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A Brief on Income Tax (Amendment) Ordinance, 2024

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The Income Tax (Amendment) Ordinance, 2024 [the **Ordinance**] has been approved by the President of Pakistan and comes into effect immediately resulting in substantial change of tax rate for the banking sector for the Tax Year 2025 onwards.

The Ordinance has been brought in with a single point agenda, that is to reduce the revenue shortfall of circa Rs. 1 trillion of FBR by increasing the tax rate for banks from 39% to 44% for Tax Year 2025. The new tax rate will impact the applicable tax on the banks for TY 2025 also resulting in additional advance tax payments by 31 December 2024.

The new legislation is expected to affect the earning per share of the major banks by around 10%, whilst the applicable deferred tax rate will also be affected.

As a mitigating factor and after discussions between the Government and the Banking Association the requirement for banks to maintain a specified Advances to Deposit ratio which would otherwise result in additional tax of up to 16% has been done away with from Tax Year 2025 and onwards.

New Tax Rates for Banks

By changing the table in Division II of Part I of the First Schedule of the Income Tax Ordinance, 2001, the Ordinance has changed the rates for tax for banks as follows:

Type of Company	Old Rate of Tax	New Rate of Tax		
		Tax Year 2025	Tax Year 2026	Tax Year 2027 and onwards
Banking Company	39%	44%	43%	42%
Small Company	20%	20%		
Any other Company	29%	29%		

As a result, the tax rates for banks have been increased by 5% (Tax Year 2025), 4% (Tax Year 2026) and 3% (Tax Year 2027 and onwards).

No change has been made for the tax rates applicable on small and other companies although any such change in future cannot be ruled out if the revenue shortfall remains.

Change in Rule for Advances to Deposit Ratio

Sub Rule 6A of Rule 6C of the Seventh Schedule of the Income Tax Ordinance, 2001 [Sub Rule 6A] requires banks to maintain advances to deposit ratio of 50% from Tax Year 2022 onwards otherwise additional tax of up to 16% would become applicable on the banks. Sub Rule 6A has been amended so that it will now be applicable from Tax Year 2023 onwards instead of Tax Year 2022 as earlier stated therein. However, no mechanism has been identified with respect to deemed assessments and amended assessments for Tax Year 2022 where such tax has been levied.

In addition, a new proviso has been added at the end of Sub Rule 6A which states that from Tax Year 2025 onwards nothing contained in Sub Rule 6A shall apply in computing part or whole of tax liability of a banking company and that from Tax Year 2025 onwards the profits and gains of a banking company will be subject to the tax rates Division II of Part I of the First Schedule of the Income Tax Ordinance, 2001.

Therefore, in essence the requirement for the banks to maintain the Advances to Deposit Ratio has been limited to Tax Year 2023 and Tax Year 2024 (which can also be construed as not applicable based on Sub Rule 5 of Rule 8 of the Seventh Schedule) only. Earlier this requirement was made applicable from Tax Year 2022 and onwards.

A new explanation has also been added in Sub Rule 6A that states that the Advances to Deposit ratio shall be calculated based on the gross advances and deposit at the end of the end of the accounting period and as disclosed in the annual audited accounts. This seeks to settle the related disputes on the matter retrospectively.

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