

GOVERNMENT OF PAKISTAN
REVENUE DIVISION
CENTRAL BOARD OF REVENUE

No.F.4(1)ITP/2006-EC

Islamabad July 1, 2006

Circular No. 01 of 2006
(Income Tax)

Subject: **FINANCE ACT, 2006 – EXPLANATION OF IMPORTANT PROVISIONS RELATING TO AMENDMENT IN INCOME TAX ORDINANCE, 2001.**

The amendments made in the Income Tax Ordinance, 2001, through the Finance Act, 2006 are explained as under:-

1. **REVISED VOLUNTARY PENSION FUND RULES.**
[Section 2]

The profit or gain or benefit derived by the pension fund or the pension fund manager from the Pension Fund is exempt from tax which was granted through Finance Act, 2005. Security and Exchange Commission, has revised the Voluntary Pension Funds Rules 2005. Therefore, certain amendments have been made in the Income Tax Ordinance, as per the revised rules.

Consequently, the following expressions have been defined in section 2 of the Ordinance:-

	<u>Description</u>	<u>Under Clause</u>
(i)	Approved Employment Pension or Annuity Scheme	(3D)
(ii)	Approved Occupational Savings Scheme	(3E)

2. **PERMANENT ESTABLISHMENT CONCEPT AND THE MINIMUM PERIOD REQUIREMENT.**
[Section 2(41)]

There is a universal agreement that income can generally be taxed only when it is attributable to a Permanent Establishment in a country. In the Income Tax Ordinance, 2001, the term Permanent Establishment has been defined, inter-alia as a place of business through which the business

of the person is wholly and partly carried on. However, there is no mention of a minimum period of presence. Law has been amended to provide the minimum requirement of three months for the determination of PE.

3. **EXEMPTION FROM INCOME TAX – REAL ESTATE INVESTMENT TRUST (REIT)**

[Section 2(47A)]

REIT is a security that sells like a stock and invests in real estate directly or indirectly. REIT has been provided exemptions from the applicability of different provisions of the Income Tax Ordinance, 2001, subject to condition that not less than 90% of its accounting income of that year, (as reduced by capital gains whether realized or unrealized) is distributing among the unit or certificate holders or shareholders as the case may be.

Consequent to above amendments, the following expressions have been defined in section 2 of the Ordinance and exemptions have been provided as below:-

	<u>Description</u>	<u>Under Clause</u>
(i)	Real Estate Investment Trust (REIT)	(47A)
(ii)	Real Estate Investment Trust Management Company	(47B)
(iii)	Exemption to income	(99) Part I of Second Schedule
(iv)	Exemption to instrument of redeemable capital	(57) Part I of Second Schedule
(v)	Exemption from applicability of provision of;	

	<u>Section</u>	<u>Under Clause Part IV of Second Schedule</u>
(a)	113 (minimum tax)	(11)
(b)	151 (Profit on debt) and 233 (Brokerage and Commission)	(33)
(c)	150 (Dividends)	(47B)

4. **FIXED TAX ON INCOME FROM PROPERTY**

[Section 15 (6)]

Upto tax year 2006, income from property was subject to withholding tax @ 5% if the annual rent exceeded Rs. 300,000/-. The monetary limit for deduction of tax has been removed. This provision was applicable only if the payer of rent was the Federal Government, a Provincial Government, Local Authority, a company, a non-profit organization or a diplomatic mission. Now, CBR has also been empowered to designate any person as withholding agent in this behalf.

In order to broaden the tax base and at the same time to facilitate the taxpayer, amendment in law has been made and fixed tax @ 5% on gross amount of rent chargeable to tax under section 15 read with section 16 of the Income Tax Ordinance, 2001 has been made applicable w.e.f. July 1, 2006. However, the provision of sub-section (1) of section 15 shall not apply in respect of a taxpayer who –

- (i) is an individual or association of persons;
- (ii) derives income chargeable to tax under section 15 not exceeding Rs.150,000/- in a tax year; and
- (iii) does not derive taxable income under any other head.

5. **FULL DEDUCTIBILITY OF EXPENSE ON PERQUISITES.**

[Section 21(k)]

Expenditure on provision of perquisites and allowances to an employee in excess of 50% of his salary [excluding the value of perquisites or amount of allowances] was not deductible in the hands of the employer.

The restriction on admissibility of full expense on account of perquisites and allowances paid to an employee in the hands of the employer, has been removed by omitting clause (k) of section 21. This amendment will be applicable where expense is incurred on July 1, 2006 and onward.

6. **RATIONALIZATION OF PROVISIONS RELATING TO DEDUCTIBILITY OF EXPENSE MADE THROUGH BANKING CHANNEL.**

[Section 21(l)]

Any expenditure paid or payable under a single account head which, in aggregate, exceeds fifty thousand rupees made other than by a crossed bank cheque or crossed bank draft, except expenditures not exceeding ten thousand rupees or on account of freight charges, travel fare, postage, utilities or payment of taxes, duties, fee, fines or any other statutory obligation, was not be an allowable deduction upto tax year 2006.

This provision was originally introduced under section 24(ff) in the repealed Ordinance, 1979. It was clarified through CBR's Circular No.11 of 1998 dated July 25, 1998, stating that clause (ff) applies to expenditure normally chargeable to profit and loss account. The expenditure chargeable to trading and manufacturing accounts (like wages and freight or purchases debit to the said accounts) fell outside the ambit of the said clause.

Now the language of the section 21(I) has appropriately been amended to include every expenditure whether debit to trading or manufacturing accounts or profit and loss account will fall within the purview of said section. Further, the scope of banking transactions has also been expanded to include online transfer of payment from the business account of the payer to the business account of the payee and payment through credit cards subject to the condition that such transactions are verifiable from the bank statement of the respective payer and payee. **This is an elaboration of the definition of banking transactions.** It is explicitly clarified that any expenditure paid or payable under a single account head which, in aggregate, exceeds fifty thousand rupees made other than by a crossed bank draft, shall not be an allowable deduction w.e.f. July 1, 2006. The restriction under this provision will not apply (as before) in respect of expenditure which

- (i) does not exceed ten thousand rupees; or
- (ii) is on account of freight charges, travel fare, postage, utilities or payment of taxes, duties, fee, fines or any other statutory obligation;

As a consequence, CBR's Circular No.11 of 1998 dated 25th July, 1998 being contrary to the provision of law is withdrawn, henceforth.

7. **EXEMPTION FROM WITHHOLDING TAX TO THE GOVERNMENT DEPARTMENTS.**

[Section 49]

The provisions of section 49 provide exemption to the income of the –

- (i) Federal Government;
- (ii) a Provincial Government; or
- (iii) a local authority.

Some of the sections pertaining to WHT do not provide explicitly exemption from such deduction or collection. Therefore, government

departments were required to obtain exemption certificate from the Commissioner of Income Tax. Now, the Federal Government, Provincial Governments and local authorities (excluding those incomes of a provincial government or a local authority from a business carried on outside its jurisdiction) have been provided exemption explicitly from all withholding taxes deductible/collectable under the Income Tax Ordinance, 2001.

8. **TAX CREDIT FOR INVESTMENT IN IPOs.**

[Section 62]

Before amendment in section 62 tax credit was available on investment in Initial Public Offerings (IPOs) upto maximum investment of Rs.150,000/-. In order to encourage savings and to provide incentive for fresh investment, this limit has been enhanced to Rs.200,000/- for the purpose of tax credit under section 62 of the Income Tax Ordinance, 2001, where investment is made on July 1, 2006 and onward.

9. **RESIDENTIAL STATUS.**

[Section 82]

The law provides a minimum period of 182 days to qualify as a resident. It has been opined that since a leap year consists of 366 days, an individual can be a resident of two countries at the same time which can create tax complications. For the removal of any distortion which may arise, the time period of 182 days has been changed to 183 days for the determination of residential status of an individual person.

10. **REVISION BY THE REGIONAL COMMISSIONER OF INCOME TAX AGAINST ORDER OF THE COMMISSIONER UNDER WHT REGIME.**

[Section 122B]

Under various provisions of law relevant to withholding tax, the Commissioner is empowered to issue exemption or lower rate deduction certificate to the taxpayers. However, no appeal can be filed if such certificate is refused. To take care of such like eventualities Regional Commissioner of Income Tax has been empowered to review the orders of the CIT.

11. **PROVISIONS RELATING TO ALTERNATIVE DISPUTE RESOLUTION.**

[Section 134A]

Under the existing scheme, a taxpayer can apply to the Central Board of Revenue for resolution of any hardship relating to income tax. Amendment has been made to specifically restrict the jurisdiction of such

Committees to pending issues only meaning thereby that closed matters fall outside the ambit of ADRCs.

12. **RATIONALIZATION OF ADVANCE TAX ESTIMATE REGIME.**
[Section 147]

Under the existing regime, Advance Tax is payable on the basis of the last assessed income of the taxpayer, even when income for the current year is higher.

In order to overcome this anomaly, advance tax has been made mandatory for a company on the basis of current year's estimated income if it is more than the last assessed income.

13. **EXEMPTION CERTIFICATE FOR IMPORTERS.**
[Section 148]

Commissioner can issue a certificate for 100% reduction of advance tax/ WHT in the case of a manufacturer who imports raw material (other than edible oil) for his own use if the tax paid or collected in a tax year equals the amount of tax paid in the immediately preceding year.

Amendment in section 148 (3) has been made to empower the Commissioner to issue exemption certificate to the extent of 75% reduction only.

Furthermore, an explanation has been added to explain the expression "edible oils" to include crude oil, imported as raw material for manufacture of ghee or cooking oil.

14. **ADJUSTABLE WITHHOLDING TAX ON IMPORT OF MOTOR CARS AND FERTILIZER BY MANUFACTURERS.**
[Section 148(7)]

Under the existing regime, withholding tax is collected @ 6% at the time of import in case of commercial importers and tax withheld is the final tax under the presumptive tax regime. Manufacturers of cars and fertilizers are also importing cars and fertilizers as finished goods and marketing them in the country. Since these are considered as commercial imports being imported finished goods, tax withheld is not adjustable and is their final tax liability.

Amendment is introduced to prescribe that tax withheld on import of cars in CBU condition and fertilizers in the case of manufacturers of cars and fertilizers will be adjustable against the final tax liability of such manufacturers.

15. **RATIONALIZATION OF WITHHOLDING TAX ON SERVICES.**

[Section 153]

Every prescribed person making a payment for rendering or providing of services is liable to deduct tax from the gross amount payable at the following rates:-

- (i) in the case of transport services = 2%
- (ii) in any other case = 5%.

The rate of WHT is prescribed @ 6% in the case of a contract –

- (i) for the supply of supervisory activities in relation to project; or
- (ii) for services rendered other than contract; and
- (iii) for advertisement services rendered by TV Satellite Channels.

For the purposes of simplification of law and procedure and to reduce the hassle of litigation, uniformity has been introduced and services rendered or provided including transport services has also been subjected to a WHT @ 6% on the analogy of WHT rate on contracts, which shall also be the final discharge of liability under PTR. However, companies providing or rendering services will remain outside the ambit of PTR. As a result clause (iv) of SRO.600(I)/91 being contrary to the amended provision of law, is omitted from the said SRO.

16. **SERVICES OF SIZING AND WEAVING TO BE DEEMED AS EXPORTS.**

[Section 153 (1A)]

Through SRO.946(I)/2005 dated September 12, 2005 services of stitching, dying, printing, embroidery and washing rendered or provided to an exporter or an export house were treated as export and made chargeable to tax at the rate equal to the rate of tax applicable to the exporter on export of goods to which such services related, as specified in Division IV of Part III of the First Schedule. This measure was taken in conformity with the parameters given in the Trade Policy 2005. Since sizing and weaving industry both are also providing similar services to the exporters, therefore, to incentivize the export sector, these services have also been treated as export and export rate shall be made applicable to such services under Presumptive Tax Regime.

Amendment in law has been made to specify exporters or export houses as “prescribed persons” for the purposes of WHT on such services.

17. **ENHANCING WHT RATE – WHERE NTN/CNIC IS NOT DISCLOSED.**
[Section 153(8A)]

A new provision has been incorporated to provide, where supplier of goods and services as well as a person executing a contract does not disclose NTN/CNIC, WHT will be enhanced by 2% over and above the normal rate of withholding tax. This measure has been taken to encourage documentation in economy.

18. **Monthly withholding tax return/statement.**
[Section 165(2)]

In order to improve withholding taxes regime, provision has been made to make mandatory for withholding agents to file a monthly return of withholding taxes.

19. **STATEMENT REGARDING THIRD PARTY INFORMATION.**
[Section 165(3)]

A new sub-section (3) has been added to section 165, which empowers CBR to prescribe a statement to be furnished periodically. Containing information as required.

20. **PERIODICAL STATEMENTS – EXTENSION OF TIME FOR FILING.**
[Section 165(4)]

Every withholding agent is required to furnish annual statement to the Commissioner within two months after the end of the financial year or within such further time as the Commissioner may allow by order in writing.

Withholding agents are also required to file quarterly statements. However, for filing of quarterly statement, law does not empower the Commissioner to extend the date even in genuine cases.

Commissioner has now been empowered to allow extension of time in hardship cases.

21. **ELECTRONIC FILING OF WHT STATEMENTS.**
[Section 165(5)]

With rapid advances in technology taking place, the concept of E-Government has already become popular not only in technologically advanced countries but even in developing countries. The obvious

advantages are improvement in efficiency, facilitation etc. In the ongoing reform process in Pakistan, automation figures prominently. Law also provides facility of electronic filing of income tax returns.

On the analogy of provisions prescribed for E-filing of Income Tax Returns, amendment has been made in law, enabling CBR to prescribe mandatory e-filing of statements by prescribed classes of withholding agents.

22. **CIRCULAR OF CBR IS BINDING ON OFFICERS.**
[Section 206].

Sub-section (2) of section 206 has been re-written to reiterate, in line with the directions contained in the judgments of the superior courts, that circular issued by the CBR shall be binding on all income tax authorities and other persons employed in the execution of the order under the control of the Board other than CIT (Appeals).

23. **WITHHOLDING TAX ON COMMISSION AND BROKERAGE**
[Section 233]

Brokerage or commission was subject to withholding tax as below:-

- In the case of indenting commission agents, advertising agents and yarn dealers. 5% of the amount of the payment
- In the case of others 10%

Tax deducted on aforesaid commission is the final discharge of tax liability.

In order to bring clarity in law and to provide uniformity in tax rate, withholding tax rate on commission including indenting commission and yarn dealers commission has been made uniform @ 10%. Advertising agents will, however, be liable @ 5% under clause (26), Part II of Second Schedule. Furthermore, previously, the final tax regime was applicable to commission/brokerage received by resident agents only. In order to remove the anomaly, the law has been suitably amended to provide similar treatment to non-residents also.

24. **SIMPLIFICATION OF SALARY TAXATION:**

• **ENHANCEMENT IN BASIC EXEMPTION LIMIT
[First Schedule, Part I, Division I]**

Following the policy of making tax laws simpler wherever possible, the method of valuation and taxation of perquisites etc. has been rationalized. The basic exemption limit has been enhanced from Rs.100,000 to Rs.150,000. However, where the taxpayer is a woman the basic exemption limit will be Rs.200,000/-. All allowances and perquisites shall be added to the salary income.

- (i) The value of house shall be taken at the amount equal to the allowance which the employee would have received in cash if accommodation was not provided, or 45% of minimum time scale (or basic salary) whichever is less;
- (ii) The valuation of conveyance facility is restricted to 10% and 5% of value of car where the car is for totally personal use or partly personal use, respectively.

The additions of all allowances and perquisites will be grossed up and tax rate as per Division I of Part I of the First Schedule will be applied to determine the tax liability of the salaried taxpayer.

25. **SIMPLIFIED TAX REGIME FOR NON-SALARIED TAXPAYERS.**
[First Schedule, Part I, Division I]

A simple rate card has been evolved for non-salaried taxpayers and flat rates have been introduced to be applied to the taxable income of non-salaried individuals, depending upon the level of income.

26. **SPECIAL TAX CONCESSION FOR WOMEN.**
[First Schedule, Part I, Division I]

In line with the Government policy of women empowerment, the basic threshold in the case of salaried and non salaried women taxpayers has been enhanced to Rs. 200,000 and Rs. 125,000 respectively for tax year 2007.

27. **REDUCTION IN CORPORATE TAX RATES.**
[First Schedule, Part I, Division II]

Through the Finance Act 2002, a five year rate card was introduced which contemplated a gradual reduction culminating into a uniform 35% rate for

all the three categories of companies w.e.f. tax year 2007. For the tax year 2006 the rates in force are:

Banking companies	38%
Public Companies	35%
Private Companies	37%

28. **REDUCTION IN TAX RATE FOR INTER CORPORATE DIVIDENDS**
[First Schedule, Part I, Division III]

A concessional tax @ 5% is leviable on dividends received by a public company or an insurance company. Dividends received by other companies were subject to a withholding tax of 10% which was their final tax liability.

In order to encourage more investments, withholding tax rate on inter-corporate dividends received by resident companies has been reduced to 5% like in the case of public companies w.e.f. Tax Year 2007 as a final tax liability.

29. **EXCLUSION OF AGRICULTURE INCOME FROM PERSONAL TAX RATE CARD.**
[First Schedule, Part I, Division I, Clause (2)]

The personal tax rate card provides that where, for a tax year, an individual or AOP derives income from agriculture and the gross amount of such income for the year exceeds Rs. 80,000/-, basic exemption limit will not be available to work out the taxable income.

This provision to account for agricultural income to workout income tax liability has been omitted.

30. **ONE TIME EXEMPTION ON CORPORATIZATION OF INDIVIDUAL STOCK EXCHANGE MEMBERSHIP**
[Clause (133A), Second Schedule, Part I]

Onetime exemption on income from transfer of individual membership to a company was allowed upto 30.06.1999. This incentive had improved the quality of intermediation in capital market transactions, therefore an other one time exemption was provided upto 30.06.2006.

In order to encourage further corporatization, the gain derived by an individual from transfer of membership rights or shares of a stock exchange in Pakistan alongwith a room in a stock exchange in Pakistan by an individual to a company at any time between the first day of July,

2006 and the thirtieth day of June 2007 will be exempted from levy of income tax.

31. **VENTURE COMPANIES – EXTENSION IN EXEMPTION AFTER JUNE 2007.**

[Second Schedule, Part I, Clause (101)]

Exemption to profit and gains derived by the Venture Capital Company (VCC) and Venture Capital Fund (VCF) registered under Venture Capital Companies and Funds Management Rules, 2000, was introduced in the Repealed Income Tax Ordinance, 1979 for a period of seven years effective from July 1, 2000. This sector is not fully developed so far. Therefore, exemption to income of Venture Capital Companies and Venture Capital Funds has been extended upto 2014.

32. **MURABAHA FINANCING.**

[Second Schedule, Part IV, Clause (11)]

Islamic banking is fast coming up in Pakistan. In conventional banking, minimum tax i.e. 0.5% is applicable on the interest income only as this falls under the definition of 'turnover'. Whereas in case of Murabaha, the applicability of minimum tax i.e. 0.5% is on total amount of resale (cost plus profit) as the Islamic bank will be recording the sales revenue in their books which will be treated as their turnover.

In order to ensure that Islamic banking is not at a disadvantage viz-a-viz normal banking, minimum tax @ 0.5% on Murabaha turnover covered under the Islamic Banking Transactions has been withdrawn w.e.f. Tax Year 2007.

33. **WAIVER FROM MINIMUM TAX IN THE CASES OF TRADING HOUSES**

[Second Schedule, Part IV, Clause (57)]

Large trading houses were excluded from PTR through Finance Act, 2005.

To further incentives sector Large Trading Houses, these have been exempted from application of [minimum tax] for the first ten years starting from the tax year in which the business operations commence.

34. **REBATE FOR TEACHERS AND RESEARCHERS POSTED IN GOVERNMENT INSTITUTIONS**

[Second Schedule, Part III, Clause (2)]

Full time teachers or researchers employed in non-profit education or research institutions including Government training and research

institution duly recognized by a Board of Education, a University or Higher Education Commission enjoy a special tax rebate of 75%.

Previously, the law provided that Government Training and Research Institutions are also required to be recognized from HEC for such reduction in tax liability. Whereas the ground reality is that Government Training and Research Institutions are invariably not subject to recognition by the HEC or by any University. In order to encourage teachers and researchers posted in such institutions, law has been suitably amended to extend similar tax reduction to them as well.

35. **TAX REBATE FOR SENIOR CITIZENS – REDUCTION IN AGE LIMIT FROM 65 TO 60 YEARS**
[Second Schedule, Part III, Clause (1A)]

Tax liability is reduced by 50% in the case of a taxpayer whose:

- (i) age is 65 years or more; and
- (ii) income does not exceed Rs.400,000/-

In order to provide further relief to senior citizens, it has been extended to persons having age above 60 years.

36. **EXEMPTION ON IMPORT OF RADIO NAVIGATIONAL AID APPARATUS BY AIRPORTS**
[Second Schedule, Part IV, Clause (56)(x)]

To encourage the public, private collaboration in projects where huge investment is involved, exemption on import of Radio Navigational Aid Apparatus for airports has been granted.

37. **EXEMPTION FOR EXPORT OF LOCALLY DEVELOPED TELEVISION PROGRAMS.**
[Second Schedule, Part I, Clause (133)]

Income Tax law allows exemption upto 2016 for “I.T enabled services” which include call centres, medical transcriptions, accounting services. HR services and graphics design etc. To boost exports through cultural activities, the exports of locally developed television programs have been exempted from income tax.

38. **REDUCTION OF WITHHOLDING RATE ON GOVERNMENT SECURITIES**

Profit on debt received by a person on account of a deposit/certificate under the National Savings Scheme or Post Office Savings Account, or an account/deposit maintained with a bank or a financial institution is subject to withholding tax @ 10% of the yield or profit paid. However, profit paid on other securities by the Federal Government, a provincial government or a local authority attracts WHT @ 20%, which placed the said investors at a disadvantageous position. Therefore, WHT on profit on Government Securities has been reduced from 20% to 10%.

39. **WITHHOLDING TAX ON EXEMPT AND REDUCED RATES IMPORTS .**
[Second Schedule, Part II, Clause (13G)]

Under the previous regime, certain imports enjoyed total exemptions, whereas others are subject to a reduced rate of withholding tax. In the first category it includes imports of wheat, sugar, mobile telephone sets and plant, machinery, equipments and parts and in the second category are gold and silver which are subject to a withholding tax of Rs.2/- par tola and Rs.5/- per kg. respectively. Likewise import of re-rollable and re-meltable scrap which is a raw material for steel industry is liable to withholding tax @1% at the import stage.

These concessions have now lost relevance and there was a need to rationalize the rate structure.

(A) Withholding tax @ 1% has been prescribed for imports of items given below:

- i. Capital goods;
- ii. Cement;
- iii. Coal;
- iv. Gold;
- v. Mobile telephone sets;
- vi. Silver;
- vii. Sugar;
- viii. Wheat;
- ix. Raw wood;
- x. Trucks in CBU condition having Gross Vehicle Weight exceeding 5 tons classified under PCT headings 8704.3290 and 8704.9090;
- xi. Dump trucks classified under PCT heading 8704;
- xii. Buses and tractors classified under PCT heading 87.01, 8702.1090;
- xiii. The following items covered by SRO. 567(I)/2006 dated

05.06.2006 under the Customs Act, 1969 :

- (a) Disinfectants used in poultry business
- (b) pre-fabricated structures for poultry farms
- (c) live stock and raw materials and intermediaries goods as used in the manufacture of packing material for the packing of dairy products.
- (d) medicines for cancer, drugs used for kidney dialysis and kidney transplant, all type of vaccines for Hepatitis, Interferon and other medicines for Hepatitis, all vaccines/anti-sera, cardiac medicines, injection anti-D Immunoglobulin, blood bags CPDA.1, all medicines for HIV/AIDS and all medicines for Thalassemia.
- (e) News print

xiv. The following items covered by SRO. 575(I)/2006 dated 05.06.2006 under the Customs Act, 1969 :

- (a) medical, surgical, dental or veterinary machinery/ equipment, fixtures, fittings, furniture and diagnostic kits (not manufactured locally).
- (b) equipments relating to call centers (not manufactured locally)
- (c) ripening chambers, hot water treatment plant, vapor hot treatment plant, modern cold storage, packing machinery, power generating sets of 10 – 25 KVA and battery operated fork lift trucks used in horticulture and floriculture business
- (d) processing and packing machinery/equipment required for fish farming
- (e) Broadcasting equipments

xv. Computer hardware, parts and accessories of items classified under PCT heading 8471.

(B) Clause (13H), Part II of the Second Schedule has been added to collect reduced rate of WHT @ 2%, on the following items, on import value as increased by customs duty and sales tax, (if any leviable thereon):-

- (i) raw material for steel industry including re-meltable; and re-rollable scrap;
- (ii) raw material for manufacture of poultry feed; and
- (iii) stationery.”;

For the purpose of section 148, an explanation has been added to define the expression “capital goods” as below:-

“Explanation.- Capital goods mean any plant, machinery, equipment, spares and accessories, classified in Chapters 84, 85 or any other Chapter of the Pakistan Customs Tariff, required for,-

- (i) the manufacture or production of any goods, and includes refractory bricks and materials required for setting up a furnace, catalysts, machine tools, packaging machinery and equipment, refrigeration equipment, power generating sets and equipment, instruments for testing, research and development, quality control, pollution control and the like;
- (ii) use in mining, agriculture, fisheries, animal husbandry, floriculture, horticulture, live stock, dairy and poultry industry;
- (iii) service sector as defined in Customs Act, 1969;

40. **WITHDRAWAL OF REDUCED RATE OF WITHHOLDING TAX ON SUPPLIES OF RAW HIDES AND SKINS**

SRO.600(I)/91 dated July 2, 1991 prescribed reduced withholding tax @ 1% on supplies of raw hides and skin. Prescribed persons (being exporters of goods) making payments on account of supply of goods as are purchased in respect of goods exported are not required to withhold tax on such supplies. However, where special rates of tax deduction have been specified, (as in the case of Raw Hides & Skins) the prescribed person has to deduct tax at source under the law.

In order to facilitate exports, special rate for deduction of tax, on supplies of raw hides and skins as provided in clause (i) of SRO.600(I)/91 dated

July 2, 1991 is withdrawn, w.e.f. July 1, 2006 so that all suppliers making supplies to exporters get similar treatment.

41. **TAXATION OF STOCK MARKET TRANSACTIONS.**
[Second Schedule, Part I, Clause (99)]

Income Tax was introduced to stock market through the Finance Act, 2004 in the form of withholding tax, as under:

(i)	Purchase of shares in lieu of commission earned by members	0.005%
(ii)	Sale of shares in lieu of commission earned by members	0.005%
(iii)	Value of the shares traded (Sale)	0.005%
(iv)	Financing of carry over trade (Badla) in shares by the members of stock exchanges on amount of carry over charge	10%
(v)	Capital Value Tax (CVT) on the purchase value of shares @	0.01%

The rate of WHT on all trading transactions made in the stock exchanges has been increased as under:

(i)	in case of purchase of shares	0.01% of purchase value
(ii)	in case of sale of shares	0.01% of sale value
(iii)	in case of trading of shares	0.01% of traded value

In case of financing of carry over trades (Badla)/**cfs** the existing rate of 10% has been retained. However, CVT on purchase value of shares has been enhanced from the 0.01% to 0.02%.

42. **WITHHOLDING TAX ON CASH WITHDRAWALS FROM BANKS.**
[First Schedule, Part IV, Division-VI]

Withholding tax @ 0.1% was levied in 2005 on cash withdrawals from banks, exceeding Rs.25,000/- . The measure was primarily aimed at encouraging documentation in the economy.

The rate of withholding tax has been enhanced from 0.1% to 0.2% of the amount withdrawn. The limit of Rs.25,000/- per transaction has been changed to per day basis.

43. **TAXATION OF PROFIT ON DEBT.**
[First Schedule, Part III, Division-I]

Upto tax year 2006 withholding tax deducted on profit on debt @ of 10% was adjustable. Tax so deducted has now been made final discharge of tax liability under the Presumptive Tax Regime except in the cases of companies.

44. **AMENDMENT IN RULES - REGARDING APPROVAL OF NON-PROFIT ORGANIZATIONS (NPOS) AND WELFARE INSTITUTIONS.**

Filing of Return by NPOs and Welfare Institutions

The NPOs mostly do not file the return of income tax and even do not obtain NTN considering themselves as exempt entities. Now, it has been made explicitly mandatory for NPOs to file income tax returns annually.

45. **EXEMPTION FOR SUBSIDIES PROVIDED BY FEDERAL GOVERNMENT.**
[Clause (102A) Part I of the Second Schedule]

It is common practice that Governments have to allow subsidies to their agencies/departments to meet the cost differentials in order to carry out their plans/projects. This is often necessitated to provide relief to various segments of the society at large. Under the existing scheme of things, such subsidies are taxable.

Now, subsidies granted by the Federal Government for the purposes of implementation of any approved assignment have been exempted from income tax.

46. **DEPRECIATION FOR THE MACHINERY PRODUCING I.T. PRODUCTS.**
[Third Schedule, Part I]

Depreciation allowance @ 10% is admissible in the case of machinery and plant in addition to initial allowance of 50% across the board. However, computer hardware including printers, monitors and allied items are allowed normal depreciation @ 30%. This concession is due to fast obsolescence of I.T. items. The machinery producing IT products is also depreciated or become obsolete fastly as compared to other machinery. Therefore, to encourage this sector depreciation allowance @ 30% will be admissible to machinery and equipment used in manufacture of IT products.

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