KPMG Taseer Hadi & Co.
Chartered Accountants

A Budget Brief on Finance Bill 2023

June 2023

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Preamble

Many provisions proposed in the Finance Bill 2023 (the Bill) were previously included in fiscal laws, later omitted and are now being reintroduced. Examples of such provisions include the taxation on bonus shares, 0.6% withholding tax on cash withdrawals, sales tax on IT services and continuation of supra-tax levies in the form of section 4C, as well as an increase in existing withholding tax rates.

While there are some revenue measures outlined in the Bill, such as the continuation of section 4C and an increase in withholding taxes, they predominantly target existing taxpayers who already bear the burden of the highest tax rates in the region.

This publication provides a summary of the significant amendments introduced through the Bill along with our comments thereon. The Bill is subject to approval by the National Assembly and may undergo changes before its enacted into law. Therefore, we advise the readers to carefully consider the specific wordings of the Bill and later the Finance Act, 2023 as they apply to the facts of the case before forming any opinion on a matter.

10 June 2023

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Highlights

Income Tax

- The definition of permanent establishment proposed to be broadened by excluding the word ‘fixed’ from it.
- Scope of ‘Small and Medium Enterprises [SME]” enhanced to include persons providing or rendering IT services or IT enabled services. Further, the threshold of turnover to qualify as SME for concessionary tax regime has been increased to eight hundred million rupees from two hundred and fifty million rupees.
- Super tax on high earning persons proposed to be paid quarterly along with advance tax.
- Income arising to the shareholders of a company from issuance of bonus shares proposed to be treated as income from other sources.
- Proposal for imposition of 10% withholding tax as final tax on issuance of bonus shares by the company.
- Exemption proposed to be introduced in respect of Foreign Investment (Promotion and Protection) Act, 2022. The said Act was enacted on 13 December 2022 to provide for promotion and protection of certain qualified foreign investments.
- Introduction of tax credit proposed at 10% of tax assessed or one million rupees, whichever is lower, for construction of new house for individuals from tax year 2024 to 2026 subject to the condition mentioned therein.
- Proposal for broadening the definition of ‘Associates’.
- Progressive rate of taxation proposed to be introduced for Super tax from 0% to 10% for income exceeding Rs 150 million to Rs 500 million onwards respectively.
- Reintroduction of advance adjustable tax on cash withdrawal by person not appearing in the active taxpayers list proposed at the rate of 0.6% of the sum exceeding fifty thousand rupees in a day.
- The rate of withholding tax proposed to be enhanced by 1% on sale of goods other than sale of rice, cotton seed or edible oils; on rendering of services including services subject to reduced rate of 3% but excluding electronic and print media advertising services; and on execution of contracts excluding sportsperson.
- Enhancement proposed by 0.5% withholding tax rate for commercial importer in case of commercial imports falling in Part III of Twelfth Schedule to the Income Tax Ordinance, 2001.
- Increase of 1% withholding tax rate proposed on payment to permanent establishment in Pakistan of non-resident person for sale of goods, for rendering of services including services subject to reduced rate of 3%, and on execution of contracts.
- Increase in withholding tax rate proposed on payment to non-residents through debit / credit / prepaid cards from 1% to 5% for filers and from 2% to 10% for non-filers.
- Introduction of adjustable advance tax proposed on issuance of work permit / visa on employment of foreign domestic helper of Rs. 200,000.
- Introduction of additional tax on income, profits and gains of a person or class of persons on account of extraordinary gains due to exogenous factors proposed at the rate not exceeding 50% of such income, profits or gains.
- Relief proposed for non-application of section 111 provided on amount of five million rupees remitted from outside Pakistan through normal banking channel proposed to be enhanced to rupee equivalent to one hundred thousand United States Dollars.

- Enhancing the powers of the Commissioner proposed for recovery of the outstanding liability under any other statute or law.

- Introduction proposed for automated issuance of exemption certificate by IRIS under section 152(5) upon expiry of thirty days.

- The conditions to avail benefit of final tax regime on export of IT services and IT enabled services proposed to be relaxed by excluding the requirement of filing of sales tax returns.

- Benefit of reduced rate of 0.25% as final tax on export of IT services and IT enabled services proposed to be continued upto tax year 2026.

- Establishment of International Centre of Tax Excellence proposed to help contribute to tax administration and policy, local and international tax affairs, and related matters.

- Removal of advance tax proposed on purchase or transfer of immovable property in case of non-resident individual holding POC / NICOP / CNIC who has acquired the immovable property through FCVA / NRVA maintained with authorized banks in Pakistan under the foreign exchange regulations issued by the SBP.

- Introduction of reduced rate of minimum tax under section 113 proposed at 1% for companies listed on Pakistan Stock Exchange.

- Insertion of more institutions, foundations, societies, boards, trust and funds in clause (66) of Part I of Second Schedule proposed to provide for exemption of income derived by such institutions etc.

- Exemption from profits and gains accruing to a person on the sale of immovable property or shares or Special Purpose Vehicle to any type of REIT scheme proposed to be extended up to 30 June 2024.

- Income tax exemption for resident persons of FATA / PATA proposed to be extended up to 30 June 2024.

- Income derived by Alteraz Engineering Consultant from contract with Earthquake Reconstruction and Rehabilitation Authority finance by the Saudi Fund for development proposed to be exempt.

- Tax holidays proposed for agro based industries in a rural area being SMEs setup on or after 1st July 2023 for five years from tax years 2024 to 2028.

- Reduction in tax payable on profits and gains derived by a builder from construction of a new building up to 10% or five million rupees whichever is lower proposed to be introduced.

- 50% reduction in tax payable proposed from tax year 2024 and 2026 for youth enterprise up to two million rupees in case of an individual / AOP and up to five million rupees in case of a company.

- Proposal for giving effect to change of name from “Prime Minister’s Flood Relief Fund 2022” to “Prime Minister’s Relief Fund for Flood, Earthquake and other Calamities”. Non-applicability of provision of sections 113, 151 and 236 on such fund also proposed.

- Proposal to withdraw Clause (100) from Part IV of the Second Schedule to rectify the technical mistake arose after omission of section 236U of the Ordinance.

- Proposal or providing exemption from applicability of section 148 on goods imported for relief operation for flood affectees for a period of three months from 01 December 2022.

- Proposal for providing exemption from applicability of section 148 on import of tomato and onion till 31 December 2022.

- Proposal for removal of technical mistake in super tax regime for Banking sectors by substituting Tax year 2022 with Tax year 2023.

- Proposal for extension of reduced tax rate of 20% up to tax year 2025 for Banking companies on Income from additional advances for micro small and medium enterprises, additional advances for low-cost housing, additional advances as farm credit and additional advances for IT and ITeS.

- Proposal for insertion of enabling provision for computation, collection and payment of tax under section 4C of the Ordinance.

Sales tax

- The phrase 'production, transmission and distribution of electricity,' proposed to be excluded from the definition of "Goods" and "Supply".
- The definition of 'Tier-1 retailer' proposed to be amended to exclude retailers falling under the definition based on the area of shop and persons engaged in supply of articles of jewelry of precious metal or parts thereof.
- Proposal to enhance the scope of penalties on goods, as specified by the Board, for violation in respect of electronic monitoring or tracking measures, previously applicable on 'cigarette packs' only.
- Zero-rating proposed for imports or supplies in relation to qualified investments specified in serial No. 1 of the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022.
- Proposal to extend the existing exemption till 30 June 2024 on electricity, supplies and imports of plant, machinery and equipment for installation and industrial inputs in tribal areas.
- Proposal to enhance sales tax rate from 12% to 15% on supplies of finished fabric, locally manufactured finished articles of textile and textile made-ups and artificial leather from the integrated retail outlets.
- Proposal to include medicaments as per chapter 30 of the First Schedule to the Act 1969 (with certain exclusions) and raw material for pharmaceutical products for reduced rate application of 1%.

Federal Excise

- Levy of FED proposed on energy inefficient fans at the rate of Rs. 2,000 per fan.
- Levy of FED proposed on Incandescent bulbs at the rate of twenty per cent ad valorem.
- Proposal of exemption for levy of FED on goods and services in relation to projects affiliated with Reko Diq in the province of Balochistan.
- FED proposed on royalty and fee for technical services at the rate of 10%.
- Clause (e) to sub-section (1) of Section 3 proposed to be added for enhancing the scope of chargeability of FED.

Customs

- Incentive for manufacturing of Solar Panels and allied equipment proposed by exempting customs duties on import of machinery, equipment and inputs for manufacturing of solar panels, inverters and batteries.
- Incentive for exporters of Information Technology (IT) and IT enabled services proposed by allowing duty free import of IT related equipment equivalent to 1% value of their export proceeds.
- Proposal for exemption of Customs duties on Raw Materials for manufacturing of Moulds and Dies.
- Proposal for exemption of Customs duties on raw materials/ inputs for Mining machinery.
- Proposal for exemption of Customs duties on raw materials/ inputs for Rice mill machinery.
- Proposal for exemption of Customs duties on raw materials/ inputs for Machine tools.
- Proposal for alignment of Part(V) of Fifth Schedule to the Customs Act with Auto Industry Development and Export Policy (AIDEP) 2021-26.
- Proposal for exemption of Customs duties on import of seeds for sowing to promote growth in agricultural sector.
- Definition of smuggling proposed to be rephrased to enable Customs to conduct anti-smuggling operations within the territorial limits of the country.
- Provincial Levies and Khasadar Force proposed to be added in the list of

Government agencies mandated to assist Customs.

- Proposal for penal provisions for miscellaneous offence.

- To ease out congestion at border customs stations, the mandatory time for filing of goods declaration after arrival of goods in the border customs station proposed to be reduced.

- In order to facilitate the trade, the warehousing period for perishable items proposed to be enhanced from one month to three months.

- In order to reduce the clearance time and to eliminate human interaction, Proposal for providing an option to the respondent to go for adjudication through Customs Computerized System.

- To facilitate the passengers travelling as a group who cannot file their own baggage declarations, the representative of the group of passengers proposed to be allowed to file baggage declaration on behalf of the group members.

Tax on services (Islamabad Capital Territory)

- Freelance exporters who are exclusively deal in export of IT and IT enabled services with annual turnover not exceeding eight million rupees proposed to be exempted from registration under the Act 1990, pay sales tax and file sales tax returns.

- Proposal for zero-rating facility on imports or supplies made by, for or to the Reko Diq project in the Province of Baluchistan.

- Proposal to bring the various services rendered by restaurants to reduced tax rate of 5% subject to fulfillment of certain conditions.

- Proposal to reduce the rate of sales tax chargeable on the services of software or IT-based system development consultants from 16% to 15%.

- Proposal to introduce a charge of sales tax at 15% on the electric power transmission services.

- Proposal to define IT services and IT enabled services to harmonize these with the definition laid down under the Ordinance 2001 with sales tax chargeable on these services is five per cent without adjustment or refund of input tax.

Petroleum Products (Petroleum Levy) Ordinance, 1961

- Proposal to empower the Federal Government to amend the rates of petroleum levy on POL products as per the Fifth Schedule.

Sectoral Analysis

Manufacturing industry

It is too cliched to say that manufacturing constitutes backbone of any economy and creates economic impetus for various services too. It is also no secret that Large Scale Manufacturing [LSM] in Pakistan has seen a downward slide this fiscal year owing to multiple factors, mainly the curb on imports and high cost of doing business due to persistent devaluation of rupee, high interest rates, and inflation of over 28%. In terms of the Economic Survey, LSM recorded a decline of 8.11% from July 22 to March 2023 as compared to a growth of 10.61% in corresponding period of 2022, whereas the overall decline in industrial output was around 2.94% for the same period.

It was therefore imperative for the Government to come up with fiscal incentives to revive the industry, however the Bill falls short on any concrete proposal in this regard. On the contrary, the super tax rate is proposed to be increased from 4% to 10% for those manufacturers who have posted profits of over PKR 500 million in outgoing fiscal year, and this tax will continue to apply for future, resulting in effective tax rate of 39%, payable in the form of quarterly advance tax. Further, 10% tax is proposed on issuance of bonus shares out of post-tax profits. Such high taxation leaves little for reinvestment or modernization of industry.

As to relief measures, the Bill proposes exemptions for manufacturing units of solar panels, inverters, and batteries through duty free import of machinery and equipment subject to certain conditions. Similar exemptions are also proposed for local assemblers and manufacturers registered under the Sales Tax Act 1990 and importing raw materials for manufacturing of PV modules, parts of solar inverters and lithium batteries. The duty- free relief is proposed to be extended to raw materials or inputs imported by sales tax registered manufacturers of adhesive tapes, capacitors, moulds and dies, mining machinery, machine tools and rice mill machinery. This is however subject to annual quota determination by IOCO and certification by Engineering Development Board (EDB) that imported goods are not manufactured locally.

Further, to align with concessionary duty rates incentivized by the Auto Industry Development and Export Policy of the Ministry of Industries, a reduced rate of 1% customs duty is proposed with respect to import by manufacturers of hybrid electric vehicles, subject to certification and quota determination by EDB.

Small and medium enterprises

The concept of a separate tax regime for SMEs was first brought into the 2001 Ordinance through Finance Act, 2021 whereby an SME was defined to include a manufacturer with turnover not exceeding Rs. 250 million and special tax regime was introduced in the form of 14^{th} Schedule to the 2001 Ordinance containing tax rates of 7.5% and 15% depending upon turnover, with an option for final tax regime.

The Bill now proposes to extend this regime to small scale manufactures as well as IT service providers whose business turnover in a tax year is up to PKR 800 million. However, SMEs engaged in IT and IT enabled services are required to be registered with and duly certified by Pakistan Software Export Board in addition to registration with FBR on IRIS web portal or Small and Medium Enterprises Development Authority on its SME registration portal (SMERP) as applicable in case of manufacturers.

With respect to SMEs with turnover exceeding Rs. 250 million, the Finance Bill proposes reduced tax rate of 20% of taxable income, with the option for final tax regime at 0.75% of the turnover.

AGRO based SMEs

The Bill proposes a five years' tax exemption to profits and gains of an exclusively agro based SME setup in a duly notified rural area on or after 1^{st} day of July 2023, subject to the condition that it is not formed by transfer or reconstitution of an existing business. Prima facie, no relief is given for new investment by agro based units already in operation.

Youth enterprises

To encourage entrepreneurship, the Bill proposes tax credit for 'youth enterprises' for the tax years 2024 to 2026 with respect to their business income, for an amount of up to PKR 2 million or 50% of tax payable, whichever is lower in case of sole proprietor and partnerships, and PKR 5 million in case of a company.

'Youth Enterprise' is defined to include (i) a startup established on or after first day of July, 2023 as sole proprietorship concern owned by a youth individual (of 30 years of age on the first day of relevant tax year) or a partnership all of whose members are youth or a company whose hundred percent shareholding is held or owned by youth individual, the same not being formed by the transfer or reconstitution or reconstruction of splitting up of an existing business and excluding women enterprises covered under clause (19) of Part III of the Second Schedule.

IT services and IT enabled services

To encourage IT sector in a global digital economy, the Bill proposes the following:

(i) Deletion of the requirement of filing of Federal and Provincial sales tax return for exporters of computer software or IT services or IT enabled services which are registered with and duly certified by the PSEB for the purpose of treating tax withheld under section 154A of the Ordinance as final tax on their income. This however appears to be a procedural amendment as IT exports are already zero rated.

(ii) Exemption from customs duty and sales tax on import of IT equipment by software exporters registered with the PESB subject to conditions mentioned therein;

(iii) reducing the rate of ICT sales tax on IT services and IT enabled services from 15% to 5% with no input tax adjustment or refund. It is however to be noted that these services were already subjected to 5% sales tax up to 30th June 2021.

Further, the Bill proposes reduced rate of 20% for the banks with respect to their income from mark-up on loans to IT sector.

Banking and financial services

The Bill proposes continuation of 10% super tax in foreseeable future for the banking sector, in addition to 39% corporate tax, resulting in effective rate of 49%. Effective July 2023, the super tax will be payable along with monthly advance tax as against payment with tax return as per the existing provisions.

In addition, a new provision in the form of section 99D has been proposed, which authorizes the Federal Government to impose any additional tax, not exceeding 50% of profits resulting from unusual economic factors. Apparently, this appears to capture windfall gains from exchange and forex income of the banks, though its implementation remains to be seen, given the already high taxes to which banks are subjected.

A relief measure, however is extension of reduced tax rate of 20% on income from loans to IT sector and extension of this reduced rate to Tax Year 2025 on income from farm credits, and loans given for low cost housing and to SMEs.

Income Tax

Significant amendments

Progressive rates of Super Tax introduced

After lot of controversy and dispute at superior fora in relation to Super tax on high earning persons and as per judicial learning by the legislature, the Bill proposed progressive rates of taxation for super tax and omitted the higher incidence of taxation on specific sectors to circumvent the judicial outcome at Supreme Court level from tax year 2022 and onwards.

Without changing the existing position for tax year 2022, the Bill proposes following tax rates of Super tax as provided in comparison for tax year 2022 and 2023 by replacing the table as under:

S. No	Income under section 4C	Rate of tax	
		For tax year 2022	For tax year 2023 and onwards
(1)	(2)	(3)	(4)
1	Where income does not exceed Rs. 150 million	0% of the income	0% of the income
2	Where income exceeds Rs.150 million but does not exceed Rs. 200 million	1% of the income	1% of the income
3	Where income exceeds Rs. 200 million but does not exceed Rs. 250 million	2% of the income	2% of the income
4	Where income exceeds Rs. 250 million but does not exceed Rs. 300 million	3% of the income	3% of the income
5	Where income exceeds Rs. 300 million but does not exceeds 350 million	4% of the income	4% of the income
6	Where income exceeds Rs. 350 million but does not exceeds 400 million		6% of the income
7	Where income exceeds Rs. 400 million but does not exceeds 500 million		8% of the income
8	Where income exceeds Rs. 500 million		10% of the income";

It appears that both the provisos that provided 10% rate for specified sectors for tax year 2022 and for banking sector for tax year 2023 are not removed since matter is still subjudice before Supreme Court of Pakistan.

Further the Bill proposes amendment with a retrospective implication under section 147 to consider super tax as part of tax payable while discharging advance tax liability.

Moreover, amendment in Eighth Schedule relating to “rules for computation of capital gains on listed securities” has been proposed to oblige NCCPL to compute and collect super tax but without making required amendment in section 4C. In our view this would be clarified at the time of passing of the Act otherwise it shall lead to litigation.

Taxation of Bonus Shares reintroduced

The Finance Act 2014 introduced tax on bonus shares issued by listed and non-listed companies as “income from other sources” with effect from tax year 2015 at the rate of 5% of the value of bonus shares.

According to the representations made by the Pakistan Stock Exchange, as tax on bonus shares did not contribute much to the Government treasury due to decline in the issuance of bonus shares by the companies as a counter measure this resulted in abolishment of said taxation vide Finance Act 2018.

Now Bill proposes a similar kind of amendment by introducing a new section 236Z to treat it as deemed income subject to collection of tax in prescribed manner. The amount subjected to collection of this tax is also specifically included in the definition of 'income' in section 2(29).

The Bill proposes that the bonus shares declared by a company will be treated as 'income from other sources' of the shareholders and chargeable to tax.

Further, the Bill proposes to introduce withholding tax on bonus shares at the rate of 10 percent of the value of bonus shares determined based on day-end price of the first day of the closure of books in the case of listed company and the value as prescribed in the case of other companies.

The salient features of the aforesaid new withholding tax provisions are as follows:

- Every company, issuing bonus shares to the shareholders, shall withhold 10 percent of the bonus shares to be issued.
- Bonus shares withheld shall only be issued to a shareholder, if the company collects from the shareholder, tax equal to ten percent of the value of bonus shares issued to the shareholder including bonus shares withheld, determined on the basis of day-end price on the first day of closure of books of in the case of listed company and the prescribed value in the case of other companies.
- Tax shall be deposited by the company within 15 days of the first day of closure of books, whether or not tax is collected by the company.
- If the shareholder fails to make payment of tax within fifteen days of the issuance of bonus share, the company may proceed to dispose off its bonus shares to the extent if it has paid tax on its behalf.
- Bonus shares shall be deemed to be the income of the shareholder.
- Tax paid under this section shall be final tax on the income of the shareholder of the company arising from issuance of bonus shares. Therefore, relevant changes have been proposed to be made in section 168 for not allowing tax credit and in section 169 to mark it as final tax.

In essence, bonus shares issued do not increase the resources of that recipient against any payment of consideration, therefore, not to be termed as recipient's income on issuance by the issuer resultantly applying a tax on such issue of shares should not fall under the ambit of the Income Tax Ordinance. As it is merely an accounting treatment of reclassification of reserves of the issuing company, resulting in diluted earnings per share amounts for profit or loss to such ordinary equity holders.

Based on above in past said amendment was disputed at superior courts. However, Sindh High Court in Suit 1764 / 2014 held the amendment made through Finance Act 2014 as legally valid.

It is also imperative that mechanism proposed to be prescribed by introduction of this new section in the Income Tax Ordinance without making relevant changes in the parent law i.e. the Companies Act 2017 may give rise to dispute under that Act as well.

Scope of Permanent Establishment Enhanced

The Bill proposes to omit the word "fixed" from the definition of permanent establishment through which the business of the person is wholly or partly carried on.

Primarily this proposed omission is to enhance the scope of permanent establishment by an oblique shift from physical fixed place presence to economic presence.

Further, Bill proposes to insert the word "entity" in addition to other personnel and employees in the context of furnishing of services including consultancy services.

Scope Small and Medium Enterprise enhanced

Taxation of small and medium enterprise was introduced through Finance Act 2021.

The Act 2021 provided that small and medium enterprise means a person who is engaged in manufacturing as defined in clause (iv) of sub-section (7) of section 153 of the Ordinance and his business turnover in a tax year does not exceed two hundred and fifty million rupees.

Provided that if annual business turnover exceeds two hundred and fifty million rupees, it shall not qualify as small and medium enterprise in the tax year in which annual turnover exceeds that turnover or any subsequent tax year.

Now the Bill proposes to enhance the limit of business turnover to eight hundred million and includes a person engaged in providing or rendering IT services or IT enabled services as defined under clauses 30AD and 30 AE of section 2 of the Income Tax Ordinance 2001.

Consequently, Bill proposes amendment in Fourteenth Schedule relating to rules for computation of profit and gains for small and medium enterprises as under:

Registration proposed

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

Categories and Taxation

Option for NTR taxation

Taxation under NTR after the proposed changes will be as under:

Category	Turnover	Rates	
		Existing	Proposed
Category-1	Where annual business turnover does not exceed Rupees 100 million	7.5% of taxable income	Same
Category-2	Where annual turnover exceeds Rupees 100 Million but does not exceed Rupees 250 Million	15% of taxable income	Same
Category-3	Where annual turnover exceeds Rupees 250 Million but does not exceed Rupees 800 Million	N/A	20% of taxable income

Option for FTR taxation

SME may opt for FTR and after the proposed changes, this provision will be as under:

Category	Turnover	Rates	
		Existing	Proposed
Category-1	Where annual business turnover does not exceed Rupees 100 million	0.25% of gross turnover	Same
Category-2	Where annual business turnover exceeds Rupees 100 million but does not exceed Rupees 250 million	0.5% of gross turnover	Same
Category-3	Where annual turnover exceeds Rupees 250 Million but does not exceed Rupees 800 Million	N/A	0.75% of gross turnover

Whereas all the other rules relating to audit, exports, exclusion from minimum tax and tax on supply of goods shall remain the same.

The Bill also proposes to introduce clause 154 in Part I of the Second Schedule to provide exemption to SME setup exclusively as agro based industry in a rural area duly notified for a period of five tax years commencing from tax year 2024 and up to tax year 2028:

Provided that such enterprise is setup on or after 1st day of July 2023 and is not formed by the transfer or reconstitution or reconstruction or splitting up of an existing business.

Exemption under Foreign Investment (Promotion and Protection) Act 2022

Legal coverage of exemption under Foreign Investment (Promotion and Protection) Act, 2022

Income Tax Ordinance 2001 specifically provides restriction on exemption provided under other laws, unless also provided for in this Ordinance.

The Foreign Investment (Promotion and Protection) Act, 2022 has provided certain income tax exemptions to the following projects affiliated with Reqo Diq in the province of Baluchistan.

For brevity the relevant provisions of the Foreign Investment (Promotion and Protection) Act, 2022 are reproduced below for ready reference:

Covered projects

Reko Diq Mining Company (Private) Limited and its associated companies since its date of incorporation,

Reko Diq Phase 1, Reo Diq Phase 2 and all subsequent phases including its prescribed infrastructure.

Exemptions prescribed

1. Final tax regime on exports [Section 154(3A)] for Reko Diq Mining Company (Private) Limited]

Description	Rate
From commercial production till 15th Anniversary	Zero percent
Prior to commercial production and after 15th Anniversary	One percent of net smelter return [as defined]

2. Exemption of Dividend Income and withholding tax thereon for shareholders

   a) Exemption from income [Clause 145B- Part I of Second Schedule]

   Any income of Reko Diq Mining Company (Private) Limited during the period starting on the commercial production date till 15th Anniversary of such date

   b) Exemption for Dividend [Clause 145C- Part I of Second Schedule]

   Dividend distributed by Reko Diq Mining Company (Private) Limited to a non-resident shareholder during the period starting on the commercial production date till 15th Anniversary of such date

   Prior to the commercial production date and after 15th Anniversary the taxation and withholding taxes to apply as per applicable rates given in the Ordinance subject to condition that:

   - Such rate would not exceed twenty percent – unless later amended
   - The relief under agreement for avoidance of double taxation as would apply to the recipient of dividend would be applicable

   c) Exemption for withholding tax on Dividend [Clause 47N- Part IV Second Schedule]

   Withholding tax provision under section 150 of any other provision shall not apply on dividend distributed by Reko Diq Mining Company (Private) Limited to a non-resident shareholder during the period starting on the commercial production date till 15th Anniversary of such date

   d) Income [including dividend] tax exemption of affiliates [Clause 150- Part I Second Schedule]

   Income (including dividend and income under section 109A) derived by Pakistan Petroleum Limited, Oil and Gas Development Company Limited and Government Holdings (Private) Limited from Pakistan Mineral (Private) Limited during the period starting on mineral agreement effective date [as defined] and expiring on 30th anniversary of such date.

   e) Income [including dividend] tax exemption of affiliates [Clause 151- Part I Second Schedule]

Income (including dividend and income under section 109A) derived by companies mentioned in above clause 150 from associated companies established for the Reko Dik project during the period starting on mineral agreement effective date [as defined] and expiring on 30th anniversary of such date.

f) Income [including dividend] tax exemption of affiliates [Clause 152- Part I Second Schedule]

Income (including dividend and income under section 109A) derived by a company established by or on behalf of the Government of Baluchistan for the purpose of investment in Reko Diq Project and their shareholders during the period starting on mineral agreement effective date [as defined] and expiring on 30th anniversary of such date.

g) Exemption for withholding tax on Dividend [Clause 38E- Part IV of Second Schedule]

Withholding tax provision under section 150 or any other similar provision shall not apply on income exempt under clauses [150-152] during the period starting on the commercial production date till 15th Anniversary of such date.

3. Minimum tax exemption under section 113 [Clause 11A, Part IV of Second Schedule]

For Reko Diq Minning Company (Private) Limited for thirty years following mineral agreement.

4. Capital gains tax exemption/ Taxation

Exemption- [Clause 47E- Part I Second Schedule]

For a period of 30 years from mineral agreement effective date, any income (including capital gains) on disposal of shares or interest, whether directly or indirectly in Reko Diq Mining Company (Private) Limited through share transfer, reconstruction, reorganization or amalgamation under prescribed conditions.

5. Taxation- [Clause 21- Part III, Second Schedule]

If the conditions above are not met, the taxation to apply as per applicable rates given in the Ordinance subject to condition that the relief under agreement for avoidance of double taxation as apply to the recipient of dividend would be applicable.

6. Income tax on shareholder loan interest and shareholder income [Clause 47F, Part I, Second Schedule]

Profit on debt derived by direct or indirect shareholders on shareholder loans provided to Reko Diq Mining Company (Private) Limited shall not be taxed under section 39 or section 152(2A) or similar tax during the period starting from commercial production date and ending on the 15th anniversary of such date.

Prior to and after such dates taxation under section 39 and 152(2A) as at 20th March 2022 will apply after taking account of double taxation treaty reliefs.

7. Withholding tax on shareholder loan interest and shareholder income [Clause 47G, Part IV, Second Schedule]

For a period of 30 years form mineral agreement effective date withholding tax provisions under section 151 and 152 and any other withholding tax on profit on debt shall not apply to income exempt under clause 47F of Part I as above.

8. Income tax and withholding tax on third party interest and income [Clause 47H Part I, First Schedule] / [Clause 47I, Part IV of Second Schedule]

Profit on debt derived by third party on loans provided to Reko Diq Mining Company (Private) Limited shall not be taxed for a period of 30 years form mineral agreement effective date.

Withholding tax would also be exempt on such income

Under this proposed section, taxes on income (including capital gains), withholding taxes, minimum and final taxes under the Ordinance shall be exempt to the extent provided in Second and Third Schedule to the Foreign Investment (Promotion and Protection) Act, 2022 in respect of qualified investment as specified at Sr. No.1 of the First Schedule to the said Act.

9. Thin capitalisation

For a period of 30 years from the mineral agreement effective date, section 106 and 106A shall not apply.

10. Withholding tax on goods and services

The provisions of sections 152, 153, 155 and 233 of the Ordinance shall not be applicable during the period starting on the mineral agreement effective date and ending on the 15th anniversary of such date.

After the 15th anniversary, reduced rate as specified in the First Schedule to Ordinance, 2001 shall apply.

11. Certain transaction taxes are exempted

For a period of 30 years, the provisions of sections 18, 37, 37A, 39, 101, 101A, 108, 109, 114, 151 and 152 and the provisions of clauses 47E, 47F and 145C of Part I of the Second Schedule to the Ordinance and sub-clause 21 of Part III of the Second Schedule to the Ordinance shall not apply with respect to the prescribed transactions:

- issuance or transfer etc. of shares or interest or other interest in the project in the prescribed manner.
- waiver of debt by Tethyan Copper Company Pty Limited to Reko Dig Mining Company.
- Any action taken to resolve disputed related to the Reko projects.

12. Rates of depreciation, initial allowance and pre-commencement expenditure under sectios 22, 23 and 25 as on March 20th 2022 shall continue to be applicable for 30 years as provided in Third Schedule to the said Act in respect of persons mentioned in sub-sections (1) and (2).

In terms of section 54 of the Ordinance, the Bill now seeks to provide legal coverage to such exemptions provided in Second and Third Schedule to the Foreign Investment (Promotion and Protection) Act 2022 in respect of qualified investment as specified in the First Schedule to the said Act, by inserting this proposed section 44A to the Ordinance.

Tax credit for construction of house introduced

The Bill proposes to introduce tax credit for construction of house for tax years 2024 to 2026, to a person, being an individual, who shall be entitled to a tax credit for a tax year in respect of construction of a new house, provided that the said house is completed during the said tax year and completion certificate is furnished along with return.

The amount of tax credit allowed shall be lesser of –

a) ten percent of tax assessed to the person for the tax year; or

b) one million rupees.

New house means a residential house, layout plan of which is approved by the concerned authority on or after the 1st day of July 2023.

It is noted that consequent amendment has, however, not been made in section 149 so as to enable the employer to allow tax credit under this section for the purpose of calculation of tax liability of an employee for withholding tax purposes.

Definition of Associates revamped

The Bill proposes to revamp the definition of associates with broader scope as under:

Two persons shall be associates

where –

(i) the relationship between the two is such that one may reasonably be expected to act in accordance with the intentions of the other, or both persons may reasonably be expected to act in accordance with the intentions of a third person.

(ii) one person sufficiently influences, either alone or together with an associate or associates, the other person.

Explanation - For the purpose of this section, two persons shall be treated as sufficiently influencing each other, where one or both persons, directly or indirectly, are economically and financially dependent on each other and, decisions are made in accordance with the directions, instructions or wishes of each other for common economic goal; or

(iii) one person enters into a transaction, directly or indirectly, with the other who is a resident of jurisdiction with zero taxation regime."

Bill also proposed to prescribe the jurisdiction with zero taxation regime.

Additional tax on certain income, profits and gains proposed

The Government intends to introduce additional revenue measure to tax certain income, profits and gains and for this purpose the Bill proposes to levy tax in addition to any tax charged, paid or payable under any of the provisions of the Income Tax Ordinance 2001 for any tax year preceding five tax years from tax year 2023, on every person who has any income, profit or gains that have arisen due to economic factor or factors that resulted in unexpected income, profit or gains whether or not disclosed in the financial statements.

For this purpose, the Federal Government may through notification in the official Gazette:

- determine the economic factor(s) that influence commodity prices in Pakistan or any sector of the economy, which may include, but are not limited to, fluctuations in international prices and variations in income, profits or gains due to changes in foreign currency exchange rates.
- provide a rate not exceeding fifty percent of the aforementioned income, profits, or gains.
- specify the manner, conditions, scope, time, and payment details, concerning the tax payable under this section as required.
- exempt any person or classes of persons, as well as specific types or categories of income from the application of this section, subject to any condition as may be specified.

Enhancement of monetary limit under unexplained income or assets

Foreign exchange remitted from outside Pakistan through normal banking channels to the extent of five million rupees is kept outside the scope of unexplained income or assets.

The Bill proposes to increase this limit to the rupee equivalent amount of one hundred thousand US dollars.

Minimum tax on the income clarified

In specified circumstances, section 113 imposes a minimum tax on turnover at prescribed rates.

As per sub-section 2(c) any amount paid in excess of the tax liability payable at corporate rate of tax can be carried forward for adjustment against the tax liability for the succeeding three tax years.

From section 113(2)(c) the carried forward adjustment is also available against the taxes covered in Part I of the First Schedule to the Ordinance 2001 in addition to the tax liability worked out under Division I and Division II.

Through the Bill, an explanation is proposed to be inserted to clarify the tax liability against which the carried forward of minimum tax is available for adjustment and for this purpose, it is being clarified that the above adjustment is available against the normal tax liability worked out only at applicable progressive slab rates under clause (1) of Division I or corporate tax rate under Division II of Part I of First Schedule.

The proposed explanation intends to clarify the position and remove chances of different interpretations.

Commissioner empowered to recover anyoutstanding liability

A new section 146D is proposed to be introduced to empower the Commissioner to recover any outstanding liability under other statute/ law that is:

- income tax arrears in that law;
- required to be recovered or collected by Commissioner (Inland Revenue); or
- referred to the Commissioner (Inland Revenue) for recovery.

The Commissioner shall recover the said liability and deposit the receipts in the designated account as specified in that law.

Advance tax liability to include super tax

The Bill proposes to insert super tax in the provisions relevant to the calculation and depositing of advance tax liability.

Currently, super tax liability is discharged along with the return.

Automatic issuance of exemption certificate in case of payments to non-residents proposed

The Bill proposes to amend sub-section (5A) of section 152 to provide automatic issuance of exemption certificate upon expiry prescribed period of thirty days of receipt of application/ notice by the Commissioner with respect to the payments to non-residents.

The Commissioner, however, will have the power to modify or cancel the certificate issued automatically on providing reasons and after providing opportunity of hearing.

The period of thirty days shall however exclude the days taken for adjournment by the applicant.

Direct exporter and export house

Currently, direct exporter and export house as registered under the Duty and Tax Remission for Exports Rules, 2001 is empowered to deduct one percent tax from the payment made to an indirect exporter for a firm contract.

The Bill proposes to extend the scope to the above referred direct exporter and export house if it is also registered under Export Facilitation Scheme 2021.

Removal of certain conditions in case of export of service

Through Finance Act 2021, final tax regime was introduced vide section 154A in the following cases:

- export of computer software or IT or IT enabled services where the exporter is registered with Pakistan Software Export Board;
- Services or technical services rendered outside Pakistan or exported from Pakistan;
- royalty, commission or fees derived by a resident company from a foreign enterprise in consideration for the use outside Pakistan of any patent, invention, model, design, secret process or formula or similar property right, or information concerning industrial, commercial or scientific knowledge, experience or skill made available or provided to such enterprise;
- construction contracts executed outside Pakistan;
- foreign commission due to an indenting commission agent;
- other services rendered outside Pakistan as notified by the Board from time to time.

This benefit is available subject to prescribed conditions that inter alia include the filing of sales tax returns under Federal or Provincial laws, if so required.

The Bill now proposes to remove the above condition of filing of sales tax return in cases of exporter, of computer software or IT or IT enabled services, registered with Pakistan Software Export Board.

Payment of tax collected or deducted by SWAPS

The Bill proposes to amend the marginal note of section 164A currently referred as *'Payment of tax collected or deducted by SWAPS agents'* to *"Settlement of transactions liable to withholding tax by SWAPS agents"*.

Service of notices and other documents

In section 218(2) provides three different mechanisms to mark service of notice valid. Use of the word "or" after clause (b) gave rise to the understanding that either of the three methods can be construed as valid way of service of notice. Now, the word "or" is proposed to be removed to make each mechanism mutually independent from each other.

The amendment may be described as a corrective measure.

Establishment of International Centre of Tax Excellence

For administration of the Ordinance, Chapter XI thereof provides legal provisions with respect to various authorities. Now, the Finance Bill proposes to insert section 230J for establishment of an Institute of International Centre of Tax Excellence.

It proposes that functions of this institute would be to help contribute to the development of tax policy, prepare model national tax policy, deliver interdisciplinary research in tax administration and policy, international tax cooperation, revenue forecasting, conduct international seminars, workshops and conferences on the current issues faced by tax authorities in the field of international taxation, capacity building of Inland Revenue Officers, tax analysis, improve the design and delivery of tax administration for maximizing revenue within existing provisions to close the tax gap or any other function as directed by the Board or the Federal Government.

For this Institute, there shall be a Nominating Committee comprising the Minister-in-Charge, Secretary Revenue Division and Secretary Finance, and an Executive Committee comprising Chairman Federal Board of Revenue, Member (IR-Policy), Member (IR-Operations) and two independent members to be appointed by the Federal Government.

The appointment of an Executive Director and independent members of the Executive Committee shall be appointed though the panel recommended to the Federal Government by the Nominating Committee. The Nominating Committee shall apply the prescribed criteria for making aforesaid recommendations of the panel. The Executive Director appointed by the Federal Government shall act as Secretary of the Executive Committee.

Executive Director shall also be the Chief Executive of the Institute and shall work to ensure efficient functioning and day to day administrative functions of the Institute and shall be independent in the discharge of its functions.

The Executive Committee shall:

(a) for every fiscal year, assign the requirements of the Board to be undertaken by the Institute, during the year.

(b) prescribe rules for recruitment of the employees of the Institute and Executive Director shall act in accordance with the rules. At least fifty per cent of the employees shall be serving or retired Inland Revenue officers having at least 5 years of experience of tax policy or tax administration.

The remuneration and term of employment of the employees of the Institute shall be as prescribed by the Federal Government.

The Board may:

(a) establish a committee to monitor the establishment of the Institute including appointment of the Project Director for the purpose.

(b) provide such data to the Institute as is necessary for processing and analysis and for discharging its obligations. Provided that such data shall be anonymized before transmission to the Institute and identifying particulars of the taxpayers shall be kept confidential and provisions of sub-section (7) of section 216 shall apply accordingly.

The Executive Committee has been empowered to make rules for carrying out the purposes of this section by notification in the official gazette.

Re-imposition of tax collection on cash withdrawal from bank account

Collection of tax from persons withdrawing cash from a bank account was first introduced through Finance Act, 2005. Later this was restricted to the persons whose name were not appearing on FBR's Active Taxpayers' List (ATL) before being abolished through Finance Act, 2021.

The Bill proposes to insert section 231AB, to re-introduce tax collection at 0.6% on cash withdrawal from bank account exceeding Rs. 50,000 in aggregate in a single day from a person whose name is not appearing on ATL.

Tax so collected shall be adjustable.

Advance tax on foreign domestic workers

The Bill proposes to insert section 231C to introduce adjustable advance tax of Rs. 200,000 to be collected from the agency, sponsor or the person employing the services of a foreign national as a domestic worker.

This tax is required to be collected by the relevant authority at the time of issuance or renewal of domestic aide visa.

The tax collected or collectible shall be adjustable against the income of such agency, sponsor or a person, as the case may be, employing the services of such foreign national

Advance tax on purchase or transfer of immovable property

Section 236K requires collection of adjustable advance tax at the time of registering, recording or attesting the transfer of any immovable property at specified rates by the person responsible including local authority, housing authority, housing society, co-operative society, public and private real estate projects registered/ governed under any law, joint ventures, private commercial concerns and registrar of properties.

This is an adjustable advance tax.

However, currently this tax collection is final tax if the buyer or transferee is non-resident individual holding a Pakistan Origin Card (POC) or National Identity Card for Overseas Pakistan (NICOP) or Computerized National Identity Card (CNIC) who has acquired immovable property through a Foreign Currency Value Account (FCVA) or NRP Rupee Value Account (NRVA) maintained with authorized banks in Pakistan under foreign exchange regulations issued by State Bank of Pakistan upon submission of certificate to be prescribed in this behalf.

The Bill now proposes to exclude the aforementioned holders of POC, NICOP, CNIC from application of this tax collection and thereby abolishing the final tax regime on such persons.

FIRST SCHEDULE

Progressive rates of super tax will be applicable for tax year 2023 and onwards

(Division IIB, Part I, First Schedule)

For tax year 2023 and onwards, the Bill proposes to impose super tax at progressive rates ranging from 1% to 10% on income of all persons (including banking companies) earning taxable income exceeding Rs 150 million.

Earlier vide Finance Act, 2022, rates of super tax for the tax year 2023 under section 4C were based on progressive rates for other than banking companies whilst banking companies were required to pay super tax at 10% where income exceed Rs. 300 million. Prescribed sectors were also required to pay super tax at 10% for tax year 2022 where income exceed Rs. 300 million.

After the proposed changes Table of the progressive rates now appears as below:

Income under 4C	Rate of Tax	
Rs in million	2022	2023
Not exceeding 150 million	0%	0%
From 150 million up to 200 million	1%	1%
From 200 million up to 250 million	2%	2%
From 250 million up to 300 million	3%	3%
From 300 million up to 350 million	4%	4%
From 350 million up to 400 million	4%	6%
Where income exceeds Rs. 400 million but does not exceed Rs. 500 million	4%	8%
Where income exceeds Rs. 500 million	4%	10%

Rate of Minimum tax under section 113 for companies listed on Pakistan Stock Exchange

(Division IX, Part I, First Schedule)

The Bill proposes to introduce reduced rate of minimum tax of 1% (as against currently 1.25%) under section 113 as a separate category for companies listed on Pakistan Stock Exchange.

Tax on commercially imported goods specified in Part III of the Twelfth Schedule

(Part II, First Schedule)

The Bill proposes to increase rate of collection of tax at import stage from 5.5% to 6% in the case of commercial importer.

Increase in tax rate on payments to non-residents having Permanent Establishment

(Division II, Part III, First Schedule)

The Bill proposes to increase rate of withholding tax applicable on payment on account of supply of goods, services including specified services and execution of contract by non-resident persons having Permanent Establishment. The proposed changes in tax rates are summarized in Table below:

Nature	Person	Existing Tax Rate	Proposed Tax Rate
Supply of goods	Company	4%	5%
	Other than company	4.5%	5.5%
Specified services	Company / Other than company	3%	4%
Other than specified services	Company	8%	9%
Other than specified services	Other than company	10%	11%
Execution of contract	Company / Other than company	7%	8%

All these tax rates are subject to hundred percent increase as per Tenth schedule in case of persons not appearing in the active taxpayers' list.

Increase in tax rate on payments to resident persons

(Division III, Part III, First Schedule)

The Bill proposes to increase rate of withholding tax applicable on payment on account of supply of goods, services (including specified services) and execution of contract. The proposed changes in withholding tax rates are summarized in the Table below:

Nature	Person	Existing Tax Rate	Proposed Tax Rate
Supply of goods	Company	4%	5%
	Other than company	4.5%	5.5%
Specified services	Company / Other than company	3%	4%
Other than specified services	Company	8%	9%
Other than specified services	Other than company	10%	11%
Execution of contract	Company	6.5%	7.5%
	Other than company	7%	8%

All these tax rates are subject to hundred percent increase as per Tenth schedule in case of persons not appearing in the active taxpayers' list.

Clarity regarding period of reduced rate of withholding tax on export of IT and IT enabled services

(Division IVA, Part III, First Schedule)

Through Finance Act, 2022, reduced rate of tax at 0.25% was introduced on all proceeds of export of IT and IT enabled services which is treated as final tax.

Now the Bill proposes to mention applicability of this reduced rate for tax year 2024 to tax year 2026.

Advance tax on payment to non-resident through debit / credit or prepaid cards

(Division XXVII, Part IV, First Schedule)

The Bill proposes to increase rate of tax collection from 1% to 5% on payment to non-resident through debit / credit or prepaid cards.

Consequently, rate of tax collection from persons not appearing on Active Taxpayer List, would be increased from current 2% to 10%.

SECOND SCHEDULE

Part I - Exemptions from total income

New exemptions proposed in Second Schedule

The Bill proposes to insert the following new exemptions:

- Clause (66) provides exemption of any income derived by the institutions mentioned in this clause. Now following entries in Table 1 of Clause (66) are proposed to be inserted:

S. No.	Entities Name
1	The Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities with effect from 5th August, 2022.
2	Film and Drama Finance Fund
3	Export-Import Bank of Pakistan
4	Shaheed Mohtarma Benazir Bhutto Institute of Trauma, Karachi
5	Shaheed Zulfikar Ali Bhutto Institute of Science and Technology

- Clause 150 of Part I of Second Schedule provides exemption of incomer derived by Siyahkalem Engineering Construction Industry and Trade Company Limited from contract dated 23rd May 2017 with Earthquake Reconstruction and Rehabilitation Authority, financed by the Saudi Fund for Development with effect from tax year 2017. Now this clause is proposed to extend its exemption to the income derived by Alteraz Engineering Consultant as well.

- Tax holiday for small and medium enterprise setup exclusively as agro based industry in a rural area duly notified for five tax years commencing from tax year 2024 till tax year 2028 subject to the following conditions:

  – Enterprise is set-up on after 1 July 2023; and

  – Enterprise not formed by transfer or reconstitution or reconstruction or splitting-up of an existing business.

Amendment in certain exemptions

- Clause (99A) provides exemption to profits and gains accruing to a person on sale of immovable property or shares of special purpose vehicle to any REIT scheme upto 30th June 2023.

  The Bill proposes to extend the limitation of exemption for one more year till 30 June 2024.

- Clause (145A) provides exemption to such income as was exempt under the Constitution prior to the Twenty-fifth Amendment) Act, 2018 of individuals who are domiciled or company and association of persons resident in Tribal Areas forming part of Provinces of Khyber Pakhtunkhwa and Balochistan till 30 June 2023.

  The Bill proposes to extend the limitation of exemption for one more year till 30th June 2024.

Part III – Reduction in tax liability

Insertion of new Clauses (21) and (22)

The Bill proposes to reduce the tax payable for the following persons for tax year 2024 to 2026:

S. No.	Person	Tax reduction
1	Builder registered with Directorate General of Designated Non-Financial Business and Professions on profits and gains from a new building construction project (approved on or after 01 July 2023) under the head “Income from Business” for the tax year in which the builder furnishes along with return the completion certificate issued by the concerned regulatory authority	by10% or Rs. 5 million, whichever is lower.
2	Youth enterprise on profit and gains derived from business chargeable to tax under the head “Income from Business”	– in case of an individual or an AOP - 50% or Rs. 2 million, whichever is lower; – In case of Company - 50% or Rs. 5 million, whichever is lower.

The Bill also proposes to insert definitions of terms ‘new building project’, ‘youth enterprise’ and ‘youth individual’.

Further, the Bill proposes to clarify that the above proposed Clause shall not apply where the startup is woman enterprise for which exemption is already given in clause 19.

Part IV - Exemptions from specific provisions New exemptions

Exemptions in respect of the Prime Minister's Relief Fund

[Insertion of Clauses 11A(Xlvi), 121, 122]

The Bill proposes to exempt 'The prime Minister's Relief Fund' from applicability of minimum tax, withholding taxes on profit on debt and telephone / internet bills under sections 113, 151 and 236 respectively.

Exemptions in respect of imports

[Insertion of Clauses (123) and (124)]

- The Bill proposes to provide exemption from collection of advance tax under section 148 on goods required and imported for relief operation for flood affectees, duly certified by the National Disaster Management Authority or the Provincial Disaster Management Authority for the period of 03 months starting from 1 December 2022 and ending on 28 February 2023.

- The Bill proposes to provide exemption from advance tax under section 148 on imports of tomato and onion till 31st December 2022.

Exemptions clause omitted

Exemptions in respect of advance tax on insurance premium

The Bill proposes to omit Clause (100) of Part IV of Second Schedule since it became redundant after the omission of section 236U of the Ordinance vide Finance Act, 2020.

Fourth Schedule [Insurance business] & Fifth Schedule – Part I [Petroleum exploration and production business]

The Bill proposes to introduce the inclusion of new rule 6DB in the Fourth Schedule and 4AC in the Fifth Schedule, which explicitly stipulate that the provisions delineated in Section 99D shall be applicable to the taxpayers falling within the purview of the Fourth and Fifth Schedule, respectively.

In essence, as per the proposed Section 99D, the Bill aims to impose an additional tax, not exceeding fifty percent, on the income, profit, and gains of a person or class of persons attributable to extraordinary gains arising` from economic factors.

Seventh Schedule [Banking companies]

The Bill proposes to rectify the existing anomaly in rule 7CA by proposing the substitution of the tax year 2022 with the tax year 2023.

In view of super tax under section 4B for tax year 2022, super tax under section 4C of the Ordinance was not applicable to banking companies for tax year 2022 but this was wrongly mentioned in aforesaid rule 7CA which has been corrected now for applicability for tax year 2023.

Insertion of Rule 7CB

The Bill proposes to insert new rule 7CB in the Seventh Schedule which explicitly stipulates that the provisions delineated in section 99D shall be applicable to the taxpayers falling within the purview of Seventh Schedule.

Extending the time period in rules 7D, 7E and 7F

The schedule currently stipulates benefit of a reduced rate of tax on additional advances granted to micro, small and medium enterprises under rule 7D, additional advances provided for low-cost housing under rule 7E and additional advances designated as farm credit under rule 7F.

This benefit is currently available till tax year 2023 which is proposed to be extended till tax year 2025.

Reduced rate of tax on additional advances (Rule 7G)

The Bill proposes to provide reduced rate of tax on additional advances for information technology services and information technology-enabled services whereby the taxable income arising from additional advances for IT and IT Enabled Services in Pakistan for tax years 2024 to 2025 shall be taxed at a rate of 20% instead of the rate provided in Division II of Part 1 of the First Schedule which is currently 39%.

It is further proposed that a banking company shall be required to furnish a certificate from an external auditor along with its accounts when e-filing the return of income which should certify that the amount of such advances made in the preceding tax year, the additional advance made for the tax year and the net mark-up earned from such additional advances for the tax year.

The Commissioner may require the banking company to furnish details of the advances made for IT and IT Enabled Services to determine the applicability of the reduced rate of tax. IT and IT Enables service shall have the same meaning as provided in section 2 of the Ordinance.

The Bill proposes that the term “additional advances” means any average advances disbursed in addition to average amount of such advances made in such sector by the bank for the immediately preceding tax year starting from 2023.

The taxable income arising from additional advances shall be determined according to following formula:

Taxable income from additional advances =

A x B/C

Where,

A. is taxable income of the banking company

B. is net mark-up income earned from such additional advances for the tax year as declared in the annual accounts; and

C. is total of the net mark-up and non-mark-up income of the banking company as per accounts.

Further exemptions proposed in Rule 8

The Bill proposes insertion of sub-rules (4) and (5) in Rule 8 whereby profit on debt and capital gains arising from Federal Government's sovereign debt or a sovereign debt instrument shall be exempt from tax chargeable under the Ordinance. This exemption applies to any non-resident banking company that has been approved by the Federal Government under a sovereign agreement for this purpose.

The Finance Act, 2022 enhanced the rate of tax for taxable income attributable to investment in the Federal Government securities earned by banking companies under sub-rule (6A) under Rule 6. As per proposed sub-rule (5), the provisions of sub-rule (6A) of rule 6C shall not be applicable to a banking company for tax year 2024.

EIGHTH SCHEDULE

Collection and payment of super tax by NCCPL on capital gains

The Bill proposes that in addition to capital gain tax, NCCPL shall also compute and collect super tax under section 4C of the Ordinance on the capital gains computed under Eighth Schedule and the rules prescribed thereunder.

However, it is noted that income computed under Eighth Schedule has not yet been covered in section 4C, which, we understand will be corrected when this Bill is approved.

THIRTEENTH SCHEDULE

The Bill proposes to insert following new entries in the Table for the purpose tax credit under section 61 of the Ordinance:

- The Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities with effect on and from the 5 August 2022; and
- Film and Drama Finance Fund.

FOURTEENTH SCHEDULE

Please refer to our comments at page # 9 about the changes introduced in Fourteenth Schedule.

Sales Tax

Significant amendments

Deletion of production, transmission, and distribution from “goods” and “supply”.

The Bill proposes to delete “production, transmission, and distribution of electricity” from the definition of “goods” as per Section 2(12) and definition of “supply” as per section 2(33)(e) of the Act 1990.

It is pertinent to mention that electricity is considered as goods as per definition of "goods” under section 2(7) of the Sales of Goods Act 1930. The Federal Government has the constitutional right to tax goods under Federal Legislative list entry no. 49 of the Constitution of Islamic Republic of Pakistan 1973. The Production and Distribution of electricity was subjected to Federal Sales Tax under Act 1990, however, the same was specifically included in the definition of “goods” and “supply” along with Transmission through Finance Act, 2022. On the other hand, Provinces of Baluchistan and KPK included both the “transmission” and “distribution” portion of the supply chain to their relevant statutes, whereas Punjab and Sindh only included “Transmission” in their relevant statutes for charging of Provincial sales tax considering the same as a “service”. The above situation had created a lacuna as to who has the right to tax which element of supply chain of electricity. A prima facie perusal of the amendment reveals that apparently the federal legislature has forgone its right to tax on transmission and distribution. However, even before the inclusion of all three aspects under the definition of supply before Finance Act, 2022, the Federal Government was collecting sales tax on production and distribution.

On the other hand, new serial No.60 is proposed in Islamabad Capital Territory (Tax on Services) Ordinance, 2001 through which Electric Power Transmission Services have been made taxable at the rate of 15 %.

In view of the forgoing, apparently production of electricity will remain under the ambit of Federal sales tax under Act, 1990.

Scope of Tier–1 retailer reduced

Section 2(43A) of the Act 1990 provides threshold limit and qualification criteria for tier-1 retailers. The Bill now proposes to reduce the scope of definition through omission of clauses (e) and (ga) which relate to following:

- a retailer, whose shop measures one thousand square feet in area or more or two thousand square feet in area or more in the case of retailer of furniture.
- Person engaged in supply of articles of jewelry, or parts thereof, of precious metal or of metal clad with precious metal.

Consequent to above proposed amendments above retailer would not be considered as tier -1 retailer, and accordingly would be liable to pay sales tax through their electricity bills as per section 3(9) of the Act, provided it does not fall under any other criteria provided under section 2(43A) of the Act.

Enhancement in Scope of Penalties

Previously through Finance Act, 2017 penalties were imposed through serial No. 23 on any person who manufactures, possesses, transports, distributes, stores or sells cigarette packs with or without counterfeit, tax stamps banderoles stickers, labels or barcodes.

Now through Finance Act, 2023 the scope of the above has been enhanced by imposing the penalty on any goods or any class of goods as may be specified by the board.

FIFTH SCHEDULE

Zero rating introduced

The Bill proposes to introduce zero rating on imports or supplies made by, for or to a qualified investment as specified at Serial No.1 of the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022 for the period as specified in the Second Schedule to the said Act.

Amendments or Substitution Proposed

The Bill proposes to substitute following entries in Fifth Schedule.

Entry No.	Existing Description of Good	Proposed Description of Goods
12 (xxv)	Geometry boxes (PCT heading 9017.2000)	Other drawing, marking out or mathematical calculating instruments (geometry box) (PCT heading 9017.2000)
21	Local supplies of raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions as specified therein.	Local supplies of **commodities**, raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions as specified therein.

SIXTH SCHEDULE

New Exemptions proposed Table I

The Bill proposes to insert exemption on following items in Table-I of Sixth Schedule of Act, 1990:

Entry No.	Description of Goods
175.	Contraceptive accessories thereof
176.	Bovine semen
177.	Saplings
178.	Combined Harvester - Thresher
179.	Dryer for agricultural products
180.	No-till-direct seeder, planters, trans-planters and other planters
181.	Import of goods as mentioned under S. No. 159 of Part III of First Schedule to the Customs Act, 1969 (IV of 1969) chargeable to customs duty at the rate of zero percent, subject to the conditions, restrictions and limitations mentioned therein, by the software exporters registered with the Pakistan Software Export Board.

Exemption proposed to be withdrawn Table I

The Bill proposes to withdraw certain exemption through omission in Table-I of Sixth Schedule.

Entry No.	Description of Goods
159.	Import of auto disable Syringes till 30th June 2021.
160.	Import of following raw materials for the manufacturers of auto disable syringes till 30th June 2021 (i) Tubular metal needles (ii) Rubber Gaskets

Exemption proposed to be Substituted and Rationalized

Table I – Imports or supplies

- Under Serial no. 16, 17 and 18 there was no exemption to import and supply of Red chillies, Ginger and Turmeric sold in retail packing bearing brand names and trademark, now the Bill proposes to withdraw the exemption on import and supply of Red chillies, Ginger and Turmeric sold under brand names and trademark irrespective of the fact that they are sold in retail packing or not. For the sake of clarity, comparison of existing and proposed clauses are given below:

Entry No.	Existing Description of Good	Proposed Description of Goods
16.	Red chillies excluding those sold in retail packing	Red chillies excluding those sold under brand names and

Entry No.	Existing Description of Good	Proposed Description of Goods
	bearing brand names and trademarks.	trademarks.
17.	Ginger excluding those sold in retail packing bearing brand names and trademarks.	Ginger excluding those sold under brand names and trademarks.
18.	Turmeric excluding those sold in retail packing bearing brand names and trademarks.	Turmeric excluding those sold brand names and trademarks.

- The Bill proposes to add explanation in serial no. 121 clarifying that blood transfusion sets not packed in aluminum foil imported with blood bags CPDA-1, in corresponding quantity in same consignment are also exempt.
- The Bill proposes to extend the exemption available to tribal areas (FATA/PATA) under serial no. 151 and 152 till 30th June 2024.

Table II – Local supplies only

The Bill proposes to amend the description in the following entries of Table-II of Sixth Schedule:

Entry No.	Existing Description of Good	Proposed Description of Goods
32.	Yogurt, excluding that sold in retail packing under a brand name.	Yogurt, excluding that sold under a brand name.
34.	Butter, excluding that sold in retail packing under a brand name.	Butter, excluding that sold under a brand name.
35.	Desi ghee, excluding that sold in retail packing under a brand name.	Desi ghee, excluding that sold under a brand name.
36.	Cheese, excluding that sold in retail packing under a brand name.	Cheese, excluding that sold under a brand name.

Entry No.	Existing Description of Good	Proposed Description of Goods
37.	Processed cheese not grated or powdered, excluding that sold in retail packing under a brand name.	Processed cheese not grated or powdered, excluding that sold under a brand name.
39.	Products of meat or meat offal excluding sold in retail packing under a brand name or trademark.	Products of meat or meat offal excluding sold under a brand name or trademark.
41.	Meat of bovine animals, sheep, goat and uncooked poultry meat excluding those sold in retail packing under a brand name.	Meat of bovine animals, sheep, goat and uncooked poultry meat excluding those sold under a brand name.
42.	Fish and crustaceans excluding those sold in retail packing under a brand name.	Fish and crustaceans excluding those sold under a brand name.

Eight Schedule – Amendments

The Bill proposes certain amendments in Table-I of Eighth Schedule as following.

Entry No.	Description of goods	Existing Rate of Sales Tax	Proposed Rate of Sales Tax
66	Supplies as made from retail outlets as are integrated with Board's computerized system for real-time reporting of sales. 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.	12%	15%

Entry No.	Existing Description of Good	Proposed Description of Goods
81.	Manufacture or import of substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976)	Substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976) and medicaments as are classifiable under chapter 30 of the First Schedule to the Customs Act, 1969 (IV of 1969) except the following, even if medicated or medicinal in nature, namely:- (a) filled infusion solution bags imported with or without infusion given sets; (b) scrubs, detergents and washing preparations; (c) soft soap or no soap; (d) adhesive plaster; (e) surgical tapes; (f) liquid paraffin; (g) disinfectants, and (h) cosmetics and toilet preparations. This substitution shall be deemed to have been made from the 1st day of July, 2022.
82.	Active Pharmaceutical Ingredients, excluding excipients, for manufacture of drugs registered under the Drugs Act, 1976 (XXXI of 1976) or raw materials for the basic manufacture of pharmaceutical active ingredients.	Raw materials for the basic manufacture of pharmaceutical active ingredients and for manufacture of pharmaceutical products, provided that in case of import, only such raw materials shall be entitled to exemption which are liable to customs duty not exceeding eleven per cent ad valorem, either under the First Schedule or Fifth Schedule to the Customs Act, 1969 (IV of 1969) or under a notification issued under section 19 thereof. This substitution shall be deemed to have been made from the 1st day of July, 2022.

- It is ought to be noted that under serial No. 81 & 82 sales tax remain 1% with no change in applicability of the conditions.

Federal Excise

Significant amendments

First Schedule

Table I of First Schedule

The Bill proposes to introduce levy of FED on following goods:

S. No.	Description of goods	Tariff heading	Proposed FED rate
60	Energy inefficient fans both locally manufactured and imported which do not comply with MEPS, notified by PSQCA	Respective heading	Rs. 2,000 per fan
61	Incandescent bulbs both locally and manufactured and imported	8539.2200 and 8539.9010	20% ad valorem

Table II of First Schedule

Under the mandate obtained through proposed amendment in sub-section (1) of section 3, the Bill proposes to introduce levy of FED at the rate of ten per cent on royalty and fee for technical services in addition to franchise services under existing Serial No. 11.

Third Schedule

Table I of Third Schedule

The Bill proposes to introduce conditional exemptions on following goods subject to levy of FED under Table I First Schedule

S. No.	Description of goods	Tariff heading
26	Imports or supplies made by, for or to a qualified investment as specified in Serial No.1 of the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022 for the period as specified in the Second Schedule to the said Act.	Respective heading

The above exemption is in line with exemptions provided under income tax, customs and sales tax laws for projects affiliated with Reko Diq in the province of Balochistan as discussed in detail in this commentary under Income Tax section.

Table II of Third Schedule

The Bill proposes to introduce conditional exemptions on following services subject to levy of FED under Table II First Schedule

S. No.	Description of goods	Tariff heading
26	Services provided or rendered by, for or to a qualified investment as specified at Serial No. 1 of the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022 for the period as specified in the Second Schedule to the said Act	Respective heading

The above exemption is in line with exemptions provided under income tax, customs and sales tax laws for projects affiliated with Reko Diq in the province of Balochistan as discussed in detail in this commentary under Income Tax section.

Rationalization of charging provision

Presently, only those goods and services may be considered as subject to levy of FED as mentioned in Chapter 1 to 98 of First Schedule to the Customs Act, 1969 in view of "Explanation" at the end of section 3 of FE Act.

In order to clarify / enhance the scope of chargeability under FE Act, the Bill seeks to include any item mentioned in First Schedule of FE Act 2005 by inserting clause (e) in sub-section (1) of Section 3.

Directorate General of Digital Initiative

The Bill proposes to insert clause (d) in Section 29 to include Directorate General of Digital Initiatives and the relevant positions under this Directorate as Federal Excise Officers.

Customs

Significant amendments

Fifth Schedule (Reduced Rate)

New insertions in the Schedule

Part I

Description	H.S Code	Duty rate
21. Following systems and items for dedicated use with renewable source of energy like solar, wind, geothermal etc.		
7(aa) Raw materials for the manufacture of PV Modules		
Silicon Adhesive/ Sealant.	3506.9990	0%
MC4 Connectors.	8536.9090	0%
Back sheet film.	3920.9900	0%
Packing boxes/ modules.	4819.1000 4819.5000	0%
Corner block.	7610.9000	0%
Polyethylene compound	3901.9000	0%
Tinned ingot.	8001.0000	0%
7(c) Parts of Solar Inverters		
Control board	8504.9090	0%
Power board	8534.0000	0%
Charge controller board A/C	9032.8990	0%
Charge controller board PV	9032.8990	0%
DCDC board	8504.9090	0%
LCD Display	8531.2000	0%
Display board	8504.9090	0%
AC input & output terminal	8504.9090	0%
Battery input Terminals	8504.9090	0%
PV terminals	8504.9090	0%
Casings (Plastic or Steel)	8504.9090	0%

Description	H.S Code	Duty rate
Circuit Board (CB) for Inverters	8534.0000	0%
Stuffed PCBs for Inverters	Respective Headings	0%
7(d) Parts of Lithium Batteries		
Cells	8507.9000	0%
Copper Bar (Cell to Cell Connection)	7407.1010	0%
BMS (level 1) Electronic Card	8507.9000	0%
Casing	8507.9000	0%
Harness Set (Cells Monitoring Wires with tags)	8544.4290	0%
Output Terminal with Screws	8536.9090	0%
Power Cables (Battery Internal)	8544.4290	0%
DC Fan	8414.5990	0%
DC Breaker	8536.2010	0%
Packing Screws	7318.1590	0%
Terminal Covers	3926.9099	0%
Acrelic Sheet (Short Circuit Safety Sheet)	3921.9090	0%
Other Accessories (Temp Sensors, connectors, assembly items, Handles).	8536.9090, 9031.8000 8507.9000	0%
8(a) Following machinery and equipment imported by manufacturing units of Solar Panels, Solar Inverters & Solar Batteries:-		
1.Solar PV Modules Panels Manufacturing machinery and equipment.		
Sun Simulator	9031.8000	0%
Glass Lifter	8428.9090	0%

Description	H.S Code	Duty rate
Tabber Stringer	8515.1900	0%
Hi-Speed Layup Station with ROBOT	8479.5000	0%
Motorized Visual Inspection	9031.8000	0%
Buffer before Bussing	8479.8990	0%
Multi-station for Bussing	8479.8990	0%
Centering Conveyor with Visual Inspection	8479.8990	0%
Fully Automatic or Semi-automatic Laminator with Centering, Loading & Unloading	8479.8990	0%
Automatic Inline Framing Machine	8479.8990	0%
Automatic Silicon Dispenser	8479.8990	0%
Direction Changer with 90 Degree Rotator	8479.8990	0%
Centering Conveyor for Sun Simulator	8479.8990	0%
Hi-Pot Test Equipment	9031.8000	0%
Electroluminescence (EL) Tester	9031.8000	0%
Motorized Conveyor	8428.3990	0%
EVA/Black sheet Cutting Machine	8441.1000	0%
Ribbon Cutting & Bending Machine	8461.9000	0%
Lab Test Equipment	9031.8000	0%
Conveyer Belt	8428.3990	0%
Laser cutting machine for cell	8456.1190	0%
Cell sorting machine & testers	9031.8000	0%
2. Lithium ion batteries manufacturing machinery and equipment.		
Weighting kettles	8423.9000	0%
Weighting and Conveying systems	8428.3990	0%

Description	H.S Code	Duty rate
Storage tanks	7310.1000	0%
Glue port	8419.8990	0%
Transfer tanks	7310.1000	0%
Feeder	8479.8990	0%
High speed spiral Mixer	8479.8290	0%
Booster pumps	8413.7090	0%
Magnetic filters	8421.3990	0%
High speed Homogenizer	8479.8290	0%
Auxiliary equipment and DCS central control system components	9032.8990	0%
Pole piece cathode machine	8462.4900	0%
Polo piece rolling Machine	8462.3900	0%
CNC nibbling Machine	8462.4200	0%
CNC bending Machine	8462.2600	0%
Sport welding Plant	8515.8000	0%
Auxiliary Equipment	8479.8990	0%
High temperature circulation thermal tester	9030.8900	0%
UL 2054 fire testing equipment	9031.8000	0%
Pack rotation Simulation	9031.8000	0%
Free fall tester	9031.8000	0%
Battery impact tester IEC 62133	9031.8000	0%
UL 1642 flame Tester	9031.8000	0%
Electromagnetic vibration tester UN 38.3	9031.8000	0%
Single wing electromagnetic power drop testing equipment	9031.8000	0%
Hydraulic crush testing equipment	9031.8000	0%
3.Solar Inverters manufacturing machinery and equipment.		

Description	H.S Code	Duty rate
Solder Paste Screen Machine	8515.1900	0%
SMT pick and place machine	8479.5000	0%
Wave-soldering Machine	8515.1900	0%
PCB Conveyor Belt	8428.3990	0%
SMT Workstation	8479.5000	0%
Solder Pot	8419.8990	0%
Solder Cleaning Equipment	8419.8990	0%
Wire Cutting & Stripping Machine	8461.9000	0%
Crimping Machine	8479.8990	0%

Part II (Table A)

Description	H.S Code	Duty rate
Active Pharmaceutical Ingredients		
Dextrose Anhydrous Injectable Grade (Pyrogen Free) USP	Respective heading	0%

Part II (Table C)

Description	H.S Code	Duty rate
Drugs		
Gefitinib	3004.9099	0%
Caspian (Caspofungin 50 mg and 70 mg injection)	3004.9099	0%
Bovine Lipid Extract Surfactant	3004.3900	0%

Part II (Table D)

Description	H.S Code	Duty rate
Packing Materials/Raw Materials for Packing/Bandages		
Printed Composite Packaging of Aluminium Foil backed with Paper and Plastic	**7607.1990** **7606.2000**	**5%**

Part III

Description	H.S Code	Duty rate
Raw materials/inputs for poultry and textile sector; other goods		
Other seeds for Sowing	Respective headings	0%
Others	3919.1090	0%
Roasted peanuts	3824.9999 2008.1100	0%
Raw materials / inputs	3920.2090 3920.4990 4808.9000 7607.1990	0%
Biaxially oriented polypropylene (BOPP) film, plain	3920.2010	5%
Biaxially oriented polypropylene (BOPP) film, metallized	3920.2030	5%
Of other plastics	3920.9900	16%
Rolled but not further worked	7607.1100	5%
Raw materials / inputs	7226.9900 7228.3090 7228.4000	0%
Raw Materials	Respective Heading	0%
Shafting material / Pumps	84.13	0%
Electric Motor	85.01	0%
Rotor for generator	85.03	0%
Power Supply	85.04	0%
Sensor etc.	90.25	0%

Description	H.S Code	Duty rate
Flow Meter / Level Gauges / Pressure Gauges	90.26	0%
Pressure Controller	90.32	0%
Raw Materials	Respective Heading	0%
Components / Sub-Components	Respective Heading	0%
Gear Motor	8501.5230	0%
Motors	8501.5290	0%
Belt	4010.3490	0%
Belt	4010.1100	0%
Split bearing Block-Bracket, Spherical Roller Bearings, Adapter Sleeve Bearings	8483.2000	0%
Pillow Block Brackets	8302.4900	0%
Carbon Shaft	8422.9090	0%
Mild Steel Polished Shaft	8422.9090	0%
Hex head Stainless Steel Nut & Bolt	7318.1690	0%
Sprockets	7326.1990	0%
Touch Screen	8524.1100	0%
Following IT related Equipment		
Laptop computers, notebooks whether or not incorporating multimedia kit	8471.3010	0%
Personal Computers	8471.3020	0%
Other	8471.3090	0%
Micro Computer	8471.4110	0%
Key boards	8471.6010	0%
Mouse and other pointing devices.	8471.6020	0%
Scanner	8471.6030	0%
Other	8471.6090	0%
CD ROM Drive	8471.7040	0%
Multimedia kits for PCs	8471.9020	0%
Hard disk Drives	8471.7020	0%
Servers	8471.5000	0%
Routers	8517.6270	0%

Part-V(B) (Table-I)

Description	H.S Code	Duty rate
Import of Hybrid Electric Vehicles (CBUs) Under Auto Industry Development and Export Policy (AIDEP) 2021-26		
Hybrid Electric Vehicles (HEV) (CBU)	8702.2090 8702.3090	1%
Hybrid Electric Vehicles (HEV) (CBU)	8704.4100 8704.4200 8704.5100 8704.5200	1%

Omissions from the Schedule

Part-II (Table-A)

Description	H.S Code	Duty rate
Active Pharmaceutical Ingredients		
Moxifloxacin	2933.4990	0%

Part-III

Description	H.S Code	Duty rate
Raw materials/inputs for poultry and textile sector; other goods		
Adhesives based on polymers or rubbers Hot melt adhesives	3506.9190	11%
Pre-laminated Tape	3919.1090 3920.9900	16%

Description	H.S Code	Duty rate
		16%
Perforated Poly Film	3920.9900	16%
Non-wovens, whether or not impregnated, coated, covered or laminated for man-made filaments	5603.1100 5603.1200	11%

Part-V

Description	H.S Code	Duty rate
Import of Automotive Vehicles (CBUs) Under Automotive Development Policy (ADP) 2016-21		
Fully dedicated LNG buses (CBU)	8702.9030	1%
Fully dedicated LPG buses (CBU)	8702.9040	1%
Fully dedicated CNG buses (CBU)	8702.9050	1%
Hybrid Electric Vehicle (HEV) (CBU)	8702.2090 8702.3090	1%
Hybrid Electric Vehicle (HEV) (CBU)	8704.4100, 8704.4200 8704.5100, 8704.5200	1%
Trailers	87.16	15%

Change in rate from the Schedule

Part-III

Description	H.S Code	Existing rate	Proposed rate
Raw materials/inputs for poultry and textile sector; other goods			
Other	3506.9190 3906.9090	5%	0%
Of polymers of Ethylene	3920.1000	16%	0%
Of other	3921.1900	16%	0%

Description	H.S Code	Existing rate	Proposed rate
plastics			
Of polymers of ethylene	3923.2100	5%	0%
Weighing not more than 25 g/m2	5603.1100	11%	0%
Weighing more than 25 g/m2 but not more than 70 g/m2	5603.1200	16%	0%
Weighing more than 25 g/m2 but not more than 70 g/m2	5603.9200	11%	0%
Organic composite solvents and thinners, not elsewhere specified or included; prepared paint or varnish removers.	3814.0000	5%	0%

Definitions

The Bill proposes to amend section 2(s) to enable Pakistan Customs to conduct anti-smuggling operations within the territorial limits of the country.

Assistance to the officers of customs

Provincial levies and Khasadar Force have been proposed to be added in the list of Government agencies mandated to assist Customs whenever required.

General power of Federal Government to exempt customs duties

The Bill proposes to extend the general power of Federal Government to allow exemption from customs duties from 30 June 2023 to 30 June

2024 through amendment in the second proviso of sub-section 5 of section 19.

Power to determine the customs value

Under the proviso to section 25A while determining customs value, the Director was empowered to incorporate values from internationally acclaimed publications, periodicals, bulletins or official websites of manufacturers or indenters of such goods.

The Bill now seeks to amend the above proviso so as to empower the Director to consult prices of goods available in internationally acclaimed publications, periodicals, bulletins, etc. in order to determine truth and accuracy of the declared values. With the proposed amendment, the proviso to section 25A of the Customs Act, 1969 shall be harmonious with section 25 and the WTO Valuation Agreement.

Declaration and assessment for home consumption or warehousing

The Bill seeks to provide three days' time limit after arrival of goods to file Goods Declaration for home consumption or warehousing or transshipment or any other approved purpose in case of land customs station in order to ease out congestion at the customs land area.

Period for which goods may remain warehoused

The Bill seeks to enhance the warehousing period for perishable items from one month to three months in order to facilitate the trade.

Declaration by passenger or crew of baggage

The Bill seeks to amend section 139(1) in order to facilitate the passengers travelling as a group who cannot file their own declarations, by allowing the representative to file baggage declaration on behalf of the group passengers.

Power of adjudication

The Bill proposes to add proviso to section 179(2) to provide option to the respondent to go for adjudication through Customs Computerized System for such goods or offences as notified by the Board. The amendment would reduce the clearance time and eliminate human interaction.

Vesting of confiscated property in the Federal Government

The Bill seeks to amend section 182 to enable Pakistan Customs to utilize the confiscated conveyance and any other equipment for operational purpose with the approval of the Board.

Transfer of cases

The Bill empowers the Board to transfer investigation of criminal case from one field formation to other formation at any stage of investigation.

Person to produce authority if required

The Bill proposes to insert a proviso in the section 208 empowering the Board to make rules regarding eligibility of a person for self-filing of goods declaration.

Advance Ruling

The Bill proposes to restrict the domain of Advance Ruling by excluding interpretational issues in relation to applicability of any notification.

Tax on services (Islamabad Capital Territory)

Significant amendments

Status of cottage industry for freelance exporters

A cottage industry is not required to get registration under the Act 1990, pay sales tax and file sales tax returns. The Bill proposes to provide the similar relaxation to the freelance exporters who exclusively deal in export of IT and IT enabled services provided that their annual turnover does not exceed eight million rupees.

In order to avoid interpretational issues, an explanation is proposed to be added, according to which, the freelance exporter means a person who works on per job and on self-employed basis without being attached to or under employment of any other person, having the liberty to work on various tasks simultaneously.

Zero-rating facility for Reko Diq project

The Bill proposes to grant zero-rating facility on imports or supplies made by, for or to the Reko Diq project in the Province of Baluchistan. Likewise, the Bill proposes to provide zero-rating facility for the purposes of the ICT Ordinance 2001.

Rates of sales tax for hotels and restaurants, etc.

The Bill proposes to split the Serial No. 1 of the Schedule into two categories and to bring the services rendered by restaurants including cafes, food (including ice-cream) parlors, coffee houses, coffee shops, food huts, resorts and similar cooked, prepared or ready-to-eat food service outlets to reduced tax rate of five percent subject to fulfillment of certain conditions. The proposed change is as follows:

Description	Rate of Sales Tax
(i) Services provided or rendered by hotels, motels, guest houses, farmhouses, marriage halls, lawns, clubs and caterers.	Fifteen percent
Services provided by restaurants including cafes, food (including ice-cream) parlors, coffee houses, coffee shops, deras, food huts, eateries, resorts and similar cooked, prepared or ready-to-eat food service outlets etc.	(a) Five percent where payment against services is received through debit or credit cards, mobile wallets or QR scanning subject to the condition that no input tax adjustment or refund shall be admissible; and (b) Fifteen percent where payment is received in cash.

Reduction in rate of sales tax on services of software or IT-based system development consultants

The Bill proposes to reduce the rate of sales tax chargeable on the services of software or IT-based system development consultants from sixteen percent to fifteen percent, in order to bring it in harmony with the standard rate of sales tax on services.

Sales tax on electric power transmission services

The Bill proposes to introduce a charge of sales tax at fifteen percent on the electric power transmission services.

Sales tax on IT services and IT enabled services

The Bill proposes to define IT services and IT enabled services to harmonize these with the definition laid down under the Ordinance 2001. The rate of sales tax chargeable on these services is five per cent without adjustment or refund of input tax.

Petroleum Products (Petroleum Levy)

Significant amendment

Enhancing the Federal Government's power to amend the Schedules

In terms of section 7 of the Ordinance, the Bill proposed to empower Federal Government to make amendments in all the schedule of the Ordinance except for the fifth schedule [relating rates of petroleum levy on various POL products] by notification in the official Gazette.

Karachi Office
Sheikh Sultan Trust Building No. 2
Beaumont Road, Karachi 75530
Phone +92 (21) 3713 1900
Fax+92 (21) 3568 5095
E-Mail karachi@kpmg.com

Lahore Office
351-Shadman-1
Main Jail Road, Lahore
Phone +92 (42) 111-KPMGTH (576484)
Fax+92 (42) 3742 9907
E-Mail lahore@kpmg.com

Islamabad Office
Sixth Floor, State Life Building
Blue Area, Islamabad
Phone +92 (51) 282 3558
Fax+92 (51) 282 2671
E-Mail islamabad@kpmg.com

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