



## FINANCE SUPPLEMENTARY (SECOND AMENDMENT) BILL, 2019

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## Finance Supplementary (Second Amendment) Bill, 2019

This amendment has been prepared for our clients and staff for information and guidance only and is available for interested persons at our website <http://www.bdo.com.pk>.

Clients are advised to consult the actual text of the Bill while interpreting the specific provisions and to consult our tax department for clear advice on specific issues.

**BDO EBRAHIM & CO.**

**Dated: January 28, 2019**

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SECTION (CLAUSE)	THE INCOME TAX ORDINANCE, 2001
<b>5A</b>	<b>Tax on undistributed profits</b>
(1)	The Bill proposes amendment to this section as a consequence of which the tax on undistributed profits at the rate of 5% on accounting profit before tax on every public company is to be withdrawn from Tax Year 2020 onwards.
<b>37A</b>	<b>Capital gain on disposal of securities</b>
<b>Proviso</b>	The Bill proposes to insert a proviso as a consequence of which losses sustained on disposal of securities in tax year 2019 that have not been set off against gain from disposal of securities chargeable to tax under this section shall be carried forward to the following tax year and set off only against the gain of the person from disposal of securities provided that no such loss shall be carried forward to more than three tax years immediately succeeding the tax year for which the loss was first computed.
<b>49</b>	<b>Federal Government, Provincial Government and Local Government income</b>
	The Bill proposes to extend the exemption presently available to Federal Government authorities for sale of licenses to licenses and renewal of the spectrum and licenses.
<b>99B</b>	<b>Special procedure for small traders and shop keepers</b>
	This proposed new section proposes to empower the Federal Government to issue, by notification in the official gazette, prescribed special procedures for scope and payment of tax, filing of return and assessment in respect of such small traders and shopkeepers, in such cities or territories as is specified.
<b>123</b>	<b>Provisional assessment in certain cases</b>
(1A)	This proposed new sub section empowers the Commissioner to make a provisional assessment for a person in respect of offshore assets not declared which are discovered by the Commissioner or any department or agency of the Federal or Provincial Governments. The provisional assessment order is to be issued before issue of assessment order under section 121 or amended assessment order under section 122 and is to be issued for the last completed tax year of the person taking into account the offshore asset discovered.
<b>148</b>	<b>Imports</b>
(8)(a)	The proposed amendment to this section seeks to make the tax paid at the time of import of goods which are sold in the same condition as when imported to be the final tax on the income earned from these sales.
<b>165</b>	<b>Statements</b>
(1)	The proposed amendments to this section seek to make the filing of withholding statements to biannual instead of monthly.
(2)	The proposed amendments to this section to provide for the timeline for filing of biannual withholding tax statements as follows: <ul style="list-style-type: none"><li>• Half year ending June 30 to be filed by July 31</li><li>• Half year ending December 31 to be filed by January 31.</li></ul>
(2A)	The proposed new sub section seeks to empower the Commissioner to call for withholding tax statements for any period and within any such time as the notice requires.

**SECTION  
(CLAUSE)** **THE INCOME TAX ORDINANCE, 2001**

**227C** **Restrictions on purchase of certain assets**

The proposed amendment to this section seeks to allow non-filers to purchase locally manufactured motor vehicle having engine capacity not exceeding 1300 cc; locally manufactured motorcycle, motorcycle-rickshaw and rickshaw; locally manufactured tractor.

The proposed amendment also seeks to allow purchase by non-filers who are non- resident Pakistanis having foreign passports.

**230E** **Director General of Transfer Pricing**

The Bill proposes to delete this section.

**233A** **Collection of tax by a stock exchange registered in Pakistan**

**(3)** The proposed new sub section seeks to remove the requirement for collection of withholding tax from members of stock exchange on their commission with effect from February 1, 2019.

**First Schedule** **Part I – Rates of tax**

**Division IIA** The Bill seeks to change the super tax rates as follows:

	<b>Tax Year</b>	<b>Present</b>	<b>Proposed</b>
Banking companies	2018	0%	4%
	2019	4%	No change
	2020	3%	4%
	2021	2%	4%

There is no guidance on how tax is to be paid for Tax Year 2018 as the Banks have already filed their returns and paid their taxes for Tax Year 2018.

The Bill proposes to abolish the super tax on persons other than banking company, having income equal to or exceeding Rs 500 million from Tax Year 2020 onwards.

**First Schedule** **Part II  
Rates of Advance Tax**

The Bill proposes to provide for new rates of tax on import of mobile phones as follows:

<b>C&amp;F value of mobile phones in Dollars</b>	<b>Tax in Rupees</b>
Up to 30	70
Exceeding 30 and up to 100	730
Exceeding 100 and up to 200	930
Exceeding 200 and up to 350	970
Exceeding 350 and up to 500	3,000
Exceeding 500	5,200

**SECTION (CLAUSE)** **THE INCOME TAX ORDINANCE, 2001**

**First Schedule**

**Part IV**  
**Deduction or collection of advance tax**

**Division VI** The proposed amendment seeks to withdraw the requirement to collect tax at source at 0.3% from filers at the time of withdrawal of cash.

**Division VIA** The proposed amendment seeks to withdraw the requirement to collect tax at 0.3% from filers at the time of issue of banking instruments.

**Division VII** The proposed amendment seeks to increase the amount of tax to be collected from non-filers at the time of registration of cars to as follows:

Engine capacity	Present	Proposed
	In rupees	
Up to 850 cc	10,000	15,000
851 cc to 1000 cc	25,000	37,500
1001 cc to 1300 cc	40,000	60,000
1301 cc to 1600 cc	100,000	150,000
1601 cc to 1800 cc	150,000	225,000
1801 cc to 2000 cc	200,000	300,000
2001 cc to 2500 cc	300,000	450,000
2501 cc to 3000 cc	400,000	600,000
Above 3000 cc	450,000	675,000

**Division XI** The proposed amendment seeks to reduce the tax on booking of smaller marriage halls to 5% of the bill ad valorem or Rs 5,000 whichever is higher.

**Second Schedule** **Part I: Exemption and tax concessions**

**(66)** The proposed amendment seeks to exempt the income of following from charge of income tax:

- National Disaster Risk Management Fund
- Deposit Protection Corporation

**(126L)** The proposed amendment seeks to enhance and extend exemption from tax on profit and gains to manufacturers of plant and machinery and equipment for dedicated use of renewable generation set up between March 1, 2019 and June 30, 2023 for 5 years.

**Second Schedule** **Part III: Reduction in tax liability**

**(17)** The proposed amendment seeks to provide for reduction in tax on dividend if the recipient company has surrendered loss to or received loss from the company distributing the dividend to the extent of percentage of ordinary shareholding the recipient of dividend has in the company distributing the dividend.



<b>SECTION (CLAUSE)</b>	<b>THE INCOME TAX ORDINANCE, 2001</b>
<b>Second Schedule</b>	<b>Part IV: Exemptions from specific provisions</b>
<b>(11A)</b>	The proposed amendment seeks to grant exemption to: <ul style="list-style-type: none"><li>• National Disaster Risk Management</li><li>• Deposit Protection Corporation</li></ul>
<b>(38D)</b>	The proposed amendment seeks to grant exemption to National Disaster Risk Management from provisions relating to withholding tax.
<b>(81)</b>	The proposed amendment seeks to grant exemption to banking companies with respect to filing of withholding tax statements relating to withholding tax on profit on debt and cash withdrawals.
<b>(95A)</b>	The proposed amendment seeks to grant exemption to profit arising from auction of franchising rights to participating teams in a national or international league organized by any Board or other organization established by the Government in Pakistan for the purposes of controlling, regulating or encouraging major games and sports recognized by the Government with effect from July 1, 2019.
<b>(101A)</b>	The proposed amendment seeks to grant exemption from withdrawal of cash in bank accounts in which deposits are made solely from foreign remittances credited directly into such accounts.
<b>(111)</b>	The proposed amendment seeks to grant exemption from levy of super tax on profits from specific sectors as detailed in Seventh Schedule.
<b>Seventh Schedule</b>	<b>Rules for the computation of the profits and gains of a banking company and tax payable thereon</b>
<b>Rule 7D</b>	Proposed amendment seeks to provide for a reduced rate of tax on income from additional advances to micro, small and medium enterprises (as defined in the Prudential Regulations issued by State Bank of Pakistan) provided details of these advances along with gross and net margin earned is filed. The reduced rate is 20% and the reduced rate is available for tax years 2020 to 2023. The term additional is to be measured against the average advances for this sector in tax year 2019.
<b>Rule 7E</b>	Proposed amendment seeks to provide for a reduced rate of tax on income from additional advances for low cost housing (as defined in the Prudential Regulations of State Bank of Pakistan) provided details of these advances along with gross and net margin earned is filed. The reduced rate is 20% and the reduced rate is available for tax years 2020 to 2023. The term additional is to be measured against the advances for this sector in tax year 2019.
<b>Rule 7F</b>	Proposed amendment seeks to provide for a reduced rate of tax on income from additional advances for farm credit in Pakistan (as defined in the Prudential Regulations of State Bank of Pakistan for Agriculture Financing excluding advances to a company) provided details of these advances along with gross and net margin earned is filed. The reduced rate is 20% and the reduced rate is available for tax years 2020 to 2023. The term additional is to be measured against the advances for this sector in tax year 2019.

SECTION  
(CLAUSE)

SALES TAX ACT, 1990

Section 67A

Payment of refund through Promissory Notes

Through this insertion, sales tax refunds may be payable through promissory notes instead of paying sales tax refunds through cheques or electronic advice to State Bank of Pakistan for claimants who opt for payment in such manner.

Sixth Schedule  
(Table -1)

Exemptions Proposed under Sixth Schedule

The Bill seeks to amend the serial number 110 under Table-I of Sixth Schedule to the Sales Tax Act, 1990 to include the wording "for the period ending on the 30<sup>th</sup> June, 2023" to restrict the exemption period up to 30<sup>th</sup> June, 2023.

The Bill seeks to substitute the serial number 117 under Table-I of Sixth Schedule to the Sales Tax Act, 1990 with the following:

Serial No.	Description of Goods	PCT Heading
117	Appliances and items required for ostomy procedures as specified in the Chapter 99 of the First Schedule to the Customs Act, 1969, subject to same conditions as specified therein	99.25

The Bill seeks to omit the serial number 118 under Table-I of Sixth Schedule to the Sales Tax Act, 1990 to remove the exemption on colostomy and urostomy bags.

The Bill seeks to add new serial numbers and entries after serial number 149 to provide exemption from sales tax on import and supplies of following items under Table-I of Sixth Schedule to the Sales Tax Act, 1990.

Serial No.	Description of Goods	PCT Heading
150	Plant and machinery excluding consumer durable goods and office equipment as imported by greenfield industries, intending to manufacture taxable goods, during their construction and installation period subject to conditions noted below and issuance of exemption certificate by the Commissioner Inland Revenue having jurisdiction: -  <u>Conditions:</u>  (a) the importer is registered under the Act on or after the first day of July, 2019; and  (b) the industry is not established by splitting up or reconstruction or reconstitution of an undertaking already in existence or by transfer of machinery or plant from another industrial undertaking in Pakistan	4802.5510

SECTION  
(CLAUSE)

SALES TAX ACT, 1990

Sixth Schedule  
(Table -3)

**Exemptions Proposed under Sixth Schedule**

The Bill seeks to substitute the existing word "etc" in the serial number 1 of serial number 7 under Table-3 of Sixth Schedule to the Sales Tax Act, 1990 with the wording "This exemption in relation to renewable energy shall remain in force up to the 30<sup>th</sup> June, 2023" to restrict the exemption period to 30<sup>th</sup> June, 2023.

The Bill seeks to substitute the existing word "etc" in the serial number 14A under Table-3 of Sixth Schedule to the Sales Tax Act, 1990 with the wording "as imported on or before the 30<sup>th</sup> June, 2023". This amendment results in a time limited provided on systems and items used with renewable source of energy.

Ninth Schedule

**Sales tax on the import and supply of goods**

The Bill seeks to substitute serial number 2 under Table of Ninth Schedule to the Sales Tax Act, 1990 with the following, to simplify the applicability of sales tax according to the price of the cellular mobile phones instead of the hardware specifications as mentioned earlier:

S. No	Description / Specification of Goods	Sales tax on import	Sales tax	Sales tax on supply
2.	Cellular mobile phones or satellite phones to be charged on the basis of import value per set, or equivalent value in rupees in case of supply by the manufacturer, at the rate as indicated against each category: -			
	A. Not exceeding US\$ 30	Rs. 150	Rs. 150	
	B. Exceeding US\$ 30 but not exceeding US\$ 100	Rs. 1,470	Rs. 1,470	-
	C. Exceeding US\$ 100 but not exceeding US\$ 200	Rs. 1,870	Rs. 1,870	
	D. Exceeding US\$ 200 but not exceeding US\$ 350	Rs. 1,930	Rs. 1,930	
	E. Exceeding US\$ 350 but not exceeding US\$ 500	Rs. 6,000	Rs. 6,000	
	F. Exceeding US\$ 500	Rs. 10,300	Rs. 10,300	

The Bill seeks to insert a new schedule with reference to section 67A after the Ninth Schedule as:

Tenth Schedule

**Sales tax refund promissory notes**

- Application.** This Schedule applies to the sales tax refund promissory notes to be issued in lieu of payable refunds as provided in section 67A.
- Definitions.** In this Schedule, unless there is anything repugnant in the subject or context: -
  - "note" or "promissory note" means sales tax refund promissory note; and
  - "promissory note office" or "note office" means an office established in the Board for issuance, registration, transfer, reissuance, redemption and handling other matters in relation to the notes.



SECTION  
(CLAUSE)

## SALES TAX ACT, 1990

**3. Issuance and printing.**

- (1) The promissory notes shall be issued by the Note Office in lieu of sales tax refunds as found admissible under the Sales Tax Act, 1990, to the refund claimants.
- (2) The notes shall be printed by Pakistan Security Printing Corporation with security features and in the form as the Board may determine.

**4. Features of promissory notes.**

- (1) The maturity period of the promissory notes shall be three years from the date of issuance.
- (2) The promissory notes shall be issued in multiples of one hundred thousand Rupees.
- (3) The promissory notes shall bear annual simple profit at ten per cent and shall be redeemable after the period of maturity.
- (4) The promissory notes shall be redeemable before maturity only at the option of the Board along with simple profit payable at the time of redemption.
- (5) The promissory notes shall be traded freely in the country's secondary markets.
- (6) The promissory notes shall be approved security for calculating the statutory liquidity reserve.
- (7) The promissory notes shall be accepted by the banks as collateral.
- (8) There shall be no compulsory deduction of Zakat against the promissory notes and sahib-e-nisab may pay Zakat voluntarily according to Shariah.

**5. Transfer of notes.**

The notes shall be transferable only in the manner provided hereunder: -

- (a) It shall be transferable by endorsement and delivery like a promissory note payable to order;
- (b) no endorsement of a note shall be valid unless made by the signature of the holder or his duly constituted attorney or representative inscribed on the back of the note itself;
- (c) no writing on a note shall be valid for the purpose of negotiation if such writing purports to transfer only a part of the amount denominated by the note;
- (d) the note office may decline to accept a note endorsed in blank for any purpose unless the endorsement in blank is converted into that in full before presentation.

**6. Payment on redemption.**

- (1) When a note becomes due for payment, it shall be presented at the note office by the holder.
- (2) On redemption, the profit on the notes shall be paid along with the face value, in the form of a crossed cheque drawn on the State Bank of Pakistan.
- (3) The cheque shall be signed by the incharge of note office and another signatory as appointed by the Board.
- (4) The principal amount along with the profit shall be debited to the revenue account "B02368-Sales Tax Refund".

**7. Procedure when a note is lost etc.**

- (1) The procedure to be followed for the issue of a duplicate note in place of a note which is claimed to have been lost, stolen, destroyed, mutilated or defaced either wholly or in part, shall, mutatis mutandis, be the same as laid out in respect of the promissory note in the Public Debt Rules, 1946.
- (2) In case of an executant being unable to write, the procedure as provided in the Public Debt Rules, 1946, shall be followed.

SECTION  
(CLAUSE)

## CUSTOMS ACT, 1969 (IV OF 1969)

The Bill seeks to insert the following after Part-VII of the Fifth Schedule of the Customs Act, 1969 (IV of 1969):

## Part-VIII Imports of inputs/taws materials of industrial sector

S.No	Description	PCT Code	Customs Duty (%)	Conditions
(1)	(2)	(3)	(4)	(5)
1	Footwear Sector:			
	Toluene	2902.3000	3%	If imported by manufacturers of Footwear, registered under the Sales Tax Act, 1990
	Butanone (methyl ethyl ketone)	2914.1200	3%	
	Other	3207.1090	20%	
	Other	3208.1090	20%	
	Other	3208.9090	3%	
	Mould release preparations	3403.9910	16%	
	Shoe adhesives	3506.9110	16%	
	Other	3506.9190	16%	
	Shoe lasts	3926.9060	11%	
	Other	4005.1090	11%	
	Other	4005.9900	0%	
	Machinery for making or repairing footwear	8453.2000	0%	
	Parts	8477.9000	0%	
	Injection or compression types	8480.7100	0%	
2	Tanners:			
	Formic acid	2915.1100	16%	If imported by Tanners, registered under the Sales Tax Act, 1990
	Other	2915.1290	3%	
	Other	2933.9990	11%	
	Synthetic organic tanning substances	3202.1000	3%	
	Other	3202.9090	11%	
	Basic dyes and preparations based thereon	3204.1300	3%	
	Other	3204.9000	16%	
	Of a kind used in the paper or like industries	3809.9200	11%	
	Of a kind used in the leather or like industries	3809.9300	11%	
	Acrylic binders	3906.9020	20%	
	Polyurethanes	3909.5000	0%	
	Machinery for preparing, tanning or working hides, skins or leather	8453.1000	0%	
	Parts	8453.9000	0%	
3	Leather Sector:			
	Magnesium oxide	2519.9010	0%	If imported by manufacturers of leather sector, registered under the Sales Tax Act, 1990
	Other	2836.9990	0%	
	Sodium formate	2915.1210	0%	
	Tanning substances, tanning preparations based on chromium sulphate	3202.9010	20%	
	Disperse dyes and preparations based thereon	3204.1100	16%	
	Stamping foils	3212.1000	11%	

SECTION  
(CLAUSE)

CUSTOMS ACT, 1969 (IV OF 1969)

S.No	Description	PCT Code	Customs Duty (%)	Conditions
(1)	(2)	(3)	(4)	(5)
	Of a kind used in the leather or like industries	3403.1110	16%	
	Of a kind used in the leather or like industries including fat liquors	3403.9110	16%	
<b>4</b>	<b>Gloves:</b>			
	Latex	4002.1100	0%	If imported by manufacturers of Gloves, registered under the Sales Tax Act, 1990
	Other	4002.1900	0%	
	Other	4016.1090	5%	
	Machines for reeling unreeling, folding, cutting or pinking textile fabrics	8451.5000	0%	
	Other	8452.2900	0%	
	Other	8477.3090	0%	
	Buttons	9606.2920	20%	
	Other	9606.2990	20%	
<b>5</b>	<b>Furniture:</b>			
	Other	8465.9190	0%	If imported by manufacturers of Furniture registered under the Sales Tax Act, 1990
<b>6</b>	<b>Ceramics:</b>			
	Verifiable enamels and glazes, engobes (slips) and similar preparations	3207.2000	3%	If imported by manufacturers registered under the Sales Tax Act, 1990
	Containing by weight more than other carbon or of a mixture of these products	6903.1000	3%	
<b>7</b>	<b>Diapers/ Sanitary Napkins:</b>			
	Other	3506.9190	5%	If imported by manufacturers of diapers/sanitary napkins registered under the Sales Tax Act, 1990, subject to annual quota determination and verification by the Input Output Co-efficient Organization (IOCO) and certification by the Engineering Development Board
	Other	3906.9090	5%	
	Of polymers of ethylene	3920.1000	16%	
	Of other plastics	3921.1900	16%	
	Of polymers of ethylene	3923.2100	5%	
	Weighing not more than 25 g/m <sup>2</sup>	5603.1100	11%	
	Weighing more than 25 g/m <sup>2</sup> but not more than 70 g/m <sup>2</sup>	5603.9200	16%	
	Weighing more than 70 g/m <sup>2</sup> but not more than 150 g/m <sup>2</sup>	5603.9300	11%	

SECTION  
(CLAUSE)

## CUSTOMS ACT, 1969 (IV OF 1969)

S.No	Description	PCT Code	Customs Duty (%)	Conditions (5)
(1)	(2)	(3)	(4)	
<b>8</b>	<b>Home Appliance Sector:</b>			
	Cyclopentane	2902.1910	0%	If imported by manufacturers of home appliance sector, registered under the Sales Tax Act, 1990, subject to annual quota determination and verification by the Input Output Co- efficient Organization (IOCO).
	Tetrafluoroethene	2903.3930	0%	
	Acrylonitrile butadiene styrene (ABS) copolymers	3903.3000	0%	
	Other poly-ethers	3907.2000	0%	
	Insulation tape double sided	3919.1010	0%	
	Adhesive tape	7607.1910	0%	
	Used with HCFC and non- CFC gases	8414.3010	0%	
	Of machines of heading 8414.1000 and 8414.3010	8414.9010	0%	
	Evaporators (roll bond / fin / tube on plate types)	8418.9910	0%	
	Motors of an output not exceeding 37.5 W	8501.1000	0%	
	Other	8501.4090	0%	
	Burglar or fire alarms and similar apparatus	8531.1000	0%	
	Other	9030.8900	0%	
	Of a kind used in refrigerators, deep freezers and air conditioners	9032.1010	0%	
	Other	9032.1090	16%	
<b>9</b>	<b>Infant Formula:</b>			
	Other	1901.9090	5%	Imports by manufacturers of infant formula milk, registered under the Sales Tax Act, 1990, subject to annual determination and verification by the Input Output Co- efficient Organization (IOCO).
<b>10</b>	<b>Chemical Manufacturing sector:</b>			
	o-Xylene	2902.4100	0%	If imported by manufacturers of chemicals, registered under the Sales Tax Act, 1990"
	Octanol (octyl alcohol) and isomers thereof	2905.1600	0%	
<b>11</b>	<b>Other</b>	3812.3900	3%	If imported by of PVC/Plastic manufacturers, registered under the Sales Tax Act, 1990".

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