapter), Abdul Basit (Advisor to the President), RTO, Lahore, M. Atif Qureshi (Vice President Lahore Chapter), LTU, Lahore, Mian Muhammad Akram, RTO, Gujranwala, Shafique Anwar Khan and Ahmad Sohail, RTO, Faisalabad, Mian Muhammad Ibrahim, Sajid Raza Mirza, RTO, Rawalpindi. Muhammad Afzal Malik, President Inland Revenue Audit Officers Association, discussed the salient features of the Finance Bill, 2013-14. He was of the view that the proposed changes in the Sales Tax Act, 1990 will remove the confusions in the Sales Tax Law especially with reference to the Taxpayers' Audit. He hoped that these amendments will result in increasing the revenue collection. Thereafter, the participants discussed the salient features of the Budget 2013-14 and the proposed amendments made in Inland Taxes.

During the meeting, a large number of members besides appreciating the Budget Proposals, expressed their resentment

over the amendment proposed at Sr. No 34 of the Finance Bill 2013-14 through which an amendment in sub-section (1) of section 210 of the Income Tax Ordinance, 2001 has been proposed. The relevant extract of section 210(1) of the Income Tax Ordinance, 2001 prior to amendment and after proposed amendment in Finance Bill, 2013-14 was shown to the members.

Before amendment, section 210(1) of the Income Tax Ordinance, 2001: The Commissioner [subject to sub-section (1A),] may, by an order in writing, delegate to any [Officer of Inland Revenue, subordinate to the Commissioner] all or any of the powers or functions conferred upon or assigned to the Commissioner under this Ordinance, other than the power of delegation. Proposed amendment, section 210(1) of the Income Tax Ordinance, 2001: In sub-section (1) of section 210, for the words and comma, “Officer of Inland Revenue, subordinate to the Commissioner”, the words and commas “Additional Commissioner, Deputy Commissioner, Assistant Commissioner or Inland Revenue Officer” proposed shall be substituted.

Effect of Amendment: The other designations along with Inland Revenue Officers (BS-16) have been included in the proposed amendment, whereas, the name of (Inland Revenue Audit Officers BS-17) have been excluded from the list of Officers of Inland Revenue to whom the Commissioner, Inland Revenue may delegate the powers.

The President IRAOA expressed that in 1996, 1998, 1999 & 2001 the FBR appointed “356” Inland Revenue Audit Officers (Previously Senior Auditors) in the erstwhile Sales Tax Department. The competent qualification for this post was Masters Degree in Accounting, Auditing, Economics & Business Administration or Bachelor degree with specific experience in Audit & Accounts etc. Since appointment, the Inland Revenue Audit Officers, being highly qualified and having professional expertise played a pivotal role not only in the implementation of the Sales Tax law all over the Pakistan but they have also contributed remarkably in achieving the revenue targets. Therefore, aforesaid proposed amendment has resulted into a sense of disparity and discrimination amongst the Inland Revenue Audit Officers (BS-17) especially at that point of time when FBR is facing huge pressure in meeting the revenue target. Muhammad Afzal Malik the President Inland Revenue Audit officers Association assured the participants that since the proposed

legislation has resulted in widespread disappointment, frustration and a sense of alienation amongst Inland Revenue Audit Officers (BS-17) all over Pakistan, it will be taken up at the appropriate forums for remedial measures.

It was unanimously decided that as a first step, a representation before the Chairman, Federal Board of Revenue shall be made with request to include the name of Inland Revenue Audit Officers (BS-17) in the proposed amendment. In case, the anomaly is not removed prior to the approval of the Federal Budget, it will be presumed that IRS has merely taken over the powers and privileges of Sales Tax & Federal Excise regime and has turned its back to their professional workforce who opted for IRS and there is lack of commitment to maintain the equity and justice within the Service, the association added. – *Courtesy Business Recorder*

### **Gang involved in tax fraud busted**

A gang mostly involving family members of Faisalabad made repeated attempts to obtain sales tax registration from the Federal Board of Revenue and was nabbed by the Inland Revenue officers, exposing a tea manufacturer involved in tax fraud.

Sources told here on Wednesday that the Regional Tax Office (RTO), Faisalabad has framed a case of tax fraud against an unregistered person manufacture-cum-sellers of tea involved in massive evasion of sales tax and arrested a culprit, and also conducting raids to nap the remaining members of the gang. The case is a classic example for other RTOs to detect similar cases of un-registered persons conducting business without obtaining sales tax registrations, causing revenue loss of millions on monthly basis.

On the instructions of Chief Commissioner RTO Faisalabad Tauqeer Akbar, and Commissioner Zone-II Dr Tariq Mahmood Khan, a special investigation team was constituted under the supervision of Muhammad Afzal Malik Assistant Commissioner Inland Revenue, Jamil-ur-Rehman khan Inspector and other officers.

The criminal case has been registered against the culprits. One of culprits has been arrested and is on remand for eight days and sales tax investigation team is raiding to arrest the remaining culprits for effective recovery of millions of rupees sales tax amount. The unit made several attempts to obtain sales tax

registration number from the Central Registration Office (CRO) at the FBR House. However, unit failed to obtain the STRN due to incomplete documents.

Details revealed that the M/s Muhammad Yousaf Tea Seller, Faisalabad with brand name of "Deer Tea" having head office at Gole Karyana Bazar, Faisalabad and manufacturing premises near Al-Fateh Ground, Saleemi Chowk, Faisalabad having NTN are involved in massive tax evasion/fraud by way of manufacturing and making supplies of taxable item ie packed black tea in different packing with different weights without getting Sales Tax registration as required u/s 2 (5AB) and section 14 read with SRO 555 (I)/2006 dated 05.06.2006 of the Sales Tax Act, 1990 and also made violation of section 3,6,11,14,22,23,26 of Sales Tax Act,1990. Notices for registration on format STR-6 were also issued as provided under the Sales Tax Rules, 2006 but no positive reply was received by the department. Moreover, the application for registration made by the accused with Central Registration Office, FBR, Islamabad on December 24, 2012 was rejected by the CRO on 08.01.2013 due to short document/documents not provided by the applicant within 10 days.

The same practice was again exercised by the accused on January 16, 2013 but the CRO again rejected the application on February 4, 2013 on the same grounds and facts as mentioned above. Repeatedly another application was submitted by the accused on May 5, 2013 with CRO, the fate of the application was the same due to short document/documents not provided by the accused up till 23.04.2013.

The history of these applications submitted clearly shows the connivance of the accused in case of registration and payment of sales tax. It is also pertinent to mention here that the Federal Government had already provided an amnesty to the unregistered persons as notified under SRO 524 (I)/2008 dated 11.06.2008. It is also a matter of great concern that the accused did not bother to avail amnesty announced by the Federal Government.

The said unit was liable to be registered since 2002 as unit's supplies exceeds the minimum benchmark for registration as per law. It is also pertinent to mention here that just to evade sales tax registration threshold, three sons of Yousaf got national tax numbers in December, 2010. Whereas all the accused are involved in doing one business ie manufacture and sale of Deer Tea in packed forms ie 8 grams sachet, 16 Grams, 30 grams, 95grams,

190 grams, 470 grams and 1 kg. All the four persons are interconnected with the business of manufacturing as well as supply of the same commodity and brand, ie, Deer Tea.

The above state of affairs prompted the Commissioner Inland Revenue, Zone-II, Regional Tax Office, Faisalabad having jurisdiction authorised a team u/s 38 of Sales Tax Act, 1990 vide C. No 259 dated 02.05.2013 to have free access to the record kept and maintained by M/s Muhammad Yousaf Tea Seller, Faisalabad at head office and manufacturing premises. The authorized Officers after obtaining search warrant from the duty Magistrate, Faisalabad u/s 40 of the Sales Tax Act, 1990 visited the head office of the accused located at Gali No 4, Gole Karyana Bazar, Faisalabad. The accused Muhammad Yousaf Paracha and his 2 sons namely Zubair Yousaf and Tanveer Yousaf were busy in daily business work ie sales of loose and packed tea (Deer Tea).

All the accused resisted to search the record. At the same time other market committee members came at the spot and requested to work out the sales tax liability only on the basis of two books which they have provided at their own will. They also assured to settle the matter on the very next day, but none of the culprits as well as market committee members turned up. Later involved persons were summoned individually to furnish certain record of buyers and suppliers, but they did not respond even after the issuance of reminders as well.

In view of above facts, during scrutiny/verification of bank accounts maintained as reflected in the cash receipt memo, the names & CNIC, it has been learnt that total business bank transactions were more than 750 million and sales tax thereon is 118 million.

The Registrar Trade Mark Registration, Karachi was issued a notice regarding trade mark registration of the accused unit who vide NO.AR-1-66/2012 dated 22.05.2013 has confirmed that the accused is the registered proprietor of the trade mark.

On the basis of facts, the involved persons have thus violated the provisions of section 2(5AB),3,6,11,14,22,23 & 26 of the Sales Tax Act, 1990 read with SRO 555(I)/2006 dated 05.06.2006 and wilfully/deliberately evaded tax amounting to Rs 118 million along with default surcharge (to be calculated at the time of payment of the principal amount by committing tax fraud as defined u/s 2(37) of the Sales Tax Act,1990, which is recoverable from them. The competent authority has granted the permission to lodge F.I.R u/s

37A & 37B of the Sales Tax Act, 1990 against the aforesaid culprits.

On the basis of solid material evidence available on record, criminal case is registered against the three sons and their father. One of the culprits Zubair Yousaf is arrested and on remand for eight days and sales tax investigation team is being raided for the arrest of remaining culprits for effective recovery of millions of rupees sales tax to achieve the revenue target, sources added. – *Courtesy Business Recorder*

### **Shortfall in tax revenue: Khyber Pakhtunkhwa debt exceeds Rs 132 billion in fiscal year 2012-13**

Due to rising fiscal deficit and shortfall in tax revenue, Khyber Pakhtunkhwa government debt has crossed at Rs 132 billion in current financial year 2012-13. “In December 2006, the debts stood at Rs 60 billion during the then Muttahida Majlis Amal (MMA) government. Now, it has crossed Rs 132 billion in the current financial year, stated by Khyber Pakhtunkhwa Minister for Finance, Sirajul Haq while speaking at the post-budget conference other day.

The Provincial Finance Minister said that former ANP-led coalition government had doubled debts, while the Federal Government is also reluctant to give dues on head of net-hydel profits, as per decision of arbitration commission. He informed the KP would receive lesser funds on head of taxes from the Centre.

He criticised that it was great failure of former ANP-led coalition for not attaining of legitimate right of the province. He urged federal government to immediate release amount on head of net-hydel profit to it. “Khyber Pakhtunkhwa is a larger producer of electricity, therefore it should be exempted from power loadshedding, he demanded. He assured that the PTI-led coalition government would follow austerity measures to support feeble economy of the province. He further added that the expenditures would be drastically cut down to control the growing debts and would frame policies for economic revival in near future.

The Finance Minister said the government has made sufficient allocation for health, education by declaring the education emergency in the province. “We are expecting great performance from more than 0.4 million government employees, after 15 percent raise in their salaries”, he maintained.

Flanked by KP Minister for Health, Shaukat Ali Yousafzai, Secretary Information, Azmat Haneef Orakzai, Provincial Secretary Finance Sahibzada Saeed Ahmad, Secretary C&W, and other high officials, the Finance Minister held the federal bureaucracy and Wapda responsible for not giving due right to Khyber Pakhtunkhwa. “We will not tolerate any unscheduled electricity loadshedding in the province”, he warned. “The country future and development is lay upon more than 180 million people. We would build good image of Pakistan to give due respect to the Green passport in the world, he reiterated.

The minister said the government would fully exploit the rich mine and mineral resources by placement of better policies. “We would take every possible step for elimination of terrorism and establishment of everlasting peace in the province”, he vowed. He said: “Peace Khyber Pakhtunkhwa is important for stability in the rest of the country.

About the US drone strike in Fata, he said the government would raise the issue at international fora, and a policy would be devised to stop drones very soon, he added. In the budget, he informed the government had allocated 28 percent funds for education, to achieve all targets under the education emergency in the province.

About holding of local government elections, he said that amendments would bring in the existing drafted legislation proposal after thoroughly examine it. All political parties in and out of parliament would be taken in confidence on issue of net-hydel profit, he informed. We don't want to confrontation with federal government, but the issue would be resolved by negotiation and talks, he added. The provincial minister said that about 50,000 mega watt electricity would be generated after completion of various hydel generation power projects, for which federal government need to extend financial support. He said the provincial annual development programme (ADP) has been increased up to Rs 118 billion with an increase of 12 percent. –  
*Courtesy Business Recorder*

### **Concerns over GST hike drag KSE 121 pts down**

The Karachi stock market failed to maintain the previous session's positive momentum on Thursday as concerns over impact of general sales tax (GST) hike on the corporate sector, gas shortage for textile and fertilizer sectors and security unrest in the country forced investors to square their positions.

The Karachi Stock Exchange (KSE) 100-share index declined 120.68 points or 0.55 percent to close at 22,015.04 points as compared to previous session's 22,135.72 points. The KSE 30-share index shed 101.69 points and closed at 17,095.88 points as against 17,197.57 points of the previous session.

“Institutional profit-taking was witnessed in stocks across-the-board in the post-budget consolidation session ahead of policy announcement,” said Arif Habib Corporation Director Ahsan Mehanti. “Limited foreign interest, economic uncertainty, concerns over impact of GST hike on corporate sector, gas shortage for textile and fertilizer sectors and security unrest in the country played a catalyst role in the bearish sentiment at KSE despite hopes for possible approval of \$5 billion International Monetary Fund bailout package to ease economic uncertainty.”

The market turnover went down by 1.35 percent and traded 302.13 million shares as against 306.28 million shares of the previous session. The overall market capitalisation lost 0.42 percent and traded Rs 5.344 trillion as against Rs 5.367 trillion. Losers beat gainers 236 to 129, while 15 stocks were unchanged.

“The market dipped into the negative zone after treading in the positive one for most of the day as the sell-off in regional markets spooked investors,” said JS Research analyst Ovais Ahsan. “With growing realisation that Pakistan is entering a new IMF programme and no confirmation of Saudi deferred oil payment programme, investors feared stricter conditions and an uptick in interest rate.”

Index heavyweights OGDC and MCB Bank led the decliners as persistent selling by one of the largest FI funds weighed in on price and sentiment. Pakistan State Oil also lost intraday gains as the solution to the circular debt still remains hypothetical. The cement sector also weakened as rising interest rate will push up borrowing cost for one of the most leveraged sectors in the market. Liquidity will trump fundamentals in the short-term and continuous foreign selling will turn local sentiment sour.

The KMI 30-share index decreased 287.67 points to closed at 37,750.02 points from its opening at 38,037.69 points. The KSE all-share index closed by shedding 65.69 points to 15,536.05 points as compared to 15,601.74 points of the previous session.

“Drawing leads from the previous session's trend, trading at the market commenced on a positive note,” said Habib Metropolitan

Finance Corporation analyst Salman Vidhani. “However index fell prey to profit-taking especially during the later part of the day.”

The 100-share index fell in tandem with international equity, bonds and gold market as US Fed’s chairman hinted towards unwinding monetary stimulus.

Bank of Punjab (R) SPOT was the volume leader in the share market with 88.64 million shares as it closed at Rs 2.46 after opening at Rs 2.52, shedding six paisas. TRG Pakistan Ltd traded 18.25 million shares as it closed at Rs 11.26 from its opening at Rs 10.89, gaining 37 paisas. Bank Alfalah traded 17.54 million shares and closed at Rs 19.02 as compared to its opening at Rs 18, increasing Re 1. Bank of Punjab traded 15.90 million shares as it closed at Rs 14.72 against its opening Rs 14.91, rising 19 paisas. – *Courtesy Daily Times*

### **Last nail in the coffin: GST hike proving ‘fatal’ for general public**

The continuous increase in prices of essential commodities, which has crippled most of the buying capacity of an enormous number of the population seems to further aggravate the situation with the increase in general sales tax (GST) by 1.0 percent in the Federal Budget 2013-14.

After the increase in GST from 16 percent to 17 percent, marketers have increased the prices of almost all basic items of daily use as 20 kilogrammes (kgs) bag of flour, which was available for Rs 630 as of June 1 has witnessed a massive increase and is now available at Rs 730 per 20kg bag. Also, the 50kg bag of sugar is now available at Rs 2,600, which was previously available at Rs 2,580.

Similarly, smokers suffered the most from hike in GST as cigarettes witnessed an exorbitant raise in prices. A pack of 20 cigarettes, which was available for Rs 80 before the budget is now for Rs 100. Paan was available at Rs 15 but after the budget its new price is Rs 20.

Moreover, packaged milk is likely to reach the price of Rs 100 per litre due to shortage of stock as currently it is being sold at Rs 90. Prior to the budget its price was Rs 85. Super colonel rice is available at Rs 135 per kg as against Rs 128 per kg, while despite hot weather eggs are being sold at Rs 77 per dozen as compared with Rs 62 per dozen.

Likewise, broiler chicken meat prices also witnessed hefty increase after the budget as current price is Rs 320 per kg as against previous price of Rs 260 per kg. The Karachi commissioner has taken action and set the price at Rs 280 per kg. An increase of Rs 35 to Rs 50 on a single bag of cement too has been witnessed.

Prices of petroleum products have also increased. Petrol's price is Rs 100.63 per litre. Compressed Natural gas (CNG) prices in Region-II (Sindh and Punjab excluding Potohar region) jumped to Rs 74.90 per kg with an increase of 39 paisas.

In addition to all this, sales tax exemption on zero rating items has been withdrawn by the federal government in the budget due to which price of different items and raw materials have increased by 3.0 percent to 4.0 percent, including 2.0 percent tax on unregistered suppliers. Books, copies, ink, pencils and other school and office stationery objects have become expensive as a consequence. The production cost of shoe sector and garments sector has increased due to increase in GST.

Meanwhile, the Senate's Standing Committee on Finance last Tuesday recommended the government to withdraw raise in GST from 16 percent to 17 percent in order to release the inflationary pressure. The committee also suggested withdrawal of 2.0 percent further sales tax on supplies to the unregistered dealers.

However, Federal Board of Revenue (FBR) Chairman Anser Javed has said that sales tax-exempted groceries will remain exempted under the Sales Tax Act 1990. He clearly instructed that immediate action will be taken against violators of the said act.

According to the act, vegetables, meat, milk, eggs, red pepper, fish, medicine, cereals, fruits, poultry, ginger, grain, ice, poultry feed, butter, yogurt, salt, potatoes, onions, bread, and other basic non-essential items remain exempted from sales tax. – *Courtesy Daily Times*

### **Budget 2013-14: Senate panel wants govt to drop \$3b worth of receipts**

A Senate committee on finance has urged the government to exclude uncertain pledges from next year's budget, which it says will make the document more realistic. It has recommended that the government drop \$3 billion worth of receipts pertaining to the disbursement of the coalition support fund (CSF), Etisalat's

arrears from the privatisation of the Pakistan Telecommunication Company (PTCL), and the auction of 3G spectrum.

Even though the Senate's budgetary recommendations are not binding on the government, as the decisive powers in this regard rests with the National Assembly, the official recommendation will strengthen the stance taken by a visiting delegation of the International Monetary Fund (IMF), which is said to hold similar views on these transactions. The other day, the IMF delegation had been cautious in its response to the new budget in its preliminary meeting with Finance Minister Ishaq Dar.

The Senate Standing Committee on Finance approved the recommendations with a majority vote, even though Pakistan Muslim League – Nawaz (PML-N) Senator Nuzhat Sadiq opposed the move. The recommendation had been sponsored by Pakistan Peoples Party (PPP) legislators. The committee is scrutinising the budget on behalf of the Senate, which will later adopt the report and forward it to the National Assembly with a request to accommodate its recommendations in the budget.

In the proposed budget, the federal government has added \$1.1 billion on account of the CSF, \$1.2 billion from auction of the 3G internet spectrum licence, and \$800 million from Etisalat as part of its non-tax receipts.

The inclusion of CSF, Etisalat and 3G receipts in the budget is contrary to the viewpoint held by Finance Minister Ishaq Dar when he used to sit on the opposition benches, Senator Sughra Imam of the PPP noted in her remarks.

“The finance minister is extremely ambitious. If these transactions do not mature, borrowings from banks will increase manifold,” she added.

As an alternative, the PPP proposed that the government cut the development budget by Rs180 billion and bring it down to Rs360 billion in order to restrict the budget deficit.

“If we do not add these numbers, our projected deficit of 6.3% of GDP will widen to close to 8% of GDP,” a visibly irritated Rana Assad Amin, who is the adviser to the Ministry of Finance, said in his response. He said that although the last government had added these heads in the budget for three consecutive years, it was now turning the tables on the newly-elected government.

He also said that Etisalat was withholding the \$800 million due to Pakistan's inability to crackdown on grey trafficking. He claimed

that if we did not include the amount receivable from the CSF, the US would never disburse the money.

But even though the finance ministry seems optimistic for next year, certain caveats may delay these transactions even when they mature. For example, the US has recently changed the mechanism for working out CSF disbursements. After the change in methodology, insiders say the government can receive \$400 million to \$600 million at best.

As far as Etisalat's arrears on account of PTCL's privatisation are concerned, the government will have to take a decision on a property owned by PTCL in Karachi's upscale Defence locale, while also solving the grey traffic problem. According to a clause in the privatisation treaty, both sides are required to appoint valuers and determine the highest value of any property whose value is disputed. Sources say that the government is reluctant to appoint a valuator, given that the price of the disputed land is in the millions of dollars.

The Senate panel has also recommended that the government amend the proposed budget to better reflect a 30% cut in non-development non-salary expenditures announced by Prime Minister Nawaz Sharif as part of its belt-tightening measures.

An official said that since some of the budget documents had been printed before the premier's oath-taking ceremony, the finance ministry will soon issue a notification to give effect to the decision. He said the non-salary budget for the ministries is Rs140 billion for next year, which will be reduced to Rs100 billion after the cut is implemented. – *Courtesy The Express Tribune*

### **FBR to file appeal in IHC**

Islamabad- Federal Board of Revenue (FBR) would file intra court appeal in Islamabad High Court (IHC) against its decision regarding amnesty scheme to legalise the smuggled vehicles by paying nominal tax.

Member Customs FBR, Mohammad Riaz, Thursday informed the Senate Standing Committee on Finance and Economic Affairs that tax department would file an intra court appeal in IHC against the court's decision regarding amnesty scheme for smuggled vehicles. He added that Supreme Court of Pakistan in its verdict observed that non-custom paid vehicles mainly used in criminal activities.

Therefore, the government has introduced amnesty scheme to legalise unregistered vehicles and maintain their records.

Talking about the scheme, member Customs informed that amnesty scheme was successful as around 50,900 vehicles were registered in the country. He further said that FBR has generated Rs 16 billion through amnesty scheme.

It is worth mentioning here that FBR in early March 2013 has introduced a controversial amnesty scheme to legalise the smuggled vehicles by paying nominal tax. However, the Islamabad High Court (IHC) Wednesday declared null and void the amnesty scheme that the former PPP government had introduced by giving concession of duties and taxes on illegally-imported smuggled/seized vehicles through an SRO 172(I)/2013 dated March 5, 2013.

The Senate Standing Committee on Finance and Revenue, which met under the chair of its Chairperson Senator Nasrin Jalil, has also discussed the Finance Bill (2013-14) on the fourth day. The Committee recommended the National Assembly to fix the minimum wage at Rs 10,000 per month in the country. Senator Sughra Imam, of Pakistan Peoples Party (PPP), proposed Rs 12000 per month, which was strongly opposed by Senator Ilyas Bilour of Awami National Party (ANP).

“The government has nothing to pay in this regard as civil servants are earning more than Rs 10,000 a month but this would affect the industrialists like us. Therefore, we should recommend Rs 10,000 not Rs 12,000”, Senator Ilyas said in his remarks. Therefore, committee members supported his viewpoint and fixed it at Rs 10,000 per month.

The committee also proposed the lower house of the parliament not to make foreign inflows worth of \$3 billion a part of budget as there are less chance to receive it next year. Senator Sughra Imam said that government has estimated \$3 billion through auctioning of 3G licences, due amount from Etisalat against privatisation of Pakistan Telecommunication Authority (PTCL) and due amount under Coalition Support Fund (CSF) from Untied States, which is unlikely to materialise. She added that former PPP government has estimated these foreign inflows in three annual budgets but nothing avail.

However Adviser to Finance Ministry Rana Asad Amin said that this (if did not include \$3 billion in budget) would lead to increase the budget deficit to 8 percent of the GDP against the target of 6.2 percent for the next financial year 2013-14.

He assured the committee that government would be able to materialise the \$3 billion next year 2013-14.

He asked where from Rs 300 billion would come if government does not include it in the budget. The committee members replied to cut the Public Sector Development Programme and to eliminate Rs 115 billion-block amount kept for Prime Minister's special initiative programme.

The standing committee asked to review income tax slabs for salaried class and make sure not to put additional taxation burden on lower income group. The committee recommended that federal government could not impose federal excise duty (FED) on services sector, as according to the constitution only provinces could impose it on this sector. The ministry of law and parliamentary affairs also favoured the committee viewpoint in this regard.

The committee recommended increasing subsidy for food and energy sector. The committee also proposed to register the unregistered petrol pumps in the country. The committee was informed that government would bring 0.5 million non-taxpayers into the tax net next financial year 2013-14. The government should discuss budget in parliament one month before of its announcement. Similarly, the committee asked to discuss the ministries budget in their standing committee 8 weeks before of the budget.

The Senate Standing Committee proposed the National Assembly that government should reduce its expenditures and to adopt austerity measures. – *Courtesy The Nation*

### **Posh areas exempted from Luxury Tax**

The newly-introduced Luxury Tax in the recently-announced Punjab budget 2013-14 on homes of two and above two kanals is absolutely discriminatory and against fundamental rights of citizens, as it is imposed only in three districts of Punjab.

These views were expressed by a large number of senior citizens, retired employees and pensioners, residing in New Garden Town, Muslim Town, Model Town and Gulberg, who while talking to The Nation on phone, have shown their strong resentment regarding the proposed luxury tax. They warned the government of a strong protest, besides moving to the court against this clear discrimination if government does not redress their grievances.

They alleged that the govt, by imposing tax, has punished those areas which caused defeat of PML-N.

The houses constructed before partition or homes erected some 60 years back in Model Town and other older localities cannot be considered as luxurious. The govt should exempt those houses which were build 50/60 years earlier, as only pensioners or retired citizens are residing there who are unable to even whitewash their old homes, how can they pay half a million rupees as a tax, they put the question.

Provincial finance department sources revealed that luxury tax has been imposed on houses which are located in 'A' category rating of the Excise Dept, which does not include Cantonment area, EME colony, Defence, Bahria Town and Jati Umra, as they are considered rural areas. In this way Bilawal House of 126 kanal, owned by President Asif Zardari and the residences of PM Nawaz Sharif and Punjab CM Shahbaz Sharif on thousands of kanals situated in Jati Umra do not fall in 'A' category luxury homes, hence exempted from tax.

A resident of New Garden Town told The Nation that he acquired the land for his home in 1960 when it was an agricultural land in just Rs60,000 and constructed a couple of rooms just free of cost if compared with cost of today. On request of anonymity, he said that at that time it was compulsory to construct home on more than 2/3 kanals due to unavailability of ACs and architectural requirements.

Javed Iqbal of Lahore Stock Exchange suggested the government to impose tax on those homes, which are built during this era of commercialism with the cost of tens of millions of rupees in all areas, instead of keeping any limit. He said that exemption for widows is appreciable this exemption should be extended for old citizens too, as they cannot afford to pay a huge amount in the form of tax. He criticized the budget makers for exempting several posh areas including Cant, Defence, EME Colony, Lake View and Bahria Town from luxury tax, as most of big and luxury homes are located in these areas. He also suggested the govt that cantonment authority should collect tax from its area if Punjab govt cannot collect levy due to legal hiccups.

LCCI SVP and Qaumi Tajir Ittehad president Irfan Iqbal Sheikh demanded the govt of imposing luxury tax also in Gujranwala and Sialkot where top exporters of the country reside in villas of acres. The whole Punjab should come in tax net in this regard. Mian

Ayaz Anwar, MD of the Zaitoon Group, said that business community in Pakistan held high expectations from Nawaz Sharif government and after 5 years of economic stagnation, the small & medium sized businesses were looking forward to an enabling environment for their businesses to grow and contribute towards Pakistan's economy.

However, the Finance Minister's budget measures have been a huge setback to the small business owners. When no industry has given incentives how economic growth will be enhanced, he asked the authorities.

Discussing the capital gains tax by the Punjab government, he pointed out that it will hinder the construction industry growth as the investment will drain out from this sector after imposition of capital gains tax.

Though the govt imposed this tax to encourage construction and to control artificial hike of property rates but real estate expert says that investors do not deposit their money in banks and invest in real estate sector to earn profit. Usually a small and medium sized developer acquire land and built unit with in nine-month period and tries to sale it as early as possible to earn profit on his investment. He cannot hold his investment and he will sale his constructed unit even he has to pay 5pc tax. Due to drop in profit margin a large number of investors will leave the sector and move to other fields in pursuit of better margin. When investment is decreases the construction industry will automatically will be affected negatively, he added.

Tayyib Khalil, a real estate expert and CEO of Property Express observed that there is no mention of covered area in tax rules and if covered area is very small as usually happens old homes, there should be no luxury tax, as homes with small covered area cannot be called luxurious one.

When contacted, Raja Ashfaq Sarwar, provincial minister and general secretary of PML-N Punjab, he said that govt is receiving several complaints in this regard and the issue has been discussed in a couple of meetings. He said that widows home of more than two kanals are already exempted and admitted that senior citizens should also be exempted from this levy. He was hopeful that the issue of luxury tax in few areas will be taken up with CM Shahbaz Sharif and the tax may be withdrawn. – *Courtesy The Nation*

**It's provinces' right to collect FED on services: Senate body told**

Law and Justice Division repeatedly conveyed to the Federal Board of Revenue (FBR) that the FBR is legally not empowered to collect Federal Excise Duty (FED) on services as it is the right of the provinces. The issue of FED on services came under discussion during the Senate Standing Committee on Finance here on Thursday.

When committee members asked about the legal and constitutional position, Legislative Advisor of the Law and Justice Division informed the committee that it has time and again conveyed to the tax authorities about the legal status of the collection of FED on services. The FED on services is the right of the provinces and FBR cannot collect the said duty.

Responding to this, senior FBR officials informed that the FBR can collect the FED on goods as well as on services. However, the matter is sub judice before the courts. Officials of the Ministry of Finance endorsed the viewpoint of the FBR during the committee proceedings.

Committee members said that the provinces are already collecting sales tax on services and collection of the FED on services by the FBR would create confusion among the provinces. It is worth mentioning that the federal excise duty @ 16 percent has been imposed on all financial services as specified in PCT Heading 98.13, whether rendered or provided by banking companies, non-banking financial institutions and other persons. For this purpose, S. No 8 of Table II of the First Schedule to the Federal Excise Act, 2005 has been substituted. Now financial services such as "Easy Paisa", private modarabas, asset management companies, foreign exchange dealers, ATM withdrawal fee, etc shall be subjected to federal excise duty. – *Courtesy Business Recorder*

**Senate panel's recommendation: all POL dealers must get registered with FBR**

The Senate Standing Committee on Finance Thursday recommended the National Assembly that the petrol pumps, POL suppliers and dealers must obtain sales tax registration, as supply of POL products to all unregistered dealers/suppliers should be suspended.

During the meeting of the Senate Standing Committee on Finance, the committee strongly recommended that all such POL dealers have to get registered with the Federal Board of revenue (FBR). The committee rejected the viewpoint of the Pakistan Petroleum and Dealers Association presented before the committee regarding sales tax registration.

Chairperson of the committee Nasreen Jalil read the request of the Pakistan Petroleum and Dealers Association before the committee. The association said that they are commission-based retailer, whose prices are fixed by Ogra and sales tax deducted by OMCs including tax on our margin, there is no value addition in Ogra's final consumer price. If they get registered than they would become withholding agents, in that case they can only make sale to the registered persons or extra 2 percent sales tax on unregistered persons. Oil Marketing Companies (OMCs) sale certificate is a verifiable instrument for our deduction of sales tax. Resultantly, association feels that it seems to be additional paper work and industries will demand sales tax invoices for their (input) monthly sales tax returns.

If unavoidable, the association will follow government directions and register petrol pumps with the sales tax department, and request the FBR to adopt one window operation to facilitate its members. The association also requested filing of quarterly returns in view of Input and Output figures. Committee members were unanimous that the dealers should obtain the STRNs from the FBR and made same recommendation to the National Assembly. A senior FBR official informed the committee that a detailed procedure would be notified for the POL dealers and petrol pumps etc for sales tax registration. – *Courtesy Business Recorder*

### **'Strict action for charging ST on exempted items'**

Federal Board of Revenue (FBR) on Friday warned strict action would be taken against all those found guilty of charging Sale Tax (ST) on exempted items.

FBR Chairman Ansar Javed said on the special directive of Federal Finance Minister Ishaq Dar, all heads of Large Taxpayer Units and Regional Tax Offices across the country have been directed to minutely monitor regularly on daily basis that no one should charge ST on all exempted items failing which the guilty should be taken to task irrespective of their social status.

He categorically made it clear FBR would not allow any one to play with the poor segment of society by charging ST on exempted items.

Items exempted from ST included vegetables, meat, milk, eggs, red chilies, fish, drugs, fruits, poultry, ginger, turmeric, cereals and products of milling industry, ice, poultry feed, butter, yogurt, butter, salt, bread and nan. – *Courtesy Daily Times*

### **PAAPAM hails IHC decision on amnesty scheme**

Pakistan Association of Automotive Parts and Accessories Manufacturers (PAAPAM) welcomed the court decision to declare the amnesty scheme of the Federal Board of Revenue (FBR) for smuggled vehicles as illegal, besides ordering the revenue body to impound 50,000 vehicles.

Welcoming the IHC directives to the FBR to announce bids for the vehicles after impounding them for auction, PAAPAM Chairman Munir Bana said that the court order will encourage honest taxpayers, besides supporting the local industry.

Such schemes had always encouraged smugglers to continue their criminal activities at the cost of domestic industry and national interests, he said.

How the FBR can ignore a serious crime such as smuggling simply by collecting penalties? Bana asked.

He, on behalf of the whole auto sector, appealed the court to direct the authorities concerned to also prosecute the car smugglers under the law and give them jail sentences, as simple levy of fines and penalties has never proved to be a deterrent.

The parliament instead of entertaining an amnesty scheme should seriously consider introducing asset-seizure scheme to confiscate untaxed assets, as well as non-duty paid costly vehicles purchased from undisclosed money, he said.

Bana said that the customs intelligence had collected data of 2.3 million non-duty paid smuggled vehicles, which is just 15 percent of an estimated 14 million smuggled / non-registered vehicles across the country.

PAAPAM Vice Chairman Usman Malik, expressing dismay at the ever-shrinking list of honest taxpayers in all the sectors, said that the amnesty schemes should not be used as a measure to raise

revenues, as these discourage honest taxpayers and create distrust in state institutions.

The smugglers use engine numbers of imported used cars for registration of smuggled vehicles as there is no system to verify their authenticity, he said, adding that the engine numbers of locally-assembled cars can be verified from the assembler's records.

The tax amnesty scheme protects tax evaders, as they whiten their untaxed money simply by paying a small premium to moneychangers for arranging remittance in their names.

Moreover, the smugglers are the main beneficiary of such schemes, as majority of the luxury cars were cleared by paying nominal fee under these schemes, which is damaging the local auto sector, which provides direct / indirect employment to 1.8 million people, he added. – *Courtesy International The News*

### **Message from Chairman, Federal Board of Revenue**

The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) is organising 1st FPCCI Achievement Awards 2012 to recognise the outstanding achievements of individuals and firms for enhancing the image of Pakistan. As we know that, in knowledge drive global culture and human development, progressive nations enthusiastically search for new ideas, people, talents, creative plans and innovative methods to renovate the old and obsolete systems and infrastructure with new passion and ambitions for a better future.

In the era of globalisation and economic integration the issues of socio-economic have become a crucial element in economic development and we are happy to note that socio-economic development is one of the category of FPCCI's achievement awards.

Despite all challenges like infrastructure backwardness, lack of knowledge creating activities and educational and health backwardness our people are still competitive in marketing their talent in reaching international markets and I commend them on this achievement. On this occasion, I also applaud the role of FPCCI in promoting technology, export, economic growth, and prosperity and assisting traders and industrialist in addressing the new challenges being faced in the sphere of international market.

I believe that this event will play a pivotal role to boost the confidence of people in marketing their activities. Every successful nation always wants the quick convergence of the country, which is possible only in that condition when countries adopt export led growth and investment-led growth policies for competitiveness, diversification and value addition.

I am confident that this event will open up a new vista of fresh opportunities and greatly help in promoting of true image of Pakistan, which need to harness at significant level. I congratulate to all valiant winners for their dedicated efforts which are highly admirable and it is my conviction that our people will perform better in future too to accelerate the progress of Pakistan's economy which is the need of the time. I congratulate all the awardees, and convey my best wishes to the organisers for the success of the ceremony. – *Courtesy Business Recorder*

### **Call for excluding tiles industry from Third Schedule**

All Pakistan Ceramic Tiles Manufacturers (APCTM) have pleaded to the Federal Board of Revenue (FBR) not to include tiles industry in the Third Schedule of the Sales Tax Act 1990. Representatives of the industry met Chairman FBR Ansar Javed on Friday to plead their case and convince FBR on their stand.

Earlier, they had written a letter to the Chairman seeking his indulgence into a very serious issue which has emerged after the announcement of budget 2013-14 having devastating impact on the ceramic tiles industry in Pakistan. FBR has proposed to include "Tiles" in the Third Schedule of the Sales Tax Act 1990 whereby it has been made mandatory to print retail price on each box of tiles. "The impact of the proposed amendment is fatal for the survival of the local manufacturers, therefore, we request you to please do consider some factors before taking any final decision in this regard," the letter stated.

"A manufacturer has to produce new designs and varieties on daily basis in line with the newer varieties of imported tiles which are sold at different prices according to their respective manufacturing costs by the importers who have larger share in the local market," they added.

Moreover, they added there was a large number of importers involved in the import of tiles from various countries including China, Spain, UAE, Indonesia, Malaysia, Iran and many other

countries but through the proposed amendment, FBR is trying to recover sales tax on full value addition up to retail level from the local manufacturers only. "The commercial importers possessing a major share in the domestic market are not required to pay sales tax on retail price," added the letter.

They said FBR was trying to control prices of locally manufactured tiles but there was no mechanism available with FBR to track imported tiles, which meant the customer would switch over to imported tiles to enjoy flexibility in prices. "Also, the commercial importers will immediately import huge quantities of tiles to grab the share of local manufacturers, compelling them to completely shut down their operations," the letter stated.

They said FRB should know that in the field of ceramic tiles prices could not be fixed for all customers because of the nature of customers asking for discounts such as corporate discounts, bulk buying discounts, territory-wise different discounts, and cash discounts. "The manufacturer gives all kinds of discounts to customers in order to retain them. There shall be complexity and disputes over quantum of discounts between sales tax department and the manufacturers on daily basis if this item is included in the Third Schedule," the association stated in the letter.

"Tiles may not be treated like FMCG products and the practicality of printing of prices on retail packing may be considered before making any of such amendment because tiles business is highly volatile and order based, the dynamics of tiles industry change every day," the letter stated.

The association said if prices were to be printed on tiles boxes, it would not be possible to convince the customer as to why there were two different prices for the products packed in similar packaging because the packaging material for two different types of tiles might be the same.

It is also feared that the importers would take undue advantage of this amendment and the manufacturers who are already suffering from injurious effects of dumping shall face another agony in the hands of proposed amendment. They said sales tax on value addition by the traders shall have to be borne by the manufacturers as the traders would never bear any additional impact of sales tax. "If we increase prices, we would lose our market share, as mentioned above, which shall not at all be fair with the local manufacturers."

Ceramics industry is providing employment to more than 15,000 households directly and to thousands of others indirectly and also paying billions of rupees in the shape of taxes and duties to the national exchequer. – *Courtesy Business Recorder*

### **Access to bank accounts: PBA rejects powers of FBR**

Pakistan Banks Association (PBA) has rejected unbridled powers of the Federal Board of Revenue (FBR) to access banks database, saying open access to confidential information of banks could seriously compromise personal security of their customers, through leakage of such data to criminals and kidnappers who could approach accountholders.

Sources told here on Friday that PBA has informed Finance Minister Ishaq Dar about the serious implications of the proposal which could adversely impact the banking industry. According to the PBA, changes have been proposed in Section 165 and a new Section 165A has been proposed to be inserted.

These amendments are aimed at overriding any conflicting provisions of the Companies Ordinance, 1984, The Protection of Economic Reforms Act 1992, The Banking Companies Ordinance 1962, The Foreign Exchange Regulation Act 1947 and regulations made under the State Bank of Pakistan Act 1956, regarding secrecy of bonafide banking transactions and provision of information to FBR.

The Protection of Economic Reforms Act 1992 was landmark legislation introduced by Government in 1992 and has been recognised and upheld not only by the Superior courts but by all successive governments. The protection accorded by the law is being taken away by these amendments. In addition, the said amendments provide unbridled power to the FBR regarding access to sacrosanct banking information of customers and, if passed, would have following repercussions for banking sector and will have detrimental impact on the economy as a whole:

Firstly, the banking sector keeps very strong levels of documentation regarding customers, especially with regard to Know Your Customer and Anti Money Laundering procedures. Banks will continue to assist the government to capture instances where there is evidence of tax evasion or alleged wrong-doing. However, the current amendments seek a blanket provision of

information, thus compromising the secrecy of bona fide banking transactions, which is the hallmark of the banking industry.

Secondly, given the current law and order situation in the country, kidnappings for ransom have become a source of huge concern for individuals who, in fact, take great pains to lead an understated lifestyle. We fear that open access to the confidential information of banks databases could seriously compromise the personal security of customers, through leakage of such information to criminals. This will ultimately result in loss of trust in the banking sector by depositors.

Thirdly, the proposed section 165A requires the monthly reporting of deposits into customer accounts, details of credit card spending by individuals and withdrawals from customer accounts. These will provide dis-incentives to documentation and encourage a cash economy as customers would not want details of their bona fide transactions disclosed. This would consequently also lead to a drastic decline in the acceptance of credit cards as a whole. Ultimately, this will lead to dollarisation, avoidance of banking channels and flight of capital out of Pakistan, PBA said.

The banks are already providing customer information where a notice is received from the tax authorities under Section 176, and hence no further measure is needed. It is now settled law that such changes cannot be made under the cover of a Finance Bill and if required must be done through amending the applicable legislation.

The PBA further said that the corporate tax rate has been reduced from 35 percent to 34 percent for companies and this is projected to reduce by 1 percent each year to reach 30 percent. Banks are disappointed that this consideration has not been extended to banking companies, hence resulting in a discriminatory treatment against one of the highest contributing sectors of the country. There should be a level playing field for all corporate entities, including the banking sector. This is particularly relevant as, in today's economy, the divide between banks and other entities servicing the financial sector (NBFIs, Telcos) is blurring.

After the 18th Amendment in the Constitution and the 7th NFC award, the levy and collection of sales tax on services are now regulated and administered by the provinces. Consequently, Sindh and Punjab have already previously promulgated their respective provincial sales tax acts. The banks are now paying provincial sales tax in Sindh and Punjab under their respective provincial sales tax acts on services.

However, to give effect to the 18th amendment, the Federal Government was obliged to withdraw FED on services which are taxed at a provincial level. While the FBR issued a press release conveying its intention to withdraw FED, no amendment has been made in the FED Act 2005 itself. Relevant amendments should be made in the FED Act to exclude the banking services which are liable for provincial sales tax in order to avoid any future legal confrontation and avoid harassment of banks. Further this amendment to the FED Act should apply from the date of promulgation of the respective provincial sales tax acts, PBA said.

The banking industry is primarily human resource driven. Banks are therefore extremely disappointed that there has been a dramatic reversal in the tax regime for salaried taxpayers. This is unfair, and results in continuous squeezing of the one set of people who have consistently and honestly paid taxes. In addition to paying tax on their salaries, they also pay full taxes on all perquisites received in kind.

It is the stated intention of the government to attract professional and talented individuals to the country, particularly with respect to its privatisation programme. Such an increase in the tax burden of salaried individuals, particularly at the higher level where resources are increasingly becoming scarce in the country, will only encourage a brain drain, rather the reverse which is being desired. Additionally, banks have expressed their concern over the introduction of a new tax via the income support levy @ 0.5 percent of net movable assets which represent saving created from the income already taxed.

This will further disincentivise deposits and investments in the capital markets, reduce the overall savings in the country and potentially route wealth into the cash/informal economy. The restoration of the original Section 165 and removal of Section 165A as the existence of Section 176 already allows the FBR to obtain legitimate information in the case of suspected tax evasion, PBA proposed. – *Courtesy Business Recorder*

### **FBR-SRB row over FED on services: taxpayers pin hopes on PML-N government**

With change of the guards at Centre, the federal tax authorities have flexed their muscles over the issue of Federal Excise Duty (FED) on Services, claiming that FBR can collect FED on goods as well as on services. Whether the Pakistan Muslim League-Nawaz

(PML-N) government will ask the federal tax authority to withdraw FED on services, as it is the constitutional right of the provinces?

This is the million dollars question in the minds of thousands of taxpayers registered simultaneously with Federal Board of Revenue (FBR) and Sindh Revenue Board (SRB), who are facing a lot of troubles due to the dispute between Sindh and Centre since April 2010.

On April 10 2010, the National Assembly passed 18th constitutional amendment, which among other things gave provinces the right to collect sales tax on services. This was also mentioned in the 7th NFC Award inked by President Asif Ali Zardari on April 16, 2010.

Following the developments, Sindh province established Sindh Revenue Board (SRB) to collect sales tax on services and it is running the board since June 2011. SRB collected Rs 25 billion in 2011-12 and it is going to collect one billion in excess of its assigned target of Rs 32 billion till June 30, 2013. With the passage of 18th amendment and 7th NFC Award, the FBR had to issue notification of withdrawal of FED on Sindh related services but despite many meetings and more than 22 official reminders and letters, the federal tax authority had not issued the required notification.

On July 1, 2011, FBR had issued a press release titled "FBR withdraws FED on services receivable by the provinces to avoid double taxation" on its website, sources said. A large number of taxpayers registered at FBR and SRB are facing a lot of hurdles due to this official dispute between the two tax collection authorities of the country. They are of the opinion that the previous governments both at Centre and Sindh were led by PPPP and if PPPP could not force the FBR to issue the notification. They are pinning hopes on PML-N for resolution of the issue.

Two days ago FBR officials had told the members of Senate Standing Committee on Finance that FBR can collect FED on goods as well as on services. However, the matter is sub-judice before the courts. Officials of the Ministry of Finance had also endorsed the viewpoint of FBR during the committee's proceedings.

The service providers in Sindh suffering from the dilemma whether they should pay FED on services to the FBR or Provincial Sales Taxes on services in the wake of Sindh Sales Tax on Services

Act 2010, passed by Sindh Assembly. *Business Recorder* reliably learnt that despite several requests and reminders by the Sindh government authorities and also by the service providers, FBR is keeping mum aggravating the concerns of the taxpayers.

Having found the tax authorities oblivious to the situation, some of the big taxpayers had filed writ petitions in various courts for redressal of their grievances, sources said. These litigations depict the plight of the taxpayers due to FBR's in-action to issue the promised and the long-awaited FED exemption notification.

Commenting on the situation, some registered taxpayers told that they had informed FBR, PRA and SRB that they would not pay FED on services or provincial sales tax unless the tax authorities give a unanimous decision about the jurisdiction to which the duty/tax should be paid without the threat of double taxation.

They were of the view that PPPP government and Mian Raza Rabbani, Chairman Implementation Commission on 18th amendment, could not take serious steps in this regard so that PML-N' government should resolve the issue in light of the legislative intent and purposes of the 18th amendment and 7th NFC Award.

“Any further delay in this regard will only make the exchequer suffer, will encourage the un-scrupulous persons who evade tax in such confusing situations and will create a bad public image of the governments and its tax administration machineries apparently at loggerhead with each other,” taxpayers said. – *Courtesy Business Recorder*

**F.No.1(14)Jurisdiction/2009-Vol-III/77128-R**Islamabad, the 8<sup>th</sup> June, 2013**CORRIGENDUM ORDER**

In exercise of the powers conferred by Sub-Section (1) of Section 209 of the Income Tax Ordinance, 2001, Section 30 and 31 of the Sales Tax Act, 1990 and Section 29 of the Federal Excise Act, 2005, the Federal Board of Revenue is pleased to add a new serial number in column 1 and entries relating thereto in column 2 and 3 of Table – C of its jurisdiction order F.No.1(14)IR-Jud/2009(A) dated 25<sup>th</sup> November, 2009, as under:

“118-A	1200980200237	M/s Pakistan Television Corporation Limited”
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**A*****BILL***

*to rationalize, levy and enhance certain taxes, duties and cess and amend certain laws in the Province of Sindh.*

**WHEREAS** it is expedient to rationalize, levy and enhance certain taxes, duties and cess and amend certain laws in the Province of Sindh, in the manner hereinafter appearing;

It is hereby enacted as follows:–

**1. Short title and commencement.**– (1) This Act may be called the Sindh Finance Act, 2013.

(2) It shall come into force on and from 1<sup>st</sup> day of July, 2013.

**2. Amendment in Sindh Urban Immovable Property Tax Act 1958.**– In the Sindh Urban Immovable Property Tax Act, 1958, in section 3, in sub-section (2), for the words “twenty percent”, the words “twenty five percent” shall be substituted.

**3. Amendment of Sindh Act No. VII of 1977.**– In the Sindh Finance Act, 1977, section 8 shall be omitted.

**4. Amendment in the Sindh Finance Act 1994.**– In the Sindh Finance Act, 1994, for the existing Schedule, the following shall be substituted:–

**SCHEDULE**

(See section 9)

<b>Net weight of goods</b>	<b>Rate of cess along with distance</b>
Upto 1250 kilograms	0.90% of total value of goods as assessed by the Custom Authorities plus one paisa per kilometer.

Exceeding 1250 kilograms but not exceeding 2030 kilograms.	0.91% of total value of goods as assessed by the Customs Authorities plus one paisa per kilometer.
Exceeding 2030 kilograms but not exceeding 4060 kilograms.	0.92% of total value of goods as assessed by the Customs Authorities plus one paisa per kilometer.
Exceeding 4060 kilograms but not exceeding 8120 kilograms.	0.93% of total value of goods as assessed by the Customs Authorities plus one paisa per kilometer.
Exceeding 8120 kilograms but not exceeding 16000 kilograms	0.94% of total value of goods as assessed by the Customs Authorities plus one paisa per kilometer.
Exceeding 16000 kilograms.	0.95% of total value of goods as assessed by the Customs Authorities plus one paisa per kilometer.

**Explanation:** For the purpose of the Schedule, the “value” means the total value of goods as assessed by the Customs Authorities upon entering in and using the infrastructure of the Province and the “distance” means the distance covered within the Province.

**4. Amendment of Sindh Act No. XII of 2011.**— In the Sindh Sales Tax on Services Act, 2011, hereinafter referred to as the said Act—

- (i) in the Preamble, after the word “received”, the commas and words “, originated, executed” shall be inserted;
- (ii) for section 2, the following shall be substituted, namely:—

**“2. Definitions.**— In this Act, unless there is anything repugnant in the subject or context,—

**(1) “accountant”** means:—

- (i) a chartered accountant as defined in the Chartered Accountants Ordinance, 1961 (Ordinance No. X of 1961), and includes the Associate and Fellow members thereof;
- (ii) a cost and management accountant as defined in the Cost and Management Accountants Act, 1966 (Act No. XIV of 1966), and includes the Associate and Fellow members thereof;
- (iii) a firm or an association of chartered accountants or cost and management accounts; and
- (iv) other accountants or association of accountants notified in this behalf by the Board;

(2) **“advertisement”** includes a notice, circular, label, wrapper, document, banner, hoarding, billboard, or any other audio or visual representation made or displayed by any means including print media, electronic media, telecommunication media, light, paint, colouration, sound, smoke or gas, or otherwise;

(3) **“advertising agent”** means a person engaged in providing any service connected with the making, preparation, display, demonstration or exhibition of advertisement in any manner and includes an advertising agency or media agent or advertising or media consultant, by whatever name called;

(4) **“agent”**, means a person who is authorized to act on behalf of another person (called ‘the principal’) to create a legal relationship with a third party, and includes a person specified as an agent under section 67;

(5) **“airport ground service provider”** and **“airport service provider”** mean and include any service provider, operator and airline providing or rendering ground or ramp services, including passenger and cargo handling services, to other airlines or to aircraft operators of scheduled or non-scheduled flights, and also include the handling agents authorized by the Civil Aviation Authority or other airport operators;

(6) **“aircraft operator”** means and includes any person who provides the services of transportation or carriage of passengers, goods, cargo, baggage or mail by aircraft;

(7) **“airport operator”** means and includes the Civil Aviation Authority and any other authority or organization or office managing or operating a customs airport, as notified under section 9 of the Customs Act, 1969 (Act No. IV of 1969);

(8) **“Appellate Tribunal”** means the Appellate Tribunal of the Sindh Revenue Board established under section 60;

(9) **“architect”** means and includes an architect or a town planner as defined in section 2 of the Pakistan Council of Architects and Town Planners Ordinance, 1983 (Ordinance IX of 1983), and also includes an association of persons or a commercial concern engaged in any manner, whether directly or indirectly, in the field of architecture or town planning;

(10) **“arrears”**, in relation to a person, means the tax due and payable by the person on a day under this Act, which has not been paid by that day in the prescribed manner;

(11) **“Assistant Commissioner”** means a person appointed as an Assistant Commissioner of the Sindh Revenue Board under section 34;

**(12) “associates” or “associated persons” refers to–**

- (i) two persons, where the relationship between them is such that one may reasonably be expected to act in accordance with the intentions of the other, or both persons may reasonably be expected to act in accordance with the intentions of a third person;

Provided that two persons shall not be associates solely by reason of the fact that one person is an employee of the other or both persons are employees of a third person;

- (ii) without prejudice to the generality of paragraph (i) and subject to paragraph (iii) of this clause, the following persons shall always be treated as associates, namely:–
  - (a) an individual and a relative of that individual;
  - (b) members of an association of persons;
  - (c) a member of an association of persons and the association, where the member, either alone or together with an associate or associates under another application of this clause, controls fifty per cent or more of the rights to income or capital of the association;
  - (d) a shareholder in a company and the company, where the shareholder, either alone or together with an associate or associates under another application of this clause, controls either directly or through one or more interposed persons–
    - (i) fifty per cent or more of the voting power in the company;
    - (ii) fifty per cent or more of the rights to dividends; or
    - (iii) fifty per cent or more of the rights to capital; and
  - (e) two companies, where a person, either alone or together with an associate or associates under another application of this clause, controls either directly or through one or more interposed persons –
    - (i) fifty per cent or more of the voting power in both companies;

- (ii) fifty per cent or more of the rights to dividends in both companies;  
or
- (iii) fifty per cent or more of the rights to capital in both companies; and
- (iii) two persons shall not be associates under sub-paragraphs (a) or (b) of paragraph (ii) of this clause where the Commissioner SRB is satisfied that neither person may reasonably be expected to act in accordance with the intentions of the other;

**Explanation:** The expression “relative” in relation to an individual, means—

- (a) an ancestor, a descendant of any of the grandparents, or an adopted child, of the individual, or of a spouse of the individual; or
- (b) a spouse of the individual or of any person specified at (a) this explanation.

**(13) “association of persons”** includes a firm, any artificial juridical person and anybody of persons formed under a foreign law, but does not include a company;

**(14) “authorized service station”** means a service station or service center, authorized by a motor vehicle manufacturer, whether local or foreign, to carry out any service or repair or reconditioning or restoration or decoration of motor vehicles, classified under Chapter 87 of the Customs Act, 1969 (Act No. IV of 1969), manufactured by such manufacturer;

**Explanation:** The services by authorized service stations include—

- (1) the services provided during the warranty period as well as after the expiry of the warranty period;
- (2) the services provided even for the vehicles and machinery not manufactured by the manufacturer appointing or authorizing such service station; and
- (3) the services provided against charges billed by way of reimbursement, whether from the manufacturer or insurance companies or leasing companies or other such persons;

**(15) “automated teller machine”** means an interactive automatic machine, whether owned or outsourced by banks and other financial institutions, designed to dispense cash, accept deposit of cash, transfer money between bank accounts and

facilitate other financial transactions including payments of bills;

**(16) “automated teller machine operations, maintenance, and management”** means a service provided in relation to automated teller machines and includes site selection, contracting of location, acquisition, financing, installation, certification, connection, maintenance, transaction processing, cash forecasting, replenishment, reconciliation and value added services;

**(17) “beauty parlour”** or “beauty clinic” means a person or an establishment providing beauty treatment services including hair cutting, hair dyeing, hair dressing, face care, face treatment, cosmetic treatment, manicure, pedicure, make-up including bridal make-up, and counseling services on beauty care, face care or make-up or other such identical or similar services;

**(18) “Board”** means the Sindh Revenue Board established under section 3 of the Sindh Revenue Board Act, 2010 (Sindh Act No. XI of 2010);

**(19) “business support service”** means services provided in relation to business or commerce and includes evaluation of prospective buyers, telemarketing, call centre facilities, accounting and processing of transactions, processing of purchase orders and fulfillment services, information and tracking of delivery schedules, managing distribution and logistics, customer relationship management services, operational assistance for marketing, formulation of customer service and pricing policies, infrastructural support services and other transaction processing.

**Explanation.**— For the purposes of this clause, the expression “infrastructural support services” includes providing office alongwith utilities, lounge, reception with personnel to handle messages, secretarial services, telecommunication facilities, pantry and security;

**(20) “cable TV operator”** includes local loop holder and means a person who owns, controls, manages or runs any cable television system and is engaged in reception of broadcast pre-recorded or live signals from different channels for distribution to subscribers through a set of closed transmission path or wireless, and is liable to license as a cable TV operator under the Pakistan Electronic Media Regulatory Authority Ordinance, 2002 (Ordinance No. XIII of 2002);

**(21) “caterer”**, by whatever name called, means a person who in ordinary course of business and in relation to events, functions, ceremonies, parties, get-together, occasions, etc.,

provides or supplies, either directly or indirectly, various services including food, edible preparations, beverages, entertainment, furniture or fixture, crockery or cutlery, pandal or shamiana, ornamental or decorative accessories or lighting for illumination;

**(22) “club”** includes a membership club and a proprietary club and means a person, a body of persons, an establishment, an organization or a place, the membership of which is restricted to a particular class of people or which is run on the basis of mutuality or otherwise and provides various services, facilities, utilities or advantages for an amount of fee, consideration, subscription or charges, including those for initial membership, whether or not it provides food or drinks or has any arrangement for boarding or lodging or games;

**(23) “Commissioner”** means a person appointed as a Commissioner of the Sindh Revenue Board under section 34;

**(24) “Commissioner (Appeals)”** means a person appointed as a Commissioner (Appeals) of the Sindh Revenue Board under section 34;

**(25) “Commissionarte”** means the office of the Commissioner or the Commissioner (Appeals) having jurisdiction specified under this Act and the rules made thereunder;

**(26) “common taxpayer identification number”** means the registration number or any other number or identification number allocated to a person for the purposes of this Act;

**(27) “commodity broker”** means a broker as defined in clause (b) of sub-rule (1) of rule 2 of the Commodity Exchange and Future Contracts Rules, 2005, made under section 33 of the Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969);

**(28) “company”** means—

- (a) a company as defined in the Companies Ordinance, 1984 (Ordinance No. XLVII of 1984);
- (b) a banking company and foreign banking company as defined in the Banking Companies Ordinance, 1962 (Ordinance No. LVII of 1962), and includes any body corporate which transacts the business of banking in Pakistan;
- (c) a non-banking finance company (NBFC) and the notified entities as specified in section 282A of the Companies Ordinance, 1984 (Ordinance No. XLVII of 1984), read with the Non-Banking Finance Company (Establishment and Regulation) Rules, 2003;

- (d) a body corporate formed by or under any law in force in Pakistan;
  - (e) a modaraba company as defined in the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (Ordinance No. XXXI of 1980);
  - (f) a financial institution as defined in the Financial Institutions (Recovery of Finances) Ordinance, 2001 (Ordinance No. XLVI OF 2001), including a microfinance institution licensed under the Microfinance Institutions Ordinance, 2001 (Ordinance No. LV of 2001) and a Islamic financial institution;
  - (g) a body incorporated by or under the law of a country outside Pakistan relating to incorporation of companies;
  - (h) a trust, a co-operative society or a finance society or any other society established or constituted by or under any law for the time being in force; or
  - (i) a foreign association, whether incorporated or not, which the Board has, by general or special order, declared to be a company for the purposes of this Act.
- (29) “computerized system”** means any comprehensive information technology system used by the Board or any other office as may be notified by the Board, for carrying out the purposes of this Act;
- (30) “courier services”** includes the services provided or rendered by any person engaged in the transportation, carriage or delivery of time-sensitive documents, goods or articles, whether or not utilizing the services of a person, directly or indirectly, to collect, carry or deliver such documents, goods or articles;
- (31) “customs agent”** means a person licensed under section 207 of the Customs Act, 1969, and the rules made thereunder;
- (32) “default surcharge”** means the default surcharge levied under section 44;
- (33) “defaulter”** means a person or an association of persons and includes every member of such association, every director of such company and every partner of such firm and further includes guarantors or successors thereof, who fail to pay the arrears;
- (34) “Deputy Commissioner”** means a person appointed as a Deputy Commissioner of the Sindh Revenue Board under section 34;

(35) **“document”** includes, but is not limited to, any electronic data, computer programmes, computer tapes, computer disks, micro-films or any other medium or mode for the storage of such data;

(36) **“due date”**, in relation to the furnishing of a return or a statement or for payment of tax under the Act, means the 15th day of the month following the end of the tax period to which it relates, or such other date as the Board may, by notification in the official Gazette, specify;

(37) **“economic activity”** shall have the meaning given in section 4;

(38) **“e-intermediary”** means a person appointed as electronic-intermediary under section 71;

(39) **“event management services”** means a service provided in relation to planning, promotion, organizing or presentation of any arts, business, sports, marital functions, social functions or any other function or event, and includes any consultation or any ancillary service such as catering, decoration, photography, videography, sound recording, lighting & illumination, DJ, valet parking, etc., provided in this regard;

(40) **“exempt service”** means a service which is exempt from tax under section 10;

(41) **“exhibition service”** means the service provided or rendered in relation to an exhibition held -

- (a) to market; or
- (b) to promote; or
- (c) to advertise; or
- (d) to showcase,

any product, goods or services intended for the growth in the business of the manufacturer, producer, importer, supplier, distributor or provider of such product, goods or services;

(42) **“FBR”** means the Federal Board of Revenue established under the Federal Board of Revenue Act, 2007 (Act No. IV 2007);

(43) **“financial year”** means a year commencing on the first day of July and ending on the thirtieth day of June in the following year;

(44) **“firm”** means the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all;

(45) **“foreign exchange dealer”** includes an exchange company or a foreign exchange company or a money changer authorized or licensed by the State Bank of Pakistan;

(46) **“franchise”** means an authority given by a franchiser, including an associate of the franchiser, under which the franchisee is contractually or otherwise granted any right to produce, manufacture, distribute sell or trade or otherwise deal in or do any other business activity in respect of goods or to provide services or to undertake any process identified with the franchiser against a consideration or fee, including technical fee, management fee, or royalty or such other fee or charges, irrespective of the fact whether or not a trademark, service mark, trade name, logo, brand name or any such representation or symbol, as the case may be, is involved:

(47) **“freight forwarding agent”** means a person who provides or renders or makes arrangement for his principals or client, the services, for fee or charges or commission or remuneration, for some or all of the services being provided by the shipping agents, clearing agents, stevedores, ship chandlers, port operators, terminal operators, surveyors, persons providing ship management services, warehousing services or container provision services or cover or guarantee in respect of imports or exports of goods, independently or in partnership or in arrangement with any such service provider or renderer;

(48) **“goods”** includes every kind of movable property other than actionable claims, money, stocks, shares and securities and does not include a service or services described under this Act;

(49) **“Government”** means the Government of Sindh;

(50) **“healthcare center, gyms or physical fitness center, etc.”** includes a health club, gymnasium, reducing or slimming salon or clinic, or an establishment providing the facilities, utilities or advantages of sauna or steam bath, Turkish bath, solarium, spas, yoga, meditation, massage (excluding therapeutic massage under medical prescription or advice) or such other services;

(51) **“hotel”** includes motels and guesthouses and means a person, establishment, organization or place, by whatever name called, where rooms or suites are let out on rent, whether or not it has any arrangement for catering or function halls as a part of the hotel or provides any other services, facilities or utilities, but does not include a home or hostel which is exclusively used for the aged or invalid persons or students and is run by or under the control of such a charitable or educational institution as are exempt from the application of the Income Tax Ordinance, 2001 (Ordinance No. XLIX of 2001);

(52) **“input tax”**, in relation to a registered person, means,--

- (a) tax levied under this Act on the services received by the person;

- (b) tax levied under the Sales Tax Act, 1990, on the goods imported by the person;
- (c) tax levied under the Sales Tax Act, 1990, on the goods or services received by the person; and
- (d) Provincial sales tax or Islamabad Capital Territory sales tax levied on the services received by the person:

Provided that the Board may, by notification in the official Gazette, specify that any or all of the aforesaid tax shall not be treated as input tax for the purposes of this Act subject to such conditions and limitations as the Board may specify in the notification;

**(53) “insurance”** has the same meaning as defined in clause (xxvii) of section 2 of the Insurance Ordinance, 2000 (Ordinance No. XXXIX of 2000);

**(54) “insurer”** means a person as defined in clause (xxxi) of section 2 of the Insurance Ordinance, 2000 (Ordinance No. XXXIX of 2000);

**(55) “inter-bank rate”** means the Karachi Inter-Bank Offered Rate (KIBOR) prevalent on the first day of each quarter of the financial year;

**(56) “legal practitioners and consultants”**, by whatever name called, means a legal practitioner as defined in section 2 of the Legal Practitioners and Bar Councils Act, 1973 (Act No. XXXV of 1973), and includes a person engaged in providing of services in relation to advice, consultancy or assistance in any branch of law or providing representational services before any court, tribunal or other such judicial or quasi-judicial authority;

**(57) “management consultant”** means a person engaged, either directly or indirectly, in providing of services in connection with the management of any business, organization or institution in any manner and includes a person who renders advice, consultancy or technical assistance relating to conceptualizing, devising, development, modification, rectification, or upgradation of any working system of such business, organization or institution;

**(58) “market research agency”** means a person engaged, directly or indirectly, in providing of services relating to the study or survey, or both, of any situation in the market for any purpose other than personal, academic or educational requirements;

**(59) “marriage hall and lawn”**, by whatever name called, includes a hall or lawn or a banquet hall or a function hall or an exhibition hall or lawn, or any building, place, premises or marquee where parties, receptions, events or functions, more

particularly relating to matrimonial ceremonies, are held, whether or not it has its own arrangement of event management or provision of food, beverages, crockeries, cutleries, furniture, fixtures, etc.;

**(60) “officer of the SRB”** means an officer of the Sindh Revenue Board appointed under section 34;

**(61) “open market price”** shall have the meaning given in section 6;

**(62) “output tax”**, in relation to a registered person, means the tax levied under this Act on the services provided or rendered by the person;

**(63) “person”** means—

- (a) an individual;
- (b) a company, an agency or an association of persons incorporated, formed, organized or established in Pakistan or elsewhere;
- (c) the Federal Government;
- (d) a Provincial Government;
- (e) a Local Authority or Local Government in Pakistan; or
- (f) a foreign Government, a political sub-division of a foreign Government, or a public international organization;

**Explanation:** The use of the word “he” in this Act shall be taken to refer to any or all of the persons mentioned in sub-clauses (a) to (f) above.

**(64) “place of business in Sindh”** means that a person—

- (a) owns, rents, shares or in any other manner occupies a space in Sindh from where it carries on an economic activity whether wholly or partially; or
- (b) carries on an economic activity through any other person such as an agent, associate, franchisee, branch, office, or otherwise in Sindh but not including a liaison office.

**(65) “port operator”** includes Karachi Port Trust, Port Qasim Authority or any other person or organization managing the operations of any customs port as declared under section 9 of the Customs Act, 1969 (Act No. IV of 1969);

**(66) “prescribed”** means prescribed by rules made under this Act;

**(67) “PRAL”** means the Pakistan Revenue Automation (Private) Limited;

**(68) “provision of service”** or **“providing of service”** includes the rendering, supply, initiation, origination, reception,

consumption, termination or execution of service, whether in whole or part, including e-services where the context so requires;

**(69) “public bonded warehouse”** means a warehouse licensed under section 12 of the Customs Act, 1969;

**(70) “registration number”** means the number allocated to a registered person for the purpose of this Act;

**(71) “registered person”** means a person who is registered or is liable to be registered under this Act or any other person or class of persons notified by the Board in the official Gazette:

Provided that a person liable to be registered but not registered under this Act shall not be entitled to any benefit available to a registered person under any of the provisions of this Act or the rules made thereunder;

**(72) “reinsurance”**, includes retrocession, and has the same meaning as defined in clauses (lii) and (lv) of section 2 of the Insurance Ordinance, 2000 (Ordinance No. XXXIX of 2000);

**(73) “resident”** means—

- (a) an individual who, in a financial year, has—
  - (i) a place of business, whether whole or part thereof, in Sindh in any mode, style or manner; or
  - (ii) his permanent address, as listed in the individual’s national identity card, in Sindh; or
  - (iii) a permanent representative to act on his behalf or to provide service on his behalf in Sindh;
- (b) an association of persons or a company which, in a financial year, has—
  - (i) its registered office is in Sindh; or
  - (ii) its place of business, whether whole or part thereof, in Sindh in any mode, style or manner; or
  - (iii) a permanent representative to act on its behalf or to provide service on its behalf in Sindh; or
  - (iv) the control or management of the association of persons or the company, whether whole or part thereof, situated in Sindh at any time during the financial year;

**(74) “restaurant”**, by whatever name called, includes a person, establishment, organization, place, cafe, coffee houses or ice cream parlors where food, beverages or other edible preparations are sold or served to the customers, including the customers availing of the take-away service or delivery service

or room service or catering service, whether or not the restaurant provides any other services, facilities, utilities or advantages;

**(75) “return”** means a return required to be furnished under Chapter-VI of this Act;

**(76) “rules”** means the rules made under this Act;

**(77) “Schedule”** means a Schedule appended to this Act;

**(78) “security agency”** means a person engaged in the business of providing of services relating to security of any person or property, whether moveable or immovable, including the services of provision of security personnel, guard or vehicle;

**(79) “service” or “services”** means anything which is not goods or providing of which is not a supply of goods and shall include but not limited to the services listed in the First Schedule of this Act.

**Explanation:** A service shall remain and continue to be treated as service regardless whether or not the providing thereof involves any use, supply or consumption of any goods either as an essential or as an incidental aspect of such providing of service;

**(80) “shipping agent”** means a person licensed as a shipping agent under the Customs Act, 1969 (Act No. IV of 1969), or the rules made thereunder, who provides or renders any service in relation to entrance or clearance of a conveyance at a customs port and a customs station, as defined in clauses (j) and (k) of section 2 of the Customs Act, 1969, and files import or export manifest and issues line or carrier bill of lading, for or on behalf of an airline or shipping line or any other conveyance, and includes non-vessel operating common carriers, slot carriers, charterers, international freight forwarders and consolidators, rendering services in relation to import and export of cargo, independently or as subsidiary of an airline, shipping line, slot carrier, charterer, and non-vessel operating common carrier;

**(81) “ship chandler”** means a person licensed as a ship chandler under the Customs Act, 1969 (Act No. IV of 1969) or the rules made thereunder;

**(82) “ship management services”** includes—

- (a) supervision or negotiation for the maintenance, survey and repair of ship;
- (b) engagement or providing of crew;
- (c) receiving the hire and freight charges on behalf of the owner;
- (d) negotiating contracts for bunker fuel and lubricating oils;

- (e) arranging or negotiating arrangements for loading and unloading;
  - (f) payment, on behalf of the owners, of the expenses incurred in providing services or in relation to the management of the ship;
  - (g) entry of the ship on protection or indemnity association;
  - (h) providing or negotiating for victualing or storing of ship;
  - (i) dealing with insurance, salvage or other claims in relation to ship;
  - (j) arranging of insurance in relation to ship; and
  - (k) any other ship management service;
- (83) “short-paid”** means, where a registered person pays an amount of tax less than the tax due as indicated in the person’s return filed under section 30, the amount so involved and also includes the amount of tax due but not paid owing to miscalculation or incorrect or inadmissible input tax credit or adjustment or incorrect assessment of the tax due for a tax period;
- (84) “similar service”** means any other service which is the same as, or closely resembles, the other service in character, quality, quantity, functionality, materials, or reputation;
- (85) “special audit”** means an audit conducted under section 29;
- (86) “Special Judge”** means a Special Judge appointed under section 37;
- (87) “sponsorship”** includes naming an event after the sponsor, displaying the sponsor’s logo, trade name, brand name or product name, giving the sponsor exclusive or priority booking rights, sponsoring prizes or trophies for competition or game or sports; but does not include financial or other support in the form of donations and gifts, given by a donor, subject to the condition that the service provider is under no obligation to provide anything in return to such donor;
- (88) “statement”** means a statement prescribed under the rules or notifications made under this Act;
- (89) “stevedore”** includes a person engaged in handling and loading or unloading of cargo including containers, pallets and bulk cargo, from ships, vessels, steamers and country crafts in any manner and also includes a person who hires long shore, dock or harbor workers to load or unload ships, vessels, steamers and country crafts. A person providing or rendering any services related to or ancillary to the handling of or otherwise dealing with such or other cargo at a port or in any

area or terminal at the port in any manner or style shall be included in the terminology “stevedores”;

**(90) “stockbroker”** means a broker as defined in clause (c) of sub-section (1) of section 2 of the Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) providing services in relation to a Stock Exchange as defined in clause (xxiv) of sub-section (1) of section 2 of the Stock Exchange (Corporatization, Demutualization and Integration) Act, 2012 (Act No. XV of 2012) ;

**(91) “surveyor”** means a person engaged in the services of insurance survey, market survey, statistical survey, opinion poll survey and survey relating to risk assessment, loss or damage assessment or claim settlement but does not include the services conducted by the Federal or Provincial or Local Governments for its own purposes and by the recognized educational institutions for the purposes of education and academic research in such institutions;

**(92) “tax”** means–

- (a) the tax, additional tax, or default surcharge levied under this Act;
- (b) a fine, penalty or fee imposed or charged under this Act; and
- (c) any other sum payable or recoverable under the provisions of this Act or the rules made thereunder;

**(93) “tax consultant”**, by whatever name called, includes a person engaged in providing of services of advice, consultancy or assistance in the matters of any federal, provincial or local government laws in relation to any tax, rate, cess or providing representational services before any court, tribunal or other such judicial or quasi judicial authority or the authority administering such tax laws.

**(94) “tax fraud”** means knowingly, dishonestly or fraudulently and without any lawful excuse–

- (a) doing of any act or causing to do any act; or
- (b) omitting to take any action or causing the omission of any action, including providing of taxable services without being registered under this Act; or
- (c) falsifying or causing falsification of tax invoices; or
- (d) issuance of invoice or bill of taxable services without the provision of that taxable service; or
- (e) failure to pay an amount of tax collected under section 16, and failure to pay the amount of tax withheld under the

provisions of the rules made under this Act, in contravention of the duties or obligations imposed under this Act or rules or instructions issued thereunder with the intention of understating the tax liability or underpaying the tax liability for two consecutive periods or more or overstating the entitlement of tax credit or tax refund to cause loss of tax revenue;

**(95) “tax period”** means a period of one month or such other period as the Board may, by notification in the official Gazette, specify;

**(96) “taxable service”** shall have the meaning given under section 3;

**(97) “telecommunication service”** shall have the meaning given in clause (v) of section 2 of the Pakistan Telecommunication (Re-organization) Act, 1996 (Act No. XVII of 1996), and includes the telecommunication system as defined in clause (u) thereof and further includes the wireless communication as defined in clause (1) of section 2 of the Wireless Telegraphy Act, 1933 (Act No. XVII of 1933) and also includes transfer, assignment or sharing of the right to use capacity for transmission, emission or reception of signals and provision of access to global or local information network;

**(98) “terminal operator”** includes Karachi International Container Terminal, Pakistan International Container Terminal and Qasim International Container Terminal or any on-dock or off-dock terminal or any other person doing similar activities and also includes the cargo or baggage shed operators licensed or appointed by the customs authorities at any customs port or customs airport or customs station;

**(99) “value of a taxable service”** shall have the meaning given under section 5;

5. In section 3, in sub-section (2), in the Explanation, after the words “resident persons”, the comma and words “whether or not the said resident person is an end consumer of such services” shall be added.

6. In section 7, for sub-section (2), the following shall be substituted:—

“(2) This section shall not apply to the services for which payment is made on installment basis except where otherwise prescribed.”.

7. In section 8, in sub-section (2), for the word “Government”, the words and commas “Board, with the approval of Government,” shall be substituted;

8. In section 9, in sub-section (3), for the word “Government”, the word “Board, with the approval of Government” shall be substituted.

9. For section 13, the following shall be substituted:-

**“13. Special procedures and tax withholding provisions.–**

(1) Notwithstanding anything contained in this Act, the Board may, by notification in the official Gazette, prescribe special procedure for the payment of tax, valuation of taxable services, registration, record keeping, invoicing or billing requirements, returns and other related matters in respect of any service or class of services and subject to such limitations and conditions as may be specified in the notification.

(2) Notwithstanding anything contained in this Act, the Board may, by notification in the official Gazette, require any person or class of persons, whether registered or not, to withhold full or part of the tax charged from or invoiced to such person or class of persons on the provision of any taxable service or class of taxable services and to deposit the tax, so withheld, with the Government, within such time and in such manner as may be specified in the notification.”.

10. In section 17, in sub-section (1), for the word and number “Chapter-IV”, the word and number “Chapter-VI” shall be substituted;

11. In section 24B, for sub-section (1), the following shall be substituted:-

“(1) If an officer of the SRB is satisfied that a person is required to be registered under this Act and that the person has not applied for registration, the officer of the SRB shall, after such inquiry as he may deemed fit, register the person through an order to be issued in writing and such person shall be deemed to have registered from the date he became liable to registration.”;

12. In section 25A–

- (a) in sub-section (2), after the word “Board”, occurring twice, the words and commas “or any officer of the SRB, authorized by the Board in this behalf,” shall be inserted and for the words “any obligations”, the words “the obligations for de-registration” shall be substituted;
- (b) in sub-section (3), for the word “must”, the word “shall”, and for the word “Board”, occurring twice, the words “Board or any officer of the SRB” shall be substituted;

13. In section 26, in sub-section (3), for the word “should”, the word “shall”, shall be substituted;

14. In section 29, in sub-section (3), for the figures and word “19, 39 and 42”, the figures and word “27, 48, 51 and 52”, shall be substituted.

15. In section 32, for the figure “25”, the figure “25A” shall be substituted;

16. In section 42, in sub-section (1), for the words “Deputy Commissioner”, the words “Assistant Commissioner” shall be substituted;

17. In section 43, in the Table -

- (a) in serial number 6, in column (3), for the figures and brackets “2(41)”, the figures and brackets “2(94)” shall be substituted;
- (b) in serial number 8, in column (3), for the figures and brackets “2(41)”, the figures and brackets “2(94)” shall be substituted;
- (c) after serial number 14, the following new serial number 15 and entries there against shall be added:-

“15. Where any person fails to provide the document or record or information or data or refuses to allow the officer of the SRB to take extracts from or make copies of the document or record or information or data or fails to appear before an officer of SRB or fails to answer any question put to him. Such person shall be liable to pay penalty of 100,000 rupees. Such person shall, further be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to one year or fine which may extend to 100,000 rupees or with both. 52 ”;

18. In section 47, in sub-section (1), the words “on the part of an officer of the SRB” shall be deleted.

19. In section 52, in sub-section (1), for the words “Deputy Commissioner”, the words “Assistant Commissioner” shall be substituted.

20. In section 60, after sub-section (6), the following shall be inserted:-

“(6A) Notwithstanding anything contained in this section or in sections 61 and 62 and till such time that an Appellate Tribunal is established under this Act, the appeals under section 61 shall be heard and decided and the functions of the Appellate Tribunal shall be exercised by a bench comprising of at least two Members, as defined in clause (h) of section 2 of the Sindh Revenue Board Act, 2010 (Sindh Act No. XI of 2010). In case of difference of opinion between the two Members deciding the appeal, the case shall be decided by the Chairman of the Board, acting as the referee Member of the bench.”;



(b) in column (1), against the tariff heading “9801.6000” in column (2), for the word “caterers”, the words and commas “marriage halls and lawns, clubs and caterers” shall be substituted;

(c) in column (1), after tariff heading 9802.5000 and entries there-against in columns (2) and (3), for the descriptions “Advertisement on poles”, “Advertisement on billboards” and “Other advertisements like on web / internet etc.” in column (2) and the rate of tax thereon in column (3), the following shall be substituted:—

“9802.6000	Advertisement on poles	16%
9802.7000	Advertisement on billboards	16%
9802.9000	Other advertisement including those on web or internet	16%”;

(d) in column (1), for the tariff heading “9805.8000” and the entries there against in columns (2) and (3), the following shall be substituted:—

“9805.7000	Advertising agents	16%
9805.8000	Ship chandlers	16%
9805.9100	Sponsorship services	16%
9805.9200	Business support services	16%

(e) in column (1), after the tariff heading “9809.0000” and the entries there-against in columns (2) and (3), the following shall be inserted:—

“9810.0000	Services provided or rendered for personal care by beauty parlours, beauty clinics, slimming clinics or centres and others	16%”;
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(f) in column (1), after the tariff heading “9813.9000” and the entries there-against in columns (2) and (3), the following shall be inserted:—

“9814.1000	Architects or town planners	16%
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(g) in column (1), after the tariff heading “9814.3000” and the entries there-against in columns (2) and (3), the following shall be inserted:—

**“98.15 Services provided or rendered by professionals and consultants, etc.,**

9815.2000	Legal practitioners and consultants	16%
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9815.3000	Accountants and auditors	16%
9815.4000	Management consultants	16%
9815.6000	Software or IT based system development consultants	16%
9815.9000	Tax consultants	16%

**98.18 Service provided or rendered by specialized agencies.**

9818.1000	Security agency	6%
9818.3000	Market research agency	16%”;

(g) in column (1), against tariff heading “9819.1000”, in column (2), for the description “Stockbrokers”, the description “Stockbrokers and commodity brokers” shall be substituted;

(h) in column (1), after tariff heading “9819.2000” and entries there-against in column (2) and (3), the following shall be inserted:–

“9819.5000	Surveyors	16%
9819.7000	Outdoor photographers and videographers	16%
9819.9300	Management consultants	16%”;

(i) in column (1), after the tariff heading “9819.9090” and entries there-against in columns (2) and (3), the following shall be inserted:–

**“98.20 Services provided or rendered by specialized workshops or undertakings**

9820.1000	Auto-workshops, including authorized service stations	16%
9820.2000	Workshops for industrial machinery, construction and earth-moving machinery or other special purpose machinery, etc.	16%

**98.21 Services provided or rendered in specified fields**

9821.1000	Healthcare centre, gyms or physical fitness center, etc	16%
9821.4000	Body massage center	16%

9821.5000 Pedicure center 16%

- (j) in column (1), after tariff heading “9824.0000” and entries there-against in columns (2) and (3), after the description “Services provided by motels and guesthouses” in column (2) and the rate of tax in column (3), the following shall be added:—

	Event management services including the services by event photographers, event videographer and the persons related to such event management	16%
	Exhibition services	16%
9828.0000	Public bonded warehouses	16%
9829.0000	Labour and manpower supply services	16%
9830.0000	Service provided in the matter of manufacturing or processing for others on toll basis	16%
9831.0000	Race clubs:	
	(a) services of entry/ admission	(a) Rs. 200 per entry ticket or entry pass of the person visiting the race event.
	(b) other services	(b) 16%”.

#### STATEMENT OF OBJECTS AND REASONS

In order to rationalize, levy, enhance certain taxes, duties and cess and harmonize the provisions of the Sindh Sales Tax on Services Act, 2011, it is expedient to make suitable amendments in the said Act and the Sindh Urban Immovable Property Tax Act, 1958, the Sindh Finance Act, 1977 and Sindh Finance Act, 1994.

The Bill seeks to achieve the above object.

**MEMBER-IN-CHARGE**

C.No.4(11)ST-L&amp;P/2011-81520

Islamabad, the 7<sup>th</sup> June, 2013**SALES TAX GENERAL ORDER NO. 24/2013**

Subject: **Amendment in STGO 17/2007 dated 13-09-2007 – withdrawal of facility of zero-rating on supply of gas.**

In exercise of powers conferred by clause (d) of section 4 of the Sales Tax Act, 1990, the Federal Board of Revenue is pleased to make the following further amendments in its Sales Tax General Order No. 17 of 2007 dated 13<sup>th</sup> September, 2007, namely:–

In the aforesaid General Order, in the table, serial number 685, 835, 873 & 925 in column (1) and entries relating thereto in columns (2), (3) and (4) shall be **omitted**:

S. No.	S.No. in the STGO	Name of Registered Person	Sales Tax Registration #	Electricity bill Reference No. or Consumer No. or account No.	Reason
1.	685	M/S Sardar Chemicals	0506290000264	89100000143	RTO Recommendation
2.	835	M/S Latif Shakir Textile Mills LTD	0506390700155	89100000217	RTO Recommendation
3.	873	M/S MB Dyes Chemical & Silk Industries	0506280000155	89100000176	RTO Recommendation
4.	925	M/S Converters (PVT) LTD	0506480200173	41100033318	RTO Recommendation

C.No.1/47-STB/2013/79934-R

Islamabad, the 12<sup>th</sup> June, 2013

The Chief Commissioners Inland Revenue,  
LTU, Karachi/Lahore/Islamabad and  
RTO-I & II, Lahore/I, II & III, Karachi/Hyderabad/Sargodha/  
Sukkur/Quetta/Multan/Gujranwala/Sialkot/Abbottabad/  
Faisalabad/Islamabad/Rawalpindi/Peshawar.

Subject: **Budget 2013-14 – Instructions regarding Sales Tax & Federal Excise duty measures.**

I am directed to refer to above subject and to state that the budgetary measures relating to sales tax and federal excise duty appear in clauses 3 and 5 of the Finance Bill 2013 respectively and in the notifications No. SRO 500 to 510(I)/2013, all dated 12<sup>th</sup> June, 2013.

2. The main measures are briefly described below for guidance and ease of understanding. However, for the accurate legal position, reference may please be made to the Finance bill and related  
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notifications. The field formations are requested to carefully go through all the proposed legislative amendments and the aforementioned notifications and take necessary steps for smooth and effective implementation thereof.

### **REVENUE MEASURES – SALES TAX**

#### **(01.) Increase in the Standard Rate of Sales Tax from 16% to 17%**

Section 3 of the Sales Tax Act, 1990 has been amended to enhance the standard rate of sales tax from the present 16% to 17%. This measure is effective from 13<sup>th</sup> June, 2013. Since it has general applicability, the field formations are requested to monitor and ensure that all importers, manufacturers, wholesalers, dealers, etc. of taxable goods under the Sales Tax Act, 1990 start charging and paying the new rate of sales tax from the effective date.

#### **(02.) Sales Tax on Retail Price Basis**

The Third Schedule to the Sales Tax Act, 1990 has been expanded by adding a number of additional items chargeable to sales tax on the basis of retail price. This measure applied to supplies made on or after 13<sup>th</sup> June, 2013. It may be noted that under sub-section (2) of section 3 of the said Act, in case of goods specified in the Third Schedule, the retail price along with the amount of sales tax is required to be legibly prominently and indelibly printed or embossed on each article, packet, container package, cover or label, as the case may be. In order to allow consumption of existing stocks of packing materials by manufacturers, a General Order is being issued. However, it is emphasized that supplies of all such goods are chargeable to sales tax on the retail price with effect from 13<sup>th</sup> June, 2013.

#### **(03.) Further Tax @ 2% on Supplies to Unregistered Persons**

In order to promote documentation of the economy and to create an incentive for unregistered persons to get sales tax registration, a new sub-section (1A) has been inserted in section 3 of the Sales Tax Act, 1990 to impose further tax @ 2% on supplies made to persons who have not obtained sales tax registration number. Supplies made to registered persons are not affected by this measure. This measure is also effective from 13<sup>th</sup> June, 2013. Further tax imposed earlier had led to creation of 'flying invoices', but now RTOs/LTUs are expected to effectively use CREST and SMART computerized systems to prevent and curb such malpractices. A separate notification is being issued to exclude certain transactions from this levy.

(04.) Additional Sales Tax on Electricity and Gas Consumed by Unregistered Persons

To promote documentation and capture extra tax from persons outside the sales tax net, vide SRO 509(I)/2013 dated 12<sup>th</sup> June, 2013, extra sales tax @ 5% of the billed amount has been imposed on all unregistered electricity and gas consumers having industrial or commercial connection and monthly bill exceeding Rs. 15,000. A new chapter IVA has been inserted in the Sales Tax Special Procedure Rules, 2007 vide SRO 510(I)/2013 dated 12<sup>th</sup> June, 2013, to prescribe the procedure for implementation of this measure. This measure is effective from 13<sup>th</sup> June, 2013. **The RTOs/LTUs where to electric power and nature gas distribution firms are registered are required to coordinate with them for proper and timely implementation.**

(05.) Withholding of Full Amount of Sales Tax from Unregistered Persons

Vide SRO 505(I)/2013 dated 12<sup>th</sup> June, 2013, the Sales Tax Special Procedure (Withholding) Rules, 2007 have been amended in order to require all sales tax withholding agents to withhold the full amount of sales tax on purchases made from unregistered persons. This measure is effective from 12<sup>th</sup> June, 2013.

(06.) Substitution of Zero-Rating with Exemption

Due to misuse, fraudulent refunds, and other problems faced in the local zero-rating regime, most of the items listed in SRO 549(I)/2008 have been deleted vide SRO 502(I)/2013 dated 12<sup>th</sup> June, 2013. These items have been granted exemption from sales tax vide SRO 501(I)/2013 dated 12<sup>th</sup> June, 2013. Thus, no input tax adjustment or refund shall be admissible on local supplies of such exempt items. Both these notifications are effective from 13<sup>th</sup> June, 2013.

(07.) Reduction in Scope of Goods Enjoying Reduced Rate of Sales Tax

In order to remove the distortions and malpractices, and to avoid application of reduced rate of sales tax to items having multiple use, and to furnish articles such as expensive, branded or imported garments, leather bags, shoes and sports kits, such items/articles have been removed from the Table to SRO 1125(I)/2011 dated 31.12.2011 vide SRO 504(I)/2013 dated 12<sup>th</sup> June, 2013. Consequently, standard rate of sales tax (now 17%) shall apply to imports and supplies of such goods. This notification is effective from 12<sup>th</sup> June, 2013.

(08.) Withdrawal of Exemption on Supplies Made Against International Tender

The exemption on supplies made against International Tender has been withdrawn by deletion of S. No. 12 in Table-II of the Sixth Schedule 2013

to the Sales Tax Act, 1990. As a result, with effect from 13<sup>th</sup> June, 2013, as such supplies have become taxable at the standard rate of sales tax. The related Chapter VIIA in the Sales Tax Rules, 2006 has also been deleted via SRO 506(I)/2013 dated 12<sup>th</sup> June, 2013.

(09.) Withdrawal of Area-Specific Exemptions

The concessionary package granted in 2010 to FATA/PATA and 13 districts of Khyber Pakhtunkhwa was meant to be a time-bound concession. As such, the concession relating to Income Tax has already expired on 30<sup>th</sup> June, 2012. Since continuation of the sales tax and federal excise duty concessions is causing distortions and disparity for persons located in other areas of Pakistan, these are also being withdrawn. The notifications rescinded vide SRO 500(I)/2013 dated 12<sup>th</sup> June, 2013 in this regard are: SROs 160 to 165(I)/2010, all dated 10<sup>th</sup> March, 2010, SRO 117(I)/2011 dated 10<sup>th</sup> February, 2011 and SROs 200 and 201(I)/2011, both dated 14<sup>th</sup> March, 2011. An amendment for this purpose has also been made in SRO 993 (I)/2006 dated 21<sup>st</sup> September, 2006 vide SRO 503(I)/2013 dated 12<sup>th</sup> June, 2013. All these are effective from 12<sup>th</sup> June, 2013. **RTO Peshawar and Abbottabad are directed to effectively monitor and ensure implementation of this budgetary measure.**

(10.) Withdrawal of Certain Other Exemptions

In accordance with the government's policy to withdraw undue exemptions, the sales tax exemption on "milk preparations obtained by replacing one or more of the constituents of milk" has been withdrawn by deleting S. No. 25 of Table-I of the Sixth Schedule to the Sales Tax Act, 1990. In addition, zero-rating on supply of hydrogen nitrogen and helium to Pakistan PTA by BOC Pakistan Limited and the exemption on equipment imported by members of Pakistan Film Producers Association has been withdrawn by rescinding SRO 646(I)/2005 dated 30<sup>th</sup> June, 2005 and SRO 172(I)/2006 dated 24<sup>th</sup> February, 2006 respectively vide SRO 500(I)/2013 dated 12<sup>th</sup> June, 2013. These measures are effective from 13<sup>th</sup> June, 2013.

**REVENUE MEASURES – FEDERAL EXCISE DUTY**

(11.) Federal Excise Duty on Oilseeds and Locally Produced Oils

Presently, edible oils (excluding epoxidised soyabean oil), vegetable ghee and cooking oil are excisable goods being listed at S. No. 1 and 2 of Table I of the First Schedule to the Federal Excise Act, 2005. However, vide SRO 24(I)/2006 dated 7<sup>th</sup> January, 2006, federal excise duty @ Rs. 1 per kg was levied at import stage in lieu of the federal excise duty payable at production or manufacturing stage. Although vegetable ghee/cooking oil manufactured from locally produced oil was chargeable

to federal excise duty @ 16%, some manufacturers avoided payment of federal excise duty on vegetable ghee/cooking oil manufactured from locally produced oil on the pretext of using imported edible oil. In order to curb such practices, the following measures have been taken, all effective from 13<sup>th</sup> June, 2013:

- (i) Oilseeds have been made excisable by insertion of a new Sr. No. 54 in Table I, having rate of forty paisa per kg.
- (ii) Vide SRO 508(I)/2013 dated 12<sup>th</sup> June, 2013, federal excise duty @ Rest. 0.40 per kg. has been levied at the stage of import of oil seeds in lieu of the federal excise duty payable at production or manufacturing stage of vegetable ghee/cooking oil.
- (iii) Vide SRO 507(I)/2013 dated 12<sup>th</sup> June, 2013, federal excise duty @ Rs. 1 per kg. of locally produced oil purchased by a manufacturer of vegetable ghee/cooking oil. In lieu of the FED payable @ 16% on vegetable ghee/cooking oil produced or manufactured from locally produced oil.

It is important to note that this levy also applies to stocks of locally produced oil purchased by the manufacturers of vegetable ghee/cooking oil and lying in the premises of the said manufacturers. Therefore, all RTOs/LTUs are directed to immediately conduct stocktaking of the ghee/oil manufacturers falling in their respective jurisdictions to ascertain the position of stocks of locally produced oil lying with them as on 12<sup>th</sup> June, 2013. All RTOs/LTUs are required to send copies of the stock-taking reports to the Board by 15<sup>th</sup> June, 2013.

(12.) Rationalization of Structure and Rates of Federal Excise Duty on Cigarettes

The present three-tier structure of federal excise duty on cigarettes, based on a mix ad valorem and specific rates, is being replaced with a two-tier structure having specific rate of duty. For this purpose, S. No. 9 and 10 of the Table I of the First Schedule to the Federal Excise Act, 2005 are being replaced, and S. No. 11 is being deleted. Sales tax shall remain chargeable on cigarettes at standard rate (no 17%) on the basis of printed retail price. These changes are effective from 13<sup>th</sup> June, 2013.

(13.) Imposition of Federal Excise Duty @ 16% on All Kinds of Financial Services

Federal excise duty @ 16% has been imposed on all financial services as specified in PCT Heading 98.13, whether rendered or provided by banking companies, non-banking financial institutions and other persons. For this purpose, S. No. 8 of Table II of the First Schedule to the Federal Excise Act, 2005 has been substituted. Now financial services such as "Easy Paisa", private modarabas, asset management companies, foreign

exchange dealers, ATM withdrawal fee, etc. shall be subjected to federal excise duty. The exemption from federal excise duty to services provided by Asset Management Companies is being withdrawn by deleting S. No. 8 of Table II of the Third Schedule to the Federal Excise Act, 2005. These amendments are effective from 13<sup>th</sup> June, 2013.

(14). Imposition of Federal Excise Duty @ 16% on Cars of 1800cc or Above

In order to promote fuel conservation, federal excise duty @ 10% has been imposed on imports and local supply of large vehicles above 1800 cc capacity. For this purpose, a new S. No. 55 has been added in Table I of the First Schedule to the Federal Excise Act, 2005. The amendment is effective from 13<sup>th</sup> June, 2013.

(15). Withdrawal of Exemption on Hydraulic Cement

The exemption from federal excise duty on hydraulic cement has been withdrawn by deleting S. No. 5 from Table-I of the Third Schedule to the Federal Excise Act, 2005. Thus such hydraulic cement is chargeable to duty with effect from 13<sup>th</sup> June, 2013.

(16). Enhancement of Rate of Federal Excise Duty on Aerated Waters

The rate of federal excise duty aerated waters has been enhanced from 6% to 9% by amending S. No. 4, 5 and 6 of Table I of the First Schedule to the Federal Excise Act, 2005. It may be noted that this enhanced rate has not been made effective immediately, but shall come into effect on 1<sup>st</sup> July, 2013.

**ENFORCEMENT MEASURES**

*Note: All these are effective from 1<sup>st</sup> July, 2013, subject to approval by the National Assembly).*

(17). Electronic Monitoring, Video Monitoring, Tax Stamps, Labels, etc.

In order to effectively monitor the production, supply, stocks and other activities in the evasion prone sections, new sections have been inserted – section 40C in the Sales Tax Act, 1990 and section 45A in the Federal Excise Act, 2005. These enable monitoring and tracking mechanisms, such as electronic monitoring, video monitoring, tax stamps, banderoles, labels etc. LTUs and RTOs are requested to send proposals along with items/sectors on which such electronic monitoring may be implemented.

(18). Chief Commissioners Empowered to Post Officers of Inland Revenue

Amendment made in section 40B of the Sales Tax Act, 1990 and section 45(2) of the Federal Excise Act, 2005 have empowered the Chief Commissioners to post officers of Inland Revenue to the business

premises of registered persons for monitoring of their production, sale and stock position.

(19). Enhancement and Roll Out of CREST

FBR's computerized system for cross-matching and analysis of sales tax returns, known as CREST (Computerized Risk Evaluation Sales Tax), recently helped in the detection and recovery of evaded tax in the textile sector. The system is being enhanced and rolled-out to other sectors. In order to avoid any legal challenges, CREST has been defined in section 2(5AC) of the Sales Tax Act, 1990. Purchases in respect of which any discrepancy is indicated by CREST, or where the input tax is not verifiable in the supply chain, have been made ineligible for input tax adjustment by insertion of a new clause (caa) in section 8(1) of the Sales Tax Act, 1990. The term 'supply chain' has also been defined in section 2(33A) of the Act.

(20). Blocking of Refunds and Input Adjustments

A new sub-section (4) has been inserted in section 21 of the Sales Tax Act, 1990 to enable the Board, the Commissioner or an officer authorized by the Board to block refunds and input tax adjustment on the basis of evidence to fake invoices, dummy registrations, and other fraudulent activities.

(21). Registration in Jurisdiction of Manufacturing or Business Premises

In many cases, persons are registered in jurisdictions far from the place where manufacturing or production occurs. This creates difficulties in monitoring of production, clearances or sales, and enables such persons to evade taxes. To address this problem, amendment has been made in the Sales Tax Rules, 2006 vide SRO 506(I)/2013 dated 12<sup>th</sup> June, 2013, so that persons are registered in the jurisdiction where the manufacturing facility or business premises exists. RTOs and LTUs are requested to furnish, by 25<sup>th</sup> June, 2013 the names of such persons who are registered in jurisdiction other than where the manufacturing/business facility is located, so that the measure may be implemented properly.

**LEGAL MEASURE**

*Note: All these are effective from 1<sup>st</sup> July, 2013, subject to approval by the National Assembly).*

(22). Amendment in Definition of Provincial Sales Tax

The existing definition of input tax in section 2(14) of the Sales Tax Act, 1990 refers to "Provincial Sales Tax", which is further defined in section 2(22A). The existing definition refers to provincial sales tax ordinances which were promulgated in the year 2000, out of which some

have been rescinded. Cross-adjustment of input tax between federal and provincial sales tax requires formal agreement between the federation and provinces. Therefore, the definition of Provincial Sales Tax has been amended to enable the Government to allow or disallow input tax adjustment against specified provincial sales tax laws through notifications. No notification has been issued so far.

(23). Amendment in Definition of Time of Supply

Currently, the Sales Tax Act, 1990 does not cater for charging of sales tax on advance payments against supplies. In order to charge sales tax on advance payments for supplies, the definition of time of supply in section 2(44) of the Sales Tax Act, 1990 has been amended.

(24). Removal of Reference to Section 73 in Section 21(3) of the Sales Tax Act, 1990

Under section 21(3) of the Sales Tax Act, 1990, when a person is blacklisted, his invoices become ineligible for claiming input adjustment, unless the requirements under section 73 are fulfilled. This clause mostly nullifies the effect of blacklisting, as it was found that many bogus registered persons managed paper transaction fulfilling the requirements of section 73. Section 21(3) has therefore, been amended to remove the reference to section 73 of the Sales Tax Act, 1990.

(25). Requirement to Maintain Record of Gate Passes and Transport Receipts

For ensuring effective audit and investigation, section 22 of the Sales Tax Act, 1990 has been amended to add the requirement to maintain record of gate passes and transport receipts.

(26). Powers of Commissioner (Appeals) to Stay Recovery.

Under the Income Tax Ordinance, 2001, the Commissioner (Appeals) is empowered to grant stay against recovery, but the same power was not available in the Sales Tax Act, 1990 and Federal Excise Act, 2005. To harmonize the laws, sub-section (1A) in section 45B of the Sales Tax Act, 1990 and sub-section (1A) in section 33 of the Federal Excise Act, 2005 have been inserted to empower the Commissioner (Appeal) to grant stay against recovery action for a maximum of 30 days in hardship cases.

(27). Rectification of Mistakes in Orders.

The concept of rectification of mistakes in the Sales Tax Act, 1990 is much more restricted than that in the Income Tax Ordinance, 2001. In order to harmonize the laws, section 57 of the Sales Tax Act, 1990 is being substituted to introduce the same concept of rectification as available in income tax.

(28). Explanation regarding Independence of Audit

To remove doubts, Explanations have been inserted in section 25 of the Sales Tax Act, 1990 and section 35 of the Federal Excise Act, 2005 to the effect that the powers of audit are not restricted by section 72B and section 42 B of the respective Acts.

(29). Introduction of Concept of Capacity Based Taxation in the Sales Tax Act, 1990

The concept of capacity based taxation is not defined in the Sales Tax Act, 1990 whereas it is present in the Federal Excise Act, 2005. To harmonize these two laws, the concept of capacity based taxation has also been introduced in Sales Tax Act, 1990 by insertion of sub-section (1B) in section 3 thereof.

(30). Introduction of Concept of Further Duty in the Federal Excise Act, 2005.

In the Sales Tax Act, 1990, a provision for imposing further tax on supplies made to unregistered persons has been introduced, as an incentive to obtain registration. Some goods and services are chargeable to federal excise duty but are not taxable under the Sales Tax Act, 1990. By insertion of a new sub-section (3A) in section 3 of the Federal Excise Act, 2005, the concept of "further duty" has been introduced. However, such further duty shall be chargeable only on such excisable goods and services as are specified by the Federal Government in a notification. No notification has been issued under this provision as present.

(31). Provision for Reward.

New sections, namely sections 72C and 42CC have been inserted in the Sales Tax Act, 1990 and the Federal Excise Act, 2005 respectively, to provide for sanction of reward to Inland Revenue officers and officials, for meritorious conduct, to informers providing credible information leading to detection.

3. The above instructions are only meant for general guidance. The Chief Commissioner/Chief Collectors are requested to carefully study all the budgetary amendments and notifications, etc. for enforcement as law, in letter and spirit. In case of any ambiguity regarding implementation of the measures, the Board may be approached immediately for clarification.

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**SRB-3-4/5/2013, Karachi, the 17<sup>th</sup> June, 2013.**– In exercise of the powers conferred by section 16 of the Sindh Revenue Board Act, 2010 (Sindh Act No. XI of 2010), the Sindh Revenue Board is pleased to direct

that the following amounts of fee or charges shall be levied on the provision of the following enhanced facilities for the taxpayers, subject to the conditions specified in this notification:—

<u>S.No.</u>	<u>Description of enhanced facility</u>	<u>Fee or Charge</u>
(1)	(2)	(3)
1.	Change in User ID or password of the taxpayer or E-intermediary of the taxpayer	Rs. 1,000/= for every instance of such change.
2.	Provision of attested duplicate copy of notice, show cause notice, assessment order, Order-in-Original or Order-in-Appeal.	Rs. 200/= per page of the document.
3.	Condonation of time:	
	(a) upto 30 days from the prescribed due date	Rs. 200/= per instance
	(b) for more than 30 days but not more than 90 days from the prescribed due date	Rs. 1000/= per instance
	(c) for more than 90 days from the prescribed due date	Rs. 10,000/= per instance
4.	For filing of revised return under rule 17(2) of the Sindh Sales Tax on Services Rules, 2011	Rs. 5,000/= per revised return.

**Conditions:—**

- (1) The fee/charge paid under this notification shall not be eligible for input tax credit under the Sindh Sales Tax on Services Act, 2011, and the rules made thereunder.
- (2) The fee/charge payable for the facility specified at S. Nos. 3 and 4 are independent of one another and shall be payable separately if both the situations are involved.
- (3) The fee/charge prescribed under this notification shall be payable in advance in Sindh Government's head of account "B-02384" against SRB=prescribed PSID/Challan (Form SST-04) against S. No. 2 "Others" of the Table thereof. The CPR should be attached with the application submitted by the taxpayers, E-intermediaries or the representatives of the taxpayers.
- (4) The payment of the fee/charge under this notification shall be treated as a fee/charge for the submission of the application and shall not be construed as the approval of the request applied for by the fee/charge payer. The application, so submitted alongwith

the CPR showing payment of the prescribed fee/charge, shall be considered and disposed off on merits by the authorized office of the SRB.

- (5) The payment of fee/charge under this notification shall also not be construed as entitlement to any condonaiton for waiver or exemption or non-application of the provisions relating to tax, default surcharge or penalty payable under the Sindh Sales Tax on Services Act, 2011, or the rules made thereunder.
- (6) The fee/charge paid under this notification shall not be refundable or adjustable under any circumstances.

**SRB-3-4/6/2013, Karachi, the 18<sup>th</sup> June, 2013.**— In exercise of the powers conferred by sub-section (2) of section 8 of the Sindh Sales Tax on Services Act, 2011 (Sindh Act No. XII of 2011), the Government of Sindh is pleased to directed that the following amendments shall be made in its notification No. SRB-3-4/2/2011 dated the 24<sup>th</sup> August, 2011:—

In the aforesaid notification, in the Table,—

- (a) against the entry “9805.3000” in column 91), in column (3), for the figures “Rs.400/-”, the figure “Rs.500/-”, shall be substituted;
- (b) in the entry “9807.0000” in column (1), after tariff heading “9807.0000”, the word and tariff heading “and 9814.3000” shall be added and, thereafter, the following new entries shall be inserted, namely:—

“9810.0000, 9821.4000 and 9821.5000	Services provided by beauty parlors, beauty clinics, slimming clinics, body massage centers, pedicure centers, etc.	10%	Input tax credit/ adjustment shall not be admissible.	1 <sup>st</sup> July, 2013.
9815.2000	Legal practitioners and consultants	5%	Input tax credit/ adjustment shall not be admissible	1 <sup>st</sup> July, 2013.
9815.3000	Accountant & auditors	5%	Input tax credit/ adjustment shall not be admissible	1 <sup>st</sup> July, 2013.
9815.9000	Tax consultants	5%	Input tax credit/ adjustment shall not be admissible	1 <sup>st</sup> July, 2013.
9818.1000	Services provided by a security agency	10%	Input tax credit/ adjustment shall not be admissible	1 <sup>st</sup> July, 2013.

(c) after the entry "9823.0000" in column (1) and the entries relating thereto in columns (2), (3), (4) and (5), the following new entry shall be added namely:—

9824.0000	Construction services	4%	1.	The persons providing construction services who do not elect to be governed by the Special Procedure, prescribed by the Board, in relation to the application of the lower rate of tax as specified in this notification, shall not be entitled to the benefits of this notification.	1 <sup>st</sup> July, 2013.
			2.	Input tax credit/ adjustment shall not be admissible.	

**SRB-3-4/7/2013, Karachi, the 18<sup>th</sup> June, 2013.**— In exercise of the powers conferred by sub-section (1) of section 10 of the Sindh Sales Tax on Services Act, 2011 (Sindh Act. No. XII of 2011), the Sindh Revenue Board, with the approval of the Government, is pleased to exempt the whole of the tax leviable on the services specified in column (2) of the Table below as are classified in the tariff heading mentioned thereagainst in column (1).

**TABLE**

Tariff Heading No.	Description of services and the conditions and restrictions for exemption
(1)	(2)
9801.2000 and 9801.5000	<p>Services provided or rendered by restaurants and caterers, whose turnover does not exceed 3.6 million rupees in a financial year:</p> <p>Provided that the exemption shall not apply in case of:—</p> <p>(i) restaurants which are air-conditioned on any day in a financial year;</p> <p>(ii) restaurants and caterers located within the building, premises or precincts of any hotel, motel, guest house or club whose services are liable to sales tax;</p>

	<ul style="list-style-type: none"> <li>(iii) restaurants and caterers providing or rendering services in the building, premises, precincts, hall or lawn of any hotel, motel, guest house, marriage hall or lawn or club whose services are liable to sales tax;</li> <li>(iv) restaurants and caterers which are franchisers or franchisees;</li> <li>(v) restaurants and caterers having branches or more than one outlet in Sindh; and</li> <li>(vi) restaurants and caterers whose total utility bills (gas, electricity and telephone) exceed Rs. 40,000/= in any month during a financial year.</li> </ul>
9801.3000	<p>Services provided or rendered by marriage halls and lawns located on plots measuring 800 square yards or less:</p> <p>Provided that the exemption shall not apply in case of:-</p> <ul style="list-style-type: none"> <li>(i) marriage halls and lawns which are air-conditioned on any day in a financial year;</li> <li>(ii) marriage halls and lawns located within the building, premises or precincts of a hotel, motel, guest house, restaurant or club who services are liable to tax;</li> <li>(iii) marriage halls and lawns as are owned, managed or operated by caterers whose services are liable to tax;</li> <li>(iv) marriage halls and lawns which are franchisers or franchises; and</li> <li>(v) marriage halls and lawns having branches or more than one hall or lawn in Sindh;</li> </ul>
9801.4000 and 9801.6000	<ul style="list-style-type: none"> <li>(i) Services and ancillary services provided or rendered by Clubs whose initiation fee for members does not exceed thirty thousand rupees and whose monthly fee/subscription for the members also does not exceed one hundred rupees; and</li> <li>(ii) charges received by Clubs from its members as refundable security deposits and voluntary contributions for the welfare (e.g. eid gifts) for the Club staff or for payment to the registered non-profit</li> </ul>

	organizations, as defined and for the purposes mentioned in under section 2(36) of Income Tax Ordinance, 2001.
Respective sub-heading of tariff heading 98.02	Advertisements financed out of funds provided under grants-in-aid agreements.
9802.4000	Advertisement in newspapers and periodicals.
9809.0000	<p>Services provided or rendered by persons engaged in contractual execution of work or furnishing supplies:-</p> <p>(i) in relation to the work or supplies the total value of which does not exceed 50 million rupees in a financial year subject to the condition that the value component of services in such contractual execution of work or furnishing supplies also does not exceed 10 million rupees; and</p> <p>(ii) in relation to the textbooks, published for free distribution amongst students free of cost, against the order of Sindh Textbook Board subject to the conditions that the Sindh Textbook Board:-</p> <p>(a) assigns the work to a person duly registered under the Sindh Sales Tax on Services Act, 2011; and</p> <p>(b) furnishes, to the Sindh Revenue Board, statement on quarterly basis, showing name of person/contractor, SNTN, value of such contract, along with certificate about the free of cost distribution of such textbooks amongst the students.</p>
9809.0000	Services provided or rendered by M/s NADRA Technologies Ltd (NTL) in relation utility bill collection.
9810.0000	1. Persons providing the services of hair cutting, hair dressing and hair dyeing and shaving provided that they do not provide any other beauty treatment, beauty care, beauty parlour or beauty clinic service.

	2. Services provided or rendered by beauty parlours/clinics and slimming clinics whose turnover does not exceed 3.6 million rupees in a financial year.
Respective sub-headings of tariff heading 98.13	1. Telecommunication Services involving charges payable on the International leased lines or bandwidth services used by software exporting firms registered with the Pakistan Software Exporting Board; 2. Internet services, whether dial up or broadband, including email services and data communication network services valued at not more than 1,500 rupees per month per service recipient.
Respective sub-headings of tariff heading 98.13	Services provided or rendered by banking companies and non-banking financial companies in respect of Hajj and Umrah, Cheque Book issuance, Musharika and Modaraba financing and utility bills collection.
9813.1400	Marine insurance for export.
9813.1500	Life insurance
9813.1600	Health insurance
9813.1600	Crop insurance.
9820.1000	Services provided by an auto-workshop, other than an authorized service station, whose turnover does not exceed 3.6 million rupees in a financial year.
9824.0000	Construction services related to: (i) Projects of commercial and industrial nature, where the value of construction does not exceed 50 million rupees subject to the condition that the value component of service in such a project also does not exceed 10 million rupees; (ii) Projects of developing or promoting the conversion of land into residential or commercial plots or construction of residential or commercial buildings which pay tax on the services of property developers or promoters under tariff heading 9807.0000 of 9814.3000; (iii) Construction and repair of roads, ports, airports, railways, transport terminal, bridges,

	<p>Government (including Local Government and Cantonment Board) buildings as are not meant for commercial purposes or for commercial letting out on rent;</p> <p>(iv) Construction and development of EPZ, SEZ, diplomatic and counselor buildings and such other buildings and structures of the organization as are exempt from application of the Income Tax Ordinance, 2001; and</p> <p>Construction of independent projects of private residential houses and apartments where the covered area does not exceed 10,000 square feet in respect of houses, and 20,000 square feet in respect of apartment complexes.</p>
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2. This notification shall take effect from 1st day of July, 2013, in supersession of notification No. SRB.Leg(1)/2011, dated the 1<sup>st</sup> July, 2011.

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C.No.4(8)ST-L&P/2011-80164                      Islamabad, the 7<sup>th</sup> June, 2013

**SALES TAX GENERAL ORDER NO. 23/2013**

Subject: **Amendment in STGO 14/2007 dated 13-09-2007 – withdrawal of facility of zero-rating on supply of electricity.**

In exercise of powers conferred by clause (d) of section 4 of the Sales Tax Act, 1990, the Federal Board of Revenue is pleased to make the following further amendments in its Sales Tax General Order No. 14 of 2007 dated 13<sup>th</sup> September, 2007, namely:—

In the aforesaid General Order, In the table, serial number 26 & 36 in column (1) and entries relating thereto in columns (2), (3) and (4) shall be **omitted**:

S. No.	S.No. in the STGO	Name of Registered Person	Sales Tax Registration #	Electricity Bill Reference No. or Consumer No. or account No.	Reason
1.	26	M/S Sardar Chemicals	0506290000264	24634400040008U	RTO Recommendation
2.	36	M/S MB Dyes Chemical & Silk Industries	0506280000155	24634400286001U	RTO Recommendation

**SALES TAX GENERAL ORDER NO. 25/2013**

Subject: **Amendment in STGO 36/2010 dated 24-09-2010 – allowing/withdrawal of facility of zero-rating on supply of electricity.**

In exercise of powers conferred by clause (d) of section 4 of the Sales Tax Act, 1990, the Federal Board of Revenue is pleased to make the following further amendments in its Sales Tax General Order No. 36 of 2010 dated 24<sup>th</sup> September, 2010, namely:–

In the aforesaid General Order, In the table–

(a) serial numbers 3, 4, 6, 9, 13 and 15 in column (1) and entries relating thereto in columns (2), (3), (4) and (5) shall be **omitted**:

S. No.	S.No. of STGO	Electricity Provider/ Distribution Company	Name of Registered Person	Registration No.	Electricity Bill/ Reference Number/ Consumer No.	Reason
1.	3	GEPCO	M/S Amir Rice Traders	0904100600664	24214309589006R 24214110659003U	RTO Recommendation
2.	4	GEPCO	M/S Ashrafia Foods & Processing Industries	0901100601019	24221113156006U	
3.	6	FEPCO	M/S Iqbal Rice Mills	0890999972182	24334151018008U	
4.	9	GEPCO	M/S Fazal Karim & Sons	2500100601282	28224505324008U 28224505323009U	
5.	13	GEPCO	M/S Rice Master	0904840000637	24214119117000R	
6.	15	GEPCO	M/S Sohail Rice Mills	0904100601573	28214212397005U	

(b) after serial number 16 in column (1) and the entries relating thereto in columns (2), (3), (4) and (5), the following new serial number and the entries relating thereto shall be **added**, namely:–

S. No.	Electricity Provider/ Distribution Company.	Name of Registered Person	Sales Tax Registration number	Electricity Bill/ Reference Number/ Consumer No.
17	KESC	M/S K.K. Rice Mills (PVT) LTD	1700100602682	BH 001064

Reference No: ID/PR&D/PDW-II/GL/2013/002,

Karachi, the 14<sup>th</sup> June, 2013

**SECP CIRCULAR NO. 11/2013**

Subject: **Amendment to SECP Circular No. 9 of 2005 on Group Insurance Premium Rates.**

This Commission had issued the Circular No. 9 of 2005 dated August 16, 2005 on group insurance premium rates. The aforementioned circular required, amongst other, that the appointed actuary of a life insurer shall certify that the premium rates and other terms and conditions of each group insurance policy with annual premium of Rs. 1,000,000 or above are sound and workable.

The Commission has carried out a survey of group life insurance market recently to assess the effectiveness of the regulatory measures introduced in that Circular. The survey demonstrates that the number of group life policies with premium exceeding Rs. 1,000,000 have increased considerably causing practical difficulties for the life insurers and the appointed actuaries. The survey also demonstrates that overall claim ratios have been reasonably stable over the last six years. Now the Commission is pleased to increase the limit from Rs. 1,000,000 to Rs. 2,000,000 for the certification by appointed actuary of a life insurer.

This circular shall be effective from July 1, 2013.

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