

Towel Manufacturers' Association of Pakistan

SALIENT FEATURES BUDGET 2016-2017

CUSTOMS DUTY

	MEASURES	COMMENTS
•	Expansion in scope of exemption on Renewable Energy Technologies	This will lead to reduce cost of electrical energy.
•	Extension in relief on import of Solar Panels till June, 2017	-do-

SALES TAX & FEDERAL EXCISE DUTY

•	Zero-rating of export oriented sectors. Five export-oriented sectors are subject to reduced rates i.e. 3% and 5% under SRO 1125(I)/2011, dated 31.12.2011. In order to facilitate the exporters and provide for a No-Tax, No-Refund Regime, the items as specified in the said SRO and the purchase of energy i.e. electricity, gas, furnace oil and coal by the five export-oriented, are to be subjected to zero-rate of sales tax. The retail sales of locally manufactured finished goods of these sectors are to be subjected to sales tax @ 5%. Enforcement through SRO, effective from 01.07.2016.	Hope fully export may gear up
•	Increase in turnover threshold for cottage industry. Cottage industry is exempted from payment of sales tax. Turnover threshold prescribed for cottage industry is Rs. 5 million . This low turnover threshold causes undue hardships and registration requirements for small manufactures who make minimal contributions to revenues. Turnover threshold for cottage industry is being raised to Rs. 10 million . Enforced through Finance Bill, 2016, effective from 01.07.2016.	Hardship of cottage industries may remove as well as development of SME sector may grow.
•	Exclusion of Secondhand and Worn Clothing from further tax levy. Sales tax is currently levied @ 5% on the import stage, @ 3% as value addition tax and 2% as further tax under section 3(1A) on second hand and worn clothing, which results in cumulative impact of sales tax at 10%. In order to provide relief to the low income segment, using second hand worn clothing, exemption from further tax is being provided.	This will lead to flood foreign goods in country and our industries become non-competitive. Already this is affecting local industries. Needs to watch properly these shipments.

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SALES TAX & FEDERAL EXCISE DUTY

•	MEASURES	COMMENTS
•	Exemption from sales tax and Federal Excise Duty to businesses to be established in Gwadar Free Zone. Exemption for a period of 23 years from sales tax and Federal Excise Duty is being granted to businesses to be established in Gwadar Free Zone. This exemption shall be available to sales/supplies within the Gwadar Free Zone. However, sales/ supplies outside the free zone and into the territory of Pakistan shall be subjected to applicable rates of sales tax and Federal Excise Duty. Enforced through Finance Bill, 2016, effective from 01.07.2016	Hope fully export may gear up
•	Abolition of zero-rated status of stationery items. Stationery items are exempt from sales tax under the Sixth Schedule to the Sales Tax Act, 1990 as well as zero-rated under the Fifth Schedule thereof. It is proposed to withdraw zero-rating on stationery items and their inputs. Enforced through Finance Bill, 2016, effective from 01.07.2016.	This will increase cost of stationary which ultimately make effect on education cost.
•	Abolition of zero-rated status of Milk. Milk, fat-filled milk and preparations for infant use have been enjoying zero-rating facility on supplies for many years. It is proposed to withdraw zero-rating on milk and fat filled milk. Zero-rating on preparations for infant use proposed to be retained. Enforced through Finance Bill, 2016, effective from 01.07.2016.	No comments
•	Introduction of optional regime for Tier-1 Retailers. Tier-1 retailers are obliged to pay sales tax at standard rate after input tax adjustment. It is proposed to provide an option to these retailers to pay sales tax at fixed rate of 2% of their total turnover without any input tax adjustments. Enforced through Finance Bill, 2016, effective from 01.07.2016.	No comments
INCOME TAX		
RELIEF MEASURES		
•	Reduction in Tax Rate for Companies: Continuing with the policy of reducing corporate tax rates, the rate has been reduced to 31% for Tax Year 2017.	This will encourage in formation of companies.

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•	MEASURES	COMMENTS
RELIEF MEASURES		
•	<p>Exemptions under Gwadar Port Concession Agreement: For operation and development of Gwadar Port and Gwadar Free Zone exemptions and concessions in accordance with the decisions of ECC and concession agreement are proposed to be granted to concession holder (China Overseas Ports Holding Company Limited) and its operating companies, businesses to be established in the Free Zone and contractors and sub-contractors of the concession holder in accordance with concession agreement.</p>	This will lead to growth of industries ultimately make effect on employment as well as taxation system
•	<p>Tax Credit for Employment Generation: At present, 1% tax credit for a period of ten years is available for every 50 employees employed by an industrial undertaking to be set up by June 2018. In order to reduce unemployment and encourage new industry, the credit is being enhanced to 2% and the date for setting up of industrial undertaking is being extended to June 2019</p>	Employment condition improves.
•	<p>Tax Credit for making sales to registered persons: At present 2.5% tax credit is available to a manufacturer registered under Sales Tax who is making over 90% sales to Registered Sales Tax Persons. To encourage documentation, the credit is being increased to 3%.</p>	Right decision
•	<p>Tax Credit for Establishing new industry and expansion of existing plant: At present, 100% tax credit on tax payable is allowed if 100% fresh equity is raised through issuance of new shares. This tax credit is allowable for five years from commercial production. It is proposed to reduce the condition of 100% fresh equity to 70% equity and tax credit would be allowed proportionately on owned new equity and not on borrowed amount. Period of tax credit is also being extended to June, 2019</p>	This will lead to increase corporate sector duly registered with Stock exchange.

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•	MEASURES	COMMENTS
INCOME TAX		
RELIEF MEASURES		
•	Employers' Annual Contribution in Provident Funds: At Present, employer is allowed to contribute in Provident Fund upto 1/10 th of salary of an employee or Rs. 100,000 whichever is lower. Any amount exceeding this limit is treated as income of the employee. On demand of taxpayers, the limit of Rs. 100,000 on employer's contribution is proposed to be enhanced to Rs. 150,000.	Good move
•	Tax Credit on Health Insurance: At present, tax credit is available on the payment of life insurance premium up to 1.5 M. A new tax credit @ 5% of tax payable or Rs. 0.1 M whichever less is proposed to be allowed on payment of premium of health insurance.	Good move
•	Relief on Education Expenses: In order to provide relief for education expenses which are unbearable for low income groups, individual having taxable income less than Rs. 1 million is being given tax relief equal to 5% of school fee upto Rs. 60,000 per child per annum	Good move
REVENUE MEASURES		
•	Advance Tax for Alternate Corporate Tax (ACT): Advance tax is paid on the basis of tax calculated on income or minimum tax on turnover and is required to be deposited in four installments. However, advance tax is not calculated on the basis of Alternate Corporate Tax (ACT). Taxpayers under existing law have to pay entire tax at the time of filing of return. It is proposed that Alternate Corporate Tax may also be made the basis for payment of advance tax.	No Comments
•	Rationalizing Rates For Capital Gain Tax On Immovable Property: It is proposed to extend the holding period for taxation of capital gain on sale of immovable property from two years to five years to be charged at uniform rate of tax of 10%	No Comments

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•	MEASURES	COMMENTS
REVENUE MEASURES		
•	Taxation of Property Income on Gross Basis: In order to simplify taxation of property income in the case of individuals and associations of persons, it is proposed that for such persons the property income may not be clubbed with income under other heads and may be taxed as a separate block of income. Accordingly separate rates of tax have been proposed.	Good move
•	Persons registered with Provincial Sales Tax Authorities: At present a large number of service providers are filing sales tax returns with the Provincial authorities but are not filing Income Tax returns. In order to encourage filing of Income Tax returns, it is proposed that an advance tax at 3% of turnover of non-filer service providers be collected by provincial ST authorities along with their sales tax returns.	Difficulties may arise if any company registered with both FBR and PST
•	Rationalizing Minimum Tax: At present, Companies declaring Gross Loss are exempt from payment of Minimum Tax at the rate of 1% of turnover. However, this exemption is not available to Individuals and AOPs. In order to maintain neutrality and to stop misuse of the provision, it is proposed that Minimum tax may be charged on companies declaring gross loss.	Need to rectify. Bad movement. Loss on loss.
•	Extending the Scope of Minimum Tax: At present, minimum tax on turnover is paid by individuals and AOPs having turnover exceeding fifty million rupees. A large number of Individuals and AOPs having turnover below Rs. Fifty million are filing returns yet they are not paying any tax. It is proposed that minimum tax @ 1% of turnover may be made payable by Individuals and AOPs having turnover exceeding ten million rupees	SME may be effected
•	Extending the livability of Super Tax for year: Super Tax was levied for the Tax Year 2015 to meet revenue needs for certain unforeseen expenditure by the Government. Since the circumstances still persist, it is being extended for Tax Year 2016	This tax was imposed by saying only for this year but now it is repeatedly arriving each year.

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