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Highlights on **Finance Bill 2007**



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THE COMPANIES
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SECTION I

SALIENT FEATURES

INCOME
TAX

1. Ambiguity on part of employers to give **credit of tax withheld from employees** under different withholding provisions during the tax year and for adjustment of tax credit to salaried taxpayers having salary income only;
2. **Hotel industry** - Companies operating Hotels in Pakistan or AJ&K allowed set-off losses arising in Pakistan or AJ&K against income in Pakistan or AJ&K and vice versa;
3. **Mergers and Acquisitions** to be treated as non tax event in cases of all companies, however, facility for set-off of brought forwarded losses withdrawn;
4. Concepts of **group relief** brought vide the Finance Act, 2006 significantly changed to give effect to certain conceptual changes including:
 - a. Holding company may or may not be listed initially;
 - b. Unidirectional transfer of shares between companies and shareholders for formation of the group to be considered as a tax-free event;
 - c. Inter corporate dividend - liable to 10% adjustable withholding tax.
5. Annual turnover threshold for **small companies** enhanced from Rs. 200M to 250M and a new maximum employment limit of 250 prescribed;
6. **Private Equity and Venture Capital Funds**
 - a. exemption granted to the Fund up to June 2014;
 - b. Capital Gains of private limited companies on sale of their assets to private equity and Venture Capital Funds to be taxed @ reduced tax rate of 10%;
7. **Withholding tax**
 - a. Withholding tax on **passenger transport services** reduced from 6% to 2% in line with that applicable to passenger transport vehicles;
 - b. Withdrawal of 2% withholding tax over and above the prescribed rate for **non-disclosure of NTN or CNIC** to withholding agent and CNIC may be used for identification purpose where NTN is not obtained;
 - c. Withholding tax rate on all **exports** to be unified @ 1%;
 - d. Permanent Establishments of non-resident Exploration and Production (**E&P**) **Companies** exempted from withholding tax on supply of crude oil and gas;
 - e. **E&P Companies** exempted from WHT on imports (other than vehicles);
 - f. Withholding tax on execution of contracts made adjustable for **listed public companies** and that on sale of goods brought to normal tax for **all companies**;
 - g. Withdrawal of withholding tax on payments to **travel agents** on **sale of air tickets** where withholding tax on commission is already deducted;
 - h. Payments received by **non-resident news agencies, syndicate services and individual contributors/ writers** not having permanent establishment in Pakistan will not be subjected to withholding tax on services provided;

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SALIENT FEATURES

- i. Withholding tax @ 5% on **purchase of locally manufactured cars**;
 - j. **Withholding tax on imports**
 - i) Rates for commercial importers reduced from 6% to 5%;
 - ii) Rates for manufacturers unified at 1%;
 - iii) Taxpayers having losses or those having paid advance tax will be eligible for reduced rate exemption certificates on imports;
 - iv) Manufacturer exporters registered with Sales Tax Department will not be liable to withholding tax on imports;
 - v) Withholding tax on import of edible oil reduced from 3% to 2%.
 - k. Federal Excise duty also to be considered in the value of goods for withholding tax purposes at the import stage;
8. Companies to pay **advance tax** in the first year of operations based on accounting profits and banks to pay advance tax on a monthly basis;
 9. **Presumptive (Final) Tax Regime**
 - a. Presumptive tax regime for Compressed Natural Gas (CNG) stations and withholding tax @ 6% of gas bill;
 - b. Advertising services provided by owners of newspapers/magazines in the non-corporate sector taken out of Presumptive Tax Regime;
 - c. Exclusion of Large Import Houses importing bulk industrial raw material from presumptive tax regime;
 - d. Withholding tax on non-corporate commercial and industrial consumers of electricity made minimum tax liability;
 10. Turnover slab-based tax rates for **retailers** reduced;
 11. Separate Schedule for **Banking Companies** is proposed to be introduced, which, among matters, specify the **non-applicability of exemptions under second schedule** to the Income Tax Ordinance, 2001. It appears that, a core implication this non-applicability will be that **capital gains on sale of shares** will be brought under the purview of taxation;
 12. Maximum limit of investment in IPOs to avail **tax credit** sought to be enhanced from Rs. 200,000 to 300,000;
 13. Filing of **Wealth Statement** proposed to be made mandatory for taxpayers having current or last income of Rs. 500,000/- or more and Commissioner authorized to call for the Wealth Statement.
 14. **Exemptions**
 - a. Withdrawal of exemption to Mutual Fund on CFS interest income;
 - b. Income of Micro Finance Banks exempted from tax for five years if they don't distribute dividends;
 - c. Exemption from total income extended to companies owning and managing Hydel Power Projects situated in AJ&K;
 - d. Exemption of tax on capital gains extended for further one year;
 - e. Income arising on sale of immovable property to Real Estate Investment Trust (REIT), exempted from tax for three years.

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SALIENT FEATURES

SALES TAX & FEDERAL EXCISE

Zero-rating of sales tax is proposed on supply of following items:

- a. Writing inks and exercise books;
- b. Sewing machines and bicycles;
- c. Trailers and semi-trailers to promote the domestic production;
- d. Utilities of rice exporters; and
- e. Uncooked poultry meat.

Exemption of sales tax proposed to be extended on:

Cotton seed oil;

- a. Glass bangles;
- b. Surgical tapes and ultrasound gel; and
- c. Arrears of sales tax of industries located in FATA and PATA.

Broadening in scope of incidence

- a. Gas distribution companies to charge sales tax on supplies made by CNG stations;
- b. Withdrawal of input tax adjustment on the supply of utilities to the residential colonies of manufacturers;
- c. Withdrawal of zero-rating of certain chemicals;
- d. Extension of scope of excise duty on non-fund based financial services;
- e. Levy and deposit of excise duty in the manner similar to sales tax to be deposited with the return on the 15th day of the following month.

Increase in rates:

- a. Enhancing the rate of sales tax from 15% to 20% on specified raw materials to discourage informal manufacturing as end product is taxable.
- b. Increasing the retail price of cigarettes by 7 %

Measures for improvements

- a. Abolishment of governance of commercial importers, iron & steel sector, restaurants, biscuits and confectionery through special procedures rules;
- b. Requirement for charging sales tax on advance payments abolished;
- c. A conceptual change for input tax adjustment by restricting it to 90% of output tax, bringing manifold changes with it the sales tax mechanism;
- d. Additional parameter for mandatory registration for manufacturers where utility bills exceed Rs. 600,000 per annum;
- e. Rationalization of excise duty on international air travel by clubbing various taxes & charges under the name of Air Travel Tax (ATT);
- f. Withholding of sales tax by Government Agencies introduced to bridge the revenue gap;
- g. Facilitation to Large Taxpayers by allowing claims for tax refunds against equivalent amount bank of guarantees;
- h. The period of record retention enhanced from 3 to 5 years;
- i. To avoid confusions and complications, a single format of sales tax return is proposed to be introduced, which is to be submitted along with a summary of purchases & sales on proposed format.

To encourage the taxpayers to clear their outstanding tax liabilities, **Amnesty Scheme** for waiver of default surcharge and penalty and principal amount of tax to be deposited by 30.06.2007 to avail the same.

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1. INDIVIDUALS & AOPs

Deduction of tax at source from salary [149]

The bill seeks to remove the ambiguity on part of the employers for giving due consideration to adjustments from deductions of tax at source from salary with relation to **consideration of taxes withheld from employees under any other head and tax credits** related to charitable donations, investment in shares, contribution to an approved pension fund and profit on debt.

Voluntary pension scheme

The eligibility criteria for holding of NTN has been waived and now **holding of CNIC fulfills the requirement**.

Tax credit for investment of shares [62]

The bill seeks to enhance the eligible amount for tax credit against amount invested in shares from the current threshold of Rs. 200,000 to **Rs. 300,000**.

Taxation of retailers [113A and 113B]

The bill seeks to disallow claim of withholding tax deducted or collected from retailers under any head. Moreover, it also envisaged to prescribe turnover slab-based tax to retailers as under:

Turnover Threshold	Tax Rate
Up to Rs. 5M	0.5%
In excess of 5M and up to Rs. 10M	Rs. 25,000 Plus 0.5% of turnover exceeding Rs. 5M
Exceeding Rs. 10M	Rs. 50,000 Plus 0.75% of turnover exceeding Rs. 10M

2. BUSINESS INCOME

Amalgamation schemes [2(1A) and 57A]

The bill seeks to enhance the scope of amalgamation schemes to **companies engaged in providing services** in addition to the banking companies, NBFCs, insurance and companies owning and managing industrial undertakings.

While current year assessed losses of amalgamating companies may be set-off with profits of amalgamated company and vice-versa and carried forward for set-off during six succeeding tax years, the bill seeks to exclude set-off of brought forward losses and capital losses.

Private Equity and Venture Capital Fund and Private Equity and Venture Capital Fund Management Company [2(45A), 2(45B), Second Schedule]

New concepts of Private Equity and Venture Capital Fund (PEVCF) and Private Equity and Venture Capital Fund Management Company have been sought to be introduced, whereby certain relaxations are also proposed to be allowed to PEVCFs, which include:

- Exemption from incidence of taxation if it distributes 90% or more of its income for the year;
- Immunity from minimum tax levy and deduction of tax from profit on debt, brokerage & commission and dividend;
- Immunity from taxation if they distribute 90% of their current profits to unit holders. On the other part an unconditional exemption has also been granted up to June 30, 2014;
- Distributions to unit holders exempt if PEVCF already paid tax on its profits available for distribution;
- The tax rate of 10% to be applicable in respect of capital

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gains derived by from sale of shares or assets by a private limited company to PEVCF.

Re-definition of criteria for small companies [2(59A)]

Criteria	Current	Proposed
Paid up capital plus undistributed reserves	Rs. 25 Million	Rs. 25 Million
Number of employees	N/A	Up to 250
Annual turnover	Rs. 200 Million	Rs. 250 Million

Set-off of losses for hotel industry [56A]

Companies operating hotels in Pakistan or AJ&K are sought to be allowed set-off of current losses for its hotels in AJ&K against income from business with that of its hotels in Pakistan and vice-versa. However, no related change being traceable in section 57, it appears that this set-off of losses will be allowable on a year-to-year basis without taking account of losses not set-off in previous year(s).

Group taxation [59AA]

The bill seeks to introduce a new concept of Group Taxation for companies locally incorporated under the Companies Ordinance, 1984, whereby holding companies and subsidiary companies of 100% owned group may irrevocably opt to be taxed as one fiscal unit after formation of the group under the following conditions:

- a. compilation of consolidated group accounts as required under the Companies Ordinance, 1984 and computation of income and tax payable shall be made for tax purposes based on consolidated positions;
- b. accounts of the group companies shall be prepared and audited by a Chartered Accountant as prescribed for listed companies under the Companies Ordinance, 1984.

Group relief [59B]

The concept of group relief was first brought on the statute vide the Finance Act 2004. the following summarizes the comparative position between current status and the proposed amendment sought under the bill:

Criteria	Current	Proposed
Status of holding company	Listed company	Both listed and un-listed, however, unlisted companies are required to get listed within 3 years
Minimum holding	75%	Where any of the group company is a listed company: 55% Where none of the group companies is listed: 75%
Period of holding	5 years continued	5 years continued
Subsidiary's business	Other than trading, which should be continued for 5 years	Other than trading, which should be continued for 3 years
Holding company's business	Any	Other than trading
Eligible losses for relief	Subsidiary's current losses and losses for two succeeding years	Subsidiary's current losses and losses for two succeeding years, excluding capital losses
Entitlement for set-off of losses	By the holding company	By the holding company or its any other subsidiary company
Cash adjustment for losses	Not allowed	Loss claiming company may, on a tax-free basis, transfer cash

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		equivalent to related taxable profits to the loss surrendering company
Observance of Code of Corporate Governance	Not required	All companies in the group required to observe Code of Corporate Governance
Maximum period of surrender of losses	3 years	3 years
Treatment of losses not adjusted during 3 years	To be carried forward and adjusted by the subsidiary	To be carried forward and adjusted by the loss surrendering subsidiary
Transfer of shares	None	Approved unidirectional transfer of shares between companies and shareholders for formation of the group to be considered as a tax-free event.

Compromise & reconstruction schemes [97A]

The bill seeks to exempt the income tax on disposal of assets between companies effected through approved schemes of amalgamation, compromise arrangements and reconstructions.

3. BANKING COMPANIES [Seventh Schedule]

Finance leases

No allowance or deduction for depreciation, initial allowance and amortization will be admissible on assets given on finance lease.

Application of concepts of normal provisions of tax

Normal provision of law will apply to bank with relation to:

- inadmissible expenses;
- non allow-ability of depreciation in the year of disposal of assets;
- concept of fair market value of any property, rent, asset, service, benefit or perquisite;
- disposal & acquisition of assets;
- cost, consideration received, non-arm's length transactions and non-recognition rules'
- liabilities unpaid for a period of three years;
- loss on sale of shares of listed companies only to be allowed against such gains. Any unadjusted losses to be carried forward to six succeeding years and adjusted against such gains in those years.

Classified advances and off-balance sheet items

Provisions for classified advances and off-balance sheet items will be allowable as claimed in the accounts, subject to the requirement that a certificate of compliance with requirements of the Prudential Regulations from the external auditors.

Deductions against non-performing loans will only be allowed for provisioning under the categories of Doubtful and Loss, while **no deduction will be allowable for classifications to Substandard category.**

Adjustments for treatments as per IAS 39 and 40

Adjustment made in the annual accounts, on account of application of IAS 39 and 40 related to disclosure of financial assets and liabilities at fair value shall be **excluded in arriving at taxable income**, while the effect of fair values will be considered in the year of disposal.

Shariah compliant banking

The schedule proposes to **disallow any special treatments under the Shariah Compliant Banking** approved by the State Bank of Pakistan and the income tax has to be based on a comparative

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position under normal treatment under the Seventh Schedule. A statement certified by the auditors is required to be attached with the tax return to this effect.

Head-office expenditure	Head office expenditure charged in the books of accounts to be allowed in proportion of the local gross receipts to the global gross receipts of the bank. Reasonableness of this claim has to be certified by the external auditors .
Advance tax	Banking Companies have been proposed to be made liable to advance tax payments on monthly basis .
Rate of tax	35% for income from business or minimum tax @ 0.5% of turnover, as the case may be, and 10% in case of dividend and capital gains on sale of listed shares , while the reduced rate of 10% against sale of shares is only to be applicable when the shares are kept for a minimum period of more than one year.
Non-applicability of Second Schedule	Exemptions and tax concessions under the second schedule not to apply to Banking Companies.
Group relief	Group relief by way of surrender of loss of a subsidiary to the holding company or any other subsidiary of the holding company shall only be applicable in case the holding company and the subsidiary companies are banking companies. The surrender of loss will also be subjected to approval from the State Bank of Pakistan.
Group taxation	The new concept of a group being taxed as a single fiscal unit will also be applicable to holding and subsidiary companies of 100% owned group of banking companies, if they opt so by way of an irrevocable option.

4. PRESUMPTIVE (FINAL) TAX

Services to exporters	Payments by exporters against availing services on account of stitching, dyeing, printing, embroidery, washing, sizing and weaving excluded from PTR. Now taxes against these services are proposed to be withheld at normal rate of tax.
Advertisement services	The bill seeks advertisement services by owners of newspapers and magazines to be brought out of the PTR.
Cases of companies	Execution of contracts by listed companies is sought to be excluded from the ambit of final tax. The bill also seeks to bring supply of goods by companies out of the final tax regime. With the unaltered operation of final tax under section 148, it is construed that the application of this change will be restricted to supplies out of local purchases.
CNG stations	Final tax based on gas consumption charges billed to CNG stations is proposed to be levied at a rate of 6% .
Non-corporate cases	Tax collected on electricity bills for non-company cases is sought to be made as minimum tax, against which no refunds will be applicable.

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Inter-corporate dividends within group companies

Inter-corporate dividends within group companies, which avail benefits under group relief scheme under section 59B, are specifically sought to **excluded from the ambit of final tax**.

5. ADVANCE TAX [147 & 148]

Consideration of minimum tax as advance tax

The bill proposes to bring the minimum tax liability under section 113 of the Ordinance into account for the purpose of making estimate of advance tax liability.

Cases of new companies

It is also sought to give effect to provisions for bringing cases of new companies under the purview of collections for advance tax. Such new cases will be required to consider their **quarterly accounting profit** or **minimum tax liability under section 113**, as the case be, after deducting any amounts of tax already paid.

The consideration of accounting profits in case of new corporate cases appears to construe that the companies will not be able to take advantage of the material effect of initial depreciation, available to new cases generally and that of manufacturing units particularly, for the purposes of computing their advance tax liability.

Advance tax at import stage [148]

The non-applicability of PTR on import of cars by manufacturers extended to **import of motor vehicles** (apparently the scope has been broadened to cover cases of busses, motorcycles, etc.) by manufacturers of motor vehicles. That is to say the scope of non-applicability has been broadened many folds for other transportation vehicles.

Tax at import stage has also been proposed to be treated as advance tax for **large import houses**, provided they meet the following conditions:

- a. have paid-up capital of exceeding Rs.100 million;
- b. have imports exceeding Rs.500 million during the tax year;
- c. own total assets exceeding Rs.100 million at the close of the tax year;
- d. are single object company;
- e. maintain computerized records of imports and sale of goods;
- f. maintain a system for issuance of 100% cash receipts on sales;
- g. present accounts for tax audit every year;
- h. are registered with Sales Tax Department; and;
- i. make sales to only Sales Tax registered persons.

6. WITHHOLDING TAX

Discriminatory rates for non NTN holders

Discriminatory rates of **additional 2% for withholding tax** where NTN or CNIC is not disclosed are proposed to be **abolished**.

Purchase of motor cars

The bill seeks to impose a **collection of advance tax** on sale of motor car by manufacturers and dealers at a rate of **5%** of the gross amount. However, the collection will not be applicable to the Federal Government or a Provincial Government, foreign diplomats and diplomatic missions in Pakistan.

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7. EXEMPTIONS FROM TOTAL INCOME

Proposed inclusions

Private Equity and Venture Capital Fund (PEVCF) - Income of a PEVCF if it distributes 90% or more of its annual income among unit-holders.

An unconditional exemption to PEVCFs up to June 30, 2014 is also added.

Distribution received by taxpayers from PEVCFs out of the capital gains of PEVCFs on which tax has already been paid.

Income of **Micro Finance Banking Companies** for a period of five years starting from first day of July 2007 subject to the condition that they don't issue dividends to their share holders utilize profits and gains for Micro Finance Operations only.

Profits and gains on **sale of immovable property to a real estate investment trust** up to thirtieth day of June, 2010.

Gain on transfer of a capital asset of the existing stock exchanges to new corporatized stock exchange, in the course of corporatization of an existing stock exchange.

Gains on transfer of a capital asset, being a **membership right held by a member of an existing stock exchange**, for acquisition of shares and trading or clearing rights acquired by such member in new corporatized stock exchange in the course of corporatization of an existing stock exchange.

Exemption to **electric power generation companies** set up in Pakistan sought to be extended for setting up projects in AJK and vice versa.

Extensions proposed in exemption period

Exemption on **capital gains** on sale of modaraba certificates, listed instruments of redeemable capital, shares of a public company and the Pakistan Telecommunications Corporation vouchers extended up to tax year ending on June 30, 2008.

Extension in the period up to June 2008 for taxability of income derived by an individual from **transfer of membership rights or shares of a stock exchange** in Pakistan to a company.

Deletions/ Withdrawals sought

Income arising from **Continuous Funding System (CFS)** derived by mutual funds, investment companies, a unit trust schemes of assets management companies and Real Estate Investment Trusts (REITs).

8. REDUCTION IN TAX RATES

Proposed inclusions

Tax to be withheld at the rate as per the applicable Avoidance of Double Taxation Treaty from payments for **profit on debt payable to a non-resident person**, having no Permanent Establishment in Pakistan.

Capital gains on sale of shares or assets by a private limited company to Private Equity and Venture Capital Fund to be charged at the rate of ten per cent of such gains.

2% advalorem tax rate at import stage is proposed to be made applicable to edible oils, including crude oil imported as raw material for manufacture of ghee or cooking oil, Energy saver

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lamps [PCT heading 8539.10], Bitumen [PCT heading 2714], Fixed Wireless Terminal [PCT heading 8525.2040] and Pesticides and medicides.

Extensions proposed

1% tax at import stage proposed for **import of capital goods and raw material** (other than polyester filament yarn) by a manufacturer registered with Sales Tax Department.

Proposed deletions/
withdrawals

Withdrawal of relaxation for tax at import stage 1% against **import condemned ships** imported for the purpose of breaking withdrawn.

Withdrawal of applicability of lower rates for services of sizing, weaving stitching, dying, printing, embroidery and washing rendered to an exporter or an export house.

9. EXEMPTION FROM SPECIFIC PROVISIONS

Proposed inclusions

Exemption from applicability of minimum tax and from deduction of tax on profit on debt, brokerage & commission and dividends granted to **Private Equity and Venture Capital Fund**.

Foreign news agencies, syndicate services and non-resident contributors, who have no permanent establishment in Pakistan relaxed from application of provisions for deduction of tax.

No **deduction on account of sale of tickets** will be made on traveling agents, who have paid withholding tax on their commission income.

Relaxation from applicability of tax at import stage sought to be granted to:

- a. Capital goods and raw material imported by manufacturer exporter registered with Sales Tax Department as a manufacturer;
- b. Petroleum (E&P) companies covered under SRO.678(I)2004 dated 07.08.2004 except motor vehicles imported by such companies;
- c. Companies importing high speed diesel oil, light diesel oil, high octane blending component or motor spirit, furnace oil, JP-1, MTBE, kerosene oil, crude oil for refining and chemical use in refining thereof in respect of such goods;
- d. The re-importation of re-usable containers for re-export qualifying for customs-duty and sales tax exemption on temporary import under the Customs Notification No. S.R.O. 344(I)/95 dated the 25th day of April, 1995.

Extension sought

Exemption period from tax on Capital Gains extended up to June 30, 2008 for **Mutual Insurance Association**.

10. FEDERAL BOARD OF REVENUE

To give effect to the proposed enactment of Federal Board of Revenue Act, 2007, the bill seeks to include reference to the Federal Board of Revenue in place of Central Board of Revenue.

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11. APPLICABLE RATES FOR WITHHOLDING/ ADVANCE/ FINAL TAX

	Nature of Payment	Tax Rate	Advance Tax/ Final Tax
Cases of Residents and Permanent Establishments of Non-residents	Dividend paid to:		
	<input type="checkbox"/> Companies under group relief scheme	10%	Advance Tax
	<input type="checkbox"/> Other cases	10%	Final Tax
	Imports		Advance Tax for Manufacturers and Large Import Houses & Final tax in other cases. No collection from Manufacturer exporter Reg. with Sales Tax
	<input type="checkbox"/> Edible oils, including crude oil for processing into ghee or cooking oil	2%	
	<input type="checkbox"/> Capital goods, Cement, Mobile Tel sets, Computer hardware, etc.	1%	
	<input type="checkbox"/> Imports by Exploration & Petroleum Companies (other than import of vehicles)	N/A	
	<input type="checkbox"/> Other items (Normal rate)	5%	
	Profit on debt paid to:		
	<input type="checkbox"/> Individuals	10%	Final Tax
	<input type="checkbox"/> Companies and AOPs	10%	Advance Tax
	Payments for goods other than imported goods in the case of:		Advance Tax for Manufacturers and Companies
	<input type="checkbox"/> sale of rice, cotton, cotton seed or edible oils	1.5%	
	<input type="checkbox"/> sale of any other goods	3.5%	
	Payments for services		Advance tax for companies & Final Tax for other cases
	<input type="checkbox"/> Passenger and road transport services	2%	
	<input type="checkbox"/> Other services	6%	
	Payment on account of execution of contract	6%	Advance Tax for Listed Companies
	Exports	1%	Final Tax
	Indenting commission	5%	Final Tax
Rental of property income	5%	Final Tax	
Prizes and winnings:		Final Tax	
<input type="checkbox"/> Prize on prize bonds	10%		
<input type="checkbox"/> Winnings from a raffle, lottery, prize on winning a quiz, cross-word puzzle or prizes related to companies' sales promotion schemes	20%		
Brokerage and commission	10%	Final Tax	
Tax on vehicles (to be collected with motor vehicle tax)	Various rates	Final Tax in case of Commercial Vehicles	
Tax on purchase of locally manufactured cars	5%	Advance Tax	
Tax on electricity & telephone bills	Various rates	Advance Tax	
Tax on gas bills for CNG stations	6%	Final Tax	
Mobile phone bills and prepaid telephone cards	10%	Advance Tax	
Cash Withdrawal from a bank above exceeding cumulative sum of Rs.25,000	0.2%	Advance Tax	
Cases of Non-residents	Salary, supply of goods & services*, income from property and prizes & winnings (* services of news agencies, syndicate services & individual contributors/ writers not to be subjected to withholding tax)	Same as residents	Final Tax
	Profit on debt	As per applicable DTT	Advance Tax
	Dividends received from:		Final Tax
	- a company which purchases a power project privatized by WAPDA, OR which is exclusively engaged in mining operations other than petroleum, OR which is engaged in power generation projects	7.5%	
	- other cases	10%	
	Contracts	6%	Advance Tax (With Option for PTR)
	Royalty or fee for technical services	15%	Final Tax
	Shipping income of non-residents	8%	Final Tax
	Air transport income of non-residents	3%	Final Tax
	Any other receipts	30%	Advance Tax

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SALES TAX & FEDERAL EXCISE

1. SALES TAX ACT

Cottage industry

The bill seeks to exclude manufactures having annual turnover not exceeding five million from exemption of sales tax.

However, a new concept of cottage industry is sought to be adopted for exempt cases of manufacturers, where **annual turnover is up to Rs. 5 Million and annual utility bills do not exceed Rs. 600,000.**

Time of supply

By virtue of a proposed amendment to the definition of Time of Supply, the bill seeks to facilitate users by **eliminating the levy of sales tax on advance against such supplies.**

Input tax adjustment

The bill seeks to restrict the **input tax adjustment to 90% of the total output tax** for the period.

Further, it is pertinent to mention here that **input tax on acquisition of fixed assets** shall be adjustable in 12 equal monthly installments. However, incase of acquisition for a new unit, the adjustment will begin from the date of commencement of commercial production.

A registered person shall be allowed **conditional adjustment of inadmissible input tax** (exceeding 90% of the total output tax) on yearly basis in the second month following the end of financial year as under:

Status of the taxpayer	Condition
Companies	Audit under the Companies Ordinance 1984
Others	Such conditions as may be specified by the Board

Refund of input tax

The refund of input tax will be made within 45 days from the date of filing of refund claim in case of following activities:

Activities	Condition
Zero rated local supplies	None
Exports	None
Others	Such conditions as may be specified by the Board

Records - Bank accounts & allied

The bill seeks to widen the domain for maintenance of records by requiring the registered person to declare and restrict **business bank accounts** to that number as may be specified by the board.

Further, the corporate registered persons are also sought to be required to submit a copy of:

- e. Auditors certificate certifying the payment of tax due; and
- f. The annual audited accounts.

Minimum prescribed retention period for records is proposed to be enhanced from 3 to 5 years.

Power to arrest and prosecute

Enhancement of the scope of prosecution against committing of any **tax fraud** to any act which may be constituted as a fraud related to sales tax. The concept was previously restricted to tax fraud committed in respect of supplies made by a person.

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- Alternate dispute resolution** The following cases have been proposed to be excluded from making reference to ADR where:
- an FIR has been lodged under the Sales Tax Act or criminal proceedings initiated; or
 - interpretation of question of law having larger revenue impact in the opinion of the Federal Board of Revenue
- Following timeframes have been proposed:
- Appointment of the committee - within 30 days of reference
 - Recommendations by the committee - within 60 days, extendible to another 60 days on special request of the committee.
- Recovery of arrears of tax** The Board or any other authorized officer may write off any unrecoverable amount.
- Delayed refund** The additional amount to be paid is to be calculated from the date of filing of refund claim instead of date of filing of return.

2. SALES TAX SPECIAL PROCEDURES RULES, 2007

Sales Tax Special Procedures Rules, 2007 to suppress Sales Tax Rules Special Procedures, 2006. Chapter index and related highlights are as under:

Chapter II

Special procedure for payment of sales tax by retailers

- Jewellers to be treated as retailers;
- Persons registered as wholesaler as well as retailer to be treated as wholesalers;
- Following rates are proposed to be prescribed for retailers:

Annual turnover	Rate	
	Sales tax	Income tax
Up to Rs.5 M	Nil	0.5% of total Turnover
Above Rs. 5 M & up to 10 M	0.5% of turnover which is in excess of Rs. 5M	Rs. 25,000 + 0.5% of turnover which is in excess of Rs. 5M
More than Rs. 10 M	Rs. 25,000 + 0.75% of turnover above Rs 10 M	Rs. 50,000 + 0.75% of turnover above Rs. 10 M

Determination of sales tax liabilities

Status of Registered Person	Treatment/ Nature of Tax	
	Sales tax	Income tax
Individual & AOP	Final Tax	Final Tax
Corporate	Final Tax	Advance tax

Payment of sales tax: A retailer shall deposit the sales tax on a yearly basis (i.e for each financial year).

Invoicing: Issuance of serially numbered invoices or cash-memos for each supply is a must. There is a choice for generating invoices or cash-memos manually or through Fiscal Electronic

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Chapter III

Special procedure for collection and payment of sales tax on electric power

Applies to persons dealing in importation, generation, production, transmission, distribution and supply of electric power.

Unconditional and compulsory registration for related persons.

Rate of tax is 15%, for being covered under section 3(1) of the Act.

Collection and levy:

Case	Responsibility	Value
Importation	Importer	As determined u/s 25 or 25B of the Customs Act, 1969, including the amount of customs-duties and excise duties levied thereon
Generation, transmission, distribution and supply of electric power by public or private sector projects or other persons	Person making the supply	The price of electric power including all charges, surcharges excluding the amount of late payment surcharge, rents, commissions and all duties & taxes, but excluding the amount of sales tax, as per section 2(46) of the Act
Generation, transmission, distribution and supply of electric power by IPP, HUBCO or KAPCO	Person making the supply (i.e. IPP, HUBCO or KAPCO, as the case be)	The amount received by such IPP, HUBCO or KAPCO, on account of Energy Purchase Price only*

* i.e. amount in excess of Energy Purchase Price received on account of Capacity Purchase Price, Energy Price Premium, Excess Bonus, Supplemental Charges, etc., shall not be deemed as a component of the value of supply.

Disputes: In case of a dispute, WAPDA/ KESE, as the case may be, shall issue a certificate showing such amount and the tax involved therein and such certificate shall be deemed to be a Credit Note for the IPP for the purposes of section 9 of the Act, and shall be accounted for in the return for the tax period in which such Credit Note is issued.

Filing of returns and deposit of sales tax

Supplier	Basis	Timing
WAPDA & KESC	Delayed (Accrual)	21 st day of the month following the month in which the electric bill/ invoice has been raised
IPP	Normal	25 th day of the month following the month to which the sales tax invoice relates
Others	Normal	15 th day of the month following the tax period (month)

Chapter IV

Special procedure for collection and payment of sales tax on natural gas

Sales Tax is chargeable and collectable at 15% on Natural Gas including Compressed Natural Gas (CNG) and Liquefied Petroleum Gas (LPG) imported, produced, transmitted and supplied by gas well-head companies and gas transmission and distribution companies licensed under the Natural Gas Rules, 1960, including their distributors, dealers, sales agents, retailers or by any other persons and dealing in importation, production or distribution and supply of Natural Gas including Compressed Natural Gas and Liquefied Petroleum Gas.

Returns are required to be filed on monthly basis by the 15th day

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of the month following the month in which the gas has been supplied.

However, in case of gas supplied by gas companies to its consumers directly, and charges are billed on a monthly basis, the date shall be the 15th day of the second month following the month in which supplies were made.

Chapter V

Special procedure for supply of sugar to Trading Corporation of Pakistan (TCP)

Chapter VI

Special procedure for persons providing or rendering services subject to sales tax under the provincial laws

Requirement for registration - There is no monetary threshold related to turnover.

Rate of sales tax is 15%, which has to be deposited along with monthly return up to the 15th day of next month.

Input sales tax on all taxable inputs other mobile phone bills can be deducted from output tax for **determining sales tax liability**.

All **records** under section 22 of the Act are required to be maintained and serially numbered **invoices** are required to be issued.

Scope - Two categories of services fall under the ambit of these rules, being covered under the following two parts:

Part One Advertisements on television and radio
Part Two Customs agents and ship-chandlers

Chapter VII

Special procedure for collection and payment of sales tax from the oil marketing companies (sharing of product)

Chapter VIII

Special procedure for collection and payment of sales tax by vehicles dealers

Applies to dealers in or of:

- i. new locally manufactured vehicles; and
- ii. all types of imported vehicles, whether new or old or used.

Registration is mandatory for every manufacturer, importer and dealer of vehicles.

Declaration of full particulars of dealers is required. Manufacturers and importers required to mention rates of commission payable to dealers for each category, make and model of vehicle. Changes in rates should be communicated within seven days.

Booking of vehicles*, other than through a dealer shall not be effected unless the following particulars are clearly mentioned in the relevant booking documents:

- a. particulars of the dealer; and
- b. particulars of concerned buyer.

* Requirement not applicable in case of vehicles imported under Personal Baggage, Transfer of Residence or Gift Scheme.

Supply and invoicing

For supplies to dealers, invoices (consolidated or item-based) should be issued in the name of the dealer and the dealer will

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issue sales tax invoice in the name of the consumer.

For direct supplies to consumers, sales tax invoice shall be issued in the name of consumers.

For supplies through dealers with invoicing directly to customers, the dealer shall issue a delivery advice-cum-invoice to consumers in the prescribed format along with the invoice issued by the manufacturer or importer.

The manufacturers shall be entitled to **input tax adjustment** against their output tax liability based on routine conditions of the Act.

Dealers are required to pay sales tax on:

- a. Amounts received over and above the amount of commission from manufacturers and importers.
- b. Tax shall also be payable on amounts over and above the said commission in case of non-cash vehicles exchanges between dealers.

Filing of returns and payment of sales tax is required to be made by manufacturers, importers and dealers by the 15th day of the following month.

Records to be maintained by dealers include record of all purchases, sales tax invoices including import documents and routine records as required to be maintained under section 22 of the Act.

Chapter IX

Special procedure for processing of refund claims filed by the persons engaged in making zero-rated supply of ginned cotton

3. OTHER SROs PROMULGATED

In addition to rescinding numerous SROs, certain fresh promulgations have been made on June 9, 2007 along with the Bill:

SRO No.	Scope/ Description
462(l)/2007	Zero-rating of sales tax on: <ul style="list-style-type: none"> a. Sewing machines of the household type; b. Bicycles; c. Exercise books & writing, drawing & marking inks; d. Trailers and semi-trailers for the transport of goods having specifications duly approved by the Engineering Development Board; and e. Uncooked poultry meat.
463(l)/2007	Amnesty of default surcharge & penalties against any outstanding tax liability other than tax fraud has been provided to facilitate tax payers who may avail the same by depositing the principal amount of tax by 30.06.2007
465(l)/2007	Relates to refund claims of the persons registered in Large Taxpayers Units and prescribes pre-requisites for refund application as under: <ul style="list-style-type: none"> a. an undertaking affirming the genuineness; b. a revolving bank guarantee valid for at least one hundred and twenty days Stipulates the time period for processing of refund claim within 3 days against a complete refund claim within 15 days. Objections if any, to be communicated within 7 days of the receipt of claim inadmissible claim with encashment of bank guarantee.

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SRO No.	Scope/ Description								
464(l)/2007	Seeks to disallow Input tax adjustment on utilities (electricity & gas) related to the residential colonies of manufacturer.								
466(l)/2007	Seeks to enhance the sales tax rate from 15% to 20% on specified chemicals.								
468(l)/2007	Withdraws minimum value addition previously applicable to commercial importers.								
470(l)/2007	Enunciates special procedure for accessing the computerized system, filing of nil return in collectorates, electronic intermediaries and special procedure for issuance of electronic sales tax invoices between buyers and sellers.								
475(l)/2007	Rescinds S.R.O. 679(l)/2006 and S.R.O. 680(l)/2006, which related to fixation of assessed value for iron and steel billets.								
477(l)/2007	Rescinds S.R.O. 762(l)/96								
478(l)/2007	Rescinds S.R.O. 940(l)/1998								
479(l)/2007	Rescinds SROs related to the Sales Tax (Refund of Excess Input Tax to the Manufacturers) Rules, 2005 and the Sales Tax (Refund of Excess Input Tax to the Dealers, Distributors and Wholesalers) Rules, 2005								
509(l)/2007	Seeks to zero rate the supply and import of 141 items, few of which include: <table border="0" style="margin-left: 40px;"> <tr> <td>Surgical Tapes</td> <td>30.05</td> </tr> <tr> <td>Ultrasound gel</td> <td>3006.7000</td> </tr> <tr> <td>Glass bangles</td> <td>7020.0090</td> </tr> <tr> <td>Diapers for adults (patients)</td> <td>4818.4010</td> </tr> </table>	Surgical Tapes	30.05	Ultrasound gel	3006.7000	Glass bangles	7020.0090	Diapers for adults (patients)	4818.4010
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SALES TAX & FEDERAL EXCISE
4. PENALTIES UNDER THE SALES TAX ACT, 1990

Sec Ref	Contravention or Offence		Penalty	Relaxation/ Exception
26	Failure to	Furnish a return within the due date	Rs. 5,000	If return is filed within 15 days of the due date, penalty of Rs. 100/ day of default
23		Issue an invoice when required under this Act.	Higher of Rs. 5,000 or 3% of the amount of tax	None
73		Make payment in the manner prescribed under section 73 of the Act		
71 & Gen		Fulfill any of the conditions, limitations or restrictions prescribed in a Notification issued under any of the provisions of this Act		
Gen	Contravention of any of the provision of the Act for which no penalty has specifically been provided under section 33 of the Act			
3, 7 & 23	Un-authorized issues an invoice in which an amount of tax is specified		Higher of Rs. 10,000 or 5% of the amount of tax	None
14	Failure to notify the changes of material nature in the particulars of registration of taxable activity.		Rs. 5,000	None
3, 6, 7 & 48	Failure to deposit the amount of tax due or any part thereof in the time or manner laid down under the Act or rules or orders made there-under.	Payment made within 15 days from the due date	Rs. 500/ day of default	None
		Payment made within 60 of payment notice	Higher of Rs. 10,000 or 5% of the amount tax	None
		Tax due remains unpaid even after the expiry of 60 days of issuance of payment notice	Further exposure for imprisonment for a term up to 3 years or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge
7	Erroneous calculation in the return, due to which amount of tax less than the actual tax due is paid	First event during a year	No penalty	- N/A -
7 & 26		Repetition of error	Higher of Rs. 5,000 or 3% of the amount of tax	
14	Failure to	Apply for registration when it was required	Higher of Rs. 10,000 or 5% of the amount tax	Further exposure is subject to conviction by a Special Judge
22 & 24		Maintain records required under the Act or the rules made there-under	Higher of Rs. 10,000 or 5% of the amount tax	
25	Failure to produce records without any reasonable cause	On receipt of 1 st notice	Rs. 5,000	None
		On receipt of 2 nd notice	Rs. 10,000	
		On receipt of 3 rd notice	Rs. 50,000	
26	Failure to furnish information required by the Board through a notification under section 26(5)		Rs. 10,000	
2(37) & Gen	Submission of a false or forged document to any officer of sales tax		Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 5 years or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge
	Destruction, alteration, mutilation or falsification of records including a sales tax invoice			
25, 38 & 38A	Intentional making of false statement/ declaration/ representation/ personification or gives any false information or issuing or using a document which is forged or false		Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 3 years or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge
	Denial/ obstruction in the access to the business premises, registered office or to any other place where records are kept			
	Refusal of access to the stocks, accounts or records or fails to present the same when required under section 25, 38 or 38A			

Penalties Already Applicable

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SALES TAX & FEDERAL EXCISE

4. PENALTIES UNDER THE SALES TAX ACT, 1990

Sec Ref	Contravention or Offence	Penalty	Relaxation/ Exception		
Penalties Already Applicable	2(37)	Committing, causing or attempting to commit tax fraud, or abetting or conniving in commissioning of tax fraud	Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 5 years or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge	
	48	Violation of any embargo placed on removal of goods in connection with recovery of tax	Higher of Rs. 25,000 or 10% of the amount of tax PLUS further exposure for imprisonment for a term up to 1 year or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge	
	31 & Gen	Obstructing the authorized officer in the performance of his official duties	Higher of Rs. 25,000 or 100% of the amount of tax	None	
	Gen	Authorized officer of Sales Tax, who acts/ omits/ attempts to act/ omit in a manner causing loss to the sales tax revenue or otherwise abets or connives in any such act	Exposure for imprisonment for a term up to 3 years or with fine up to the amount of tax involved or with both	Exposure is subject to conviction by a Special Judge	
New Penalties Proposed to be Brought vide Finance Bill	26(5)	Failure to submit summary of sale & purchase invoices required under a notification issued under the Act	Rs. 25,000	None	
	Gen	Repetition of an offence for which a penalty is provided under the Act	Twice the amount of related penalty	None	
	50A	Intentional	access or attempt to gain access to the computerized system without lawful authority	Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 1 year or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge
			and dishonest damage or impairment of the computerized system		
		Unauthorized	and dishonest damage or impairment to any duplicate tape/ disc/ other medium on which any information obtained from the computerized system is kept or stored		
			use or disclosure or publish or otherwise dissemination of information obtained from the computerized system		
	use of unique user identifier of any other registered user to authenticate a transmission of information to the computerized system				
	Falsification of any record or information stored in the computerized system				
	Failure to comply with or contravention of any of the conditions prescribed for security of unique user identifier				

Note: Provisio to the section 11A clarifies that none of the penalties can be imposed unless a show cause notice is served.

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SALES TAX & FEDERAL EXCISE

5. MONTHLY SALES TAX RETURN & FEDERAL EXCISE RETURN-CUM-PAYMENT CHALLAN (PROPOSED FORMAT)

Government of Pakistan "STR-7
Monthly Sales Tax Return & Federal Excise Return-cum-payment Challan (See rule 14(1))

Registry	Sales Tax Reg. No.	Period				month	year	National Tax No.
	Taxpayer's Name				Type of Return	Regular	Revised	(Proprietor's CNIC number)

(A) Un-adjusted Sales Tax Credit Brought Forward

(B) PURCHASES		Value	Rate	Sales Tax
1	Domestic taxable purchases (goods & services)		15 %	
2	Taxable imports		15 %	
3	Tax paid on utilities (for manufacturers only)		15 %	
4			15 %	
5	Zero-rated purchases		0 %	
6	Zero-rated imports		0 %	
7	DTRE Purchases		0 %	
8	DTRE Imports		0 %	
9	Exempt domestic purchases (goods & services)			
10	Exempt imports			
11	Others (please specify)			
12	Sub Total [B1 to B11]			
13	Inadmissible input tax relating to exempt supplies/ non-taxed services / others			
14	Total [B12 minus B13]			
15	Excise Duty on Import of edible oil [SRO. 24(I)/2006]		Re. 1/kg	

(C) SUPPLIES MADE & SERVICES RENDERED		Value	Rate	Sales Tax
1	Domestic taxable supplies		15 %	
2	Taxable services rendered		15 %	
3	Sub Total [C1 to C2]			
4	Zero-rated local sales		0 %	
5	Supplies to DTRE registered persons		0 %	
6	Exports		0 %	
7	Sub Total [C4 to C6]			
8	Exempt supplies			
9	Others (please specify)			
10	Total Supplies [C3 plus C7 to C9]			

(D) Adjustments		Refund claimed [(D2 + D4) minus C10]	
1	90% of Total Output tax [C10 x 90%]		
2	Input tax attributed to zero rated		
3	Input tax attributed to other taxable supplies / services		
4	Admissible tax credit for the month [D1 or D3] (whichever is lower)		
5	Net Sales Tax Payable [C10 minus (D2 + D4)]		
6	In case of Revised Return:	Amount paid on regular return	Balance Payable
6			Refund to be claimed w/s 6B

(E) Un-adjusted Sales Tax Credit Carried Forward [A plus B14 minus (D2 + D4)]

(F) EXCISEABLE GOODS		Value	Rate	FED to be paid
1	Description (a)			
2	Description of Goods supplied (b)			
3	Description (c)			
4	Description (d)			
5	Exciseable services rendered			
6	Exciseable goods exported			
7	Zero-rated supplies			
8	Exempt supplies			
9	Total FED [F1 to F8]			
10	FED paid on goods used in manufacturing of goods supplied for home consumption			
11	FED paid on goods used in manufacturing of goods exported (drawback)			
12	FED payable = [F9 (minus) F10] (ignore negative value)			
13	Net Drawback of FED=[F11 (minus) F12]			
14	Net FED Payable= [F12 (minus) F11]			

Payment		Payment	
Desc.	CPR #	Desc.	CPR #
ST	dd mm yy	FED	dd mm yy
Amount		Amount	
Description of Arrears		Description of Arrears	
Total Amount Paid		Total Amount Paid	

TOTAL AMOUNT PAID ON THIS RETURN [Sales Tax (plus) Federal Excise Duty]

I, _____, holder of CNIC No. _____, in my capacity as Self/Member or Partner of Association of persons/Principal Officer/Trustee/Representative* of the Taxpayer named above, do solemnly declare that to the best of my knowledge and belief the information given above is/are correct, complete and in accordance with the provisions of the Sales Tax Act, 1990, Federal Excise Act, 2005 and Rules and Notifications issued thereunder.
 *(The alternative in the verification, which is not applicable, should be scored out)

Date (dd/mm/yy) _____ Stamp _____ Signature _____

Details of ST & FED paid		For Bank Use	
Head of Account	Amount	Amount Received (in words)	
B02340 - Sales Tax		(in figures)	
B02366 - Sales Tax on services		Bank Officer's Signature	
B02367 - Federal Excise Duty in VAT mode		Bank's Stamp	
B02400 - Federal Excise Duty		Date dd/mm/yyyy	
TOTAL AMOUNT DEPOSITED			

SECTION 4

THE COMPANIES ORDINANCE, 1984

1. HOLDING ANNUAL GENERAL MEETING

Reduction in mandatory timeframe

The bill seeks to reduce the **timeframe limit for holding AGM** from the current period of 4 months to 3 months from the close of its financial year.

Period of extension for holding AGM

In case of listed company, the extension period for conducting AGM is proposed to reduce from 60 to **30 days**.

2. ELECTION OF DIRECTORS

The bill seeks to propose that a person holding 12.5% or more voting shares in a listed company may apply to the Commission to invoke **fresh election of directors**. However, the said shareholder is required to hold shares for at least one year from the date of such election.

3. SHARE REGISTRAR

It has been sought to make having **independent share registrar** for listed companies.

4. SPECIAL AUDIT

New provisions for special audit are sought to be enunciated, whereby the commission of its own motion or **on application of minority members, holding at least 20% voting rights**, appoint an auditor to conduct a special audit of the company.

5. SUBMISSION OF FINANCIAL STATEMENTS

Submission of financial statements to the registrar by **private limited companies**, having paid-up **capital exceeding 7.5 million**, is now proposed to be made mandatory.

6. IMPLICATIONS OF UNREALIZED GAINS ON DECLARATION & PAYMENT OF DIVIDENDS

The bill seeks to include a proviso to section 248 of the Companies Ordinance, 1984 whereby the effect of **unrealized gains on investment properties** credited to profit and loss account has **not to be considered** for the purpose of declaration or payment of dividends.

7. FINES AND PENALTIES

Non-compliances with certain requirements of the Ordinance have been proposed to be subjected to **heavily increased fines and penalties**.