

For Clients Only

NOTES ON FINANCE BILL 2010

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NOTES ON THE FINANCE BILL 2010

INCOME TAX

Following amendments has been proposed in the Finance Act 2010:

MINIMUM TAXATION LIMIT ENHANCED

The minimum taxation limit for salaried as well as non salaried persons has been enhanced to Rs.300,000. Hence from tax year 2011 salaried persons & other persons with source of income other than salary and not covered under Final Tax Regime shall be exempt from tax if such income does not exceed Rs.300,000 in a tax year..

ASSOCIATION OF PERSONS TO PAY FIXED RATE OF TAX

Association of persons will be liable to pay tax at fixed rate of 25% with effect from Tax Year 2010. This amendment will have retrospective effect as currently AOPs are liable for payment of Tax at different slab rates. Any amendment with retrospective effect can not be made as held in various judgments of Superior Courts.

GAIN ON SALE OF SHARES OF LISTED COMPANIES MADE TAXABLE [Section. 37A]

Finally, the Government on pressure from the international donor agencies as well as demand of various sectors of the economy has decided to tax the gain on sale of shares of Public Companies, vouchers of Pakistan Telecommunication Corporation, Modaraba Certificates and instruments of redeemable capital listed on stock exchanges.

The tax scheme provides for different methodology & different rates of taxes for such gains depending upon the period for which such instrument is held by the buyer. The rate of tax will gradually increase year after year. The salient features are as under:

- **Securities Held For Less Than Six Months**

Where the listed instrument is sold within six months from the date of purchase, the resultant gain shall be fully taxable. The rate of tax to be charged on this gain shall be as under:

<u>Tax Year</u>	<u>Rate of Tax</u>
2010	10%
2011	10%
2012	12.5%
2013	15%
2014	17.5%

- **Securities Held For More Than Six Months But Less Than Twelve Months**

Where the securities are held for more than six months but less than a year from the date of purchase the resultant gain shall be taxed at the following rate:

<u>Tax Year</u>	<u>Rate of Tax</u>
2010	7.50%
2011	8%
2012	8.5%
2013	9%
2014	9.5%
2015	10%

- **Securities Held For More Than Twelve Months**

In case the securities are sold after twelve months from the date of purchase then forty percent of the gain shall be taxed at the normal rates and the balance sixty percent shall be exempt from tax.

- **Amendment to Operate Retrospectively**

The operation of this amendment has been made with retrospective effect i.e. the gain has been made taxable with effect from tax year 2010. An error seems to

have been made in this regards, Such Capital gain is enjoying exemption from tax vide clause (110) of Part I of the Second Schedule of the Income Tax Ordinance 2001. This clause has now been deleted through Finance Act 2010. This means the capital gain earned during the tax year 2010 is exempt through this clause for the tax year 2010. Implementation of this provision retrospectively will be a difficult task as there are various judgments of the superior courts in which such type of amendments with retrospective effect have been declared null & void.

- **To Be Taxed As Separate Block Of Income**

This income shall be taxed as a separate block of income.

- **Liable To Pay Advance Tax**
[Section. 147]

The persons deriving income from capital gains are required to pay advance tax as per the following schedule:

S. No	Period.	Rate of advance tax Liability
1.	Where holding period of a security is less than six months.	2.00%
2.	Where holding period of a security is more than six months but less than twelve months.	1.50%;

The advance tax has to be paid by the taxpayer to the Commissioner within seven days after the close of each quarter.

TAX CREDIT FOR BALANCING MOBILIZATION & REPLACEMENT **[Section. 65B]**

In order to give incentive to the Companies running industrial undertakings, to invest in their industries for its balancing, modernization & replacement(BMR) the repealed

concept of tax credit on such an investment has now been revived. A new section 65B has been inserted, salient features of which are as under:

- i) BMR must be made by a Company which owns an industrial undertaking.
- ii) Investment must be made for purchase of Plant & Machinery for the purpose of BMR.
- iii) This machinery purchased must be installed at any time between the 1st day of July 2010 & 30th day of June 2015.
- iv) The Company will be allowed credit @10% of the tax payable for the tax year in which such installation was made.
- v) If subsequently it was found that all the conditionalities required to claim the credit were not fulfilled then the Commissioner can recompute the tax payable by the company for that particular tax year in which the credit was claimed.

TAX CREDIT FOR ENLISTMENT ON STOCK EXCHANGE **[Section 65C]**

Another incentive has been offered to those companies who enlist their shares on stock exchanges in Pakistan. Section 65 C has been introduced for this purpose According to this new section every Company who gets its shares listed on the stock exchanges in Pakistan will be entitled for tax credit @5% of income tax payable by it in the tax year in which its shares are listed.

UNEXPLAINED INCOME OR ASSETS **[Section. 111(2) & (4)]**

Following amendments have been proposed in this section:

- **Addition to be Made In The Tax Year To Which It Relates**

The existing provision of section 111(2) provides that any unexplained income or asset detected in any tax year shall be added to the income of the taxpayer in the tax year immediately preceding the year in which it was detected. An amendment has been made proposed in this section providing that any unexplained income or asset detected in a particular tax year shall be added to the income of the taxpayer in the tax year to which it relates.

- **Time Limit For Making Addition Abolish**

As per the existing provision no addition under this section can be made for any tax or assessment year beyond preceding five years. Now this time limit in Section 111(4)(b) has been abolished. However limitation as per provisions of section 122(4)(a)(b) would continue to operate..

TURNOVER TAX

[Section. 113]

The following amendments have been proposed in this section:

- **Individuals & Association of Persons liable to Pay Turnover Tax**
[Sectuion113 (1)]

According to this amendment now the following classes of taxpayers shall also be required to pay turnover tax:

Individuals	: Where turnover for tax year 2009 or any subsequent year exceeds Rs.50.Million
Association of Persons :	Where turnover in tax year 2007 or any subsequent year exceeds Rs.50.Million

The existing provision of section 113(1) of the Income Tax Ordinance 2001 provides exemption from this section to those companies who declare gross loss for a tax year.

Hence a Company having gross loss is not liable to pay any tax under the Ordinance. No amendment has been proposed in this context which means that this exemption shall not be available to an individual or an Association of Persons who have been made liable to pay turnover tax.

- **Rate of Turnover Tax Increased**

The rate of turnover tax has been proposed to be increased from half percent to one percent.

PROCEDURE FOR FILING OF REVISED RETURN CHANGED
[Section. 114(6) & (6A)]

Currently a taxpayer is allowed to file revised return of income without payment of any additional tax at anytime but before issuance of a notice for additional assessment. Such revision was allowed to be made within five years from the end of the financial year in which it was originally filed. Now the conditions for filing revised return of income have been completely changed and a new sub-section (6A) has also been inserted. The new conditions for filing of revised return are as under:

S.No.	Condition	Payments to be made Income Tax	Default Surcharge	Penalty Percentage of <u>leviable</u>
1	Voluntary Revised return	Short paid	Yes	Nil
2	During audit before notice u/s. 122(9)	Evaded	Yes	25%
3	During audit after notice u/s. 122(9)	Evaded	Yes	50%

FILING OF WEALTH STATEMENT

[Section 116(2A) & (4)]

The following amendments have been proposed in section 116 related to filing of wealth statement by an individual:

- **Wealth Statement In Response To Notice**
[Section 122C Sub section 2A]

Where a person has been issued notice u/s. 122C of the Income Tax Ordinance 2001 for filing of return of income then the person will be legally required to file his wealth statement along-with reconciliation showing the source of acquisition of asset for which the return of income has been called for by the Assessing Officer.

- **Threshold Of Tax Deduction For Filing Of Wealth Statement By Persons Under Final Tax Regime Enhanced**
[Sub section 4]

An amendment has been proposed according to which the basis of deduction of tax for filing of wealth statement by person covered under Final Tax Regime has been enhanced from Rs.20,000 to Rs.35,000. Hence, from now onwards those taxpayers who file statement u/s. 115 and claim deduction of tax of Rs.35,000 or more shall be required to file wealth statement and reconciliation along-with such statement.

CHANGE IN DATE FOR E FILING OF RETURN OF INCOME BY SALARIED PERSONS & PERSONS FILING STATEMENT FOR INCOME COVERED UNDER FINAL TAX REGIME

[Section 118(3)]

The date for e- filing of return of income by salaried employees and for filing of statement under section 115 by persons ,other than companies, deriving income covered under the Final Tax Regime, has been changed from 30th September to 31st August.

DOCTRINE OF MERGER NULLIFIED
[Section 122(5AA)]

In various judgments of the Supreme Court it was held that once an assessment order has been passed, under any section of the Ordinance and the same is contested in appeal and then after the passing of appeal order the said assessment order stands merged with the appeal order no further amendments was allowed to be made in the original order. Now, in order to nullify the effect of those judgments a sub section (5AA) has been inserted in section 122. According to the amendment now the Assessing Officer has been empowered to amend again, under section 122(5A), that order on which an order has been passed in appeal. However, in such case amendment can only be made on those issues which were not subject matter in appeal. By virtue of this amendment section 122(5A) has truly become parimateria to section 66A of the repealed Ordinance of 1929 section 122(5AA) corresponds to section 66A(1A) of the erstwhile Ordinance of 1979.

PROVISIONAL ASSESSMENT
[Section 122C & Proviso to Section 137(2)]

A new section 122C has been proposed to be inserted. According to which, an Assessing Officer has been empowered to make a provisional assessment in case the person fails to file return of income in response to notice issued by him for filing of return of income.

The said provisional assessment order shall be converted into final order if the assessee fails to file his return of income within sixty days from the date of service of order. Hence the assessee has to pay the tax so assessed within sixty days from the date of service of order.

ESTATE IN BANKRUPTCY
[Section 138B]

This is the new section proposed to be inserted according to which:

- i) In case of bankruptcy declared by the taxpayer the tax liability of the tax payer shall be passed on to the estates in bankruptcy.
- ii) If tax liability is incurred by the estate in the bankruptcy then it shall be deemed to be current expenditure and shall be paid before claims of other creditors are settled.

ADVANCE PAYMENT OF TAX
[Section 147]

The following amendment has been proposed in the provision of payment of Advance Tax:

- **Association Of Persons Liable To Pay Advance Tax**

Concession allowed to Association of Persons for not making payment of advance tax, where last assessed income is less than Rs.200,000, is proposed to be withdrawn. Hence from tax year 2011 the Association of Persons is required to pay advance tax irrespective of their last assessed income.

- **Threshold For Last Assessed Income Increased For Individuals**

Currently the individuals with last assessed income exceeding Rs.200,000 are required to pay in advance their last assessed tax in four equal quarterly installments. Now, this threshold has been increased to Rs.500,000. That means individuals with last assessed income of Rs.500,000 or above shall be required to pay advance tax.

- **Changes In Due Dates For Payment Of Installment Of Advance Tax**

The following new dates have been proposed for payment of advance tax installments by the Companies & Association of Persons:

<u>Installment</u>	<u>Due Date</u>
1 st	25 th September
2 nd	25 th December
3 rd	25 th March
4 th	15 th June

TAX DEDUCTED ON GOVERNMENT DEBT INSTRUMENTS MADE FINAL DISCHARGE OF TAX

[Section. 151(4)]

The tax deducted on profit earned on, Government Securities including treasury bills and Pakistan Investment Bonds is adjustable against final tax liability. Now, amendment is proposed that the tax so deducted shall be treated as the final taxation in line with profit on debt on other non Government debt instruments.

ASSOCIATION OF PERSONS TO BE A DEDUCTING AUTHORITY IF TURNOVER EXCEEDS RS.50.000M IN TAX YEAR 2007 OR ANY SUBSEQUENT TAX YEAR

[Section. 153(9)(g)]

The current provision of section 153(9)(g) provides that only those Association of Persons whose turnover in tax year 2007 exceeds Rs.50.Million shall be deducting authority for the purpose of deduction of tax at the time of making payment under the provision of section 153. Now an amendment has been proposed according to which if the turnover of an Association of Person exceeds Rs.50.Million during any tax year

subsequent to tax year 2007 than also they become deducting authority under the provision of section 153.

**INDIVIDUALS WITH TURNOVER EXCEEDING RS.50.000M TO DEDUCT
TAX AT THE TIME OF MAKING PAYMENT**
[Section. 153(9)(h)]

A new clause (h) has been inserted in section 153(9) according to which an individual with turnover exceeding Rs.50.Million in tax year 2009 or any subsequent tax year shall be liable to made deduction of tax at the time of making payment on account of supplies, services and on execution of a contract.

**STATEMENT OF WITHHOLDING TAX TO BE FILED QUARTERLY
INSTEAD OF ANNUAL & MONTHLY**
[Section.165]

Currently a withholding agent is require to file monthly statement for the deduction of tax made from payments during a month and an annual statement within two months after the end of the financial year. Now an amendment has been proposed according to which a person is no more required to file monthly and annual statements. The amendments propose that the person will be required to file quarterly statements only. The due dates for filing of quarterly statement will be:

<u>Quarter ending on</u>	<u>Due date</u>
30 th September	20 th October
31 st December	20 th January
31 st March	20 th April
30 th June	20 th July

A proviso has also been added in sub section (1), according to which the deducting authority who neither made any payment nor made any deduction of tax in a quarter shall be liable to file nil statement for that quarter. However annual statement for deduction of Tax from Salaries shall continue to be filed on 31 August every year.

STATEMENT FILED UNDER SECTION 115 SHALL BE TREATED AS ASSESSMENT ORDER

[Explanation Section 169(3)]

Finally the amendment has been proposed which will give powers to the Assessing Officers to pass amended order on the statements filed under section. 115 for incomes covered under Final Tax Regime. Now the statement filed U/s 115 will be treated as an assessment order passed under section 120 hence an amended order under section 122 can be passed on statement filed under section 115.

MAINTENANCE OF RECORD

[Section 174(3) & Proviso]

Presently, a person is required to maintain its books of accounts and other tax records for a period of five years. Now, this period has been proposed to be extended by one year. From now onward, every person has to maintain record for a period of six years instead of five.

However, where case of a particular tax year is subject matter in an appeal, revision, reference, petition or prosecution then the record for that particular year is required to be maintained till final decision of the proceeding irrespective of the period for maintenance of record

AUDIT

[Section 177]

The existing provisions of section 177 relating to audit of income tax affair of a person have completely been replaced with the new provisions. The salient features in this regard are as under:

- 1- No criteria to be laid down by the Board. All powers for selection will be vested with the Commissioner.
- 2- The commissioner has to confront the person selected for audit with the reasons in writing for selection.
- 3- After communicating the person the Commissioner may call for any record being maintained under the Ordinance.
- 4- If the record is being maintained on electronic data the person shall provide access to the Commissioner or person authorized.
- 5- Commissioner may take into possession such machine & duly attested hard copies for the purpose of investigation.
- 6- No record shall be called after expiry of six years from the end of the tax year to which it relates.
- 7- The existing provision of sub section (4) of section 177 requires the Commissioner to give regards to person's history of legal compliance, amount of tax paid by him and class of business being conducted by the person for selection of his case in the next and the following years. This condition has now been withdrawn. Hence after this amendment case of a person can be selected for audit year after year without any specific deficiency on his part.
- 8- Allowed to pass ex parte order under section 121 in case of non compliance by the person.

These amendments proposed through the Finance Act 2010, along-with certain other amendments, were already made part of the Income Tax Ordinance 2001 by virtue of Finance Amendment Ordinance 2009. This Ordinance was promulgated through a

Presidential Ordinance. This order could not be presented before the parliament for approval within time, therefore, was repromulgated on 06, February 2010 through another Presidential Ordinance. In the meantime on the basis of amendments made in the ordinance through the Finance Amendment Ordinance 2009 the Department proceeds to select the cases for audit on the basis of amended provisions of section 177. Now, since this amendment has been made part of Finance Ordinance 2010, the amendment made through Finance Amendment Ordinance 2009 becomes null & void. Hence all the audit proceedings initiated on the basis of amended section 177 becomes illegal abinitio unless amendments in section 177 proposed through Finance Ordinance 2010 are given retrospective effect.

NEW RATES FOR PENALTIES
[Section 182]

The following new rates of penalties and propose under section 182

S.No	Offences	Penalties	Section of the Ordinance to which offence has reference
1	Where any person fails to furnish a return of income or a statement as required under section 115 or wealth statement or wealth reconciliation Statement or statement under section 165 within the due date.	Such person shall pay a penalty equal to 0.1 %of the tax payable for each day of default subject to a minimum penalty of five thousand rupees and a maximum penalty of 25% of the tax payable in respect of that tax year.	114, 115,116 and 165
2	Any person who fails to issue cash memo or invoice or receipt when required under this Ordinance or the rules made thereunder.	Such person shall pay a penalty of five thousand rupees or three per cent of the amount of the tax involved, whichever is higher.	174 and Chapter VII of the Income Tax Rules

3	Any person who is required to apply for registration under this Ordinance but fails to make an application for registration.	Such person shall pay a penalty of five thousand rupees.	181
4	Any person who fails to notify the changes of material nature in the particulars of registration.	Such person shall pay a penalty of five thousand rupees.	181
5	Any person who fails to deposit the amount of tax due or any part thereof in the time or manner laid down under this Ordinance or rules made thereunder.	Such person shall pay a penalty of five per cent of the amount of the tax in default. For the second default an additional penalty of 25% of the amount of tax in default. For the third and subsequent defaults an additional penalty of 50% of the amount of tax in default	137
6	Any person who repeats erroneous calculation in the return for more than one year whereby amount of tax less than the actual tax payable under this Ordinance is paid.	Such person shall pay a penalty of five thousand rupees or three per cent of the amount of the tax involved, whichever is higher.	137
7	Any person who fails to maintain records required under this Ordinance or the rules made thereunder.	Such person shall pay a penalty of ten thousand rupees or five per cent of the amount of tax on income whichever is higher	174
8	Where a taxpayer who, without any reasonable cause, in non compliance with the provisions of section 177—		177
(a)	fails to produce the record or documents on receipt of first notice;	Such person shall pay a penalty of five thousand rupees;	

(b)	fails to produce the record or documents on receipt of second notice; and	such person shall pay a penalty of ten thousand rupees; and	
(c)	fails to produce the record or documents on receipt of third notice	such person shall pay a penalty of fifty thousand rupees	
9	Any person who fails to furnish the information required or to comply with any other term of the notice served under section 176	Such person shall pay a penalty of five thousand rupees for the first default and ten thousand rupees for each subsequent default.	176
10	Any person who-	Such person shall pay a penalty of twenty five thousand rupees or 100% of the amount of tax shortfall whichever is higher:	114,115,116,174,176 , 177 and general.
(a)	makes a false or misleading statement to an Inland Revenue Authority either in writing or orally or electronically including a statement in an application, certificate, declaration, notification, return, objection or other document including books of accounts made ,prepared, given, filed or furnished under this ordinance;	Provided that in case of an assessment order deemed under section 120, no penalty shall be imposed to the extent of the tax shortfall occurring as a result of the taxpayer taking a reasonably arguable position on the application of this Ordinance to the taxpayer's position.	
(b)	furnishes or files a false or misleading information or document or statement to an Income tax Authority either in writing or orally or electronically;		

(c)	omits from a statement made or information furnished to an Income tax Authority any matter or thing without which the statement or the information is false or misleading in a material particular		
11	Any person who denies or obstructs the access of the Commissioner or any officer authorized by the Commissioner to the premises, place, accounts, documents, computers or stocks	Such person shall pay a penalty of twenty five thousand rupees or one hundred per cent of the amount of tax involved, whichever is higher	175 d177
12	Where a person has concealed income or furnished inaccurate particulars of such income, including but not limited to the suppression of any income or amount chargeable to tax, the claiming of any deduction for any expenditure not actually incurred or any act referred to in sub-section (1) of section 111, in the course of any proceeding under this Ordinance before any Income tax authority or the appellate tribunal.	Such person shall pay a penalty of twenty five thousand rupees or an amount equal to the tax which the person sought to evade whichever is higher. However, no penalty shall be payable on mere disallowance of a claim of exemption from tax of any income or amount declared by a person or mere disallowance of any expenditure declared by a person to be deductible, unless it is proved that the person made the claim knowing it to be wrong.	20, 111 and General.
13	Any person who obstructs any Income tax Authority in the performance of his official duties.	Such person shall pay a penalty of twenty five thousand rupees	209, 210 and General

14	Any person who contravenes any of the provision of this Ordinance for which no penalty has, specifically, been provided in this section.	Such person shall pay a penalty of five thousand rupees or three per cent of the amount of tax involved, whichever is higher	General
15	Any person who fails to collect or deduct tax as required under any provision of this Ordinance or fails to pay the tax collected or deducted as required under section 160.	Such person shall pay a penalty of twenty five thousand rupees or the 10% of the amount of tax whichever is higher	148,149,150,151,152, 153, 153A, 154, 155, 156, 156A, 156B, 158, 160, 231A, 231B, 233, 233A, 234, 234A, 235, 236, 236A.

EXEMPTION FROM PENALTY & DEFAULT SURCHARGE
[Section 183]

For the first time an amendment has been proposed according to which the Board has been empowered to exempt a person from levy of penalty and default surcharge by publishing the order in official gazette. However, exemption will be subject to certain conditions and limitation as may be specified.

SELECTION FOR AUDIT BY THE BOARD
[Section 214(C)]

This amendment has been proposed to empower the Board to carryout computer balloting, random or parametric. The amendment is proposed to have retrospective effect. Hence through this amendment the Board is trying to ratify the computer balloting conducted by it for tax year 2008.

**BANK PAYMENTS THROUGH ANY INSTRUMENT EXCEPT CHEQUES
LIABLE FOR DEDUCTION OF TAX BY BANKS
[Section. 231AA]**

Currently, deduction of tax on cash withdrawal is an easy source of revenue generation for the Board. Now, to get more of this type of easy revenue, it is propose that the scope of this type of taxation may be widened to include banking instruments such Demand Draft, Pay Order, Online Transfer, Telegraphic Transfer etc.. This means now except cheque all banking transaction exceeding Rs.25,000 in a day will be subjected to tax @0.3%. The tax so deducted shall be adjustable against the final tax payable by the person.

**COLLECTION OF TAX BY STOCK EXCHANGES MADE ADJUSTABLE
[Section. 233A]**

Collection of tax by stock exchanges from its members for sale, purchase and trading of shares was minimum tax in the hands of the members. Now an amendment has been proposed to be made in this section according to which the said deduction of tax can be claimed as adjustment.

**ADVANCE TAX ON PURCHASE OF DOMESTIC AIR TICKET
[Section. 236B]**

Burden of a new type of advance tax has been proposed to be added to already burdened taxpayers. According to this amendment every person who issues domestic air tickets shall at the time of making the issue charge, along-with cost of air ticket, tax @5% of the gross value of tickets from the buyer. Interestingly, this advance tax has not been levied on international air tickets.

RATE OF TAX DEDUCTION ON ELECTRICITY BILLS REDUCED
[Section. 235 & Div. IV of Part IV]

Maximum rate for deduction of tax on electricity reduced from 10% to 5%. For individual and commercial consumers

RATE OF TAX FOR SMALL COMPANIES INCREASED
[Clause (iii) Div. II, Part I]

Rate of tax for Small companies enhanced from 20% to 25%.

RATE OF TAX AT IMPORT STAGE INCREASED
[Part II, First Schedule]

Rate of tax at import stage for Commercial Importers increased from 4% to 5%. Rate of Tax for deduction at a import stage on import of Raw material and other material for own consumption shall continue to be subjected to Tax @ 3%

RATE OF TAX FOR NON RESIDENTS REDUCED
[Section. 152 & clause (2) Div. II, Part III]

Rate of tax for non residents reduced from 30% to 20%.

PROFIT ON DEBT ON FOREIGN LOAN EXEMPT FROM TAX
[Sub Clause III of clause 72 of Part I of the Second Schedule]

Sub Clause (III) of clause (72) of Part I of the Second Schedule was omitted vide Finance Act 2008, now it is proposed to restore the same. Hence from July 2010 Profit on Debt paid on foreign loan shall be exempt from deduction of tax subject to the following conditions:

- a) Loan is utilized for industrial investment in Pakistan.
- b) Agreement of loan is concluded on or after 1st day of February 1991.
- c) Agreement was registered with State Bank of Pakistan

**EXEMPTIONS ALLOWED TO ENTITIES IN KHYBER PAKHTOONKHWA,
FATA & PATA**

Following exemptions being allowed to entities situated in most effected and moderately affected of Khyber PakhtoonKhwa, FATA & PATA:

Clause of Second Schedule	Nature of Income	Period of Exemp.	From--to
92A Part I	University & Other Educational Institution	2 Years	30 th June 2010 To 30 th June 2011
126F Part I	Profit & Gain of a taxpayer	3 Years	30 th June 2010 To 30 th June 2012
10(A) (i) To (iii) Part IV	i. Tax on electric bills Commercial & Industrial	1 Year	30 th June 2011
	ii. Tax on export of goods Originating there from	1 Year	30 th June 2011
	iii. Tax on Import of Plant & Machinery for establishment of business	1 Year	30 th June 2011

For the purpose of these clause:

- a) Most affected areas are: district Peshawar, Malakand Agency, Swat, Buner, Shangla, Upper Dir, Lower Dir, Hangu, Bannu, Tank, Kohat & Chitral.
- b) Moderately affected ares are: Charsada, Nowshera, D.I.Khan, Balagram, Lakki Marwat, Swabi & Mardan.

Exemption of profit & gain of a taxpayer shall not be applicable to businesses involve in manufacturing & supplies of cement, sugar, beverages & cigarettes.

Clarification needed that whether taxpayers of these areas falling under minimum tax regime will also be exempt from tax or not.

CEILING FOR REBATE TO SENIOR CITIZEN ENHANCED
[Clause (1A) Part III of Second Schedule]

The Senior citizens are entitle for tax rebate of 50% where the total income does not exceed Rs 750,000. Now the Finance Bill proposed to enhance the limit of Income for claim of rebate to Rs. 1 Million. Now therefore, the senior citizen whose income does not exceed Rs. 1 Million shall be entitle for a tax rebate of 50%

FIRST SCHEDULE

1. Rate of Tax for Non Salaried Individuals.

The following are the new rate of Tax for non salaried individuals and individuals whose salary income does not exceed 50% of the total income.

S.No.	Taxable Income.	Rate of Tax
1.	Where taxable income does not exceed	0%
2.	Where the taxable income exceeds Rs.300,000 but does not exceed Rs.400,000	7.50%
3.	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000	10.00%
4.	Where the taxable income exceeds Rs.500,000 but does not exceed Rs.600,000	12.50%

5.	Where the taxable income exceeds Rs.600,000 but does not exceed Rs.800,000	15.00%
6.	Where the taxable income exceeds Rs.800,000 but does not exceed Rs.10,00,000	17.50%
7.	Where the taxable income exceeds Rs.10,00,000 but does not exceed Rs.13,00,000	21.00%
8	Where the taxable income exceeds Rs.13,00,000	25.00%

2. Rate of Tax for Salaried Individuals.

Following is the new rate of Tax for deduction from salaries for Tax year 2011.

S.No.	Taxable Income.	Rate of tax.
1.	Where the taxable income does not exceed Rs.300,000,	0%
2.	Where the taxable income exceeds Rs.300,000 but does not exceed Rs.350,000,	0.75%
3.	Where the taxable income exceeds Rs.350,000 but does not exceed Rs.400,000,	1.50%
4.	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.450,000,	2.50%
5.	Where the taxable income exceeds Rs.450,000 but does not exceed Rs.550,000,	3.50%

6.	Where the taxable income exceeds Rs.550,000 but does not exceed Rs.650,000,	4.50%
7.	Where the taxable income exceeds Rs.650,000 but does not exceed Rs.750,000,	6.00%
8.	Where the taxable income exceeds Rs.750,000 but does not exceed Rs.900,000,	7.50%
9.	Where the taxable income exceeds Rs.900,000 but does not exceed Rs.1,050,000,	9.00%
10.	Where the taxable income exceeds Rs.1,050,000 but does not exceed Rs.1,200,000,	10.00%
11.	Where the taxable income exceeds Rs.1,200,000 but does not exceed Rs.1,450,000,	11.00%
12.	Where the taxable income exceeds Rs.1,450,000 but does not exceed Rs.1,700,000,	12.50%
13.	Where the taxable income exceeds Rs.1,700,000 but does not exceed Rs.1,950,000,	14.00%
14.	Where the taxable income exceeds Rs.1,950,000 but does not exceed Rs.2,250,000,	15.00%
15.	Where the taxable income exceeds Rs.2,250,000 but does not exceed Rs.2,850,000,	16.00%
16.	Where the taxable income exceeds Rs.2,850,000 but does not exceed Rs.3,550,000,	17.50%

- | | | |
|-----|---|--------|
| 17. | Where the taxable income exceeds Rs.3,550,000 but does not exceed Rs.4,550,000, | 18.50% |
| 18. | Where the taxable income exceeds Rs.4,550,000. | 20.00% |

THE SALES TAX ACT, 1990

VALUE ADDED TAX

Value Added Tax is proposed to be enforced with effect from October 1, 2010.

SALES TAX ACT

The following amendment has been proposed by the Finance Bill in the Sales Tax Act 1990.

APPELLATE TRIBUNAL

[Section 2 sub-section 1]

Finance Bill 2010 seeks to amend the definition to unify the Appellate Tribunal of the Income Tax, Sales Tax and Federal Excise to effect the inland revenue order.

INCREASE IN RATE OF TAX

[Section 3]

It is propose to increase the rate of sales tax by one percent. Hence, after proposed amendment all rates of sales tax will be increased by one percent with effect from July 1, 2010.

RETENTION OF RECORD AND DOCUMENTS

[Section 24]

The amendment propose that the period to retain the record and documents may be reduced to five years. However, where any proceedings for a particular period is pending for assessment, appeal, revision, reference, petition and any proceedings before an Alternative Dispute Resolution Committee than in such case record for that particular period has to be retain till the final decision of the proceeding.

TRANSACTIONS BETWEEN ASSOCIATES

[Section 25AA]

The proposed introduce of new section to introduce concept of arm's length transaction between associated persons to determine the transfer price of taxable supplies. This section proposed to insert as the same provision already in the Income Tax Ordinance, 2001.

SPECIAL AUDIT BY CHARTERED ACCOUNTANTS OR COST ACCOUNTANTS

[Section 32A]

It is proposed to amend this section to empower Commissioner instead of Board to appoint the Chartered Accountant or Cost Accountant for audit of record of registered person.

AUTHORISED OFFICERS TO HAVE ACCESS TO PREMISES, STOCKS, ACCOUNTS AND RECORDS

[Section 38]

After proposed amendment, the officer not only on the instruction of Board but also on instruction of Commissioner will act under this section. This amendment increased the power of the Commissioner.

SERVICE OF ORDERS, DECISIONS

[Section 56]

The proposed amendment is to explain how service of any notice, order or requisition required shall be treated as properly served :

- a) Personally served to individual, representative
- b) Sent by registered post or courier service at usual or last known address in Pakistan
- c) Served on the individual as prescribed for service of a summons under Code of Civil Procedure, 1908.
- d) Where an Association of Persons (AOP) is dissolved, to any person who is principal officer or member of AOP.
- e) When business stands discontinued, to the individual personally or person's representative at the time of discontinuance.

SELECTION FOR AUDIT BY THE BOARD

[Section 73B]

The proposed amendment empowers the Board to select person or class of persons for the audit of record by using method of random balloting or parametric as deemed fit to the Board by applying the section 25.