

SALIENT FEATURES OF THE BUDGET 2010 - INCOME TAX

RELIEF MEASURES

1. In order to provide relief to large number of taxpayers deriving their incomes from *Salary* and *business*, the limit of *Basic Exemption* is proposed to be enhanced from Rs.200,000/- to Rs.300,000/- in respect of Salaried taxpayers, while in the respect of Non-Salaried taxpayers it has been proposed to enhanced from Rs.100,000/- to Rs.300,000/-.
2. For welfare of industrial & commercial consumers of electricity, the *maximum* rate of advance tax deductible under section 235 on monthly electricity bills is proposed to be reduced from **10%** to **5%**, on the amount of the bills payable by them;
3. The Senior Citizens of the age of 60 years or more, are proposed to be eligible for relief of 50% of tax on their income, if their income does not exceed **Rs.1,000,000/-** as compared to previous maximum limit of Rs.750,000/-. However this relief shall not be available on income subject to Presumptive Tax Regime.
4. In pursuance of Prime Minister's Relief Package to rehabilitate the economy of Khyber Paktunkhwa, FATA and PATA, some amendments are proposed to be introduced in the Income Tax Law. These measures provide following reliefs to industrial and commercial taxpayers hailing from **most** and **moderately affected areas**, as prescribed:
 - a) Waiver of entire amount of default surcharge & penalty till 30th June 2010;
 - b) Exemption from advance tax on electricity for tax years 2010 and 2011;
 - c) Exemption from withholding tax on exports;
 - d) Recovery of outstanding income tax arrears through easy installments;
 - e) Enhancement of income tax exemption limit from Rs.0.1 million to Rs.0.3 million;
 - f) Annual Audit with the approval of FBR; and
 - g) Exemption from advance tax on import of plant and machinery upto 30th June 2011;

However these concessions shall not be available to manufacturers and suppliers of cement, sugar, beverages and cigarettes.

5. For the wellbeing of disabled persons, 100% depreciation expense can be claimed on Ramp built to provide access to disabled persons, is proposed through a new provision to be inserted in the law.

6. In order to provide relief to employees, exemption from taxation of perquisites on waiver of employees obligation to pay or repay, and amount owed to employer, is proposed.
7. In order to facilitate the withholding agents, instead of *e-filing* monthly, quarterly and annual withholding tax statements, the *e-filing of only quarterly* withholding tax statements is proposed;

TAX INCENTIVES FOR FOREIGN AND DOMESTIC INVESTMENTS

1. For the wellbeing of listed company a Tax credit for *BMR costs* incurred by such a company is proposed to be provided @ **10%** for the tax year of its incurrence. This concession has been proposed to be admissible for the tax years 2011 to 2015;
2. With the purpose to encourage enlistment of corporate sector, a **5%** tax credit is proposed to be allowed to a company in the tax year of its enlistment.
3. In order to align with rest of the scheme, 10% withholding tax deductible on Government Securities is proposed to be a FINAL tax.
4. Withholding tax deductible on debt instruments is proposed to be a FINAL tax, in order to relieve the non-resident taxpayers of statutory requirement for filing income tax return.
5. For providing incentive to foreign lenders for tax-free repatriation of profits earned on foreign industrial loans, Clause 72(iii) of Part-IV of Second Schedule to the Income Tax Ordinance 2001 is proposed to be re-instated.
6. The maximum rate of withholding tax deductible on payments made to non-resident taxpayers who are not subject to Avoidance of Double Taxation Treaties (*other than payments made on account of royalty and fee for technical services*) is proposed to be @ **20%** instead of 30%;
7. Honoring wide demand, the rate of withholding tax deductible @ 20% on cross-word puzzles is proposed to be reduced to a rate of **10%**;

REVENUE MEASURES

1. In order to strengthen the drive for documentation, a uniform tax rate for small companies as well as AOPs is proposed @ **25%** of their taxable income.
2. Advance tax deductible on imports made by *commercial importers* is proposed to be enhanced to @**5%** being a FINAL tax.

3. Tax on capital gains accruing on account of holdings of stocks/shares/securities for *six-months or less* is proposed @ **10%**, while holdings of stocks/shares/securities *exceeding six-months* is proposed @ **7.5%**. However no tax has been proposed on such capital gains arising held for a period exceeding 12 months.
4. In order to rationalize and simplify slab-rates provided in respect of advance tax deductible on *goods transport vehicles* under Item (1) of Division-III of Part-IV of Second Schedule to the Income Tax Ordinance 2001 are proposed to be abolished, and tax is proposed @ **Re.1 per kilogram** of the laden weight capacity of *goods transport vehicle*. No change has been proposed in the rate of tax on goods forwarding contracts, which remain taxable at the existing rate of 2%.
5. In order to bring clarity on advance tax deductible on Cash Withdrawals from Banks, various *banking transactions including* modes like withdrawals through *Demand Draft, Pay Order, Online Transfer, Telegraphic Transfer, TDR, CDR, STDR and RTC*, are proposed to be subject to 0.3% deduction of the advance tax, if such transactions exceed threshold of Rs.25,000/- in a single day. The advance tax is adjustable.
6. Turnover Tax is proposed to be enhanced from **0.5%** to **1%**.
7. Withholding tax on gross value of Inland Air Ticket has been proposed @ **5%**. Under the scheme the Inland Air-Ticketing persons shall withholding the tax, which will be adjustable against the tax liability of the purchaser of such ticket;

TECHNICAL MEASURES

1. In order to bring clarity, expression 'CD' appearing in Division-V of Part-IV of First Schedule to the Income Tax Ordinance 2001 is proposed to be replaced by '*any electronic medium*'.
2. The mandatory requirement of Filing of Wealth Statement by the Taxpayers in FTR cases with yearly tax amounting to Rs.35, 000/- is proposed to be included in section 116 of the Income Tax Ordinance 2001.
3. For enforcing checks on non-compliant taxpayers, and to encourage compliant-taxpayers, a new section 181A is proposed to be inserted in the Ordinance.
4. In order to streamline accounting of Advance Tax payments, certain amendments are proposed in section 147 of the Ordinance, so that quarterly advance tax payments are paid by **25th of last month**, as compared to earlier requirement of such payments by *15th of every month after the end of a quarter*.



5. Through an editorial amendment, the reference of '*minimum tax*' on importer of edible oil and packing materials under section 148, is proposed to be incorporated in provisions referring to final tax on the income of an importer.
6. For the purposes of clarity, through an editorial amendment the reference of sub-section (1AA) of section 152 is proposed to be inserted in sub-section (2) of section 152.
7. In order to rationalize the definition of '*Prescribed Persons*' as given in sub-section (9) of section 153, *an individual with turnover of Rs.50 millions or above* is proposed to be added.
8. In order to perceive better audit of withholding taxes, the withholding agents shall be required to e-file quarterly statements even in the cases where no-tax was deducted. For the purpose of alignment and uniformity, the words '*a person collecting tax*' are proposed to be replaced with the words '*a withholding agent*' in sub-section (2) of section 165.
9. Editorial amendments in Section 236A of the Ordinance are proposed in order to bring clarity and remove confusion about the charge of advance tax on public auction of all kind of property including confiscated or attached goods.
10. On merger of Investment Corporation of Pakistan with Industrial Development Bank, the exemption available to ICP on dividend received from any other company is proposed to be withdrawn.
11. Exemption under clause (52) of Part-IV of the Second Schedule to the Income Tax Ordinance 2001 available to Vanaspati Ghee or Oil is proposed to be withdrawn, in view of demise of SRO. 593(I) 1991 Dated 30th June 1991.