1. Relief Package Announced in Budget 2014-15

(A) Investment Incentives for Foreign Direct Investment: In order to attract Foreign Direct Investment in manufacturing, construction and housing sectors, corporate tax rate has been reduced to 20% if the investment is in a new industrial undertaking or a construction or housing project and if it set up by 30th June 2017 and at least 50% of the total project cost in the form of equity through FDI.

(B) Relief for Capital Market: The rate of capital gains tax was to increase from 10% to 17.5% with effect from 1st July 2014. However, to ensure continued stability in the stock market with effect from 1st July 2014 CGT rates have been reduced to 12.5% for securities held up to 12 months and 10% for securities held for a period which is between 12 to 24 months, whereas the securities held for more than 24 months are exempt from CGT.

(C) Incentives for Processing Industries of Special Areas: To encourage establishment of processing units for food and fruits in Makran, Gilgit-Baltistan, Swat Valley and FATA. Duty and tax-free import of machinery not locally manufactured and 5 years tax holiday has been announced.

(D) Incentives for Joint Ventures between Companies and AOPs: The non-resident companies investing in Pakistan have to create a joint venture with a local company and the contract receipt of such joint ventures were taxed as final tax in the hands of the joint venture/AOP and thus the non-resident companies could not enjoy their status of being a non-resident. To remove the hardship for the non-residents, if one member of the joint venture is a company, it would be taxed separately at the applicable rate while the individuals would be taxed as an AOP separately.

(E) Reduction in the Corporate Tax Rate: Business community has been agitating that corporate tax rates are quite high and act as deterrent to the promotion of corporatization. In accordance with the already announced policy for tax year 2015, the corporate tax rate shall be 33%.

(F) Reduction in Maximum Rate of Tariff and Tariff Slabs: As a first step towards tariff reforms, maximum rate of 30% has been abolished, bringing down the number of slabs to 6 and the highest tariff to 25%. However, luxury items consumed by wealthy segment of society are being subjected to regulatory duty equivalent to the above facility.

2. Existing Incentives

(A) Gwadar: Exemption of CD on import of machinery, equipment for setting up of:

- Power Generation Plants
- Water Treatment Plants

- Infrastructure related projects
- Concessionary rate of 5% CD on import of machinery & equipment for setting up of hotels
- Exemption of CD on import of materials & equipment for construction & operation of Gwadar port and development of free zone.

(B) Mineral Sector:

i. Mineral Exploration Phase

Exemption of CD on import of machinery, equipment, specialized vehicles, accessories, spares

Chemicals and consumables.

ii. Mine Construction & Extraction Phase

Concessionary rate of 5% CD on machinery, equipment, specialized vehicles, accessories, spares, chemicals and consumables.

(C) Thar Coal Field

- Exemption of customs duty and sales tax on import of coal mining machinery, equipment materials, spares and vehicles for site use.
- Exemption from Income Tax on profits & gains of Coal mining projects.

(D) Renewable Energy

- Exemption of CD on import of machinery, equipment and spares for power generation through solar, wind, micro-hydel, bio-energy, ocean, waste-to waste & hydrogen cell
- Exemption from sales tax and Income tax on import of plant and machinery not manufactured in Pakistan for solar, nuclear and renewable energy.

(E) Energy Projects

- **First Year Depreciation Allowance** of 90% of cost, in lieu of initial allowance
- Private sector power project are exempt from Income tax.
- Dividends to the share holders are taxed at reduced rate of 7.5%, than at 10%.

(F) Oil Exploration and Production Sector

SRO 678(I)2004 provides concessionary rate of Custom duty & exemption of Sales tax on machinery, equipment, chemicals, consumables specialized vehicles/vessels and helicopters etc.

0% (Raw materials & Temporary Imports) 5% (Not manufactured locally), 10% (manufactured locally) and **Sales tax exemption,** Special CD treatment for vehicles

E & P Companies, their contractors, sub-contractors & service companies Refineries, LPG, LNG & CNG Companies are the major beneficiaries.

(G) Temporary Importation Scheme

Manufacturers-cum-exporters eligible:

- Exemption of customs duty and sales tax on Materials, components & accessories
- Prior authorization not required
- Transfer of ownership allowed

Utilization period of 18 months

(H) Exemption of Interest Income

- Exemption of interest on loan received by a non-resident person for project loan in Pakistan is exempt from all tax subject to certain conditions
- Export Finance Credit is allowed at substantially reduced interest

(I) Head office expenditure

Head office expenditure is allowed to non-resident operating through a branch in Pakistan. The expenses is generally allowed in the ratio of Pakistan turnover of the entity