TANWEER HABIB
& Company

2023-24

FEDERAL BUDGET

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SUMMARY

The tax policy remains largely unchanged in the Finance Bill 2023, with the focus primarily on taxing sectors that are already subject to taxation. Major revenue measures target big businesses, resulting in higher tax rates and multiple instances of taxation. The bill fails to address the significant tax gap caused by undocumented sectors, and certain provisions may inadvertently promote the growth of the undocumented economy. Indirect taxation has been further emphasized by increasing the rates of withholding taxes. These short-term fixes prioritize meeting revenue targets without considering the potential long-term negative impact on overall economic growth. Moreover, the bill does not provide significant tax relief for lower income groups, including the salaried class.

HIGHLIGHTS

1. Super tax rates for high earners are now progressive, ranging from 1% to 10%. However, the initial commitment to impose a one-time 10% super tax on specific sectors has been disregarded, and this higher tax rate now applies to individuals from all sectors earning more than Rs 500 million. The super tax has been made permanent, significantly increasing the overall tax burden for businesses.

2. The bill reintroduces a 10% final tax on bonus shares issued by companies.

3. A new concept called "additional tax on income, profits, and gains" has been introduced, with a capped rate of 50%. This tax applies to extraordinary incomes resulting from economic factors determined by the Federal Government over the previous five years. However, this concept is expected to face legal challenges based on established principles by Higher Courts.

4. Withholding income tax rates have been increased for suppliers, service providers, contractors, and commercial importers.

5. The sales tax rate on retailers of textile and leather products has been raised from 12% to 15%.

6. The exemption of sales tax on bulk sales of edible products under brand names or trademarks has been eliminated.

7. The minimum tax rate based on turnover for listed companies has been reduced by 0.25%.

8. The special tax regime for Small & Medium Enterprises (SMEs) has been extended to include IT & IT-enabled services. The turnover threshold has been raised from Rs 250 million to Rs 800 million. Additionally, certain agro-based SMEs are granted a five-year income tax holiday.

9. Instead of completely eliminating the misuse of immunity from probing into the sources of foreign remittances, the threshold for immunity has been raised from Rs 5 million to the equivalent of USD 100,000 per annum.

HIGHLIGHTS

10. A 0.6% advance tax on cash withdrawals by non-filers has been reintroduced.

11. The definition of associates for income tax purposes has been expanded to include transactions with individuals residing in zero-taxed jurisdictions.

12. Non-resident Pakistanis are now exempt from the collection of a 2% advance tax on the purchase of immovable properties.

13. Youth entrepreneurship is eligible for a 50% reduction in tax liability for three years.

14. The exemption on profits and gains from the sale of immovable property or shares of special purpose vehicles to REIT schemes has been extended until June 30, 2024.

15. Banking companies are subject to a lower tax rate (20%) on income derived from additional advances to the IT sector.

16. Production, transmission, and distribution of electricity are excluded from federal sales tax, and they are now included in Islamabad sales tax on services, in accordance with the decision of the National Tax Council.

17. The definition of Tier-1 retailers has been amended to exclude jewelers and certain shop-covered area-based retailers.

18. The scope of the Federal Excise Duty (FED) on services is expanded by adding royalty and fees for technical services.

19. Freelance exporters of IT and IT-enabled services are granted cottage industry status, along with exemptions from registration and filing requirements.

20. Exemptions provided in fiscal laws for former tribal areas have been extended until June 30, 2024.

21. The definition of "smuggle" is proposed to be amended, allowing Customs authorities to conduct anti-smuggling operations anywhere within the country's territorial limits.

HIGHLIGHTS

22. Penalties under the Customs Act related to non-placement of invoices or packing lists inside import containers or consignments are abolished.

23. The withdrawal of capped amounts of fixed duties and taxes on the import of used vehicles of Asian makes above 1300 CC is proposed.

SUPER TAX ON HIGH EARNING PERSONS

The concept of Super tax on high-earning individuals was introduced through the Finance Act 2022. For the tax year 2022, slab-wise rates were established, with a maximum rate of 4%. Additionally, an increased rate of 10% was applicable to specified sectors for the tax year 2022 only, and for banking companies, a 10% super tax was set for the tax year 2023. However, retrospective application of the super tax for the tax year 2022 and the enhanced rate for specified sectors faced legal challenges, and the High Court of Sindh ruled that it was inapplicable for the tax year 2022 and that the enhanced rate was discriminatory. The decision is currently under review by the Supreme Court.

Under the proposed Finance Bill 2023, new slab rates for super tax are being introduced for taxpayers with income exceeding Rs 300 million. This means that the highest slab rate of 10% will apply to taxpayers from all sectors with income exceeding Rs 500 million, eliminating any discriminatory aspects.

Sr No.	**Section 4C**	**For tax year2023 and onwards**
1.	Upto Rs 150 million	0%
2.	Exceeding Rs 150 million but does not exceed Rs 200 million	1%
3.	Exceeding Rs 200 million but does not exceed Rs 250 million	2%
4.	Exceeding Rs 250 million but does not exceed Rs 300 million	3%
5.	Exceeding Rs 300 million but does not exceed Rs 350 million	4%
6.	Exceeding Rs 350 million but does not exceed Rs 400 million	6%
7.	Exceeding Rs 400 million but does not exceed Rs 500 million	8%
8.	Exceeding Rs 500 million	10%

SUPER TAX AS ADVANCE TAX

To facilitate the collection of Super tax as advance tax, amendments have been made to sections 4C and 147 of the Finance Act, 2022. Previously, Super tax was required to be paid along with the tax return. However, with the newly introduced amendments, the Super tax can now be collected in advance. These amendments will be effective from July 1, 2023.

INCLUSION OF SUPER TAX COLLECTION ON DISPOSAL OF SECURITIES BY NCCPL

Currently, National Clearing Company of Pakistan Limited (NCCPL) collects tax on capital gains from the disposal of certain securities. Previously, individuals earning such income were required to pay Super Tax along with their annual tax return. However, it is now proposed that

Super Tax will also be collected on capital gains from the disposal of securities listed in the Eighth Schedule through NCCPL.

TAXATION ON BONUS SHARES

Before the amendments introduced by the Finance Act 2014, the definition of "income" excluded the face value of bonus shares for shareholders of a company. The Finance Act 2014 introduced withholding provisions for bonus shares issued by both listed and unlisted companies, along with the omission of the aforementioned exclusion from the income definition.

The validity of this tax was challenged in the High Court of Sindh based on judgments from Pakistan and Indian courts that deemed bonus shares not to be considered "income." Although the suit was dismissed, an appeal against the judgment is currently pending. The provision was later omitted through the Finance Act 2018.

The proposed Bill aims to reintroduce this taxation measure by amending the income definition, expanding the scope of "income from other sources," and introducing a withholding tax provision (section 236Z) effective from July 1, 2023. Key features of these measures include:

(a) Companies will be required to collect 10% tax from each shareholder at the time of issuing bonus shares. The tax rate for inactive taxpayers will be 20%. (b) The value for tax calculation will be based on the day-end price on the first day of the book closure for listed companies, while a prescribed value will be used for unlisted companies. (c) The tax collected will be treated as final tax. (d) In case shareholders do not pay the tax, the company is required to dispose of shares equivalent to the tax liability.

AMENDMENTS TO SPECIAL TAX REGIME FOR SMALL AND MEDIUM ENTERPRISES (SME)

The Finance Act 2021 introduced the Fourteenth Schedule as a special tax regime for the SME sector, initially applicable to manufacturers with an annual turnover of up to Rs 250 million. This regime offered the option of being taxed on a final tax basis, with reduced rates based on net income linked to turnover. SMEs were also exempted from minimum tax on their turnover.

The proposed changes to this tax regime in the Bill include:

(a) Expanding the definition of SMEs to include those engaged in IT services and IT-enabled services, subject to registration and certification by the Pakistan Software Export Board. (b) Extending the special tax regime under the Fourteenth Schedule to SMEs with turnover

Exceeding Rs 250 million but not exceeding Rs 800 million. (c) The updated table of tax rates is as follows:

Category	Turnover	Rates	
		Normal	**Final***
I	Where annual business turnover does notexceed Rs 100 Million	7.5%	0.25%
II	Where annual business turnover exceeds Rs 100 Million but does not exceed Rs 250 Million	15%	0.5%
III	Where annual business turnover exceedsRs 250 Million but does not exceed Rs 800 Million	20%	0.75%

TAX HOLIDAY FOR AGRO-BASED SMES IN RURAL AREAS

A new provision is proposed to be added to the Second Schedule, offering a tax holiday specifically for small and medium enterprises (SMEs) operating exclusively as agro-based industries in rural areas. The tax holiday is subject to certain conditions:

(a) The profits and gains of the SMEs will be exempt from taxation from tax year 2024 to tax year 2028. (b) The SME must be established on or after July 1, 2023. (c) The enterprise should not be formed through the transfer, reconstitution, reconstruction, or splitting up of an existing business.

It is understood that this tax holiday will be applicable to SMEs as defined in the Fourteenth Schedule.

ADDITIONAL TAX ON SPECIFIED INCOME, PROFITS, AND GAINS

A new provision is proposed to empower the Federal Government to impose an additional tax on individuals or groups who have earned income, profits, or gains due to certain economic factors resulting in unexpected financial gains, regardless of whether such gains are disclosed in the financial statements.

The key features of this provision are as follows:

(a) This provision supersedes other provisions of the Ordinance or any other prevailing law. (b) The additional tax is applicable for any of the five years preceding the tax year from 2023 onwards. (c) The Federal Government will determine the economic factors, including international price fluctuations affecting commodity prices in Pakistan or specific sectors of the economy, or differences in income, profits, or gains due to foreign currency fluctuations, through an official gazette notification. (d) The rate of the additional tax will not exceed 50% of the income, profits, or gains. (e) The scope, payment method, and any exemptions will be specified in the aforementioned notification.

Corresponding amendments have been made for the application of these provisions to insurance companies (Fourth Schedule), oil and gas exploration (Fifth Schedule), and banking companies (Seventh Schedule). However, the implementation of these provisions may face legal challenges based on constitutional grounds and principles established by the higher courts, particularly regarding past and concluded transactions.

INCREASE IN WITHHOLDING TAX RATES BY 1%

Section 152(2A) pertains to withholding tax on payments to non-resident permanent establishments for the sale of goods, provision of services, and contract execution. Similarly, section 153 deals with similar payments to resident individuals or entities.

The proposed amendment seeks to increase the withholding tax rates by 1% for payments covered under sections 152(2A) and 153, as mentioned above.

A comparison (existing and proposed rates) as under:

Description	ExistingRate	ProposedRate
Sale of goods:		
In case of company	4%	5%
All other cases	4.5%	5.5%
Provision or rendering of:		
Certain specified services	3%	4%
Other services: by company any other case	 8% 10%	 9% 11%
Execution of contract other than sports persons:		
In case of company (resident)	6.5%	7.5%
All other cases	7%	8%

INCREASE IN TAX RATE ON COMMERCIAL IMPORTERS

The proposed amendment suggests raising the tax rate on commercial importers of goods listed in Part III of the Twelfth Schedule from 5.5% to 6% of the import value, inclusive of customs duty, sales tax, and federal excise duty.

INCREASE IN TAX RATE ON OVERSEAS REMITTANCES VIA CARDS

Every banking company is obligated to collect adjustable advance tax on transfers of funds remitted outside Pakistan using credit, debit, or prepaid cards. The proposed amendment aims to increase the tax deduction rate on such transactions from 1% to 5%.

TAXATION MEASURES FOR BANKING COMPANIES

Reduced Tax Rate on Additional Advances to Certain Sectors

The Seventh Schedule provisions currently offer a reduced tax rate (20%) on income derived from additional advances granted to specific sectors, including micro and SMEs, low-cost housing, and farm credit. The Bill proposes extending the applicability of these provisions until tax year 2025.

Reduced Tax Rate on Additional Advances to IT Sector

In line with the aforementioned concept, a new provision is proposed to introduce a reduced tax rate (20%) on income generated from additional advances provided to the IT sector. This provision will apply to tax years 2024 and 2025.

Tax Treatment of Profit on Debt and Capital Gains from Government Sovereign Debt

An exemption was introduced through SRO 213(I)/2023, dated February 22, 2023, regarding profit on debt and capital gains from Federal Government's sovereign debt or a sovereign debt instrument earned by approved non-resident banking companies under a sovereign agreement. The Bill proposes to incorporate this exemption with certain amendments.

Higher Tax Rate on Income from Government Securities

Through the Finance Act 2019, a higher tax rate on income derived by banking companies from additional investments in government securities was introduced. The Finance Act 2022 modified the provisions, making it applicable from tax year 2022 onwards. However, through SRO 226(I)/2023, dated February 27, 2023, these provisions were made inapplicable for tax year 2024. The Bill now proposes to incorporate the said amendment.

Advance Tax on Cash Withdrawal by Non-Filers

The reintroduction of adjustable advance tax on cash withdrawals by non-filers has been proposed at a rate of 0.6% when the cumulative amount of withdrawals in a day exceeds Rs 50,000. Similar provisions were previously introduced in 2005 and remained in effect until June 30, 2021. Previous clarifications issued regarding these provisions will continue to apply.

AMENDMENT TO MINIMUM TAX ON TURNOVER

The existing provision of minimum tax on turnover under section 113 applies to certain taxpayers who are not liable to pay tax due to various reasons such as exemptions or loss adjustments. The standard rate for minimum tax is 1.25% of turnover, with reduced rates for specific sectors. The proposed amendment suggests reducing the standard rate from 1.25% to 1% for listed companies. Minimum tax paid in a tax year can be carried forward for adjustment against the taxpayer's subsequent three years' tax payable. However, an amendment is proposed to clarify that the adjustment of minimum tax carry forward is only allowed against the normal tax payable by the taxpayer.

IMMUNITY ON FOREIGN REMITTANCES

The Commissioner has the authority to investigate the sources of unexplained investments and assets, and if satisfactory explanations are not provided, such amounts are added to the taxpayer's income and taxed accordingly. However, this investigation cannot be conducted for remittances received from abroad through permissible channels. Previously, there was no cap on such remittances until tax year 2018. From July 1, 2017, a cap of Rs 10 million per annum was introduced, which was further reduced to Rs 5 million by the Finance Act, 2019.

The proposed amendment aims to increase the limit to an equivalent of USD 100,000 per annum. However, concerns regarding potential misuse of this immunity have led to calls from documented sectors to completely remove this provision.

AMENDMENTS TO THE CONCEPT OF PERMANENT ESTABLISHMENT (PE)

The concept of Permanent Establishment (PE) holds significant importance in the taxation of non-residents in Pakistan. The definition of PE in Pakistan's tax law includes various clauses to address different scenarios. The proposed amendments seek to make the following changes to certain clauses of the PE definition:

i) The term 'fixed' is proposed to be omitted from the main definition of PE, which refers to a place of business. This amendment aims to encompass places of business that may not be fixed due to technological advancements.

ii) Currently, a PE is considered to exist when a non-resident provides services in Pakistan, including consultancy services, through its personnel or employees. The proposed amendment extends the provision to include services provided through an 'entity' as well.

It should be noted that these amendments, if they conflict with double tax treaties, will not affect non-residents covered by such treaties.

INTRODUCTION OF TAX CREDIT FOR CONSTRUCTION OF NEW HOUSE

A new provision is introduced to provide a tax credit to individuals who construct a new residential house, subject to certain conditions. The key details are as follows:

a) The tax credit is available from tax year 2024 to tax year 2026. b) The house must be completed during the specified tax year, and a completion certificate must be provided along with the tax return. c) The tax credit amount is the lesser of: (i) 10% of the assessed tax for the tax year; or (ii) one million rupees. d) The layout plan must be approved by the relevant authority on or after July 1, 2023.

EXEMPTION FROM ADVANCE TAX ON PURCHASE OF IMMOVABLE PROPERTY

Currently, advance tax is collected at a rate of 2% of the fair market value from the purchaser of immovable property, which is treated as final tax for certain Pakistani expatriates. The proposed amendment exempts non-resident individuals who hold a Pakistan Origin Card (POC) or National Identity Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC) and acquire the property through a Foreign Currency Value Account (FCVA) or NRP Rupee Value Account (NRVA) maintained with authorized banks in Pakistan, subject to prescribed certification.

REDUCTION IN TAX LIABILITY FOR NEW BUILDING CONSTRUCTION PROJECTS

A reduction in tax liability is proposed for 'builders' involved in new building construction projects for tax years 2024 to 2026. The reduction will be the lower of 10% of income from business or Rs. 5 million, subject to specified conditions.

EXTENSION OF TAX EXEMPTION FOR SALE OF IMMOVEABLE PROPERTY TO REIT

The existing exemption on profits and gains from the sale of immoveable property or shares of Special Purpose Vehicle to any REIT scheme, which was due to expire on June 30, 2023, is proposed to be extended until June 30, 2024.

EXPANSION OF DEFINITION OF 'ASSOCIATES'

The definition of 'associates' is proposed to be significantly expanded to include the following:

(i) A person who has sufficient influence over another person, either alone or together with one or more associates, where both parties are economically and financially dependent on each other, and decisions are made in accordance with each other's directions, instructions, or wishes for a common economic goal.

(ii) A person who enters into a transaction, directly or indirectly, with another person who is a resident of a jurisdiction with a zero taxation regime, as prescribed.

These amendments would make the provisions applicable to transactions between associates, including transfer pricing.

RECOVERY OF LIABILITY UNDER ANY OTHER LAWS

A new section is being proposed to empower the Commissioner to recover outstanding liabilities under other statutes or laws currently in force. The Commissioner will have the authority to recover such liabilities when they are considered income tax arrears, required to be collected by the Commissioner Inland Revenue, or referred to the Commissioner for recovery. The recovered amount will be deposited into the designated account specified in that particular law.

AUTOMATIC ISSUANCE OF EXEMPTION CERTIFICATE FOR NON-RESIDENT PAYMENTS

Currently, when a payer needs to remit an amount to a non-resident without deducting tax, they can apply to the Commissioner for an exemption certificate under section 152(5) of the Ordinance. The Commissioner is required to issue an order within thirty days of receiving the application.

The proposed amendment states that if the Commissioner fails to issue an order within the thirty-day period (excluding any adjournment period requested by the taxpayer), the exemption certificate will be automatically processed and issued through the IRIS web portal. However, the Commissioner retains the power to modify or cancel the automatically issued certificate after providing written reasons and an opportunity for the taxpayer to be heard.

FINAL TAX ON INDIRECT EXPORTERS

Local supplies to exporters authorized under the Export Facilitation Scheme, 2021, established under a firm contract, will be treated similarly to local supplies to exporters authorized under the DTRE Rules, 2001. As a result, payments for such supplies will be subject to a 1% final withholding tax.

FINAL TAX ON EXPORT OF IT SERVICES

Currently, the export of computer software and IT or IT-enabled services is subject to withholding tax upon realization of export proceeds at the applicable rate. This withholding tax is considered final tax, subject to various conditions, including the filing of sales tax returns under Federal or Provincial laws if required.

The proposed amendment seeks to waive the condition of filing sales tax returns for availing the final tax regime for exports of computer software or IT services or IT-enabled services, provided the exporter is registered with the Pakistan Software Export Board.

Additionally, the reduced tax rate of 0.25% on the export of services related to computer software and IT/IT-enabled services by persons registered with the Pakistan Software Export Board is proposed to be limited to tax years 2024 to 2026.

ADVANCE TAX ON FOREIGN DOMESTIC WORKERS

A new provision has been introduced to impose advance tax on the employment of foreign nationals as domestic workers. The tax will be collected by the authority responsible for issuing or renewing domestic aide visas. The agency, sponsor, or employer will be required to pay the advance tax, which is set at Rs 200,000. This amount can be adjusted against the tax payable on the income of the agency, sponsor, or employer, as applicable.

TAX EXEMPTION FOR CERTAIN ORGANIZATIONS

The Finance Bill proposes to include the income of specific organizations in Table 1 of Clause (66) of Part I in the Second Schedule. The organizations to be included are:

(i) The Prime Minister's Relief Fund for Flood, Earthquake, and Other Calamities, effective from August 5, 2022. (ii) Film and Drama Finance Fund. (iii) Export-Import Bank of Pakistan. (iv) Shaheed Mohtarma Benazir Bhutto Institute of Trauma, Karachi. (v) Shaheed Zulfikar Ali Bhutto Institute of Science and Technology.

TAX EXEMPTION EXTENDED FOR ERSTWHILE TRIBAL AREA RESIDENTS

The period of income tax exemption for residents of the erstwhile Tribal Areas, granted prior to the Constitution (25th Amendment) Act, 2018, was set to expire on June 30, 2023. The proposed amendment seeks to extend this exemption until June 30, 2024. Similar amendments have been proposed in other fiscal laws.

REDUCTION IN TAX LIABILITY FOR YOUTH ENTERPRISE

For tax years 2024 to 2026, a reduction in tax liability is proposed for youth enterprises, subject to certain conditions. The reduction will be as follows:

i) For individuals or associations of persons (AOP): 50% or Rs 2 million, whichever is lower.
ii) For companies: 50% or Rs 5 million, whichever is lower.

Youth enterprise is defined as a start-up established after July 1, 2023, either as a sole proprietorship owned by a youth individual (a natural person up to the age of 30 years at the start of the relevant tax year), an AOP with all youth members, or a company with 100% shareholding owned by youth individuals.

EXEMPTION FOR PM'S RELIEF FUND FROM SPECIFIC PROVISIONS

The Prime Minister's Relief Fund for Flood, Earthquake, and Other Calamities, effective from August 5, 2022, is proposed to be exempted from the following provisions:

- Minimum tax on turnover under section 113.
- Withholding tax on profit on debt under section 151.

Additionally, donations made through SMS will not be subject to tax withholding under section 236.

EXEMPTION FROM TAX COLLECTION ON IMPORT

It is proposed to introduce an exemption from tax collection on import for specific scenarios. This includes:

- Exemption for goods imported for relief operations aimed at helping flood affectees, certified by NDMA or PDMA.
- Exemption for the import of tomatoes and onions during a specified period.

These exemptions were initially granted through statutory notifications.

ESTABLISHMENT OF INTERNATIONAL CENTRE OF TAX EXCELLENCE

A new institute called the International Centre of Tax Excellence is planned to be established. The purpose of this institute is to contribute to the development of tax policy and facilitate various functions related to taxation. The proposed functions of the institute include:

- Assisting in the formulation of model national tax policies.
- Conducting interdisciplinary research in tax administration and policy, international tax cooperation, revenue forecasting, and related areas.
- Organizing international seminars, workshops, and conferences on current issues faced by tax authorities in the field of international taxation.
- Enhancing the capacity of Inland Revenue Officers through training and skill-building.
- Improving tax analysis and the design and delivery of tax administration to maximize revenue within existing provisions, aiming to close the tax gap.
- Undertaking any other function as directed by the FBR (Federal Board of Revenue) or the Federal Government.

The establishment of this institute aims to enhance expertise and efficiency in the field of taxation.

REVISION OF TAXATION AUTHORITY FOR ELECTRICITY PRODUCTION, TRANSMISSION, AND DISTRIBUTION

Through the Finance Act of 2022, the inclusion of 'production, transmission, and distribution of electricity' in the definition of 'goods' and 'supply' aimed to reaffirm the Federal Government's right to impose taxes under the Sales Tax Act. However, this led to a legal controversy regarding whether the transmission of electricity, being categorized as a 'service,' could be taxed by the Federal Government after the implementation of the Eighteenth Amendment in the Constitution of Pakistan. Since higher courts had already ruled that 'electricity' is considered 'goods,' the specific inclusion in the definition of supply and goods was deemed unnecessary.

The new proposal in the Bill aims to repeal the previous amendment and restore the previous applicable definition. Additionally, a corresponding amendment has been made in the Islamabad Capital Territory (Tax on Services) Ordinance of 2001 to include taxation on electric power transmission services. This step reflects the Federal Government's implementation of the agreement reached earlier with the Provincial governments during the National Tax Council meeting.

EXCLUSION FROM TIER-1 RETAILER DEFINITION

The Bill suggests excluding the following individuals from the definition of 'Tier-1 retailer':

(i) Retailers conducting business in shops with a specified covered area of 2,000 square feet or more for furniture retailers and 1,000 square feet or more for other retailers. (ii) Jewelers.

Consequently, these individuals (not meeting any other criteria for Tier-1 retailers) will no longer be required to integrate their outlets with the FBR's computerized system for real-time sales reporting.

EXPANDED PENALTIES

Penalties have been defined for individuals involved in manufacturing, possessing, transporting, distributing, or selling cigarette packs without tax stamps, banderoles, stickers, labels, or barcodes, or with counterfeit versions of these. The proposal suggests extending such penalties to all individuals required by the FBR to affix tax stamps, banderoles, stickers, labels, barcodes, etc., on taxable goods as prescribed, but who commit the aforementioned offenses.

ZERO-RATED SUPPLIES TO REGISTERED EXPORTERS UNDER EXPORT FACILITATION SCHEME, 2021

Currently, local supplies of raw materials, components, parts, and plants and machinery to registered exporters authorized under the Export Facilitation Scheme of 2021 fall under the zero-rated regime of sales tax, subject to specified conditions and limitations.

The Bill proposes extending zero-rating to include local supplies of 'commodities' to the aforementioned exporters.

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EXPANSION OF ZERO-RATING FOR SUPPLY OF GEOMETRY BOX

Currently, the supply of a geometry box, categorized under the PCT heading 9017.2000, as well as the raw materials, packing materials, and components used in its manufacturing, are subject to a 0% sales tax rate. The proposed change extends the zero-rating benefit to include all items specified under the mentioned PCT heading, such as 'other drawing, marking out or mathematical calculating instruments,' along with their related raw materials, packing materials, and components.

REVISION OF EXEMPTIONS IN SIXTH SCHEDULE

Currently, the supply of certain goods is exempt from sales tax unless they are supplied in retail packing under a brand name or trademark. These goods include red chillies, ginger, turmeric, yogurt, butter, desi ghee, cheese, processed cheese (not grated or powdered), products of meat or meat offal, meat of bovine animals, sheep, goat, uncooked poultry, and fish and crustaceans. The proposed change restricts the scope of the above exemption and suggests making all supplies, regardless of whether they are in retail packing, taxable if sold under a brand name or trademark.

CLARIFICATION OF EXEMPTION FOR BLOOD TRANSFUSION SETS

Currently, the import and supply of blood bags CPDA-1 with blood transfusion set pack in aluminum foil are exempt from sales tax. The Bill proposes to clarify that this exemption also applies to blood transfusion sets not packed in aluminum foil if they are imported with blood bags CPDA-1 in corresponding quantities within the same consignment.

ADDITIONAL EXEMPTIONS FROM SALES TAX

The Bill introduces exemptions from the levy of sales tax on imports and supplies of the following goods:

Description	Heading
Contraceptive and accessories thereof	3926.9020 4014.1000
Bovine semen	0511.1000
Saplings	Respective Heading
Combined Harvester –Thresher	8433.5100
Dryer for agricultural products	8419.3400
No-till-direct seeder, planters, trans-planters and other planters	8432.3100 8432.3900

Import of goods as mentioned under S. No. 159 of Part III of Fifth Schedule to the Customs Act, 1969 (IV of 1969) chargeable to customs duty @ 0%, subject to the conditions, restrictions and limitations mentioned therein, by the software exporters registered with the Pakistan Software Export Board.	7471.3010 8471.3020 8471.3090 8471.4110 8471.6010 8471.6020 8471.6090 8471.7040 8471.9020 8471.7020 8471.5000 8517.6270

Exemption in respect of following goods is proposed to be withdrawn:

Description	Heading
Import of auto disable syringes, with or without needles	9018.3110 9018.3120
Import of tubular metal needles and rubber gaskets	9018.3200 4016.9310

EXTENSION OF EXEMPTIONS RELATING TO ERSTWHILE TRIBAL AREAS

The current sales tax exemptions applicable until June 30, 2023, for the supplies and imports listed below in relation to erstwhile tribal areas are proposed to be extended for an additional year until June 30, 2024:

(i) Supply/import of plant, machinery, equipment for installation in tribal areas; (ii) Supply/import of industrial inputs by industries located in tribal areas; (iii) Supplies of electricity to all residential and commercial consumers in tribal areas; and (iv) Supplies of electricity to qualifying industries (excluding steel and ghee or cooking oil industries) established and commenced industrial production before March 31, 2018, in tribal areas.

AMENDMENTS TO EIGHTH SCHEDULE

ENHANCED RATE FOR TEXTILE & LEATHER RETAILERS

Currently, Tier-1 retailers enjoy a reduced rate of 12% on supplies of finished fabric, locally manufactured finished articles of textile and textile made-ups, leather, and artificial leather (subject to the condition of maintaining a 4% value addition in the last six months). The proposal suggests increasing this rate from 12% to 15%.

PHARMA SECTOR

Presently, a reduced rate of 1% is applicable to the manufacture or import of substances registered as drugs under the Drugs Act, 1976, subject to certain conditions. The proposed change aims to apply this reduced rate retrospectively from July 1, 2022, only to drugs classified under Chapter 30 of the First Schedule to the Customs Act, 1969, with exceptions including filled infusion solution bags, scrubs, detergents, washing preparations, soft soap, adhesive plaster, surgical tapes, liquid paraffin, disinfectants, cosmetics, and toilet preparations.

Currently, Active Pharmaceutical Ingredients (APIs), excluding excipients, used for the manufacture of drugs registered under the Drugs Act, 1976, and raw materials for the basic manufacture of such ingredients, are taxed at a reduced rate of 1%. The proposed amendment suggests retrospectively applying this reduced rate from July 1, 2022, to only those raw materials/ingredients, including excipients, subject to customs duty not exceeding 11% ad valorem under the First Schedule or Fifth Schedule to the Customs Act, 1969, or under a notification issued under section 19 of the Customs Act.

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DEFINITION OF SMUGGLE

The Finance Bill proposes to amend the definition of 'smuggle' by adding the expression 'anywhere within the territorial jurisdiction of Pakistan.' This amendment aims to grant Customs authorities the authority to conduct anti-smuggling operations throughout the country.

ASSISTANCE TO THE CUSTOMS OFFICERS

The proposal suggests adding 'Provincial Levies and Khasadar Force' to the list of government agencies empowered and required to assist Customs officers in their duties, including anti-smuggling operations in Khyber Pakhtunkhwa and Balochistan.

POWER TO EXEMPT GOODS

The powers of the Federal Government to grant exemptions on Customs duties are proposed to be extended to include the implementation of agreements between the Government of Pakistan and an entity.

VALIDATION OF NOTIFICATIONS

The validity of exemption notifications issued on or after July 1, 2016, and placed for ratification before the National Assembly is proposed to be extended until the next fiscal year, up to June 30, 2024.

POWER TO DETERMINE CUSTOMS VALUE

The existing provisions regarding the valuation of goods by the Director of Customs Valuation are proposed to be amended to align with the 'World Trade Organisation Valuation Agreement.' The Director of Customs Valuation may consult internationally recognized sources for the valuation of goods.

FILING OF GOODS DECLARATION

To alleviate congestion at border Customs stations, it is proposed that the owner of imported goods must file the Goods Declaration within three days of the goods' arrival at the border customs station.

WAREHOUSING PERIOD

The proposed amendment suggests extending the warehousing period for perishable items from one month to three months to facilitate trade.

DECLARATION BY A REPRESENTATIVE OF PASSENGERS

In order to facilitate groups of passengers traveling together, the proposal allows for the filing of a declaration by a representative on behalf of the group. Currently, the owner of any baggage, whether a passenger or crew member, is required to make a verbal or written declaration of the baggage's contents to an appropriate officer in the prescribed manner.

PENALTIES

The Finance Bill proposes changes to penalties levied in certain circumstances:

1. Abolishing penalties for non-placement of invoices/packing lists inside the import container or consignment.
2. Restricting the penalty for failure to attach or electronically upload mandatory documents with Goods Declarations to Rs 50,000 (previously ranged from Rs 50,000 to Rs 250,000).

Currently, penalties for various offenses are imposed based on the value of goods without a minimum threshold. The proposal introduces a minimum threshold for penalties, set at an amount not less than the value of the goods. This aims to strengthen penal provisions.

ADJUDICATION

To reduce clearance time and human interaction, the proposal suggests providing respondents with the option of adjudication through the Customs computerized system. This option would be available for specified goods and offenses, as notified by the Federal Board of Revenue (FBR).

CONFISCATED PROPERTY

The FBR is presently authorized to allow Customs officials to use confiscated vehicles for operational purposes. The proposed amendment extends this authorization to include confiscated conveyances and other useful equipment for operational purposes, including anti-smuggling operations.

APPEAL TO THE APPELLATE TRIBUNAL

Provisions are proposed to enable the filing of appeals against appellate orders or quasi-judicial orders issued by the Chief Collector of Customs before the Appellate Tribunal. These provisions aim to align with international standards. Appeals will be heard by a special bench comprising one technical member and one judicial member.

ADVANCE RULING

Currently, applicants can seek advance rulings related to the applicability of notifications issued regarding customs duties or any other taxes or duties under existing laws. The proposal suggests withdrawing the option of seeking advance rulings in such cases, stating that matters involving the interpretation of statutes fall within the domain of the FBR and are outside the purview of Advance Ruling.

AMENDMENTS PROPOSED IN THE FIRST SCHEDULE TO THE CUSTOMS ACT

The Finance Bill proposes rationalizing the Customs Duty on the following items:

PCT code	Description	Proposed %
2710.1995	Liquid paraffin	0
2849.1000	Carbides of calcium whether or not chemically defined	11
3206.4100	Ultramarine and preparations based thereon	11
3823.7000	Industrial fatty alcohols	11
3920.4910	Polyvinyl Chloride (PVC) Rigid film	16
3920.9900	Plates, sheets, films, foils and strips of plastics	16
4805.2500	Testliner (recycled liner board) weighing more than 150 g/ m²	16
4805.9190	Other uncoated paper or paperboard weighing 150 g / m² having di-electric strength less than 0.5 Kv per milimeter	16
4806.2000	Greaseproof papers	16
8421.9990	Centrifuges, including centrifugal dryers filtering or purifying machinery and apparatus for liquid or gases	16
8503.0020	Parts for use with the machines of headings 8501.5340, 8501.5390, 8502.1110, 8502.1390 & 8502.2000	3

AMENDMENTS PROPOSED IN THE FIFTH SCHEDULE TO THE CUSTOMS ACT (CONCESSION / EXEMPTION)

Exemption of Customs Duty: Customs Duty leviable on the import of the following items is proposed to be exempted:

1. Certain machinery, equipment, and inputs for manufacturing solar panels, inverters, and batteries by local assemblers/manufacturers in the renewable energy sector, subject to specified conditions and quota determination/approvals.
2. Seeds for sowing.
3. Raw materials imported by manufacturers of diapers and sanitary napkins.
4. Paper of certain specifications, art cards, and boards used for printing the Holy Quran.
5. Organic composite solvents and thinners for the manufacture of Butyl Acetate and Dibutyl Orthophthalates.
6. Roasted peanuts for the manufacturing of Ready to Use Supplementary Foods (RUSF) and Ready to Use Therapeutic Foods (RUTF), subject to certain conditions.
7. Import of specified raw materials/inputs by manufacturers of Adhesive Tapes, Moulds and Dies, Mining machinery, Machine Tools, and Rice mill machinery.
8. Baby shrimp/prawns/juveniles for breeding in commercial fish farms and hatcheries.

Extension of existing exemptions: The following exemptions are proposed to be extended:

1. Import of specified goods by industries set up in erstwhile FATA areas extended until June 30, 2024.
2. Import of flavoring powders for food preparation extended until June 30, 2024.

Reduction in Customs Duty: Customs Duty leviable on the import of the following goods is proposed to be reduced:

Description	Proposed %
PET scrap, if imported for the manufacture of polyesterfilament yarn	11
Import of specified raw materials / inputs bymanufacturers of Capacitors	5

PHARMA SECTOR:

(i) The following changes have been proposed in relation to customs duty on import of Active Pharmaceutical Ingredients (APIs):

- Exemption from customs duty is proposed on import of Dextrose Anhydrous Injectable Grade (Pyrogen Free) USP APIs.
- The concession previously provided to Moxifloxacin API is proposed to be withdrawn.

(ii) Exemption from customs duty on import of the following drugs is proposed:

S.No.	PCT Code	Description
1	3004.9099	Gefitinib,
2	3004.9099	Caspian (Caspofungin 50 mg and 70 mginjection)
3	3004.3900	Bovine Lipid Extract Surfactant

(iii) The Customs duty on the import of Printed Composite Packaging of Aluminum Foil backed with Paper and Plastic used in the packaging of pharma products is proposed to be reduced from 10% to 5%.

AUTOMOBILE SECTOR

Amendments Proposed for Electric Vehicles in line with AIDEP 2021-2026

The Finance Bill proposes amendments to streamline the concessions provided for electric vehicles in accordance with the Auto Industry Development and Export Policy (AIDEP) 2021-2026.

No changes in customs duty rates for Hybrid Electrical Vehicles and Parts of Hybrid Electric Vehicles and Plug-in Hybrid Vehicles. However, certain additional conditions are proposed for these vehicles.

Withdrawal of Reduced Customs Duty Rate for Fully Dedicated LNG, LPG, and CNG Buses (CBU)

The Finance Bill also proposes to WITHDRAW the REDUCED RATE OF CUSTOMS DUTY at 1% that was previously prescribed for fully dedicated LNG, LPG, and CNG buses (CBU).

ANNOUNCEMENT MADE BUT NOTIFICATION / AMENDMENTS AWAITED

Regulatory Duties (RD)

(i) REMOVAL OF RD is proposed on the following items: a) Second-hand clothing b) IT-related equipment c) Synthetic Filament Yarn of Polyester not manufactured locally d) Parts for flat panels, monitors, projectors e) Silicon Steel Sheets

(ii) INCREASE OF RD is proposed on the following items: a) Import of articles of glass b) 20% RD on import of inefficient Tungsten Filament Incandescent Bulbs and parts c) RD on export of Molasses from 10% to 15%

(iii) REDUCTION OF RD on 151 PCT codes related to second-hand clothing, fish, tiles, sports goods.

(iv) EXEMPTION OF RD on special steel round bars and rods of non-alloy steel exceeding diameter 50 mm.

INCREASE IN CUSTOMS DUTY / TAXES

The proposed Finance Bill aims to WITHDRAW the cap of fixed duties and taxes on the import of old and used vehicles of Asian Makes above 1300 CC under SRO 577(I)/2005.

Automotive vehiclesof Asian makes meant for transport of persons	Duty and taxesin US$ or equivalent amountin Pak rupee
From 1301 cc to 1500 cc	US$ 16,900
From 1501 cc to 1600 cc	US$ 20,500
From 1601 cc to 1800 cc(excluding jeeps)	US$ 25,400

EXEMPTION OF ADDITIONAL CUSTOMS DUTY

Under the proposed changes, the Finance Bill aims to exempt additional customs duty on the import of raw materials used in the production of Hemodialyzers fluid/powder.

REDUCTION IN CUSTOMS DUTY

The customs duty on the import of non-localized (CKD) of Heavy Commercial Vehicles (HCVs) is proposed to be reduced from 10% to 5%.

LEVY OF EXCISE DUTIES

The current practice of collecting Federal Excise Duty (FED) at the time of supply of excisable goods and services is based on activity. Mere supply of excisable goods does not attract FED unless the supplier is also the producer, manufacturer, or importer of those goods. Similarly, excisable services are subject to FED when provided or rendered in Pakistan. The First Schedule specifies the excisable goods and services.

A new clause (e) is proposed to be added to sub-section (1) of section 3, not as a revenue measure but as a streamlining measure, to further clarify the chargeability of FED on goods and services. However, the drafting of this clause does not provide clarification and may lead to unintended ambiguity, potentially resulting in prolonged litigation. It could be interpreted to create a charge on the supply of excisable items even by distributors, dealers, or retailers. This does not align with the legislative intent, and the Federal Government should reconsider this amendment before finalization.

PUBLICATION OF RULES, GENERAL ORDERS, AND DEPARTMENTAL INSTRUCTIONS

Section 40 empowers the Federal Board of Revenue (FBR) to create rules. The Finance Bill proposes a procedure for the collection, arrangement, and publication of these rules, along with general orders, departmental instructions, and rulings. They can be made available to the public through sale at a reasonable price or by publishing them on the official website of the FBR. This amendment aims to align this section with section 50 of the Sales Tax Act, 1990.

FIRST SCHEDULE

TABLE I: DUTIABLE GOODS

In an effort to discourage the use of high-energy-consuming electric appliances, the Finance Bill proposes the introduction of new dutiable goods subject to FED, as presented in the table below:

Description	HS Code	Proposed duty
Imported and locally manufactured energy inefficient fans which do not comply with the MEPS, notified by PSQCA	Respective heading	2000 per fan
Imported and locally manufactured incandescent bulbs	8539.2200 8539.9010	20% ad valorem

TABLE II: EXCISABLE SERVICES

Currently, franchise services are subject to Federal Excise Duty (FED) at a rate of 10%. The Finance Bill proposes to broaden the scope of excisable services to include royalty and fees for technical services, also at a rate of 10%.

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