Dear Valued Client,

This letter is to inform you that the Federal Government, through Finance Act 2014, has announced various amendments in the Income Tax Ordinance, 2001 (Ordinance) w.e.f July 01, 2014. Only relevant amendments pertaining to you are mentioned below.

1. 'Filers' and 'Non-filers'

The Finance Act 2014 has introduced enhanced rates for withholding / collection of income tax for **'non-filers'** under various heads. For this purpose, new definitions of **'filer'** and **'non-filer'** have been inserted in section 2 of the Ordinance.

A **'Filer'** has been defined as a taxpayer whose name appears on the 'active taxpayers' list issued by the Board from time to time or is a holder of taxpayer's card, whereas all other persons are to be treated as **'Non-filers'**.

From practical perspective, a mechanism is to be placed to ascertain the status of a person as being a non-filer at the time of withholding of income tax.

2. Capital Gains on Disposal of Securities:

The holding period of securities for the purposes of taxability has been extended and capital gain tax rate has also been enhanced.

A comparison of tax rates on gain on disposal of securities for the Tax Year 2015, prior to and after Finance Act 2014 a as under:

<table>
<tr><th colspan="2">Prior to Finance Act, 2014</th><th colspan="2">After to Finance Act, 2014</th></tr>
<tr><th>Holding Period</th><th>Tax Rate</th><th>Holding Period</th><th>Tax Rate</th></tr>
<tr><td>0- 6 months</td><td>17.5%</td><td rowspan="2">0- 12 months</td><td rowspan="2">12.5%</td></tr>
<tr><td>6- 12 months</td><td>9.5%</td></tr>
<tr><td rowspan="2">Over 12 months</td><td rowspan="2">0%</td><td>12- 24 months</td><td>10%</td></tr>
<tr><td>Over 24 months</td><td>0%</td></tr>
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3. Tax of Debt Securities:

Prior to the Finance Act 2014, capital gains on disposal of debt securities were taxable under section 37 at the normal tax rate (i.e., corporate tax rate in case of companies and applicable slab rate in case of taxpayers other than companies).

Through the Finance Act 2014, capital gains on disposal of debt securities listed on stock exchange have been made taxable under section 37A, in the manner similar to 'securities' previously included under **Section 37A** of the Ordinance. It has however been prescribed that in case of companies, capital gains on disposal of debt securities will be subject to tax at the corporate tax rate (and not at the Capital Gain Tax rates prescribed for 'securities').

4. Tax on Dividends (other than from Mutual Funds)

The rate of withholding tax on dividend for non-filers has been enhanced from 10% to 15%, except where special rate of tax is prescribed @ 7.5% or where the dividend income is derived from Mutual Fund, for which separate rates are prescribed.

Through Circular No. 2 of 2014 dated July 17, 2014, FBR has clarified that upon filing of return, the recipient of dividend can apply the rate of 10%, resulting that additional 5% withholding on account of non-filer would be adjustable / refundable.

5. Tax On Dividends from Mutual Funds

The rates of tax on dividends received from various categories of fund have been prescribed as under:

Description of unit holder	Stock Fund	Money market Fund, Income Fund or any other fund
Individual	10% *	10%
Company	10% *	25%
AOP	10% *	10%

Stock fund has been defined as collective investment scheme or a mutual fund where the investible funds are invested by way of equity shares in companies, to the extent of more than seventy per cent (70%) of the investment.

* If dividend receipts are less than capital gains, the rate of tax for unit holders shall be 12.5%.

6. Bonus shares

Through the Finance Act 2014, the issuance of bonus shares has now been made taxable under Final Tax Regime (FTR) in the hands of shareholders.

- A company which is quoted on the Stock Exchange and issues bonus shares to its shareholders is required not to issue bonus shares equal to 5% of the number of bonus shares to be issued to shareholders.
- Bonus shares will be issued by a company to a shareholder only after collecting tax equal to 5% of the value of the bonus shares to be issued to the shareholder (including 5% bonus shares withheld as above) within a prescribed time.
- For purpose of determining value of bonus shares, the 'day-end price on the first day of closure of books' is prescribed to be used.
- The above referred tax is to be collected by the company within 15 days from the first day of closure of books.
- In case the shareholder fails to make payment of 5% tax within 15 days or the company fails to collect the tax within 15 days, the 5% bonus shares withheld by the company will be deposited by the company with the Central Depository Company of Pakistan Limited or any other entity prescribed by FBR.

7. Sindh Sales Tax (SST)

Pursuant to the Sindh Finance Act, the rate of SST has been reduced from 16% to 15%.

If you require any further information, please feel free to contact your trader / Customer Support for assistance.

Thanks & Regards,

IGI Finex Securities Limited