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FINANCE ACT
2024-25

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PREFACE

The budget for 2024-25 was announced by the Federal Finance Minister on June 12, 2024. The National Assembly approved the Finance Bill 2024 on June 28, 2024, with some amendments. Following the President of Pakistan's assent, the Finance Act 2024 was enacted on June 29, 2024. The amendments are effective from July 01, 2024 unless an earlier date is specified for a particular provision. Our comments provide a basic understanding of the expected changes; however, for a detailed explanation, we recommend seeking our professional advice.

DISCLAIMER

While preparing this document 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 abilities.

This document provides general guidance and therefore any action or inaction on the basis of this synopsis will be readers' discretion. We however do not take any responsibility for loss, if any, sufficient by reader by taking any action or inaction on the basis of these synopsis without seeking our formal written advice.

July 08, 2024

FINANCE ACT HIGHLIGHTS

INCOME TAX

SCOPE OF TAXES

- Every individual, including salaried individuals, and Association of Persons (AOP) whose taxable income for the year exceeds Rs 10 million shall be liable to pay a surcharge at the rate of 10% of the income tax on their taxable income.
- The Finance Act has made significant increase in tax rates for salaried individuals, business individuals, and Associations of Persons (AOPs).
- A special tax regime for builders and developers has been prescribed, where taxable profits from these activities are computed as a percentage of gross receipts.
- Pakistan International Airlines Corporation Limited (PIACL) has been allowed to carry forward business losses for ten years instead of six for losses incurred from tax years starting on or after January 1, 2017.
- 100% tax credit under Section 65F shall be allowed against the income from coal mining projects in Sindh, supplying coal to power generation projects, thus preventing entities from claiming the credit on unrelated income.
- The final tax regime available to exporters has been withdrawn.
- Capital gains tax on securities acquired on or after July 1, 2024, has been increased to 15%. Further, transactions involving inactive status at the time of acquisition or disposal shall be charged to tax at normal rate subject to minimum tax rate of 15%.
- Capital gains tax on properties acquired on or after July 1, 2024, has been increased to 15%, further for person not appearing on ATL tax shall be charged to tax at normal rate subject to minimum tax rate of 15%.

General

- The Finance Act has imposed stringent penalties for various tax violations, including failure to file returns, non-registration, non-compliance with tax orders, and incomplete disclosures.
- Rate of default surcharge has been set at the higher of 12% or KIBOR + 3%.
- With regard to payments to resident and non-resident persons (not subject to minimum tax) the power of the Commissioner to issue exemption certificate has been restricted up to 80% of the normal rate.
- The Finance Act allows the Commissioner to reject an advance tax estimate if it lacks required details or if the supporting documents are unsatisfactory, after giving the taxpayer an opportunity to be heard.
- Threshold for determining estimated turnover for quarterly advance tax has been increased from 110% to 120% of the latest assessed tax year.
- The Commissioner Inland Revenue is empowered to require any individual to file wealth statement along with foreign assets and foreign liabilities.
- The Finance Act has imposed restriction on foreign travel for Pakistani citizens (other than NICOP holders, minors, students, and other classes as notified by the tax authority) who fail to comply with tax filing obligations.
- AOPs with a turnover of 300 million rupees or more are now required to file audited financial statements with their tax return for ensuring tax exemption to members' on their shares of profits.
- The Finance Act broadens 'Business Connection' to include 'significant economic presence' in Pakistan for non-residents, covering substantial transactions and digital

interactions. Non-residents under double tax treaties are exempt, subject to anti-avoidance measures.

- The Commissioner can now utilize sectoral benchmark ratios, including financial and production metrics, for best judgment assessments under new tax provisions.
- Assets of a spouse to be included in a wealth statement only if the spouse is dependent.
- The Finance Act introduces penalties of Rs 50 million for the first default and Rs 100 million for subsequent defaults for non-compliance with income tax general orders.

Collection and deduction of Advance Tax at Source

- Advance tax withholding from payment against share purchases is required to be paid at the earlier of payment or registration by SECP or SBP.
- The rate of advance tax on sale and purchase of property for both active and inactive taxpayers has been increased.
- Advance tax on sale/purchase of immoveable property is required to be collected at enhanced rates for those on the active taxpayers' list who miss the filing deadline specified in Sections 118, 119, or 214A.
- The rate of tax on profit on debt for person not appearing on ATL has been increased to 35%.
- The Finance Act has extended the application of advance tax on sales to distributors, dealers, wholesalers, and retailers across all business sectors except dealer/retail outlet of OMC's.
- Adjustable advance tax @ 1% of export proceeds is required to be collected from exporter under Section 147.
- The tax rate on dividends distributed by mutual funds deriving 50% or more of profits from debt is increased to 25%.
- The rate of withholding tax on payments for toll manufacturing has been increased.

Exemptions and Tax Concessions

- Income of Special Purpose Vehicle buying Diversified Payment Rights from Authorized Dealers has been exempt from tax.
- The Finance Act has withdrawn the existing exemption for income that represents a subsidy granted by the Federal Government.
- Time limit of exemption of persons resident in the Tribal Area forming part of the Provinces of Khyber Pakhtunkhwa and Baluchistan has been extended till 30th June, 2025
- The Finance Act has increased the rate of withholding tax under Section 153(1)(a) for distributor of cigarettes from 1% to 2.5%.
- Exemption pertaining to individuals domiciled, and companies and associations of persons resident in the Tribal Areas of Khyber Pakhtunkhwa and Baluchistan from certain withholding tax provisions has been extended till 30th Jun 2025.
- Exemption from minimum tax based on turnover (S-113) for Special Economic Zone entities has been reintroduced.

SALES TAX

General

- The Act has introduced the concept of best judgement Assessment in Sales Tax Act,1990.
- Board has been empowered to exclude certain services, subject to provincial sales tax, from the allowability of admissibility of input tax.
- Chief Commissioner has been empowered to examine the order of black listing and suspension either on his own motion or on the basis of application made by taxpayer.
- The rate of default surcharge has been set at the higher of 12% or KIBOR plus three percent.

Taxability

- Enhanced the rate of sales tax from Zero percent to 10% on the, Colors in sets, Writing, drawing and marking inks, Erasers, Pencil sharpeners, other drawing, marking out or mathematical calculating instruments, Pens, ball pens, markers and porous tipped pens, Pencils including color pencils.
- DAP fertilizer has been classified under Third Schedule.
- The local supply of Milk that sold under a brand name or supplied by corporate dairy farm has been made taxable.
- The Sales tax at standard rate has been charged on Fat filled milk and Local supplies of commodities, raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021.
- Withdraw the exemption of Tractors, Oil cake and other solid residue, local supply of vermicillies, sheer mal, bun and rusk excluding those sold in bakeries, and sweet shops falling in the category of Tier-1 retailers, Local supply of poultry feed, cattle feed, sunflower seed meal, rape seed meal and canola seed meal, Newsprint and books but excluding brochures, leaflets and directories, and charge sales tax at the rate 10%.
- Withdraw the sales tax exemption on Edible vegetables, Fruit, imported from Afghanistan including roots and tubers, except ware potato and onions, whether fresh, frozen or otherwise preserved.
- Rate of sales tax rate enhance on import of personal computer ad laptop computer, notebooks from 5% to 10%.
- The Finance Act has levied ad valorem sales tax on mobile phones at a rate of 18%, except for those valued over $500, which will be taxed at a rate of 25%.
- Enhance the rate of sales tax on LPG from 8% to 18 %.
- Supplies as made from retail outlets as are integrated with Board’s computerized system for real-time reporting of sales from 15% to 18%.
- Increased the rate of sales tax on Import or supply of medicine as are classified under chapter 30 of the First Schedule of the Custom Act, 1969 and other medicine except for medicines registered as drugs under the Drug Act, 1976 from 1% to 18%.

Exemptions

- Exemption of sales tax on supplies and import of plant, machinery, equipment for installation in tribal areas has been extended to 30 Jun 2025.
- Exemption of supplies of electricity made to residential and commercial consumer in tribal areas which were set and started their industrial production before 31st May 2018 has been extended to 30 Jun 2025.
- Exemption allowed for the Import of all goods received, in the event of a natural disaster or other catastrophe, as gifts and relief consignments or any goods received as gift or donation from a foreign government or organization by the Federal or Provincial Governments or any public sector organization

- Exemption allowed on import of POL Products such as MS(Petrol), High Speed Oil, Kerosene, and Light Diesel Oil.
- Exemption allowed on supply of Iron and steel scrap excluding supplied by manufacturer-cum-exporter of recycled copper, authorized under Export Facilitation Scheme, 2001.

Sales tax Withholding

- The withholding of sales tax of manufacturing lead batteries increased from 75% to 80%.
- The withholding of sales tax on the supply of various items has been increased from 10% to 80%. This applies to any kind of gypsum under chapter 25, any kind of coal under chapter 27, waste of paper and paperboard, plastic waste, crushed stone, and silica.

FEDERAL EXCISE DUTY

General

- The rate of default surcharge has been set at the higher of 12% or KIBOR plus 3%.
- The Finance Act imposes fines and up to five years' imprisonment for using plant and machinery valued at Rs 50 million or more without Commissioner permission.
- The Finance Act has provided for sealing of outlets of retailers selling illicit cigarettes.
- New authority to be established whose function shall be to detect, analyze, investigate, combat and prevent tax fraud.

Taxability

- Rate of FED on Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not colored or in the form of clinkers has been increased to Rs 3 per kg.
- FED has been levied at the rate of 5% ad valorem on lubricating oil.
- FED has been increased on services provided or rendered in respect of travel by air of passengers embarking on international journey from Pakistan as under.
- FED has been levied on allotment / transfer of immovable and supply of white crystalline sugar

Exemption

- Conditional exemption for Imports made by diplomats, diplomatic missions, privileged persons and privileged organizations have been provided.

SIGNIFICANT AMENDMENTS
INCOME TAX

SECTION 2(8) Board

The Finance Act has included a Member of the Federal Board of Revenue to whom powers of the Board have been delegated under Section 8 of the Federal Board of Revenue Act, 2007.

SECTION 4AB Surcharge

The Finance Act has introduced a new Section, 4AB, regarding the levy of a surcharge on individuals and Associations of Persons (AOP). For individuals (including salaried employees) and AOPs with an annual taxable income exceeding Rs 10 million, a surcharge of 10% is imposed on their income tax under Division I, Part I, of the First Schedule.

Corresponding changes have also been made in Section 149, requiring employers to withhold this surcharge amount from employee salaries. This surcharge does not apply to incomes under the final tax regime or those with special tax rates (e.g., capital gains on listed securities, immovable properties, etc.). For those subject to super tax due to incomes exceeding Rs 150 million, the surcharge only applies to the normal income tax liability and not to the super tax amount.

SECTION 7F Tax on builders and developers

The Finance Act 2024 introduced Section 7F to the Income Tax Ordinance 2001, imposing a tax on builders and developers. This provision determines taxable profit from the construction and sale of buildings, the development and sale of plots, or a combination of both. The taxable profit is a percentage of the gross receipts from these activities:

- 10% for the construction and sale of buildings,
- 15% for the development and sale of plots, and
- 12% for combined activities.

This tax applies solely to income generated from these specified activities and does not cover income from other sources. Taxpayers cannot claim credit for sums exceeding the taxable profits computed above. If actual taxable income exceeds these computed profits, taxpayers can claim credit for the excess, subject to normal tax rates.

An exemption is provided for builders or developers established by an Act of Parliament, Provincial Assembly, or Presidential Order. This exemption applies to entities engaged in activities benefiting their employees or involved in housing and ancillary facilities development in specified areas.

SECTION 37 Capital Gain

As per Section 37 of the Ordinance, the person acquiring a capital asset, being shares of a company, is required deduct advance adjustable tax from the gross amount paid as consideration for the shares at the rate of ten percent of the fair market value of the shares which shall be deposited within fifteen days of the payment. The Finance Act has required payment of tax at the earlier of the time of payment or registration of shares by the SECP or SBP as the case may be.

SECTION 57 Carry forward of business losses

The Finance Act has allowed Pakistan International Airlines Corporation Limited (PIACL) to carry forward business losses for up to ten years, instead of the carry forward of loss upto six years, for losses incurred in tax years 2018 and onwards.

This extension aims to provide financial relief, support operational stability, and enhance the long-term sustainability of the carrier. The rationale behind this change is to give PIACL more time to offset its losses against future profits, thereby improving its financial health and competitive position.

SECTION 65F Tax Credit for certain persons

A tax credit equal to 100% of the tax payable is available to persons involved in coal mining projects in Sindh that supply coal exclusively to power generation projects, subject to specific conditions.

The Finance Act has inserted an explanation, clarifying that the 100% tax credit is only available for income derived specifically from operations of coal mining projects in Sindh supplying coal to power generation projects. This explanation will prevent persons from claiming the credit on other income, thereby ensuring that the incentive is used as intended.

SECTION 92 Tax Credit for certain persons

The Finance Act has introduced a condition for claiming of tax exemption by members of Association of person (AOP) to claim tax exemption from the income from AOP. The condition requires filing of audited financial statements with tax return where the turnover of AOP is Rupees 300 million or more.

This aims to enhance financial transparency, ensure compliance with proper accounting practices, and prevent tax evasion by ensuring that AOPs with significant turnover accurately report their financial activities and that their members' shares are properly accounted for and taxed.

SECTION 100BA Special provisions relating to persons not appearing in active taxpayers' list

The collection or deduction of advance income tax, the computation of income, and the determination of tax payable for persons not appearing on the active taxpayers' list are governed by the rules outlined in the Tenth Schedule.

The Finance Act has now created another category of individuals who are on the active taxpayers' list but have not filed their returns by the due date specified in Section 118, or by the extended due date under Sections 119 or 214A.

Currently, for this new category of persons, separate rates have been specified under the Tenth Schedule for the advance tax on the sale and purchase of immovable property under Sections 236C and 236K.

SECTION 101 Geographical Source of Income.

The business income of a non-resident is considered Pakistan-sourced to the extent that it is directly or indirectly linked to a 'business connection' in Pakistan. The scope of 'business connection' has now been broadened to encompass the 'significant economic presence in Pakistan' of a non-resident.

Significant economic presence in Pakistan is defined as:

a) transaction in respect of any goods, services or property carried out by a non-resident with any person in Pakistan including provision of download of data or software in Pakistan, if aggregate of payments arising from such transactions during a tax year exceeds such amount as may be prescribed;

b) systematic and continuous soliciting of business activities or engaging in interaction through digital means with such number of users in Pakistan as may be prescribed, irrespective of whether or not—
   i. the agreement for such transactions or activities is signed in Pakistan; or
   ii. the non-resident has a residence or place of business in Pakistan; or
   iii. the non-resident renders services in Pakistan

SECTION 108 Transaction between associates.

The Finance Bill proposed to disallow 25% of the total expenditure for the tax year related to sales promotion, advertisement, and publicity allocated to an associate, where the taxpayer claims a deduction for royalty paid or payable to an associate for the use of any brand name, logo, patent, invention, design, secret formula, process, copyright, trademark, scientific or technical knowledge, franchise, license, intellectual property, or similar property or right, or contractual right.

The Finance Act stipulates that this disallowance will now only be made upon notice issued by the Commissioner if the taxpayer fails to provide an explanation or evidence showing that no benefit has been conferred on the associate as a result of incurring such expenditure.

SECTION 111 Unexplained income or asset.

An amendment through the Finance Act has defined the 'year of discovery of foreign assets or concealed income or expenditure' as the year in which the Commissioner issues a notice requesting the person to clarify the nature and source of such foreign assets or concealed income.

SECTION 114B Powers to enforce filing of returns.

The Finance Act has introduced an additional consequence for individuals not compliant with tax filing obligations by restricting them from foreign travel. This provision will apply to Pakistani citizens. Notably, exemptions to these restrictions encompass holders of National Identity Card for Overseas Pakistanis (NICOP), minors, students, and other classes of persons as notified by the tax authority.

SECTION 116 Wealth Statement.

The Finance Bill proposed to clarify the Commissioner's authority to require individuals to furnish a wealth statement that includes their foreign assets. The Finance Act has expanded this clarification to include foreign liabilities as well.

Furthermore, the Finance Act specifies that a spouse's assets should only be included in an individual's wealth statement if the spouse is dependent.

SECTION 121 Best judgement Assessment.

The Finance Bill proposed a new clause (ac) under subSection (1) empowering the Commissioner to conduct best judgment assessments when a person fails to file an income tax return following a notice issued under subSection (3) of Section 117, which pertains to the discontinuation of a business.

The Finance Act ratified proposed clause and also introduced another clause (1A). This new clause allows the Commissioner, for the purpose of conducting best judgment assessments, to determine taxable income based on sectoral benchmark ratios prescribed by the Board. The Act defines sectoral benchmark ratios as standard business sector ratios notified by the Board, derived from comparative cases. These ratios include financial ratios, production ratios, gross profit ratio, net profit ratio, recovery ratio, wastage ratio, and any other ratios prescribed for relevant sectors.

SECTION 122A Revision by the Commissioner.

Through the Tax Laws (Amendment) Act 2024 an amendment was made in Section 122A of the Ordinance. This amendment had restricted the Commissioner from calling for records of orders passed by the Commissioner Appeals if the value of the assessment or refund did not exceed PKR 20 million. The Finance Act has withdrawn this pecuniary restriction, now the commissioner may call for record in case of any order passed by Officer of Inland Revenue.

SECTION 126A Pecuniary jurisdiction in appeals.

The Finance Act has inserted an explanation to define the terms "value of assessment of tax" and "value of refund" for determining appeal jurisdiction. This clarification ensures that the "value of assessment of tax" represents the net increase in tax liability resulting from the order, while the "value of refund" signifies the net reduction in refund arising from the order. This addition aims to bring clarity to the assessment of financial thresholds for appeal jurisdiction.

The Finance Bill proposed to extend the timeline for transferring cases from the Commissioner (Appeals) to the Appellate Tribunal. Initially set for June 16, 2024, the transfer date proposed to be shifted to September 16, 2024. The Finance Act has now shift the date of transfer of case to “on or before 31 Dec 2024” and this amendment shall be deemed to take effect from June 16, 2024.

Following the aforementioned amendment, all cases transferred from the Commissioner (Appeals) to the Appellate Tribunal shall be decided by the Appellate Tribunal within the period specified under Section 132. This period shall commence from the date of transfer.

SECTION 127 Appeal to the Commissioner (Appeals).

Following the amendment brought by the Tax Law (Amendment) Act, 2024, appeals to the Commissioner (Appeals) can only be filed if the assessed tax or refund does not exceed twenty million rupees. However, the relevant provision was not inserted in Section 127 of the Ordinance. Therefore, the amendment made by the Finance Act aims to rectify this oversight in the previous amendment.

SECTION 131 Appeal to the Appellate Tribunal

The Finance Act rectified a technical anomaly in the appeals process. By removing the option to appeal to the Appellate Tribunal on the Commissioner (Appeals)'s order, the amendment ensures that appeals against the Commissioner (Appeals)'s decisions are filed directly in the High Court.

SECTION 133 Reference to High Court

Following the amendment made by the Tax Law (Amendment) Act, 2024, an aggrieved person or the Commissioner, as the case may be, may file a reference to the High Court against the decision of the Commissioner (Appeals) or the Appellate Tribunal Inland Revenue. The Finance Act has made rectifications to bring clarity to this provision.

The Finance Act has also clarified that the applicant must file a complete record of the Commissioner (Appeals) within 15 days of submitting an application to the High Court, in the same manner as is required for an order passed by the Appellate Tribunal Inland Revenue.

Further, the Finance Act has clarified that reference against order of the Commissioner (Appeals), communicated after the date of commencement of the Tax Laws (Amendment) Act, 2024 (V of 2024), shall filed before the High Court notwithstanding the proceedings pending prior to the date of commencement of the said Act.

Moreover, the Finance Act, has clarified that the fee of fifty thousand rupees for filing a reference application before the High Court applied in case of the aggrieved person other than Commissioner.

SECTION 147 Advance tax paid by the taxpayer

Change in computing advance tax liability for the quarter

As per advance tax provisions, an individual taxpayer is required to estimate the advance tax payable for the quarter based on a formula that takes into account the tax assessed for the latest tax year as follows:

$$A/4-B$$

where:

A is the tax assessed for the latest tax year, and
B is the advance taxes paid in the quarter for which a tax credit is allowed under Section 168.

However, where the taxpayer is an Association of Persons (AOP) or a company, they are required to compute advance tax liability for the quarter by applying the tax-to-turnover ratio of the latest assessed tax year to the turnover for the quarter as follows:

$$(A \times B/C) - D$$

where:
A is the turnover for the quarter. If the taxpayer fails to provide the turnover for the quarter or the turnover for the quarter is not known, it shall be taken as ¼ of 110% of the turnover of the latest assessed tax year,
B is the tax assessed to the taxpayer for the latest assessed tax year,
C is the tax assessed for the latest tax year, and
D is the tax paid in the quarter for which a tax credit is allowed under Section 168 of the Ordinance.

The Finance Act, 2024, has increased the percentage for computing the estimated turnover, when the turnover for the quarter is not available, from 110% to 120% of the turnover of the latest assessed tax year.

Further, in case the taxpayer estimates that the tax payable by him for the relevant tax year is likely to be less than the tax payable as per formula, the taxpayer is required to furnish to the Commissioner working of revised estimate of advance tax payable along with supporting explanation and documents prescribed and pay advance tax accordingly after adjustment of advance tax already paid if any.

The Finance Act has empowered the Commissioner to reject the lower estimates if he is not satisfied with the provided documentary evidence or if the estimate is not accompanied by the required documents. Before rejecting the estimate, the Commissioner must provide the taxpayer an opportunity to be heard. If the estimate is rejected, the taxpayer shall pay advance tax according to the standard formula applicable for individual or AOP / company, as the case may be.

Advance tax from exporter

In addition to the change of regime from a final tax to a minimum tax regime proposed for exporters by the Finance Bill through an amendment to Section 154, an additional adjustable advance tax at the rate of 1% was proposed to be collected from direct exporters of goods under Section 154.

The Finance Act now requires specified persons, including authorized dealers, banking companies, the Export Processing Zone Authority, direct exporters or export houses registered under the Export Facilitation Scheme, 2021, and the Collector of Customs, to collect adjustable advance tax, at the time of realization of foreign exchange proceeds, or realization of the proceeds on account of sale of goods, or export of goods, or at the time of making payment to an indirect exporter, or clearing of goods exported, respectively, deduct or collect, as the case may be, advance income tax under Section 147 at the rate of one percent of such foreign exchange proceeds, or export proceeds, or exports, or payment, in addition to minimum tax collectable or deductible under Section 154 of this Ordinance.

SECTION 148 Imports

The Finance Act has empowered the Board to determine the minimum value of goods for the collection of advance tax through notification in the official Gazette.

Additionally, it includes modifications in the definition of the "value of goods" by adding a new clause (c) to cover goods subject to the minimum value as notified by the Board under new proposed sub-Section (6A).

SECTION 152 Payments to non-residents

Previously, under subSection (4A) of Section 152, the Commissioner had the power to issue a withholding tax exemption certificate or a reduced rate certificate for payments referred to under subSections (1A) and (2A) where the tax deductible is not minimum tax.

Payments referred to under subSection (1A) include payments to a non-resident person for the execution of:

(a) a contract or sub-contract under a construction, assembly, or installation project in Pakistan, including a contract for the supply of supervisory activities related to such a project;

(b) any other contract for construction or services related thereto; or
(c) a contract for advertisement services rendered by TV satellite channels.

Payments referred to under subSection (2A) include payments to a permanent establishment in Pakistan of a non-resident person for:

(a) the sale of goods, except where the sale is made by the importer of the goods and tax under Section 148 in respect of such goods has been paid, and the goods are sold in the same condition as they were when imported;
(b) the rendering of or providing services; and
(c) the execution of a contract, other than a contract for the sale of goods or the rendering of or providing services. At the time of making the payment, tax shall be deducted from the gross amount.

The Finance Bill proposes to withdraw the Commissioner's power to issue a withholding tax exemption certificate, leaving the Commissioner with the authority to allow only a reduced rate certificate.

The Finance Act has further restricted the Commissioner's power to issue a reduced rate certificate not exceeding 80% of the applicable rate.

SECTION 153 Payments for goods, services and contracts

The Finance Bill proposed to withdraw the Commissioner's power to allow payments without deduction of tax and instead permit the issuance of reduced rate certificates for payments to resident persons where the tax deductible is not minimum. The Finance Act has further specified that this reduction shall not exceed 80% of the applicable rate.

SECTION 154 Exports

Export of goods previously taxable under final tax regime except where the person opts not to be taxed under final taxation. For opting out of final taxation, the taxpayer was required to exercise this option every year at the time of filing of return.

The Finance Act has changed the tax regime for export of goods to minimum tax. consequently, the requirement for exercising option to be taxed under normal tax regime has been omitted.

Corresponding amendments under Section 168 and 169 of the Ordinance consequents to change of taxation on exports from final to minimum tax has been made to exclude tax deducted under Section 154 from final tax.

SECTION 159 Exemption or lower rate certificate

The Finance Bill proposed to replace the Commissioner's power to issue exemption certificates with reduced rate certificates. However, the Finance Act did not adopt this proposed amendment, so the Commissioner's power to issue exemption certificates continues.

SECTION 182 Offences and penalties

The Finance Act has introduced penalties in respect of the new provisions and modify existing ones for various violation as follows:

1. Where a person fails to submit an income tax return as required under Section 117(3). The penalty for this default is either 0.1% of the tax payable per day of default or Rs. 1,000 per day, whichever is higher. There is a minimum penalty of Rs. 10,000 for individuals and Rs. 50,000 for other than individuals.
2. Where a traders or shopkeepers who fail to register under the Ordinance or fail to pay advance tax under a prescribed scheme as per Section 99B. The penalty includes sealing the shop for seven days for the first default and twenty-one days for subsequent defaults.
3. A hefty penalty of Rs. 100 million for the first default and Rs. 200 million for subsequent defaults was proposed by the Finance Bill for persons failing to comply with income tax general orders under Section 114B, related to enforcing the filing of returns issued by the Board within fifteen days. The Finance Act has confirmed these penalties but at a lesser amount of Rs. 50 million for the first default and Rs. 100 million for the second default. Furthermore, this penalty will be effective from the date the Board may notify.
4. A penalty equal to fifty percent of the tax amount involved shall be imposed where a person fails to pay tax under Section 37(6) at the time of making payments for shares or at the time of registration with the Securities and Exchange Commission of Pakistan or the State Bank of Pakistan, whichever occurs earlier.
5. A penalty shall be imposed to companies and associations of persons who fail to fully disclose relevant particulars or submit incomplete documents with their tax returns. The penalty is set at Rs. 500,000 or 10% of the tax chargeable on the taxable income, whichever is higher.

SECTION 191 Prosecution for non-compliance with statutory obligation

The Finance Act has made an amendment to Section 191(1)(a) of the Ordinance, specifically targeting the person who made non-compliance with statutory obligations related to the discontinuation of a business as specified under subSection (3) of Section 117. This amendment has included a failure to comply with a notice issued under the said sub-Section among the offences punishable by fine, imprisonment, or both upon conviction.

SECTION 191A Prosecution for failure to furnish information in return of income

The Finance Act has inserted a new Section aimed to address non-compliances by companies, including banking companies and associations of persons, in fulfilling their obligations related to income tax returns. This Section targets situations where:

- The income tax return fails to include all relevant particulars or information required by tax authorities, such as declarations of records maintained by the taxpayer.
- The return includes blank or incomplete particulars or information.
- Blank or incomplete annexures, statements, or documents that were supposed to be filed are attached to the return.

These instances of non-compliance are categorized as offences. Upon conviction, penalties may include fines, imprisonment for up to one year, or both

SECTION 191B Prosecution for non-registration

The Finance Act has inserted a new Section focusing on addressing non-registration by small traders and shopkeepers under tax law. This Section targets individuals who are required to apply for registration under specified provisions but fail to do so. Non-compliance with registration requirements is to be treated as an offence punishable upon conviction. Penalties for this offence may include fines, imprisonment for a term not exceeding six months, or both.

SECTION 205 Default Surcharge

The Finance Act has amended the rate of default surcharge to 12% or KIBOR + 3%, whichever is higher.

SECTION 216 Disclosure of information by a public servant

The Finance Act has enabled public servant to share data with National Database Registration Authority to process and analyze data for broadening of tax base.

SECTION 230K Tax Fraud Investigation Wing Inland Revenue

The Finance Act 2024 has introduced a new Section, 230K, to the Income Tax Ordinance 2001, establishing the Tax Fraud Investigation Wing Inland Revenue.

This wing is tasked with detecting, analyzing, investigating, combating, and preventing tax evasion and fraud. It will be composed of various units, including the Fraud Intelligence and Analysis Unit, Fraud Investigation Unit, Legal Unit, Accountants Unit, Digital Forensic and Scene of Crime Unit, Administrative Unit, and any other units approved by the Board or the Federal Government. The Wing will be staffed by a Chief Investigator, along with Senior Investigators, Investigators, Junior Investigators, and other designated Inland Revenue officers. Additionally, it will include a Senior Forensic Analyst, Forensic Analysts, Junior Forensic Analysts, a Senior Data Analyst, Data Analysts, and Junior Data Analysts.

The Board is authorized to specify the functions and jurisdiction of the Wing and its officers and to confer the powers of authorities as specified in Section 207 through official notifications. Importantly, this new Section does not restrict authorities appointed under Sections 207 and 208, or any other authority/officer with similar powers, from conducting prosecutions under Part XI of Chapter X of the Ordinance.

SECTION 236C Advance Tax on sale of immoveable property

The Finance Act has revised the proviso of Section 236C, providing an exemption from the collection of advance tax on the first sale for specific individuals. The expanded list of exempted sellers now includes:

- Individuals wounded in war while serving in the Pakistan Armed Forces, Federal or Provincial Government entities,
- Ex-servicemen and current personnel of the armed forces, and
- Former employees or current personnel of the Federal and Provincial Government.

With respect to properties acquired or allocated in recognition of services rendered by:

- War-wounded individuals while serving in the Pakistan Armed Forces,
- Federal or Provincial Government entities,
- Ex-servicemen and current personnel of the armed forces, and
- Former employees or current personnel of the Federal and Provincial Government.

SECTION 236G Advance Tax on sales to distributors, dealers and wholesalers

Previously, the manufacturers or commercial importers of specific sectors, including pharmaceuticals, poultry and animal feed, edible oil and ghee, auto-parts, auto parts, tyres, varnishes, chemicals, cosmetics, IT equipment, electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector, are required to collect advance tax on sales to distributors, dealers, and wholesalers, were required to collect advance tax at specified rates.

However, the Finance Act remove the requirement for sector-specific advance tax collection. This means that instead of specific sectors, the amendment aims to make advance tax collection applicable across all sectors uniformly.

Furthermore, certain amendments have been made to the applicable tax rate for persons not appearing in the active taxpayer list specified under the Tenth Schedule. The applicable tax rates specified under Division XIV, Part IV of the First Schedule and the tax rates for non-filers as amended by the Finance Act are as follows:

Sr	On gross amount of sales to Distributor, dealer, wholesaler	Filer Rate	Non-filer	
			Previous rates	Revised rate
1	Other than Fertilizer	0.1%	0.2%	2%
2	Fertilizer	0.7% (I.Tax ATL) 0.25% (I.Tax ATL and S.Tax ATL)	1.4%	1.4%

SECTION 236H Advance Tax on sales to retailers

Previously, the manufacturers, distributors, dealers, wholesalers and commercial importers of specific sectors, including pharmaceuticals, poultry and animal feed, edible oil and ghee, auto-parts, auto parts, tyres, varnishes, chemicals, cosmetics, IT equipment, electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector, were required to collect advance tax on sales to retailers are required to collect advance tax at specified rates.

However, the Finance Act has included all sectors of business for the collection of advance tax from retailers.

Furthermore, certain amendments have been made to the applicable tax rate for persons not appearing in the active taxpayer list specified under the Tenth Schedule. The applicable tax rates specified under Division XIV, Part IV of the First Schedule and the tax rates for non-filers as amended by the Finance Act are as follows:

Sr	Description	Filer Rate	Non-filer	
			Previous rates	Revised rate
1	On gross amount of sales to retailer	0.5%	1%	2.5%

SECTION 239 Savings

Through the Tax Law (Amendment) Act, 2024 amendment had been made resulting reduction in time period allowed to file appeal.

The Finance Act has provided clarity that the time reduction shall not apply in cases where the decision of the Commissioner (Appeals) or the Appellate Tribunal is received prior to the date of the Tax Law (Amendment) Act, 2024.

AMENDMENT IN APPLICABLE TAX RATES

FIRST SCHEDULE
PART I

Division I
Rate of tax for individual and association of persons

S. No.	Taxable Income	Rates for TY 2025
1	Where taxable income does not exceed Rs. 600,000/-	0% of the Income
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	15% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,600,000	Rs. 90,000 + 20% of the amount exceeding Rs. 1,200,000
4	Where taxable income exceeds Rs. 1,600,000 but does not exceed Rs. 3,200,000	Rs. 170,000 + 30% of the amount exceeding Rs. 1,600,000
5	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 5,600,000	Rs. 650,000 + 40% of the amount exceeding Rs. 3,200,000
6	Where taxable income exceeds Rs. 5,600,000	Rs. 1,610,000 + 45% of the amount exceeding Rs. 5,600,000”

In case of AOP that is a professional firm prohibited from incorporating by any law or the rules of the body regulating their profession, the 45% rate of tax mentioned against serial number 6 of the Table shall be 40%.

Rate of tax for Salaried Individual

S.No	Taxable Income	For tax year 2025
1	Where taxable income does not exceed Rs. 600,000/-	0% of the Income
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	5% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,200,000	Rs. 30,000 + 15% of the amount exceeding Rs. 1,200,000
4	Where taxable income exceeds Rs. 2,200,000 but does not exceed Rs. 3,200,000	Rs. 180,000 + 25% of the amount exceeding Rs. 2,200,000
5	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 4,100,000	Rs. 430,000 + 30% of the amount exceeding Rs. 3,200,000
6	Where taxable income exceeds Rs. 4,100,000	Rs. 700,000 + 35% of the amount exceeding Rs. 4,100,000

Division III
Rate of Dividend Tax

Category	Previous	Amended
Dividend paid by Independent Power Producers	7.5%	7.5%
Mutual funds (which derives less than 50% profit on debt), Real Estate Investment Trusts and others	15%	15%
Mutual Fund deriving 50% or more from profit on debt	15%	25%
REIT scheme from Special Purpose Vehicle	0%	0%
Dividend received by others from Special Purpose Vehicle as defined under the Real Estate Investment Trust Regulations, 2015	35%	35%
Dividend received from a company where no tax payable by such company due to exemption of income or carry forward of business losses under Part VIII of Chapter III or claim of tax credits under Part X of Chapter III	25%	25%

DIVISION VII
Capital Gains on Disposal of Securities
The rate of tax to be paid under Section 37A shall be as follows: —

Category	Rate of Tax on disposal of securities acquired between July 01 2022 and June 30, 2024 (both days inclusive)	Rate of Tax on disposal of securities acquired on or before 1st day of July 2024
Where the holding period does not exceed one year	15%	15% for persons appearing on the Active Taxpayers' List on the date of acquisition and the date of disposal of securities and at the rate specified in Division I for individuals and association of persons and Division II for companies in respect of persons not appearing on the Active Taxpayers' List on the date of acquisition and date of disposal of securities: Provided that the rate of tax for individuals and association of persons not appearing on the Active Taxpayers' List, the rate of tax shall not be less than 15% in any case
Where the holding period exceeds one year but does not exceed two years	12.5%	
Where the holding period Exceeds two years but does not exceed three years	10%	
Where the holding period exceeds three years but does not exceed four years	7.5%	
Where the holding period exceeds four years but does not exceed five years	5%	
Where the holding period exceeds five years but does not exceed six years	2.%	
Where the holding period exceeds six years	0%	

Category	Rate of tax
Future Commodity contracts entered into by members of Pakistan mercantile exchange	5%
where the securities are acquired on or after the first day of July, 2013 but on or before the 30th day of June, 2022	12.5%
where the securities are acquired before the first day of July, 2013	0%
Capital gain on disposal of debt securities by companies	Division II, Part-I, First Schedule

Category of Funds	Rate
stock funds ▪ Company ▪ Individual and Association of Person	15% for stock funds
Other funds ▪ Company ▪ Individual and Association of Person	25% for other funds 15% for other funds
Holding period of the security of mutual fund or collective	0%

investment scheme or a REIT scheme acquired on or before 30th day of June 2024 is more than six years.	

Division VIII

Capital Gain on Disposal of Immovable Property
The rate of tax to be paid shall under sub-Section (1A) of Section 37 shall be as follows: –

Category	Rate of Tax on properties acquired on or after 1st day of July, 2024
Active Taxpayer on the date of disposal of property	15%
Non - Active Taxpayer on the date of disposal of securities	
▪ Company	As per Div-II, Part-I, First Schedule
▪ Individual and Association of Person	As per Div-II, Part-I, First Schedule, however, rate of tax shall not be less than 15%

S.No	Holding Period	Rate of Tax on properties acquired on or before 30th day of June, 2024		
		Open Plots	**Constructed Property**	**Flats**
1	**2**	**3**	**4**	**5**
1	Where the holding period does not exceed one year	15%	15%	15%
2	Where the holding period exceeds one year but does not exceed two years	12.5%	10%	7.5%
3	Where the holding period exceeds two years but does not exceed three years	10%	7.5%	0
4	Where the holding period exceeds three years but does not exceed four years	7.5%	5%	-
5	Where the holding period exceeds four years but does not exceed five years	5%	0	-
6	Where the holding period exceeds five years but does not exceed six years	2.5%	-	-
7	Where the holding period exceeds six years	0%	-	-

Part III
DEDUCTION AT SOURCE

Division I
Advance Tax on Dividend

Category	Previous	Amended
Dividend paid by Independent Power Producers	7.5%	7.5%
Mutual funds (which derives less than 50% profit on debt), Real Estate Investment Trusts and others	15%	15%
Mutual Fund deriving 50% or more from profit on debt	15%	25%
REIT scheme from Special Purpose Vehicle	0%	0%
Dividend received by others from Special Purpose Vehicle as defined under the Real Estate Investment Trust Regulations, 2015	35%	35%
Dividend received from a company where no tax payable by such company due to exemption of income or carry forward of business losses under Part VIII of Chapter III or claim of tax credits under Part X of Chapter III	25%	25%

Division III
Payments for Goods

S.No.	Description	Previous	Amended
1.	In case of a company being toll manufacturing	5%	9%
2.	Other than a company being toll manufacturing	5.5	11%

Part IV
DEDUCTION OR COLLECTION OF ADVANCE TAX
Division V
Telephone User

	Previous	Amended
In the case of subscriber of internet, mobile telephone and pre-paid internet or telephone card	15% of the amount of bill or sales price of internet pre-paid card or prepaid telephone card or sale of units through any electronic medium or whatever form	15% of the amount of bill or sales price of internet pre-paid card or prepaid telephone card or sale of units through any electronic medium or whatever form Provided that in the case of persons mentioned in income tax general order issued under Section 114B, the rate of collection of tax shall be 75%

		of the amount of bill or sale price of internet pre-paid card or prepaid telephone card or sale of units to any electronic medium or whatever form

Division VII
Advance Tax on Purchase, Registration and Transfer of Motor Vehicle

S.no	Engine capacity	Previous	Amended
1	Up to 850 cc	10,000	0.5% of the value
2	851cc to 1000cc	20,000	1% of the value
3	1001cc to 1300cc	25,000	1.5% of the value
4	1301cc to 1600cc	50,000	2% of the value
5	1601cc to 1800cc	150,000	3% of the value
6	1801cc to 2000cc	200,000	5% of the value
7	2001cc to 2500cc	6% of value	7% of the value
8	2501cc to 3000cc	8% of value	9% of the value
9	Above 3000cc	10% of value	12% of the value

Division X
Advance tax on sale or transfer of immovable property
Along with changes made under Tenth Schedule for persons not appearing in ATL

S.no	Value of Property	Tax rate for Active Taxpayer	Tax rate * for Active Taxpayer, however return late filed.	Tax rate for person Non-active person
1	Where the gross amount of the consideration received does not exceed Rs. 50 million	3%	6%	10%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs 100 million	3.5%	7%	
3	Where the gross amount of the consideration received exceeds Rs. 100 million	4%	8%	

***** such rate shall not apply to a person who has filed return by the due date or extended due date u/s119 or Section 214A for all of the last three tax years preceding the tax year for which the return has not been filed by the due date specified as above.

Division XVIII
Advance tax on purchase of immovable property
Along with changes made under Tenth Schedule for persons not appearing in ATL

S.no	Value of Property	Tax rate for Active Taxpayer	Tax rate * for Active Taxpayer, however return late filed.	Tax rate for person Non-active person
1	Where the fair market value does not exceed Rs. 50 million	3%	6%	12%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs 100 million	3.5%	7%	16%
3	Where the fair market value exceeds Rs. 100 million	4%	8%	20%

***** such rate shall not apply to a person who has filed return by the due date or extended due date u/s119 or Section 214A for all of the last three tax years preceding the tax year for which the return has not been filed by the due date specified as above

SECOND SCHEDULE

PART I EXEMPTION FROM TOTAL INCOME

Clause (99B) The Finance Act has exempt income of a Special Purpose Vehicle (SPV) buying Diversified Payment Right (DPR) from Authorized Dealer (AD) in Pakistan. Further, the SPV, DPR, and AD shall have same meaning as referred in the SBP's circular or regulation on DPR.

Clause (102A) The Finance Act has withdrawn the exemption for income that represents a subsidy granted by the Federal Government to a person for the purpose of implementing any orders from the Federal Government.

Clause (145A) The Finance Act extended the exemption period for residents of the Tribal Areas forming part of the Provinces of Khyber Pakhtunkhwa and Baluchistan, as specified under paragraph (d) of Article 246 of the Constitution, from 30 June 2024 to 30 June 2025.

PART II REDUCTION IN TAX RATES

Clause (24A) The Finance Act increased the reduced rate of withholding tax under Section 153(1)(a) for distributor of cigarettes from 1% to 2.5%.

PART III REDUCTION IN TAX LIABILITY

Clause (2) The Finance Bill proposed to withdraw the tax reduction of 25% available to full-time teachers and researchers subject to certain conditions. However, the Finance Act did not ratify the proposal.

PART IV EXEMPTION FROM SPECIFIC PROVISIONS

Clause (11A) The Finance Act has exempt, entities within Special Economic Zones, from the minimum tax regime based on turnover (Section 113). These entities are already exempt from tax for specified periods. Previously, through Finance Act, 2022 said exemption was withdrawn resulting in uncertainty/ambiguity regarding the applicability of minimum tax provisions to these entities. This amendment has now resolved the issue.

Clause (38AAA) The Finance Act has exempt Special Purpose Vehicle from withholding of tax on payment to non-resident under Section 152 of the Ordinance.

Clause (109A) The Finance Act has extended the provisions of clause (109A), ensuring that the Sections in Division III of Part V of Chapter X and Chapter XII of the Ordinance regarding the deduction or collection of withholding tax, which were not applicable prior to the commencement of the Constitution (Twenty-fifth Amendment) Act, 2018 (XXXVII of 2018), shall not apply to individuals domiciled, or companies and associations of persons resident in the Tribal Areas forming part of the Provinces of Khyber Pakhtunkhwa and Baluchistan under paragraph (d) of Article 246 of the Constitution. This extension is effective from the 1st day of June, 2018 to the 30th day of June, 2025 (both days inclusive).

Clause (110) The Finance Act extended clause (110), ensuring that the Sections in Division III of Part V of Chapter X and Chapter XII of the Ordinance regarding the deduction or collection of withholding tax, which were not applicable prior to the commencement of the Constitution (Twenty-fifth Amendment) Act, 2018 (XXXVII of 2018), shall not apply to individuals domiciled, or companies and associations of persons resident in the Tribal Areas forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan under paragraph (d) of Article 246 of the Constitution. This extension is effective from the 1st day of June, 2018 to the 30th day of June, 2025 (both days inclusive).

THE SEVENTH SCHEDULE

Rule (1) Previously, in computing the profit and gain of a banking company, sub-rule (d) currently disallows the amount of "bad debts" classified as sub-standard or doubtful under the Prudential Regulations issued by the State Bank of Pakistan as an expense. The Finance Act expand this restriction to include provisions for advances, off-balance sheet items, or any other financial assets classified in stage I, II, or III as performing, under-performing, or non-performing under applicable accounting standards, including IFRS 09. Under the amended provision, only "bad debts" classified as "loss" pertaining to non-performing assets under the Prudential Regulations issued by the State Bank of Pakistan shall be permitted as an expense.

Additionally, the provisions or expected credit losses for advances and off-balance sheet items or any other financial asset existing before or after the 1st day of January, 2024, under IFRS 09 shall not be an allowable expense.

Furthermore, in sub-rule (g), which previously disallows adjustments made in the annual accounts on account of the application of International Accounting Standards 39 and 40, the Finance Act substituted "application of International Accounting Standards 39 and 40" with "any applicable accounting standard or policy or any guidelines or instructions of the State Bank of Pakistan

Rule (3A) The Finance Act 2024 has inserted the following rule:

3A. Notwithstanding any other provision of this Ordinance, where any assets are transferred by an Authorized Dealer (AD), as a consequence of a Diversified Payment Rights transaction, to a Special Purpose Vehicle, it shall be treated as a financing transaction irrespective of the method of accounting adopted by the Authorized Dealer.

The SPV, DPR, and AD shall have same meaning as referred in the SBP's circular or regulation on DPR.

Rule (7CA) With respect to the application of super tax under Section 4C on banking companies, the Finance Act has clarified that the expression "tax year 2023 onwards" means that the provisions of Section 4C are applicable for the tax year 2023 and for all subsequent tax years.

TENTH SCHEDULE

The Finance Act has made following amendment to the Tenth Schedule of the Ordinance:

1. The application of the Tenth Schedule to the Ordinance has been extended to withholding tax provided under any provision of the Ordinance. Currently, the Tenth Schedule is applicable only to withholding tax rates provided under the First Schedule to the Ordinance.

   The Finance Act has increased the tax rates under the following Sections for persons not appearing in the active taxpayers' list.

Section	Description
236G	Advance tax on sale to distributor, dealer, and wholesaler
236H	Advance tax on sale to retailer
236C	Advance tax on sale of immoveable property
236K	Advance tax on purchase of immoveable property

   The Finance Act has further provided separate rates of deduction or collection of tax under Sections 236C and 236K in the case of sale/purchase of immovable property from persons who appear on the active taxpayers' list but have not filed their return by the due date specified in Section 118, or by the extended due date under Sections 119 or 214A. These changes have been discussed above under relevant Sections.

2. The Finance Act has increased the tax rate for deduction on payment of profit on debt for persons not appearing in the active taxpayers' list from 30% to 35%.

3. The Finance Act has excluded tax collectible or deductible under Section 37A, related to capital gains on the sale of securities, from the provisions of the Tenth Schedule of the Ordinance.

SALES TAX

SECTION 2 (3) associates (associated persons)

The Finance Bill proposed to algin the definition of "associates (associated persons)" with the definition of associate provided under the Income Tax Ordinance, 2001 by referring to subSection (1) of Section 85 of the Income Tax Ordinance, 2001. This alignment is intended to harmonize the definitions between the Income Tax Ordinance and the Sales Tax Act, 1990, ensuring consistency and clarity across these laws.

The Finance Act now aligns the definition of 'Associate' with that provided under Section 85 of the ITO in totality.

SECTION 2 (4) Board

The Finance Act has redefine the definition of "Board" to align with the meaning provided in the Income Tax Ordinance, 2001. This alignment is intended to harmonize the definitions between the Income Tax Ordinance and the Sales Tax Act, 1990, ensuring consistency and clarity across these laws.

SECTION 2 (14) Input tax

The Finance Act has amended the definition of 'input tax' to empower the Board to exclude certain services subject to provincial sales tax from the scope of admissible input tax, through the issuance of a notification, subject to any conditions, restrictions, or limitations specified therein.

SECTION 2 (14A) Investigative audit

The Finance Bill proposed a new definition for 'investigation audit,' defining it as an audit conducted under Section 25A of the Act. However, the Finance Act did not adopt this definition.

SECTION 2 (15A) licensed integrator

The Finance Act has defined the "licensed integrator" under the Act. Licensed integrator would be person licensed by the Board to provide an electronic invoicing system that integrates registered persons in the specified manner. This addition aims to facilitate the implementation of electronic invoicing for better compliance and integration of registered entities.

SECTION 2 (37) tax fraud

The Finance Bill proposed a revised definition for 'tax fraud,' broadening it to encompass a wider range of intentional acts aimed at evading legally due taxes or obtaining undue refunds. The new definition includes specific actions such as:

- Suppressing taxable sales
- Making false input tax credit claims
- Issuing invoices without actual supply of goods
- Evading tax through inadmissible claims
- Failing to deposit collected taxes
- Falsifying financial records
- Destroying material evidence

- Dealing with goods liable for confiscation

The explanation clarifies that any of these acts will be considered intentional unless the accused can prove otherwise. This change aims to enhance clarity, close loopholes, and strengthen the enforcement of tax laws.

To further bolster the legal framework, the Finance Act has amended this definition to include:

- Intentionally understating or underpaying tax liability
- Overstating entitlement to tax credit or tax refund in contravention of duties or obligations imposed under the Sales Tax Act

These acts are characterized by the submission of false returns, statements, or documents, or withholding correct information or documents to cause tax loss. Additionally, the Finance Act has expanded the scope of 'tax fraud' to include:

- Making taxable supplies without registration under the Sales Tax Act (STA)
- Intentionally performing or causing to perform any act, or omitting to take any action or causing the omission to take any action, resulting in a tax loss under the STA

SECTION 2 (44) time of supply

The Finance Act has amended the definition of "time of supply" by restoring the provision omitted through the Finance Act, 2021. The amended definition now includes the time when any payment is received by the supplier in respect of that supply, whichever occurs earlier.

Section 11 Assessment of Tax and recovery of tax not levied or short levied or erroneously refunded

The Finance Act has omitted Section 11, which deals with the assessment of tax and the recovery of tax not levied or short levied or erroneously refunded. This Section has been revamped and its provisions are now covered under the new Sections 11E, 11F, and 11G.

Section 11B Assessment giving effect to an order

The Finance Act has amended Section 11B which governs timeframe for issuing assessment orders following decisions from appellate bodies like the Commissioner (Appeals), Appellate Tribunal, High Court, or Supreme Court. The amendment applies the provisions of Section 124 of the Income Tax Ordinance, 2001 mutatis mutandis (with necessary changes), aiming to standardize the time limits for assessment orders under the tax laws governed by the FBR.

Section 11D Best judgment Assessment

The Finance Act has introduced Section 11D, which brings in the concept of 'Best Judgment Assessment,' similar to that found in the Income Tax Ordinance. Under this provision, an Inland Revenue officer is empowered to issue an assessment order if a registered person fails to submit a sales tax return or does not respond to a notice issued under sub-Section (2A) of Section 26. This measure is intended to enforce tax compliance by enabling tax authorities to ascertain tax liabilities using their best judgment when taxpayers fail to fulfill their filing obligations or respond to official notices.

Regarding the proposed amendment provision for best judgment assessment, in cases where a person does not file a sales tax return, any show-cause notice and the assessment order will abate if the person subsequently files the return with the tax payable, along with the default surcharge and penalty. However, initially, no time limitation was proposed for filing the return and making the sales tax payment along with the default surcharge and penalty to become entitled to such abatement. The Finance Act has now specified a time limitation of 60 days from the issuance of the order for the best judgment assessment.

Section 11E Assessment of Tax and Recovery of tax not levied or short levied or erroneously refunded

The Finance Act has replaced the existing Section 11 of the Sales Tax Act with a new Section 11E, introducing a revamped framework for assessing and recovering tax liabilities that have not been properly levied or where there are suspicions of incorrect claims for input tax credits or refunds, including those due to collusion or deliberate acts. Under this new Section:

An officer of Inland Revenue, specifically not below the rank of Assistant Commissioner, can initiate proceedings if they suspect, based on audits or other grounds, that a taxpayer has:

- Failed to pay or underpaid sales tax,
- Incorrectly claimed input tax credits or refunds,
- Obtained refunds that were not legitimately due.

Before issuing an assessment order to recover unpaid taxes or refunds, the officer must first issue a show cause notice to the taxpayer, providing them an opportunity to respond to the allegations. If discrepancies are confirmed, the officer will determine the amount owed, including penalties and default surcharges as stipulated in Sections 33 and 34 of the Act.

Additionally, the officer has the authority to disallow input tax credits if the taxpayer fails, without reasonable cause, to substantiate their claims with necessary documentation or evidence. If tax has not been levied or due sales tax is short paid, it will be recovered based on a tax fraction calculated from the value of the supply.

Section 11F Failure to withhold sales tax

The Finance Act has introduced a new Section 11F titled "Failure to Withhold Sales Tax," which outlines procedures for addressing non-compliance with sales tax withholding requirements. This new Section is intended to replace and streamline the existing provisions found in Section 11(4A) of the Sales Tax Act, which has been omitted. Section 11F empowers officers of Inland Revenue, typically above the rank of Assistant Commissioner, to issue notices to individuals or entities who fail to withhold sales tax as mandated by Sub-Section (7) of Section 3. Following a show cause notice to the defaulter, the officer can proceed to determine and recover the outstanding tax amount. Penalties and default surcharges, governed by Sections 33 and 34 of the Act, may also be imposed in cases of non-compliance.

Section 11G Limitation for Assessment

The Finance Act has introduced a new Section 11G titled "Limitation for Assessment" to govern the issuance of show cause notices under Sections 11D, 11E, and 11F of the Sales Tax Act, as well as the timelines for concluding proceedings related to tax assessments.

Issuance of Show Cause Notice

A show cause notice under Sections 11D to 11F must be issued within five years from the end of the financial year in which the relevant date falls. This creates a five-year limitation period, ensuring that tax authorities act within a reasonable timeframe. The term "relevant date" is crucial as it determines the starting point for this limitation period and is defined in detail later in the Section.

Issuance of Assessment Order
An order under Sections 11D, 11E, and 11F must be made within 120 days of issuing the show cause notice. However, this period can be extended by the Commissioner for reasons recorded in writing, but the extension cannot exceed 90 days. Additionally, certain periods are excluded from the computation of this 120-day period, such as the time during which proceedings are adjourned due to a stay order, Alternative Dispute Resolution (ADR) proceedings, or adjournments requested by the taxpayer (not exceeding 60 days). This ensures that taxpayers are not penalized for delays beyond their control while maintaining flexibility and preventing undue delays.

Definition of "Relevant Date"
For the purposes of Sections 11D, 11E, and 11F, the "relevant date" is defined as follows:

- The time of payment of sales tax or charge as provided under Section 6.
- The time of payment for goods or services on which sales tax was to be withheld under sub-Section (7) of Section 3.
- In cases where sales tax or charge has been erroneously refunded, the date of its refund.

Section 21. De-registration, blacklisting and suspension of registration

The Finance Bill proposed to introduce a new sub-Section (5) under Section 21 of the Act, which empowers the Chief Commissioner to review and modify orders related to blacklisting of registered persons. This amendment aims to provide a procedural safeguard by allowing the Chief Commissioner to independently assess and potentially reverse decisions made under sub-Section (2) regarding blacklisting. The Chief Commissioner can initiate this review either on their own initiative or upon application by the registered person affected. This change seeks to enhance accountability and procedural fairness in imposing such harsh penalties.

Through the Finance Act, the Chief Commissioner now has the power to examine blacklisting as well as suspension orders passed by the Commissioner under Section 21(2).

Section 23. Tax Invoices

The Finance Act has substituted Sub-Section (3) of Section 23 of the Sales Tax Act. Under the previous provision, a registered person making a taxable supply could be directed by the Board to issue invoices electronically to another registered person, subject to conditions, restrictions, and limitations specified by notification in the official Gazette.

The substitution now mandates that registered persons making taxable supplies issue electronic invoices, subject to certain limitations and restrictions specified by the Board through notification. This change appears to be a corrective measure aimed at removing anomalies and aligning the process with the Board's steps toward the digitalization of sales tax invoices.

Section 25 Audit of sales tax affairs

The Finance Act has made a comprehensive overhaul of Section 25 of the Sales Tax Act, aiming to streamline and enhance the audit procedures for registered persons. Currently, Section 25 primarily deals with access to records and authorizes audits based on records obtained from registered persons by the Commissioner. However, recent interpretations by Constitutional Courts have required the Commissioner to obtain records from registered persons before selecting them for audit.

To address this, the amendments seek to eliminate the requirement for prior record acquisition by empowering the Commissioner to direct an audit based on reasons recorded in writing. This change aims to expedite audit processes and nullify previous judicial interpretations mandating record acquisition before audit selection.

Key changes under the proposed Section include:

- Authorization for the Commissioner to communicate audit selection and reasons directly to registered persons.
- Basis for audit selection to be grounded in scrutiny of various financial and tax-related records, emphasizing risk factors rather than routine verification.
- Removal of the obligation for the Commissioner to provide a pre-audit opportunity for registered persons to be heard.
- Authorization for audit officers to requisition any records or documents necessary for audit purposes, including those maintained under the Sales Tax Act, rules, or other applicable laws.
- Introduction of provisions allowing audit officers to conduct inquiries with third parties to gather relevant information.
- Removal of the current restriction limiting audits to once per year, thereby allowing audits to be conducted as necessary.

After conducting audits based on obtained records, audit officers may issue tax assessment orders under Section 11E for unlevied, short-levied, or erroneously refunded taxes. Additionally, in cases where registered persons fail to produce requested records, audit officers are authorized to make best judgment assessments under Section 11D.

The amendments retain provisions regarding voluntary deposit of short-paid sales tax before and during audit proceedings, with associated penalties.

In the Finance Bill, the Commissioner was allowed to pass any order against the taxpayer without providing an opportunity to be heard. The Finance Act has omitted the phrase "pass any order" and made further editorial changes, providing greater clarity.

Section 25AB Investigation Audit

The Finance bill proposed for introduction of Section 25AB which empowers audit officers, with the approval from the Commissioner, the authority to conduct investigative audits against registered persons upon suspicion of fraudulent tax activities.

The above proposition is not ratified by the Finance Act.

Section 26 Return

The Finance Act has inserted a new sub-Section (2A) in Section 26 of the Act, the said Section empowered the assistant commissioner to issue a written notice requiring any person who, in the officer's opinion, is obligated to file a sales tax return for one or more tax periods but has failed to do so, to furnish such returns within fifteen days from the date of service of the notice. The notice may specify a longer or shorter period as deemed appropriate by the officer or as allowed by the officer of Inland Revenue.

There are specific time limitations for issuing such notices:

- For cases involving tax fraud, the notice can be issued within fifteen years from the end of the financial year in which the return was due.
- In all other cases, the notice can be issued within five years from the end of the financial year in which the return was due.

Currently, under Section 24 of the Act, businesses are required to maintain sales tax records for six years after the end of the tax period to which they relate or until the finalization of assessment or appellate proceedings. However, this requirement is not currently aligned with the amendment mandating return filing, leading to a disparity in the provisions for record maintenance.

Section 30AB Tax Fraud Investigation Wing – Inland Revenue

The Finance Act introduced the concept of new authority whose function shall be to detect, analyze, investigate, combat and prevent tax fraud.

As per the provision, the tax fraud Investigation Wing-Inland Revenue shall comprise of Fraud Intelligence and Analysis Unit, Fraud Investigation Unit, Legal Unit, Accountants Unit, Digital Forensic and Scene of Crime Unit, Administrative Unit or any other Unit as may be notified by the Board through notification in the official Gazette.

The tax fraud Investigation Wing-Inland Revenue shall consist of a Chief Investigator and as many following officers, as may be notified by the Board:

a) Senior investigators, investigators, Junior investigators or any other officer of Inland Revenue with any other designation;
b) a Senior Forensic Analyst and as many Forensic Analysts and Junior Forensic Analysts; and
c) a Senior Data Analyst and as many Data Analysts and Junior Data Analysts.

The Board may, by notification in the official Gazette:

a) specify the functions and jurisdiction of the Tax Fraud Investigation Wing-Inland Revenue and its Units and its officers; and
b) confer the powers of authorities specified in Section 30 upon the tax fraud Investigation Wing-Inland Revenue and its officers listed above.

Section 34 default surcharge

The Finance Bill has proposed to increase rate of default surcharge for late payment from fixed 12% to KIBOR + 3%.

However, through Finance Act, the default surcharge has been set at the “higher of 12% per annum or KIBOR plus 3% per annum”.

Section 40C Monitoring or Tracking by Electronic or other means

The Finance Act has inserted two subSections in the said Section, through the said insertion the board may issue notification required any person or class of persons to integrate their electronic invoicing system with the board's computerized system for real time reporting. And licensed integrator shall integrate electronic invoicing system of registered person referred to in sub-Section (4) in such mode and manner as may be prescribe.

Section 43A Pecuniary jurisdiction in appeals.

The Finance bill proposed to adjust the timeline for transferring cases from the Commissioner (Appeals) to the Appellate Tribunal. Initially set for June 16, 2024, the transfer date is now shifted to September 16, 2024. However, the transfer is deemed to have occurred on June 16, 2024. This adjustment provides additional time for the smooth transition of cases between authorities while maintaining the effective date of the transfer.

As per adaptation in the Finance Act date for transfer of cases has been extended till December 31, 2024.

Section 46 Appeals to Appellate Tribunal

The Finance Act has withdrawn the taxpayer's right to appeal before the Appellate Tribunal against an order of the Commissioner for blacklisting or suspension of registration where a registered person is found to have issued fake invoices or committed tax fraud. Instead, it introduces Section 21(5), empowering the Chief Commissioner to provide relief after giving the registered person an opportunity to be heard.

Section 47AB saving

Through the Tax Law (Amendment) Act, 2024 amendment had been made resulting reduction in time period allowed to file appeal.

The Finance Act has provided clarity that the time reduction shall not apply in cases where the decision of the Commissioner (Appeals) or the Appellate Tribunal is received prior to the date of the Tax Law (Amendment) Act, 2024.

Section 73 Certain transactions not admissible

Section 73 of the Act restricts the admissibility of input tax if payment for a transaction exceeding Rs. 50,000 (excluding utility bill) is made otherwise than through a banking channel. The Bill proposed that said amount shall be considered in aggregate for the purpose of admissibility of input tax. The Finance Act further clarifies that the limit of Rs. 50,000 in aggregate shall apply to a single supplier in a tax period.

Amendments in Third Schedule:

The Finance Act has added following item in third schedule which shall now be subject to retail tax.

Serial No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)
(1)	(2)	(3)
51	DAP	Respective headings

Amendments in Fifth Schedule:

The Finance Act has ratified the omission of the entries at serial numbers 12 [except Exercise book (PCT heading 4820.2000) covered at clause (xxiii)] , 16, 17, and 21, along with their related entries in column (2);

Serial No.	Description
12	The following goods and the raw materials, packing materials, sub-components, components, sub-assemblies and assemblies imported or purchased locally for the manufacture of the said goods, subject to the conditions, limitations and restrictions as prescribed by the Board:- (xvii) Preparations suitable for infants, put up for retail sale not exceeding rupees six hundred per two hundred grams (PCT Heading 1901.1000) (xx) Colors in sets (PCT heading 3213.1000). (xxi) Writing, drawing and marking inks (PCT heading. 3215.9010 and 3215.9090) (xxii) Erasers (PCT heading 4016.9210 and 4016.9290) (xxiv) Pencil sharpeners (PCT heading 8214.1000) (xxv) other drawing, marking out or mathematical calculating instruments (geometry box) (PCT heading 9017.2000) (xxvi) Pens, ball pens, markers and porous tipped pens (PCT heading 96.08) (xxvii) Pencils including color pencils (PCT heading 96.09)
16	Milk (PCT heading 04.01).
17	Fat filled milk (PCT heading 1901.9090)
21	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.

- Items covered under serial no. 12, including finished article, raw materials, packing materials, sub-components, components, sub-assemblies, and assemblies, whether imported or purchased locally for manufacturing, were previously under a zero-rated sales tax regime. Additionally, the import or supply of these finished goods was also exempt from sales tax. The Finance Act withdraw these exemptions and zero ratings except exemption/zero rating of Exercise book (PCT heading 4820.2000) covered at Sr. 12(xxiii) which was also proposed to be withdrawn but retained by the Finance Act. Now, the supply of finished articles will be subject to a reduced sales tax rate of 10%, except for ‘preparations suitable for infants,’ which will be subject to the standard sales tax rate of 18%.

- Items covered under serial nos. 16, 17, and 21 are currently subject to zero-rating. The Finance Act has withdrawn the zero-rating for these goods. Consequently, the supply of these goods will be subject to sales tax at a rate of 18%, with the exception of milk not sold under a brand name or supplied by corporate dairy farms, which is exempt from sales tax.

Amendments in Sixth Schedule: Table-I

1. The Finance Act has withdrawn the exemption of following item from Table-I, Sixth Schedule:

Serial No	Description	HS Code
(1)	(2)	(3)
13	Edible vegetables imported from Afghanistan including roots and tubers, except ware potato and onions, whether fresh, frozen or otherwise preserved (*e.g.* in cold storage) but excluding those bottled or canned.	0701.1000, 784, 0702.0000, 785, 0703.2000, 0703.9000, 0704.1000, 0704.2000, 0704.9000, 0705.1100, 0705.1900, 0705.2100, 0705.2900, 0706.1000, 0706.9000, 0707.0000, 0708.1000, 0708.2000, 0708.9000, 0709.1000, 0709.2000, 0709.3000, 0709.4000, 0709.5100, 786, 0709.6000, 0709.7000, 0709.9000, 0710.1000, 0710.2100, 0710.2200, 0710.2900, 0710.3000, 0710.4000, 0710.8000, 0710.9000, 0712.2000, 0712.3100, 0712.3200, 0712.3300, 0712.3900 and 0712.9000
15	Fruit imported from Afghanistan excluding apples PCT 0808.1000	0804.1010,0804.1020, 0804.2000, 0804.3000, 0804.4000, 0804.5010, 0804.5020, 0804.5030, 0805.1000, 0805.2910, 0805.2100, 0805.2200, 0805.2990, 0805.4000, 0805.5000, 0805.9000, 0806.1000, 0806.2000, 0807.1100, 0807.1900, 0807.2000, 0808.3000, 0808.4000, 0809.1000, 0809.2000, 0809.3000, 0809.4000, 0810.1000, 0810.2000, 0810.4000, 0810.5000, 0810.6000, 0810.9010, 0810.9090, 0811.1000, 0811.2000, 0811.9000, 0813.1000, 0813.2000, 0813.3000, 0813.4010, 0813.4020 and 0813.4090]
86	Colors in sets (Poster colors)	3213.1000
87	Writing, drawing and making inks	3215.9010and 3215.9090

88	Erasers	4016.9210 and 4016.9290
90	Pencil sharpeners	8214.1000
96	Other drawing, marking out or mathematical calculating instruments (geometry box)	9017.2000
97	[Pens, ball pens, markers and porous tipped pens]	96.08
98	Pencils including color pencils	96.09
120	Diagnostic kits or equipment, namely:- HIV Kits, 4C Es Trionyx, 5C Cell control Lnormal Bovine precision multi sera, Pregnancy test DNA SSP DRB Generic IC, Reticulocyte count (control) retic C Control, Kit for vitamin B12 estimation, Ferritin kit, HEV (Hepatitis E virus) ID-DA Cell, Urine Analysis Strips, Albumin beg Cratinin sysi Ring, Detektiion cups, ISE Standard Alkaline phosphatase (Alb), Bilirubin kit HDL Cholesterol, Ck 40reatinine kinase (mb) Ck nac, Glulcose kit, Ammonia Modular Lac, Ldh kit (lactate dehydrogenase kit) Urea uv kit, Ua plus, Tina quant, Crp control Aslo tin, Proteins, Lipids, HDL/LDL cholesterol Protein kit, U, Control Sera, Pac, Control HCV, UIBC (Unsaturated iron binding capacity) U/CSF, Inorganic Phosphorus kit, Kit amplicon kit (for PCR), Ige, Lc hsv, Oligo, NA/K/CL, Hcy Standard [or calibrated], Hla B27, Liss Coombs Typhoid kit, HCV amp, Urine test strips Strips for sugar test, Blood glucose test strips Kits for automatic cell separator for collection of platelets, Elisa or Eclia kit, PCR kits Immunoblast (western blot test). I.C.T. (Immunochromatographic kit) CBC Reagent (For hematology analyzer) Complete blood count rea	862[Respective headings]
169	Oil cake and other solid residues	2306.1000
170	Tractor	8701.9220 and 8701.9320
174	Machinery and equipment as listed at serial number 32 of the Table of Part-I of Fifth Schedule to the Customs Act, 1969 (IV of 1969), subject to the conditions, limitations and restrictions specified thereunder.	Respective headings.

2. The Finance Bill proposed to withdraw the certain exemptions from Table-I of the Sixth Schedule which has been retained by the Finance Act:

- Exemption covered under Sr. No. 151, regarding supplies of electricity to residential and commercial consumers in tribal areas that commenced industrial production before May 31, 2018, was proposed for withdrawal. It was to be subject to sales tax at a reduced rate of 6% until June 30, 2025, and 12% from July 1, 2025, to June 30, 2026, under Serial No. 86 of the Eighth Schedule. Previously, this exemption was applicable until June 30, 2024. The Finance Act has retained and extended this exemption until June 30, 2025.

- Exemption regarding supplies and import of plant, machinery, and equipment for installation in tribal areas was proposed for withdrawal and subject to sales tax at a reduced rate of 6% until June 30, 2025, and 12% from July 1, 2025, to June 30, 2026, under Serial No. 85 of the Eighth Schedule. Previously, this exemption was applicable until June 30, 2024. The Finance Act has retained and extended this exemption until June 30, 2025.

- Following exemption entries proposed to be omitted but retained by the Finance Act:

Serial No	Description
32.	Newsprint and books but excluding brochures, leaflets and directories
89	Exercise books
112	Cardiology/cardiac surgery, neurovascular, electrophysiology, endosurgery, endoscopy, oncology, urology, gynecology, disposables and other equipment listed at this entry.
166	Goods excluding electricity and natural gas supplied to hospitals run by the charitable hospitals of fifty beds or more.

3. Goods imported by or donated to hospitals run by non-profit institutions are subject to similar restrictions, limitations, conditions, and procedures as those applied for zero-rate customs duty under the Customs Act, 1969 (IV of 1969). These goods are exempt from sales tax under serial no. 165 of the Sixth Schedule. The Finance Bill proposed to withdraw this exemption for imports, however the Finance Act has retained the exemption for import.

4. Through Finance Act, supply / import of the following goods has been exempted from levy of sales tax under Table-I of the Sixth Schedule:

Serial No	Description	HS Code
(1)	**(2)**	**(3)**
175	Import of all goods received, in the event of a natural disaster or other catastrophe, as gifts and relief consignments or any goods received as gift or donation from a foreign government or organization by the Federal or Provincial Governments or any public sector organization. Subject to the recommendations of the Minister Incharge and concurrence by the Federal Board of Revenue subject to condition that the concerned Ministry shall verify the genuineness of such cases and furnish an undertaking to the effect that donated goods shall not be sold, utilized or disposed of otherwise than for thepurpose for which the same have been imported.	9908(i) and 9911..

176	POL products: (i) MS (Petrol) (ii) High Speed Diesel Oil (iii) Kerosene (iv) Light Diesel Oil	2710.1210, 2710.1931, 2710.1911 and 2710.1921
177	Supplies of Electricity to Azad Jammu and Kashmir	Respective heading
178	Import of gold under entrustment scheme under SRO 760(I)/2013	Respective heading
179	Import of cystagon, cysta drops and trientine capsules (for personal use only)	3004.9099
180	Bovine semen	0511.1000

Amendments in Sixth Schedule: Table-II

1. The Finance Act has withdrawn the sales tax exemption for the following items listed under Table-II of the Sixth Schedule and now charges these items with sales tax at the reduced rate of 10% under Sr. 87 and 88 of the Eighth Schedule

Serial No	Description	HS Code
7.	vermicillies, sheer mal, bun and rusk excluding those sold in bakeries, and sweet shops falling in the category of Tier-1 retailers.	Respective heading
21.	Poultry feed, cattle feed, sunflower seed meal, rape seed meal and canola seed meal	2306.3000, 2306.4900 and respective headings

2. Through the Finance Act following items under Table-II of the Sixth Schedule has been exempt from sales tax:

Serial No	Description	HS Code
56.	Milk excluding (i) that sold under a brand name; or (ii) Supplied by corporate dairy farm	04.01
57	Iron and steel scarp excluding supplied by manufacturer-cum-exporter of recycled copper, authorized under Export Facilitation Scheme, 2021.	7204.4100 7204.3000 7204.4990.”.

Amendments in Eighth Schedule: Table-I

1. The Finance Bill proposed to withdraw the reduced rate applicable to locally manufactured hydroelectric vehicles listed under Sr. 73 of Table-I of the Eighth Schedule. However, the Finance Act has retained the reduced rate until June 30, 2026.

Vehicle Description	Rate
Upto 1800 cc From 1801 cc to 2500 cc	8.5% 12.75%

2. The Finance Act has withdrawn the reduced rates that were previously available for the following items listed under Table-I of the Eighth Schedule:

S.No	Description	Heading	Rate of Sales Tax	Condition
(1)	(2)	**(3)**	**(4)**	**(5)**
58	LPG	2711.1910	10%	Imports thereof and local supplies of such imported LPG.
66	Supplies as made from retail outlets as are integrated with Board's computerized system for real-time reporting of sales	Respective Headings	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"; and

3. The supply of imported personal computers, laptop computers, and notebooks (whether or not incorporating multimedia kits) in Completely Built-Up (CBU) condition was subject to a sales tax rate of 5%. The Finance Act has increased this rate to a reduced rate of 10% for these items.

S.No	Description	Heading	Rate of Sales Tax
(1)	(2)	(3)	(4)
77	Imported personal computers and Laptop computers, notebooks whether or not incorporating multimedia kit	8471.3020 and 8471.3010	10%

4. The Finance Act has amended entry 81 of the Eighth Schedule to exclude "medicaments classified under Chapter 30 of the First Schedule to the Customs Act, 1969 (IV of 1969), except for the following, even if medicated or medicinal in nature: (a) filled infusion solution bags imported with or without infusion giving 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 is effective from the 1st day of July, 2022". Consequently, the sales tax on medicines has been increased from 1% to 18%, except for medicines registered as drugs under the Drug Act, 1976. The amended entry reads as follows:

S.No	Description	Heading	Rate of Sales Tax	Condition
81	Substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976)	Respective heading	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 in the supply chain.

5. The Finance Act has introduced a reduced sales tax rate of 10% for the following item:

S.No	Description	Heading	Rate of Sales Tax
84.	Colors in sets	3213.1000	10%
	(i) Writing, drawing and marking inks	3215.9010 and 3215.9090	
	(ii) Erasers	4016.9210 and 4016.9290	
	(iv) Pencil Sharpeners	8214.1000	
	(v) other drawing, marking out or mathematical Calculating instruments (geometry box)	9017.2000	
	(vi) Pens, ball pens, markers and porous tipped pens	96.08	
	(vii) Pencils including color pencils	96.09	
85.	Oil cake and other solid residue	2306.1000	10%
86.	Tractors	8701.9220 and 8701.9320	10%
87.	Local supply of vermicillies, sheer mal, bun and rusk excluding those sold in bakeries, and sweet shops falling in the category of Tier-1 retailers.	Respective headings	10%
88.	Local supply of poultry feed, cattle feed, sunflower seed meal, rape seed meal and canola seed meal	2306.3000, 2306.4900 and respective headings	10%

The Bill initially proposed to apply reduced rating on local supply of poultry feed, cattle feed, sunflower seed meal, rape seed meal and canola seed meal subject to the condition that the refund of excess input tax, if any, shall not be admissible. However, the Finance Act has withdrawn the proposed condition. Hence, refund of excess input tax shall become admissible against supply of such items.

Amendment in the Ninth Schedule, Table-II

1. The Finance Act has levied ad valorem sales tax on mobile phones at a rate of 18%, except for those valued over $500, which will be taxed at a rate of 25%.

S. No.	Description / Specification of Goods	Sales tax on CBUs at the time of import or registration (IMEI number by CMOs)	Sales tax on import in CKD/SKD condition	Sales tax on supply of locally manufactured mobile phones in CBU condition in addition to tax under column (4)
(1)	**(2)**	**(3)**	**(4)**	**(5)**
1.	Cellular mobile phones or satellite phones to be charged on the basis of import value per set, or equivalent value in rupees in case of supply by the manufacturer, at the rate as indicated against each category:- -			
	A. Not exceeding US$ 500	18% ad valorem	18% ad valorem	18% ad valorem
	B. Exceeding US$ 500	25% ad valorem	18% ad valorem	18% ad valorem

2. The following clauses of the Ninth Schedule, under the heading 'LIABILITY, PROCEDURE AND CONDITIONS' after Table-II, has been omitted:

   "(iii) The tax paid under this Schedule shall not be deductible against the output tax payable by the purchaser or importer of the goods specified in this Schedule;

   iv) The input tax paid on the input goods attributable to the goods specified in this Schedule shall not be deductible for the tax payable under this Schedule; and

   (v) The Board may prescribe further mode and manner of payment of tax due under this Schedule."

   Consequently, adjustment of input tax paid by importers against output tax payable has been allowed under this schedule.

Amendment in the Eleventh Schedule:

1. The Finance Act has sales tax withholding compulsory on certain supplies of goods as follows:

S. No.	Withholding agent	Supplier category	Rate or extend of deduction
(1)	(2)	(3)	(4)
9.	Registered persons manufacturing cement	Persons supplying any kind of gypsum under chapter 25 (PCT headings 2520.1010, 2520.1020, 2521.0000) or limestone flux under chapter 25 (PCT headings 2520.1010, 2520.1020, 2521.0000)	80% of the sales tax applicable
10.	Registered persons	Persons supplying any kind of coal under chapter 27 (PCT headings 2701.1100,2701.1200, 2701.1900, 2701.2000, 2704.0010, 2704.0020, 2704.0090) or	80% of the sales tax applicable
11.	Registered persons	Persons supplying any kind of waste of paper and paper board (Respective headings)	80% of the sales tax applicable
12.	Registered persons	Persons supplying any kind of plastic waste (Respective headings)	80% of the sales tax applicable
13.	Registered Persons	Persons supplying crush stone and silica	80% of the sales tax applicable

2. Furthermore, the Act has increase the rate of sales tax withholding from 75% to 80% for suppliers of lead to registered persons manufacturing lead batteries.

3. Currently, sales tax withholding under the Eleventh Schedule does not apply to supplies made by an Active Taxpayer, as defined in the Sales Tax Act, 1990, to another registered person, except for advertisement services. The Act has removed this exception specifically for supplies of gypsum to registered manufacturers of cement, coal, waste paper & paperboard, plastic waste, crushed stone, and silica.

SIGNIFICANT AMENDMENTS
Federal Excise Duty Act, 2005

SECTION 2 (4) Board

The Finance Act has redefine the definition of "Board" to align with the meaning provided in the Income Tax Ordinance, 2001. This alignment is intended to harmonize the definitions between the Income Tax Ordinance, the Sales Tax Act, 1990 and the Federal Excise Act, 2005, ensuring consistency and clarity across these laws.

SECTION 8 - Default surcharge

The Bill proposed to enhance the rate of default surcharge from 12% to KIBOR plus 3%. The Finance Act has adapted such change with further providing minimum rate of default surcharge as 12%.

SECTION 19 – Offences, penalties, fines and allied matters

The Finance Act has imposed a fine for any person who, without prior permission from the Commissioner, installs or commences production using plant and machinery valued at fifty million rupees or more. Such a person shall be liable to a fine which may extend to Rs 50,000 or five times the duty involved, whichever is higher, and imprisonment which may extend to five years, or both.

Further, if any retailer is found selling cigarette packs without affixing, or affixing counterfeited, tax stamps, banderoles, stickers, labels, or barcodes, the retail outlet of such person shall be liable to be sealed in accordance with prescribed procedures.

SECTION 29A - Tax Fraud Investigation Wing – Inland Revenue

The Finance Act introduced the concept of new authority whose function shall be to detect, analyze, investigate, combat and prevent tax fraud.

SECTION 33A - Pecuniary Jurisdiction in Appeals

The Tax Law Amendment Act divides the jurisdiction of appeals based on the monetary value involved. It was stipulated that cases pending before the Commissioner (Appeals) with a value exceeding five million rupees would be automatically transferred to the Appellate Tribunal Inland Revenue from June 16, 2024. The Finance Bill proposed to extend this deadline until September 16, 2024.

As per the Finance Act, date for transfer of case has been further extended till December 31, 2024.

SECTION 34AB - Saving

The Finance Act has introduced a provision allowing a sixty-day period for filing an appeal before the Appellate Tribunal or the High Court, provided that such decision of the Commissioner (Appeals) or the Appellate Tribunal is received before the commencement date of the Tax Laws (Amendment) Act, 2024.

FIRST SCHEDULE (TABLE-I)-EXCISABLE GOODS:

The Finance Act has imposed FED on following:

S.No.	Description of goods	Tariff heading	FED Rate
7a.	Acetate tow	Respective heading	Rupees forty four thousand per kg
8d.	Nicotine pouches	Respective heading	Rupees one thousand and two hundred per kg
63	Lubricating oil	2710.1951, 2710.1952 and 2710.1953	5% ad valorem

The Finance Act has increased rate of FED on following:

S.No.	Description of goods	Previous Rate	Amended Rate
8a.	E-liquids by whatsoever name called, for electric Cigarette kits	Rs 10,000 per kg	Rs. 10,000 per kg or 65% of retail price which ever is higher
13.	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not coloured or in the from of clinker	Rs. 2 per kg	Rs. 4 per kg
56.	Filter rod for cigarettes	Rs 1,500 per kg	Rs. 80,000 per kg

The Finance Act has modified following entries:

S.No.	Previous Description	Amended Description	Rate of FED
9.	Locally produced cigarette if their on-pack printed retail price exceeds Rs. 9,000 per 1000 cigarettes	Locally produced cigarette if their on-pack printed retail price exceeds Rs. ***12,500*** per 1000 cigarettes	Rs 16,500
10.	Locally produced cigarette if their on-pack printed retail price does not exceeds Rs. 9,000 per 1000 cigarettes	Locally produced cigarette if their on-pack printed retail price does not exceeds Rs. ***12,500*** per 1000 cigarettes	Rs. 5050

Previously, no brand of locally produced cigarettes having on-pack printed retail price exceeding nine thousand rupees per thousand cigarettes, could be priced and sold at a retail price (excluding sales tax) lower than sixty percent of such retail price.

The Finance Act has reduced the minimum price for such cigarettes from sixty percent of retail price to fifty-five percent.

TABLE II: EXCISABLE SERVICES

Through the Finance Act, FED has been increased on services provided or rendered in respect of travel by air of passengers embarking on international journey from Pakistan as under:

Categories	Tickets issued before 1st July 2024	Tickets issued on or after 1st July 2024
Economy and economy plus air tickets	Rs. 5,000	Rs. 12,500
Club, business and first-class air tickets		
(a) IATA Traffic Conference Area 1 (North, Central, South America and Environs)	Rs. 250,000	Rs. 350,000
(b) IATA Traffic Conference Area 2 (I) Middle East and Africa	Rs. 75,000	Rs. 105,000
(II) Europe	Rs. 150,000	Rs. 210,000
(c) IATA Traffic Conference Area 3 (Far East, Australia, New Zealand and Pacific Islands)	Rs. 150,000	Rs. 210,000

TABLE III, EXCISABLE ITEMS OTHER THAN THOSE MENTIONED UNDER TABLE-I AND TABLE-II

The Finance Act has introduced the following new table to charge duty on excisable items other than those mentioned Under Table-I And Table-II of the First Schedule to the FED Act.

TABLE III

(EXCISABLE ITEMS OTHER THAN THOSE MENTIONED UNDER TABLE-I AND TABLE-II)
[See clause (e) of sub-Section (1) of Section 3]

S. No.	Description of Items	Heading/subheading Number	Rate of Duty
(1)	(2)	(3)	(4)
*1.	Allotment or transfer of commercial property and first allotment or first transfer of open plots or residential property by any developer or builder in such mode and manner and subject to such conditions and restrictions as may be prescribed by the Board	Respective headings	(i) 3% of gross amount of consideration involved where the buyer is appearing on active taxpayer list maintained under Section 181A of the Income Tax Ordinance, 2001 on the date of acquisition of property; (ii) 5% of gross amount of consideration involved where the buyer has not filed the income tax return by due date as specified in proviso to Rule 1A of Tenth Schedule to the

			Income Tax Ordinance, 2001; and (iii) 7% of gross amount of consideration involved where the buyer is not appearing on active taxpayer list maintained under Section 181A of the Income Tax Ordinance, 2001 on the date of acquisition of property.
2.	Supply of white crystalline sugar by any person to a manufacturing, processing or packaging entity.	Respective heading	Rupees fifteen per kg.

(i) Through the Finance bill, FED on transfer/allotment of property was proposed under Table 1 of the First Schedule which was related to dutiable goods. The rate previously introduced was flat rate of 5% without specifying the value to which it was to apply. The Finance Act has removed the above identified ambiguity and provided slab rates of duties ranging from 3% to 7% instead of flat rate of 5% in all cases.

(ii) The Finance Act imposes FED at Rs 15 per kg on the supply of white crystalline sugar by any person to a manufacturing, processing, or packaging entity. Previously, the Finance Bill proposed levying FED on the supply of sugar to manufacturers.

THIRD SCHEDULE (TABLE-I)-Goods:

The Finance Act has introduced conditional exemptions on following goods subject to levy of FED under Table I, First Schedule:

S.No.	Description of goods	Tariff heading
23.	Imports made by diplomats, diplomatic missions, privileged persons and privileged organizations which are covered under various Acts, Orders, Rules, Regulations and Agreements passed by the Parliament or issued or agreed by the Government of Pakistan.	99.01, 99.02 and 99.05