

## **SALIENT FEATURES FOR THE BUDGET 2009-10**

### **INCOME TAX**

#### **RELIEF MEASURES:**

- The basic limit of exemption from income tax in respect of salaried persons is proposed to be increased from Rs.1,80,000 to Rs.2,00,000. In the case of women salaries taxpayers, this limit is proposed to be increased from Rs.2,40,000 to Rs.2,60,000.
- Presently senior citizens are allowed 50% relief in tax liability provided the taxable income, in a tax year, does not exceed Rs.5,00,000/-. In view of inflationary trend, it is proposed to enhance limit of taxable income to Rs.7,50,000.
- In view of the less margin of profit available to cigarettes and pharmaceutical products distributors, withholding tax rate in respect of such taxpayer is being reduced from 3.5% to 1%.
- At present, the taxpayers are entitled to compensation @ 6% for the late payment of refunds. Considering the prevailing interest rates on bank loans the rate of compensation is being increased to 10% per annum.
- Presently, receipts form accumulated balance of voluntary pension scheme is exempt up to 25% of the available balance. In order to promote the voluntary pension schemes and allow relief to pensioner class the said limit is proposed to be enhanced to 50%.
- Under the existing provisions of the Income Tax Ordinance, a person is entitled to tax credit on interest payment of housing loans up to 45% of the taxable income or Rs.5,00,000/- whichever is low. The said limits are proposed to be enhanced to 50% and Rs.7,00,000/- respectively.

- Presently, tax collected on monthly electricity bills in respect of non-corporate Commercial and Industrial consumers is treated as final tax. An amendment has been proposed in section 235 of the Income Tax Ordinance by virtue of which the tax deducted on the monthly electricity bills exceeding Rs.30,000/- will be adjustable which consequently could be refunded.
- Last year amendment was made in the seventh schedule to the Income Tax Ordinance whereby the banks were deprived of the facility to claim deduction on account of provisions of non-performing loans. This facility is being restored. However, the same is proposed to be restricted to 1% of the total advances made by the bank in a tax year.

### **Revenue Measures:**

- Before amendment made through Finance Act, 2008 withholding tax on imports was collected @ 5% which was reduced to 2%. The benefit of reduction in tax rate could not be passed on to end users therefore, the rate is proposed to be enhanced to 4% across the board.
- Presently, advance tax is payable in four quarterly installments on the basis of last assessed income. It is proposed that far working out the advance tax liability the sales should also be taken in to account.
- Last year the provision regarding payment of minimum tax on declared turnover by the companies showing losses for one or other reasons was deleted mainly for the reason that the revenue collection was insignificant. Subsequently, it was found that actual collection from this source was much higher, however due to misclassification, the same could not be reported properly. In view of huge revenue loss the provision is being revived.

- Presently, the indenting commission is being taxed @ 1% of the gross receipts whereas the general rate for commission and brokerage is 10%. In view of the gross disparity in the rate it is proposed to be enhanced to 5%.
- The scope of advance tax collection on purchase of new locally manufactured motorcar/jeep is proposed to be extended to all types of motor vehicles.
- In order to raise funds for the rehabilitation of internally displaced persons (IDPs) of Swat, Dir & Bunir it is proposed to charge 5% tax on tax payable by individuals and AOPs whose taxable income exceeds one million rupees.
- In order to support IDPs in their habilitation a new tax is being proposed to be charged on bonus income of corporate executives @ 30% of the bonus. This is a one time levy and payable for tax year 2009 only.
- At present, additional tax is chargeable @ 12% per annum on late payment of tax. The rate being low as compared to prevailing interest rate on bank loan gives temptation for delaying payment of tax. It is therefore, proposed to increase the rate of additional tax to 15% per annum.
- At present, depreciation on passenger transport vehicles is allowed on total cost which has encouraged the purchase of luxury vehicles mainly used for personal purposes at the cost of revenue. It is, therefore, proposed to restrict the value of such vehicle to Rs.1.5 million for the purpose of depreciation.
- Presently the large trading houses are exempt from payment of withholding tax on imports as well as sales of goods. The facility of exemption of tax at import stage is being withdrawn. However, the tax so collected will be adjustable against final tax liability.

- The exemption regime provided under the second schedule to the Income Tax Ordinance has been reviewed to delete the redundant and unjustified exemptions as per detail given in the Finance Bill.
- It has been noticed that the facility of tax exemption available to educational institution is being grossly misused by private universities and medical colleges etc. It is therefore proposed that such facility would only be available to those institutions which have been approved by the concerned Director General of LTU/RTO for this purpose.
  - At present no tax is collected on export of goods made without form “E” because in this case export proceeds are received in cash. An amendment has been proposed in section 154 whereby the Collectorate of Customs shall collect tax @ 1% at the time of clearing goods for export made without form “E”. Presently such exports are mainly allowed to Afghanistan through land routs.

#### **TECHNICAL MEASURES:**

- In order to avoid false claims of tax payments and make possible speedy verification of tax paid for issuance of refund, it is proposed that the taxpayer would be required to furnish copies of challan or other equivalent document in support of claims of tax payments.
- At present, the taxpayers are allowed to file revised return any time within five years of the filing of original return. It is proposed to disallow filing of revised return in cases, where the department has initiated proceedings for amendment of assessment order.
- An amendment has been proposed in section 124 of the Income Tax Ordinance, 2001 by virtue of which the taxpayers would be provided the facility of filing appeal against the reassessment order.

- In order to safeguard the interest of revenue it has been proposed that in certain cases where departmental appeals are pending in courts the Commissioner will be empowered to withhold refunds.
- In the cases of taxpayers having special tax year calculation of additional tax for delayed payment of advance tax will be made from the first day of the last quarter of the relevant tax year instead of 1<sup>st</sup> April as allowed in case of taxpayers having normal tax year.
- Presently the taxpayers are allowed to rework out the cost of an asset, purchased against a loan in foreign currency, for the purpose of depreciation. An amendment has been proposed to restrict the revaluation of the asset only in the year of occurrence of exchange fluctuation and not in previous years.
- An amendment has been proposed in section 115 of the Income Tax Ordinance to provide for filing of revised statement by the tax payer on account of any omission or wrong statement of particulars of income.
- The motor vehicle registration authorities are being empowered to collect advance tax payable on purchase of a new locally manufactured motor vehicle at the time of registration of such vehicle.
- It is being made mandatory that the taxpayers who are required to file wealth statement shall also file wealth statement reconciliation giving necessary details and documents in support thereof.
- An amendment has been proposed in section 177 of the Income Tax Ordinance 2001 to empower the Commissioner of Income Tax to delegate powers to a chartered accountant firm for conducting audit of a taxpayer.

- Harmonization of different tax laws namely Income Tax, Sales Tax, Customs and Federal Excise Duty is one of the objectives of the ongoing Tax Reforms. In this connection necessary amendments are being made in the Income Tax Ordinance, 2001 to make it harmonized with other tax laws. These amendments mainly relate to appellate proceedings, appeal fees, fine, penalties and appointment of Special Judges.

### **MEASURES FOR BROADENING OF TAX BASE:**

- In order to broaden the tax base and promote documentation of economy, importers, exporters and service providers are being required to file normal return of income instead of simple statement. Further tax deducted/collected from such taxpayers would be treated as minimum instead of final tax.
- It is proposed that obtaining of NTN may be made mandatory for purchase of property, obtaining commercial and industrial gas/electricity connection and opening of a bank account. All NTN holders are also proposed to file returns necessarily.
- In order to ensure filing of income tax returns by all persons having reasonable resources and income, it is proposed that any person owning immovable property with a land area having 500 sq. yards, flat having covered area 2000 sq.ft or owns a motor vehicle having engine capacity of 1000CC or more shall file return of income.
- Taxation Officers are being empowered to pass best judgment assessment orders in the cases of the taxpayers who failed to furnish statutory statement as required under section 115 of the Income Tax Ordinance, 2001.
- To accelerate the pace of documentation of the economy and broadening of tax base the manufacturer are being incentivized by allowing tax credit at 2.5% of

the tax payable if they are able to make at least 90% of their sales to sales tax registered persons.

- The real estate sector is known to be the most under taxed sector of the economy which usually attracts black economy. In order to curb the speculative tendency and discourage non productive investment the rate of CVT on transfer of immoveable property is being enhanced from 2% to 4%.