



ICMA
Pakistan

National Budget

Highlights 2018-19



Preface

The Technical Support and Practice Development Committee of the Institute of Cost and Management Accountants of Pakistan is pleased to present the summarized document on amendments proposed in tax laws, through Finance Bill 2018. These have been intended for the benefit of members and other stakeholders and we hope these will be beneficial for the readers. These are not exhaustive; therefore, you are requested to refer to the relevant laws to find the exact interpretation of law.

Ghulam Mustafa Qazi, FCMA
Chairman

National Budget 2018-19

The Federal Minister for Finance, Revenue & Economic Affairs presented to Budget for 2018-19 on 27-04-2019. A brief summary is as follows:

Classification	(Rs in Million)		
	Budget 2017-18	Revised 2017-18	Budget 2018-19
RESOURCES (A + B + C)	4,713,686	4,774,567	4,917,162
A Internal Resources	3,825,863	3,544,812	3,799,139
- Net Revenue Receipts	2,926,074	2,676,407	3,070,439
- Net Capital Receipts	552,520	594,554	443,096
- Estimated Provincial Surplus	347,269	273,852	285,604
B External Resources	837,824	1,229,754	1,118,024
C Privatization Proceeds	50,000	-	-
EXPENDITURE (I + II)	5,103,780	5,361,038	5,932,464
I Current Expenditure on Revenue Account	3,763,709	4,298,279	4,780,359
- Current Exp. on Revenue Account	3,763,709	4,298,279	4,780,359
II Development Expenditure	1,340,072	1,062,759	1,152,105
- Federal PSDP	1,001,000	750,000	800,000
- Dev. Expenditure outside PDSP	152,200	153,174	180,238
- Dev. Loans & Grants to Provinces	186,871	159,585	171,867
BANK BORROWING	390,094	586,472	1,015,302

Common Proposals

- Powers earlier transferred to FBR, relevant Minister and ECC proposed to be vested with Federal Government like:
 - Rate of Regulatory duty
 - Duty on import or export of goods in case of emergency
 - Sales Tax rate determination of any taxable item and extra tax
- Alternate Dispute Resolution decision made binding, parties have to withdraw appeals before proceeding to ADRC
- Payment of tax with appeal reduced to 10% from 25% (to qualify for exemption from recovery of tax)
- Penalty earlier linked with KIBOR has been fixed at 12%
- Audit once in three years

INCOME TAX

Corporate & Business

- Estimate of advance tax will include evidence of excess expenditure or less revenue. This power can be misused easily by field officers by rejecting evidence submitted
- Profits of 'Permanent Establishment' of non-resident person to include goods / plant and machinery where installation is also part of contract irrespective of title to such goods transferred outside Pakistan or not
- All foreign imported goods or plant and machinery will need exemption certificate due to change in taxation of permanent establishment irrespective of title of goods transferred outside Pakistan or not
- Services by Permanent Establishment to be taxed at par with local service provider i.e 'Minimum Tax'
- After expiry of stay (180 days) from Tribunal, Commissioner is bound to initiate recovery proceedings appeal
- Re-characterization of transactions scope enhanced to ignore corporate structure
- Tax on Bonus Shares withdrawn
- Public Companies undistributed profits to be taxed at 5% if such distribution is below 20% (excluding bonus shares) earlier this limit was 40%
- Adjustment of carried forward depreciation and impairment loss limited to 50% only unless taxable income do not exceed Rs. 10m
- Company taxation rates will reduce to 25% over 5 years
- Super Tax will be reduced to 0% over 3 years
- Tax rate for Association of persons varies from 5% to 30%
- Minimum Tax concept introduced for Commercial Imports in place of Final Tax as earlier done with services
- Exemption from Withholding tax allowed for Goods not exceed Rs. 75,000 and Services not exceeding Rs. 30,000 in a tax year
- Scope of Withholding agents expanded to include individuals doing home construction business, this will have major impact on cost of housing
- Carry forward of loss can be denied if return is not submitted within time
- Withholding tax of members of Stock exchange will be adjustable
- Concept of "Offshore Digital Services" introduced this will tax services like "Google Ads" in Pakistan
- Income Tax on Coal import will be 4% for filers 6% for non-filers
- Modarabas exemption scope expanded to include manufacturing activity earlier the exemption covered only trading profits
- Exemption from Income Tax for 20 years to oil refineries introduced (new and existing with certain capacity limits)
- Tax exemptions introduced for Film industry
- Certain industrial undertaking sectors defined in which source of investment will not be asked

- Penalty for non-filing of withholding statements reduced to Rs. 5,000 if filed within 3 months of due date
- Electronic notices to be treated at par with physical/printed notices
- Withholding agents scope deferred for one year for Individuals & AOP with turnover of more than Rs. 50m
- Tax Credits for new investments in P&M , etc. extended to 2021

Individuals

- Gifts from relatives remain exempt, all other gifts are now taxable
- Investment in shares limit for Tax credit enhanced to Rs. 2 million
- Foreign Assets to be taxed in Pakistan they fall in definition of “Assets located in Pakistan” for non-resident persons
- Income of Foreign Controlled Company of a resident person to be taxed in Pakistan
- Unexplained Investment will not be taxed in Pakistan if it is proved that original income was not taxable in Pakistan
- Foreign assets need to be declared if have foreign income more than US\$ 10k or asset US\$ 100k
- Only filers will be able to book new Vehicle and get transfer of existing vehicles
- Exemption of non-disclosure of Source of Income withdrawn if equivalent to Rs. 10m or more foreign exchange received through normal banking channel
- Directorate of immovable property acquisition established to monitor and buy under declared properties
- Tax rate for Individual (Salaried and others) varies from Rs. 1,000 to 15%
- Non-Filer WHT rates increased
- Withholding tax on Marriage Hall functions will be higher of Rs. 20,000 or 5% of bill
- 1% adjustable Withholding tax on credit cards introduced if bill exceeds Rs. 100,000 per month
- Dividend from REIT to be taxed at reduced rate of 7.5%

SALES TAX

- Further Tax on unregistered suppliers increased to 3% from 2%
- Posting of person at tax payer premises will be done with FBR approval (Currently this power lies with Chief Commissioner and Commissioner) though Search powers remain unchanged
- Appeal effect to be given within one year of year in which appeal was decided
- PC and Laptop assembly parts will be exempt from import stage sales tax
- Fertilizer Sales Tax rate fixed at 3% (announced as 2% in speech)
- Sales Tax on Fertilizer feed gas reduced to 5% from 10%
- LNG imported by fertilizer manufacturer as feed stock will be exempt
- Output vs Input parity for fertilizer sector remain illogical i.e. 3% vs 5% to 17%
- Tax on LNG / RLNG for PSO will be 12%
- Stationary items to be taxed as zero rated
- Cinema equipment to be taxed at 5%
- Certain exemption introduced like:
 - Paper used in printing of Holy Quran

- Fish Feed
- Animal Feed
- Plant and machinery under CPEC
- Solar Panel local manufacturing exemption extended till June 2019
- Sales Tax on import and purchase of following items reduced to 5%:
 - Parts of agriculture tractors
 - Tillage and seed bed preparation
 - Seeding or planting equipment
 - Irrigation, drainage and agro-chemical equipment
 - Harvesting, threshing and storage equipment
 - Post-harvest handling and processing machinery

CUSTOMS DUTY

- Increase of additional customs duty from 1% to 2%
- Regulatory Duty excluded from application of maximum duty rate determined under Multilateral trade agreements
- Short levied duty or excess refund if paid before initiation of investigation or inquiry will stop further proceedings
- Claim for excess payment of duty can be launched within 1 year; decision on claim has to be made within 180 days, Collector can extend for a period of 90 days
- Provisional clearance of goods can be allowed by Collector against bank guarantee if such goods are not intended for confiscation or future evidence
- Strict penalties imposed on transshipment misuse
- In case of appeal, 30 day stay can be granted by Collector Appeals after hearing the concerned officer
- Concept of “Authorized Economic Operator Programme” introduced to simplify procedure of import / export in supply chain
- To support dairy sector, customs duty exempted on bovine semen, and preparations for making animal feed reduced from 10% to 5%
- Import of fans for corporate dairy farmers allowed at concessionary rate of 3%.
- Reduction of customs duty on growth promoters premix, vitamin premix, Vitamin B12 and Vitamin H2 for poultry sector from 10% to 5%.
- Exemption of 5% customs duty on specified LED parts and components for manufacturers of LED lights and Levy of 2% Regulatory Duty on LED bulb & Tubes, Energy Saving Bulbs & Tube to protect local industry.
- Reduction of customs duty on import of coal, across the Board, from 5% to 3%.
- Reduction of customs duty on import of Fire fighting vehicles from 30% to 10%
- Concessionary import of vintage or classic cars and jeeps at fix duty/taxes of US\$ 5,000.
- Reduction of customs duty from 50% to 25% and Exemption of 15% RD on Electric Vehicles and customs duty on kits of electric vehicle reduced from 50% to 10%

FEDERAL EXCISE DUTY

- Levied on Mobile Phones ranging from Rs. 1,000 to Rs. 5,000
- Changes introduced for locally manufactured cigarettes and 'Health Levy' introduced

Glimpses of Pakistan Economic Survey (2017-18)

Pakistan has seen a visible economic turnaround over the last five years, due to successful implementation of a comprehensive program of economic revival aimed at higher economic growth and macro-economic stability.

The growth momentum remained above 5 percent for the last two years in a row and reached 5.79 percent in FY2018 which is 13 years high on account of a strong performance in agriculture, industry and services sectors. The Sectoral performance and other highlights are as follows:-

- Agriculture sector growth was 3.81% (FY 2016-17 2.07%), highest of last 18 years.
- The Large Scale Manufacturing had growth rate of 6.24% (FY 2016-17 4.4%), highest in ten years.
- Services sector witnessed a growth of 6.43%.
- Headline inflation measured by CPI (July-March 2018) 3.78% against 4.0% in the corresponding period.
- FBR revenue is projected to increase to Rs.3,935 billion. Tax to GDP ratio which 13.2%.
- During 2013 to 2018, 39 projects with cumulative capacity of 12,230 MW have been added.
- Up till February 2018 installed capacity of electricity reached 29,573 MW which was 22,812 MW in 2012-13 thus posting a growth of 30 percent.

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