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FEDERAL BUDGET SYNOPSIS
2023-24

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PREFACE

The budget for 2023-24 was announced on 09th June, 2023. The proposed changes are effective from 1st July 2023 unless an earlier date is given for effectiveness of a particular provision. Our comments on the budget provisions provide basic understanding of amendments expected to be brought about however, it is recommended that for giving detailed understanding our advice may be sought.

DISCLAIMER

While preparing this Synopsis care has been taken to ensure that our understanding on fiscal proposal and significant changes are explained to the reader to the best of our ability.

Since the changes will take effect over the Finance Bill is approved by the Parliament. The synopsis provides general guidance and therefore any action or inaction on the basis of this synopsis will be readers prerogative. We however do not take any responsibility for loss, if any, sufficient by reader by taking any action on the basis of this synopsis without seeking our formal advice.

June 10, 2023

ECONOMIC SURVEY

During the fiscal year 2023-24, there have been several factors that have posed significant economic risks for Pakistan's economy. The geopolitical situation, difficult financial environment, and high inflationary pressures have all had a substantial impact on the prospects for global growth. Those factors mainly consist of:

- Heavy Floods all across Pakistan
- Political instability
- The war between Russia-Ukraine

The floods submerged one-third of the country in water, more than 1,700 people were dead and 8 million were displaced. An estimated 8.4 - 9.1 million more people could be forced into poverty as a direct consequence of this catastrophic. The losses amounted to 4.8 percent of GDP.

Pakistan’s economy still faces pressures from an uncertain global security situation, higher inflation driven by a spike in food prices, the stock market, future decrease in large-scale manufacturing, lower than anticipated foreign inflows, and burgeoning absolute financing requirements.

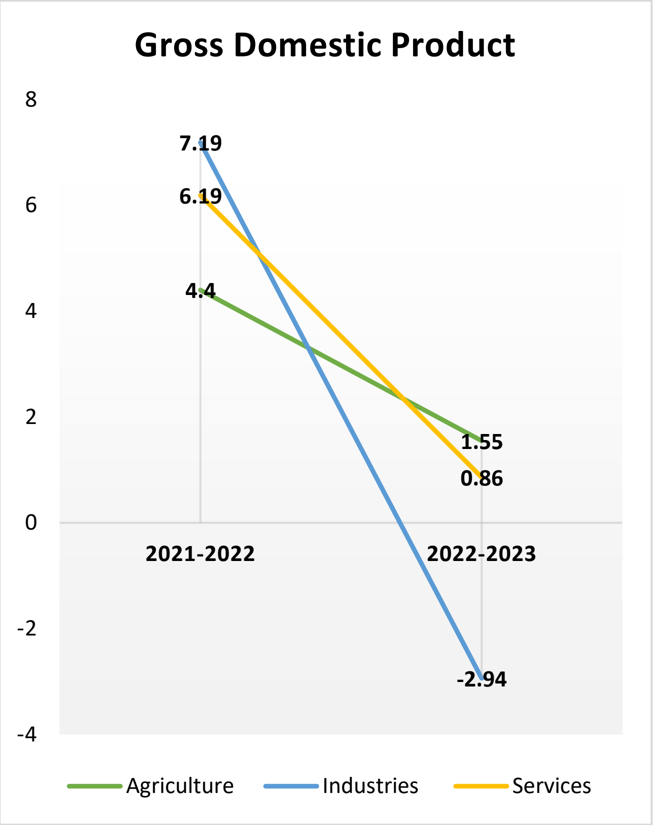
Overall, the economy has shown a meager growth in GDP by 0.29% during the year 2023 as against 6.1% in the year 2022. As well as the GDP Per Capita has decreased to USD 1,568. The inflation has shockingly increased to 28% in comparison to 11% last year, which has caused macroeconomic instability.

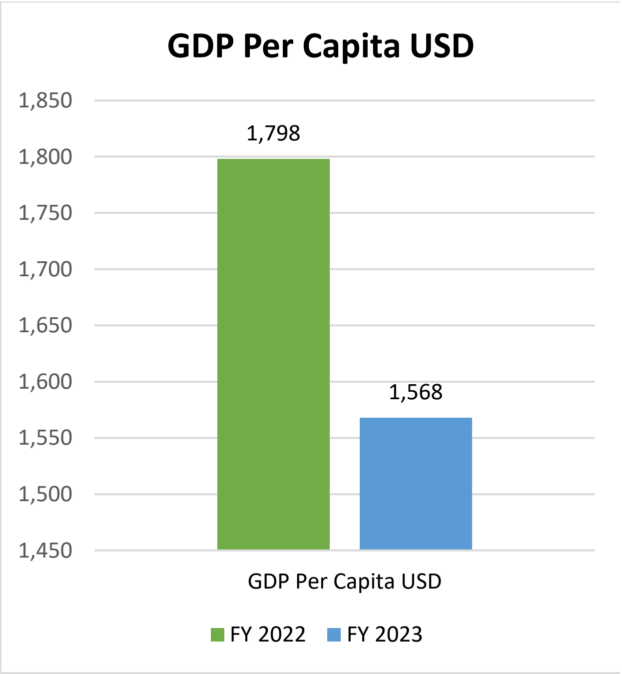
In comparison, the Trade Deficit has significantly reduced to USD 3.4 Billion during three quarters ended March 2023 as against USD 13.0 Billion in the same period last year, mainly due to restrictions on imports placed by the Government and slowdown in economic growth in the country.

The government aims a target of 3.5% GDP growth next year with a revenue target of Rs 9,200 Billion. This could only be achieved provided we have stable geopolitical situation and financial support from IMF and friend states.

GROSS DOMESTIC PRODUCT

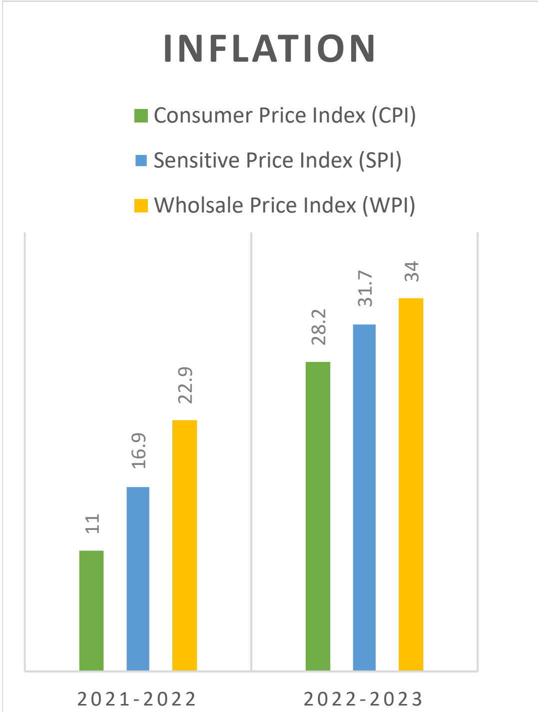
- In the year 2023, Pakistan's GDP grew by **0.29** percent, with **1.55** percent growth in agriculture, **-2.94** percent in industrial sector, and **0.86** percent in services sector.
- The GDP at current market prices recorded Rs 84,658 billion, showing a **27.10** percent growth over the previous year Rs 66,624 billion (US$ 341 billion).
- Reasons being, Macroeconomic imbalances, flood damages, domestic supply shocks and international economic slowdown which includes the Russia-Ukraine War.
- For FY2023, the Investment to-GDP ratio stood at **13.6** percent as compared to **15.6** percent in FY2022.
- The estimates of Gross Fixed Capital Formation (GFCF) stood at Rs 10093.5 billion showing an increase of 8.1 percent compared to FY2022.
- The industry-wise disaggregation of GFCF by the general government suggests an increase of **17.7** percent, **89.2** percent, and **5.9** percent in public administration & social security, education, and human health & social work, respectively.





INFLATION

- The CPI inflation for the period July & April FY2023 was recorded at **28.2** percent as against **11.0** percent during the same period last year.
- The inflationary pressures are emanating from weaker exchange rates, supply disruptions created by flood damages, higher global food prices, and broader tariff reforms for both electricity and fuels.



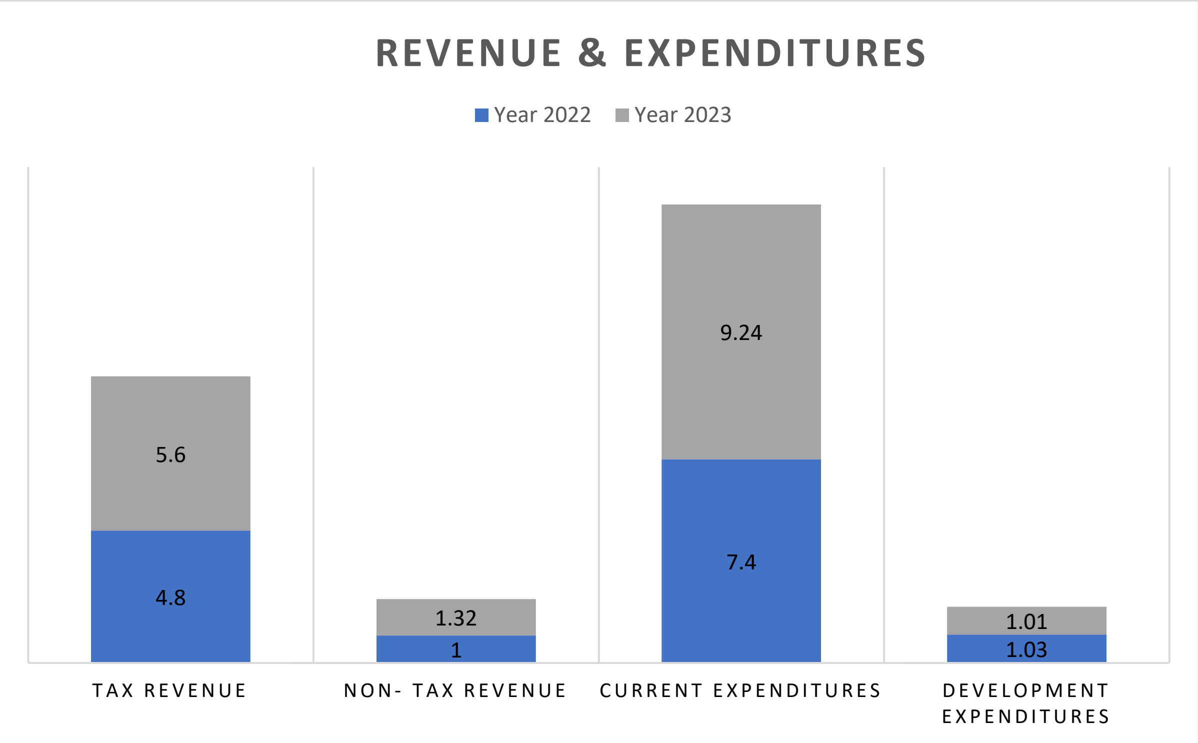
CAPITAL MARKET

- The Index closed at its highest point of 43,676.6 on 17th August 2022, whereas its lowest closing point was 38,342.2 on 17 January 2023.
- the number of listed companies stood at 526, with a market capitalization of Rs 6,108 billion.
- During July-March FY2023, corporations raised Rs 99.0 billion by issuing 20 debt securities.

MSCI – EM Index	1.0%
KSE – 100 Index	3.7%
Market Capitalization	Rs.6,108 Billion
Net Investment in NSS	Rs. -308.2 Billion
Incorporation Of Companies	5.9%
Commodities Contracts	Rs.3.49 Trillion

FISCAL DEVELOPMENT

- During July-March FY2023, broad money (M2) witnessed an increase of Rs 1,193.7 billion (growth of **4.3** percent) as compared to Rs 698.4 billion (growth of **2.9** percent) during the same period last year.
- The unprecedented rise in expenditures during FY2022 compared to the revenues put the fiscal sector under severe pressure. Consequently, the revenue expenditure gap widened.
- The revenue growth was largely driven by increased tax collection from both the federal and provincial governments.
- Tax collection grew by **28.1** percent to Rs 6755.2 billion in FY2022 against Rs 5272.7 billion in FY2021.
- On the other hand, non-tax revenues fell by **21.5** percent and reached Rs 1280.2 billion in FY2022 from Rs 1630.7 billion in FY2021. The drop in non-tax collection was primarily due to a decline in receipts from SBP profits.



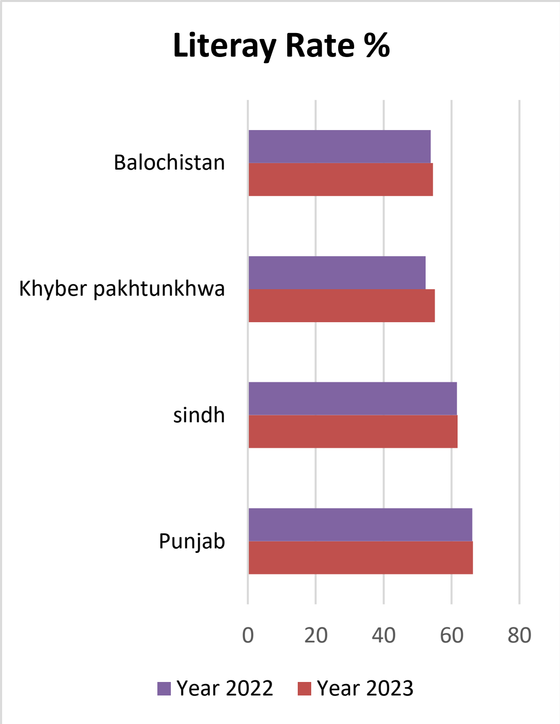
Rupees in Trillion

EDUCATION AND UNEMPLOYMENT

- There are 247 universities in the country with 57,204 thousand teachers in both public and private sectors functional in 2020-21, while 35.14 percent of faculty members are Ph.D., degree holders.

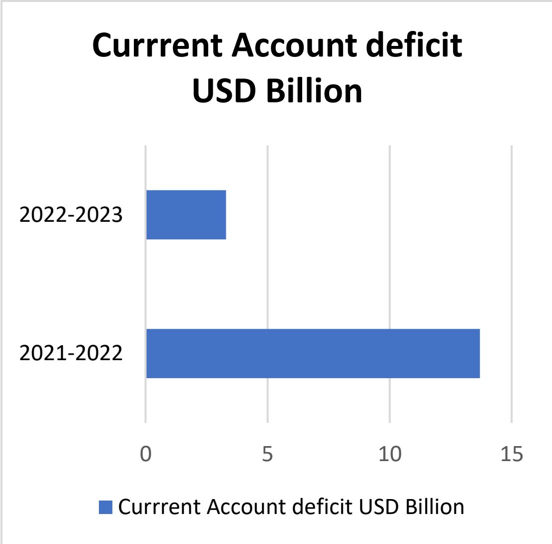
- Pakistan has a large labour force that stands among the top 10 largest labour forces in the world. According to Labour Force Survey (LFS) 2020-21 employed Labour force increased to 67.25 million in FY2021 as compared to 64.03 million in FY2019.

- Pakistan's rapidly growing population means an increasing demand for food, schools, health facilities, jobs, and infrastructure, and it put pressure on country's existing facilities.



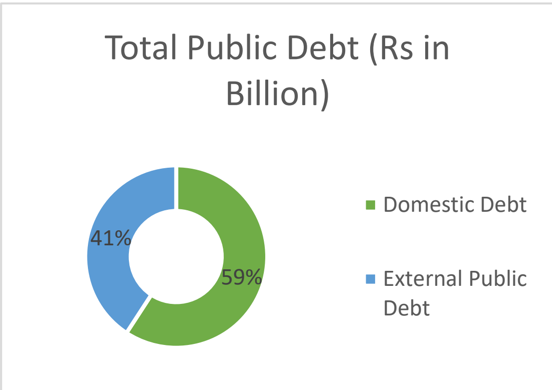
TRADE PAYMENTS

- The current account deficit (CAD) contained by 76 percent and was recorded at US$ 3.3 billion during July-April FY2023, against a deficit of US$ 13.7 billion in the same period last year.
- The improvement in CAD was on the back of a substantial decline in imports by **23** percent in July-April FY2023.
- SBP's foreign exchange reserves witnessed a decline mainly on the account of amortization of official loans and liabilities during July-April FY2023 and reached a level of US$ 4.5 billion by the end of April 2023.
- the average monthly PKR against USD depreciated by **27.8** percent during July-April FY2023.



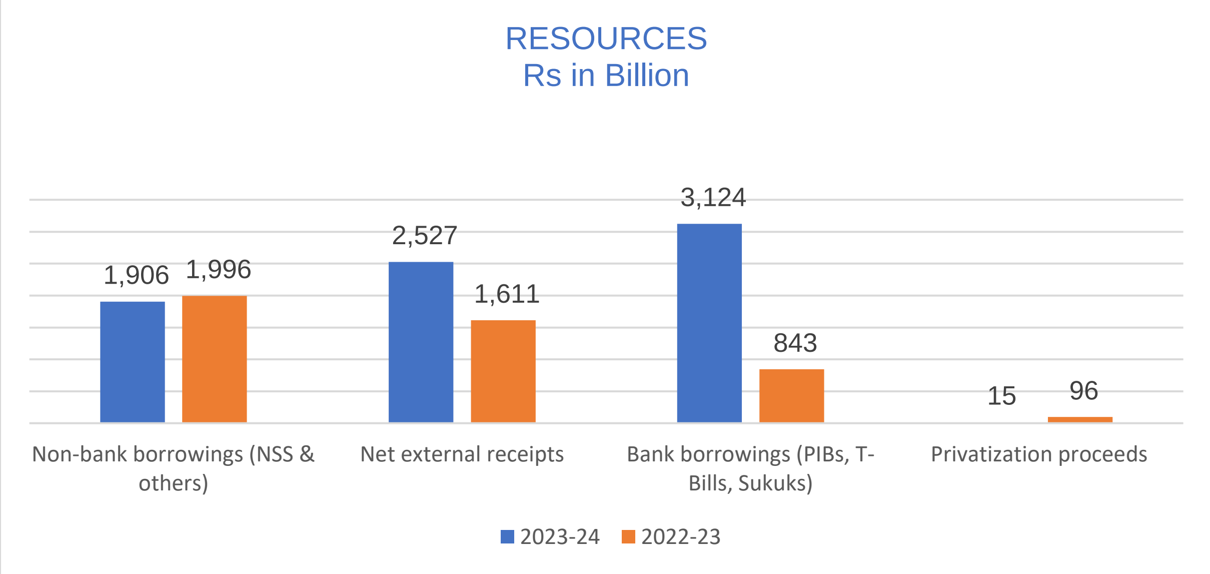
PUBLIC DEBT

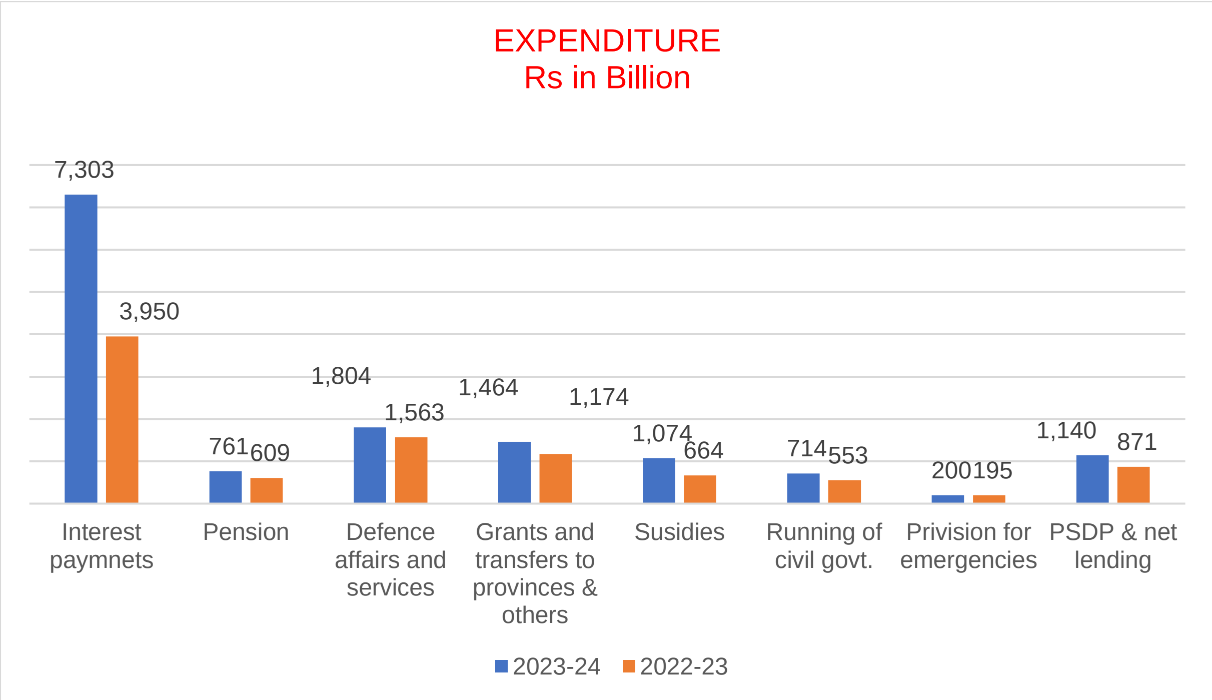
- Total public debt was recorded at Rs 59,247 billion at end-March 2023. Domestic debt was recorded at Rs 35,076 billion while external public debt was recorded at Rs 24,171 billion.
- Within external debt, inflows from multilateral sources and foreign commercial banks remained major sources of gross external inflows.
- The Government repaid Rs 310 billion against its debt owed to the SBP. The cumulative debt retirement against SBP debt stood at Rs 2.0 trillion since July 2019.



BUDGET AT A GLANCE

Total	14,460	9,579	51%
Total Expenditure			
Current expenditure			
Interest payments	7,303	3,950	85%
Pension	761	609	25%
Defence affairs and services	1,804	1,563	15%
Grants and transfers to provinces & others	1,464	1,174	25%
Subsidies	1,074	664	62%
Running of civil govt.	714	553	29%
Provision for emergencies	200	195	3%
	13,320	8,708	53%
Development expenditure			
Federal PSDP	950	727	31%
Net lending	190	144	32%
	1,140	871	31%
	14,460	9,579	51%


RESOURCES
Rs in Billion
1,906
1,996
2,527
1,611
3,124
843
15
96
Non-bank borrowings (NSS & others)
Net external receipts
Bank borrowings (PIBs, T-Bills, Sukuks)
Privatization proceeds
2023-24
2022-23


EXPENDITURE
Rs in Billion
7,303
3,950
761
609
1,804
1,563
1,464
1,174
1,074
664
714
553
200
195
1,140
871
Interest paymnets
Pension
Defence affairs and services
Grants and transfers to provinces & others
Susidies
Running of civil govt.
Privision for emergencies
PSDP & net lending
2023-24
2022-23

BUDGET HIGHLIGHTS

INCOME TAX

The Finance Bill has proposed to make following amendments:

- The definition of permanent establishment is broadened.
- Turnover limit for small and medium enterprises (SMEs) increased from Rs.250 million to Rs.800 million.
- The definition of SMEs to include individuals engaged in providing IT services or IT-enabled services.
- Provide exemptions and provisions related to taxation for foreign investment activities governed by the Foreign Investment (Promotion and Protection) Act, 2022.
- Provide tax credit to individual taxpayers for a tax year in respect to construction of a new house for tax years 2024 to 2026.
- Enhance the requirement for establishing the Association between the two persons.
- Introduces the concept of an additional tax on certain income, profits, and gains. This section is applicable to specified sectors as well such as Insurance, exploration and production of petroleum business and banking companies.
- To include Super Tax while computing quarterly advance tax liability (if applicable).
- Automatic issuance of exemption certificate under section 152 upon expiry of thirty days of receipt of notice by the Commissioner if not issued.
- Withdrawing condition of filing sales tax return for exporters of IT and IT enabled Services to qualify for the benefit of final tax.
- Reintroduction of deduction of tax on cash withdrawal by non-filer at the rate of 0.6%, which was previously withdrawn with vide Finance Act, 2021.
- Collection of advance tax of Rs.200,000/- on foreign domestic workers at the time of visa issuance or renewal. This tax proposed to be adjustable against employer's income tax liability.
- Grant an exemption to non-resident individuals holding POC, NICOP and CNIC acquiring property through State Bank of Pakistan (SBP) notified Foreign Currency Value Account (FCVA) and NRP Rupee Value Account (NRVA) account from payment of tax under section 236K on purchase of said property.
- Impose tax on bonus shares at the rate of 10%, which shall be final tax.
- National Clearing Company of Pakistan Limited (NCCPL) to collect super tax under section 4C.

AMENDMENTS IN APPLICABLE TAX RATES

- Enhance the super tax on high earning person by further adding three slab rate from 4% to 10%.
- Reduce the turnover tax for Companies listed on Pakistan stock exchange from 1.25% to 1% other than specified entities / business.
- Increased income tax from 5.5% to 6% in case of commercial importer to be collected under section 148.
- Enhance the withholding tax rate by 1% on every category/ payment falls under section

152 and 153 of the Income Tax Ordinance, 2001.

- Enhance the advance tax on remittance sent to abroad through debit /credit card from 1% to 5%.

EXEMPTION & TAX CONCESSIONS

- Include certain foundations, societies, boards, trust or fund under clause (66) for exemption from total income.
- Extend time limit of exemption of profit and gain accruing to a person on sale of immovable property or shares of special purpose vehicle to any type of REIT Scheme till 30th June, 2024.
- Extend time limit of exemption of persons resident in the Tribal Area forming part of the Provinces of Khyber Pakhtunkhwa and Baluchistan till 30th June, 2024
- Exempt the profit and gains of a small and medium enterprise setup exclusively as agro based industry in a rural area for five tax year from 2024 to tax year 2028.
- Tax reduction on profit and gains chargeable to tax under the head “Income from Business” derived by youth enterprise.
- Exempt minimum tax to the Prime Minister’s Relief Fund for Flood, Earthquake and Other Calamities with effect on and from the 5th August, 2022.
- Exempt withholding of tax on profit on debt under section 151 to Prime Minister’s Relief Fund for Flood.
- Exempt collection of advance tax under section 236 (telephone and internet) on the amount donated through SMS to the Prime Minister’s Relief fund for Flood, Earthquake with effect on and from the 5th August, 2022.
- Exempt tax under provision of section 148 on import of goods required for relief operations for flood affectees for the period of three months from 1st December 2022.
- Exempt tax under provision of section 148 on import of tomatoes and onions till the 31st December, 2022
- Add names of certain entities, organizations and funds under Thirteenth Schedule to enable tax credit on donation.

SALES TAX

The Bill has proposed to make following amendments:

- Exclude production, transmission and distribution of electricity from the ambit of federal sales tax.
- Exclude Jewelers and shops measuring one thousand square feet in area from the category of Tier-1 retailer.
- Zero rate imports or supplies made by, for or to a qualified investment as specified at Serial No.1 of the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022.
- Exempt sales tax on supplies and imports of plant, machinery, equipment for installation in tribal areas and of industrial inputs by the industries located in the tribal areas till 30th June, 2024
- Withdraw exemption of sales tax on import of auto disable Syringes and raw material for manufacture of auto disable syringes.

- Tax the supply of Red Chillies, Ginger, Turmeric, Yogurt, Butter, Desi ghee, Cheese, Processed cheese not grated or powdered, Products of meat or meat offal, Meat of bovine animals, sheep, goat and uncooked poultry meat & Fish and crustaceans sold under a brand name with or without retail packing.
- Enhance the sales tax rate from 12% to 15% on finished fabric, and locally manufactured finished articles of textile and textile made-ups and leather and artificial leather as made from retail outlets as are integrated with Board's computerized system for real-time reporting of sales
- Tax medicaments classified under chapter 30 of the First Schedule to the Customs Act, 1969 (IV of 1969) with some exclusion at the rate of 1% with effective from 1st July 2022.
- Charge sale tax at the rate of 1% on raw materials for manufacturing pharmaceutical active ingredients and products. Further, importers will be exempt from sales tax if the raw materials are subject to customs duty not exceeding eleven percent ad valorem. The changes are set to be effective from July 1, 2022.

FEDERAL EXCISE DUTY

The Bill has proposed to make following amendments:

- Empower the Board to arrange and publish all rules made under the act on the official website of the board.
- Impose federal excise duty at the rate of Rs. 2,000/- per fan on energy inefficient fans both locally manufactured and imported which do not comply with the MEPS, notified by PSQCA.
- Impose federal excise duty at the rate of twenty percent ad valorem on incandescent bulbs both locally manufactured and imported.
- Impose federal excise duty by adding royalty and fee for technical in the list of excisable services and required to be taxed at 10%.
- Exempt federal excise duty on goods and services provided or rendered to the Qualified investment as specified at Serial No.1 of the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022 for the period as specified in the Second Schedule to the said Act.

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001

The Bill has proposed to make following amendments:

- Bring IT services provided by freelance exporters in the definition of cottage industry as defined in Sales Tax Act, 1990
- Zero rate the services rendered to Gwadar Special Economic Zone.
- Reduce sales tax from 15% to 5% on services provided by restaurants including cafes, food (including ice-cream) parlors, coffee houses, coffee shops, deras, food huts, eateries, resorts and similar cooked, prepared or ready-to-eat food service outlets where payment against services is received w debit or credit cards, mobile wallets or QR scanning subject to the condition that no input tax adjustment or refund shall be admissible.
- Reduce the rate of sales tax from 16% to 15% for services provided by software or IT-based system development consultants.

- Impose sales Tax at the rate of 15% on Electric Power Transmission service.
- Charge sales tax on IT services and IT-enabled services at the rate of 5% subject to the conditions that no input tax adjustment or refund shall be admissible.

SIGNIFICANT AMENDMENTS

INCOME TAX

SECTION 2(41) Permanent establishment

The Finance bill has proposed to omit the term “fixed” from the definition of permanent establishment, without the term "fixed," a permanent establishment could potentially include not only physical locations like offices, factories, or stores, but also virtual or digital presences, such as online platforms or websites, that generate significant business activities or have a substantial economic presence in a particular jurisdiction.

The Finance bill has proposed to expand the criteria for creating a Permanent Establishment (PE) of a non-resident person. In addition to services provided by employees and other personnel, the provision of services by any person through an entity will also be considered in determining the existence of a PE

SECTION 2(59A) Small and medium enterprise

The current definition of a small and medium enterprise (SME) refers to a person involved in manufacturing with a business turnover not exceeding two hundred and fifty million Rupees. However, the Bill proposes to enhance the turnover limit from two hundred and fifty million rupees to eight hundred million rupees. Additionally, the definition will be extended to include persons engaged in providing or rendering IT services or IT enabled services as defined in clauses (30AD) and (30AE) of section 2.

SECTION 39 Income from other sources

The bill has proposed to classify bonus shares issued to the shareholder of the company as “income from Other sources” for imposition of tax under section 236Z.

SECTION 44A Exemption under Foreign Investment (Promotion and Protection) Act, 2022 (XXXV of 2022)

The bill has proposed to insert a new section 44A, the proposed section aims to provide exemptions and provisions related to taxation for foreign investment activities governed by the Foreign Investment (Promotion and Protection) Act, 2022.

Taxes Exemption: Taxes on income (including capital gains), withholding taxes, minimum and final taxes under the Income Tax Ordinance are proposed to be exempt to the extent provided in the Second and Third Schedule of the Foreign Investment (Promotion and Protection) Act, 2022. These exemptions apply to qualified investments specified in the First Schedule of the said Act.

Exemption for Investors and Shareholders: All investors, shareholders of the qualified investment, their associates, and companies specified in the Second and Third Schedule, including third-party lenders on account of any loan, are also proposed to be exempt from taxes and other provisions of the Income Tax Ordinance to the extent provided in the Second and Third Schedule of the said Act.

Anti-Avoidance Provisions Exemption: Provisions of the Income Tax Ordinance relating to Anti-Avoidance including sections 106, 106A, 108, 109 and 109A are proposed not to apply to the persons mentioned in this section.

Depreciation and Allowances: The rates of depreciation, initial allowance, and pre-commencement expenditure as on March 20th, 2022, will continue to be applicable for thirty years as provided in the Third Schedule of the said Act.

SECTION 65I Tax Credit for Construction of House

The bill has proposed to insert a new section 65I, which aims to provide a tax credit to individuals who construct new houses during the tax years 2024 to 2026. Under this provision:

(1) An individual taxpayer will be eligible for the tax credit if they construct a new house in the relevant tax year and submit a completion certificate along with their tax return.

(2) The tax credit amount will be calculated as the lesser of two, i.e;

- (a) Ten percent of the tax assessed for the tax year.
- (b) One million rupees.

(3) The term "new house" refers to a residential house that has its layout plan approved by the concerned authority on or after July 1st, 2023.

SECTION 85 Associates

The bill has proposed to provide two additional criteria for determining the association between the two persons. The changes and enhancements can be summarized as follows: the revised provision is as follows:

Expanded Relationship Criterion: The substitution of provision (1) retains the existing criterion that associates are individuals who can reasonably be expected to act in accordance with each other's intentions or the intentions of a third person. This criterion remains unchanged.

Sufficient Influence Criterion: The substitution introduces a criterion where one person sufficiently influences the other, either alone or with the help of associates. It clarifies that individuals will be considered associates if they are economically and financially dependent on each other, and decisions are made based on the directions, instructions, or wishes of both parties towards a common economic goal. This criterion enhances the understanding of the relationship between associates by highlighting economic and financial dependencies.

Zero Taxation Regime Criterion: The substitution includes a criterion stating that associates can also exist if one person engages in a transaction, directly or indirectly, with another person who is a resident of a jurisdiction with a zero taxation regime. This addition recognizes the potential influence and association that can arise from transactions with individuals or entities residing in jurisdictions with no taxation.

The implication resulting from the proposed amendment is a broader and more inclusive definition of associates. This revision takes into account not only the nature of the relationship between individuals but also factors such as economic dependencies and transactions involving individuals in zero taxation jurisdictions. By incorporating these aspects, it would enable authorities to gain a deeper understanding of associations and enables them to effectively identify and address situations where individuals or entities closely collaborate or engage in transactions that may have significant tax implications or consequences.

Further, the bill has proposed that, the term 'jurisdiction with zero taxation regime' refers to a jurisdiction that will be specified or prescribed by the relevant authorities.

SECTION 99D Additional tax on certain income, profits and gains

The proposed Section 99D introduces the concept of an additional tax on certain income, profits, and gains. This additional tax is applicable for any of the preceding five tax years from the tax year 2023 and onwards. It is important to note that this tax is imposed in addition to any tax already charged, paid, or payable under the existing provisions of the Income Tax Ordinance or any other law.

The section aims to target income, profits, or gains that have arisen due to specific economic factors, such as international price fluctuations or foreign currency fluctuations, which have resulted in unexpected income, profits, or gains for any person or classes of persons. The unexpected nature of these financial gains is emphasized, irrespective of whether they have been disclosed in the financial statements.

The proposed section grants authority to the federal government to issue notifications specifying the economic factors, determining the tax rate, and outlining the scope, time, and payment of the tax. The government also has the power to exempt certain persons or classes of persons and their income from the application of this section, subject to specified conditions.

The proposed section restricts the Federal Government to set the rate of the additional tax, not exceeding fifty percent of the income, profits, or gains affected by the specified economic factors.

The proposed provision lacks clarity in defining "unexpected income" and the specific economic factors that trigger the additional tax. This lack of clarity can lead to inconsistencies in its application and create confusion for taxpayers and tax authorities. The subjective nature of determining what constitutes unexpected income may result in differing interpretations and potential disputes.

Imposing this additional tax retrospectively on income that has already been subject to tax and potentially disclosed in financial statements can be seen as unfair. Taxpayers who have already fulfilled their tax obligations based on the existing laws and regulations may feel burdened by this retroactive taxation. It creates uncertainty and undermines the principle of stability and predictability in the tax system.

The potential tax rate of up to fifty percent is extremely high and can have a significant impact on businesses and individuals. Such a high tax rate may discourage investment, risk-taking, and expansion of operations. It can hinder economic growth and discourage entrepreneurs and investors from engaging in productive activities that contribute to job creation and overall economic development.

SECTION 111 Unexplained income or assets

The foreign remittance in foreign exchange received from outside Pakistan through regular banking channels and the converted amount in rupees does not exceed five million rupees then this foreign remittance will be exempted from assessment under this section.

The Finance bill has proposed a revision to raise the exemption limit from five million Rupees to an equivalent of one hundred thousand United States dollars, which is quite higher than the previous limit as per prevailing exchange rates.

SECTION 113 Minimum tax on the income of certain persons

As per provision of this section, if the minimum tax payable under this section exceeds the normal tax calculated under Part I, Clause (1) of Division I or Division II (referred to as the "aforesaid Part"), the excess tax amount can be carried forward to offset against the tax liability under the same "aforesaid Part" in the next tax year. Thus resulting in ambiguity and adjustment of said excess amount with other tax liabilities including minimum tax (if any)

The Finance Bill has proposed to clarify that the term "aforesaid Part" specifically refers to Clause (1) of Division I or Division II in Part I of the First Schedule (providing tax rates for individuals, AOPs and Companies).

SECTION 146D Recovery of liability outstanding under other laws

The Finance bill has proposed to insert a new section, empowering Commissioner Inland Revenue with the authority to recover outstanding liabilities of a defaulter that are categorized as income tax arrears under other laws or statutes. This section proposes to empowers the Commissioner to initiate the recovery process and directs them to deposit the receipts from such recovery into the designated account specified in the respective law or statute.

SECTION 147 Advance tax paid by the taxpayer

This section pertains to the assessment of advance tax liability by taxpayers. The bill has proposed that Super Tax on high earning person under section 4C shall also be considered for the purposes of determining advance tax liability under the Ordinance.

This amendment is proposed to be inserted through explanation, which shall have retrospective effect as if it has always been there. Its implications may arise in such cases where advance tax discharged was lesser than the required limit, and where the Super tax under section 4C was applicable, in tax years 2023 and onward.

SECTION 152 Payment to Non-Resident

If a person intends to make a payment to a non-resident individual without deducting tax as required by this section, they must provide a written notice to the Commissioner before making the payment. The notice should include specific details about the payment. In subsection (5A), the Commissioner is obligated to review the notice and issue a written order either approving or rejecting the request, along with the reasons for the decision.

The Finance bill has proposed, that if the Commissioner does not respond within thirty days, it will be deemed that an exemption certificate has been issued. This certificate will be automatically processed and issued by IRIS, subject to the condition that any days of adjournment requested by the applicant will not be included in the computation of the thirty-day period. However, it is important to note that the Commissioner retains the authority to modify or cancel the automatically issued certificate based on recorded reasons, provided that the affected individual is given an opportunity to be heard.

SECTION 154 Exports

Sub-section (3B) outline the tax deduction requirement for direct exporters and export houses registered under the Duty and Tax Remission for Exports Rules, 2001, this provision mandates that these exporters must deduct tax from the payment made for firm contracts with indirect exporters at the specified rates mentioned in Division IV of Part III of the First Schedule.

The Bill has proposed to require direct exporters and export houses operating under the Export Facilitation Scheme, 2021, to deduct tax from the payment made for firm contracts with indirect exporters at the rate of 1%.

SECTION 154A Export of Services

Section 154A states that authorized dealers in foreign exchange are required to deduct tax from the proceeds received for the export of certain services. These services include the export of computer software, IT services, or IT-enabled services by individuals registered and certified by the Pakistan Software Export Board. However, this deduction is considered as final tax under certain conditions. These conditions include filing a tax return, submitting withholding statements for the relevant tax year if required by the law, filing sales tax returns under Federal or Provincial laws if necessary, and not being eligible for foreign tax credits.

The bill proposed to eliminate the condition of filing sales tax returns under Federal or Provincial laws for persons registered and certified by the Pakistan Software Export Board who are exporting computer software, IT services, or IT-enabled services. This proposed change aims to allow them to qualify for the benefit of final tax without fulfilling the sales tax return condition.

SECTION 164A Payment of tax collected or deducted by SWAPS agents

The Finance Bill has proposed to change the title of Section 164A, to “Settlement of transactions liable to Withholding Tax by SWAPS agents” this implies a shift in focus. Currently, this section is primarily concerned with the payment of tax collected or deducted by SWAPS agents. However, with the proposed change, the emphasis will be on the settlement of transactions liable to withholding tax by SWAPS agents. It suggests that the section will propose to address the broader process of handling transactions subject to withholding tax, rather than solely focusing on the payment aspect. The proposed change indicates a potential expansion or revision of the responsibilities and role of SWAPS agents in facilitating the settlement of transactions involving withholding tax.

SECTION 230J International Centre of Tax Excellence

The Finance bill has proposed a new section 230J, for establishment of the International Centre of Tax Excellence, an Institute dedicated to various functions related to tax policy and administration. The Institute's responsibilities include contributing to tax policy development, conducting research, facilitating international tax cooperation, organizing seminars and workshops, and providing capacity building for Inland Revenue Officers.

The bill proposed to outline the composition and roles of committees responsible for the Institute's management, including a Nominating Committee and an Executive Committee. The Executive Director, appointed by the Federal Government, serves as the Chief Executive of the Institute, ensuring its efficient functioning. Recruitment rules for Institute employees are prescribed, with a focus on hiring individuals with tax policy or administration experience. Remuneration and terms of employment for Institute employees are determined by the Federal Government. The Board may establish a committee to monitor the Institute's establishment and appoint a Project Director. The bill proposed to emphasizes the confidentiality of taxpayer data provided to the Institute for analysis, with identifying particulars kept anonymous. The Executive Committee is proposed to be empowered to make rules for implementing the section's purposes through official gazette notifications.

SECTION 231AB Advance tax on cash withdrawal

The Finance bill has proposed a new section 231AB, regarding deduction of adjustable advance tax by banking companies at the rate of 0.6% on cash withdrawals exceeding fifty thousand rupees in a single day from a person whose name is not appearing in the active taxpayers' list.

Previously, banking companies were required to withhold tax under section 231A on cash withdrawals exceeding fifty thousand rupees from a person whose name is not appearing in active taxpayer’s list, which was omitted by Finance Act, 2021.

SECTION 231C Advance tax on foreign domestic workers

The Finance bill has proposed to introduces new section 231C regarding the collection of advance tax on foreign domestic workers. This section requires authorities issuing or renewing domestic aide visas to collect a tax of two hundred thousand rupees from the agency, sponsor, or individual employing the services of the foreign national domestic worker. The tax collected is proposed to be adjustable advance tax for the relevant tax year on the income of the agency, sponsor, or person employing the foreign domestic worker.

SECTION 236K Advance tax on purchase or transfer of immoveable property

Under section 236K, any person responsible for registering, recording, attesting transfer of any immoveable property shall at the time of registering, recording, attesting the transfer shall collect from purchaser or transferee advance tax at the rate of 2% of the fair market value. The Finance bill proposed to exempt a non-resident individuals holding POC, NICOP and CNIC acquiring property through SBP notified FCVA and NRVA account from collection of tax under section 236K on purchase of said property. Currently, tax collected from said non-resident individual transferee or buyer individual is final tax.

SECTION 236Z Bonus shares issued by companies

The Finance bill has proposed to introduces a new section 236Z regarding the issuance of bonus shares by companies. This section proposed to requires companies to withhold ten percent of the bonus shares to be issued to shareholders. To receive the withheld bonus shares, shareholders must pay a tax equal to ten percent of the value of the bonus shares, determined based on the day-end price for listed companies or as prescribed for other companies.

The company is responsible for depositing the tax collected within fifteen days of the closure of books, regardless of whether the shareholder has paid the tax. The company can collect and recover the deposited tax from the shareholder before issuing the bonus shares.

If a shareholder fails to pay the tax or collect the bonus shares within fifteen days of issuance, the company has the authority to dispose of the bonus shares to the extent of the tax paid on behalf of the shareholder.

The issuance of bonus shares is proposed to be treated as income for the shareholder, and the tax collected by the company or proceeds from disposed bonus shares are considered as if paid on behalf of the shareholder. The tax paid under this section is proposed to be a final tax on the shareholder's income arising from the issuance of bonus shares.

The bill proposed to ensure the proper collection of tax on bonus shares and promote compliance with tax obligations by both companies and shareholders.

Further, the bill has proposed to amend definition of income under clause (29) of section 2 to include any amount subject to collection or deduction of tax under section 236Z, and also proposed to amend section 168, to restrict tax credit in respect of tax deduction under this section.

AMENDMENT IN APPLICABLE TAX RATES

FIRST SCHEDULE

PART I

DIVISION IIB Super Tax on high earning persons under section 4C

S.No.	Income Under section 4C	Current rate of Tax	Proposed rate of Tax
(1)	(2)		(3)
1.	Where income does not exceed Rs.150 million	0%	0%
2.	Where income exceeds Rs.150 million but does riot exceed Rs.200 million	1%	1%
3.	Where income exceeds Rs.200 million but does not exceed Rs.250 million	2%	2%
4.	Where income exceeds Rs.250 million but does riot exceed Rs.300 million	3%	3%
5.	Where income exceeds Rs.300 million but does not exceeds Rs.350 million	4%	4%
6.	Where income exceeds Rs.350 million but does not exceeds Rs.400 million	4%	6%
7.	Where Income exceeds Rs.400 million but does not exceeds Rs.500 million	4%	8%
8.	Where income exceeds Rs.500 million	4%	10%

DIVISION IX Minimum Tax under section 113

S.No.	Person(s)	Minimum Tax as percentage of the person's turnover for the year (Current)	Minimum Tax as percentage of the person's turnover for the year Proposed
1.	(a) Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds rupees one billion.)	0.75%	0.75%

	(b) Pakistani International Airlines Corporation; and (c) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production;		
2.	(a) Oil refineries (b) Motorcycle dealers registered under the Sales Tax Act, 1990 (c) Oil marketing companies]	0.5%	0.5%
3.	(a) Distributors of pharmaceutical products, fast moving consumer goods and cigarettes; (b) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990; (c) Rice mills and dealers; (d) Tier-1 retailers of fast moving consumer goods who are integrated with Board or its computerized system for real time reporting of sales and receipts; (e) Person’s turnover from supplies through e-commerce including from running an online marketplace as defined in clause (38B) of section 2. (f) Persons engaged in the sale and purchase of used vehicles; and (g) Flour mills	0.25%	0.25%
4.	Company listed on Pakistan Stock Exchange, if not covered in S. No.1 to 3 above	1.25%	1%
5.	In all other cases.	1.25%	1.25%

PART II

Rate of advance tax on imports

S. No.	Persons	Rate Current	Proposed rate
3.	Persons importing goods classified in Part III of the Twelfth Schedule	5.5% of the import value as increased by customs-duty, sales tax and federal excise duty”;	5.5% of the import value as increased by customs-duty, sales tax and federal excise duty and 6% of the import value as increased by customs duty sales tax and federal excise duty in case of a commercial importer”

PART III

DIVISION II Payments to non-residents

S. No.	Persons	Rate Current	Proposed rate
3.	The rate of tax to be deducted from a payment referred to in clause (a) of sub-section (2A) of section 152 shall be	in case of a company, 4% of the gross amount payable	in case of a company, 5% of the gross amount payable
		in any other case, 4.5% of the gross amount payable	in any other case, 5.5% of the gross amount payable
	The rate of tax to be deducted from a payment referred to in clause (b) of sub-section (2A) of section 152 shall be	3% of the gross amount payable, in the cases of transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services as defined in section 2, tracking services, advertising services (other than by print or electronic	4% of the gross amount payable, in the cases of transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services

		media), share registrar services, engineering services, car rental services, building maintenance services, services rendered of Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited inspection and certification, testing and training services, oilfield services	as defined in section 2, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services, car rental services, building maintenance services, services rendered of Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited inspection and certification, testing and training services, oilfield services
	in cases other than	in case of a company, 8% of the gross amount payable	in case of a company, 9% of the gross amount payable
		in any other case, 10% of the gross amount payable	in any other case, 11% of the gross amount payable
	The rate of tax to be deducted from a payment referred to in clause (c) of sub-section (2A) of section 152 shall be	7% of the gross amount payable	8% of the gross amount payable

DIVISION III Payments to residents

S. No.	Persons	Rate Current	Proposed rate
3.	in the case of sale of goods 8[including toll manufacturing	in case of a company, 4% of the gross amount payable	in case of a company, 5% of the gross amount payable
		in any other case, 4.5% of the gross amount payable	in any other case, 5.5% of the gross amount payable

	The rate of tax to be deducted from a payment referred to in clause (b) of sub-section (1) of section 153 shall be	3% of the gross amount payable, in the cases of transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services as defined in section 2, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services including architectural services, warehousing services, services rendered by asset management companies, data services provided under license issued by the Pakistan Telecommunication Authority, telecommunication infrastructure (tower) services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited, inspection, certification, testing and training services, oilfield services, telecommunication services, collateral management services, travel and tour services REIT management services, services rendered by National Clearing Company of Pakistan Limited.	3% of the gross amount payable, in the cases of transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services as defined in section 2, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services including architectural services, warehousing services, services rendered by asset management companies, data services provided under license issued by the Pakistan Telecommunication Authority, telecommunication infrastructure (tower) services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited,

			inspection, certification, testing and training services, oilfield services, telecommunication services, collateral management services, travel and tour services REIT management services, services rendered by National Clearing Company of Pakistan Limited.
	in case of rendering of or providing of services other than sub-clause (i),	in case of a company, 8% of the gross amount payable	in case of a company, 9% of the gross amount payable
		in any other case, 10% of the gross amount payable	in any other case, 11% of the gross amount payable
	The rate of tax to be deducted from a payment referred to in clause (c) of sub-section (1) of section 153 shall be	6.5% of the gross amount payable	7.5% of the gross amount payable
		in any other case, 7% of the gross amount payable	in any other case, 8% of the gross amount payable

DIVISION IVA The rate of tax to be deducted under section 154A shall be

S. No.	Persons	Rate Current	Proposed rate
1.	Export proceeds of Computer software or IT services or IT Enabled services by persons registered with Pakistan Software Export Board	0.25% of proceeds	0.25% of proceeds for tax year 2024 up to tax year 2026
	Any other case	1% of proceeds	1% of proceeds for tax year 2024 up to tax year 2026.

PART IV

DIVISION XXVII Advance tax on amount remitted abroad through credit, debit or prepaid cards

S. No.	Persons	Rate Current	Proposed rate
1.	The rate of tax to be deducted under section 236Y shall be	1%	5%

SECOND SCHEDULE

PART I EXEMPTION FROM TOTAL INCOME

Clause 66 Finance Bill proposed to include following foundations, societies, boards, trust or fund for exemption from Income;

(lxiii)	The Prime Minister's Relief Fund for Flood_ Earthquake and Other Calamities with effect on and from the 5th August, 2022.
(lxiv)	Film and Drama Finance Fund
(lxv)	Export-Import Bank of Pakistan
(lxvi)	Shaheed Mohtarma Benazir Bhutto Institute of Trauma, Karachi
(lxvii)	Shaheed Zulfiqar Ali Bhutto Institute of Science and Technology

Clause 99(A) Finance Bill proposed to extend time limit of exemption of profit and gain accruing to a person on sale of immovable property or shares of special purpose vehicle to any type of REIT Scheme from 30 June, 2023 to 30th June, 2024.

Clause (145A) Finance Bill proposed to extend time limit of exemption of persons resident in the Tribal Area forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan under paragraph (d) of Article 246 of the Constitution from 30 June, 2023 to 30th June, 2024

Clause (150) Finance Bill proposed to exempt the income derived by Alteraz Engineering Consultant from contract dated 23rd day of May 2017 with Earthquake Reconstruction and Rehabilitation Authority, financed by the Saudi Fund for Development.

New Clause (154) Finance Bill proposed to exempt the profit and gains of a small and medium enterprise setup exclusively as agro based industry in a rural area for five tax year from 2024 to Tax year 2028, subject to the condition that the company formed on or after the 1st day of July 2023 and is not formed by the transfer or reconstitution or reconstruction or splitting up of an existing business.

PART III REDUCTION IN TAX LIABILITY

New Clause 21 Finance Bill proposed a reduction in the tax payable on the profit or gains derived by a builder registered with the Directorate General of Designated Non-Financial Business and Professions from a new building construction project under the head "Income from Business".

The reduction will be either ten percent or five million rupees, whichever is lower, in the tax year when the builder submits the completion certificate issued by the relevant regulatory authority along with their tax return.

The term "new building project" refers to a construction project for a building, excluding a land development project, where the layout plan has been approved by the concerned authority on or after July 1st, 2023. This provision aims to incentivize builders engaged in new building construction projects by reducing their tax liability, thereby promoting investment in the real estate sector.

New Clause 22 Finance Bill proposed a reduction in the tax payable on the profit and gains derived by youth enterprises from business activities under the head "Income from Business" for the tax years 2024 to 2026. The reduction will be as follows:

(i) For individuals or an Association of Persons (AOP), the tax payable will be reduced by 50% or two million rupees, whichever is lower.
(ii) For companies, the tax payable will be reduced by 50% or five million rupees, whichever is lower.

A youth enterprise refers to a sole proprietorship, AOP, or company owned by a young individual, established on or after July 1st, 2023. The term "youth" refers to a natural person up to the age of 30 years on the first day of the relevant tax year.

However, it's important to note that this clause will not apply to startups that are covered under clause (19) of Part III of the Second Schedule. The aim of this provision is to provide tax relief and support to youth-owned enterprises, encouraging entrepreneurship and economic growth among the youth population.

PART IV EXEMPTION FROM SPECIFIC PROVISIONS

Clause (11A) Finance bill proposed to include “the Prime Minister’s Relief fund for Flood, Earthquake and Other Calamities” in the list of entities which are not subject to minimum tax under section 113, effective from the 5th of August, 2022.

Omission Clause (100) Finance Bill proposed to withdraw the clause that pertains to the exemption from Section 236U for premiums under the Crop Loan and Livestock Insurance Scheme. This is because Section 236U, which was related to the collection of tax on insurance premiums, was already omitted by the Finance Act of 2020. As a result, the clause became irrelevant and is now proposed to be withdrawn from the legislation.

New Clause (121) Finance Bill proposed to exempt the Prime Minister's Relief Fund for Flood from the withholding of tax on profit on debt under Section 151.

New Clause (122) Finance Bill proposed to exempt the amount donated through SMS to the Prime Minister's Relief Fund for Flood, Earthquake, and other calamities from the collection of advance tax under Section 236 (telephone and internet) effective from the 5th of August, 2022.

New Clause (123) Finance Bill proposed to exempt goods imported for relief operations for flood affectees from the provisions of Section 148 for a period of three months, starting from December 1st, 2022.

New Clause (124) Finance Bill proposed to exempt the import of Tomatoes and Onions from the provisions of Section 148 until the 31st of December, 2022.

THE FOURTH SCHEDULE

New Rule (6DB) Finance Bill proposed to extend the application of Section 99D, which imposes an additional tax on unexpected income, profits, and gains resulting from economic factors, to include insurance companies. This means that insurance companies would be subject to the same provisions as other entities regarding the assessment and imposition of this additional tax on any unforeseen financial gains they may have derived due to specific economic factors.

THE FIFTH SCHEDULE

New Rule (4AC) Finance Bill proposed to extend the application of Section 99D, which imposes an additional tax on unexpected income, profits, and gains resulting from economic factors, to include persons carrying business of Exploration and Production of petroleum. This means that business of Exploration and Production of petroleum would be subject to the same provisions as other entities regarding the assessment and imposition of this additional tax on any unforeseen financial gains they may have derived due to specific economic factors.

THE SEVENTH SCHEDULE

Rule (7CA) The Finance Bill proposes to rectify an error in Rule 7CA, which previously stated that the super tax required under section 4C would be applicable to the banking sector from the tax year 2022. However, banking companies were excluded from paying super tax in that year.

New Rule (7CB) Finance Bill proposed to extend the application of Section 99D, which imposes an additional tax on unexpected income, profits, and gains resulting from economic factors, to include banking companies. This means that banking companies would be subject to the same provisions as other entities regarding the assessment and imposition of this additional tax on any unforeseen financial gains they may have derived due to specific economic factors.

Rule (7D, 7E AND 7F) Finance Bill proposed to extend the period from tax year 2023 to tax year 2025 to be taxed at 20% instead of the rate specified in Division II of Part I of the First Schedule on the taxable income arising from additional advances to micro, small, and medium enterprises, and for low-cost housing and farm credit in Pakistan.

New Rule (7G) Finance Bill proposes that the taxable income arising from additional advances for IT and IT-enabled services in Pakistan, for the tax years 2024 to

2025, will be subject to a tax rate of 20% instead of the rate specified in Division II of Part I of the First Schedule.

RULE (8). Exemptions—

Rule (4) Finance Bill proposes to ratify the exemption provided by the Board through SRO 213(I)/2023 dated 22.02.2023. Initially, the exemption covered profit on debt and capital gains from debt and debt instruments approved by the Federal Government. However, the proposed amendment narrows down the scope of the exemption to only include the Federal Government's sovereign debt or a sovereign debt instrument.

New
Rule (5) Finance Bill proposes to ratify an insertion made through SRO 226(I)/2023 dated 27.02.2023. This insertion aims to exempt the income attributable to Federal Government Securities from the enhanced rates of taxes for the tax year 2024.

Specifically, sub-rule (6A) of Rule 6Cprovides enhanced rates of tax on taxable income derived from investment in Federal Government Securities.

THE EIGHTH SCHEDULE

New
Rule (4A) Computation, collection and payment of tax under section 4C

The Finance Bill proposes that in addition to capital gains tax, the National Clearing Company of Pakistan Limited (NCCPL) shall also calculate and collect super tax on high-earning individuals as per section 4C at the rates specified in Division IIB of Part I of the First Schedule on the amount of capital gains computed under this Schedule in the manner specified in this Schedule and rules made thereunder.

THE THIRTEENTH SCHEDULE

Tax credit on charitable donation made to entities, organization and fund listed in this schedule are allowed tax credit under section 61 of the Ordinance.

Finance Bill seeks to add names of following further entities, organizations and funds in the said list:

64	The Prime Ministers Relief Fund for Flood, Earthquake and Other Calamities with effect on and from the 5th August, 2002
65	Film and Drama Finance Fund

THE FOURTEENTH SCHEDULE

The rule related to registration of Small and medium enterprise has proposed to be amended catering registration of persons engaged in IT or IT enables services.

Small and medium enterprise engaged in IT services or IT enabled services shall be required to be registered with and duly certified by the Pakistan Software Export Board, in addition to registration on SMERP

Rule 3 Categories and tax rates

The bill proposed to insert new slab of tax as category 3 in the tax rates for small and medium enterprises on turnover exceeding 250 million but does not exceed 800 million.

Sr. No.	Category	Turnover	Rates
(1)	(2)	(3)	(4)
1.	Category-1	Where annual business turnover does not exceed Rupees 100 million	7.5% of taxable income
2.	Category-2	Where annual turnover exceeds Rupees 100 Million but does not exceed Rupees 250 Million	15% of taxable income
3.	Category-3	Where annual turnover exceeds Rupees 250 Million but does not exceed Rupees 800 Million	20% of taxable income”

Rule 4 Option for Final Tax Regime

The bill proposed to insert new slab of tax as category 3 in the tax rate of small and medium enterprises on turnover exceeding 250 million but does not exceeds 800 million.

Sr. No.	Category	Turnover	Rates
(1)	(2)	(3)	(4)
1.	Category-1	Where annual business turnover does not exceed Rupees 100 million	0.25% of gross turnover
2.	Category-2	Where annual business turnover exceeds Rupees 100 million but does not exceed Rupees 250 million	0.5% of gross turnover
3.	Category-3	Where annual business turnover exceeds Rupees 250 million but does not exceed Rupees 800 million	0.75% of gross turnover”;

SALES TAX

SECTION 2 (12) Goods and (33) Supply

The Finance bill has proposed to omit Production, Transmission and distribution of electricity from the definition of Goods and Supply. It was previously brought in the ambit of Sales Tax vide Finance Act 2022.

SECTION 2(29A) Sales Tax

Exclusion from Tier-1 Retailer Category:

The Finance bill has proposed to exclude the following categories from definition of Tier-1 Retailer Category:

- (e) a retailer, whose shop measures one thousand square feet in area or more or two thousand square feet in area or more in the case of retailer of furniture;

- (ga) a person engaged in supply of articles of jewelry, or parts thereof, of precious metal or of metal clad with precious metal excluding a person whose shop measures three hundred square feet in area or less;

Directorate General of Digital Initiatives

The Finance bill has proposed to set up the Directorate General of Digital Initiatives which shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors and Assistant Directors and such other officers as the Board may, by notification in the official Gazette, appoint.

Proposed Amendments in Fifth Schedule:

The Finance Bill has proposed to make following amendments in the Fifth Schedule:

Serial No.	Existing Description	New Description
8A		Imports or supplies made by, for or to a qualified investment as specified at Serial No.1 of the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022 for the period as specified in the Second Schedule to the said Act.”
12	(xxv) Geometry boxes (PCT heading 9017.2000)	“(xxv) other drawing, marking out or mathematical calculating instruments (geometry box) (PCT heading 9017.2000).”
21	Local supplies of raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions as specified therein.]	Local supplies of **Commodities**, raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions as specified therein.]

Proposed Amendments in Sixth Schedule:

The Finance Bill has proposed to make following amendments in the Sixth Schedule:

Serial No.	Existing Description	New Description
121	Blood Bag CPDA-1 with blood transfusion set pack in aluminium foil with set	Blood Bag CPDA-1 with blood transfusion set pack in aluminium foil with set "Explanation.– For removal of doubt, it is clarified that the blood transfusion sets not packed in aluminum foil imported with blood bags CPDA-1, in corresponding quantity in same consignment are also exempt;
151	(a) Supplies; and (b) imports of plant, machinery, equipment for installation in tribal areas and of industrial inputs by the industries located in the tribal areas, as defined in the Constitution of Islamic Republic of Pakistan − as made till 30th June, 2023	(a) Supplies; and (b) imports of plant, machinery, equipment for installation in tribal areas and of industrial inputs by the industries located in the tribal areas, as defined in the Constitution of Islamic Republic of Pakistan − as made till 30th June, 2024
152	Supplies of electricity, as made from the day of assent to the Constitution (Twenty-fifth Amendment) Act, 2018, till 30th June, 2023	Supplies of electricity, as made from the day of assent to the Constitution (Twenty-fifth Amendment) Act, 2018, till 30th June, 2024
159	Import of auto disable Syringes till 901[31st December, 2021] (i) with needles (ii) without needles	Omitted
160	Import of following raw materials for the manufacturers of auto disable syringes till 902[31st December, 2021] (i) Tubular metal needles (ii) Rubber Gaskets	Omitted

The Finance bill has proposed to insert following new items in the Sixth Schedule:

Serial No.	Description	HS Code
175	Contraceptive and accessories thereof	3926.9020 and 4014.1000
176	Bovine semen	0511.1000
177	Saplings	Respective heading
178	Combined Harvester – Thresher	8433.5100
179	Dryer for agricultural products	8419.3400
180	No-till-direct seeder, planters, trans-planters and other planters	8432.3100 and 8432.3900

181	Import of goods as mentioned under S. No. 159 of Part III of Fifth Schedule to the Customs Act, 1969 (IV of 1969) chargeable to customs duty at the rate of zero percent, subject to the conditions, restrictions and limitations mentioned therein, by the software exporters registered with the Pakistan Software Export Board.	7471.3010, 8471.3020, 8471.3090, 8471.4110, 8471.6010, 8471.6020, 8471.6090,8471.7040, 8471.9020, 8471.7020, 8471.5000 and 8517.6270."

Sixth Schedule, Table – I and Table-2

The Finance Bill has proposed to revise the sales tax exemption criteria for specific goods sold under a brand name in retail packaging. Currently, these goods are excluded from the exemption. However, the proposed amendment seeks to eliminate the condition of retail packaging. As a result, the following goods, regardless of whether they are sold in retail packaging or not but bear a brand name, will no longer be exempt from sales tax.

- Red chillies
- Ginger
- Tumeric
- Yogurt
- Butter
- Desi ghee
- Cheese
- Processed cheese not grated or powdered
- Products of meat or meat offal
- Meat of bovine animals, sheep, goat and uncooked poultry meat
- Fish and crustaceans

Proposed Amendments in Eighth Schedule:

The Bill proposes to make following amendments in the Sixth Schedule:

Sr. No.	Description	Existing Rate of Sales Tax	Proposed Rate of Sales Tax	Condition
66	Supplies as made from retail outlets as are integrated with Board's computerized system for real-time reporting of sales	12%	15%	if supplied goods are finished fabric, and locally manufactured finished articles of textile and textile made-ups and leather and artificial leather subject to the condition that they have maintained 4% value addition during the last six months"

Sr. No.	Existing Description	Proposed Description	Rate of Sales Tax	Condition
81	Manufacture or import of substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976)	Substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976) and medicaments as are classifiable under chapter 30 of the First Schedule to the Customs Act, 1969 (IV of 1969) except the following, even if medicated or medicinal in nature, namely:- (a) filled infusion solution bags imported with or without infusion given sets; (b) scrubs, detergents and washing preparations; (c) soft soap or no soap; (d) adhesive plaster; (e) surgical tapes; (f) liquid paraffin; (g) disinfectants, and (h) cosmetics and toilet preparations. This substitution shall be deemed to have been made from the 1st day of July, 2022.	1%	Subject to the conditions that: (i) Tax charged and deposited by the manufacturer or importer, as the case may be, shall be final discharge of tax in the supply chain (ii) No input tax shall be adjusted by the manufacturer or importer
82	Active Pharmaceutical Ingredients, excluding excipients, for manufacture of drugs registered under the Drugs Act, 1976 (XXXI of 1976) or raw materials for the basic manufacture of pharmaceutical active ingredients.	Raw materials for the basic manufacture of pharmaceutical active ingredients and for manufacture of pharmaceutical products, provided that in case of import, only such raw materials shall be entitled to exemption which are liable to customs duty not exceeding eleven per cent ad valorem, either under the First Schedule or Fifth	1%	Subject to the conditions that: (i) DRAP shall certify item-wise requirement of manufacturers of drugs and APIs and in case of import shall furnish all relevant information to Pakistan Customs Computerized System; and (ii) No input tax shall be adjusted by the manufacturer or importer.]

		Schedule to the Customs Act, 1969 (IV of 1969) or under a notification issued under section 19 thereof. This substitution shall be deemed to have been made from the 1st day of July, 2022		

SIGNIFICANT AMENDMENTS

Islamabad Capital Territory Ordinance, 2001

IT Services by freelance exporters

- The Finance bill has proposed to bring IT services provided by freelance exporters in the definition of cottage industry as defined in Sales Tax Act, 1990. This proposed amendment shall result in exemption of sales tax on services provided by such persons provided the turnover does not exceed Rs.8 million per annum.

- A freelance exporter has been defined as a person who works on per job and on self-employed basis without being attached to or under employment of any other person, having the liberty to work on various tasks simultaneously

Services provided to Gwadar special economic zone

- The Finance bill has proposed to zero rate the services rendered to Gwadar Special Economic Zone.

Proposed Amendments in Taxable Services as per TABLE 1

Serial number (Sr)	Description	Existing rates	Proposed Rates
1	Services provided by restaurants including cafes, food (including ice-cream) parlors, coffee houses, coffee shops, deras, food huts, eateries, resorts and similar cooked, prepared or ready-to-eat food service outlets etc.	15%	**5%** where payment against services is received through debit or credit cards, mobile wallets or QR scanning subject to the condition that no input tax adjustment or refund shall be admissible. 15% where payment is in cash.
11	Services provided by software or IT-based system development consultants	16%	**15%**
60	Electric Power Transmission service New Entry	-	**15%**

TABLE 2

Serial Number (Sr)	Description	Existing rate	Proposed rate
11	IT services and IT-enabled services.	5%	**5%** subject to the conditions that no input tax adjustment or refund shall be admissible.

Explanation:- For the purpose of above entry following definitions are inserted:

(a) "**IT services**" include but not limited to software development, software maintenance, system integration, web design, web development, web hosting and network design; and

(b) "**IT enabled services**" include but not limited to inbound or outbound call centres, medical transcription, remote monitoring, graphics design, accounting services, human resources (HR) services, telemedicine centres, data entry operations, cloud computing services, data storage services, locally television programs and insurance claims processing.

SIGNIFICANT AMENDMENTS
Federal Excise Duty Act, 2005

Chargeability of Federal Excise Duty

The Finance Bill has proposed to remove the ambiguity, therefore, proposes to empower Federal Government to levy federal excise duty on goods and services as mentioned in the First Schedule of the Act.

SECTION 29(2) - Directorate General of Digital Initiatives

The Finance Bill has proposed to establish a governing body known as the Directorate General of Digital Initiatives comprising a Director General, along with several Directors, Additional Directors, Deputy Directors, Assistant Directors, and any other officials as may be notified by the Board through an official Gazette.

SECTION 40 (2)- Power of Board to make rules:

The Finance Bill has proposed to add a new sub section (4) and empowering the Board to arrange and publish all rules made under the act along with general orders and departmental instructions and rulings for sale to public and placement on the official website of the board.

FIRST SCHEDULE (TABLE-I)-EXCISABLE GOODS:

- The Finance Bill has proposed to impose Federal Excise Duty at the rate of Rs.2,000/- per Fan on Energy inefficient fans both locally manufactured and imported which do not comply with the MEPS, notified by PSQCA.

- The Finance Bill has proposed to impose Federal Excise Duty at the rate of Twenty percent ad valorem on Incandescent bulbs both locally manufactured and imported.

FIRST SCHEDULE (TABLE-II)-EXCISABLE SERVICES:

The Finance Bill has proposed to enhance the scope of federal excise duty on services by adding Royalty and Fee for technical services and charging tax at the rate of 10%.

THIRD SCHEDULE (TABLE-I)-Goods:

The Finance Bill has proposed that the imports or supplies involving a qualified investment, as defined in Serial No. 1 of the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022, are permitted for the specified period mentioned in the Second Schedule of the same Act.

THIRD SCHEDULE (TABLE-II)-Services:

The Finance Bill has proposed exemption of federal excise duty on goods and services as specified below:

- Qualified investment as specified at Serial No.1 of the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022 for the period as specified in the Second Schedule to the said Act.

- Qualified investment as specified at Serial No.1 of the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022 for the period as specified in the Second Schedule to the said Act.