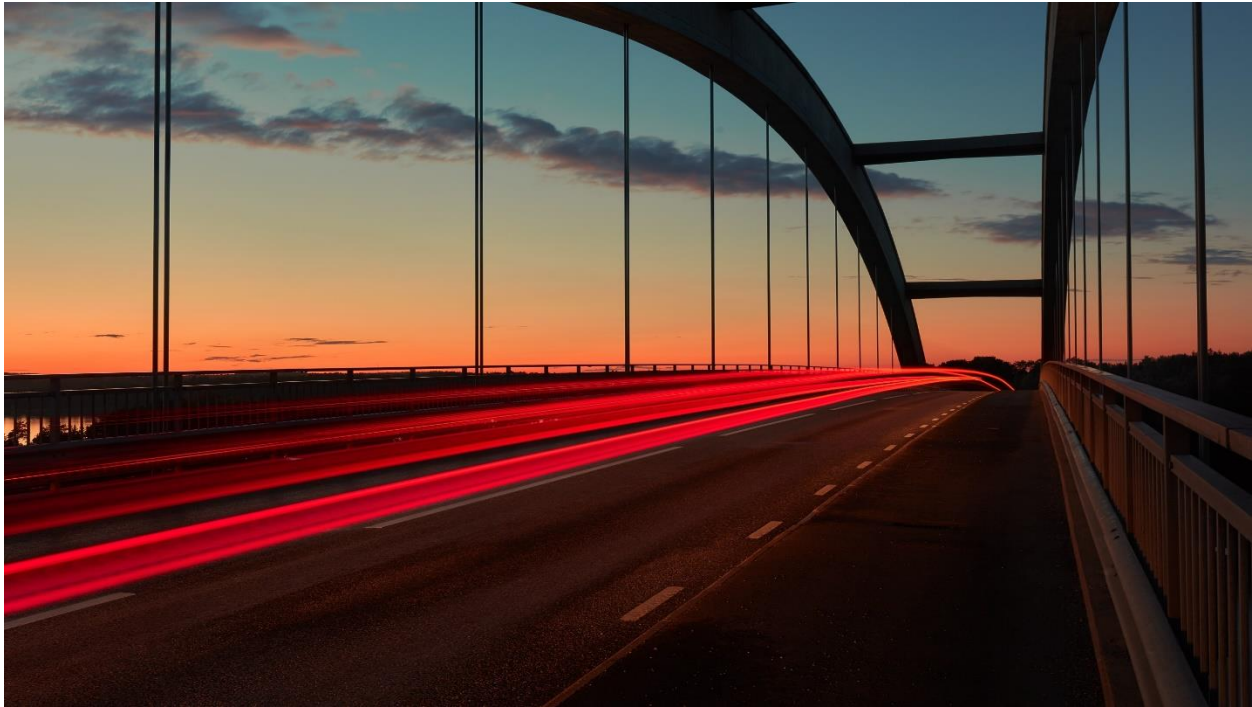


## **Federal Budget Outline 2020-21**



*A Bill to give effect to the financial proposals of the Federal Government of Pakistan for the year beginning on the first day of 01'July' 2020, and to amend certain laws is presented before the National Assembly by Federal Minister of Industries.*

### **FINANCE BILL 2020**

#### **1. INCOME TAX ORDINANCE, 2001**

The salient features of amendments proposed in Income Tax Ordinance, 2001 are as under:

- Tax rates for individuals, Association of Persons (AOPs) and Companies (including small companies) to remain same.
- Construction Industry (Real Estate Developers, Builders and Civil Contractors) to be included in the definition of "Industrial Undertaking" w.e.f. 01' May' 2020.
- Option given to Individuals and AOPs to be taxed at normal tax rates in respect of Income from Property.
- Monetary threshold for making payment for expenditure under a single account head through banking channel to be enhanced from Rs. 50,000 to Rs. 250,000.

- The allowable monetary threshold for payment of certain expenses in cash to be increased from Rs. 10,000 to Rs. 25,000. Such threshold for payment of salary is proposed to be increased from Rs. 15,000 to Rs. 25,000.
- Expenditure attributable to sales to the persons who are liable to be registered for sales tax but are unregistered, to be inadmissible for Industrial Undertakings.
- Depreciation deduction to be restricted to 50% of allowable depreciation in the first year the asset is used in business. The restricted depreciation to be allowable in the year of disposal of such asset.
- The holding period to qualify for exemption from tax on Capital Gains on the disposal of immovable property (for all types of immovable properties) to be reduced to 4 years.
- The existing rates of tax on Capital Gain on disposal of immovable property to be reduced by 50%.
- Fixed tax regime for Builders and Developers and related changes introduced through Tax laws (Amendment) Ordinance No.1 of 2020 to be made part of the Income Tax Ordinance law.
- Restriction proposed on deduction on account of Profit on debt payable to associates by certain foreign controlled resident companies.
- Minimum tax on turnover to be applicable to permanent establishments of non-resident persons.
- Requirement of filing statement of final taxation to be replaced with normal tax return.
- Requirement to furnish taxpayer's profile to be introduced.
- Revision of Wealth Statement to be allowed subject to approval of the Commissioner Inland Revenue.
- The mechanism for agreed assessment through assessment oversight committee proposed at the option of taxpayer who receives notice for amendment of assessment.
- Payment of 10% of the tax demand to be condition for filing of appeal before Appellate Tribunal Inland Revenue by the taxpayer.
- Rate of imports stage tax to be changed from person specific rates to goods specific rate through introduction of Twelfth Schedule providing the following tax rates, irrespective of status of the importer:
  - 1% for capital goods;
  - 2% for raw materials; and
  - 5.5% for finished goods
- Tax deductible from payments to permanent establishment of non-

resident persons on account of sale of goods (excluding sale of goods by manufacturer of such goods) rendering or providing of services, execution of contracts to be declared minimum tax.

- Withholding tax on payment for Toll manufacturing to be deducted as per rate applicable for payment against goods.
- The threshold for being a withholding agent (individuals and AOPs) to be increased from existing Rs.50 million to Rs.100 million.
- Advance tax to be collected by certain persons including educational institutes, steel smelters, and on local purchase of cooking oil or ghee, functions and gatherings, withdrawal of balance under pension fund, insurance premium and tobacco to be withdrawn.
- Tax deductible from payments on account of use or right to use scientific and commercial equipment and machinery to be declared minimum tax from existing status of final tax.
- Filing of withholding statements to be due on quarterly basis instead of existing requirement of bi-annual filing.
- Rate of tax on dividend to be 25% in respect of dividend received from companies not paying tax due to exemption or tax losses or credits.
- Reduced rates of withholding tax applicable on payments to certain

resident service providers @3% to be extended to permanent establishments of non-resident service providers. Engineering Services to be excluded from the purview of said reduced rate for both resident and non-resident service providers.

- Rate of tax collectable on sale of immovable property through auction to be reduced from 10% to 5%.
- Tax Exemptions allowed on various goods previously through notifications amid COVID-19 pandemic to be made part of the main statute and extended up to 30' September' 2020.
- Withholding tax on cash withdrawals or issuance of banking instruments / transfers from a domestic bank account to be exempt to the extent of remittance received from abroad in the year.
- Applicability of Super Tax to be continued for Tax Year 2021 in respect of Banking Companies.

## **2. SALES TAX ACT, 1990**

Significant features of amendments proposed in the Sales Tax Act, 1990 are as follows:-

- Existing sales tax rate of 17% is proposed to continue.
- Sales tax status of taxpayer to be made inactive if taxpayer fails to file quarterly withholding tax statement of income tax.
- *Value of supply* for used cars by car dealers is proposed to be the differential of sale price and purchase price.
- Input tax relating to service rendered or provided to unregistered persons (where CNIC/NTN is not mentioned) to be disallowed.
- Tax authorities to be empowered to finalize the pending assessment orders regardless of the fact that question of law involved in the assessment is pending before High Court or any higher Appellate Authority.
- The monetary threshold for application of requirement to obtain CNIC from the customer is proposed to be enhanced from existing Rs. 50,000 to 100,000.
- The scope of section 73 to be enhanced to all registered persons supplying taxable goods.

- The rate of sales tax to be reduced from existing 14% to 12% for retailers who integrate their Point of Sale (POS) with FBR.
- Rationalization of sales tax on Potassium Chlorate to be increased from Rs. 70/kg. to Rs 80/kg. to address illicit manufacturing of match boxes.
- Sales tax withholding to be applicable as per prescribed rates by considering the status of supplier as active or non-active instead of registered or unregistered.

## **3. FEDERAL EXCISE DUTY**

Significant changes relating to Federal Excise Duty ("FED") include the following:

- FED on locally produced cigarettes under all Tiers proposed to be increased from 65% to 100%.
- FED on filter rods of cigarette to be increased from Rs.0.75 to Rs. 1.00 per filter rod.
- FED on caffeinated energy drinks to be increased from 10% to 25%.
- FED on cement proposed to be reduced from Rs. 2.00 per kg to Rs. 1.75 per kg.
- Levy of FED proposed @ 7.5% ad-volerm in case of locally manufactured double cabin (4x4) pickup vehicles and @ 25% in the case of imported double cabin (4x4) pickup.

#### **4. CUSTOMS DUTY**

Significant changes relating to Customs duty are as follows:

- Additional Customs Duty is proposed to be exempted on those tariff lines which are now @ 0% Customs duty in tariff.
- Reduction of customs duty on 40 items of raw material of various industries.
- Customs duty to be reduced on 90 Tariff lines from 11% to 3% and 0%.
- Regulatory duty to be reduced from 12.5% / 17.5% to 6% / 11%, respectively on Hot Rolled Coils (HRC) of Iron and steel falling under PCT codes 7208 and 7225 & 7226 respectively.
- Various industrial inputs / intermediary raw materials to be allowed concessional import under new serial number of the fifth schedule through IOCO quota determination.
- Exemption of Customs duty proposed on import of raw materials by manufacturers of Butyl Acetate.
- Customs duty exemption proposed on import of raw material by manufacturer of syringes and saline infusion sets.
- Customs duty exemption proposed on import of raw material by manufacturers of buttons.
- Reduction proposed in customs duty on import of raw material by manufacturers of interlining/buckram.
- Reduction of Customs duty and exemption of additional customs duty & regulatory duty on import of raw materials by manufacturers of Wire rod proposed.
- Exemption of Customs duty and regulatory duty proposed on import of machinery, equipment and other project related items for setting up of internet cable landing stations.
- Exemption of Customs duty proposed on import of raw material by beverage can manufacturers.
- Reduction in Customs duty and exemption from Additional custom duty on import of raw material by food packaging industry proposed.
- Exemption from Customs duty on import of 61 COVID19 related items, which was due to expire on 30' June' 2020 is proposed to be extended due to the continuation of pandemic.
- Exemption from 2% ACD on import of edible oils and oil seeds under PM's

COVID19 Relief Package to be extended.

- Exemption on import of Dietetic Foods for Children with inherited metabolic disorders proposed.
- Exemption on import of Diagnostic Kits for Cancer and Corona Virus proposed.
- Exemption of Customs duty on inputs of Ready to use Supplementary Foods (RUSF) proposed.
- Exemption of Customs duty on import of life saving drug Meglumine Antimoniate for treatment of leishmaniosis proposed.
- Extension proposed up to year 2023, in exemption of Customs duty on imports for setting up new industries in erstwhile FATA area.
- Reduction proposed in regulatory duty on smuggling prone items to bring these items under legal imports.
- Regulatory duty on several industrial inputs is also proposed to be reduced

to decrease their cost of doing business.

- Tariff protection for domestic industry by increasing / levy of regulatory duty on import of those items which are also locally manufactured proposed.
- Soap manufacturing industry to be incentivized by reducing rate of Additional Customs duty on Palm Stearin.
- Scope of concessions available to Special Economic Zones to be enhanced

If you require our assistance in understanding the specific implications of the budget to your business, please feel free to contact us.

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